

INCOME-SPECIFIC INFLATION RATES AND THE EFFECTS OF MONETARY POLICY: THE CASE OF NORTH MACEDONIA

Biljana Jovanovic¹

*National Bank of the Republic of North Macedonia
petkovskab@nbrm.mk*

Marko Josimovski

*National Bank of the Republic of North Macedonia
josimovskim@nbrm.mk*

ABSTRACT

In this paper, we investigate the effects of monetary policy concerning the inflation rates specific for each income group of households. We find that the prices specific for high-income households are generally more rigid and less volatile compared to the prices specific for middle and lower-income households. This means that monetary policy can differently affect the different inflation rates specific for each of the income groups. By using a Factor-Augmented VAR (FAVAR) model, we show that a monetary policy shock affects high-income households less compared to middle and lower-income households, although the differences between the separate income groups are generally small. Then, by using a small scale gap model, we find that the prices of low-income households are the most sensitive to a monetary policy shock, while the prices of the top-income households are the least sensitive to the shock, which is in line with our empirical findings.

Keywords: *Inflation, monetary policy, distributional effects.*

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