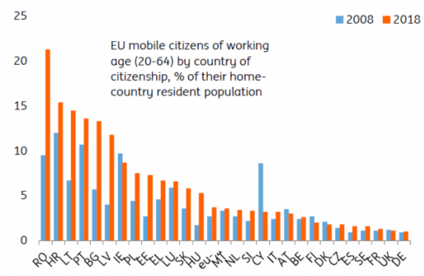
Wage growth in Romania still going strong

Wage growth rises slowed down slightly in August in comparison to the previous month, but we expect 2019 to be the fourth consecutive year of double-digit wage growth

People shopping in a supermarket in Bucharest

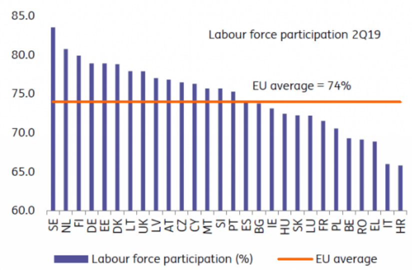
Given that 21.3% of the country's working-age population has moved abroad, public sector policies targeting the redistribution of national income from capital to labour and the absence of structural reforms to improve workforce participation has led to a significant tightening of the labour market.

Fig 1 Largest share of workforce migration



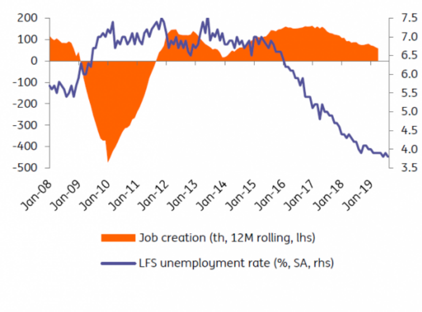
Source: EC, ING

Fig 2 One of the lowest labour force participation rates



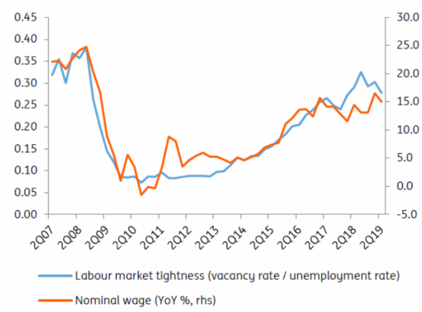
Source: Eurostat, ING

Fig 3 Unemployment at all-time low, slower job creation



Source: NIS, ING

Fig 4 Tighten labour market - upside pressure on wages



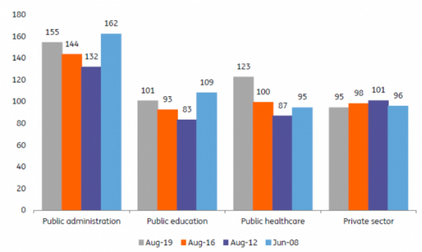
Source: Eurostat, ING

Wage growth slowed down to 14.1% year-on-year in August from 15.2% in the previous month.

In the private sector, wages rose by 15.0% year on year in August versus 15.7% previously, while in the public sector, they slowed down to 11.0% YoY from 13.1% in July.

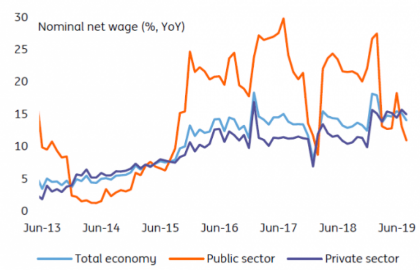
Net salaries in construction continued to post huge growth rates of 48.5% YoY due to fiscal facilities. Manufacturing wages are increasing at a constant speed of 12.7%, driven mainly by minimum wage hikes, as employment growth in the sector has been shrinking in annual terms for the last twelve consecutive months.

Fig 5 Some divisions in the labour market as ...



Source: NIS, ING

Fig 6 ...public wages increased twice as faster as private



Source: NIS, ING

The last couple of months posted a monthly decline across public sector wages which suggests, besides base effects and one-offs, a likely freeze in bonuses to reign-in rigid budget spending which relative to cyclically sensitive budget revenues has reached levels not seen since the economy was in recession.

This remains a key issue in the foreseeable budget rebalancing process of the structure of the state budget. We see better-hiring management and possible layoffs more likely than wage cuts. The fiscal consolidation is likely to be triggered by concerns about the rating outlook.

The Phillips curve relation remains relatively weak. Core inflation inched up in recent months but it is likely to peak in the next couple of quarters, if not sooner.

The main indicator which reflects the unhealthy boost in domestic demand from higher wages is the trade balance deficit widening which is likely to push the current account shortfall to over -5.0% of GDP this year. The adjustment of the external imbalance is likely to come from a combination of fiscal consolidation, structural reforms and moderate and controlled currency depreciation.

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