

Financial Policy and Inequality: COVID-19 and Beyond

Ratna Sahay

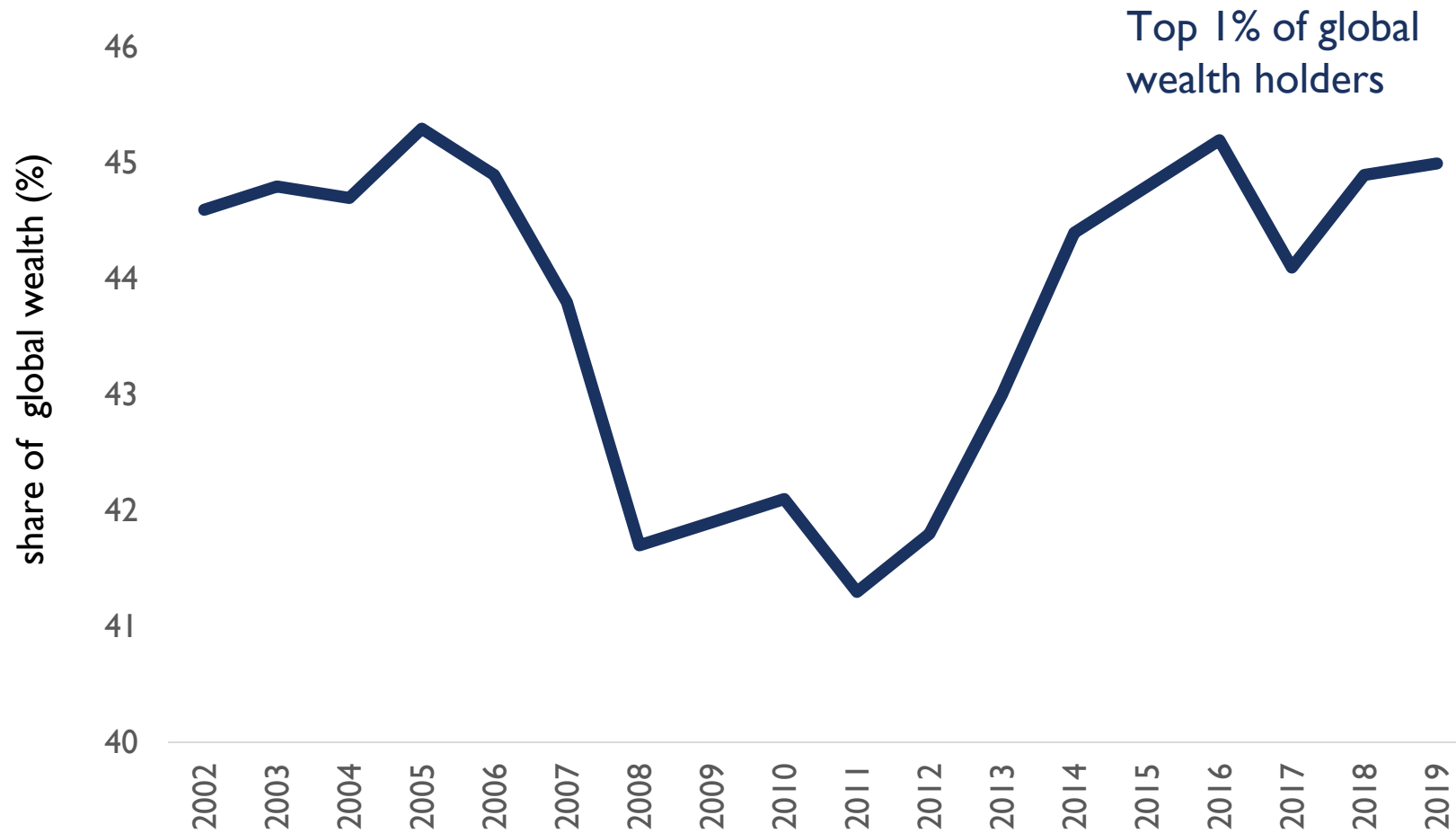
Monetary and Capital Markets Department

International Monetary Fund

IMF-CEP-Peterson webinar

December 7, 2020

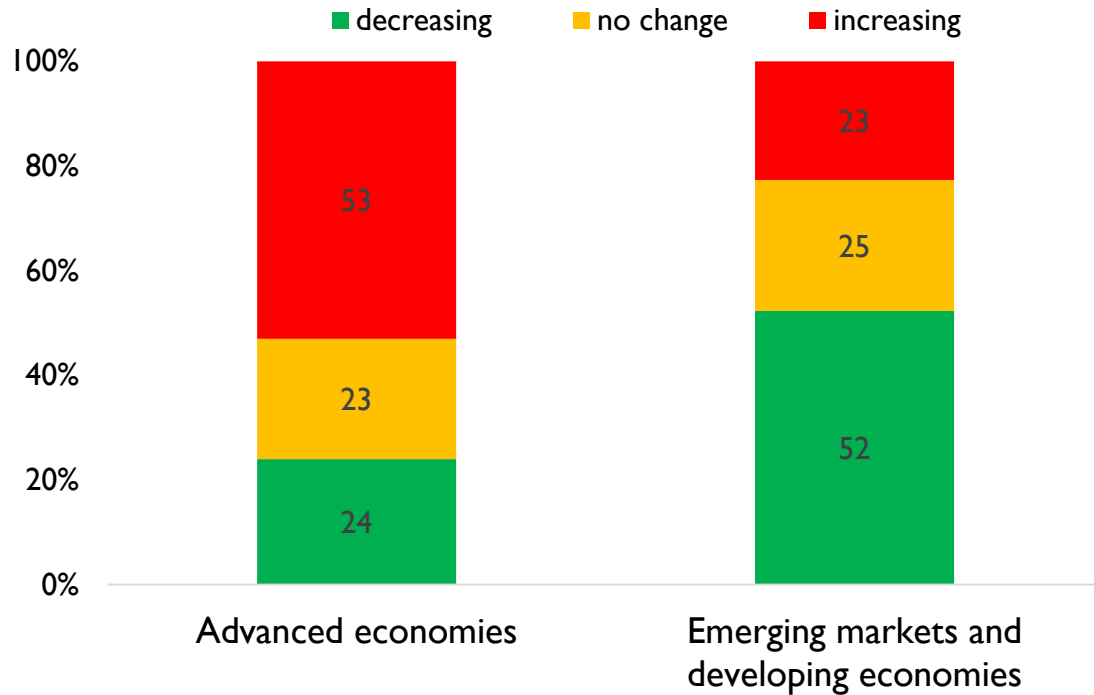
Global wealth inequality has been up since the GFC



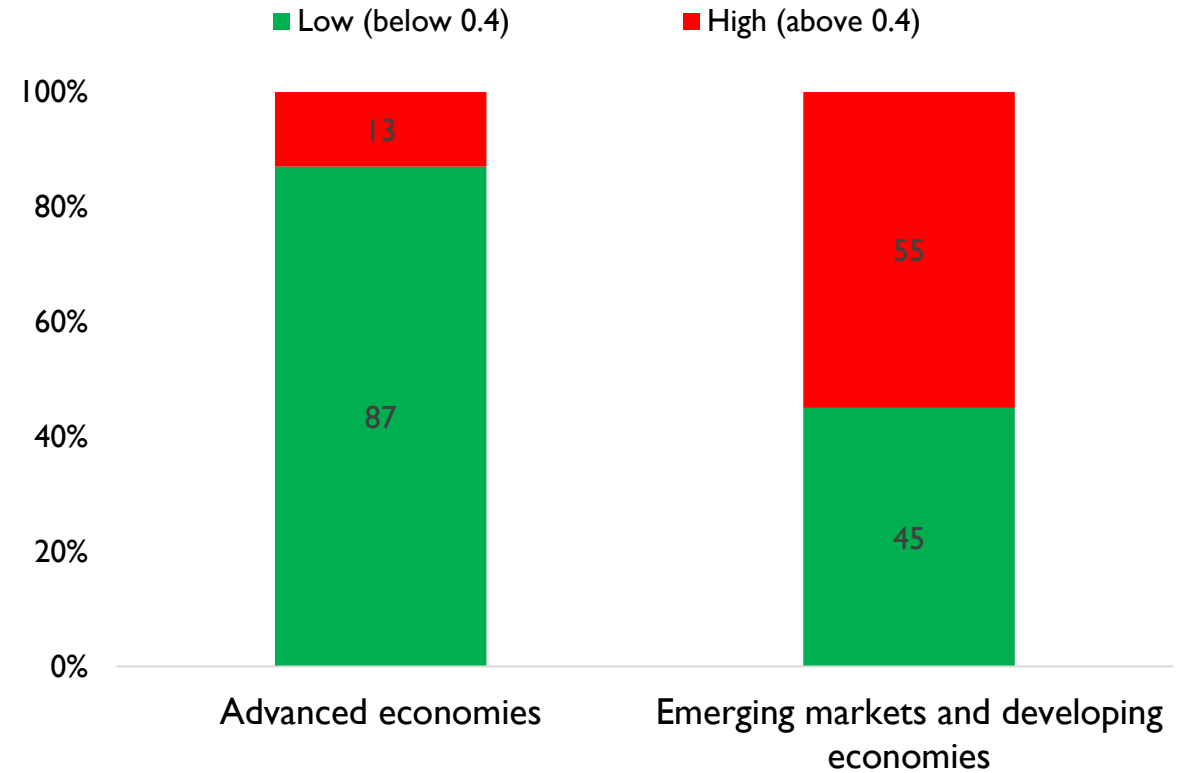
Sources: Credit Suisse (2019) and authors' calculations.

... and income inequality *within* many countries is high/rising

Trends

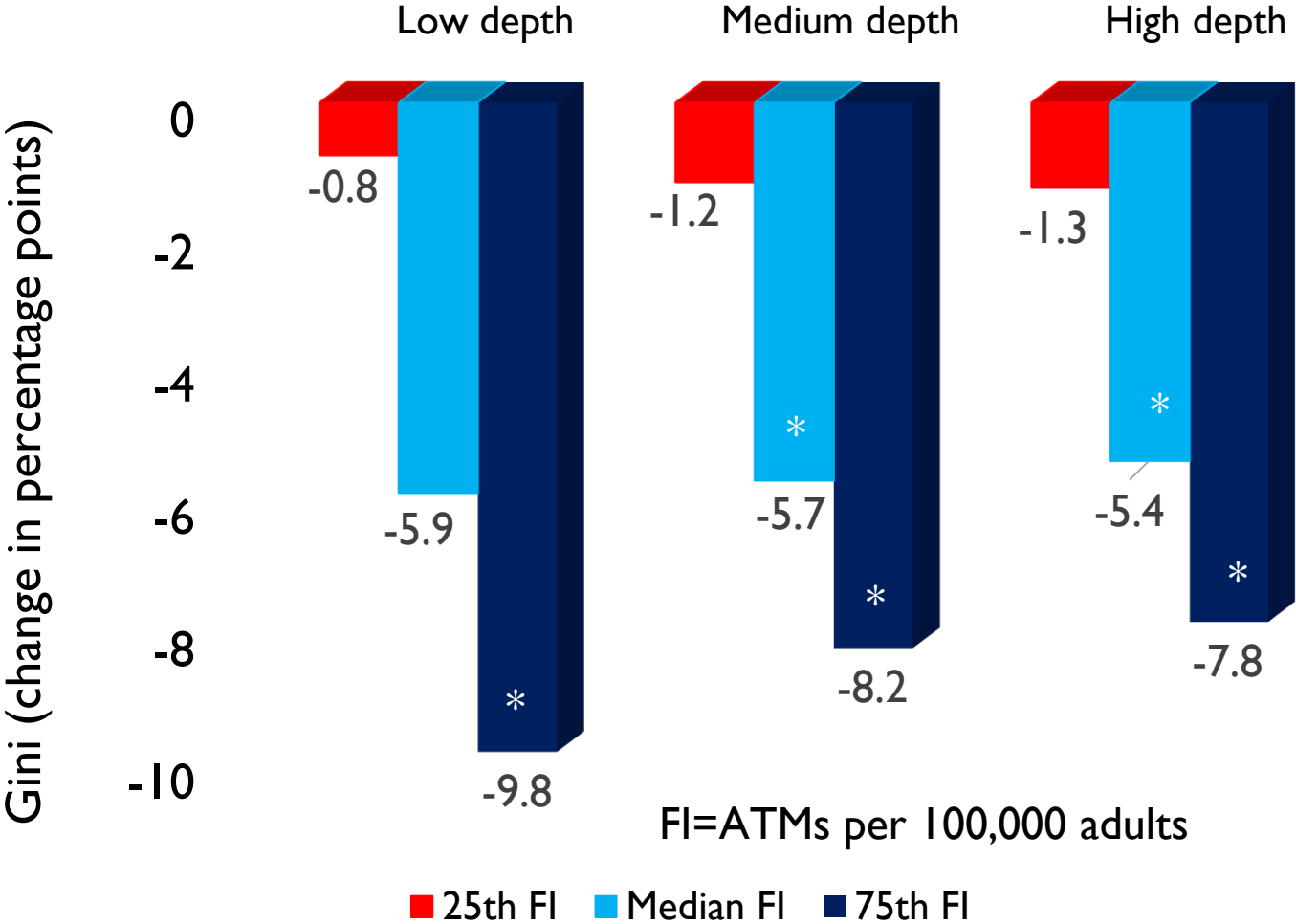


Levels

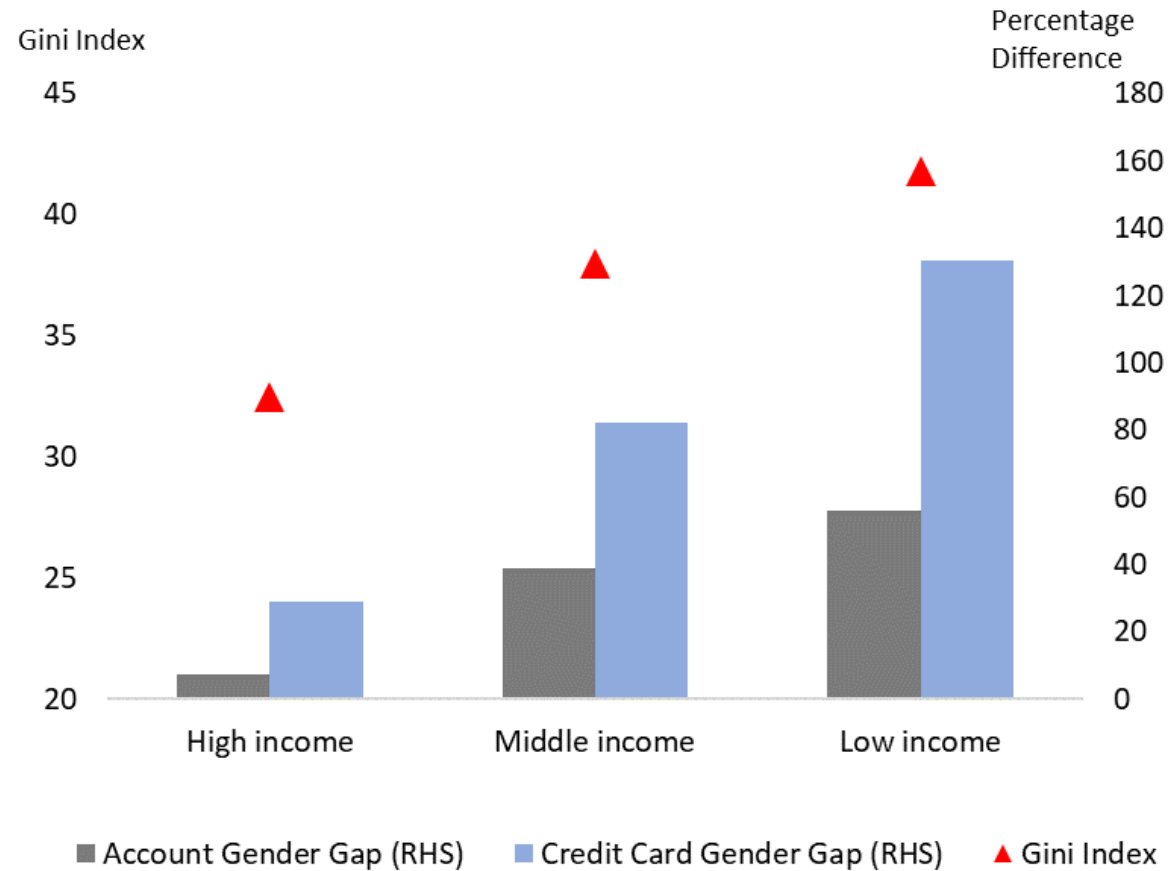


Financial inclusion reduces inequality, independent of depth

- **Greater financial inclusion (payments) leads to lower inequality.**
- **Inequality falls more at lower depth.**



Women's financial inclusion: stronger link to income equality

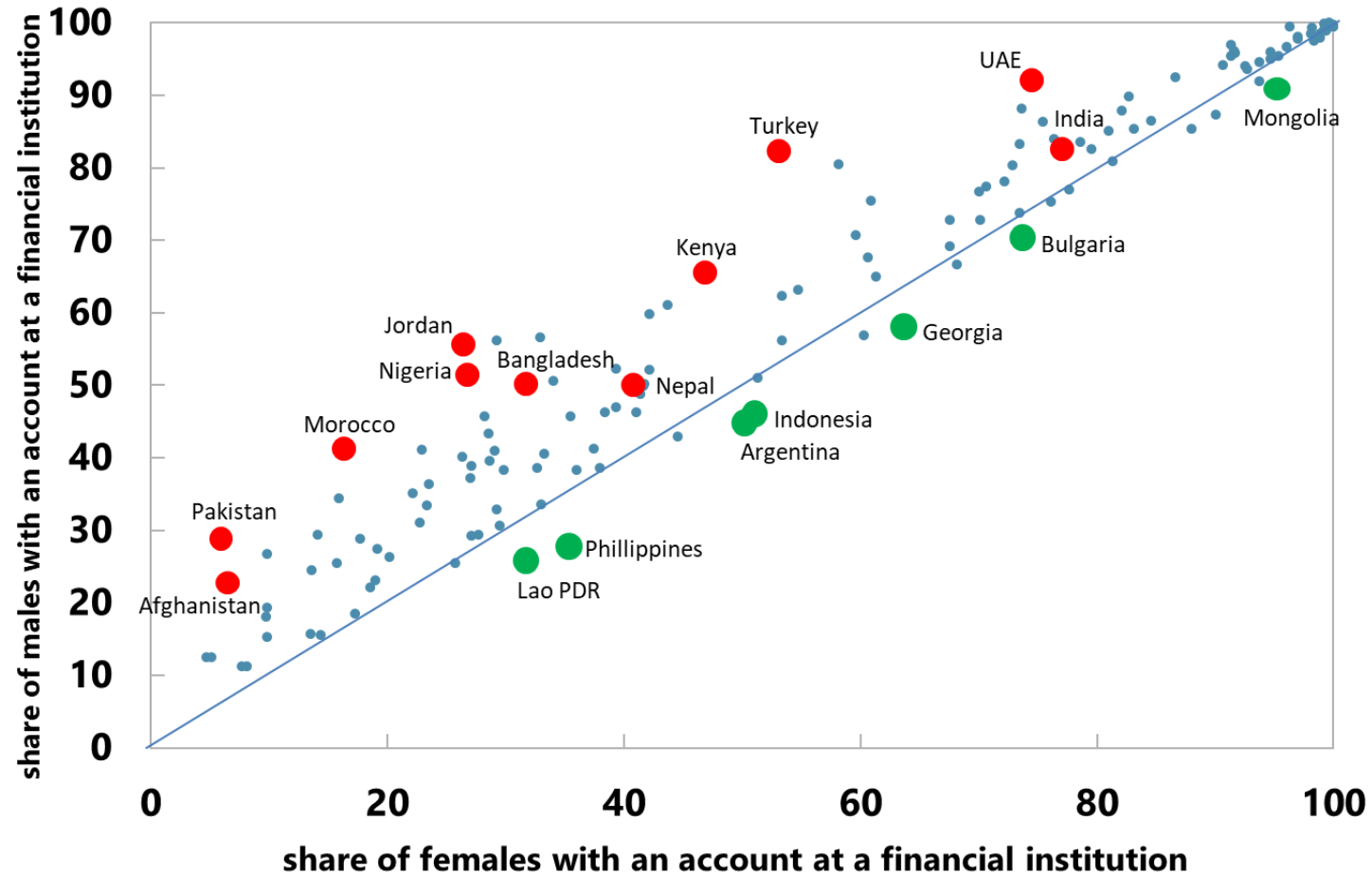


Sources: World Bank Global Findex; World Bank Country Classification; IMF staff calculations.

Financial inclusion: there is a long way to go

Adults with a Financial Institution Account

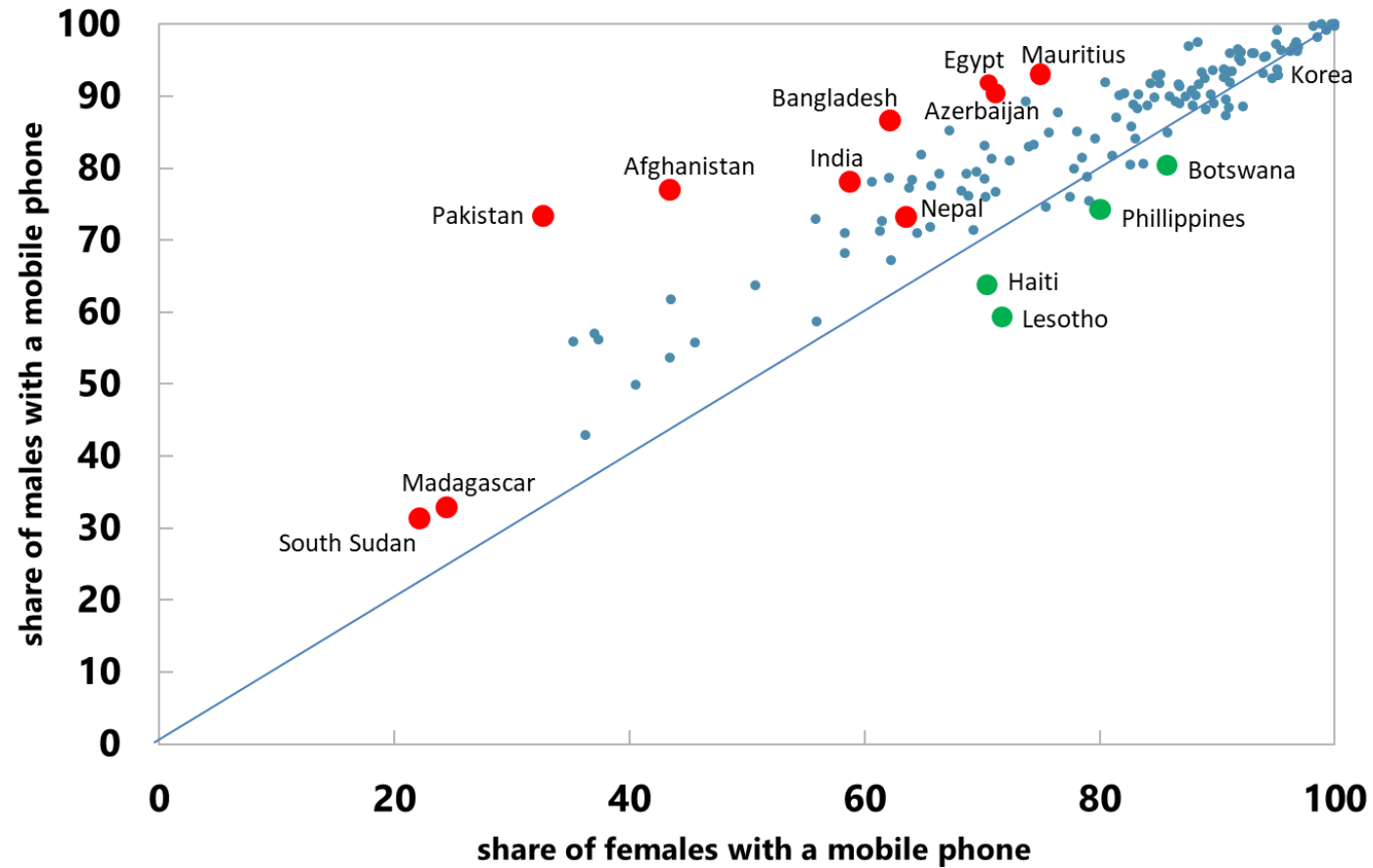
(In percent, 2017)



The promise of fintech: financial inclusion in the post COVID era

Adults with Access to a Mobile Phone

(In percent, 2017)



Policies to reduce barriers and risks to digital financial inclusion

- ❖ Remove regulatory uncertainty
- ❖ Invest in human capital: financial & digital literacy, global shortage of “coders”
- ❖ Invest in digital and physical infrastructure
- ❖ Build trust: consumer and data protection, cybersecurity
- ❖ Eliminate biases in historical data and/or algorithms
- ❖ Reduce gender gaps in access and usage of financial services
- ❖ Promote interoperability across users and national borders
- ❖ Foster sufficient competition in digital financial services

Financial sector policies during and post COVID



Support economy and provision of credit, liquidity and other financial services



Preserve financial stability and a healthy and sound financial system



Maintain international framework

Unprecedented policy responses

1. Use embedded flexibility
2. Facilitate support measures
3. Maintain transparency
4. Reprioritize supervisory work
5. Ensure smooth functioning of financial markets and services



Encourage and facilitate prudent restructuring of loans

Provide guidance on the prudential treatment of moratoria

Reflect government support



Relax large exposures and concentration limits

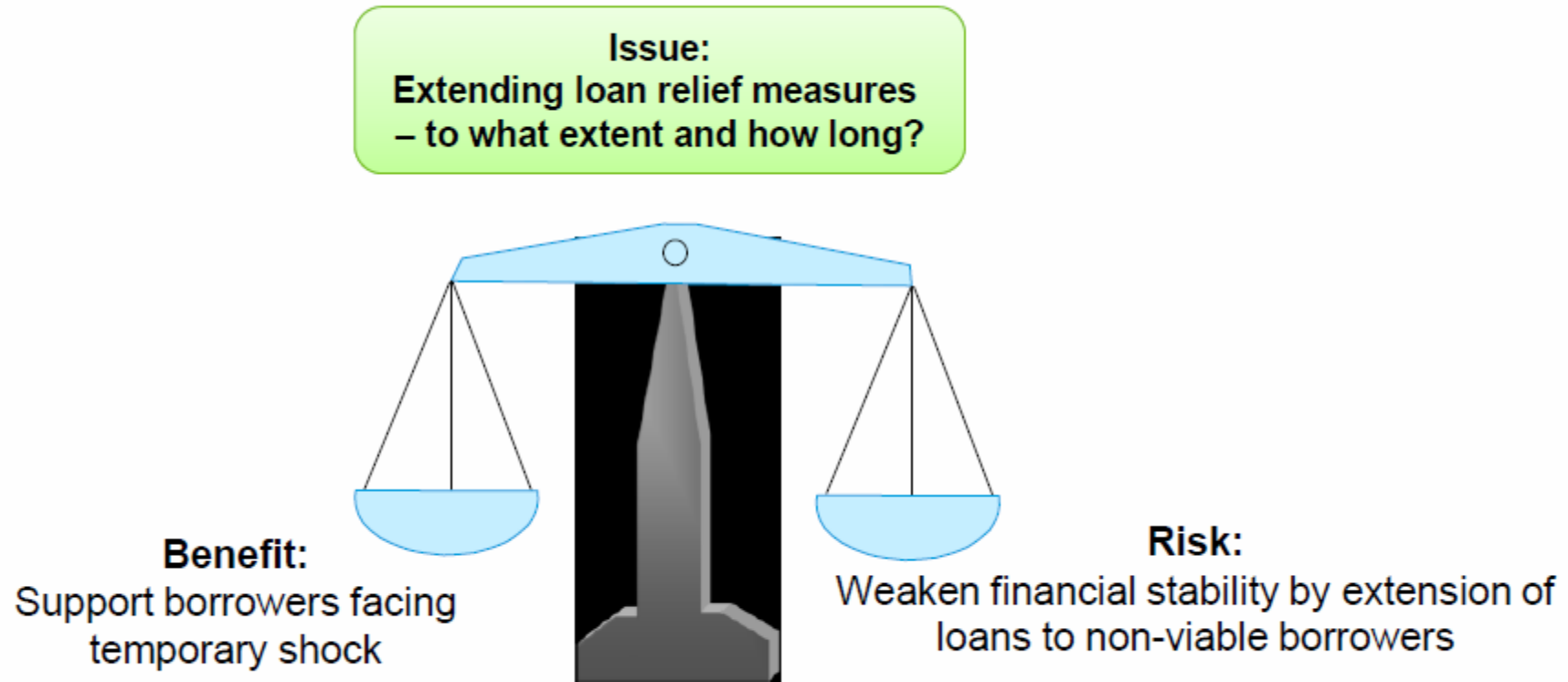


Lack of exit strategy

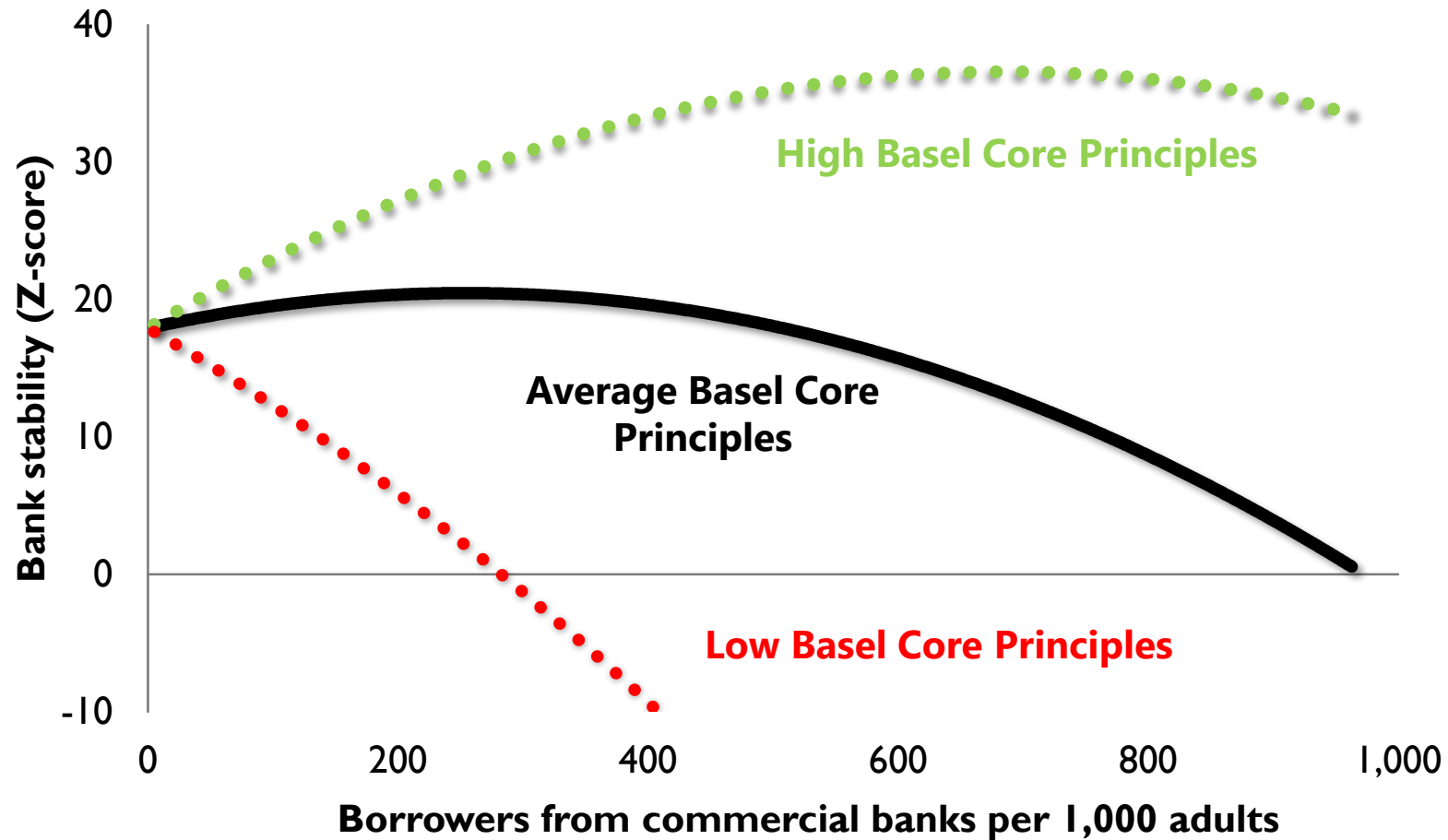
Disincentivize borrowers to resume payment

Policy tradeoffs are difficult to manage

Extending loan relief measures creates policy challenges



Regulation and supervision can help ensure that financial inclusion (credit) and financial stability (Z-score) go hand-in-hand



Source: IMF Staff Discussion Note 15/17, updated estimates with Financial Access Survey data till 2019.

Note: Bank stability is approximated by bank z-score, which captures banks' distance-to-distress (the amount of buffers banks have against shocks to earnings).