



# The distributional footprint of monetary policy

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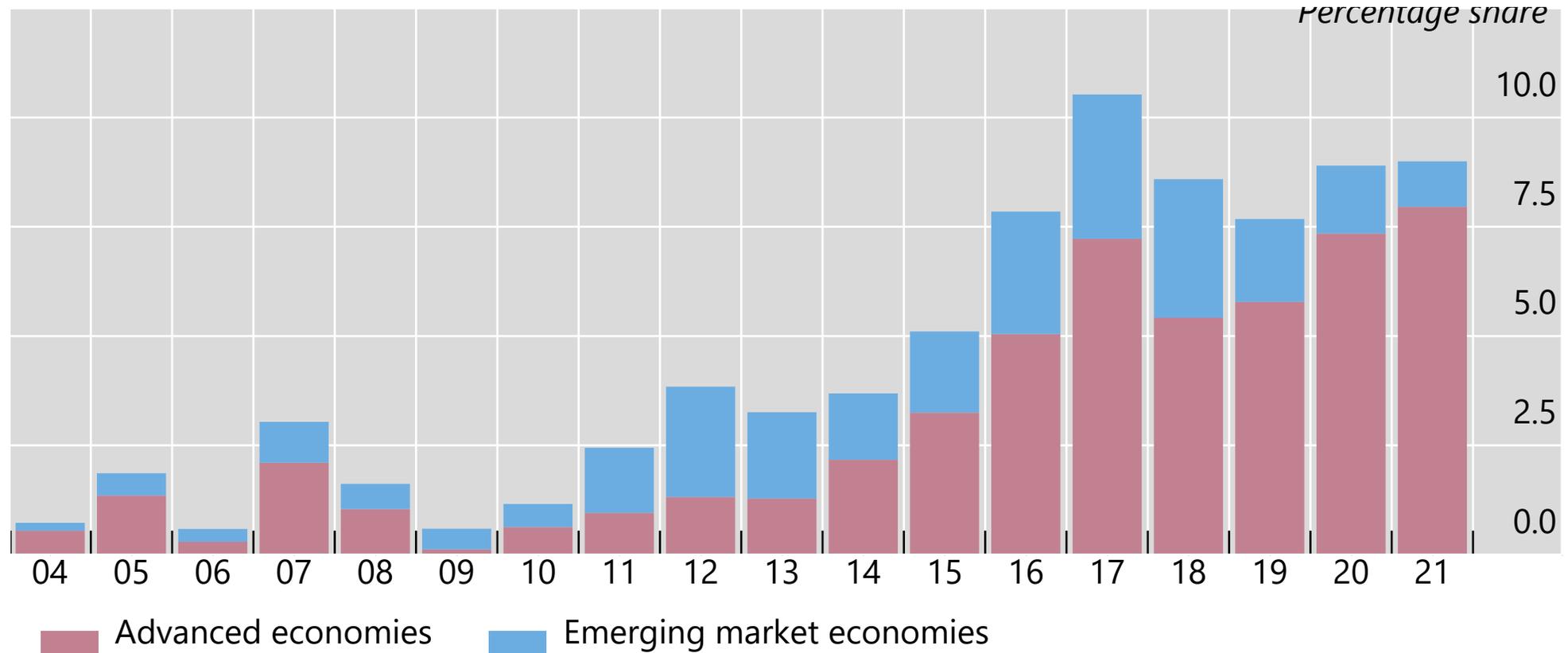
Bank of Finland/SUERF Conference

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

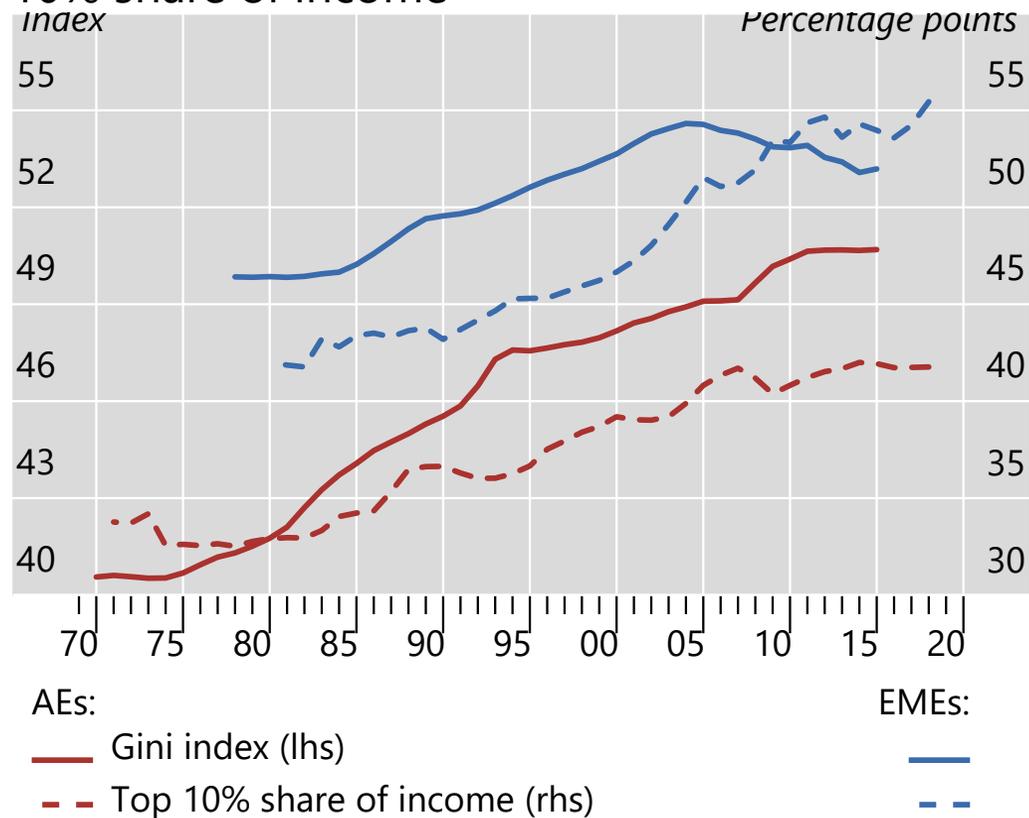
- Rising inequality and its structural determinants
- Central banks' mandates and income inequality
- Inequality and the transmission of monetary policy
- The backstops against inequality
- Conclusions

# Rising inequality: a bird's eye view

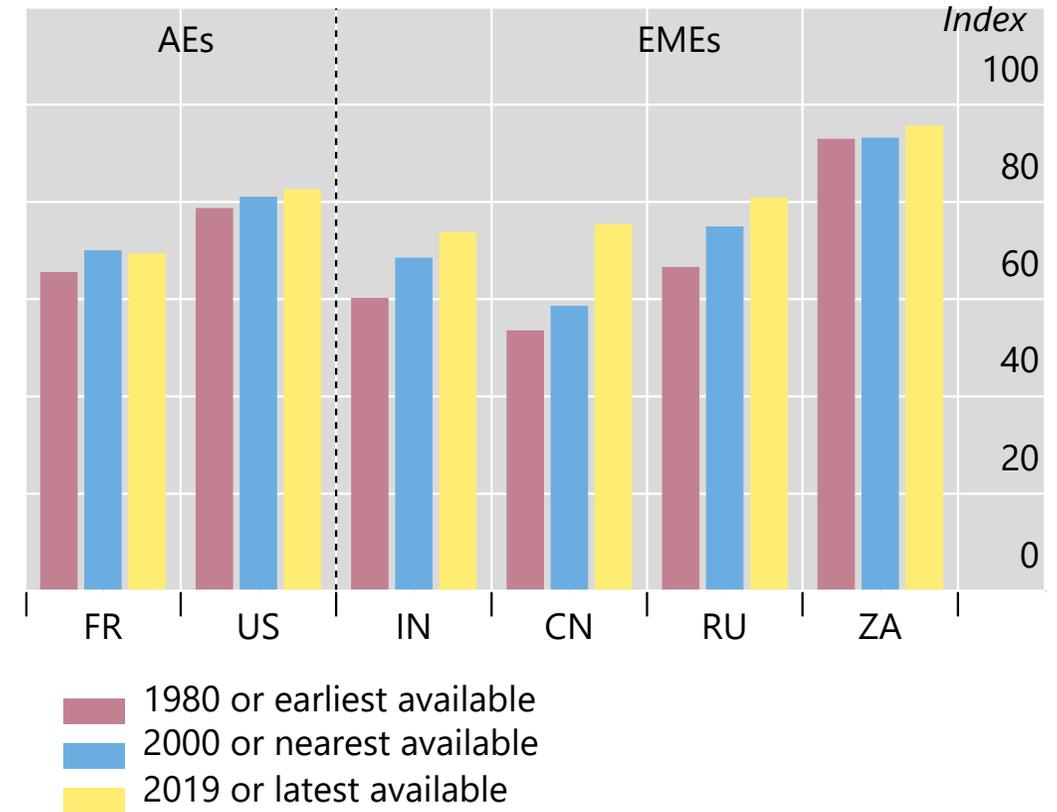


# Income and wealth inequality have been on the rise...

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

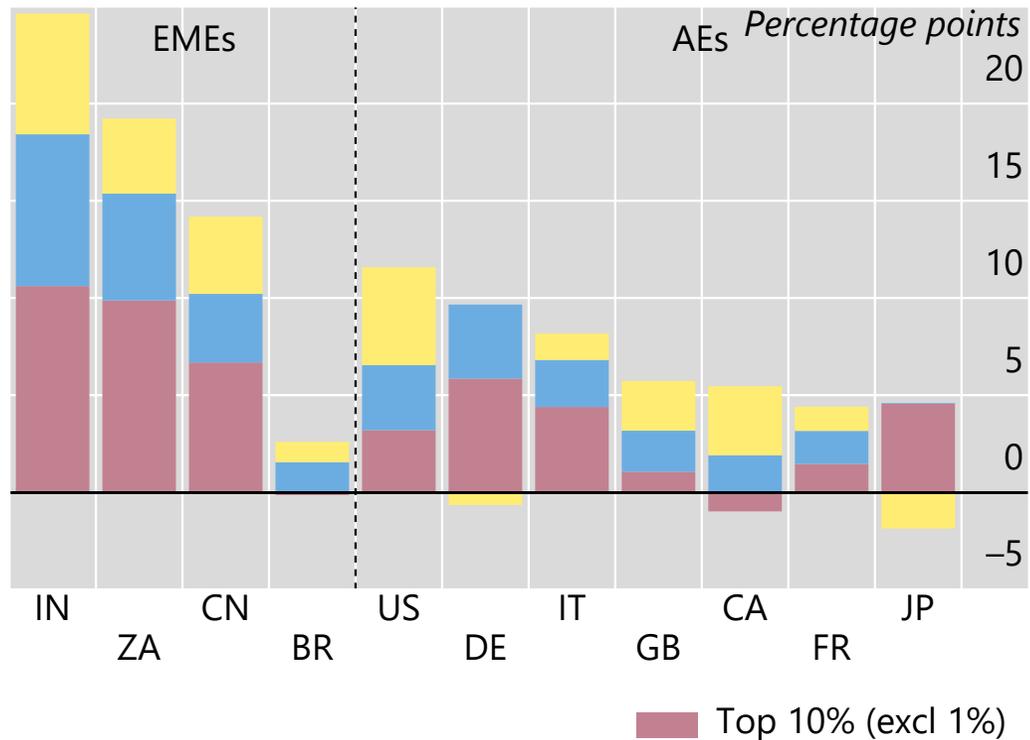


Wealth Gini index

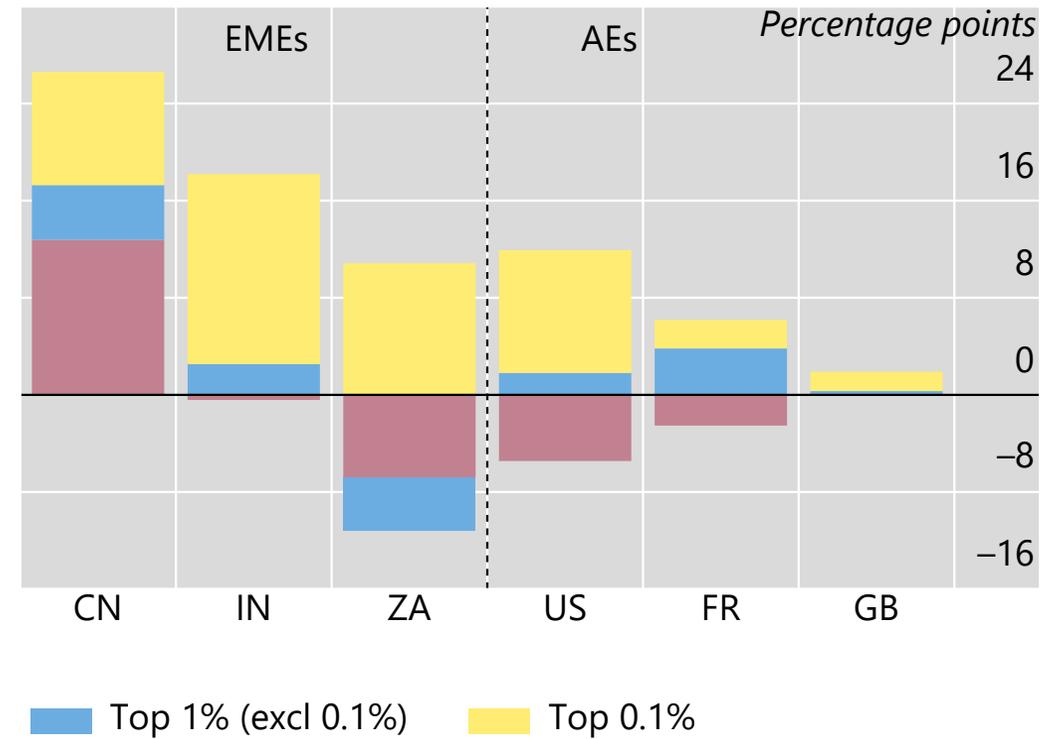


## ...especially to the benefit of the very rich

Breakdown of changes in the top 10% share of income



Breakdown of changes in the top 10% share of wealth

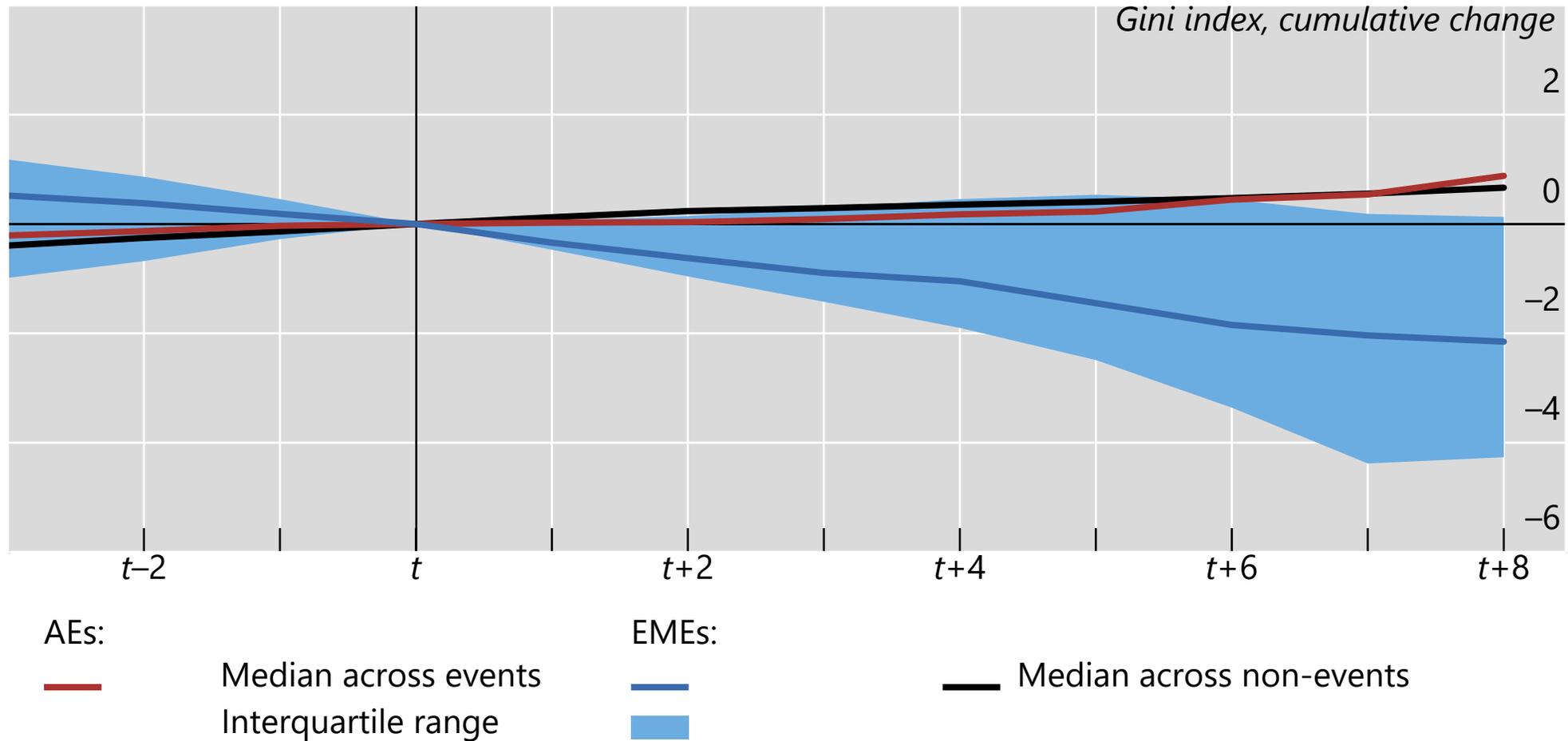


# Central banks' mandates and inequality



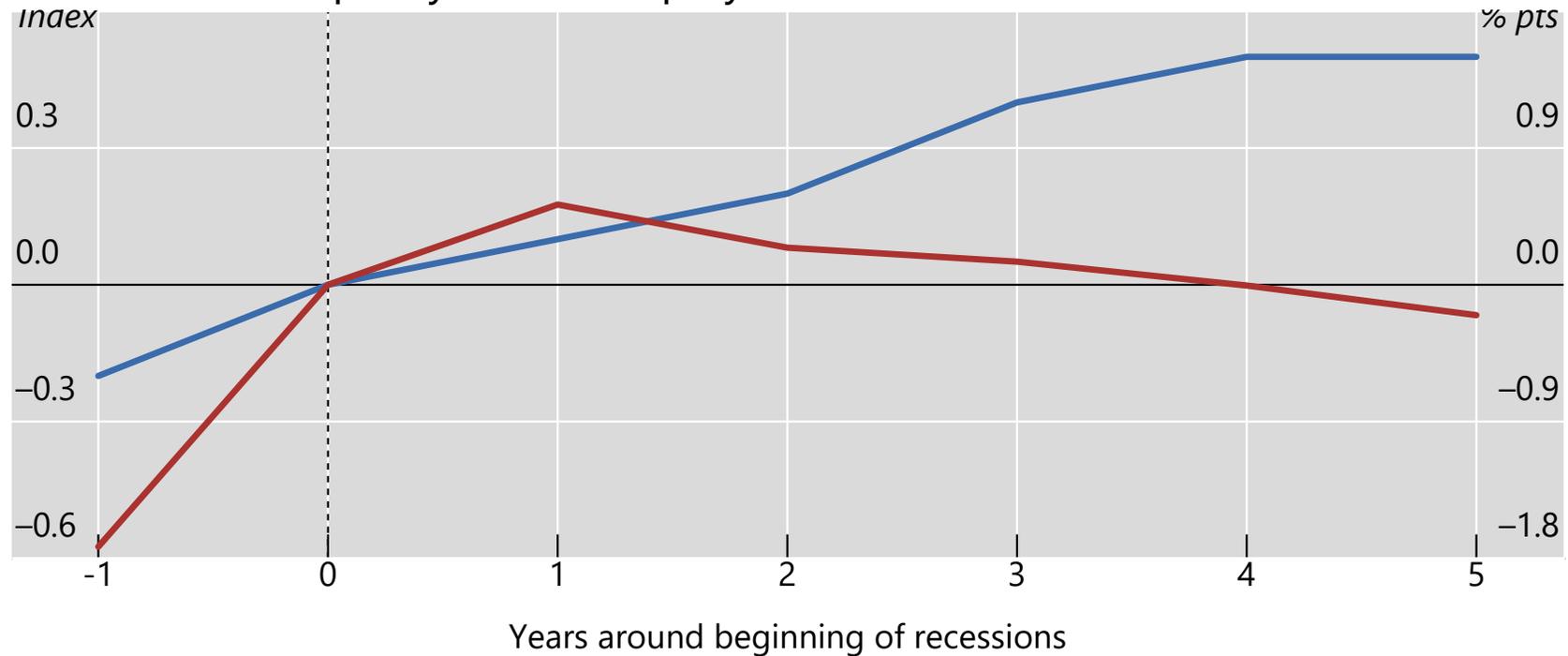
# Taming inflation is associated with lower inequality

The conquest of inflation and subsequent income Gini variation



## Recessions exacerbate inequality through unemployment

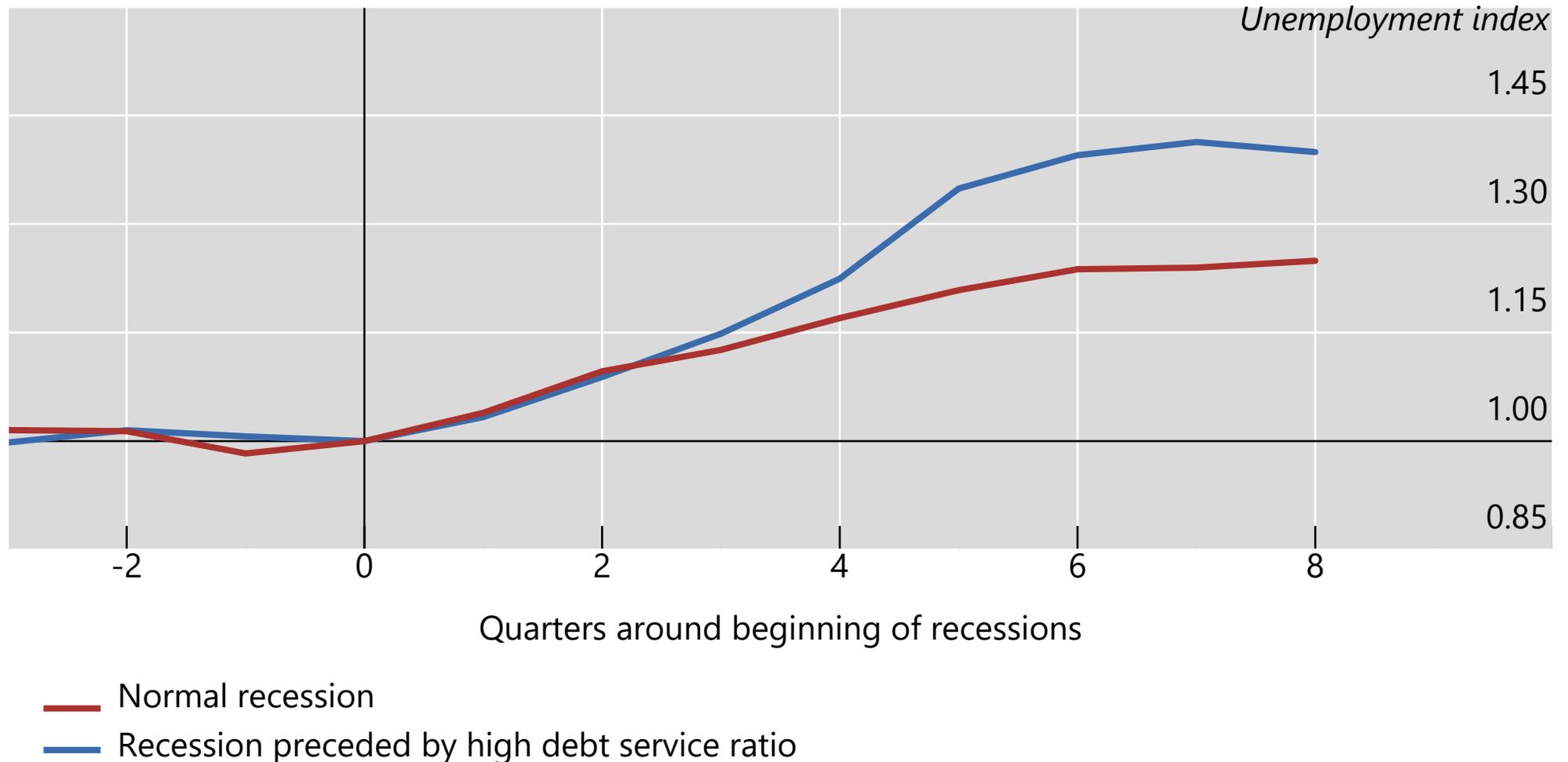
Gini income inequality and unemployment around recessions



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

# Recessions preceded by financial imbalances are longer and deeper

Financial recessions are particularly severe

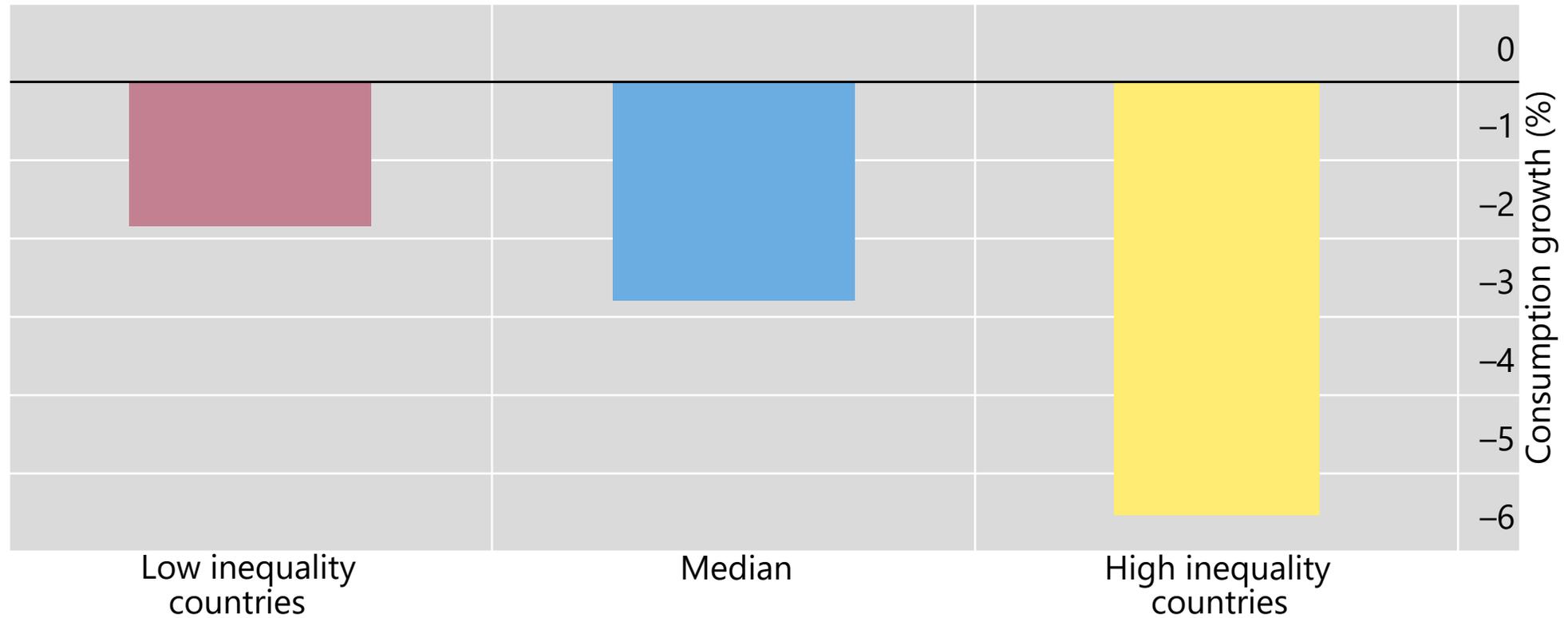


A hand is shown drawing a yellow star on a black surface. Several white arrows are pointing to the right in the background. The scene is set against a white background with a diagonal grey line.

# Inequality and the transmission of monetary policy

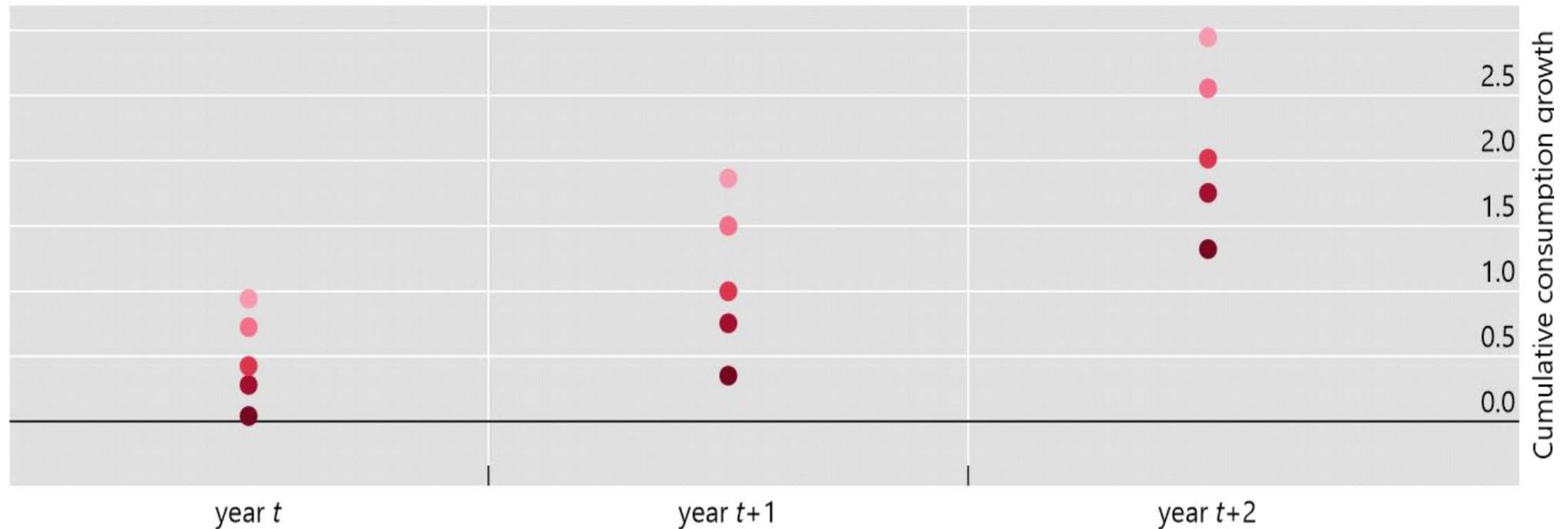
## Inequality exacerbates business cycle fluctuations...

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



Percentile of income inequality distribution across 20 AEs:

● 10th (low inequality) ● 25th ● 50th ● 75th ● 90th (high inequality)

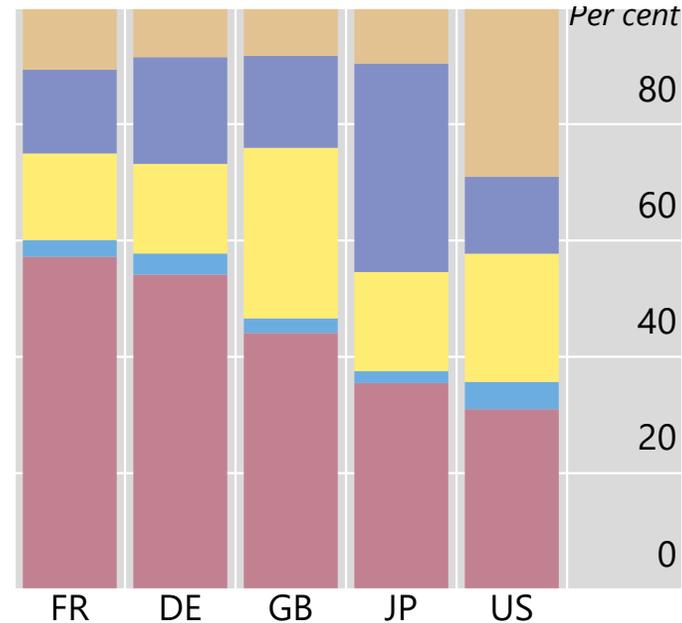
# ...and call for low rates with offsetting effects on wealth distribution

Evolution of equity and house prices



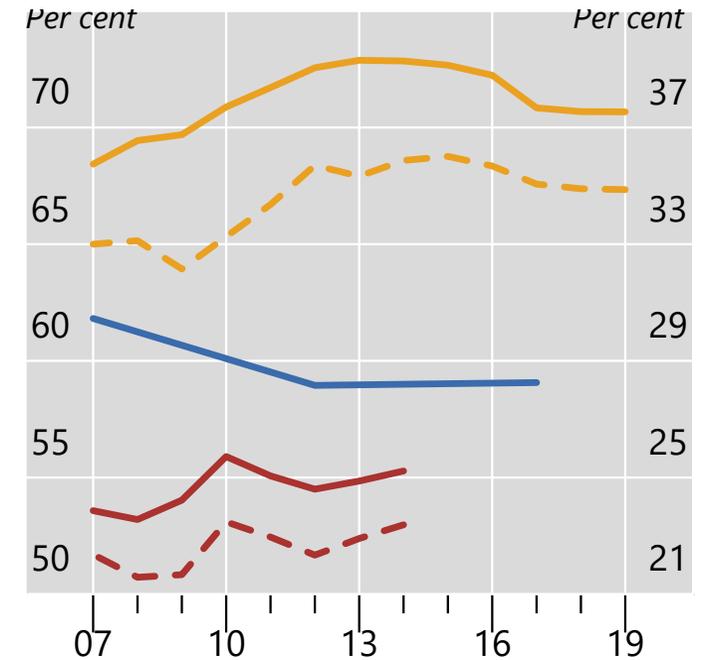
Lhs: — Stock prices      Rhs: — House prices

Household wealth composition



■ Housing stock  
■ Other non-fin assets  
■ Insurance and pensions  
■ Deposits and other finl assets  
■ Equities and investment funds

Wealth inequality



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

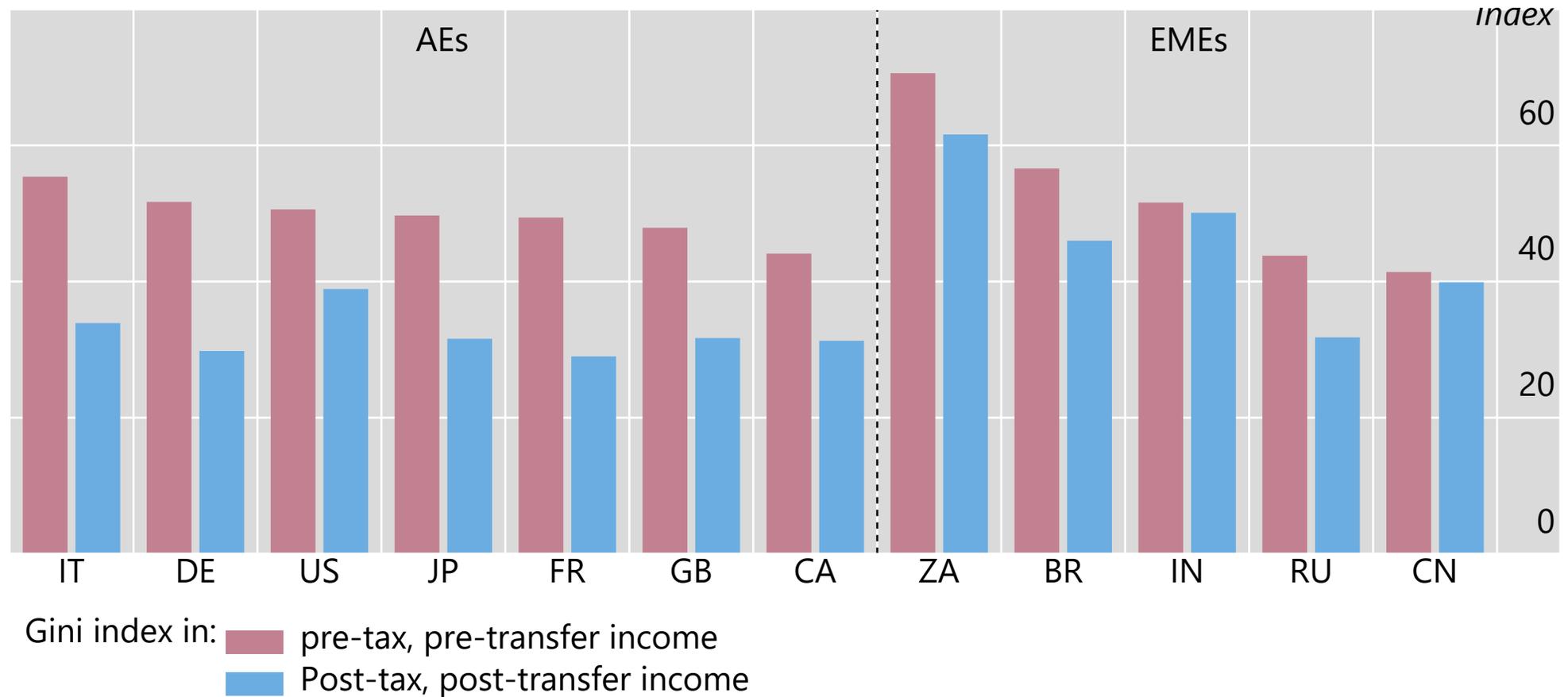


inequality

The backstops  
against inequality

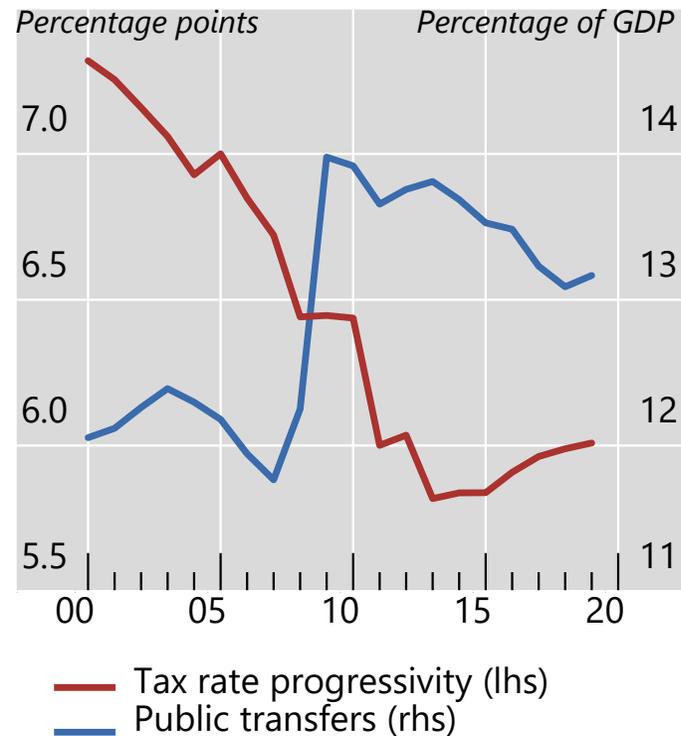
## Fiscal policy is a powerful remedy against inequality

Pre- and post-tax and transfers income inequality

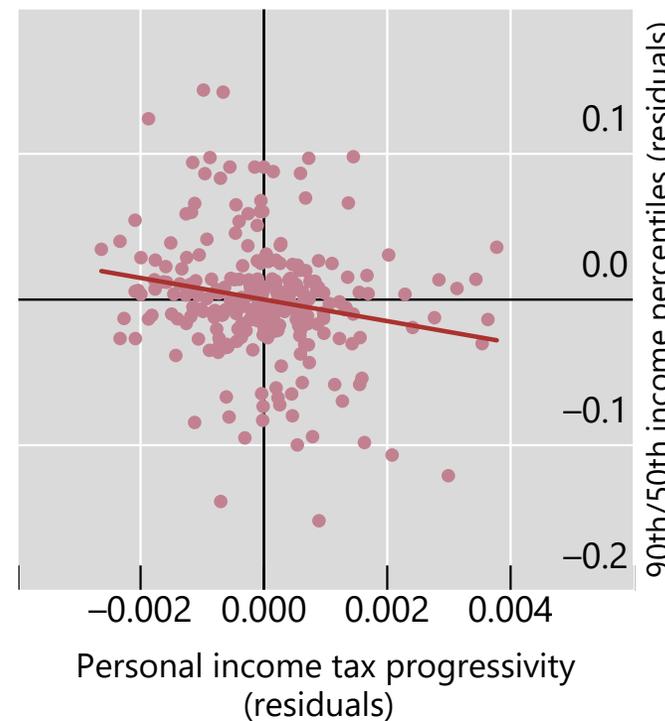


# Different fiscal policy tools can shape different parts of the income distribution

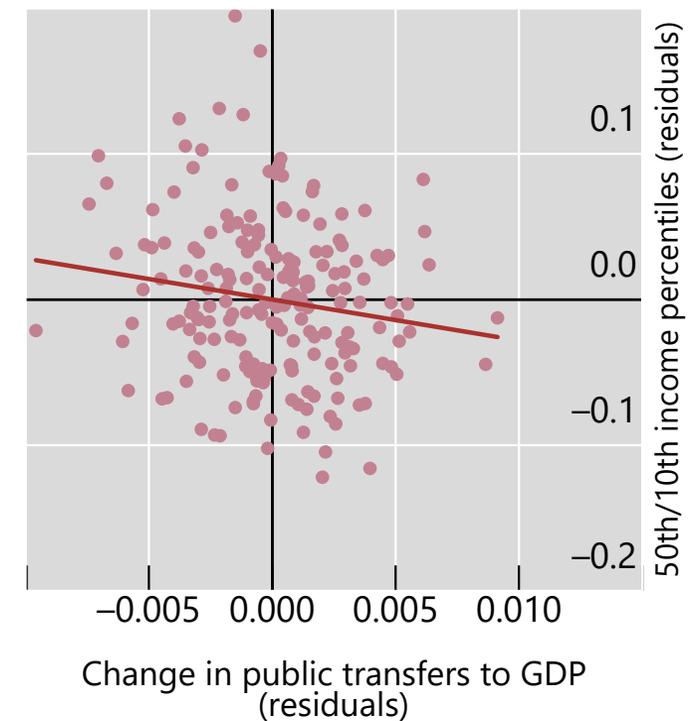
Evolution of tax rate progressivity and public transfers



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