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PRESS RELEASE

Inflation persistence in Belgium

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This article presents the results of a study conducted by the Eurosystem Inflation Persistence Network (IPN) – a temporary network comprising economists from the national central banks, the European Central Bank and the academic world. More specifically, this article analyses inflation persistence in Belgium over the past thirty years, i.e. the speed with which inflation reverts to its long-term value following a shock.

On the basis of an "autoregressive" model, the results reveal a considerable change in inflation dynamics in Belgium over the past three decades. In particular, this article shows that the average level of inflation eased significantly in the mid 1980s. A relatively uniform and synchronised trend is evident in all the components of the national consumer price index, except services where the decline in inflation has been far more gradual.

The results also show that the degree of inflation persistence is relatively moderate under the current monetary policy regime, which means that inflation is tending to revert relatively quickly to its equilibrium value following a shock. It also seems that aggregate inflation persistence in Belgium has fallen slightly compared to the 1970s and 1980s, probably as a result of the changes made to the wage formation process and, in particular, the introduction of the health index in 1994 as the reference index for linking wages to inflation, and the implementation of the law on the promotion of employment and safeguarding of competitiveness in 1996.

Most of the findings presented in this study are very similar to those obtained for the euro area in the various IPN surveys. The level of persistence in overall inflation and in the underlying trend in inflation in Belgium is similar to that for the euro area. In general, that suggests that the Eurosystem's monetary policy is appropriate to Belgium's economic situation, and that the risk of asymmetry in the transmission of monetary policy is relatively low.