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Inequality and Monetary Policy

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Why do we talk about it?

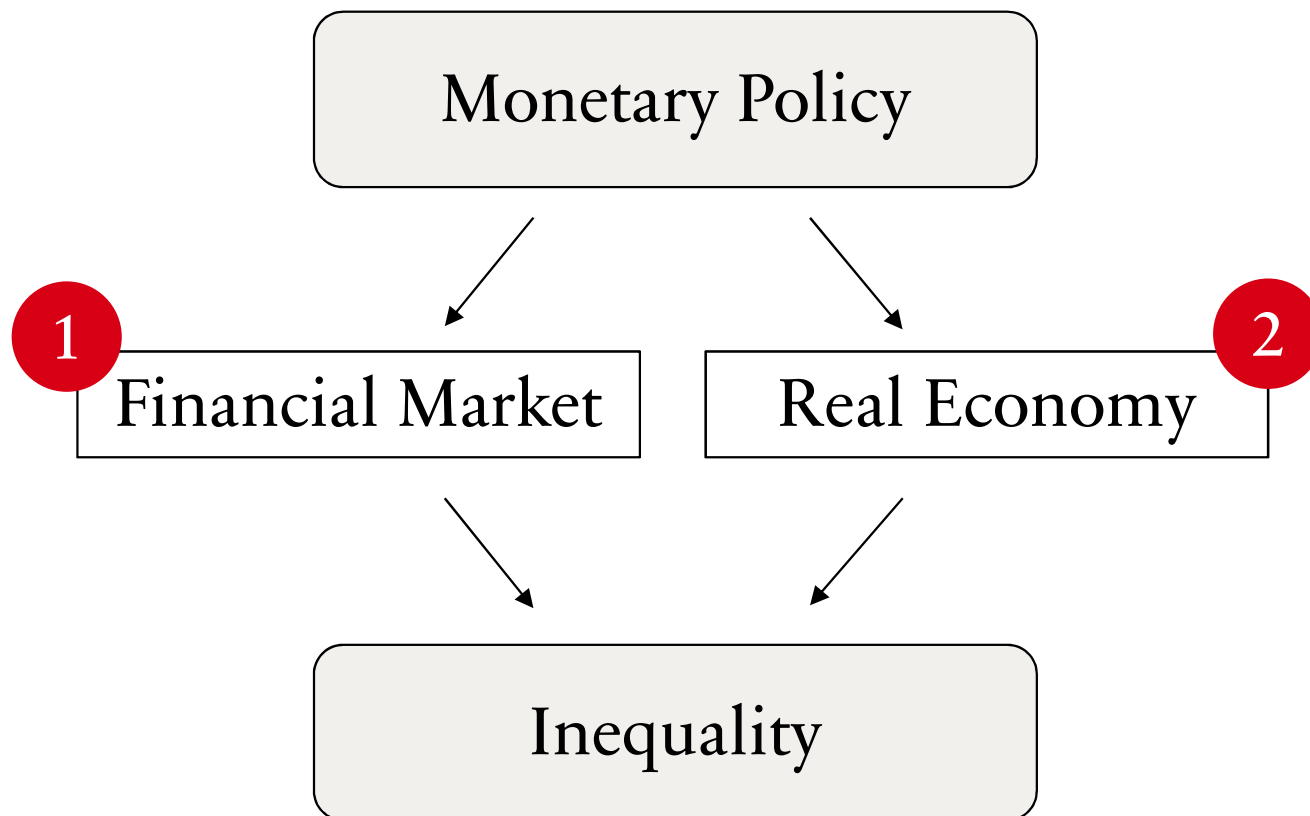


Since the aftermath of the crisis, central banks pursue an extremely **expansionary monetary policy stance**





The large asset purchasing programs led to **increasing asset prices**

Perception of increased wealth inequality as a consequence of central bank monetary policy

Monetary Policy affects Inequality via two Streams





1 Impact through the Financial Market

Channel	Description	Inequality
<i>Increased asset prices</i>	<ul style="list-style-type: none">• Higher-income households (HH) hold more assets• They benefit over-proportionally from higher prices	
<i>Lower interest rates</i>	<ul style="list-style-type: none">• Redistribution from savers to borrowers• Borrowers are predominantly lower/middle-income HH	
<i>Higher inflation</i>	<ul style="list-style-type: none">• Beneficial impact on debt repayments for borrowers• Borrowers are predominantly lower/middle-income HH	
<i>Higher market liquidity</i>	<ul style="list-style-type: none">• Lower liquidity premia when purchasing assets• Beneficial for more active market participants (higher-income HH)	

Impact of Monetary Policy on Inequality unclear

2 Impact through the Real Economy

<u>Channel</u>	<u>Description</u>	<u>Inequality</u>
<i>Employment and wages</i>	<ul style="list-style-type: none">• Sensitivity of lower-income HH to business cycles• Probability of unemployment• Wage as the main source of income	
<i>Higher inflation</i>	<ul style="list-style-type: none">• Impact on real income more relevant for lower/middle income HH	

Impact of Monetary Policy on Inequality unclear

Theoretical Ambiguity requires Empirical Evidence

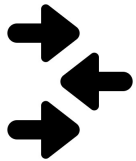
In-stream ambiguity, e.g. asset price channel

- Offsetting effect due to different types of assets (equity, bonds, housing)
 - Higher equity/bond prices may increase inequality
 - Higher housing prices may decrease inequality

Cross-stream ambiguity, e.g. inflation channel

- Financial markets: Higher inflation may decrease inequality
- Real economy: Higher inflation may increase inequality

Economic Stability is the core objective of Central Banks



It cannot be argued, that monetary policy does not impact inequality in any way



The core objective of monetary policy remains to achieve price stability and to moderate business cycles



It is in the hands of fiscal and social policies to achieve the level of equality which is politically desired

Thank you very much
for your attention!