



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Bank Negara Malaysia Monetary Policy Conference 2019 |

Thursday, 26 September 2019



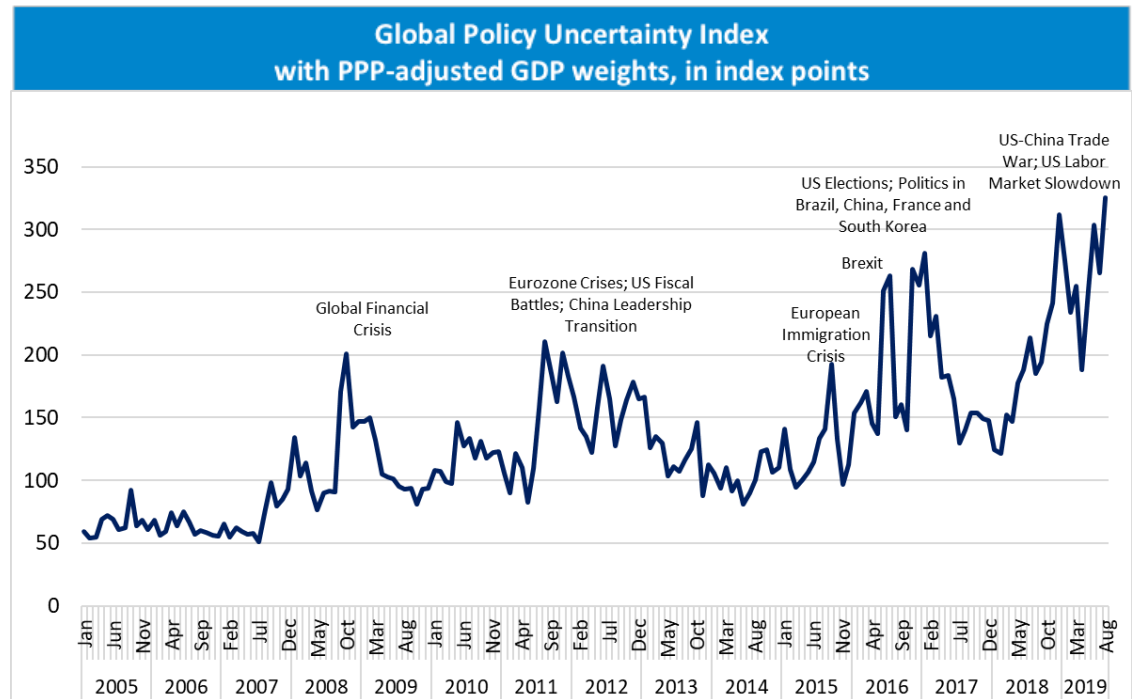
Inequality and New Frontiers of Central Banking: An Asian Perspective

Diwa C Guinigundo



Inequality and New Frontiers of Central Banking: An Asian Perspective

- ✓ Economic landscape pushes policymakers toward unfamiliar policy terrain



Source: Economic Policy Uncertainty. (www.policyuncertainty.com)

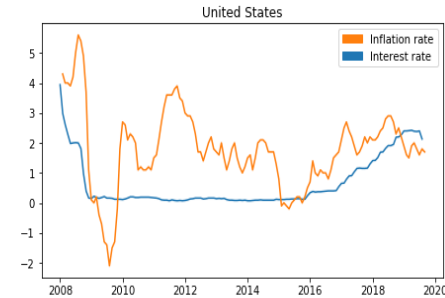
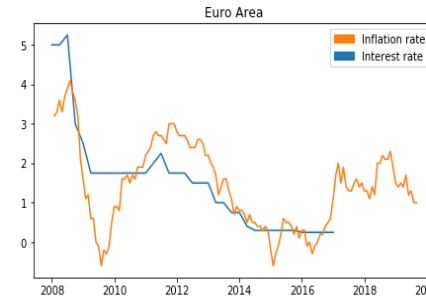
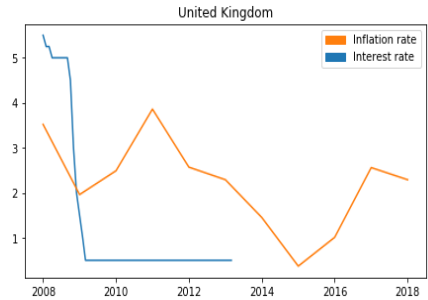
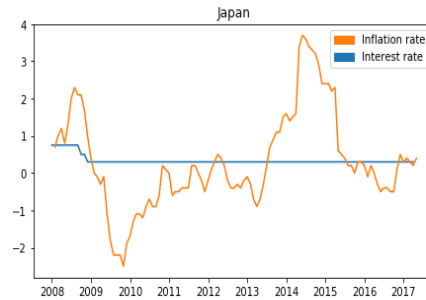
Global EPU calculated as the GDP-weighted average of monthly EPU index values for the US, Canada, Brazil, UK, Ireland, Germany, Spain, France, Netherlands, Italy, Russia, India, China, South Korea, Japan, and Australia.

Is inequality the new frontier of central banking?



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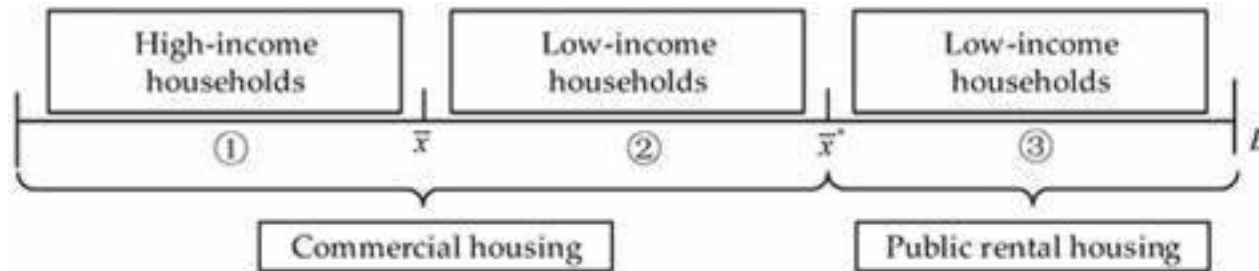
- ✓ Low growth, low inflation limit easy monetary policy
- ✓ New issues like inequality have emerged



Is inequality the new frontier of central banking?



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- ✓ HANK models (Kaplan, Moll and Violante, 2018) say:
Impact on heterogeneous households different,
thus the distributional effects
- ✓ But caveats exist, need for further empirical validation
- ✓ Other literature says MP impact on inequality modest at best
more important structural factors: tech change,
global trade, labor market dynamics

Issue 1: Does monetary policy have a LR effect on inequality?



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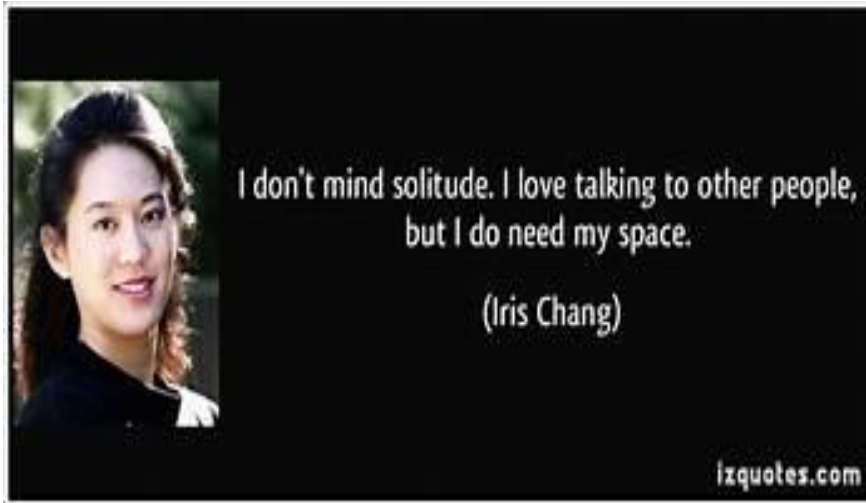


- ✓ Remember Tinbergen: # goals = # tools
- ✓ Overburdening MP = incoherence , loss of credibility?
- ✓ Potential conflicts between growth and price stability
- ✓ Need to highlight role of other policies: fiscal, labor, capital market
- ✓ Not that MP should “wash its hands clean” but compromise should be avoided
- ✓ Timely to consider MP and FP coordination, as suggested by S Fischer lately

Issue 2: What kind of CB tools are appropriate to achieve positive effect on income inequality?



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- ✓ It pays to focus on price stability: “social equality is better served by economic stability.” ECB
- ✓ In EMEs like the Phil, price stability benefits the poor
- ✓ Thus, MP affects public welfare, economic opportunity and distribution

- ✓ Thus, MP has LR impact on real sector
- ✓ SR decisions with growth objectives have LR impact
- ✓ Issue on inequality can best be addressed by partnerships and collaboration of public policy, private sector cooperation

Dynamics of MP and inequality, An Asian experience



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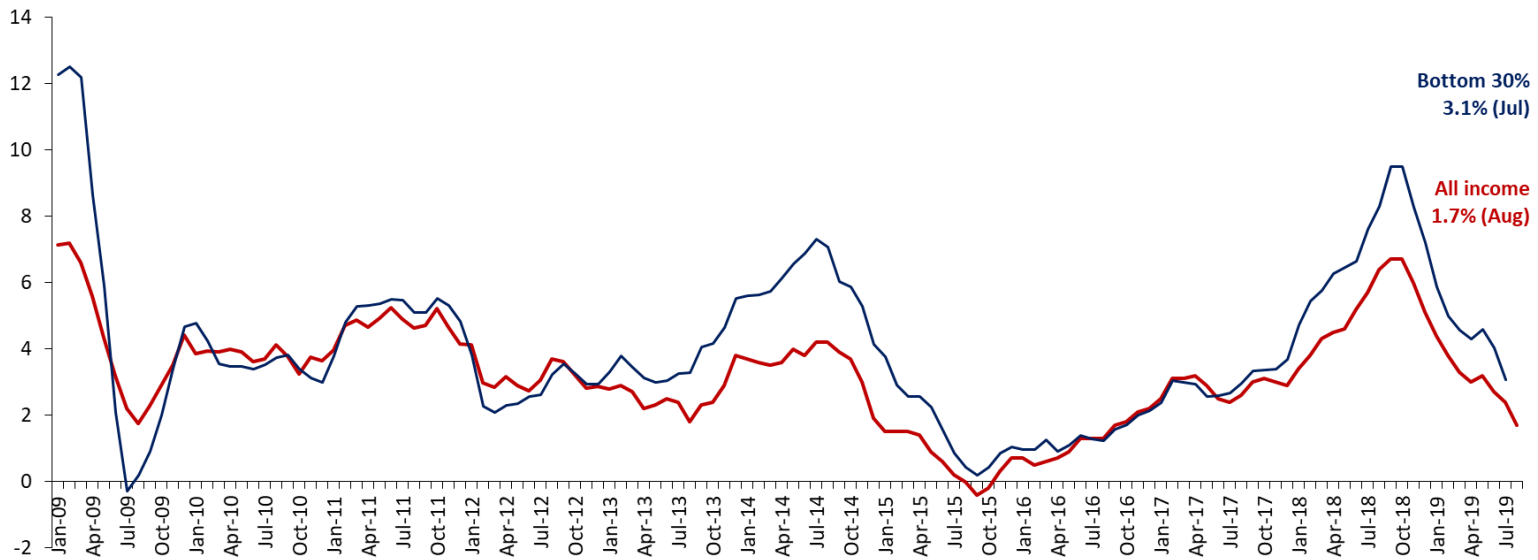
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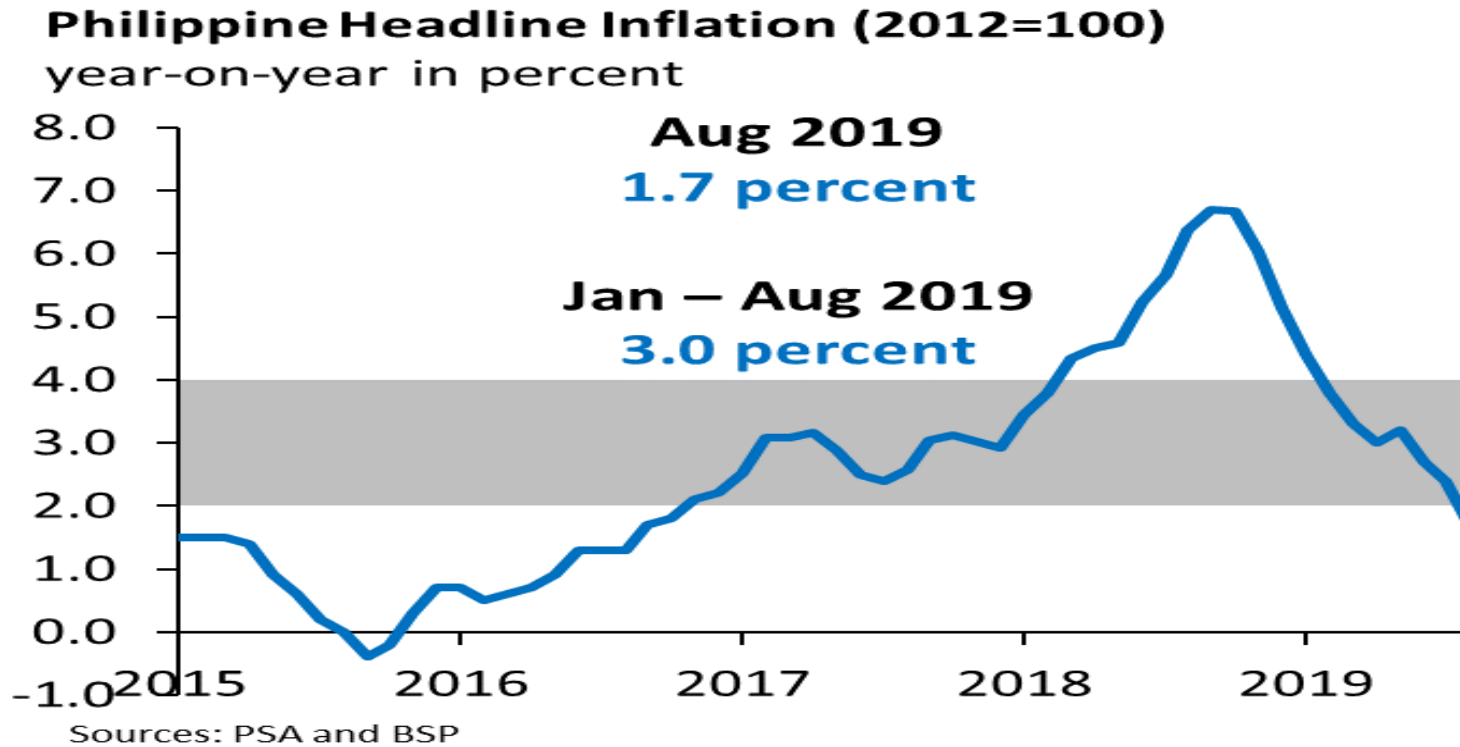
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Inflation Rate: All Income (2012=100) vs Bottom 30% (2000=100) year-on-year in percent



Source: Philippine Statistics Authority

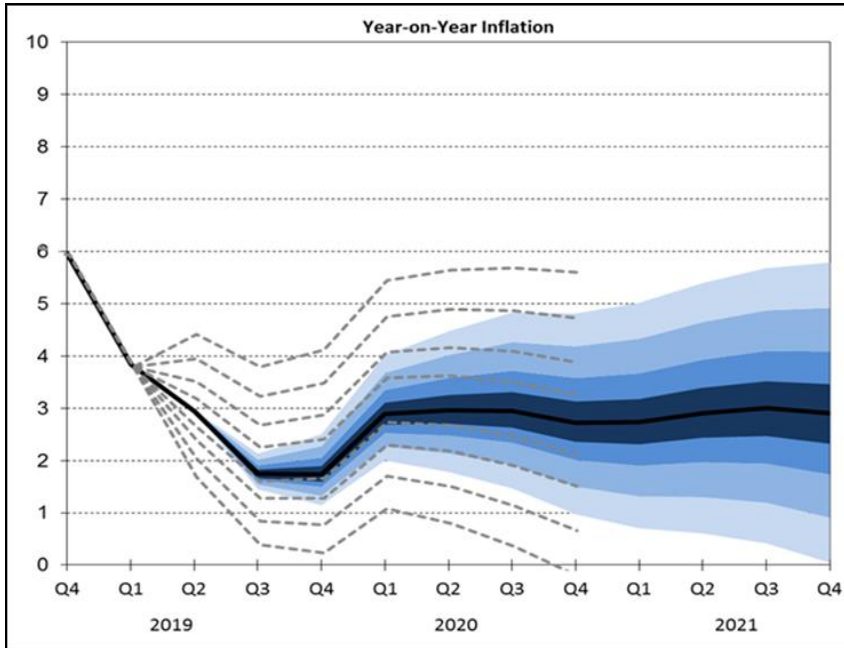
In EMEs like the Philippines, price stability benefits the poor



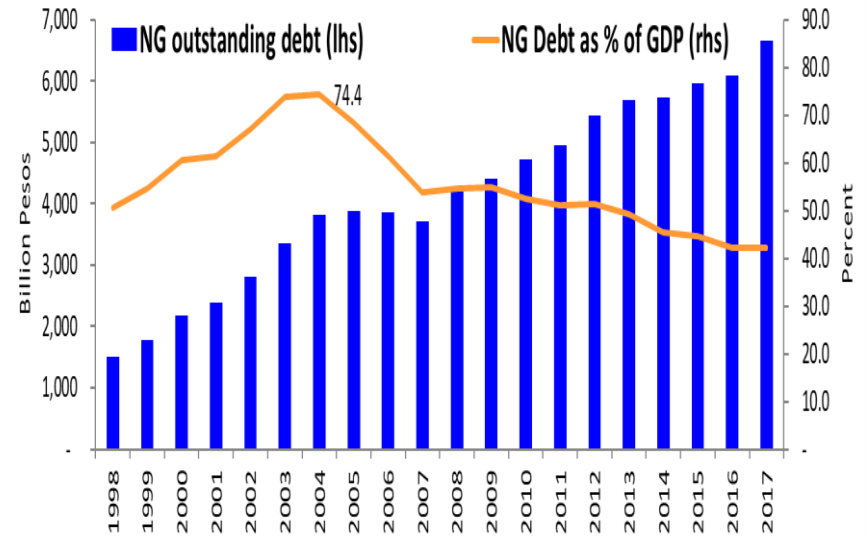
Manageable inflation dynamics expected to support consumption demand



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NG debt ratios have declined significantly over the last 13 years



Sufficient policy space to pursue policy objectives