Inflation and Government Response - Distributional Impact on Austrian Households

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Summary of the paper

- Inflation in Austria: 8.6% in 2022 and 7.1% in 2023 (expected).
- Microsimulation paper that uses EUROMOD, EU-SILC and HBS to evaluate the goodness of government response measures to inflation.
- On average income support and price reduction measures worked.
- Heterogeneity found, results do not hold for lower deciles.

My points

1 My points on inflation dynamics

Matching EU SILC-HBS: provide details.

Why inflation by deciles shows such homogeneity?

Low inflation in lower deciles: focus on fuel vs energy prices.
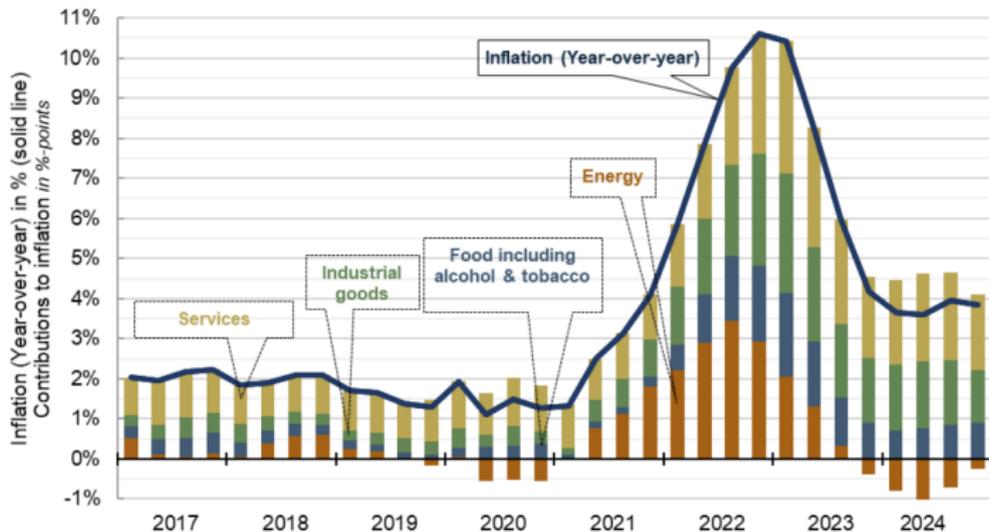
2 My points on change of income and expenditure

What role does employment or wage growth play?

Why is low-income household support giving relief also in high deciles?
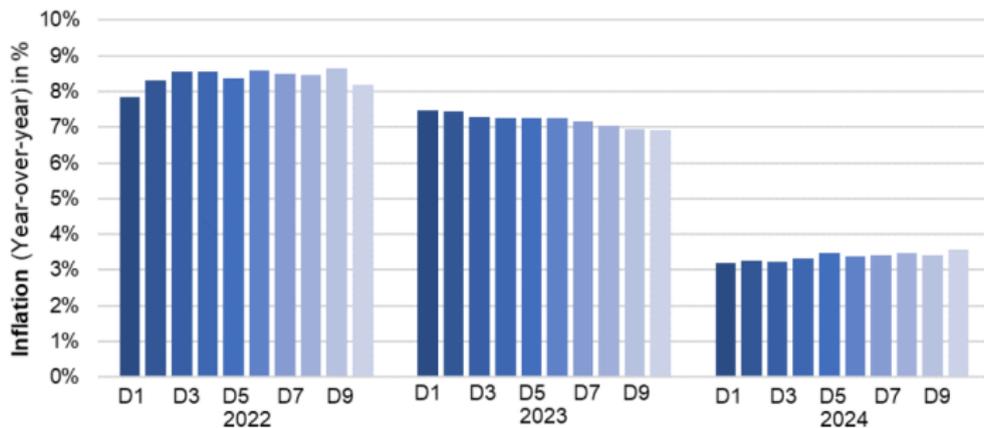
3 Streghts of the paper

Graph 1: **Development of the Consumer Price Index in Austria**

Source: Statistics Austria, WIFO macroeconomic forecast March 2023.

Inflation rates in different income deciles

Graph 2: **Inflation rates in different income deciles**

Source: Statistics Austria, WIFO macroeconomic forecast March 2023, Household Budget Survey 2020, own calculations.

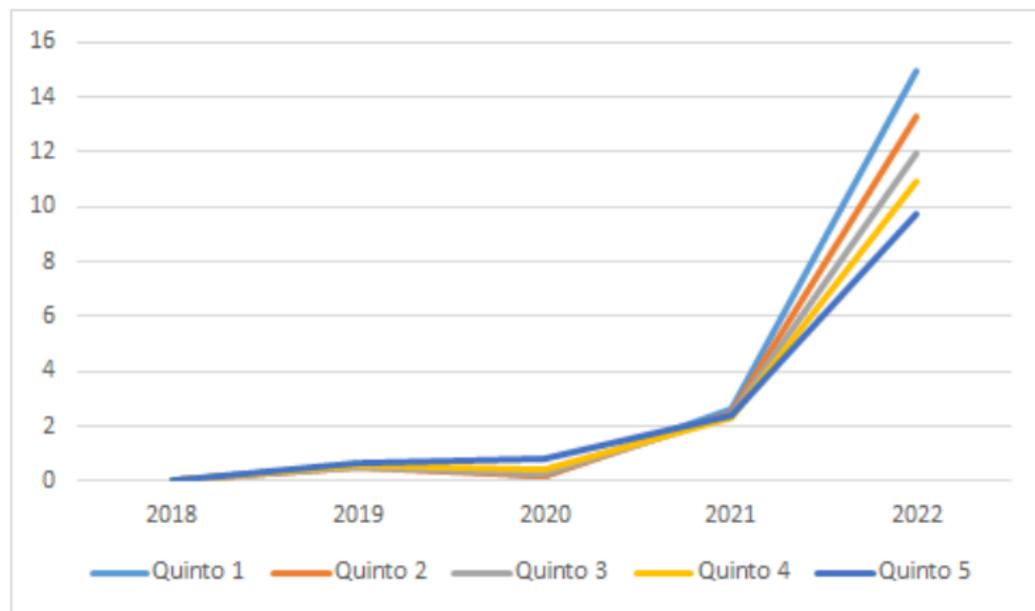# Inflation rates in Italy by quintiles

Figure: Source: Dachille, Della Zuanna, Paiella, Viviano (2023)

Comments

- Very homogeneous inflation between deciles: same consumption bundles? Prices of goods raise uniformly?
- More details should be also provided on EU-SILC - HBS consumption data statistical matching.
- "Price increases for lower-income households are smaller in 2022 as those households spend a smaller share in fuel."
- Energy prices vs fuel: are those included in orange bar in Graph1?
- Is it possible to disentangle energy and fuel and provide more detail on this?
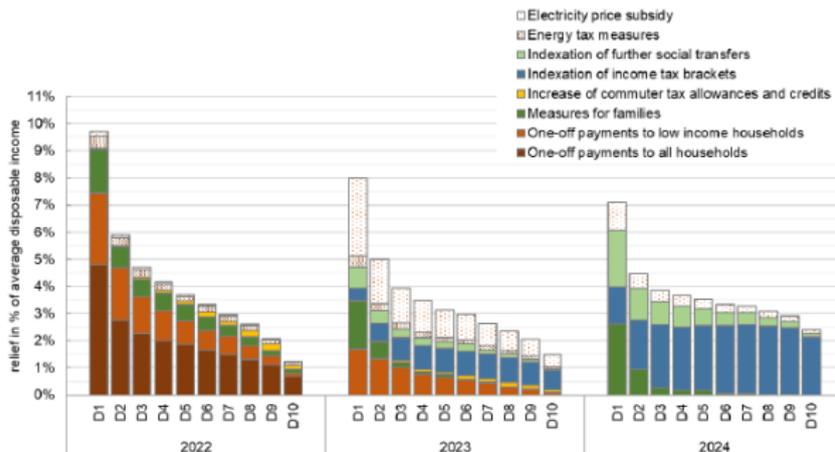
Change of income and expenditure since 2021 (in excess to 2% annual growth)

Graph 5: Change of income and expenditure since 2021 (in excess of 2 % annual growth)
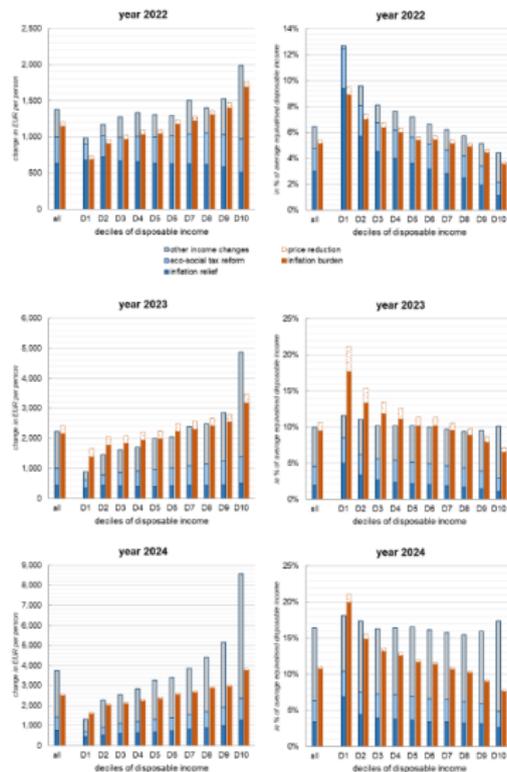
Graph 3: **Relief relative to equivalised disposable income**

Deciles of equivalised disposable income: D1, D2, ... , D10

Source: Own calculations using EU-SILC 2020, Household Budget Survey 2020, and EUROMOD.

Comments

- Graph 5: if blue column is higher than orange one, households can cope with inflation raises.
- Are "other income changes" mostly driven by employment or wage growth? Not clear and need to be disentangled.
- Why is low-income household support giving relief also in high deciles (Graph3)?

Striking points

- This exercise is able to evaluate whether households receive enough to cope with inflation: very powerful instrument in terms of policy relevance

- Also, it shows that income support measures have an important role and price-reductions are non-negligible.

- Low deciles households seem to suffer more the inflation burden in 2023 estimates: the relief is very heterogeneous.

- Evidence that indexation of tax brackets is a very regressive measure: what if those resources were used for further price reductions or one-off payments?