



Market Monitor - 1 January 2023

Emerging Conditions Which Indicate Potential Volatility

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.

Nineteen countries remain on our list. Three countries from the previous update have been removed namely, Bangladesh, Malawi, and Syria. Exchange rate movement for these three have remained below ten percent and have not shown significant movement for the last two months. On the other hand, Colombia, Pakistan, and Türkiye have been excluded from our levels of volatility. Exchange rate movements for these three countries are now below ten percent, but will continue to monitor them for the time being.

For those organizations subscribing to Birches Group labor market data, updated market data for October 2022 is available where organizations can possibly examine movement.



Early January 2023 Conditions

For Market Monitor Report Vol. 2, No.1, examination of exchange rate movement over the prior six months now identifies nineteen countries which warrant heightened monitoring. The table of exchange rate movement for these nineteen are 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 January 2023

Country	Currency	ISO Code	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23		6 mo movement
Angola	Kwanza	AOA	425.105	424.298	423.86	433.164	482.99	504.734	503.719		18.5%
Argentina	Argentine Peso	ARS	127.79	134.21	142.57	150.973	160.724	171.745	176.712		38.3%
Colombia	Colombian Peso	COP	4566	4232	4413	4615	4794	4803	4789		4.9%
Egypt	Egyptian Pound	EGP	18.845	19.09	19.306	19.641	24.348	24.592	24.709		31.1%
Gambia	Dalasi	GMD	53.85	53.86	54.49	56.788	58.97	61.14	60.78		12.9%
Ghana	Ghana Cedi	GHS	7.96	8.842	9.91	10.4	13.913	11	9.838		23.6%
Haiti	Gourde	HTG	114.547	121.794	115.61	118.548	129.084	141.74	143.7		25.5%
Lao, People's Dem. Rep.	Laos Kip	LAK	15040	15231	15758	16827	17367	17363	17352		15.4%
Lebanon	Lebanese Pound	LBP	1507.5	1507.5	1507.5	1507.5	30300	30300	38000		2420.7%
Myanmar	Kyat	MMK	1850	2100	2100	2100	2100	2100	2100		13.5%
Pakistan	Pakistani Rupee	PKR	209.99	217	231.936	217.161	221.25	224.75	226.4		7.8%
Russian Federation	Russian Ruble	RUB	59.717	60.874	60.364	63.849	60.601	63.136	73.008		22.3%
Sierra Leone	Leone	SLL	13540	13890	14210	16.4	17.58	18.45	18.82		cut 3 zeros (39%)
South Sudan, Republic of	South Sudanese Pounds	SSP	524.96	640.083	651.332	614.67	619.782	663.32	671.044		27.8%
Suriname	Surinamese Dollar	SRD	22.4	24.025	26.794	27.98	30.214	31.688	31.698		41.5%
Türkiye	Türkiye Lira	TRY	17.418	17.955	18.247	18.582	18.538	18.633	18.717		7.5%
Ukraine	Hryvnia	UAH	30	37	37	37	37	37	37		23.3%
Venezuela	Bolivar Digital	VES	5.612	5.851	8	8.23	8.829	13.596	16.566		195.2%
Zimbabwe	Zimbabwe RTGS dollar	ZWL	375.522	459.037	567.511	611.75	620.464	645.414	662.875		76.5%
Euro	EUR		0.996	0.965	0.997	1.032	0.972	0.938	0.939		-5.7%
U.K. Pound	GBP		0.842	0.817	0.866	0.906	0.852	0.804	0.831		-1.3%
CFA Franc	XOF		653.409	633.224	653.799	676.733	637.656	615.402	616.269		-5.7%
Yen	JPY		137.63	132.1	144.07	146.87	139.27	134.87	133.05		-3.3%

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 January 2023 Conditions

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

Level One	Level Two	Level Three	Level Five
Angola Gambia Laos Myanmar	Argentina Egypt Ghana Haiti Russia Sierra Leone South Sudan Ukraine	Suriname	Lebanon Venezuela Zimbabwe

Laos moved from Level Two to Level One. Argentina, Ghana, and Sierra Leone moved from Level Three to Level Two. Russia moved from Level One to Level Two. Bangladesh, Malawi, and Syria have not shown significant movement in the last two months and have been removed from this update. Colombia, Pakistan, and Türkiye on the other hand, have been excluded from our levels of volatility, but will remain in this update for the time being.

Lebanon remains in Level Five. It should be noted that the significant exchange rate movement observed in Lebanon is most likely caused by the United Nations switching its source of exchange rates to one that is a closer reflection of local conditions.

Venezuela and Zimbabwe also remain at Level Five. All comparator employers in both our Venezuela and Zimbabwe 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 12 months
Level Two	Dynamic Market Conditions 20+% exchange rate movement in 12 months
Level Three	Rapid Evolving Market Conditions 40+% exchange rate movement in 12 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: Lebanon

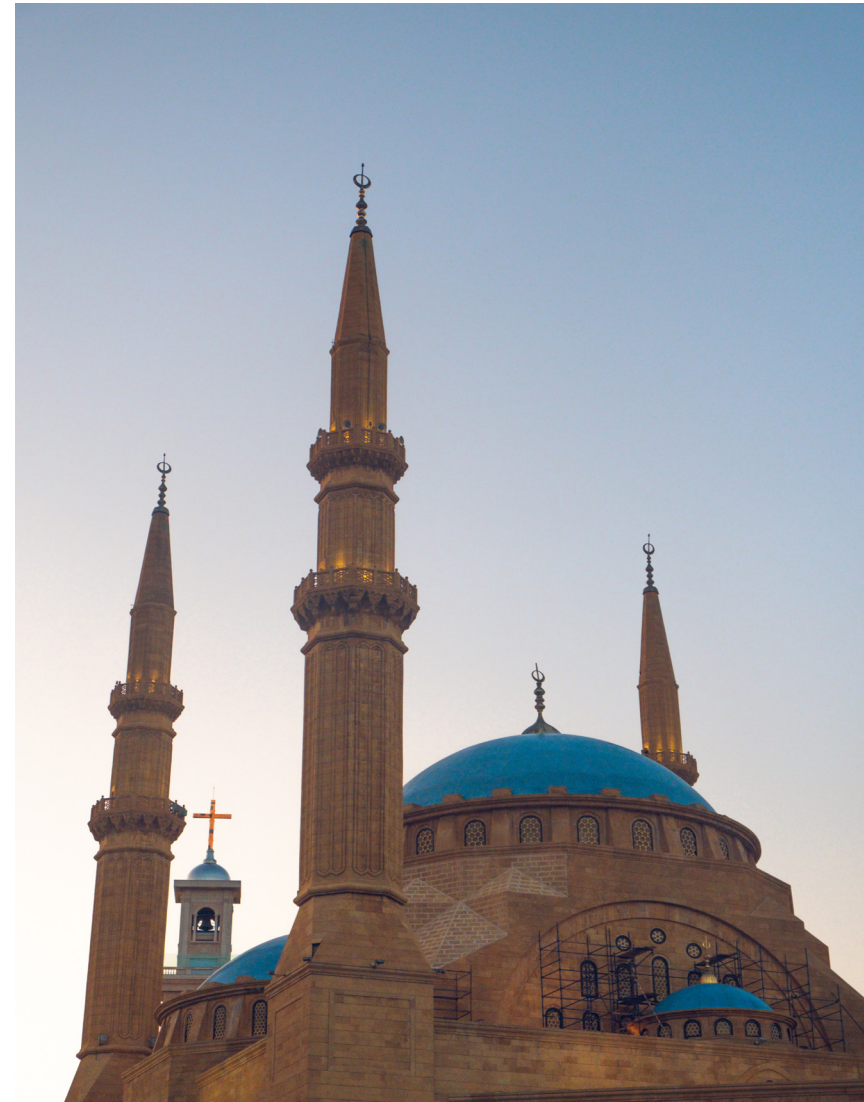
To demonstrate how organizations can identify its triggers and develop appropriate measures based on the above levels of volatility, we will focus on Lebanon as our case study in this update. We have provided some guidance below as organizations begin to develop their own Special Measures Policy.

GUIDANCE ON DOLLARIZATION

In countries classified as having Level Five volatility, where high inflation or devaluation is significant, the solution that is frequently sought is to change the local currency scale into one that is denominated in a major hard convertible currency, most frequently US dollars or Euros. Since organizational budgets are typically set up in one currency or the other, this solution seems straightforward and obvious.

While it might seem like a straightforward alternative, there are numerous factors to consider before making such a big switch. The first and most important factor is assessing the prevailing market conditions. When it comes to dollarization, this goes beyond the use of comparators and includes evaluating the usefulness of local money in daily life. Is the local currency still primarily used for trading goods and services? If so, every effort should be made to maintain a pay structure that is based on local currency and should be actively monitored and updated.

Employers operating in the national market should always base compensation decisions on the market's current conditions. Dollarization causes a growing detachment from local conditions on the ground. And local market pricing rarely fully adapts after hyperinflation or depreciation. Dollarization will inevitably push the pay scale above the market, with little chance of it ever realigning.



Country in Focus: Lebanon

GUIDANCE ON DOLLARIZATION

Another challenge to consider is selecting the exchange for scale conversion. Progressive devaluation will put pressure on an exchange rate from a previous period to adjust for any recent “losses.” From a compensation perspective, there have been no losses since the salaries have been referenced to the local market and standard monitoring and updating have occurred. The idea of dollarization changes one’s perspective on the basis of compensation.

In addition to being politically sensitive, dollarization demonstrates how an employer can operate without being constrained by the local economy, which most organizations and citizens must deal with. This can be particularly delicate for inter-governmental organizations where the host country is a member.

Dollarization can be considered, however, under very narrow and specific conditions. These consist of:

- When a legal fixed exchange rate is established between the local currency and hard currency, thereby dollarizing the local economy.
- When opening dollar accounts is legal for national staff and is a widely accepted practice in the local labor market.





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.

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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.