BELGIAN WAGE INDEXATION - FAQ

FGTB-ABVV

What is the principle of automatic indexation?

Belgium has a system of automatic wage indexation. The system involves adjusting the salaries of the vast majority of private sector employees, public sector staff salaries and social benefits and pensions in line with changes in consumer prices. These consumer prices are measured using a "basket" of products[1].

[1] The basket is compiled based on a household budget survey conducted every two years. The aim is to reflect the 'average consumption' of Belgian families. It is movements in the prices of the products in this basket that determine whether the index changes or not.

How does it work?

Wages and social benefits are linked to an adjusted consumer price index, specifically the health index. The health index is a reference index that does not take into account tobacco products, alcoholic beverages, petrol and diesel. In addition, a four-month average is taken from this health index to even out any sharp monthly fluctuations. This means that inflation is not included on a one-for-one basis in the way wages are formed.

Wages and benefits are not all indexed at the same time and in the same way. For example, there is a difference between the private sector and the public sector.

- In the private sector, the system of automatic indexation is established through social dialogue in collective bargaining agreements. The social partners freely determine on a sector-by-sector basis the regularity (quarterly, annually, etc.) and method of indexation, but this is always done using the health index as a reference. The vast majority of workers in the private sector are covered in this way. Only two per cent of employees in the private sector do not (yet) have automatic indexation on a sector level.

- In the public sector, the indexation mechanism is established by law. This mechanism covers public employee wages on the one hand and social benefits and pensions on the other. In the mechanism, a "pivot index" is used, which is an index that is always 2% higher than the previous pivot index. This means that wages, social benefits and pensions are adjusted for each increase of 2%. Social benefits are indexed one month after the pivot index is exceeded, while public employee salaries are indexed two months afterwards.

What role do the social partners play in the process?

On the one hand, the social partners have full autonomy to negotiate the indexation formulas used on a sector-by-sector basis and these are set out in a collective bargaining agreement. On the other hand, they control the calculation of inflation rates and the health index in what is known as the "index committee". The index committee gives its agreement about which products are included, or not, in the basket of products used for the index.

Why is automatic indexation so important?

The automatic indexation of wages is essential from several perspectives. First and foremost for employees and for people who are socially insured.

- As a result of the automatic indexation of wages, everyone has the guarantee that their purchasing power is assured and that approximately the same level of consumption can be maintained even when prices of products and services increase. This is an important form of stability and security for every Belgian. However, this system is not 100% conclusive, because products which may fluctuate sharply in price (such as petrol) are not included in the health index, which is the reference index used. People's purchasing power in Belgium will decline slightly in 2022 (by 0.1%), but compared with the Netherlands (-6.8%) or Germany (-4.2%), the purchasing power of Belgian households is sustained as a result of automatic indexation.

- In times of economic downturn or even when there is an economic crisis, automatic wage indexation, together with our strong social security and temporary unemployment system, provides an important stabilising factor for the economy. The sharp recovery that has taken place in the Belgian economy since the Covid-19 crisis is due largely to the maintenance of purchasing power and consumer confidence in Belgian households. Without automatic indexation, it would have taken a bigger hit.

- Automatic wage indexation also ensures stability and security for all of the parties involved. In the first instance for companies, which are able to a large extent to anticipate and plan ahead for a steady increase in labour costs. Because of indexation, trade unions do not table excessive wage demands, since an adjustment to the cost of living is already more or less guaranteed. It can be expected that countries where adjustments for inflation in wages have to be negotiated, will face greater social unrest.

- If wage adjustments to inflation had to be negotiated separately in all sectors and companies, workers in certain weaker sectors or companies would not receive any inflation-based wage adjustments at all. Automatic indexation ensures that adjustments are made and this helps create solidarity in favour of weaker sectors. At the end of the day, this will protect everyone's purchasing power, which is the most sustainable form of income protection in the longer term.

How has Belgium been able to hold its own in the face of (international) pressure to abolish indexation?

Automatic indexation has established a central place for itself in Belgian social dialogue. (Some) employers also see the advantages of this system, as it provides greater stability in social dialogue and a guarantee of stable purchasing power and hence in domestic demand. Although the system comes under fire regularly from conservatives, as well as from past 'index jumps' (skipped indexations) – instances where an indexation was not applied on a one-off basis (but resulting in a permanent cumulative loss of purchasing power) – unions have been successful in avoiding overall impoverishment.

Will the competitive ability of companies be affected?

Inflation and productivity are key factors in wage negotiations for all countries. In Belgium, the 'inflation' component is largely covered by automatic indexation. All unions, in every country, use inflation as a guide in their wage negotiations. This means that over time, there is no fundamental difference between wage evolution in Belgium and in its neighbouring countries. The only difference is that Belgian workers and people receiving benefits do not have to wait for months to see wages and benefits adjusted for the increased cost of living.

The other adjustment of wages, based on productivity, is regulated in principle in Belgium through negotiations between employers and trade unions on an interprofessional (inter-sectoral) level. These negotiations are very strictly regulated through legislation in the form of a wage moderation law that we as unions have been strongly opposing for several years, because it puts the determination of wages – in addition to indexation – in a straitjacket. In practice, on an inter-sectoral level, a compulsory wage margin is fixed which is kept artificially low by all kinds of technical interventions[2] (i.e. no free negotiations), followed by collective bargaining agreements on a sector-based and company level, which are required to respect the inter-sectoral framework.

It is currently the case that wages in Belgium are rising more slowly than in neighbouring countries, despite automatic indexation. According to the OECD, wages in Belgium had grown 4% more slowly since 1996 than in neighbouring countries by the end of 2021. Indexation will probably narrow that gap, but even so there is room left over.

[2] For example, the legislation on wages does not take into account the tax shift decided on by the Michel government. As part of the process, billions in cuts to employer contributions were decided on. However, these cuts are not included in the comparisons between Belgium and neighbouring countries. As a result, labour costs in Belgium will be artificially high.

Does indexation create a price shock fuelling additional inflation?

Various features of the Belgian system ensure that these effects cannot occur:

- When and how wages are indexed varies from sector to sector and is therefore spread widely over time. This prevents a sudden shock to the overall system that increases labour costs for all companies at the same time.
- Indexation is carried out based on the 'flattened' health index. This means that using the average figure of the previous four months mitigates sudden price rises in any given month.
- Because petroleum-based products are not included in the health index, in the same way as tobacco and alcoholic beverages, the index is resilient to any sudden fluctuations in the oil price.

Will the increase in wages through automatic indexation hurt businesses in the coming months?

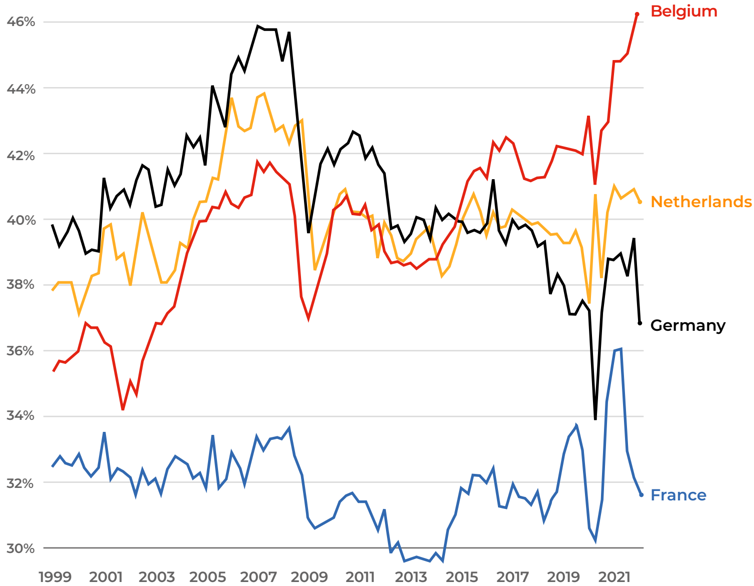
Some sectors may experience more difficulties than others to bear the increased costs. Targeted support measures are needed for these sectors. However, most companies have built up significant financial buffers in recent years, which means they are very much able to accommodate the automatic indexation of wages.

Companies systematically increased their profit margins during the pandemic to their highest ever levels (see figure). This appears to be the case in several European countries (although profit margins have increased more in Belgium than in neighbouring countries). In the wake of the Covid-19 crisis, many companies raised their prices to levels higher than their increased input costs or wages. Profit margins rose sharply as a result. But those price increases have obviously also had a significant upward effect on inflation. According to the National Bank of Belgium, many companies have sufficient financial buffers to cover this period of high inflation and rising costs.

However, many companies are not interested in lower profit margins and pass on their cost increases to consumers. In doing so, they are fuelling inflation.

Historically high profit margins for companies in Belgium

Movements in the gross profit margin of non-financial companies in Belgium and the three reference countries between 1999 and the first quarter of 2022.



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