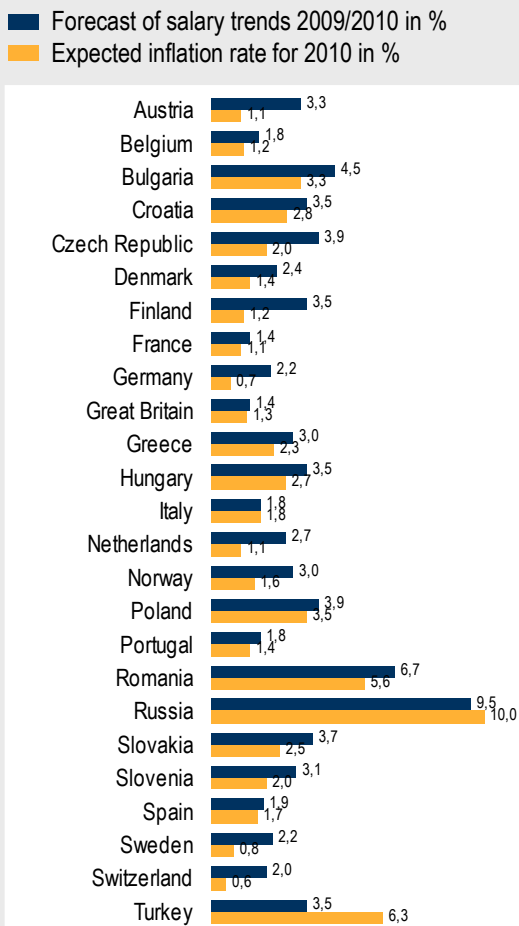


Forecast of Salary Increases 2009/2010 in 25 European Countries

This **forecast of expected salary increases** in 2009/2010 for 25 selected European countries is meant to serve as a guideline for upcoming HR-decisions. Based on our daily-work experiences and systematically obtained information through our clients, we hope to give you some helpful assistance for the bargaining round 2010.



Sources:
Forecast salary increases: Kienbaum (08/2009)
Forecast inflation rate: :EU-Commission, WKO, OECD (08/2009)

Due to the still lasting **economic crisis** with its business uncertainty, Germany, Austria and Switzerland are expecting more **moderate salary increases** in 2009/2010. In sectors not covered by labor agreements as well as at executive levels we also observe **salary freezing or shifts** in remuneration compositions. Especially hard hit industrial segments such as the automotive and the chemical industry even experience **salary cuts between 5 and 15 % for executives**. Approximately one-third of all European companies are expected to freeze their salaries on last year's level.

However, despite the current economic uncertainty, companies have to focus not only on cost reduction in HR but on a **lasting competitiveness** as well, since a lack in qualified personnel poses a distinct disadvantage on the market as soon as the economy recovers.

Variable compensation systems provide the necessary **flexibility** and the advantages to both, company and employee. If variable pay is linked to company's earnings the enterprise gains a considerable amount of flexibility. Employees, on the other hand, can increase their salaries with adequate **performance**.

Due to the current economic situation **variable pay** is expected to **slacken by a two-digit percentage rate** for 2010, which also leads to a decrease in total compensation.

In Focus: Forecast for expected salary increases 2009/2010 for Germany, Austria and Switzerland

Region 1	Total	Top-Management	Middle Management	Specialists	Administrators	Workers
Germany	2,2	2,2	2,0	2,3	2,2	2,2
Austria	3,3	3,2	3,2	3,4	3,3	3,3
Switzerland	2,0	2,5	2,1	1,9	1,5	1,2

Source: Kienbaum Management Consultants GmbH, Ahlefelder Straße 47, 51645 Gummersbach, Tel.: +49.2261.703.200, www.kienbaum.de

Forecast of Salary Increases 2009/2010 in 25 European Countries

Due to an increasing business focus towards CEE we would like to provide miscellaneous information about some Eastern European countries

- » The **Croatian** economy depends highly on a positive tourist season. Salary increases in the public sector had to be cancelled by the government because of liquidity problems. Its effects on the private sector are not yet determinable. Salary increases are expected at about 3.5 %.
- » **Poland's** expected entrance into the Euro zone in 2012 is doubtful since the inflation criteria will not be met until 2011. This year, Poland is the only Eastern European country with actual economic growth. With its large domestic market it is less dependent on exports. Due to an inflation rate of 3.5 % the expected salary increase of about 3.9 % is almost insignificant.
- » A decrease in capital investment by West European companies in 2009 has led to an increase in the unemployment rate in **Romania** especially in the segment of blue-collar workers. However, the high demand for qualified personnel with international experience remains unchanged. Expected salary increases are around 6.7 % with an inflation rate of 5.6 %.
- » Due to the drop of oil prices, **Russia** experienced a decrease in its gross domestic product. The rate of unemployment increased to 7.7 million people, which is more than 10 % of the working population. The economy is expected to recover slightly in autumn/winter. The rate of inflation of 10 % is slightly higher than the expected salary increase of 9.5 %.
- » Although the economic crisis hit **Slovakia** later than other Eastern European countries, the impact was at least as strong as for the rest of Eastern Europe. One major problem is its business focus on specific industrial sectors such as the automotive industry, which weakens the entire economy. The unemployment rate is about 10 %. Salaries are expected to increase by 3.7 % with an inflation rate of 2.5 %.
- » The **Czech Republic** recorded a sharp decline within the retail industry in spring. However, a slow upward trend for the entire economy is expected within the next couple of months. The rate of unemployment is about 8.3 %. The intended conversion to the Euro currency is expected for 2015. Salary increases will reach 3.9 % with an inflation rate of 2 %.
- » In Summer **Hungary** introduced the taxation of employee benefits such as cafeteria programs, which now leads to considerations within many companies to change from benefits towards higher variable pay. The government plans a decrease in income tax by 5 percentage points and a cancellation of the „solidarity tax“, which is now 4 %. On the other hand, business tax will be increased by 3 percentage points. Expected salary increase: 3.5 %, inflation rate: 2.7 %.