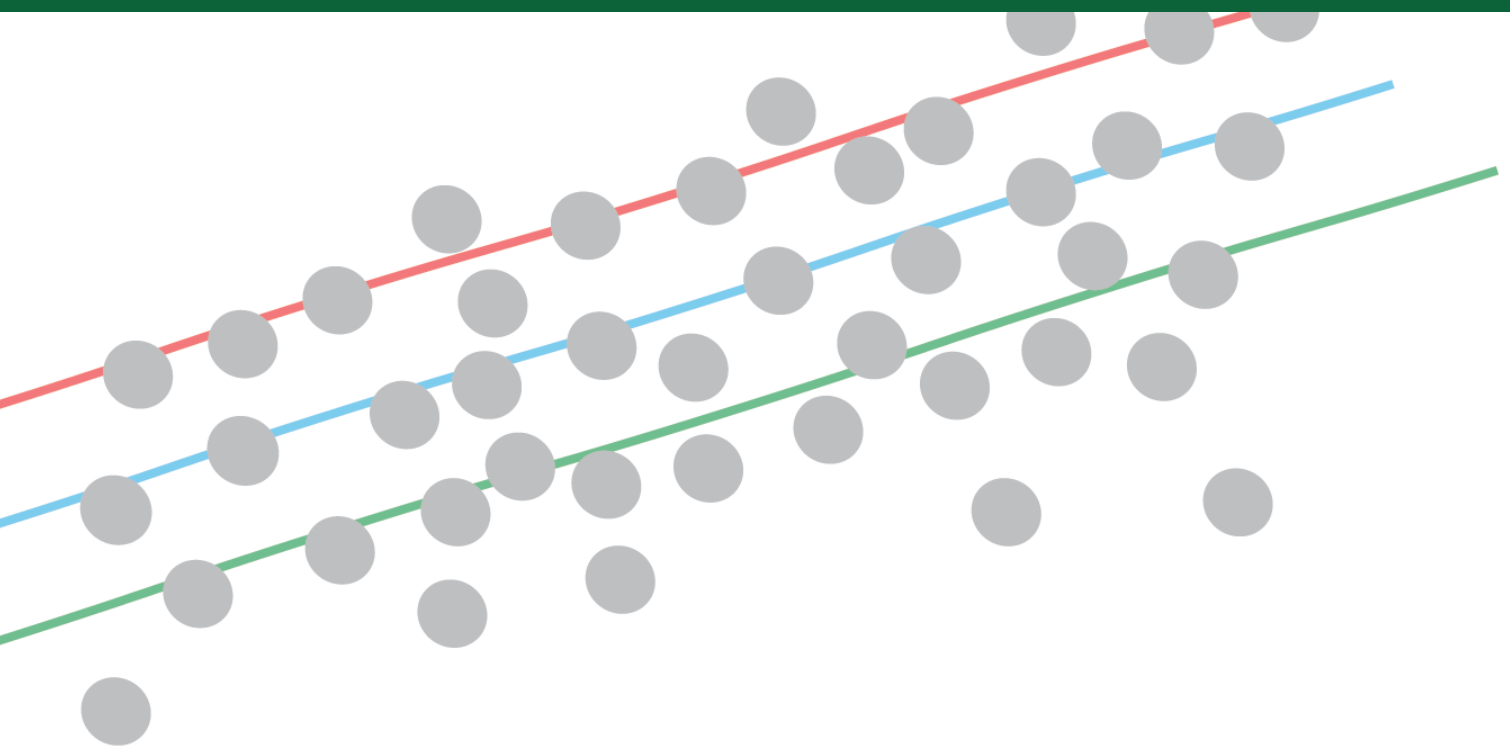


# Planning Global Compensation Budgets for 2016



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# Planning Global Compensation Budgets for 2016

*By Linda L. Cox, CCP, ERI Compensation Project Manager, with research assistance from Katie Sebastian*

As 2016 global financial budgeting and compensation planning approaches, it is timely to support ERI readers with insight into compensation analytics by taking a look at predictions for the world economy and its effect on 2016 salary increase budgeting. Consider some key trends from the recent World Economic Outlook as reported by the International Monetary Fund (April 2015):

“Complex forces that affected global activity in 2014 are still shaping the outlook. These include medium- and long-term trends, such as population aging and declining potential growth; global shocks, such as lower oil prices; and many country- or region-specific factors, such as crisis legacies and exchange rate swings triggered by actual and expected changes in monetary policies. Overall, global growth is projected to reach 3.5 percent and 3.8 percent in 2015 and 2016, respectively.”

International Monetary Fund. 2015. World Economic Outlook: Uneven Growth – Short- and Long-Term Factors. Washington (April), (p1.)

## **Projected 2016 Salary Increases by Country and Historical Trends**

An analysis of early projections of 2016 salary increases across 56 countries is provided in Table 1 to support businesses in next year’s salary increase budgeting. This table also includes the International Monetary Fund’s recent research on 2014 actuals, as well as 2015 and 2016 projections for unemployment, growth in gross domestic product (GDP), and the consumer price index (CPI). This early look at 2016 salary increase projections is based on ERI Economic Research Institute’s extensive database, plus global historical trends and projections. Data from governmental resources, publications, and over 25,000 companies was assessed in this review.

**Table 1 - 2014-2016 Global Salary Increase Trends with Key Economic Indicators**

	Unemployment Rate <sup>2</sup>			Gross Domestic Product <sup>2</sup>			Consumer Price Indices <sup>2</sup>			Salary Increases		
	% Labor Force			% Change from Previous Year			% Change from Previous Year			% Change from Previous Year		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014 <sup>4</sup>	2015 <sup>3</sup>	2016 <sup>3</sup>
<b>Americas</b>												
Argentina	7.3	7.0	8.1	0.5	-0.3	0.1	32.5	18.6	23.2	27.5	32.5	25.0
Brazil	4.8	5.9	6.3	0.1	-1.0	1.0	6.3	7.8	5.9	7.4	6.1	7.0
Canada	6.9	7.0	6.9	2.5	2.2	2.0	1.9	0.9	2.0	2.9	2.6	3.0
Chile	6.4	7.2	7.0	1.8	2.7	3.3	4.4	3.0	3.0	4.7	5.0	5.0
Costa Rica	8.2	8.3	8.2	3.5	3.8	4.4	3.2	4.6	4.0	6.1 <sup>5</sup>	6.0	5.5
Mexico	4.8	4.3	4.0	2.1	3.0	3.3	4.0	3.2	3.0	4.7	4.8	4.3
Panama	4.1	4.1	4.1	6.2	6.1	6.4	2.6	0.9	2.0	-	5.4	5.0
United States	6.2	5.5	5.1	2.4	3.1	3.1	1.6	0.1	1.5	2.9 <sup>1</sup>	2.9 <sup>1</sup>	2.7
Venezuela	8.0	12.8	16.1	-4.0	-7.0	-4.0	62.2	96.8	83.7	29.8	40.3	--
<b>Asia Pacific</b>												
Australia	6.1	6.4	6.2	2.7	2.8	3.2	2.5	2.0	2.3	3.4	3.0	3.3
China	4.1	4.1	4.1	7.4	6.8	6.3	2.0	1.2	1.5	7.9	8.0	8.0
Hong Kong	3.2	3.2	3.1	2.3	2.8	3.1	4.4	3.2	3.4	4.5	4.0	4.1
India	3.6 <sup>3</sup>	3.7 <sup>3</sup>	3.7 <sup>3</sup>	7.2	7.5	7.5	6.0	6.1	5.7	10.2	10.5	10.1
Indonesia	6.1	5.8	5.6	5.0	5.2	5.5	6.4	6.8	5.8	9.0	10.0	9.3
Japan	3.6	3.7	3.7	-0.1	1	1.2	2.7	1.0	0.9	2.2	2.0	2.0
Malaysia	2.9	3.0	3.0	6.0	4.8	4.9	3.1	2.7	3.0	5.4	6.4	6.0
New Zealand	5.4	5.3	5.2	3.2	2.9	2.7	1.2	0.8	2.1	3.0	3.0	3.2
Pakistan	6.7	6.5	6.1	4.1	4.3	4.7	8.6	4.7	4.5	13.1 <sup>1</sup>	12.0 <sup>4</sup>	11.2
Philippines	6.8	6.2	6.0	6.1	6.7	6.3	4.2	2.1	2.8	6.4	7.5	6.2
Singapore	2.0	2.0	2.0	2.9	3.0	3.0	1.0	0.0	1.7	4.4	4.4	4.4
South Korea	3.5	3.6	3.5	3.3	3.3	3.5	1.3	1.5	2.5	5.1	5.0	5.3
Taiwan	4.0	4.0	4.0	3.7	3.8	4.1	1.2	0.7	1.3	3.8	4.0 <sup>6</sup>	4.0
Thailand	0.8	0.8	0.8	0.7	3.7	4.0	1.9	0.3	2.4	5.8	6.0	6.2
Vietnam	2.5	2.5	2.5	6.0	6.0	5.8	4.1	2.5	3.2	10.5	11.4	11.2
<b>EMEA (Europe, Middle East and Africa)</b>												
Austria	5.0	5.1	5.0	0.3	0.9	1.6	1.5	1.1	1.5	2.9	2.7	2.9
Belgium	8.5	8.4	8.2	1.0	1.3	1.5	0.5	0.1	0.9	2.5	2.0	2.5
Czech Republic	6.1	6.1	5.7	2.0	2.5	2.7	0.4	-0.1	1.3	2.8	2.0	2.5
Denmark	6.5	6.2	5.5	1.0	1.6	2.0	0.6	0.8	1.6	2.6	2.5	2.8
Egypt	13.4	13.1	12.5	2.2	4.0	4.3	10.1	10.3	10.5	10.1	10.0	10.0
Estonia	7.0	7.0	6.8	2.1	2.5	3.4	0.5	0.4	1.7	7.0 <sup>5</sup>	2.8	3.0
Finland	8.6	8.7	8.5	-0.1	0.8	1.4	1.2	0.6	1.6	2.6	1.0	2.0
France	10.2	10.1	9.9	0.4	1.2	1.5	0.6	0.1	0.8	2.5	2.0	2.3
Germany	5.0	4.9	4.8	1.6	1.6	1.7	0.8	0.2	1.3	2.9	2.8	2.9
Greece	26.5	24.8	22.1	0.8	2.5	3.7	-1.4	-0.3	0.3	1.9	1.3	1.5
Hungary	7.8	7.6	7.4	3.6	2.7	2.3	-0.3	0.0	2.3	3.5 <sup>5</sup>	3.0	3.5
Ireland	11.3	9.8	8.8	4.8	3.9	3.3	0.3	0.2	1.5	0.8 <sup>5</sup>	1.4	1.9
Israel	6.0	5.5	5.3	2.8	3.5	3.3	0.5	-0.2	2.1	3.3	2.0 <sup>1</sup>	2.3
Italy	12.8	12.6	12.3	-0.4	0.5	1.1	0.2	0.0	0.8	2.6	2.7	2.8
Jordan	11.9	11.1 <sup>3</sup>	11.1 <sup>3</sup>	3.1	3.8	4.5	2.9	1.2	2.5	6.0 <sup>5</sup>	6.0	6.2
Luxembourg	7.1	6.9	6.7	2.9	2.5	2.3	0.7	0.5	1.6	2.9 <sup>5</sup>	3.2	3.1
Netherlands	7.4	7.2	7.0	0.9	1.6	1.6	0.3	-0.1	0.9	2.7	2.3	2.5
Norway	3.5	3.8	3.9	2.2	1.0	1.5	2.0	2.3	2.2	3.0	3.2	3.1
Poland	9.0	8.0	7.7	3.3	3.5	3.5	0.0	-0.8	1.2	3.5	3.0	3.1
Portugal	13.9	13.1	12.6	0.9	1.6	1.5	-0.2	0.6	1.3	2.0	1.0	1.3
Qatar	0.3 <sup>3</sup>	0.3 <sup>3</sup>	0.4 <sup>3</sup>	6.1	7.1	6.5	3.0	1.8	2.7	5.1	5.0	5.2
Romania	6.8	6.7	6.7	2.9	2.7	2.9	1.1	1.0	2.4	4.7	4.6	4.7
Russia	5.1	6.5	6.5	0.6	-3.8	-1.1	7.8	17.9	9.8	7.6	6.8	11.0
Saudi Arabia	5.5	5.5 <sup>3</sup>	5.4 <sup>3</sup>	3.6	3.0	2.7	2.7	2.0	2.5	5.0	5.0	5.0
South Africa	25.1	25.1	24.9	1.5	2.0	2.1	6.1	4.5	5.6	6.6	6.2	6.5
Spain	24.5	22.6	21.1	1.4	2.5	2.0	-0.2	-0.7	0.7	2.3	1.1	1.5
Sweden	7.9	7.7	7.6	2.1	2.7	2.8	-0.2	0.2	1.1	2.7	2.3	2.6
Switzerland	3.2	3.4	3.6	2.0	0.8	1.2	0.0	-1.2	-0.4	1.9	1.4	1.7
Turkey	9.9	11.4	11.6	2.9	3.1	3.6	8.9	6.6	6.5	7.4	9.0	7.1
Ukraine	10.5	11.5	11	-6.8	-5.5	2.0	12.1	33.5	10.6	7.5	6.8	--
United Arab Emirates	3.6 <sup>3</sup>	3.5 <sup>3</sup>	3.4 <sup>3</sup>	3.6	3.2	3.2	2.3	2.1	2.3	4.5	5.0	4.9
United Kingdom	6.2	5.4	5.4	2.6	2.7	2.3	1.5	0.1	1.7	3.0	2.5	2.7

Sources:

1. ERI Economic Research Institute.
2. International Monetary Fund. 2015. World Economic Outlook: Uneven Growth—Short- and Long-Term Factors. Washington (April).
3. World employment and social outlook: Trends 2015 / International Labour Office. – Geneva: ILO, 2015; updated January 20, 2015.
4. “Global Salary Increases in 2014.” Aon Hewitt Global Salary Increase Survey 2014/2015 (2014): Aon Hewitt. Aon, Sept. 2014. Web. Apr. 2015.
5. “2015 Global Salary Forecast.” PayNet International. Global Management Consultancy, Hay Group, Dec. 2014. Web. Apr. 2015.
6. Salary Trends Survey 2014/2015. ECA International, Nov. 2014. Web. Apr. 2015.

## Interpreting the Data

When developing a salary increase budget, it is valuable to review statistical trends within each country and to consider not only the prior percent market movement of salaries, but also increases and decreases in the CPI, unemployment rates, and GDP.

Always look at the countries individually when assessing next year's salary increase budget. Any country—even Canada—should not automatically have the same salary increase budget as the United States.

Traditionally, a salary increase budget would typically be 1-2% above the change in the country's CPI. However, since salaries tend to respond more slowly to changes in the cost of living, salary increase budgets may lag changes in CPI. There are outliers to this trend, such as India, Venezuela, Argentina, Russia, and Ukraine. Also, most of Europe has had very low inflation, but has more slowly moved off of its historical salary increase budget practices.

## Building a Salary Increase Budget

As a best practice, salary increase budget recommendations should be reviewed twice a year—once early in the financial budgeting process, around mid-year, and then later in the financial budgeting process for finalization and approval. The second review is more extensive, since the majority of the global salary increase budget surveys are available at that time, future economic projections are more clearly defined, and companies have a clearer position on the next year's budgets and financials.

Table 2 below shows an example of a hypothetical company's assessment of the market data and the company's salary increase budget recommendation for 2016. In this instance, three survey sources are used. The analysis from ERI Economic Research Institute represents Survey 1, and two additional survey results are used for illustrative purposes. Mercer, Aon Hewitt, HayGroup, and WorldatWork also have excellent surveys to support development of a global salary increase budget.

**Table 2 - Hypothetical Company 2016 Global Salary Budget Analysis and Recommendation**

Country	Economic Indicator									Salary Increase																
	Unemployment Rate			Consumer Price Index			Gross Domestic Product			Survey 1 (ERI)			Survey 2 (Example Only)			Survey 3 (Example Only)			Survey Average			BUDGET RECOMM				
	% Labor Force			% Change			% Change			% Increase			% Increase			% Increase			% Increase			% Increase				
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015
Hong Kong	3.2	3.2	3.1	4.4	3.2	3.4	2.3	2.8	3.1	4.5	4	4.1	4.6	4.3	4.3	4.3	4.2	4.1	4.5	4.2	4.2	4.5	4.5	4.0		
Russia	5.1	6.5	6.5	7.8	17.9	9.8	0.6	-3.8	-1.1	7.6	6.8	11.0	7.7	7.2	11.0	7.8	7.1	11.5	7.7	7.0	11.2	7.5	7.0	11.0		
Singapore	2.0	2.0	2.0	1.0	0.0	1.7	2.9	3.0	3.0	4.4	4.4	4.4	4.3	4.3	4.3	4.1	4.4	4.5	4.3	4.4	4.4	4.5	4.5	4.5		
UK	6.2	5.6	5.4	1.5	0.1	1.7	2.6	2.7	2.3	3.0	2.5	2.7	3.0	2.7	2.8	3.1	2.6	2.7	3.0	2.6	2.7	3.0	2.5	2.5		
USA	6.2	5.5	5.1	1.6	0.1	1.5	2.4	3.1	3.1	2.9	2.9	2.7	3.0	2.8	2.6	3.0	2.7	2.7	3.0	2.8	2.7	3.0	2.5	2.5		

## The Health of a Business

In building a 2016 salary increase budget, it is important to assess the ability of a business to pay for the projected increases next year. This will help determine if 2016 global salary increase recommendations should be more liberal or conservative.

## Other Demands for the Money

Consider other needs in the organization when salary increase budgeting:

- What are the costs for adjustments to minimum wage?
- What are the costs to bring employees up to salary range minimums?
- Are there any mandated increases (e.g., contractual, unions, legal requirements, etc.)?
- Are there any special needs in the organization for market adjustments (e.g., departments, jobs, classifications, government requirements, etc.) that need to be implemented in 2016?
- Are there any new or revised compensation plans generating new expenses?
- Will any benefit costs impact the salary increase budget in 2016?
- Will a promotional increase budget be implemented?

## A Note about Budgeting for Promotions

Less than half of the companies typically budget for promotions outside of the annual salary increase budget. Companies that do not have a separate budget typically pay for promotions from employee turnover and savings gained from vacancies, downsizing, and hiring new employees at lower salaries than the prior incumbents. When promotions are budgeted separately, 1% of total base salaries is commonly allocated for the promotional budget.

## Calculate the Cost of a Recommended 2016 Salary Increase Budget

Table 3 below shows a sample calculation of a global salary increase budget. The recommended salary increase budget (%) should be applied to each country within a business. Costs should be established in local currency based on the recommended salary increase budget (%). The costs in local currencies are then converted to the headquarter country currency (e.g., USD) for managing the roll up of all costs combined.

The salary increase budget below can be applied to either base salaries or total compensation. If bonuses or allowances are managed as a percent of base salary, the salary increase budget should be calculated off of total compensation. In Table 3 below, the salary increase budget is applied to total compensation, since the employee population is eligible for bonuses managed as a percent of base salaries.

**Table 3 - Hypothetical Company Costs - 2016 Global Salary Increase Budgeting**

Country	Curr	Employee Count	Exch Rate*	Base Salaries (Local)**	Total Comp (Local)	% 2016 Salary Increase Budget	Amount 2016 Salary Increase Budget (Local)	Base Salaries (USD)	Total Comp (USD)	Total 2016 Salary Increase Budget (USD)
Hong Kong	HKD	5	7.7504	2,014,195	2,215,615	4.0%	88,625	\$259,883	\$285,871	\$11,435
Russia	RUP	150	53.6818	82,500,000	90,750,000	11.0%	9,982,500	\$1,536,834	\$1,690,517	\$185,957
Singapore	SGD	10	1.3562	880,930	969,023	4.5%	43,606	\$649,558	\$714,513	\$32,153
United Kingdom	GBP	50	0.6728	1,588,850	1,747,735	2.5%	43,693	\$2,361,549	\$2,597,704	\$64,943
United States	USD	500	1	26,101,000	28,711,100	2.5%	717,778	\$26,101,000	\$28,711,100	\$717,778
<b>Total - Global</b>		<b>715</b>				<b>3.0%</b>		<b>\$30,908,823</b>	<b>\$33,999,705</b>	<b>\$1,012,265</b>

\*Source: <http://www.bloomberg.com/markets/currencies>

\*\*ERI Economic Research Institute's Global Salary Calculator utilized to reflect base salaries for example referenced.

## **A Note about Exchange Rates**

The budget should always be established and implemented in the country's local currency. The company's headquarters' currency (e.g., USD) for the total 2016 salary increase budget is typically used to roll up all countries for management and financial reporting.

When calculating the cost of a global salary increase budget, it is important to use a consistent, recent resource for foreign exchange rates to convert local compensation into the headquarter country's currency. Subsidiaries in each country should not gain or lose based on currency fluctuations, since salaries are managed in local currency. Good sites for referencing foreign exchange rates are Bloomberg, Google Finance, and Yahoo Finance, among others.

As a point of reference, the strong USD we are currently experiencing may be viewed positively, but it also comes with challenges for businesses. A strong USD will produce lower global revenues and profitability when multi-national businesses roll up their financial reports and convert the foreign business into USD. It has been many years since we have seen such a strong USD, so this may present challenges for a newer businesses or companies with a large international business.

## **Key Stakeholder Communications and Approvals**

Having ongoing, collaborative communications throughout the salary increase budgeting process with key stakeholders foster buy-in and accountability, while eliminating the element of surprise. As recommendations are being developed for the 2016 salary increase percentages by country, it is important to review them with your regional/country representatives for feedback and their local insight. Some companies will obtain the local recommendations early on in the budgeting process. Proactive communications with Finance on the budget is critical to ensure the recommendations are built into the financial budgeting assumptions. After the recommendations are finalized and necessary feedback and communications have taken place, recommendations can then be finalized for budget approval.

## **Summary**

One of the benefits of following a thorough global budgeting process is ensuring fair and appropriate distribution of market-competitive salary increase budgets throughout a multi-national organization. Staying abreast of key changes in salary increase trends by country and region is invaluable in accomplishing this goal.

We suggest consideration of ERI Economic Research Institute's line of products for your global compensation needs:

- Salary Assessor
- Geographic Assessor
- Relocation Assessor
- Executive Compensation Assessor
- Global Salary Calculator

Please email Linda Cox, CCP, with questions or comments at [linda.cox@erieri.com](mailto:linda.cox@erieri.com) or call 1-800-627-3697 x 320. Visit <http://www.erieri.com> or call 1-800-627-3697.



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