

## Romania: Wage growth slows

Romanian wages grew 8.8% year-on-year in January, the first single-digit growth rate since October 2015, though the data was certainly affected by base effects and year-end one-off payments



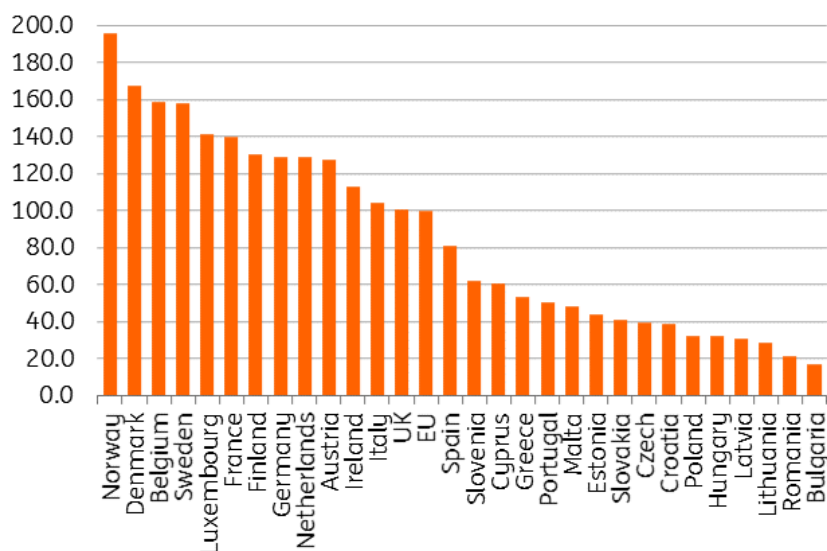
Source: Shutterstock

Public sector wage hikes are up by a hefty 11.7% YoY versus a more modest 7.0% YoY increase in the private sector. The newly enacted minimum wage increase in January has mostly affected the private sector. Also, the data for this sector might be distorted by the transfer of social contribution payments from the employer to the employees at the start of the year.

- The public health sector posted a modest acceleration in YoY growth versus Jan-2017, with a 6.8% YoY increase (compared to 6.4% YoY in Dec-2017) versus the 17.3% average increase in 2017. For this sector, the government announced a new round of pay rises starting in March this year.
- Wage hikes have also been announced for public education after the sector posted a 7.0% wage advance in January down from 13.2% in Dec-17 and an average rate of 12.3% for the previous year.
- The public administration sector still seems to be receiving most of the government's attention as wage growth decelerated only marginally to 23.5% YoY from 24.1% YoY in Dec-2017 and an average increase of 26.8% in 2017.

Like public health, the construction sector also posted an acceleration in wages, perhaps benefiting from a mild winter and the rise in the minimum wage. Wages rose 17.2% YoY, the highest since Jun-2016. Wages in manufacturing expanded by 11.5% YoY, a pace similar to December. Despite a recent rise in the cost of labour, that level remains just a fraction of the EU average.

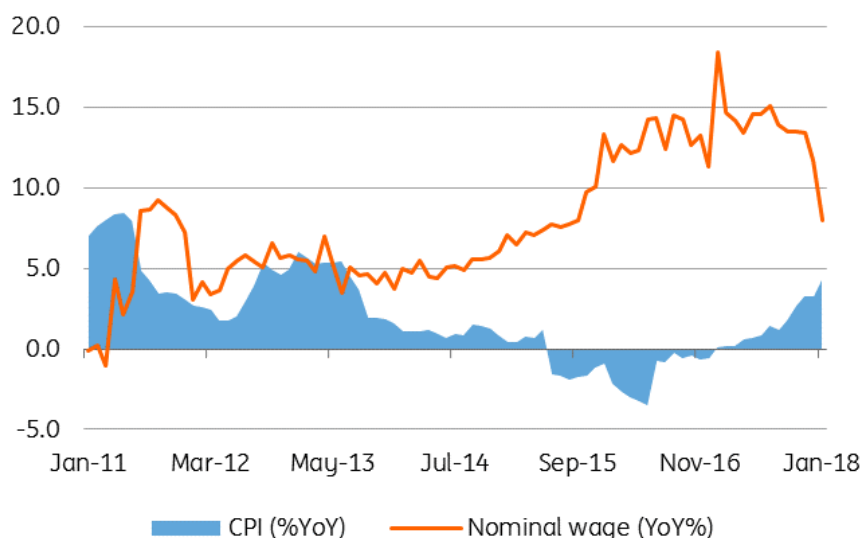
## Labour cost as % of EU average



Source: Eurostat

The overall picture starts to look even less rosy when we take into account the higher inflation expected for this year which will start to erode the nominal wage increases. The Jan-2018 CPI was 4.3%, meaning that real average wage growth was a meagre 3.7% YoY, the lowest figure since May-2014. January wages versus October (to exclude the bonuses period) for the private sector show an increase of 3.8% versus 8.2% in 2017, which likely reflects pressure on corporate margins, limiting the room to reward employees.

## Inflation starting to erode wages



Source: NIS, ING

Further public salary increases are likely to be modest due to budgetary constraints, as the previous increase in wages has already been incorporated into permanent expenditures, limiting the room for fiscal stimulus if the economy needs it. We forecast the CPI to reach a peak of 4.9% in 2Q18 and 3.4% at year-end, which could keep real wage growth in the single digits this year and contribute, among other factors, to a slowdown in consumption.

### Author

#### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.