ABSTRACT

Loans are often the only hope of overcoming economic shocks for individuals or households. However, not all potential borrowers get loans because of the imperfect information. Transfers are important because of their function as an insurance mechanism. This research aims to examine the effect of household transfers on loans in Indonesia as a whole and based on household expenditure groups. This research uses panel data from IFLS waves 4 and 5 with Fixed-Effects Model. The research found that transfers resulted in a 10% reduction in borrowing. By household expenditure groups, transfers resulted in a 12,7% reduction in borrowing for low-spending, 3,6% for medium-spending, and 6% for high-spending. So, the government and financial institutions can facilitate access to transfer, as well as increase or simplify access to social protection for people.

Keywords: Family Transfer, Borrowing, Life-Cycle Hypothesis.