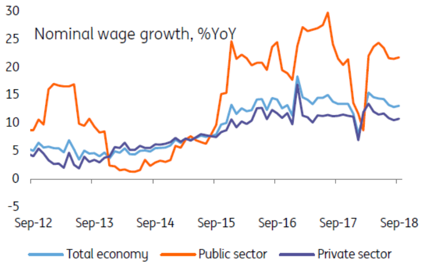
Romania: No brake on wage growth

A tight labour market and government income policies are exacerbating wage pressures, in the absence of structural labour market reforms. Inflation reduced some of the nominal gains, with more to come from the likely external imbalance adjustment

People on Calea Victoriei, Bucharest

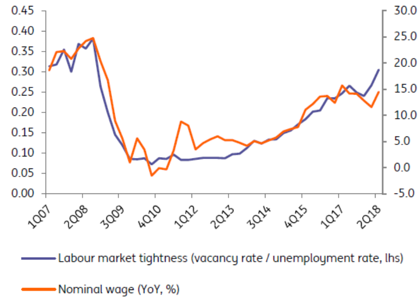
Net wages accelerated mildly in September to 13.1% year-on-year from 12.9% previously and we are heading for a third consecutive year with double-digit growth in salaries of close to 13% YoY. In the public sector, which employs 19% of total employees, wages rose by an estimated 21.8% YoY, while private sector salaries increased by 10.8%. The government has announced another minimum wage hike similar to the one dropping out of the statistical base and more pay increases in the public sector while the labour market is facing demand/supply mismatches on top of labour force shortages. As a result, we expect wage growth to remain in the low double digits, at around 11% YoY in 2019.

Fig 1 Wage growth driven by public wage policies ...



Source: NIS, ING

Fig 2 ... and ongoing labour market tightening



Source: NIS, ING

Given our forecast for fast wage growth, we expect this to remain one of the main risk factors for the medium-term inflation outlook as it's becoming harder for companies to absorb these increases from cost savings, automation and lower profit margins. The recent surge in wages has also been behind the widening trade deficit. We think the chances of recent current account trends to reverse are slim, as fiscal consolidation and an acceleration of structural reforms look unlikely during election periods. Hence, we expect at some point an FX correction to readjust competitiveness and a reduction in some of the nominal salary gains. So far, the Romanian leu has been stable but it's on borrowed time. The longer the can is kicked down the road, the more significant the adjustment.