



European Economic and Social Committee

ECONOMIC AND SOCIAL SITUATION IN THE BALTIC STATES

LITHUANIA



ECONOMY AND SOCIETY IN THE BALTIC STATES: LITHUANIA

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1. State of the economy and demographic trends

Economy

The Lithuanian economy and its development over the last ten years can best be described with reference to three features that set Lithuania apart from other EU Member States:

- 1) Lithuania's gross domestic product (GDP) is among the lowest in the European Union.
- 2) The share of GDP that goes towards workers is among the lowest of EU Member States.
- 3) The Lithuanian economy is highly unstable: over the last ten years, Lithuania has experienced both the biggest crash and the most meteoric rise in GDP of all EU Member States.

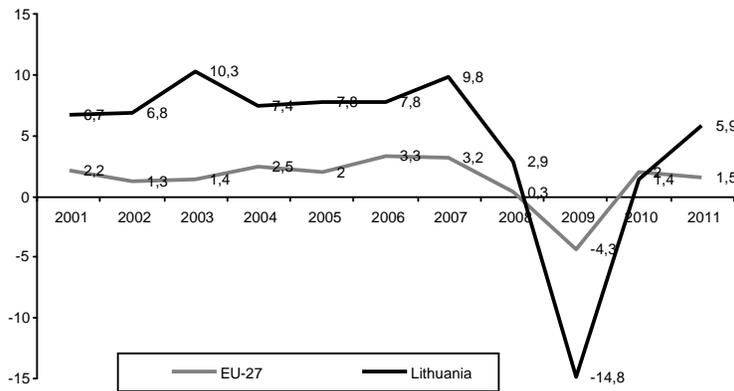
Lithuania's nominal GDP stood at 106 billion litas (EUR 30.7 billion) in 2011, or 33 000 litas (EUR 9 500) per capita, putting the country in fourth-to-last place in the EU (see Appendix 1).

Notwithstanding the fact that Lithuania has one of the lowest levels of GDP per capita, the share of GDP that goes towards workers is less than 40%, compared with an EU-27 average of around 50% (see Appendix 2).

This situation (low GDP and the small workers' share of GDP) automatically indicates or suggests certain labour market-related problems: low minimum and average wages (and a correspondingly low level of consumption and standard of living); little financial incentive to work; emigration to countries with a higher standard of living and a resulting scarcity of high-skill labour; and expansion of the shadow economy.

A further complicating factor is the volatility of economic cycles in Lithuania. While Lithuanian GDP has grown much more quickly than that of many other EU Member States over the last ten years, in 2009 it collapsed with particular speed (see Figure 1). According to data from Eurostat, the growth rate of Lithuanian GDP was surpassed only by Slovakia (10.5%) in 2007 and by Estonia (7.6%) in 2011. In 2009, however, the only country to suffer a more severe economic collapse than Lithuania was Latvia (-17.7%). The uneven economic development incentivises less efficient use of resources (including human resources) and impedes fair distribution of wealth. This, in turn, exacerbates the negative social consequences for the country.

Figure 1. Development of GDP (% in comparison to previous years)



Source: Eurostat

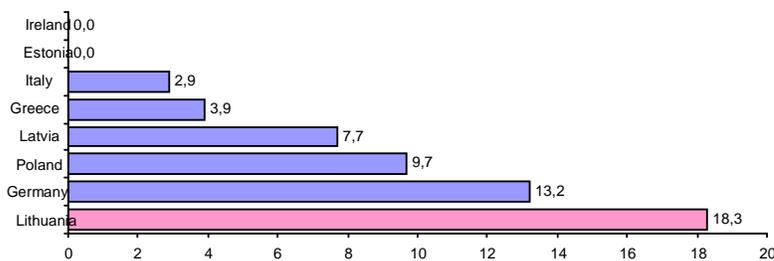
Another negative feature of Lithuania's economic development is growth without creation of new jobs (see Section 5).

Demographic trends

Lithuania's population is in continual decline, having fallen by 242 000, or 7%, in the last ten years alone (2001-2010). Of this, 140 500 (58% of the decline in total) are due to negative net migration, while 101 900 (42%) are a result of natural population development.

Although the birth rate is only slightly below EU average, Lithuania's population is rapidly ageing: the share of older people (aged 60 and above) in the population is growing, while that of children and young people is shrinking. Whereas at the beginning of 2001, there were 97 older people for every 100 children aged 14 and below, by 2011 the ratio was 144:100. While it is true that Lithuania is not in first place when it comes to the share of older people in the population, the rate at which the population has aged in recent years has been the fastest (see Figure 2).

Figure 2. Rate at which population is ageing¹ in selected EU countries, 2006-2011 (%)



Source: Eurostat

In addition, Lithuania is in last place among EU Member States when it comes to average life expectancy and mortality rates, especially among men; at 68.1 years, the average life expectancy for Lithuanian men is the shortest in the EU (figures from 2011). The highest average life expectancy for men ever recorded in Lithuania, 68.6 years in 1965, has never been reached since.

¹ Change in indicator "Residents aged 60+ per 100 children aged 0-14" over a given period.

In addition, the male suicide rate in Lithuania is the highest in the world²; mortality of men aged between 30 and 60 is 3.5 times higher than the EU average. In international comparison, the difference in life expectancy between men and women in Lithuania is also particularly large (2011: 10.7 years), which means that in higher age groups there are almost double as many women as there are men.

The unfavourable trend of natural population change is made worse by negative net migration. In every year of the last decade, more people left Lithuania than immigrated there. The rate of emigration per 1000 inhabitants (between 2010 and 2011: more than 10 persons) is the highest in the EU. Between 2004 and 2011, 330 000 people emigrated from Lithuania; a total of 668 000 have left since 1990.

Of particular concern is that most immigrants are young, well-educated people of prime working age (in 2010, 77% immigrants were aged between 15 and 44), which means that the Lithuanian population is ageing even more quickly, and each member of the labour force supports an ever greater share of the economically inactive population. The structure of emigration exacerbates these demographic problems and impedes economic development in the long-term, as the country loses skilled and entrepreneurial people; information technology, healthcare and other sectors are among those that suffer as a result of the emigration of highly skilled labour³.

2. Employment and the labour market

The uneven economic development also has a detrimental effect on employment and unemployment. The unemployment rate, which has fluctuated around the 10% mark over the last ten years, shows how slow the labour market has been to recover from economic downturns. (see Table 1).

Table 1. Employment and unemployment among 15-64-year-olds in Lithuania, 2001-2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Unemployment rate (in %)	17.6	14.0	12.5	11.5	8.4	5.7	4.4	5.9	13.9	18.1	15.6
Long-term unemployment rate ⁴ (in %)	58.8	54.9	50.2	53.3	54.9	44.3	32.2	21.2	23.2	41.4	51.9
Youth unemployment rate (in %)	31.1	23.0	24.8	22.5	15.7	9.8	8.2	13.4	29.2	35.1	32.9
Employment rate (in %)	57.2	59.6	60.9	61.1	62.6	63.6	64.9	64.3	60.1	57.8	60.7
Unemployed (in thousands)	283.7	224.4	202.5	183.5	132.8	88.9	68.9	93.4	224.3	290.7	248.5
Employed (in thousands)	1324.2	1383.8	1413.7	1416.9	1454.0	1475.9	1505.8	1490.2	1387.5	1319.6	1342.1

Source: Statistics Lithuania

The number of unemployed people aged 15 to 64 increased steeply during the crisis and by 2010 had reached more than four times the level of 2007. Unemployment in this age group rose by almost 14 percentage points to reach 18%. With the rapid increase in unemployment in Lithuania, the number of long-term unemployed (people who have been out of a job for more than 12 months) as well as their share of total unemployment also rose. According to data from Statistics Lithuania, between 2008 and 2011 the share of long-term unemployed rose from 20% to 60%. Youth

² Kniežaitė, Milda: "Mortality as a benchmark of wealth." March 2012. Available online at http://www.alfa.lt/straipsnis/14160197/Kai.mirtys.zymi.Lietuvos.geroves.uzribi=2012-03-31_14-06/.

³ Migration in Numbers, 2012. Available online at <http://123.emn.lt/en>.

⁴ Long-term unemployment: long-term unemployed as a share of unemployment as a whole.

unemployment in particular increased during the crisis, having risen by almost 30 percentage points since 2007; today it remains one of the highest in the EU.

The crisis had a particularly negative impact in the countryside. The rate of employment among residents of rural regions aged 15-64 plunged sharply, standing at only 49% in 2010, whereas the corresponding figure for urban residents in same the age group was 62%. Unemployment in the countryside stood at 6.2% in 2008 and 22.7% by 2010, whereas in the city it only reached 16.2%.

The massive emigration, high official unemployment rate and sluggish integration of unemployed people in the labour market in Lithuania can also be attributed to the low wages and salaries in the country; the average income in Lithuania is among the lowest in the EU (see Appendix 3). To cap it all, wages, which grew rapidly between 2005 and 2008, have not only stagnated since the onset of the crisis, they actually fell for two consecutive years; even in 2011 there was a decline in real wages (see Table 2).

Table 2: Year-on-year change in average gross monthly income of employees in Lithuania, 2001-2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Average gross monthly income (in litas)	982.3	1013.9	1072.6	1149.3	1276.2	1495.7	1802.4	2151.7	2056	1988.1	2042.0
Average gross monthly income (as a percentage of the year before)	101.2	103.2	105.8	107.2	111.0	117.2	120.5	119.4	95.6	96.7	102.7
Real wages (as a percentage of the year before)	99.6	103.8	109.2	104.9	106.8	114.9	117.0	110.1	92.8	95.7	98.5

Source: *Statistics Lithuania*

The result of this salary trend is that the average annual income in Lithuania has only increased by around 7% (EUR 500) over the last 3-4 years, whereas Romania over the same period has seen an increase of 22% (EUR 1100), Bulgaria as much as 56% (EUR 1500), and Latvia a full 28% (EUR 1900). This meagre income growth not only reduces the likelihood of Lithuania bridging the gap with the EU-15 in terms of earnings, it also makes the Lithuanian job market less attractive to local workers. In view of the traditionally low level of immigration, this may make it increasingly difficult in future for Lithuanian businesses to find workers with the right skills. It cannot be said that local workers have no desire to work in Lithuania – they are just not prepared to work for the low wages that they are offered here.

Another reason why the average income in Lithuania remains so low is that there has been no increase in the statutory minimum wage for more than four years (since January 2008). The gross monthly minimum wage in Lithuania is currently⁵ 800 litas (EUR 232), one of the lowest in the EU. Not only does this severely limit consumption by certain groups, it also breaches social security principles because it encourages economic inactivity (see Figure 4: Work and Living Conditions).

Another peculiarity of the Lithuanian labour market is the mismatch between supply and demand, which became more pronounced during the economic downturn. In terms of both geographical distribution and skills, the labour supply does not reflect present demand. In areas outside the major cities, there is a lack of skilled labour (highly skilled managers, project managers, engineers, doctors and finance professionals). In terms of the skills needed in Lithuania, there are too many academically trained professionals – above all students of the social sciences and humanities – whereas on the market there is an increasing lack of technically and scientifically trained

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professionals and correspondingly skilled labour. Even so, the economic slump has seen unemployment in all professions and for graduates of all disciplines double or even triple.

The fact that social dialogue remains poorly established in Lithuania also contributes crucially to the difficult economic, social and labour market situation. While it is true that there are three nationwide trade union confederations and two employers' associations that actively participate in national-level social dialogue, at the level of individual businesses, and especially of sectors, the situation remains problematic. The degree of unionisation is lower than in most other EU Member States (see Appendix 5), and there are practically no sector-specific collective agreements in Lithuania, placing the country at the bottom of the EU table in terms of this criterion, too.

In competitiveness rankings published by the World Economic Forum, Lithuania was placed at 47 (of 139) in 2010, and at 44 (of 142) in 2011. On only two criteria does Lithuania feature in the top ten: the limited extent to which the economy is damaged by malaria, and the high level of wage responsiveness. In other words, wage negotiations are practically non-existent in Lithuania (with the exception of a few sectors), and when determining remuneration for individual employees, many companies (with the exception of the public service) do not abide by any sort of objective standards, rules or agreements. Incidentally, on the criteria of controlling monopolistic behaviour in the economy, Lithuania was placed at 99 in 2011.

3. Economic and social policy

In our view, the wrong fiscal policy has been pursued over the last ten years: during the economic upswing, government expenditure was increased and taxes cut, while in the downturn, the response has been the opposite. In 2009 and 2010, a particularly strict form of austerity was introduced by way of the following:

- the rate of value added tax was increased from 19% to 21%;
- old age pensions were reduced (the average pension was 8% lower in 2010 than in 2009, which means that the previous monthly amount of 811 litas (EUR 235) was cut to 746 litas (EUR 216);
- unemployment benefits were cut – on 1 January 2010 the maximum amount was reduced by 38% from 1042 litas (EUR 302) to 650 litas (EUR 188) – which forced down the average unemployment benefit to around 550 litas (EUR 159) a month;
- the eligibility criteria for unemployment benefits were tightened (the share of the unemployed receiving benefits fell from 34% in 2009 to 15% at the beginning of 2011);
- public service salaries were cut (depending on the bracket, incomes fell by between 4% and 12%);
- there was no increase in what was already a low monthly minimum wage, etc.

These measures can be traced back to the unsuitable fiscal policy pursued in the period before the crisis, which made no provision for possible economic bottlenecks.

While it is true that the policies now pursued allowed the country to get a handle on its finances, they also exacerbated and multiplied social problems and triggered a second wave of emigration (since Lithuania joined the EU).

In order to offset the impact of measures that had given no boost to the economy, a stimulus package was introduced in 2009 with high expectations. The measures contained therein were meant to increase business access to financing, enhance the energy efficiency of buildings, fast-track use of EU structural funds, improve the entrepreneurial environment, and boost exports and

investment. According to experts⁶, however, the package yielded no tangible positive results. On the contrary, in reacting to the crisis the Lithuanian government above all anxious to balance the budget (i.e. save) and boost the economy (improve and liberalise the business environment), and in doing so entirely ignored the objective of creating new jobs and retaining existing ones.

In a bid to survive a much more difficult economic environment, businesses strove to push down costs, including payroll costs. In 2009 and 2010, employee wages were cut in many private and public-sector companies, authorities and organisations (with or without the consent of unions), or employees were given unpaid leave or made to work reduced hours, which reduced their wages accordingly.

In order to back Lithuanian workers against both businesses and a government focused on austerity, the unions took the initiative at national level during the crisis. In 2011, the Lithuanian Tripartite Council of Social Partners (LRTT), the most important institution of social dialogue in Lithuania, convened several times – LRTT members were negotiating with the Prime Minister about an increase in the minimum wage and about the pros and cons of liberalising labour law. While the social partners were unable to agree on an increase in the minimum wage (the first increase since January 2008 is now planned for mid-2012), the unions were able to deflect several planned initiatives for liberalising labour law, including relaxation of conditions on dismissal, increased use of fixed term contracts, overtime, etc.

Because retention of existing jobs and creation of new ones were so neglected, the number of people paying into Lithuania's social security system fell significantly (2008: 1 463 000, 2011: 1 304 000). This decrease, coupled with emigration (especially in younger age groups) and an ageing society (from 2016, there will be more people retiring each year than there will be 16-year-olds entering the labour market), is undermining efforts to stabilise the Lithuanian social security system, which since 2009 has seen an annual shortfall of more than 2.5 billion litas.

The government's failure to pay adequate heed to social issues is reflected in public opinion, too. A 2011 survey by the Technical University of Kaunas (KTU) of 1,187 Lithuanian residents gave the following result:

- More than 90% of respondents took the view that poverty, the gap between rich and poor, and unemployment in Lithuania were not being successfully tackled.
- More than 80% felt that the country does not guarantee dignity in old age and fair remuneration of work.
- More than 70% believed that the Lithuanian state fails to provide assistance and financial support for disabled people to live a dignified life, to prevent exploitation of workers, to ensure a roughly equivalent standard of living across the country, or to create the conditions for people to have equal opportunities to find work irrespective of their gender or ethnicity.

In other words, the people's confidence in parliament and in the government has been shakier in Lithuania than in any other EU Member State for some years now. According to a June 2012 survey by Vilmorus, a market and opinion research institute, only 6% of the population have confidence in parliament, and 14% in the government⁷.

⁶ Stimulus package a failure. January 2011. Available online at http://www.alfa.lt/straipsnis/10435011/Ekonomikos.skatinimo.planas.zlugo=2011-01-05_08-32/; "Multi-billion stimulus package of no use to Lithuania", January 2011. Available online at <http://www.visasverslas.lt/portal/categories/10/1/0/1/article/7984/ekonomikos-skatinimo-planas-milijardai-be-jokios-naudos-saliai>; M. Pasiliauskas: "Has the stimulus package been a fiasco?" October 2010. Available online at <http://www.ekonomika.lt/naujiena/ekonomikos-skatinimo-plano-fiasco-774.html>; I. Šiaulienė: "Where did the stimulus package go?" January 2012. Available online at <http://www.delfi.lt/news/ringas/politics/isiauliene-kur-dingo-ekonomikos-skatinimo-planas.d?id=53982555>, among others.

⁷ Results of the survey, "Confidence in institutions", Vilnius, June 2012. Available online at <http://www.vilmorus.lt/index.php?mact=News.cntnt01.detail.0&cntnt01articleid=2&cntnt01returnid=20>.

4. Working and living conditions

The first thing to be noted once more are the very low incomes in Lithuania, and in particular the weak purchasing power of the population. Table 3 contains the most important figures on average incomes in Lithuania.

Table 3: Average monthly income in Lithuania, Q1 2012.

	in litas	in EUR
Average income from paid employment (gross)	2138	620
Average income from paid employment (net)	1662	482
Average old age pension	815	236
Average monthly minimum wage (gross)	800	232
Average unemployment benefit	556	161
Social security benefit (per person)	130	38

Sources: Statistics Lithuania; Ministry of Social Security and Labour

These amounts, which are already very low in comparison to other EU countries, appear even more insignificant in view of the average price level in Lithuania, which is closer to that of many more highly developed Member States. According to data from Eurostat, the price index in Lithuania, which is based on actual household consumption, stands at 60% of the EU-27 average; for many products the price in Lithuania is only slightly below that charged in many EU countries. Table 4 illustrates the different prices for certain product groups in the EU and Lithuania.

Table 4: Price index for certain consumer goods and services in the EU and Lithuania, 2010 (%)

	EU-27	Lithuania
Clothing and shoes	100	99
Electric goods	100	97
Private vehicles	100	92
Household appliances	100	91
Electricity, gas and other fuels	100	80
Alcoholic beverages and tobacco	100	77
Furnishings (furniture, carpet, etc.)	100	77
Food and non-alcoholic beverages	100	72

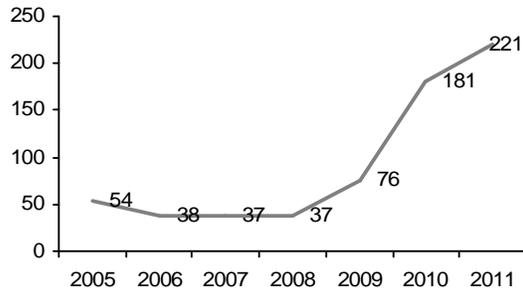
Source: Eurostat

As can be seen from these figures, average and minimum incomes in Lithuania are only a fifth to half of that earned in many EU countries, but the prices of several important products and services are only 10% to 30% lower than the EU average. The general price index in Lithuania is only weighed down by lower prices for housing, education and healthcare (of which it is known that only a small part is included in statistics). Nevertheless, even these prices stand at about 40% of the EU average, whereas wages, pensions and social security benefits are many times lower than in other EU countries.

In view of the generally low income level in Lithuania, the weaker purchasing power and the considerable differences in earnings (average incomes in some sectors can exceed those in others many times over), the majority of Lithuanian workers are very poorly paid. This is also shown by the incidence of in-work poverty: the share of working poor in Lithuania is among the highest in the EU (see Appendix 6).

With the low incomes and unattractive working conditions (according to an ongoing study by the European Foundation for the Improvement of Living and Working Conditions on working conditions in Europe, Lithuanian workers are much less satisfied with their working conditions than are workers in other EU countries), large sections of the population – particularly the poorly educated and those with many dependents, i.e. those who can expect the lowest earnings – have no interest in entering the job market and are more inclined to live on social security benefits (combined, not uncommonly, with employment in the shadow economy). As the crisis began in 2008 and work became even less attractive, unemployment rates rose and people had less money to spend, the number of social security recipients in Lithuania increased five to six times over (see Figure 3).

Figure 3: Number of social security recipients in Lithuania, 2005-2011 (in thousands)



Source: Statistics Lithuania

Overall, the low incomes, high income inequality and large share of the population living on social security benefits imply considerable economic inequality. For a number of years now, Lithuania's Gini coefficient has exceeded that of the rest of the EU (see Appendix 7).

The pronounced economic inequality combined with a low standard of living lie behind the large number of people who live in poverty and who are socially marginalised. According to data from Eurostat, in 2010 more than 33% of people in Lithuania were affected by poverty and social marginalisation – one of the highest figures in the EU.

The considerable inequality and large share of the population living in poverty and social marginalisation are creating alarmingly unequal opportunities with irreversible consequences for the future.

5. Future prospects

If the various data are combined, the only conclusion to be drawn is that the effects of the crisis and the social consequences of the economic downturn are largely related to the economic and social policies of a country's government. A review of the basic socioeconomic indicators for the country reveals a lack of targeted and timely measures in Lithuania aimed at solving the country's social problems (first and foremost, at lifting employment).

Unemployment rates rose dramatically as a consequence of the crisis, and the economic growth recently seen in the country was shown in a particularly unflattering light, because it did little to create new employment: while the economy did grow, the number of jobs either failed to increase at all or did so at a disproportionately slow rate, or even fell ("jobless growth"). For example, Lithuanian GDP increased by 1.4% in 2010, while over the same period the number of employees fell by around 5.1%. In 2011 GDP grew by as much as 5.9%, but the number of employees went up by a mere 2%. In the first quarter of 2012 Lithuanian GDP (in comparison with the same period last year) increased by 3.9%, while the number of employees went up by only 1.9%.

One point that needs to be considered here is the decrease in the number of businesses operating in Lithuania during and after the crisis: in the period 2009-2011 (from 1 January 2009 until 1 January 2012), the number of businesses fell by 4.2% (cf. Table 5).

Table 5: Number of businesses operating in Lithuania from 2009 until 1 January 2012

	2009	2010	2011	2012
Number of businesses				
Businesses in total	65 629	63 840	66 840	62 889
with 9 or fewer employees	48 679	46 858	52 270	48 917
with 10-49 employees	13 580	13 658	11 892	11 399
with 50-249 employees	2 973	2 931	2 372	2 270
with 250 or more employees	397	393	306	303
Change in the number of businesses in %				
Businesses in total	-	-2.7	4.7	-5.9
with 9 or fewer employees	-	-3.7	11.5	-6.4
with 10-49 employees	-	0.6	-12.9	-4.1
with 50-249 employees	-	-1.4	-19.1	-4.3
with 250 or more employees	-	-1.0	-22.1	-1.0

Source: Statistics Lithuania

The biggest decrease in small, medium-sized and large businesses was in 2010, whereas the number of microenterprises fell most sharply in 2011. Over the 2009-2011 period as a whole, the number of medium-sized and large businesses fell by almost a quarter (24%), and the number of small businesses by 16%.

The trends described above suggest that the country's economic and social policies (including policies to support businesses) have failed to have an impact. They have neither lifted the employment rate nor contributed to the development of businesses in the country.

In our view, economic development without job creation is unsustainable and is more likely to exacerbate social inequality whilst failing to address the country's social problems (cf. Figure 4). A low employment rate and low incomes limit the government's options when drawing up a budget, and at the same time mean that ever greater sums must be spent on securing social stability.

There is an expectation that the number of jobs will rise and employment will be promoted if supporting businesses, improving the business environment and liberalising employment contracts are given higher priority on the political agenda. However, because of the short history of social dialogue in the country and the absence of well-established principles of business ethics, an economically liberal approach will merely result in workers being offered even more precarious jobs and even less attractive working conditions.

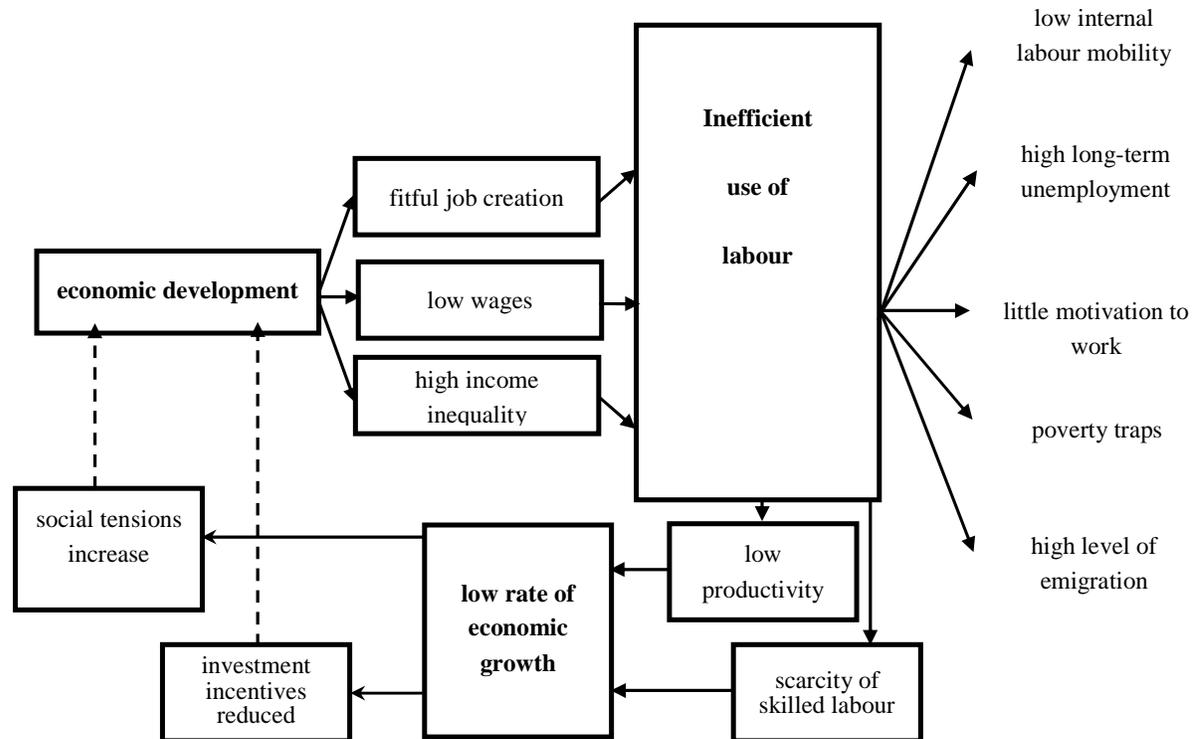
An objective assessment of the current social and economic situation in Lithuania supports the conclusion that, because of the processes currently underway in the country – emigration, ageing of the population, a sizeable shadow economy (various estimates have the Lithuanian shadow economy account for as much as 20% of GDP)⁸ and the social security and tax policies currently in

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According to Lithuanian data, in May 2012 the shadow economy was smaller in Lithuania than in Latvia or Estonia. See: <http://www.15min.lt/naujiena/pinigai/lietuvos-naujienos/latviai-nustate-kad-lietuvoje-seseline-ekonomika-mazesne-nei-ju-salyje-ir-estijoje-194-222698#ixzz1yArRVXNq>; Jasinskaitė A., "Šešelinę ekonomiką sutramdys grynujų pinigų ribojimas? ["Can reducing the amount of cash in circulation stem the shadow economy?"]", June 2012. See: http://projektai.delfi.lt/saugikisene/news/seseline-ekonomika-sutramdys-grynuju-pinigu-ribojimas.d?id=58860883#a_emb_134004749175688_6072.

force – Lithuanian workers are forced to bear a significant tax burden, while at the same time workers are poorly paid, which makes jobs less attractive and thereby encourages emigration.

Figure 4: Dynamic of economic and social development in Lithuania



Because of the current economic, social and employment policy trends in the country, Lithuanian workers must prepare themselves for **poor compensation** and **unattractive working conditions** for the foreseeable future.

In order to change the current situation, targeted measures need to be taken by government, employers and unions aimed above all at creating jobs and encouraging employment, increasing wages and reducing the tax burden, and making working conditions more attractive.

Statistics and special studies reveal the following:

- In terms of the share of GDP that goes towards employees and the share of expenditure on wages and salaries as a proportion of businesses' total costs, Lithuania is positioned at the tail end of the EU.
- On the other hand, in terms of the level of taxation of employee income, Lithuania is in the top ten of the EU-27.
- Employees in Lithuania are much less satisfied with their working conditions than residents of many other EU Member States (opportunities for promotion, psychological and social working environment, impact of work on health, etc.).
- As mentioned above, there is practically no social dialogue in most Lithuanian businesses, employees are inadequately informed and/or they are not consulted.

In our view, there first needs to be a reversal of the trends described above (increase in wages and salaries, reduction of the tax burden and improvement of working conditions) so that employees have an interest in returning to the (official) job market, which would in turn stem emigration, limit

the extent of the shadow economy and put a brake on unemployment; and if employment figures rose in response to better pay and the tax burden were more evenly distributed, consumption would increase, too. This would create the conditions for sustainable economic and social development of the country.

Summary

The Lithuanian economy and its development over the last ten years can be described by way of three features that set the country apart from other EU Member States: 1) Lithuanian gross domestic product (GDP) is among the lowest in the European Union. 2) Workers' share of GDP is among the lowest of EU Member States. 3) Lithuania is characterised by significant economic instability – over the last ten years the country has seen the greatest fluctuations in GDP in the EU, both downwards and upwards. The low GDP and the small workers' share of GDP automatically allow one to conclude or predict certain labour market-related problems: low average and minimum wages (and a correspondingly low level of consumption and standard of living); limited economic incentive (motivation) to work; emigration to countries with a higher standard of living and a resulting scarcity of skilled labour; and the spread of the shadow economy, etc. The erratic economic development favours less efficient use of resources (including human resources) and heightens wealth inequality, which in turn exacerbates the negative social consequences for the country.

This unfavourable economic trend is made even worse by unfavourable demographics: while the number of people residing in Lithuania is continually falling, the population is rapidly ageing. Lithuania records the highest rate of emigration in the EU, which is all the more concerning because most emigrants are young, well-educated people of working age.

The erratic economic development also has an unfavourable impact on the employment and unemployment dynamic: over the last ten years the unemployment rate has steadily fluctuated by around ten percentage points, and has also been very slow to fall following crises. Further complicating matters is the fact that, as unemployment has risen, the number of long-term unemployed as a share of total unemployment has rapidly and disproportionately increased.

The high level of emigration, high official unemployment rate and slow integration of unemployed people in the Lithuanian labour market can also be partly attributed to the low incomes in the country – both average and minimum wages in Lithuania are among the lowest in the EU. Moreover, incomes in Lithuania have barely risen in recent years. This situation makes the Lithuanian labour market even less attractive, which in future could destroy any opportunities for businesses to find the skilled workers they need, and thereby the chances for economic development.

A further peculiarity of the Lithuanian labour market is the discrepancy between workforce supply and demand, which has only increased with the economic downturn. In terms of both geographical distribution and skills, the supply of labour does not reflect demand. In terms of geographic distribution, the fundamental problem is the lack of skilled labour (highly skilled managers, project managers, engineers, doctors and finance professionals) outside the major cities. The mismatch between supply and demand for professional skills is reflected in the fact that, while many there are many professionals with an academic training in Lithuania, they are mostly graduates of the social sciences or humanities, whereas on the market there is an increasing lack of technically and scientifically trained professionals and correspondingly skilled labour.

The fact that social dialogue remains a poorly established practice in Lithuania also contributes crucially to the difficult economic, social and job market situation. While it is true that there are three nationwide trade union confederations and two employers' associations that actively participate in national-level social dialogue, at the level of individual businesses, and especially of sectors (with the exception of a few sectors), the situation remains problematic. The degree of unionisation is lower than in most other EU Member States, and because there are practically no sector-specific collective agreements in Lithuania, the country sits at the bottom of the EU table on this criterion, too.

In our view, the entirely unsuitable fiscal policy pursued in Lithuania over the last ten years is also at the root of a number of severe social and economic problems. During the economic upturn, government expenditure was increased and taxes cut, which added to inflationary pressure and caused price bubbles to emerge. During the economic downturn, however, the response was the opposite – a policy of severe and at times unjustified austerity was followed. Lithuania adopted a particularly severe policy of austerity in 2009 and 2010: value added tax was increased, pensions and unemployment benefits were reduced, eligibility conditions for unemployment benefits were made stricter, public sector salaries were cut and there was no increase in the minimum wage for four years.

While it is true that these policies have allowed the country to get a handle on its finances, they have also exacerbated and multiplied social problems and triggered the second wave of emigration since Lithuania joined the EU. As the crisis began in 2008 and work became even less attractive, unemployment rates rose and people had less money to spend, the number of social security beneficiaries in Lithuania increased five to six times over, and the share of the population in poverty or socially marginalised rose to 33%.

In a bid to survive a much more difficult economic environment, Lithuanian businesses strove to push down costs, including payroll costs. In 2009 and 2010, employee wages were cut in many private and public-sector companies, authorities and organisations (with or without the consent of unions), or employees were given unpaid leave or made to work reduced hours in the day or week, so that they were paid less for their work. Businesses that were no longer competitive went bankrupt, and the number of workers laid off multiplied in 2009 and 2010.

In order to back Lithuanian workers against both businesses and a government bent on austerity, during the crisis the unions took the initiative at national level: in the period 2009-2011, the Lithuanian Tripartite Council of Social Partners (LRTT), the most important institution of social dialogue in Lithuania, convened several times – LRTT members were negotiating with the prime minister over an increase in the minimum wage and debating the pros and cons of liberalising labour law. While the social partners were unable to agree on an increase in the minimum wage, the unions were able to deflect several attempts to liberalise labour law based on the precept that supporting businesses was the best way to tackle the effects of the crisis: these included relaxing conditions on dismissal, increased use of fixed term contracts, overtime, etc.

If the various data are combined, the only conclusion to be drawn is that the effects of the crisis and the social consequences of the economic downturn are largely related to the economic and social policies of a country's government. A review of the basic socioeconomic indicators for the country reveals a lack of targeted and timely measures in Lithuania aimed at solving the country's social problems (first and foremost, at lifting unemployment).

The economic growth recently seen in Lithuania has failed to create new employment: while the economy does grow, the number of jobs either fails to increase at all or does so at a disproportionately slow rate, or even falls. Notwithstanding the much touted support for businesses, their number has drastically fallen in recent years (this is true of all types of business; the number of medium-sized and large businesses fell by 24%, or almost a quarter, between 2009 and 2011). These and numerous other social and economic trends suggest that the country's economic and social policies (including policies to support businesses) have failed to have an impact. They have neither lifted the employment rate nor contributed to the development of businesses in the country.

In our view, economic development without job creation is unsustainable and is more likely to exacerbate social inequality whilst failing to address the country's social problems. There is an expectation that jobs will be created and employment encouraged when supporting businesses, improving the business environment and liberalising employment contracts are given higher priority on the political agenda. However, because of the short history of social dialogue in the country and the absence of well-established principles of business ethics, an economically liberal approach will merely result in workers being offered precarious jobs and less attractive working conditions.

An objective assessment of the current social and economic situation in Lithuania supports the conclusion that, because of the processes currently underway in the country – emigration, an ageing population, a sizeable shadow economy and the social security and tax policies currently in force –

Lithuanian workers are forced to bear a significant tax burden, leaving them poorly remunerated and in turn making paid employment less attractive and encouraging emigration. Because of the current economic, social, political and employment policy trends in the country, Lithuanian workers must adapt to **poor compensation** and **unattractive working conditions** for the foreseeable future.

In order to change the current situation, targeted measures need to be taken by government, employers and unions aimed above all at creating jobs and promoting employment, increasing wages and reducing the tax burden, and making working conditions more attractive.

In our view, there first needs to be a reversal of the trends described above (increase in wages and salaries, reduction of the tax burden and improvement of working conditions) so that employees have an interest in returning to the (official) job market, which would in turn stem emigration, limit the extent of the shadow economy and put a brake on unemployment; and if employment figures rose in response to better pay and the tax burden were more evenly distributed, consumption would increase, too. This would create the conditions for sustainable economic and social development of the country.

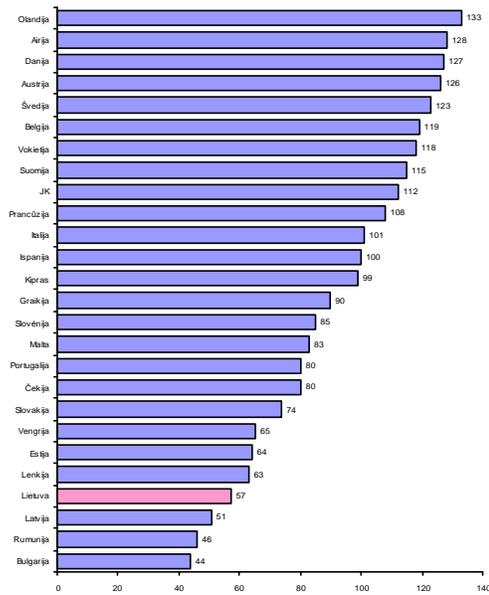
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Web portals:

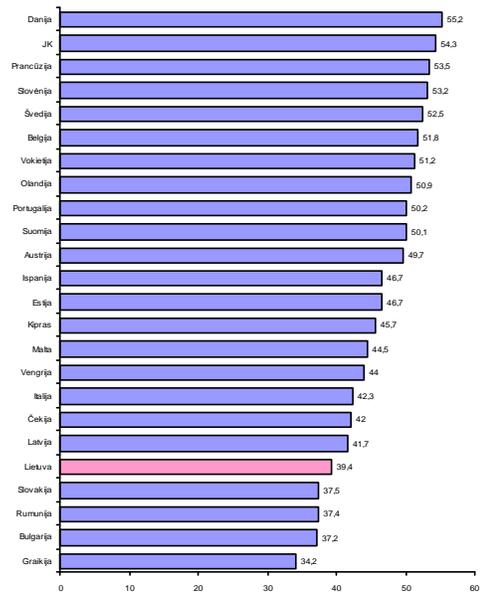
www.ldb.lt (Lithuanian Labour Exchange)
www.lrs.lt (Lithuanian Parliament (Seimas))
www.lrtt.lt (Tripartite Council of Social Partners)
www.lrv.lt (Lithuanian Government)
www.smm.lt (Ministry of Education)
www.socmin.lt (Ministry of Social Security and Labour)
www.stat.gov.lt (Statistics Lithuania)
www.ukmin.lt (Ministry of the Economy)
www.vdi.lt (State Labour Inspectorate)

Appendix 1: GDP per capita based on purchasing power parity, 2010 (EU=100%)



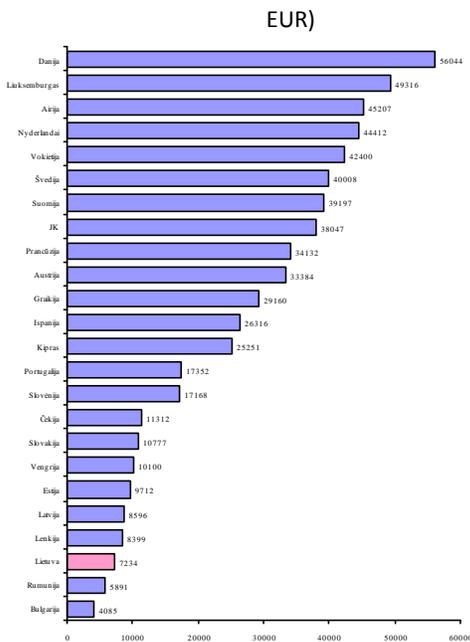
Source: Eurostat

Appendix 2: Employee remuneration, 2011 (share of GDP, in %)



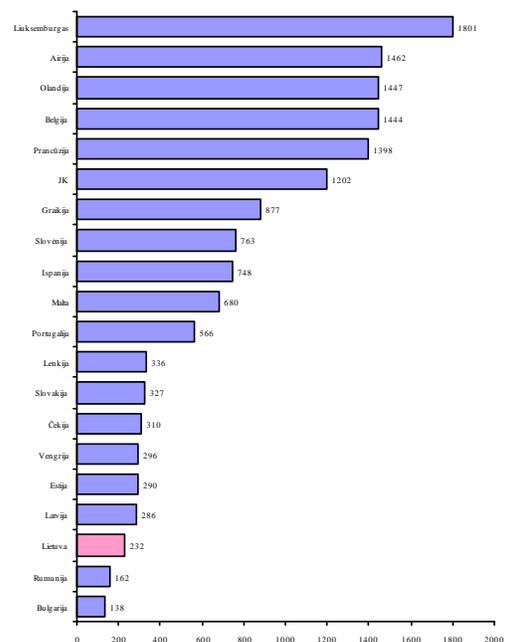
Source: Eurostat

Appendix 3: Average gross annual income from paid employment⁹ (in the private sector), EU 2009-2012 (in EUR)



Source: Eurostat

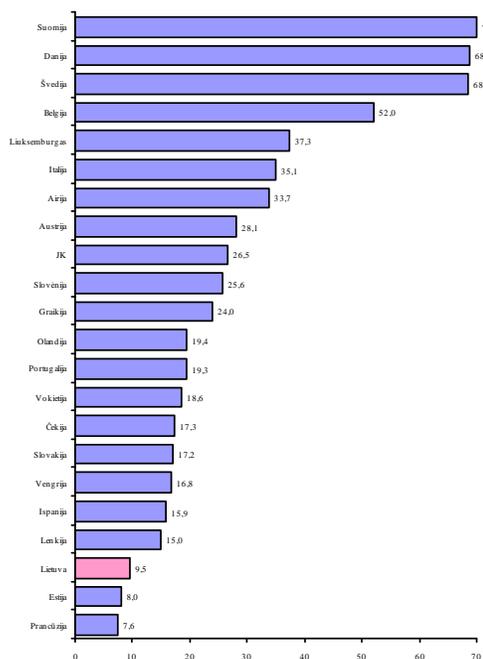
Appendix 4: Minimum wages in the EU 2012 (EUR per month)



Source: Eurostat

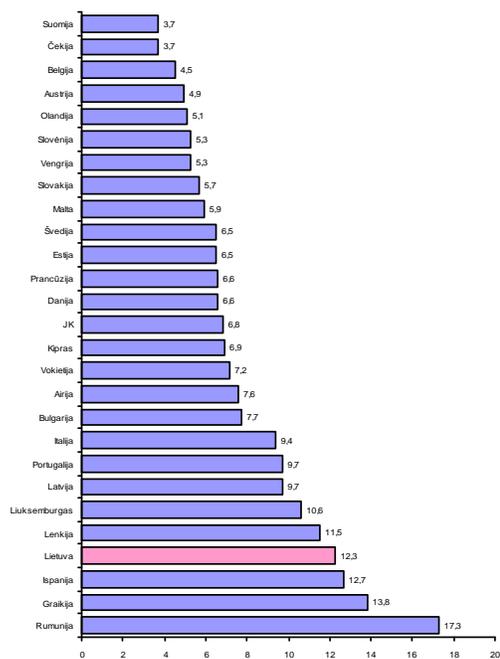
⁹ Of employees who have worked for companies of ten or more employees during their entire working life. For Slovenia and Lithuania: number of employees in average annual work units.

Appendix 5: Degree of unionisation in the EU
2009-2010 (in %)



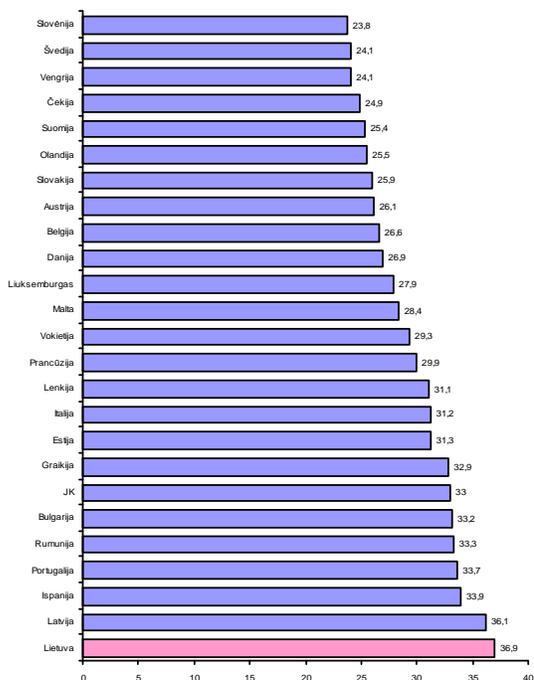
Sources: OECD; Statistics Lithuania

Appendix 6: In-work poverty
in the EU 2010 (in %)



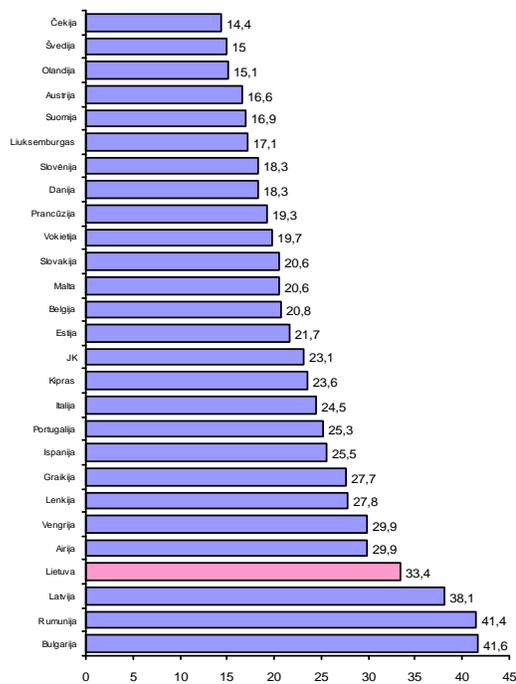
Source: Eurostat

Appendix 7: Gini coefficient in the EU 2010 (in %)



Source: Eurostat

Appendix 8: Poverty and social marginalisation
in the EU 2010 (in %)



Source: Eurostat

Members of the Workers' Group representing Lithuania



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