

## The Macroeconomic Effect of the UK's 2022 Cost-of-Living Payments

CFM-DP2023-16

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This paper estimates the macroeconomic effect of the 2022 cost-of-living payments. Using a combination of the microsimulation model PolicyEngine UK and the global-econometric model NiGEM, we find the payments had a noticeable impact on real GDP growth - increasing it by 0.1% - but a minimal impact on inflation. Our paper finds that the transfers were strengthened due to them being targeted at 'hand-to-mouth' consumers who would have spent more of the windfall compared to if the transfer had been distributed across the general population. Consequently, we find that 72% of those who received the payment were hand-mouth at the time of disbursement. Despite concerns over the inflationary impact of these payments stated at the time, we find an insignificant impact on the price level. We interpret these findings as an example of why fiscal transfers should be judged on their ability to alleviate real income shocks and not on the grounds of macroeconomic stability, as their link to the latter is - at least in this case - tenuous.