# How Does Access to Credit Impact Consumer Expenditure and Savings?*

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Theory suggests that credit access can stimulate consumption either by relaxing liquidity constraints or reducing the need for precautionary savings. The existing empirical work documents that access to credit both along intensive and extensive margin does stimulate consumption primarily by relaxing liquidity constraints (Gross and Souleles, 2002; Agarwal et al., 2017; Aydin, 2021). However, the existing studies mainly rely on data that cover only the liability (debt) side of an individual's balance sheet. The ideal data to examine why and how credit shocks affect household behavior should contain information regarding the overall balance sheet of the individuals, that is, both debt and savings.

Using a unique panel dataset of bank-account level data with detailed information regarding debt, savings, and consumption, we examine the impact of credit access on consumption and savings. To solve the empirical challenge that the credit limit is not adjusted randomly, we focus on the bank-initiated credit limit changes, which is conducted routinely to stimulate the usage of credit card and is unrelated to the consumers' credit demand. We also employ the matching method to construct a control group that never enjoy any credit limit changes during the sample period to run a DiD test. We find that an increase in credit limit stimulates consumption. The MPC is Rs8 out of every Rs100 credit increase in 12 months after the limit increase. To address the problem of balance shifting that some consumers may hold multiple bank accounts and transfer the balance from other

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accounts to the current account, we focus on the consumers who are more likely to use the current account as the main account (i.e. the salary accounts and the accounts with above-median monthly expenditure). The results are robust to these subsample analyses. We also find significant heterogeneity in terms of the saving response. The limit increase leads to a significantly higher decrease in saving for the individuals with high precautionary saving motives, i.e. those with higher ex-ante savings buffer and greater income uncertainty. These results highlight the heterogeneity in the impact of access to credit on consumption and savings of individuals based on perceived precautionary savings targets.

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