

## Box 6

**RECENT INDEXATION CLAUSES: AN ANALYSIS**

Mario Izquierdo and José Luis Herrera

This early-release box was published on 28 September

Collective bargaining agreements in Spain sometimes include indexation clauses. Such clauses envisage adjustments to wages if inflation at the end of the year (or the term of the collective agreement) exceeds the initial wage settlement, and thus seek to compensate workers, fully or partially, when inflation surprises occur.

The data on collective agreements registered in Spain to August show that indexation clauses are now more prevalent in such agreements than they have been in recent years. Specifically, to August, 25% of workers who have already signed a collective agreement for 2022 are covered by such clauses,<sup>1</sup> up from the 16.6% observed on average in 2014–2021, although significantly lower than the figure recorded at the beginning of the 2000s (see Chart 1). In addition, the incomplete information available for 2023 points to a further increase, to just over 45% of workers who have already signed a collective agreement for that year.

In light of the growing prevalence of indexation clauses, this box provides a detailed analysis of the characteristics of such clauses included in the collective agreements effective in 2022 registered to August. To do so, we used web scraping techniques to extract detailed, case-by-case information for all collective agreements available in the [Register of Collective Agreements and Equality Plans](#).<sup>2</sup>

This analysis should be understood as an initial attempt to delve deeper into the specific nature of the indexation clauses signed in Spain and to assess their possible implications, in particular for future wage developments. In this regard, we attempt to answer four main questions: what measure of inflation do the clauses typically use as a reference rate; their time horizon; how retroactive is the attendant adjustment; and how much coverage do they provide in the event of an inflation surprise.

With regard to the first question, the analysis has not identified any collective agreement that uses underlying inflation – or any other measure of inflation that excludes the energy component – as a reference rate. This is

particularly relevant in the current setting where price developments and, in particular, headline inflation indices are highly distorted by the recent surge in and volatility of energy prices, as Spain is an importer of most energy products. Against the current backdrop, more general measures of inflation would not be painting a wholly accurate picture of the actual underlying and/or domestic inflationary pressures in Spain.

Turning to the second question, a case-by-case review of all the indexation clauses signed in the collective agreements effective in 2022 registered to August highlights that just over 60% of workers are covered by annual indexation clauses. In other words, a potential wage adjustment would be determined on the basis of inflation at the end of the year.<sup>3</sup> By contrast, 20% of workers are covered by multi-year indexation clauses. In this case, possible wage adjustments would be determined on the basis of how inflation behaves over the term of the collective agreement. In principle, in a setting where the current high inflation rates could ease considerably over the coming years, these multi-year clauses would help mitigate the impact of inflation on wage costs in the short term.

As for the third aspect, the information available suggests that somewhat more than half of workers with an agreement in force in 2022 are covered by indexation clauses that have no retroactive effect, thus continuing the upward trend that dates back to 2009 when the percentage stood at 20%. For this group of workers, the potential activation of these clauses would entail no wage adjustments associated with previous years and would only update the wage rates for the following year.

Lastly, regarding the workers with agreements in force in 2022 that include an indexation clause, in 75% of cases those clauses envisage certain caps or thresholds. These may have a very significant bearing on how forcefully possible inflation surprises ultimately feed through to wages. In other words, the wage adjustment determined by those clauses may not necessarily see

1 This percentage is somewhat lower than that observed in early 2022, when nearly 30% of workers with a collective agreement registered for that year were covered by indexation clauses. The drop in recent months would suggest that, in this most recent period, fewer newly signed collective agreements contain this type of clause.

2 This information refers to around 85% of the workers covered by collective agreements included in the official statistics published by the Ministry of Labour and Social Economy.

3 The inflation reference rate used in collective agreements tends to be the year-on-year rate at the end of each year, although in some cases average year-on-year rates for the year as a whole are used.

## Box 6

**RECENT INDEXATION CLAUSES: AN ANALYSIS** (cont'd)

the inflation surprise (i.e. differences between actual inflation and the negotiated wage increase) fully passed through to wages; rather, in most instances this pass-through is partial.

In this respect, the historical evidence suggests that the coverage provided by indexation clauses against different inflation surprises has declined substantially in recent years. For instance, between 1994 and 2011<sup>4</sup> the average deviation of inflation from the negotiated wage increase was 1.1 percentage points (pp).<sup>5</sup> On the statistics available, the average wage adjustment determined by indexation clauses in that period was 0.56 pp. Given the prevalence of indexation clauses at the time (60.1%), their implicit coverage<sup>6</sup> during that period was 85% (see Chart 2). However, lower coverage is estimated for

2012-2016 (41% period average) and, especially, for 2021 (33%).

As noted above, the aim of this box is to further the understanding of the main characteristics of the indexation clauses typically included in the collective agreements registered in Spain. This exercise may be informative in terms of the potential implications of such clauses – which have become more prevalent in the agreements in force in 2022 compared with those registered in previous years – for future wage developments. However, it is important to interpret the preliminary results presented in this study with caution, among other reasons because the indexation clauses signed in the future may not follow the same historical conventions – or even the more recent ones – identified in this analysis.

Chart 1  
Prevalence of indexation clauses (a)

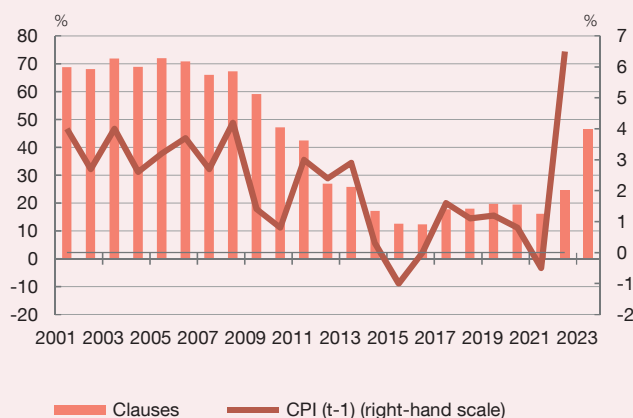
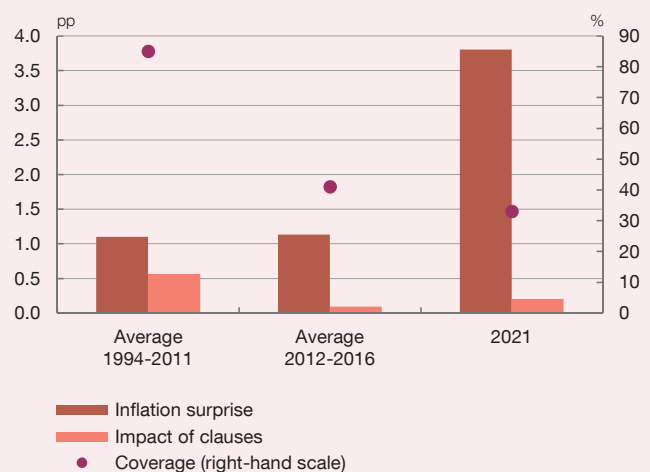


Chart 2  
Impact of indexation clauses



**SOURCES:** Ministerio de Trabajo y Economía Social and case-by-case information on the collective agreements available at <https://expinterweb.mites.gob.es/regcon/>.

a The collective agreement statistics provide information on the prevalence of indexation clauses to 2022. The figure for 2023 was calculated by the authors on the basis of a perusal of the agreements registered to August 2022 and effective in 2023.

- 4 This exercise only considers years in which the inflation surprise was positive, since indexation clauses are asymmetric and wages are not adjusted down when the inflation surprise is negative, i.e. when inflation stands below the initial wage settlement.
- 5 This deviation is calculated as the actual inflation rate at year-end less the negotiated wage increase under collective agreements that included any form of indexation clause. The calculation is subject to various measurement errors and the results should therefore be interpreted with caution.
- 6 For a given period, this coverage may be calculated as the ratio of the actual wage adjustment to the product of the inflation surprise and the prevalence of indexation clauses in collective bargaining.