

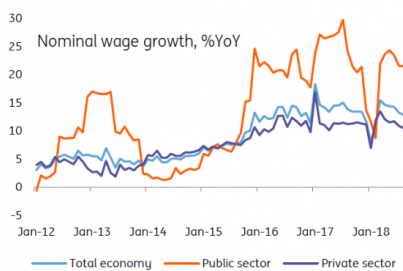
Romania: Wages stay strong in bid to halt brain drain

Nominal net wages grew 12.9% year-on-year in August, a mild deceleration from 13.3% in the previous month



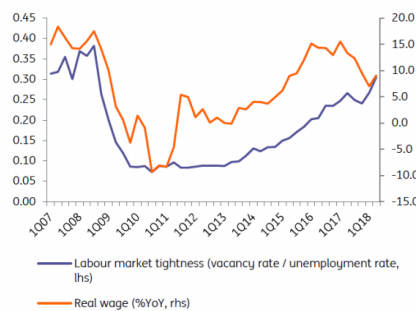
Wages in the public sector are up by 21.5% year-on-year driven by a 19.6% YoY growth in the education sector and an even more impressive 31.2% in the healthcare sector after the government hiked wages for doctors to halt a brain drain. This is piling pressure on the private sector as well, which posted a 10.6% YoY increase.

Fig 1 Wage growth driven by public wage policies



Source: NIS, ING

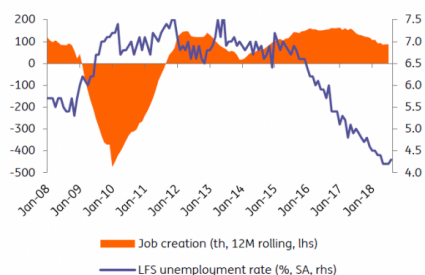
Fig 2 Ongoing labour market tightening



Source: NIS, ING

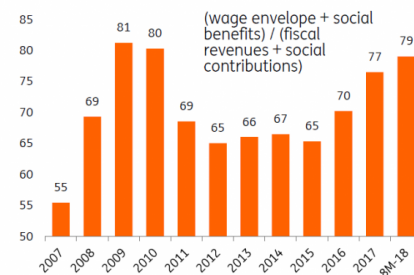
The unemployment rate stands just shy of a historical low, at 4.3% in August. At the same time, the vacancy rate is inching higher, pointing to an increasing mismatch between supply and demand in the labour market, which is exacerbating the upward pressure on wages.

Fig 3 Job creation: running out of labour resources



Source: NIS, ING

Fig 4 Limited room for more fiscal stimulus



Source: MinFin, ING

An almost 8% minimum wage hike was announced by government officials starting in January 2019. Even higher wage demands could come from unions representing public sector employees as we are approaching an election period (four ballots scheduled for the next two years). In the context of historically low unemployment, public wage policies are likely to exert upward pressure on wages in the private sector due to the demonstration effect and labour migration to the public sector. On average, wage growth is likely to stay in double digits in 2019 as well, for the fourth consecutive year. Without policies to address low labour force participation and a skills mismatch in the labour market, job creation is likely to be a factor behind slower economic growth going forward. Another concern is the large share of rigid spending out of fiscal revenues and social contributions which expose the budget deficit to potential adverse shocks.