

Inequality and monetary policy

ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2022: EAST AND NORTH-EAST ASIA

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Compared with fiscal policy, **monetary policy** is less frequently discussed in the context of inequality.

- Monetary policy: neutral to economic inequality in the long run. (Bernanke, 2015)
- Inequality: results of long term structural changes in economy

After the global financial crisis, central banks are not neutral to inequality problems any more.

- Quantitative easing: beneficial for the rich (Schnabel, 2021)

⇒ *Many* researches on inequality and monetary policy
with many *different* results

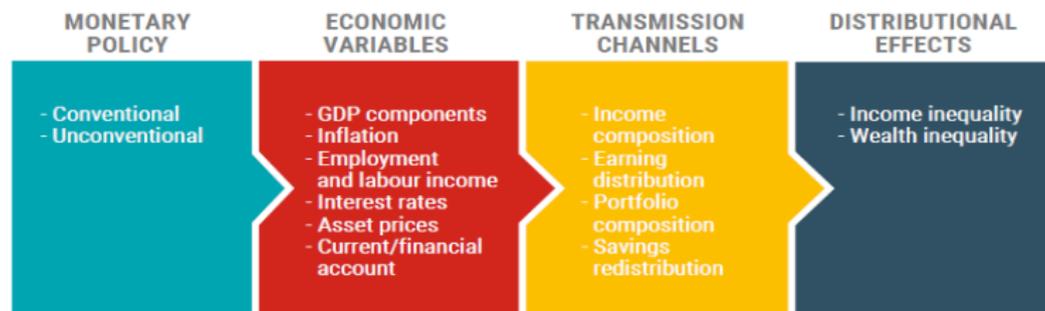
- Areas covered in the Survey

| CENTRAL BANGKING AREA | CURRENT OBJECTIVE | | ADDITIONAL SOCIAL CONSIDERATION |
|-----------------------------|------------------------------|---|--|
| Monetary policy conduct | Price stability | + | Income and wealth distribution |
| Official reserve management | Safety and liquidity | + | Investment with positive social impact |
| Currency issuance | Adequate cash in circulation | + | Digital currency for financial inclusion |
| Financial regulation | Robust financial sector | + | Socially oriented financial instruments |

- Today: focused on the first area, *monetary policy conduct*

Monetary Policy (MP) and distributional effects

MP has effects on income and wealth inequality



through transmission channels:

- Income composition: labour or transfer vs capital
- Earning distribution: low skilled vs high skilled
- Portfolio composition: pension vs financial or real asset
- Saving redistribution: net borrowers vs net savers

Researches on inequatliy and MP

Distributional impacts of MP is mixed, especially, on wealth in equality



However, ...

(MP and *income* inequality)

- More researches say *accommodative* MP **reduces** *income* inequality by boosting economy and preventing unemployment (Coibion et al.(2017), Mumtaz and Theophilopoulou(2017))
 - This also holds in Asia-Pacific economies (Punzi, 2020)
- *Higher* interest rates **aggravate** the *income* inequality in Asia countries including India, Indonesia, Malaysia and the Philippines. (Yousaf et al. (2018))

(Empirical results in Korea)

- Lower interest rate reduces *income* inequality
 - Especially in 1990s
 - Unclearer relation after 2000 partly due to:
 - ① crises which result in larger income inequality as well as inevitable drops of policy rates
 - ② weaker relation between monetary policy easing and better employment
- Higher interest rate decreases *wealth* inequality
 - Higher policy rates results in lower price of stocks and houses

Towards inequality-mindful conduct of monetary policy

- Traditionally, Promote equality by low inflation and economic stability
 - Volatile inflation lowers purchasing power of the poor in general
- More inequality-mindful MP conducts should be considered
 - Develop a deeper understanding of the distributional impacts of MP
 - Impact assessment can include income and wealth distribution
- Balanced stances between other goals and inequality
 - price and financial stability, maximum employment are also important