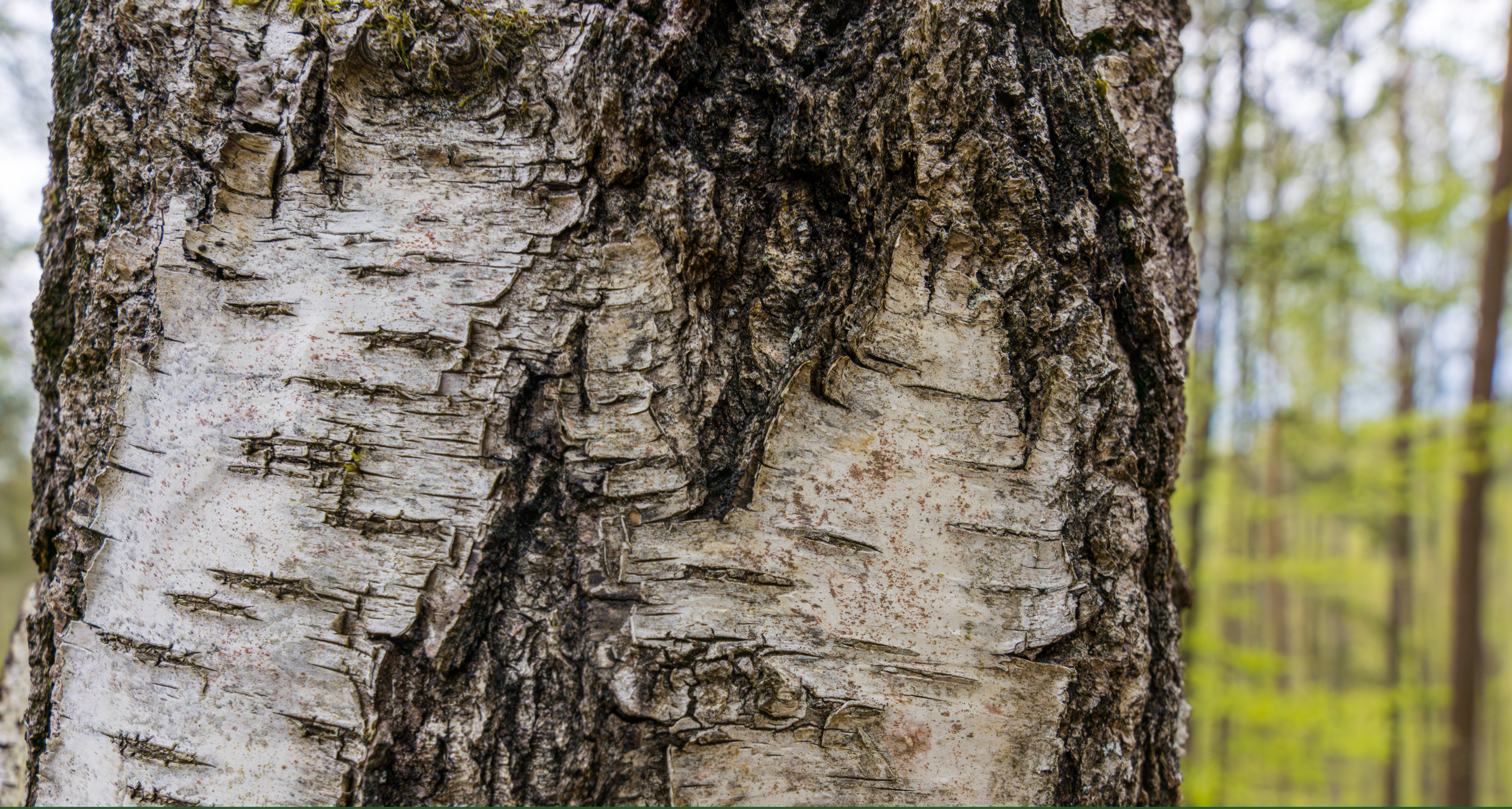


Market Monitor - 1 August 2023

Emerging Conditions Which Indicate Potential Volatility

Vol.2, No.15

Birches Group conducts salary surveys and monitors labor market conditions in more than 150 countries. The salary survey program updates and publishes changes in employer compensation three times per year (April, July and October).

On a continuing basis, Birches Group monitors economic indicators that highlight potential volatility. These indicators are largely based on examination of exchange rate movement against the US Dollar.

Birches Group publishes the Market Monitor to keep our clients and collaborators informed about emerging conditions which may require closer monitoring. The Market Monitor is published twice a month and is available at no cost. Sign up to continue receiving updates.

Each organization needs to determine for itself the appropriate triggers within labor market conditions which will warrant a change/update of salaries and benefits and how these changes will be applied to individual staff. In the vast majority of locations a planned annual review of labor market movement is sufficient to sustain dynamic compensation.

Where economies begin to experience volatility, organizations should have policies and measures in place to respond to these conditions to sustain dynamic pay systems and provide for business/operational continuity to the extent possible. How aggressive these measures can and should be is dependent upon the volatility which is occurring. For the most part exchange rate movement/inflation which remains under ten percent per year will normally be captured in standard labor market movement. Where these indicators begin to exceed ten percent movement over a period of six months or less, additional monitoring becomes prudent with anticipation of the need for more rapid adjustment.

Why Exchange Rates?

Many clients are wondering why we are tracking exchange rates to monitor markets instead of inflation. Here's why:

Employers set salaries using cost of labor – how much other employers in the market pay for the same or similar roles. During normal economic times, cost of labor is the only indicator you need to ensure your compensation program is competitive. When volatility in the market occurs, currency devaluation and inflation increase. While we have found that devaluation, inflation and labor market movement are not correlated – i.e., they often move independently from one another – during periods of high volatility, employers often use devaluation or inflation as one of the considerations in reacting to the volatility in the labor market.

Exchange rates are a *leading* indicator of volatility. Rates are widely available and anchored in fact, not estimates. On the other hand, inflation is a *lagging* indicator of volatility. Accurate inflation rate data is difficult to obtain and is often estimated. For example, the latest global inflation data published by the OECD, effective April 2022, includes inflation rates for 156 countries around the world. 45% of the data is estimated after 2020. In other words, 70 of the 156 countries did not report actual inflation data for any period in 2021 or 2022! OECD data is useful, and is probably the best data that is publicly available, but the data is based on estimates and projections, not facts! In addition, inflation impacts employees differently depending on their standard of living and individual circumstances.

Birches Group uses currency exchange rates as the most reliable measure of volatility. Inflation often follows devaluation in the market, so devaluation is a decent indicator of the inflation impact. Employers who monitor devaluation and apply consistent and proactive actions in response will emerge as the leaders in the market and will be well equipped to maintain a competitive market position despite challenging economic conditions.

Having examined the impact of exchange rate movement on salaries, it has been observed that the impact can be profound but not entirely correlated to the full movement. Following the current data on volatility, a table of six levels of volatility is presented. These six levels provide guidance to organizations as to the degree of volatility and indicate that heightened levels of attention are required to plan for any additional measures to sustain competitiveness of the local pay system.

There are no new additions in this update. Of the twenty-eight countries on our list, Congo, D.R. moves from Level Two to Level One. Türkiye moves from Level Two to Level Three. Egypt, Eswatini, Ghana, Haiti, Lesotho, Namibia, Pakistan, Sierra Leone, South Africa, and Zambia remain excluded from our levels of volatility as the exchange rate movements for these ten countries continue to remain below ten percent.

For those organizations subscribing to Birches Group labor market data, updated market data for July 2023 is available where organizations can possibly examine movement.

Early August 2023 Conditions

For Market Monitor Report Vol. 2, No.15 examination of exchange rate movement over the prior six months now identifies twenty-eight countries which warrant heightened monitoring. The table of exchange rate movement for these twenty-eight is presented below. An additional table tracking exchange rate movement against the US Dollar for the Euro, British Pound, CFA Franc, and Japanese Yen is also available (exchange rate values are in USD):

Birches Group Exchange rate alert, 1 August 2023

Country	Currency	ISO Code	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23		6 mo movement
Angola	Kwanza	AOA	504.318	503.992	505.882	507.483	635.051	823.665	824.602		63.5%
Argentina	Argentine Peso	ARS	191.64	200.647	214.186	228.96	247.257	263.867	273.557		42.7%
Belarus	Belarussian Ruble	BYN	2.729	2.835	2.902	2.885	2.926	3.076	3.076		12.7%
Burundi	Burundi Franc	BIF	2069.26	2058.221	2063.598	2795.357	2800.862	2806.12	2808.402		35.7%
Congo, Dem. Rep.	Franc Congolais	CDF	2020.163	2039.725	2035.363	2192.873	2192.873	2396.755	2396.755		18.6%
Egypt	Egyptian Pound	EGP	30.4	30.86	30.862	30.875	30.861	30.899	30.868		1.5%
Eswatini	Lilangeni	SZL	17.84	18.198	18.363	19.242	18.592	18.244	17.644		-1.1%
Ghana	Ghana Cedi	GHS	11.85	12	10.85	11.56	11	11	11.15		-5.9%
Haiti	Gourde	HTG	149.375	150.98	153.56	146.18	138.6	137.66	136.77		-8.4%
Iran	Iranian Rial	IRR	282435	381412	375793	381139	374009	371697	371886		31.7%
Kenya	Kenyan Shilling	KES	125.09	129.24	133.8	136.77	139.41	141.11	142.25		13.7%
Lao, People's Dem. Rep.	Laos Kip	LAK	16935	16948	17199	17515	18210	19224	19331		14.1%
Lebanon	Lebanese Pound	LBP	43600	73100	87000	86300	86200	85500	85500		96.1%
Lesotho	Loti	LSL	17.84	18.198	18.363	19.242	18.592	18.244	17.644		-1.1%
Liberia	Liberian Dollar	LRD	156.013	159.285	161.853	164.847	169.858	181.454	184.237		18.1%
Namibia	Namibian Dollar	NAD	17.84	18.198	18.363	19.242	18.592	18.244	17.644		-1.1%
Nigeria	Naira	NGN	460.2	460.7	462.39	463.42	472.2	783.06	765		66.2%
Pakistan	Pakistani Rupee	PKR	269.375	281.343	287.035	295.5	283.56	276.473	286.064		6.2%
Russian Federation	Russian Ruble	RUB	73.761	75.121	82.249	76.336	83.751	90.529	91.038		23.4%
Sierra Leone	Leone	SLL	19.719	20.2	21.46	22.45	22.9	20.5	21.45		8.8%
South Africa	Rand	ZAR	17.84	18.198	18.363	19.242	18.592	18.244	17.644		-1.1%
South Sudan, Republic of	South Sudanese Pounds	SSP	754.6895	787.498	857.382	909.768	966.581	922.618	997.628		32.2%
Suriname	Surinamese Dollar	SRD	32.066	34.091	37.038	37.552	37.765	37.732	38.207		19.2%
Syrian Arab Republic	Syrian Pound	SYP	4500	4500	6500	6500	6500	6500	8500		88.9%
Türkiye	Türkiye Lira	TRY	18.843	18.975	19.316	19.558	23.628	26.145	26.949		43.0%
Venezuela	Bolivar Digital	VES	23.809	24.135	24.487	25.039	26.857	28.304	29.31		23.1%
Zambia	Kwacha	ZMW	19.29	20.221	18.85	18.26	18.9	18.4	18.6		-3.6%
Zimbabwe	Zimbabwe RTGS dollar	ZWL	796.63	907.924	944.713	1125.667	4868.511	5297.503	4504.502		465.4%
	Euro	EUR	0.933	0.934	0.911	0.917	0.927	0.902	0.908		-2.7%
	U.K. Pound	GBP	0.824	0.826	0.803	0.799	0.795	0.77	0.778		-5.6%
	CFA Franc	XOF	612.129	612.472	597.465	601.244	608.269	591.432	595.675		-2.7%
	Yen	JPY	132.58	133.05	133.2	134.35	139.93	138.89	140.53		6.0%

Legend

Movement greater than 10% in 6 months
Movement greater than 20% in 6 months
Movement greater than 30% in 6 months
Movement greater than 40% in 6 months
Movement greater than 50% in 6 months

Based upon UN official exchange rates

Early August 2023 Conditions

Based on the above data, the recommended monitoring and response level is as follows:

Level One	Level Two	Level Three	Level Four	Level Five
Belarus	Burundi	Argentina	Angola	Lebanon
Congo, D.R.	Iran	Türkiye	Nigeria	Syria
Kenya	Russia			Venezuela
Laos	South Sudan			Zimbabwe
Liberia				
Suriname				

Congo, D.R. moves back to Level One from Level Two. Türkiye moves from Level Two to Level Three. Angola and Nigeria remain at Level Four. Egypt, Eswatini, Ghana, Haiti, Lesotho, Namibia, Pakistan, Sierra Leone, South Africa, and Zambia remain excluded from our levels of volatility with exchange rate movements below ten percent. These ten countries will remain in this update for the time being.

Syria remains in Level Five where the majority of the comparator employers in our survey denominate salaries in US Dollars or Euros. Lebanon, Venezuela, and Zimbabwe also remain at Level Five. All comparator employers in these three surveys are confirmed to denominate salaries in US Dollars or Euros. We will continue to monitor these exceptional situations closely.

Where organizations decide to proceed with a response to economic developments beyond Level One where standard pay management policies still typically remain in place, consideration should be given to close monitoring and a determination as to when the organization will revert pay management to Level One.

Birches Group has developed a range of response scenarios which organizations may consider to address the conditions found for each level of volatility. We are happy to work with individual organizations to examine the context of current pay approaches to help design an appropriate response.

Birches Group presents this information for the sole purpose of providing data on emerging conditions. The decision to proceed with any response to changing conditions is entirely within the purview of each organization. Having policies in place that identify possible volatile conditions, define possible "triggers" for supplemental action and provide guidance as to the steps an organization will pursue to sustain stability to a partial extent brings a great degree of transparency to compensation management.

The analysis and response level anticipates compensation established in local currency. Denomination of compensation in currencies other than the national currency should be highly exceptional. The conditions warranting the possible consideration of this response are detailed in Response Level Five.

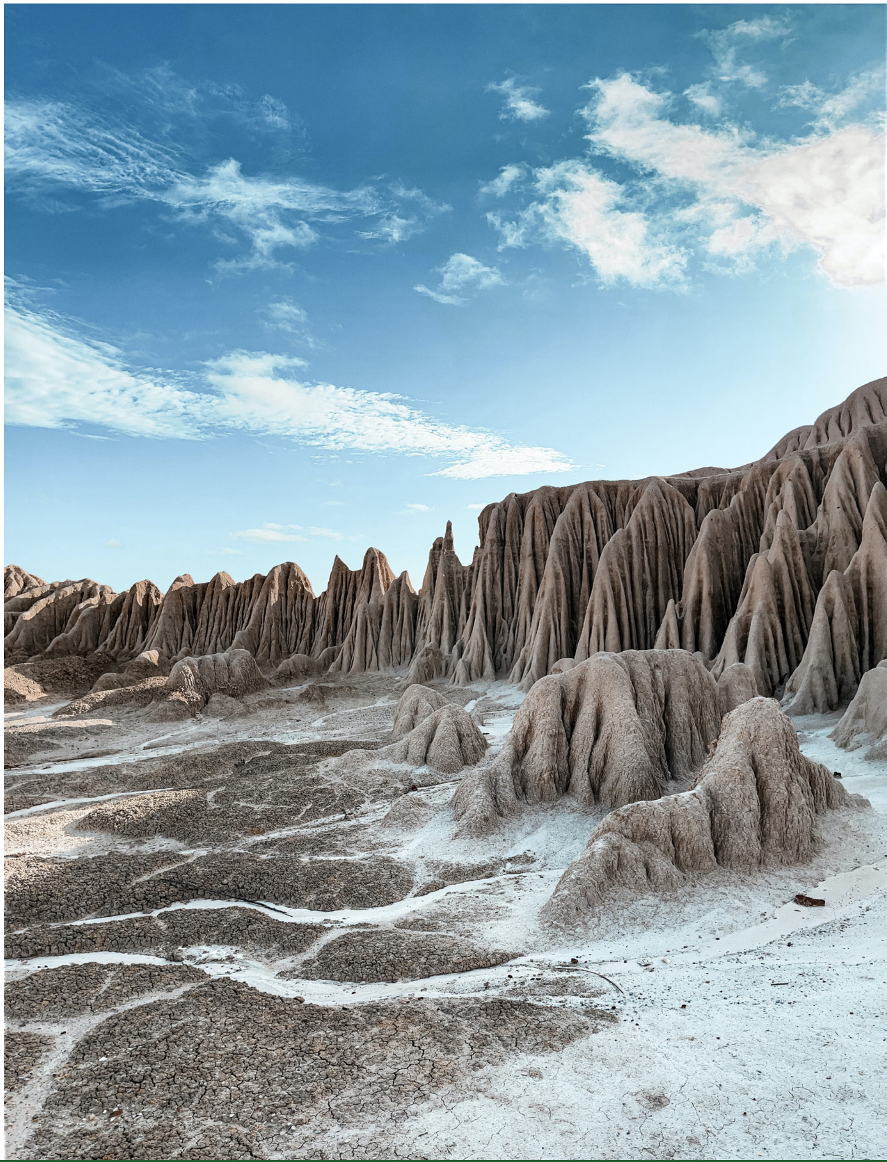
Levels of Volatility

To guide an organization on appropriate measures against timeframes for managing the updating of salary scales, the table below has been prepared aligning the measure against the market condition.

Level of Volatility	Market Condition
Level One	Standard Market Conditions 0 to 20% exchange rate movement in six months
Level Two	Dynamic Market Conditions 20+% exchange rate movement in six months
Level Three	Rapid Evolving Market Conditions 40+% exchange rate movement in six months Multiple reviews and revisions typical amongst comparators
Level Four	Sudden, Unexpected Social/Economic Event Currency devaluation of 50% or more in six months or less Disjointed and unclear comparator response
Level Five	National currency aligned Dollars/Euros Wide prevailing practice to denominate national salaries in Dollars or Euros Legal for staff to have Dollar/Euro bank accounts
Level Six	Labor market collapse Departure of most comparators from the market Absence of reliable data on currency and inflation

Country in Focus: Angola

To demonstrate how organizations can identify its triggers and develop appropriate measures based on the above levels of volatility, we will focus on Angola as our case study in this update. Below are step-by-step examples organizations could consider as they begin to develop their own Special Measures Policy.



IDENTIFYING ECONOMIC TRIGGERS

When currency devaluation reaches 50% or more in six months or less, a country qualifies as Level Four in our Levels of Volatility, as shown above.

Based on the recent exchange rate alert on page four, Angola's exchange rate movement for the past six months stands at 63.5%. Although this significant devaluation could classify Angola at a higher volatility level, our latest salary survey reports that most organizations still denominate salaries in the local currency, keeping Angola at Level Four for the time being.

DEVELOPING A FOCUSED GROUP OF EMPLOYERS

Establishing a periodicity for salary reviews builds confidence and predictability in pay management. In volatile countries like Angola, a review of the market data is necessary to avoid lag or lead issues. Using the employer sample from the most recent Angola survey, organizations will need to create a smaller, focused group of comparators that:

- Are the stronger comparators in the market
- Have responsive pay policies in place
- As much as possible, denominate salaries in local currency

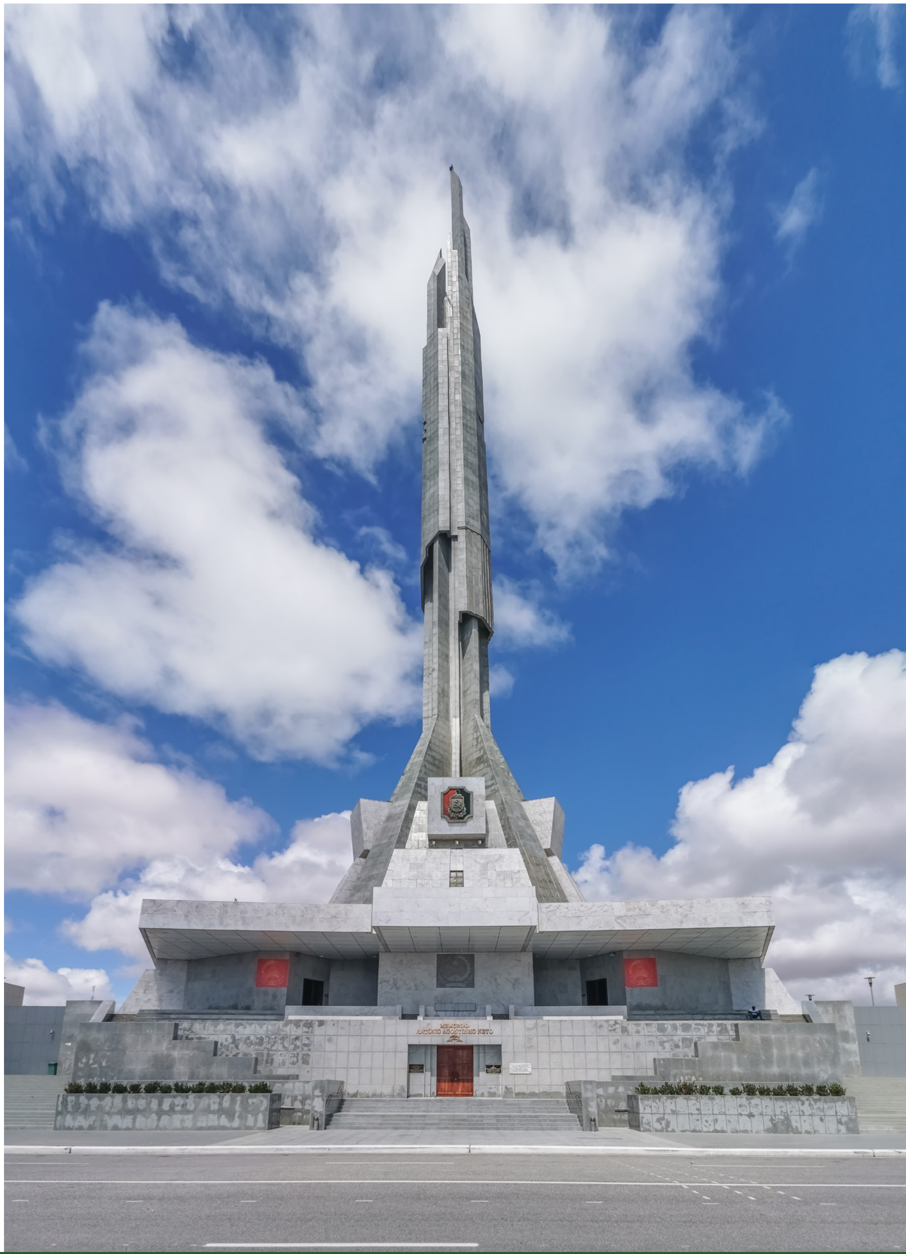
Country in Focus: Angola

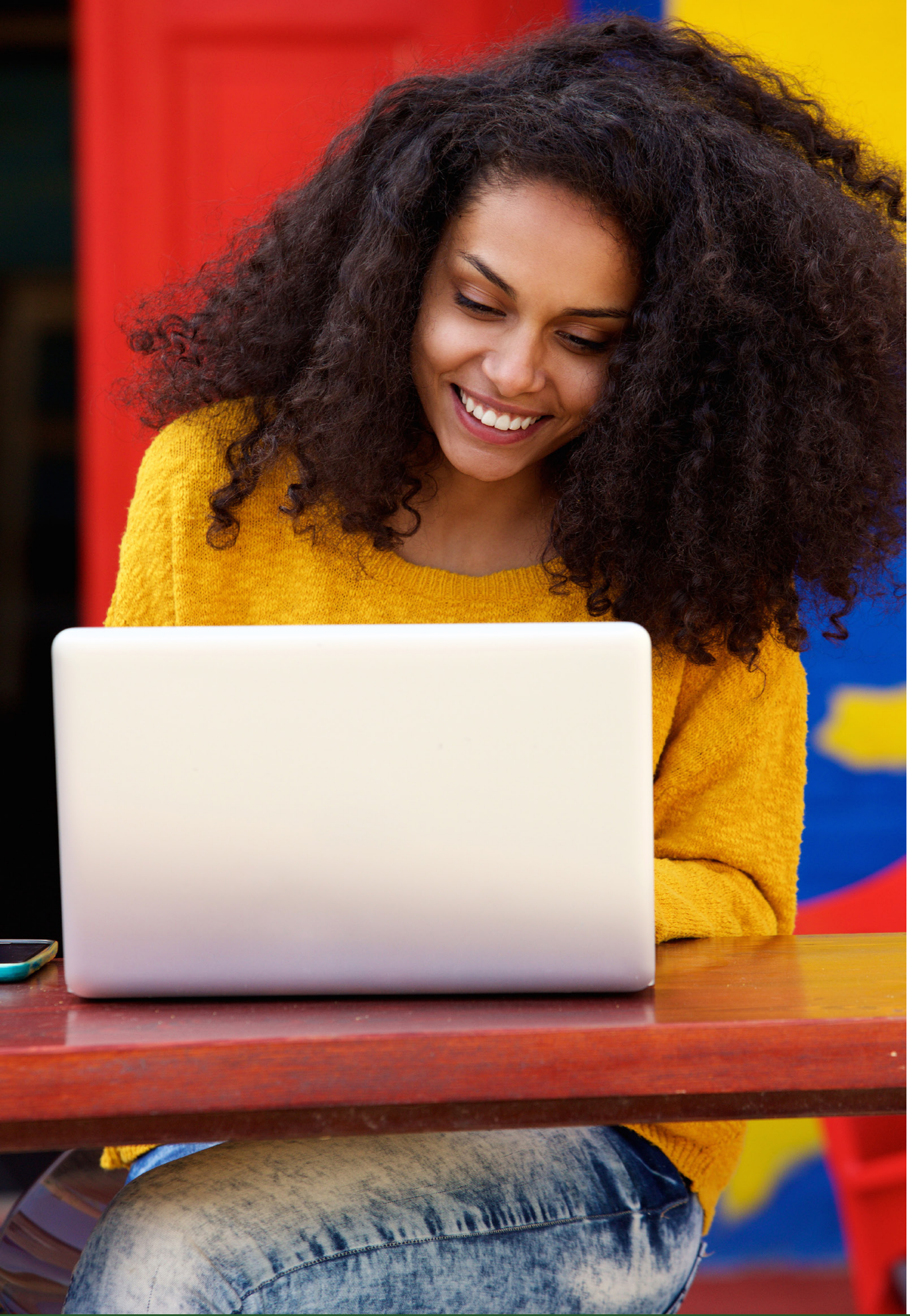
UPDATING AND PROJECTING

Where devaluation exceeds 50%, organizations should review and update their salary scale three times a year based on the focused group of comparators defined above. Combining trimestral adjustments to the pay scale with estimating the movement for the coming quarter and implementing a stabilization allowance on top of the revised salaries will allow organizations to stay ahead of the market movement.

With each new trimestral update, organizations can fold the previous salary advance into the pay scale with a new advance implemented. The stabilization allowance is based either on 20% of the rate of devaluation or the observed market movement among its focused group of comparators.

Implementation of the new salary scales and adjustment measures will allow organizations to sustain the position in the pay range of individual staff until the next review is carried out.





Responding to Volatility

This table of categories of volatility should be discussed and agreed as a basis to develop aligned responses. Measures organizations choose to develop to sustain market competitiveness and business continuity in response to economic and social volatility should be widely disseminated so everyone in the organization knows the basis beyond the founding principles upon which pay will be reviewed and revised. Provisions need to be made in advance to ensure arrangements are in place to support the needed action as conditions evolve. There needs to be close coordination with the data provider. Again, Birches Group is prepared to work with organizations to develop responses and help communicate these policies with staff and management.

With appropriate organization and planning, the creation of a flexible framework for sustaining compensation during periods of volatility is quite possible. Most importantly, having a policy framework in place guided by market information ensures sustaining the goal and integrity of the salary system while remaining in the context of local market conditions.

SIGN UP TO CONTINUE RECEIVING UPDATES OF OUR MARKET MONITOR REPORT

We're here to help you integrate your workforce management

COMMUNITY™ INTEGRATED WORKFORCE MANAGEMENT

At Birches Group, we believe in a holistic approach to managing your workforce, from the initial structure to the capacity of your people, through skills development and performance. The Community™ platform is Birches Group's methodology that integrates critical areas of human resources: job design and evaluation, compensation management, skills measurement, and performance management. Community™ uses a simple, clear, and consistent approach across all areas of HR, all built on the foundation of ***Jobs***.

SIMPLE AND CONSISTENT JOB EVALUATION

Birches Group Community™ Jobs is a simple and transparent job evaluation approach easily understood by HR, managers and even staff. We believe that job evaluation forms the fundamental underpinning of everything HR does – from compensation and recruitment to development and performance. Every area of HR is impacted by job evaluation and job levels.

DESIGNING AND MAINTAINING YOUR SCALE

Our Scale Design Specialists have extensive experience in creating and maintaining salary scales for different types of organizations, as well as providing updated labor market data to help sustain your desired market position.

MANAGING INDIVIDUAL PAY USING COMMUNITY™ SKILLS

At Birches Group, we believe that pay movement should reflect one's experience. As an employee gains more experience in their job, they develop a deeper understanding of their role and accumulate the necessary skills that enable them to be more effective and produce higher quality results. Birches Group Community™ Skills provides a framework for measuring experience. Companies can link their compensation administration to the progression of Skills in any number of ways, and provide increases based on employee growth in their jobs rather than performance.

REWARDING ACHIEVEMENT THROUGH COMMUNITY™ PERFORMANCE

Birches Group believes that performance should be used for one-time recognition, not salary increases. Birches Group's Community™ approach to performance management centers the expectations on performance to the actual definition of the job level and celebration of the good. Using an approach that measures achievement by linking it back to the job evaluation factors, purpose, engagement, and delivery, Community™ provides organizations with a performance management system that is standardized, simplified, and can easily align with objectives across different grade levels and teams.

READY TO DEVELOP YOUR SPECIAL MEASURES POLICY?

Contact us to learn how Birches Group services can help your organization take the next steps toward developing your own special measures policy. You can also learn more about Community™ and how it can further align the foundations of your organization.