GENDER, FINANCE AND MONETARY POLICY

Session III

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GEM Workshop

Outline

- Monetary policy – practices and biases
- Inflation targets and inflation targeting
  - Inflation dynamics and monetary responses
  - Channels of gender bias
- Financial sector issues
  - Financial institutions and reform
  - Informal and micro- finance
- Alternative approaches

Monetary policies and biases

Three biases inherent in current practices of monetary policy.

- DEFLATIONARY BIAS – scope for expansionary monetary policy is limited or non-existent.
- PRO-CYCLICAL BIAS – current conduct of monetary policy can worsen negative shocks .
- GENDER BIAS – negative consequences of monetary policy impact women differently than men.

Dominant monetary policy regimes

- Immediate targets and instruments:
  - Target the growth rate of the money supply ('high powered money' or M1)
  - Target short-term interest rates.
- Policy target: low inflation (assumption: low inflation environment supports growth and development).
- However, transmission mechanisms may be weak in many developing countries.

DEFLATIONARY BIAS

- Sources of deflationary bias
  - Limits on the expansion of domestic credit
  - Maintenance of minimum levels of international reserves
  - Inflation targets
- Unclear when expansionary monetary policy would ever be justified.
- Outcomes: high real interest rates, slow credit growth, constrains real economic activity.

Inflation targets and targeting

- Most countries now have some form of low (single digit) inflation target when conducting monetary policy.
- Inflation-targeting v. inflation targets
  - Inflation targeting is a more formalized approach
  - Supposed to introduce transparency and accountability.
- Monetary control over inflation: a demand-side tool.
- Problem: inflation in many developing countries is often driven by the supply-side (non-monetary sources of inflation).

PRO-CYCLICAL BIAS

- Using monetary policy to counter supply-side inflation introduces a pro-cyclical bias.
- External price shocks and domestic production shocks negatively impact the real economy and raise inflation.
- Use of monetary policy to try to control this type of inflation can make the situation worse.
- Failure to take into account the source of inflation, combined with strict inflation targets, may lead to inappropriate policy responses.

Monetary Policy and Gender

- Monetary policy interacts with highly gendered structures and institutions → gender inequalities in the impact of restrictive monetary policy.
  - Households (including unpaid caring labor)
  - Labor markets (paid employment)
  - Credit and finance markets
- If the impact on women is ignored or undervalued → monetary policy will look more 'beneficial' than it actually is (i.e. political economy of monetary policy)

GENDER BIAS

There are numerous sources of gender bias in monetary policy

- EMPLOYMENT
  - Braunstein and Heintz (2008) document that restrictive monetary policy during inflation reduction episodes affects women’s employment more than men’s.
  - Real exchange rate appreciation: can affect export sectors and women’s employment in certain countries
- INFORMAL ACTIVITIES
  - Non-agricultural self-employment often an important source of employment/income for women
  - Much of this is in services linked to domestic markets
  - Restrictive monetary policies limit the development of the domestic market
- HOUSEHOLDS
  - Policies which squeeze household financial resources can increase demands on women’s unpaid labor.

The Financial Sector

Should be considered along with monetary policy

- The financial sector is the primary conduit through which monetary affects real economic outcomes.
- Institutional constraints in the financial sector limit the effectiveness of monetary policy.
  - Example: excess liquidity holdings in the U.S.
- If women are excluded from participating in formal financial institutions, they will not enjoy the same benefits from an alternative monetary approach

Financial Reform and Gender

- It is broadly recognized that women are often excluded from formal financial institutions, services, and markets. Gender biases in the operation of financial markets.
- Informal and micro finance as alternatives for women: but results in segmented finance. Can be inefficient and inequitable.
- Trends in financial sector reform in most countries: from direct controls ('repression') to liberalization. Movement away from development finance.

Institutional Issues and Financial Reform

- Institutional failings of the formal financial sector
  - Excess liquidity → the resources are often there.
  - Transactions costs, yes, but also the wrong incentives. Need better institutions.
  - Liberalization did not address the real institutional problems: often made them worse.
- Consequences
  - Credit rationing/lack of access
  - High cost of credit, large spreads
  - Unfavorable terms: sub-prime mortgage crisis
- These consequences particularly pronounced for women.

Informal and micro-finance

- Informal financial institutions
  - Example: collective savings and credit arrangements
  - Often overcome some of the limitations that formal institutions face (e.g. transactions costs, information, monitoring)
  - Problem: limited resources, not integrated into the financial system
- Microfinance
  - Tends to be dominated by NGOs
  - Provides a 'lower-tier' of banking – fills the gap
  - Often not integrated into the formal financial system.
  - Has potential, but there is a well-developed gendered critique (microfinance often is not doing what people claim it does in terms of women's economic independence)

Alternative Approaches

- Alternatives to inflation targeting
  - ‘real’ targets for monetary policy (growth, employment).
  - gender disaggregated indicators
  - better accounting of the full cost of inflation reduction.
- Financial sector
  - Financial policies and the crisis: financial resources not channeled appropriately.
  - Time for holistic reform of finance – development focus, inclusive, serves women’s needs.
  - Beyond microfinance: not just about second-tier institutions.