



The distributional footprint of monetary policy

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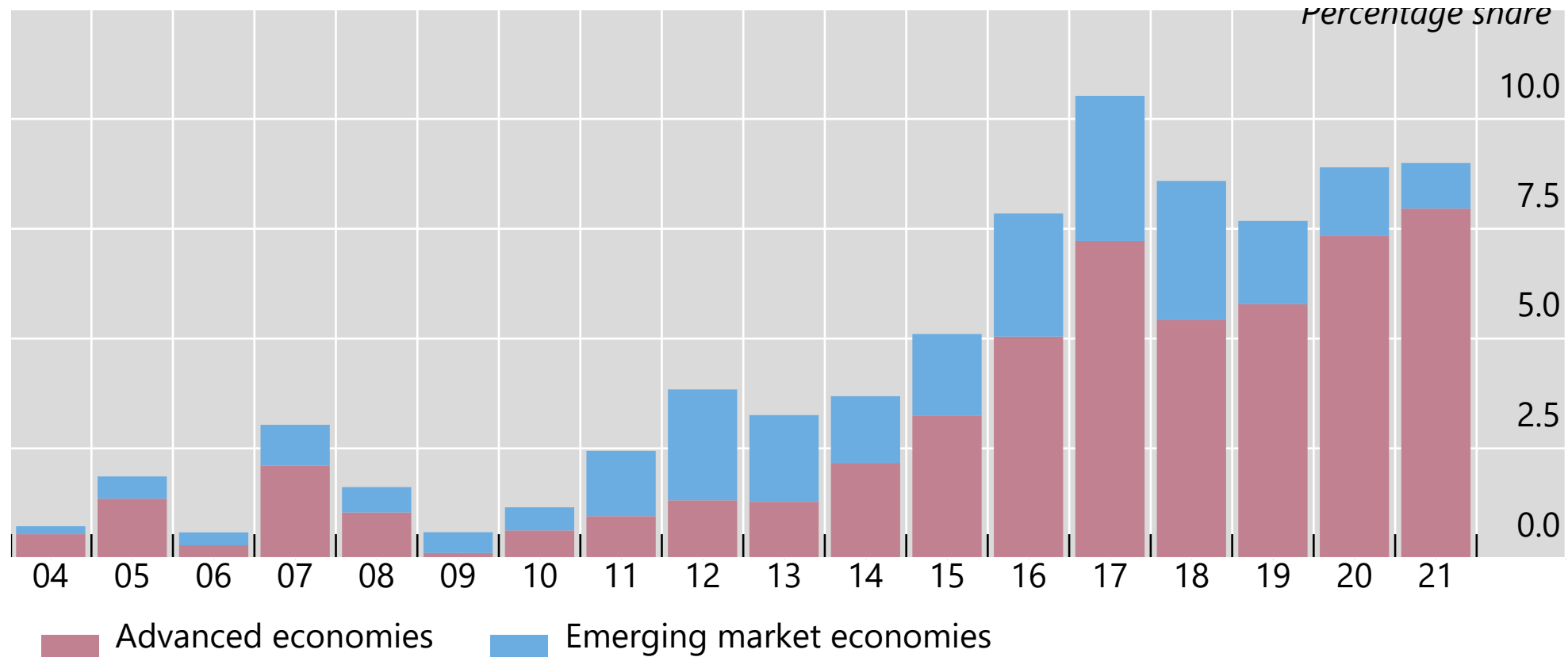
Bank of Finland/SUERF Conference

19 October 2021

Based on chapter 2 of the 2021 BIS Annual Economic Report

Central bankers are increasingly aware of inequality

Share of speeches mentioning inequality



Outline of the talk

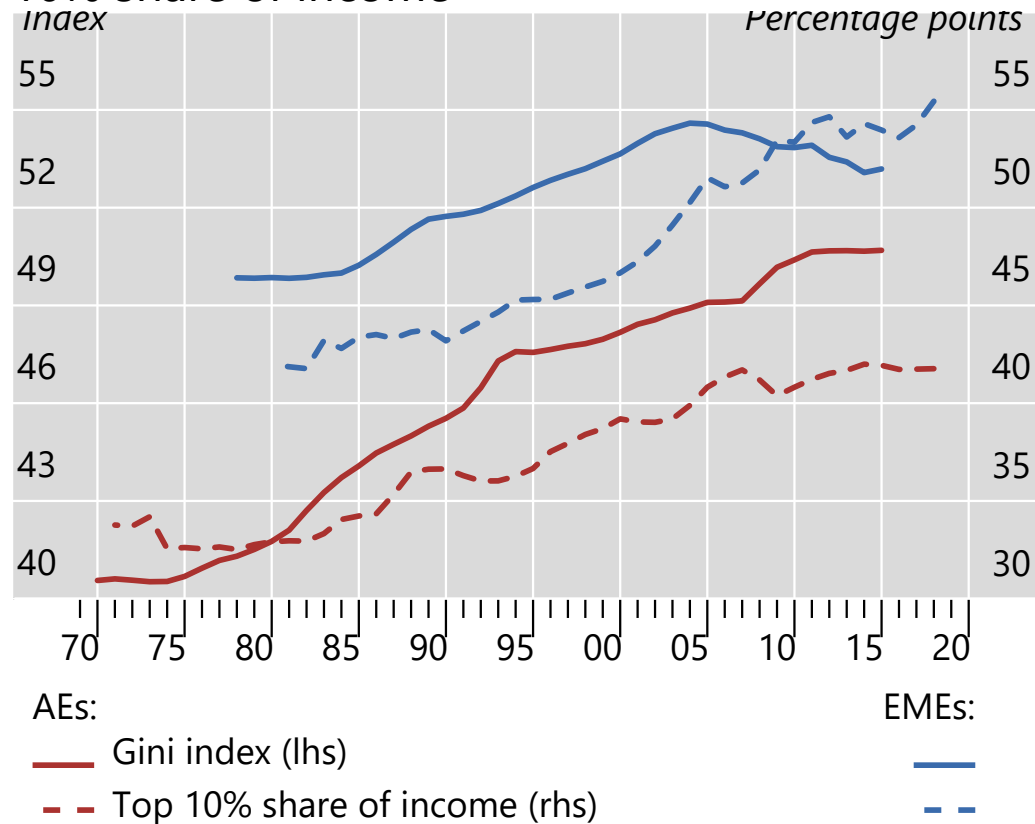
- Rising inequality and its structural determinants
- Central banks' mandates and income inequality
- Inequality and the transmission of monetary policy
- The backstops against inequality
- Conclusions

The background of the slide is a complex, abstract composition. It features a dark blue base with a white diagonal stripe running from the top left towards the bottom right. Overlaid on this are several elements: a stack of silver coins in the lower left, a green bar chart with five bars of varying heights in the center, and a glowing blue city skyline on the right. A network of glowing blue lines and dots, resembling a digital or data network, is superimposed over the city and the bar chart. The overall color palette is dominated by blues, greens, and reds.

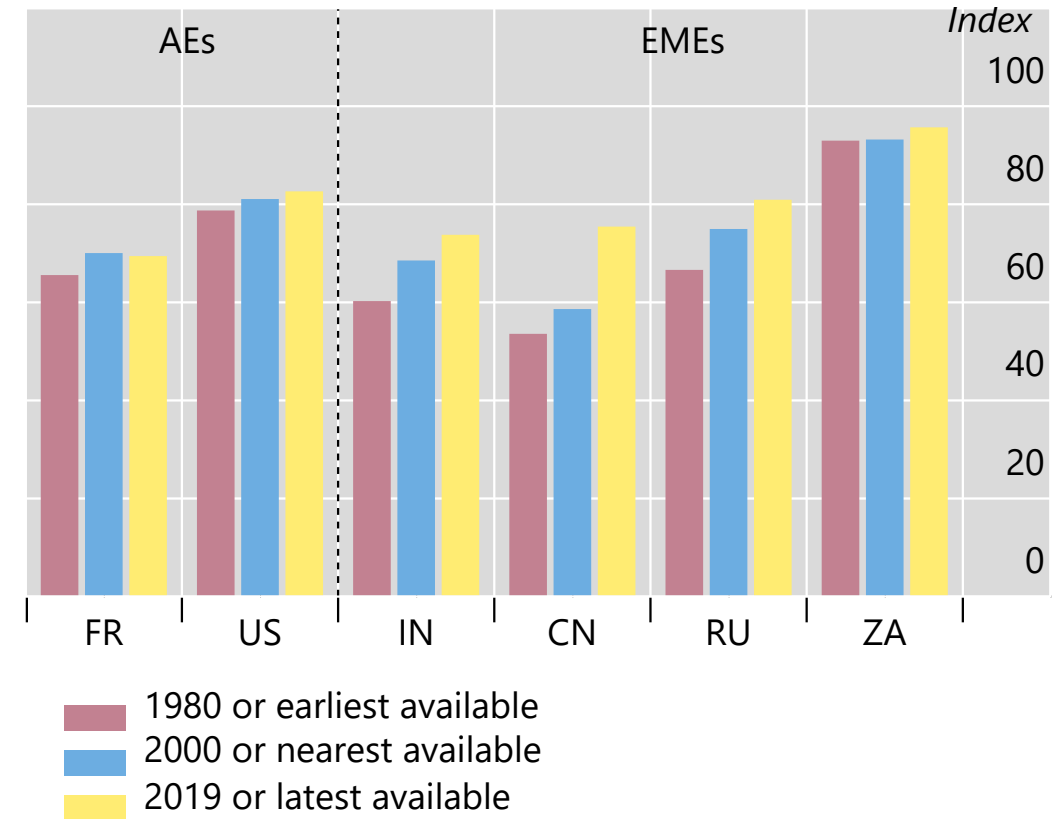
Rising inequality: a bird's eye view

Income and wealth inequality have been on the rise...

Pre-tax, pre-transfer Gini index and top 10% share of income

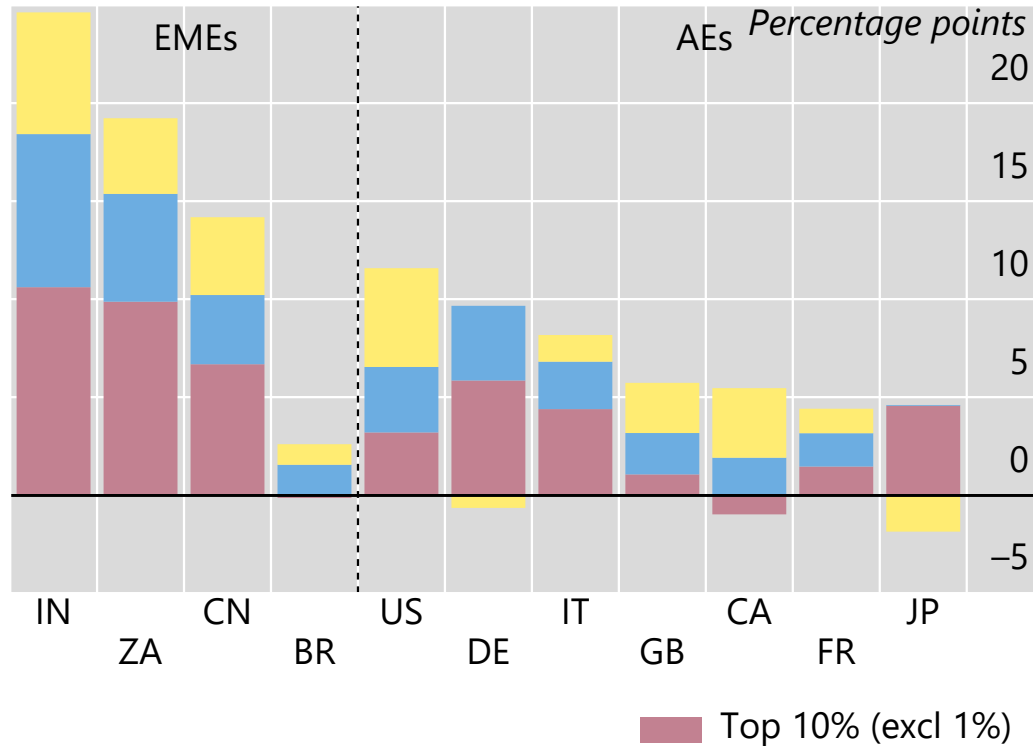


Wealth Gini index

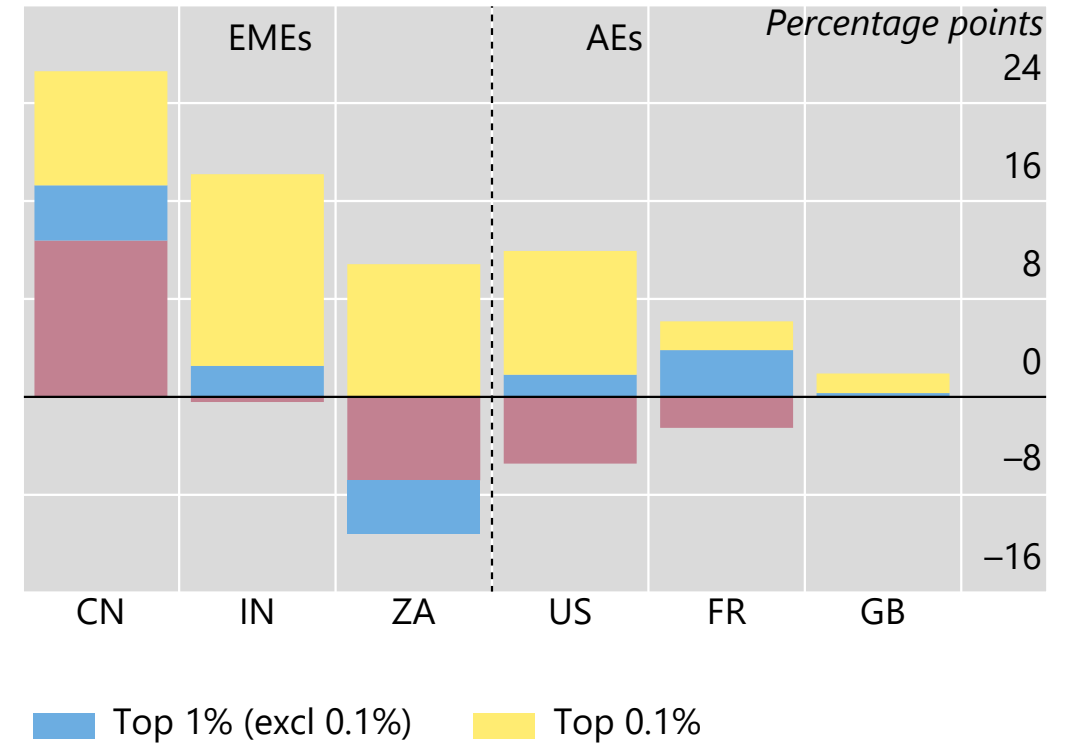


...especially to the benefit of the very rich

Breakdown of changes in the top 10% share of income



Breakdown of changes in the top 10% share of wealth

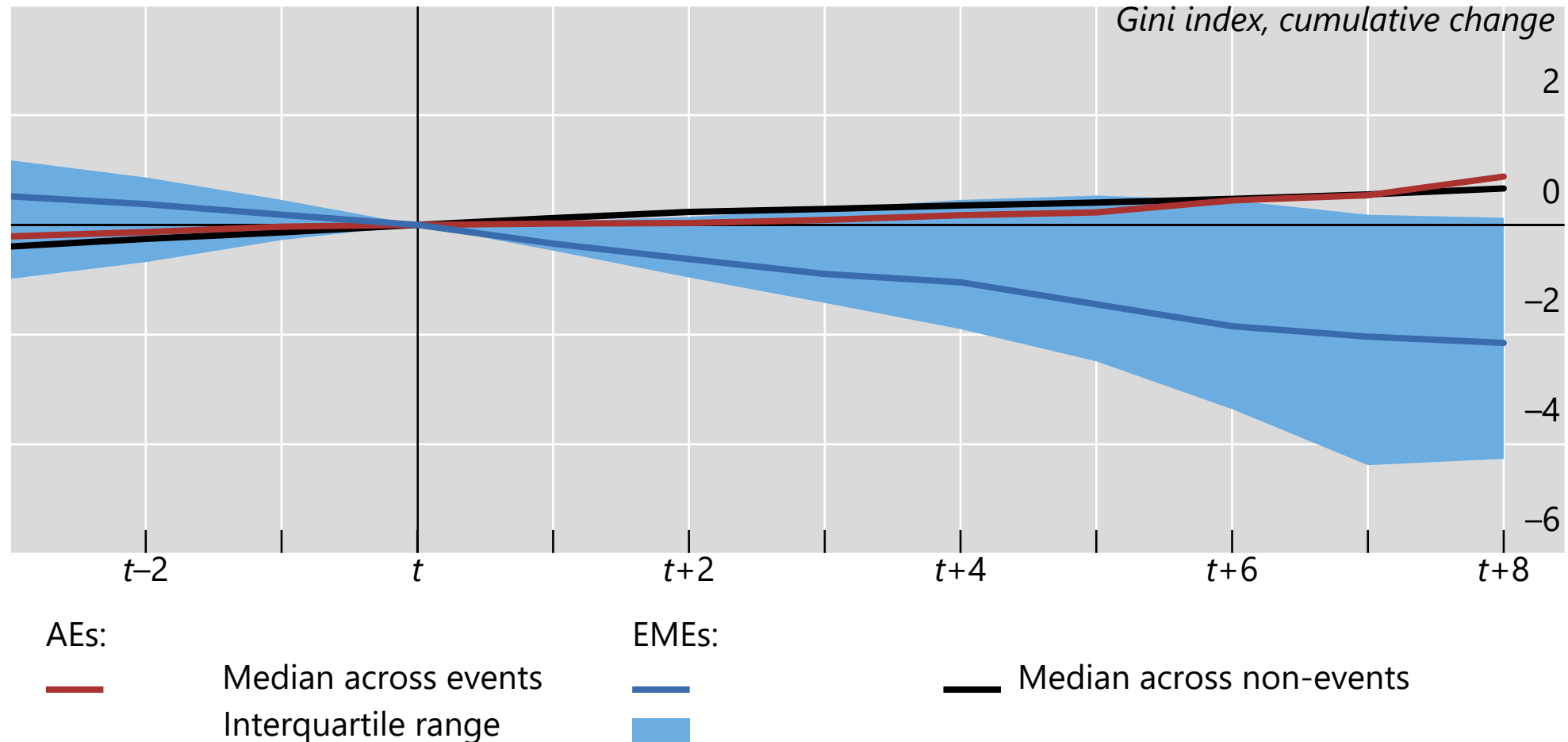


Central banks' mandates and inequality



Taming inflation is associated with lower inequality

The conquest of inflation and subsequent income Gini variation



Recessions exacerbate inequality through unemployment

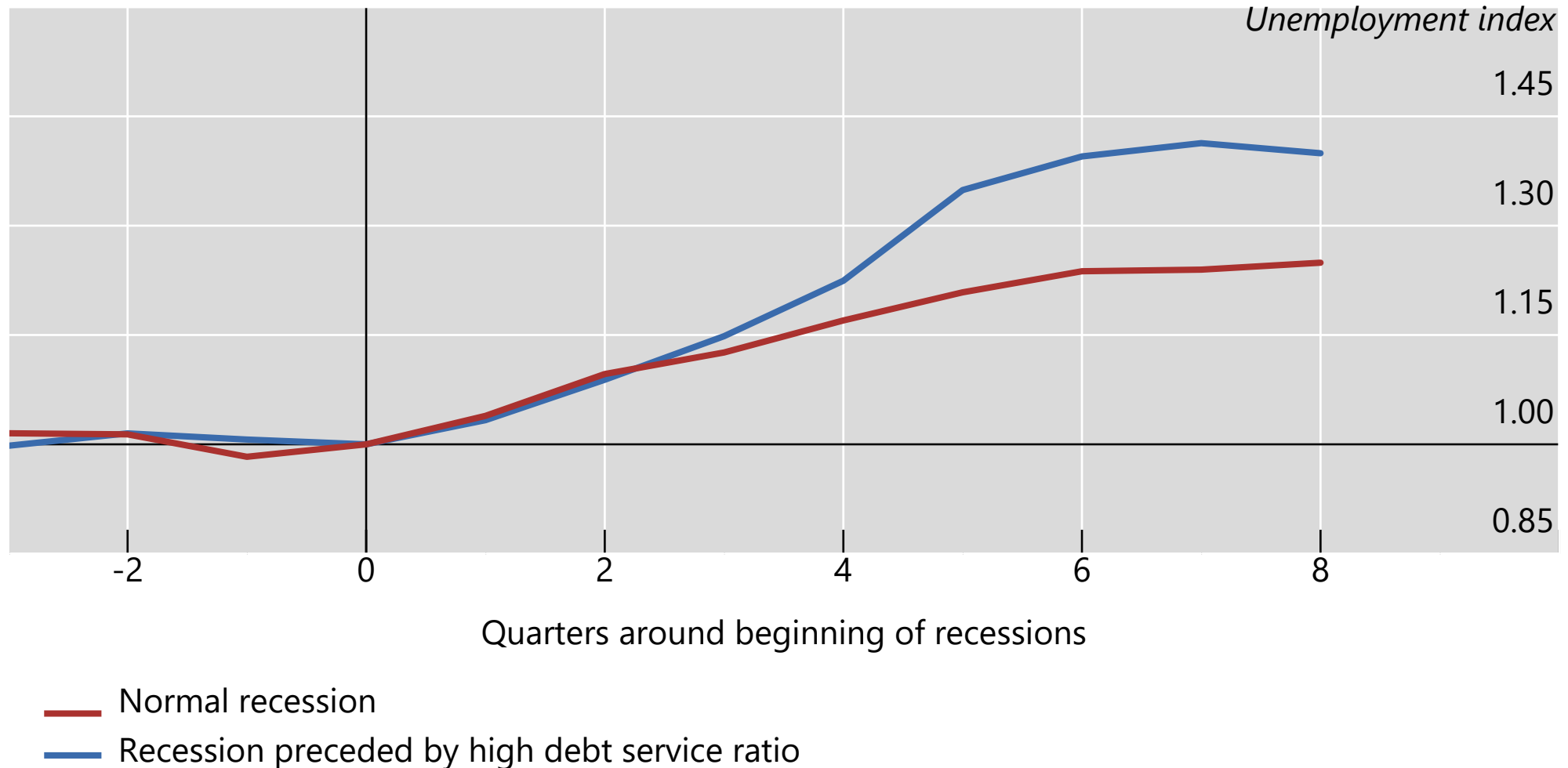
Gini income inequality and unemployment around recessions



Cumulative change in: — Gini (lhs) — Unemployment rate (rhs)

Recessions preceded by financial imbalances are longer and deeper

Financial recessions are particularly severe

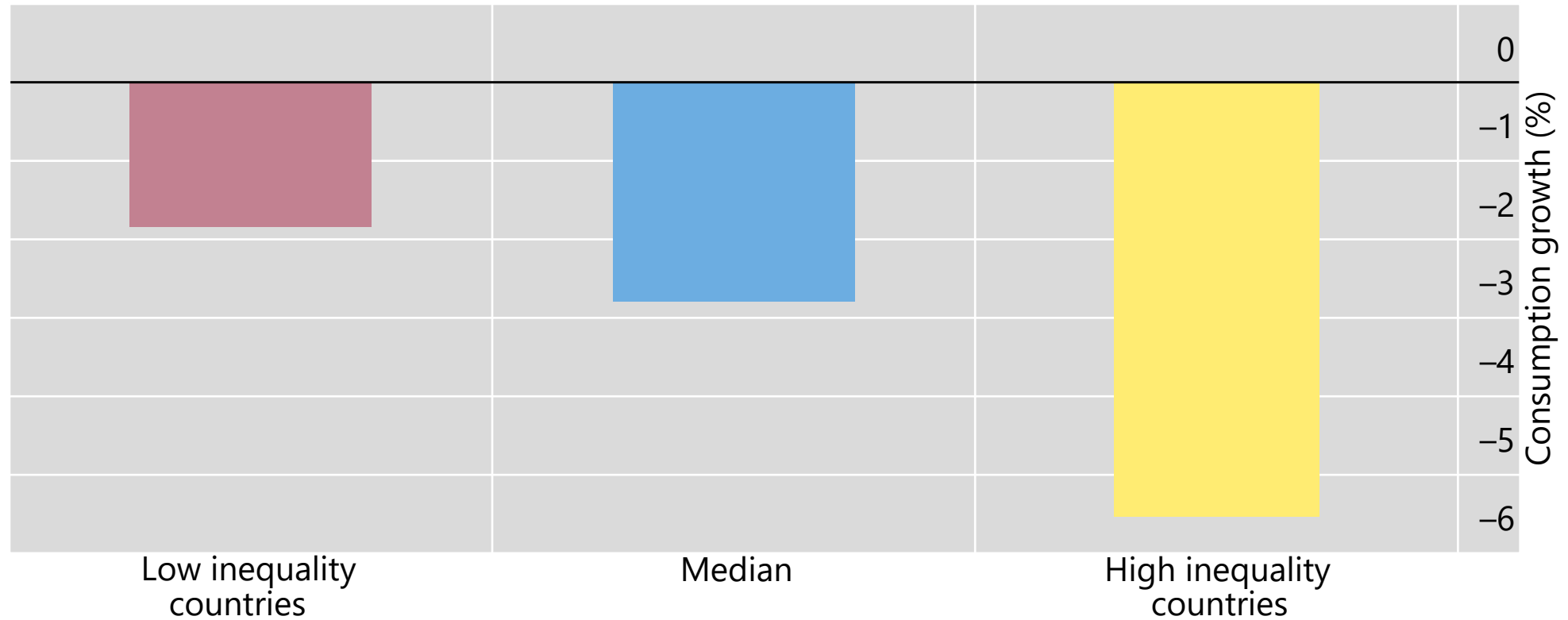


A hand is shown drawing a yellow arrow on a black surface. Several white arrows are already drawn on the surface, pointing in various directions. The hand is holding a yellow chalk or marker. The background is a dark, textured surface.

Inequality and the transmission of monetary policy

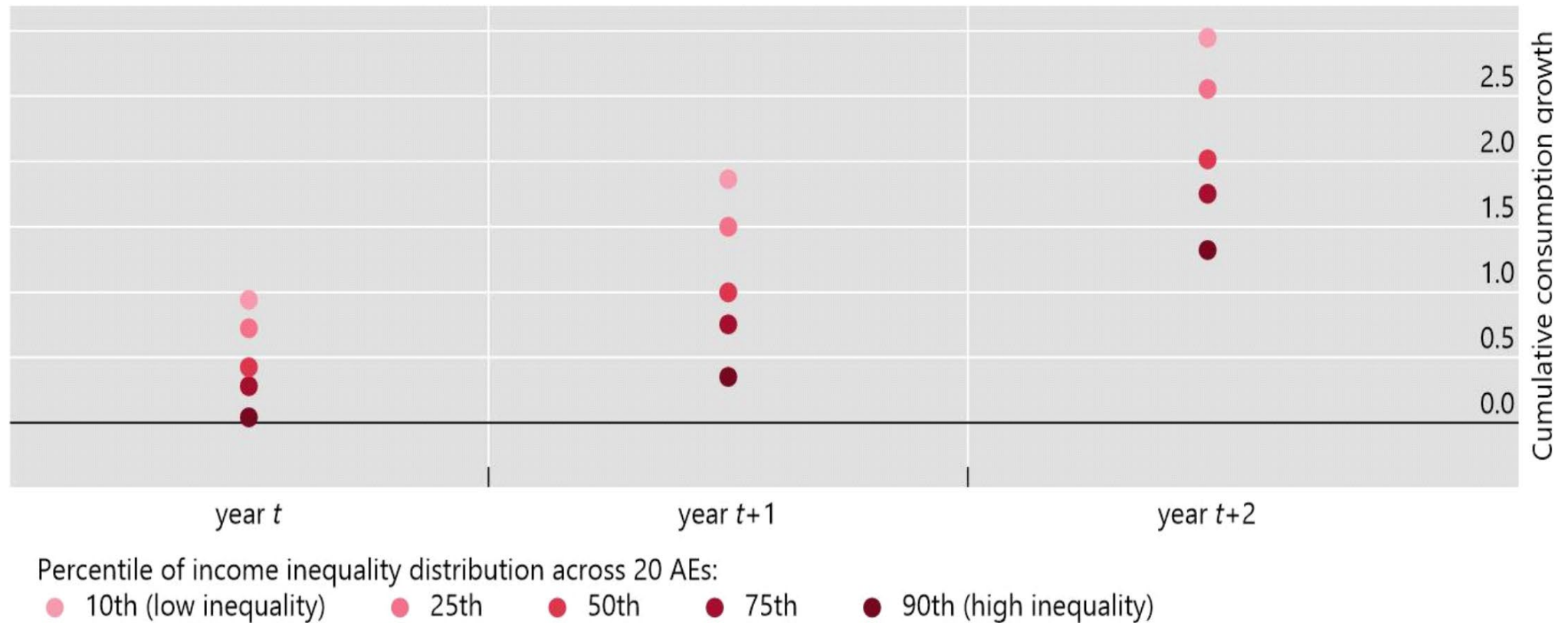
Inequality exacerbates business cycle fluctuations...

Recessions in more unequal countries lead to larger declines in consumption



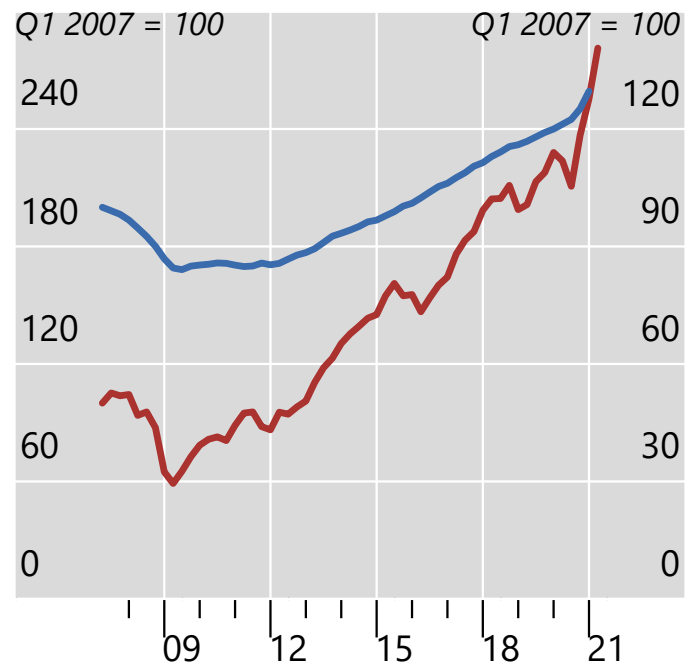
...reduces the effectiveness of monetary policy...

Cumulative consumption growth after an expansionary MP shock



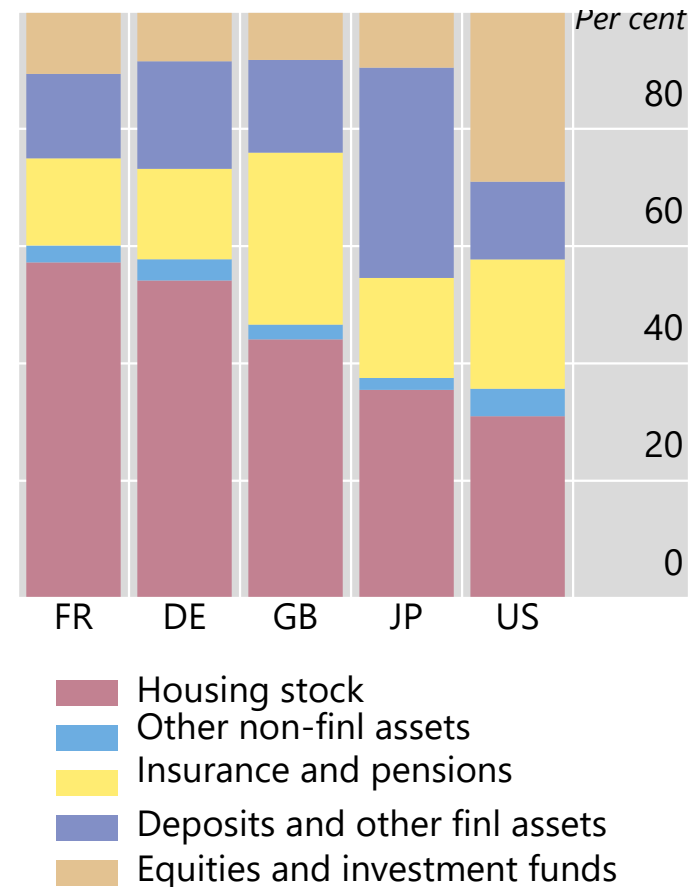
...and call for low rates with offsetting effects on wealth distribution

Evolution of equity and house prices

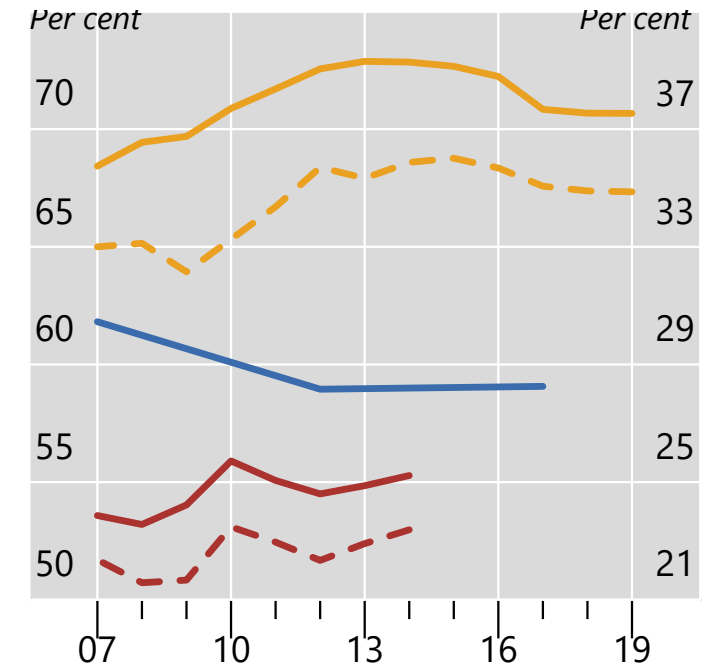


Lhs: Rhs:
— Stock prices — House prices

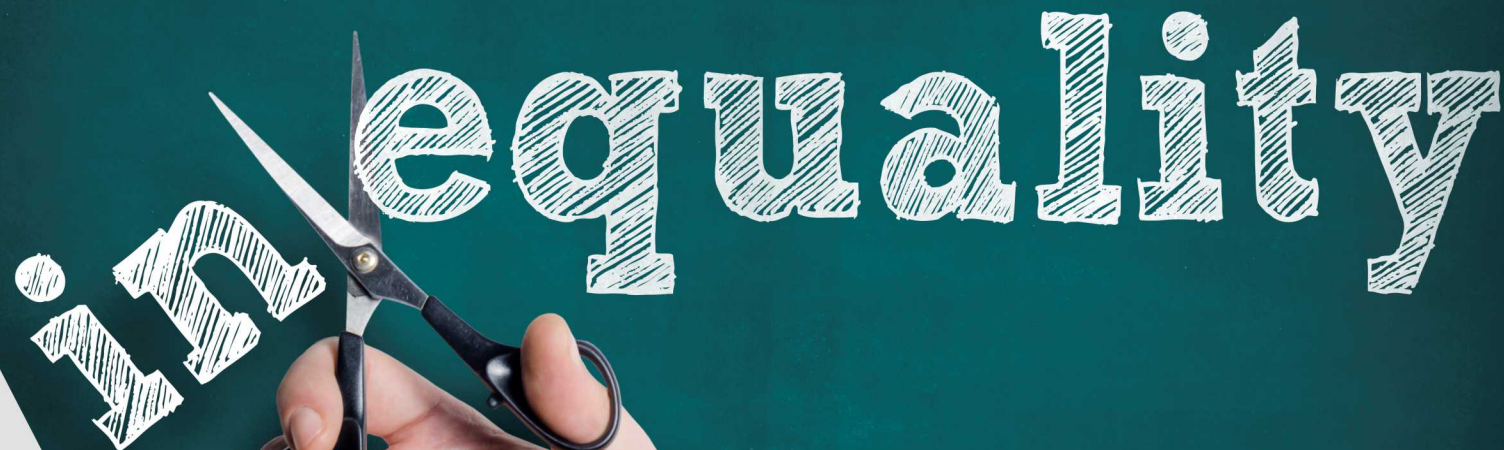
Household wealth composition



Wealth inequality



Top 10% (lhs): Top 1% (rhs):
— France —
— Germany —
— United States —

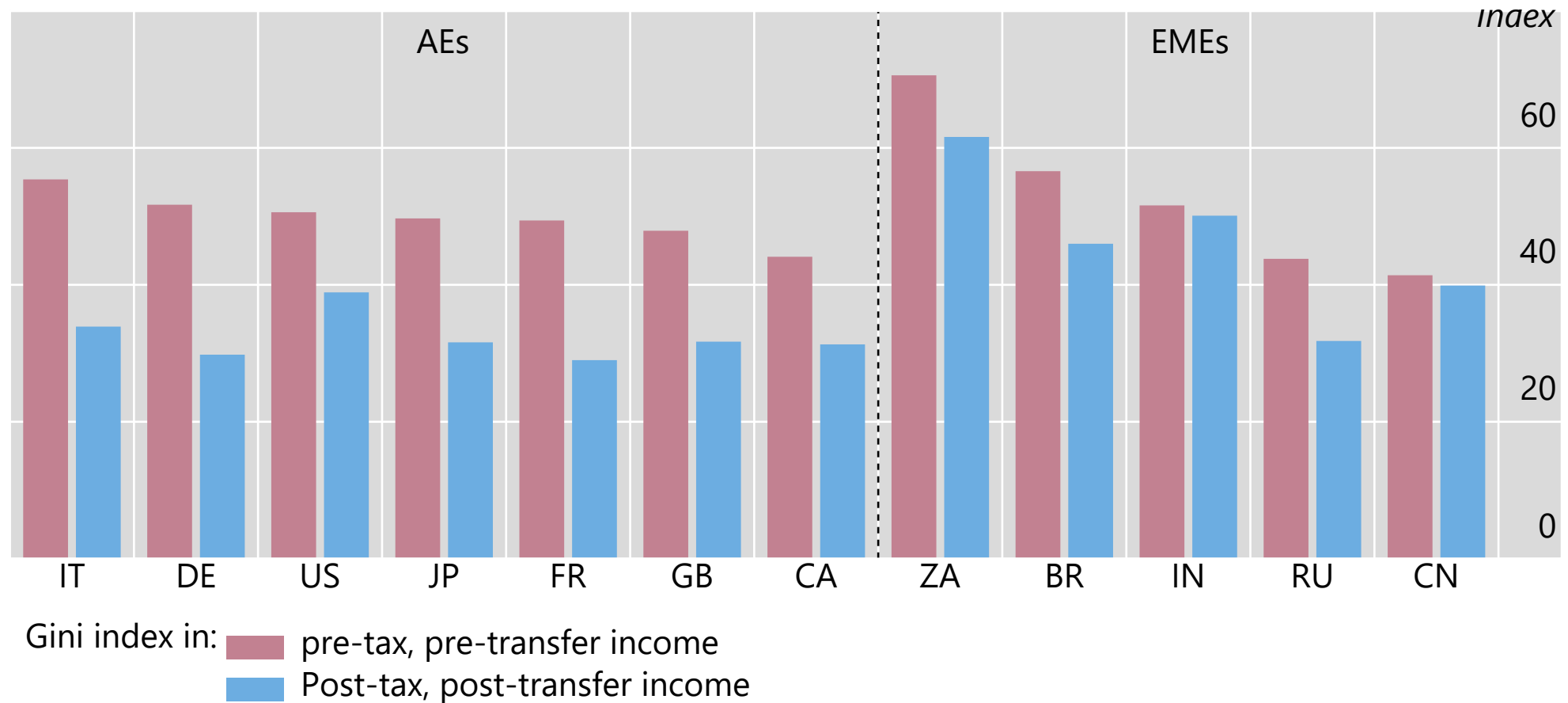
A hand holding a pair of scissors is shown cutting through the word "inequality" which is written in a white, chalk-like, hand-drawn font on a dark green chalkboard background. The scissors are positioned between the "in" and "equality" parts of the word, with the blades cutting through the letter "e". The background of the slide features a diagonal split between white and dark green, with a red curved shape at the bottom right.

inequality

The backstops
against inequality

Fiscal policy is a powerful remedy against inequality

Pre- and post-tax and transfers income inequality

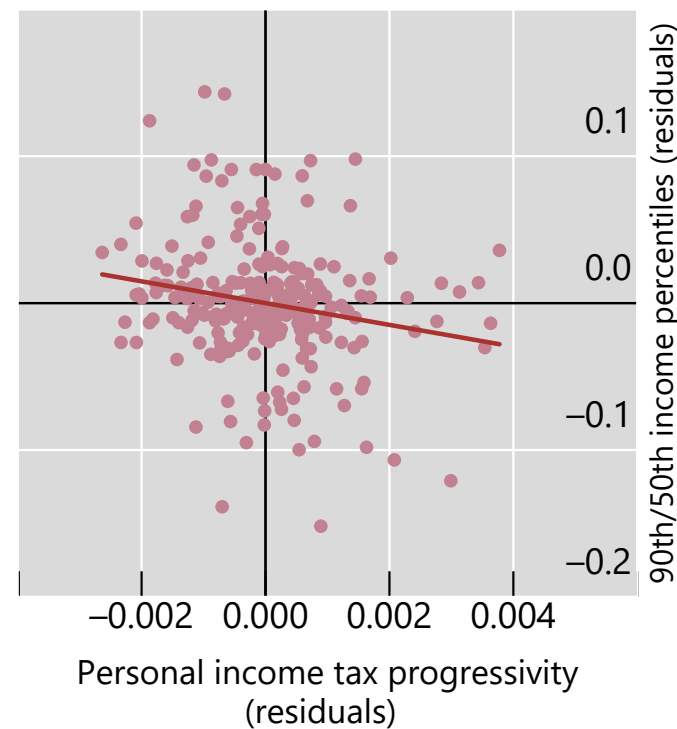


Different fiscal policy tools can shape different parts of the income distribution

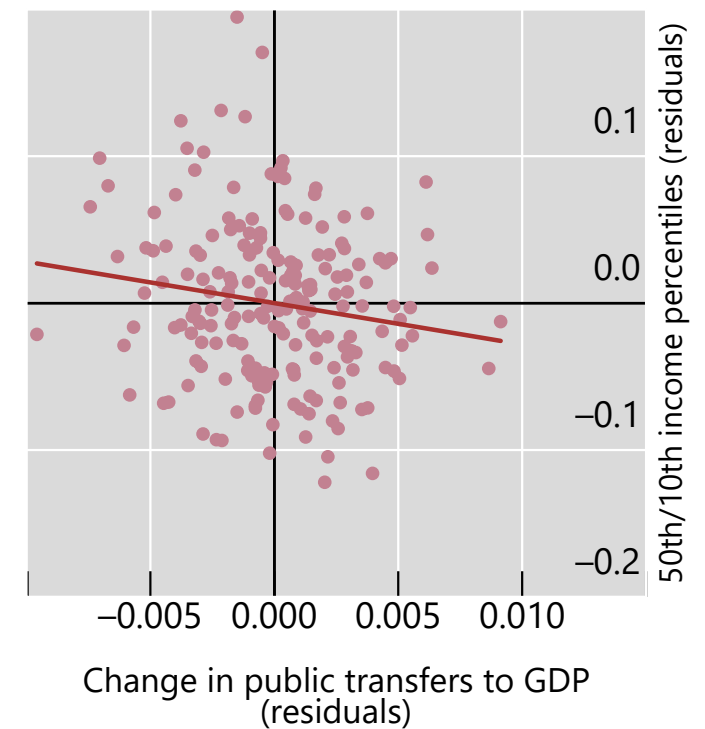
Evolution of tax rate progressivity and public transfers



Higher tax progressivity comes with lower inequality at the top...



...while higher transfers come with lower inequality at the bottom



Conclusions

- Monetary policy cannot address structural inequality over the long term
- But can mitigate the amplification of inequality over business cycles
- Inequality affects the transmission of monetary policy and complicates its conduct
- Holistic framework that combines monetary, fiscal and macro-prudential policies is needed