CEEMEA Business Group

Headcount, salaries and HR issues in Russia today

Survey results

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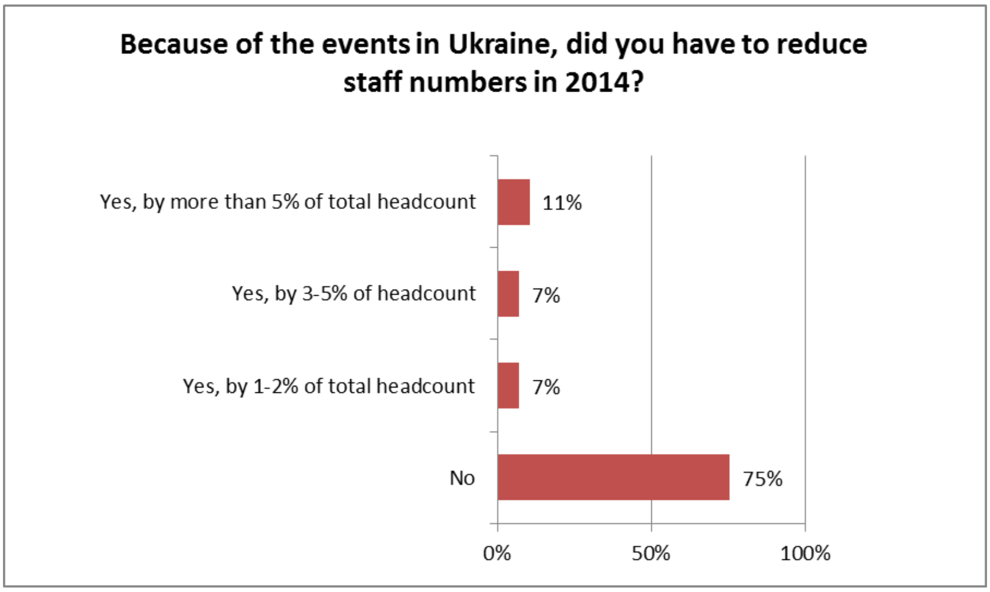
IN ASSOCIATION WITH: Baker & McKenzie, EY (Building a better working world), Radius Group

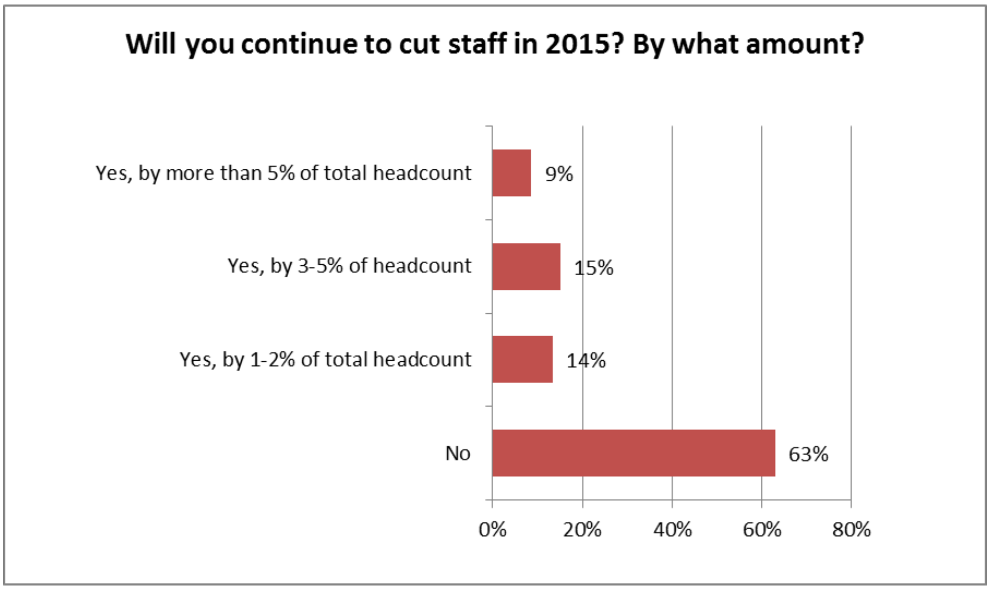
1) Companies are trying hard not to cut their staff levels too quickly (63% making no staff reductions so far). The headcount cuts which are planned are relatively small and companies are still planning some new hires in key positions. However, this indictor has worsened from 73% to 63% in the last 6-8 weeks.

2) Salaries are rightly under sharp scrutiny and have been for 12 months or more. More companies than ever are now planning to pay below inflation in 2015 (approximately 85%). Of course as inflation rises this year, real wages will fall in western companies but also across the Russian economy. So it is definitely not just western firms doing this. Also companies are currently tending not to raise salaries even though inflation is accelerating. This is the status for now.



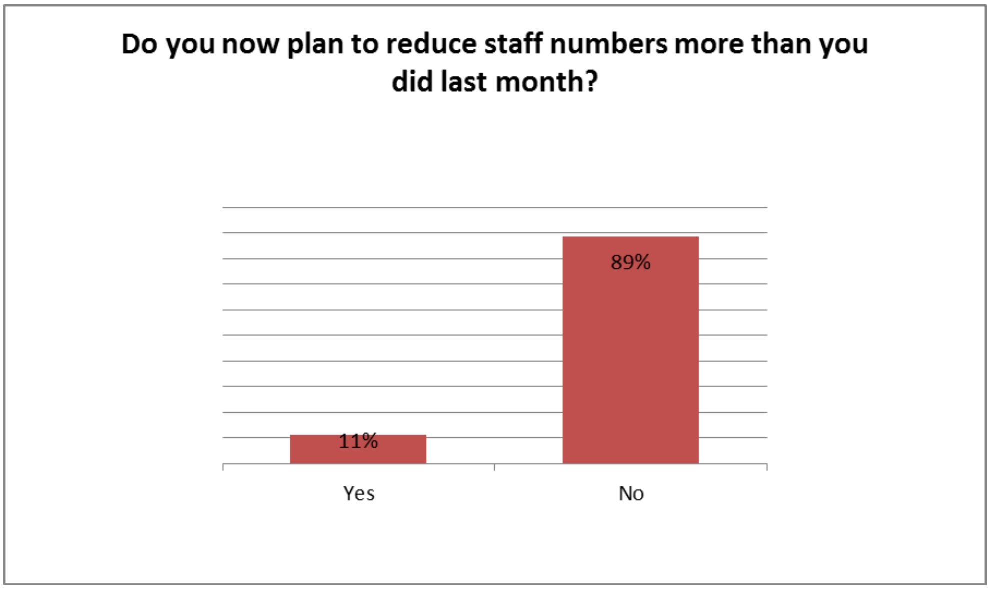
Last year companies were reluctant to fire staff and the proportion stating they have not done so is stable at 75% of companies. Some 14% of firms have made limited reductions of barely 1-5% of total staff and only 11% of companies have made cuts of more than 5% of total staff.

This approach is the best one and if sales and profits can be sustained at bearable levels, staff cuts may not become prevalent. But there is a clear risk that further staff reductions may take place and we are seeing this number creep upwards in the first 4-5 months of 2015.



Here we see that the number of companies not cutting staff is now down to about 64%, which is a 10% decline on 8 weeks ago and fits with our assessment that more companies “will have to reduce staff more this year”. Most of the planned cut-backs are moderate with 13% looking to reductions of 1-2% of total staff but now 23% are proposing deeper cut-backs. There will be some churn as some companies do plan new hires and replacement ones. This indicator could worsen over the summer.

However our other surveys show that (until December) Russia remains the No 1 market in the CEEMEA region where companies still plan to hire new staff over the next 3 years. We will judge over the coming months whether this positive trends is maintained and how much HR churn takes place. The demand for top talent is still relatively high.



Salary trends 2014 and 2015

Given that salary decisions are now set for 2015, there is little change in our indicators but we are seeing some marginal movement to raise salaries a little bit by a small number of companies and at the margins. But this movement is marginal and not enough to change the indicators below regarding trends in salaries above or below inflation. We are also seeing a slight tighter clustering of companies offering low single digits or flat rouble increases. In other words, companies overall have NOT decided to re-jig or increase their salaries to compensate for the rising adjustments in headline inflation.

Overall, the clear conclusion for now remains: companies are trying hard to protect their headcount but are determined to manage their costs and will keep salary increases firmly below inflation, which actually matches trends visible in the Russian economy overall and within the Russian civil service. It seems that everywhere real wages (after inflation) will now trend at -7% to -10% this year and were at -10% this spring across the economy.

The clear point about 2014 and 2015 is that companies will keep a very tight rein on salaries. For 2015 more companies are planning for below inflation pay increases as inflation rises further in Russia from an average 7.8% in 2014 to an average figure in 2015 which could range from a low of 9% to a worst case of 14-15%.

There are variations of course and these are averages and white collar covers a large number of positions. To assist you in budget planning, the following two tables compare previous periods (benchmarked to inflation) and also show what companies plan in 2014 and 2015 in absolute percentage terms.

Salary comparisons 2014-2015 in absolute terms

What salary increase in roubles did you pay (do you plan) in absolute terms in 2014 and 2015?

	2014	February 2015	May 2015
Plus 10%	3%	12%	7%
5-10%	27%	55%	50%
1-5%	15%	16%	23%
Flat	20%	13%	18%
Negative	0%	4%	1%

While this table makes it look like companies are being more generous, this is not the case. Given that inflation is rising noticeably in 2015, when salaries are benchmarked against inflation, they are tighter (see the next table below).

What salary increase did you pay (do you plan) in the coming 12 months?

Salary comparison over time benched to inflation - “average” white collar staff members

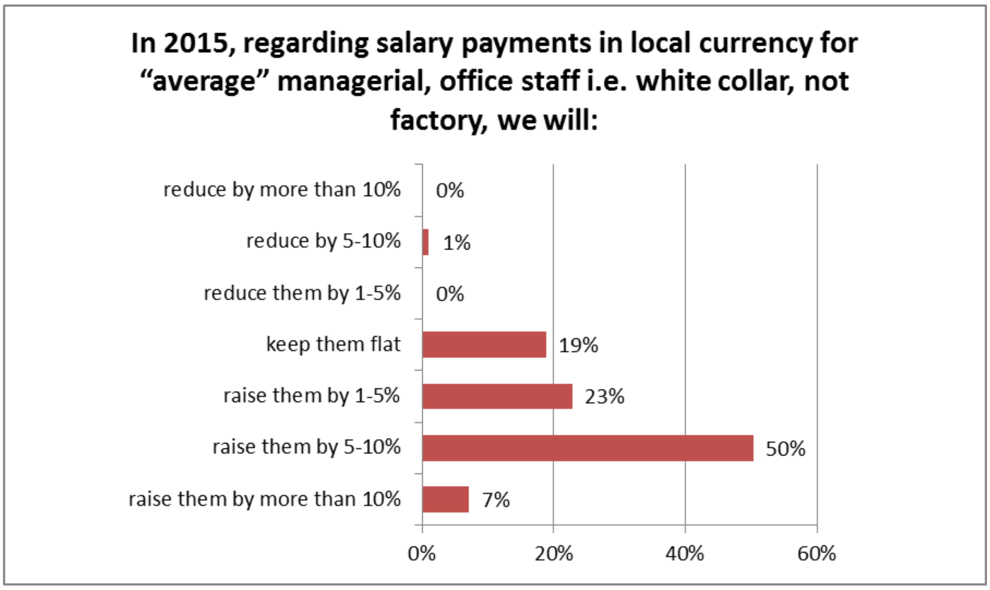
% of companies	January 2013	January 2014	January 2015
Salary below inflation	3%	14%	89%
Salary at inflation or + 1-3%	70%	80%	11%
Salary at inflation +3-10%	25%	6%	0%

Source: Russia Business Group Surveys

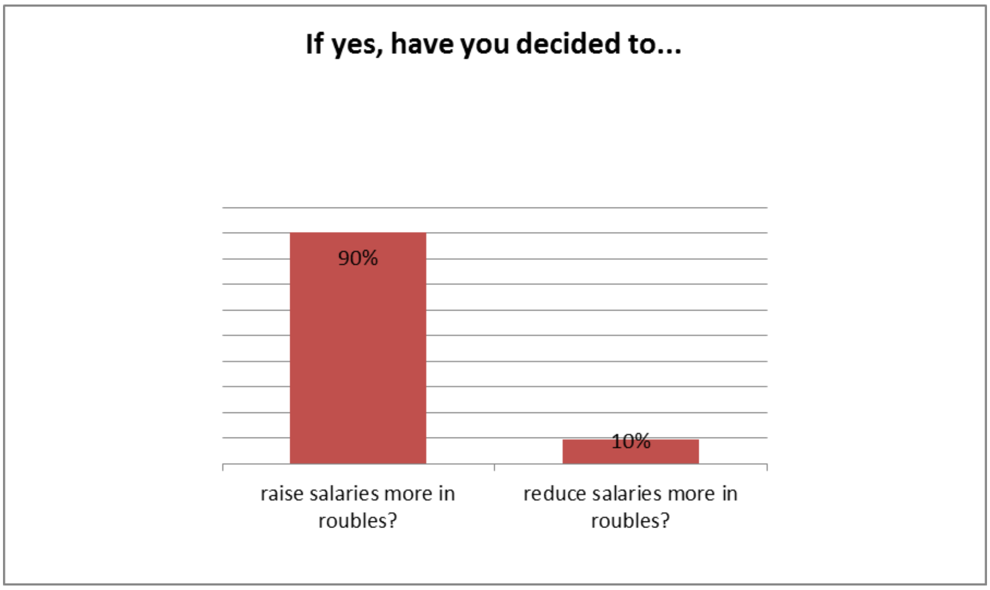
The numbers in these two tables match up/correlate when we presume that inflation in 2014 will average about 7.8% and will average 11-13% in 2015.

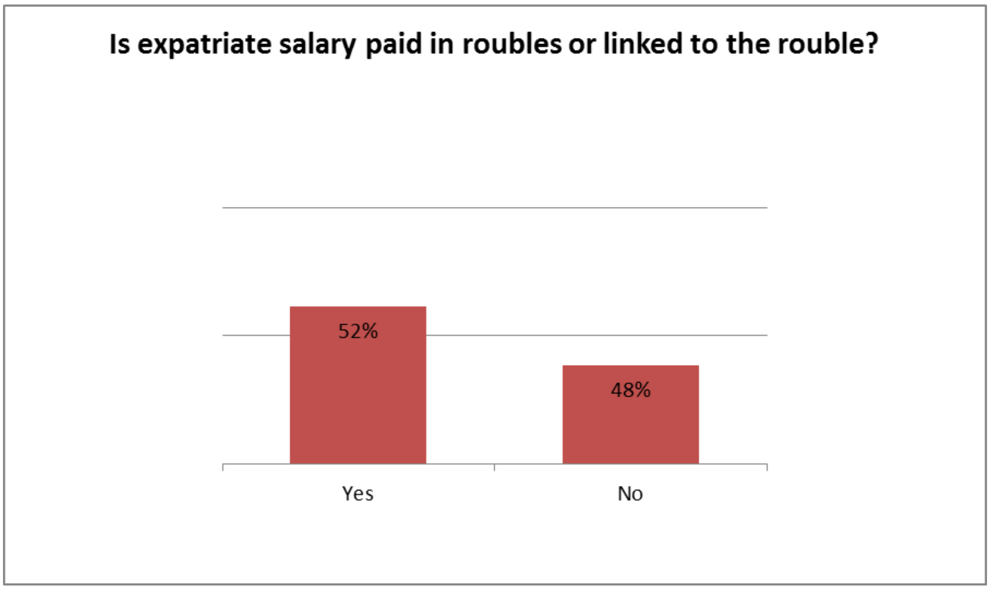
Instead of cutting staff numbers, companies are offering lower salary increases for “average” white collar staff. The upward pressures for top talent remain high but these very high levels have also declined and decelerated. What is very manifest is that while in January 2013 it was almost unheard of to propose salary increases below inflation, this has changed radically with 89% of companies now in this situation.

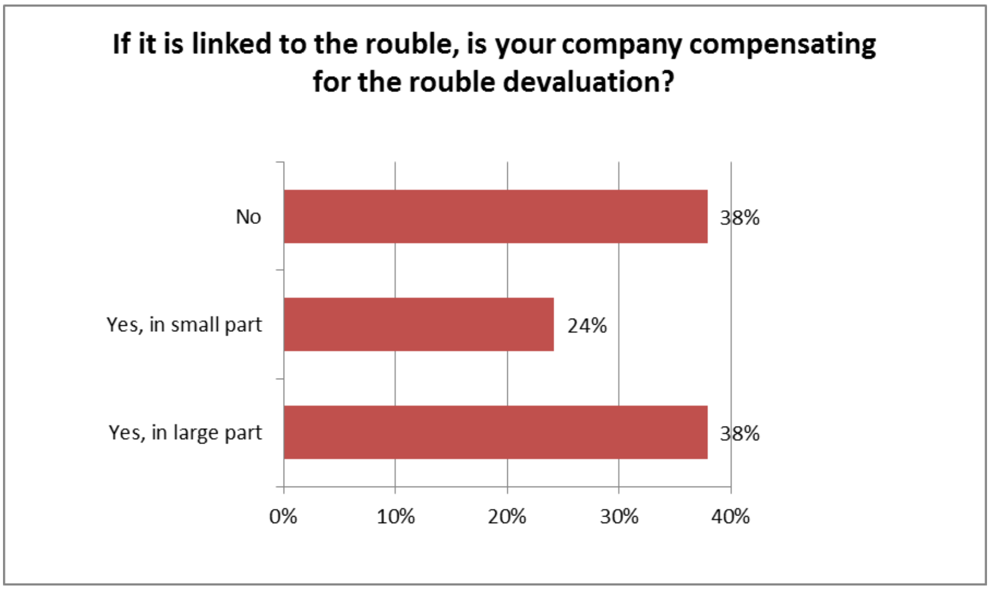
Also note that 81% of companies are not compensating Russian staff for the devaluation of the rouble.




Have you changed your overall salary policy for 2015 in the last few months?
88%
12%
Yes
No


If yes, have you decided to...
90%
10%
raise salaries more in roubles?
reduce salaries more in roubles?


Is expatriate salary paid in roubles or linked to the rouble?
52%
48%
Yes
No



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