

Romania: Unemployment rate hits new all-time low

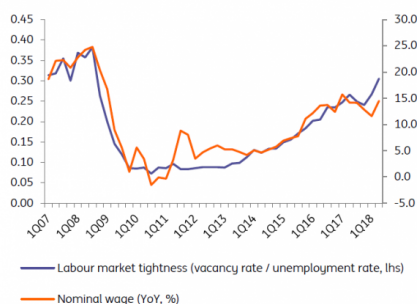
The Romanian jobless rate declined by 0.2ppt to 4.1% in September and it's down to a combination of labour force migration, job creation and an ageing population



People on Calea Victoriei, Bucharest

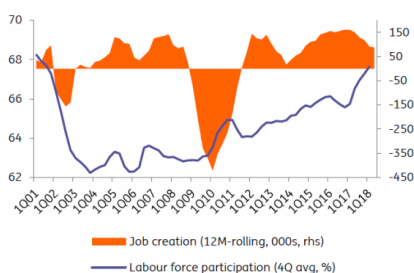
The Romanian unemployment rate is below its long-term structural level; continuing labour force migration and low labour force participation are translating into slower job creation which should weigh down on GDP growth. The absence or even the roll-back of structural reforms in the labour market are negative for the long-term growth potential. Migration is another issue without a quick fix with nearly a fifth of Romania's working-age citizens living in another EU member state. The labour force participation rate, at 66.3%, is the third lowest in the EU. Higher wages alone are unlikely to improve this unless there are measures to reintegrate the inactive population into the labour market, such as ensuring life-long learning programmes.

Fig 1 Labour market tightening pushing wages up



Source: NIS, ING

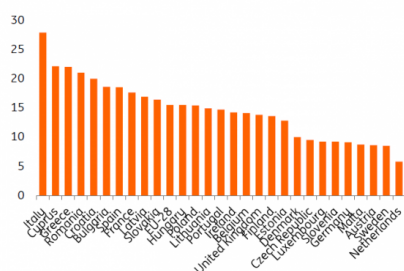
Fig 2 Job creations slows down on lack of supply



Source: Eurostat, NIS, ING

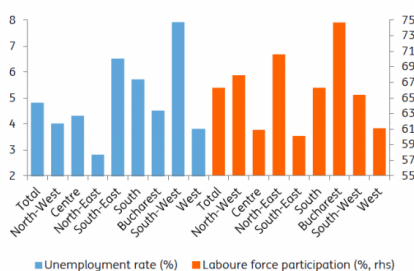
Education seems to be another big problem due to limited access, slow adaptation to labour market needs and overall poor performance scores. Hence, Romania has one of the largest percentage of young people (20-24 years old) neither in employment nor education or training (NEETs). Geographically, there is a wide degree of heterogeneity due to low mobility and poor infrastructure. In some areas, the low unemployment rate combined with a low participation rate could suggest that the wage and social benefits' policies, coupled with informal employment, are affecting official employment figures.

Fig 3 NEETs (20-24 years old): many left out



Source: Eurostat, ING

Fig 4 Geographical heterogeneity, some weird cases



Source: NIS, ING

Labour market tightening is keeping upside pressure on the nominal wage. Still, core inflation is rather stable as the Phillips curve has flattened recently and the National Bank of Romania is less likely to be troubled by it. More of a concern for the NBR should be the deteriorating competitiveness which could well increase depreciation pressures on the currency, the RON, in the context of high FX pass-through. Eroded competitiveness combined with widespread anecdotal evidence about labour shortages affecting business plans are likely to lead to a further deterioration of the trade balance.