

Household Credit as Stimulus? Evidence From Brazil

Based on BFI Working Paper 2021-125, “Household Credit as Stimulus? Evidence From Brazil,” by Gabriel Garber, Central Bank of Brazil; Atif R. Mian, Princeton University; Jacopo Ponticelli, Northwestern University; and Amir Sufi, Chicago Booth

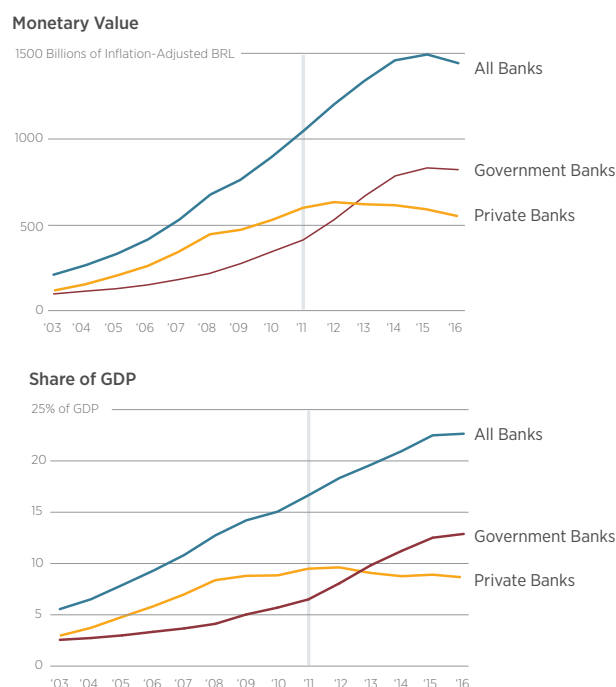
The Brazilian government’s 2011-2014 credit stimulus program resulted in higher consumption volatility and lower average consumption over the cycle, suggesting a potential downside of using household credit as stimulus in emerging markets.

Levels of household debt-to-GDP ratios in emerging countries approached those observed in the United States in the years following the Global Financial Crisis, a trend that began at the turn of the century. Governments played a crucial role in encouraging this increase in credit to households, often implemented with the support of government-controlled banks.

One plausible rationale of government-sponsored credit expansion policies is that they are designed to improve long-term outcomes for individuals by, for example, expanding access to credit to help individuals overcome financial frictions and smooth consumption over time. Additionally, these policies are readily available tools that governments can use to promote consumption, at least temporarily, when the economy declines. Despite the diffusion and magnitude of such policy interventions, there is scarce direct empirical evidence on their effects on individuals’ borrowing and consumption patterns.

This paper addresses this gap by investigating micro-level evidence from Brazil, which experienced a large rise in household debt from the mid-2000s to 2014. This increase, especially during the latter phase that started in 2011, was driven by a large push in credit from government banks. Additionally, Brazil offered the authors an individual-level credit registry covering the universe of formal household debt, from which a representative sample of 12.8% of all borrowers recently became available. Among other features, this data set also contains bank debt composition and credit card expenditures at the individual level, allowing the authors to follow each individual between 2003 and 2016.

Figure 1 • Government Banks and Household Debt in Brazil (2003-2016)



Notes: This Figure shows the evolution of total household debt in Brazil between 2003 and 2016, in billions of inflation-adjusted Brazilian reals (panel a) and as a share of the country GDP (panel b). Overall, Brazil experienced a substantial increase in household debt since the early 2000s, which increased from 5% to more than 20% of the country GDP at the end of the sample. The authors then split total household debt between debt originated by government vs private banks. As this Figure shows, in the last phase of the boom period—between 2011 and 2014—government-controlled banks expanded credit to households, while private banks’ lending as a share of GDP slowed down or even contracted. (Data from the Credit Information System (SCR), Central Bank of Brazil, adjusted for changes in reporting thresholds in 2012 and 2016.)

The authors' analysis of this rich data source allows them to document the role of government-controlled banks in the aggregate increase in household debt, and they find that these banks' policies had a clear effect: In the years after 2011, retail credit from private banks stagnated, while government-controlled banks started lending more aggressively.

Further, the authors find that low financial literacy public sector workers boosted borrowing significantly. At the individual level, it is difficult to find evidence ex post that these same workers benefited from the program. Low financial literacy public sector workers borrowed more from 2011 to 2014, cut consumption by significantly more from 2014 to 2016, and experienced overall lower consumption levels and higher consumption volatility from 2011 to 2016.

While the authors are hesitant to make strong statements about the ex ante optimality of the household credit push by government banks, the evidence suggests that, ex post, the most exposed individuals experienced worse outcomes with regard to consumption.

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