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Distributional Effects of Monetary Policy on Income and Wealth Inequality in Developing Asia

Warawut Ruankham¹, Yuthana Sethapramote¹¹National Institute of Development Administration, Thailand

ABSTRACT

Despite studies in more developed nations, this work extends the findings of monetary policy's distributional effect on income and wealth inequality in emerging countries, particularly the long run cointegration. We exhibit a longer view of monetary policy transmission and observe its distributional effects on income and wealth inequality in developing Asia using the panel data between 2000-2021 from the World Inequality Database. Based on the Panel Vector Auto Regressive and the Auto Regressive Distributed Lag model, expansionary monetary policy, which leads to lower interest rates and higher inflation, widened income and wealth disparities in both short and long run. Economic growth is a double-edged sword. It decreases income inequality while increasing wealth disparity in the long run. Our findings suggest that central banks should address the distributional effects of their policies and include inequality in the long-term monetary goals.

KEYWORDS Effect; Monetary Policy; Income Inequality; Wealth Inequality; Panel ARDL bound test

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