





4. Prices and labour costs in Belgium

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4.1 Higher energy prices fuel inflation

In 2021, inflation rose to highs unprecedented since the harmonised index of consumer prices (HICP) began in 1997, working out at 7.1 % in November and at 6.6 % by the end of the year. The second half of the year, in particular, saw inflation climb, largely driven by energy prices. Average inflation jumped from 0.4 % in 2020 to 3.2 % in 2021. Inflation excluding energy contracted overall in 2021 but accelerated as the year progressed and economic activity recovered.

On average over the year, price growth in Belgium exceeded the average of its three main neighbouring

countries (Germany, France, Netherlands), where it amounted to 2.8 %. In fact, by the end of the year, Belgian inflation was even 1.7 percentage points higher. On the whole, energy inflation in Belgium exceeded the numbers in its neighbouring countries, whereas core inflation was lower. The latter was highest in Germany, powering ahead in January 2021 when the basic VAT rate returned from 16 % to 19 %.

In 2021, prices for all energy products rose in Belgium, compared with generally negative inflation rates in 2020: 15.2 % for fuels, 36.4 % for heating oil, 39.6 % for gas and 16.2 % for electricity.

Table 4.1

Harmonised index of consumer prices (HICP)

(percentage changes compared to the previous year)

					Average for three neighboring countries
	2018	2019	2020	2021	2021
Total	2.3	1.2	0.4	3.2	2.8
Energy products	8.9	-0.8	-11.0	22.4	11.0
Motor fuels	10.7	0.0	-8.5	15.2	18.3
Heating oil	19.4	-1.6	-28.2	36.4	17.9
Gas	9.6	-5.8	-13.9	39.6	11.4
Electricity	2.2	1.6	-6.4	16.2	4.1
Unprocessed food	1.8	-0.4	4.7	-2.2	2.3
Processed food	2.9	1.7	2.1	1.7	2.1
Core inflation	1.3	1.5	1.4	1.3	1.8
Services	1.6	1.8	1.8	1.6	1.8
Non-energy industrial goods	0.8	1.0	0.7	0.8	1.9
p.m. National index	2.1	1.4	0.7	2.4	-

Sources: Eurostat, Statbel.

On the one hand, this reflects base effects. After oil prices collapsed in the spring of 2020 triggered by the pandemic and first lockdowns, prices for heating oil and fuels fell sharply, causing nearly as big a drop in energy inflation as during the financial crisis in 2009. This massive fall has had major base effects on monthly inflation figures (year-on-year) since the spring of 2021, as annual comparisons are based on exceptionally low energy prices in 2020.

On the other hand, the combination of a range of supply and demand factors has rapidly pushed up prices for oil and other commodities, as well as sparking an upsurge in wholesale gas prices and to a lesser extent also electricity. Further background to these factors is provided in chapter 1.

Belgium's neighbouring countries are facing similar pressures in their wholesale markets, but the impact of these on households differs between countries.

Overall, energy inflation in Belgium (22.4%) was twice as high as in its neighbouring countries in 2021. The same phenomenon had been visible in 2020, if in the reverse direction: energy inflation fell twice as hard in Belgium (-11%, compared with -5.6%). Several factors inform these differences, including the

composition of energy in the consumption basket, taxation and the types of energy contracts on offer or selected by households.

Energy product prices turn out to be more sensitive to global oil price fluctuations in Belgium, mainly because of very low excise duties on heating oil. With flat-rate taxes accounting for only a small proportion of prices (€ 19 per 1 000 litres compared with € 156 in France and € 61 in Germany), these taxes also constitute less of a cushion than is the case in neighbouring countries when crude oil price fluctuations percolate through to consumer prices. Besides, heating oil accounts for a higher proportion of energy use in Belgium (13% of energy products, compared with an average 8% in its neighbouring countries). By contrast, profiles and inflation levels for motor fuels were comparable between Belgium and its three main neighbouring countries.

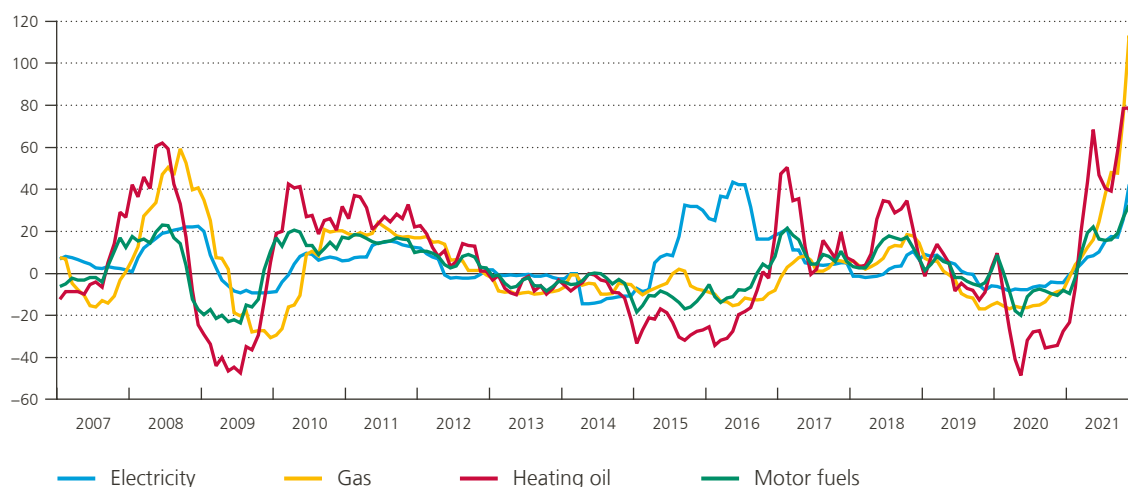
In addition, changes in wholesale prices are typically passed on faster to Belgian electricity and gas bills, because of the higher number of variable energy contracts and more rapid adjustment to market prices, whereas consumers in Belgium's neighbours tend to opt for fixed-rate contracts more often. Consumer energy prices break down into an energy component,

Energy inflation rose faster in Belgium than in neighbouring countries

Chart 4.1

Inflation rates accelerated for all energy products

(HICP: percentage changes compared with the previous year)

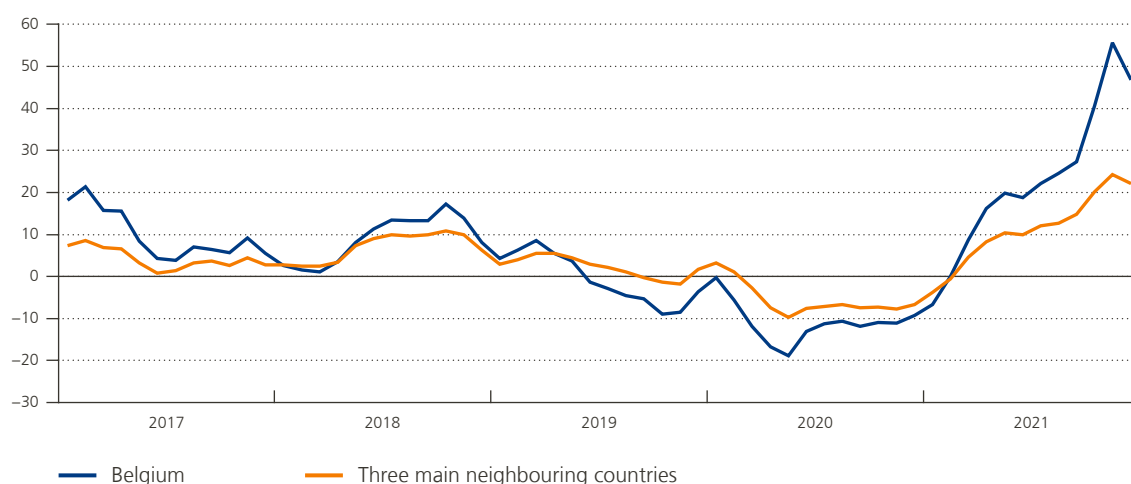


Source: Eurostat.

Chart 4.2

2021 energy inflation was higher in Belgium than in neighbouring countries

(HICP: percentage changes compared with the previous year)



Source: Eurostat.

grid rates, taxes and surcharges, plus VAT. It is the energy component cost that explains the swift advance in electricity and gas prices in Belgium since the summer of 2021.

Inflation figures for gas were at all-time highs. In November, for instance, gas prices surged by a year-on-year 113 %, a percentage that had not been recorded since the harmonised price index was first

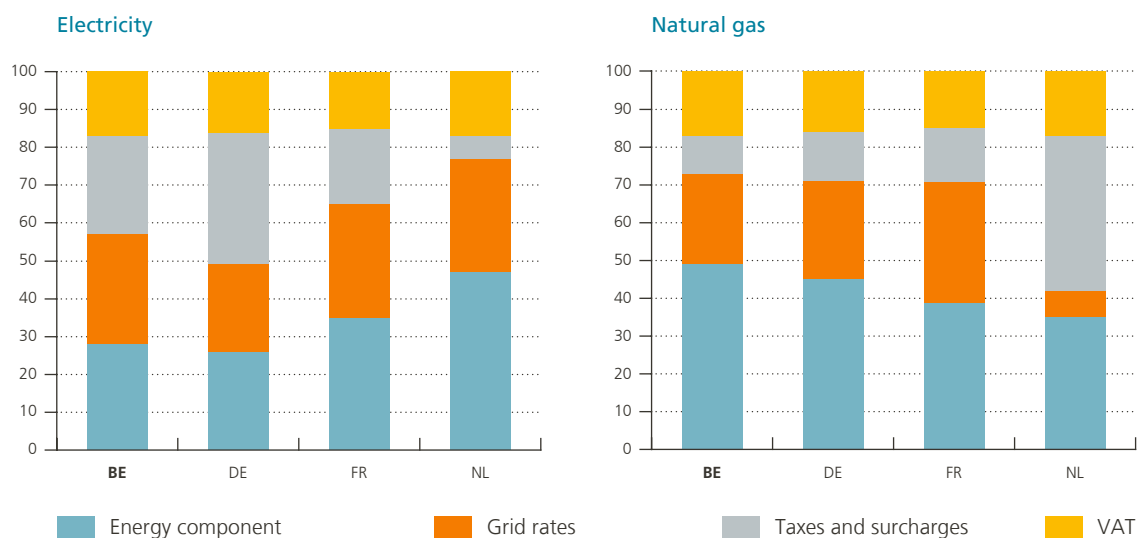
launched. The share of the energy component in overall gas prices in Belgium was higher than the average for its neighbouring countries, making consumer prices more sensitive to changes in wholesale prices. Although the relative weight of gas in Belgium is lower than in its neighbouring countries (18 % compared with 23 %), contract prices have risen so much that this component has put Belgium at a disadvantage, widening the energy inflation gap. As for



Chart 4.3

Breakdown of electricity and natural gas prices¹

(in % of total prices, averages for 2019-2021)



Source: CREG.

¹ Electricity: average consumption of 3 500 kWh a year using a standard meter.
Natural gas: average consumption of 23 260 kWh a year.

electricity, if the return to 21 % VAT levied on electricity in September 2015 is disregarded, inflation on this energy product also touched its highest level since HICP records began, reaching 42 % in November. In Germany, the fact that recent price rises in the electricity market are barely making a dent in the energy component of consumer bills is explained by early purchases tied in by suppliers, among other factors. In France, the relative inertia of prices charged to households is underpinned by a high degree of price regulation and nuclear power generation, which have protected consumers from a number of elements that have caused prices to spike (including higher prices for carbon allowances). Electricity accounts for a larger share of Belgium's energy consumption than in its neighbouring countries (37 % compared with 30 % in neighbouring countries), making for a bigger impact on total energy inflation.



4.2 Core inflation rose in the second half of the year

Economies reopened at a rapid pace as restrictions were phased out, such as those on travelling and going out to restaurants. Some purchases of goods and services had been put off to 2021, boosted by **Production costs drive up core inflation** of price increases for services slowed in 2021 (to 1.6 %). Tax deductions for the purchase of service vouchers in Flanders were cut in January 2020, pushing up inflation (households are now paying more for these services). This effect disappeared after 12 months. Following the reopening of cafés and restaurants, inflation in the hospitality industry picked up to 4 % by the end of the year, and the temporary VAT cut to 6 % for selected restaurant and catering

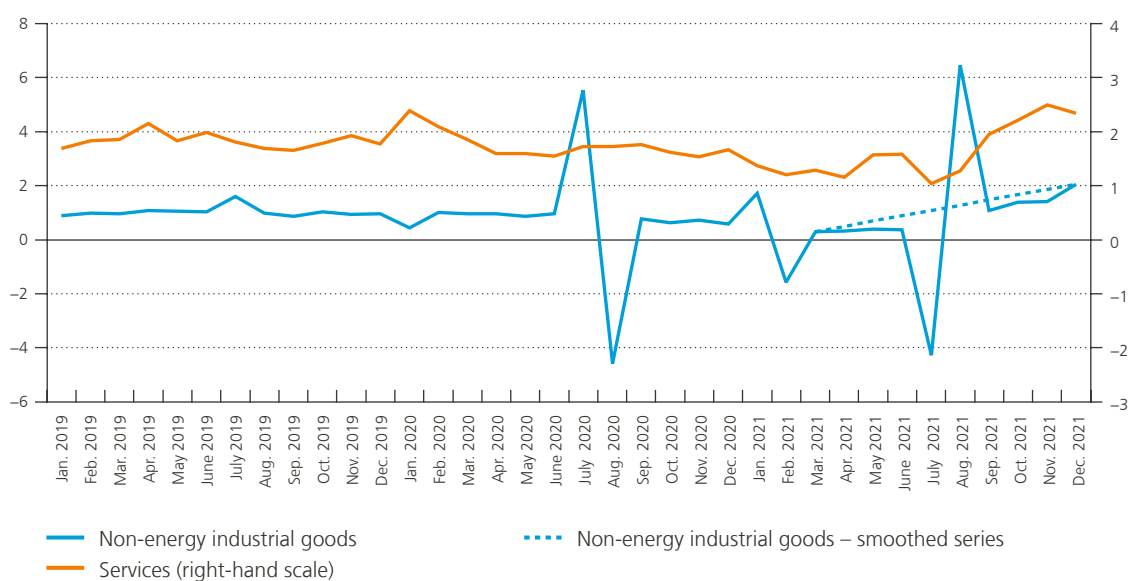
Yet core inflation inched down on average between 2020 and 2021, to 1.3 % from 1.4 %, for two reasons: a base effect and the fact that various activities did not restart at the beginning of the year, keeping the inflation percentage low at that point.

In the absence of price data for a number of services that were suspended during the lockdowns, statistics offices were compelled to extend some rates in 2020 and early in 2021. The pace of price increases for services slowed in 2021 (to 1.6 %). Tax deductions for the purchase of service vouchers in Flanders were cut in January 2020, pushing up inflation (households are now paying more for these services). This effect disappeared after 12 months. Following the reopening of cafés and restaurants, inflation in the hospitality industry picked up to 4 % by the end of the year, and the temporary VAT cut to 6 % for selected restaurant and catering

Chart 4.4

Inflation in services and industrial goods rose as the year progressed

(HICP: percentage changes compared with the previous year)

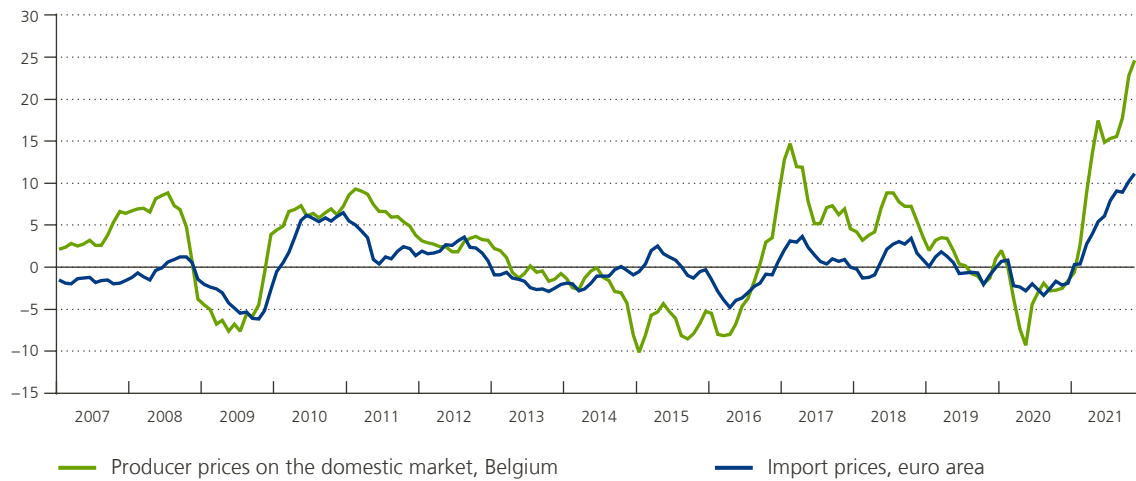


Source: Eurostat.

Chart 4.5

Producer and import prices in the manufacturing industry jumped¹

(percentage changes compared with the previous year for the price indices)



Source: Eurostat.

¹ Excluding the energy and construction sectors.

services between 8 May and 30 September 2021 has had no visible impact on consumer prices. This had anyway not been the aim of the cut, as it was primarily meant to support the industry's recovery. Cultural and recreational services and high-contact professions such as hairdressers recorded steeply higher rates than in the previous year, although the weight of these services in the consumption basket remains limited. These price increases probably reflect certain costs for reopening business (virus protection measures) as well as an attempt to make up for losses incurred during lockdown. After months of declines, prices for package holidays were on the rise again in July 2021 and contributed to accelerated services inflation in the second half of the year.

At the same time, many businesses found it hard to meet rapidly rising demand, as they needed to shore up their supply chains, which had been hit hard by the pandemic. Shortages emerged in the manufacture of selected goods, for which essential parts – such as semiconductors – rapidly ran out. Shipment of goods became harder and more expensive as a result of problems in the transport sector.

These cost pressures are visible in the index of manufacturing import prices in the euro area, which rose steadily from the start of the year, with growth

touching an all-time high of 11% in November. The same was true for producer prices in the Belgian domestic market's manufacturing industry: a record 25% jump, an increase on a scale not seen since the early 1980s. More expensive inputs have pushed up consumer prices, while selected imported end-products also became more expensive.

For non-energy industrial goods, the other component of core inflation, price changes in 2020 and 2021 were very volatile, as sales periods were delayed and extended. In 2020, the country's summer sales were moved from July to August, but those in 2021 were back to their usual July schedule. The year-on-year inflation figure for non-energy industrial goods dropped, as a period of lower prices was now being compared with a time of 'normal' prices (July 2020). The following month, the figure was back up – normal prices in August 2021 being compared with reduced prices in August 2020. In February 2021, winter sales were – exceptionally – extended, and inflation figures once again plummeted lows. This movement was not observed in the national consumer price index – which the health index draws on – as seasonal sales are smoothed across the year.

Ignoring these atypical movements, we note that industrial goods inflation was climbing in the second



half of the year and particularly towards the end, when inflation for these products stood at 2.1 %. Supply and delivery issues combined with steeper commodity prices to drive up prices for a whole host of goods, including household equipment, furniture and furnishings, and second-hand cars. Delays in the delivery and manufacture of new vehicles galvanised demand in the used car market and prices kept rising (buyers had been taking refuge in this category of vehicles as early as 2020), staging 15 % growth in December.

And lastly, food inflation declined from 2.6 % to 0.9 % between 2020 and 2021, predominantly because of negative inflation for unprocessed food. Base effects are at play here, as – unrelated to the pandemic – food markets had faced a range of supply issues in 2020 that were responsible for driving up prices (e.g. weather conditions causing harvests to fail, African swine fever in Asia resulting in higher demand for meat from Europe) or were related to them, e.g. labour shortages in some sectors causing supply issues, a temporary ban on special offers at the start of the pandemic.

Inflationary pressures have not become wide-ranging and mainly reflect significant movements in some sectors. Ignoring typically highly volatile product categories (and particularly in 2021), such as energy

products and fruit and vegetables, the share of products (defined at four-digit COICOP level¹) with an inflation percentage in excess of long-term inflation (1.8 % in the 2011-2021 period), stood at 27 % in 2021, compared with 38 % in 2020. This confirms that core inflation – in the wider sense – remained moderate in 2021.

¹ The Classification of Individual Consumption by Purpose (COICOP) captures household consumption. Its four-digit level refers, for instance, to “bread and grains” or “clothing”.

4.3 Health index also sharply up

Automatic indexation in Belgium of wages and social benefits helps to prevent purchasing power from being eroded by inflation. But any worsening in the terms of trade – due to higher oil prices, for instance – makes the entire economy poorer and hence has to be absorbed by all economic actors. This is why indexation has been calculated on the basis of an adjusted index figure instead of total index figures since 1994. The health index reflects the national consumer price index excluding motor fuels, alcohol and tobacco, with these exclusions ensuring that the effects of oil price shocks and indirect taxes on health-damaging products do not get fully passed on to wages, containing the risk of a wage-price spiral (see box 3).

Non-motor-fuel energy products, i.e. electricity, gas and heating oil, do feature in the health index basket.

Although these account for only 6% of the index, their high volatility levels may speed up or slow down the pace of indexation. In 2021, energy inflation shot up so fast that the public sector's trigger index was breached twice: in August for the first time and once more in December. The Bank's June projections, by contrast, had posited a single such breach in 2021, in October.

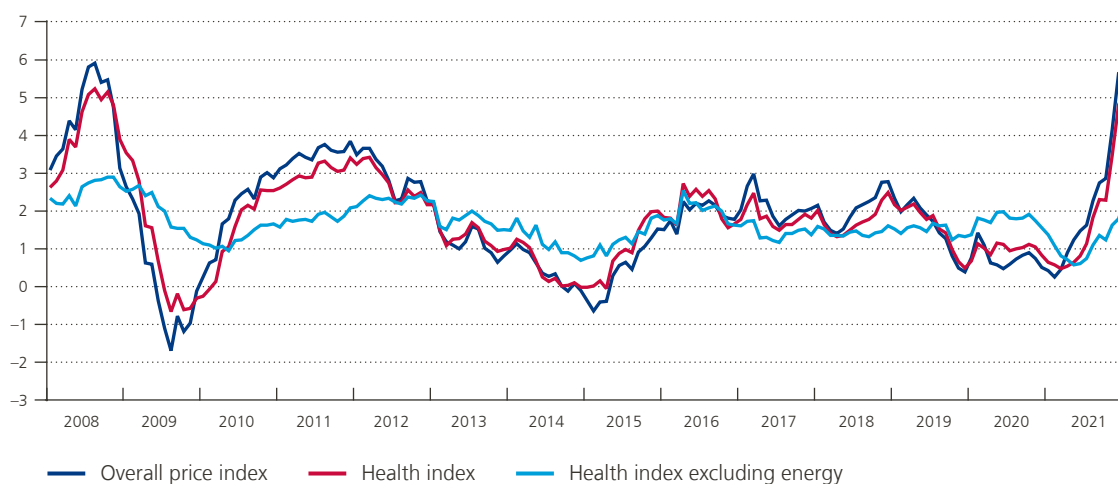
While the growth of the total national price index reached 2.4% in 2021¹, growth of the health index was on average 2.0%. In other words, the health index undershot inflation by 0.4 of a percentage point. If all energy products were stripped out of

¹ Methodologies differ between the national price index and the harmonised index, which are mainly related to the origins of the index weightings.

Chart 4.6

Energy prices pushed up health index as well

(percentage changes compared with the previous year for the price indices)



Sources: Statbel, own calculations.

the health index, it would have gone up by 1.2 % in 2021 – 0.8 of a percentage point less than recorded by the index as actually constituted.

This is not the first time that energy has had such a major impact on the way the health index develops. In 2008, for instance, total inflation stood at 4.5 %, while energy prices rose by 19.9 %. The rise in the health index, then at 4.2 %, undershot inflation by 0.3 of a percentage point. Stripping out all energy products, the health index would have gone up by 2.6 %, a clear reflection of the impact of energy on the wage indexation mechanism.

The consumer price index is based on an average Belgian household's consumption basket. However, what is in the basket differs depending on income, and price developments in goods and services do not impact all sections of the population equally. The country's household budget survey revealed that gas, electricity and heating oil account for double the share of income for the lowest-income households (interdecile difference¹). It is possible to calculate an

inflation rate for a type of household on the basis of the relative weight of consumption per income quartile. According to these calculations, the least well-off households face an overall inflation rate above the average (2.5 %) and 0.3 of a percentage point higher than households on the largest incomes, with the gap even wider by the end of the year. However, these calculations ignore any measures taken to ease the energy bills for certain sections of the population. To provide immediate relief to households struggling in energy poverty (more than one in five households in 2019, according to the King Baudouin Foundation), the government expanded subsidised rates (the so-called "social tariff") in February 2021, with a million householders seeing their energy bills reduced. In October 2021, the government decided to extend this measure until the end of March 2022. In addition, people on such rates should receive an additional one-off payment of around € 80 in 2022.

¹ The interdecile difference can only be calculated on the basis of the 2010 household budget survey, as only income quartiles have been published since then.



4.4 Inflation movements show up in wages after time lag

Inflation trends typically percolate through to wages with some time lag, partly because any adjustments reflect the health index's four-month moving average (the smoothed health index), but also because changes are implemented by way of different indexation mechanisms – with adjustments spread over time as a result. Indexation formulae differ between public and private sectors and, within the private sector, between joint committees. In the medium term, however, any increases in the smoothed health index are fully reflected in wages.

This wide range of indexation methods breaks down into two broad categories. The first sees indexation happen after the health index's four-month moving average has exceeded a trigger index figure, typically in increments of 2 %. This is the general rule for wage

indexation applied in the public sector. In the second category, wages are indexed at set intervals, e.g. every month, two, three, four or six months, or every year. Annual adjustment is the most common mechanism for this category.

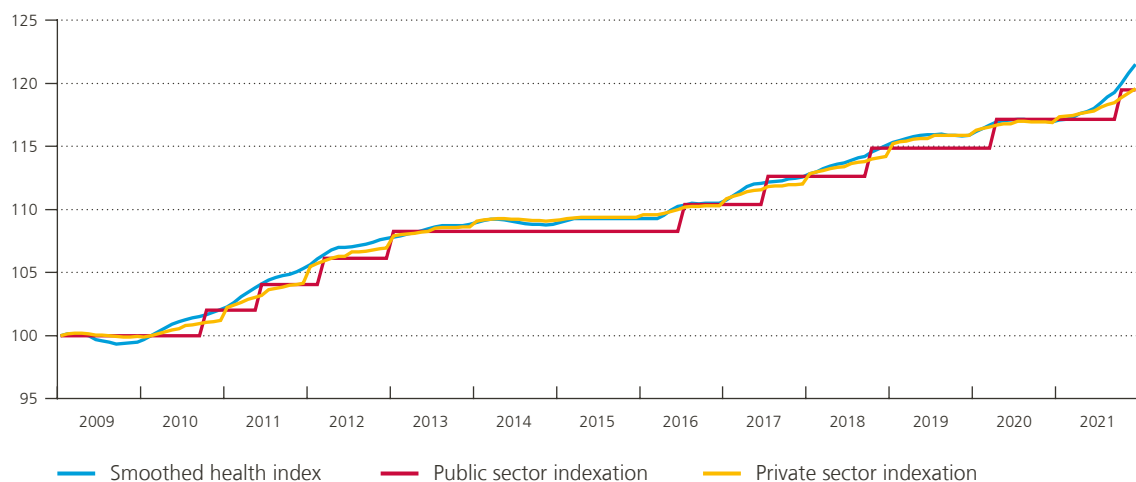
In 2021, wages of over 48 % of private sector employees were indexed when a trigger index was passed – 38 % of them through annual indexation and around 9 % once every three months. Other set-ups are less frequent.

Much as in the public sector, indexation was the biggest contributor to gross hourly wage developments in the private sector, which amounted to 1.1 %, a slight increase on 2020. The traditional time lag in the adjustment of wages to the cost of living – caused

Chart 4.7

Wage indexation in public and private sectors follows health index developments

(indices, January 2009 = 100)



Sources: FPS ELSD, NBB.

Table 4.2

Labour costs

(percentage changes compared with the previous year, unless otherwise stated; data adjusted for seasonal and calendar effects)

	2018	2019	2020	2021 e
Hourly wage costs in the private sector	1.5	2.2	5.3	-0.6
Gross hourly wages	2.1	2.3	4.8	-0.2
Collectively agreed wages ¹	2.1	2.5	1.7	1.4
Real agreed adjustments	0.4	0.7	0.6	0.4
Indexation	1.7	1.8	1.0	1.1
Wage drift ²	0.0	-0.2	3.1	-1.7
Employers' social contributions ³	-0.6	-0.1	0.5	-0.3
<i>p.m. Hourly wage costs in the private sector according to the economic concept⁴</i>	<i>1.4</i>	<i>2.1</i>	<i>4.3</i>	<i>-0.9</i>
Hourly wage costs in the public sector	1.8	2.2	3.1	0.7
of which: Indexation	1.5	1.5	1.5	1.0
Hourly wage costs in the economy as a whole	1.5	2.2	5.0	-0.4

Sources: FPS ELSD, NAI, NSSO, NBB.

1 Wage rises set by joint committees.

2 Increases and bonuses granted by companies over and above those under interprofessional and sectoral collective agreements; wage drift resulting from changes in the structure of employment, and errors and omissions; contribution to the change in labour costs, in percentage points.

3 Contribution to the change in labour costs resulting from changes in implicit social security contribution rates, in percentage points.

4 Hourly wage costs according to the economic concept take account of the reduction in employers' contributions for target groups, the reduction in payroll tax, and other wage subsidies (particularly the COVID-19 measures). This concept gives a more accurate idea of the real labour costs for firms.

by the various indexation mechanisms – explains why wage indexation is bound to be particularly steep in 2022. Based on its December projections, the Bank now forecasts indexation in excess of 4 % in 2022. An increase of this nature has an immediate impact on social partner dialogues, under the 19 March 2017

Law amending the 1996 Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness, whose purpose is to prevent wage indexation from eroding companies' competitiveness (see box 3).

Trends in gross hourly wages were strongly influenced by the public health situation in 2021, as in 2020. That year's steep wage growth of 4.8 % was largely explained by the extent to which companies drew on the furlough scheme. The scheme's beneficiaries typically worked in sectors and jobs on low or medium pay. As they were no longer paid by their employers, but from the public purse, their wages disappeared from the total wage bill, automatically pushing up

average gross wages and precipitating a strong increase in the net wage drift (3.1 %). The reverse happened in 2021 on the back of a generally favourable development in the public health situation, as employers were now able to offer jobs to the majority of their furloughed staff. Statistically, this dampened aggregate hourly wages, contributing to a lower wage drift, to -1.7 %. As a result, gross hourly wages barely grew in 2021.

People working in essential sectors, particularly in health care, received extra pay for their performance in challenging pandemic conditions. Such payments took the shape of bonuses, overtime payments or consumption vouchers and contributed to the wage drift dynamics in 2020. Fundamental upgrading of wages and working conditions in health care had been on the cards anyway, but the health crisis facilitated swifter social agreements, which came into force in 2021. The structural wage rises implemented under these agreements were factored into

collectively agreed wages. With these rises wholly financed by government through wage subsidies, they should be budget-neutral for the employers involved.

The social partners were unable to agree on the maximum margin for hourly wage costs in the 2021-2022 period and the federal government turned to the law to set them at 0.4% by Royal Decree, matching the maximum margin as determined by the January 2021 technical report issued by the Central Economic Council (CEC). Also, the law was amended to include in the list of elements not used to calculate margins selected COVID-19-related measures, including consumption vouchers in the health care sector. June 2021 saw the social partners reach an interprofessional agreement after all, which included an increase in guaranteed average minimum monthly income with effect from April 2022.

Although the interprofessional level is a key part of wage-setting, consultations in the sectoral joint committees remain essential. Within these committees, sectoral realities shape not just the outcomes of interprofessional talks on wage margins but also inform negotiations on other key elements, such as

hours worked, training and the indexation mechanism. Sector-based minimum wages are also set at this level – an important springboard for wage differentiation between joint committees.

In 2021, sectors or companies also discussed the option of companies that are doing well granting an additional COVID-19 payment of up to € 500 per employee on top of the 0.4% margin. Sectoral collective agreements were concluded in food trade, large retailers, department stores, transport and logistics, cleaning, funeral services, as well as in food, chemicals, metals, construction, banking services and other sectors covered by the supplementary joint committee for white collar workers – which alone represents around 500 000 employees. The payment amount agreed varied between € 125 and € 500 per employee.

By the end of the summer, not all sector-based negotiations had been completed and the bulk of the increase in real negotiated wages was not yet included in the data in terms of the wage margin. These sector agreements stood to bring negotiated increases in the fourth quarter of 2021, and even more in 2022.

4.5 Wage gap is an area for concern

The Central Economic Council is tasked with estimating the gap in hourly wage costs that has been created in Belgium's private sector since 1996 relative to its three most important partner countries. The 2020 wage gap was difficult to gauge because of the health crisis's statistical effects on labour costs. Even though all four countries used furlough schemes to address the issue, the statistical consequences

were not identical because of the specific characteristics of the scheme in each country. Labour costs in 2021 were also influenced by pandemic-related composition effects. In the absence of data from which the purely statistical effects of the crisis could be stripped out, the CEC opted to adopt projection smoothing on the assumption that upward and downward effects would cancel each other out.

BOX 3

Business competitiveness and wage indexation

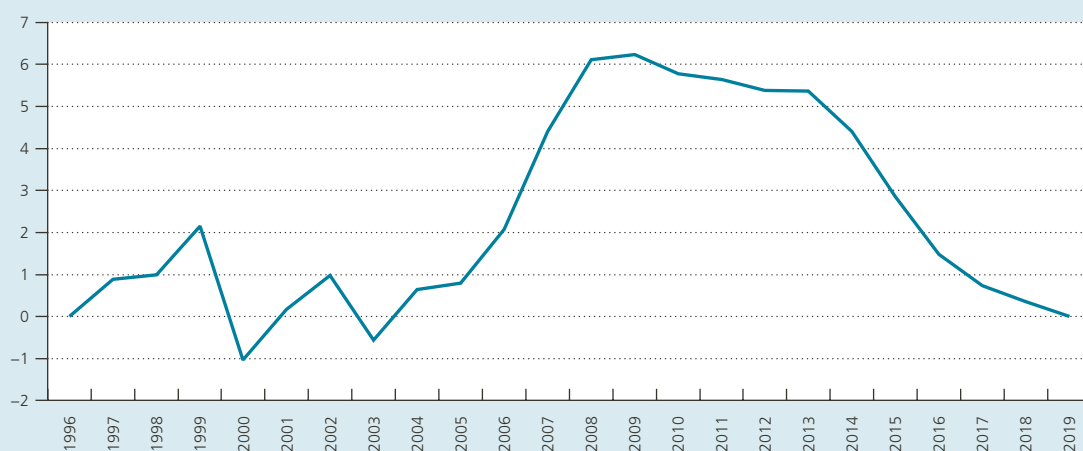
Belgium is a small, open economy integrated into international trade. With the advent of the single currency, it lost its exchange rate as a tool to ensure the competitiveness of its businesses. This dimension then had to be incorporated into the social dialogue and more generally by better taking into account the trade-off between wages and jobs.

Belgium remains one of the few euro area economies where cost of living expenses are automatically reflected in wages. Indexation is deeply embedded in the way its economy operates, but this mechanism inevitably also contributes to the rigidity of real wages. To ensure that indexation does not erode the country's relative competitiveness, a scheme was devised to embed the effects of indexation on wage-setting. The Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness was enacted in 1996, with the aim of aligning hourly labour cost developments in Belgium with expected trends at its three main trading partners, i.e. Germany, France and the Netherlands. In practice, however, the Law was unable to prevent labour costs from going off the rails, with the wage gap having widened since 2006 and peaking at 6.1 % in 2009. It took until 2017 before the gap was fully closed after a range of wage moderation measures, an index jump and additional cuts in social security contributions.

The enactment of the March 2017 Law amending the 1996 Law brought in a series of relevant adjustments, without prejudice to the basic principles of the 1996 Law. For one thing, expected growth in nominal wages in the three main neighbouring countries continued to serve as the benchmark for



Belgium's labour cost gap¹



Source: CEC.

1 Compared with the three main neighbouring countries, weighted average by relative size of GDP.

determining the maximum margin for wage growth: the social partners still negotiate the (real) wage cap and the automatic indexation mechanism is in principle guaranteed.

The big change introduced by the 2017 Law is the way in which the maximum available margin for real wage costs growth is calculated once every two years. The Central Economic Council is now required to allow for an adjustment factor and a safety margin in addition to expected nominal labour cost developments in Belgium's neighbouring countries and projected indexation in Belgium. As its name suggests, the adjustment factor is meant to factor in the past in order to adjust for any gap, e.g. when cumulative hourly wage costs in Belgium have been rising faster since 1996 than those in its neighbouring countries. The safety margin was put into the mix to allow for any projection errors relating to the expected trend in nominal labour costs in the neighbouring countries and indexation in Belgium. This margin is a minimum 0.5 percentage point for these two years, serves a preventative purpose only, and adds to the next available maximum margin if wholly or partly unused.

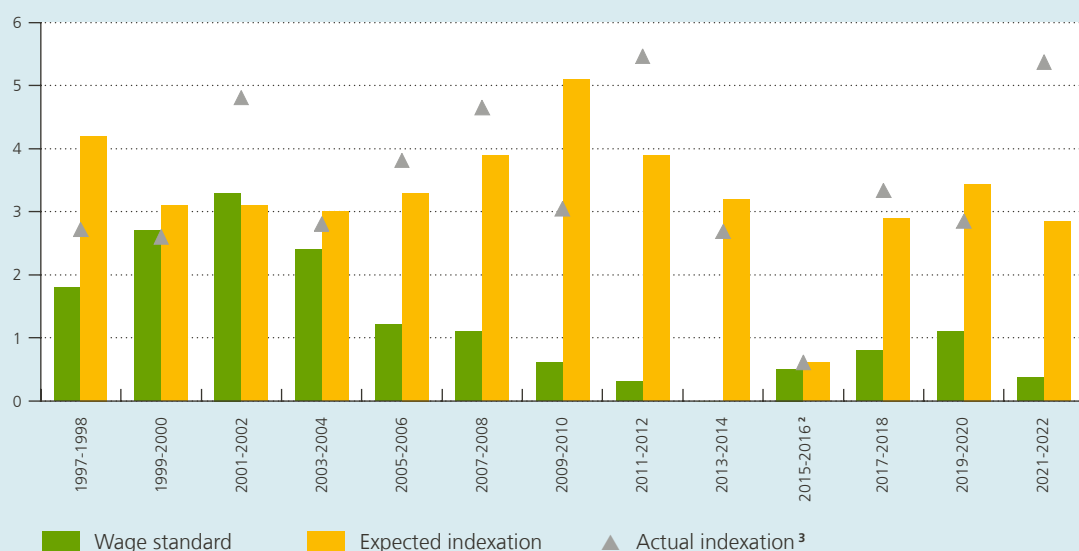
Ever since the Law came into force in 1996, upward and downward projection errors on indexation have been major in some years, because of the volatile components underpinning them.

The Law also specifies that, if the labour cost gap grows so wide as not to allow for its elimination within two years based on the prevailing outlook at the time, the government can take measures to safeguard competitiveness after seeking the advice of the social partners.

Since the 2017 amendment of the Law, the CEC has also been calculating other indicators for the competitiveness of Belgian companies, such as the absolute wage costs gap, both including and excluding productivity. The amended Law also stipulates that any calculation of the maximum available margin must also factor in an historical wage gap by way of the adjustment factor, i.e. the gap remaining after



Wage standard¹, expected and actual indexation



Sources: CEC, NBB.

1 Up until 2016: indicative wage standard for gross wage increases, excluding indexation. From 2017: binding maximum margin.

2 2015-2016: 0.5 % gross + 0.3 % of net compensation.

3 For 2021-2022, NBB projection dated December 2021.

addressing the one built up since 1996. To date, no agreement has been reached on the methodology to be used for calculating the historical wage gap. Although the social partners are unable to ignore these other gaps in their negotiations, the difference in hourly wage cost growth since 1996 continues to serve as the key reference.

Once agreed by the social partners, the maximum available margin for wage growth will be turned into the standard in a collective labour agreement by the National Labour Board before sector negotiations commence. If no agreement is reached, the federal government may set this margin by Royal Decree, and in both cases this maximum margin has legal force, and any breaches will incur a fine under the amended Law.

Inflation trends sparked a significant adjustment in the indexation figures for Belgium compared with the data available on the release of the CEC's technical report in January 2021, which had served as the basis for negotiation. With the wage margin already set for 2021-2022 and sector negotiations nearly complete, the review meant that labour costs for the period may have been underestimated. Based on an identical source for all four countries, i.e. the Eurosystem's macroeconomic projections, which draw on a joint framework and were all completed on 1 December 2021, cumulative wage cost growth between the start of the pandemic and the end of 2021 was less pronounced in Belgium than in the other countries. That said, Belgium's indexation

*Cost of living trends quicker
to be reflected in wages than
in neighbouring countries*

mechanisms ensure that inflation rises are passed on more quickly than in its neighbouring countries, where nominal wage trends are the subject of negotiations between social partners. As this might affect the competitiveness of Belgian companies in 2022, it is up to the CEC to assess any such loss of competitiveness and to calculate expected nominal wage developments in the three neighbouring countries under the Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness, in order to establish whether any such a gap may be eliminated within the space of two years. If this is found to be impossible, the Law provides for appropriate measures to repair competitiveness (see box 1) in consultation with the social partners.

