Debt Accumulation of CCT Beneficiary Households

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Abstract

Financial inclusion is still a problem in many developing countries, and gaining insights into how cash transfer policies affect credit access can help policymakers fine-tune effective interventions to foster an inclusive economic environment while averting potential issues of over-indebtedness. Using Brazilian credit registry data and a difference-in-differences design comparing newly eligible households to those marginally above the new income threshold, we find evidence that households increase credit card usage and have a higher rate of credit origination after they start receiving the transfer unexpectedly. Moreover, the results indicate that new beneficiary households in extreme poverty start getting credit under better conditions. This new evidence indicates that the transfer can work as a "pseudo-pledgeable income", increasing credit origination and improving credit conditions.

Table 1. Adults Using Credit in Brazil by Beneficiary Status in December 2019

Household Status:	*CCT Beneficiary*	*Non-beneficiary (Poor)*	*Non-beneficiary (Non Poor)*
Any Credit	20.9%	16.0%	65.1%
Credit Card	12.2%	9.1%	47.7%
Microcredit	1.5%	0.2%	0.5%
Personal	2.5%	4.1%	11.3%

Identification: Income Eligibility Change

We exploit a new law that changed the per capita income eligibility upper limit thresholds for the two beneficiary groups - extremely poor (upper limit changed from 85 to 89 BRL and transfer size ≈ BRL 89) and poor households (upper limit changed from 170 to 178 BRL and transfer size ≈ BRL 100) - of *Bolsa Familia*, a CCT program in Brazil. We focused on households that became eligible under the new legislation and whose program-collected income information was updated before the government announced the changes. After the law was enacted, the probability of being a beneficiary increased by over 30% for households within the new eligible income range compared to households just above the new thresholds.

Table 2. Effect of Cash Transfer on the Extensive Margin of Credit Outcomes

	Poor		*Extremely Poor*	
	Total Credit Origination	Credit Card	Total Credit Origination	**Credit Card**
CCT	0.033***	0.035***	0.069***	**0.036***
	(0.009)	(0.008)	(0.026)	**(0.021)**
Δ to Control Mean	18%	12%	53%	*14%*
Control Mean	0.18	0.3	0.13	0.26
Household FE	Yes	Yes	Yes	Yes
Year-Month FE	Yes	Yes	Yes	Yes
N	141,746	141,746	10,124	10,124
R^2	0.603	0.785	0.566	0.829

Results (1): Increased Credit Usage

In second-stage regressions, we use the CCT beneficiary status instrumented by the being a newly eligible household after the law was enacted to estimate the average monthly impact of receiving cash transfers over the next 12 months. Table 2 shows that new beneficiary poor households have an 18% increase while extremely poor new beneficiary households have a 53% increase in new credit origination compared to the control group. In turn, credit card usage increases by 12% and 14%, respectively.

Results (2): Credit under Better Conditions

Table 3 shows that extremely poor households who now benefit from CCT programs receive a 126% larger credit concession while enjoying a 38% lower average annual interest rate than the control group. There are no statistically significant effects of CCT on these two outcomes for the poor household group.

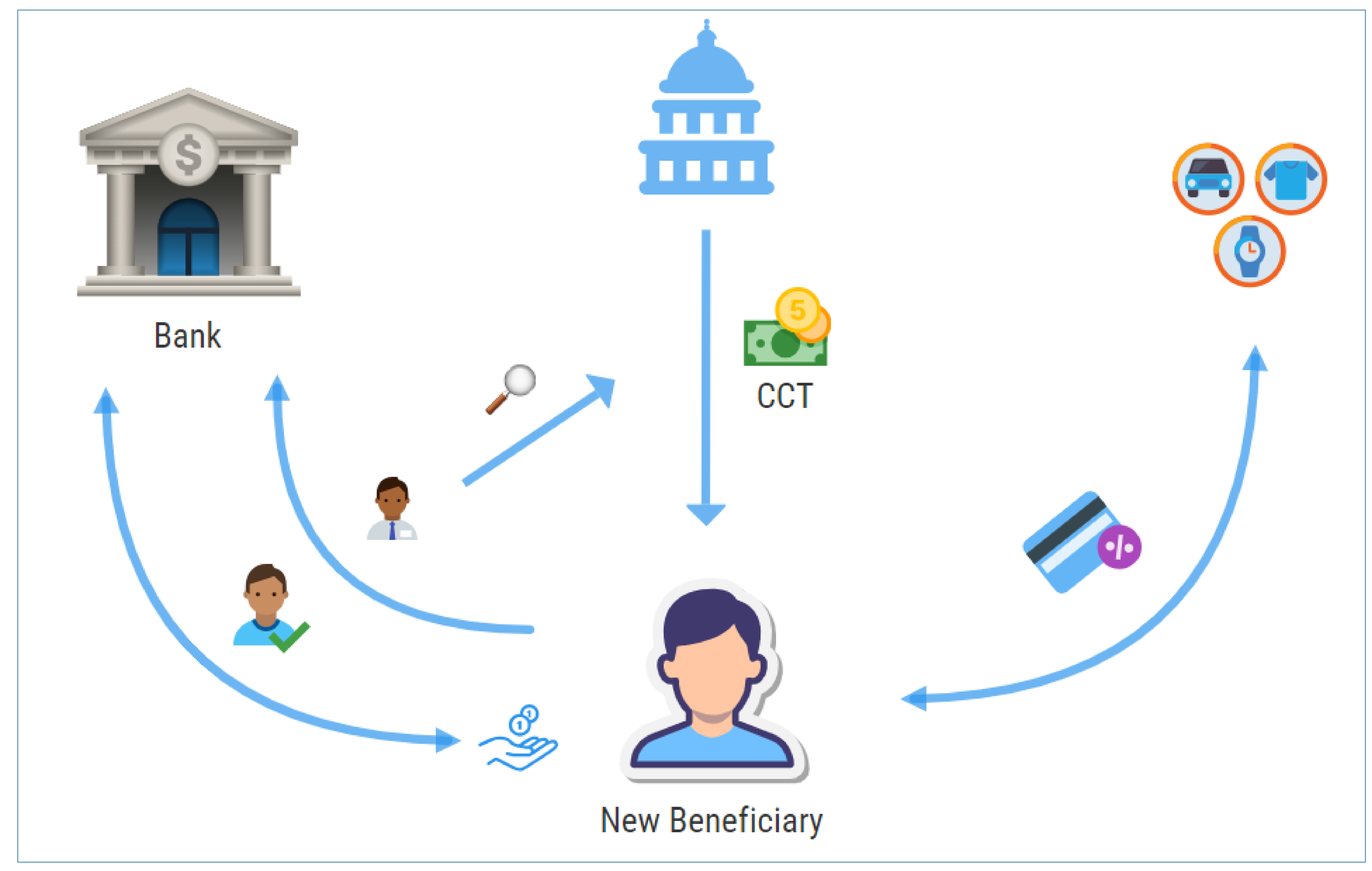
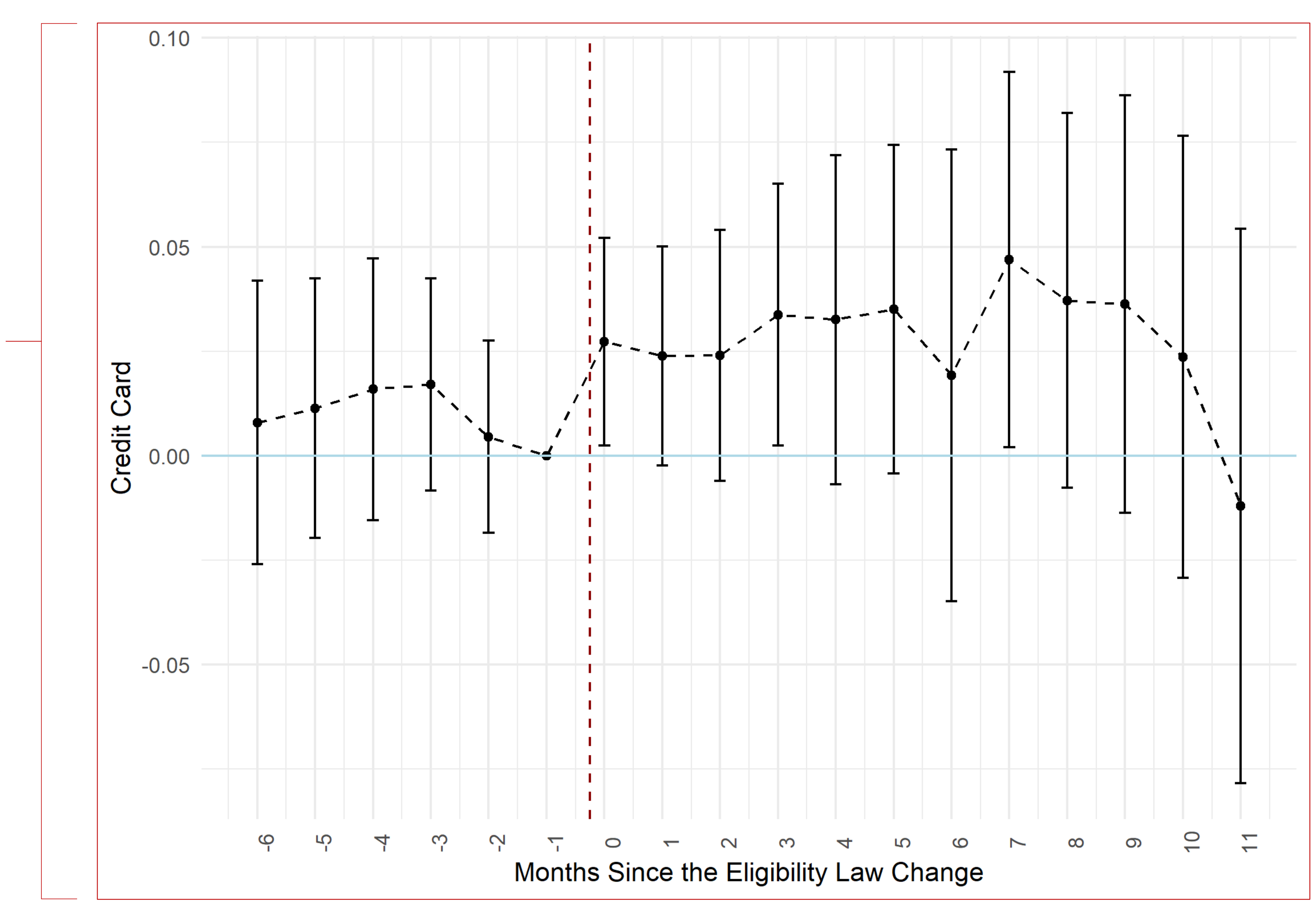


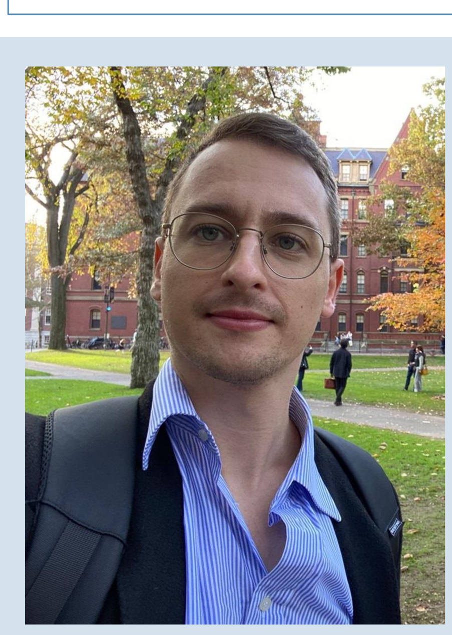
Table 3. Effect of Cash Transfer on the Extensive Margin of Credit Outcomes

	Poor		Extremely Poor	
	Δ Credit (BRL)	Interest Rate (a.r.)	Δ Credit (BRL)	Interest Rate (a.r.)
CCT	116.00	5.71	1,554.13***	-24.10**
	(169.01)	(4.36)	(554.38)	(12.22)
Δ to Control Mean	12%	6%	126%	-38%
Control Mean	1001.6	93.83	1232.74	63.59
Household FE	Yes	Yes	Yes	Yes
Year-Month FE	Yes	Yes	Yes	Yes
N	27,483	64,518	1,468	3,631
R^2	0.452	0.770	0.389	0.798



Conclusion

This paper examines the influence of CCT programs on impoverished households' credit behavior and financial inclusion. The findings highlight the role of these programs in relaxing credit constraints for most economically vulnerable households. In particular, results indicate that new beneficiaries increase credit card usage and have more credit originations after receiving the transfer unexpectedly. Additionally, households in extreme poverty start to obtain credit under better conditions. Together, these results suggest that the credit supply is sensitive to the CCT at the extensive and intensive margin as the transfer serves as a "pseudo-pledgeable" income for these economically vulnerable households.



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