



# Planning Global Compensation Budgets for 2018

*November 2017 Update*



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The year is rapidly coming to a close, and we are now in the midst of 2018 global compensation and financial planning and budgeting. It is timely to provide an update on the world economy and its effect on 2018 salary increase budgeting.

The International Monetary Fund (IMF) has provided the following insight in its October 2017 World Economic Outlook (WEO):

The global upswing in economic activity is strengthening, with global growth projected to rise to 3.6 percent in 2017 and 3.7 percent in 2018. Broad-based upward revisions [from the April 2017 WEO] in the euro area, Japan, emerging Asia, emerging Europe, and Russia more than offset downward revisions for the United States and the United Kingdom. But the recovery is not complete: while the baseline outlook is strengthening, growth remains weak in many countries, and inflation is below target in most advanced economies. Commodity exporters, especially of fuel, are particularly hard hit as their adjustment to a sharp step down in foreign earnings continues. And while short-term risks are broadly balanced, medium-term risks are still tilted to the downside. For policymakers, the welcome cyclical pickup in global activity provides an ideal window of opportunity to tackle key challenges—namely to boost potential output while ensuring its benefits are broadly shared, and to build resilience against downside risks.<sup>1</sup>

Important insights from the IMF on labor and wage trends follow:

Within countries: even as negative output gaps close across the advanced economies, growth in nominal and real wages remains weak compared with past recoveries. Weak wage growth is one source of the surprisingly weak inflation, that itself is a source of concern, as it leaves nominal interest rates low and makes encounters with the effective lower bound, the point at which central banks can no longer lower interest rates, more likely. Chapter 2 of the World Economic Outlook studies the surprisingly slow growth of nominal wages, which reinforces a longer trend of stagnant median wages, rising income inequality, and job polarization such that middle-skill but well-paying jobs have become increasingly scarce. Those developments have stoked considerable popular anti-globalization backlash—one significant threat to the world economy—although technological developments and government policies together have played larger roles in increasing income inequality, and fears of faster automation are a current cause of anxiety.<sup>2</sup>

Critically important to inclusive and sustainable growth is investment in people at all life-cycle stages, but especially the young. Better education, training, and retraining can both ease labor market adjustment to secular economic transformation—coming from all sources, not only trade—and raise productivity. In the short term, the excessive youth unemployment that afflicts many countries urgently deserves attention. Investing in human capital should help to push labor's income share upward, contrary to the broad trend of recent decades—but governments should also consider correcting distortions that may have reduced workers' bargaining power excessively. In sum, policy should promote an environment conducive to sustainable real wage growth.<sup>3</sup>

<sup>1</sup> <https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017>

<sup>2,3</sup> International Monetary Fund. 2017. *Seeking Sustainable Growth: Short-Term Recovery, Long-Term Challenges* (pp. xiii, xiv). Washington, DC, October.

## Projected 2018 Salary Increases by Country and Historical Trends

ERI's 2018 global salary increase projections have been updated and reported for 72 countries to support the 2018 salary increase budgeting process. The fall update to 2018 salary increase projections are based on ERI Economic Research Institute's extensive database, plus global historical trends and projections. Data from government resources, publications, and over 20,000 companies were assessed in this review. The following tables include the International Monetary Fund's updated research on 2016, 2017, and 2018 actuals/projections for unemployment, growth in gross domestic product (GDP), and change in the consumer price index (CPI):

### 2016 - 2018 Global Salary Increase Trends with Key Economic Factors

		Unemployment Rate <sup>2</sup>			Real Gross Domestic Product <sup>2</sup>			Consumer Price Indices <sup>2</sup>			Salary Increase <sup>1</sup>		
		% Labor Force			% Change from Prior Year			% Change from Prior Year			% Change from Prior Year		
		2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Americas	Argentina	8.5	8.1	7.7	-2.2	2.5	2.5	-	26.9	17.8	30.0	28.0	26.0
	Brazil	11.3	13.1	11.8	-3.6	0.7	1.5	8.7	3.7	4.0	7.9	8.0	8.0
	Canada	7.0	6.5	6.3	1.5	3.0	2.1	1.4	1.6	1.8	3.0	3.0	3.0
	Chile	6.5	7.0	6.8	1.6	1.4	2.5	3.8	2.3	2.7	5.0	5.0	4.8
	Colombia	9.2	9.3	9.2	2.0	1.7	2.8	7.5	4.3	3.3	4.6	6.5	6.5
	Costa Rica	9.0 <sup>3</sup>	8.1	7.9	4.3	3.8	3.8	0.0	1.7	2.9	5.5	5.1	5.0
	Mexico	3.9	3.6	3.7	2.3	2.1	1.9	2.8	5.9	3.8	4.7	4.5	4.5
	Panama	5.8 <sup>3</sup>	5.5	5.4	4.9	5.3	5.6	0.7	1.6	2.1	5.0	4.5	4.3
	Peru	6.7	6.7	6.7	4.0	2.7	3.8	3.6	3.2	2.3	5.0	5.0	5.0
	United States	4.9	4.4	4.1	1.5	2.2	2.3	1.3	2.1	2.1	3.0	3.1	3.1
	Venezuela	20.6	26.4	29.8	-16.5	-12.0	-6.0	254.4	652.7	2349.3	65.0	238.0	*
Asia Pacific	Australia	5.7	5.6	5.4	2.5	2.2	2.9	1.3	2.0	2.2	3.5	3.0	3.0
	China	4.0	4.0	4.0	6.7	6.8	6.5	2.0	1.8	2.4	8.0	7.5	7.0
	Hong Kong	2.7	2.6	2.6	2.0	3.5	2.7	2.6	2.0	2.2	4.5	4.2	4.2
	India	3.5 <sup>3</sup>	3.4 <sup>3</sup>	3.4 <sup>3</sup>	7.1	6.7	7.4	4.5	3.8	4.9	10.9	10.3	10.3
	Indonesia	5.6	5.4	5.2	5.0	5.2	5.3	3.5	4.0	3.9	9.2	9.0	8.8
	Japan	3.1	2.9	2.9	1.0	1.5	0.7	-0.1	0.4	0.5	2.5	2.4	2.4
	Malaysia	3.5	3.4	3.2	4.2	5.4	4.8	2.1	3.8	2.9	5.7	5.5	5.5
	New Zealand	5.1	4.9	4.6	3.6	3.5	3.0	0.6	2.2	2.0	3.2	3.1	3.0
	Pakistan	6.0	6.0	6.1	4.5	5.3	5.6	2.9	4.1	4.8	11.2	10.7	10.0
	Philippines	5.5	6.0	5.5	6.9	6.6	6.7	1.8	3.1	3.0	6.7	6.8	6.5
	Singapore	2.1	2.2	2.1	2.0	2.5	2.6	-0.5	0.9	1.3	4.3	4.1	4.1
	South Korea	3.7	3.8	3.6	2.8	3.0	3.0	1.0	1.9	1.9	5.0	4.8	4.7
	Taiwan	3.9	3.8	3.8	1.5	2.0	1.9	1.4	1.0	1.4	4.0	4.0	4.0
	Thailand	0.8	0.7	0.7	3.2	3.7	3.5	0.2	0.6	1.0	5.9	5.5	5.3
	Vietnam	2.3	2.3	2.3	6.2	6.3	6.3	2.7	4.4	4.0	10.4	9.7	9.5

\* Venezuela - Hyperinflation budget projected at 33-60% of inflationary rates for budgeting purposes only (local currency). Check with local resources and legal counsel prior to implementation.

#### Table Sources:

1. Economic Research Institute
2. International Monetary Fund. 2017. World Economic Outlook Database - October 2017
3. ILO Estimates and Projections Series - November 2016

		Unemployment Rate <sup>2</sup>			Real Gross Domestic Product <sup>2</sup>			Consumer Price Indices <sup>2</sup>			Salary Increase <sup>1</sup>		
		% Labor Force			% Change from Prior Year			% Change from Prior Year			% Change from Prior Year		
		2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
EMEA (Europe, Middle East, and Africa)	Algeria	10.5	11.7	13.2	3.3	1.5	0.8	6.4	5.5	4.4	6.5	6.3	6.3
	Austria	6.0	5.4	5.3	1.5	2.3	1.9	1.0	1.6	1.8	2.9	2.9	2.7
	Belgium	7.9	7.5	7.3	1.2	1.6	1.6	1.8	2.2	1.5	2.5	2.5	2.5
	Bulgaria	7.7	6.6	6.4	3.4	3.6	3.2	-1.3	1.1	1.4	4.0	4.0	4.0
	Cyprus	13.0	11.8	10.7	2.8	3.4	2.6	-1.2	0.8	0.7	1.7	1.8	1.8
	Czech Republic	4.0	2.8	3.0	2.6	3.5	2.6	0.7	2.3	1.8	2.5	2.6	2.8
	Denmark	6.2	5.8	5.8	1.7	1.9	1.8	0.3	1.0	1.4	2.6	2.6	2.6
	Egypt	12.7	12.2	11.5	4.3	4.1	4.5	10.2	23.5	21.3	10.0	11.0	11.0
	Estonia	6.8	8.4	9.0	2.1	4.0	3.7	0.8	3.8	3.4	3.0	3.0	3.3
	Finland	8.8	8.7	8.1	1.9	2.8	2.3	0.4	0.8	1.2	2.3	2.2	2.0
	France	10.0	9.5	9.0	1.2	1.6	1.8	0.3	1.2	1.3	2.7	2.6	2.5
	Germany	4.2	3.8	3.7	1.9	2.1	1.8	0.4	1.6	1.5	3.0	3.0	3.0
	Greece	23.6	22.3	20.7	0.0	1.8	2.6	0.0	1.2	1.3	1.8	2.1	2.0
	Hungary	5.1	4.4	4.3	2.0	3.2	3.4	0.4	2.5	3.2	3.5	3.2	3.4
	Ireland	7.9	6.4	5.9	5.1	4.1	3.4	-0.2	0.4	1.5	2.1	2.4	2.5
	Israel	4.8	4.3	4.5	4.0	3.1	3.4	-0.5	0.2	0.5	3.0	3.0	3.0
	Italy	11.7	11.4	11.0	0.9	1.5	1.1	-0.1	1.4	1.2	2.6	2.7	2.7
	Jordan	13.2 <sup>3</sup>	13.4 <sup>3</sup>	13.4 <sup>3</sup>	2.0	2.3	2.5	-0.8	3.3	1.5	5.7	5.7	5.0
	Kazakhstan	5.0	5.0	5.0	1.1	3.3	2.8	14.6	7.3	6.5	8.5	8.4	8.3
	Kenya	11.0 <sup>3</sup>	10.8 <sup>3</sup>	10.7 <sup>3</sup>	5.8	5.0	5.5	6.3	8.0	5.2	7.9	7.5	7.5
	Kuwait	2.1	2.1	2.1	2.5	-2.1	4.1	3.5	2.5	2.7	4.4	4.8	4.7
	Latvia	9.6	9.0	8.7	2.0	3.8	3.9	0.1	3.0	3.0	3.3	3.3	3.5
	Lebanon	6.8 <sup>3</sup>	7.0 <sup>3</sup>	7.1 <sup>3</sup>	1.0	1.5	2.0	-0.8	3.1	2.5	-	5.5	5.5
	Lithuania	7.9	7.0	6.5	2.3	3.5	3.5	0.7	3.5	2.0	3.5	3.6	3.5
	Luxembourg	6.4	5.9	5.5	4.2	3.9	3.6	0.0	1.2	1.3	2.9	2.8	2.8
	Morocco	9.4	9.3	9.5	1.2	4.8	3.0	1.6	0.9	1.6	4.5	4.1	4.0
	Netherlands	5.9	5.1	4.9	2.2	3.1	2.6	0.1	1.3	1.4	2.8	2.8	2.8
	Norway	4.7	4.0	3.8	1.1	1.4	1.6	3.6	2.1	2.0	3.0	3.0	3.0
	Poland	6.2	4.8	4.0	2.8	3.8	3.3	-0.6	1.9	2.3	3.0	3.0	3.0
	Portugal	11.1	9.7	9.0	1.4	2.5	2.0	0.6	1.6	2.0	2.0	2.2	2.3
	Qatar	0.2 <sup>3</sup>	0.3 <sup>3</sup>	0.4 <sup>3</sup>	2.2	2.5	3.1	2.7	0.9	4.8	4.4	4.8	4.8
	Romania	5.9	5.3	5.2	4.8	5.5	4.4	-1.6	1.1	3.3	4.5	4.5	4.5
	Russia	5.5	5.5	5.5	-0.2	1.8	1.6	7.0	4.2	3.9	8.0	8.0	8.0
Saudi Arabia	5.6	5.5 <sup>3</sup>	5.5 <sup>3</sup>	1.7	0.1	1.1	3.5	-0.2	5.0	4.7	4.9	5.0	
Slovakia	9.6	8.0	7.5	3.3	3.3	3.7	-0.5	1.2	1.4	2.7	2.8	2.8	
South Africa	26.7	27.6	28.3	0.3	0.7	1.1	6.3	5.4	5.3	6.8	6.7	6.8	
Spain	19.6	17.1	15.6	3.2	3.1	2.5	-0.2	2.0	1.5	2.3	2.4	2.5	
Sweden	7.0	6.6	6.3	3.2	3.1	2.4	1.1	1.6	1.6	2.8	2.9	2.9	
Switzerland	3.3	3.0	3.0	1.4	1.0	1.3	-0.4	0.5	0.6	2.0	2.0	2.0	
Tanzania	2.6 <sup>3</sup>	2.7 <sup>3</sup>	2.8 <sup>3</sup>	7.0	6.5	6.8	5.2	5.4	5.0	7.0	7.0	7.0	
Tunisia	14.0	13.0	12.0	1.0	2.3	3.0	3.7	4.5	4.4	6.5	6.5	6.5	
Turkey	10.9	11.2	10.7	3.2	5.1	3.5	7.8	10.9	9.3	8.0	8.0	8.5	
Uganda	2.3 <sup>3</sup>	2.4 <sup>3</sup>	2.4 <sup>3</sup>	2.3	4.4	5.2	5.5	5.8	5.6	6.8	6.8	6.8	
Ukraine	9.3	9.5	9.3	2.3	2.0	3.2	13.9	12.8	10.0	11.7	11.8	11.0	
United Arab Emirates	3.7 <sup>3</sup>	3.7 <sup>3</sup>	3.6 <sup>3</sup>	3.0	1.3	3.4	1.8	2.1	2.9	4.5	4.5	4.5	
United Kingdom	5.6	4.4	4.4	1.8	1.7	1.5	0.7	2.6	2.6	2.8	3.0	3.0	

# Key Observations

## Americas

Salary increases in the United States and Canada are projected to remain flat for 2018 at 3.1% and 3.0% respectively. Unemployment is projected to decrease in the United States from 4.4% in 2017 to 4.1% in 2018, while Canada is also expected to decrease from 6.5% in 2017 to 6.3% in 2018.

Brazil's unemployment is projected to decrease from 13.1% to 11.8%. The change in the CPI has decreased over the last two years by almost 5 percentage points, with 2018 projected at 4.0%. Salary increases are expected to be maintained at 8.0% in 2017 and 2018.

Argentina's inflation rate is decreasing, but the country will still experience double-digit inflation. The change in CPI is expected to reach 26.9% in 2017 but is projected to decline to 17.8% in 2018. The 2018 salary increase is forecasted at 26%. Unemployment is expected to slightly decrease from 8.1% in 2017 to 7.7% in 2018.

Venezuela's catastrophic economy, civil unrest, currency devaluation, and hyperinflation require close observation and regular action. Unemployment is forecasted to increase from 26.4% in 2017 to 29.8% in 2018. Inflation is expected to triple from 652.7% in 2017 to 2349.3% in 2018. Although 2018 salary increases (in local currency) are difficult to project under these extreme conditions, consider budgeting based on a calculation at 33% to 60% of the projected annualized inflation rate, which would produce a 2018 salary increase budget of 775% to 1409% for the year (assuming no change to the country's fiscal policy). Under these extreme conditions, regular increases to pay (e.g., monthly) are needed to respond to this hyper-inflationary environment. Prior to administration of pay increases, consult regularly with local experts and legal counsel to ensure legal and monetary policy compliance while maintaining market competitive pay.

## Europe, Middle East, and Africa

The Euro area recovery is expected to gather strength this year, with GDP growth projected to rise to 2.1% in 2017 before moderating to 1.9% in 2018.<sup>4</sup> Unemployment in the European Union is also forecasted to decrease from 2017 to 2018. Salary increases in the EU are expected to average 2.9% (2.8% median) in 2018.

Western Europe is projected to implement 2.6% average and median salary increases in 2018. Greece, Finland, and Switzerland are low at 2.0%, while Germany, Norway, and the United Kingdom are high at 3.0%.

Russia's 2018 salary increases are projected at 8.0%, and the Ukraine is expected to continue with double-digit increases at 11.0%.

## Asia Pacific

The IMF states, "Growth in China and other parts of emerging Asia remains strong."<sup>5</sup> GDP growth in China is forecasted at 6.8% in 2017 and 6.5% in 2018. The 15 APAC reported countries are projected to have average salary increases in 2018 at 5.9% (median at 5.3%).

Japan's salary increases are low at 2.4%, while India and Pakistan are high at 10.3% and 10.0% respectively.

# Summary

The 2018 projections indicate salary increase budgets throughout the majority of the world are between 2% and 5%. High inflationary countries, such as Venezuela, Argentina, and Egypt, require close observation and action, as needed, to ensure up-to-date compensation programs. The loss of real income for Venezuelan employees continues to be a catastrophic issue for businesses and their national economy alike.

The guidance of the International Monetary Fund in its semi-annual World Economic Outlook suggests that managing to weak wage growth is one source of the surprisingly weak inflation that itself is a source of concern and affects the sustainability of the global economic recovery.

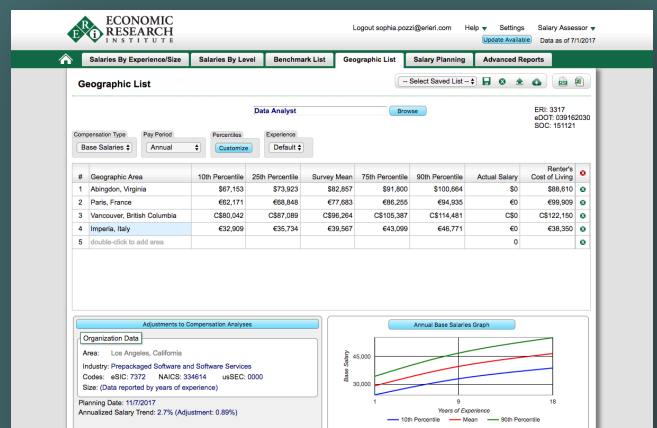
The IMF states, “Nominal wage growth in most advanced economies remains markedly lower than it was before the Great Recession of 2008-09. The bulk of the wage slowdown can be explained by labor market slack (both headline unemployment and underutilization of labor in the form of involuntary part-time employment), inflation expectations, and trend productivity growth.”<sup>6</sup>

This important IMF insight may be an appropriate consideration for 2018 salary increase budgeting. It is increasingly apparent that our combined decisions not only impact the financial results of our organizations, but also contribute to the health of our country and world economies.

<sup>4, 5, 6</sup> International Monetary Fund. 2017. Seeking Sustainable Growth: Short-Term Recovery, Long-Term Challenges. (pp. 13, xv, 73) Washington, DC, October

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