Double digit wage growth in Romania for the third year in a row

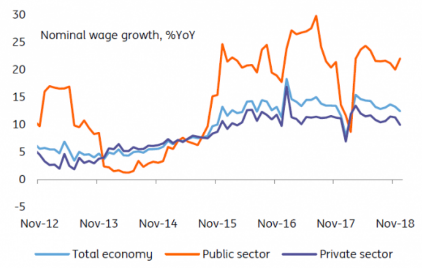
This was the third consecutive year with double-digit wage growth driven by public sector salaries which jumped over 20%

People on Calea Victoriei, Bucharest

2018 ended with an average net wage rise of 13.1%, with public sector employees getting a 20% pay rise versus 11% for private sector jobs. Generous public wage policy is likely to continue with an almost 19% increase assumed in the state budget draft.

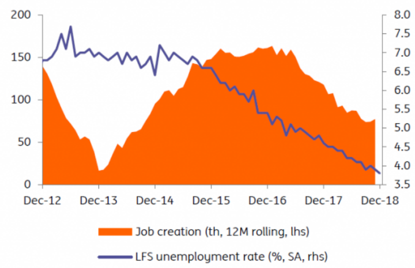
These policies are feeding similar expectations for income outlook, and the unions are likely to be opportunistic during election years and ask for more. Meanwhile, a tight labour market with an unemployment rate at a new all-time low of 3.8% and relative FX overvaluation are already taking their toll with the manufacturing sector slashing jobs over the past year. Employment continued to slow down to 1.6% year on year in November versus an average increase of 3% in 2017, with a peak of 3.6% YoY from February 2016 way behind us now.

Fig 1 Uneven wage rise



Source: NIS, ING

Fig 2 Job creation: running out of resources



Source: NIS, ING

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While the Philips curve relation has weakened significantly, we can't really ignore non-linearities which could kick-in from a certain level of wages. On the other hand, job creation should turn less growth supportive. All signs are pointing that there is scope for further currency weakness.

Still, high FX pass-through into CPI is preventing the central bank to allow a corrective local currency weakness. The finance ministry revealed that at the next meeting of the National Committee for Macroprudential Oversight scheduled on 18 February will discuss with the central bank measures to enforce pricing behaviour in the economy in local currency. In our view, this should diminish the FX pass-through, but old habits die slowly - it could also open the way to a significant change in the central bank's reaction function.

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