



Record inflation: what about our salaries?

The Method for adapting salaries and pensions is based on a combination of changes to the purchasing power of national civil servants, as well as changes to the cost of living in Belgium and Luxembourg. Inflation is currently at record levels (+ 8.5% in January according to Eurostat). How will our salaries be adjusted?

According to Article 65(1) of the Staff Regulations, *'The remuneration of the officials and other servants of the European Union shall be updated every year,...'*. The inflation that we are seeing now will therefore automatically be taken into account in the annual update in December 2022, which will be applied retroactively from July.

However, Article 65(2) provides for an intermediate update *'in the event of a substantial change in the cost of living'*. The implementing rules are set out in Articles 4 to 7 of Annex XI (see below). An intermediate update would take effect on 1 January on the basis of a report prepared by Eurostat in March, to the extent that the Belgium-Luxembourg joint index varied by more than 3% between June and December 2021.

How did prices change during that period?

From June to December 2021, the HIPC index for Belgium increased by 4.34% and for Luxembourg by 2.22% (the only difference between the HICP and the CPI is that the CPI does not take account of the expenditure of non-residents when weighting the different elements of the index). Combining these two indices at a ratio of 81% for Belgium and 19% for Luxembourg (proportion of staff employed in the two countries) gives an inflation rate of 3.9%. However, it should be noted that this does not mean that the joint index has increased by 3.9%.

How is the Belgium-Luxembourg joint index calculated?

According to Article 1 of Annex XI, *'Eurostat shall draw up an index to measure changes in the cost of living for officials of the Union in Belgium and Luxembourg.'*

This means that the prices selected for establishing the national indices are weighted according to the officials' expenditure basket and the joint index is therefore not a simple average of the indices for Belgium and Luxembourg. For example, the latest Eurostat annual report shows that from July 2020 to June 2021, the change in prices amounted to +2.6% in Belgium and +2.2% in Luxembourg, but that the joint index only changed by 2.1% owing to the different weightings.

This weighting is based on 80 headings corresponding to different products, which are grouped into 12 chapters. Eurostat publishes the weighting across the 12 chapters but not the weighting of the details of the 80 headings. It is therefore impossible to determine whether the apparent inflation of 3.9% will be reflected in a joint index value below or above 3% once the different expenditure has been weighted. However, we do know that the current level of inflation is largely due to rising energy costs, and that energy traditionally accounts for a lower proportion of our expenditure than that of the general population.

What will happen if the fluctuation of the joint index reaches or exceeds 3%?

In this case, there will be an intermediate update in June applied retroactively from January, that will correspond to the joint index plus half of the specific indicator (purchasing power of national civil servants) if it is negative. By way of example, if prices increase by 4% over the period in question and the net salaries of national civil servants increase by only 1 % (i.e. loss of purchasing power of 3% = negative specific indicator), the intermediate update would be around 2.4% ($1.04 \times 0.985 = 1.0244$). This update will of course be taken into account in the annual update in December 2022. Since the March forecasts for the specific indicator are sometimes quite far off the mark, it is important to note that a negative result in December would not be impossible if inflation were to fall significantly (which does not seem likely at the moment).

And what if the increase in the joint index is less than 3%?

In this case there is no intermediate update of salaries, but there might be an intermediate update to certain correction coefficients if the cost of living (compared with the joint index) has increased by more than 3 % in the place of employment or in the country concerned.

In 2015, in this way the correction coefficient for staff in active employment in Greece and Cyprus was amended with effect from January of that year, as it was for retired members of staff in

Cyprus (although it was not applied since it was less than 100). In these three cases there was a downward revision owing to a much lower inflation rate than in Belgium and Luxembourg for the period from July to December 2014. Since then, only the correction coefficients for staff posted outside the Union have been subject to intermediate updates.

To conclude...

It is possible that our salaries and pensions will be updated in June owing to the high rate of inflation. However, until the Eurostat report is published in March, it is impossible to tell whether this will indeed be the case or whether we will have to wait until December.

Chapter 2

INTERMEDIATE UPDATES OF REMUNERATION AND PENSIONS (ARTICLE 65(2) OF THE STAFF REGULATIONS)

Article 4

1. An intermediate update of remuneration and pensions pursuant to Article 65(2) of the Staff Regulations, taking effect on 1 January, shall be effected in the event of a substantial change in the cost of living between June and December (by reference to the sensitivity threshold defined in Article 6 of this Annex) and with due allowance being made for the forecast of the change in purchasing power during the current annual reference period.
2. Such intermediate updates shall be taken into account in the annual salary update.

Article 5

1. In March each year Eurostat shall make a forecast of changes in purchasing power over the period concerned on the basis of the information supplied at the meeting provided for in Article 13 of this Annex.

If that forecast produces a negative percentage, half of that percentage shall be taken into account in the calculation of the intermediate update.

2. The change in the cost of living for Belgium and Luxembourg shall be measured by the Joint Index for the period from June to December of the previous calendar year.
3. For each place for which a correction coefficient has been set (other than Belgium and Luxembourg), an estimate for December of the economic parities mentioned in Article 1(3) shall be calculated. The change in the cost of living shall be calculated in accordance with the rules set out in Article 1(3).

Article 6

1. The sensitivity threshold for the six-month period mentioned in Article 5(2) of this Annex shall be the percentage corresponding to 6% for a 12-month period.
2. The threshold shall be applied in accordance with the following procedure, subject to application of the second subparagraph of Article 5(1) of this Annex:
 - (a) if the sensitivity threshold is reached or exceeded in Belgium and Luxembourg (as measured by the Joint Index between June and December), the remuneration for all places shall be updated following the annual update procedure,
 - (b) if the sensitivity threshold is not reached in Belgium and Luxembourg, only the correction coefficients of places where the change in the cost of living (as measured by the implicit indices between June and December) has exceeded the threshold shall be updated.

Article 7

For the purposes of Article 6 of this Annex:

The amount of the update shall be the Joint Index, multiplied, where appropriate, by half of the specific indicator forecast if this is negative.

Correction coefficients shall be the ratio between the relevant economic parity and the exchange rate provided for in Article 63 of the Staff Regulations, multiplied, if the update threshold is not reached for Belgium and Luxembourg, by the value of the update.

The Executive Committee

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