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Credit and saving constraints in general equilibrium: A quantitative exploration[☆]



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ABSTRACT

In this paper we build an incomplete-markets model with heterogeneous households and firms to study the aggregate effects of saving constraints and credit constraints in general equilibrium. We calibrate the model using survey data from Colombia, a developing country in which informal saving and credit frictions are pervasive. Our quantitative results suggest that reducing savings costs increases selection into formal saving, but the effect on aggregate outcomes and welfare is dwarfed by that of a policy which ameliorates borrowing constraints. Such a policy improves resource allocation and increases returns to capital and labor, resulting in higher savings and welfare gains for both households and firms.

1. Introduction

Financial inclusion has become a priority for development economists and policy makers around the world.¹ In recent years, the longstanding goal of improving access to credit has been joined by a growing interest in the role that saving should have in a comprehensive financial inclusion strategy.

While the literature on credit frictions is well developed and includes both empirical and theoretical contributions, the literature on

the causes and consequences of exclusion from formal saving markets (i.e., through financial institutions) mostly comprises field experiments in relatively small communities.² In fact, little is known about the general equilibrium effects of saving constraints, or the ways in which they may interact with other frictions, such as those found in credit markets. Our goal is to present a framework that can be used to quantify these effects and to study these interactions.

In this paper, we develop a model of heterogeneous agents in which financial market frictions distort credit and saving decisions by

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¹ According to the Alliance for Financial Inclusion (2016), by 2015 over 35 countries had committed to implementing or had already implemented financial inclusion strategies.

² Reference studies from the credit frictions literature are Kaplan and Zingales (1997) and Buera et al. (2011), and from the saving constraints literature are Dupas and Robinson (2013) and Karlan et al. (2014).