

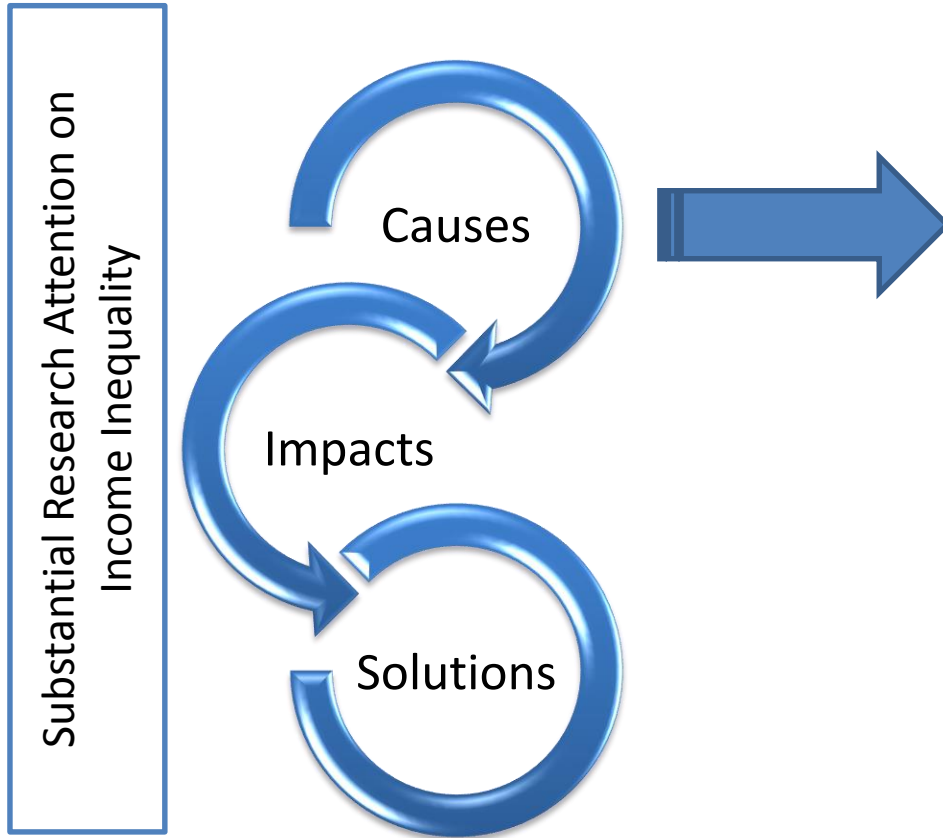
# **MONETARY POLICY, FINANCIAL DEVELOPMENT AND INCOME INEQUALITY IN DEVELOPING COUNTRIES**

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# CONTENT

- BACKGROUND AND MOTIVATION
- OBJECTIVES
- EMPIRICAL SETUP
- PRELIMINARY RESULTS
- CONCLUSION

## BACKGROUND AND MOTIVATION



Recently added into the list as a potential cause: Monetary Policy  
But the theoretical prediction is uncertain

**Amaral  
(2017)**

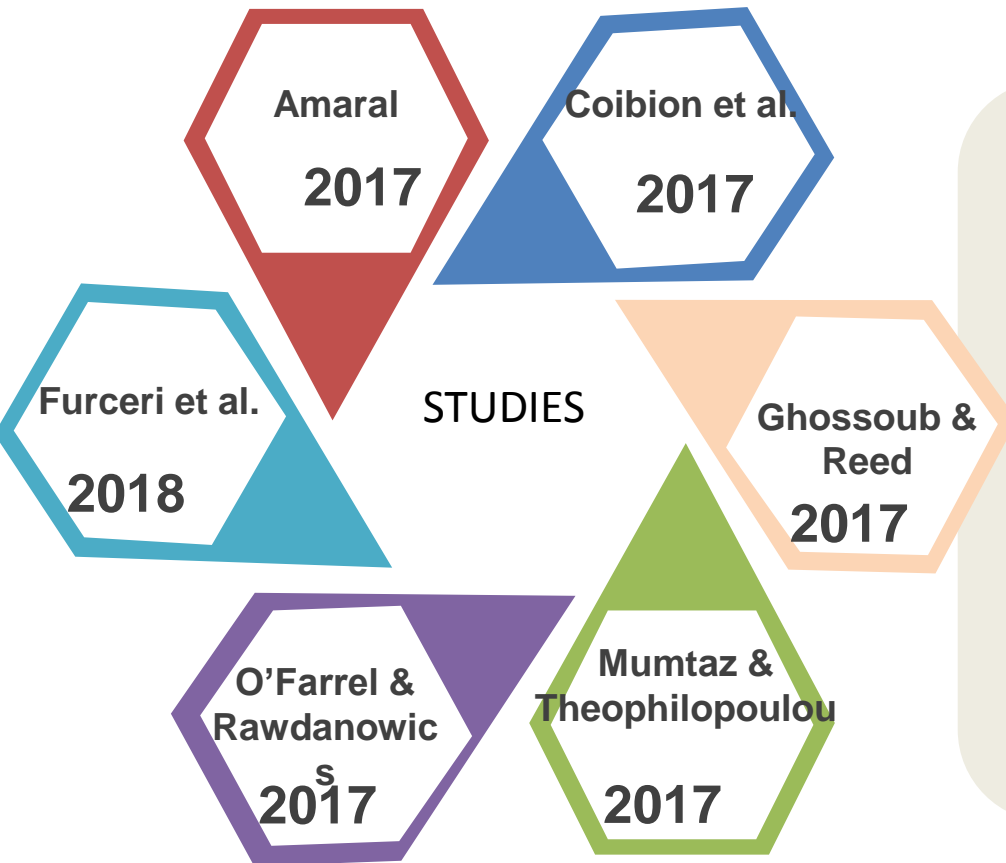
The impact of monetary policy on inequality through its influences on income, inflation, interest rate, and savings redistribution

How? It depends crucially on sources of income (labour, capital, business, transfer, and others), earnings or income levels (low versus high income households), maturities of assets and liabilities of economic agents, and leverages (net borrowers versus net lenders)

Implication: monetary policy can have either positive or negative effect on income inequality

# BACKGROUND AND MOTIVATION

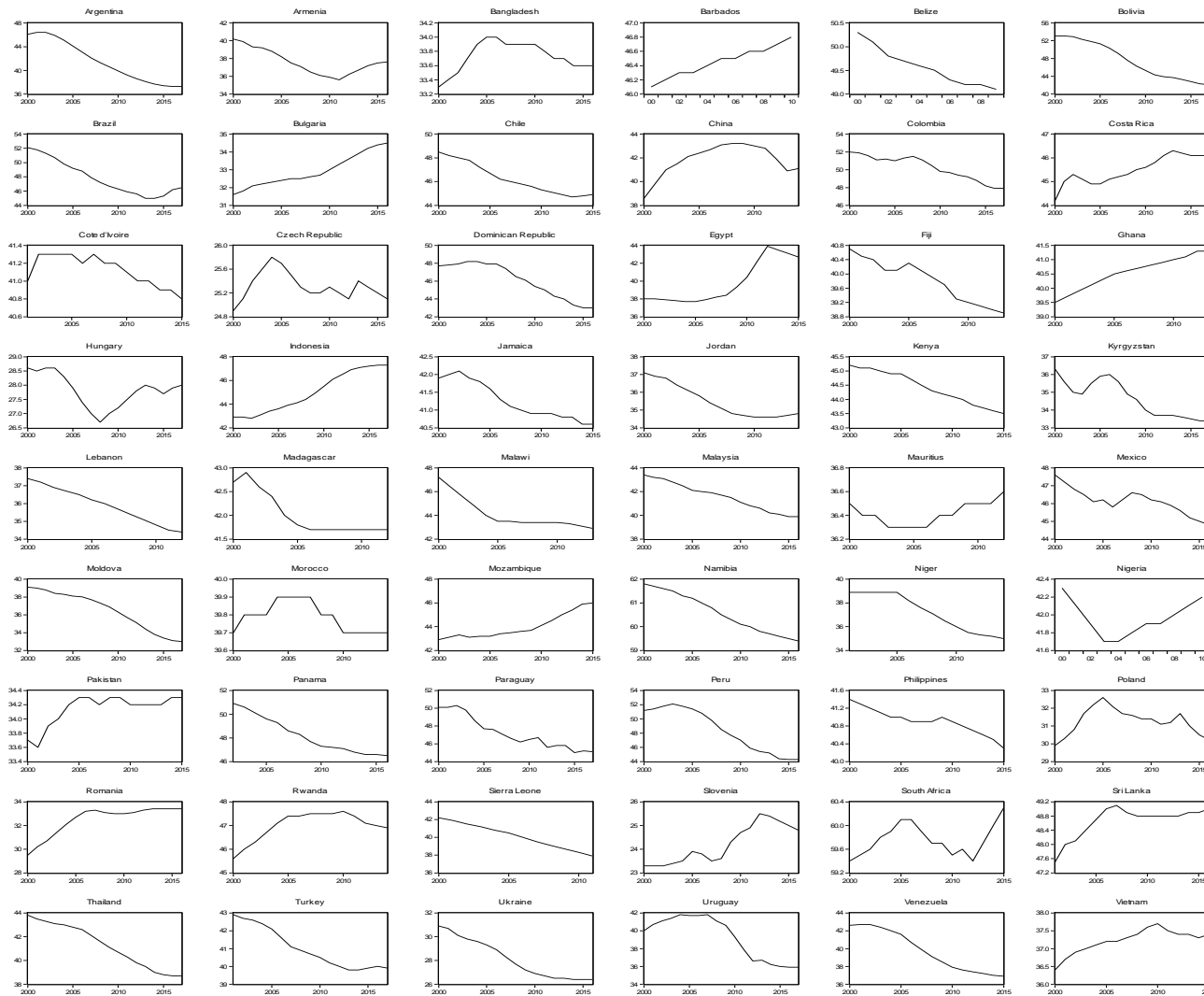
The growing in Income Inequality in advanced economies have led to several studies that link inequality to monetary policy



**While the findings are not uniform and to some extent hint on minimal influences of monetary policy on inequality, they generally find that contractionary monetary policy raises inequality.**

**Question: given that they mostly focus on advanced economies, what would be the impact of monetary policy on inequality in developing economies?**

# BACKGROUND AND MOTIVATION



**If monetary policy does have redistributive consequences, then the observed improvement in income distribution in some developing countries and deterioration in others and relatively similar monetary policy stances adopted by these countries in the aftermath of the global financial crisis raises an important inquiry:**

**Is there any conditionality or factor that moderates the monetary policy – income inequality relations?**

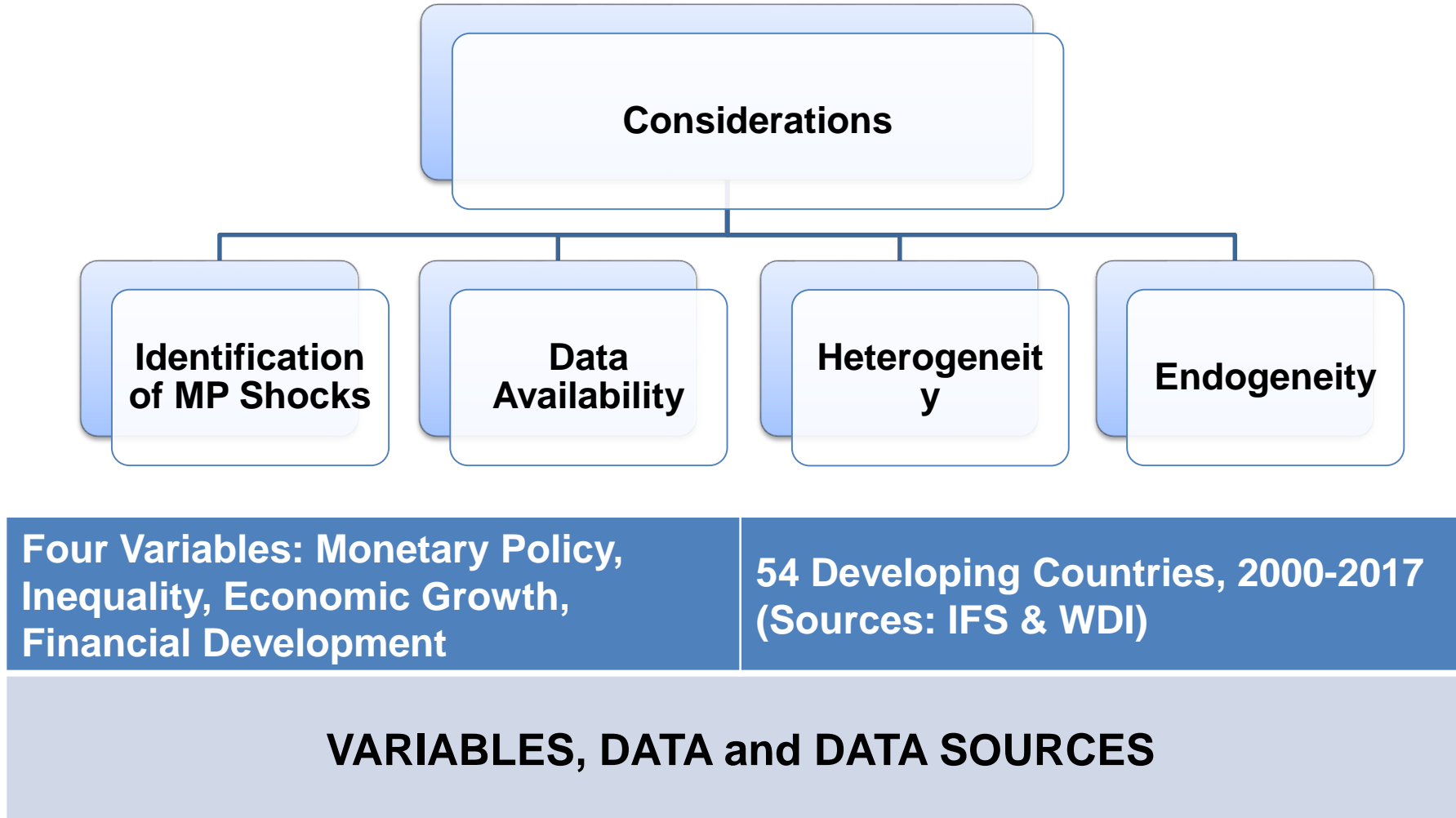
# Objectives

**We extend the analysis on the redistributive effect of monetary policy for developing economies and assesses whether financial development plays any role in shaping monetary policy – inequality relations.**

How would monetary policy affect  
monetary policy – inequality  
relations?



# EMPIRICAL SETUP



## EMPIRICAL SETUP

### **The Panel Autoregression (PVAR) Framework**

Love & Zicchino  
(2006)

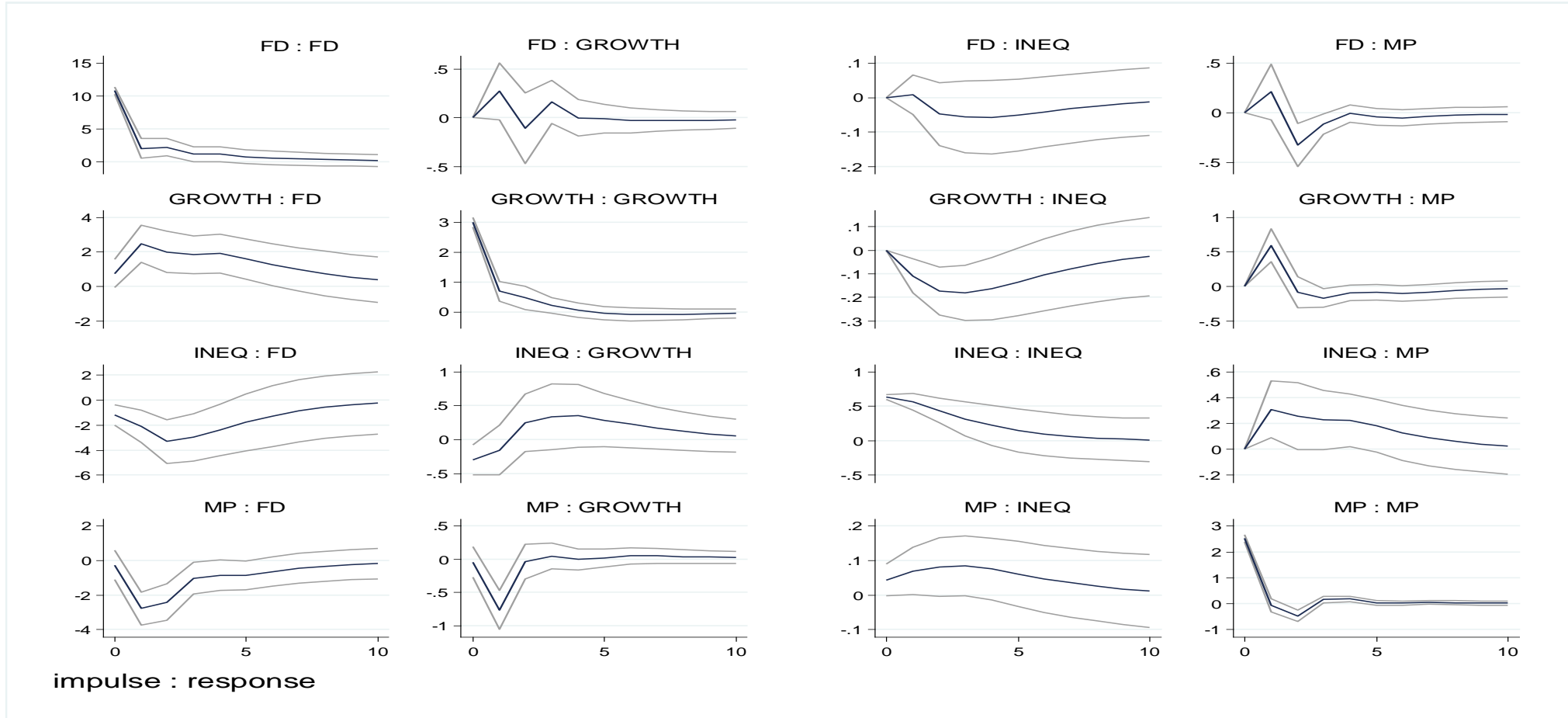
Identification of shocks within the framework

Addressing heterogeneity and endogeneity

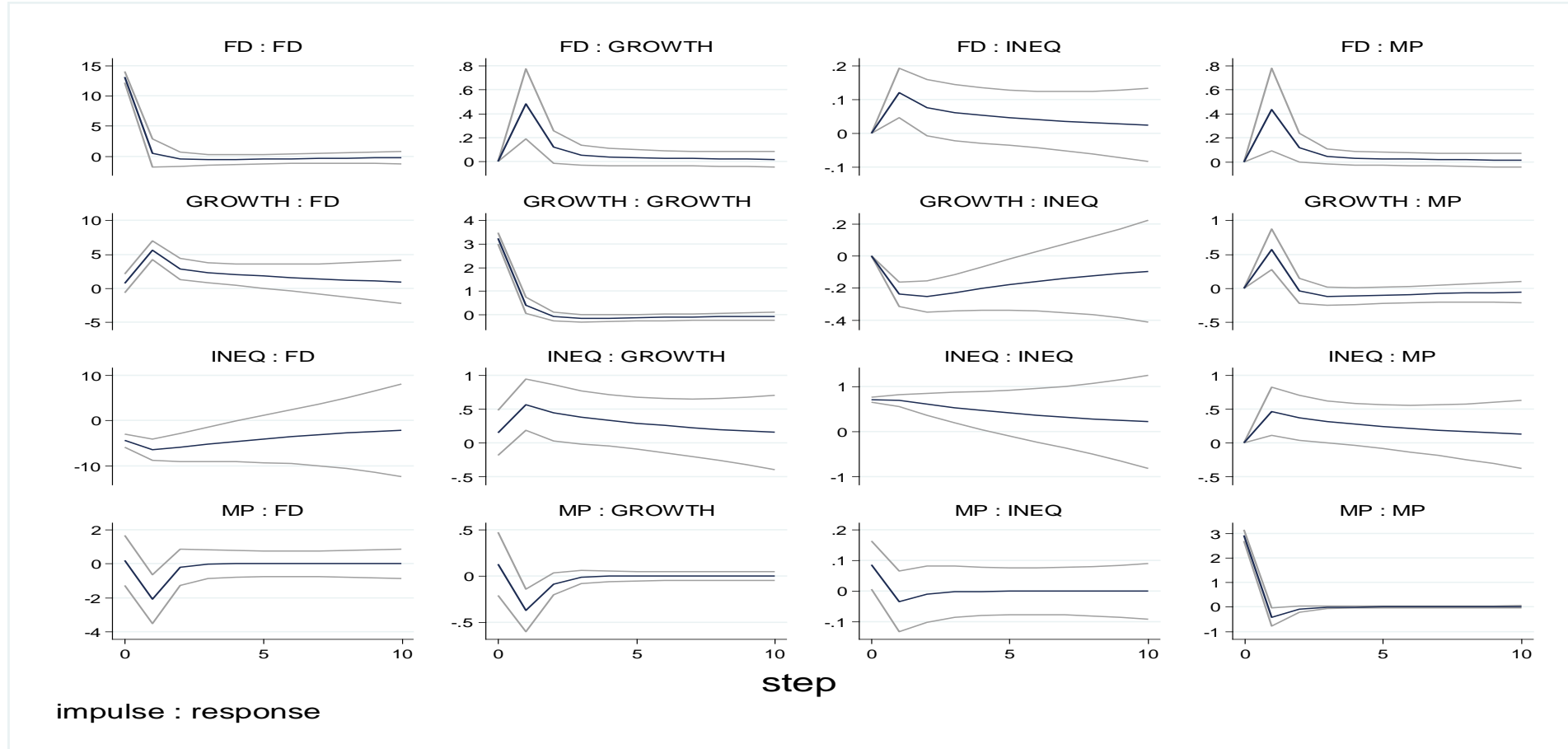
Parsimony – minimal variables and theoretical restrictions



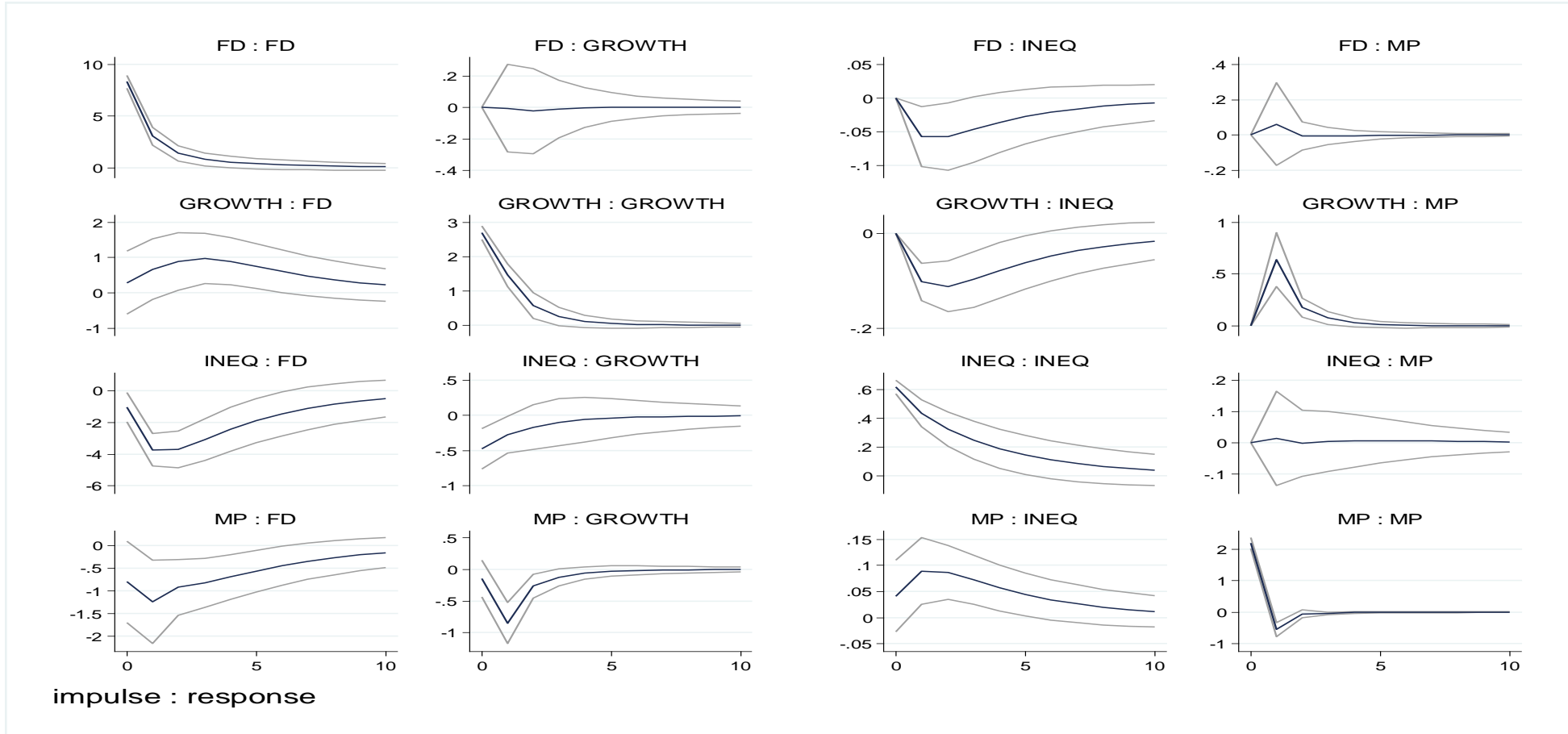
# RESULTS – ALL COUNTRIES



# RESULTS – LOW FD COUNTRIES



# RESULTS – HIGH FD COUNTRIES



# FINDINGS

**Robust evidence for the inequality-narrowing effect of economic growth.**

HOW ROBUST?



**01** Contractionary monetary policy shocks lead to higher income inequality especially in developing countries at higher levels of financial developments.

**02** While financial development raises income inequality in countries with low financial development, it leads to a reduction in income inequality in high financial development countries.

# Thank you

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