

Romania: Another year of double-digit wage growth

The acceleration in salaries slowed in November to 13.3% YoY from 13.7% previously on base effects but 2018 was another solid year for wage growth



Source: Shutterstock

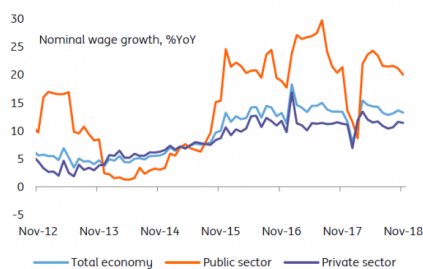
2018: likely the third consecutive year with double-digit wage rise

A tightening in the labour market, due to factors such as migration, a skills mismatch and low mobility, has been amplified in recent years by generous public sector wages, which probably climbed more than 20% in 2018 for a third consecutive year. In some cases, like healthcare, such measures were overdue to limit workforce migration. However, there is little evidence that better salaries have been linked to an improvement in public services and productivity.

November ended with a 20.1% YoY increase in public sector wages and given the strained state budget backdrop in December, we are not ruling out a temporary slowdown in annual terms in December amid base effects due to lower or delayed bonuses. Private sector wage growth has lagged behind, with a still robust 11.5% YoY rise. There was some wage growth slowdown in

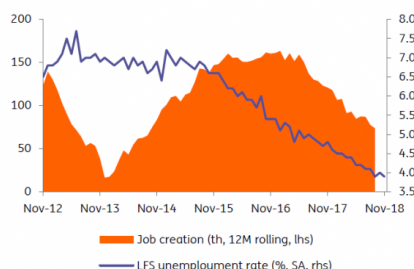
annual terms in manufacturing on base effects likely due to the timing of bonus handovers. Still, given the overall negative backdrop for industry in Europe, attention is warranted to see any early signs of Romanian industry adjusting its cost base.

Fig 1 Uneven wage rise, distorted by labour policies



Source: NIS, ING

Fig 2 Job creation slowdown: running out of resources



Source: NIS, ING

More wage hikes and pressures ahead for 2019

2019 started with an 8.7% increase in the net minimum wage. For those who work in positions where tertiary education is needed, the increase will be 21.6%, while for employees in the construction sector, the minimum wage rise is 52.7%. About one-third of total workers, most of them in the private sector, are paid the minimum wage. Without any draft on the state budget for 2019, there is a lack of clarity on wages, but there have been some hefty promises in terms of remuneration for public sector employees for this year. Given the electoral year and opinion polls showing a decrease in popularity for the main ruling coalition party, strong unions representing state employees are likely to have the upper hand in the wage bargaining process.

2019: weaker growth, wider external imbalances

All in all, 2019 is likely to end with a double-digit rise in wages. To some extent, this should support domestic demand, though confidence might play a greater role and the outlook for the latter is shaky at best. Still, robust wages are only likely to delay the contagion coming from weaker growth in Europe. When weaker underlying growth catches up with reality, the adjustment is likely to be sharper. At the same time, income policies put further pressure on the trade balance, which likely ended 2018 with a deficit of around 7.0% of GDP. The external imbalances should be exacerbated by supply shocks as fiscal changes, including recent measures, are likely to increase costs for domestic companies in terms of personnel, financing and functioning (utilities and telecom), affecting their competitiveness. Hence, there is no reason to cheer for the Romanian leu.