Abstract:

We employ a unique identification strategy linking survey data on household consumption expenditure to bank-level data to estimate the effect of bank financial distress on consumer credit and consumption expenditures. We show that households whose banks were more exposed to funding shocks report lower levels of non-mortgage liabilities. This, however, only translates into lower levels of consumption for low income, low liquid asset households. Wealthier households compensate by drawing down liquid assets to smooth consumption. Hence, adverse credit supply shocks are associated with significant redistributive effects