

Can Energy Subsidies Help Slay Inflation?

by C. Erceg, M. Kolasa, J. Lindé, and A. Pescatori

Discussion by

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The Paper

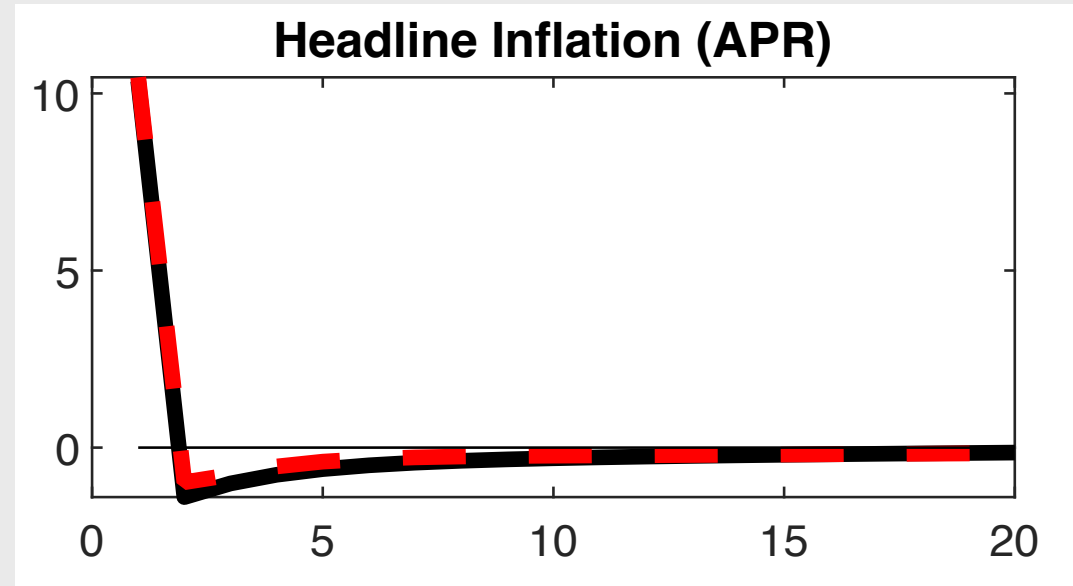
- Question: Are energy subsidies to households and firms effective tools to combat energy-price driven inflation?
- Answer: It depends. Energy subsidies to firms more effective to curb inflation than energy subsidies to households.
- Framework: Closed and open economy New Keynesian models.

- Very interesting, intriguing and inspiring paper.
- Lots of great food for thought.

Comments/Questions

Baseline

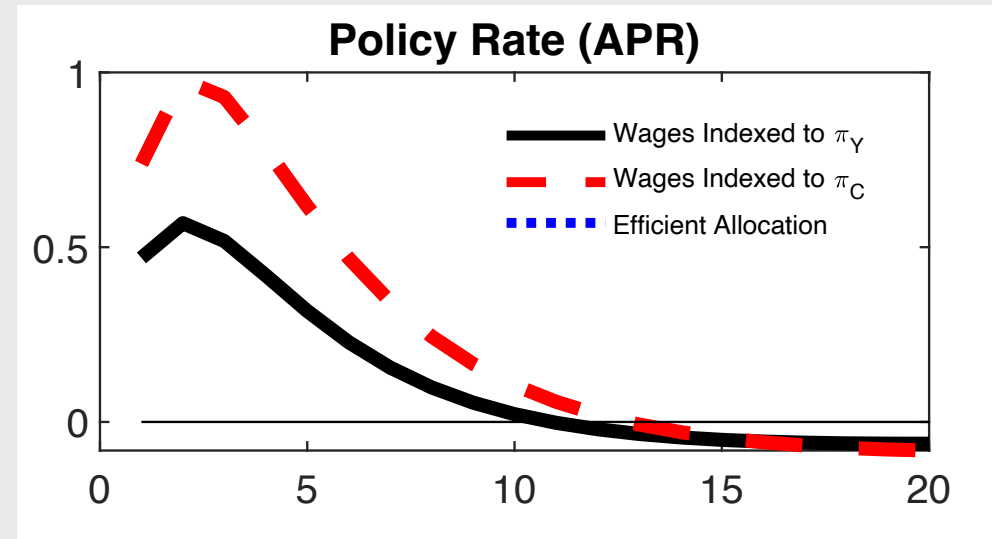
- Baseline implies very transitory run-up in headline inflation.



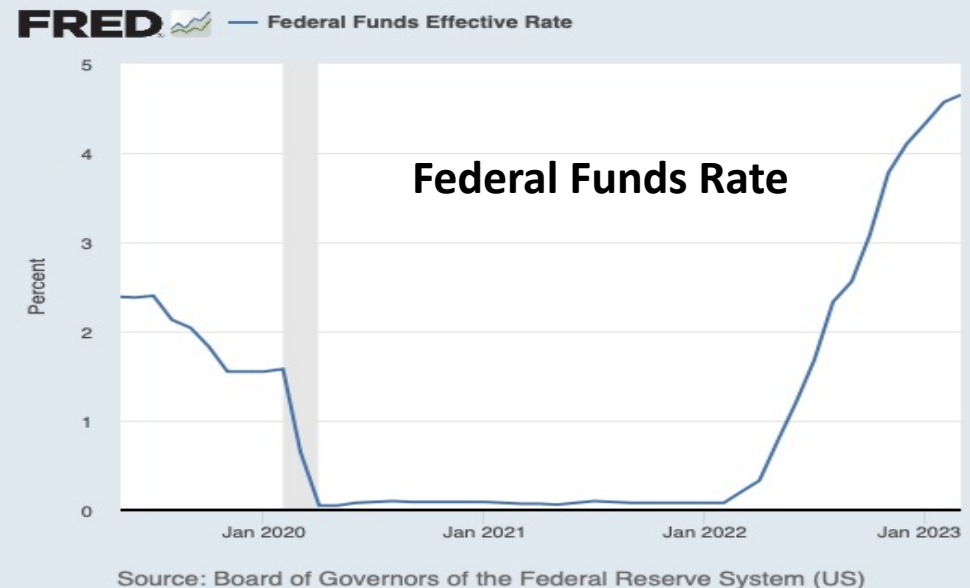
- **What are the implications of a persistent run-up in headline inflation?**
 - Indexation to transitory vs. persistent headline inflation likely to have different effects.

Monetary Policy

- Model suggests considerable up-front tightening.



- Data suggests no tightening for 1-2 years.

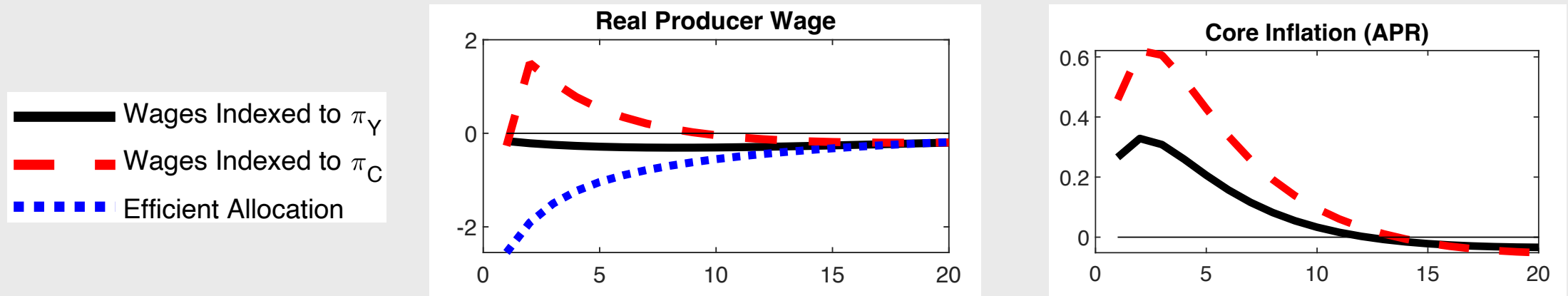


Monetary Policy

- **What are the effects of a one or two years constant interest rate in the wake of energy price surges?**
 - How much did monetary policy contribute to the run-up in inflation?

Wage Indexation

- Wage indexation to headline or core inflation important for results:



- *Page 17: “...indexation mechanisms, proxying for the extent to which households and labor unions strive to be compensated for higher prices.”*

Wage Indexation

- **What wage indexation scheme would unions choose in the model?**
- **If wages would be an outcome of negotiations – say in a search and matching labor market – what wage path would be chosen?**

Energy subsidies

- Authors study ad-hoc energy subsidies:

$$\tau_{C,t} = 0.5p_{O,t} \quad \tau_{Y,t} = 0.5p_{O,t}$$

- **What are Ramsey-optimal energy subsidies?**
- **What are *jointly* Ramsey-optimal energy subsidies and monetary policy?**

Thank you for your attention.