
THE IMPACT OF UNEXPECTED INFLATIONARY SHOCK IN 2022 AND 2023 ON THE WELFARE OF FAMILIES: THE CASE OF SLOVAKIA

Jana Valachyová, Matúš Senaj, Zuzana Siebertová,
Alexandra Putzová and Norbert Švarda
Office of the Council for Budget Responsibility, Slovakia

Discussant: Markus Riegler
Austrian Parliamentary Budget Office

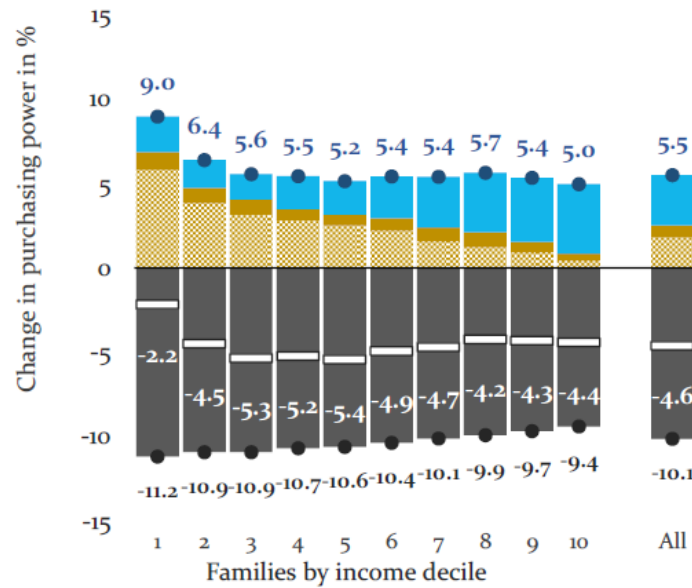
2nd Banca d'Italia Workshop on Microsimulation modelling

16 June 2023

How to define welfare?

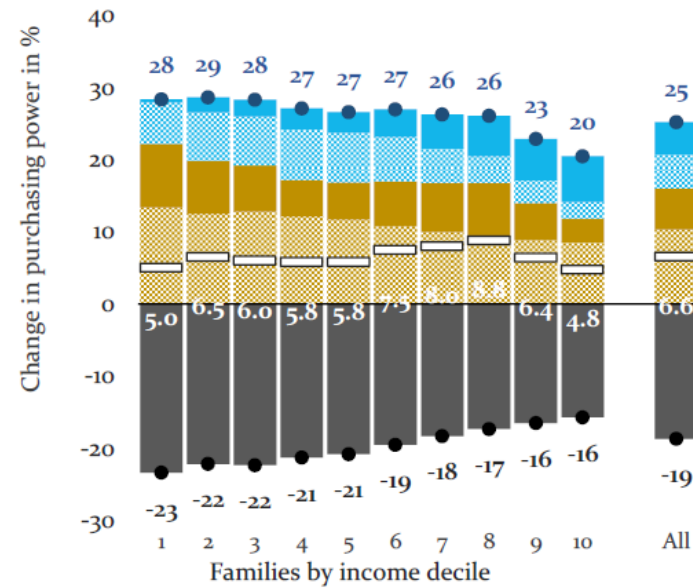
- This paper: welfare = change in purchasing power (real income)

Figure 5 The effect of inflationary shock by income deciles in 2022 (% , p.p.)



- The effect of uncompensated inflationary shock
- Compensation through wage channel
- Compensation through valorization channel
- Compensation by family income support
- Compensation by one-offs
- Net effect of inflationary shock
- Effect of gov. measures & macro adjustments
- Increase in expenditures

Figure 6 The effect of inflationary shock by income deciles in 2023 (% , p.p.)



- The effect of uncompensated inflationary shock
- Compensation through wage channel
- Compensation through valorization channel
- Compensation by family income support
- Price cap
- Net effect of inflationary shock
- Effect of gov. measures & macro adjustments
- Increase in expenditures

How to define welfare?

- This paper: welfare = change in purchasing power (real income)
 - 10 % inflation translates into 10 % loss of purchasing power
 - → 10 % increase of nominal income needed to compensate for the loss
 - Impact of inflationary shock differs across deciles mainly due to different inflation rates
- Alternative approach: change in income after subtracting additional cost caused by inflation
 - 10 % inflation and 80 % average propensity to consume → burden is 8 % of income
 - i.e. 8 % increase of income is enough to cover the additional expenditure
 - (and real savings would fall by 2 %)
 - Impact of inflationary shock also differs due to different propensities to consume
- Or take changes in consumption behavior into account and calculate compensating variation?

How to define welfare?

- Advantages and disadvantages of focussing on real income
 - Real income is relevant in the longer term (especially with trend growth of income and prices)
 - Real savings matter and are hidden when looking only at the cost of the consumption bundle
 - In the short run, when calculating the impact of an inflationary shock, also liquidity can matter
 - Can households cover the additional cost without changing their nominal (!) savings?
- Heterogeneity of inflation rates
 - Relevant for calculating a household's additional cost of purchasing the usual consumption bundle
 - When calculating real income, also savings are (implicitly) affected by this personal inflation rate.
 - Assumption: current consumption bundle also relevant for marginal (future) consumption
 - e.g. if food has a disproportionate share in the bundle of lower income households and food inflation is above average → additional income gets discounted by more because those households would also spend more of it on food?

Thank you for your attention

Contact:

Markus Riegler
Parliamentary Budget Office

Parliament, A-1017 Wien, Dr. Karl Renner-Ring 3
Tel. +43 1 40 110-2474; +43 676 8900-2474
E-mail: markus.riegler@parlament.gv.at