

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

[Catalina Granda Franz Hamann Cesar E. Tamayo](#)

In this paper, we build a heterogeneous agents-dynamic general equilibrium model wherein saving constraints interact with credit constraints. Saving constraints in the form of fixed costs to use the financial system lead households to seek informal saving instruments (cash) and result in lower aggregate saving. Credit constraints induce misallocation of capital across producers that in turn lowers output, productivity, and the return to formal financial instruments. We calibrate the model using survey data from a developing country where informal saving and credit constraints are pervasive. Our quantitative results suggest that completely removing saving and credit constraints can have large

---

effects on saving rates, output, TFP, and welfare. Moreover, we note that a sizable fraction of these gains can be more easily attained by a mix of moderate reforms that lower both types of frictions than by a strong reform on either front.

The series Borradores de Economía is published by the Economic Studies Department at the Banco de la República (Central Bank of Colombia). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.