

Fighting (the effects of) inflation: government measures in Austria and the EU

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The extraordinarily high inflation in the euro area has led to substantial discretionary fiscal policy action to fight inflation in Austria and all other EU member states. Moreover, EU-wide emergency interventions to address high energy prices have come into force, comprising measures to skim off windfall profits from energy producers. In contrast to other EU member states, Austria has stayed relatively true to the approach of relying more on income measures as opposed to mere price measures: It has relied to a lesser extent on subsidies or tax cuts to reduce the costs of “brown” energy such as fuels, and to a larger extent on broad-based transfers and tax cuts to support all households. The large scale of the of the overall package is preventing a substantial decline in aggregate real household incomes in 2022.

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The extraordinarily high inflation in the euro area has led to substantial discretionary policy action across Europe. These anti-inflation measures have been taken with two objectives in mind. First, to limit price increases (i.e., inflation), and second, to fight the negative effects of high inflation on households and businesses. Governments have various means to fight both inflation and its negative effects and are supported by other institutions such as central banks and social partners. Despite the large variety of potential measures, economists tend to favor swift, targeted and temporary income-increasing measures over price measures, as they deter price signals in the market (see for example IMF, 2022). Moreover, government support to vulnerable households and firms should ideally not increase inflation and should support the green transition (or at least not endanger it).

This article gives an overview of which measures governments have implemented (with a focus on Austria) and elaborates on the various trade-offs concerning such measures. Section 1 discusses the range of anti-inflation measures, distinguishing between fiscal and regulatory measures, and which goals need to be considered when deciding on them. Section 2 then presents the measures taken in Austria. Section 3 compares the Austrian measures to those of other EU economies, with a focus on regulatory measures. Section 4 discusses the Austrian measures from a macro-stabilization point of view. Section 5 concludes.

1 A wide range of trade-offs between the various conceivable policy measures

A wide range of fiscal and regulatory interventions is possible to fight high inflation. Revenue-based fiscal measures can take the form of (temporary) tax cuts on products heavily affected by inflation such as energy products or certain sectors. More

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general income tax cuts can also be implemented to maintain consumer purchasing power in a context of high overall inflation. Expenditure measures comprise transfers to households (potentially targeted to vulnerable households) as well as subsidies to companies, often focused on energy-intense sectors.

Regulatory measures to fight (the effects of) inflation often take the form of caps on wholesale and consumer prices (as in France, see section 3.4). They are often seen as simple and direct instruments which are easy to understand and can be implemented quickly.

The best energy inflation compensation measures should be targeted to vulnerable groups, easy and fast to administer, and time-limited, and they should maintain price signals. In practice, all measures involve trade-offs between inflationary effects, distributive effects, budgetary costs, administrability, market disruptions, EU regulations and ecological incentive effects. Deciding on a particular measure often means weighing and choosing between different objectives, as demonstrated below.

1.1 Trade-offs concerning the impact on inflation

Introducing a price cap via regulatory measures is an effective way to limit price increases and uphold consumer purchasing power, thus fighting both inflation and its negative effects. Price caps are criticized because they change relative market prices and are therefore a source of market distortion, perhaps even endangering trust in the market mechanism in some cases. However, market distortions are only a strong counterargument against price caps if the affected markets are deemed to have been functional beforehand.

Like price caps, tax cuts on certain energy products or sectors, if passed on to consumers, fight inflation but eventually undermine the price effect. Cheaper energy products may reduce the incentive for energy saving, counteracting the downward pressure on demand of higher prices (see section 1.2). Moreover, cuts to indirect taxes may not be fully transmitted to consumers but left (partially) in producers' pockets. Furthermore, temporary measures to limit price increases directly may increase inflation expectations when they expire.

Transfers are effective means to fight the effects of inflation but the less targeted they are, the higher the risk of increasing inflationary pressures in the short term. The additional income provided may increase demand, which cannot be met by additional supply, hence putting pressure on prices.

1.2 Conflicts with environmental goals

High energy prices are one of the main reasons for current high inflation, but they also incentivize energy savings, in turn contributing to environmental goals. Cutting energy-related taxes (i.e., excise duties and/or VAT on energy sources) or subsidies to contain energy prices or cushion their effects are counterproductive in this respect.² However, policy measures regarding energy-related taxes have to consider the relative prices between energy sources, as the green transition involves not only cuts to energy consumption, but also a switch from oil, gas, and coal toward electricity from renewable sources. Cuts to taxes on electricity are therefore less problematic from an environmental point of view compared to those on fossil energy. At the same time, excessive short-term interventions on relative energy prices may

² For these reasons, the IMF Fiscal Monitor from October 2022 (IMF, 2022) also argues against such tax cuts.

lead to inefficient substitutions, such as using electricity instead of natural gas for heating and may dampen overall energy saving incentives.

Direct transfers independent from current energy consumption do not interfere with ecological objectives; the same is true for income tax reliefs (except for targeted reliefs to commuters).

1.3 Conflicts with distributional goals³

From a distributional point of view, measures can be analyzed in terms of absolute (in euro) and relative (compared to income pre-intervention) impact on income-poorer and -richer households:

- Transfers to vulnerable persons or households tend to benefit income-poorer households more in absolute and in relative terms.
- Untargeted transfers to all individuals (households) tend to benefit income-poorer individuals (households) the same in absolute terms compared to higher income individuals (households), but more in relative terms.
- Measures to reduce prices of certain consumer goods (via cuts in VAT or excise duties, subsidies, price caps) tend to benefit income-poorer households less in absolute terms, but often (depending on the goods concerned) more in relative terms.⁴
- For income tax cuts, the results depend on the design.

The extent to which support measures should also help income-richer households is a question of political preferences, available fiscal space, macro-stabilization concerns (see section 4), and implementation. Identifying vulnerable groups can be very difficult if the administration does not have (or process) integrated income data for persons or households. Providing transfers to unemployed people might only risk forgetting the working poor; transfers to all pensioners will also subsidize those best off. While true means testing on income and wealth together would avoid that problem, its administration can be resource- and time-consuming and costly. Timely transfers may only be guaranteed if disbursed to everyone. Payment upon registration/demand would have to be scrutinized by the administration, introducing an implementation/effect lag. Ex-ante payment, scrutinized after disbursement, implies a high administrative burden. Fiscal interventions also cause (large) costs which may endanger fiscal sustainability; the more so the less targeted they are. Furthermore, a suboptimal phase-out of means-tested transfers can lead to very high marginal tax rates in lower- and middle-income ranges. However, the precision of lump-sum transfers could be increased by making them subject to income taxes. Thus, high-income individuals would receive lower transfers than low-income individuals, without causing an exceptionally high administrative burden.⁵

³ This section focuses on households. For enterprises, an additional consideration is the impact of high input prices on competitiveness insofar as their competitors in other world regions face different input prices.

⁴ The discussions on measures aimed at prices for consumer goods focus on energy and food. The latter is clearly a good where expenditure increases with income (as income-richer households tend to buy more expensive food), but with an income elasticity below 1. This pattern also tends to hold for household energy, while the picture is somewhat more blurred for vehicle fuels.

⁵ This suggestion does not tackle the issue of income-poor but wealthy individuals, nor the issue of high-income households with low-income individual earners (there are no joint income tax filings in Austria).

2 Overview of measures taken in Austria

Table 1 lists the various measures at the federal level⁶ passed in 2022 (or late 2021) to dampen the increase in inflation and its effects on households and firms (for more details see Budgetdienst, 2022a and 2022b).

2.1 Temporary cuts to energy taxes and subsidies for energy

The taxes on both electricity and natural gas have been set temporarily (from May 2022 to June 2023) to the minimum rate stipulated by EU law, which amounts to a temporary reduction in tax rates by about 90%. Furthermore, the ecological surcharge on electricity prices has been set to zero in 2022.⁷ The introduction of national carbon pricing has been postponed from July 2022 to October 2022.

The largest measure aiming at reducing energy prices is the cap on electricity prices (“Strompreisbremse”), which subsidizes household electricity consumption up to 2,900 kWh per year (from December 2022 to June 2024), namely the difference between the market price and EUR 0.1 per kWh (should the market price exceed EUR 0.4 per kWh, the subsidy is capped at EUR 0.3 per kWh).

2.2 Transfers to households

The government relies considerably on transfer payments. To a large extent, these transfers are subject to very generous means testing criteria or not means-tested at all. The largest transfer is the temporary increase in the “climate bonus” to EUR 250 per adult (EUR 125 per child), supplemented with an “anti-inflation bonus” of another EUR 250 per adult (EUR 125 per child) in 2022. Originally, the climate bonus was intended to range between EUR 100 (for Vienna) and EUR 200 (for rural areas) per adult (and 50% of the respective amount per child). This transfer is not means-tested, but those with very high incomes (taxable income greater than EUR 90,000) are taxed on the anti-inflation bonus. Means testing for the energy vouchers of EUR 150 per person is relatively generous, too, as only households with a taxable income of above EUR 110,000 (EUR 55,000 for one-person households) are illegible. One-off payments of family benefits and the temporary increase in the income tax allowance for commuters are also not means-tested.

The largest strictly means-tested transfer-like measure is the one-off payment of up to EUR 500 to persons with low incomes, which has been implemented as a transfer to pensioners (in 2022), as a reduction in social contributions for the self-employed (including farmers; also in 2022) and as a payable tax credit for employees (payable in 2023 dependent on income in 2022). Recipients of certain social benefits (primarily minimum pensions, unemployment benefits and basic social assistance) have additionally received two one-off payments of EUR 300 each.

2.3 Other temporary measures

While the bulk of measures has been targeted toward households, there has also been support for businesses affected by the strong rise in energy prices. There have

⁶ Some additional measures have been implemented by state governments (e.g., additional transfers to low-income households), but their overall volume is small compared to the federal measures.

⁷ In normal times, this surcharge is primarily used to subsidize a minimum price for electricity produced from certain renewable sources (e.g., photovoltaics). In 2022, this subsidy was not needed due to high market prices for electricity, so the surcharge was also unnecessary (the comparatively small other expenditure financed out of this surcharge could be financed by use of accumulated reserves).

Table 1

Overview of measures taken by the Austrian federal government

	2022	2023	2024	2025	2026
	<i>EUR billion</i>				
Temporary fiscal measures concerning energy prices 2022–23	1.7	3.7	0.9	0.0	0.0
Temporary suspension of ecological surcharge on electricity	0.9	0.5			
Temporary reduction of excise duties on electricity and natural gas by ~90%	0.6	0.5	-0.2		
Postponement of carbon tax from 1 July to 1 October	0.3				
Decrease in tax refunds to enterprises due to postponement of carbon tax	-0.1				
Subsidy of electricity consumption ("Strompreisbremse")		2.7	1.1		
Temporary transfers and cuts in income-related taxes for households 2022–23	5.2	2.4	0.1	0.0	0.0
Increase in "climate bonus" (lump-sum transfer originally envisaged for redistribution of carbon tax revenue)	2.8				
Vouchers for energy bills	0.6				
One-off transfer to families, bringing forward of increase in family tax credit	0.4	0.2			
Increase in commuter allowance	0.1	0.2	0.1		
One-off payments for recipients of certain social benefits	0.4				
One-off payments / tax reductions for pensioners, employees and self-employed with low incomes	0.5	1.0			
2 nd one-off payment for pensioners and temporary additional increase in minimum pension		0.7			
Tax exemption for "inflation bonus" paid by employers	0.3	0.3			
Transfers for preventing evictions	0.0	0.0	0.0	0.0	0.0
Other temporary measures	4.6	1.4	0.2	0.2	0.1
Subsidies to firms (incl. agriculture) for high energy prices	0.6	1.1	0.0		
Subsidies for switch to decarbonized power units	0.1	0.1			
Strategic gas reserve	3.8				
Investment into renewable energy and repositories	0.0	0.1	0.1	0.1	0.1
Higher subsidies for public transport	0.2	0.2	0.2	0.2	
Energy consulting	0.0				
Permanent measures effective from 2023		2.3	4.5	6.2	7.4
Indexation of income tax brackets and tax credits		1.5	3.2	4.6	5.6
Indexation of selected social benefits (esp. family benefits)		0.4	0.8	1.1	1.3
Reduction in employers' payroll taxes and social contributions		0.5	0.5	0.5	0.5
Total measures	11.5	9.8	5.7	6.4	7.5
	<i>Volume in % of GDP</i>				
Total measures	2.6	2.1	1.2	1.3	1.5

Source: OeNB based on Budgetdienst (2022a and 2022b), BMF, Austrian Parliament.

also been special subsidies for public transport, both to compensate the impact of higher input prices and to extend services.

Furthermore, the reaction to increased uncertainty concerning gas deliveries from Russia led to the decision to build a public strategic gas reserve. This has been conducted by a government-regulated and -guaranteed special purpose vehicle, which spent about EUR 4 billion on purchases and storage of natural gas.

2.4 Indexation of income tax brackets and family benefits

The strong upswing in inflation has reinforced the decade-long discussion on the indexation of the progressive personal income tax and of nominally fixed social transfers. The government decided that from 2023 on, there will be an automatic inflation indexation for most federal cash benefits (primarily family benefits) as

well as a semiautomatic (2/3 fully automatic, 1/3 discretionary) indexation of income tax brackets and the most important income tax credits.

The impact of the expected high increase in agreed wages on aggregate labor costs in the economy in 2023 will be slightly dampened by the permanent decrease in employers' contributions to the family burden equalization fund (by 0.2 percentage points) and to accident insurance (by 0.1 percentage points).

3 Measures taken by Austria in international comparison

As shown in table 2, all EU member states and the United Kingdom have introduced measures to curb the energy price-induced increase in inflation and to protect vulnerable/low-income groups. So far, fiscal measures have been most important: on the revenue side, energy taxes and value-added tax on energy have been temporarily reduced in almost all member states. The countries that did not reduce taxes on energy products provided (fuel) subsidies or price rebates to (vulnerable) households and businesses or regulated the prices for energy and fuel products (section 4.4). However, EU member states are not completely free to cut energy taxes and VAT or support companies, as the EU sets minimum tax rates on energy and restricts state aid to businesses (EU, 2003).⁸

3.1 Austria relied to a large extent on non means-tested transfers

Apart from Austria, only a few member states have introduced income-independent transfers for almost all households. General relief measures for all households generally take the form of broad energy tax cuts and/or price regulation in some countries. A direct subsidy/reimbursement for electricity costs for households above some threshold along the lines of the Austrian cap on electricity prices has been set up for example in Cyprus, Estonia, the Netherlands, Greece and Lithuania, but is – in some cases, and in contrast to Austria – restricted to vulnerable groups. Germany also plans a price subsidy for gas and district heating (“Gaspreisbremse”), but – in contrast to Austria – the threshold will be based on individual consumption.

Companies are also supported by governments, mainly through subsidies such as a refund of energy costs. Differentiations are made based on the size of the company and on energy consumption (special support for energy-intensive industries). This is also the case for Austria, which provides reimbursements to energy-intensive businesses as well as business under the EU Emissions Trading System (ETS).⁹ Regulatory measures often also address energy prices for businesses.

While at the beginning of the current energy crisis, tax cuts and transfers aimed to compensate for high energy prices (energy tax cuts, rebates for energy products), member states recently started to take measures compensating for overall high inflation. Austria stands out in starting to index income tax brackets on inflation for all income brackets, while Finland increased existing indexation of tax brackets. Germany, Latvia and Luxembourg increased basic personal income tax allowances, and the UK increased the threshold for social security contributions. However, unlike Poland and Croatia, Austria has not cut VAT on certain basic food products so far (not displayed in table 2) – another very broad-based measure also discussed in Austria.

⁸ For an overview of EU minimum tax rates and tax rates levied in Austria see OeNB (2022).

⁹ SMEs (with an annual turnover of up to EUR 700,000) are eligible for the subsidy even if they are not classified as energy intensive. All businesses must set energy saving measures for eligibility.

Table 2

Measures to fight the effects of (energy price-induced) inflation

	Taxes				Subsidies and transfers			Regulatory measures		
	Reduced energy tax or fees / VAT on energy	Increased tax allowances (to commuters, firms..)	Tax on windfall gains (energy producers)	Income tax cuts	Broad based	Vulnerable groups	Businesses	Price-/ market regulation retail	Price-/ market regulation wholesale	Money for investment in renewable, energy, public transport, etc.
Austria	✓	✓		✓	✓	✓	✓			✓
Belgium	✓					✓		✓		✓
Bulgaria							✓	✓		
Croatia	✓					✓		✓		✓
Cyprus	✓					✓		✓		✓
Czechia	✓					✓		✓		✓
Denmark						✓				✓
Estonia	✓				✓	✓		✓		✓
Finland		✓		✓				✓		✓
France	✓	✓				✓		✓		✓
Germany	✓	✓		✓	✓	✓		✓	✓	✓
Greece			✓		✓	✓		✓		✓
Hungary	✓		✓					✓		✓
Ireland	✓				✓	✓		✓		✓
Italy	✓	✓	✓		✓	✓		✓		✓
Latvia	✓			✓		✓		✓		✓
Lithuania	✓				✓	✓		✓		✓
Luxembourg	✓			✓		✓		✓		✓
Malta						✓		✓		✓
Netherlands	✓					✓		✓		✓
Poland	✓					✓		✓		✓
Portugal	✓				✓	✓		✓	✓	✓
Romania			✓			✓		✓		✓
Spain	✓		✓			✓		✓	✓	✓
Slovakia						✓		✓		✓
Slovenia	✓					✓		✓		✓
Sweden	✓	✓				✓				✓
UK			✓		✓	✓		✓		✓

Source: OeNB based on Sgaravatti et al. (2021) and on national legal and media information.

3.2 Austria did not reduce fuel costs

In contrast to most major euro area economies (i.e., Germany, France, Italy, Spain and the Netherlands), Austria has neither cut taxes on vehicle fuel nor directly subsidized it.¹⁰ Energy tax cuts were primarily concentrated on electricity (compare section 2.1), which is generally a less problematic energy source (taxes on natural gas have been cut, too, but their overall tax reduction was significantly smaller). Many measures for “greening” the economy actually involve a switch from nonrenewable sources toward electricity (e.g., electric cars, heat pumps).

However, Austria has temporarily increased the commuter tax allowance, thereby giving transfers to individuals who tend to consume more fuel than average. However, as this tax allowance is independent of the mode of transport, there is no effect on fuel prices, but it might encourage urban sprawl.

¹⁰ However, the introduction of the CO₂ tax was shifted from July to October 2022.

3.3 Austria has not taxed windfall profits so far

So as not to overburden the budget, some member states have introduced special taxes on windfall gains from energy producers, which are currently benefiting from high energy prices. Italy and the UK have introduced temporary tax rates of 25% on energy (oil producing) companies, Romania skims off 80% of excess revenues above a certain reference threshold, and Hungary has set different tax rates for petroleum product manufacturers (25%) and power producers (65%). Greece taxes power generators' windfall profits at 90%, with some exceptions for certain companies producing electricity from renewable sources only. In contrast, Spain taxes only energy producers that do not use gas. Böheim et al. (2022) recently advised against the introduction of a windfall profit tax in Austria on account of the high share of state ownership (which reaps the lion's share of excess profits anyway) as well as a possible negative impact on private investment. Instead, they suggest demanding an extraordinary dividend from (partially) state-owned energy firms and making them contribute to the cost of the electricity price brake.

In October 2022, a Council Regulation was passed on EU-wide emergency measures in response to high energy prices (EU, 2022). In addition to a general reduction in electricity demand by 10%, two measures were included to skim off profits. First, a temporary EU revenue cap of EUR 180/MWh for "inframarginal" electricity producers from, among others, nuclear energy, lignite and renewable energy sources was introduced (revenues above this amount would have to be transferred). Second, a temporary solidarity contribution of at least 33% is to be levied based on surplus profits (defined as exceeding 20% of average profits of 2018–2021) from fossil (fuel) activities. These revenues should be distributed to consumers and used for energy investments without undermining incentives to save energy.

3.4 Austria has so far not relied on regulatory measures

Energy prices for households and businesses can be contained at a certain price level by transferring part of the energy prices back to households/businesses or by directly intervening in the price-setting mechanism of the markets, such as through price caps or fixed margins. The latter are considered regulatory measures, which also tend to reduce inflation in the short term, while the former might even increase inflation. As the Austrian electricity price cap subsidizes electricity producers without capping the market price, it is not considered a regulatory measure (see table 2). Regulatory measures may negatively impact the country's reputation as a business location. Furthermore, price caps may even require governments to rescue energy producers, if the latter must sell their products below cost (as in France). However, regulatory caps may be appropriate if market mechanisms are considerably disturbed by exceptional events. As these measures have not been common in modern economies so far, they are presented for selected member states in more detail.

France: The French government has capped the electricity price increase for end-consumers of state-owned EDF (84%) to 4% in 2022. The government-set rate refers to the basic price plan from EDF, used by about 80% of households. Moreover, EDF has been requested to provide cheap electricity to other electricity providers so that they can pass on lower prices to consumers. While a large part of French electricity comes from nuclear power, the price cap is not without costs. After the necessary recapitalization the French government has now started the

process to fully nationalize EDF. The gas price has been frozen since November 2021, and gas suppliers are subsidized by the state.

Spain and Portugal: Following EU permission to deviate from EU state aid rules, Spain and Portugal (as an energy island) have capped wholesale gas prizes for electricity producers and electricity prices. This is possible as both countries depend less on Russian gas than other countries (due to gas imports from Algeria and a high share of renewable energy) and are less interconnected with the rest of the EU. By lowering the input costs of fossil fuel power stations, the increase in electricity prices has been contained.

Slovakia: The Slovak government has reached an agreement with the partly state-owned (34%) Slovak power utility to guarantee stable electricity prices for households up to 2024. The company has to supply a fixed country-wide volume at fixed prices to households, with any remainder being distributed to hospitals, schools, etc. The agreement was reached in return for the government withdrawing a bill to impose windfall taxes on nuclear power generation.

Several countries (*Croatia, Hungary and Slovenia*) have directly intervened on prices of fuels at service stations. While all three put a temporary per-litre price cap on fuels at the pump, Slovenia also capped traders' margins. The (price) caps usually do not apply to service stations on motorways. These price caps have led to supply reductions, as wholesalers are not willing to sell below cost.

4 Considerations on the timing and size of Austrian measures

The elaborations on the measures in sections 1 and 3 discuss individual measures from an allocational and distributional point of view but, in a macroeconomically volatile situation, policymakers must also consider the combined impact of all measures in terms of macroeconomic stabilization. From that point of view, two points about the fiscal package in Austria (and in other countries) are particularly striking:

1. A very large amount of expansionary fiscal measures is implemented in a year with (very likely) real GDP and employment growth above the averages of more recent decades.
2. The government relies significantly on temporary measures even though current inflation projections do not assume a reversal to the pre-shock trend in price levels.

4.1 Relatively strong reliance on temporary measures

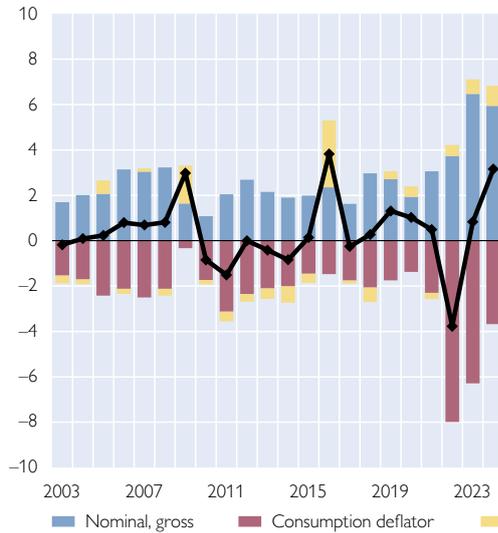
Concerning the second point, the current macroeconomic outlook implies that the need for large-scale support measures is only temporary. Real net wages and real net pensions are expected to decline in 2022 to an extent rarely observed in the past (chart 1). While increases in average nominal gross wages and pensions in 2022 are somewhat above the average of more recent years (blue bars), inflation (red bars) is very high. However, due to explicit inflation indexation of pensions and basing of wage negotiations on observed past inflation, growth in real net pensions and wages is likely to recover in 2023 and particularly in 2024, reducing the need for fiscal support in those years. This pattern is reinforced by Austria's decision to automatically index income tax brackets and tax credits to past inflation. Otherwise, the contribution of taxes (yellow bars) to the development in average real wages and pensions would have been substantially negative amid this very high growth in nominal incomes.

Chart 1

Decomposition of the change in per-capita net real income

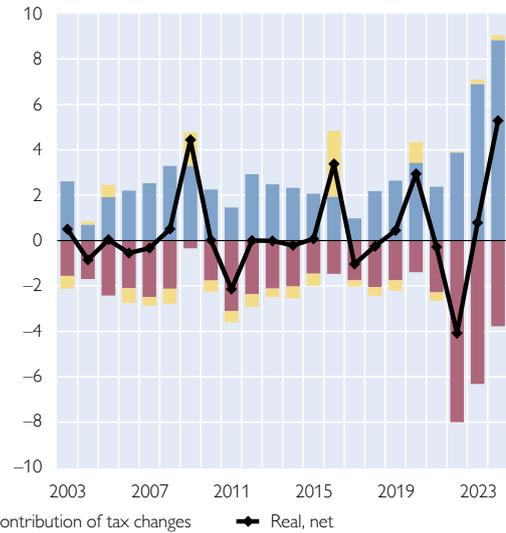
Compensation per employee

Change on previous year in %; contribution in percentage points



Pension per pensioner

Change on previous year in %; contribution in percentage points



Source: Statistics Austria, OeNB (OeNB June 2022 outlook updated with inflation projection from October 2022 and new fiscal measures).

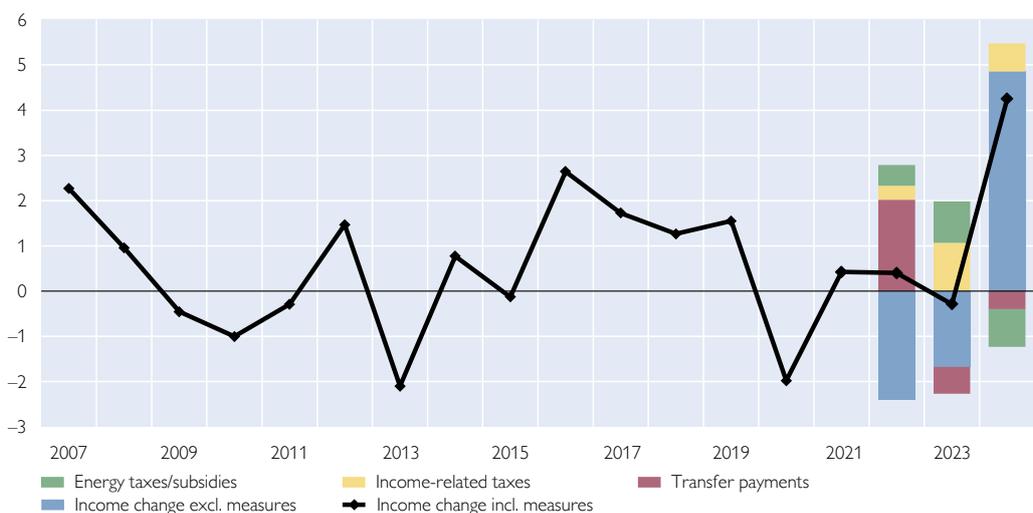
4.2 Overall, the package is very large

Due to high inflation, the Eurosystem has recently started raising interest rates (i.e., monetary policy has become less expansive). Furthermore, according to the most recent macroeconomic projections, growth in both real GDP and employment is above the historical average in 2022 in Austria and the euro area. Due to imported inflation, consumer prices are increasing much faster in 2022 than the

Chart 2

Effect of anti-inflation fiscal packages on real disposable household incomes

Change on previous year in %; contribution in percentage points



Source: Statistics Austria, OeNB (OeNB June 2022 projections updated with inflation projection from October 2022 and new fiscal measures).

GDP deflator, though. Without the various fiscal support measures passed in 2022, aggregate real household incomes in Austria would have decreased in 2022 (blue bars in chart 2) despite very high employment growth, which would have come on top of the poor development in real household incomes in 2020 and 2021.

The scale of overall measures to support household incomes (red, green and yellow bars) prevents steep declines in real disposable household incomes in 2022–2023, leading to growth rates of around 0 (black lines). This indicates a serious policy trade-off. The support measures were largely necessary to prevent serious hardship for many households, but at the same time such large stimulus may be seen as counterproductive from an inflation stabilization point of view.

5 Conclusions

Even though all EU member states have taken far-reaching measures to curb (the effects of) inflation, these are very different in terms of design. Compared to other EU member states, the transfers paid out in Austria are less focused on vulnerable groups: the most generous subsidies to households (the “climate bonus” and the “inflation bonus”) are neither means-tested nor taxable (except for very high earners in the case of the inflation bonus). In absolute terms, the indexation of income tax brackets benefits recipients of high incomes more than those of lower incomes. Furthermore, the measures rely less on cutting indirect taxes such as VAT or energy taxes, and do not aim to directly reduce fuel costs for consumers. The government is not using a tax on windfall profits as a financing source; nor is it relying on regulatory measures to curb energy prices.

In addition to questions of income distribution, governments face two important policy trade-offs when implementing such support measures. First, some measures could undermine environmental goals by inducing inefficient energy use. For example, the subsidy for electricity consumption (“Strompreisbremse”) may lead households with previously low electricity consumption to use electricity for heating instead of more expensive (but also more efficient) sources like natural gas. Second, measures may curb the effects of inflation for individual households, but fuel inflation at the same time. This is particularly relevant for measures aimed at reducing energy prices, as supply curves for various energy sources are currently steep (i.e., small changes in demand can lead to relatively large price changes). Furthermore, expansive fiscal policy measures in times of high headline and core inflation rates counteract the restrictive policy stance of central banks.

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