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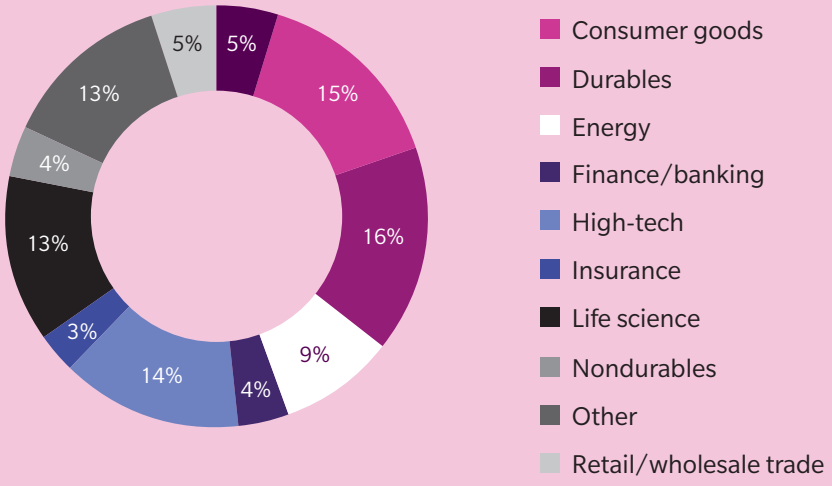
2014 COMPENSATION PLANNING: EMEA FORECASTS AND TRENDS

A number of EMEA markets are returning to economic stability, which may be interpreted as a sign of recovery after the global financial crisis. This muted optimism is directly reflected in the forecasts and trends that have emerged from Mercer's 2014 Salary Movement Snapshot (SMS) for the EMEA region. However, the International Monetary Fund (IMF) recently announced that global growth was still in "low gear".[1] This article features key highlights and insights from the collected 2014 SMS results, focusing on the three major markets of Western Europe, Central and Eastern Europe, and the Middle East and Africa.

Figure 1
SMS Participants by Industry



Covering 87 markets, the Mercer SMS results are based on responses from more than 500 organisations and over 5,900 participants. The companies polled are drawn from such diverse sectors as durables (the largest group with 16% of respondents), consumer goods (15%), high-tech (14%), life science (13%), energy (9%), and insurance (3%).

Percentages in graphs may not total 100% due to rounding.

[1] Duttagupta R and Helbling T. "Global Growth Patterns Shifting, Says IMF WEO," *IMF Survey Magazine*, available at http://www.imf.org/external/pubs/ft/survey/so/2013/new100813a.htm, accessed 5 December 2013.

CAUTION IN WESTERN EUROPE

Mirroring recent IMF growth forecasts, 2013 salary increases in Western Europe have been cautious and are typically below the prior year. For 2014, it is expected that increases will be around 2%–3% for most countries, with Northern European countries such as Germany, Austria, Norway, and the UK faring best. In Germany, this means that after a decade of stagnating or even falling real wages until 2010, salary rises have been above inflation over the last three years. In the future, strategic workforce planning, diversity, and gender topics will most likely be reflected in rewards solutions for the supervisory board, executive board, and executive roles. Markets such as Spain, Portugal, and Ireland have forecast slightly smaller increases of 2% due to challenging economic circumstances.

Italy also continues on its long road to recovery, but its expected growth will likely be lower than in Germany or France. Switzerland has also had cause for caution: the forecast increase of 2% shown in the SMS results has been reduced to 1.5%, although companies that implemented salary freezes in 2012 may be able to get back to their original plans and pay the higher amount. One reason for the caution could be the regulations in the banking, insurance, and finance sectors.

As in 2012, Greece sits at the bottom of the list with a forecast of 1.5%. The relatively small differential between the region's nations is an indication of a prevailing conservative mood.

When comparing salary increase trends between 2011 and 2013, it is clear that companies have been struggling in generally stagnating market conditions. There is a certain amount of optimism in some markets for 2014, however: in Austria, Denmark, the Netherlands, and Sweden, forecasts are marginally up on the previous year's actual, although those forecasts may well be revised downwards if business conditions prove more challenging than expected in the coming months.

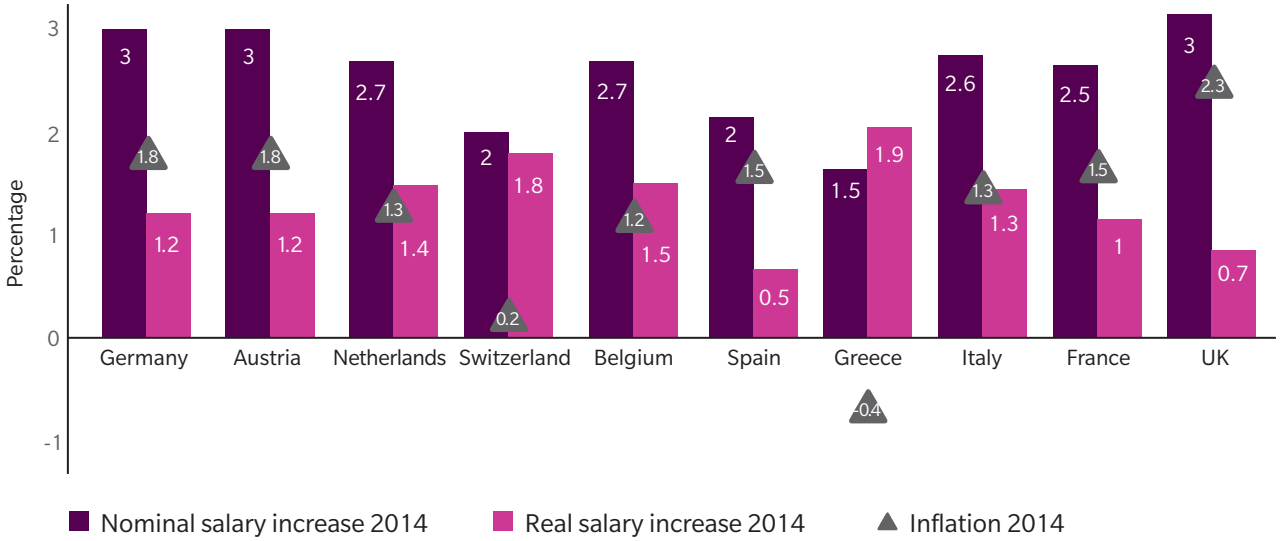
SALARY INCREASES AHEAD OF INFLATION?

Salary rises have been ahead of inflation in most markets; Sweden has experienced the largest real increase of roughly 2.5%. However, that scenario is reversed in the Netherlands, where both 2013's actual figures and 2014's forecast figures are below inflation, meaning that some employees have had a pay cut in real terms.

SALARY FREEZES DECLINING

Salary freezes — used by up to 12% of companies in Western Europe over recent years — are at last beginning to decline in many countries. In Portugal and Ireland in particular, it is expected that freezes will be employed by less than 10% of companies in 2014. This easing will undoubtedly be a relief to workers in Belgium, Luxembourg, and Greece, who have borne the brunt of the top level of salary freezes in the region during 2013 — 20%–25% of companies polled in these markets have used freezes to control staff costs.

Figure 2
2014 Forecast Salary Increases for the Management Career Stream (Western Europe)



Source: Online Global Planning Report, Career Stream Management

A DIVERSE PICTURE IN CENTRAL AND EASTERN EUROPE

Inflation and GDP growth differs radically between countries in Central and Eastern Europe (CEE), and this is reflected in the diversity of salary increase forecasts for 2014. Diverse trends are visible in Eastern Europe's largest economies, Russia and the Commonwealth of Independent States (CIS).

Although the expected salary dynamics in Russia in the context of the 2014 Winter Olympics did not reach the edge, CIS and Russia are more similar than they once were in terms of speed of salary growth.

Despite the consistently high figures in salary growth trends compared with those of other CEE countries, the CIS markets continuously face the challenge of "matching up" to real inflation; that is, the end result of the salary growth factor should not be less than the real inflation rate being considered as the key driver for employee motivation. Although the trend observed over the years is that the majority of CIS countries are ahead of the official inflation figures, the unofficial rate is always higher and more of a primary concern for employees.

In some countries, such as Belarus, Uzbekistan, and recently, Ukraine, unofficial inflation poses serious concerns and can be difficult to measure.

Although in the past, salary dynamics in CEE countries were pushed by subsidiaries of US/Western companies, the largest local players have picked up the pace. CEE countries are responding to the economic environment in a variety of ways, as Belarus and Cyprus illustrate. In a repeat of the 2012 SMS, these countries are at each end of a continuum, with salary forecasts of 10% for Belarus — despite being buffeted in recent years by rocketing inflation, political instability, currency devaluation, and a slump in trade with other CIS members — and just 2% for Cyprus.

The region's other larger economies, such as Hungary and Poland, remain static at 4%, while the more mature markets are also holding steady at around 3%, as the SMS results from Slovakia and the Czech Republic demonstrate.

As in Western Europe, salary increases awarded in this region for 2013 are below the 2012 level, with the exception of Belarus (due to its high inflation rate). 2014 forecasts are more conservative than 2013 in some of the region's markets also — as economic confidence faltered, Uzbekistan lowered its forecast by 2.5%, for example, reducing it to 8.6% from 11.1%. However, some markets are more bullish, and even though countries including Russia, Ukraine, Kazakhstan, and Georgia have moderated their forecasts in recent years, they are eyeing 2014 with a degree of optimism — their forecasts outstrip 2013 actuals.

SALARY INCREASES AHEAD OF INFLATION IN MOST CEE COUNTRIES

Salary increases in 2013 were ahead of inflation in the majority of CEE markets, but in countries such as Serbia, the "negative gap" between salary increases and inflation means that real earnings are actually declining — unsurprisingly, employee engagement is being adversely affected as a result and voluntary staff turnover rates are considerable.

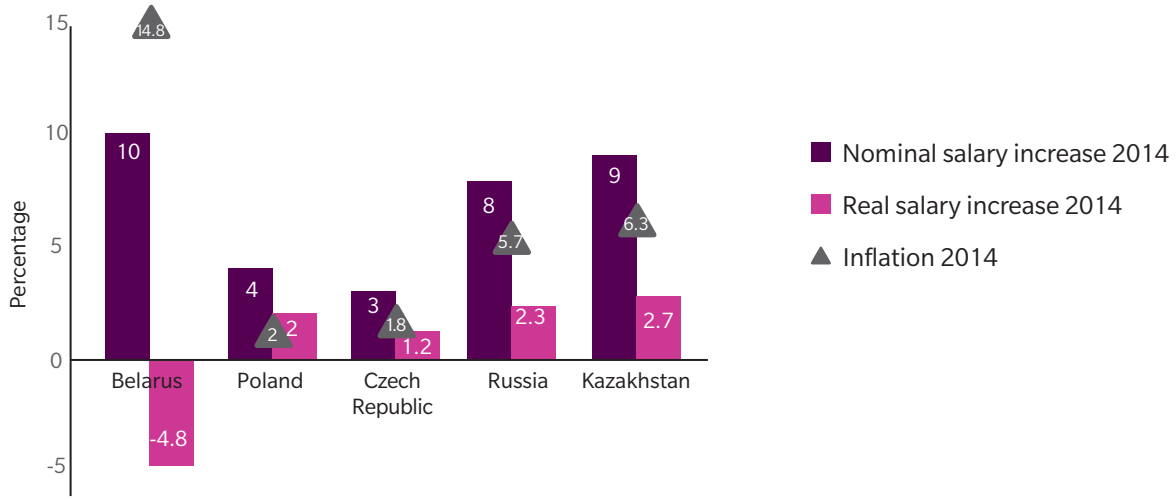
DISPARITY IN SALARY FREEZES

Just as there is disparity between salary increases in this region, salary freezes are also being deployed at different levels. In most markets, the freezes will be minimal and will affect only 6% of companies, but employees in Armenia, Cyprus, and Uzbekistan will have to contend with pay freezes in 15%–20% of workplaces.

This year's SMS survey has revealed small disparities between employee categories in some markets in terms of both salary increases and freezes: on average, salary increases are typically higher among life science organisations than for those in the services sector — a trend also noted in the Middle East and Africa — while pay freezes tend to be more prevalent among paraprofessional blue-collar workers and at the executive level.

Figure 3

2014 Forecast Salary Increases for the Management Career Stream (Central and Eastern Europe)

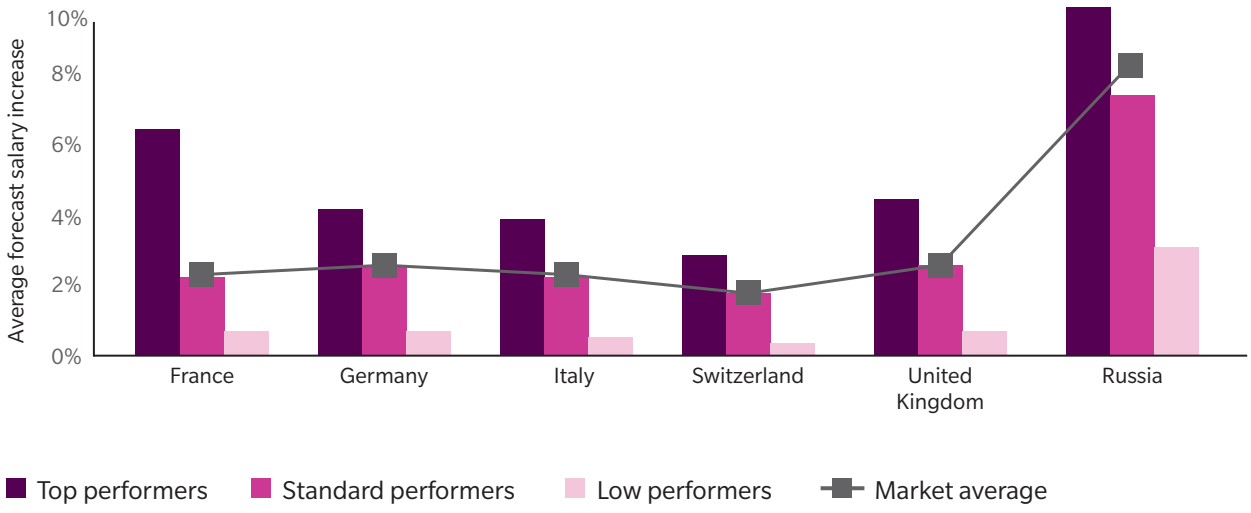


Source: Online Global Planning Report, Career Stream Management

DIFFERENTIATING BETWEEN LOW AND TOP PERFORMERS

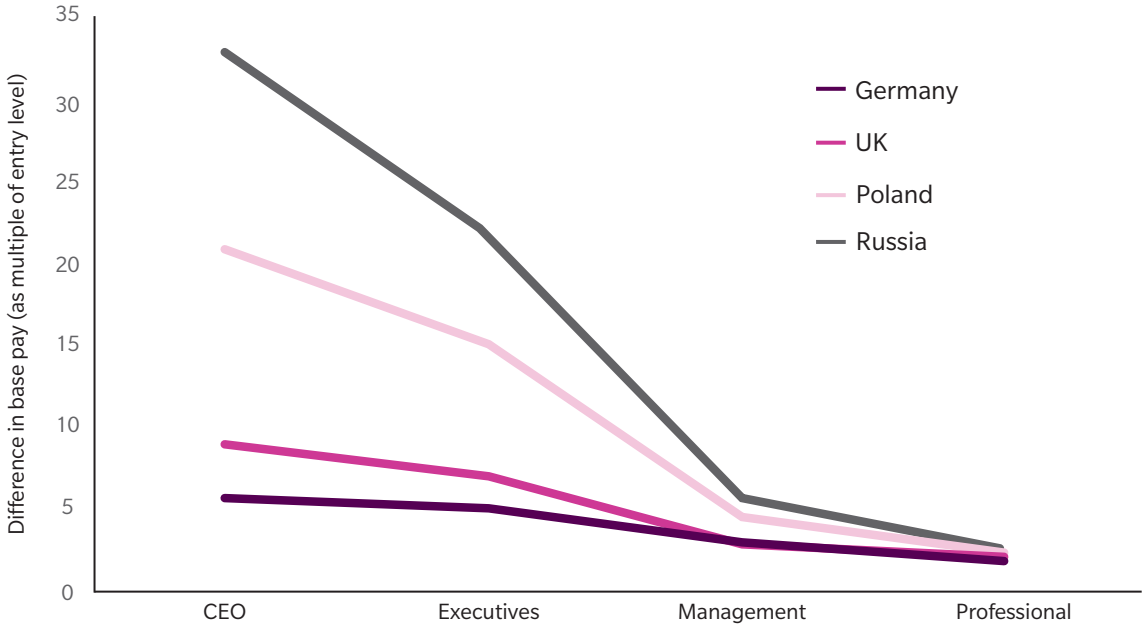
Eastern European countries such as Russia show a clear differentiation in salary increases between low and top performers. Further differentiations include vertical differences in the annual base salary, meaning that a CEO in Poland is paid 22 times more than a professional, compared with Germany, where the ratio is 1-to-6.[2]

Figure 4
2014 Market Average Forecast Salary Increases



Source: Mercer EMEA SMS September 2013

Figure 5
Pay Levels by Career Stream (Relative Proportion in Number of Times Paid)



Source: Mercer TRS 2013

[2] As in Germany, the term "professional" refers to an experienced and academically educated employee.

STABILITY IN THE MIDDLE EAST AND DIVERSITY IN AFRICA

Although salary forecasts for 2014 differ widely within the Middle East — ranging from a robust 13% in Pakistan to 3.4% in Israel — they are roughly in line with those of previous years, which is an indication of the sub-region's mature business environment and fundamental economic stability. As in other markets, however, inflation is putting downward pressure on salaries. Even though the Gulf Cooperation Council (GCC) states — Saudi Arabia, UAE, Oman, Qatar, Bahrain, and Kuwait — continue to tread a conservative path and (as in 2012) have forecast increases of between 5% and 6%, current inflation levels mean that real increases are lower, around 2%–3%.

Diversity is also the dominant trait in the SMS results from Africa, where salary forecasts range from 12.6% in Ethiopia to 4.8% in the Ivory Coast, and are relatively buoyant when compared to 2013 actual increases. True to form, Egypt breaks ranks with other North African countries — its forecast of 10% is more than twice Morocco's 4.9% and much more closely aligned to the estimates made by the sub-Saharan region. Companies operating in the region will be aware that minimum agreements are legally mandated in some countries, and it is common for agreements to be made between unions and businesses in order to avoid strikes, as was the case with Gabon's oil industry.

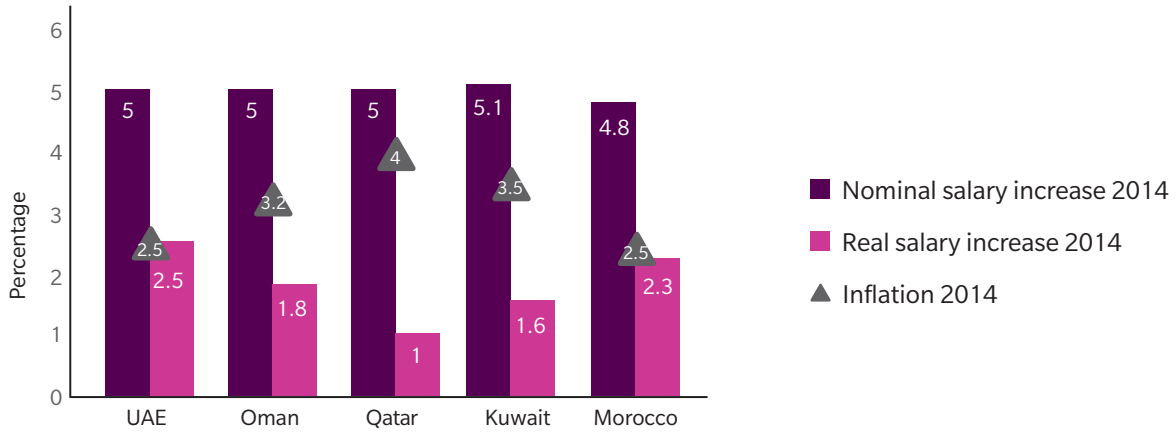
SALARY INCREASES TO RETAIN TOP TALENT IN THE GCC STATES

Talent shortages plague this region, which has a large proportion of foreign expat workers, particularly in the GCC states. Larger increases are typically paid to the best performers as companies strive to retain their top talent. That said, salary increases in Africa are usually predicated on company performance rather than individual efforts, and if businesses fail to reach their targets, increases can be lower than market predictions, which can result in an exodus of key staff.

SALARY FREEZES EMERGING IN AFRICA

Salary freezes are uncommon in the Middle East — less than 1% of companies use them. In Africa, however, they are an emerging trend — 10%–15% of companies expect to roll out freezes in 2014. The overall message, however, is one of optimism for the year ahead, despite below-inflation rises in Algeria and Tunisia.

Figure 6
2014 Forecast Salary Increases for the Management Career Stream (Middle East and Africa)



Source: Online Global Planning Report, Career Stream Management

CONCLUSION

Given the diverse nature of the EMEA region, it should be no surprise that the 2014 SMS survey results reveal a mixed picture across its many markets. Challenges have abounded during 2013 as companies have striven to reconcile retaining top talent with the need to remain competitive and control staff costs. Although there are some signs of confidence — in particular, a reduction in the number of salary freezes — little has changed over the past 12 months, and maintaining steady progress will be the aim for the majority of businesses.

For HR and compensation and benefits managers, the implications are that:

- Total rewards will focus more than ever on the effectiveness of pay, so companies across all geographies are clarifying what their employees' perception of pay is — perception is reality.
- The "perception is reality" formula might set different challenges for HR departments in terms of employee experience — the total rewards package has become a core prerequisite for creating a positive employee experience in all aspects of rewards, recognition, and engagement.
- Nonmonetary recognition will play a more important role.
- Successful companies consequently differentiate between top and low performers when it comes to salary increases and other rewards.

ABOUT THE AUTHORS

Alyson Callin is the European product manager for Mercer's Total Remuneration Survey. Based in London, she can be reached at +44 20 7178 5599 or alyson.callin@mercer.com.

Antonis Christidis is Mercer's Information and Technology Solutions leader for Europe. Based in London, he can be reached at +44 210 7232 240 or antonis.christidis@mercer.com.

Jens Uwe Kraemer is Mercer's Workforce Rewards Practice leader for Europe. Based in Frankfurt, he can be reached at +49 69 689 778 or jensuwe.kraemer@mercer.com.

Visit http://www.mercer.com/talent/rewards for more on rewards. You may also wish to learn more about our Total Remuneration Survey.