EUROPEAN CENTRAL BANK

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THE EXECUTIVE BOARD

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CONFIDENTIAL

DEVELOPMENT OF SALARIES AND BENEFITS AT THE ECB

Throughout 2004 the Executive Board has placed heavy emphasis on the need for cost consciousness across the organisation. In response to the Governing Council's request for specific information regarding the development of salaries and benefits at the ECB in 2005, an overview is provided below. A number of individual components are included, namely: changes within the Salary Structure, limitations placed on the number of upgrades and the creation of new positions, the General Salary Adjustment methodology (under review), and the Annual Salary and Bonus Review. Whilst most measures have a dampening effect on the development of salaries and benefits, the necessary organisational restructuring has an upward effect.

1. Individual components

1.1 Minimal increase in new positions and limit on upgrading of positions

A Zero-Based Budgeting assessment has recently been launched to evaluate the effectiveness and efficiency of the ECB and to identify opportunities for improvement in the use of the ECB's human resources and their allocation within and across Business Areas. Pending completion of this assessment, the Executive Board has decided to take a very restrictive stance on the upgrade of positions and to limit the number of new positions to be created in the 2005 budget to a maximum of 7. In addition, the extension or conversion of limited-term employment contracts that are due to expire in the course of 2005 has largely been deferred, pending the results of the Zero-Based Budgeting assessment.

1.2 General Salary Adjustment methodology

The term of the previous agreement concerning the methodology for the annual General Salary Adjustment expired on 1 July this year. The Executive Board has given guidance on the following approach towards consultation of the ECB's Staff Committee on a new methodology:

- The composition of the comparator groups should be changed, with a reduction in the NCB group to only those within the euro zone (i.e. represented in the Governing Council), plus the BIS.
- The NCBs of the new member states should not be included until they have joined the euro area.
- The weighting of the two comparator groups (i.e. NCB and other European Organisations) should be adjusted to: 75% NCB group and 25% European Organisations, compared with the former 50:50 weighting.
- The Governing Council should have the opportunity to override the final outcome of the adopted method in the event that the result in any one year is judged not to be in line with the ECB's policy stance on wage moderation.

Consultation with the Staff Committee on this subject is expected to start shortly.

1.3 Annual Salary and Bonus Review

In a determined effort to curtail the upward trend in salary costs, the budget for annual salary awards (performance-related) has been reduced by 40%, from 2.5% to 1.5% of the salary bill. This decision will lead to a significant saving in salary costs. In addition, reduced expenditure on base salary will also lead to a moderation in the associated costs for benefits (e.g. social security, expatriation allowance, head of household, resettlement allowance etc.) that are calculated as a percentage of salary. The size of the bonus budget remains unchanged at 1.5% of the salary bill.

1.4 Changes within the Salary Structure

In 2003 the Executive Board decided that an additional managerial layer (Deputy Head of Division and Head of Section) should be created in order to achieve an appropriate span of control of managers. Between the existing 'H-' and 'I-band', a new salary band was created to which the new positions were allocated with effect from 1 March 2004. The Governing Council adopted a Decision to this effect in early 2004 (see "ECB Decision amending Annex II of the Conditions of Employment for Staff of the European Central Bank relating to the salary structure" (SEC/GovC/X/04/32a), recorded as Annex I to the 138th meeting of the Governing Council "Matters approved by the Governing Council by written procedure since 5 February 2004"). At present, there are 16 Deputy Heads of Division and 32 Heads of Section.

A review of the banding of Head of Division positions is currently taking place. This may lead to additional changes to the salary structure. It is intended to introduce any changes in a manner which is cost-neutral or minimizes salary cost increases.

2. Effects on salary and benefits developments

The additional salary costs, including related benefits, for the creation of the additional managerial layer amount to €0.2mn.

Although it is not possible to predict the financial impact of the proposed changes in the General Salary Adjustment methodology outlined above, these changes have been proposed in order to increase the likelihood that the annual result would be in line with the ECB's stance on wage moderation. The exclusion of the NCBs from non-euro area member states should also reduce the volatility of results.

The decision to reduce the budget for salary awards (performance-related) under the Annual Salary and Bonus Review from 2.5% to 1.5% is expected to lead to a saving of circa. €0.85mn in salary costs in the first year. Additional savings on related benefits are estimated to be 30% of salary costs, circa. €0.25mn, resulting in a total savings of €1.1mn. Over the longer term, the reduced compounding effect of lower base salaries should lead to a further significant reduction in the growth of operating costs compared to the expected evolution otherwise.