

Inflation measures: Income versus price measures during the inflation crisis

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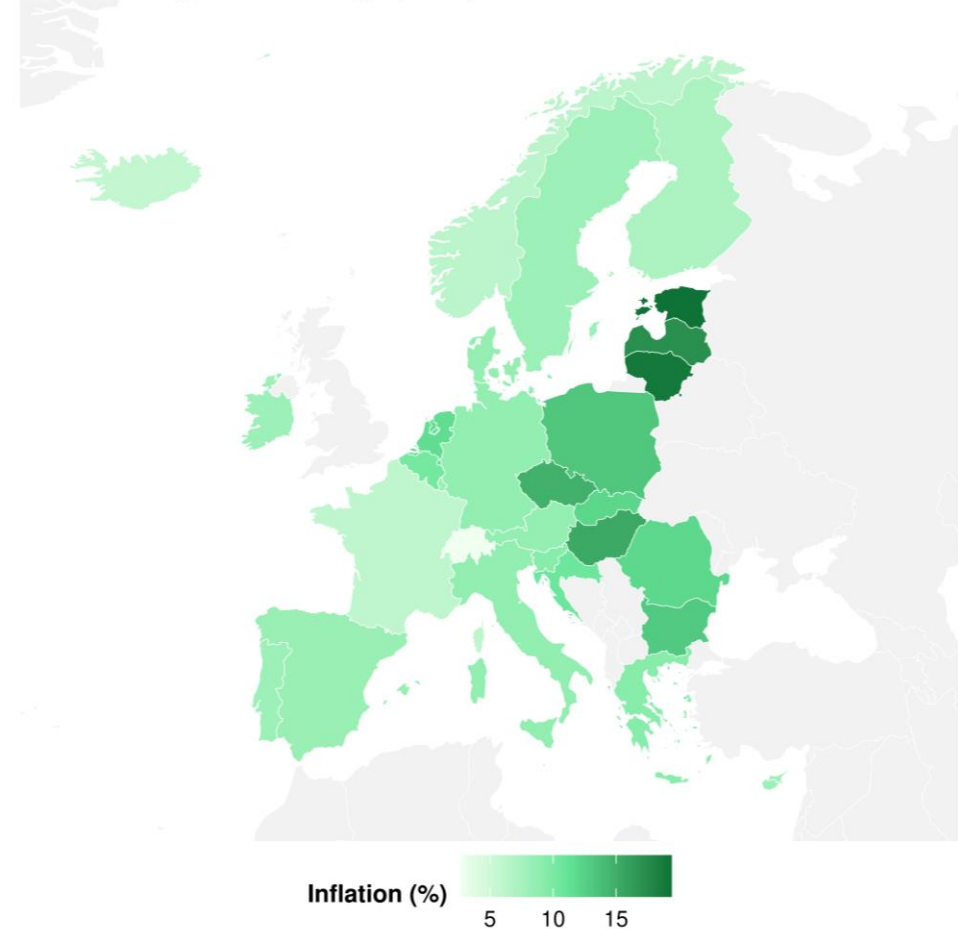
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Inflation shock as a fiscal policy challenge

- Mainly energy price driven shock: Inflation surged across Europe in 2022
- Households lost purchasing power
- Firms faced rising input costs
- Governments faced strong pressure to act
- Hidden (lagged) negative effect on government finances

Annual Inflation Rate in Europe (2022)

Annual average rate of change (HICP)

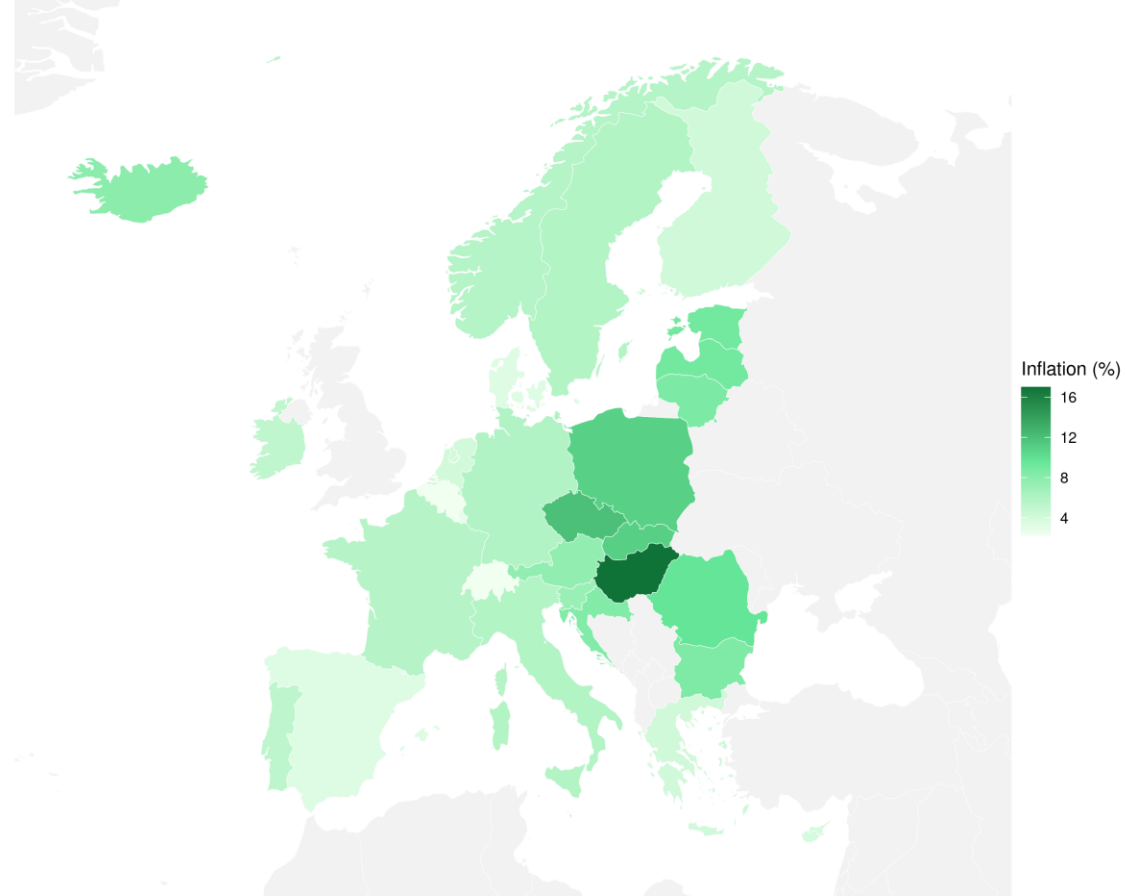


Source: Eurostat, HICP annual average inflation rate, 2022.

Inflation persistence as a fiscal policy challenge

Annual Inflation Rate in Europe (2023)

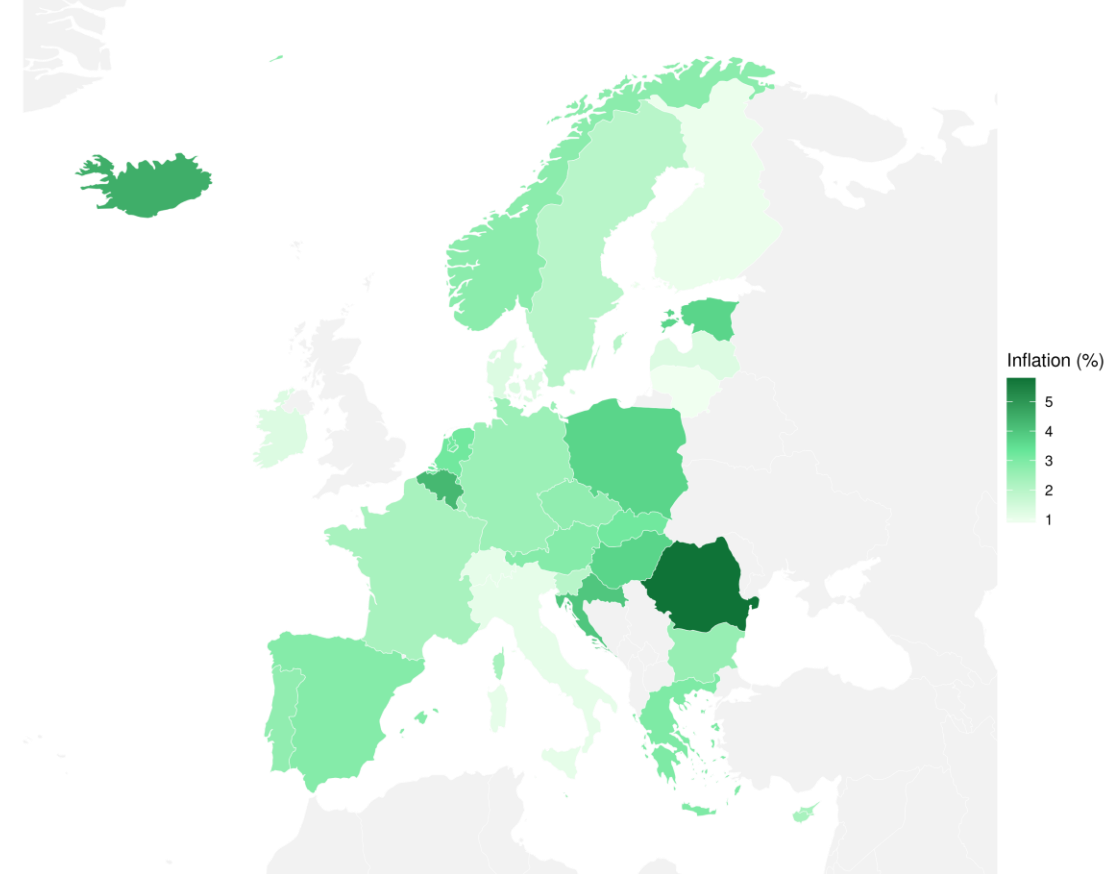
Eurostat HICP annual average rate of change



Source: Eurostat, HICP annual average inflation rate, 2023.

Annual Inflation Rate in Europe (2024)

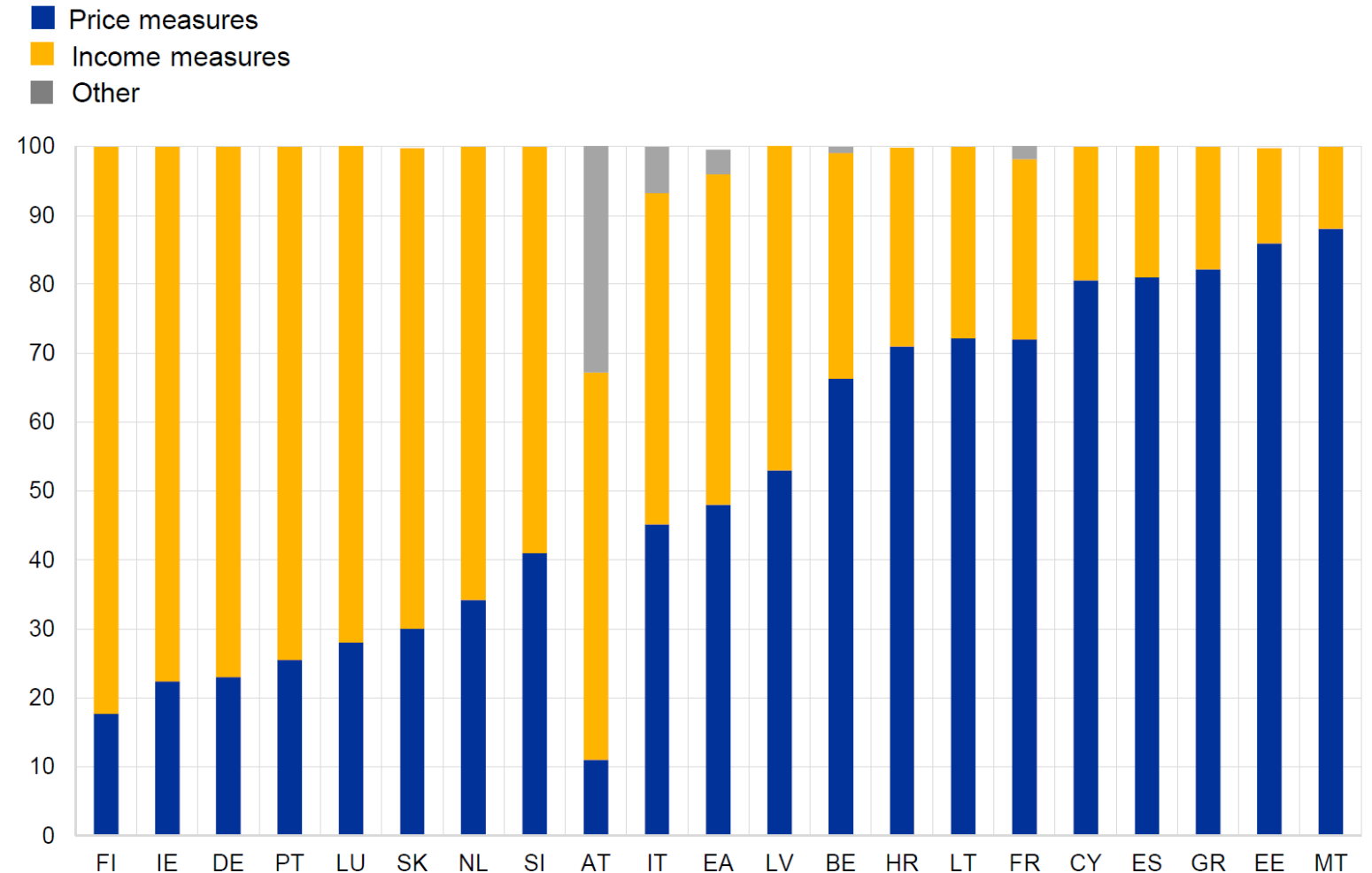
Eurostat HICP annual average rate of change



Source: Eurostat, HICP annual average inflation rate, 2024.

A common shock, different responses

- Countries adopted very different policy mixes
- Some relied primarily on income measures
- Others intervened directly through prices
- Similar challenge, different fiscal strategies



Source: Amores et al. (2023), ECB Occasional Paper No 330, Chart 1, p. 14; Note: other measures include for example government purchases to fill gas storage facilities

Assessing success depends on the objective

The same measure may receive very different evaluations depending on the objective

Protect purchasing power



Preservation of household welfare

Reduce inflation



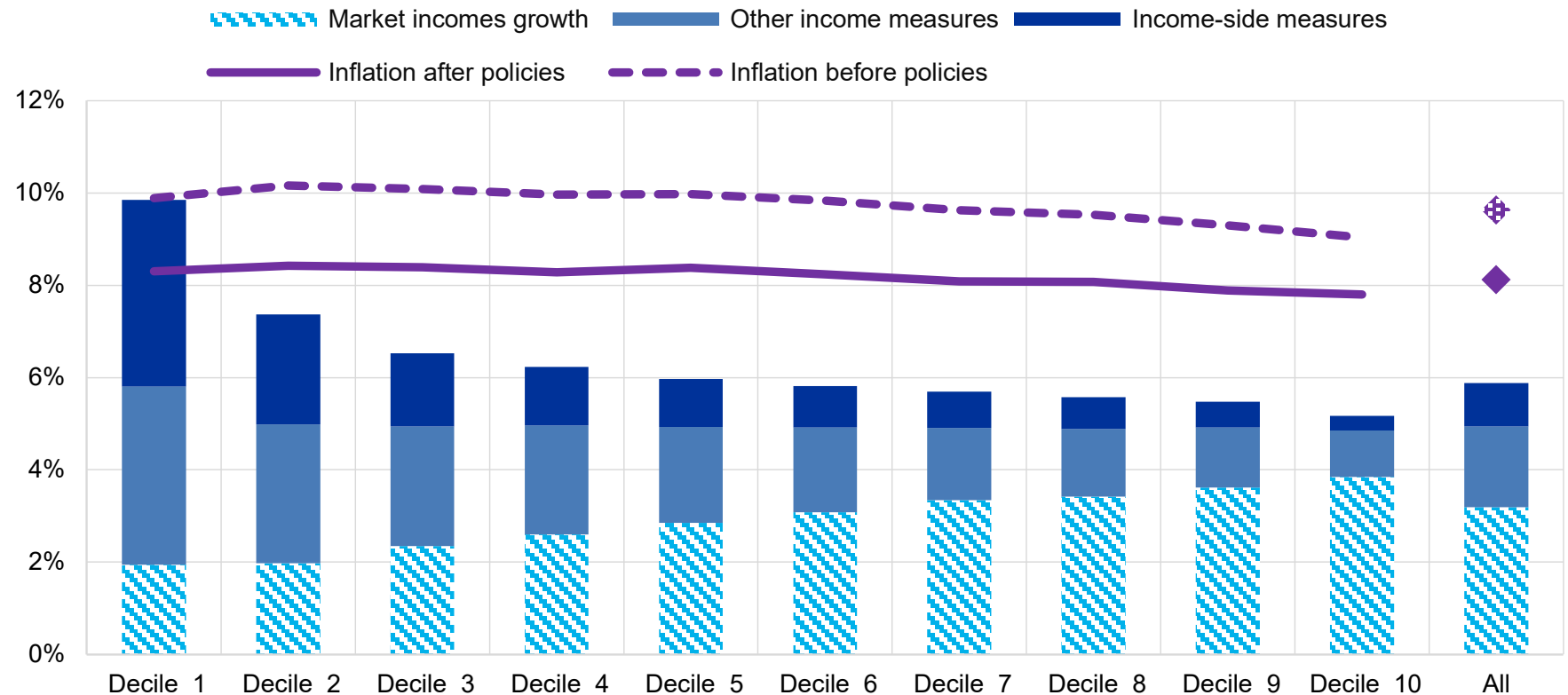
Stabilization of prices



Cost-effectiveness matters in both cases
but it can only be assessed relative to the chosen objective.

Different instruments, different distributional outcomes

- Income measures concentrated at lower incomes
- Price measures more evenly distributed
- Policy design shapes distributional outcomes



Source: Flevotomou, M., De Agostini, P. et al. (forthcoming), *Fiscal Policy and High Inflation*. ECB Working Group on Public Finance and European Commission task force; Results are based on a harmonized microsimulation framework covering all EU27 Member States; Bars show nominal disposable income growth and lines show the change in decile-specific household consumer expenditure (consumer inflation).

Which objective should guide fiscal policy when the next inflation shock arrives?

- Reduce inflation?
- Protect purchasing power?
- Protect vulnerable households?

Which objective should guide fiscal policy when the next inflation shock ~~arrives?~~ is already here

- Reduce inflation?
- Protect purchasing power?
- Protect vulnerable households?

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