Box 5

WAGE INDEXATION MECHANISMS IN EURO AREA COUNTRIES

This box examines the nature and extent of wage indexation in the euro area. Formal wage indexation can be defined as the presence of clauses in laws or contracts whereby wages (either public or private) are to a large degree automatically linked to price developments. The Governing Council of the ECB is concerned about the existence of such schemes in which nominal wages are indexed to consumer prices. These schemes involve the risk of upward shocks to inflation, such as those currently observed in energy and food prices, lasting longer and even leading to a wage-price spiral. Such a spiral would complicate the ECB's task of maintaining price stability and would be detrimental to employment and competitiveness in the countries concerned. The Governing Council of the ECB has therefore called for such schemes to be avoided.

Information on wage indexation in the private sector of euro area countries is summarised in the table below. There is some form of automatic price indexation of private sector wages in seven euro area countries (Belgium, Spain, France, Cyprus, Luxembourg, Malta and Slovenia). While none of these countries index wages fully to the headline HICP index, in most cases the national consumer price index (CPI), or a closely related broad consumer price index, is used. More specifically, the price indexation of wages is automatic in Belgium, Cyprus and Luxembourg, where wages are adjusted for past consumer price increases. While in Cyprus and Luxembourg the relevant consumer price indicator is the national CPI (excluding increases in indirect taxes in Cyprus), in Belgium the Health Index is used, which is the CPI excluding alcohol and tobacco and petrol (but including heating fuel, gas and electricity). In most private sector wage agreements in Spain, wages are retroactively adjusted upwards when national CPI inflation exceeds the government's reference rate (normally 2%). In France, Malta and Slovenia, automatic indexation is mainly applied to a social or minimum wage, which in the case of France and Slovenia covers a small share of workers.

As regards the indexation of public sector wages, public wages are fully or partly indexed to inflation in five euro area countries (Belgium, Cyprus, Luxembourg, Malta and Slovenia). The indexation of public sector wages is automatic and based on past inflation rates in Belgium, Cyprus and Luxembourg. The inflation measure used for indexation is in most cases headline consumer price inflation, excluding increases in indirect taxes in Cyprus and prices of alcohol, tobacco and petrol in Belgium. As wage indexation in the public sector may play an important signalling role for wage negotiators in other sectors, a specific responsibility rests on the public sector to make its contribution to avoiding second-round effects on inflation.

Summary of the key features of predominantly automatic wage indexation and wage guidelines in the private sector

	Form	Inflation measure	Mechanism	Coverage of private sector employment
Countries with predominantly automatic wage indexation:				
BE	Automatic, but limited by a wage norm and, in some sectors, by an "all in" clause	Health index[1]	Increase in wages once the four-month moving average of past inflation exceeds a certain threshold (mostly 2%). It is becoming more commonplace for indexation to occur at fixed intervals between 1-12 times a year, irrespective of the inflation rate reached.	Almost 100%
ES	Automatic	National CPI	Clause included in most collective wage agreements in the private sector. This adjusts for inflation that is higher than the expected inflation rate embedded in wage agreements.	Around 68%
FR	Automatic	National CPI excluding tobacco	Minimum wage automatically raised in July by inflation + half real salary increase of blue collar workers + discretionary adjustment. More frequent adjustments possible.	Around 13%
CY	Automatic	National CPI excluding increases in indirect taxes	Wages adjusted twice a year (on 1 Jan. and 1 July) to average inflation in the preceding six months.	Around 65%
LU	Automatic	National CPI with adjustments for specific fiscal measures	Wages adjusted upwards when the six-month moving average of inflation is 2.5% higher than its level at the time the last wage indexation occurred.	100%
MT	Through cost of living adjustment	Retail price index	Minimum wages are adjusted by the average inflation rate over the last 12 months (to September).	Not available
SI	Automatic	Expected national CPI	Adjustment in July for expected inflation. Additional adjustment made in January of each year if inflation exceeds forecast.	Around 20%
Countries with no automatic wage indexation, but where some form of wage guidelines exists:				
GR	Not automatic	National CPI	Up to 2003, negotiated minimum wage and other private sector agreements sometimes included an inflation clause to compensate for inflation above a stated amount, applied at the beginning of the following year. Since then, there have been no such clauses in agreements.	Private non-banking sector only
IT	Not automatic	National CPI	At contract renewal (every two years), compensation for the difference between expected inflation under the previous contract and actual inflation can be negotiated. Terms of trade shocks are excluded.	100%
FI	Contractual, not automatic	National CPI	Wage increases to compensate for past inflation exceeding that in agreements by a threshold amount. These inflation clauses were typically included in comprehensive income policy agreements, but have only been triggered once.	100%

1) National CPI excluding petrol, tobacco and alcohol.