

Fighting inflation through VAT reductions

Policy comment, *Food Policy* (2025)

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Motivation

Could targeted tax cuts lower consumer prices?

- Global inflation surged in 2021–2022. Food prices soared, **disproportionately affecting vulnerable households**
- The policy question: could targeted tax reductions lower consumer prices **without excessive fiscal costs**?
- Between 2020 and 2023, **at least 21 countries** enacted temporary VAT reductions on food, while monetary policy remained the primary tool (Asquith 2025)
- The effectiveness of these measures has sparked controversy among economists and policymakers

Question

What does the evidence on food VAT cuts say about pass-through to prices, and what follows for policy design?

The setting in time

2020–2023: at least 21 countries cut VAT on food



Notes: Schematic, not to scale. Portugal later implemented similar measures with comparable monitoring practices. Sources: the comment, Asquith (2025), Amores et al. (2023), Bernardino et al. (2025).

What the paper does

- A **policy comment** for *Food Policy*'s 50th anniversary issue on Jaworski and Olipra (2025): "Cutting VAT rate on food products in a high-inflation environment. Does it work out?"
- **Reads their evidence** on Poland's temporary VAT cut on basic foodstuffs and what it implies for policy
- **Links it to policy practice:** the role of competition authorities, and the experience of Spain and Portugal
- **Flags what is open:** "reverse pass-through" when the temporary measures expire
- The comment presents **no new estimates:** it discusses published evidence

Preview of the main messages

- **Pass-through rises over time** in Poland: 44–58% at first, about 95% after five months
- **Headline effect:** 0.7 percentage point lower inflation by July 2022, “modest but meaningful”
- **Enforcement matters:** the competition authority’s monitoring appears to have contributed to high pass-through
- **Alignment with practice:** Spain adopted comparable methods and reached pass-through above 90% within two months
- **Open question:** do VAT cuts reduce inflation or only postpone price increases once reversed?

The comment claims alignment between evidence and policy, not that the study drove policy: the policy decisions preceded its publication.

Literature

What prior evidence says about VAT cuts

- Transmission of a temporary VAT change depends on the **economic context**, and unintended consequences may emerge
- Cuts are **not fully transmitted** to consumer prices (Kosonen 2015)
- Effects **dissipate quickly**; on reversal, prices often rise to higher levels than before the reduction (Benzarti et al. 2020)
- The 2021–2022 crisis extended to fertilizers: prices rose dramatically and stayed elevated through 2024 (Abay et al. 2025; Morão 2025; Vos et al. 2025). Several countries cut VAT on fertilizers alongside food

Gap

Poland's cut offered a test during **high inflation**, where the evidence had been mostly theoretical.

Evidence table

Fertilizer VAT

Contribution of the comment

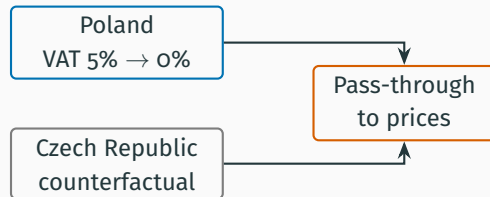
1. **Evidence:** Jaworski and Olipra (2025) adds empirical evidence to a previously theoretical discourse on food VAT cuts
2. **Institutions:** the comment draws attention to the competition authority's enforcement role in pass-through
3. **Practice:** it relates the Polish evidence to the later Spanish and Portuguese cuts (Amores et al. 2023; Bernardino et al. 2025)
4. **Next question:** reversal of the cuts, in light of Benzarti et al. (2020)

Limits: the comment reviews published evidence. It does not estimate pass-through, and it does not set out the fiscal cost of the cuts.

Evidence

The Polish study: design

- Temporary VAT cut on **basic foodstuffs** in Poland, from 5% to 0%, February 2022
- **Difference-in-differences**, with the Czech Republic as counterfactual
- Question: does the cut meaningfully lower consumer prices, or does it **primarily benefit retailers**?



Schematic of the design.

What the Polish study found

44–58%
initial pass-through

2.1–2.8%
decrease in affected
food prices at first

≈95%
pass-through after
five months

0.7 pp
lower headline
inflation by July 2022

- First, **partial** price reductions. Second, pass-through **increased substantially** over time
- A “modest but meaningful” effect in an environment where inflation exceeded 14%

An institutional factor: the competition authority

- Poland's competition authority (UOKiK) played an **active enforcement role**:
 - convened industry stakeholders **before implementation**
 - warned of legal consequences for non-compliance
 - conducted extensive price monitoring
- Systematic tracking of prices and close collaboration with retailers throughout the policy period created a **compliance environment** that encouraged retailers to pass the benefits to consumers

Reading

This enforcement approach *appears to have contributed* to the relatively high pass-through rates.

Spain and Portugal: alignment with the Polish evidence

- **Spain, January 2023**: similar VAT reductions; its competition authority adopted comparable enforcement methods and reached pass-through **above 90% within two months** (Amores et al. 2023)
- **Portugal** later implemented similar measures with comparable monitoring practices (Bernardino et al. 2025)

Caveat

These policy decisions **preceded** the formal publication of Jaworski and Olipra. The alignment *suggests* a convergence of practical experience and empirical evidence; it is not evidence that the study caused the policies.

Claims scaled back

Consumers and firms during VAT transitions

- **Consumer organizations** have leveraged similar evidence in advocacy. The European Consumer Organisation indicates that tax cuts can benefit consumers when properly implemented and monitored
- This has led to increased **consumer vigilance** in countries with active VAT reduction policies
- Competition authorities have increased their attention to monitoring pass-through; Poland and other European countries use **more stringent monitoring**
- Food producers have adjusted their pricing strategies

Reading

Enhanced monitoring *appears* to have raised the risks of traditional under-shifting, and businesses have shown greater transparency in their pricing adjustments.

Policy

What the research contributes to the policy discussion

- **1. A challenge to the prevailing view** that VAT reductions are ineffective inflation-fighting tools in high-inflation environments
- **2. Competition enforcement** is important for maximizing consumer benefits from tax reductions
- **3. A methodological framework** for evaluating similar policies

Bottom line

The interventions appear most effective when combined with robust competition enforcement and careful monitoring of both implementation and reversal.

The open question: reverse pass-through

- Benzarti et al. (2020) suggest that prices may **rise disproportionately** when tax cuts end
- European countries concluded temporary VAT cuts in 2024, so **monitoring these transitions** will be important for understanding long-term effectiveness
- The essential research question: do these fiscal tools **genuinely reduce inflation** or simply **postpone price increases**?

What would settle it

Evidence on prices after the cuts expire, collected with the same monitoring that tracked implementation.

- The comment is a **discussion of published evidence**, not a new estimate. The pass-through figures are those of Jaworski and Olipra (2025)
- The Polish effect is estimated against one counterfactual country; the Spanish and Portuguese results are from other studies
- **Alignment is not causation**: the policy decisions in Spain and Portugal preceded the formal publication of the Polish study
- Statements on consumers, industry and monitoring are phrased as what *appears* to have happened
- The long-term effect depends on the reversal, which is **not yet evidenced** here; findings are still emerging through the publication process

Conclusion

- Food VAT cuts in 2021–2023 **expanded the policy toolkit** against food price inflation. Monetary policy remains the main tool
- The Polish evidence points to pass-through that **rises over time**: 44–58% at first, about 95% after five months
- The cuts appear most effective with **robust competition enforcement** and careful monitoring of implementation and reversal
- The targeted fiscal approach offers a **viable path** to deliver progressive benefits in inflationary episodes
- Open: reverse pass-through as the temporary measures expire

Thank you!

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Backup

Backup: the evidence the comment draws on

Study	Setting	What the comment reports
Kosonen (2015)	Service-sector VAT cut	VAT cuts not fully transmitted to consumer prices
Benzarti et al. (2020)	Asymmetric incidence of VAT	Effects dissipate quickly; prices often rise above their pre-reduction level on reversal
Jaworski and Olipra (2025)	Poland, food, 5% to 0%, Feb. 2022; DiD vs Czech Republic	Pass-through 44–58% at first, about 95% after five months; 0.7 pp lower headline inflation by July 2022
Amores et al. (2023)	Spanish supermarkets, Jan. 2023	Pass-through above 90% within two months, with comparable enforcement
Bernardino et al. (2025)	Portugal	Similar measures with comparable monitoring practices

Notes: Settings of the first two rows are taken from the titles of the references; the other entries are as stated in the comment.

Backup: VAT cuts on fertilizers

- The 2021–2022 crisis extended beyond food to fertilizers, with prices increasing dramatically and remaining elevated through 2024 (Abay et al. 2025; Morão 2025; Vos et al. 2025)
- Several countries implemented VAT reductions on fertilizers alongside food measures
- Example: Poland's Anti-Inflation Shield included a **fertilizer VAT cut from 8% to 0%**, concurrent with the food cuts

Note

The Polish food-VAT estimates are for food. The comment does not report pass-through of the fertilizer VAT cut.

Backup: claims scaled back in the revision

- Referees found the first version **overstated the research impact** and noted **temporal inconsistencies**: many policy changes predated the 2025 study
- The revision therefore:
 - describes Jaworski and Olipra as adding evidence, not as the first rigorous analysis
 - replaces “directly shaped policy” with **alignment between findings and policy**
 - removes the claim about Poland extending the cut citing the research, and the claim about IMF guidance, which could not be verified
 - softens statements on consumer groups, authorities and producers to what has *appeared* to happen

Source: the author's report on revisions to the editor (June 2025).

References i

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References ii

-  Jaworski, Krystian and Jakub Olipra (2025). **“Cutting VAT rate on food products in a high-inflation environment. Does it work out?”** In: *Food Policy* 131. ISSN: 03069192. DOI: 10.1016/j.foodpol.2025.102816.
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