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PRESS RELEASE

Inflation and indexation in Belgium: causes and possible effects of the current acceleration in inflation

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The particularly rapid acceleration in inflation in Belgium and the fact that it is currently outpacing inflation in the euro area has, in some circles, raised questions as to the role of the indexation mechanism. A first question which might arise concerns the extent to which that mechanism lies behind the current acceleration in inflation. A second question is whether that mechanism will maintain the current inflationary process by triggering a price-wage spiral.

Regarding the first question, the analysis presented in the article - which is based on the data from the harmonised index of consumer prices (HICP) up to April 2008 - provides a clear answer: neither the acceleration in inflation nor its higher level than in the euro area can so far be attributed to the Belgian indexation mechanism. The acceleration in inflation is in fact due entirely to the strong pressure from prices of energy and processed food, whereas there has so far been no sign of any rise in inflation for three-quarters of the products making up the consumption basket, particularly non-energy goods and services. What is more, it is precisely for this last category of goods that labour costs are most important as a determinant of inflation. The article demonstrates that the surge in commodity prices on the world market had been the main factor influencing the movement in prices of processed food and energy. It is particularly in the case of energy that the repercussions have been more marked in Belgium than in the euro area. Previous studies had already shown that fluctuations in crude oil prices had a greater short-term impact on the Belgian HICP owing to the higher weighting of petroleum products and the lower levels of excise duty applicable to them. Moreover, since the beginning of 2007 the transmission of energy commodity price movements to consumer prices of gas and electricity recorded in the HICP has greatly speeded up in Belgium. In addition, these products recorded a further sharp price increase at the beginning of 2008 owing to the substantial rise in transport and distribution costs.

On the second question, it appears that, in the current circumstances, and despite an undeniable moderating influence, the use of the health index did not prevent an acceleration in wage increases resulting from indexation in the first part of 2008. However, the law of 1996 on the promotion of employment and the safeguarding of competitiveness places Belgium's indexation practice in a broader framework governing the movement in private sector wages. More particularly, the cycle of pay negotiations relating to 2009 and 2010, scheduled for the autumn, offers the social partners the opportunity to take account of the indexation when determining the pay increases, and thus to continue the tendency of recent years, which consisted in reconciling indexation with responsible pay settlements. In these conditions it will be possible to prevent a price-wage spiral, to contribute to the preservation of competitiveness and employment and to ensure that Belgian inflation does not remain permanently above the level in the euro area.