

Box: 2 Economic Effects of Indexation and its Prevalence in Colombia - Report of the Board of Directors to the Congress of Colombia - July 2023

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Pursuant to Article 5 of Law 31 of 1992, the Board of Directors of Banco de la República (the Central Bank of Colombia) submits a report to the Honorable Congress of Colombia, informing about the performance of the economy and its outlook. This report is submitted twice a year, in March and July, within ten business days following the start date of the sessions of the Congress.

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Automatic price adjustment mechanisms, known as indexing, have mainly been a relatively common practice in developing economies even under different macroeconomic environments. These mechanisms often arise spontaneously in agents' private contracts as a tool to protect themselves from high and unpredictable inflation. However, on other occasions they are the product of regulations resulting from various institutional arrangements. The economic effects of indexing have been a relatively active area of study and a subject of debate. This box presents a brief review of some of the effects of indexing documented in the specialized literature and quantifies the prevalence of its effect on consumer prices in Colombia.