

Who takes the cake? Effects of ECB monetary policy across income classes

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Abstract

This work provides evidence on the effects of monetary policy on the income class structure via stimulating economic activity and employment in Eurozone countries over the period 2007Q3-2016Q1. Based on European Union Statistics on Income and Living Conditions (EU-SILC) data, we compute the share of the market income perceived by each income class (lower, lower-middle, upper-middle, and upper) for the states that originated the Economic and Monetary Union (EMU-11). We analyse the impact of monetary policy impulses under a Bayesian Vector Autoregressive approach and find that a monetary easing shock involving a decrease in nominal interest rates tends to increase the income share of middle classes at the expense of a smaller income share of the upper class, while, the lower class is not significantly affected. Our findings highlight the identified effects are mostly triggered by short-term interest rates cuts as long as they tend to vanish as the monetary policy proxy is located further in the yield curve. This suggests that the egalitarian impacts of monetary policy on market income distribution are to a lesser extent driven by decisions modifying longer-term interest rates.

Key words: monetary policy; inequality; income class; income share; Bayesian Vector Autoregressive approach; Eurozone.

JEL code: C11, D31, E52

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