



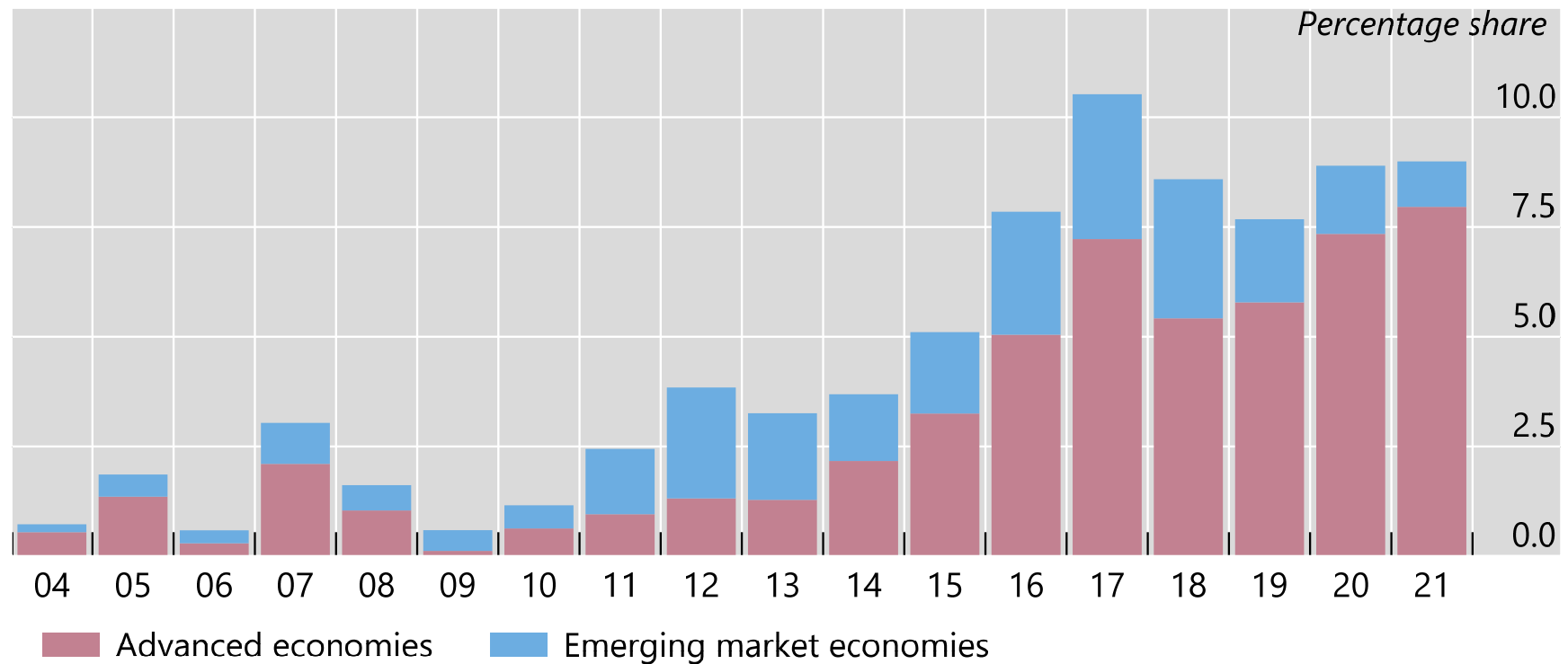
# The distributional footprint of monetary policy

Claudio Borio  
Head of the Monetary and Economic Department

Basel, Switzerland, 29 June 2021

## Central banks increasingly focused on inequality

Share of speeches mentioning inequality





Monetary policy cannot  
address structural inequality

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But can mitigate the  
amplification of inequality  
over business cycles

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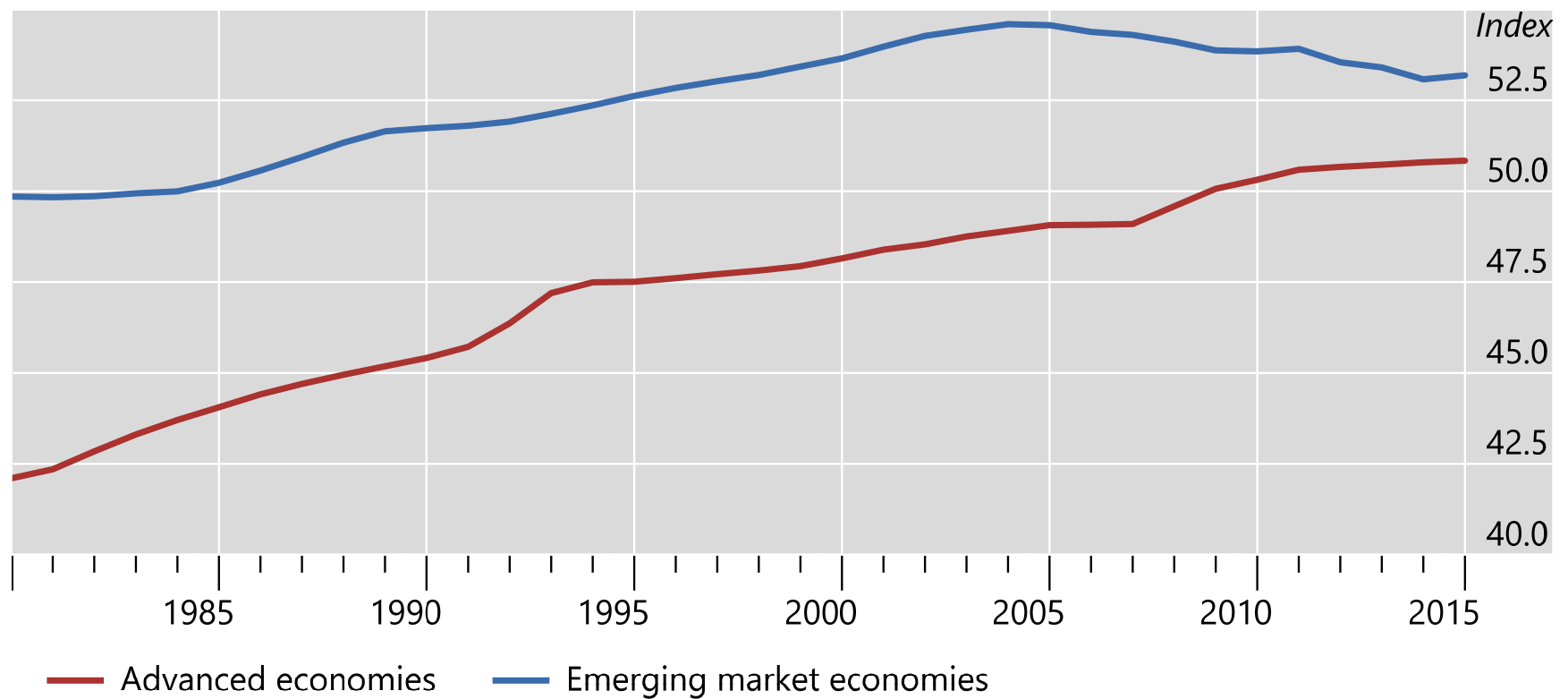
Holistic macroprudential  
financial stability framework is  
needed



## Structural trends in inequality

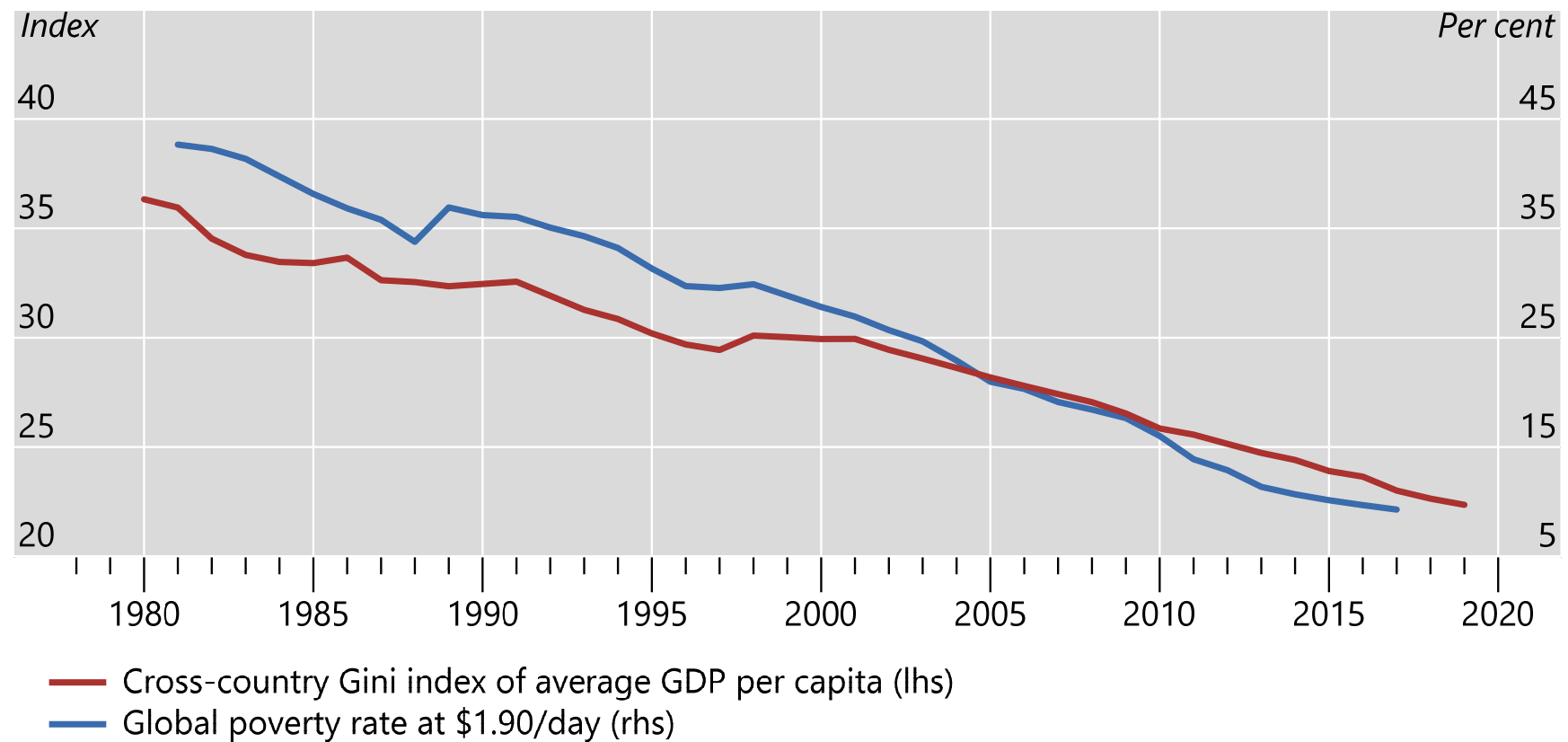
## Within-country inequality has risen...

Pre-tax, pre-transfer Gini index



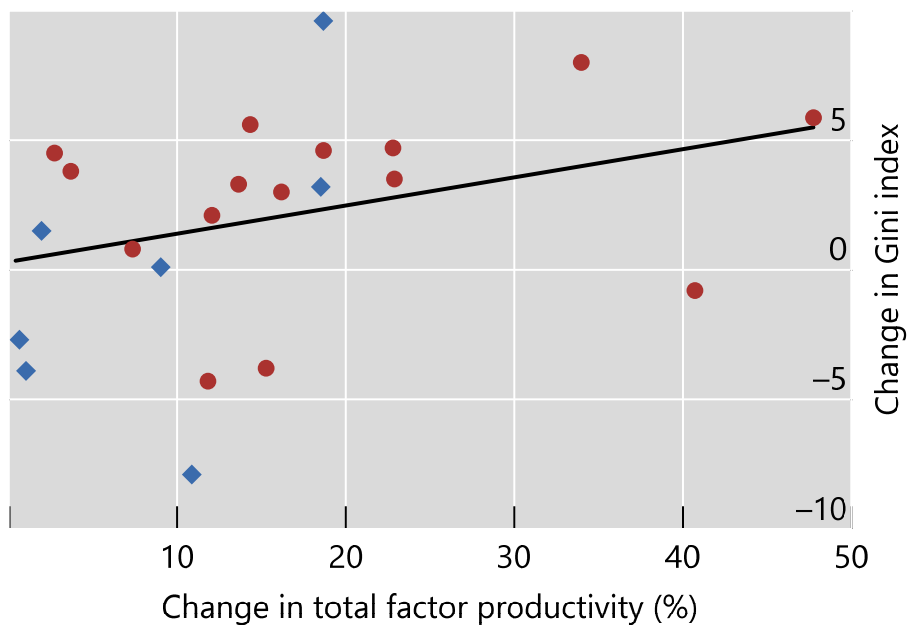
...despite reductions in global poverty and inequality across countries

Cross-country inequality and global poverty rate

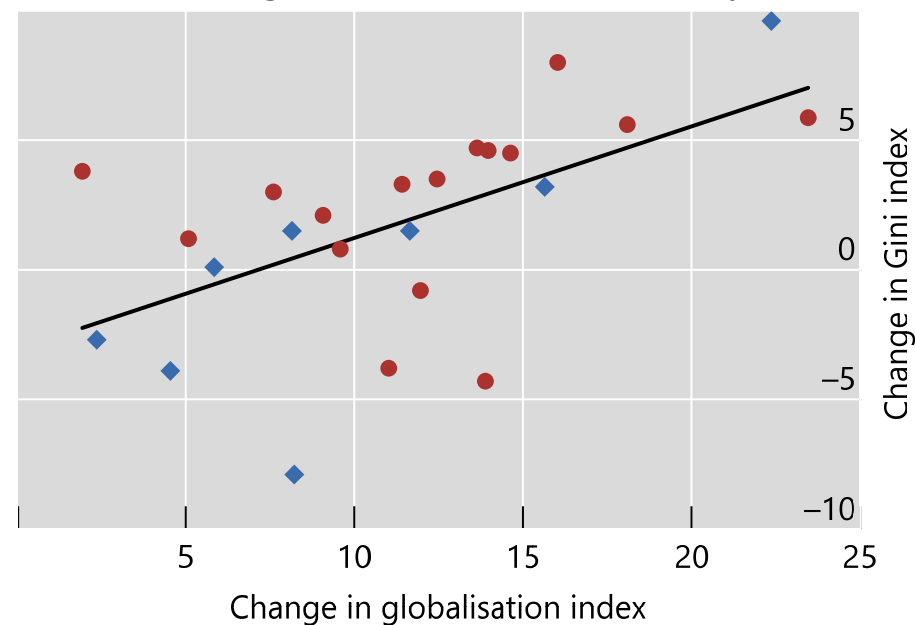


## Inequality is driven by structural forces

The effect of technology on inequality



The effect of globalisation on inequality





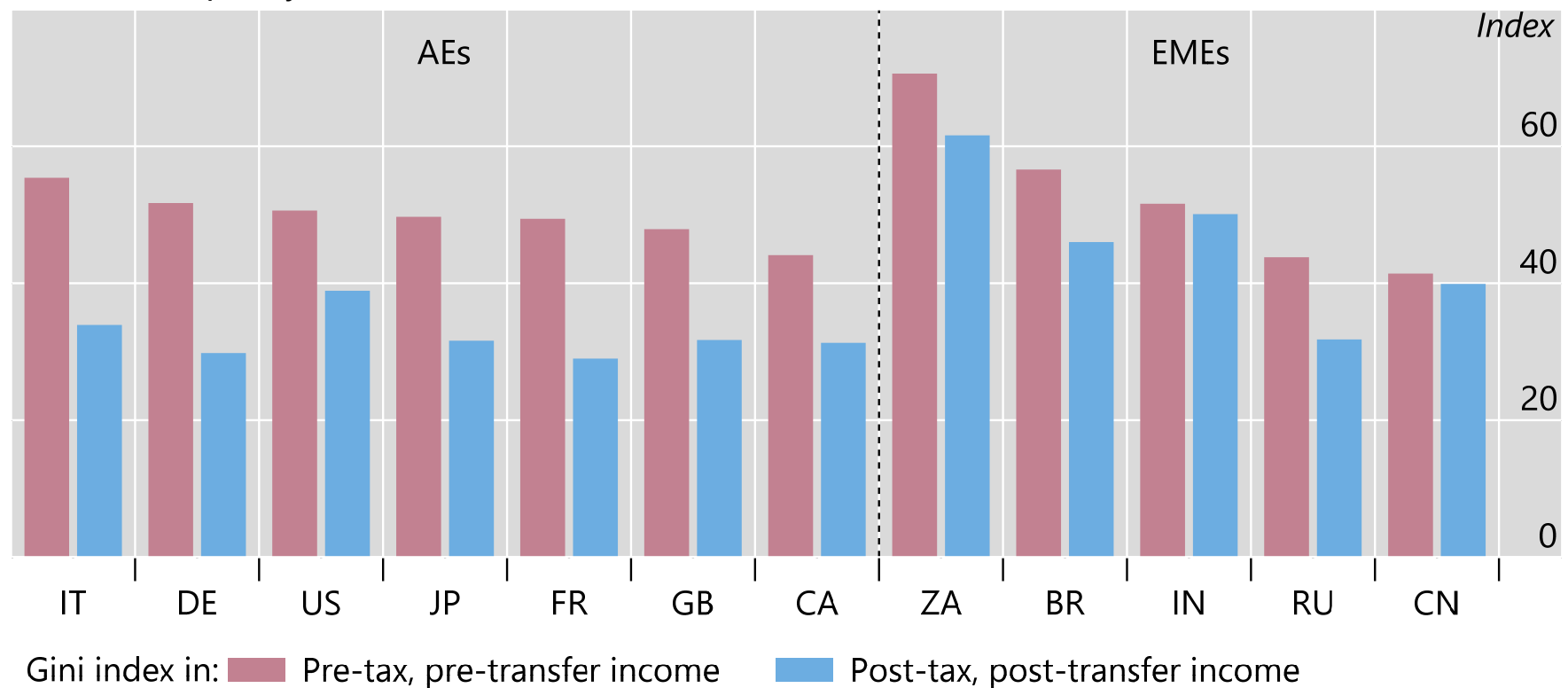
The background of the slide is a complex, abstract composition. It features a stack of silver coins in the lower-left foreground. Overlaid on the coins and extending towards the right is a green bar chart with several vertical bars of varying heights. In the background, there is a blue-tinted image of a city skyline with many windows. 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 greys, with a red diagonal band at the bottom right.

## Rising inequality: determinants and policies

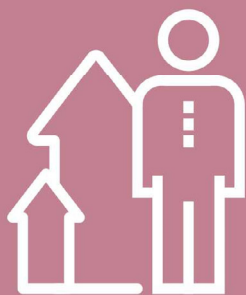


## Fiscal policy can offset impact of inequality

Income inequality: before and after taxes and transfers



## Central banks play a role wearing their non-monetary hats



Financial  
development,  
inclusion and  
literacy



Financial  
consumer  
protection



Payment  
systems

# Inequality and monetary policy mandates



The poor are the most vulnerable to inflation



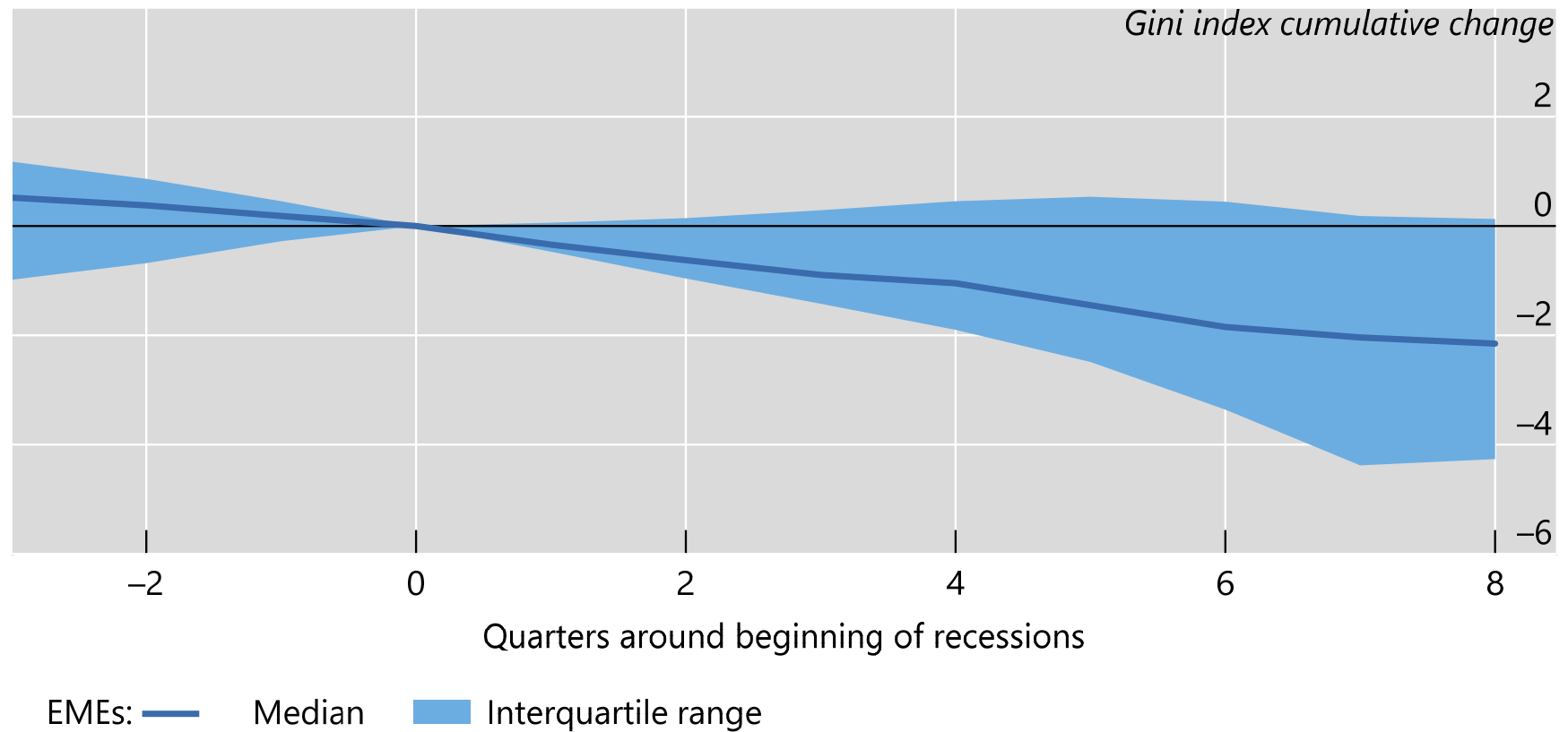
The poor are the most vulnerable to inflation





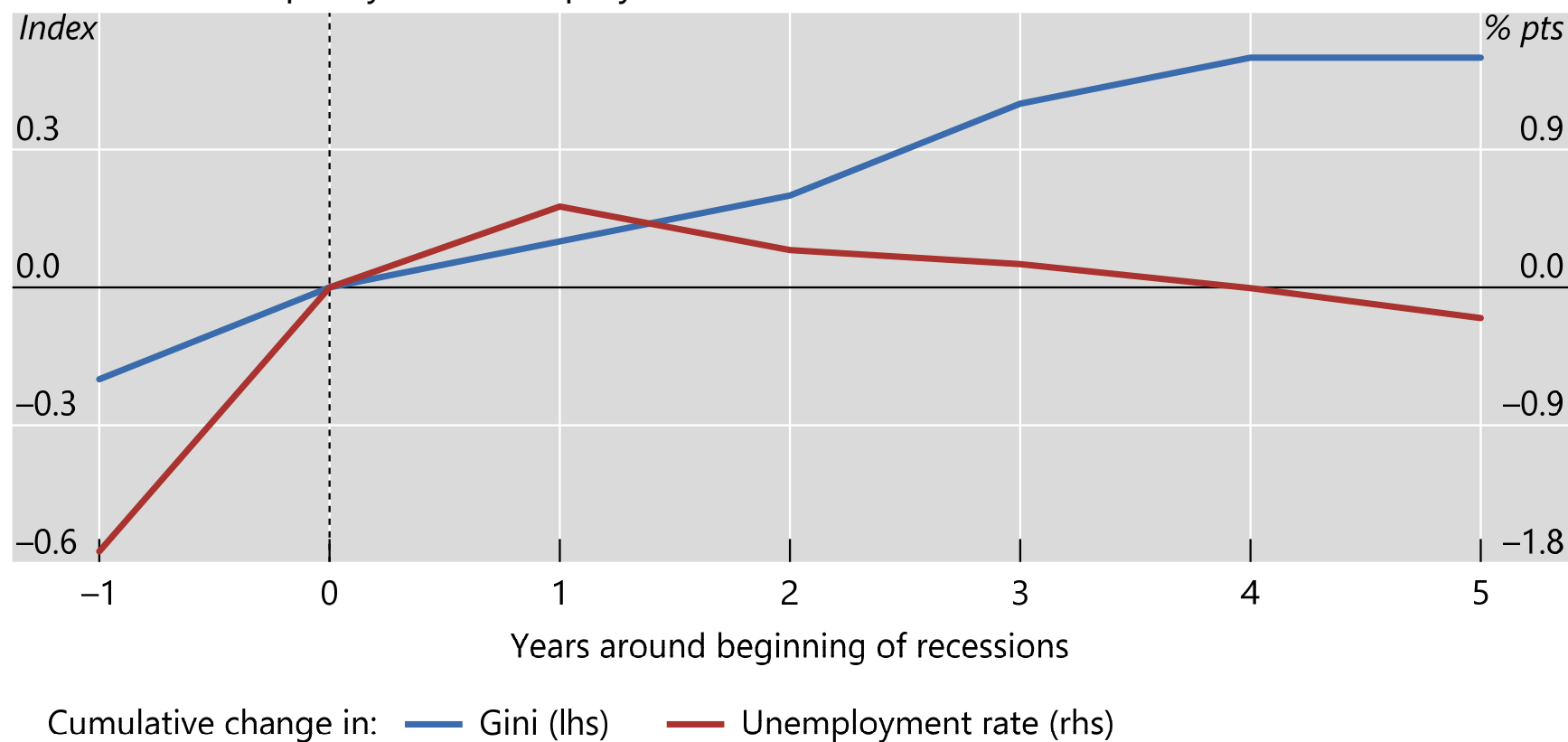
## Price stability helps mitigate inequality

The conquest of inflation and subsequent change in income Gini



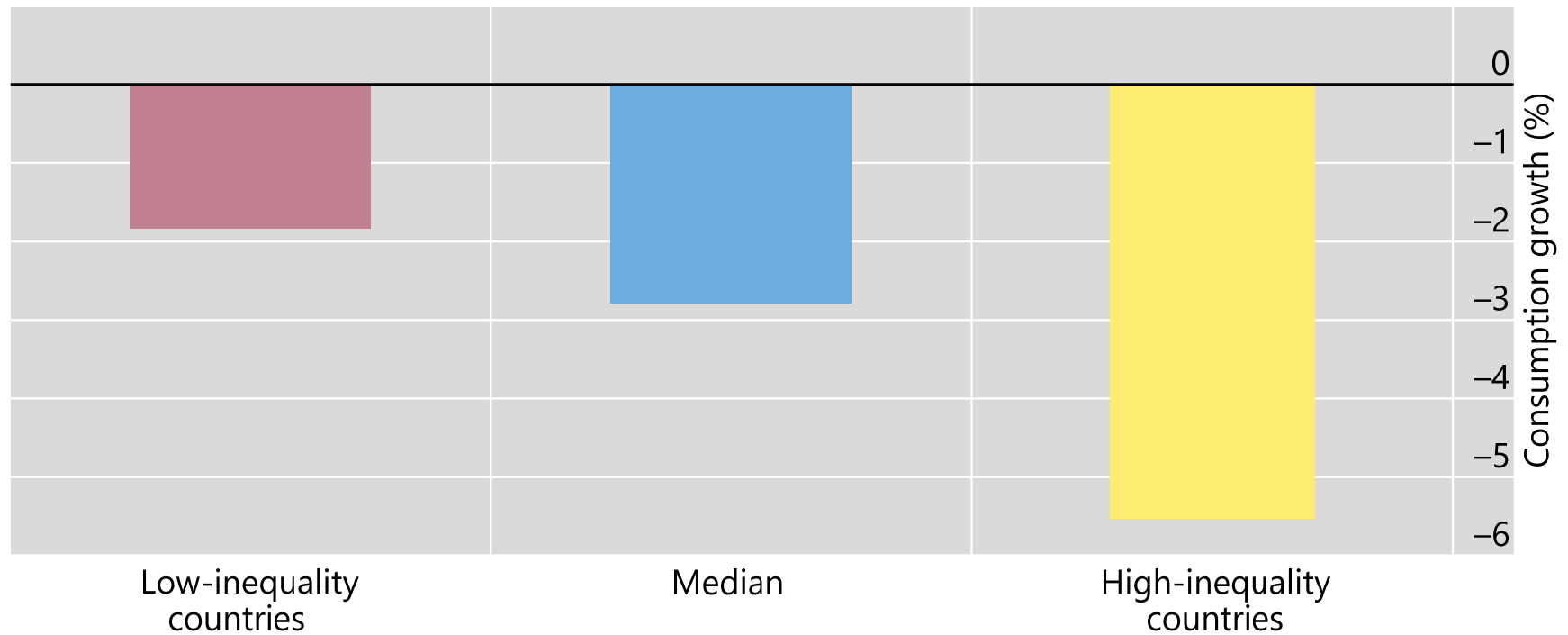
## Recessions exacerbate inequality through unemployment...

Gini income inequality and unemployment around recessions



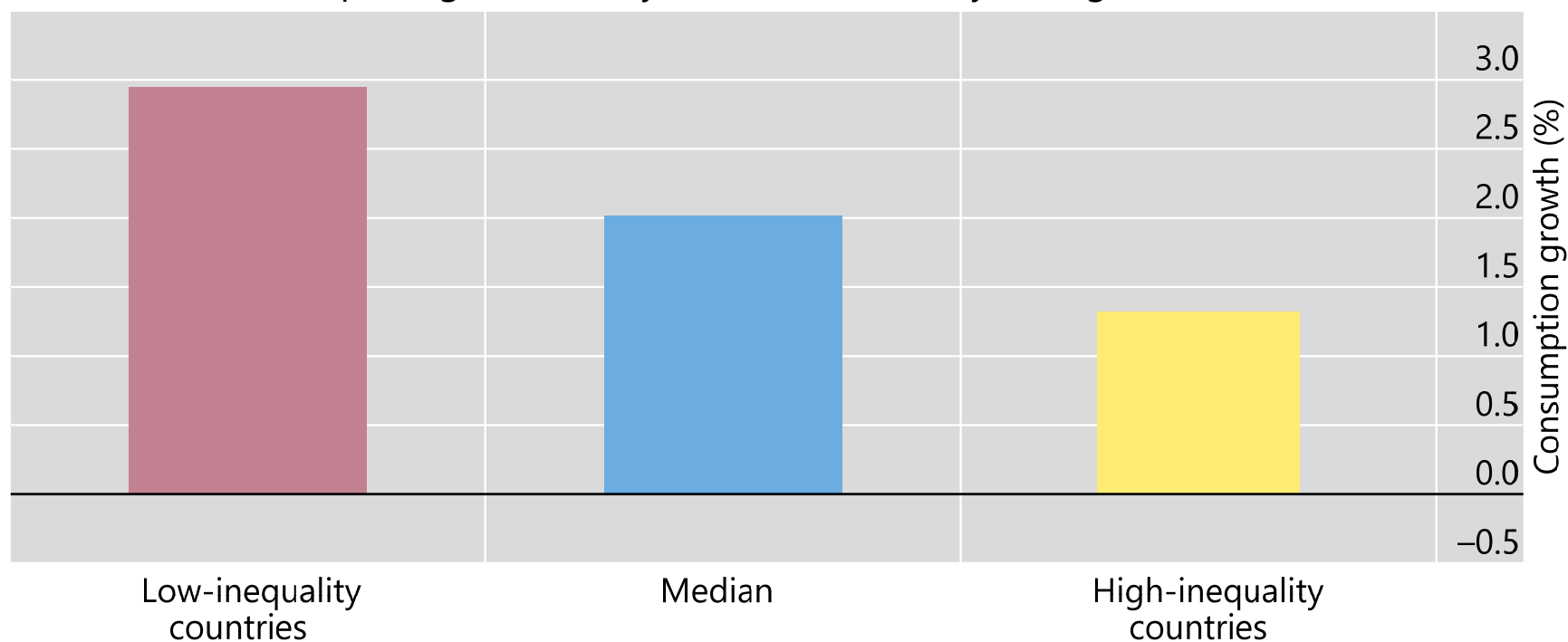
...while inequality exacerbates recessions...

Depth of recessions and inequality across countries

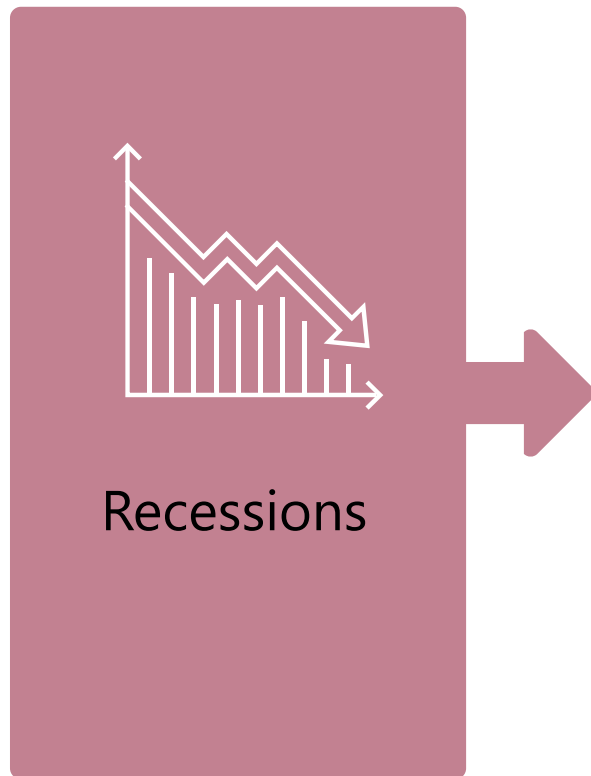


...and reduces the effectiveness of monetary policy...

Cumulative consumption growth two years after monetary easing

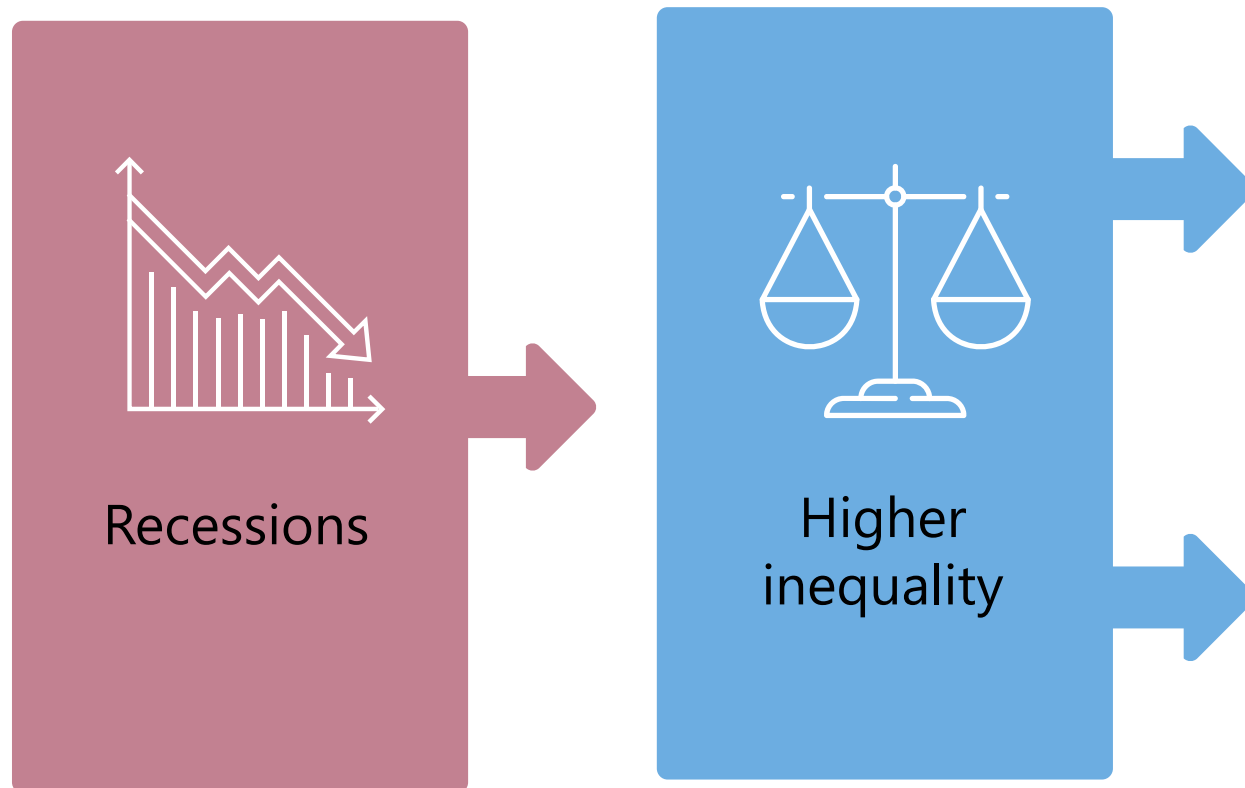


...generating a perverse amplification

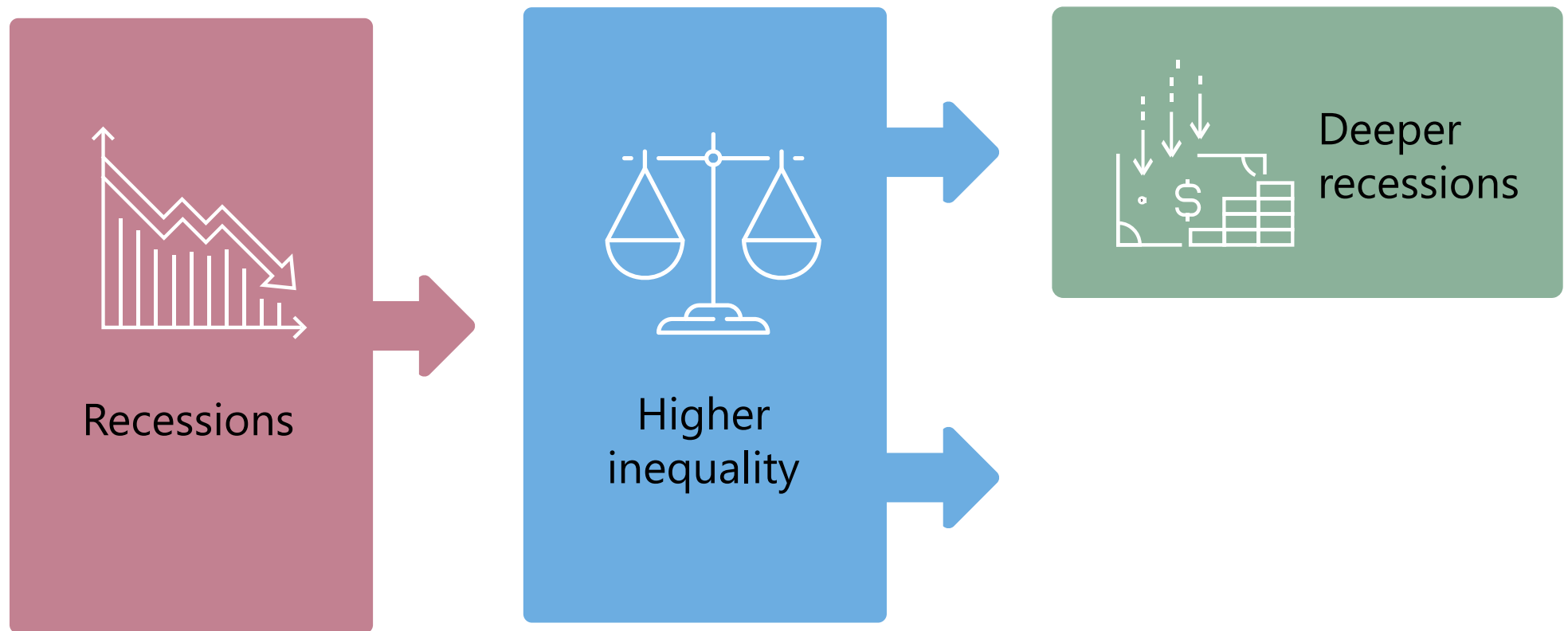




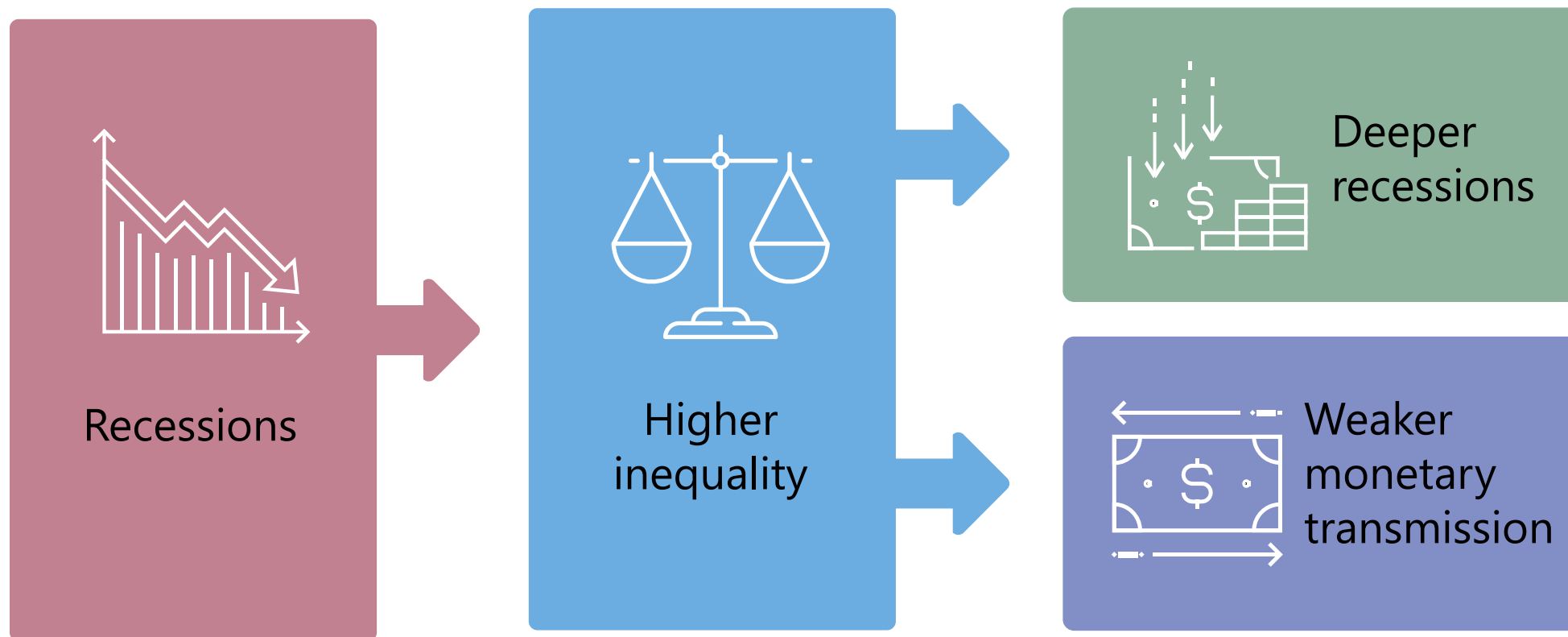
...generating a perverse amplification



...generating a perverse amplification



...generating a perverse amplification



A hand is shown drawing a yellow arrow on a black surface. Several other white arrows are visible in the background, pointing in various directions. The image is part of a presentation slide with a white background on the left and a red background on the right.

## Inequality and monetary policy trade-offs

Trade-off: bringing down inflation



## Trade-off: bringing down inflation

Inflation



Unemployment



## Trade-off: bringing down inflation

Inflation



Unemployment



## Trade-off: fighting recessions

Trade-off: fighting recessions

Wealth

Trade-off: fighting recessions

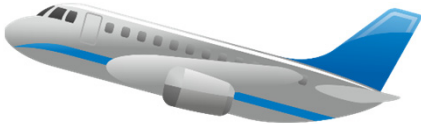
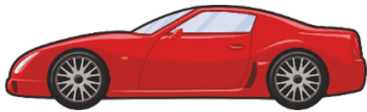
Wealth



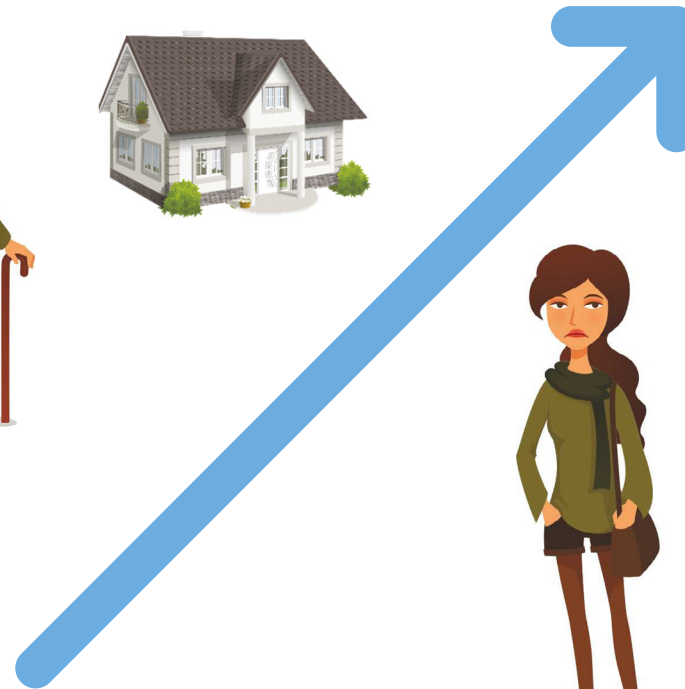
## Trade-off: fighting recessions

# Wealth

Equity prices

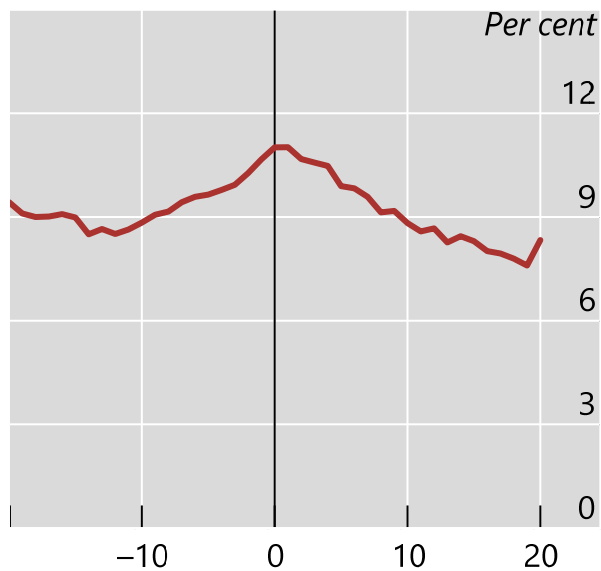


House prices

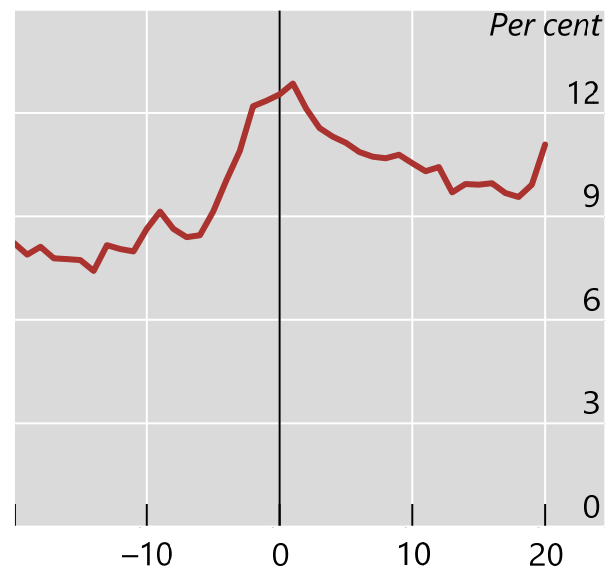


## More prominent role of financial factors in business cycle fluctuations

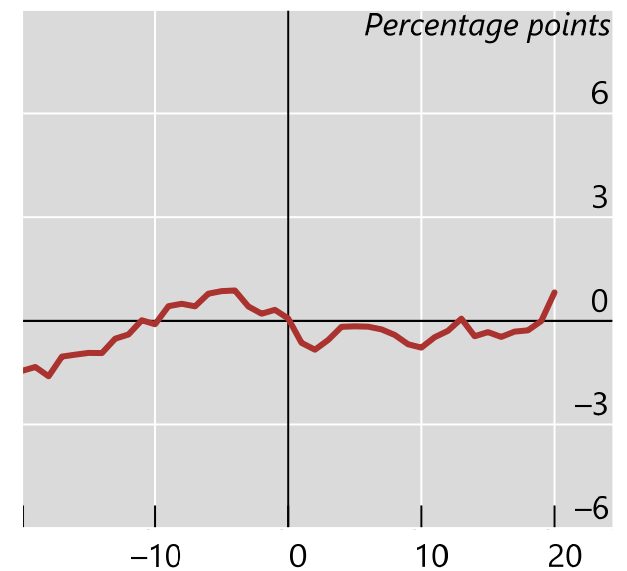
Inflation



Short-term interest rate



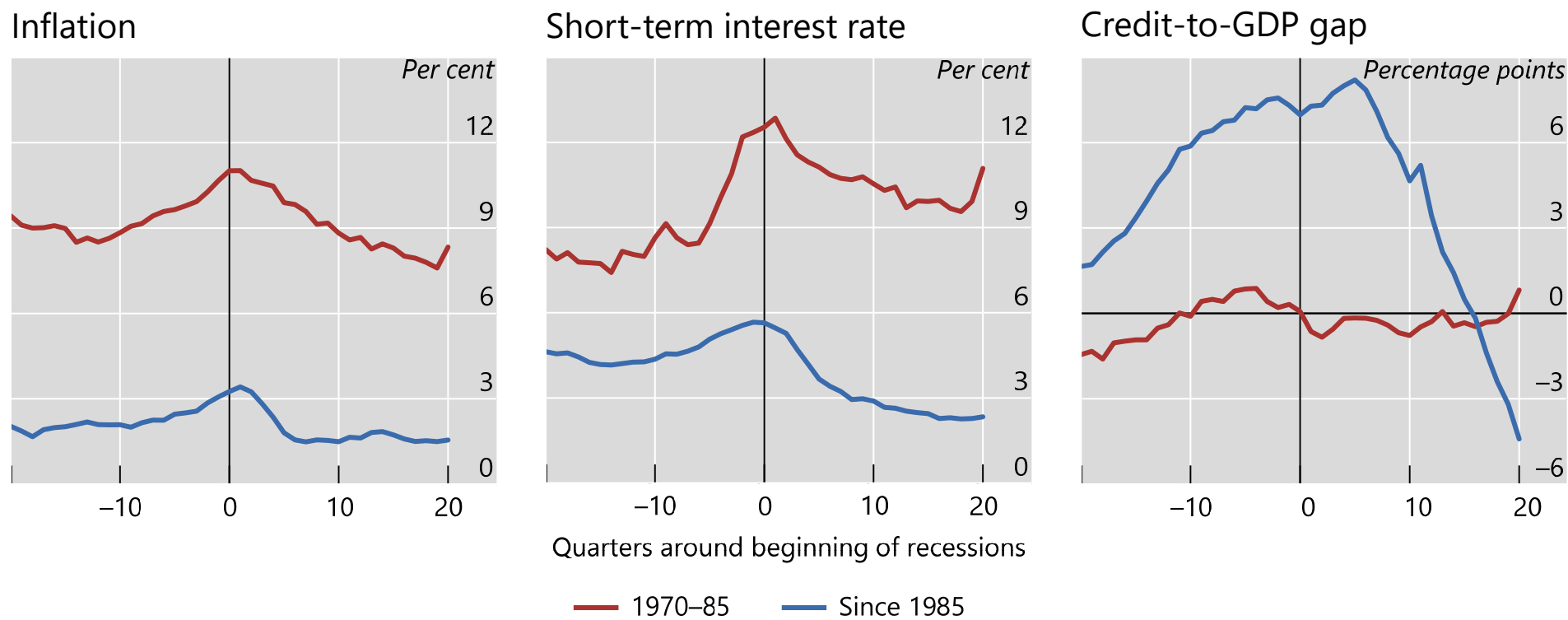
Credit-to-GDP gap



Quarters around beginning of recessions

— 1970–85

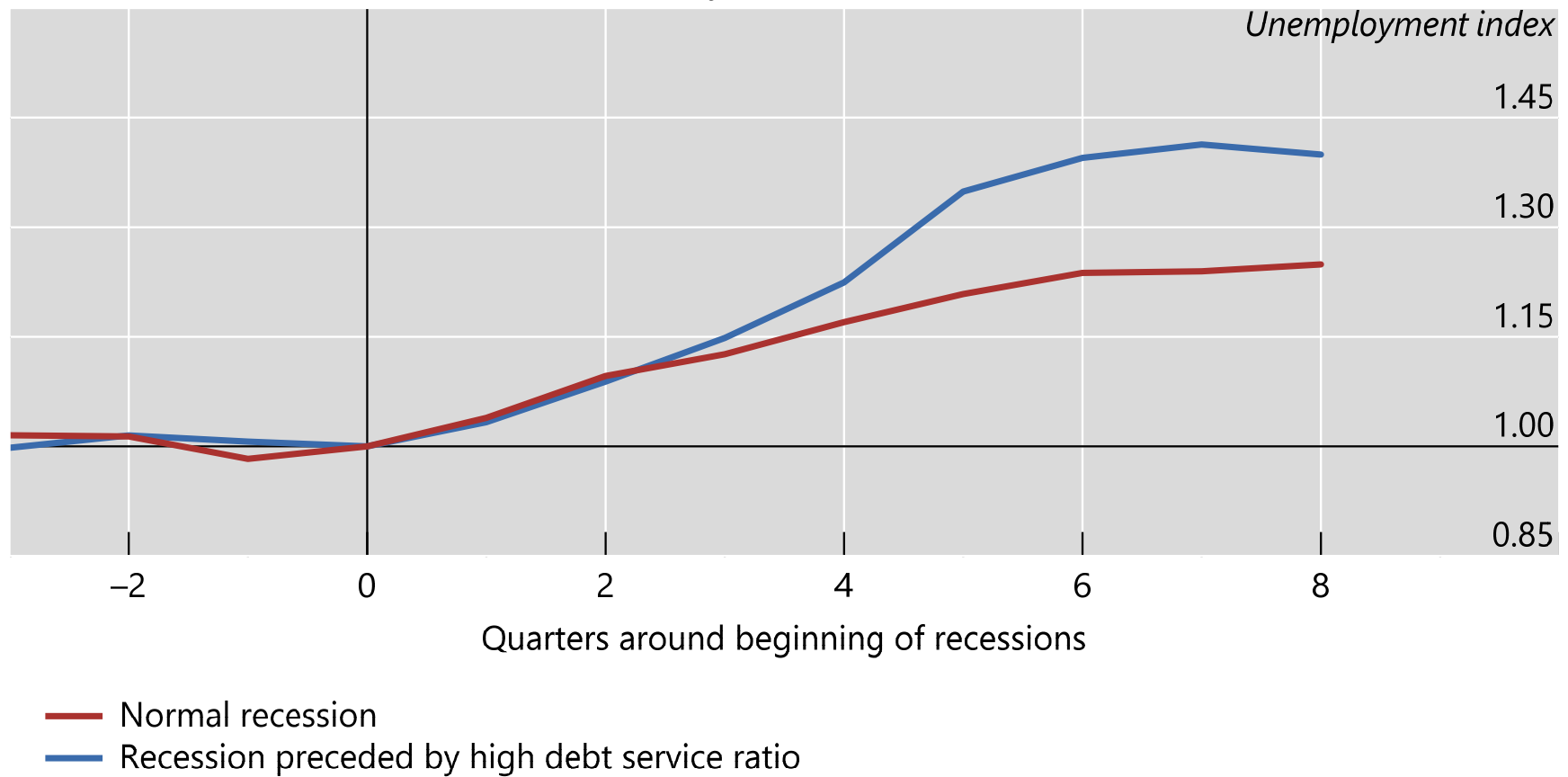
## More prominent role of financial factors in business cycle fluctuations





## Financial recessions are deeper and longer

Impact of financial recessions on unemployment



## Trade-off: managing financial cycles

## Trade-off: managing financial cycles

Today



Financial  
boom



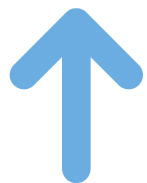
Employment



Inequality

## Trade-off: managing financial cycles

Today



Financial  
boom



Employment



Inequality

Tomorrow



Financial  
bust

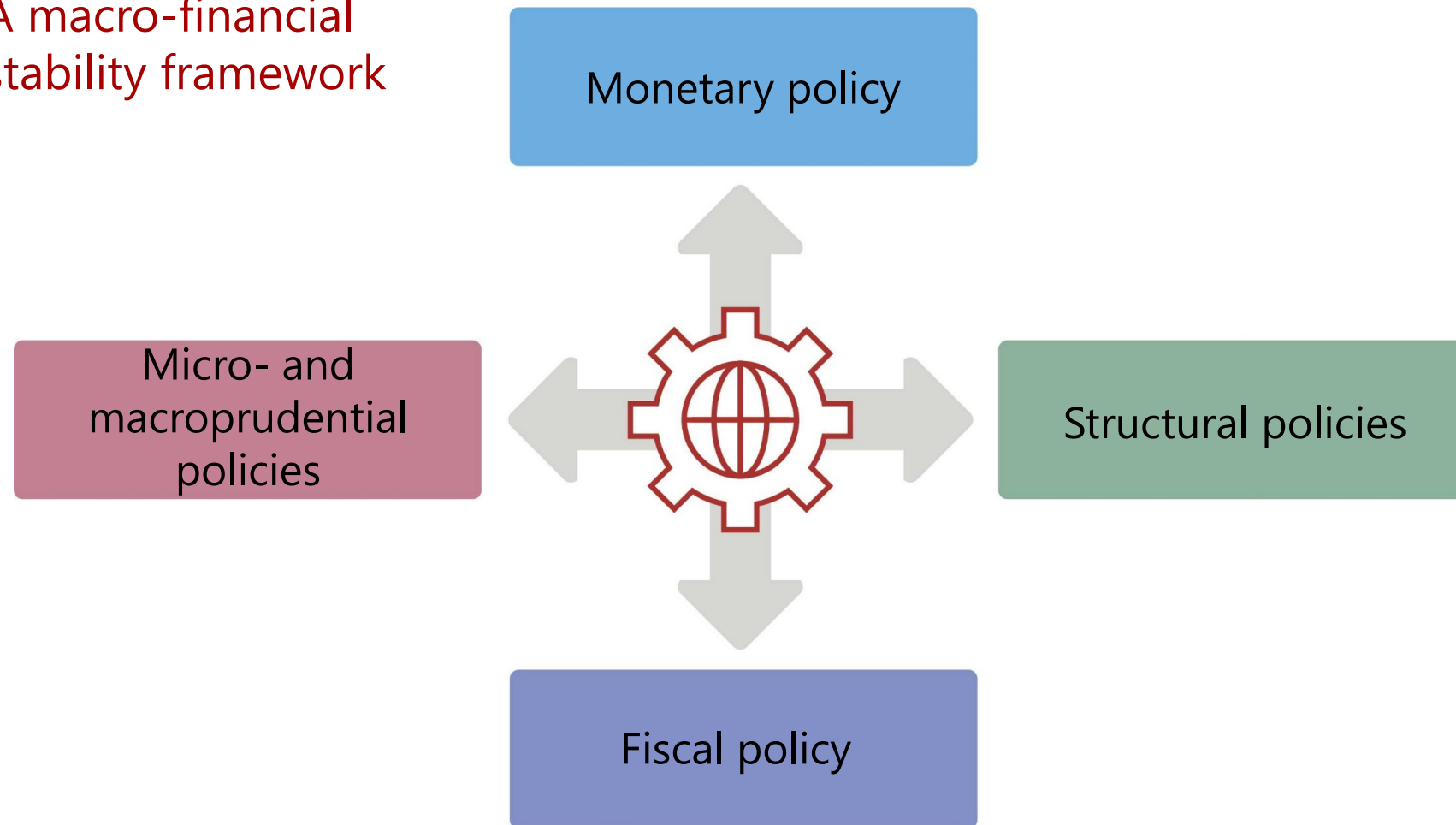


Employment



Inequality

## A macro-financial stability framework



## Conclusion

Monetary policy cannot address structural inequality

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But it can mitigate the amplification of inequality over business cycles

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Holistic macroprudential financial stability framework is needed

