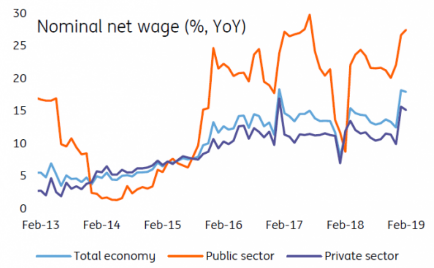
Romania: Wages remain super strong

Public sector salaries accelerated in February by 0.8 percentage points to 27.5% year-on-year. But average net wages decelerated by 0.3ppt to 17.9%

Source: Shutterstock

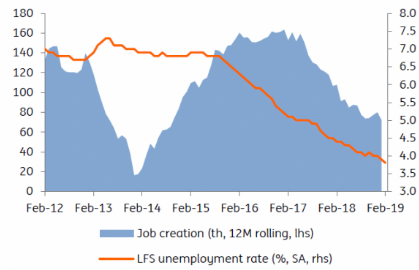
Pay rises in the private sector slowed down by 0.6ppt to 15.1% YoY. This was despite a 43% YoY increase in wages in the construction sector due to the recent government decision to increase the minimum wage in this sector above the level of the rest of the economy. Wage rises in the manufacturing sector rose by 12.1% YoY, below the national average, reflecting competitive constraints as the sector is forced to cut jobs (employment down by 1.0% YoY in manufacturing) and automate to keep up with regional competition, especially given the relative infrastructure disadvantages.

Fig 1 2019: 4th consecutive year with double digit pay rise?



Source: NIS, ING

Fig 2 Unemployment at all-time low limits job creation



Source: NIS, ING

Super strong wage growth is likely to keep household consumption well supported, though its incremental contribution to GDP is likely to decrease, being offset by net exports. Hence, worries about overheating are likely to re-emerge. In the absence of structural reforms, most of the burden will fall on the central bank, again. This means somewhat higher (market) interest rates and a weaker currency ahead.

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