United Nations | Department of Economic and Social Affairs

MONTHLY BRIEFING
WORLD ECONOMIC SITUATION AND PROSPECTS

Economic Analysis No. 184 | September 2024

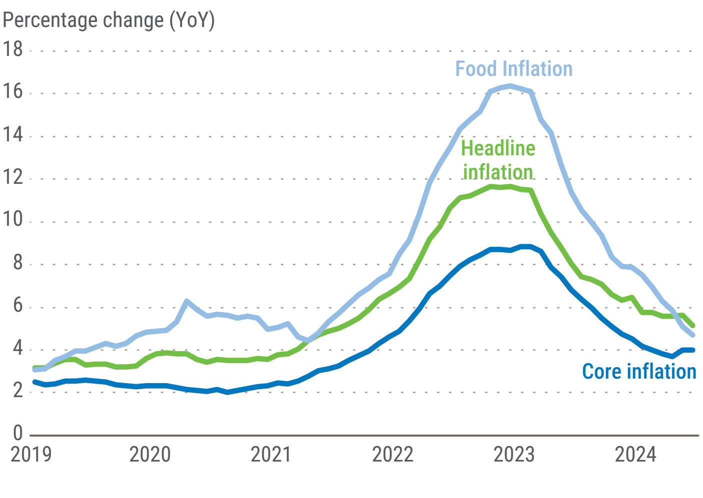
Gendered effects of monetary policy

Introduction: the return of conventional monetary policy

After seeing near-zero interest rates in major economies in the aftermath of COVID-19, the world economy has experienced rapid monetary tightening since early-2022 (UNDESA, 2024a). Persistent inflationary pressures during the second half of 2021 due to stronger-than-expected recovery in demand, and supply shortages[1] (figure 1) brought along the most aggressive monetary tightening in decades. Major central banks rapidly increased short term policy rates and began to reduce money supply and liquidity (figure 2). This rapid monetary tightening in developed economies was echoed in developing economies as well. As a result of this policy, most major economies have managed to bring down inflation without substantially increasing unemployment and triggering a recession. After two years of interest rate hikes, central banks are now shifting towards monetary easing,

Figure 1

Global headline inflation and components



Source: UN DESA, based on data from CEIC and Trading Economics.

Notes: YoY = year-over-year. Country group data are an unweighted 10 per cent trimmed mean, excluding the 10 per cent largest and 10 per cent smallest values from the sample. Core inflation excludes food and energy.

1 See United Nations (2024a) for a broader discussion on the underlying reasons of inflation and central banks responded.

KEY MESSAGES

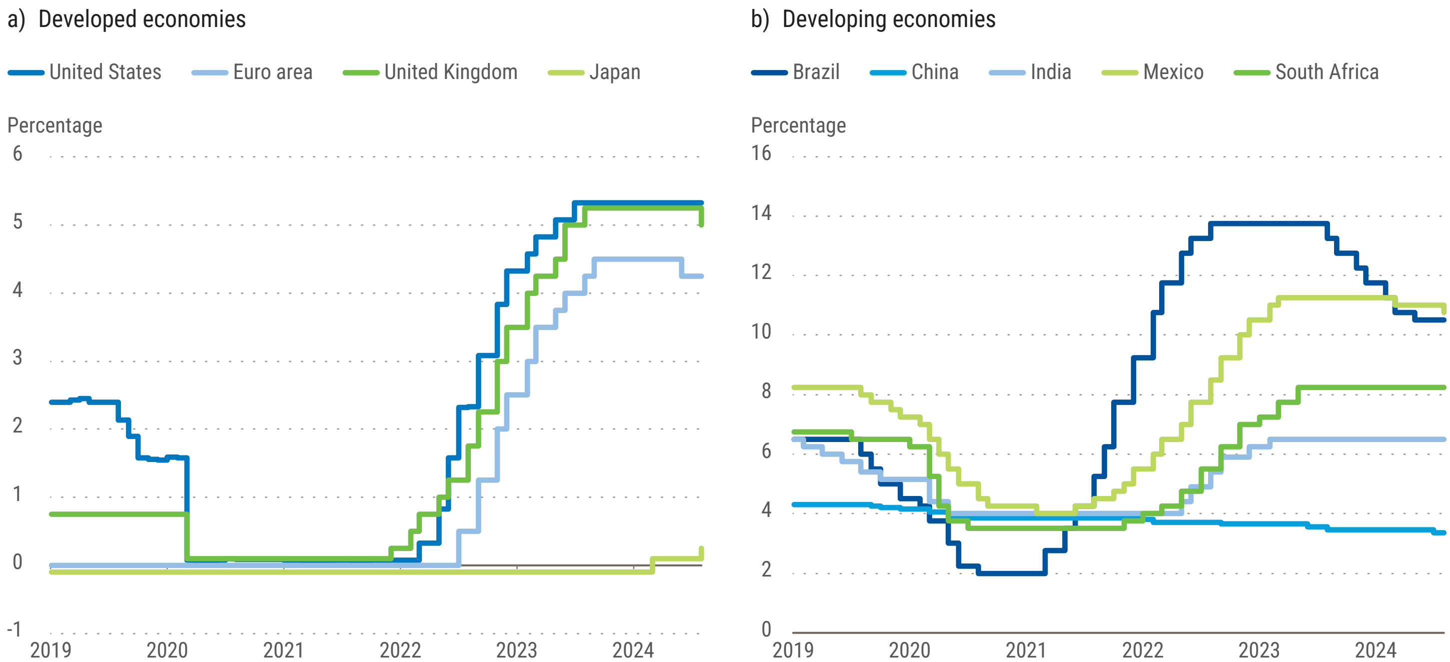
- Women and men face different opportunities, challenges and outcomes in economies.
- Monetary policy, implemented through changing interest rates, can lead to gender differentiated impacts on work, income and consumption, savings, wealth, and asset ownership.
- As interest rates rise, increased borrowing costs, including those due to the spillover effects of rate increases in large developed economies, can divert resources away from investments to promote gender equality and women's empowerment across key global goals, further exacerbating the $360 billion per year investment gap towards the achievement of SDG 5.

albeit interest rates will remain elevated compared with long-term averages. In the meantime, higher-for-longer interest rates have long raised questions on the policy's impact on growth, decades of development gains and improvements in SDG implementation, especially for the least developed countries (LDCs) (UNDESA, 2024b).

In broad terms, monetary policy is enacted to achieve price stability and full employment, often with little reference to the wider socioeconomic context. Yet, the tools of conventional monetary policy such as short-term interest rates and exchange rates can generate differentiated socio-economic outcomes by affecting various aspects of the economy such as business investments, employee wages and employment opportunities, as well as borrowing costs. Monetary policy tools, however, do not take into account demographic, gender or racial contexts. As a result, conventional monetary policy can cause distributional impacts on wealth and income, and more importantly gender-differentiated impacts on employment, income, consumption and savings, and asset ownership (Segunio, 2019). As interest rate increases are a tool to tackle inflation when it rises above target levels, it is pertinent to note that inflationary periods themselves, in general, disproportionately affect women by increasing the prices of women's consumption goods more than those of men, raising the cost of childcare, and exacerbating wage disparities.

The Monthly Briefing on the World Economic Situation and Prospects is part of the monitoring and analysis activities of the Global Economic Monitoring Branch (GEMB) of the Economic Analysis and Policy Division (EAPD) of UN DESA. This issue was prepared by Berna Dogan under the supervision of Hamid Rashid (Chief, GEMB) and general guidance of Shantanu Mukherjee (Director, EAPD). Andrea Dominovic provided statistical assistance.

Figure 2
Central bank policy rates in selected large economies



Source: UN DESA, based on data from CEIC and Trading Economics.
Note: See United Nations (2024a) for a detailed discussion.

Monetary tightening can also affect women by undermining efforts to gender equality represented by SDG 5. Currently, an additional $360 billion in developing countries is needed per year to achieve gender equality and women's empowerment in key global goals (UN WOMEN, 2023). However, past financial crises and associated austerity policies showed that tight liquidity limits the public resources available to promote gender equality (Blanton et al., 2019; Grigoli and Sandri, 2022). While the chances of achieving SDG 5 by 2030 are already slim, diverting resources away from this purpose will further hinder progress towards gender equality and the likelihood of achieving the goal.

Women are economically more insecure

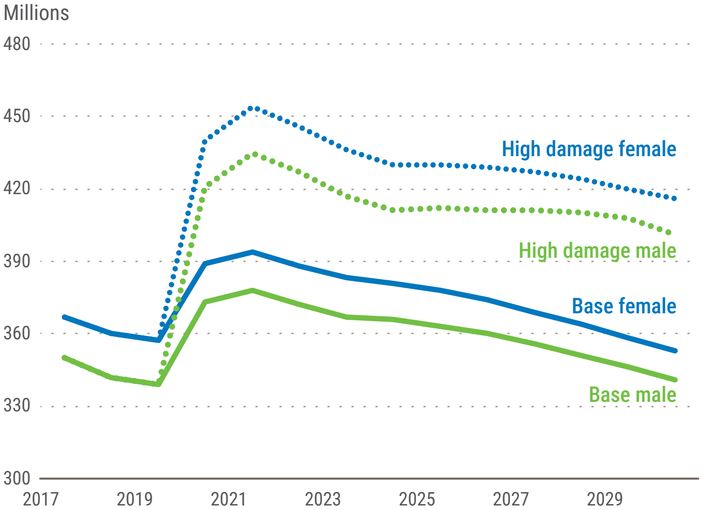
Globally, women are more likely to be poor. According to a recent projection by UN WOMEN, 380 million women live on $2.15 a day in 2024, compared to 366 million men (figure 3). Based on current trends, over 350 million women and girls will still live in extreme poverty by 2030, and one in four will experience moderate or severe food insecurity. In a 'high damage' scenario, the situation can be far worse with more than 400 million women and girls living in extreme poverty.

Women's poverty is often caused by discriminatory conditions in labour markets, limited access to resources and financial assets, and deep-rooted cultural norms that constrain women's participation in education, decent employment, and decision-making. Therefore, it is key to understand the role of insufficient laws and enforcement of existing laws that regulate women's work life and protect their economic and social rights. The World Bank's Women, Business and the Law Index shows that the playing field is not level for women and men (World Bank, 2024). Gender bias in laws affect women both in developed and developing countries, but the effects of these biases are most pronounced in the Middle East and North Africa (figure 4). Globally, over 3.9 billion women face legal barriers that affect their economic participation. Of 190 economies assessed in 2024, 98 have enacted legislation mandating equal pay for women for work of equal value, but only 35 have adopted pay transparency measures or enforcement mechanisms to address the pay gap. Only 44 per cent of the legal provisions that support the entrepreneurship of women are in place. Twenty-one economies do not grant women equal administrative power over, and ownership rights to, immovable assets, including land. Worldwide, about 23 per cent of countries employ biased inheritance laws, discriminating against widows and daughters specifically.

Unequal legal rights to financial resources, property, and inheritance hinder women's ability to accumulate

Figure 3

Global poverty headcounts, by sex



Source: UN WOMEN (2023).

Note: Based on a sample of 186 countries. The base scenario reflects the impact of the pandemic on GDP growth based on IMF's October 2021 World Economic Outlook report. It also assumes that wage gap rises between women and men as a proxy for COVID's disproportionate impact on female employment and increase in births in 2020-2022. The 'high damage' scenario is based on the assumptions of longer lasting economic impacts of COVID-19, greater sovereign debt, and worsening food security. For further details, see UN WOMEN (2023).

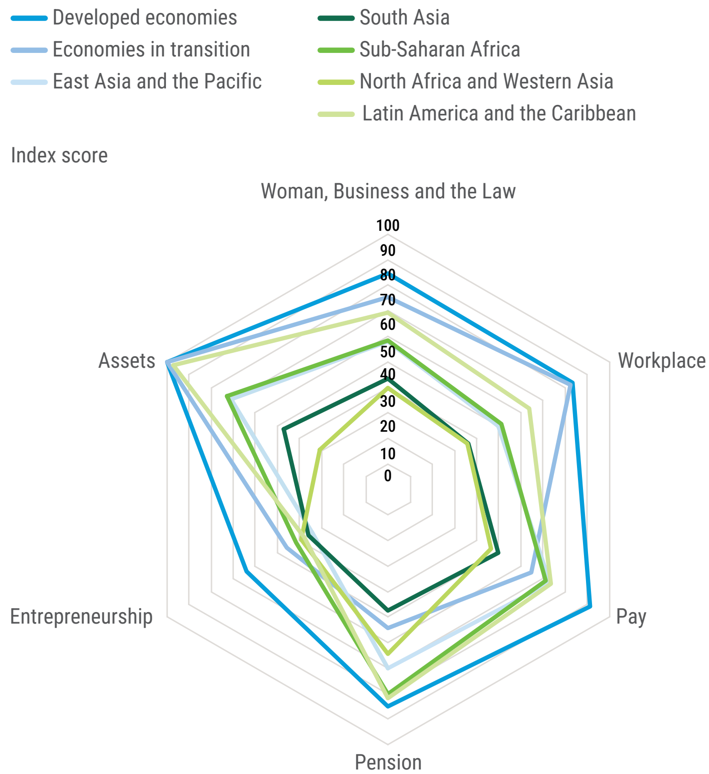
assets. The discriminatory employment practices and wage disparities further restrict women's opportunities to acquire property or build wealth independently. As a result, women are left with limited assets and reduced financial stability which makes them more vulnerable to economic downturns.

Impact on labour market outcomes

Women and men's economic activities differ, which may imply that economic shocks affect them differently. In labour markets, job segregation, differences in labour market attachment and job tenure, concentration in temporary and part-time jobs can serve as transmission channels for gender differentiated effects of monetary policy shocks (Takhtamanova and Sierminska, 2009). In developed economies, women tend to concentrate in sectors less likely to be hit by cyclical fluctuations (such as healthcare, education, and public administration) while in developing countries they are overrepresented in agriculture, and low-skill and low-paid manufacturing jobs.[2] Hence, women in developing countries are more susceptible to macroeconomic shocks. However, the ultimate impact, if any, is context specific as seen in the mixed evidence. Some empirical studies show that the gap between women's and men's employment increases

Figure 4

Women, Business and the Law Index by country groupings and developing regions in 2024



Source: UNDESA, based on World Bank (2024).

Note: The figure reports the index Women, Business and the Law 2.0, an expanded version of index 1.0, and covers the laws and regulations in place and the frameworks supporting the law's implementation. The multidimensional index covers 10 indicators: safety, mobility, workplace, pay, marriage, parenthood, childcare, entrepreneurship, assets, and pension. For this Policy Brief's purpose, the figure shows only the economic dimensions of the index. Geographic regions for developing countries follow the World Bank's country classification and are not strictly aligned with WESP regional groupings.

during monetary tightening in emerging markets and developing countries (Braunstein and Heintz, 2008; Petreski et al., 2024), whereas some find that the male-dominated sectors are more affected by contractionary monetary policy, which reduces the employment gap in favour of women (Flamini et al., 2023). Others find no significant impact of monetary policy changes on gender gaps in employment in developed countries (Takhtamanova and Sierminska, 2009).

Impact on entrepreneurial activity

Women's entrepreneurial activities tend to be more sensitive to monetary policy changes due to already unfavourable conditions that they face in access to credit and financial services (i.e., tighter credit markets, and more expensive loan payments). About 80 per cent of women-owned businesses with credit needs are either

2 Women in the changing world of work - Facts you should know (unwomen.org).

unserved or underserved which translates to a financing gap of $1.7 trillion for Women-owned Small and Medium Enterprises (WSME) (IFC, 2022). Evidence shows that women entrepreneurs' business loan applications are rejected to a greater extent than their male counterparts. When they secure a business loan, female entrepreneurs pay higher interest rates on loans than male entrepreneurs (Mascia and Rossi, 2017), the loan is considerably smaller for women (Coleman and Robb, 2009) with higher collateral requirement (Bellucci et al., 2010). Martinello et al. (2021) show that, on average, female business owners pay 98 basis point higher interest rates on their non-mortgage loans. However, even when controlling for everything else, a difference persists in interest rates between female- and male-owned corporate loans of 28 basis points on average.

Impact on savings and debts and financial assets

In addition to its impacts on labour, and income earning opportunities, monetary tightening can affect wealth inequality due to already persistent gender gaps in women's access to assets – land, housing, and financial assets (Doss et al., 2015; Gaddis et al., 2018). Prices of tangible assets, such as housing, fall when interest rates rise. But even when this happens, high interest rates translate into higher mortgage rates making it even harder for women to access to the finances for purchasing assets or making payments. Financial assets, on the other hand, may receive a heterogenous impact. Women's participation in financial markets is rather limited due to them being more risk averse, and less financially literate. Even when they participate, they tend to refrain from risky assets (Grazzini and Kim, 2019). Therefore, the falling prices of financial assets translate primarily into portfolio losses for men. Consequently, monetary tightening might reduce the gender financial wealth gap, albeit due to a broader destruction of wealth in the economy.

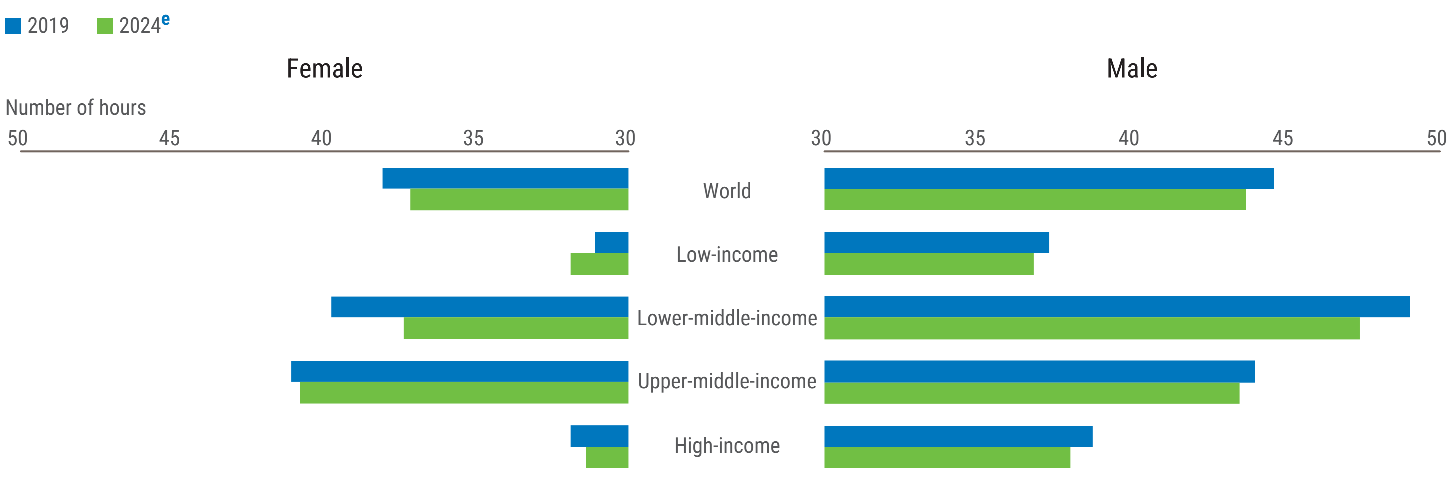
Unintended consequences of monetary tightening on women

Episodes of high inflation and tight monetary policy to contain it are likely to affect labour market outcomes as business may hesitate to undertake new investments and expand their operations due to economic uncertainty and high borrowing costs. Despite the historical evidence, labour markets remained surprisingly resilient during the recent cycle of monetary tightening in 2022 and 2023 (ILO, 2024). Labour force participation rates increased in several regions in 2023, notably in high-income countries (by 0.3 percentage points) and lower-middle-income countries (by 1.5 percentage points). However, the decline in unemployment rates and increased participation rates mask a significant lack of decent employment opportunities. Many employees face with obstacles to decent work including declining real wage, precarious work arrangement, deteriorating working conditions, and high levels of informal employment (ILO, 2024).

Labour markets in developed countries remained resilient in 2023 and 2024 due to several factors including robust economic activity despite monetary tightening, effective labour market policies, labour hoarding and flexible work arrangements (for example, reduced work hours). The resilience in developing country labour markets, on the

Figure 5

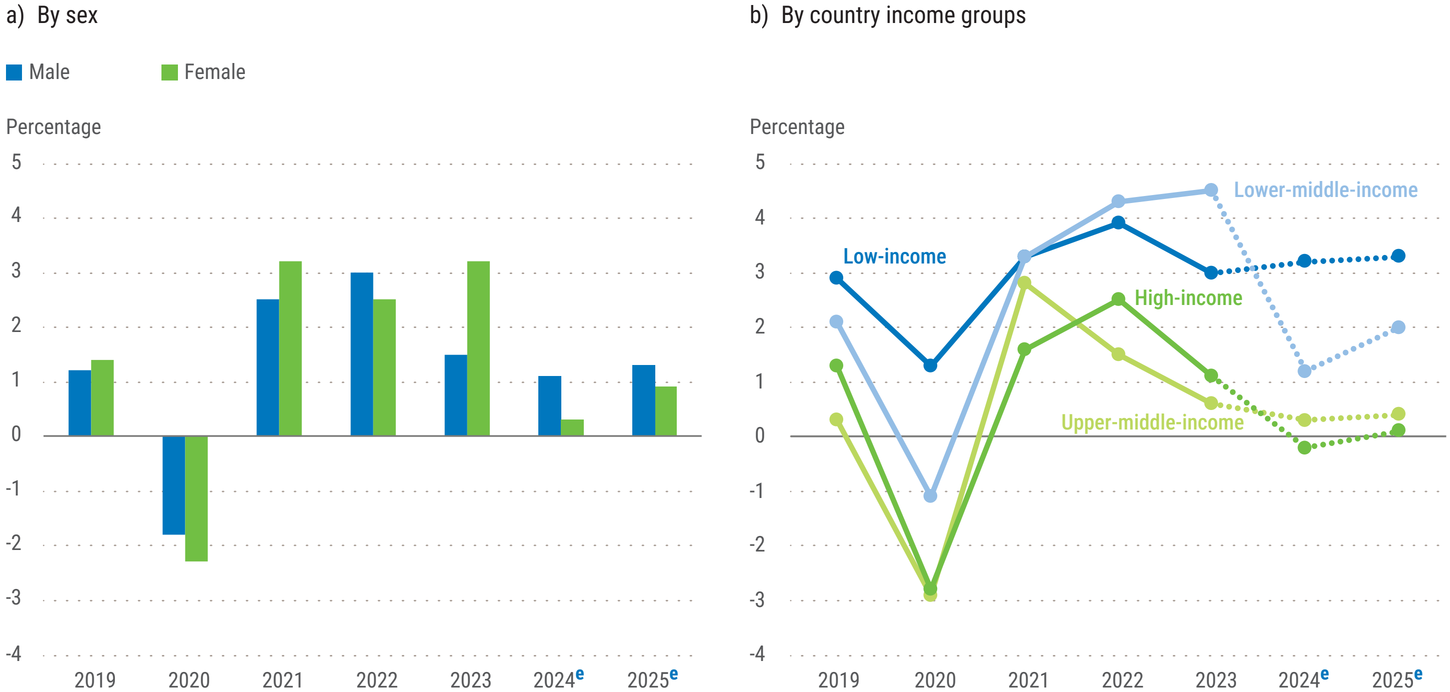
Mean weekly hours actually worked per employed person, by country income groups and sex



Source: UN DESA, based on data from ILO (2024).
Note: **e** = estimates.

Figure 6

Global employment growth, by sex and country income groups



Source: UN DESA, based on data from ILO (2024).
Note: **e** = estimates.

other hand, can be largely attributed to informal work arrangements which saw a modest increase since the onset of the COVID-19 pandemic and surpassed 2 billion people (of which 96 per cent reside in developing countries) in 2023 reaching its highest level in 2 decades (ILO, 2024). Four out of five jobs created for women are in the informal economy, while, for men, this ratio stands at two out of every three jobs (ILO, 2023). Moreover, mean hours worked have not fully recovered from the pandemic (figure 5). Even though they are approaching 2019 levels in certain cases (low-income countries), mean hours worked remains below pre-pandemic levels for both male and female workers, which may affect the overall labour supply over the long run.

In addition, in the medium run, significant monetary and fiscal adjustments are anticipated worldwide which will likely adversely affect labour market conditions (ILO, 2024). Especially, employment growth is likely to slow down as it reacts with a lag to changes in output (figure 6). Disparity in education and skills in the sectors that have boomed in the aftermath of the pandemic, caregiving responsibilities, declining access to decent work are some of the reasons of slower jobs growth for women.

Interest rate increases deepen women's poverty by reducing their real income. Even though COVID-19 affected mostly men's jobs, as opposed to women's, globally job losses (as a share of employment to population) were larger for women at 3.6 per cent compared to 2.9 per cent for men (ILOSTAT).[3] Also, women had to significantly reduce their work hours to take up more caregiving responsibilities. Elevated price level (especially cost of childcare) following the pandemic did not help with them coming back to work force either. Due to reduced working hours or completely withdrawing from the labour market, women face lower real income. Even those who remain in employment see slower wage growth. Wage growth slows down for both women and men during contractionary monetary policy episodes leading to a wider gender pay gap. But evidence shows that women's wages react more to interest rate hikes. For example, in the United Kingdom, higher interest rates during contractionary monetary policy increased the gender pay gap by 0.8 per cent (Apergis et al., 2019). This is explained by women's lower bargaining power and already existing pay gaps.

Similar to employment, women's entrepreneurial activities, too, remained resilient despite increasing interest rates. Indeed, women owned businesses saw a boom in

3 Globally the number of women who lost their jobs in 2020 was 46 million whereas it was 57 million for men (ILOSTAT).

recent years in several countries including the United States,[4] the United Kingdom,[5] Argentina,[6] Indonesia,[7] Kenya, Nigeria, and Egypt.[8] But this should be interpreted carefully. This wave is largely fueled by strong post-COVID support programmes in developed and upper-middle-income countries and may be due to lack of decent employment in lower-income countries. It may also reflect the cost-of-living crisis pushing people to explore new business opportunities to earn some extra cash.[9] As a matter of fact, higher rates continued to negatively impact the existing businesses.

In the United Kingdom, a survey found that 74 per cent of female business owners explained that high interest rates had negatively impacted their business in the second half of 2023. Twenty-five per cent of the participants indicated that difficulty in access to finance was one of the biggest factors (along with inflation and energy costs) negatively impacting their business.[10]

Spillovers to gender gap in developing countries

Rising interest rates in large developed economies make the cost of borrowing and of debt servicing increasingly unsustainable for many developing countries that have borrowed in those currencies. To tackle the debt burden and reduce the fiscal deficit, developing country governments may resort to fiscal consolidation measures, which come at the expense of spending on essential public services. It is estimated that 59 out of 125 low- and middle-income countries (LMICs) will adopt austerity measures as of 2024, exposing about 2 billion people to the adverse effects of budget cuts (Abed and Kelleher, 2022). For example, in Africa, 43 countries are expected to cut spending on health, education and social protection by $183 billion from 2022 to 2026.[11] Women and girls are disproportionately affected from fiscal cuts as they depend more heavily on public services and social protection measures compared to men due to deep-rooted gender inequalities (Abed and Kelleher, 2022).

Fiscal consolidation measures that cut or freeze the public wages and social transfers undermine women's income and economic security by increasing their income poverty. Reductions in social transfers (such as conditional and unconditional cash transfers programmes, child benefits, food subsidies) directly impact the real income of women who are more dependent on these compared to men.

In addition, cuts to publicly available and accessible services including health, education, childcare, and infrastructure (i.e., electricity, water and sanitation) indirectly impact the welfare and well-being of women and those who depend on them by increasing women's time poverty. Women act as 'shock absorbers' when cuts in public services or transfers affect those in their care. This was particularly evident during and after the COVID-19 pandemic. Both men and women reduced their work hours during the pandemic due to the closure of schools and childcare facilities. However, the burden of intensified childcare and homeschooling activities disproportionately fell on women, leading to a rise in unpaid working time for women. Sixty per cent of women and 54 per cent of men reported that they have increased the amount of time they spend on unpaid domestic work after the pandemic (UN WOMEN, 2020). Globally, women dedicated 4.7 hours to domestic care work in 2023, compared to 1.8 hours for men (OECD, 2023). In other words, women spent 2.6 times more hours on unpaid care and domestic work than men did. The female-to-male ratio of time spent on unpaid care and domestic work in 2023 is the highest for Africa with 4.1, and lowest for Latin America and the Caribbean (among developing countries)[12] with 2.5 (OECD, 2023).

Implications for gender equality and SDG 5

Monetary policy, like many other macroeconomic policies, deals with economic aggregates. In most economies, it pays little attention to distributional issues such as gender inequality. However, the tools of monetary policy can act as a transmission mechanism, and hence, result in a broader impact than merely helping to reduce inflation. Interest rate is one of the key transmission mechanisms of monetary policy to the real economy. Yet, the impacts of monetary policy are not uniform across countries and social groups but are rather complex and context specific. Policy outcomes are influenced by institutional characteristics, type of policy tools, and socioeconomic structure of the society and are borne unevenly between women and men. Therefore, monetary policy should be assessed in broader terms of its socioeconomic impacts, given the specific social context of each country. Moreover, the policy implementation would need to vary by country and according to different economic and financial conditions.

4 Wells Fargo (2024). 2024 Impact of Women-Owned Businesses Research | WEI (wippeducationinstitute.org). Accessed on 23 August 2024.

5 The Rose Review of Female Entrepreneurship (publishing.service.gov.uk).

6 Visualizing Women's Entrepreneurship Trends in Argentina.

7 UN Global Pulse (2022). Breaking Growth Barriers for Women Impact Entrepreneurs. Accessed on 23 August 2024.

8 Salient Advisory (2024). 2023 RoundUp: Investments in African HealthTech - Salient Advisory. Accessed on 23 August 2024.

9 Women entrepreneurs fuel business growth - new survey | World Economic Forum (weforum.org).

10 High Interest Rates Negatively Impact 74% of Female Business Owners in the UK, Tide Reports | The Fintech Times.

11 FEMNET | Fiscal Justice and Women's Rights: Why Austerity Must End! - FEMNET.

12 The female-to-male ratio of time spent on unpaid care and domestic work is lowest in Europe with 1.9 reflecting the most egalitarian division of labour within the household with the highest participation of men in domestic work (OECD, 2023).

The gender differentiated outcomes of monetary policy are realized due to the different positions of women and men in the economy, both market (paid) and non-market (unpaid) (Heintz, 2015). Restricted education and employment opportunities of girls and women, the feminization of poverty, challenges in access to finance and in accumulation of assets fuel gender inequality which leads to underutilization of skills and talents of almost half of the population and undermines aggregate growth. In other words, gender inequality has an economic cost, and it affects countries' growth and development with direct implications for SDG 5 that seeks to achieve gender equality for inclusive and sustainable development. Therefore, the ultimate goal must be eliminating gender inequality.

Boosting the economic empowerment of women and reducing their economic vulnerabilities is crucial to this end. Enhancing women's resilience to shocks requires addressing the underlying reasons for their vulnerability. Cultural norms – often manifested through legal practices – are among the root causes of inequality between women and men, and they determine the gendered impacts of policy outcomes. To eliminate cultural and legal biases against women, governments should accelerate efforts to reform laws and enact public policies that promote gender equality and work to facilitate social change. In tandem, frameworks to support their effective implementation should be established.

In most economies, monetary policy is enacted with a focus on a rather narrow set of goals such as reducing inflation and raising or sustaining growth rates. However, this overlooks the potential of this powerful macroeconomic instrument to promote inclusive and sustainable growth. Monetary policy would be more capable of supporting gender equality if it is supported by other policies and instruments in the macroeconomic, social and legal fields. Finally, having women in leadership and decision-making positions at central banks would also help monetary policy become more gender inclusive.

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