MEMORANDUM

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From:	Gastone Guglielmina, Head of Studies Unit, ISRP
To:	Anna Koelewijn, HCCH
Copy:	Jean-François Poels, Head of ISRP Antoine Michelet, Legal Adviser, ISRP
Subject:	**Main components of the CO remuneration adjustment method and evolution of salary adjustments indices and inflation rates in the Netherlands**

Dear Anna,

The remuneration adjustment method (RAM) currently in force in the Co-ordinated Organisations (CO) is set out in the 244th Report of the CCR.

The RAM basically aims at fulfilling two main objectives:

- ensure a parallel evolution of salaries in the Co-ordinated Organisations (CO) with salaries in national civil services (NCS) in eight reference countries

- maintaining as much a possible equivalent purchasing power among staff in different duty stations

The RAM is made of different components, which altogether form the salary adjustment index for each duty country.

The first objective (i.e. parallelism with NCS) is fulfilled by two components: the reference index and national inflation rates.

The **reference index** is the calculation mechanism reflecting the average evolution of salaries in the central administration of eight reference countries (France, Germany, Italy, Spain, United Kingdom, Belgium, Netherlands and Luxembourg). The evolution of NCS salaries for a one-year period is measured as net salaries (i.e. after deductions of social contributions and taxes) and in real terms (i.e. deducting the inflation).

Because the reference index is calculated in real terms, the evolution of NCS salaries in each reference country is deflated by the respective national inflation rate in order to reflect the average evolution of disposable income of national civil servants in the eight reference countries (i.e. how much, on average, national employees' salaries have won or lost against price inflation).

The reference index is identical for all duty stations.

For the salary adjustment calculations at 1 January 2017, the reference index was equal to 101.3, which means that, on average, salaries of national civil servants have a gain in their disposable income of +1.3% with respect to the previous year, once the inflation is deducted from their nominal salary evolution.

The national inflation rates, measured by **consumer price indices** are used twice; first to deflate the evolution of NCS salaries in each reference country, and then, to reinject the price trend in each duty country to the final reference index. Accordingly, the duty station adjustment is then calculated by applying the harmonized index of consumer prices (HICP) for that country to the reference index.

To be noted that HICP series are used as the inflation rates for all European countries, whereas the series of national Consumer Price Indices (CPI) are used for non-European countries where HICP are not available (prior to 2013, CPI series were used as inflation rates for all duty countries).

Regarding the second principle of the RAM, **purchasing power parities** (PPP) are the statistical tool used to ensure equivalence of purchasing power among CO staff. PPP portray the cost-of-living difference between duty countries by comparing prices of goods and services of a consumption basket in each duty station (e.g. in The Hague as reference city retained for the Netherlands) with matching items in Brussels, defined as base city of the CO/EU PPP system.

PPP calculations are done independently from the calculations ensuring parallelism with NCS; however, the results of both calculations are ultimately overlapped and PPP may have an impact on final salary adjustment indices only if the outcome of the reference index and the national inflation in a given duty country falls outside the limits of a curve established around the central point of the PPP (the limits of the curved being fixed at ±2%). When the outcome of the reference index multiplied by the HICP of a given duty country falls outside the PPP curve, the final adjustment is corrected to the closest limit of the curve in order to ensure to the extent of the curve limits that staff in comparable professional and family circumstances have an equivalent purchasing power, irrespective of their duty station.

For the 2017 salary adjustment, PPPs had a positive effect in some CO duty countries and a negative effect in few others. In the case of the Netherlands, PPP had a positive effect of +1.3%, resulting from the fact that the outcome of the reference index (101.3) and the HICP for the Netherlands (99.8) equal to 101.1 (i.e. 101.3 x 99.8 / 100 = 101.1) fell outside the PPP curve (defined in the rules as "reference curve of purchasing power"). Therefore, according to the RAM, that adjustment had to be corrected by 1.3 percentage points to bring the final result to the lower limit of the curve. As a result of such correction the final salary adjustment index for the Netherlands was equal to 102.4.

The table below shows the trend of the CO salary adjustments in the Netherlands in the last ten years, against the inflation rates foreseen by the RAM during the same period.

CO SALARY ADJUSTMENT INDICES vs. INFLATION RATES IN THE NETHERLANDS

(2008 - 2017)

For the calculation of the adjustment applied at :	NETHERLANDS				
	INFLATION RATE[1]		CO ADJUSTMENT INDEX		
	YEARLY *(June/June)*	**CUMULATED** *(2007 = 100)*	**YEARLY** *(CCR Reports)*	**CUMULATED** *(2007 = 100)*	*Impact of PPP²*
	-	*100.0*	-	*100.0*	
1.1.2008	101.7	*101.7*	101.5	*101.5*	
1.1.2009	102.6	*104.3*	102.1	*103.6*	*+0.1*
1.1.2010	101.4	*105.8*	103.9	*107.6*	
1.1.2011	100.8	*106.6*	96.9	*104.3*	*-1.5*
1.1.2012	102.3	*109.1*	100.9	*105.2*	
1.1.2013	102.5	*111.8*	101.5	*106.8*	
1.1.2014	103.2	*115.4*	101.3	*108.2*	
1.1.2015	100.3	*115.7*	101.3	*109.6*	
1.1.2016	100.5	*116.3*	101.9	*111.7*	
1.1.2017	99.8	***116.1***	102.4	***114.4***	*+1.3*

[1] Inflation rates foreseen by the CO methods in force; i.e. CPI until 2012 and HICP since 1.1.2013

[2] Effect of PPP curves on the final salary adjustment index