OECD Reviews of Labour Market and Social Policies

LITHUANIA

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OECD Reviews of Labour Market and Social Policies: Lithuania

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Foreword

This volume consists of a background report prepared by the OECD Secretariat to support the Labour Market and Social Policy Review of Lithuania undertaken by the OECD Employment, Labour and Social Affairs Committee as part of the process for Lithuania's accession to the OECD [see the Roadmap for the Accession of Lithuania to the OECD Convention : C(2015)92/FINAL]. In accordance with paragraph 14 of Lithuania's Accession Roadmap, the Employment, Labour and Social Affairs Committee agreed to declassify the report in its current version and publish it under the authority of the Secretary General, in order to allow a wider audience to become acquainted with the issues raised in the report. Publication of this document, and the analysis and recommendations contained therein, do not prejudge in any way the results of the review of Lithuania by the Employment, Labour and Social Affairs Committee as part of its process of accession to the OECD.

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Acronyms and abbreviations

ALMP	Active labour market policy
BSB	Basic Social Benefit
BSIP	Basic Social Insurance Pension
CEPEJ	European Commission for the Efficiency of Justice
DB	Defined-benefit
DC	Defined-contribution
ECEC	Early childhood education and care
EPL	Employment protection legislation
ESF	European Social Fund
EU	European Union
GDP	Gross Domestic Product
GLL	Global Lithuanian Leaders
GLP	Global Lithuania Programme
ICT	Information and Communication Technologies
ILO	International Labour Organization
LDC	Labour Dispute Commission
LGBT	Lesbian, Gay, Bisexual and Transgender
LLE	Lithuanian Labour Exchange
METR	Marginal effective tax rate
MMW	Monthly minimum wage
MSSL	Ministry of Social Security and Labour
NEET	Not in Employment, Education or Training
NGO	Non-governmental organisation
NRR	Net Replacement Rate
NSM	New Social Model
OHS	Occupational health and safety
PAYG	Pay-as-you-go
PPP	Purchasing Power Parity
PTR	Participation tax rate
SLI	State Labour Inspectorate
SMEs	Small and medium-size enterprises
SoDra	State Social Insurance Fund Board
SSI	State-Supported Income
SSIF	State Social Insurance Fund
STI	State Tax Inspectorate

VAT	Value-added tax
VET	Vocational Education and Training

(↘) in the legend relates to the variable for which countries are ranked from left to right in decreasing order

(↗) in the legend relates to the variable for which countries are ranked from left to right in increasing order

Executive summary

Like other economies in Central and Eastern Europe, Lithuania underwent major economic and social change since the early 1990s. The transformation from planned to market economy was accompanied by fundamental reforms of political institutions and integration into the European Union and, in 2015, into the Euro area.

Over the past two decades, economic growth has been impressive, narrowing the income and productivity gaps relative to wealthier countries belonging to the OECD. But the global financial crisis resulted in a deep recession and one of the worst output losses in the world. Large fiscal consolidation measures, soaring unemployment and unprecedented nominal wage adjustments caused wages and family incomes to plummet. Since 2010, output recovery in Lithuania has again been among the fastest in the EU, although lower than before the crisis, and the recovery has slowed down since 2015.

Despite the remarkable narrowing of national-income gaps relative to comparable countries, deep structural problems remain. Lithuania faces a massive demographic challenge, with population declining by more than 1% annually since the early 2000s, mostly as a result of large and persistent emigration driven primarily by low wages and poor working conditions. Income inequality is also very high, and households at the bottom of the income distribution have recently benefited very little from the recovery.

Major reforms of the Labour Code, the unemployment insurance system, employment policies and pensions were recently undertaken within the New Social Model to improve labour maket adaptibility and income security. However, resources devoted to labour market and social policies remain limited. Sustained policy efforts and additional resources are needed to improve workers' skills and thus raise productivity, allow for wage increases and reduce incentives to emigration, as well as to reduce income inequality.

The OECD therefore recommends that policy makers in Lithuania:

- Monitor developments in the labour market following the adoption of the new Labour Code in terms of i) job quality and ii) the formation of work councils at the firm level and their effect on trade unions, and implement corrective actions in case of negative consequences.
- Improve labour law enforcement by increasing sanctions against employers in case of infringement and eventually adjust State Labour Inspectorate staffing if needed following the expansion of their function foreseen in the new Labour Code, to further strengthen policies to reduce informality and improve occupational health.
- Strengthen the support provided to jobseekers by increasing the number of caseworkers in the public employment service, increasing participation in well-designed training programmes, including on-the-job training and programmes targeted at older workers, and more systematically evaluate labour

market programmes to help channel resources to the most cost-effective programmes.

- Further develop workers' skills by increasing support to apprenticeship and financial incentives for firms to provide training at the firm.
- Improve social protection by extending the maximum duration of unemployment benefit and further raising the level of Cash Social Assistance, and increase tax subsidies for the public pension system to ensure pension adequacy and limit the rise in old-age poverty.
- Broaden the diaspora policy target beyond the most highly qualified to cover more workers with medium qualifications. Increase resources available for the Global Lithuania work programme, especially its economic initiatives and those to support returning workers.
- Consider raising tax revenues and changing the tax structure in favour of greater progressivity in the personal income tax system and higher property, capital gains and environmental taxes, in order to increase social expenditure and the redistributive effect of the tax and benefit system.

Assessment and recommendations

Non-inclusive growth increases the challenge of high emigration

Lithuania is a small open economy with a population of 2.9 million. Like other countries in Central and Eastern Europe, Lithuania has undergone deep economic and social changes since re-gaining its independence in 1990, as a result of major reforms to its economic, social and political institutions. Lithuania joined the European Union (EU) in 2004 and the Euro in 2015.

Lithuania has experienced strong economic growth despite a deep and painful economic crisis

Over the past two decades, economic growth has been impressive, allowing for strong productivity catch-up, the highest among the Baltic countries. The per capita income gap relative to the OECD average narrowed from almost 70% to about 29% between 1995 and 2016. Annual GDP growth averaged 7.5% in the years leading up to the crisis in 2008, making Lithuania one of the fastest-growing economies in the world.

The 2008 global financial crisis struck Lithuania very hard, resulting in a deep recession with one of the highest output losses in the world. Lithuania adopted dramatic consolidation measures, in part not to violate the requirements for being admitted to the Euro. As a result of soaring unemployment and unprecedented nominal wage adjustments, aggregate wages in the economy plunged by a quarter in two years. Output recovered fast since 2010, however, with GDP returning to its pre-crisis peak in 2014. Workers' incomes started to recover later and only reached their pre-crisis level in 2016. While wages and productivity have evolved more or less in line over the last decade, a recent slowdown in productivity growth raises challenges for competitiveness and detracts from rising prosperity.

Labour market outcomes are insufficiently inclusive

Labour market outcomes have improved on many counts since the crisis. Although still higher than before the crisis and above the OECD average, the unemployment rate dropped from 18% to 8% between 2010 and 2016. More strikingly even, the employment rate is now significantly higher than before the crisis at 69% in 2016, and 4 points above the OECD average. However, the working age population has been shrinking, due to the emigration wave fuelled by the economic crisis and the ensuing austerity measures. Consequently, the level of employment was still about 5% below its pre-crisis level in absolute terms in 2016.

Some groups of workers have worse outcomes than others. The biggest divide is amongst workers with different education levels. While high-skilled workers do much better than in the OECD on average, low-skilled workers perform much worse. The gap in employment rates between these two groups is hence much higher than in the OECD on average (40 vs 28 percentage points). Regional divides in employment outcomes are also high, and despite ongoing internal and international outmigration flows from the less developed rural areas, they have intensified since the crisis. Lithuanians residing in rural areas are much less likely to be employed and more likely to be (long-term) unemployed than those living in urban areas, where the labour market is more dynamic and resilient. This also translates into large differences in employment performance across counties, with Klaipeda, Kaunas and Vilnius – the three counties with large cities – having better employment outcomes.

Even if working, job quality is poor for many Lithuanians. Unlike in many OECD countries, temporary and part-time contracts are still rare in Lithuania, but informal employment is frequent, wage inequality is high and low pay common, and working conditions are sometimes poor. Academic research suggests that the size of the Lithuanian informal economy is declining, but at 26% of GDP in 2015, which is still about 12 percentage points above the OECD average. The share of workers undertaking a fully undeclared activity, and thus covered by neither social security nor labour laws, is higher than in all other EU countries except Latvia. Many workers also receive part of their wage as undeclared “envelope wages”, thereby avoiding taxation and social contributions, but reducing the social protection of workers. Despite significant catch-up, real wages remain low in purchasing power parity terms, equivalent to 53% of the OECD average in 2015. More than one-fifth of Lithuanian employees were affected by low pay in 2015, compared to 16% in the OECD on average. Many Lithuanian workers are also negative about their career prospects and safety at work.

Living standards are rising across the income distribution, but inequality is growing

Over the last decades, living standards in Lithuania have quickly risen across the entire income distribution, but as in other economies in Central and Eastern Europe, rapid income growth was associated with rising inequality. High structural unemployment and poverty were among the most visible symptoms of this unequal growth process. The Gini coefficient, one of the standard measures of income inequality, rose from just above 0.2 in the early 1990s to around 0.35 in the mid-2000s (OECD average of 0.31).

The economic crisis brought a temporary narrowing of income disparities, but inequality has grown again during the recovery. Both top and bottom incomes initially bounced back quickly from the heavy losses incurred during the crisis. But while top incomes continued to climb, income growth for households in the bottom of the income distribution stalled in 2011 and their incomes remain at around 10-15% below the pre-crisis level. In consequence, both income inequality and relative poverty were higher in 2014 than at any point over the last decade. Further, the share of households experiencing material deprivation remains stubbornly high, stagnant for the last three years at its pre-crisis level.

Health outcomes are poor

In spite of the remarkable narrowing of the income gap compared to OECD countries, health outcomes in Lithuania remain poor by OECD standards. Life expectancy displays a greater gender gap than anywhere in the OECD (69 years for men vs 80 for women), and it is lower than in any OECD country. Less than half of all adults in Lithuania report “good” or “very good” health. Unhealthy lifestyles are an important driver of these poor outcomes, in particular for men: per-capita alcohol consumption has been on the rise and is higher in Lithuania than in any OECD country, and the share of men reporting daily smoking would put Lithuania in the top-5 across the OECD. Deaths through suicide are more frequent in Lithuania than in any OECD country, moreover, with suicide rates being five times higher for men than for women.

High emigration drains the labour force and undermines social protection systems

Lithuania's population fell by 17% between 2001 and 2016, an average of more than 1% annually. Population loss can be attributed to smaller birth cohorts, which also lead to an ageing population, and to the higher mortality due to the health factors cited above, but it mostly reflects very high levels of emigration. These are driven by large wage differences with the destination countries, which attract Lithuanian workers, and free movement within the European Economic Area (EEA). Higher job quality abroad also affects emigration. Emigration rose after EU accession, spiked during the economic crisis in 2010, and remains today at levels above the pre-crisis period. Emigration rates are above those in neighbouring Latvia, Estonia and Poland. Wage gaps with the main destination countries are closing too slowly to give reason to expect that emigration will decline soon.

Emigration and smaller youth cohorts mean that working-age population is forecast to decline by about 9% between 2015 and 2020, and a further 20% in the 2020s. This dramatic demographic situation means that the number of young people entering the working-age population is shrinking. Universities have seen a sharp decline in enrolments, and fewer educated young people are entering the labour market. This reduces the scope for improving productivity by renewing the labour force with a better-educated cohort of entries. On top of the smaller cohorts, young people are particularly likely to emigrate, before or after their studies, and about one-third of recent graduates leave Lithuania within the first five years after graduation. A minority of the recent emigrants do return, and return migrants have low employment rates, but they are likely to leave again.

Not only does emigration starve the country of labour and educated young people, it also worsens the old-age dependency ratio. The old-age dependency ratio is expected to increase from 28 persons over age 65 for every hundred residents who are 15-64 years old, in 2015, to 46 by 2030, a sharper increase than most OECD countries. By 2050, dependency rates are projected to be about 60, threatening the sustainability of pension systems.

Emigration also provided a buffer against rising unemployment, by reducing the workforce, but has now become a brake on growth. Similarly, while remittances from workers abroad were very important in the crisis – accounting for as much as 3.7% of GDP in 2011 – they fell sharply in 2015 and, as emigrants settle abroad with their families, cannot be expected to play the same buffer role to support family incomes in the future.

Improving the balance between labour market adaptability and employment security

Employment protection legislation, as enshrined in the 2002 Labour Code, was strict by OECD standards, especially the rules regarding individual dismissal and the use of temporary employment. At the same time, there was evidence of poor enforcement of the rules regarding individual dismissal, notably severance payments which apparently were not often paid by employers in practice. Poor enforcement not only resulted in a loss of income for dismissed workers but generated uncertainty for firms about the potential costs they faced for dismissing workers. On the other hand, access to unemployment benefits was very restrictive, and the maximum benefit duration rather short. In 2014, the Lithuanian government launched the 'New Social Model', which sought to reform various areas of labour market and social policy, including labour law, employment support, unemployment insurance and pensions. The purpose was to make labour relations more flexible to encourage employment creation while at the same time providing greater guarantees for employees, following the so-called flexicurity approach. After a long and at times conflictual process, a new labour law and a new law on employment were enacted in July 2017, with significant implications for workers and firms.

The new labour law significantly liberalises employment protection thus reducing incentives for informal employment and uncertainty for firms and workers…

The new Labour Code significantly reduces barriers and costs for employers to lay off workers with permanent contracts, by significantly widening the grounds for legitimate dismissal, shortening the notice period and considerably reducing severance payments. One uncertainty remains, however, regarding the implementation in practice of the provision stating that all the grounds listed in the code are fair unless there is a vacant post within the company that the employee could occupy.

As a result of tight regulation, temporary employment represents less than 2% of all employment contracts in Lithuania. The new legislation lifts all restrictions on their use, provided that they represent less than 20% of all employment contracts in a firm. Moreover, a large number of additional non-standard contracts have been introduced, including project-based employment contracts, which come close to a civil contract.

Employers now also have significantly more flexibility in setting working-time arrangements. Given that working-time standards are exclusively defined by law in Lithuania, employers had been advocating for such a reform for a long time. The combination of the possibility of working-time averaging over a three months period not conditioned on agreement with employee representatives and the increase of maximum weekly working hours to 52-60 hours now puts Lithuania among the least constraining of countries in the OECD. New forms of flexible working hours have also been introduced and the notice period for announcing work schedules has been reduced.

These changes provide legal opportunities to employers to significantly reduce their labour costs and uncertainly associated with the dismissal of workers. The overall effect of such reforms on the level of employment in the long-run is uncertain and unlikely to be large according to the economic literature. Since Lithuanian employers may have already been avoiding labour costs due to weak enforcement of the previous law, even less of an impact can be expected. But long-run benefits can be expected in the form of higher productivity and economic growth, as increased separations and hirings should foster a more efficient reallocation of resources. In the short run, there could be some job losses but also conversion of informal to formal labour relations. In any case, the *de facto* relatively high flexibility of the Lithuanian labour market is likely to reduce these effects.

In any case, bringing the new hiring and firing rules and working-time regulation closer to actual practice should reduce uncertainty for workers and firms, with possible benefits in terms of attractiveness of foreign direct investment. The associated reduction in the cost of formal employment should also lower incentives for informal employment, both full non-declaration and envelope wages.

...but it risks further lowering job quality

The negative income impact on long-tenure workers of the reduction of severance pay is limited by the creation of the Long-Term Benefit Fund, financed out of social contributions on employers, which provides additional compensation – increasing with tenure – to workers with tenure of more than five years. This is a good thing, as long-tenure workers are likely to face greater difficulties finding a new job after dismissal than others. However, this implies a de-linking between the costs generated by a layoff (including externalities) and the costs borne by the employer. It may be wise to monitor developments in the future and see whether some re-linking, e.g. through some experience-rating in establishing the contributions to the fund, would be necessary to better align employers' incentives with costs.

Many OECD countries implementing reforms that increase the flexibility of employment protection legislation do so to reduce the labour market duality arising from widespread use of less regulated temporary contracts. This is not the case in Lithuania, however, where hiring and firing provisions and working-time regulation on *permanent* contracts and the use of *non-standard* contracts have been liberalised at the same time. This may limit the emergence of duality, but may have consequences on the job quality for workers, in particular their work/life balance, and risks entailing increased insecurity. Developments on the labour market in terms of working-time practices, use of non-standard contracts, and job insecurity should thus be carefully monitored.

The New Social Model substantially strengthens the protection provided to workers through unemployment insurance

Before the New Social Model came into force, the unemployment benefit system only provided weak protection for Lithuanian workers. Strict eligibility conditions limited access and resulted in low coverage of the unemployed. Many of those covered were then only eligible for benefits for a maximum period of 6 months. These weaknesses became very apparent during the crisis, when the benefit coverage rate quickly dropped to only 14% of registered unemployed in mid-2011. The new law on unemployment social insurance significantly strengthens the system by shortening the minimum contribution period, extending the maximum benefit duration (to 9 months for all recipients) and raising benefit levels in particular for jobseekers with higher previous earnings. As a result of these changes, the coverage of registered jobseekers should rise from 28% to 43% according to Ministry estimates. Moreover, benefits now become quite generous relative to previous earnings compared with the OECD average: at 84%, the net replacement rate for a single person in the third month of the benefit spell would be the third-highest in the OECD. The replacement rate declines over the duration of the spell, but remains considerably above the OECD average.

However, income support remains weak for the long-term unemployed and other jobseekers who are not entitled to unemployment benefits. About 3% of the Lithuanian labour force is long-term unemployed, and more than one out of five jobseekers who newly registered as unemployed in the first half of 2016 stayed on the records for at least nine months. Even after the reform, these jobseekers lose entitlements to unemployment benefits after nine months, qualifying then only for the much less generous Cash Social Assistance. The majority of OECD countries pay unemployment benefits for at least 12 months. To provide better income support for the long-term unemployed, the maximum duration of unemployment benefits could be further extended. This could be funded, at least in part, by lowering the benefit ceiling or reducing the currently generous replacement rates in the initial months of a benefit spell.

Enhancing social dialogue and worker protection

Developing collective representation of workers and collective bargaining would contribute to improving working conditions, as well as incentives for employers to train their workforce, as more satisfied workers are less likely to leave and thus more interesting to train.

Social dialogue is weak

Trade union membership in Lithuania is low and decreasing, and it is primarily concentrated in the public sector. Trade unions are often perceived as remnants of the Soviet period, and, since 2004, EU and EEA membership makes it easy for unsatisfied workers to move to work abroad, thus lowering the incentives to voice their discontent and undertake collective action. Employers are rarely members of employers' organisations and show limited interest in social dialogue. As a result, collective bargaining is limited, with less than 10% of employees covered by a collective agreement, mostly at the company level.

The latest national-level collective agreement dates back as far as 2009, and had been negotiated after social protests following the announcement of very strict austerity measures. However, the Tripartite Council plays an important role in trying to reconcile the interest of social partners on labour and social issues and providing recommendations to the government. While the government tended to send officials without decision power in the past years, the current Minister of Social Security and Labour participated in the negotiation of the Labour Code in March, suggesting that the current government attributes a higher priority to social dialogue.

To keep the balance between flexibility and worker protection, social dialogue needs to be strengthened

The new Labour Code brings about some changes in the area of collective representation of workers and bargaining, including a new division of competences between trade union and work councils at the company level. Work councils can now be created in all firms of 20 employees or more, including those with an active trade union, and they would be responsible for all information and consultation activity. The only exception applies if more than one third of the employees belong to the trade union, in which case a work council cannot be created. The changes to the initial project ensuring that one trade union member should sit in the work council is a positive move, as it is important to ensure that, in the few places where they are present, trade unions are not side-lined from all information and consultation activities.

Given the low trade union membership, developing new forms of collective representations of workers is desirable. Care should be taken, however, that firms do not actually avoid the formation of work councils. While work councils can initiate a collective labour dispute if the employer fails to comply with the Labour Code or the agreements established, they no longer have bargaining prerogatives in places where trade unions are not present. This is meant to leave workers with incentives to unionise. Developments in this area should be monitored, as, in firms where no trade union emerge, the absence of bargaining prerogatives also limits the possibility for work councils to play a role further than the collective expression of workers' interests.

The previous legislation on strikes was rather restrictive, as it requested a quorum of 50% of employees, and strikes are indeed very rare in Lithuania. While declaring a strike should now be easier, the quorum having been lowered to 25% of the trade union members, the new law also makes it possible for employers to organise lockouts and temporarily replace striking workers. This may reduce the efficiency of strikes for workers.

The minimum wage plays an important role in protecting low-wage workers

The very low collective bargaining coverage implies that wages are largely fixed individually in Lithuania. The minimum wage thus plays a central role in protecting low-wage workers. Almost 10% of the Lithuanian full-time workers were earning the minimum wage in 2016, which remains very low in purchasing power parity terms compared with OECD countries, but is close to OECD average relative to the median wage. After having been frozen during the crisis, the minimum wage was rapidly increased during recent years to allow for some catch-up. Available studies do not show negative effects of these minimum wage increases on employment. However, the pass-through of minimum wage increases to general wages is relatively important compared with other Central and Eastern European countries. Debates in the 2016 negotiations in the Tripartite Council for the 2017 minimum wage recommendation to the government emphasized that wages have been recently growing faster than productivity and that increases in the minimum wage should be slowed down.

Strengthening labour law enforcement

Improving labour law enforcement is particularly important in Lithuania, as weak enforcement contributes to poor job quality, which plays a significant part in fuelling emigration. It is also instrumental for reducing informal employment, and thus increasing tax revenues for the state and the coverage of workers by social protection.

The State Labour Inspectorate has undergone changes to improve its effectiveness

The activity of the State Labour Inspectorate (SLI), in charge of labour law enforcement, has significantly evolved over the past decade, towards approaches and methods that appear to be in line with international, and especially EU, best practice:

- Increasing focus is put on *prevention, advice and consultation*, which is a good way to help employers being aware of their duties and implementing them, and employees being aware of their rights notably in terms of health and safety at work. This is important since Lithuania suffers from a very high rate of fatal accidents at work. As it goes without any administrative cost for businesses, prevention is also an effective way to promote compliance with the law and ensure the protection of workers without excessively burdening enterprises.
- Inspections have become increasingly *targeted and planned*, instead of just reactive, which is raising their efficiency. Risk assessment has been developed, and inspections often target smaller businesses, and specific sectors, which are most likely to infringe law.

- *Cooperation with other institutions*, such as the State Tax Inspectorate, the State Social Insurance Fund Board (SoDra) and the municipalities has developed, especially when it comes to fighting undeclared employment. Information on law infringement is regularly exchanged between these institutions, and specific projects are undertaken jointly.

But sanctions are too low to effectively dissuade violations

Sanctions in case of law infringement appear limited. In particular, fines are low in international comparison. Labour inspectors have relatively low wage levels – 120% of the average wage - and full power to decide on the imposition of fines. To limit possibilities of bribe extraction, the ability of SLI to impose fines is thus limited to specific cases and the amount of fines is strictly defined by law. Labour inspectors can also bring the cases to court, which can also impose fines. But despite some increase in recent years, the level of fines that inspectors can apply are low, amounting to a maximum of 0.5% of the annual average wage in case of repeated non-declaration of work and less than 0.2% of the annual average wage in the case of improper recording of working time. Other types of sanctions are also limited. The repayment of wages and social contributions by employers in case of non-declaration is limited to three months only. And unlike in other OECD countries, it is not possible to put a temporary ban on public contracts for serious labour law and health and safety offenders, nor to sue the owner of a company as a legal person for serious offenses or publicize the list of enterprises that have committed serious offences.

Besides, employees cannot be subject to any sanction in case of non-declaration or under-declaration of work. While such cases are probably mostly involuntary for employees, the authorities might consider introducing some kind of (partial) liability of the employees for social security contributions to minimise the opportunities for employers and employees to collude. Valid concerns that fining employees may stop workers from reporting their employer could be addressed by credibly announcing the imposition of such sanctions from a certain reference date together with an amnesty for past infractions that are reported before that date.

The new labour dispute system clearly improves dispute resolution

The 2013 reform of the labour dispute system appears quite successful and may even possibly provide an example for other countries. The previous system required the formation of a labour dispute commission at the enterprise level, and was subject to employer influence and inefficiency. Labour disputes are now heard by a Labour Dispute Commission (LDC) formed at the county level, comprising representatives of employers and employees and chaired by a labour inspector. The large number of cases received attests to employees' trust in the LDC, and LDCs have up to now managed to solve all the cases, with no case being brought forward to court.

The new Labour Code significantly expands the State Labour Inspectorate's functions, and staffing adequacy should be monitored

Despite a decrease in the number of labour inspectors over the past decade, the SLI appears to be well staffed compared with most OECD countries. However, the new Labour Code significantly expands the functions of the SLI, with tasks of data collection (on workers' representation, non-standard contracts, and contract termination), assessing the reasons for firing an employees' representative, and increased scope of the county

LDC which now also cover contract termination and collective labour dispute. While existing plans to strengthen the monitoring capacity of the SLI through electronic tools should somewhat reduce the workload, they are unlikely to compensate for all these added functions. Given that enforcement still remains weak, it will be important to monitor the SLI's activities development and eventually adjust staffing in the future.

Helping jobseekers find productive employment

Active labour market policies remain under-resourced and heavily dependent on EU funding

Spending on active labour market policies (ALMP) is relatively low, at 0.3% of GDP in 2015, and participation in ALMP is low by international standards. A very large part of ALMP funding – almost two-thirds in 2015 – came from external sources, notably the European Social Fund (ESF). This heavy reliance on EU funding limits the scale of ALMP and raises issues of continuity of the programmes. Given the high volatility of Lithuania's labour market, there is a case for introducing some form of automatic link between ALMP budgets and labour market conditions, as in place in some OECD countries such as Australia, Denmark and Sweden. This would help avoid reductions in spending per unemployed when unemployment surges and ALMP are most needed, as experienced during the financial crisis.

Very high caseloads limit the ability to provide intensive support to those who need it

The Lithuanian Labour Exchange (LLE), the public employment service, is responsible for providing employment support to jobseekers, but not for paying out benefits. However, although they have significantly declined since the crisis peak, high caseload numbers are a huge challenge for the LLE. A pilot project reforming employment service delivery is being implemented in a number of local LLE offices. This should improve the quality of services provided to jobseekers, in particular for those facing the largest difficulties, thanks to the new profiling tool, the integrated approach to employment services, and the establishment of individual action plan within one month instead of currently three. If it proves to be the case, it should be generalised. However, this will probably require increasing the number of LLE counsellors since the current very high caseloads – 150 unemployed per frontline staff – reduce the ability to provide intensive counselling to those who need it. Besides, these caseloads vary significantly across county, with some counties cumulating high caseloads and high unemployment rates. Ways should thus be found to reduce caseloads in the counties most in need, as current imbalances result in inequalities of services across counties.

The activation stance could be rebalanced by strengthening suitable work criteria while making sanctions more progressive

The activation stance is mixed with relatively mild suitable work criteria but heavy sanctions in case of non-compliance with eligibility criteria and the individual action plan. The definition of suitable work is not particularly constraining, and a jobseeker cannot be requested at any time to accept an offer outside his/her occupation and cannot be forced to choose a profession he does not agree to in his/her individual plan. With the recent increase in the duration and generosity of unemployment benefits, there may be some ground to strengthen the suitable work criteria, by making the requirements become stricter as the duration of unemployment lengthens. There is always a balance to be found however, between the objectives of making jobseekers return to work quickly and that of making them find a job of a certain quality. On the other hand, sanctions are very high in case of non-compliance, as refusing a job offer considered as suitable exposes jobseekers to immediate total suspension of their unemployment benefit, and this from the first refusal. The same is true for sanction for not participating in an ALMP measure or not attending a counselling interview. Making sanctions more progressive would provide LLE caseworkers more room for manoeuvre. Further, since jobseekers are aware of higher quality jobs potentially available abroad, granting some leeway in holding out for a quality job in Lithuania may help reduce emigration.

Prime-age low-skilled jobseekers lack active labour market support

Lithuania provides ALMP to jobseekers belonging to target groups enshrined in the law on employment. This group approach to labour market policy reflects the fact that labour market programmes rely heavily on EU funding which is always targeted at specific groups. By and large, EU funding and thus LLE programmes are targeted at the most problematic groups. Until recently, however, prime-age jobseekers could not access any ALMP before they had become very long-term (more than 2 years) unemployed. While this may not be a problem for those who are relatively skilled, it is problematic for some of the unskilled prime-age unemployed, whose prospects of finding a stable job could be enhanced by early intervention. This may change in the future, since the new employment law does now list unqualified persons as a specific target group for ALMP, and new projects are being developed.

Higher investment is needed to increase participation in well-designed training

The structure of ALMP spending across programmes has been evolving continuously. Public works have been abolished following EU recommendations, and employment subsidies have become the main ALMP measure. While they might be rather efficient at putting jobseekers quickly back to work, they might be less so at providing sustainable quality jobs, especially as obligations weighing on employers are rather weak in Lithuania. Participation in training, on the other hand, results in less rapid return to work, but, if tailored to the need of the job-seekers, it has proven to raise employability and the quality of jobs in the medium to long run. Although participation in training programmes has increased over the recent years, it remains limited, not at scale with upskilling needs, as about 40% of Lithuanian unemployed have no professional qualification.

For some groups, notably older workers, barriers to participate in training remain high. The recent removal of the obligation to fully repay training costs in case of non-completion for those acquiring a qualification for the first time may help in reducing these barriers. But specific training programmes should also be developed, that could notably include a large part of applied on-the-job training, an option which is not currently available since programmes providing on-the-job training are limited to jobseekers who have completed vocational training. The recent introduction of commuting support may reduce barriers to training participation for jobseekers in rural areas, who live far from employment opportunities.

Funding of training for the unemployed by a voucher system since 2012 appears quite beneficial, notably as it has improved the match between the supply of vocational education and training institutions and demand of the unemployed, and allowed training to more closely match employers' requirements. However, the quality of training provided could be improved by increasing the information available to jobseekers to choose among training providers, for example through a systematic rating system.

More systematic evaluation of active labour market programmes is needed to guide policy and the allocation of funding

Resources should be concentrated on programmes that are known to work well for the intended target groups. For this, more systematic evaluation of programmes would be needed. Data collection and analysis have been conducted for some programmes, particularly when co-financed by the ESF, but the absence of clear counterfactuals prevents in most cases a proper interpretation of the results and thus to draw clear policy conclusions. Data allowing proper evaluation should be more systematically collected, and access to LLE and other relevant administrative data should also be provided to researchers outside the government.

Developing workers' skills

Skill information systems are advanced, but results could be communicated more widely to help steer individual education and training choices

Lithuania is quite advanced in terms of information systems aiming at steering: a) public investment and individual choice for education; and b) LLE investment and jobseekers choice in terms of occupations and vocational training. The state authorities will have to use the results of the former systems to make decisions related to education and human resources. But to effectively promote better-informed individual choices, these results should also be more widely communicated to the public. More could be done to improve the quality of vocational training and develop the almost-inexistent apprenticeship system

A large number of measures have been taken over recent years to improve the quality and attractiveness of VET, including by trying to increase employers' involvement. However, the ambitious targets to raise VET enrolment rates from 27% of the upper secondary students in 2014 to respectively 33% and 35% in 2017 and 2022 are unlikely to be met. There is also a lack of continuity in the implementation of projects, a problem linked to the heavy reliance on fixed-term projects financed from EU structural funds. Proper forms of employer involvement are also still lacking; progress in this respect requires taking into account mutual interest and availability for commitment.

Apprenticeship is currently almost inexistent in Lithuania. The new Labour Code clarifies the legal status for apprenticeship and the rights and obligations of employers. However, the maximum apprenticeship period of six months is relatively short in international comparison, and suggests that apprenticeships are meant to be mainly targeted at jobseekers. Developing apprenticeship possibilities for young people would require lengthening that period, or, if employers are reluctant to commit for a long period, switching to competence-based apprenticeship, in which apprenticeship is considered completed when the apprentice has acquired all the relevant knowledge rather than after a fixed period. In terms of financial incentives for employers, the new employment law introduces public subsidies for firms offering apprenticeships. In the case of young people, however, apprenticeship wages below the minimum could also be considered, if the training provided is of sufficient quality. Systems to share costs among several enterprises used in a number of OECD countries could also be very useful to encourage small and medium enterprises to provide apprenticeship places.

Financial incentives for employer-based training should be developed

Adult training is underdeveloped in Lithuania. As in many other countries, work-related adult learning is largely left to market forces, and this leads to under-investment in training notably by employers, who are afraid of losing trained employees to other firms. Paid educational leave is one way to share the financial responsibility of continuing education and training between state and employers. The new Labour Code introduces a study leave of up to five days for employees participating in non-formal training, paid at a minimum of 50% of the employee's wage. But financial incentives are probably most important. The only financial incentive currently available to firms training their employees is that training expenses are deducted from gross wages when paying social contributions. A levy-financed training fund could be envisaged, in which the levy based on payroll is linked to reimbursement mechanisms depending on the amount of training that firms provide, thus encouraging firms to train their workforce. Closely involving employers in the governance of such a fund may achieve greater employer buy-in.

Raising revenues to boost social spending and strengthening redistribution

Public social spending is low, and taxes and transfers do little do reduce high inequality of market incomes

Lithuania devoted 14.5% of GDP to public social spending in 2014. This is broadly in line with the levels in Estonia and Latvia, but far below the OECD average of 21.1%. Social expenditures have moreover not experienced the same upward trend as in many OECD countries: while the economic crisis led to a surge in public social spending relative to GDP – both because of a real increase in per capita spending and a sharp drop in GDP – spending quickly declined again during the recovery, and reached the average level of the pre-crisis decade by 2014. Pensions account for nearly half of all public social spending, a comparatively large share in OECD comparison. Meanwhile, Lithuania spends little on income support for the working-age population, mainly because spending on unemployment benefits is low. The bulk of social spending for working-age persons goes to work incapacity benefits, i.e. disability pensions and sick leave benefits.

Taxes and transfers do little to reduce high inequality of market incomes. As income support for the working-age population comes largely in the form of contributory benefits, social transfers do not go primarily to the most vulnerable households. Indeed, working-age persons in the top quintile of the income distribution receive on average higher cash transfers than those in the lowest quintile. Given low spending levels and a weakly redistributive flat-rate income tax system, income inequality and poverty hence remain high in OECD comparison after taxes and transfers.

Low tax revenues limit the scope for boosting social spending…

Lithuania's capacity to significantly strengthen the social safety net is constrained by limited public resources. The country's tax burden, i.e. total revenue from taxes and social insurance contributions as a share of GDP, is low in OECD comparison, at 29.2% of GDP in 2015 (34.3% across the OECD on average). This primarily reflects low direct taxation: given a flat-rate personal income tax rate of only 15%, the share of direct taxes out of all tax revenues is the third-lowest in the EU. High informality further erodes Lithuania's tax and contribution base. The State Social Insurance Fund faces budgetary difficulties, having borrowed EUR 3.9 billion, or 113% of annual expenditures, over the course of the crisis.

… while the high tax burden on labour reduces incentives for formal employment and makes informality more attractive

Social expenditures are currently funded primarily from insurance contributions, and contribution rates are high at 40% of gross wages. In spite of the low personal income tax rate, the tax revenue structure is hence heavily skewed towards labour. The high tax and contribution burden on labour reduces work incentives and encourages informality, in particular given weak tax enforcement. The disincentive effect of taxes and transfers to hire formally is particularly large at the minimum wage level, as a binding minimum wage prevents employers from transferring the cost of social insurance contributions to their workers through lower wages.

Lithuania has taken significant recent steps to reduce the tax burden at the bottom of the wage distribution, where the tax wedge had been particularly high. Recent increases in the tax allowances for persons with low earnings or with disabilities brought formal labour costs more in line with productivity and should hence promote formal employment of lower-skilled workers. At less than 33%, the tax wedge for single workers with earnings close to the minimum wage is now only two percentage points above the OECD average. Targeted reductions in social insurance contribution rates could serve to further reduce the tax wedge for low-wage earners, would however also increase incentives to under-declare wages.

Raising the revenues for social spending will require changes in the tax structure

To boost social spending and finance active labour market programmes, Lithuania needs to raise tax revenues. Doing so without undermining incentives for formal work will require changing the tax structure.

By increasing the progressivity of the personal income tax system, Lithuania could strengthen the redistributive function of the tax and benefit system while maintaining work incentives for low-wage earners. One approach could be to raise the personal income tax rate above its currently low level while further increasing tax allowances. A second tax bracket for higher-income earners, as introduced in the Slovak Republic and more recently in Latvia, could be a more effective alternative.

In addition, the most recent OECD *Economic Survey* of Lithuania points to the potential for raising more tax revenue from sources less detrimental to economic growth than labour taxation. This includes increasing property taxes, phasing out tax exemptions for the sale of real estate as well as for dividends, rental income, interest on deposits and gains from securities. All of these changes would come with the added benefit of making the tax system more progressive, hence lowering income inequality. There is scope also for increasing environmental taxes, including by introducing a car tax or raising taxes on motor and heating fuels.

Balancing adequate minimum-income support and strong work incentives

Last-resort Cash Social Assistance was strongly expanded during the crisis, but provided only weak protection against poverty

Lithuania provides last-resort income support through its Cash Social Assistance scheme, which consists of mean-tested Social Benefits and a Compensation for Heating, Drinking and Hot Water Costs. Given low unemployment benefit coverage during the crisis, Cash

Social Assistance was the primary source of income support for many households affected by joblessness, and the receipt rate rose sevenfold between 2007 and 2011. The scheme did not effectively prevent large income losses and widespread economic hardship among vulnerable households, however, as benefit payments typically fell well short of the amount households would have needed to avoid poverty.

Decentralising the Cash Social Assistance administration helped improve targeting and reduce fraud, but benefit levels remain low

In a major reform carried out between 2012 and 2015, Lithuania decentralised the administration of Cash Social Assistance granting municipalities the responsibility for benefit funding and giving them greater flexibility in questions of benefit delivery. The reform aimed at increasing work incentives for employable benefit recipients and strengthening collaboration and data exchange between the municipalities and national authorities. It indeed appears to have made the benefit delivery more efficient, notably by incentivising municipalities to combat fraud, while equipping municipalities with substantial additional funding for social services. Benefit receipt rates have declined considerably since – the data hold little evidence, however, that would suggest that this decline is indeed a direct effect of the reform rather than to just reflect falling unemployment during the recovery.

The reform did not address the low adequacy of Cash Social Assistance, and Lithuania has made no further changes to the scheme under the New Social Model. Social Benefits have remained frozen since the beginning of the crisis, and recipient households experienced a substantial decline in living standards since – both in real terms and relative to the rapidly rising minimum wage. Larger households even saw their benefits decline in nominal terms when Lithuania introduced an equivalence scale during the crisis.

In light of the growing urgency to combat high income inequality, stagnating incomes at the bottom of the income distribution and the rise in poverty, Lithuania has recently taken steps to improve the adequacy of minimum-income support. The Social Benefit level was increased for the first time in a decade, though the gap between benefits and minimum wages remains much wider than before the crisis. From next year, benefits will be tied to half the value of a basic consumption basket and hence automatically adjust for price level changes. As low benefit adequacy tends to be a challenge particularly in urban areas, Lithuania should consider allowing benefit levels to vary across municipalities to account for the large differences in housing costs. This could be done by including a variable housing component into Social Benefits or by transforming the Heating Compensation into a broader, means-tested housing benefit as they exist in many OECD countries.

Lithuania strengthened work incentives for Social Benefit recipients, but they continue to receive insufficient employment support

The growing gap between minimum wages and the Social Benefit level implies that taking up work pays off for most benefit recipients, except for those in larger households. Lithuania moreover recently undertook steps to raise the attractiveness of formal employment for Social Benefit recipient households by introducing an earnings disregard allowing recipient households with income from work to keep some of their earnings. The country also strengthened financial incentives for long-term unemployed Social Benefit recipients by permitting those who find employment to temporarily keep half of their benefits after taking up work in the form of "in-work benefits".

Employment support for Social Benefit recipients remains fairly limited, however: All employable members in a low-income household have to register as jobseekers with the LLE to qualify for benefits, where they are eligible for the same support, and face the same activity requirements, as unemployment benefit recipients. LLE offices often lack the resources, however, to provide adequate support: Few jobseekers benefit from active labour market programmes, and until recently, those who did mainly participated in public work programmes that were later terminated because of their ineffectiveness at moving recipients into regular work. Since counsellor caseload numbers are high and specialised staff are lacking, adequate support for jobseekers with social or mental health issues often depends on a close collaboration with the municipal welfare services and NGOs. This tends to work better in smaller municipalities, where personal networks are often tight.

… and high informality can be an obstacle for designing effective "make work pay" policies

Lithuanian officials report that many recipient households engage in undeclared work, especially in rural areas. The scope of such activities ranges from the small-scale production and sale of agricultural produce or occasional skilled manual work to undeclared full-time work with an employer. Lucrative informal activities can reduce recipient households' incentives to take up formal employment. Informality is also a challenge for the design of effective "make work pay" policies, because offering low-income households options of combining work and benefit receipt may encourage employed persons to under-declare earnings or hours to qualify for benefits.

In an effort to curb undeclared work and strengthen recipients' incentives to take up formal employment, Lithuania recently introduced a community work requirement for long-term benefit recipients, the so-called "socially useful activities". The use of this measure varies greatly across municipalities, however, and its effectiveness at preventing undeclared work seems limited given that it engages participants for only 40 hours per month. Meanwhile, the measure may increase social exclusion if it deters eligible households from claiming benefits, for instance because it may be perceived as stigmatising. Lithuania would hence benefit from an empirical evaluation of the impact of socially useful activities on benefit recipients' incomes and employment prospects.

In light of recent progress with detecting informal work among benefit recipients, Lithuania should look into ways of expanding options to combine benefit receipt and formal work. This may include introducing a disregard for earnings from work, and possibly flexibilising the existing in-work benefit scheme. In the absence of effective checks, there is a risk that such measures encourage the under-declaration of earnings or hours. At the same time, however, granting Social Benefit recipients the option of combining benefit receipt and work may encourage them to formalise undeclared activities and promote the transition into regular work.

Persons with reduced work capacity are poorly integrated into the labour market

Fewer adults have severe health limitations in Lithuania than elsewhere, but their employment rates are lower. Indeed, ill health is the most important reason for weak labour market attachment in Lithuania, and nearly 8% of the working-age population receive disability benefits. Improving the labour integration of persons with reduced work capacity can help Lithuania counteract workforce decline, reduce poverty and limit spending. To this aim, work capacity assessments should be further improved to give greater consideration to a person's specific physical and professional capabilities. More frequent re-assessments of work capacity would also be necessary. Persons with light reductions in work capacity should generally be required to register as jobseekers and be provided more systematic access to active employment support.

Supporting families in balancing responsibilities at work and at home

Policies to support families in balancing their responsibilities at work and at home deserve special attention given Lithuania's challenging demographic situation, as they may help boost birth rates, increase labour force participation and improve life quality.

Early childhood education and care is being expanded. Spending relative to GDP is below the average level in the OECD, but higher than in Estonia and Latvia. Enrolment rates are still low for very young children, but close to or above OECD average for 2-6 year-olds.

Lithuania also achieves excellent employment outcome for mothers. Employment rates of 25-64 year-olds are virtually identical for women and men, and female employment rates are substantially above the OECD average. The gender gap in employment rates of parents with children below the age of 15 years is lower than in all OECD countries, except Denmark.

Lithuania provides comparatively generous income support to working families: contributory maternity, paternity and parental-leave benefits all replace 100% of previous earnings, and the payment durations are quite generous in OECD comparison. Lithuania has also taken recent steps to strengthen the income situation of non-working families by replacing an earlier basic tax allowance for children by a universal child benefit.

Preventing old-age poverty in a sustainable pension system

Modest pensions result in high rates of material deprivation among seniors

Lithuania's main public pension scheme, the "Social Insurance Pension", is a defined-benefit scheme financed on a pay-as-you-go basis, with almost universal coverage. The scheme is strongly redistributive in international comparison, because it includes a "general" component that depends only on the length of the contribution period and not on earnings. The pension level is modest, reflecting primarily low earnings: Persons with the required contribution record of at least 30 years – around 90% of all pensioners – received a non-taxable social insurance pension of on average EUR 249 in 2014. This is only slightly above the poverty threshold, and corresponded to only about 85% of the net minimum wage. Relative to earnings, the pension level is not far below the OECD average, however: a person entering the labour market at the age of 20 to work until retirement age at average earnings will receive a pension at 59% of net average lifetime earnings (64% in the OECD on average).

Pensioners consequently have relatively low living standards, in particular if they live alone. The relative poverty rate of seniors is not much higher than for other population groups, and substantially below those for seniors in the Baltic neighbours. But seniors are more likely than other age groups to experience severe material deprivation, i.e. a situation in which they cannot afford certain basic necessities of daily life. Indeed, the incidence of severe material deprivation among seniors is higher in Lithuania than in any European OECD country. As in many OECD countries, women from older pensioner generations face an increased poverty risk having often retired after shorter work and contribution careers and being more likely to live alone on a single pension. Women's favourable labour market situation – notably high female employment rates and the small gender pay gap in Lithuania – as well as the gradual equalisation of statutory retirement ages for women and men should contribute to a future narrowing of the old-age poverty gap.

The private funded scheme can help improve future pension adequacy, but too few people fully contribute

In addition to the public pension, Lithuania has had two private funded pension schemes since 2004. Persons contributing to the social insurance pension system can divert part of their contributions into the personal accounts of a statutory defined-contribution scheme. Participation is voluntary, but opting out is no longer possible after having joined. Participation rates are high, with around 64% of the working-age population, or 86% of the workforce, having an account, though only two-thirds of all accounts are active. A second, private funded defined-contribution scheme is entirely voluntary.

While the private funded scheme has the potential to meaningfully improve future pension adequacy, too few people fully contribute. During the crisis, Lithuania reduced the part of social insurance contributions that participants could channel into their private accounts from 5.5 to 2% of gross wages to relieve pressure from the social insurance system. Participants were instead offered a government subsidy of 2% if they contributed another 2% from own means. Only about half of all active participants have decided to do so, however, and particularly low-income earners are much less likely to fully contribute. For this group, the funded pension will make only a meagre contribution to future living standards, even as the part of social insurance contributions that can be channelled into the personal accounts is set to rise again in 2020, to 3.5%.

The recent pension reform improves the system's financial sustainability, but will further reduce pension adequacy

Lithuania's dramatic demographic transformation represents a major challenge for the sustainability of the pension system. As a result of low fertility rates and high emigration, Lithuania is ageing much faster than most OECD countries. And as the baby boomer generation approaches retirement, the ratio of seniors to working-age persons is projected to double over the next 25 years to reach one of the highest levels across the OECD. Lithuania has started raising the statutory retirement age while making it gender-neutral. It is currently 62.2 years for women and 63.5 year for men, and will rise to 65 years for both by 2026. Recent long-term forecasts nonetheless predicted a financing gap of 3.3% of GDP in 2037, as gross public pension expenditures increase while contributions decline.

As part of the New Social Model, Lithuania therefore implemented a major reform of its social insurance pension system in 2017-18, which limits future spending. The reform will slow down future pension growth relative to average wages through a new indexation rule coupling pensions to the overall wage sum in the economy. A new pension formula strengthens the relation between pension points and average wages and should lead to slower and more transparent entitlement growth. And while the general (i.e. non-earnings-related) pension component was initially raised by 16%, the minimum insurance period required for entitlement to the full general component will gradually rise from 30 to 35 years by 2027, hence reversing this increase over time. Lithuania has moreover started to shift the financing of the general pension component to the state budget to lower employers' social insurance contribution rates.

Once implemented, the reform will substantially improve the long-term sustainability of the system, however at the cost of a further reduction in adequacy. Lithuanian authorities estimate that the reform will reduce gross public pension expenditures by around 2.5% of GDP in 2037 hence cutting the forecast financing gap to a maximum of 0.3% of GDP. But while the recent changes will initially raise the pension level, the living standards of future pensioner generations will decline in the medium run. Persons who work their full career at average earnings and make the minimum contribution to the private scheme will see their pension level fall by eight percentage points as a result of the reform, from 59 to 51% of net earnings; the decline will be slightly smaller for persons with lower previous earnings for whom the increased general component makes up a larger share of their pension.

Improving future pension adequacy will likely require stronger tax-financing

Given the projected strong decline in the public pension level and low expected future payoffs from the private scheme for many future pensioners, Lithuania will have to increase the revenue in the public pension system to prevent widespread old-age poverty. In light of already high social insurance contribution rates a, this will require stronger tax financing. Lithuania has taken a first step in this direction by starting to gradually shift towards funding the non-earnings-related pension component through the state budget. The current plan, however, foresees to fully use these tax funds to reduce contribution rates for employers; overall revenues and hence adequacy would remain unchanged. Lithuania could effectively reduce old-age poverty by reducing contribution rates at a pace slower than the increase in tax funding and using the additional revenues to strengthen the general pension component. It will have to be seen, however, how soon Lithuania will realistically be able to fund a significant part of the social insurance pension from tax funds. Current legislation does not commit governments to a specific time schedule for the planned move towards tax funding, and there are currently no concrete plans for increasing taxes to raise the needed revenues.

A further rise in the statutory retirement age beyond the currently legislated limit of 65 years in 2026 could help improve adequacy by increasing revenues and entitlements while reducing expenditures. And indeed, 24 countries across the OECD already have a statutory retirement age of 65 years or over, and in 14 of them the current legislation foresees a rise beyond the age of 65. In Lithuania, such a further increase may at this time however raise equity concerns given the poor health outcomes and low life expectancy, particularly for men and lower-income groups. The coupling of the statutory retirement to future developments in life expectancy, as initially foreseen as part of the pension reform, could be a suitable solution.

Managing emigration and a shrinking population

An assumption that most emigrants will return is not likely to be borne out

During the post EU accession boom years and then during the economic crisis, policy attention did not focus on the growing scale of emigration, and no concrete plan for outreach to the diaspora was in place; indeed, the buffer provided by emigration in relieving slack in the labour market and the important social impact of remittances meant that working abroad was perceived positively by Lithuanian policy makers. Outreach to the new diaspora did not begin until the end of the crisis, in 2011, with the creation of a "Global Lithuania" plan of outreach, co-ordinated by the Ministry of Foreign Affairs and involving many different ministries. This plan was hobbled at first by the fact that it is unfunded, with efforts to be realised within existing budgets. Further, it relied on a diaspora infrastructure which in large part pre-dated the current economically-motivated emigration, and was based on an assumption that emigrants would make an effort to remain attached to Lithuania, for social, cultural and emotional reasons.

The shortcomings of the Lithuanian labour market and benefit framework, relative to countries where migration pathways are well-established and wages and conditions are more favourable, have meant that return migration has been much lower than it had been hoped. Return rates are less than 40% for the migrants who left in 2010, and later emigrants are less likely to return. Emigrant surveys indicate a low propensity to return. Although the optimism that the crisis and post-crisis wave of emigrants will return to productive activity has begun to fade, the implications of continuing emigration and low return are only slowly being assimilated into policy.

The Global Lithuania outreach is underfunded and focused on a limited target

The diaspora is now very substantial – more than 10% of Lithuanians are recent migrants abroad, mostly in EU countries. The challenge for Lithuania is to benefit from this substantial diaspora, if not through remittances and return for employment, then through contacts. The potential for the diaspora to provide productive investment has not been exploited sufficiently, especially that of emigrants to link Lithuania into supply chains and take advantage of its lower labour costs.

The diaspora plan, while articulated and ambitious, remains largely unfunded. In budget terms, most activities are cultural and linguistic. Targeted activities have focused on the most qualified and noteworthy members of the Lithuanian diaspora, through awards and foundation grant support for certain achievers abroad to return for a short period. While these efforts help Lithuania benefit from their human, social and financial capital, they also raise equity concerns – by handsomely rewarding successful emigrants over those who have remained – and, while the programmes are highly visible, they are necessarily limited in scope and scale.

The reality of mass emigration has not been integrated into ALMP and social policy

More than two-thirds of emigrants who return do not work after return, making them more likely to leave again. In part this is due to the absence of support and orientation for returning migrants. The Migration Information Centre created in 2015 is an important step in this direction and should be reinforced. Work experience abroad is not generally seen in a positive light by Lithuanian employers, who discount foreign experience and may be reluctant to hire returnees with higher expectations in terms of both wages and work quality.

Returnees are less likely to register as a jobseeker than non-migrants, or to receive Cash Social Assistance, and, if not unemployed, cannot benefit from support offered to unemployed. Returnees also have limited access to ALMP. The return population is not seen as a specific target of intervention, with training and support needs. The LLE should identify returnees as a specific target group with interventions in terms of training and taking advantage of skills acquired abroad – for example, language skills, skills recognition,. The LLE does not support language courses – neither Lithuanian language, English nor Russian are provided; this should be addressed and language training included in ALMP.

Similarly, the de facto existence of work abroad as an option for Lithuanian job-seekers is not integrated into the LLE. The services of the European Job Mobility Portal EURES, which orient towards employment abroad, are in place, but compartmentalised from ALMP, as the LLE prioritises retention of labour force in Lithuania, e.g. in proposing training opportunities for jobs available in the domestic rather than EU labour market. While this is reasonable given the mandate of the LLE, more consideration should be taken of opportunities where a spell of employment abroad can improve career opportunities once returned, and case workers should try to maintain contact with clients who have moved abroad, if not directly than through contact points.

Means-tested social benefits take into account remittances and contributions from abroad for family units. However, an ageing population and the frequency of departure by working-age Lithuanians mean there is a growing caseload of older individuals whose families are abroad; social services have to adapt to contacts with their children abroad, and explore means of contributing to the cost of social services provided to "abandoned" parents.

Labour migration policy should bring more added value

Lithuania could attract skilled workers in larger numbers from neighbouring non-EU countries and from further afield, from countries with lower wages, but a labour migration framework which was until recently quite restrictive has limited this. Even now, after easing the conditions for issuance of work permits, most work permits and most of the recent increase in work permits are for truck drivers who are posted outside Lithuania. Since they do not actually live in Lithuania, they are not a solution for the decline in the work force, and the difficulty of ensuring compliance with contract conditions means there is a risk of exploitation. The decision to exempt them from the labour market test and additional oversight generally applicable to foreign workers at their qualification level does not appear justified, and should be reversed, especially since these are jobs which could in principle be taken up by Lithuanian workers – and indeed heavy transport licenses are one of the main training courses offered through LLE.

International study is an area where numbers are increasing, but too slowly to compensate for the loss of young people in overall enrolment. Transition pathways for international students to a work permit in Lithuania have become more favourable, with a six-month job search period, an exemption from the labour market test, and faster processing. However, post-graduate retention remains very low and would require greater contact between employers and the tertiary education institutions.

Summary of recommendations for Lithuania

To enhance job opportunities and well-being for all, the Lithuanian Government is invited to consider the following items as part of its strategy to tackle the demographic challenge, increase the labour market inclusiveness, reduce inequalities and further develop inclusive and active social policies. Some suggested policy reforms imply a rise in public social spending and will require improvement in tax policy and enforcement and/or a shift in the composition of government spending towards labour market and social policies.

Making the labour market more inclusive

- Following the adoption of the new Labour Code, developments in the labour market in terms of working-time practices, use of non-standard contracts, and job insecurity should be monitored. Corrective actions should be taken if there appear to be negative consequences on the job quality for workers, in particular on their work/life balance and job insecurity.
- Developments in the formation of work councils at the firm level should be monitored to ensure that impediments to their creation, if present, are removed; the effect of the creation of work council on trade unions' position in firms where they are present should also be monitored, to forestall their further weakening.
- To improve labour law enforcement, sanctions on employers in case of infringement should be increased: fine levels should be raised; the period for which employers are requested to repay wages and social contributions in case of non-declaration or under-declaration of workers should be lengthened; it should be made possible to put a temporary ban on public contracts for serious labour law and health and safety offenders, and the list of enterprises that have committed serious offences should be made public.
- As part of the strategy to tackle informality and "envelope wages" and to minimise the opportunities for employers and employees to collude, the introduction of financial penalties for employees receiving unreported employment income should be considered. Any such penalties need to be proportionate and should be combined with amnesties to encourage the reporting of past infringements.
- As the new Labour Code significantly expands the functions of the State Labour Inspectorate, developments in its activities should be monitored in the coming years and staffing eventually adjusted to ensure effective means to implement the labour law and occupational health and safety enforcement strategy.
- Attracting labour migrants can help address labour shortages, but the current system should devote more scrutiny in particular with reference to the international transport sector where non-resident drivers actually working outside the country. The labour market test should be kept for this sector, salary payment verified, and inspections should occur in co-operation with authorities in countries of employment if possible.

Supporting jobseekers into productive employment

- To allow for increases in active labour market policy spending and reduce problems of continuity in programmes associated with the heavy reliance on the European Social Fund, the resource base for active labour market policies should be strengthened. Funding levels should be made responsive to labour market conditions, e.g., by considering a suitable automatic link between unemployment levels and resource allocations.
- To improve the quality of services provided to jobseekers and allow intensive counselling for those most at need, the total number of caseworkers in the Lithuanian Labour Exchange should be increased. As some counties currently cumulate high caseloads and high unemployment, care should also be taken to rebalance the distribution of caseworkers across counties to reduce inequalities in services.
- Following the recent increase in the duration and generosity of unemployment benefits, the criteria for suitable work could be strengthened by making the requirements become stricter with rising benefit receipt duration. Meanwhile, sanctions in case of non-compliance with the eligibility criteria should be made more progressive to provide more room for manoeuvre to caseworkers.
- To raise employability of jobseekers and the quality of jobs in the medium to long run, jobseekers' participation in well-designed training programmes should be increased. Training programmes, including on-the-job training, should be developed, including for jobseekers who have not just completed vocational education, in particular as they could address the reluctance of older workers to participate to training. More information should also be communicated to jobseekers to enable them to choose among training providers, possibly through a systematic rating system.
- To guide policy, active labour market programmes should be evaluated more systematically. This requires more systematic collection of data allowing proper evaluation, including the building of counterfactuals, and provision of access to LLE and other relevant administrative data to researchers outside the government.

Developing workers' skills

- To effectively promote better informed individual choices, results of the information systems aiming at steering public investment and individual choice for education should be more widely communicated to the public.
- To allow developing apprenticeship possibilities for youngsters, the maximum length of apprenticeship contracts should be increased or competence-based apprenticeship should be developed. In the longer-run, as the quality of apprenticeship training develops, apprenticeship wages below the minimum should also be considered for youngsters. To promote the offering of apprenticeship by small and medium enterprises, systems to share costs among several enterprises should also be developed.
- To promote employer-provided training, financial incentives for employers to provide training at the firm should be increased, possibly by creating a levy-funded training scheme.

A flexible labour market needs strong social protection

- To reduce poverty and tackle high inequality, social expenditures should gradually be increased and the redistributive effect of the tax and benefit system be strengthened. This will likely require a change in the tax structure in favour of greater progressivity in the personal income tax system and higher property, capital gains and environmental taxes.
- Lithuania strengthened the unemployment insurance system under the New Social Model, but income support for the long-term unemployed remains weak. The maximum duration of unemployment benefits should be further extended beyond the current limit of nine month. This extension could possibly be funded by lowering the maximum benefit ceiling or reducing the replacement rate in the first months of the benefit spell, when it is relatively high.
- To improve the adequacy of income support for vulnerable households, the level of Social Benefits should be gradually raised to ensure that – combined with in-kind transfers and the Heating Compensation – it reaches the full amount of the minimum consumption basket.
- In light of the LLE's limited capacity for providing adequate support to jobseekers who require intensive social support, the collaboration between the LLE, social services and specialised NGOs should be strengthened. The ongoing pilot programme on "holistic support" for jobseekers can provide useful guidance to this effect.
- The effect of the community work requirement for long-term Social Benefit recipients, the so-called "socially useful activities", on benefit dependence, employment and income should be carefully evaluated to ensure that it does not promote further social exclusion.
- To close the financing gap in the pension system while limiting the decline in the pension level and a resulting rise in old-age poverty, tax subsidies into the public pension system will be needed. The planned shift towards tax-financing the non-earnings-related public pension component should be used as an occasion for increasing the revenue in the system.

Making the most of the diaspora and return migrants

- The diaspora policy should be refocused, recognising that emigration is likely to continue on a large scale as long as wages remain relatively low, and broadening the target beyond the most highly qualified to cover more workers with medium qualifications. Efforts to strengthen economic ties and investment relationships should be continued and expanded. The Global Lithuania work programme, currently unfunded, needs to be better resourced, especially its economic initiatives and those to support returning workers.
- More effort should be made to communicate employment opportunities in Lithuania to the diaspora and to better inform potential returnees and those who return. The LLE should certify returning workers competence and promote these skills to employers. Language courses should be included in LLE training offers, since this will improve the position emigrants while abroad and when they return.

Chapter 1. Non-inclusive growth increases the emigration challenge in Lithuania

Remarkable economic growth over the past two decades has permitted Lithuania to narrow the national-income gap relative to comparable OECD countries, but the country faces substantical challenges. The demographic situation is very difficult, with Lithuania's population having declined by more than 1% annually since the early 2000s – mostly a result of large and persistent emigration, driven primarily by low wages and poor working conditions. Income inequality and poverty are very high, as households at the bottom of the distribution have benefited very little from the recent recovery. This highlights the importance of well-functioning labour market institutions that support the continuing economic transformation while providing employment opportunities to all groups and raising job quality. It also creates a pressing need for stronger social policies that effectively reduce high inequalities and boost the living standards of vulnerable groups.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

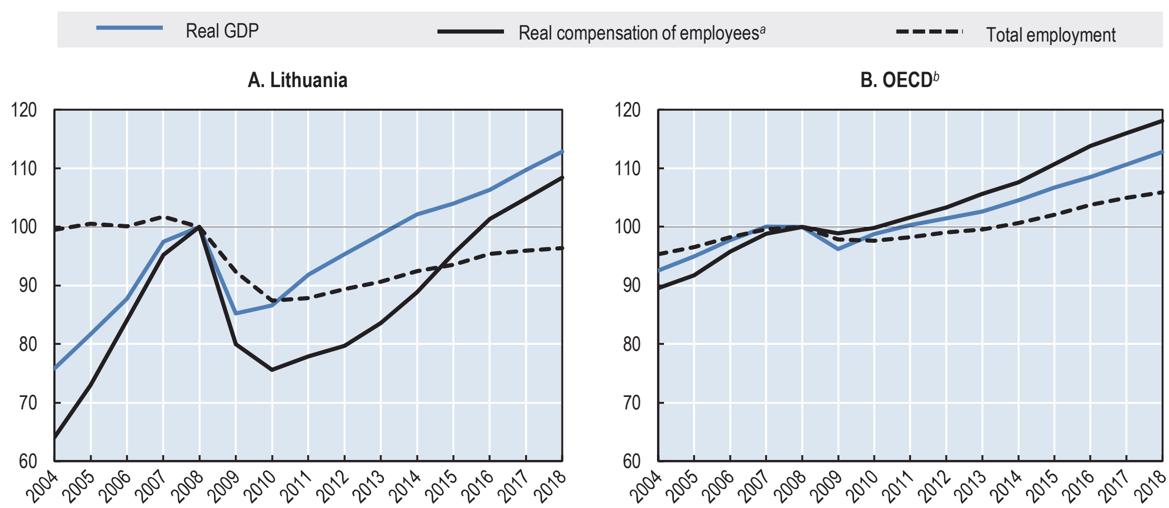
1.1. Strong growth and remarkable resilience, but major policy challenges ahead

1.1.1. The crisis has been deep and painful but the recovery is impressive

Lithuania is a small country of 2.9 million residents with an increasingly open economy, with exports accounting for more than 75% of GDP in 2016. Like other countries in Central and Eastern Europe, Lithuania has undergone deep economic and social changes since the early 1990s, due to major reforms to its economic, social and political institutions. Lithuania joined the European Union (EU) in 2004 and became part of the Euro Area in 2015. Very high economic growth over the past two decades narrowed the per capita income gap relative to OECD countries from almost 70% to about 29% between 1995 and 2016.

Figure 1.1. Economic output is recovering quickly but workers' earnings lag behind

Index base 100 in 2008



2017-18 refer to OECD economic projections.
a) Compensation of employees have been deflated using the private consumption expenditure price index.
b) OECD is the weighted average of 30 OECD countries that saw a drop in annual GDP at least once between 2007 and 2009. Australia, Israel, Korea and Poland are therefore excluded. Turkey is also excluded as data on worker compensation are not available.
Source: OECD calculations using OECD Economic Outlook Database.

Lithuania has suffered heavily from the global financial crisis. Rapid GDP growth of 7.5% per year on average between 2000 and 2007 made Lithuania one of the fastest-growing economies in the world in the years leading up to the crisis. In part, this was fuelled by an increase in loan-financed private domestic demand and a housing bubble allowed by an inflow of cheap finance and lenient credit standards (OECD, 2016[1]). As the crisis struck, GDP plunged by 15% in 2009, and the following recession was among the deepest across the EU, comparable only to those experienced in the two other Baltics, Estonia and Latvia. After years of labour shortages, employment fell strongly (Figure 1.1) while the unemployment rate surged from 4% to 18% between 2007 and 2010. Their currency being pegged to the Euro, the Lithuanian authorities' policy answer was an "internal devaluation" achieved mainly through drastic fiscal consolidation measures, notably cutbacks in pensions and unemployment benefits, and strong nominal wage adjustments with cuts in public wages by up to 12%.[1] In two years, workers' compensation decreased by almost 25%, although this followed sharp rises prior to the crisis (Figure 1.1).

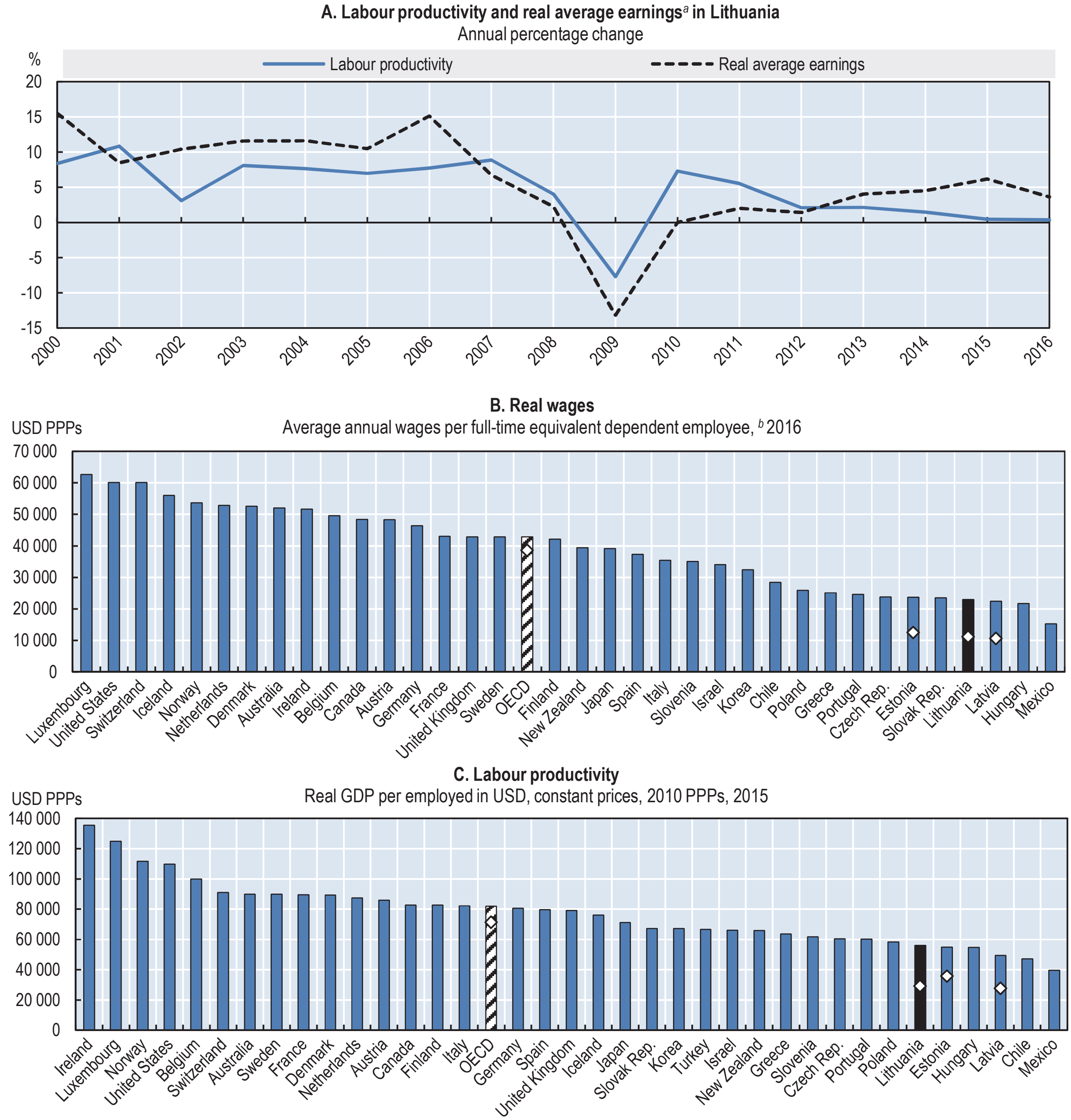
These severe austerity measures were successful at boosting exports, and GDP growth resumed from 2010, at an average rate of 3.5% between 2010 and 2014. GDP again reached its pre-crisis level in 2014, though growth rates have somewhat flattened since. Employment levels and workers' compensation started to recover one year after in 2011. The austerity measures however also intensified already heavy income losses, aggravating economic hardship among vulnerable groups and provided an impetus to a second wave of emigration since EU accession. Consequently, unlike employment *rates,* the employment *level* has thus not returned to its pre-crisis level, and was still 5% below its 2008 level in 2016 (Figure 1.1). The unemployment rate has been falling continuously since 2011 down to about 8% in 2016. Also workers' compensation has grown strongly again surpassing its pre-crisis level in 2016, partly as a result of the massive emigration flows which have reduced the labour force and fuelled wage increases.

1.1.2. Wages exceed their pre-crisis level but remain low, and productivity growth is slowing

Real wages have been more pro-cyclical than labour productivity since 2000. But since both have largely evolved in line with each other (Figure 1.2, Panel A), Lithuania has preserved its labour cost competitiveness. Wages were growing faster than productivity at the beginning of the decade, catching up on the less favourable developments experienced during the transition since the early 1990s. Real wage growth fell more than productivity growth during the crisis and took longer to return to positive figures, but wages grew faster since 2013 relative to the anaemic growth recorded in productivity.

The productivity catch-up vis-à-vis OECD countries has been impressive, the highest among the Baltic countries, with labour productivity levels growing from being 60% below the OECD average in 2000 to around 30% below in 2015. While wage convergence has also been strong, the average wage nevertheless remains more than 45% below the OECD average in 2015. Labour productivity growth during the recovery has been lower than during the pre-crisis boom years, however, and it has continuously declined over the last few years to become almost nil in 2016.

Figure 1.2. Wage and labour productivity evolved relatively in line and remain low in international comparison



Note: White diamonds in Panels B and C refer to the year 2000.

a) Real average earnings are defined as total wage bill divided by total employees in real terms (deflated using the private consumption expenditure price index).

b) Average annual wages per full-time equivalent dependent employee are obtained by dividing the national-accounts-based total wage bill (total compensation for Chile, Iceland, Mexico and New Zealand) by the average number of employees in the total economy, which is then multiplied by the ratio of average usual weekly hours per full-time employee to average usually weekly hours for all employees and finally converted in USD PPPs using 2016 USD PPPs for private consumption. The OECD average real wage growth is a weighted average computed based on dependent employment weights in 2016 for the countries shown.

Source: Panel A: Eurostat, Annual National Accounts. Panel B: *OECD Employment Outlook 2017*, Statistical Annex, Table N. Panel C: OECD Productivity Database.

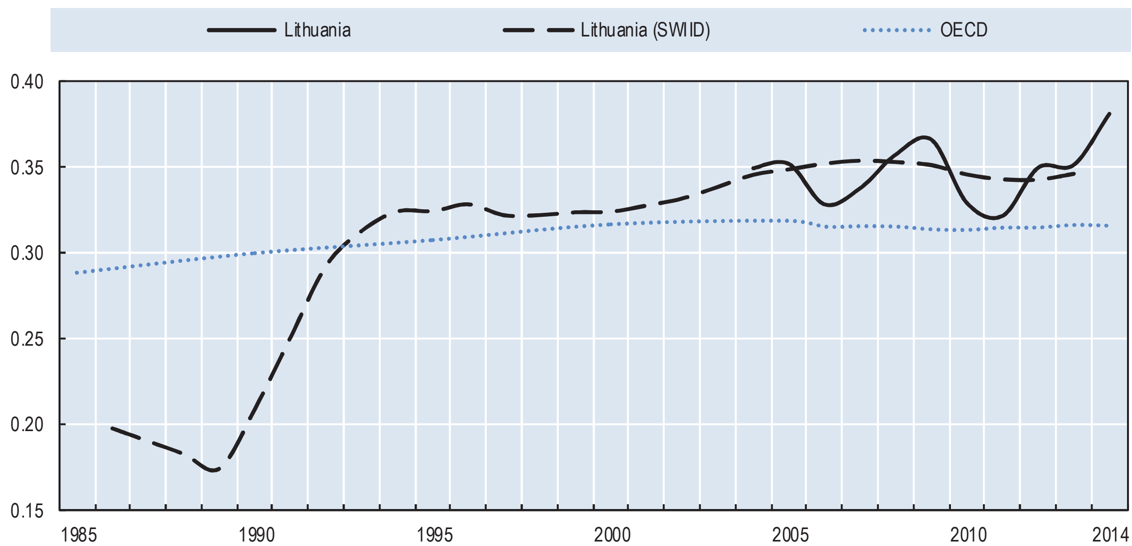
1.1.3. Living standards are rising across the income distribution, but they are also getting more unequal

In many countries in Central and Eastern Europe, rapid economic growth and increasing wages over the last decades have been associated with rising income inequality, and this development was particularly pronounced in the Baltics. While households all across the income distribution saw their living standards rise, the gains of economic growth have been very unevenly shared. The deep structural upheavals of the transition years brought about earnings growth for the better-skilled and higher returns to capital, but also unemployment and greater income insecurity for those who lacked the skills to succeed in a market economy. The divergence of living standards slowed in the mid-1990s, but appears to have continued at a reduced pace thereafter (Figure 1.3, Panel A).

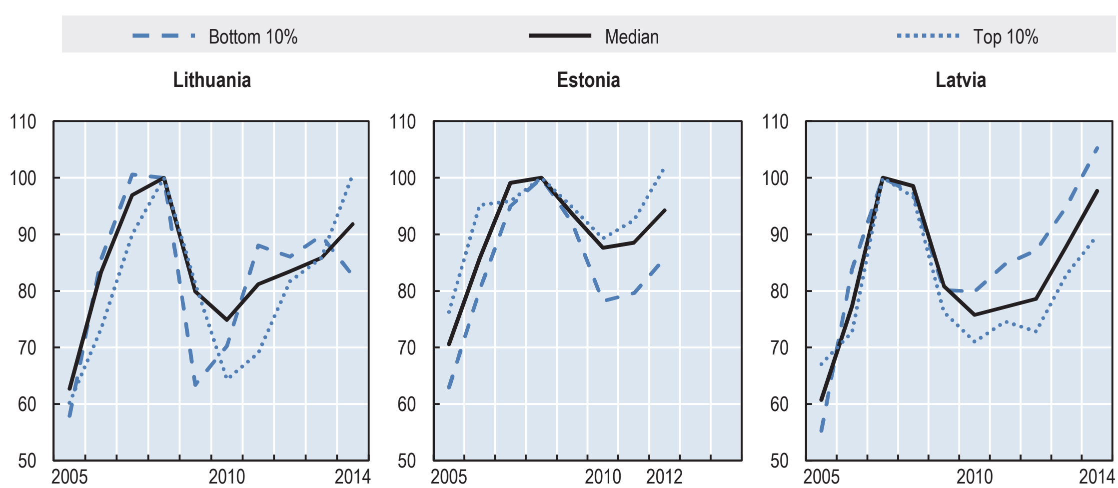
Lithuania experienced a further rise in inequality over the last decade – unlike its Baltic neighbours, where income inequality remained largely stable (in Estonia) or even declined significantly (in Latvia). This primarily reflects very uneven gains during the recovery (Figure 1.3, Panel B): the bottom and top of the income distribution benefited to similar degrees from the pre-crisis boom years (2005-8), and experienced very heavy income losses during the crisis (2008-9/10).[2] But while the top 10% had fully recovered these losses by 2014 and median incomes continue to rise, the recovery stalled in 2011 for the bottom 10%. They have seen stagnating incomes since, at a level 10 to 15% below the pre-crisis peak. The Gini Index for disposable household income – a standard measure of inequality – stood at its highest level in 2014 for at least a decade, at 0.38 (Figure 1.3, Panel A). Such high income inequality is a concern because it may jeopardise upward social mobility, giving rise to further inequalities of opportunity and hence reducing economic growth (OECD, 2015[2]). If it is perceived as unjust, it may also be detrimental to overall well-being possibly contributing to high emigration.

Figure 1.3. Rising incomes were accompanied by an increasingly unequal income distribution

Panel A: Trends in the Gini coefficient for income inequality, Lithuania and OECD average, 1985 to 2014



Panel B: Development of real disposable household income for the bottom and top 10% and the median of the income distribution in Lithuania, Estonia and Latvia, 2005-14 (pre-crisis peak=100)



Note: *Panel A*: The OECD Income Distribution Database (IDD) relies on micro-data sources to collect income distribution data using a common methodology across countries. The Standardized World Income Inequality Database (SWIID) is a secondary synthetic data compilation using on regression-based procedures to estimate complete time series from existing inequality data sets that can come from a range of different micro-data sources and may include significant breaks or gaps (Solt, 2016[3]). *Panel B*: Income series are set equal to 100 at the pre-crisis peak, which is 2008 for Lithuania and Estonia and 2007 for Latvia. There are no comparable income data for Estonia for 2013 and 2014.

Source: Panel A: OECD Income Distribution Database IDD, oe.cd/idd and Standardised World Income Inequality Database (SWIID); *Panel B*: OECD Income Distribution Database IDD, oe.cd/idd.

1.2. Shrinking youth cohorts and high emigration cause decline in the work force

1.2.1. The population is shrinking due to low fertility and high emigration

The demographic situation in Lithuania is more challenging than in most other countries, with the working-age population expected to fall from 1.95 million to 1.4 million persons between 2015 and 2030. Between 2015 and 2020 alone, the working-age population is forecast to fall by almost 10% and a further 20% in the next decade (Figure 1.4, Panel A). By 2050, according to Eurostat projections, there will be just over a million people age 15-64 in Lithuania. No OECD country is expected to see such dramatic declines in the working-age population. In the Eurostat baseline scenario, net migration is expected to remain negative, although at gradually declining levels, until the late 2040s. At present, these baseline projections are more optimistic than the reality of net migration in the past few years. The fall in the working-age population could be even more dramatic than this scenario suggests.

Two main factors drive population decline in Lithuania: declining fertility levels since 1990; and high and sustained net emigration. Lithuania, like other Central European countries, saw a sharp decline in births in the years following 1991. The five-year birth cohort in 1987-1991 was about 280 000, but the next cohorts were 21% and 38% smaller, respectively (Figure 1.4, Panel B). It has fallen further since, and births are at only slightly more than half their levels in the 1980s. This means smaller youth cohorts coming into the working-age population. Natural change in the population (births minus deaths) has run at about -0.4% annually since 2008.

The shrinking youth population means fewer new workers. In 2007, there were 244 000 young people aged 15-19. In 2017, there were only 153 000 in the same age range. This decline also means fewer university students; admissions in 2015 were 41% below the level in 2006, even as the enrolment rate rose. To put this in other terms, the birth cohort 1982-1991 (about 560 000 births) should have led to a large working-age population today between age 25-34. But there are only 374 000 residents in this age range, one third less. Since this is not a high-mortality population, net emigration explains the decline.

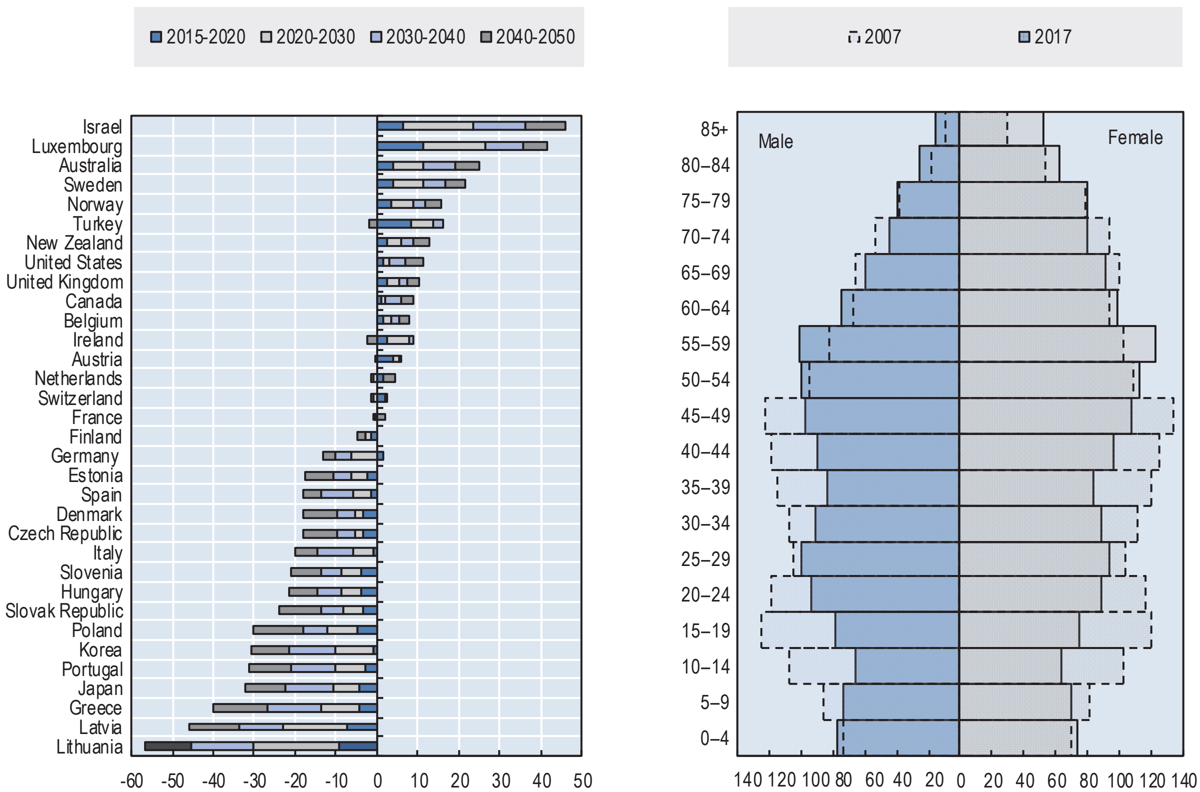
Outward migration – emigration – has been the main factor in population decline. Migration from Lithuania is, relative to the population of the country, higher than in any OECD country. Recorded outflows of emigrants – residents reporting their departure for periods of more than three months – have averaged 40 000 annually since 2001, and have been higher in recent years (Figure 1.5). In 2015, outflows of Lithuanian citizens from Lithuania were equivalent to 12.7 per 1 000 inhabitants, compared with a weighted OECD average of 1.7 per 1 000 population. The emigration rate from Lithuania has averaged almost 1% of the 2007 population, from 2007 to 2015. This average emigration rate is higher than experienced in any OECD country except New Zealand and Iceland, both of which had substantial return migration and immigration from other countries to compensate these outflows. Emigration outflows from Lithuania reached a staggering 50 000 in 2016, their highest recorded level and equal to well over 1% of the resident population.

Immigration has historically been much lower, although a larger pool of emigrants has led to some increased return migration, in absolute terms, since 2010. Net migration has been negative for decades, with migration contributing a population decline of 0.3% to 2.5% of resident population annually, with an average of almost 1% annually since 2000.

Figure 1.4. Lithuania's working-age population is expected to shrink more than that of any OECD country

Panel A. Projected change in the population age 15-64, 2015-2050, by period of change

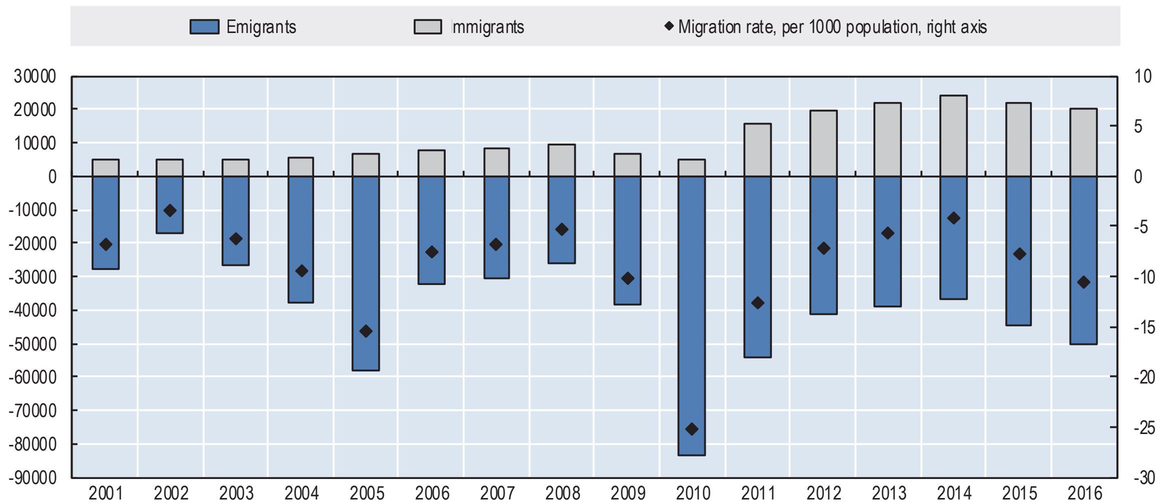
Panel B. Population by age and sex, 2007 and 2017, five-year cohorts, thousands



Source: Panel A: For European countries: Eurostat (2017), *Eurostat Population Projections*, http://ec.europa.eu/eurostat/data/database?node_code=proj; For other OECD countries: United Nations (2017). *World Population Projections 2017*, United Nations DESA/ Population Division, https://esa.un.org/unpd/wpp/. Panel B: Statistics Lithuania.

Figure 1.5. Consistently negative net migration has worsened even in the economic recovery

Number of emigrants, immigrants and net migration rate, 2001-2016



Note: Includes both Lithuanians and foreigners. Some Lithuanian emigrants registered in 2010 may have emigrated in previous years.
Source: Statistics Lithuania.

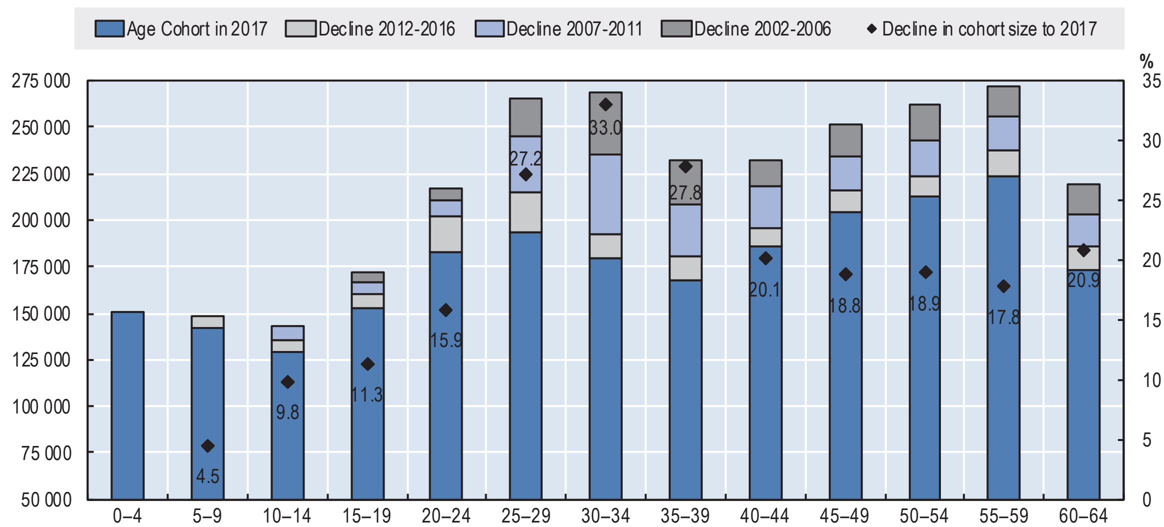
Emigration can be expected in a low-wage open economy. It boomed during the crisis, playing a strong buffer role, reducing unemployment and providing substantial remittances. However, Lithuania's emigration rate has been higher than that in the other Baltic countries, Latvia and Estonia – generally 60% higher than Estonia's, and slightly higher than that of Latvia. Further, in 2016 outflows from Lithuania increased rather than declined, while outflows from Latvia were stable (as they have been for several years), and those from Estonia appear to have tapered off.

1.2.2. Young people in particular are leaving the country

Not only are there fewer young people to begin with, but young people are more likely to migrate than older people, in Lithuania and elsewhere. As a result, Lithuania's youth population is declining more rapidly than the overall population. Indeed, while age cohort change is due to net migration and mortality, mortality plays a small role for younger cohorts, for whom the main driver of population change is migration. The cohort of 15-19 year-olds in 2002 was almost 270 000; by 2017, there were fewer than 180 000 30-34 year-olds, a 33% decline (Figure 1.6). The largest share of decline for different cohorts occurs during age 20-24, when many young Lithuanians leave to study or work abroad, but is also significant for people in their late 20s and early 30s.

Figure 1.6. There are fewer young people, and more of them leave

Five-year age cohorts, by size in 2017 and declines over five year periods, and total % decline in cohort size, 2002-2017



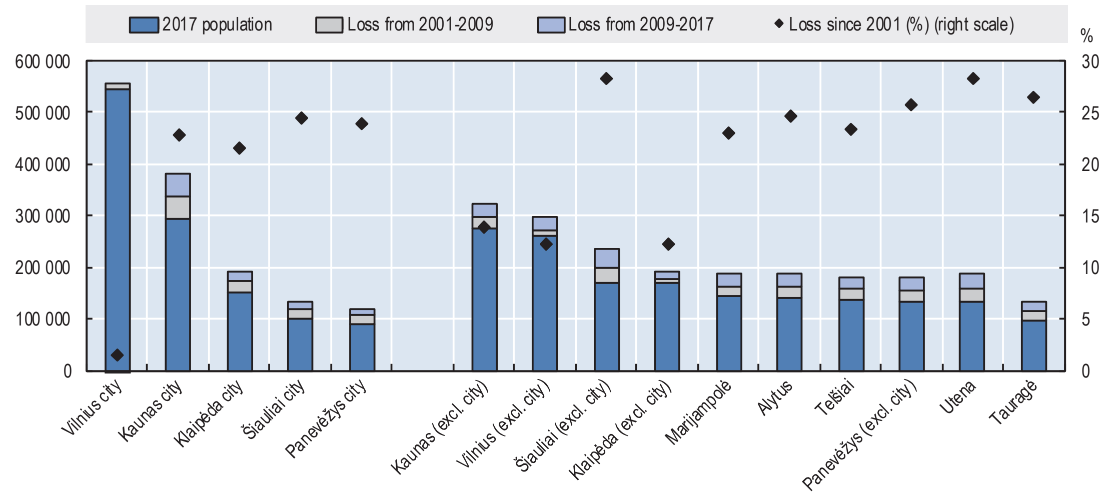
Source: Statistics Lithuania.

1.2.3. Population loss has affected all areas of the country except the capital

All parts of Lithuania, with the exception of the capital city, have seen sharp population decline since 2001. Overall, population fell from 3.5 million to 2.8 million to 2017 (about 22%, or more than 1% annually). Internal migration from rural areas and from smaller urban centres has kept Vilnius' population from shrinking. Rural areas, as defined by Lithuanian statistics, have seen slightly higher levels of population loss. However, even cities with population of 100 000 or more have seen similar population declines as the rural and urban population outside the major cities (Figure 1.7). Indeed, the slower rates of population decline are in the areas surrounding Kaunas, Vilnius and Klaipeda. Otherwise, the picture is consistent across the country.

Figure 1.7. Only the capital has been spared population loss

Population in 2017, and population loss over the 2001-2009 and 2009-2017 periods.

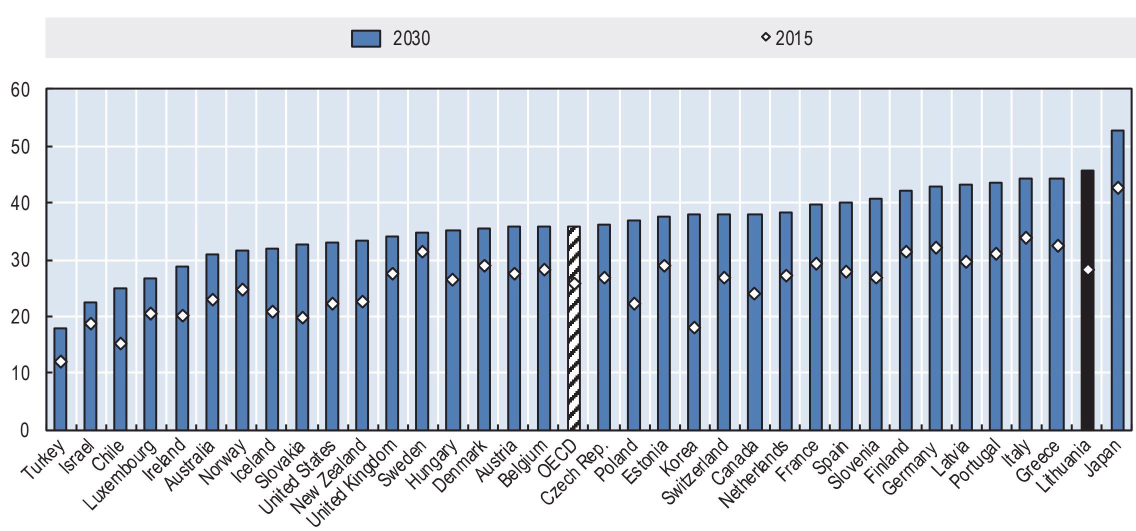


Source: Statistics Lithuania.

With the declining working-age population, the old-age dependency ratio is expected to increase from 28 to 46 between 2015 and 2030, sharper than in most OECD countries. By 2050, dependency rates are projected to be about 60. This is less than in East Asian and Southern European OECD countries, but higher than elsewhere in the OECD.

Figure 1.8. The old-age dependency ratio is expected to rise faster than in most OECD countries

Old-age dependency ratio (65 and over per 100 persons in 15-64 population) in 2015 and 2030



Source: For European countries: Eurostat (2017), *Eurostat Population Projections*, http://ec.europa.eu/eurostat/data/database?node_code=proj; For other OECD countries: United Nations (2017). *World Population Projections 2017*, United Nations DESA/ Population Division, https://esa.un.org/unpd/wpp/.

1.2.4. Migration is towards countries where wages are higher, and return is low

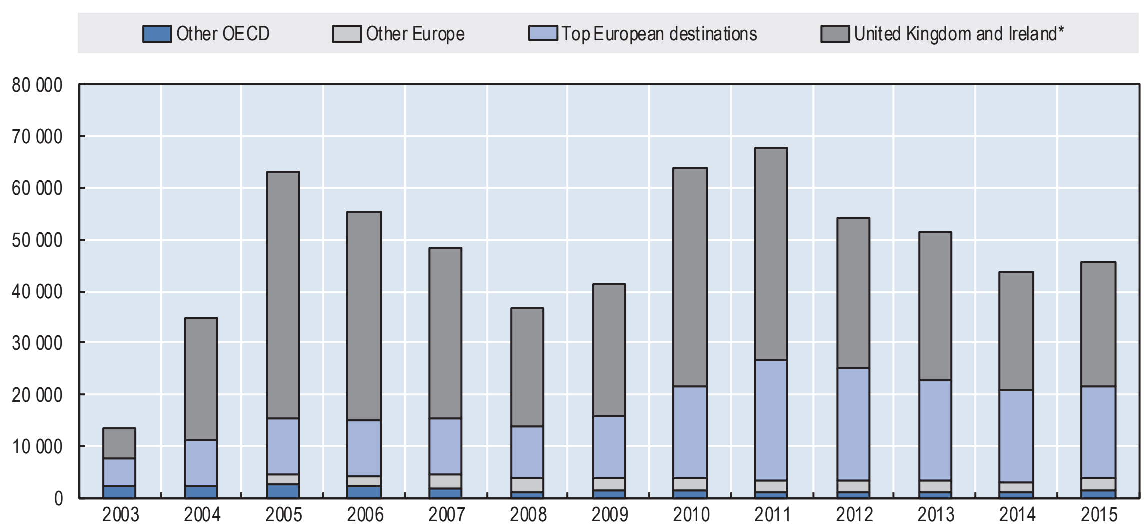
Most migration appears to be for economic opportunities, especially the pursuit of higher wages. According to national statistics, most emigrants leave Lithuania from inactivity or unemployment rather than abandoning a job; in 2015, only 17.3% of emigrants had worked in the 12 months prior to emigration. Many are students who leave the country after graduation, but even among those 30-39 years old, more than 86% had not paid social contributions in the 12 months prior to departure.

Migration flows from Lithuania to OECD countries have increased remarkably since the early 2000s. In the year 2000, the total number of Lithuanians who moved to an OECD country was below 5 000, of whom about 3 000 went to European countries. Following Lithuania's accession to the EU in 2004, the number of Lithuanians who moved to European OECD countries rose significantly. After this year Lithuanian inflows to OECD countries fell and were around 25 000 in 2015 (Figure 1.9).

Since EU accession, most Lithuanian migrants preferred to move to European OECD countries, especially those where wage levels are much higher. The initial destinations were mainly the United Kingdom and Ireland, as well as the Nordic countries, with flows to Germany increasing especially from 2011 (Figure 1.9). Another important European destination for Lithuanians is the Netherlands where over 1 000 Lithuanians have migrated every year since 2010.

Figure 1.9 Emigrants are moving largely to European countries with much higher wages

Lithuanian flows to OECD destinations 2003-2015



Note: Top European destinations are Germany, the Netherlands, Norway, Sweden, Denmark and Spain. Figures are for permanent-type migration, except for the United Kingdom and Ireland, where they are social security number issuances (in the UK, National Insurance Numbers, issued to persons over age 15; in Ireland, PPS numbers) capturing only first-time arrivals, but including temporary arrivals.
Source: OECD International Migration Database.

High emigration levels have led to a substantial population of Lithuanians abroad; the number in OECD countries more than doubled in the 2000s, to over 317 000, and has since increased by about 50%. While some emigrants do return to Lithuania, the return rate is low, and has not improved in recent years. Of emigrants who left in 2010 or earlier, only 34% had returned by 2016. In general, emigrants are most likely to return in the year following departure, but this share has fallen from 13.1% for emigrants in 2011 to 8.8% for emigrants in 2015. The share returning after two years fell from 8.5% in 2011 to 4.8% in 2014. Since return probabilities drop sharply after five years, Lithuania is likely to have lost most of its recent emigrants definitively.

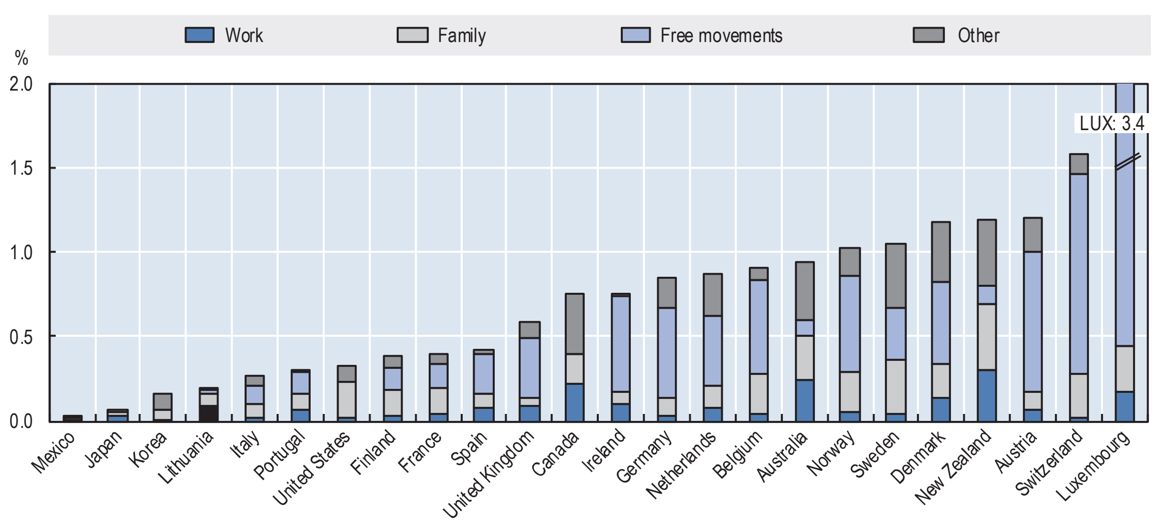
1.2.5. Lithuania is not attracting immigrants

While Lithuania has risen to play an outsized role in international migration movements due to its substantial emigration, it has not become an important destination for international migrants. The foreign population accounts for less than 1% of residents. According to permit data, family migration flows averaged about 1 700 annually in 2012-2017, and work flows at about 2 300 annually in the same period. If these are considered permanent-type migration inflows, they would represent a flow of about 0.2 per 100 residents, far below the OECD average (Figure 1.10) and insufficient to counteract population loss.

There has been a recent increase in the number of foreigners entering Lithuania for the purposes of employment, driving up total immigration figures. Most of the work permits, however, are issued to employees of road transport companies who do not work or reside in Lithuania, but are posted to other EU member countries. The effective number of labour migrants settling in the country is much lower than these work permits would suggest.

Figure 1.10. Lithuania has very low immigration flows

Permanent-type immigration to selected OECD countries and Lithuania, by category, as a percentage of population, 2015



Note: For Lithuania, all migrants in these categories are considered permanent-type, which overestimates migration.
Source: OECD International Migration Database and Statistics Lithuania.

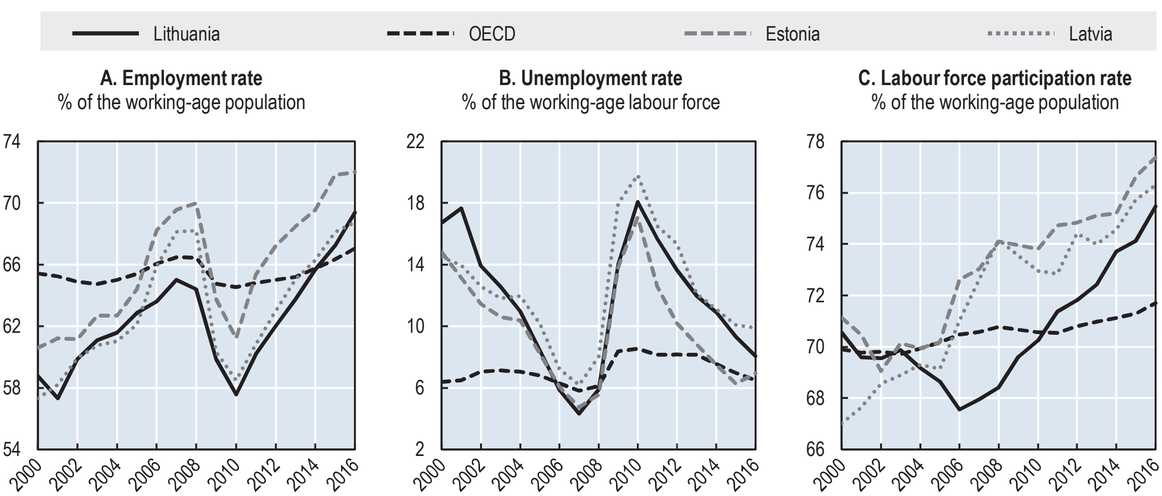
1.3. The labour market is insufficiently inclusive

1.3.1. Employment outcomes have improved, but low-skilled workers and rural residents struggle

Providing jobs to all those who wish and can work is the first requirement for a more inclusive labour market.

As in the two other Baltic countries, the employment and unemployment rate have been highly volatile in Lithuania during the economic crisis, not least because of weak automatic stabilisers. After having strongly increased since 2001, the employment rate experienced a sharp drop during the crisis followed by an equally strong rebound between 2010 and 2016 (Figure 1.11, Panel A). The employment rate is now almost 4 percentage points above the OECD average. Despite similarly strong decrease, at 8% in 2016, the unemployment rate remains significantly above its pre-crisis level and above OECD average (Figure 1.11, Panel B). Long-term unemployment has started to decrease recently, but still accounted for 38% of total unemployment in 2016, a share still 4 percentage points above its 2007 level, and also 4 percentage points above the OECD average.

Figure 1.11. Labour market outcomes have significantly improved since the crisis



Source: OECD Employment Database.

Participation rates have shown much less cyclicality, as they have been growing strongly and continuously since 2007 (Figure 1.11, Panel C). While they were almost 3 percentage points below the OECD average in 2007, they are now almost 4 percentage points above it.

Some groups of workers perform worse than others. The strongest divide is across skill levels, with the high-skilled performing better than in all OECD countries but one and the low-skilled worse than in most OECD countries (Figure 1.12, Panel A). The gap in employment rates between these two groups is hence much higher than in the OECD on average (40 vs 28 percentage points). The employment rate of medium-skilled is also significantly below OECD average. And consistent patterns are observed for unemployment rates. By destroying mostly low-skilled jobs and to a lesser extent medium-skilled jobs, as reflected in the strong drop in the low-skilled and medium-skilled employment rates between 2007 and 2010 (Figure 1.12, Panel B), the crisis exacerbated this divide. High growth in the rate of employment of low-skilled workers since the recovery allowed to restore the pre-crisis situation in their case, but medium-skilled workers remain worse off than before the crisis.

As in many OECD countries, men were more severely hit by the crisis than women, as they tend to work in sectors which are more cyclical, such as construction and transport, or shrinking, such as agriculture or manufacturing.[3] Hence, the gender pattern in the labour market typical for transition countries was reinforced, with Lithuanian women having much higher and Lithuanian men lower employment rates than on average in the OECD (Figure 1.12, Panel A).

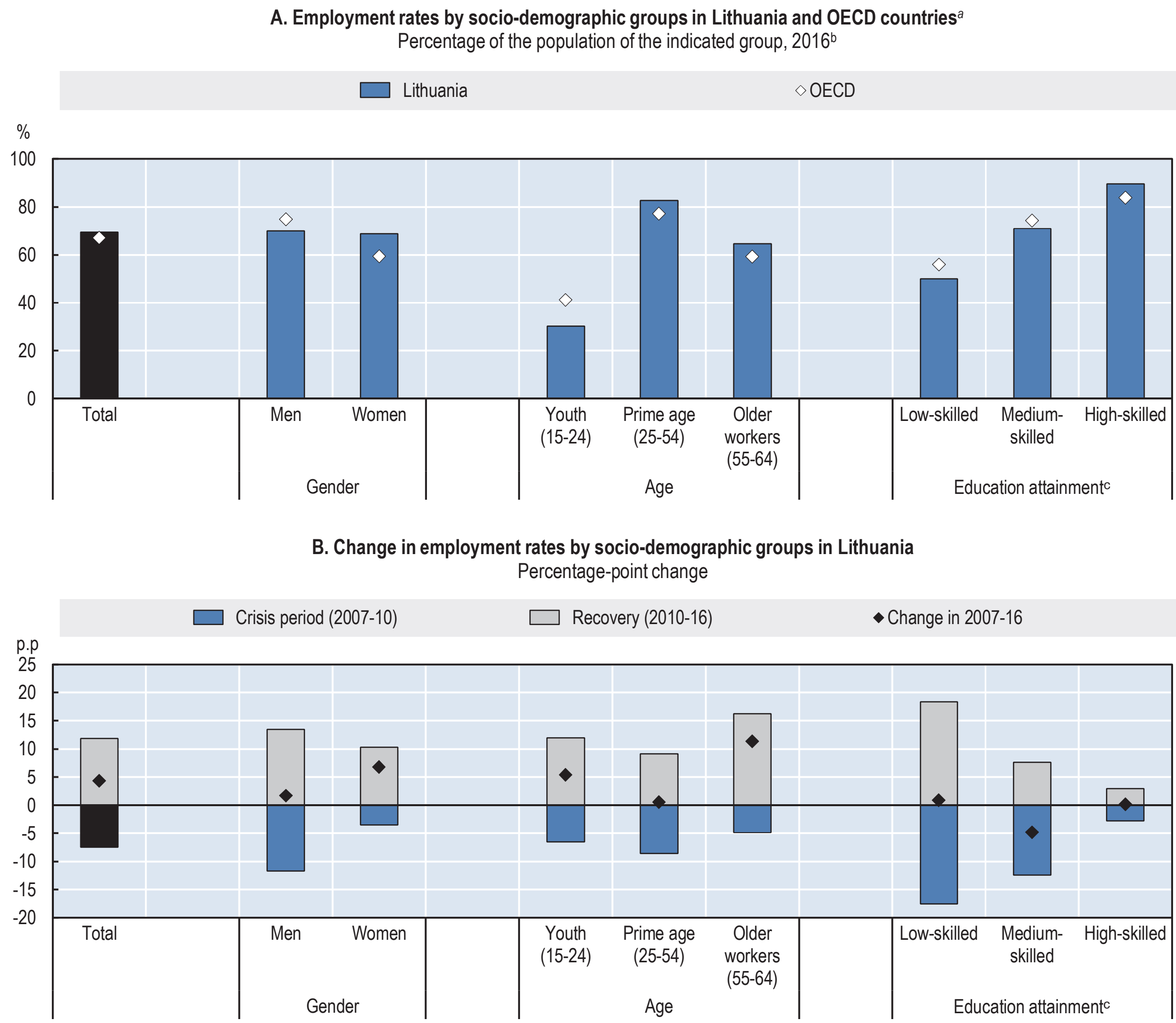
Employment outcomes also vary by age:

- Older workers, and especially older women, have experienced the highest increase in employment rates since 2007. By and large, this reflects a strong increase in their labour force participation due to the progressive rise in the statutory retirement age. Employment rates of older workers are now rather high by OECD standards.
- The youth employment rate has also risen strongly since 2007, but remains more than 10 percentage points below the OECD average. This is due both to very high participation in upper-secondary and tertiary education compared with most OECD countries and a low share of young people who combine studies and work, notably in the form of work-based training (OECD, 2017[4]). At 11%, the rate of youth not in employment, education or training (NEET) was about 3 percentage points lower in 2015 than in the OECD on average.
- Prime-age workers were those most affected by the crisis and also those who benefited least from the recovery. However, their employment rate remains significantly higher than on average in the OECD.

Territorial differences in employment outcomes are also high, and, despite ongoing internal and international outmigration flows from the more disadvantaged areas, they have deepened since the crisis.

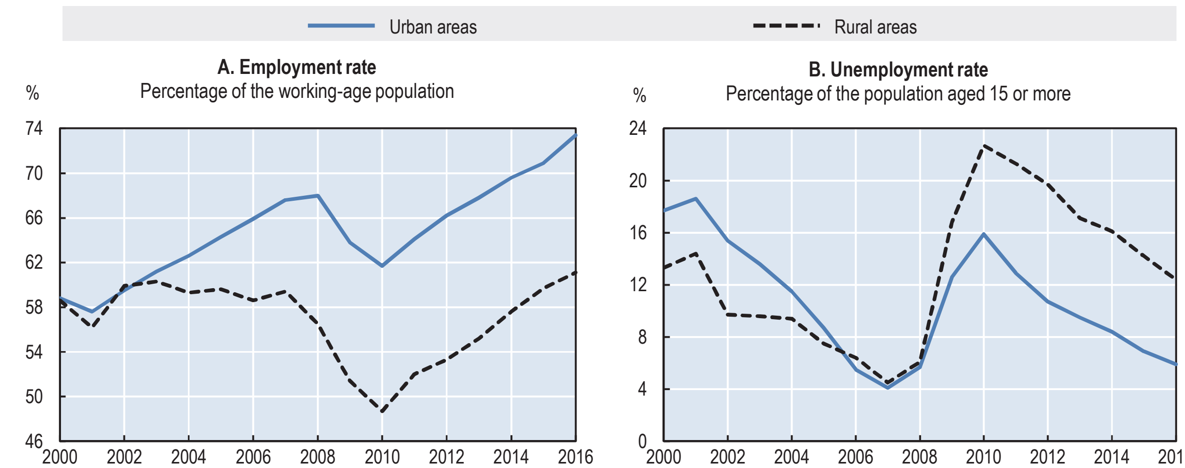
Above all, Lithuanians residing in rural areas are much less likely to be employed than those living in urban areas, where the labour market is more dynamic and resilient. Their employment rate was 61% in 2016, or 12 percentage points below that of urban residents. Conversely, at 13% in 2016, the unemployment rate in rural areas was almost 7 percentage points higher than in urban areas. Divergences in employment rates were intensified by the crisis and did not recede since the recovery (Figure 1.13). Rural areas also experienced much stronger surges in unemployment during the crisis, and the recovery did not narrow the resulting gap in unemployment rates. Long-term unemployment has therefore become 2.5 times higher in rural areas than in urban areas.

Figure 1.12. Labour market outcomes differ most across skills



a) OECD is the unweighted average of 34 OECD countries (not including Japan) for statistics by education attainment.
b) 2015 for the statistics by educational attainment.
c) Statistics on education refer to persons aged 25-64. Low-skilled refers to below upper secondary education, medium-skilled to upper secondary and post-secondary non-tertiary education and high-skilled to tertiary education.
Source: OECD Employment Database and OECD (2016), "Educational attainment and labour-force status", Education at a Glance (database), http://stats.oecd.org/Index.aspx?datasetcode=EAG_NEAC.

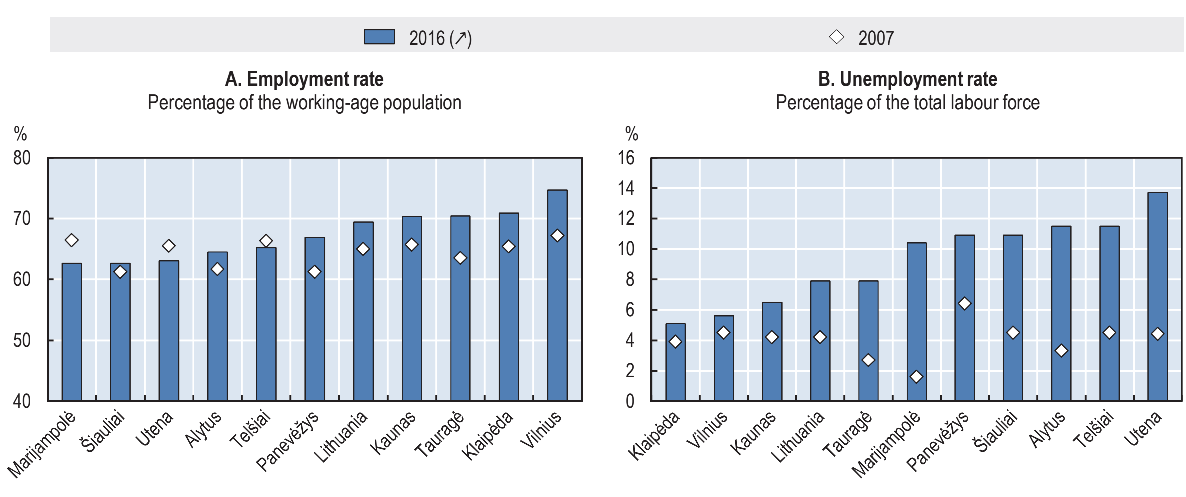
Figure 1.13. Employment outcomes in rural areas have deteriorated compared with urban areas



Source: Statistics Lithuania.

Large differences in employment performance across regions reflect the rural/urban divide. Klaipeda, Kaunas and Vilnius, the three Lithuanian regions with large cities, clearly perform better than all other regions in terms of employment and unemployment rates (Figure 1.14), as proximity of the cities makes it possible for residents of surrounding areas to commute to work. These differences deepened during the crisis, especially in terms of unemployment rates: the gap between the regions with the highest and the lowest unemployment rates has passed from 5 percentage points in 2007 (Panevėžys-Marijampole) to almost 10 percentage points in 2015 (Alytus-Klaipėda). Strong rises in unemployment are often associated with closure of a large firm – Utena and Alytus[4] – or a specialisation in a sector strongly affected by the crisis – construction in Marijampole (Kriukienė, 2015[5]).

Figure 1.14. Divergence in employment outcomes across regions are high and increasing



Source: Statistics Lithuania.

1.3.2. Job quality is poor for many workers as reflected in high informal employment, strong wage inequality and poor working conditions

Along with more jobs, providing workers with the opportunity to advance to better jobs would make the Lithuanian labour market more inclusive and reduce incentives to emigrate. Job quality is an issue in Lithuania, not because of high prevalence of non-standard contracts, but due to high informal employment, a high incidence of low pay and high wage inequality, and some unfavourable working conditions.

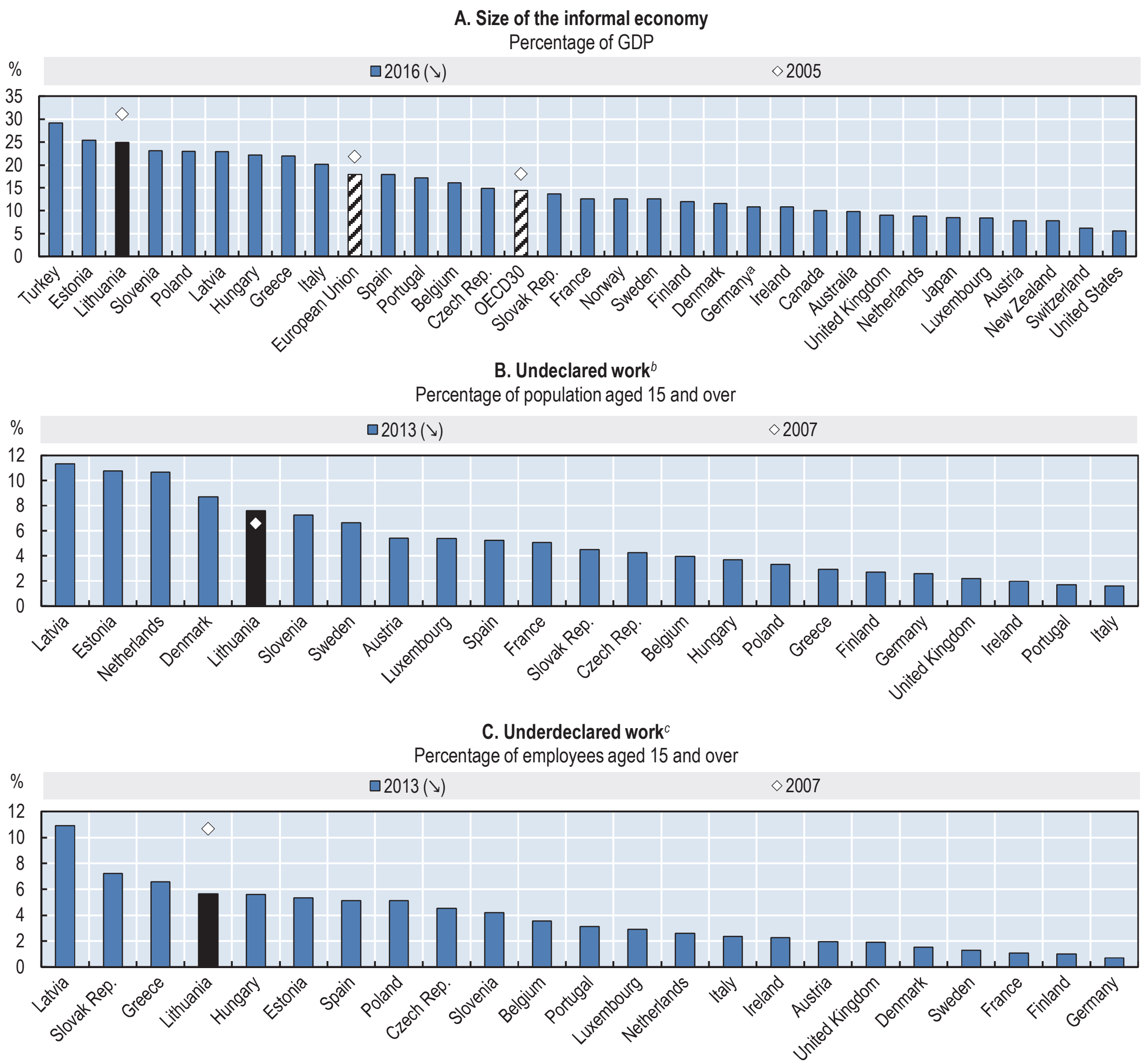
Non-standard forms of employment are rare in Lithuania compared with most other OECD countries. Due to a relatively strict regulation of temporary contracts (see Chapter 3), their incidence among Lithuanian employees was only 2% of employees in 2015, a figure lower than in any OECD country. Part-time employment is also relatively rare, with less than 8% of employees working less than 30 hours per week in 2015, against 15% on average in the OECD. Low Lithuanian wage levels make it difficult to live on part-time work, and the incidence of part-time work might in fact even be overestimated, as employers often declare their employees part-time while employing them full-time and paying them partly in cash (Gruzevskis and Blaziene, 2016[6]).

By contrast, the *informal economy* is quite large in Lithuania. Although on a declining trend, the size of Lithuanian informal economy was estimated at 25% of GDP in 2016, which is still about 10 percentage points above the OECD average (Figure 1.15, Panel A). Apart from representing a significant tax loss and accordingly reducing policy levers for the state, this creates an unequal playing field for firms and exacerbates economic inequality (OECD, 2016[1]).

Every informal activity involves informal work to some extent. According to the 2013 Eurobarometer, almost 8% of Lithuanian aged above 15 had undertaken a fully undeclared activity (as self-employed or employee) in the past year, a share lower than in Latvia but higher than in most EU countries (Figure 1.15, Panel B). But partly undeclared work is also common for Lithuanian employees, who receive part of their wage in cash as “envelope wages”. Although estimates suggest that the incidence of envelope wages has significantly diminished since 2007, almost 6% of Lithuanian employees declared being concerned by such practice in 2013, a still relatively high share compared with other EU countries (Figure 1.15, Panel C). Documenting informality is very difficult, and other available estimates point to an even higher share of informal employment, with 14% of the Lithuanians having worked without an employment contract and 17% having received part of their pay in the form of envelope wages in 2012 (Žukauskas, 2013[7]).

Informal work tends to be of lower quality than formal work. This is particularly true for fully undeclared workers, who lack social security coverage and, in the case of employees, the protection provided by labour contracts, such as minimum wage, employment protection or occupational health and safety standards. Undeclared workers are often also poorly paid and have less access to training and career advancement than formal workers. Partial non-declaration or under-declaration of work reduces the level of social insurance payments that employees can receive in the form of future pensions and unemployment benefits if they lose their job.

Figure 1.15. Lithuania has a large informal economy



a) The informal economy values for Germany have been adjusted due to a change in the official GDP statistics of the German national accounts.

b) Undeclared work refers to the share of people who answered positively to the following question: "Apart from a regular employment, have you yourself carried out any undeclared paid activities in the last 12 months?"

c) Underdeclared work refers to the share of employees who answered positively to the following question: "Sometimes employers prefer to pay all or part of the salary or the remuneration (for extra work, overtime hours or the part above a legal minimum) in cash and without declaring it to tax or social security authorities. Has your employer paid you any of your income in the last 12 months in this way?"

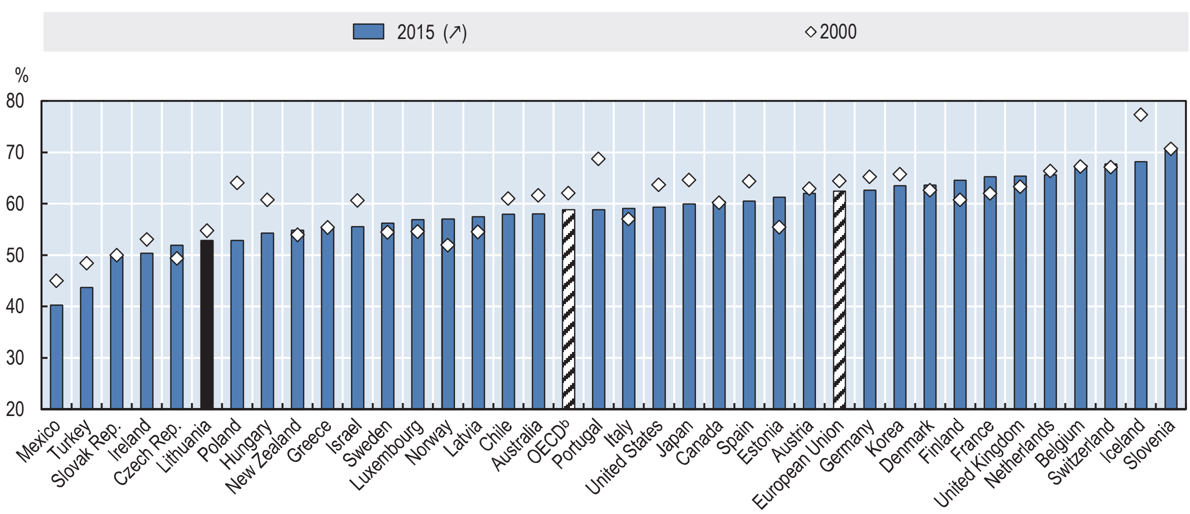
Source: Panel A: F. Schneider (2016), Estimating the Size of the Shadow Economies of Highly developed Countries: Selected New Results, CESifo DICE Report 4/2016 (December); Panels B and C: OECD estimates based on Special EU Barometer 402 (April-May 2013).

Low earnings are a continuing concern for Lithuanian workers, and a major driver of emigration. A large literature has shown that life satisfaction increases with the level of earnings, and that for a given level of average earnings, life satisfaction tends to be higher the more equal is its distribution (Cazes, Hijzen and Saint-Martin, 2015[8]). Lithuanian workers tend to be worse off than most OECD workers on both counts:

- As seen above, the average wage level is low in Lithuania compared with OECD countries, only above that of Mexico, Hungary and Latvia (Figure 1.2, Figure 1.16, Panel B). This is reflected in a rather low labour share, which, as on average in the OECD, has tended to decrease since 2000 (Figure 1.16). At 53% in 2015, the labour share is almost 6 percentage points below the OECD average, and almost 10 percentage points below the EU average.
- Although on a declining trend, earnings inequality is high, in the range of that observed in Mexico, Portugal, Estonia and Hungary (Figure 1.17, Panel A). Low pay is correspondingly widespread, with 21% of the Lithuanian employees earning less than two-thirds of median earnings in 2014, against 16% in the OECD on average (Figure 1.17, Panel B). Decreases observed in both indicators since 2006 can be attributed to relatively strong rises in the minimum wage (Chapter 3, Section 3.4).

Figure 1.16. The labour share is lower than in most OECD countries

Adjusted wage share as the ratio of total compensation of employees divided by GDP and inflated by the ratio of self-employed, 2000 and 2015[a]



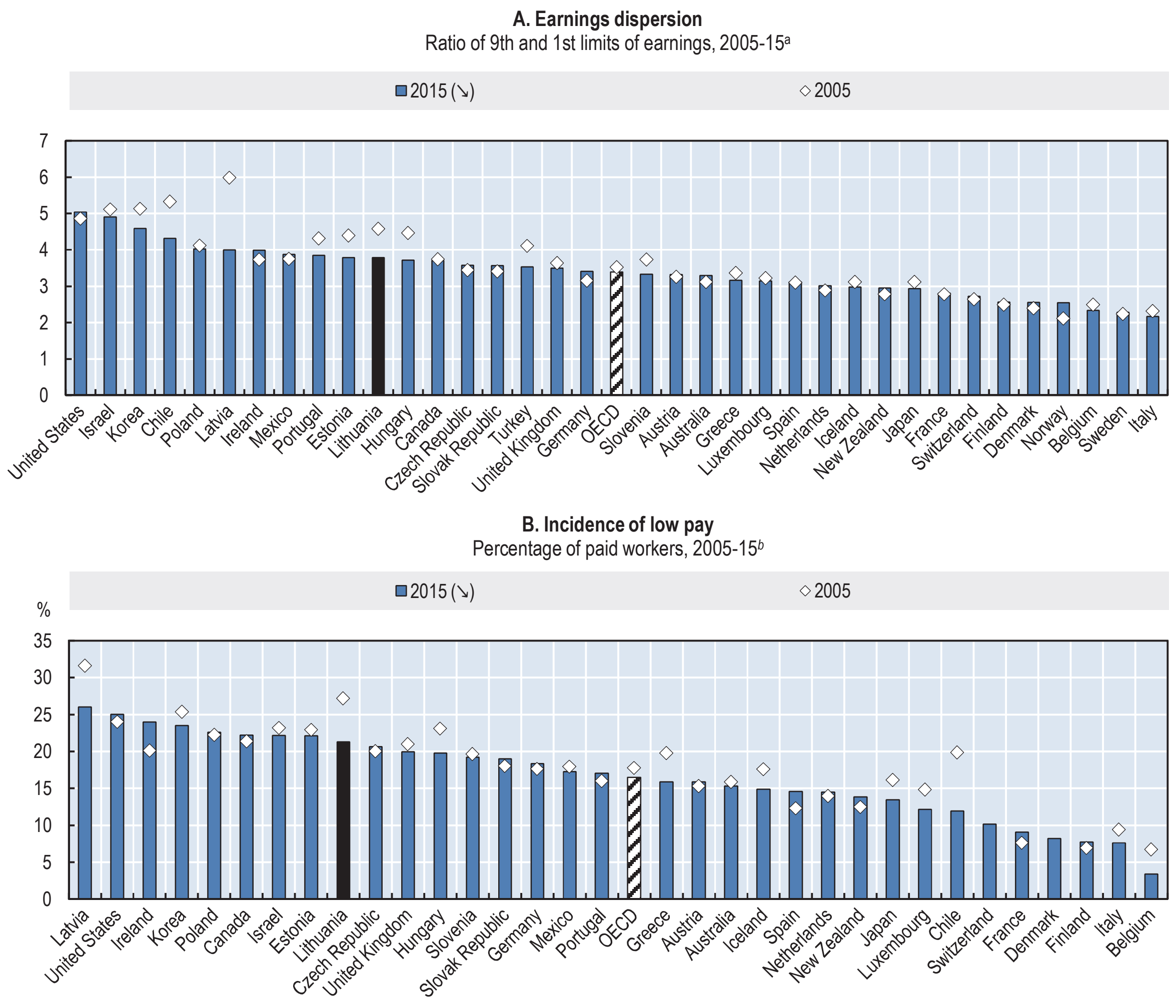
The wage share is calculated for total employment based on the assumption that self-employed earn on average as employees.

a) 2014 for Chile, Ireland, Japan, Korea, New Zealand and the OECD average.

b) GDP-weighted average.

Source: OECD, Annual National Accounts and data on self-employment from Eurostat, Annual National Accounts for Norway, Portugal and Spain and OECD Annual Labour Force Statistics for Australia, Canada, Chile, Iceland, Korea, Mexico, New Zealand and Turkey.

Figure 1.17. Earnings inequality is relatively high



Estimates of earnings used in the calculations refer to gross earnings of full-time wage and salary workers. However, this definition may slightly vary from one country to another. Further information on the national data sources and earnings concepts used in the calculations can be found at: www.oecd.org/employment/outlook.

a) Earnings dispersion is measured by the ratio of 9th to 1st deciles limits of earnings. 2005 data refer to 2006 for Chile, Estonia, France Italy, Korea, Slovenia and Spain. 2015 data refer to 2011 for Israel; to 2013 for Sweden; and to 2014 for Belgium, Estonia, France, Germany, Italy, Latvia, Lithuania, Luxembourg the Netherlands, New Zealand, Poland, Slovenia, Spain, Switzerland and Turkey.

b) The incidence of low pay refers to the share of workers earning less than two-thirds of median earnings. 2005 data refer to 2006 for Korea, Lithuania and the United Kingdom. 2015 data refer to 2011 for Israel; and to 2014 for Belgium, Estonia, France, Germany, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Slovenia, Spain and Switzerland.

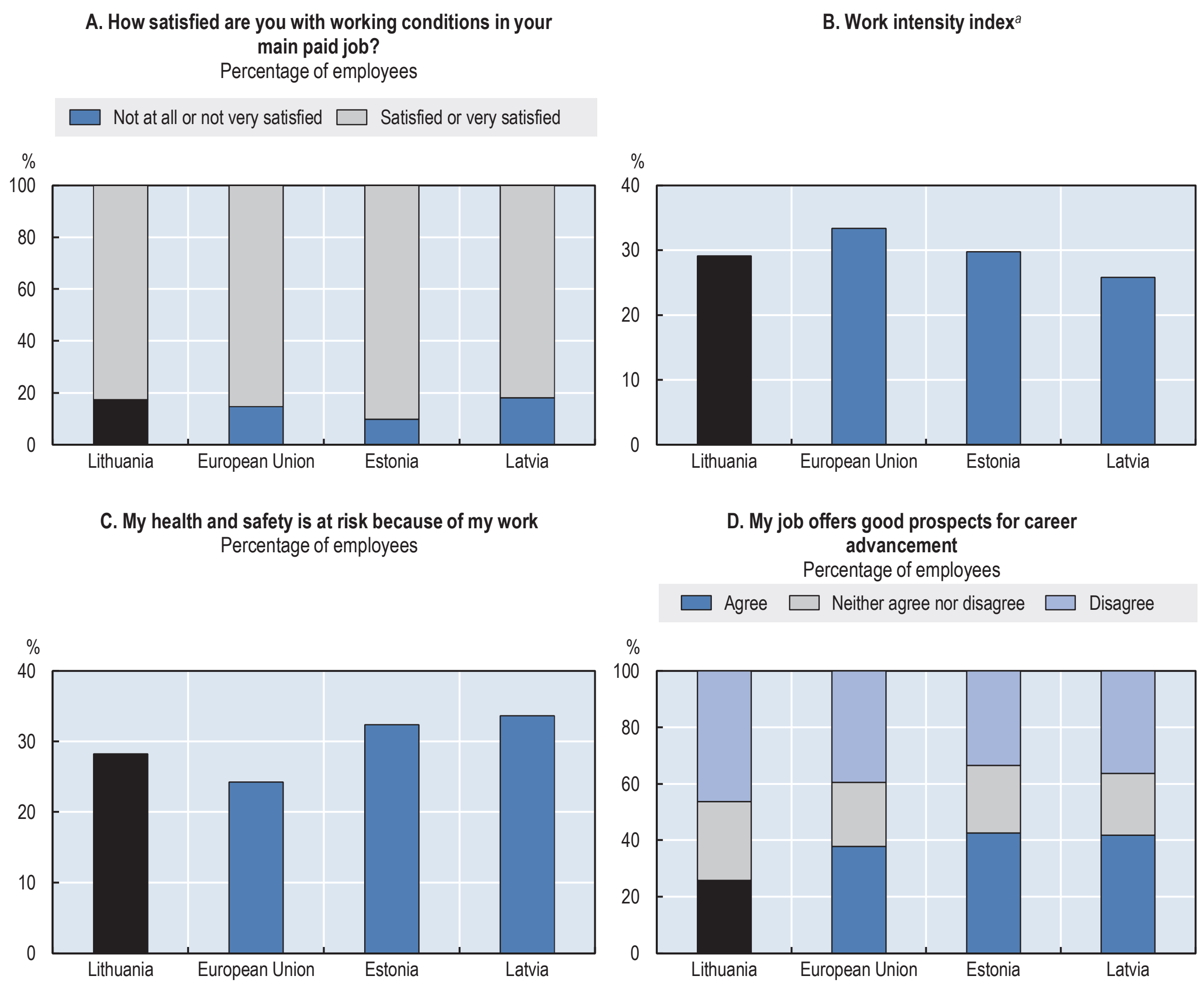
Source: OECD Earnings Distribution Database, www.oecd.org/employment/emp/employmentdatabase-earningsandwages.htm.

In terms of *working conditions*, Lithuanian workers appear to face a mixed situation. The share of employees unsatisfied with their overall working conditions is only slightly higher than in the EU, as 17% were unsatisfied or very unsatisfied against 15% on average in the EU. On the positive side, according to the 2015 European Survey on

Working Conditions (ESWC), Lithuanian employees do not appear to suffer from high pressure at work, with the work intensity index being on the low end of European countries (Figure 1.18). However, Lithuanian employees are much less positive about their career prospects than the average EU employee, and even more so than Estonian or Latvian employees. Safety at work is also more of a concern than on average in the EU. Aside subjective perception, the incidence of fatal accidents is twice as high in Lithuania than on average in the EU.[5]

Figure 1.18. Subjective assessment of working conditions is mixed

Percentage of employees, 2015



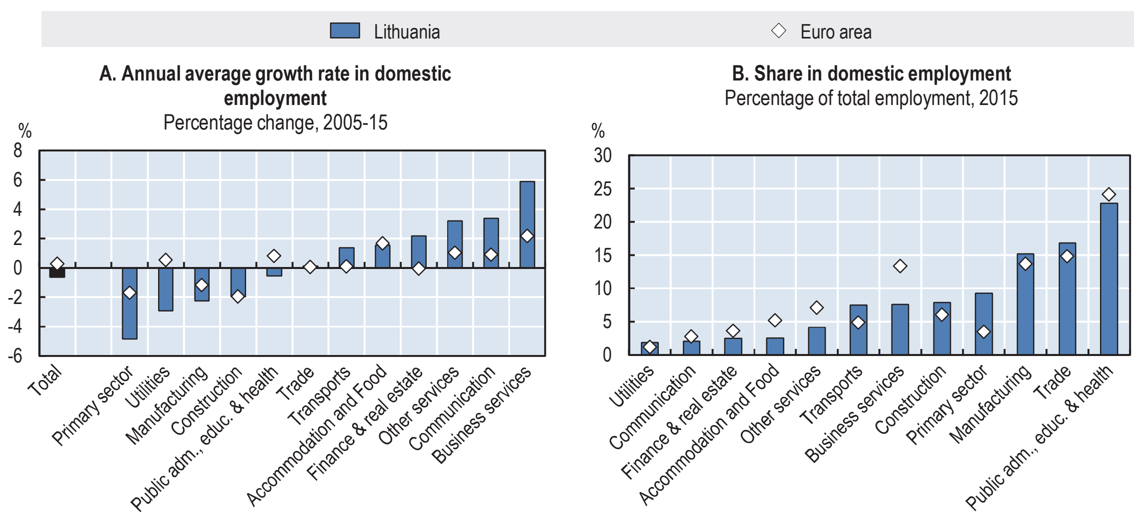
a) This index measures the level of work demand in a job, namely quantitative demands (working fast), time pressure (having tight deadlines, not having enough time to do the job), frequent disruptive interruptions, pace determinants and interdependency, and emotional demands.
Source: OECD calculations based on Eurofound, European Working Conditions Survey 2015.

1.3.3. A rapidly changing sectoral structure creates new skill needs

One of the keys to sustained economic growth in Lithuania is an adequate supply of sufficiently skilled labour that meets the needs of a rapidly changing sectoral composition of economic activity. Providing the right mix of skills is important not only for increasing employment levels but also to boost productivity and thus raise wages and living standards.

The rapid pace of industrial transformation of the Lithuanian economy is reflected in the changing sectoral structure of GDP (Figure 1.19). The two traditional and mostly skill-non-intensive sectors of the economy, the primary sector (agriculture, fishing, forestry and mining) and manufacturing, have shrunk significantly since 2005. Also the construction sector contracted significantly, having been most directly exposed to the crisis, as well as the education sector as a result of the shrinking population. By contrast, business services and information and communications, two relatively skill-intensive sectors, have grown significantly, and at a much higher pace than in the Euro area.

Figure 1.19. Sectoral transformation takes place at a rapid pace in Lithuania



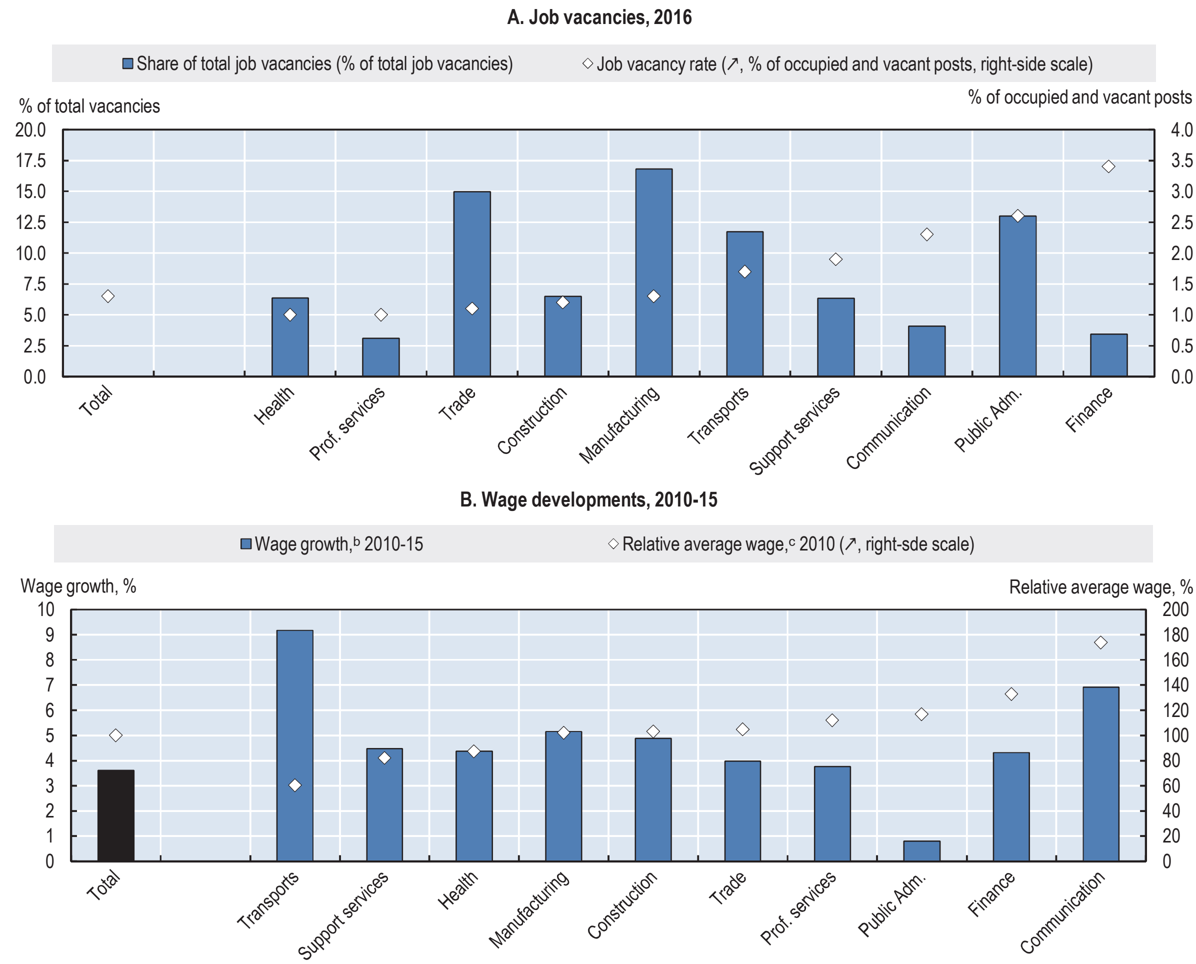
Note: See Annex 1.A for more details on the sectors.
Source: OECD calculations based on the Eurostat, Annual National Accounts database.

The job vacancy rates by sector reflect these developments. Financial and insurance activities as well as information and communication show the greatest vacancy rates, although they make for a relatively small share of total vacancies (Figure 1.20, Panel A). The job vacancy rate is also high in public administration, which represents about 13% of total vacancies. Administrative and support services also have above-average job vacancy rates, and represent a non-negligible share of total vacancies despite their small shares in total employment. The transport sector dynamics have only little effect on the Lithuanian labour market as they largely reflect the developments in EU road freight involving workers from outside the EU who are posted in other EU countries (Chapter 2).

The reasons for high job vacancy rates likely differ across sectors. Skill shortages probably explain an important part of the relatively high vacancy rate in finance and information and in communication technologies (ICT), as both sectors exhibit relatively high wage growth and wage levels (Figure 1.20, Panel B). By contrast, insufficiently attractive working conditions – notably almost nil wage growth since 2010 – play a large role in the public administration.

Figure 1.20. Vacancy rates in finance and communication are high despite relatively high wage levels and wage growth in those sectors

Selected industries[a]



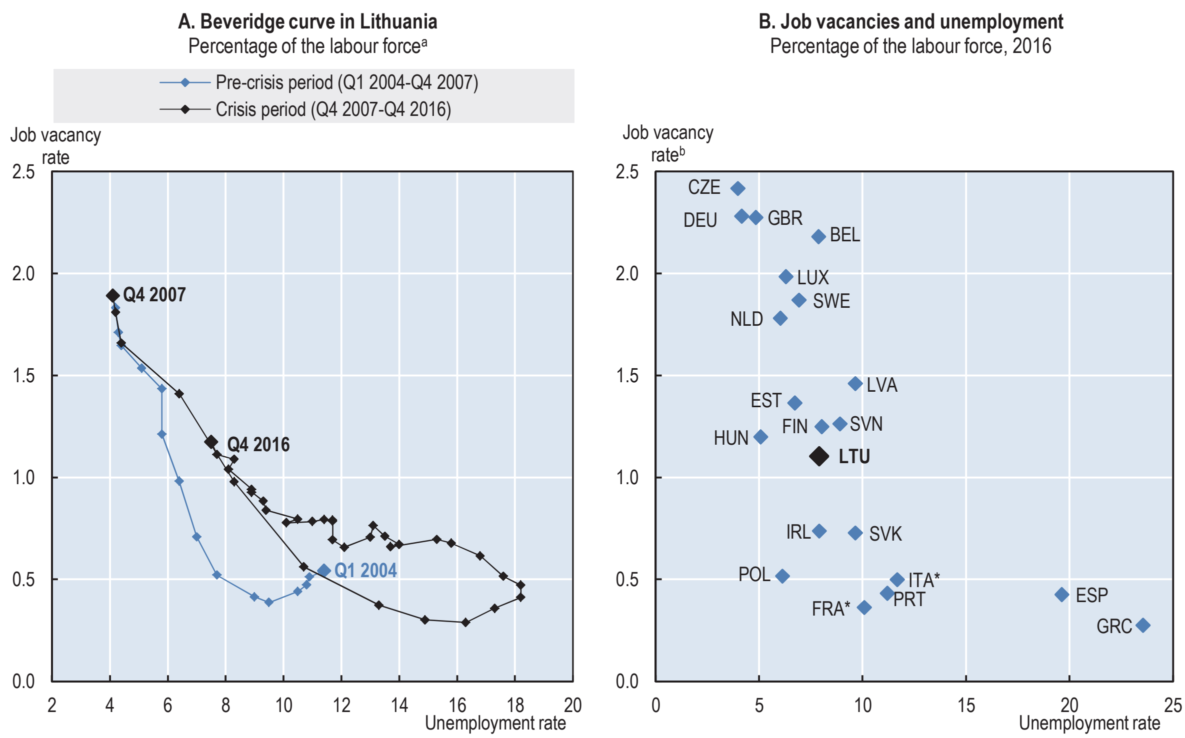
a) Industries (in NACE Rev. 2 at 1-digit) representing at least 3% of total job vacancies have been reported in this chart. See Annex 1.A. for more details on the sectors.
b) Wage growth refers to the annual average change in total earnings per employee in real terms (deflated using the private consumption expenditure price index).
c) Average annual earnings in a specific sector divided by the average earnings in total economy.
Source: Statistics Lithuania for Panel A; and Eurostat, Annual National Accounts Database for Panel B.

In general, job mismatch has increased in Lithuania since the start of the crisis. This is reflected in a shift in the Beveridge curve, which links the job vacancy rate to the unemployment rate (Figure 1.21, Panel A): for a given level of vacancies, the unemployed have more difficulties of finding a job. However, the Lithuanian labour market is not especially tight in EU comparison (Figure 1.21, Panel B).

In part, job mismatches reflect skill mismatches. A high proportion of Lithuanian firms were citing an inadequately educated workforce as a significant obstacle to their operations compared with other Central and Eastern European countries in 2013 (OECD, 2016[1]). While Lithuania has a highly educated workforce – 39% of the population aged

25-64 had completed tertiary education in 2015 against 35% on average in the OECD, there are problems with the quality of education (OECD, 2017[4]). In the 2015 Programme for International Student Assessment (PISA), 15-year-olds performed significantly below OECD average in all three tested categories: reading, maths and science. Lithuania did not take part to the OECD Survey of Adult Skills (PIAAC).

Figure 1.21. The job mismatch has increased since the start of the crisis, but is not especially high by EU standards



*: Data refer to businesses with 10 employees or more.

a) Job vacancy series have been trended using an Hodrick-Prescott filter and divided by the seasonally adjusted labour force data.

b) Job vacancies refer to the non-agricultural sector for Belgium, France, Germany, Greece, Ireland, Italy, Portugal, Spain and the United Kingdom and to businesses with 10 employees or more for France and Italy.

Source: OECD estimates based on the OECD Short-Term Labour Force Statistics (database), http://dx.doi.org/10.1787/data-00046-en and Eurostat, Job vacancy statistics, http://ec.europa.eu/eurostat/statistics-explained/index.php/Job_vacancy_statistics.

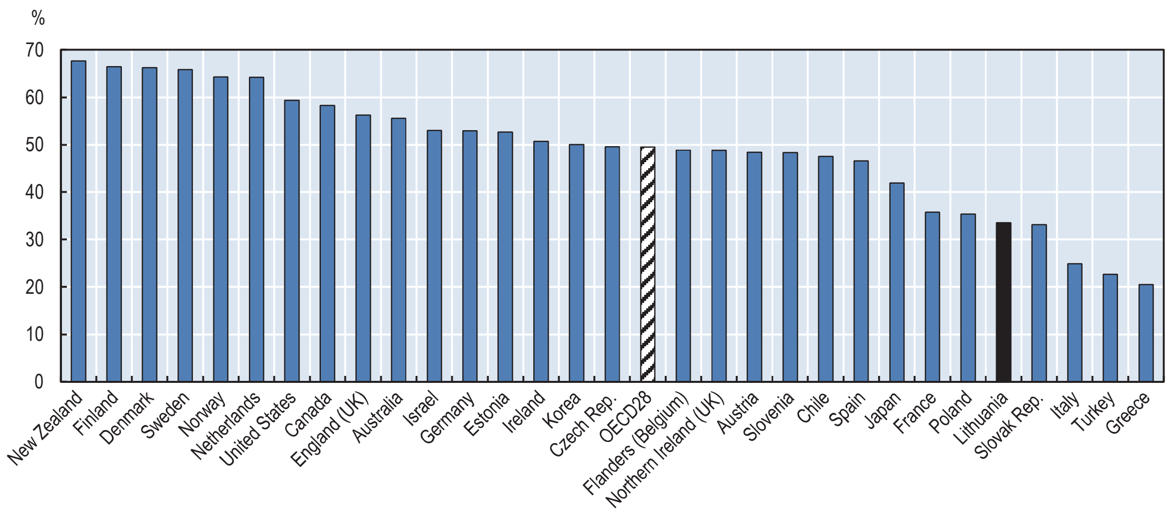
However, results from the OECD Skills for Jobs Database overall indicate that skill mismatch is not particularly acute in Lithuania. The field of study mismatch (i.e. when workers are employed in a different field from what they have specialised in) is slightly higher in Lithuania than on average in the EU – 35% against 32%, while overqualification (when workers have qualifications exceeding those required for the job) is in the high range and underqualification (when workers have qualifications not meeting those required for the job) in the low range of EU countries (OECD, 2017[9]). Compared with most other EU countries, the database shows relatively low knowledge and ability needs. Technology-related skill needs are also relatively small, while low-technology skills (in production and processing, transportation, equipment and maintenance) are more in need, reflecting the still relatively low-skill orientation of the economy.

Lithuania is lagging behind when it comes to equipping its workforce with specific technical skills. A well-functioning vocational education and training system that provides individuals with the right skills adapted to employers' needs is central to reduce the skill mismatch and improve workers skills and wages. But vocational education and training (VET) has a poor image among Lithuanians: according to the 2011 Eurobarometer survey, only 60% of the Lithuanians thought that VET offers high quality learning, the lowest percentage in the EU. This translates into accordingly low VET enrolment rates, with only 27% of students in upper secondary education being enrolled in VET, a level close to the lowest in the OECD and 15 percentage points below average.

Adult training is likewise little developed. About one third of the adult population had participated in formal or non-formal training in the 12 past months in Lithuania in 2015, against half of the OECD adult population on average (Figure 1.22) which likely reflects the low provision of continuous training by Lithuanian employers to their employees.

Figure 1.22. Adult participation in formal and/or non-formal education is low

Percentage of persons aged 25-64 year-olds, 2012 or 2015



Note: Chile, Greece, Israel, Lithuania, New Zealand, Slovenia and Turkey: Year of reference 2015. All other countries: Year of reference 2012. Results based on the Survey of Adult Skills.
Source: OECD Education at a Glance 2016, Table C6.2. See Annex 3 for notes, www.oecd.org/education/education-at-a-glance-19991487.htm.

1.4. Inequalities are high

1.4.1. Incomes are distributed very unevenly

As a consequence of rising income inequality over the last decades, including during the most recent years of the recovery (Figure 1.3), income disparities in Lithuania are wider than in most OECD countries. The Gini index for disposable income – a standard measure of income inequality – stood at 0.38 in 2014.[6] This would put Lithuania among the top five across OECD countries, ahead of Estonia and Latvia (both 0.35) and the OECD average (0.31).

High income inequality is reflected in low bottom incomes, very high top incomes and a "thin" middle class. A person in the bottom decile of the income distribution makes on average only 30% of the median income, less than in Estonia, Latvia or the OECD on average (Figure 1.23, Panel A). More strikingly, incomes in Lithuania are highly skewed at the top, with a person in the top decile reaching on average nearly 400% of the median, compared to around 330% in Estonia and Latvia and 310% in the OECD. Meanwhile, only a little more than half (53%) of the population belong to the middle class, defined here as living with an income between 75% and 200% of the median after accounting for household size (Figure 1.23, Panel B). This is substantially less than in the OECD on average (61%). The size of the Lithuanian middle class has moreover shrunk by nearly six percentage points since before the crisis, more than in any OECD country.

The large earnings dispersion described above is one main cause of the high income inequality. Earnings from work are the most important income source for households all across the income distribution, and they tend to be very unevenly distributed in Lithuania. Gross earnings of workers in the top and the bottom decile of the distribution differ by a factor of nearly 3.8 in Lithuania, significantly more than in the OECD on average (3.4, see Figure 1.17, Panel A). And while the data suggest that the gross wage dispersion has shrunk over the last decade – likely in large parts because of the rapid minimum wage increase – household earnings seem to have diverged further (Navicke, 2017[10]). This may reflect a large and growing population of workless households, or of households without a person in full-time work (Horemans, 2016[11]; Corluy and Vandenbroucke, 2017[12]).

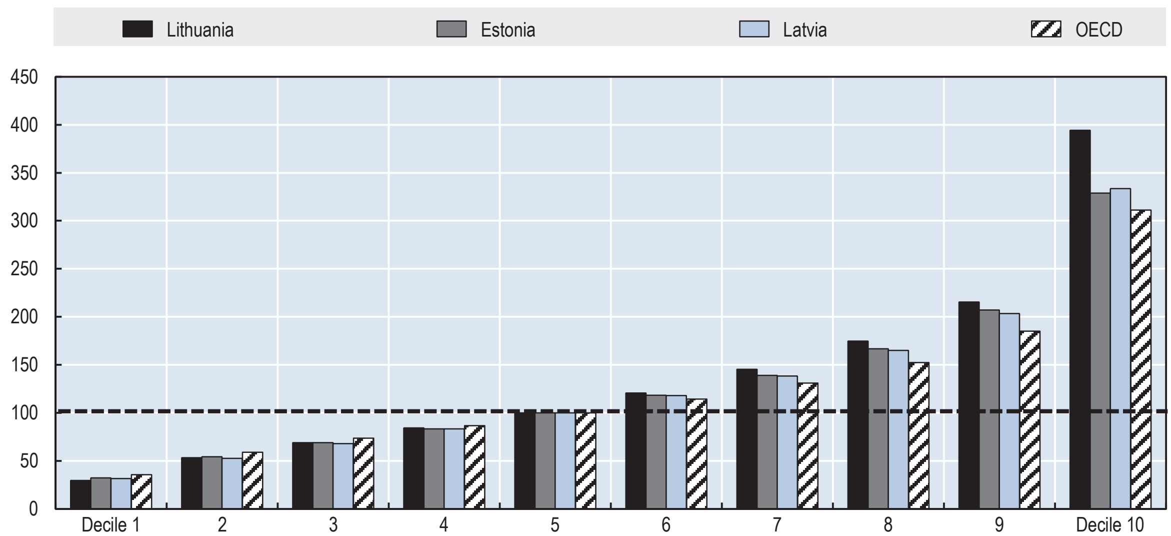
Capital incomes contribute less to high income inequality, simply because they account for a much smaller share of household incomes. A precise analysis is difficult, however, because capital rents are typically not well-captured in income surveys. The distribution of household wealth in Lithuania appears to be less unequal than in many European countries (IMF, 2016[13]). The declining labour share will however have contributed to rising income inequality, as capital incomes are generally distributed less unequally than earnings.

Taxes and transfers moreover do little to reduce high inequality of market incomes in Lithuania. This reflects low spending levels and a weakly redistributive flat-rate personal income tax system (see Chapter 4).

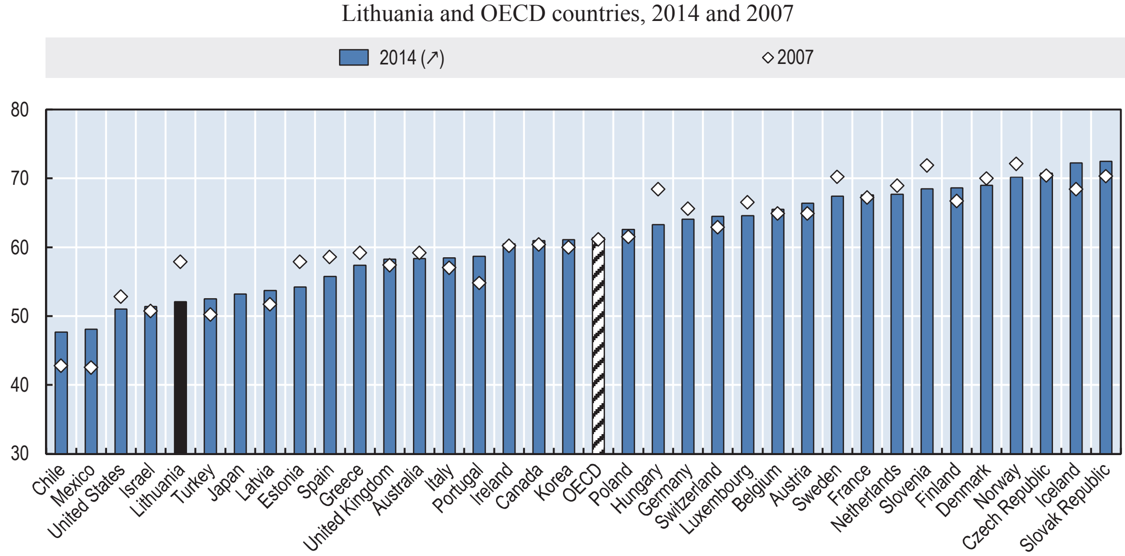
Disposable incomes moreover vary substantially across regions in Lithuania, reflecting large disparities in economic development. Regional differences in GDP per capita are larger in Lithuania than in most OECD countries with comparable data, though lower than in Estonia or Latvia (Figure 1.24). These disparities translate into substantial cross-regional differences in disposable incomes: The capital region Vilnius County, which accounts for a little above one-quarter of the country's population, is substantially richer than the other parts of the county, with an average disposable income per person around 20% above the country average. At the other end of the spectrum, persons in Šiauliai County, which includes the industrial city of the same name, and Utena County in the north-east have an average disposable income around 20% *below* the national average (Statistics Lithuania, 2017[14]). These two regions also suffered the most severe population losses since the start of the millennium (Figure 1.7). Of course, these large disparities in disposable incomes overestimate differences in living standards as also the costs of living, and in particular housing, vary.

Figure 1.23. Inequality reflects very high top incomes, low bottom incomes and a "thin" middle class

Panel A: Annual disposable income as a percentage of median income, 2014



Panel B: Percentage of the population living with an income between 75 and 200% of the equivalised median household income, Lithuania and OECD countries, 2014 and 2007

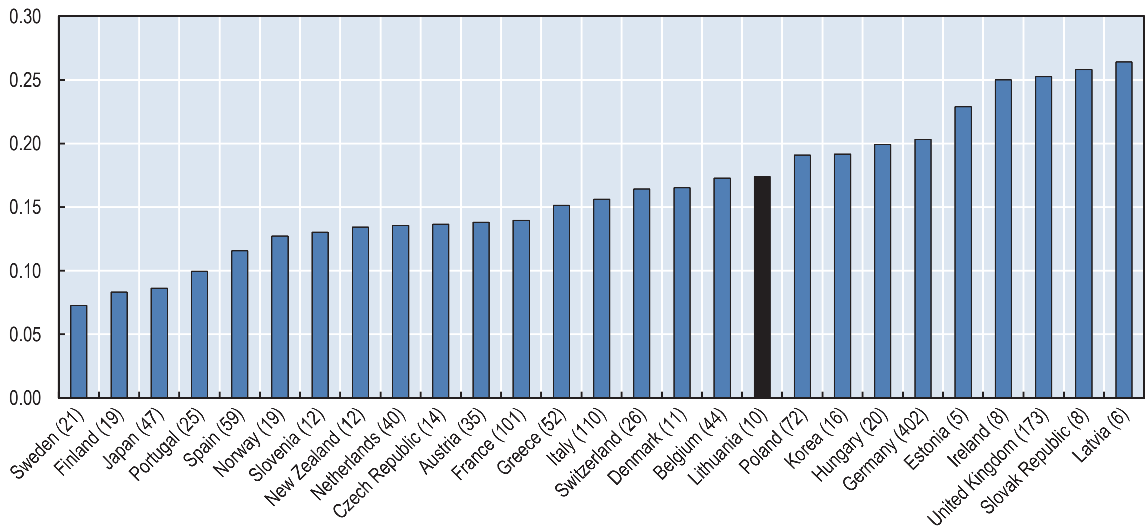


Note: The more recent observation is for 2014 except for Chile, Denmark, Switzerland, the United Kingdom, the United States (all 2013), Hungary, Israel, Korea (2012), Australia (2010) and Japan (2008). The earlier observation is for 2007 except for Australia, France, Italy, Korea, Mexico (2008), Chile (2006) and Japan (missing).

Source: *Panel A:* OECD Income Distribution Database IDD, oe.cd/idd. *Panel B*: OECD calculations based on the EU-SILC and national household surveys (OECD, 2018[15]).

Figure 1.24. Regional disparities are significant, but smaller than in Estonia and Latvia

Dispersion of GDP per capita between small regions (Territorial Level 3) in selected OECD countries and Lithuania, Gini Index for small regions, 2014



Note: Number of Territorial Level 3 regions in brackets. Data are for 2014 except for Belgium, Denmark, Estonia, Hungary, Latvia, the Slovak Republic, Slovenia, the United Kingdom (all 2015) and Japan (2013).
Source: OECD Regional Statistics, Regional accounts,
http://stats.oecd.org/Index.aspx?DataSetCode=REGION_ECONOM.

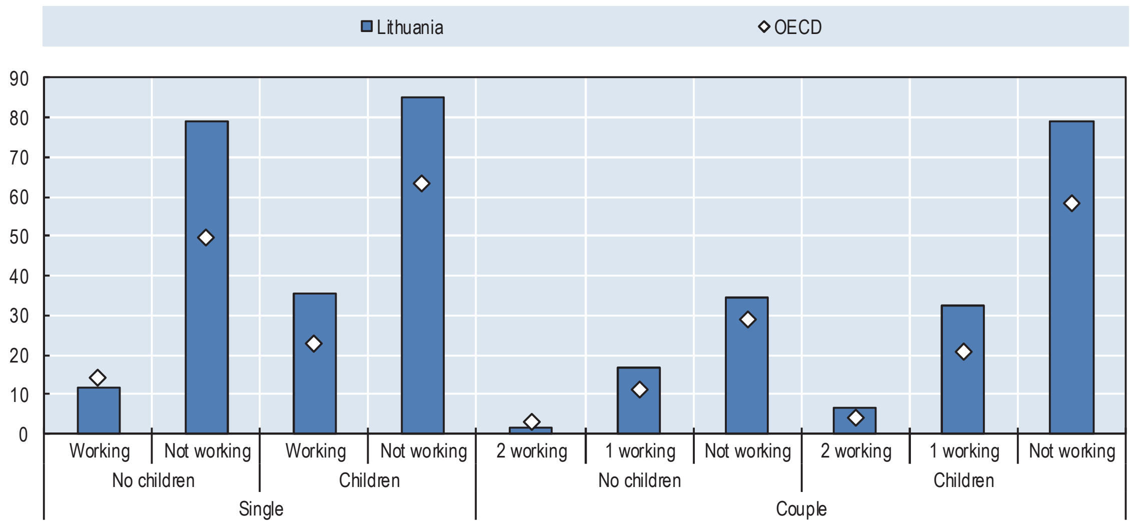
1.4.2. Poverty and economic hardship remain widespread

A consequence of the high income inequality in Lithuania is that a considerable share of the population lives in relative poverty. Indeed, the stagnating incomes at the bottom of the distribution during the last years of the recovery (Figure 1.3, Panel B) have led to a recent surge in the poverty rate: 15.7% of the population lived in households with an income below 50% of the median household income in 2014. This rate is higher than at any time during the pre-crisis boom, the crisis or the recovery so far.[7] It is also a whole three percentage points above the rate just one year before, in 2013. The poverty rate in Lithuania is comparable to those in Estonia (15.5%) and Latvia (16.2%), but substantially above the OECD average (11.2%).

Given rapidly rising wages, including for persons at the bottom of the distribution, those who find themselves out of work face a particular poverty risk. Lithuania provided, until very recently, only weak income support to the unemployed: comparatively few jobseekers were covered by unemployment benefits and social assistance benefits are not very generous (see Chapter 4). Households without a working person were therefore at a much greater risk of poverty than those with a person in work. The poverty rate was particularly high for non-working singles, 80% of whom had an income below the poverty line (Figure 1.25). Also for people with physical limitations, the poverty risk is higher in Lithuania than in most European countries (European Commission, 2017[16]).

Figure 1.25. Non-working singles face a very high risk of poverty

Percentage of persons living in a household with an income below 50% of the median equivalised household income, by household type, 2014

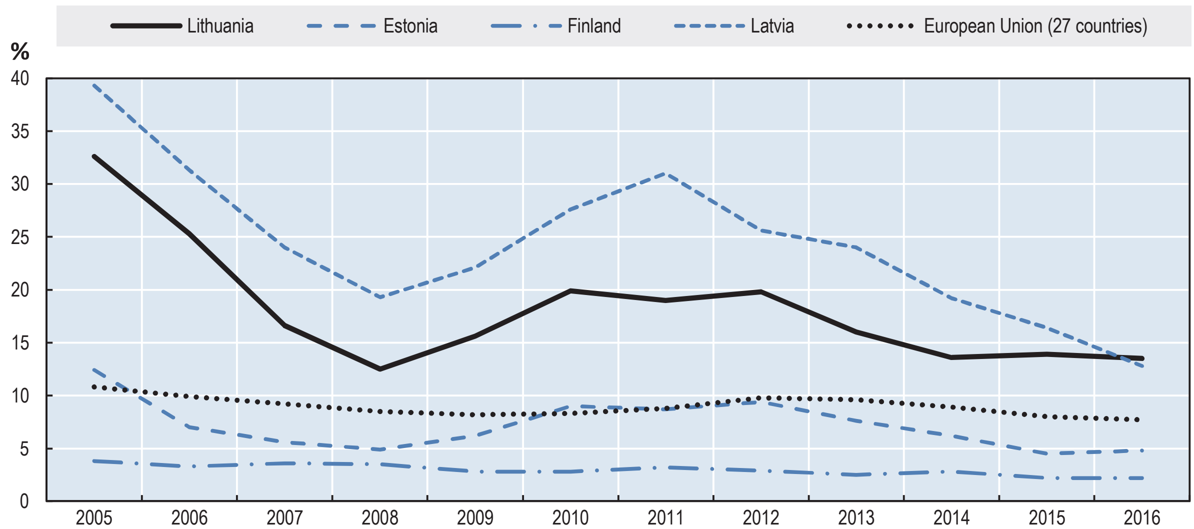


Note: The results refer to households that are headed by a working-age person.
Source: OECD Income Distribution Database IDD, oe.cd/idd.

Since low-income households have benefited less from the recovery, Lithuania also made little recent progress in reducing still widespread material deprivation. During the pre-crisis years of rapid income growth, the share of households who could not afford some necessities of daily life declined rapidly, albeit from very high levels (Figure 1.23, see figure notes for a definition of the concept). While the economic crisis temporarily reversed this trend, the recovery quickly brought material deprivation rates back down to their pre-crisis level. With income growth stalling at the bottom of the distribution, however, material deprivation rates have remained stable since 2014 – much unlike in Latvia, where they have continued declining, falling below those in Lithuania for the first time in over a decade. By contrast, food insecurity does not appear to be a major issue for low-income families in Lithuania: data from the Gallup World Poll indicate that the share of persons who report not having had enough money to afford food at some point during the past twelve months is lower in Lithuania (12% in 2016) than in Estonia (14%), Latvia (15%) or in the OECD on average (13%).

Figure 1.26. A stubbornly high share of households face material deprivation

Percentage of households living in severe material deprivation, 2005-16



Note: Severe material deprivation rate is defined as being unable to afford at least four of the following nine items: mortgage or rent payments, utility bills, hire purchase instalments or other loan payments; one week's holiday away from home; a meal with meat, chicken, fish or vegetarian equivalent every second day; unexpected financial expenses; a telephone (including mobile telephone); a colour TV; a washing machine; a car; and heating to keep the home sufficiently warm.

Source: Eurostat (2017), Severe material deprivation rate by age and sex, http://ec.europa.eu/eurostat/en/web/products-datasets/-/ILC_MDDD11.

Demographic differences in poverty are comparatively weak in Lithuania. Unlike in the two other Baltic countries, seniors in Lithuania do not face a substantially greater poverty risk than other demographic groups. At 17.2%, the poverty rate for the over-65 year-olds is higher than in the overall population (15.7%), but significantly below that of minors (20.5% in 2014). This likely reflects in part the redistributive nature of public pensions in Lithuania, which include a strong non-earnings-related component.

Seniors are *more likely* than minors to experience severe material deprivation, however. This may be a result of differences in household structures: children tend to live in larger households which enjoy greater economies of scale in consumption. These may not be sufficiently accounted for in the calculation of poverty rates, as a significant share of children who are income-poor are not severely materially deprived.[8]

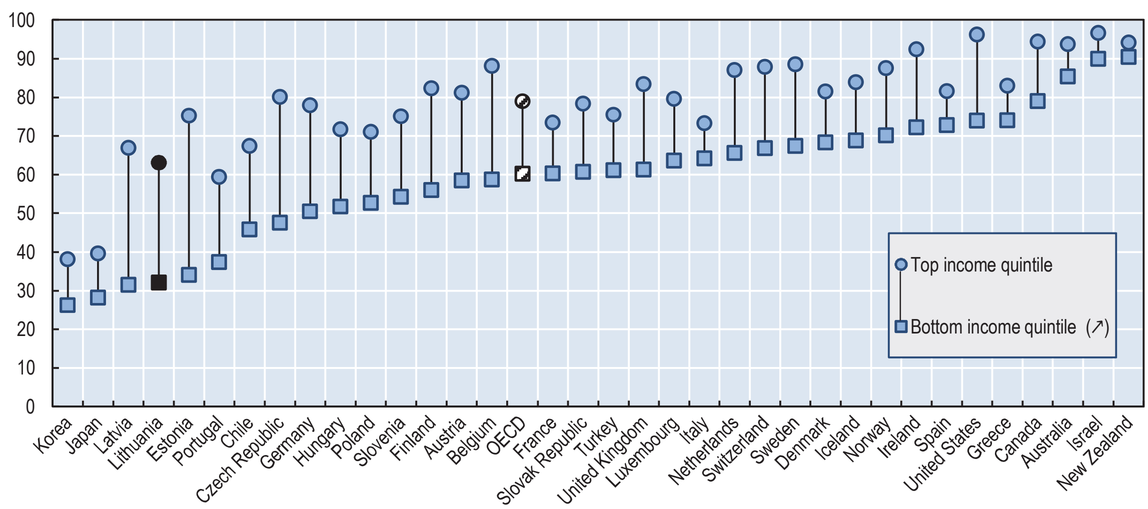
1.4.3. Health outcomes are poor

Health outcomes in Lithuania are poor by OECD standards, in particular for men. As in many post-Soviet countries, life expectancy substantially dropped during the transition years, and, at 75 years, remains six years below the OECD average and lower than in any OECD country. Meanwhile, the gender gap in life expectancy is larger than in any OECD country, with Lithuanian women living nearly eleven years longer than men (80 vs. 69 years). Low life expectancy coincides with poor self-assessed health: only 43% of above-15 year-olds reported having "good" or "very good" health in 2015, compared to 68% in the OECD on average (OECD, 2017[17]; OECD, 2017[18]).

Unhealthy lifestyles are an important driver of these poor health outcomes and can explain part of the large gender gap in life expectancy (OECD, 2017[18]). Per-capita alcohol consumption is higher in Lithuania than in any OECD country, and has been on the rise unlike in most of the OECD countries. And while the share of adults who smoke daily is only slightly above the OECD average (20%), smoking rates for men (34%) are higher than in all OECD countries except for Korea, Latvia and Turkey. Deaths through intentional self-harm (suicides) are moreover more frequent in Lithuania than in any OECD country, though they have been declining over the past decade. Suicide rates are more than five times higher for men than for women (OECD, 2017[17]).

Figure 1.27. Health outcomes are poor, especially for persons with low income

Percentage of above-15 year-olds reporting "good" or "very good" health, by income quintile, 2015



Note: No data for Mexico. Data are less comparable because of methodological differences for Canada, Israel, New Zealand and the United States.
Source: OECD Health Statistics 2017, stats.oecd.org/Index.aspx?DataSetCode=HEALTH_STAT.

Health outcomes vary greatly by income and socio-economic status, reflecting large income disparities. Persons in the bottom 20% of the income distribution are only half as likely to report living in "good" or "very good" health as those in the top 20% (Figure 1.27). Also the unemployed, persons leaving in rural areas or those with low educational attainment face a significantly higher mortality risk than in other countries (Jasilionis and Stankūnienė, 2012[19]; Murauskiene et al., 2013[20]). While out-of-pocket spending in the Lithuanian health system are high, poor health outcomes for low-income persons do not appear to result from difficulties in accessing healthcare: across the income distribution, persons in Lithuania only rarely report having unmet medical needs (OECD, 2017[18]). Other likely explanations are differences in lifestyle and the impact of occupational choice on health outcomes.

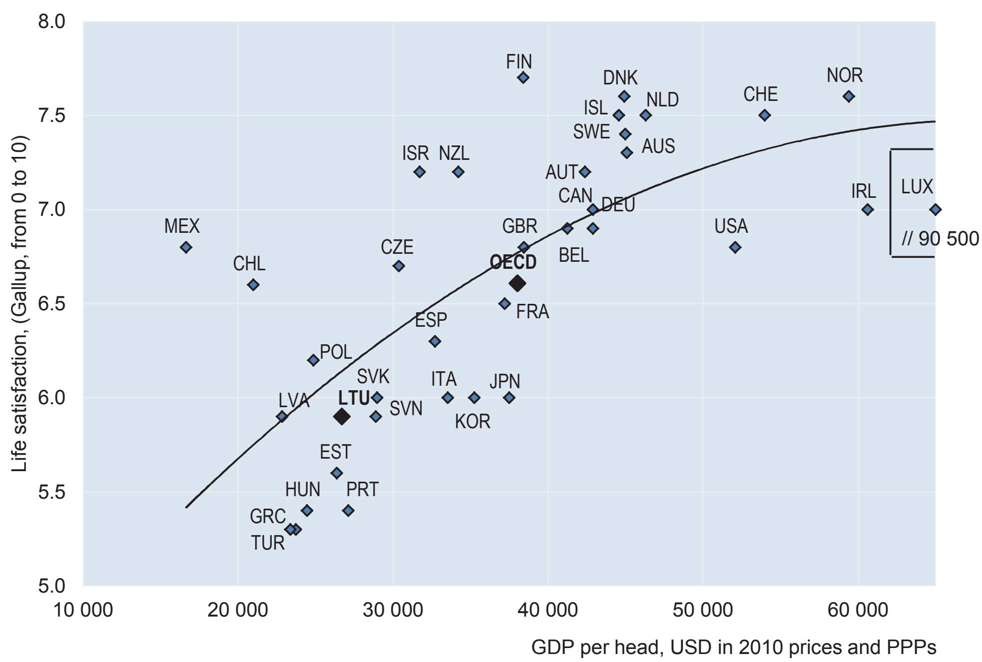
1.5. The challenges of poor job quality, a lack of skills, inequality and population loss are intertwined

The different challenges outlined in this chapter – notably poor job quality, a low-skilled workforce, high income inequality and rapid population loss – are strongly intertwined.

Poor-quality employment, modest incomes and high inequality contribute to low life satisfaction (Figure 1.28) and hence drive emigration. Easy access to well-developed channels for employment abroad in turn reduces workers' interest in fighting to improve working conditions (Chapter 3). Low wages justify a lack of investment in skills, with employers being generally satisfied to produce with low-skilled employees to whom they provide little training. The lack of investment in skills consequently restrains productivity and reduces wage growth, while the limited training offer further raises incentives to move abroad and improve skills there. High levels of emigration, in particular among the more educated youth, reduce productivity growth, innovation and job creation.

Figure 1.28. Modest incomes translate into low life satisfaction

Life satisfaction and income, 2016



Note: The Gallup World Poll asked respondents the following question: "Imagine an eleven-rung ladder where the bottom (0) represents the worst possible life for you and the top (10) represents the best possible life for you. On which step of the ladder do you feel you personally stand at the present time?". The figure shows the average country score.
Source: Gallup World Poll and OECD National Accounts Database, http://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE1.

While many OECD countries face some of these issues, population loss as this scale and the sure prospect of massive decline in the labour force are an existential challenge for Lithuania. Low fertility and high net outmigration also risk undermining the sustainability of social support measures. In light of the higher wages, greater opportunities and better job quality in destination countries, the only way to reduce emigration and continue convergence will be to increase wages, job quality and productivity (including through skills) in Lithuania at the same time. Progress in any of these areas will have a positive effect on the others.

Notes

1. A devaluation of the Lithuanian currency would have stopped the Euro adoption process.

2. Simulations have shown that the burden of fiscal consolidation carried out during the crisis fell more heavily on low- and high-income groups than on those with middle incomes (Avram et al., 2013[22]).

3. http://investlithuania.com/wp-content/uploads/2015/02/Zygimantas-Mauricas_The-Economics-and-forecasting-of-the-Labour-market-and-its-influence-on-Lithuania%E2%80%99s-competitiveness.pdf.

4. A nuclear power plant closed in Utena region and a textile company in Alytus.

5. The adjusted rate of fatal injuries at work is 5.6 per 100 000 workers, against 2.3 on average in the EU (source: Eurostat, Accidents at work, http://ec.europa.eu/eurostat/cache/metadata/fr/hsw_acc_work_esms.htm).

6. The income and poverty figures reported for 2014 in this section are drawn from the 2015 wave of the EU-SILC.

7. This means that Lithuania is unlikely to meet its poverty target in the Europe 2020 strategy, namely to reduce the number of persons living in poverty or social exclusion by 170 000 compared to 2008. The latest value, according to the definition of the European Commission, was a reduction of -39 000 (European Commission, 2017[21]).

8. Also the housing situation may play a role: disposable incomes include imputed rents for households who own their housing, and seniors may be more likely than children to live in relatively larger housing.

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Annex 1.A. Detailed figure notes

Note to Figure 1.19

Industry are based on the NACE Rev. 2 classification regrouped as follows (1-digit codes in parenthesis): Primary sector refers to agriculture, forestry and fishing (A) and mining and quarrying (B); Utilities refers to electricity, gas, steam and air conditioning supply (D) and water supply; sewerage, waste management and remediation activities (E); Trade refers to wholesale and retail trade; repair of motor vehicles and motorcycles (G); Finance & real estate refers to financial and insurance activities (K) and real estate activities (L); Business services refers to professional, scientific and technical activities (M) and administrative and support service activities (N); Public adm., educ & health refers to public administration and defence; compulsory social security (O), education (P) and human health and social work activities (Q); and other services to arts, entertainment and recreation (R), other service activities (S) and activities of households as employers; undifferentiated goods- and services-producing activities of households for own use (T).

Note to Figure 1.20

Total refers to all industries excluding activities of households as employers; undifferentiated goods- and services-producing activities of households for own use (T) and activities of extraterritorial organisations and bodies (U). Health refers to Human health and social work activities (Q); Prof. services refers to Professional, scientific and technical activities (M); Trade refers to Wholesale and retail trade; repair of motor vehicles and motorcycle (G); Transports refers to Transportation and storage (H); Support services refers to Administrative and support service activities (N); Communication refers to Information and communication (J); Public Adm. refers to Public administration and defence; compulsory social security (O); and Finance refers to Financial and insurance activities (K).

Chapter 2. High outmigration raises challenges for Lithuania

Lithuania's population is declining at a rapid pace due to ageing and very high emigration. Emigration peaked during the economic crisis, but remains at a high level, exceeding natural population decrease and higher than in any OECD country over the past decade. The working-age population has also been shrinking faster than in any OECD country, and the old-age dependency ratio is expected to increase by some 20% over the next decade. Approximately 10% of Lithuanian-born people now live abroad, with little sign of a large scale inclination to return. Lithuania should invest additional efforts to strengthen links with all Lithuanians abroad – especially those with medium skill levels or employed below their education level, better use labour migrants, and increase retention of international students.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Growth and the rise in employment in Lithuania face important headwinds from the ongoing decline in the working-age population, especially youth. During the past decade, as much as 10% of the working-age population has left the country. While Lithuania has long been part of global migration trends, and emigration has cushioned the shock of the crisis, the low fertility of recent decades means that it cannot afford to lose population at the current rate without seriously harming its chance to sustain inclusive growth. The decline in the working-age population described in Chapter 1 can be mitigated to some extent by increasing labour force participation, increasing productivity, by reducing emigration and by increasing immigration – whether returning migrants or foreigners.

This chapter examines the last two points, emigration and immigration. Lithuania has an official Global Lithuania Programme for relations with Lithuanians abroad. In addition, public policy in many different parts of Lithuanian society – employment services, education and social services – has had to come to terms with the high departure rate of residents. Active labour market policy can be difficult to promote when higher wages and more opportunities are known to be a short flight away. Social services can be put under strain when working family members leave children or elderly behind. Workers abroad may return with resources to start a business, but may also return in situations of vulnerability, or without motivation to accept less favourable local conditions. This chapter first provides a complete overview of Lithuanian emigration (Section 2.1), with a focus on their characteristics and the drivers which led to their departure and the low return rate. It then presents the policy framework for outreach and services to the diaspora (Section 2.2), and assesses it in terms of whether these initiatives reflect the needs of emigrants and can mitigate the negative effects of emigration. Section 2.3 presents the immigration policy framework and accompanying integration measures for immigrants and relates them to Lithuania's objectives of making full use of migration channels to sustain growth.

2.1. The drivers and consequences of emigration are difficult to address in the short term

2.1.1. Emigration is a long-standing phenomenon which has become more intense

Lithuania has long been a country with substantial population outflows, prior to and after the Soviet period. Since 1991, outflows have exceeded inflows and net migration has been negative in every year. Initial destinations included migration to the Russian Federation and Israel, although these flows quickly tapered off. In 2000, censuses in OECD countries (excluding Israel) indicated almost 20 000 residents born in Lithuania who had arrived in the previous decade.

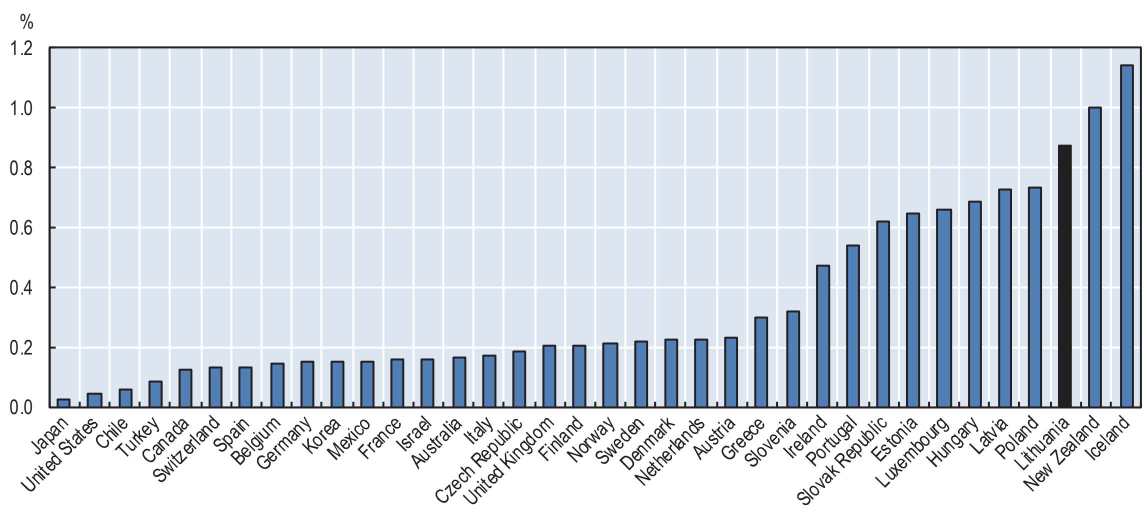
Since 2000, migration flows from Lithuania to OECD countries have increased remarkably. In the year 2000, the total number of Lithuanians who moved to an OECD country was below 5 000, of which about 3 000 went to European countries. A major shift in destinations and a sharp increase occurred following Lithuania's accession to the EU in 2004, when the number of Lithuanians who moved to European OECD countries rose significantly. According to census data, over the decade from 2000/01 to 2010/11, the emigration rate of Lithuanians –the total number of people born in a specific country and living abroad divided by the equivalent total population at home (Arslan et al., 2015[1]) – doubled. This means that one in every ten who were born in Lithuania was living in an OECD country by 2010/11.

Since EU accession, most Lithuanian migrants have moved to European OECD countries, mainly the United Kingdom and Germany. In 2011 alone, a record 43 000 Lithuanians moved to OECD countries. That year, about 17 000 Lithuanians moved to the United Kingdom and 10 000 to Germany. Nordic countries, such as Norway and Sweden, also received significant number of Lithuanian migrants starting in the second half of 2000s and accelerating in the 2010s. Over 1 000 Lithuanians have migrated to the Netherlands every year since 2010. OECD destinations outside Europe received a relatively small number of migrants, with levels dropping in the mid-2000s as migration to the EU became easier and Lithuanian migrants changed their destination countries. The United States, for example, received more than 2 000 Lithuanian permanent migrants annually prior to 2004, but has seen flows below 1 000 since 2007.[1]

The emigration rate in Lithuania is higher than in almost any OECD country. Over the 2007-2015, according to inflow data recorded in countries of destination, the average annual emigration rate was 0.87 per 1 000 (Figure 2.1). The only countries to exceed this were New Zealand and Iceland, both of which have highly mobile populations and positive net migration.

Figure 2.1. Lithuania has a higher emigration rate than almost any OECD country

Average annual emigration rate to OECD countries
(recorded inflows to OECD countries / population of origin country), 2007-2015

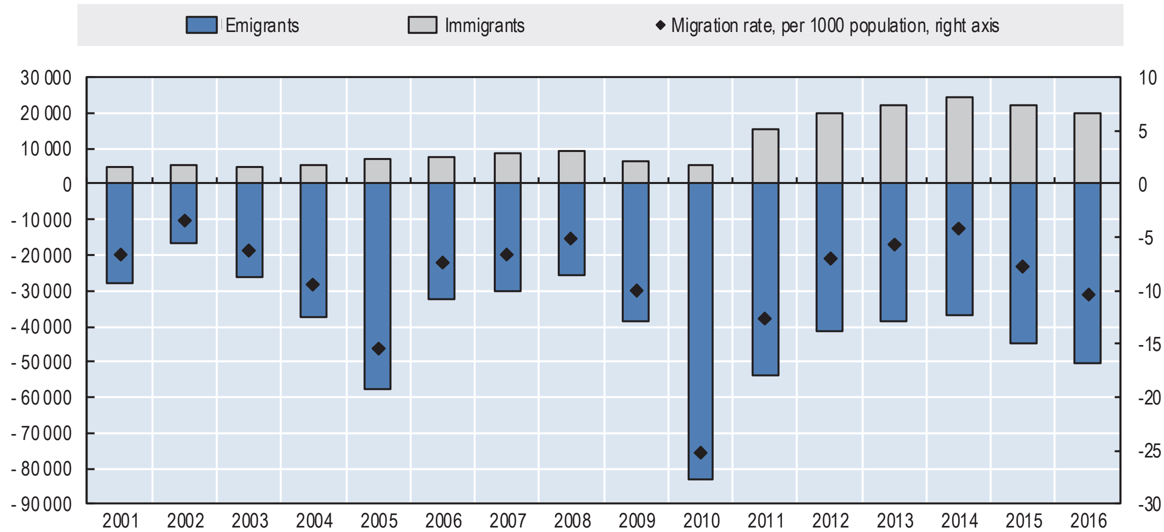


Note: Figures do not include migration to Greece and Ireland or to the United Kingdom prior to 2010.
Source: OECD International Migration Database.

National figures on emigration, based on the population register, indicate a similar trend, but with numbers which differ from the destination country statistics (Figure 2.2). Outflows have averaged 34 000 annually since 1990, which is above 1% of the resident population and is almost unparalleled in scale among OECD countries, comparable only to Latvia. The effect on population change has been dramatic, exacerbating the effect of smaller youth cohorts and amplifying the shrinking of the working age population.

Figure 2.2. Sustained negative net migration since 1990

Emigration and Immigration in Lithuania, 1990-2016



Note: Includes foreign nationals. 2010 figures include some emigrants who left in previous years but delayed reporting emigration.
Source: Statistics Lithuania.

2.1.2. More attractive working conditions abroad drive emigration

Since 2004, it has been easier for Lithuanians to migrate for employment in EU and EEA countries, and migration shifted to those destinations and rose sharply, as described in Chapter 1. The first destinations were those which did not impose restrictions on employment of Lithuanian nationals: the United Kingdom and Ireland, primarily, but also Sweden. With the lifting of restrictions in all EU countries by 2011, other destinations become important. Nonetheless, the United Kingdom remains the country with the largest concentration of recent emigrants.

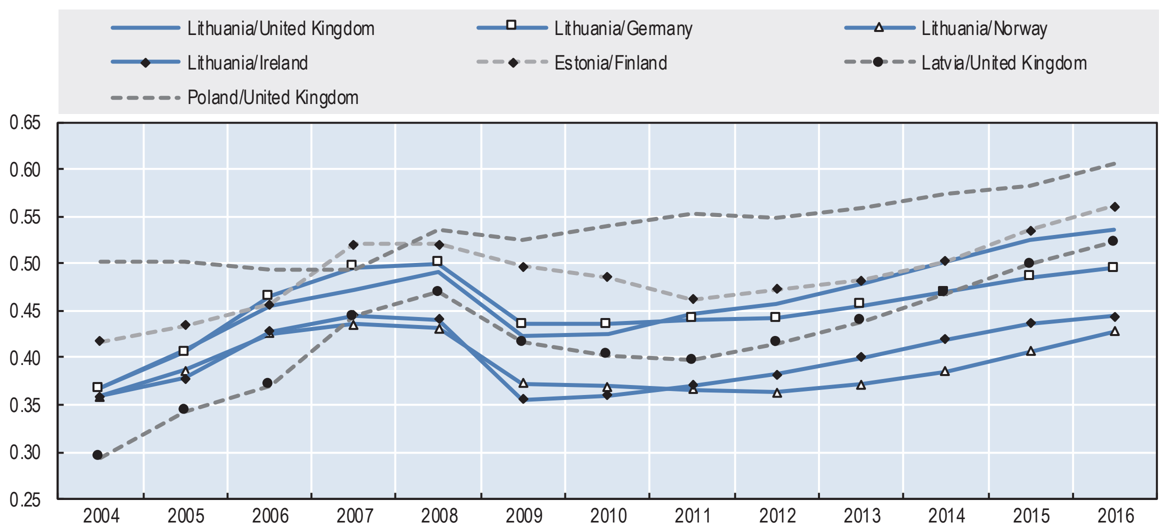
Several recent surveys of emigrants by Kumpikaitė-Valiūnienė and colleagues via internet provide insight into push and pull factors (Kumpikaitė-Valiūnienė and Žičkutė, 2017[2]; Kumpikaitė Valiūnienė, Lukauskas and Agoh, 2017[3]). These surveys were not weighted according to composition of emigrant population; about 80% of respondents were women, compared with about half of emigrants. In a survey of about 1 500 respondents, through October 2016, the main push factors were low wages (57.9%) along with personal life conditions (37.6%) and income inequality (35.9%) (Kumpikaitė-Valiūnienė and Žičkutė, 2017[2]). The main pull factors were higher wages (52.9%) and better opportunities (33.1%) but also relatives abroad (41.6%), possibility of self-development (36.2%). Wages were more important for less skilled workers, while opportunities were more important for students. The most recent survey (October 2016) had more than 4 100 responses, including recent emigrants, and bore out the findings of previous analyses. Emigrants post-crisis cited low salaries as a push factor (66%).[2]

In contrast to the surveys of emigrants, there are relatively few surveys of emigration intentions. Those which have been conducted point to continuing intentions. A survey of pharmacy students, in 2014, found about 13% intended to emigrate after graduating, and attributed primarily economic motivations for emigration (Urbonas et al., 2017[4]). In early 2013, a survey of dentists found that about 10% intended to emigrate (Janulyte et al., 2011[5]).

Wages in Lithuania are indeed so far below those of countries where they head to work, that Lithuanians have continued to migrate abroad in times of higher and lower unemployment. Wage convergence with the main destinations has been slow (Figure 2.3). Average gross annual wages (PPP) in the United Kingdom were almost twice as high in 2016 as in Lithuania.

Figure 2.3. The wage gaps with destination countries are closing very slowly

Ratio of average gross annual wages per full-time equivalent employee in the total economy, in 2016 constant prices and NCU, 2014 to 2016, PPP, selected country pairs



Source: OECD Earnings Database.

The Purchasing Power Parity gap in Figure 2.3 is valid for migrants who calculate their cost of living in the destination country. For many emigrants, however, work abroad is meant to send remittances home for consumption in Lithuania, and the difference in cost of living means that their foreign earnings go much further in Lithuania. When exchange rates are taken into account, wages in Norway, for example, were five times higher than in Lithuania in 2016. Wages in the United Kingdom were 3.7 times higher and in Germany 3.2 times higher. When initial migration is meant to be temporary and to accumulate savings for consumption in Lithuania, the gap is a strong incentive.

Gaps in average wages are not the only driver of migration, and full convergence is not necessary to stem large-scale migration. Nonetheless, the slow rate of convergence means that work abroad will continue to offer higher real wages and an even greater utility for workers remitting.

In addition to wages, there are also the opportunities available abroad and the quality of employment and benefits. Lithuania is a small country with labour markets which do not have the diversity of employment opportunities available in large cities. Workplaces may be less stimulating, as well: firms are less capital-intensive than in the main destination countries, so technology used in production tends to be less advanced. Employee relations are comparatively poor. Social benefits such as disability insurance, pension plans, and child benefits are more limited than in the main destination countries.

Continuous migration has led to the establishment of strong networks of Lithuanians abroad, lowering the information costs which would normally be a barrier to migration. Transportation costs between Lithuania and the main destination countries have fallen sharply with low-cost airlines allowing migrants to travel back and forth quickly.

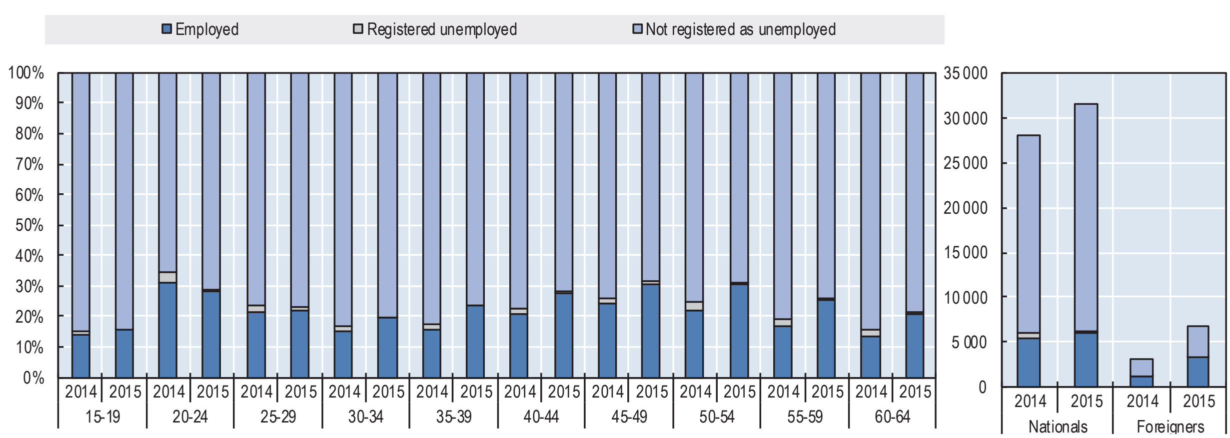
Due to the persistent drivers, the consolidated practice and the low costs, migration has become a normal option for Lithuanians. Indeed, even before the economic crisis, migration intentions were high in Lithuania, with surveys indicating that most Lithuanians had interest in working abroad for at least a temporary period and almost all young people contemplated temporary or permanent migration in their future (for coverage of emigration intentions in pre-crisis surveys, see (Krupickaitė and Poviliūnas, 2012[6]). Acceptance for diversity may also play a role in emigration choices: among emigrants surveyed, 26.6% were attracted by "higher tolerance" abroad (Kumpikaitė-Valiūnienė and Žičkutė, 2017[2]) even if few reported personal experience of discrimination in Lithuania. This may be an issue, for example, for the LGBT community.[3]

2.1.3. Most emigrants did not work before departure

Most emigrants are not leaving jobs to go abroad, but are leaving Lithuania without having worked in the previous 12 months (as measured by having paid social security contributions at some point in the previous year). The share of Lithuanians who leave from inactivity is even higher, more than 80%. This is not surprising for people who are still in schooling (although it indicates that few young people have even a part-time job) but is particularly surprising for prime-age workers. Further, only a tiny fraction (less than 1% in 2015) was registered as unemployed in the year prior to departure.

Figure 2.4. Most Lithuanians leaving the country had not worked prior to departure

Employment in the 12 months prior to emigration, by age and year of migration, share (Panel A) and nationality and year, absolute values (Panel B)



Source: Statistics Lithuania.

Emigration appears primarily to affect the inactive population rather than the employed or jobseekers. In this, Lithuania is very different from Latvia, where most (upwards of 80%) of the emigrants left from a situation of employment. Indeed, employers in Latvia often report losing employees to emigration, while this appears less of a concern for most Lithuanian employers. Still, in 2015 there were about 6 500 Lithuanians who had worked in year prior to departure, mostly in trade (22%) and manufacturing (18%).

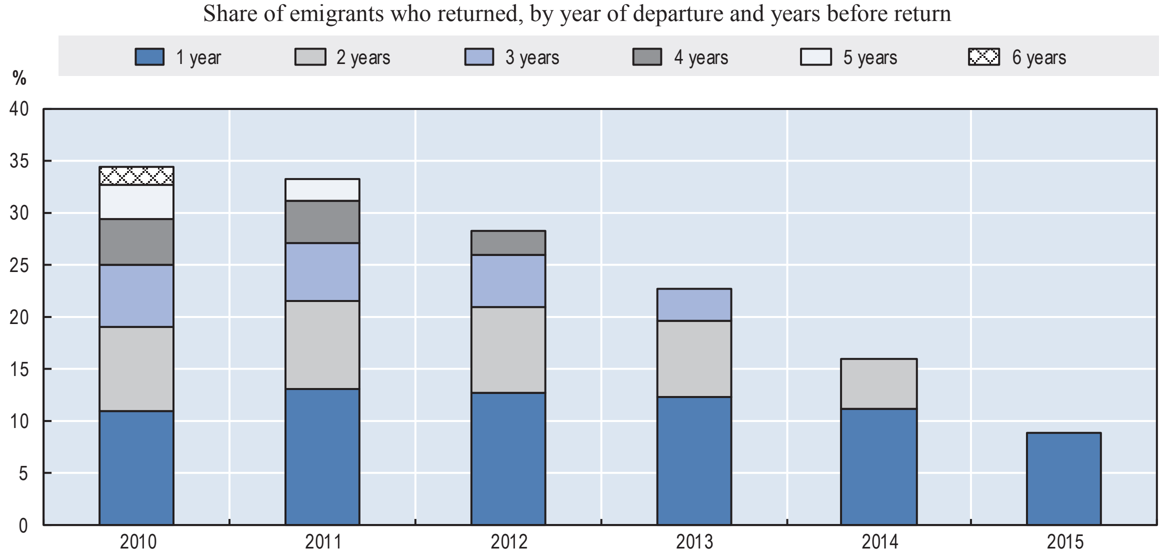
In part, the difference between Lithuanian and Latvia in terms of emigration of employed people could be due to an underestimate of actual employment prior to departure, for a number of reasons: a delay in reporting emigration, the prevalence of circular migration, or the frequency of informal employment. In principle, since the obligation to pay health insurance contributions was imposed in 2010, emigrants have a strong incentive to report departure as soon as they leave Lithuania. However, the cost, about EUR 20 per month, may not be enough to ensure reporting until emigrants are sure they will remain abroad. Further, Lithuanians may be working abroad for short periods during the period prior to departure, going back and forth with the destination country before finally establishing a fixed residence abroad and reporting emigration. Or it may reflect undeclared employment in Lithuania. Nonetheless, even with these caveats, it is remarkable that many emigrants disdain the labour market even prior to departure.

2.1.4. Returning migrants do not work

In a country with such high emigration, and where most emigrants are in countries where free movement make it safe to return home for a spell without losing residence rights, it is not surprising that some migrants return: about one-third of those who left in 2010 were back in Lithuania in 2016 (Figure 2.5). Indeed, cumulative returns mean that there are many Lithuanians who have lived and worked abroad now back in the country.

Figure 2.5. Few recent emigrants have returned

Share of emigrants who returned, by year of departure and years before return

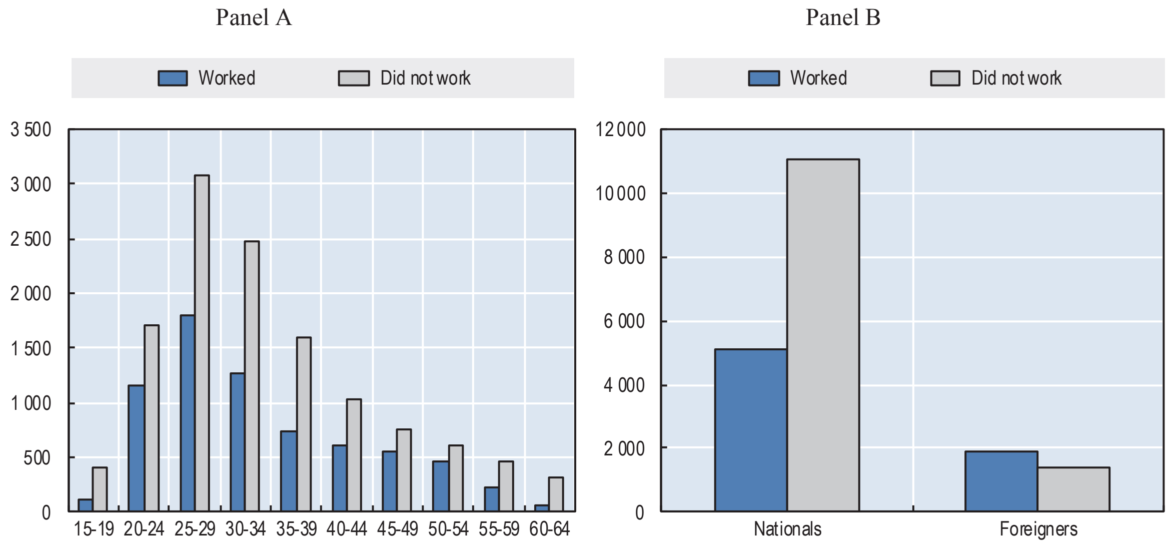


Note: 2010 figures include some who departed earlier but did not declare departure until 2010.
Source: Statistics Lithuania.

However, they generally do not return to employment (Figure 2.6). Panel A shows arrivals – Lithuanians and foreigners – by age group and whether they worked at all in the 12 months following return. The share of Lithuanian nationals who were employed in the year following return was just 32.9% in 2014 and 31.5% in 2015. Fewer than one-third of those between age 30 and 39, arriving in 2015, worked in the next 12 months. This figure includes foreigners, many of whom are labour migrants coming to work in Lithuania and with a higher employment rate than returnees, so the share of Lithuanian nationals who return and take up employment is even lower.

Figure 2.6. Returning migrants generally do not re-enter the labour market

Immigrants to Lithuania in 2015 by whether they worked at all in the 12 months following arrival or return, by age (Panel A) and nationality (Panel B)



Source: Statistics Lithuania.

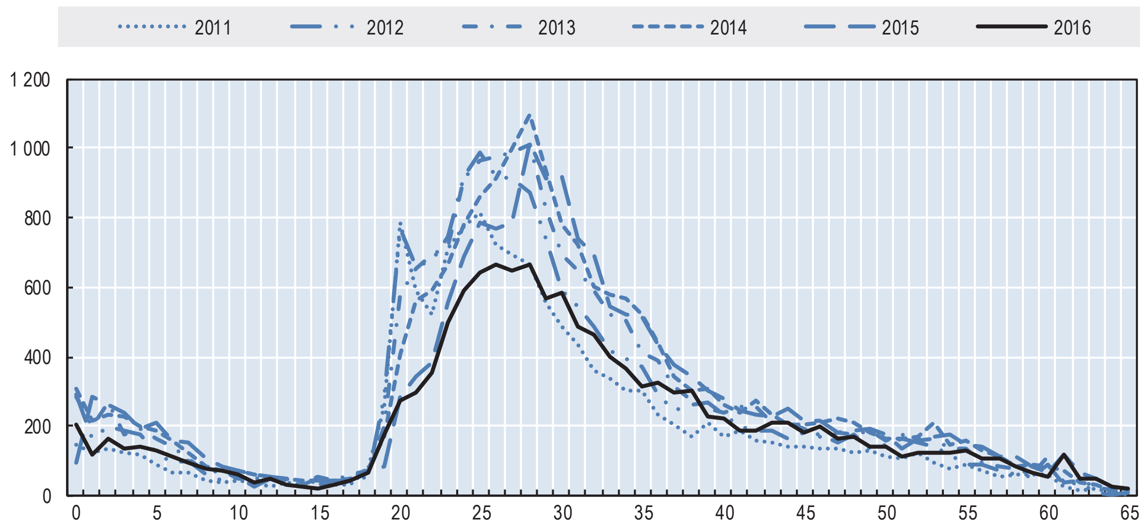
This likely reflects a reluctance to accept much lower absolute wages than they were accustomed to receive abroad. For many of these returning migrants, the most attractive step is to emigrate again for employment. A much larger share of women than men did not return to employment in Lithuania (71% vs. 55%), indicating that the Lithuanian labour market is even less attractive for returning women than men (although this may also be a statistical effect of the largely male foreign immigrants included in this analysis).

Return migrants in many countries have a wage premium for skills acquired abroad; for example, of 14% to Estonians returning to Finland (Kauhanen and Kangasniemi, 2013[7]). In Lithuania, it appears there is a penalty. According to results of a survey conducted in 2013 of more than 1 000 employers, 74% stated that they would offer the same average salary as to similar professionals without experience abroad, while 14% were prepared only to offer returnees a lower starting salary. Only 6% of employers were inclined to offer a wage premium for migration experience (Jonavičienė, 2014[8]). A survey of 800 returnees, the same year, also found that while about 80% felt they had improved their skills abroad, most felt that employers would not only not value these skills but that they were at a disadvantage. Indeed, more than half of employers saw skilled work abroad negatively, most internationally-oriented companies would choose [a new employee] with work experience and education acquired in Lithuania rather than abroad" (Žvalionytė, 2015[9]). Return migration is associated with failure by more than half of employers (and almost half of Lithuanians), stigmatising returns.

Returns, increasingly, are older. While they still represent most of the returning migrants, the return rate for young people appears to be declining. The curve of distribution of returnees, by age, is flattening each year (Figure 2.7). Fewer emigrants in their 20s and 30s are returning, while older emigrants appear to return in the same numbers.

Figure 2.7. Most returns are young people, but they are becoming less likely to return

Age distribution of returned migrants, by year of departure.



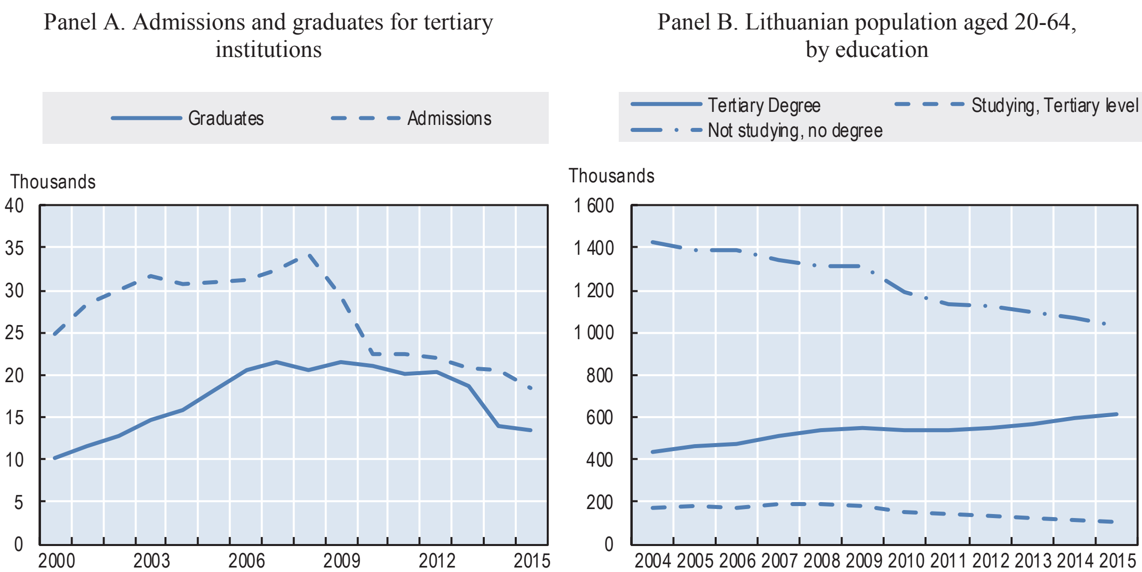
Source: Statistics Lithuania.

2.1.5. The impact of migration on the total educated population has not yet been felt

When the impact of emigration on the higher educated is examined, it appears that the main impact of emigration and smaller youth cohorts on the tertiary educated working age population will be felt in the next few years. Indeed, the rising education levels of young people in the 2000s led to an increase in the total number of tertiary-educated working-age persons living in Lithuania, to about 700 000 by 2015. At the same time, the working-age population with less than tertiary level education (and not studying) fell from about 1.4 million in 2004 to about 1 million in 2015. So the effect of population loss so far has been felt in the less educated parts of the labour force.

This is likely about to change. Admission has fallen sharply, as there are fewer young people and more of them go abroad to study. The number of admissions to higher education has fallen precipitously, from about 34 000 in 2008, the peak year for admission, to 18 000 in 2015. The number of graduates has fallen from 21 000 in 2007 to 13 000 in 2015.

Figure 2.8. The highly-educated population has been stable but is about to decline



Note: Tertiary institutions include vocational and professional education.
Source: OECD calculations based on the European Union Labour Force Survey (EU-LFS).

In addition, the retention of the tertiary-educated population has been poor, although only slightly worse than the rest of the working-age population. This is evident looking at the size of the educated cohorts. In the decade from 2005 to 2015, the highly-educated in the cohort born 1980-1984 fell by 27%. The cohort 1985-1989 fell by 24%. The decline among those without tertiary education was just 21%. A separate analysis of the number of graduates compared with the number of highly-educated in the labour force suggests that the departure figures for those with some tertiary education between 2007 and 2012 are as high as one-third. For example, in 2005, there were 40 000 graduates between the age of 21-25 year olds. A further 92 000 degrees were issued by Lithuanian institutions to people in this cohort between 2005 and 2014. However, there were fewer than 100 000 people in this cohort with tertiary degrees in 2015, a net loss of 25%.

Taken together, the picture which emerges is that the positive trend towards a growing educated workforce is about to reverse. Already there are complaints among foreign investors that skilled workforce is hard to identify, and there are many skilled vacancies; this will be difficult to address as the stock and replenishment of educated workers starts to decline.

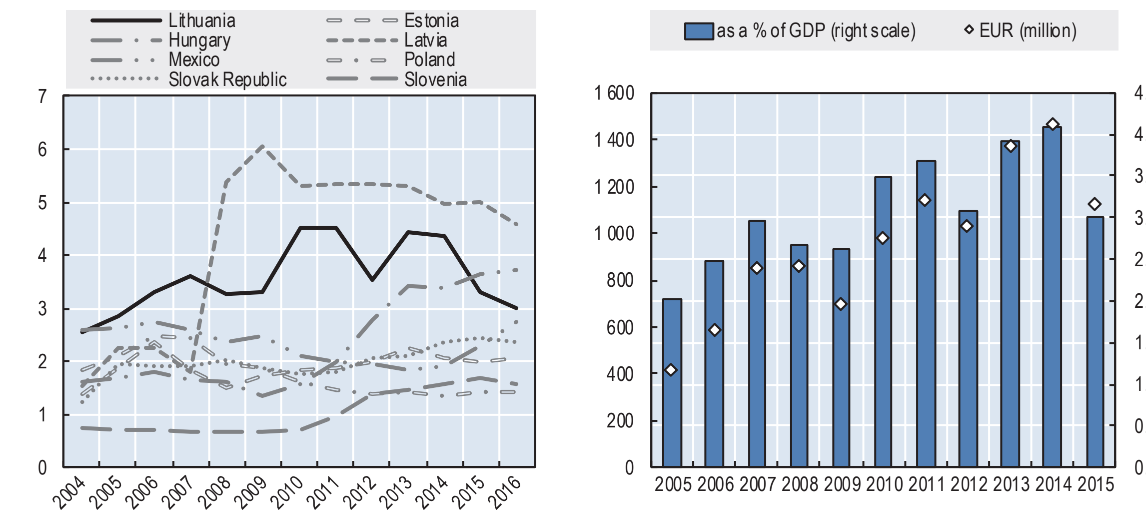
2.1.6. Migration has an impact on poverty through remittances and on demand for social services

The large number of Lithuanians working abroad has led to a significant amount of remittances. Lithuania has a higher share of remittances relative to GDP than any OECD country except Latvia (Ratha, 2016[10]). Remittances have begun to decline, however: 2015 saw remittances fall by more than EUR 300 million (and a full 1% as a share of GDP), and 2016 data indicate a further decline. The decline may be due to family reunification in destination countries, which reduces the incentive to remit. The important contribution of remittances to poverty reduction and to boost consumption can be expected to fall. According to the 2016 Bank of Lithuania survey of households, remittances from abroad comprised 3.6% of income – but 4.6% in rural areas and outside the large cities. A fall in remittances will have a larger impact on rural poverty.

Figure 2.9. Remittances have been substantial but have begun to decline

Panel A. Remittances as a share of GDP, selected OECD countries and Lithuania, 2004-2016

Panel B. Personal transfers from abroad, Lithuania, in EUR (million) and % of GDP



Source: Panel A: World Bank, Personal remittances, received (% of GDP). Panel B: Statistics Lithuania

High rates of emigration can change family structure and lead to care drain, as the middle generation of working adults departs, leaving children and the elderly without a figure of support. From 2007-2011, the number of children left in foster care by migrant parents rose from about 900 in 2007 to over 2 000 annually in 2009-2011 (Sipavičienė and Stankūnienė, 2013[11]). Parents have begun to bring their children with them abroad – especially since the child benefit in many of the emigration countries is favourable. For the elderly, the situation appears more problematic. For example, of the elderly receiving home assistance in Vilnius, 12% have their entire family abroad. Internal and international migration has also isolated older people in villages. In the less developed rural areas of the northeast, 40% of women age 65 and older live alone. While these older people "left behind" may – or may not – benefit from remittances to purchase additional care services, they cannot rely on a family network in case of need.[4] Social service providers may have to contact family abroad to discuss decisions related to these cases.

Emigration also affects the provision of social services through the departure of staff to work abroad, since public sector salaries have seen the least growth in the post-crisis period and similar work in many destination countries is more attractive.

2.2. Policy for Lithuanians abroad needs to be re-focused

2.2.1. The characteristics of the Lithuanian population abroad have changed

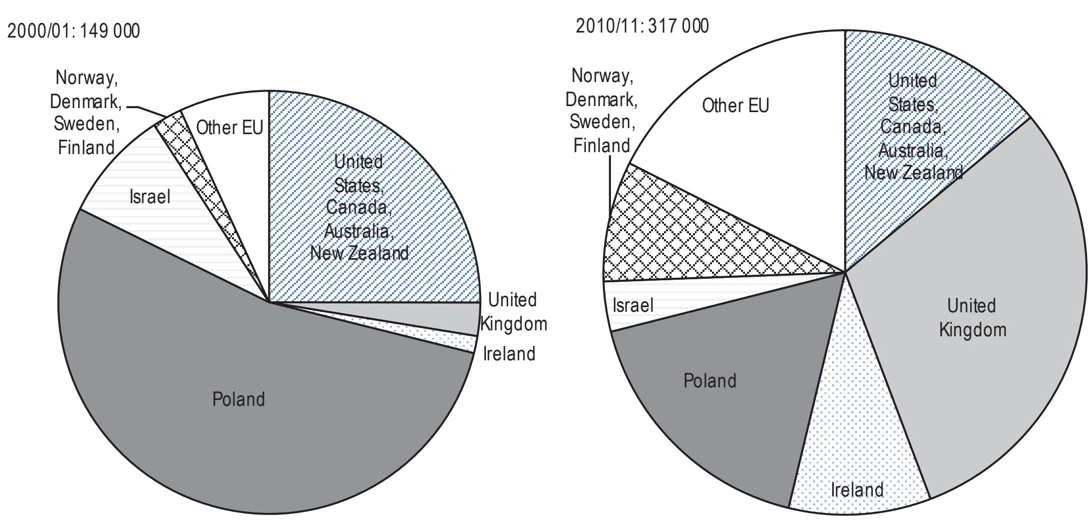
What was once the Lithuanian "diaspora" has changed fundamentally in the past two decades, from an older population with strong political and cultural attachment to a country many had not seen in years, to a recent mobile population which left largely for economic opportunities rather than political or cultural reasons.

A diaspora can include people born in the country and living abroad, people with the nationality of the country, or those who share origins and identity with the country. The last category is difficult to measure. The unofficial estimate of the number of "people of Lithuanian descent" outside of Lithuania is about 1.3 million; this does not necessarily coincide with nationality or place of birth, although the government estimates that about 300 000 hold Lithuanian nationality. Nationality and birth can be used to examine the changes in the Lithuanian-born and Lithuanian citizen population abroad, through different sources.

The size of the Lithuanian migrant stock in OECD countries was 149 000 in 2000/01, 5.1% of the resident population, and reached above 317 000 in 2010/11 (Figure 2.10), 10.8% of the population. This is in addition to Lithuanian-born elsewhere, especially Russia (see Box 2.1). Ninety percent of Lithuanian-born in the OECD resided in Europe in 2010; the main European destination countries of Lithuanians were the United Kingdom, Germany, Poland, and Ireland. Almost one-third of Lithuanians abroad lived in the United Kingdom, and a sixth in Poland, most of whom were however long-standing residents. Ireland and Germany are other important recent European destinations, each being home to around 30 000 Lithuanians. The impact of EU accession was to increase the size of Lithuanian migrant stock in almost all European OECD countries over the 2000s. To illustrate, the number of Lithuanian migrants in the United Kingdom rose from 4 000 in 2000/01 to 96 000 in 2010/11. Similar increases are observed for Germany and Ireland, where figures rose from less than 1 000 and 2 000, respectively, to 30 000 in ten years. Other European countries where the number of Lithuanians increased significantly are Norway, Italy, Sweden, Denmark, and Spain.

Figure 2.10. The diaspora grew and shifted to Europe in the 2000s

Lithuanian migrant stock in OECD countries, 2000/01 and 2010/11, by country



Note: DIOC does not cover Latvia or Korea.
Source: OECD Database on Immigrants in OECD Countries (DIOC), http://www.oecd.org/els/mig/dioc.htm.

The Lithuanian migrant population in non-European English-speaking countries grew slightly over the 2000s, as the population in the United States rose 40%, but these countries came to represent a much smaller share of the emigrant population.

In 2010/11, 59% of the Lithuanian migrant stock was female; shares were even larger (above 80%) in Italy, the Netherlands, Switzerland, and Austria, reflecting the prevalence of domestic work among Lithuanian migrants to these destinations. The population also grew much younger over the decade. Indeed, in 2000/01 half of Lithuanian-born were over age 65, and only 6% aged 15-24. A decade later, 60% were age 25-64. This shift from the older to younger generation of migrants has important consequences in terms of the interest and orientation of the migrant population. The oldest Lithuanian-born populations are in Poland, Australia and Israel.

Lithuanian emigrants are higher-educated than the rest of the Lithuanian population. The 2000s saw the share of Lithuanian migrants with tertiary-level education increase from 25% to 37%, against a share of tertiary-educated in Lithuania itself of 26%. Some countries attracted more higher-educated migrants: half of the Lithuanians in Belgium, the United States, Sweden, Austria, and Denmark had at least university degree. Recent migrants in 2010/11 had even higher education: 41% held tertiary educational attainment, and the share of low educated fell five points relative to a decade earlier.

Labour market participation and employment rates of working-age (15-64) Lithuanian migrants in the OECD area increased between 2000/01 and 2010/11, mostly due to the rise of young people among the migrant stock, as well as to increasing employment rates for the low-educated Lithuanian emigrants. In 2010/11 there was an activity rate of over 80% and employment rate of 71%, against respectively 56% and 49% in 2000/01.[5] The highest employment rates occurred for migrants in Israel, the United Kingdom, Canada, and the United States. The highest unemployment rates in 2010/11, however, were those of Lithuanian migrants in Spain, Ireland, and France; the former countries were hard hit by the crisis at that time.

Box 2.1. Lithuanian-born people in the Russian Federation

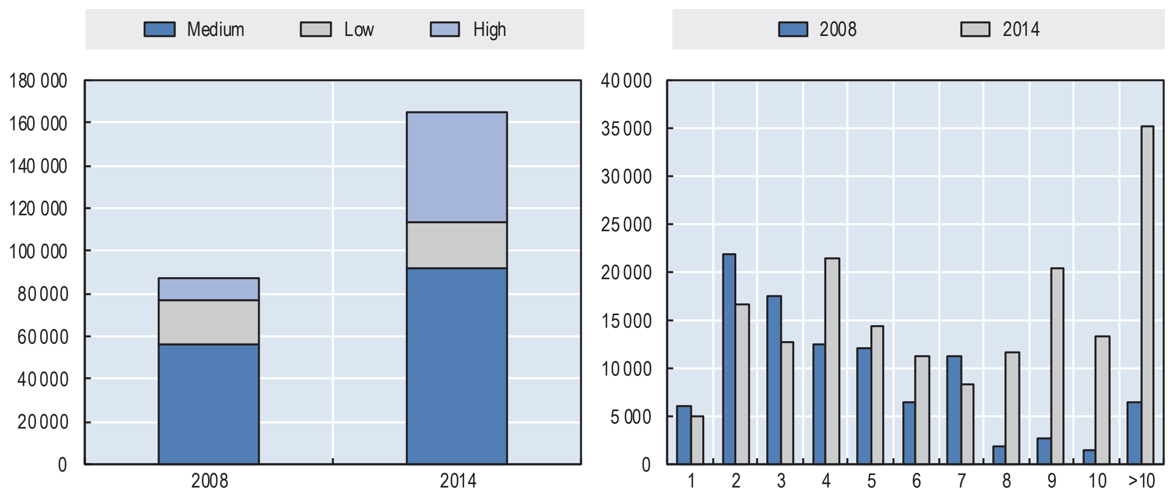
While most of the migrants from Lithuania are in OECD countries, there is a substantial number in the Russian Federation. In 2010/11 the number of Lithuanian-born migrants in the Russian Federation was about 68 000. The share of young Lithuanian-born - those between the ages of 15 and 24 - was about 10%, compared with almost 20% in Europe. Three quarters of migrants in Russia were between the ages of 25 and 64. Lithuanian-born migrants in Russia are more concentrated at working age compared to those in OECD countries. One-third were high-educated and their employment rate was above 60% overall, lower than in OECD countries. Migration to Russia is an older phenomenon for Lithuanian-born, most of whom migrated to Russia in the 1990s or earlier. Only 8% of those in Russia in 2010/11 had moved there after 2005, in contrast to more than half of Lithuanians in European countries. Most are not Lithuanian nationals; in the 2002 Census, there were only 4 500 Lithuanian nationals.

Focusing on the more recent shift in the Lithuanian migrant population it is possible to compare the results of the Eurostat Ad Hoc Modules on migration in the 2008 and 2014 labour force surveys. This provides a fuller picture of the changing characteristics of

Lithuanian migrants in participating European countries before and after the economic crisis. To some extent this confirms the information from the censuses in 2000/01 and 2010/11, indicating that the trends continued. The Lithuanian population in the countries covered roughly doubled over the six-year period. The high-educated population rose more significantly, by more than 500% (Figure 2.11, Panel A). In terms of year of arrival, in 2008 the largest group had arrived in 2004-2005, following accession to the EU (Figure 2.11, Panel B). In 2014, one-third of Lithuanians had already been settled for 10 or more years, although there was also evidence that arrivals in 2010 – during the crisis – were higher than in other years.

Figure 2.11. Characteristics of the diaspora have shifted significantly in the past decade

Lithuanians in selected EU countries, 2008 and 2014. Panel A. Education level. Panel B. Duration of stay (years)



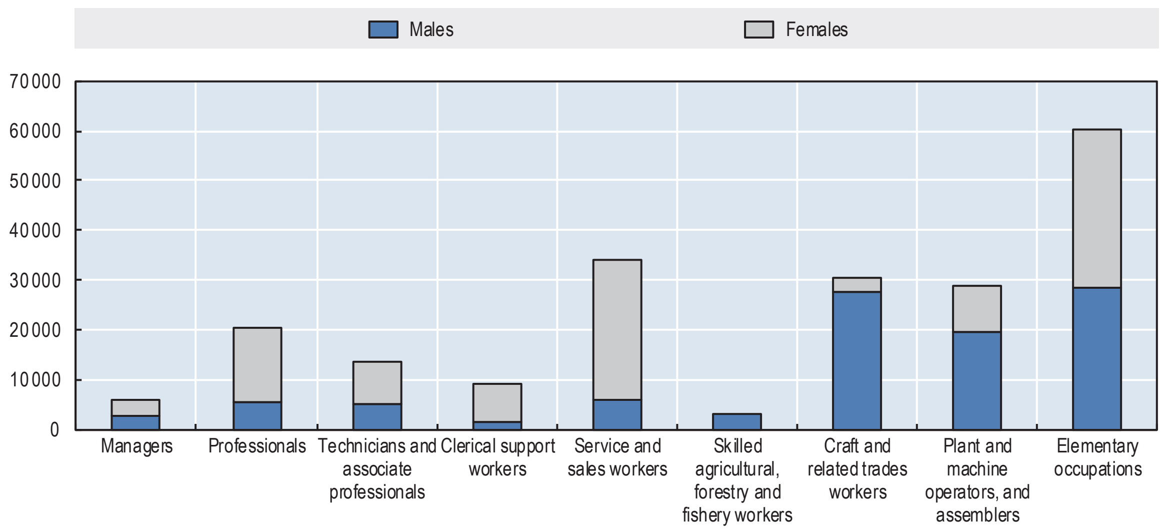
Note: AHM does not include information for Germany, Norway, Ireland and other European countries with large Lithuanian populations. Only countries included in both rounds are indicated in Panel A. Excludes notably Netherlands and Denmark. The low number of recent arrivals (1 year or less) reflects the sampling methodology, which tends not to include recent arrivals, rather than indicate few arrivals in 2007 or 2013, respectively.
Source: Eurostat, European Union Labour Force Survey (EU-LFS) Ad Hoc Modules 2008 and 2014.

A more recent portrait of the Lithuanian-born in European countries comes from the 2016 European Union Labour Force Survey, which is also consistent with the picture provided by census data. The number of Lithuanian-born age 15-64 in European countries, excluding Germany, was about 266 000. 55% were women, and 41% were between age 25 and 34. 32% were high-educated. Employment rates were very high: 73% for women, and above 85% for men. The employment rate of low-educated Lithuanians was 71% and that of high-educated about 80%. The rate of over-qualification – high-educated Lithuanians working in jobs requiring lower levels of education – was 57.4%. Over-qualification rates for Lithuanians were much higher than for native-born in the countries where they work. In the United Kingdom, the over-qualification rate among Lithuanians was 62%, compared with 24.2% for UK-born highly-educated workers. In Norway, it was 70.7% compared with 12.1% for natives, and in Ireland 71.9% compared with 29.1% for Irish. More broadly, the number of Lithuanians abroad with at least secondary education working in elementary occupations was 26%, compared with 8% in Lithuania itself.

Almost 30% are employed in elementary occupations and 10% in professional jobs; women are more likely to be in professional jobs (Figure 2.12). Elementary occupations in many destination countries see men employed primarily in construction and women in domestic services. Food processing and agricultural work also attract Lithuanians. Many of these jobs are physically challenging and difficult to maintain, with a risk of disability and early exit to inactivity.

Figure 2.12. Lithuanians in Europe work in a wide variety of occupations

Occupational category of Lithuanian-born workers in European countries, 2016, by sex



Note: Excludes Germany and Portugal.
Source: 2016 European Union Labour Force Survey (EU-LFS).

2.2.2. Migration policy towards Lithuanians abroad is evolving

Lithuania enjoyed an active ethnic Lithuanian diaspora community in 1991, largely fostered by exiles with strong political and cultural attachment, and inherited a diaspora institution, the Lithuanian World Community (as well as the World Lithuanian Youth Association). These organisations were the basis of diaspora outreach, although the emigrants of the past 20 years are largely economic migrants and have different priorities from the previous diaspora community. Further, today's emigrants are less likely to remain in touch with Lithuania through organised local communities and more likely to have direct contacts using social media and technology as well as visits to the home country. They are also less willing to contribute to diaspora organisations financially.

While pre-existing institutions abroad were in place and in contact with the government, a framework policy for the new emigration phenomenon was not formulated in the 2000s. Policy documents from the period were still based on the assumption, widespread in the country, that negative net migration would soon come to an end with economic growth. By the time the first major framework initiative was launched, in 2011, the emigration rate, as noted above, had reached 10%.

In 2011, the Global Lithuania Programme (GLP) was approved, a framework which involves a number of ministries and external partners. The Department of Lithuanians Living Abroad at the Ministry of Foreign Affairs (MFA) leads and coordinates the GLP. The GLP is meant to co-ordinate and structure activities by different actors; the state budget does not fund the GLP specifically and its actions are funded under the budgets of the participating ministries.

The GLP was set for the period 2011-2019, with five priority areas:

1. Maintaining the national identity among Lithuanians living abroad;
2. Promotion of involvement of the Lithuanians living abroad in the public life of Lithuania;
3. Strengthening of state-diaspora ties; encouraging emigrants to return;
4. Creation of common connecting communication space;
5. Promotion of awareness and attractiveness of Lithuania abroad.

Within these priority areas, resources can be shifted or reprioritised according to needs, and actors can be involved as necessary. An Interinstitutional action plan is established for every year with actions for each institution, funding within each budget to be devoted, and criteria for evaluation. The most recent interinstitutional action plan identified 14 institutions conducting the GLP, including seven ministries and seven governmental agencies. The interinstitutional action plan is revised annually after discussion with every partner or contributor to the Programme. Many of the actions under the GLP are conducted by non-government organisations funded fully or partially by Ministries.

To assist in structuring the priorities and actions of the GLP, the Ministry of Foreign Affairs has, since 2012, conducted an annual survey of members of the Lithuanian diaspora. The survey provides detail on the cultural and educational needs of this population and their use and opinion of services. In 2016, it reached more than 1 400 Lithuanians abroad (Vilmorus, 2017[12]). However, the sample, conducted using a "snowball" method relying on people active in diaspora institutions, was not representative of the population of Lithuanians abroad as portrayed in the preceding section. Notably, survey respondents in 2016 were 80% women and 70% highly educated, and respondents tended to be older than the reference population of emigrants. For this survey to be more useful in the future, more attempts should be made to reach underrepresented categories, and weighting should be applied based on what is known about the emigrant population (for an example see (Hazans, 2016[13])).

In 2017, actions under the GLP were estimated at about EUR 3.6 million. The single largest expenditure attributed to the GLP – EUR 1.7 million by the Ministry of Education – was to support formal and informal education and Lithuanian language abroad. About EUR 1 million was spent by the National Radio and Television to programme for, and broadcast to, Lithuanians abroad. Cultural expenditures and those on sports also represented a large share of the budget. Under the GLP and outside of it, the Lithuanian World Community is focused on identity, co-ordinating local organisations abroad and holding a congress every three years. Country activists focus largely on education and culture, sports and games, and receive some support from Lithuania. Language education abroad, however, is usually organised locally through activists under the LWC, or independent, and most of the costs must be borne by the emigrants themselves.

Unrelated to the GLP is the question of pension aggregation. With spells of employment abroad very frequent, there is a growing awareness of the need to aggregate pension contribution periods with those paid abroad, and there are about 2 000 requests annually for pension aggregation, indicating that Lithuanians are aware of the issue. Failure to aggregate increases the risk of poverty, especially for those who worked undeclared abroad who cannot claim contributions. The benefits of pension aggregation can be used as a powerful tool in combating undeclared employment in a context of high circular labour migration. Further, the possibility of aggregating Lithuanian contribution periods with future employment abroad can be an incentive to declare employment in Lithuania, especially for young people who may no point in accumulating years of declared contribution in Lithuania if they intend to move abroad. Information campaigns emphasising the possibility of aggregating pension contributions in destination countries would potentially be helpful.

2.2.3. New initiatives focus on the highly qualified and exceptional talent

Diaspora policy cannot by itself lead to return migration; without quality jobs, it will be difficult for any other policy to bring large numbers of Lithuanians back and reverse population loss. Among OECD countries, only Israel has a diaspora policy with an explicit objective of contributing to demographic development of the country (OECD, 2010[14]). The investments in Lithuania in language and culture, and more broadly in diaspora ties, can be seen however as trying to create a reserve of potential return migrants for a future date when wages rise and job quality improves. While most of the efforts focus on building or maintaining cultural and emotional ties with emigrants, there are several areas of activity meant in the meantime to bring back certain Lithuanians, considered to have individual added value, from abroad and involve them in the economic life of the country.

Some of these initiatives are standard for countries with large diasporas, such as business networks (OECD, 2013[15]). For example, a Global Lithuanian Economic Forum (PLEF) organised annually until 2015 by the International Chamber of Commerce of Lithuania, relied increasingly on Lithuanians outside the country as economic actors. Since 2016, the Ministry of Foreign Affairs has organized annual Global Lithuania Forum, the topic of which changes every year, but which continues to serve as a place where networks of emigrants make contact with businesses and government in Lithuania. In addition, there are also occasional events abroad where professionals meet, in the main destination countries of Lithuanian emigrants.

The Global Lithuanian Leaders (GLL) organisation is a non-profit platform to identify and involve high-achieving Lithuanians inside and outside the country, organising an annual meeting (the Global Lithuania Awards). This event, organised with the Ministry of Foreign Affairs, is a conference and awards ceremony with high level government representation and media coverage within Lithuania. The event builds relations and goodwill with international professionals with potential global opportunities for the Lithuanian economy.

The GLL also coordinates mentorship and internship initiatives, including “Talents for Lithuania” and “LT Big Brother”:

“Talents for Lithuania” is an internship programme for Lithuanian students abroad to come and receive a living stipend – a rarity in Lithuania – for 3-6 month internships in private companies. The objective of the programme is also to create a group of programme “alumni” as a future network on which to draw for talent, even if the participants go back abroad after their internship.

“LT Big Brother” links Lithuanian higher-education students with qualifications and interest to Lithuanians abroad as mentors in the field of interest. Participants receive mentoring for 8 months. The programme is on a volunteer basis and is meant to support young people and reinforce professional links, even if neither the mentor nor the mentoree need be in Lithuania at the time of participation. As with the other GLL programmes, an emphasis is on building social capital and meeting with prestigious companies and figures in Lithuania to develop good will.

Two agencies of the Ministry of Economy, “Invest Lithuania” and “Enterprise Lithuania”, have launched a number of initiatives to reach out to actors abroad. “Create Lithuania” brings Lithuanians with foreign professional experience and qualifications back to rotate through the public administration. They are salaried by Invest Lithuania at a scale comparable to civil service, but offered extensive networking opportunities and events meant to build social capital in Lithuania. There is strong demand for the 20 places available, with 200 applicants annually. More than 100 participants have already completed the programme. The objective is not necessarily to retain participants but to transfer competences and build long-term engagement. About 80% stay in Lithuania after completion of the programme.

While the programmes which focus on selecting top talent and providing special pathways to return to Lithuania address some of the barriers to return, there is a risk. Initiatives which take emigrants and provide them with salary top-offs or privileges not available to local workers – contact with high-level officials, social networks, and relief from more mundane job responsibilities – may increase the incentive to emigrate among those who remain. Perceived unequal treatment within the workplace, for example, can cause resentment among colleagues who never emigrated, and make the transition to regular employment more difficult.

2.2.4. General information campaigns for emigrants are in place

The Ministry of Foreign Affairs focuses its GLP actions on two main objectives: supporting organized groups abroad that promote a sense of community and Lithuanian identity; and on marshalling individuals with expertise, contacts and personal commitment to promoting progress and development in Lithuania. While the latter initiatives focus on the most highly qualified from graduating students to successful business people, most of Lithuania’s emigrants do not fit into these categories – most are either less educated or working in jobs for which they are overqualified. This group is not targeted to the same extent as the “Global Leaders” targeted by the NGO “Global Lithuanian Leaders” and other initiatives, but should not be overlooked. There are some broader-scope measures in place to reach the general population.

Under the GLP, the Ministry of Social Security and Labour has since 2012 published an on-line *Guide to Life and Work in Lithuania* which provides information on work, business creation, taxes, social guarantees, health protection, subsidised housing, education and other issues for emigrants returning to Lithuania or contemplating return.

To serve returning migrants, the Migration Information Centre of the International Organisation for Migration opened in 2015 with a project funded by the Ministry of Interior “I Choose Lithuania”. The goal of the project is to create a one-stop shop for returnees and potential returnees, providing orientation on job search and fiscal and employment matters; social welfare; healthcare; education (especially language for children who grew up abroad); and immigration procedures (for third-country nationals, either in the family of the returnee or separately). In its first two years, the centre handled more than 400 queries. Since effective returns in Lithuania were in the tens of thousands, it may be that the information is not necessary, or returning migrants were not interested in employment and schooling – as indeed the evidence shows high inactivity and relatively few children returning. Alternatively, the service may still be largely unknown among emigrants.

While the initiatives for global leaders target those whose emigration has been successful, the Ministry of Social Security and Labour also has begun to provide psychological support to emigrants who have returned or are considering return, through a free anonymous online staffed by professional psychologists. This service is seen as a means to remaining in contact with emigrants and supporting their mental health in countries where using local mental health services may be difficult due to language obstacles. The service is used by 150 people annually, at a cost per patient of about EUR 60. In light of the condition of many Lithuanian emigrants, this kind of availability of individual support could be scaled up, as an incentive to return and to support readjustment.

Lithuanian nationals abroad have the right to vote in Parliamentary and Presidential elections. Participation has been low, and could be promoted as a means not only to strengthen the connection of emigrants but also to have contact details for reaching out to registered emigrants (OECD, 2013[15]). Dual nationality is generally not allowed, so unless changes to citizenship are made there is a risk that electoral participation will weaken further as a means of participation in the future.[6]

Beyond electoral participation, dual nationality is likely to become more important to facilitate connection and the possibility of return and involvement in Lithuania in the future. In light of the exit of the United Kingdom from the EU and the uncertain future faced by the almost 200 000 Lithuanians living there, forcing a choice between acquiring British nationality and leaving the country seems unwise, and an argument for expanding eligibility for dual nationality.

At present, the GLP does not cover initiatives regarding remittances and investment by emigrants, nor are there any initiatives by organisations under the GLP. While the concept of "diaspora bonds" is not always appropriate – especially when interest rates are low and access to credit is not an issue – the success of the GLP in fostering networks of Lithuanians with social capital could be extended to financial capital as well. In this case, rather than bonds, the target could be limited to innovation funds using diaspora capital, focusing on start-ups and businesses created by or employing returning migrants. If the investment amounts are small, such a vehicle could also allow lower-earning Lithuanian emigrants to participate in initiatives which express connection with the origin country while not having to return personally.

2.2.5. Services to assist returning migrants need to be improved

If job quality in Lithuania improves in the medium term, the idea of attracting emigrants back becomes more feasible, even if high return rates should not be expected.

However, with a longer-standing emigrant population, new challenges arise. More than half of the emigrants who leave Lithuania are single, and many have formed families with non-Lithuanians or will do so in upcoming years. While no figures are available on the share who form families with foreign partners abroad, the comparable figure for Latvia in 2013 was that about one-third of all emigrants families had a foreign partner. Aside from the question of dual nationality for this group, the question of support for children of emigrants who have been educated abroad in another language will be key to ensuring the ability to attract back families. So will support for non-Lithuanian spouses, for whom integration services offered to third-country nationals and other immigrants are important.

Although the Ministry of Education does not have a specific programme to support general education schools (primary, lower and upper secondary) school students arriving from abroad without language skills, the general curriculum plans include a section indicating integration support measures for students who do not have mastery of the Lithuanian language.[7] Intensive Lithuanian language classes are offered for up to one year (with some exceptions), and general support for students enrolling from abroad is available for up to four years. There is a 30% funding bonus to schools for enrolling returning students and for newly arrived immigrants; given the low student funding, this does not allow for large initiatives. In addition, the Vilnius Lithuanian House is established for children of Lithuanian origin coming to Lithuania.

At the university level, returning students of Lithuanian nationality are given additional points in the ranking of applications for university places, and EUR 1 million are available annually to fund scholarships for students who have resided abroad for more than five years.

To the extent that employers use internet platforms to fill positions, access to job opportunities in Lithuania are accessible from abroad both by contacting the LLE and through using websites such as Work In Lithuania. Nonetheless, employment rates among return migrants are low; this in turn affects the perception of return, as relatives and friends abroad are less likely to see return to employment as an option.

Returning Lithuanian nationals, as well as foreigners who have the right of permanent or temporary residence in Lithuania, have the right to vocational training and to acquire qualifications. However, they are not considered a target group by the LLE, as they are not identified as such by the ESF, and cannot be beneficiaries of ESF funding to support their retraining and reintegration in the labour force unless they meet other criteria.

2.3. The immigration framework needs to serve the skill needs better

The demographic situation and the sustained level of emigration mean that immigration cannot reverse population loss in the short to medium term. Net migration would have not only to reverse and become positive but run a surplus in the tens of thousands for many years, which is far from realistic. To maintain the labour force would require admitting and retaining 30 000 working-age migrants annually – 1.5% of the working-age population – above the level seen in any OECD country. Nonetheless, increasing labour migration can attenuate the impact of a shrinking labour force, especially if immigrants work in occupations where shortages are more acute.

The stock of foreigners in Lithuania is about 40 000, or 1.5% of the population. This compares to an average of about 8.5% in OECD countries, and 10.2% in European OECD countries. About half of the foreigners have permanent residence, but there is not a large population of non-citizens as is the case in Latvia and Estonia (see Box 2.2). Most (about 65%) of the foreign population are nationals of Russia, Ukraine, and Belarus.

Box 2.2. The non-Lithuanian population is not a resident minority

Unlike in other Baltic countries, there is not a large population of minority ethnic residents without Lithuanian nationality. There are no "non-citizens" as in Latvia and Estonia (OECD, 2016[16]), although there is a stateless population of less than 4 000 residents, shrinking annually; 100 naturalised in 2015 alone. The number of foreign permanent residents has been declining from 35 000 in 2005 to 19 000 in 2016, due to naturalisation, aging and emigration. Minorities are mainly linguistic, and hold Lithuanian nationality. For historical reasons, the Russian language has less of a history in Lithuania than in Latvia and Estonia. Pre-1920, and even until 1940, the non-Lithuanian-speaking population in most urban centres, while generally the majority, was largely Yiddish- and Polish- speaking rather than Russian-speaking. Under Soviet rule, fewer Russian-speakers were transferred to Lithuania than to the other Baltic countries. There is a Polish population of about 5.6% of the total population, largely concentrated around the capital, and about 4.7% of the population is registered as Russian. There are fewer than 3 000 Roma people registered in Lithuania.

2.3.1. A historically stringent labour migration policy has eased somewhat

The role of migration in Lithuanian labour policy is limited and restrictive, although less today than in 2007 when the Economic Migration Regulation Strategy was adopted, where the emphasis was on ensuring that foreign workers should be admitted only for jobs where labour shortages were severe and on a conditional temporary basis.

Starting in 2004, Lithuania's labour migration legislation has relied on the principle that foreign workers should be subject to strict labour market tests to ensure that economic migration only covers areas of labour force shortage. Permits were to be issued for a maximum of two years, with mandatory return in the home country at the end of the period. Provisions were added to extend permit duration in case of persistent demand. In 2008, Lithuanian Immigration Policy Guidelines further clarified the scope of economic migration policy, underlining its role to attenuate the shortage of labour in a period of elevated emigration but reserving the right to reduce foreign worker presence so as not to negatively affect the chance to attract emigrants back.

A shortage occupation list was introduced in 2004 to facilitate recruitment in occupations where the Lithuanian Labour Exchange (LLE), every six months, identified chronic shortages. The list is reactive: from 2008 to 2011, the number of occupations on the list fell from 60 to four. The list for the first half of 2016 remained restrictive, with four occupations, two of them being in the industrial sector (welders and ship hull assemblers) and two occupations in the services sector (chefs and drivers of international freight vehicles). From 1 January 2017 employment in an occupation included in the shortage occupations list will no longer need to obtain a work permit, further accelerating and simplifying the procedure.

Lithuania is subject to the European legislation on migration and obligated to transpose Directives; this has shaped its legislation in some areas such as family reunification, asylum and refugees, long-term residence, students and trainees, intracompany transfers and highly skilled workers. Transposition was often minimal, with Lithuania retaining the more restrictive interpretation. For example, in transposing the students directive, Lithuania granted employment only from the second year of studies, and subject to a work permit requirement (although for up to 20 hours a week, more than the Directive minimum of 10). No special high-skilled permit was in place prior to transposition of the EU Blue Card for highly qualified third-country workers; the initial transposition, however, set an income requirement which was in real terms by far the most stringent in the EU (OECD/EU, 2016[17]). The salary required under the EU Blue Card, in practice, was largely unattainable: less than 4% of the tertiary-educated Lithuanian population earned above this threshold.

In 2014, new Migration Policy Guidelines were introduced, expanding the scope of economic migration to attract workers to promote social and economic development, attract innovation and capital, and respond to demand for foreign workforce. The possibility of developing new schemes was explored, although the principle of priority for local labour was maintained (including the potential to bring Lithuanians back from abroad).

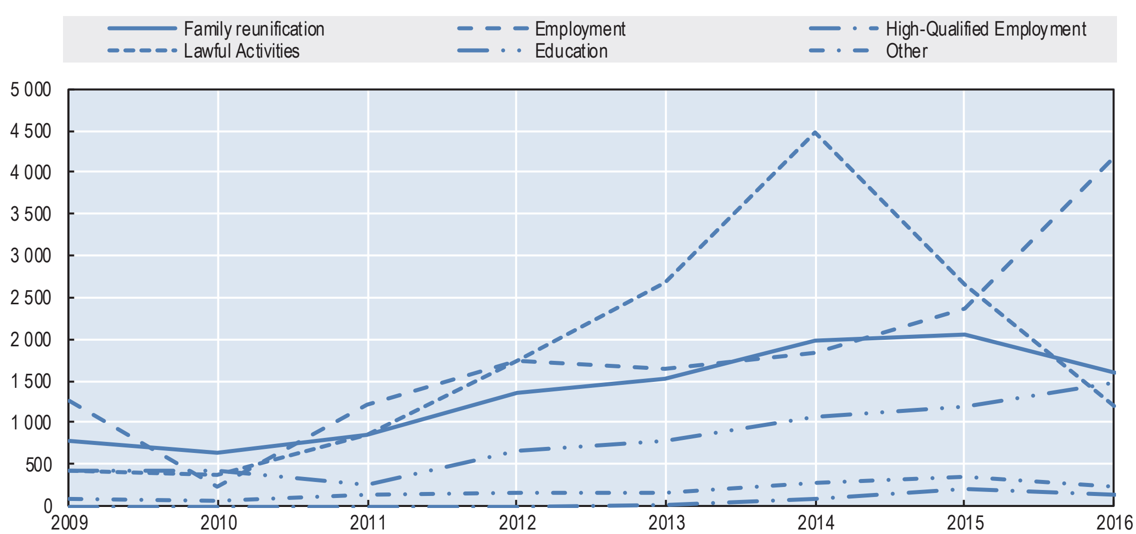
These guidelines led to easing of requirements for issuance and renewal of permits for economic activity. Foreign work experience requirements were reduced and in-country status-changes allowed. Work permit fees (EUR 121-150, relatively low in international comparison albeit non-negligible relative to prevailing salaries) were eliminated for some categories.

Further reforms were implemented in 2017 include shortening the processing time for higher-qualified foreign workers by exempting them from the labour market test, and lowering the EU Blue Card threshold from EUR 1 496 to EUR 1 122. The work permit requirement is exempted along with the labour market test if the occupation is on the shortage list.

The permit issuances by the Migration Department for employment have been increasing (Figure 2.13). The spike in permits for "lawful activities" is related to the expansion and contraction of the small-business investor permit.

Figure 2.13. Permits for employment have been increasing

First permit issuances to third-country nationals, by type of permit, 2009-2016.



Source: Migration Department.

2.3.2. High-skilled migrants and investor policies have been improved

Highly qualified migrants have not come to Lithuania in large numbers, due to limited attractiveness of the labour market and job opportunities. Further, policy was restrictive; as noted, Lithuania adopted the most restrictive implementation of the EU Blue Card when it was introduced in 2013. In 2017, salary requirements were reduced, from twice the average gross monthly earnings, to 1.5 times this benchmark. In addition, the shortage list of occupations exempts highly qualified professionals from the labour market test (an assessment by the LLE of the availability of local workers); previously only the highest-paid were exempt.

Lithuania now promotes the EU Blue Card, with an official information website supported by Invest Lithuania promoting use of the permit. Noteworthy relative to other EU countries is that Lithuania has not only an English-language version but also a Russian-language version of the official EU Blue Card information website. The number of EU Blue Cards has increased notably even before the threshold was lowered; there were almost 150 first-time Blue Cards issued in 2016, which makes Lithuania, relative to its population, one of the largest issuers of this permit in the EU. Only Luxembourg issued more EU Blue Cards relative to population. This reflects the higher salaries in the IT sector.

The EU Blue Card outreach could be expanded beyond the promotion of this specific permit, towards a general portal, as in OECD countries which have more active strategies for informing foreigners of work and study options, such as “Make it in Germany”, or “Working in Sweden”.

Lithuania, like other countries, offered a permit category targeting investors, although not for investors in private real estate or in financial instruments. Notably, Lithuania did not follow the trend among countries hit hard by the economic crisis, many of which established investor permits to bring in capital and sustain the construction sector. In neighbouring Latvia, for example, a real-estate investor permit brought substantial capital into the real estate sector and resulted in a boom in residence permits, but has not necessarily contributed to economic growth nor to foreigners establishing residence (OECD, 2016[18]).

Nonetheless, there were provisions for residence permits for investors and shareholders or owners of small businesses in Lithuania. Eligibility requirements of the firm were set relatively low in international comparison, with investment thresholds of EUR 14 000 – most OECD countries require at least five times as much. In addition, the requirement to be physically present in Lithuania; new firms had to pay taxes within a year of founding.

The investor permit was subject to concerns about fraud, primarily related to bogus firms, and conditions were tightened in early 2014, requiring the firm to already be operative for at least six months, have a minimum equity level (again, set low, at EUR 28 000), and have a payroll totalling at least twice the average gross salary (i.e., total EUR 3 100 monthly). A large uptake of the permit by founders of fictitious firms led Lithuania to further restrictions in late 2014. The lower investment threshold was kept, with the condition of active involvement or employment in the enterprise, which creates at least three jobs. A further alternative of a higher investment threshold (EUR 260 000, comparable to schemes in other countries) and creation of five jobs allows for faster processing, a 3-year initial permit and accompanying family rights.

Further changes were made in 2017, again to reduce the risk of fraudulent use of small enterprises to obtain a residence permit, eliminating the permit for members of enterprise collegial management or supervisory body. An additional option was created for heads of certain large enterprises with no personal investment in the firm. These schemes are important and can represent a magnet for new firms, but require that close monitoring and evaluation continue. Low thresholds are not in themselves a risk if selection and evaluation criteria are consistent.

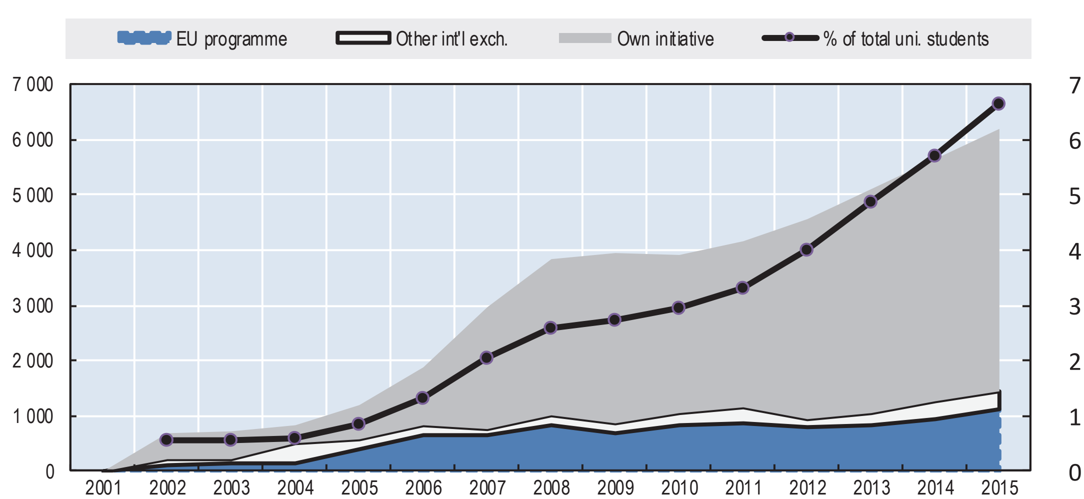
In 2017, a new permit grounds was created for foreign entrepreneurs starting up firms involving development of new technologies or other innovations considered vital for economic and social growth. Like the EU Blue Card, this permit allows family members and grants accelerated processing times.

2.3.3. International students are a growing share of enrolment but retention needs to be improved

Faced with falling enrolment, Lithuania has a stated policy objective of increasing international enrolment. Enrolment of foreign students has been increasing slowly, although not enough to offset the very large decline of enrolment of residents. Further, many foreign students are on short-term European mobility programmes such as Erasmus rather than enrolled in a degree programme. Lithuanian university fees are not low compared with other EU destinations, some of which apply no or nominal tuition for EU and even non-EU students. English-language programmes in Lithuania have higher tuition fees in general, between EUR 2 500 and 5 000 annually, with some high-demand programmes such as medicine and computer science costing more. Non-EU students pay a premium, usually about 50%. Some partial scholarships are available. Young Lithuanian emigrants are lured back under the Global Lithuania Programme through scholarships at Lithuanian institutions. Since 2015, a grant is provided to those coming from abroad, of EUR 400 monthly (higher for third-year and beyond).

Figure 2.14. The number of international students has been increasing

Foreign nationals studying at Lithuanian universities



Note: International students include those studying in full and partial curriculum programmes.
Source: Statistics Lithuania.

The number of international students who finish their studies and remain in Lithuania is extremely low – only a few dozen students annually, a retention rate of less than 5%, much lower than the usual rate for OECD countries, which mostly range between 20% and 50%. In Estonia, for example, 20% of graduates were employed in the country within the 18 months following graduation (OECD, 2017[19]). The same factors which discourage Lithuanian graduates from remaining – poor quality jobs – also apply to international students, yet third-country nationals from lower-income countries should have more of an incentive to remain in Lithuania since they do not have free movement in Europe.

The policy framework is not an obstacle, as policies for third-country nationals finishing studies in Lithuania and wishing to transition to work have become more favourable. From 2017 there is no labour market test to start employment that matches their qualification and employment rights (up to 20 hours per week) are granted immediately instead of after one year. Low retention rates of international students are not due to restrictive policy, then, but to other factors: most students do not come with the intention to remain. Now that the crisis has passed, promoting Lithuania as a destination for employment should be part of the information campaign to third-country nationals from the start, since it will be more important to retain highly educated graduates in the next five to ten years as the higher-educated youth population starts to sharply decline. This should be done in conjunction with the businesses who report shortages of skilled workers. Internships during studies can increase stay rates of international students; students who work during their studies are much more likely to remain (OECD, 2014[20]).

2.3.4. Work permits for international transport workers should be issued more cautiously

Employees of Lithuanian companies may be posted abroad within the European single market for the purposes of cross-border, short-term provision of services. Posted workers are regulated by a 1996 European Directive and by a 2014 Directive. Wages must be paid according to standards in the country of employment, but social contributions and coverage remain in the home country (e.g., pension contribution, disability coverage).

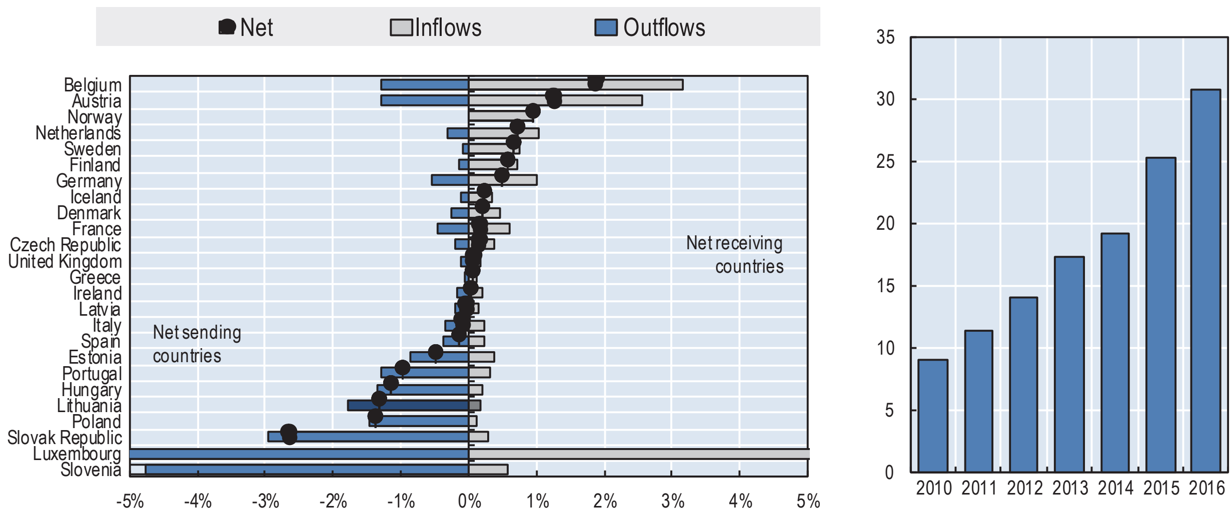
Lithuania is one of the major posting countries in the EU, relative to its population (Figure 2.15, Panel A). Only the Slovak Republic, Luxembourg and Slovenia posted more workers in 2015. The number of posted workers has also been growing quickly (Figure 2.15, Panel B), with 30 000 posted workers in 2016.

Statistics for posted workers are largely based on the required reporting forms (so-called A1) filed in the country of origin and used to prove coverage. However, not all groups are covered by these forms - short-term postings of less than one month do not require an A1 form – so statistics do not cover short-term postings. On the other hand, they are filed for each posting, so a single worker might have multiple A1 forms during the year.

Figure 2.15. Lithuania is an important origin country of posted workers

Panel A: Inflows, outflows and net balance of posted workers in UE/EFTA countries in 2015, relative to active population

Panel B: Number of Portable Document A1 and E1 forms issued by Lithuania, 2010-2016, thousands



Note: Figures are based on E101 and, from 1 May 2010, A1 portable documents issued. Non-OECD countries belonging to the European Union or European Free Trade Area are not presented but are included in the calculation of total inflows and outflows. Outflow figures for Slovenia and Luxembourg are for individuals, not documents.

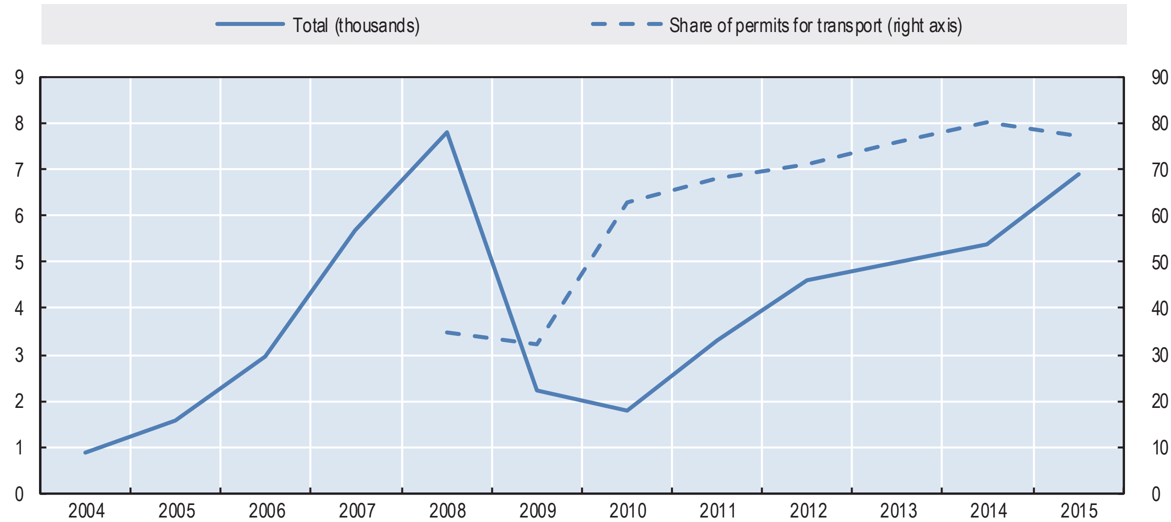
Source: Panel A: European Commission data compiled by Pacolet and De Wispelaere (2016) and Eurostat (Active population). Panel B: Lithuanian State Social Insurance Fund Board.

The absence of short-term posting from the statistics conceals the importance of the international freight sector, with long-distance road haulage firms posting workers to different EU countries. This sector in particular is driving labour migration from third countries to Lithuania, as most work permits are issued to drivers of international freight vehicles (Figure 2.16) – 80% of work permits in recent years. Almost none of the drivers work in Lithuania itself, but are posted by Lithuanian firms to other European countries. Drivers spend several weeks on the road outside of Lithuania and, when off duty, return to their home countries for rest. Lithuania, with its low statutory wages, has thus become a favoured location for firms employing drivers, primarily from Ukraine and Belarus. Nationals of these countries are also attractive for firms because they are not subject to a visa when hauling in CIS countries.

The high demand for truck drivers, evident in the requests for authorization of work permits made to the LLE, is surprising, given the fact that heavy vehicle licenses are one of the main training courses offered to unemployed Lithuanians. Lithuania is not the only low-wage EU country to have this paradox of high demand for international transport workers and limited availability of local workers. In Latvia, too, a large share of the work permits to foreign workers are for the road transport sector.

Figure 2.16. Most foreign workers are truck drivers, who are posted outside of Lithuania

Total work permits issued and share issued to international transport drivers.



Source: Lithuanian Labour Exchange.

The reliance on foreign workers in any sector where inspection and compliance are difficult should raise concern. While declared wages in the transport sector are generally above the minimum, it is impossible to verify working hours: the work is performed in another country with no possibility of monitoring the workplace. The unwillingness of employers to hire Lithuanian workers and the unavailability of such workers despite the accessibility of training for Lithuanians raises questions about the actual quality of the employment. In light of the persistent difficulty of firms to fill positions, the migration framework has eased conditions for authorisation of foreign workers in these jobs. Unlike other sectors, much of the indirect economic impact of the international logistics industry is not in Lithuania, since vehicles are neither produced nor serviced in the country. Most drivers do not settle in the country, and spend their rest time in their home country. If this sector is seen as potential employment for Lithuanians, the concession of work permits should not be facilitated. A higher wage requirement for transport workers would also raise wages and bring more Lithuanian workers into an occupation which does not currently offer sufficiently attractive conditions.

2.3.5. Lithuania is unable to retain resettled refugees, but integration services may serve a broader public in the future

The integration infrastructure – language courses, orientation to the labour market, access to vocational training – for third country nationals has been put together with earmarked funding from the EU for specific target groups, rather than as a policy objective. This is due to the low inflows of third-country nationals.

Unlike other European countries, Lithuania was not subject to the large-scale influx of asylum seekers in 2015, and humanitarian flows to Lithuania remain limited. While asylum flows have increased in recent years, with 275 in 2015 and 425 in 2016, primarily from the Syrian Arab Republic, Russia and Iraq, they are below those in most EU countries. In addition, there are relocated refugees from 2016 The law was recently changed to accommodate the resettlement foreseen under the EU response to the humanitarian crisis of 2015. Lithuania agreed to accept 1 105 refugees under the scheme. By mid-2017, more than 400 had arrived, but most had already left Lithuania. By May 2017, 75% of those who had arrived had already left for another EU country; in early 2018, there were 84 relocated refugees in Lithuania. Many refugees resettled to Lithuania have relatives elsewhere in Europe and are aware of the more generous conditions offered in other EU countries.

The Ministry of Social Security and Labour is responsible for refugee integration, and administers earmarked EU funding for this group. Among the numerous challenges for resettlement is housing. Lithuania does not provide housing for refugees as part of integration. After three months at the reception centre, refugees are in the rental housing market, although they receive help in identifying housing (there are long waiting lists for public housing) The government has foreseen partial reimbursement for renting accommodation for those who are yet on the integration program. Of course refugees are always entitled to require for social housing as all the rest Lithuanian citizens. Beyond the immediate need for housing, the employment situation in most localities has become more favourable to new arrivals who do not speak the language, after the new amendments for the Law of employment were introduced: persons granted protection are entitled to receive additional support for employment. Together with other socially vulnerable groups, they will be provided financial support for professional training, travelling expenses and starting an individual activity (self-employment), while employers will be financially encouraged to employ individuals granted asylum. The infrastructure for language courses– is absent in most of the country although courses are provided in the main areas where refugees have settled.

A reception centre, created in 1996, is in place for initial reception of asylum seekers and refugees. About 300 people transited for this centre in 2016. Residents may stay up to three months, during which language training and integration services are provided. In cases of vulnerability, staying at the reception centre period might be prolonged up to six months. The main nationalities in 2016 were Syrians, Russians, and Afghans. The second stage of integration, usually the 12 months after leaving the centre, is supervised by the reception centre but implemented by NGO partners and municipalities. National funding covers the infrastructure for integration of third-country nationals except for relocated refugees, who are covered by EU funding. The Action Plan for Integration 2015-2017 drawn up by the Ministry of Social Security and Labour, is 66% funded by the earmarked EU Asylum, Migration and Integration Fund (about EUR 550 000 in 2016 and 2017). The fund supports Centres for Integration of Foreigners (in the three main cities), which offer language and civic orientation courses as well as individual support and orientation (as noted, the public employment service does not offer language training – including in Lithuanian). The NGO partners centres (except cases where the municipality is involved) are also meant to intermediate with public institutions and mainstream integration activities into services provided by public bodies.

The infrastructure for refugees serves as a platform for development of integration services for a broader range of immigrants, requiring adjustment in the systems for providing language training, labour market orientation and recognition of foreign qualifications. Groups such as EU nationals and third-country spouses of Lithuanian return migrants would benefit from inclusion in a more comprehensive integration policy.

Notes

1. In terms of gender, according to destination country figures, overall there are slightly more women than men in outflows. Prior to 2004, it was predominantly women who migrated to Germany and Scandinavian countries in early 2000s (the share of women was around 70 percent). Labour migration patterns have changed, and recent migration to these countries has been predominantly male.

2. Unpublished research cited at https://2017.ktu.edu/en/newitem/research-most-lithuanians-still-emigrate-economic-reasons.

3. The Eurobarometer survey, for example, indicates a lower tolerance for LGBT than in most other EU countries.

4. Needs-based funding remains based on individual income, so remittances are not taken into account.

5. The employment rate of high-educated Lithuanians increased by 10 percentage points between 2000/01 and 2010/11, from 68.7 to 78.7. The increase for low-educated was even more remarkable, from 32.4% to 62.6%.

6. Dual nationality is allowed for pre-1990 exiles and their descendants and for some limited categories, but not as a general rule for adults who acquire the nationality of another country in which they reside. Such cases would generally require renouncing Lithuanian nationality. A proposal has been made to allow dual nationality for citizens of EU and NATO countries.

7. Each school in Lithuania has the obligation to accept the newly arrived immigrant pupils; in 2016-2017 there were almost 1 200 foreign nationals at all levels of schooling. Ministerial guidance is provided for the integration of pupils who are coming from abroad (individual curriculum options, additional language hours or mobile groups and classes for language learning based on needs and availability).

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Chapter 3. Towards a more inclusive labour market in Lithuania

Labour market outcomes have improved on many counts since the crisis, but employment opportunities remain depressed for some groups and job quality is often low. New legislation passed as part of the New Social Model significantly reformed labour institutions. Lithuania considerably liberalised employment protection for permanent and non-standard contracts, which reduces incentives for informal employment but risks further lowering job quality. Continuous reforms to labour inspection have improved its effectiveness, but further progress in labour law enforcement is needed, notably in the form of higher sanctions in case of violations. To ensure the balance between flexibility and worker protection, the currently weak social dialogue needs to be strengthened. Spending on active labour market policies should be increased. This would permit intensifying the support to needy jobseekers and raising participation in well-designed training programmes to better respond to the large upskilling needs. Many recent initiatives aim at reducing skill mismatch, but financial incentives for vocational training – and employer-provided training more largely – need to be further developed.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

With the recent strong economic performance, employment outcomes have recovered from the economic crisis in Lithuania. However, employment opportunities remain depressed for some groups, in particular low-skilled workers, and job quality is a concern for many workers. Informal employment in the form of fully undeclared work or under-declared wages remains widespread. Exacerbated by the strong emigration of highly skilled (young) workers, skill mismatch is frequent. Providing better working conditions and career prospects would help to make Lithuania a more attractive place to work and live in and thus contribute to reducing the current high levels of emigration. Labour market institutions have an instrumental role to play in achieving this objective.

This chapter reviews Lithuania's main labour market policies and institutions. As part of the New Social Model, a new Labour Code and a new Law on Employment were enacted in July 2017, which are affecting many areas of labour market policy. The new Labour Code has been the most contentious part of the New Social Model, and it took three years between the date when a first draft was proposed by a group of experts and its implementation in July 2017 (Box 3.1). It implies significant changes on hiring and firing provisions both for permanent and temporary contracts, as well as on working time regulation, collective bargaining, labour disputes, and the role of the labour inspection. These changes will be discussed throughout the chapter in the relevant sections. Following an overview of Lithuania's employment protection legislation as well as its policies to enforce labour laws (Sections 3.1 and 3.2), the chapter discusses: the role of industrial relations and the minimum wage in protecting workers (Section 3.3); the impact of taxes on labour on shadow employment (Section 3.4); the role of active labour market programmes to assist workers transitioning to better-quality jobs (Section 3.5); and measures to reduce skill mismatch and improve workers' skills (Section 3.6).

3.1. The new Labour Code loosens employment protection legislation

The Labour Code that was in effect until July 2017 had been adopted in 2002, after thorough consultations with the social partners, NGOs, and the Tripartite Council, and provided strong protection to workers in comparison with other OECD countries. The procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts, as measured by the OECD employment protection legislation (EPL) indicators, were relatively strict (Figure 3.1). The new Labour Code provides much more flexibility to employers in relation to their workers than the 2002 Labour Code. It is especially the case regarding hiring and firing of both permanent and temporary workers, which places Lithuania close to the OECD countries with the least restrictive regulations (Figure 3.1, Panel A). Besides, new types of non-standard contracts have been created, and working-time arrangements have been made much more flexible.

3.1.1. Hiring and firing of permanent workers has become much easier for employers

Overall, the new Labour Code makes it easier and less costly for employers to hire and fire an employee on a permanent contract, as reflected in the estimated reduction in the OECD EPL index for permanent contracts (Figure 3.1, Panel B). The various grounds for dismissal are significantly liberalised. This does not translate into a reduction of the related EPL index items, however, because of the remaining provision that all the grounds listed are fair unless there is a vacant post that the employee could occupy during the period from the day of notice to five days before the end of the notice period. Depending on how it is implemented in practice, this could prove constraining for employers.

Box 3.1. After a three-year process, the New Social Model makes labour relations more flexible and increases income support for the unemployed

Numerous discussions had taken place in the past decade among the social partners and the government aimed at liberalising the existing Labour Code, and in the beginning of 2014, the government launched the 'New Social Model' in Lithuania. This included the drafting of regulatory legislation in the area of labour law, employment and social insurance. The purpose was to make labour relations more flexible to encourage employment creation while at the same time providing greater guarantees for employees, following the so-called flexicurity approach.

However, the model and the new draft Labour Code, prepared by experts, did not satisfy the trade unions. According to them, the considerable changes in the regulation of labour relations and social issues would substantially reduce the existing social guarantees for employees and have negative effects on working conditions. In sum, too much flexibility and not enough security. For their part, employers feared that the initial innovative ideas of the model would be watered down after the many proposals and amendments from unions and members of Parliament.

After almost three years of discussions and reflection by academics, politicians and the social partners in the Tripartite Council, the new legislation was adopted in September 2016, and was originally due to enter into force in January 2017. One of the key new aspects of the labour legislation is more flexible employment relations, including more liberal dismissal conditions, a wider variety of employment contracts allowing for greater flexibility, and a more liberal usage of overtime. In terms of additional guarantees, the new Law on Unemployment Insurance made access to unemployment benefit easier, but generosity was not increased as initially planned. Proposals made by an expert group for policies to reduce poverty and social exclusion were finally not considered.

Issues on which a common position was not reached, including during the final negotiations by the social partners preceding the due entry into force of the new legislation in the middle of 2017, included in particular work schedules and maximum working time, the respective roles and duties of trade union versus work councils, the organisation of strikes or lockouts, the level of severance pay, additional guarantees for employee representatives, fixed-term employment contracts, collective agreements, etc.

Hence, in an attempt to build final consensus, the new incoming government convened the Tripartite Council again in March 2017, with the aim to further negotiate provisions related mainly to working time, and trade unions and work council roles. Changes were agreed on some of the main contentious issues in the Labour Code, the Law on Unemployment Insurance and the Law on Employment and, after being approved and sometimes further amended by the Parliament in June, the laws came into effects in July 2017.

By contrast, the cost for employers associated with the notice period and severance pay in case of no-fault individual dismissal have been significantly reduced. First, the notice period has been shortened from two months in the general case to one month for employees with tenure of over a year or two weeks for those with tenure of less than a year. It is also reduced from four months to two or three months for special cases, such as employees approaching the age of retirement, disabled employees, and employees with children under 14 years of age. Such special provisions are relatively rare in the OECD, and their efficiency is debateable: while they may effectively protect the targeted groups of workers who are already in employment, they are likely to generate substitution effects across groups as regards hiring and may reduce their chance of being hired (OECD, 2013). Severance payments have also been significantly reduced, especially for short- and long-tenure workers: employees with a tenure of less than a year should receive half the employee's average monthly wage, against one month of wages in the 2002 Labour Code; employees with a tenure of a year or more should receive two months of wages, against from two (for one to three years of tenure) to six months of wages (for more than 20 years of tenure) in the previous Labour Code.

For long-tenure workers, this reduction in legislated severance pay does not fully translate into an equivalent reduction in "protection" due to the creation of a Long-Term Benefit Fund granting additional compensation. Financed from a 0.5% contribution by employers on their wage bill, it provides one month of wages for dismissed employees with 5 to 10 years tenure, two months of wages for those with 10 to 20 years tenure, and three months of wages for those with tenure longer than 20 years, thus limiting the overall reduction in legislated payments to one month of wages for those employees. The fund was negotiated between the social partners during the discussions on the Labour Code, under the premise that long-tenure workers due to their specialisation in a given activity/post may face more difficulty in finding a new job after dismissal and thus deserve additional support. OECD work on displaced workers (OECD, Forthcoming[1]) provides evidence that long-tenure workers have lower re-employment rates than other groups in all countries. Full or partial ex-ante funding of payments in case of dismissals are also in place respectively in Austria and in Brazil, through transferable individual accounts. While they provide some payment guarantee to the workers, they weaken the link between the decision to dismiss and the costs borne by employers for dismissals.

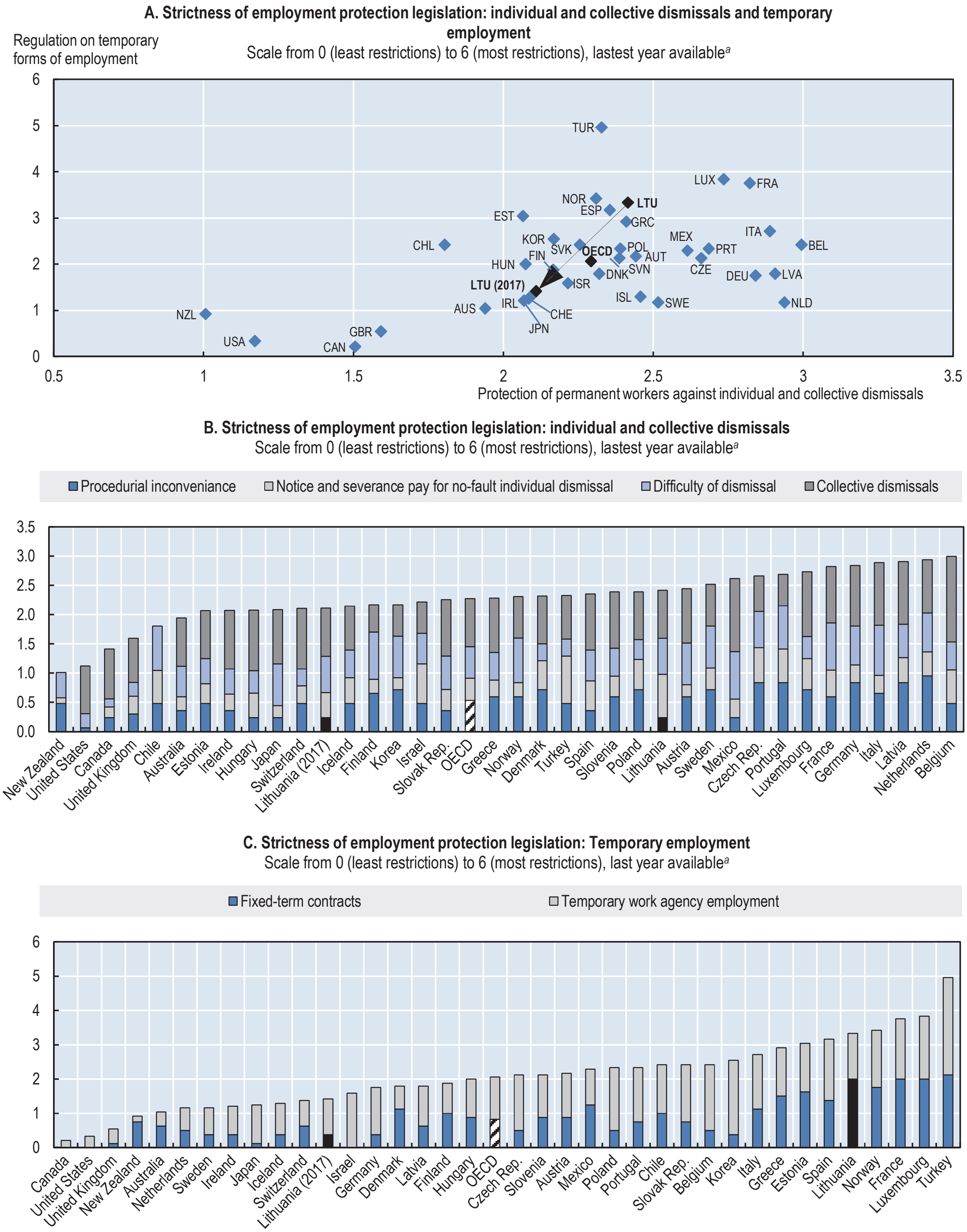
A number of provisions contributing to the EPL index remain unchanged, notably the trial period of three months, which is rather short compared with other OECD countries. Additional requirements in case of collective dismissals are also unaffected, and not particularly constraining relative to OECD countries.

3.1.2. Temporary contracts and working-time arrangements have been significantly deregulated

The use of *temporary forms of employment* was tightly regulated in the 2002 Labour Code, as reflected in the very high level of the indicator of strictness of EPL for temporary employment (Figure 3.1, Panel C). First and foremost, work of a permanent nature could not be conducted under a fixed-term contract[1], and the maximum duration was five years. Second, consecutive fixed-term contracts for a given employee were ruled-out. The strictness of the 2002 law governing temporary contracts is reflected in their very low share of about 2% of all employment contracts in Lithuania, lower than in any OECD country.

The new Labour Code makes it much easier for employers to resort to temporary forms of labour, mainly by lifting all restrictions on valid cases for their use. The only constraint is that fixed-term contracts should not account for more than 20% of all employment contracts for a given employer, a constraint which is unlikely to be binding in most sectors for a long time. There are no limits on the number of fixed-term contracts as such, but they can only be used for a maximum of two years for a given employee for the same function and five years in different functions.

Figure 3.1. The new Labour Code loosens employment protection



a) 2013 except 2014 for Slovenia and the United Kingdom and 2015 for Latvia.
Source: OECD Indicators of Employment Protection,
http://www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm.

Besides, the new Labour Code introduces a number of new non-standard contracts, in particular a project-based employment contract which can last up to two years for a new hire and five years if succeeding another type of temporary contract. Centred on a specific project to be achieved during the time of the contract, the job can be conducted on or outside the place of employment and, while a standard weekly working time is established, work schedules are left at the employee's will. Since the employee becomes responsible for the result, and thus risks not to be paid if the result is not achieved, this type of contract comes close to a civil contract rather than a labour contract.

Working-time regulations have also been made much more flexible. Employers see working time flexibility as a way of encouraging greater levels of productivity, while employees may see it as key to improving work–life balance. As in most other Central and Eastern European countries, given the weakness of collective bargaining, working time standards are almost exclusively defined by statutory legislation in Lithuania, and employers had been advocating reform in that direction for some time (Cabrita, Galli da Bino and Boehmer, 2016[2]). While normal hours of work remain at 40 hours per week, employers now have significantly more flexibility in setting working time arrangements as a result of the introduction of the possibility of working-time averaging not conditioned on agreement with employee representatives, the introduction of two forms of flexible working hours, the increase in the maximum number of working hours, and the reduction in the notice period for work schedules.

Five types of working time arrangements are now possible: i) a fixed length of each working day or shift and a fixed number of working days per week; ii) summary working time recording over a period of three months maximum; iii) a flexible work schedule with fixed hours and non-fixed hours; iv) a split day arrangement with a break longer than the maximum break length of two hours; and v) individual working time arrangements.

Maximum working hours have also been increased significantly. While workers could not work more than 48 hours per week and 12 hours a day under the previous code, this remains true for those under the first type of working type arrangement, but has been increased to 52 hours per week in case of working time averaging, and 60 hours per week if there is an agreement between the employer and the worker for additional work, that is a work function not included in the employment contract. In addition, while work schedules had to be posted at least two weeks before their effective dates in the 2002 labour code, the new law provides for a notice period of seven days.

The 60 hours limit on weekly working time including additional work is high by OECD standards and even higher by European Union (EU) standards, as most countries stick to the 48 hours included in the EU Working Time Directive: only Austria and the Netherlands have similar limits and the UK a higher one. All in all, while an indicator of the strictness of working-time regulation does not exist, comparative information provided in Annex Table 3.A.1 in Annex 3.A on statutory working time in selected OECD countries and Lithuania suggests that the new labour code puts Lithuania among the least constraining countries in the EU. Combined together, the introduction of working-time averaging and the reform of maximum working time implies that a Lithuanian employee without an additional work agreement could be asked to work (with no right to oppose) up to 52 hours per week during six weeks in a row without being paid an hour of overtime if followed by six weeks of 28 hours. To some extent, it may bring working-time legislation closer to practice, as undeclared overtime appears to be common in Lithuania. It provides employers with considerable flexibility with respect to setting working-time schedules and (legal) opportunities to reduce significantly their labour costs. But this may come at the cost of work quality and work/life balance for employees and so changes in working-time practices should be monitored closely following the reform.

On the other hand, changes have been introduced that could favour part-time work for a temporary period at the initiative of the worker. In the 2002 Labour Code, workers with specific problems or characteristics, such as health issues testified by a health institution, disability, mothers of young children, workers aged less than 18, and carers of a sick family member could request part-time work. This is still the case in new labour code, but all workers with job tenure of less than three years are also entitled to request part-time for a temporary period of less than a year, which the employer can refuse only for valid reasons.

3.1.3. These reforms may reduce incentives for informal employment but also increase labour market duality

Theory yields ambiguous predictions on the impact of flexibility-enhancing EPL reforms on employment levels in the long-run, and most empirical studies investigating medium/long-term effects of flexibility-enhancing EPL reforms suggests that they have, at best, no or a limited positive impact on employment levels in the long run (OECD, $2013_{[3]}$). At the same time, there is also strong evidence that flexible dismissal regulations increase both separations and hiring in the long run, and thus foster a more efficient reallocation of resources leading to higher productivity and wages (see (Martin and Scarpetta, $2012_{[4]}$), for a survey). In the short run, recent analysis suggests that EPL reforms can have a negative impact in terms of employment and wages, but that these effects tend to disappear within few years and can be mitigated by other complementary reforms or if undertaken during an economic upturn rather than during a downturn (OECD, $2016_{[5]}$).

In the case of Lithuania, one additional uncertainty about the effects of the new Labour Code on hiring and firing stems from the fact that labour regulations were not well enforced. For example, severance payments appeared to be paid in only a minority of cases (European Commission, $2015_{[6]}$)[2]. The very sizeable job destruction experienced during the last financial crisis also provides indirect evidence of *de facto* weak barriers to hiring and firing. But it also shows that the Labour Code was not fulfilling its aim to protect workers and strengthen employers' incentives to internalise the social costs of excessive turnover. Hence, while the current Labour Code reduces the legal protection of workers against dismissal, it may not reduce it much in practice. International evidence suggests that workers are usually compensated in countries where the definition of unfair dismissal is narrower, while this is not the case in countries where the definition is large or the severance pay are high (OECD, $2013_{[3]}$).

In any case, the easing of firing conditions for permanent workers, the strong increase in the flexibility of working-time arrangements and the liberalisation of non-standard forms of contracts reduce the costs of formal employment, and thus the incentives for undeclared work.

In most other countries, flexibility-enhancing EPL reforms are often undertaken in the context of an already high level of labour market duality, where the reduction of protection on permanent contracts aims to reduce this duality. In the case of Lithuania, both permanent and non-standard contracts have been liberalised at the same time but with a more significant increase in the ease of hiring workers on non-standard contracts. This might lead to an increase in the use of non-standard contracts and risks entailing an increase in labour market duality. The flexibilisation of working-time arrangements may also result in lower job quality (higher uncertainty on working hours and schedules) for permanent employees. Changes in the composition of the workforce by employment contract should, therefore, be closely monitored.

3.2. Labour law enforcement has been significantly reformed but remains challenging

Enforcement of labour law is relatively weak in Lithuania, with negative consequences for workers' protection and leading to an uneven playing field among employers (Bagdanskis and Usonis, 2011[7]). Together with policies that reduce the costs and increase the benefits of formality, better law enforcement is also needed to reduce informal employment.

3.2.1. Despite cuts since the beginning of the global financial crisis, the number of labour inspectors is relatively high

The State Labour Inspectorate (SLI) works under the responsibility of the Ministry of Social Security and Labour (MSSL). As in most OECD countries, the SLI is responsible for enforcing legislation with respect to labour conditions and safety and health issues as well as overseeing compliance with collective agreements. There are two main types of inspectors, engineers for occupational health and safety (OHS) matters and inspectors dealing with labour law. In addition to the central administration, labour inspectors operate from ten regional offices.

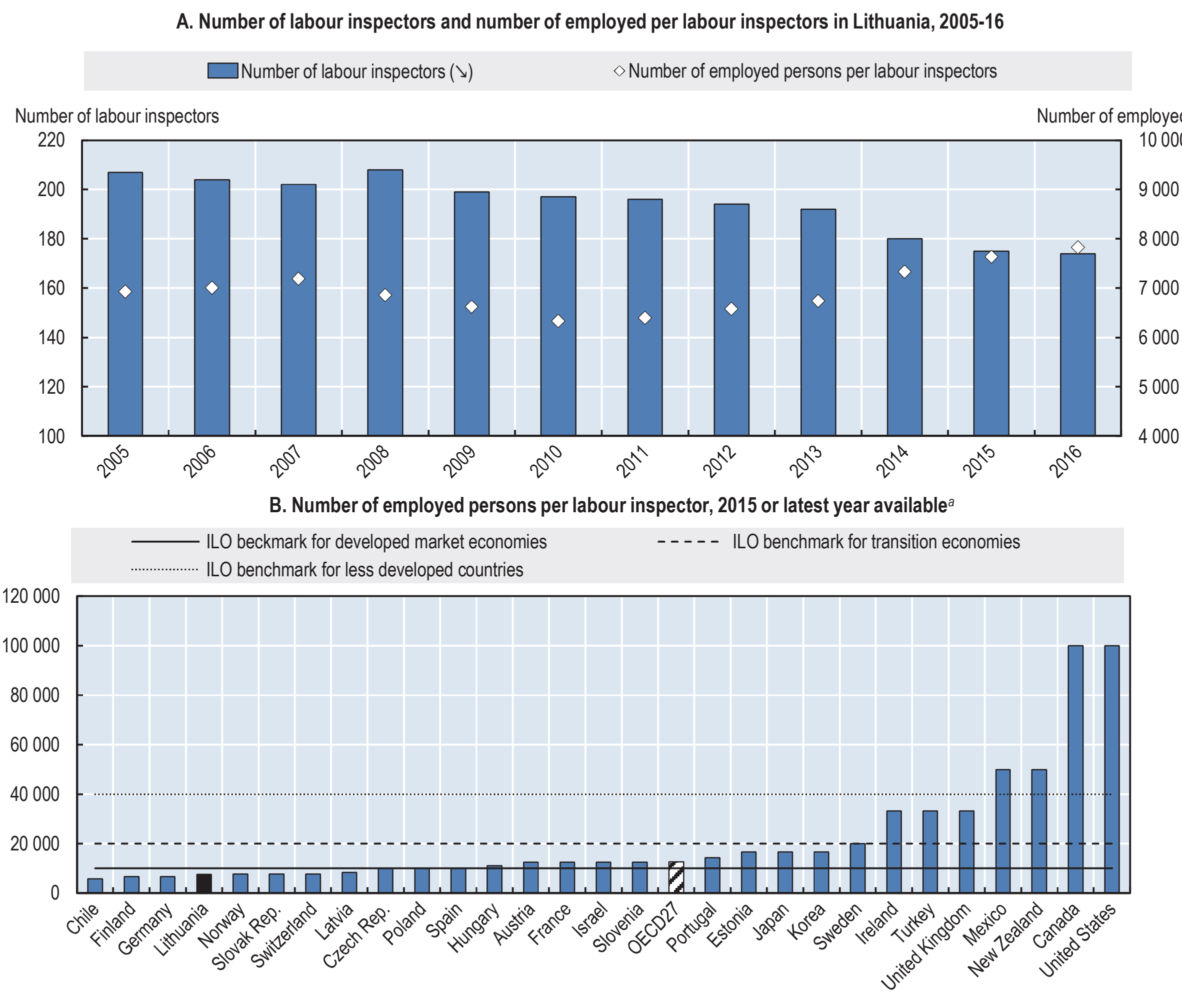
The number of labour inspectors has decreased significantly since 2008, from 208 to 174 in 2016 (Figure 3.2, Panel A), but with the parallel drop in employment during the crisis years, it translated into an increase in the number of employed persons per labour inspector only from 2011. Compared with most OECD countries, however, Lithuania still has a relatively large number of labour inspectors: in 2016, there were about 7 800 employed persons per labour inspector, which is well below the 10 000 benchmark of the International Labour Organisation (ILO) for developed market economies (Figure 3.2, Panel B). This relatively high number of labour inspectors seems appropriate, however, given the size of enforcement problems in Lithuania.

3.2.2. Increasing focus on prevention, advice and consultation

As a consequence of its accession to the EU, the way the SLI – as well as other enforcement bodies – operates has undergone significant reform over the last decade. The global financial crisis and the ensuing austerity measures also prompted a strong focus on regulatory reform to achieve more with less state resources and transform relations between authorities on the one hand and business and citizens on the other (OECD, 2015[8]). This resulted in amendments to the Law on Public Administration in 2010 on the supervision of economic entities, which changed the focus from "inspecting" to more broadly "promoting compliance".

Hence, beside inspection and sanctions, more emphasis has been given to prevention, advice and consultation activities, which now make up the majority of SLI's activities. This is done through various channels, including a call-centre, online and onsite advice. In the call centre, over 40 inspectors are involved on a rotation basis, with on average seven inspectors providing about 50 consultations per day, where they engage with employers to support their compliance, including by pointing to the advantages of good practices from other companies or countries (OECD, 2015[8]). Specific campaigns are also organized within the framework of the European Week for Safety and Health at Work, including for example on working with stress, dangerous substances, construction and noise. The inspectorate also organises regular seminars and conferences for employers, small and medium-size enterprises (SMEs) and employers' organisations on a variety of issues.

Figure 3.2. Despite cuts after the crisis, the number of labour inspectors is relatively high



a) 2010 for New Zealand; 2013 for Chile, Latvia and Norway; and 2014 for Austria, France, Sweden and the United Kingdom.

Source: State Labour Inspectorate (SLI), Statistics Lithuania and ILO, ILOSTAT Database.

The SLI also conducts some operations to improve public awareness in the fields of OHS and labour legislation, notably a long-term campaign on safe and legal employment directed at young people. Tax awareness raising activity is also conducted by the State Tax Inspectorate (STI).[3] In both cases, information is most often directed at students and youth in general. This appears to be needed, as in the 2013 Eurobarometer survey, only 71% of the Lithuanian population aged more than 15 declared that they found unacceptable that a firm hires a person without officially registering part or all of that person's salary, the third lowest percentage in the EU[4] (European Commission, 2014[9]).

3.2.3. Inspections are increasingly targeted and directed at undeclared work

With an increasing share of labour inspectors' time devoted to prevention, consultation and advice, the number of inspections has logically decreased, by 50% between 2008 and 2016. 10% of all companies performing economic activities in Lithuania were inspected in 2015 (State Labour Inspectorate, 2015[10]), while the business surveys commissioned by the Ministry of Economy showed that 10 to 15% of the most important businesses were inspected by SLI in 2012-2014 (OECD, 2015[8]). The same survey points to a strong reduction in the overall burden from time lost by businesses in all types of inspection after 2011.

Another consequence of the enforcement reform is that inspections have also become increasingly planned instead of reactive – i.e. triggered by a complaint or an occupational accident or disease. In 2016, proactive or planned inspections represented about two thirds of the total number of inspections against 18% in 2008.

This increasing share of planned inspection allows greater *targeting*. Planning of inspection has been increasingly done on the basis of risk, especially since the November 2014 amendment to the Law on Public Administration which makes risk assessment a fundamental principle of inspections planning. Inspections tend to focus on small businesses, as well as enterprises in the construction sector, in agriculture and forestry, wholesale and retail trade and personal services, as they are most likely to violate labour, safety and tax laws. Further criteria used to assess risk include sector considerations – e.g. do companies pay much less on average than their competitors adjusting for regional differences, turnover of staff in the businesses, and records of earlier accidents. In some sectors, in particular construction, random checks are also made. Also, since 2013, a new method has been introduced for assessing the health and safety status of economic operators, based on advanced self-declaration as answers to a questionnaire that can be submitted electronically (State Labour Inspectorate, 2013[11]) which allows targeting inspections on companies most at risk.[5]

Although a standard inspection would comprise two inspectors, an engineer for OHS and a labour law inspector, inspections have become more *focused on undeclared work* and less on health and safety. In part this reflects the new risk assessment methods, but also the fact that SLI receives an increasing number of complaints for labour law violation, and possibly some change in policy focus.[6] Under the 2012 amendment to the Labour Code, an employer hiring a new employee has an obligation to inform the State Social Insurance Fund Board (SoDra) one day before the employee starts to work, which makes it easier for the SLI to identify and prove undeclared work. In addition, since 2011, mobile groups for controlling undeclared employment have been established in five major counties of the country (Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys counties). Fighting under-declaration of wages is rather costly: it requires checking whether there are infringement to the law on work and rest time (e.g. through false declaration of part-time work, work on public holidays and rest days) and thus necessitates several inspections at the same workplace at different periods of the day.

Cooperation with other institutions such as the STI, SoDra or the municipalities to fight undeclared employment is relatively developed. The SLI collaborates with municipal committees to check on benefit recipients at the territorial level and can carry out inspection at their demand. It also exchanges information on the existence and type of law infringement with SoDra and municipalities. In 2016, a special project was led by the SLI, the STI and SoDra jointly, aiming to detect and reduce undeclared employment. It consisted in first identifying taxpayers with wages significantly lower than the minimum wage, declared as working part-time. The SLI then sent letters to the employers expressing their suspicion of law infringement and asking for justification, based on a questionnaire. After an assessment of the plausibility of the answers, interviews or inspections were planned and shared between the three state bodies according to resource availability. This operation appears to have been quite successful: SLI reported that a number of companies considerably reduced the share of part-time workers simply after receiving the letter, and observed a growth in wages reported by the targeted companies more than twice as high as the average wage growth in that year (Eurofound, 2017[12]).

Some measures recently implemented by Sodra are also likely to contribute to reduce the under-declaration of wages. In May 2017, what was called "cherry envelopes" were sent to employees who earned less than 12 monthly minimum wages over the last year that were informing them of the size of the benefits they were entitled to with such low wages. This awareness raising appeared to have been effective as wages declared by those employees raised by 55% between May and August 2017. [7] Since the beginning of 2017, Sodra is also publicly announcing on internet average wages in enterprises and institutions, which sheds suspicion on those whose average wage is below the minimum wage.

3.2.4. Sanctions are too low to effectively dissuade violations

The greatest potential impact of labour inspection comes through deterrence, i.e. the perception that the expected costs of investigation are significant enough for firms to comply voluntarily (Weil, 2008[13]). In addition to the likelihood of being inspected, the level of fines is the most important factor determining effective deterrence. It should not be too low as it would have no effect on the employer behaviour, but not too high either because, if strictly enforced, it could jeopardize the viability of the enterprise and the jobs of its workers. It should also be proportionate to the seriousness of the violation.

In Lithuania, the SLI is authorised to impose certain fines, of an amount set by law, but others are the responsibility of courts. On the one hand, this minimises the opportunities for inspectors to abuse their power through the extraction of bribes. Indeed, at about 1.2 times the average wage in 2016, the wages of labour inspectors are rather low and represent a rather small barrier against possible corruption. On the other hand, it reduces the responsiveness of sanctions in addressing workplace violations.

Despite some increase in their amount over the past years, the level of fines appears to be relatively low.[8] Information on labour inspection fines in other countries is not readily available, but somewhat dated information is available for a number of countries on the maximum fine in case of not declaring a worker as a percentage of the annual average wage (OECD, 2008[14]). In Lithuania, this ratio is 0.3 in case of first breach and 0.5 in case of repeated violation, a level comparable to that observed in Turkey and Mexico at the time, but significantly lower than in Poland (1), Slovak Republic (4.1) and Hungary (1.4-9.4). When it comes to under-declaration of work, the maximum administrative fine for failing to properly record employees' working hours has been raised in 2013 to about 0.13 annual average wage.[9] While fines tend to be more frequently imposed since the beginning of the crisis, the average amount of fine in case of undeclared work has been divided by more than 2.5.[10]

Besides fines, the amounts that employers are meant to reimburse to the social insurance in case they are found to have either not declared or under-declared an employee also play an important role. In principle, when un- or under-declared work is detected, an employer should bear all of the financial consequences, namely should repay taxes and social security contributions. Since 2014, if a person's work has been undeclared, the employer must pay a salary for this work, with a minimum of three minimum monthly wages, but there is no obligation to fully repay social contributions as such. In addition, unlike in OECD countries such as France, Hungary, and Ireland, it is not possible to put a temporary ban on awarding public contracts to serious labour law and OHS offenders, nor is it possible to sanction or sue the owner of a company as a legal person for serious offenses, except in the case of illegally hiring a foreign worker. Unlike in Latvia and Portugal (ILO, 2013[15]; ILO, 2009[16]), naming and shaming measures such as the publicity of lists of enterprises that commit gross violations of labour law on the labour inspectorate's website are not used either.[11]

Finally, another possible hole in the system is that employees are not subject to any sanction in case of un- or under-declaration of work. In part, this reflects the fact that this phenomenon is largely an involuntary outcome for employees, due to their weak bargaining position. However, 40% of the Lithuanians who reported carrying out undeclared activities in the 2013 Eurobarometer, stated that a reason for doing so was that both parties benefited from it (European Commission, 2014[9]). Hence, just as much as unemployment benefit recipients can be asked to reimburse their benefits if found to have undertaken undeclared paid activities in the same time, there would be some ground to minimise the opportunities for employers and employees to collude by designing proportionate sanctions for employees.

3.2.5. The new regional Labour Dispute Commissions significantly improve labour dispute resolution

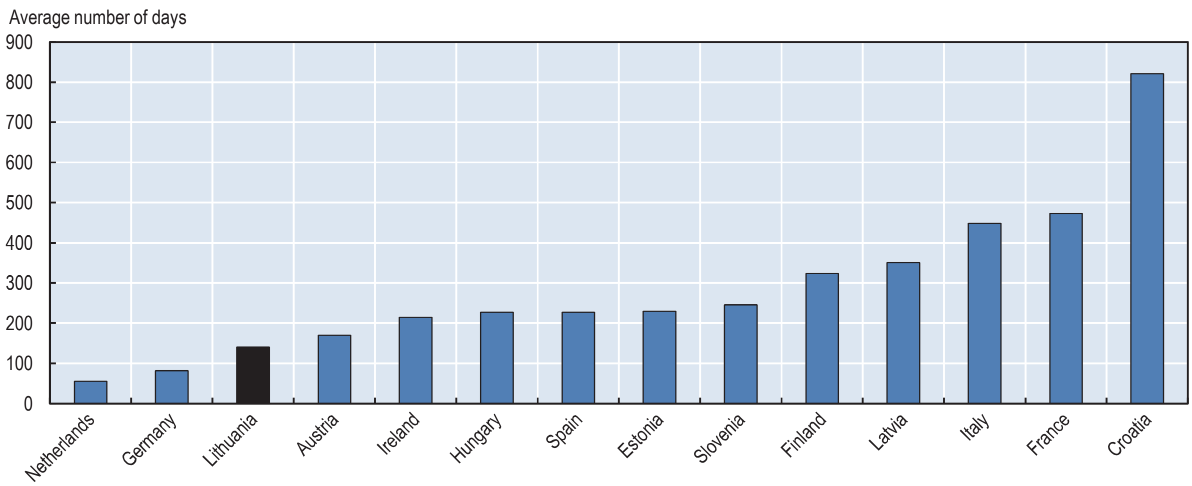
Since 2013, labour disputes over rights between employees and their employers are heard by county Labour Dispute Commissions (LDCs) working permanently at territorial division of the SLI, or by courts. Previously, LDCs including an equal number of representatives of the employer and employees had to be formed at the enterprise level in case of conflict, if one did not already exist. The system was quite ineffective as it could be lengthy and was potentially subject to manipulation by employers, either to avoid the formation of the labour dispute commission or to influence its conclusion in their favour. The county LDCs comprise representatives of both employers and employees (trade unions) – appointed on a rotating basis from a list drawn up by the Tripartite Council secretariat and approved by the SLI – and are presided by designated labour inspectors. Since January 2013, the county LDCs are mandatory pre-trial bodies, except, until July 2017, in cases of termination of employment contract, suspension from work, non-pecuniary damages, as well as collective labour disputes, which were the unique prerogative of courts. The new labour code expands the role of the LDCs by making them the mandatory pre-trial body in all cases of labour dispute.

The large number of cases received suggests that employees feel more encouraged to initiate labour disputes in order to protect their employment rights and that they trust the LDCs (Petrylaitė, 2017[17]).[12] The vast majority of cases relate to the payment of wages, most often in the construction sector, but also in transport and storage, trade and manufacturing sectors. Up to now, LDCs have managed to solve all the cases, with no case being brought forward to court.[13] This may nevertheless change with the extension of the scope of LDCs notably to termination of employment contract and collective labour dispute.

In the remaining cases not covered by LDCs, labour disputes brought to courts are likely to be solved relatively quickly: it took on average between 102 and 132 days for courts to solve a case in the first instance in 2013-2015, which is less than in most European countries for which data are available (Figure 3.3). Cases are rare and mostly relate to contract termination, representing less than one per 1 000 of the total number of terminations.

Figure 3.3. Length of proceedings at first instance is relatively short

Average number of days, 2014



Source: Statistics from the European Commission for the Efficency of Justice (CEPEJ), Council of Europe.

3.2.6. Expanding functions of the SLI raise some challenges

It is very difficult to measure the effectiveness of labour inspectorate action.[14] But all complaints are followed up in Lithuania, and surveys show a high perception among Lithuanian population of the risk of being caught for undeclared activities (European Commission, 2014[9]; Lithuanian Free Market Institute, 2015[18]).[15] However, despite improvement over the last years, the number of labour-related fatalities is among the highest in the EU and compliance with occupational safety rules, in particular the essential ones, remains problematic in spite of the SLI's efforts.

While some of the described evolutions reduce the need for inspections and increase their efficiency, the functions of the SLI have expanded over the past years, with a number of new groups of workers or sectors being added to their responsibility, namely third-country nationals (i.e. foreigners from outside the EU), temporary employment agencies and social enterprises, and the new Labour Code also significantly increases their field of competence. Since July 2017, the SLI is also in charge of collecting new data such as the number of employees' representatives, the number of temporary labour contracts, and the number of termination of labour contracts as well as grounds for it. The county divisions of the SLI will also have to assess reasons for firing or changing work conditions in a less favourable way for an employees' representative. The scope of labour disputes that can be dealt with in LDCs has also increased implying that inspectors will have to devote more time to these commissions. Finally, the SLI's county divisions are now responsible for organising labour arbitration in case of collective labour dispute. All these developments increase the workload of the SLI. Plans to strengthen the SLI's capacity to monitor the labour market through effective access to national registers needed, digital inspections and data collection should somewhat reduce the workload. But given that enforcement remains weak, it will be important to monitor the SLI's activities development and eventually adjust staffing in the future.

3.3. Collective bargaining plays a very limited role for most Lithuanian workers

3.3.1. Collective bargaining is little developed

In combination with labour legislation, the collective representation of workers, through trade unions or other representative bodies, and collective bargaining are important to ensure that workers get adequate conditions of employment and a fair share of the benefits of training, technology and productive growth (OECD, 2017[19]). Without collective representation, workers have to negotiate labour conditions individually with their employer, most often from a relatively weak bargaining position. By improving wages and other working conditions, collective bargaining also contributes to reduce labour turnover (Amossé and Forth, 2016[20]), thus increasing the incentives for employers to invest in skilling their workforce. More generally, collective bargaining may lead firms to invest more in innovation and improving productivity as profits cannot be made by cutting on wages and working conditions.

Collective representation of workers is not very developed in Lithuania. To start with, at less than 8% of employees in 2015, trade union density is very low (Figure 3.4, Panel A). It has been decreasing almost continuously since the transition, except for a slight rebound in 2009-2010. To some extent, this is linked to the association of some of the trade union leaders with the former Soviet period. Trade unionists are often perceived as people with obsolete approaches and trade unions generally lack legitimacy in the country, although the trust in trade unions amongst the Lithuanian population appears to have increased since 2000 according to Eurobarometer (OECD, 2017[19]). But since 2004 and EU membership, the possibility to emigrate to other EU countries also makes it possible for workers to move abroad if working conditions prove unsatisfactory. In the "exit" or "voice" theoretical framework of Hirschman (1970[21]), this possibility to emigrate to countries with much higher wage levels significantly increases the attractiveness of the "exit" option, while accordingly lowering the incentives for workers to use the "voice" option by joining trade unions and undertaking collective action. The very low degree of protest experienced during the crisis despite the adoption of especially severe austerity measures provides an illustration of the low "voice" propensity of Lithuanian workers.

At about 14% in 2014, employers organisation density is also quite low (Figure 3.4, Panel B), although membership has tended to increase since the mid-2000s, and especially so since 2010 (Petrylaitė, 2017[17]). Employers' organisations are active at the national level mainly.

Collective bargaining is thus quite limited in Lithuania, covering 10% of all employees, a percentage lower than in all OECD countries except Turkey (Figure 3.4, Panel C). Collective bargaining takes place mostly at the company level and, reflecting trade union membership, quite often in public sectors such as education and health, and in manufacturing companies.

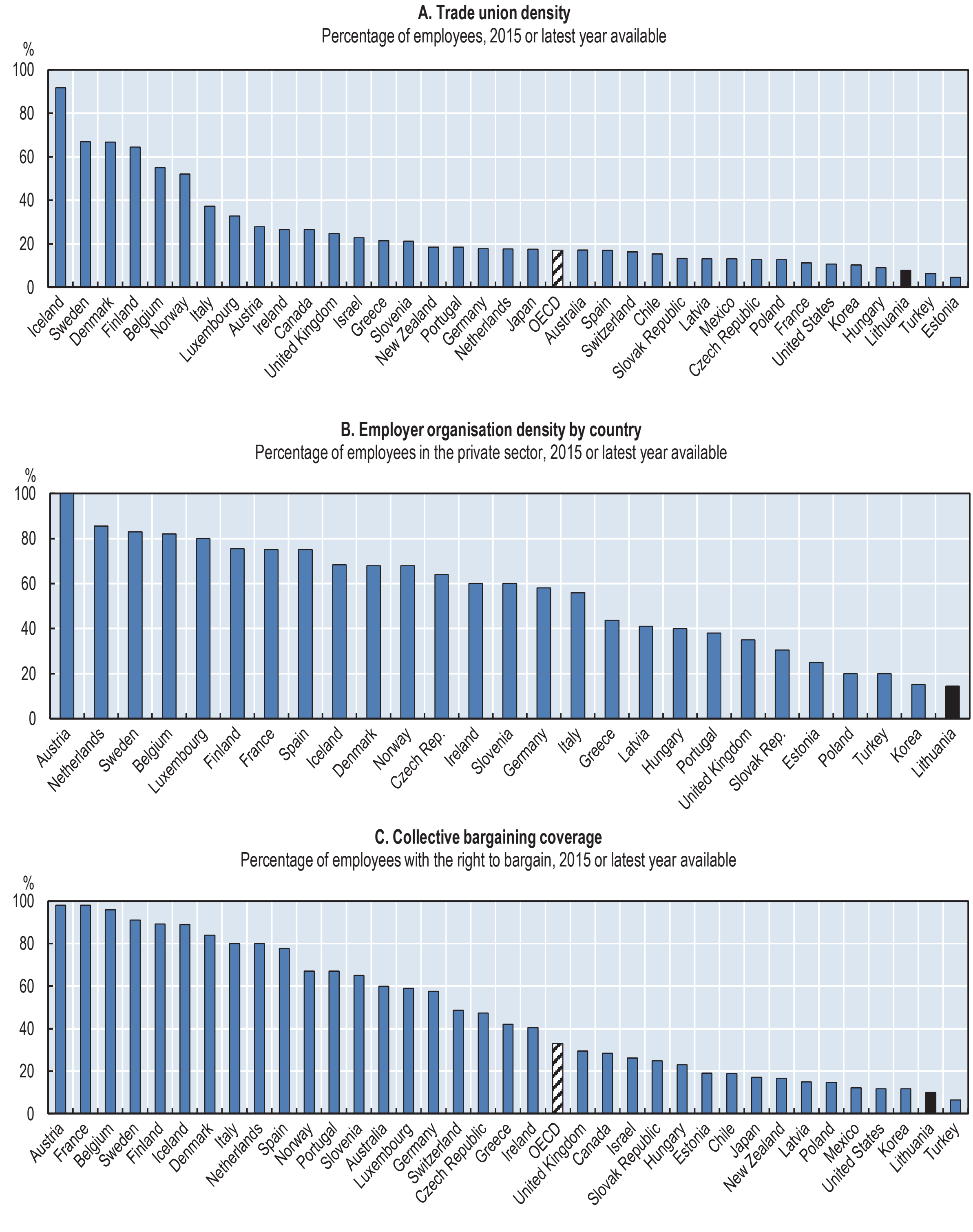
While they were almost inexistent, sectoral collective agreements have been signed in recent years as a direct result of social dialogue support programmes funded by the EU. In 2007, a Programme on Strengthening Social Dialogue in Lithuania for 2007-2011 was introduced, notably with the aim to develop social dialogue in the regions, support employers' and workers' organisations, and promote the signing of sectoral, and territorial collective agreements, followed in 2012 by another programme funded through the European Social Fund (ESF) to promote social dialogue (Petrylaitė, 2017[17]). Many sectoral agreements were signed between 2012 and 2014, but an analysis of their content shows that most of their provisions are taken from legal acts and largely declarative in nature. Regional tripartite councils were also established thanks to these programmes.

Social dialogue also takes place at the national level, and largely in the Tripartite Council, established since 1995 and formed of an equal number of representatives of the trade unions, the employers' organisations and the government. After longstanding criticisms of the representativeness of the Tripartite Council by both trade unions and employers' organisations, its membership was increased at the start of the March 2017 negotiations on the Labour Code, the Law on Unemployment Insurance and the Law on Employment, with the entry of two additional representatives for both trade unions and employers. The Tripartite Council works through a number of commissions and committees trying to reconcile the interest of the social partners on labour and social issues and provides recommendations to the government. As part of its regular tasks, discussions on the minimum wage are held every year and used as inputs by the government when fixing its level (see below). Over the past years, the Government however tended to send officials with no decision power into the Tripartite Council, which the social partners interpreted as a sign of limited support for social dialogue, but the Minister of Social Security and Labour attended the March 2017 negotiations on the Labour Code.

National agreements among the social partners are rare. A social pact was negotiated in 2009, after the social protest following the announcement of drastic austerity measures by the government without initially consulting the social partners. The agreement dealt with taxation and economic measures to tackle the crisis, as well as pay and employment cuts in the public sector and social benefits cuts. Trade unions agreed to average pay cuts of 10% in exchange for government promise to continue social dialogue. The agreement expired at the end of 2010 and attempts to reach new agreements failed since then.[16] The association of social partners to policy making is relatively limited, as illustrated by the fact that social partners were consulted only informally in the initial stages of the New Social Model[17], and their formal involvement started only after the new laws had been drafted (Box 3.1).

At the company level, the presence of health and safety representatives at the workplace is also low – 34% of the workers report having a health and safety delegate or committee against 58% in the EU in 2015[18], which is of concern given the high incidence of fatal work injuries at work (Chapter 1).

Figure 3.4. Very low trade union and employers organisation densities make for very low collective bargaining coverage in Lithuania



Note: OECD is the weighted average of the 35 OECD Member countries.
Source: *OECD Employment Outlook 2017*, Chapter 4, "Collective Bargaining in a Changing World of Work".

3.3.2. The new Labour Code brings about changes in the collective bargaining framework

The new Labour Code affects workers representation and the collective bargaining framework in a number of ways. Proposed changes were not well received by the trade unions, who were concerned that they could ultimately undermine their already weak position, and this was one of the main area of discussion in the March 2017 negotiations at the Tripartite Council (Box 3.1). The main – and most contentious – item related to the redefinition of the respective roles of trade unions and work councils in companies. In the previous labour code, work councils could be established but only in companies where no trade union was present, and they had collective bargaining rights.[19] The new Labour Code establishes a division of competences between trade union and work councils, with trade unions being in charge of collective bargaining matters and work councils responsible for all employees' information and consultation activities. In addition, work councils can be created in companies where trade unions are active, unless more than one third of the employees belong to the trade union (against 50% before the March 2017 negotiations at the Tripartite Council). After the March 2017 negotiations, trade unions are automatically allocated one seat in the work council, which should avoid complete side-lining of trade unions from information of and consultation with employees.

In principle, given the low trade union membership, the development of alternative representation mechanisms in firms with no trade unions could improve the actual representation of workers as well as social dialogue at the firm level. But anecdotal evidence suggests that some Lithuanian companies may not be ready for this, as they were training their managers to avoid the formation of a work council. Close monitoring of this process, as planned by the Lithuanian authorities, will thus be important. Besides, while work councils can initiate a collective labour dispute if the employer fails to comply with the Labour Code or the agreements established, they no longer have bargaining prerogatives in places where trade unions are not present. This is meant to leave workers with incentives to unionise. However, in firms where no trade union emerge, the absence of bargaining prerogatives at the same time limits the possibility for work councils to play a role further and above the collective expression of workers' interests.

Another provision of the Labour Code possibly weakening trade union representatives is that employers can now dismiss trade union representatives if they have the consent of the SLI instead of the employees' representative body, as previously required; this implies that employees' representatives no longer have priority rights (Bruun, 2017[22]). Priority rights for trade union members are nevertheless rare in the OECD, where protection of employees' representatives is most often provided by higher punishment for employers in case of unjustified dismissal. Such a provision is not included in the Lithuanian law, however.

In a stated attempt to increase the incentives for employees to unionise, the new Labour Code restrains the application of collective agreements to trade union members only, unless stated otherwise in the collective agreement. If applied, this measure may result in reducing the already low bargaining coverage. International evidence, however, suggests that this provision may be difficult to apply in practice. A large majority of OECD countries apply *erga omnes* clauses extending the terms of collective agreements to all workers, and even in countries without such clause, employers often voluntarily provide the same conditions to all employees within the company, notably for the sake of simplifying the system (OECD, 2017[19]).

The Labour Code also modifies the rules for strikes and lockouts. Strikes are very rare in Lithuania, and occurred exclusively in the education sector in recent years. In part, this may be related to restrictive legal provisions. The new Labour Code may make it easier to organise a strike, as it reduces the quorum requested for its approval from 50% of the employees before to 25% of the trade union members now. Strikes remain nevertheless restricted to cases of unresolved collective labour disputes and can now only be organised by trade union members, as is the case in Germany, Greece and Poland (Warneck, 2007[23]). On the other hand, the new law makes it possible for employers to resort to lockouts and temporarily replace striking workers, which may reduce the efficiency of strike for workers. This possibility exists in some OECD countries, but is generally restricted to some "vital" sectors, such as transports.

3.3.3. The minimum wage is binding but wages are nevertheless quite flexible

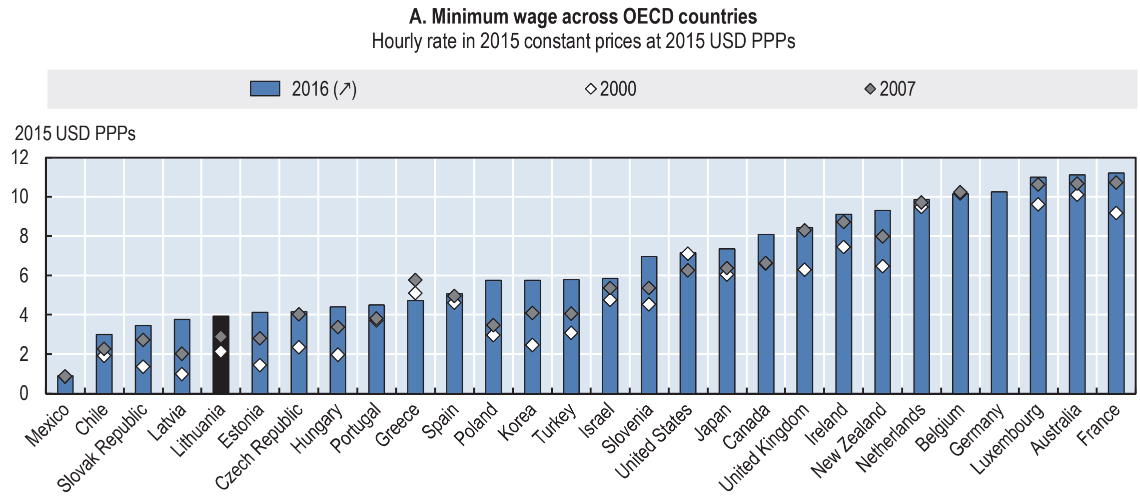
The minimum wage is fixed annually by the Government following a non-binding recommendation of the Tripartite Council. Despite an increase of about 70% since 2000, the level of the minimum wage in constant purchasing power parity (PPP) US dollar remains very low in Lithuania compared with most OECD countries, and quite similar to that of Estonia and Latvia (Figure 3.5, Panel A). After and annual average growth of 5% between 2000 and 2007, the minimum wage was frozen during the crisis and up until 2012. Some large increases over the recent years have allowed some catch-up. The largest increase was provided in 2016 with a relatively strong consensus among social partners (Eurofound, 2016[24]). The net income for a single worker earning the minimum wage was around the poverty threshold in 2014, the latest year for which income distribution data are available (Chapter 4, Figure 4.7, Panel B).

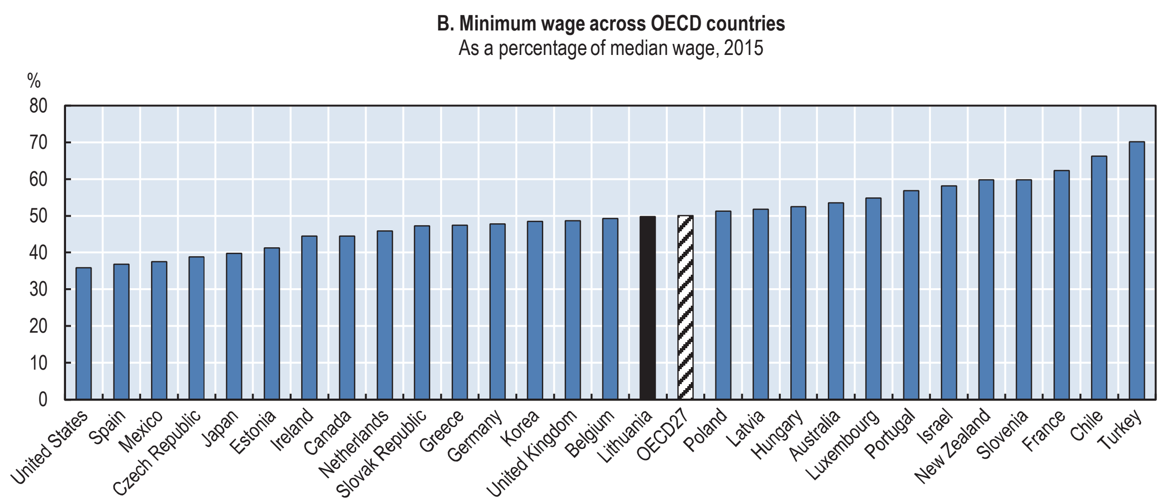
At about 50%, the ratio of the minimum wage to the median wage was very close to OECD average in Lithuania in 2015 (Figure 3.5, Panel B). As mean wages are affected by extreme values, median wages provide a better point of reference, especially in countries that have high wage inequality, such as Lithuania. In general, this ratio tends to be higher in less developed countries, reflecting the fact that the median wage earner is relatively low-paid (Chapter 1).

The share of workers earning the minimum is relatively important in Lithuania compared with other EU countries. In 2014, about 9% of employees were earning the minimum wage, down from above 13% in 2010, a level close to that in France, slightly above Latvia (8%) and much higher than in Estonia (3%).[20] After some decrease in 2015, that share increased again in 2016, reaching about 10% of full-time employees.

The minimum wage aims at improving the income distribution by putting a floor on low wage earnings thus making low-wage earners better off and reducing the gap to high wage earners. But minimum wages can also come with efficiency loss if set at a level that keep workers away from employment, which might especially be the case in labour-intensive industries competing in international markets. In general, minimum wage studies on Central Eastern and South-Eastern European countries tend to find some disemployment effects, although strong conclusions cannot be drawn (Raei et al., 2016[25]). In the case of Lithuania, Hazans (2007[26]) found that increases in the real minimum wages until 2003 had positive effects on labour force participation. Šuminas (2015[27]) finds no effect of minimum wage on employment over the 2003Q1-2014Q1 period. Results from the Wage Dynamic Network of the European System of Central Banks (ESCB) suggest that only 10% of the employers interviewed in January 2013 stated that they would cut hiring because of minimum wage hikes, while 18% indicated they would react by cutting non-wage costs and 25% said they would increase productivity.

Figure 3.5. The minimum wage is very low in absolute terms but close to the OECD average in relative terms





Source: *OECD Minimum Wages Database*, http://dx.doi.org/10.1787/data-00313-en.

Such debates nevertheless took place in the 2016 negotiations at the Tripartite council, where it was emphasised that the relatively high ratio of minimum to average wage and the fact that wages have been recently growing faster than productivity suggested that increases in the minimum wage should be slowed down (Eurofound, 2017[12]). In January 2018, the minimum wage was raised from 380 EUR to 400 EUR, that is by 5%, slightly more than the expected productivity increase in 2017 of 3.8%. Expected average wage increase for 2017 taken into account by the Tripartite Council was around 8%, so that the minimum wage to average wage ratio would slightly decrease.

Another possible negative effects of the minimum wage is that it may exacerbate non-compliance: the negative correlation between change in the minimum wage level and changes in hours worked suggests that following minimum wage hikes, employers pay the same and declare fewer hours (Raei et al., 2016[25]). However, the recent initiative by the SLI and the STI to target firms with a large share of minimum wage workers appears to have increased compliance with the minimum wage (Section 3.2.3) and, if regularly conducted in the future, should reduce this effect.

The pass-through of minimum wage increases to general wages appears to be relatively important compared with other Central and Eastern European countries, at 0.3% for a 1% rise in the minimum wage (Raei et al., 2016[25]). Apart from this effect of the minimum wage, the very low collective bargaining coverage implies that wages are largely fixed individually in Lithuania. Wages have proved highly flexible during the crisis. To preserve employment, public wages were significantly cut (Chapter 1), including by decreasing or suspending payments agreed in collective agreements[21]. Wages in the private sector also adjusted downward through the variable part of wages, unpaid working days, and unpaid leaves. The use of variable pay is indeed very high in Lithuania, with more than 85% of the companies surveyed in the European Companies Survey in 2013 extensively using variable pay schemes – mostly based on individual performance – the third highest level in the EU. And these schemes make for a relatively large part of total remuneration (25% in 2009 according to Eurofound (2016[28])).

This very high wage flexibility allows firm to absorb shocks and played a role in the recovery of this small open economy where domestic demand may be of less importance than external demand. There are nevertheless debates on how necessary and appropriate these strong downward adjustments in wages were as an answer to the crisis (Sommers, Woolfson and Juska, 2014[29]). In any case, from the workers' side, the high wage flexibility implies strong cyclicality in incomes and periods of hardship for Lithuanian employees.

The new labour law includes a provision that, in the absence of collective agreement, firms with 20 employees or more shall establish a remuneration system specifying employees' categories according to job positions and qualifications and for each category, minimum and maximum wage levels, grounds and procedures for granting additional payments such as bonuses and allowances, and wage indexing procedures. Employees should be informed and consulted before its adoption and for any modification. This was possible in the previous labour law but not obligatory. It remains to be seen how this will be implemented in practice, but this may represent a progress for workers by somewhat increasing their individual bargaining power, at least in good times.

3.4. High social contribution rates make informal employment attractive

In comparison with OECD countries, the composition of tax revenues in Lithuania is skewed towards social contributions, which account for 41% of total revenues, compared with 34% in the OECD on average[22]. By contrast personal income tax is relatively low (see Chapter 4, section 4.5). This results in an overall tax wedge on labour cost of 41% for an average wage earner, about two percentage points above the OECD average in 2015 (Figure 3.6, Panel A). But labour taxation was especially high on low-wage workers, with a tax wedge about six percentage points above the OECD average for minimum wage earners (Figure 3.6, Panel B).

Following recommendations of the European Commission to lower the tax burden on low-wage earners, the personal income tax threshold was however increased both in 2016 and 2017, leading to a decrease in the tax wedge at minimum wage level of four percentage points. Although the tax wedge on minimum wage earners remains two percentage points above the 2015 OECD average, these moves are likely to boost employment rates among lower-skilled workers, by bringing their labour cost more in line with productivity (OECD, 2016[30]). A new increase in the personal income tax threshold from EUR 310 to EUR 380 has also been implemented in January 2018, which should further reduce the tax wedge at low-wage levels.

Indeed, in a traditional economic framework with no undeclared work, taxes on labour add to labour costs if they cannot be transferred back to workers in the form of lower wages. This depends on a number of factors, namely: i) the presence of a net wage floor (i.e. a binding minimum wage); ii) the extent to which workers value social protection or public services provided by taxes; iii) the relative bargaining power of employers and employees; and iv) the relative generosity of possible replacement revenues (OECD, 2008[31]). The effects of labour taxes on labour demand are thus likely to be particularly large at low wage levels.

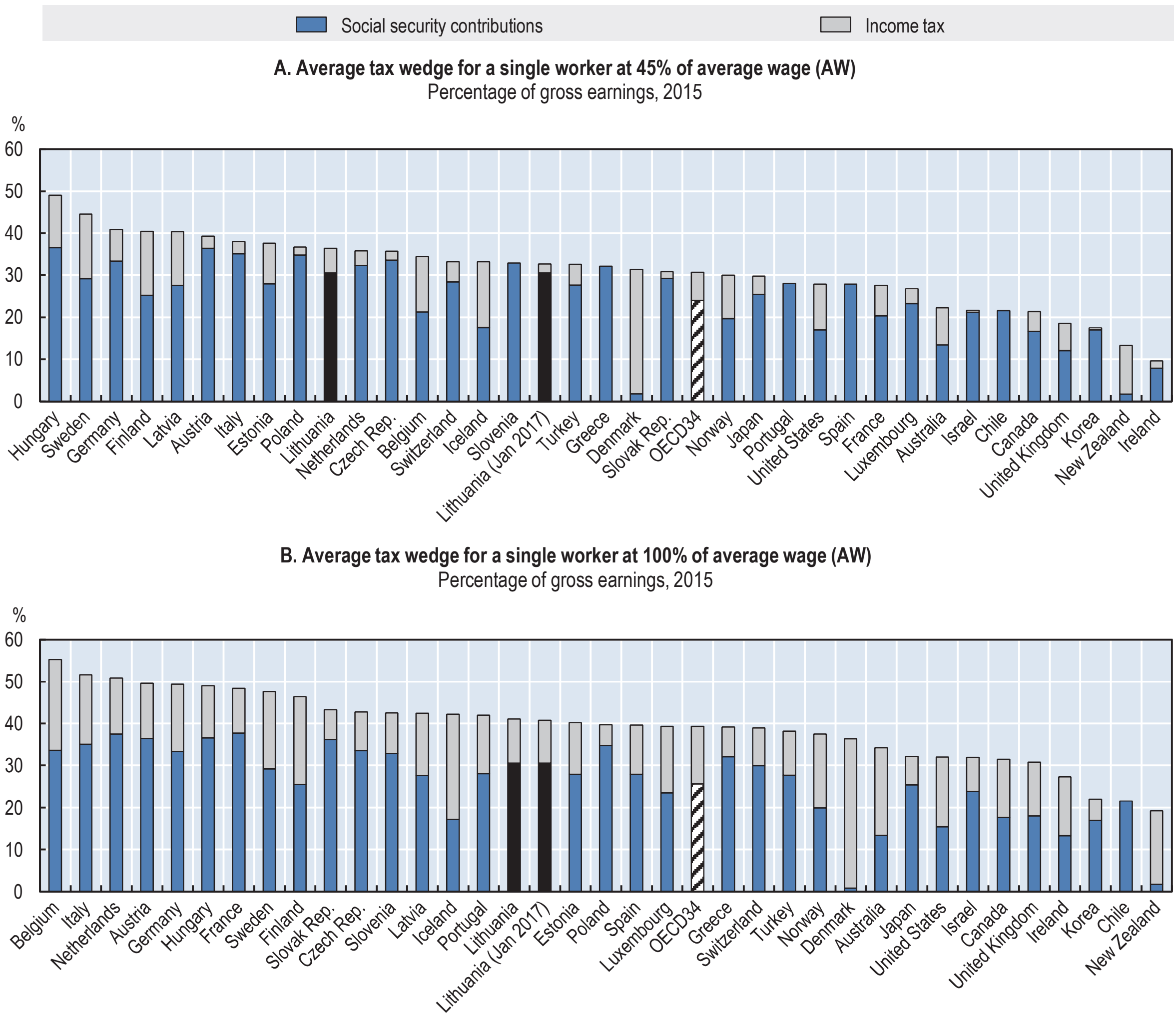
But in a country where tax enforcement is still relatively weak and there are possibilities not to declare earnings, high taxes on labour also reduce the gains for formal work compared with informal work and provide incentives both to non-declaration of workers and to under-declaration of labour earnings. The former is likely to happen mostly at the bottom of the wage ladder, and the recent reduction in the tax wedge at low wage level should reduce the incentives for it. But incentives to under-declare earnings operate throughout the wage scale.

The link between the tax levels, tax mix and informal employment is not straightforward and in fact very much relies on the degree of tax non-compliance. Tax compliance remains a concern in Lithuania : according to the latest calculation, the Value Added Tax (VAT) gap – i.e. the difference between expected VAT revenues and VAT actually collected – was 36.8% in 2014, one of the highest values in the EU (European Commission, 2017[32]). By and large in Lithuania, the possibility to work undeclared reflects this widespread practice of undeclared sales and profits, which are then “recycled” into undeclared wages. Some progress has been made in tax compliance over the recent years, and recent initiatives from the STI, such as a new IT system and the introduction of an electronic invoicing system and an electronic waybill system, are expected to further raise the efficiency of the tax administration in the coming years (European Commission, 2017[32]). But as the detection of business income improves, the effects of the tax mix imbalance will become more important: when business income gets better detected, significantly lower taxation rates on business revenue than on labour income – as they currently exist in Lithuania with the 15% tax rate on corporate profits and the flat 15% tax rate on personal income for unincorporated businesses – provide strong incentives to business owners to under-declare wages.

Further progress in tax enforcement will also allow implementing reductions of, or exemption from, social contributions targeted at low-wage earners. At the moment, such exemptions or reductions are difficult to introduce precisely because they provide incentives to under-declare wages so as to be in a position to benefit from these advantages. One solution could be to exempt a fixed amount of wages from social contributions for all employees. While this would not create additional incentives to under-declare, it would be more costly than a targeted reduction in social contributions.

To further improve the tax structure for low-wage earners, the Lithuanian government is currently considering the possibility to implement further reforms (The Government of the Republic of Lithuania, 2017[33]): i) shift all social contributions away from employers onto the employees; ii) finance the non-earnings related public pension component from the state budget rather than through social insurance contributions (see Chapter 4); and iii) further increase the income tax threshold once these two changes have been implemented.

Figure 3.6. Fiscal pressure on labour is relatively high



Note: Minimum wage in Lithuania in 2015 corresponds to approximately 45% of the AW and to the minimum wage in January 2017.
Source: OECD Tax-benefit Model, www.oecd.org/social/benefits-and-wages.htm.

The first measure of the two measures is meant to lower incentives to under-declare wages, presumably based on the assumption that employers are mostly responsible for the under-declaration, so that putting the payment under the responsibility of employees would reduce their incentives to under-declare wages. The effectiveness of this measure is questionable for a number of reasons. First, apart for workers paid around the minimum wage and those with a very high bargaining power (i.e. highly skilled workers in professions very much in demand), employers are probably already able to transfer most of the social contributions back onto workers in the form of lower wages, so that switching all contributions on these employees will change little. Second, in the case of low-wage workers, employers are most likely in a dominant position which will continue to allow them to impose under-declaration of wages anyway. And third, while highly skilled workers in demand are likely to be in a dominant position, they may still collude with their employer to under-declare wages if they do not highly value the benefits of the social insurance system.

3.5. Reliance on EU funding is shaping active labour market policy but limiting its scale

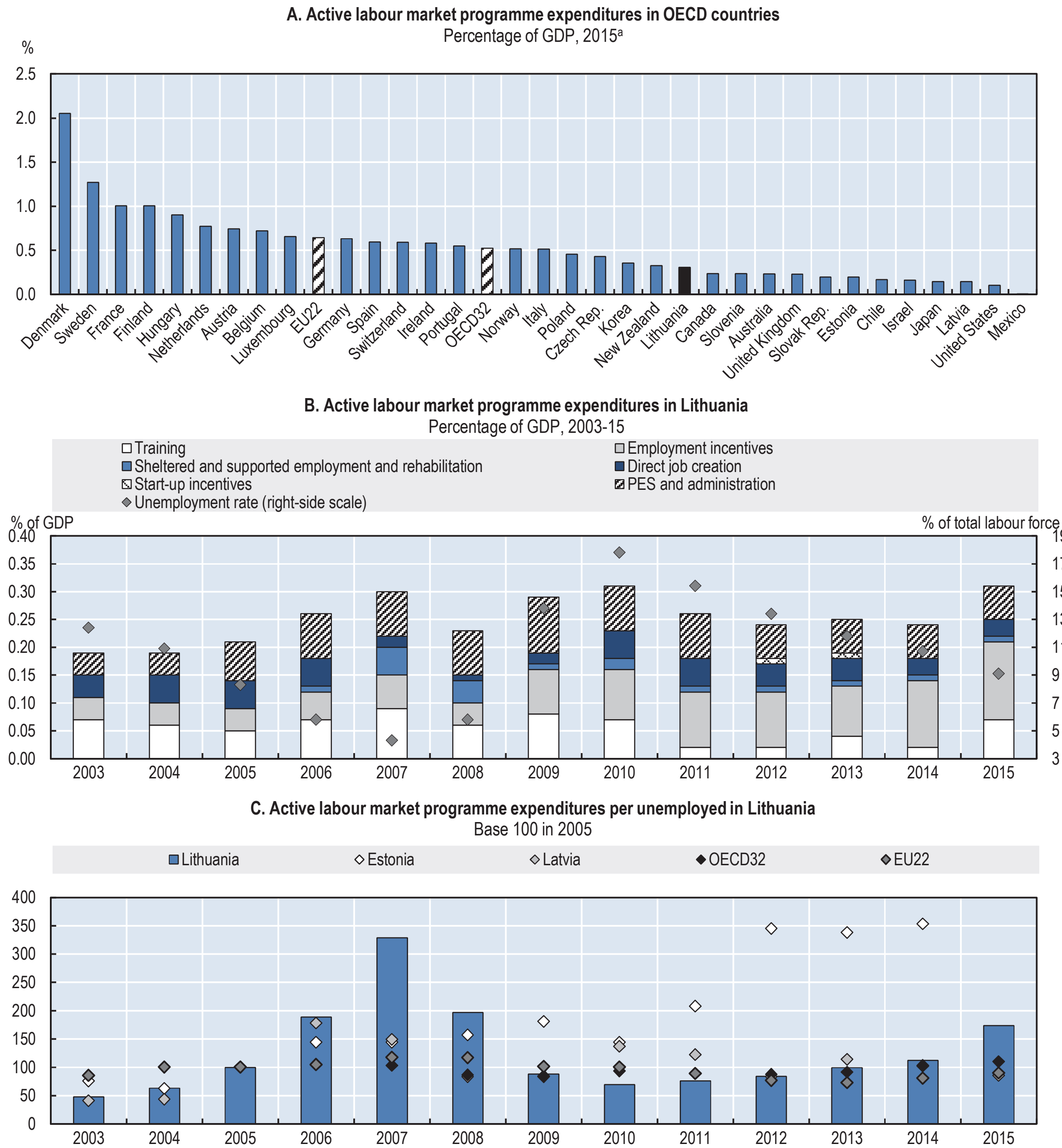
3.5.1. Spending on and participation in ALMP is low compared with most OECD countries and highly dependent on EU funding

At 0.3% of GDP in 2015, compared with 0.5% on average in the OECD, Active Labour Market Policy (ALMP) expenditure are relatively low compared with most OECD countries, although higher than in Estonia and Latvia (Figure 3.7, Panel A). ALMP spending was significantly cut at the very beginning of the crisis and returned to its 2007 level in 2009 and 2010 (Figure 3.7, Panel B), but as the unemployment rate surged in the same time, this resulted in a significant drop in the ALMP expenditure per unemployed person, from which Lithuania has not yet recovered in 2015. This is in sharp contrast with the average trend observed in the EU, where ALMP expenditures were raised during the crisis in an attempt to alleviate the labour market impact of the crisis (Figure 3.7, Panel C). The decrease was also much stronger than the one experienced on average in the OECD. Although starting from a higher level, the pro-cyclical cut in ALMP expenditure per unemployed was also higher than in Estonia and Latvia. Given the high volatility of Lithuania's labour market, introducing some form of automatic link between ALMP budgets and labour market conditions, as in place in some OECD countries such as Australia, Denmark and Sweden, would help avoid reductions in spending per unemployed when unemployment surges and ALMP are most needed.

Participation in ALMPs also remains low compared with other EU countries: in 2015, only three European countries had a lower share of the unemployed according to the ILO definition participating in ALMP programmes.

Lithuanian ALMPs rely heavily on external funding sources, notably the European Social Fund (ESF). In 2014, the ESF covered 47% of total ALMP expenditure, and 63% in 2015. This dependency on external funding limits the scale of ALMP and raises issues of continuity of the programmes.

Figure 3.7. ALMP expenditures remain relatively low in Lithuania despite some increase in recent years



Note: OECD32 is the unweighted average of 32 OECD countries (not including Greece, Iceland and Turkey). EU22 is the unweighted average of the 22 EU countries shown. Fiscal years for Australia, Canada, Japan, New Zealand, the United Kingdom and the United States.

a) 2011 for the United Kingdom and 2014 for Estonia and New Zealand.

b) OECD is the unweighted average of the 32 OECD countries shown (not including Greece, Iceland and Turkey).

Source: OECD (2017), "Labour market programmes: expenditure and participants", OECD Employment and Labour Market Statistics (database), http://dx.doi.org/10.1787/data-00312-en (Accessed on 6 June 2017) and Statistics Lithuania (unemployment rate).

3.5.2. High caseloads limit the ability for individual / intensive counselling

A very large share of the unemployed in Lithuania makes use of the public employment services delivered by the LLE. About 85% of the unemployed persons had contacted LLE in the month prior to the labour force survey in 2015.[23] Registration at LLE is required for the unemployed to get unemployment benefits and since 2013 to claim social assistance benefits. But public employment services are available to all jobseekers, regardless of their entitlements to benefits. This explains the high registration rate of unemployed persons, although only slightly more than a quarter were covered by unemployment benefits in 2016 (see Chapter 4).

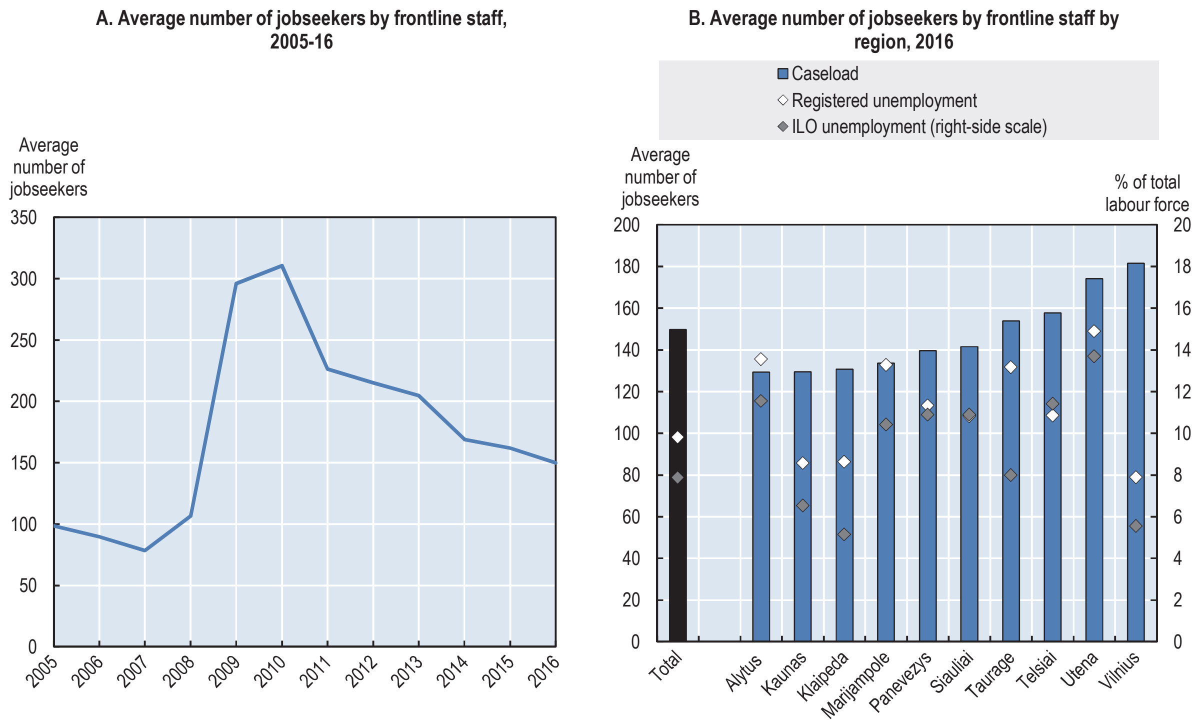
Jobseekers are currently profiled during their first interview according to two criteria, job market readiness – based on qualifications and demand for these, and motivation to look for work – based on the number of recent job applications and type of job search. In 2016, about one third of the jobseekers were job ready including 7% not motivated, 36% were not job ready but motivated, and slightly less than a third not job ready and unmotivated. Within the first three months of registration, the caseworker and the jobseeker agree on an individual action plan, which sets a goal and measures to achieve it, such as motivation boosting courses, employer visits, and ALMP participation. Jobseekers not ready for the labour market can be given counselling and vocational guidance, motivation courses, vocational training and employment support measures.[24] Job-ready jobseekers receive less intensive support, mainly in the form of employment intermediation services, support for territorial mobility, and support for entrepreneurship. A three months period to develop an employment plan has become quite common among OECD countries, but for people facing important employment barriers and unlikely to find a job quickly, this is still a rather long period to wait for planning measures to address these barriers.

A pilot project aiming at better aligning employment service delivery with the jobseekers needs through a "holistic approach" is currently being tested in 14 out of the 94 LLE local offices. It includes a new profiling system based on a comprehensive questionnaire taking into account individual and household characteristics to identify the main employment barriers and providing an employability score (Pacifico, 2017[34]). Based on this score, jobseekers are classified as having "low", "medium", or "high" employability. In addition to ordinary labour market services, jobseekers receive the help of a "social work advisor" to search a job as well as to arrange and coordinate support from other institutions or organisations (NGOs, municipality, schools, etc.) as needed. Besides a team of LLE labour market specialist support the caseworkers in the preparation of the action plan. The first internal LLE evaluations point to some increase in the share of jobseekers finding an employment as well as some reduction in the period needed for that (Pacifico, 2017[34]).

However, LLE staff have very high caseloads, that are likely to prevent their ability to provide intensive individual counselling to those who may need it. The quality, individualisation of the content, and frequency of interview is key to have an impact on movements into employment and improve the quality of job matches (OECD, 2015[35]). In 2016, three quarters of the staff handled front-office tasks in direct contact with jobseekers and 53% were caseworkers. Caseload per frontline staff jumped during the crisis, and despite a continuous decrease since 2011, at 150, it remained 50% above its 2007 level in 2016 (Figure 3.8, Panel A). Caseloads per counsellor are even higher, around 300 in 2016. On average, caseworkers receive jobseekers once every two months for 15 to 30 minutes,[25] but this differs a lot according to the category of jobseekers, as well as according to groups. Some LLE staff are specialised to deliver tailored support to youth, older unemployed and disabled, while others are specialised to service employers.

In 2014, caseloads for specialised counsellors were 213 for youth, 136 for LTU and 50 for disabled, and caseworkers also had additional functions than counselling (Irving et al., 2015[36]).

Figure 3.8. Caseloads of the Lithuanian Labour Exchange staff are high



Source: Ministry of Social Security and Labour, Lithuanian Labour Exchange.

Besides, caseloads vary a lot across counties, from a minimum of about 130 per frontline staff in Alytus, Kaunas, Klaipeda to a maximum of around 180 in Utena and Vilnius (Figure 3.8, Panel B). Differences in caseloads may not be a problem if they correspond to the different states of labour market: the high number of jobseeker per frontline staff in Vilnius is in line with its low unemployment rate, while the low number of jobseekers per frontline staff in Alytus fits its high unemployment rate. But Utena and to a lesser extent Telsiai both have high caseloads and high unemployment rates, i.e. lower placement opportunities, putting jobseekers at disadvantage in those counties. At the moment, such differences cannot be reduced easily as regional offices currently manage their staff independently and LLE positions cannot be moved from one county to another.

Some recent and forthcoming reforms are likely to improve the workload of caseworkers. The administrative structure of LLE and of its local offices have been reformed respectively in September 2016 and September 2017. Some management processes – activities planning, control, financial and human resources – should become centralised, and, together with change brought by the new Law on Employment, this is expected to reduce the administrative functions of local LLE offices and release some time for direct services to jobseekers. However, to enable LLE counsellors providing intensive counselling to those who need it, their number should also be increased. The government also plans to equalise the workloads of LLE staff across counties. Concrete steps should be taken soon in this direction, especially to reduce caseloads in the counties most in need.

3.5.3. The activation stance is mixed with relatively mild suitable work criteria but heavy sanctions

As will be discussed in Chapter 4, access to unemployment benefit was quite strict until July 2017 in Lithuania, and the level of benefit rather low, so that disincentives to work arising in unemployment and related benefits are relatively limited compared with most OECD countries. This relative non-generosity of the unemployment benefit system may explain why job search and availability requirements are not very demanding in Lithuania compared with the majority of OECD countries. Jobseekers are not requested to be available for work when participating to an ALMP programme, and the definition of suitable work (i.e. a job offer that the jobseeker cannot refuse) is not particularly constraining (Langenbucher, 2015[37]).

In particular, a jobseeker cannot be requested at any time to accept an offer outside his/her occupation and cannot be forced to choose a profession he does not agree to in his/her individual plan.[26] In terms of job search monitoring, there are no requirements regarding the frequency of the meetings (or remote interaction) with the unemployed and time for the next visit (or interaction type) is set individually. Usually unemployed persons receiving unemployment benefit (or social insurance benefit) must report on job search and other activity included in the individual action plan every month. With the recent increase in the duration and generosity of unemployment benefits, there may be some ground to strengthen the suitable work criteria, by making the requirements become stricter as the duration of unemployment lengthens.

On the other hand, sanctions in case of non-compliance with eligibility criteria are rather high compared with most OECD countries. While voluntary quit is not sanctioned by ineligibility to unemployment benefits, refusing a job offer considered as suitable exposes the jobseeker to immediate total suspension of his/her unemployment benefit, and this from the first refusal. The same is true for sanction for not participating in an ALMP measure or not attending a counselling interview. Unemployment benefits are suspended and the jobseeker can regain access no earlier than 6 months after the suspension.[27] This places Lithuania amongst the strictest countries for these types of sanctions. Allowing for more progressivity of sanctions would provide more room for manoeuvre for LLE caseworkers to effectively activate jobseekers.

3.5.4. Reliance on EU funding implies targeting of ALMP measures on specific groups

Lithuania is rather unique in having the groups that can benefit from ALMP enshrined in the Law on Employment. This group approach to labour market policy very much reflects the fact that most labour market programmes rely on EU funding which is always targeted at specific groups. In fact, the main groups identified in the law and who have access to ALMP correspond to those for which EU funding is available, that is older workers, the long-term unemployed, youth and the disabled, although the new Law on Employment now also includes unqualified persons.

By and large the most challenging group for labour market policy in Lithuania is that of the *older workers*, who represented almost 40% of the registered unemployed in 2016. According to the MSSL, one in two persons of that group is unmotivated, more than 40% reside in rural areas, almost one in three is older than 60 years, one in ten is disabled, one in three is long-term unemployed and more than 40% have no fixed profession. Added to the frequent age-discrimination that they face (Pacifico, 2017[34]), this makes for a very large number of barriers that the older unemployed face to get back to employment.

Since 2015, the main programme targeted at this group is the ESF funded project "Support for the Unemployed of Older Age", which supports people aged 55 and over into the labour market until end-June 2017 through vocational training, employment subsidies and help with commuting costs. A main challenge during the implementation of the project was to make training activities attractive since older workers in Lithuania, as in most OECD countries, have very limited motivation to participate in VET.[28]

More recently, an action plan on the motivation of older people and the promotion of voluntary activities for this group, again financed from ESF, has been approved, which should be implemented by NGOs. Participants would have their needs and possibilities assessed, would receive information and consulting services, as well as psychological help and some training to develop general skills.[29] They would also be motivated to take active participation in social life, and campaigns would be led to improve the image of older workers in the society and among employers.

Most LLE offices include a dedicated *Youth* Job Centre, and unemployed persons aged under 30, who represented 16% of the total number of registered unemployed in 2016, can access a large number of ALMP measures, including supported employment, socially useful activities, VET (voucher and apprenticeship) and support for commuting (OECD, 2016[38]). In addition, since 2015, they also benefit from measures to increase self-knowledge, professional orientation and guidance by qualified psychologist.

Since 2014, these programmes are mostly organised under the EU Youth Guarantee. Following OECD recommendations (OECD, 2016[38]), the approach in implementing the Youth Guarantee has been reformed towards starting with low cost intervention aimed at enhancing human capital and rapid job entry, and if not successful, following with more intensive and expensive intervention, including training with considerable workplace-based experience, and work experience programmes:

- The *first phase* is delivered since September 2015 under the project "Discover yourself" which targets both unemployed NEETs and inactive NEETs. Unemployed NEETs that are unprepared for the labour market can be assessed by the LLE and offered either: i) package for returning to the labour market, ii) a package for returning to the educational system, or iii) a package for self-employment. Short traineeships are included in all these packages. Unemployed NEETs that are prepared for the labour market but lack specific competences or social skills are involved in training, meetings with employees and visits to companies.
- Participants who do not receive unsubsidised job offer after completion of the programme – which should not last longer than four months – can be offered participation in the *second phase* project "New Start", launched at the end of 2015. Priority is given to the most disadvantaged, i.e. those unemployed for two years or more, who reside in rural areas, and with basic or lower-level education. They are offered mostly vocational training, but also subsidised jobs or a package of several services (for example, vocational training and subsidised job) depending on their needs, for a longer period of time than just four months. (PPMI, 2016[39]).[30]

Started in 2014, the ESF funded "Employment Support for Long-term Unemployed" targets *long-term unemployed* who have been registered with LLE for two years or longer. Depending on his/her characteristics, participants can receive a combination of professional training, work-skill acquisition support activities, additional cash support for commuting to distant places, and employment subsidies. What characterises the programme is the presence of a mentor who provides support to the jobseeker including on-the-job support to those who are back in employment. While providing support in work to improve job retention appears important for those who had been away from employment for a long-time, international evidence suggests that a simple follow-up might be insufficient to promote job stability and that this should be combined with some financial incentives (OECD, 2015[35]).

The LLE also provides support to disabled persons, mainly through vocational rehabilitation programmes and subsidies to private employers for employment, training or adaptation of the work environment. While these measures concern a relatively small number of persons, spending per participant is much higher than for the other programmes.[31] In addition, outside of LLE scope, social enterprises employing a certain percentage of vulnerable groups, among whom older people with disabilities, receive different types of state support. Since their institution in 2004, the number of social enterprises has grown significantly and spending has increased more than twenty fold. But concerns have been raised on the effectiveness of such spending and reforms are currently taking place, notably to give monitoring and supervision powers to the LLE (Pacifico, 2017[34]). All these measures are mostly funded through the ESF.

By and large, EU funding and thus LLE programmes are targeted at the most problematic groups. However, up to July 2017, prime-age unemployed were not able to access any ALMP measure before they became long-term unemployed. While this may not be a problem for those who are relatively skilled, it may be more problematic for the unskilled prime-age unemployed, who cannot benefit from early ALMP measures. This may change in the future, since the new Law on Employment does now include the unqualified persons in the target groups for ALMP.

3.5.5. Employment subsidies have become the main ALMP measure

The structure of ALMP spending across the various programmes has been evolving continuously over the past decade (Figure 3.7). Among the different types of measures, *employment incentives* were scaled up most during the global financial crisis, with spending on these programmes more than doubling between 2008 and 2010. After further increases in 2014 and 2015, a relatively large share of ALMP is spent on subsidised employment measures compared with other EU countries (European Commission, 2015[6]). In part, this reflects an increase in 2014 of the ceiling on monthly employment subsidies, which was raised from one to two monthly minimum wages. The subsidy covers 50 to 70% of the labour costs – up to the ceiling – depending on the type of participant and its duration also depends on the target group ranging from 6 months to an indefinite duration for disabled persons. Compared with other OECD countries, employment subsidies are provided to a relatively broad target group including the disabled, single parents, long-term unemployed, youth and older workers.

Hiring subsidies to employers are often found to have a strong positive impact on future outcomes for their participants, and this is also the case in Lithuania (PPMI, 2015[40]). However, selection effects – i.e. the fact that jobseekers participating in a subsidised employment programme tend to be those for whom a productive job match is also more likely without the subsidy due to many unobserved factors, ranging from individual motivation to the proximity of an industrial park with many local employers – may account for these positive results. Employment subsidies are also likely to generate significant deadweight losses – subsidies may be spent for jobs that would have been created even in their absence, as well as substitution effects – hiring incentives crowd out non-subsidised workers to the advantage of subsidised workers. To limit deadweight losses, employment subsidies should be concentrated on the most disadvantaged jobseekers, most unlikely to find any job in their absence. As target groups are widely defined in Lithuania, this responsibility lies on LLE caseworkers. Reducing substitution effects is generally achieved by putting some constraints on employers. In Lithuania, however, there are not many rules preventing abuse or crowding out of regular employment, except for the provision that employers who dismiss workers less than six months after the end of a subsidy regain eligibility for a new subsidy only 12 months after the end of the previous one. Due to these weak obligations, there is a risk that Lithuanian employers substitute unsubsidised with subsidised workers, without engaging in long-term working relationships with their employees (OECD, 2016[38]).

Public work programmes – in the direct job creation category of the Figure – also served as an important safety net from 2010 mainly and started to be significantly reduced only in 2014 and 2015. All unemployed could participate, as well employees who have been notified dismissal, students during leave and part-time employees. Public work programmes were most often implemented in rural areas, with high rates of long-term unemployment and many low-skilled older workers and were co-funded by LLE and municipalities. Since July 2017, however, following recommendations of the European Commission, they are no longer part of the employment support measures allowed. International evidence indeed points to public works being ineffective at reintegrating people into the labour market (Card, Kluve and Weber, 2017[41]), but it is also commonly agreed that they can play a valuable role in complementing safety nets in times of cyclical downturns, which may be particularly true in the highly volatile Lithuanian labour market.

3.5.6. Investment in training for the unemployed is increasing but remains far from scale with the upskilling needs

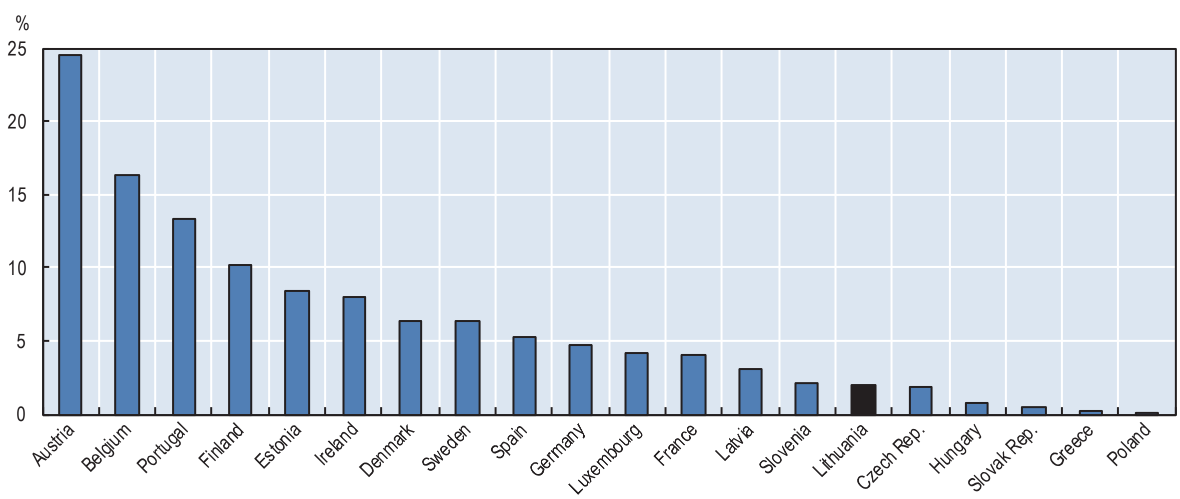
Training provision in Lithuania was significantly affected by the global financial crisis (Gruzevskis and Balziene, 2015[42]). Before 2008, vocational training (VET) for the unemployed was administered by an agency which provided VET information and counselling to the unemployed, inspected the quality of VET and coordinated with employers on the need for VET. With the surge in unemployment and the concomitant drop in resources, LLMTA was closed and its responsibilities split between the Ministry of Education and Science for young people and the LLE for the unemployed. At the same time, the focus of VET policy for the unemployed changed from enhancing their employment opportunities to ensuring their rapid-reintegration into the labour market, as illustrated by the development of and priority given to employment-linked VET, called "tripartite training" in Lithuania (i.e. training where an employer engages to hire for at least 12 months the jobseeker trained with LLE's monies). This resulted in a strong reduction in spending (Figure 3.7, Panel B) and participation into VET programmes of the unemployed in the years 2010-2011, as employers were not willing to commit themselves to hire unemployed after training completion in the first years of the recovery. Spending on training remained low in 2013- 2014, but increased significantly in 2015, as training not linked to employment started to develop again. According to LLE data, the training expenditure did also grow in 2016, indicating that training is regaining some priority in the government policy.

However, in 2015, less than 3% of the unemployed participated in training in Lithuania, a relatively low rate compared with most other OECD countries (Figure 3.9), and not at scale with the needs, as about 40% of the registered unemployed have no professional qualification (European Commission, 2016[43]). Training and re-training programmes help adapting the skills of workers and jobseekers to the needs of the labour market and to technical change. While training may reduce unemployment outflows in the short term as individuals engaged in such programmes reduce job-search activities, in the medium-long term, the have positive effects in particular on the quality and stability of the job found (Card, Kluve and Weber, 2017[41]).

Most training participants are low-skilled (i.e. below secondary education). Training cost/price is regulated by law at a maximum of six minimum wages for formal training (and three minimum wages for informal training). These ceilings exclude the possibility for jobseekers to undertake long programmes or those that require expensive equipment.[32] The standard length of training programmes would be three months, and the maximum length six months. Completion rate is very high, around 90%, which may be explained by the fact that any participant not fulfilling the obligations laid out in his/her training agreement is obliged by law to repay the full cost of training.

Figure 3.9. A small share of jobseekers participates in training programmes

Percentage of registered unemployed, 2015[a]



a) 2010 for Greece and 2014 for Ireland.
Source: OECD/Eurostat Database on Labour Market Programmes, http//dx.doi,org/10.1787/data-00312-en.

Training would typically be in beauty services and cooking for women, and in driving, metal working, and construction for men. Recently, however, the list of curricula was expanded, and the unemployed can also now undertake only modules/parts of some programmes. To better align training for the unemployed with the local labour market needs, collaboration of LLE with local employers' organisation and private recruitment agencies has also been increased (Gruzevskis and Balziene, 2015[42]). As of July 2017, the new Law on Employment also introduces apprenticeship contracts that will be used also for unemployed jobseekers (see Section 3.5.6).

Since 2012, training for the unemployed is funded through a *voucher system*, in which the jobseeker chooses its training provider (licensed by the Ministry of Education and Science) from a list provided by the LLE on its website. The training voucher scheme is considered to have brought many benefits, by i) improving the match between supply by VET institutions and the demand of the unemployed, ii) allowing training to more closely match the requirements of potential employers, and iii) empowering jobseekers by putting them in a position to agree on conditions for their training with the provider (Gruzevskis and Balziene, 2015[42]). For vouchers to be effective, it is important to provide sufficient and accessible information on available programmes and their characteristics in order to enable recipients to effectively assess the suitability of different training opportunities and their quality before enrolling in them (Huber, Lechner and Strittmatter, 2015[44]). At the moment, the unemployed can access online the results of the satisfaction survey of VET participants conducted by LLE, as well as feedbacks and comments from participants, but there is no systematic rating system based on the survey results and the labour market outcomes of participants, as available for example in Latvia (OECD, 2016[45]). Increasing the information available to jobseekers to choose among training providers, for example through a systematic rating system, would allow improving the quality of training provided.

For some groups, the barriers to undertake training may remain high. In particular, as seen above, low-skilled older workers are reluctant to undertake training. The obligation to fully repay training in case of non-completion may play a part in that reluctance, and the removal of this obligation for those acquiring a qualification for the first time may help in the future. But improving access to older workers may also require developing specific training programmes adapted to older workers, including notably a large part of applied and on-the-job training (Luger and Mulder, 2010[46]). At the moment, older workers represent a very low share (4% in 2015) of the participants in the "Work skill acquisition support" programme, which provides employment subsidies to employers arranging on-the-job training activities for jobseekers, reflecting precisely the fact that the latter are often combined with vocational training measures in which older workers very rarely take part. Besides, since July 2017, only those who have completed vocational training during the last 12 months or those who are going to use a recently-acquired qualification for the first time in the work place are allowed to take part in the programme. Unemployed in rural areas also lack a suitable offer of VET programmes (Gruzevskis and Balziene, 2015[42]), but the introduction of support for commuting expenses for jobseekers participating to ALMP since July 2017 may help in reducing the financial barriers to participate.

3.5.7. Employment programmes are not rigorously evaluated for their impact

Since 2014, the LLE measures the performance of selected ALMPs by analysing labour market outcomes of participants 14 days and 3, 6 and 12 months after programme completion, and since July 2017, 18 and 24 months. Some information is also collected on the wage that the person receives, but does not appear to be systematically used. Evaluation analysis has been conducted for some programmes, particularly those co-financed by the ESF, but evaluation efforts are not systematic. Besides, the absence of a suitable "control group", against which participant outcomes can be compared, prevents in most cases a rigorous causal interpretation of measured programme effects.

To allow drawing policy-relevant conclusions and concentrate the scarce resources on the programmes most efficient for the intended target groups, more systematic evaluation including carefully defined control groups should be conducted. This would require more systematic data collection on various programme outcomes – including participants' post-programme employment rates, earnings and income support receipt – and providing independent researchers with access to LLE and other administrative data. One option would be to systematically set aside a small share of programme budgets for evaluation, as done for example in Germany. More systematic pilot testing of new measures before they are rolled out, as currently done for example for the new employment service delivery model, could also increase the efficiency of ALMP.

3.6. Recent initiatives aim at reducing skill mismatch but financial incentives are under-developed

The decline in the Lithuanian population due to emigration and a low fertility rate is contributing to labour shortages that are expected to grow further in the coming decades. Currently, information and communication technologies (ICT), manufacturing, healthcare, and transport and logistics are sectors reporting important shortages, although, in the case of the transport, they cannot be considered as reflecting real domestic shortages (see Chapter 2). Many policy initiatives have been taken to reduce the skill mismatch, i.e. a gap between the skills of the working-age population and the skills needed or used in the economy. To some extent, the inadequacy of skills relates to deficiencies in the quality of education (OECD, 2016[30]). General policies in the field of initial education are dealt with at depth in the OECD Review of National Policies for Education in Lithuania (OECD, 2017[47]). This section more specifically concentrates on policies aimed at reducing the skill mismatch by improving the labour market relevance of initial education and developing employer-provided training.

3.6.1. Information on education supply and demand is produced and (partly) delivered to steer education and training decisions

A first set of measures aims at producing and providing *information on current and future education supply and demand* so as to steer public investment and individual choices. A National Human Resource Monitoring System is being implemented since early 2017, to assess the employment situation of the Lithuanian population and its evolution. The system in effect integrates two previously existing systems, the "qualification map" and a "human resource monitoring and forecasting system":

- The "qualification map", which results were published in 2015, assesses how graduates from VET and tertiary education integrated into the labour market over the period 2012-2013. The Research and Higher Education Monitoring and Analysis Centre (MOSTA) performed the analysis linking datasets from the education management information system, the state social security fund SODRA and the State Tax Inspectorate for about 75000 employees. Variables looked at included diploma (university, college, VET), occupation, the time it took them to get into employment, tenure, and wages. This pilot exercise will be replicated as part of the monitoring system.
- In 2015, based on ESF funding, the Ministry of Economy developed a tool to forecast the medium-term demand of human resources based on Labour Force Survey data. Labour supply and demand is currently forecasted by occupation (at a two-digit level) and level of education until 2018. The results are made available online.

State authorities will be obliged to use the results of this monitoring and forecasting system in making decisions related to education and human resources, in particular the Ministry of Education and Science when planning and funding educational programmes, evaluating higher education institutions, forecasting specialists demand and providing guidance and counselling. The tool should also allow identifying specific problems in some regions, sectors, education areas or institutions. The reliability of the data produced by the qualification map allows to provide good quality information on the employability of Lithuanian graduates (Gruzevskis and Blaziene, 2015[48]). However, a decision has not yet been made on widely communicating these results to the public. This should be done to effectively promote better-informed individual choices from those undertaking education or training.

The LLE is also producing forecasts of labour force employment. Since 1995, national labour force employment for the next year is forecast every year based mainly on employer interviews (by the Territorial Labour Exchanges) and indicator analysis. The forecasts are then used by LLE staff to seek a match between labour supply and demand and assess the need for labour market vocational training. Reliance on employers' survey implies some weaknesses, as employers tend to be rather short-sighted and to overestimate their skill needs (Gruzevskis and Blaziene, 2015[48]). The forecasts are nevertheless widely used by representatives of education policy, vocational education and training institutions, and individuals seeking to obtain certain skills, and are presented during the sittings of the Tripartite Council, as well as at ministerial events. The LLE also produces a short-term (one year) forecast of professions that are demanded and less demanded in the different Lithuanian regions, called the Job opportunity barometer, and, having the biggest data bank on job vacancies in the country, publishes every month the 10 occupations and professions most in demand, at the national and municipal level.

Career counselling and raising awareness in demanded skills are also used to steer students' choices. A national web portal, AIKOS, provides information, guidance and counselling on learning opportunities in Lithuania, that is used by students, employees, employers, and guidance and counselling personnel. It provides information on education and training programmes, providers and qualifications, as well as on education and employment statistics (vacancies, unemployed persons) and descriptions of occupations. Since September 2014, an ESF funded career education programme is implemented in general education and VET institutions to help pupils and students developing career management skills, by getting information, meeting educational institutions, employers and visiting enterprises, and receiving vocational counselling. One recurrent subject in Lithuania is the oversupply of social science graduates, with around 45% of students enrolling in social sciences, and the undersupply of technical professionals. In 2014-2015, a project was promoting science and technologies among youngsters, by making them carrying out laboratory experiments, observing demonstrations and listening to lectures.

On the other hand, financial incentives to align the provision of education and training to labour market demand are almost inexistent (Gruzevskis and Blaziene, 2015[48]). State funding is allocated to VET and higher education institutions based on the number of pupils/students they train, so that "money follows students/pupils". Tuition fees in tertiary education are fixed by the higher education institutions based on normative costs of studies. The only possibility to steer funds is for higher education institutions, through target funds allocated for professions that are demanded on the labour market but not popular among students, after application and justification of the long-term needs in that specific programme. No such fund is available for VET.

3.6.2. Measures taken to develop and improve VET and apprenticeships

Lithuania's vocational education system suffers from a poor reputation that leads to a lack of attractiveness. According to results from the 2011 Eurobarometer Survey, only about

60% of respondents perceived VET to provide high quality learning, the lowest value among 27 EU countries and 43% judged it to provide good career opportunities, against 72% on average in the EU. This perceived lack of attractiveness has its counterpart in very low VET's enrolment rates, around 27% for upper secondary students in 2014, against about 47% on average in the EU[33]. Likewise, a small share of upper secondary education graduates – around 28% in 2015-2016 and 2016-2017 – chooses to continue to tertiary vocationally-oriented studies. Lithuanian firms also have a limited capacity to engage with and support VET, lacking experience of providing structured training in the workplace that is part of an educational programme. Moreover, many employers have the view that they should not provide of structured training, but rather that school-based programmes should provide them with trained and ready workers (OECD, 2017).

Over recent years, however, following the lines of EU's vision for education and training, a number of initiatives have been developed by the Lithuanian authorities to improve the quality and attractiveness of VET:

- Attempts are made to increase *employers' involvement* in the governance of VET programmes at all stages, for their development, implementation, as well as in the assessment of graduate's competence. National employers' organisations have been traditionally included in the advisory bodies designing VET provision, but in 2014-2015, the Ministry of Economy signed collaboration agreements with sectoral employers' associations (e.g. hotels and restaurants, aviation, IT, engineering, etc.).
- New programmes for *VET teacher training* within innovative companies have been implemented since 2013, to address concerns regarding their qualification, and it is sought to attract more highly-skilled and experienced employees to work as VET teachers (OECD, 2016[38]).
- A reform of *VET curricula* is underway since 2011, with VET programmes content being updated in collaboration with social partners and transformed into a modular structure. For that purpose, sectoral qualification standards are being developed for particular sectors of the economy (OECD, 2016[38]).
- Large-scale investments in a national network of *practical training centres* that provide state-of-the-art facilities for vocational training have been made (OECD, 2017[47]).
- Finally, *information* provided by the "human resource monitoring and forecasting system" should strengthen the capacity of VET institutions to anticipate development prospects at the regional and local levels.

The Ministry of Education and Science has set ambitious national policy targets for increased enrolment in upper secondary vocational education – to 33% by 2017, and 35% by 2022. However, extensive VET investment has not yet yielded changes in the proportion of students undertaking upper secondary VET, and with enrolment rates at 27% in 2015-2016, the 2017 is unlikely to be met. According to OECD (2017[47]), the lack of continuity in implementation of all types of externally-supported large-scale VET projects beyond the initial funding cycle is seen by officials as compromising their success. Projects have a fixed length of generally no more than five years, which is a short period to set up proper institutional mechanisms. In the absence of continuation with national funding, which very rarely occurs, this also tends to reduce appropriation of the projects by national officers who tend to see them as pilots unlikely to be pursued.

Whether the mechanisms of cooperation with employers deliver is difficult to assess, but the absence of change in VET participation does not suggest very effective cooperation (Gruzevskis and Blaziene, 2015[22]). Evaluations from the Centre for Quality Assessment in Higher Education about the involvement of employers in the provision of study programmes, including through student internships and company-based practices, also show that appropriate forms of involvement remain to be found, that could better take into account mutual interest and availability for commitment.

At the moment, there is still a void in terms of providing relevant information to students to convince them of the interest to undertake VET. The tools put in place to assess the labour market situation of Lithuanian employees have started to provide information that could be used and widely diffused to provide evidence of VET benefits in terms of earnings and employment success to prospective students (OECD, 2017[47]). However, no decision has been taken yet to actively use and diffuse these elements through the web.

As part of VET, *apprenticeship* is very little developed in Lithuania and receives little attention from VET providers and companies (CEDEFOP, 2015[49]). In initial education, only some schools implement small scale apprenticeship programmes for carpenters, roofers, confectioners, cook, locomotive drivers and java programmers. Apart from that, apprenticeship-type training in Lithuania is mainly implemented in projects and schemes supported by the European Social Fund (ESF).[34] The reasons for this are the lack of apprenticeship traditions in the country, the prevalence of small- and medium-sized enterprises, limited availability of economically strong enterprises, and the high cyclicality of the economy which makes continuous investment in employer-based VET difficult to sustain (CEDEFOP, 2014[50]). However, pushed by the EU policy framework, the political support for apprenticeship has strongly increased over recent years and a number of measures to develop it have been included in all major VET and employment policy documents.

Significant legal changes related to apprenticeship have taken place. First, the new labour code clarifies the legal status for apprenticeship by creating an apprenticeship employment contract. Two types of apprenticeship contracts are possible, one with a training contract with a VET institution, and one without such a contract if the employer is licensed for training implementation. It also defines the rights and obligations of employers in both cases, in terms of training, working-time and wage, which should not be lower than the minimum wage. Apprenticeship contracts should be for a maximum term of 6 months, unless the associated training lasts longer. Second, the new Law on employment establishes public subsidies for firms offering apprenticeship, equal to 40% of the employee's wage (not to exceed the minimum monthly wage) and related social contributions.

A six-month maximum period for apprenticeship appears relatively short in the case of apprenticeship directed at initial education of youngsters. In most OECD countries, apprenticeship periods last between one to four years (with periods with and without school–based training), a time period which is generally thought to be necessary to deliver high quality training, as apprenticeship involves a significant amount of new learning that needs to be delivered over sufficient time to practice and master skills in employment. On the other hand, this time limitation may reflect Lithuanian employers' preferences for shorter options that allow them to get employees onto the production floor or into services faster (CEDEFOP, 2015[49]). It also suggests that the Lithuanian authorities prioritise apprenticeship for jobseekers rather than for youngsters. Instead of time-based apprenticeship, competence-based apprenticeship, in which apprenticeship is considered completed when the apprentice has acquired all the relevant knowledge rather than after a fixed period, could also be envisaged. Such apprenticeship has been introduced for example in Australia and the United Kingdom.

The lack of financial support for companies employing apprentices was certainly a major obstacle to apprenticeship development in Lithuania. Most OECD countries provide financial incentives for apprenticeship under various forms that are in fact often used in combination (Box 3.2). In many countries (e.g. Austria, Belgium, Denmark, Germany, the Netherlands, Sweden, Switzerland), apprentices are paid significantly below the minimum wage, which is clearly a financial incentive for employers with no cost for the state. These are generally countries with a long tradition of long duration and high quality apprenticeship, which provides strong return to apprentices after completion (Conlon et al., 2013[51]). Another option is to have a wage rising as the apprenticeship progresses from below the minimum wage level to above it. In some countries, notably Australia, additional financial incentives are provided for apprenticeship in areas of skill shortages. Other countries institute an "apprenticeship fund" to which all employers are mandated to contribute. In some countries, employers' or state's organisations also provide assistance to employers in their interaction with VET institutions, in the selection of candidates, and the administrative work associated with taking apprentices (CEDEFOP, 2015[49])

Cost-sharing mechanisms are also in place in some countries, that are of particular relevance for SMEs, which represent a large share of the businesses in Lithuania, and could thus contribute to effectively developing apprenticeship in Lithuania. In Australia, for example, group training organisations have proven useful in reducing the risk for employers in taking on an apprentice (as apprentices are employed by the organisation not the employers themselves) and some bureaucracy associated with employing an apprentice (organisations run the recruitment process and pay salaries) (OECD, 2017[52]). In the United Kingdom, similar organisations are subsidised by the government. Another way used to reduce the costs for SMEs is to offer a joint apprenticeship programme of shared responsibility, with each partner enterprise providing a specific aspect of the training and learning content. For example, in the United States, apprentices do not spend the whole apprenticeship with one employer but they do modules with several firms learning different aspects of the job each time. No employer has the full responsibility of the apprenticeship, but each focuses on teaching the aspects of a job it knows best. Large firms can also offer periods of training in their training workshop to apprentices of their supply chain partners (CEDEFOP, 2015[53]).

Box 3.2. Providing employers with financial incentives for offering apprenticeships

Direct subsidies

Several countries use direct subsidies to encourage employers to take on apprentices. In the United Kingdom, grants with a value of GBP 1 500 to employers with up to 1 000 employees recruiting 16-24 year-olds, who have never employed an apprentice before or not recruited one in the last 12 months. Up to ten grants can be made to any one employer. In Austria, companies are financially rewarded for every additional apprentice hired over and above the number hired in the previous year, or if they return to hiring apprentices after having taken a break. Australia provides a wide range of incentives and benefits to employers hiring apprentices, which are larger if the apprenticeship place is created in a trade experiencing a skills shortage, and if the apprentice is an old-age worker. An evaluation of these subsidies found that they had a significant effect on commencements, although more needs to be done to retain apprentices and avoid them from dropping out (Deloitte Access Economics, 2012[54]). The system is nevertheless seen as complex and administratively burdensome (Commonwealth of Australia, 2011[55]).

Tax credits and social security rebates

Another form of subsidising the provision of apprenticeship places is to grant tax credits and/or social security rebates. In France, certain firms receive a tax credit of EUR 1 600 per apprentice taken on, increasing to EUR 2 200 if the apprentice has a disability or is considered disadvantaged. Employers also benefit from full or partial relief of social security contributions on apprentices. On top of this, each region in the country provides additional subsidies for the hiring of apprentices. In Canada, employers can claim up to CAD 2 000 per year tax credit for each eligible apprentice.

Minimum wage

The cost of hiring apprentices can also be lowered by agreeing a special sub-minimum wage for this category of workers. Several countries do this. In France, the apprenticeship wage is between 55 and 85% of the national minimum wage, depending on the age of the apprentice. In Germany, a "training allowance" is agreed upon by the social partners, which also varies by the apprentice's age and experience with the firm.

Levy financing

An interesting and more indirect mechanism for incentivising the supply of apprenticeships is to force all companies to contribute to a special training fund, while only those who offer apprenticeships will benefit from it. All companies in Denmark pay a yearly contribution of nearly EUR 400 per employee (2012 figures) into a fund, which then compensates companies every 24 months for each apprentice hired. In France, workplace training is funded through an apprentice tax paid by all businesses amounting to 0.68% of the firm's wage bill. Firms with more than 250 employees also pay an additional tax, which amount depends on the share of employees in apprenticeship.

Source: (OECD, 2014[56]), *Investing in Youth: Brazil*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264208988-en, (OECD, 2017[57]), *Getting Skills Right: Adapting to Changing Skill Needs, France*, (OECD, 2017[52]), *Financial Incentives for Steering Education and Training*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264272415-en

3.6.3. Developing employer-based training remains a significant challenge

As in many other countries, work-related adult learning is largely left to market forces in Lithuania. But employers face the risk that the employee leaves and go to another firm, which reduces the expected benefits of education and training and results in underinvestment, especially in general training (i.e. training not specific to the firm).[35] This is consistent with the relatively low level of adult training outlined in Chapter 1. State intervention would thus be required to (at least partly) correct for this market failure, and regulation and financial incentives are used in many OECD countries to increase the amount of employer-provided training.

Paid educational leave is one way to share the financial responsibility of continuing education and training between state and employers. The new labour code introduces a study leave of up to five days for employees participating in non-formal training, paid at a minimum of 50% of the employee's wage. But financial incentives are probably most important. The only financial incentive currently available to Lithuanian firms training their employees is that training expenses are deducted from gross wages when paying social contributions. Many OECD countries use other types of tools to promote employer-provided training such as direct subsidies, loans, and most importantly training levies. In the latter case, by legal obligation or following the initiative of social partners, firms contribute to a levy-financed training fund.[36] The levy, usually based on payroll, is often linked to reimbursement mechanisms, whereby firms receive payments related to the amount of training they provide, thus encouraging firms to invest more in the skills development of its work force (Ziderman, 2016[58]). One advantage of these schemes is that they do not require public funding, but, at the same time, they may be perceived by employers just as an additional tax for firms not fully using the available funds for training. Schemes involving employers closely in the governance of funds, which is more easily done at the sectoral level, appear to achieve greater employer buy-in (OECD, 2017[52]).

Notes

1. The 2002 Labour Code prohibited to use fixed-term contracts for work of a permanent nature except when provided by laws or collective agreements or when the employee was in a newly established workplace.

2. Studies suggest that only 8-9% of dismissed women and 5-6% of dismissed men received redundancy payments, mainly from the public sector (European Commission, 2015[6]).

3. The STI developed a Tax Awareness Strategy for the 2015-18 period.

4. This percentage is nevertheless much higher than in Latvia, where only 57% of the population above 15 found this unacceptable. 71% of the Lithuanians also found unacceptable that someone evades tax by not or only partially declaring income.

5. Special checklists are used for planned inspections, and they are published on the SLI website. Each company is free to determine their occupational safety and health situation by using these checklists.

6. While about 11 100 inspections concentrated on health and safety in 2008, only 3 300 did in 2016. By contrast, about 7 000 inspections centred on undeclared work in 2016, against 1 700 in 2008. Source SLI.

7. The entry into force of the new Labour Code, which stipulates that the minimum wage should be paid only to unqualified workers, may also have contributed to this increase.

8. According to the new Law on Employment, the per-worker fine for fully undeclared work can be comprised between EUR 868 and 2 896, and EUR 2 892 to 5 792 in case of repeated violations. The per-worker fine in case of under-declaration of work is from EUR 200 to EUR 600 for first violation, and EUR 600 to EUR 1 200 in case of repeated violation.

9. Amendment to the Article 41 of the Code on Administrative Law Offences brought the maximum administrative fine from LTL 3 000 to LTL 5 000 (i.e. from about EUR 870 to EUR 1 450). The fine is comprised between LTL 5 000 and LTL 10 000 (i.e. EUR 1 450 to EUR 2 896) in case of repeated violation (State Labour Inspectorate, 2013[59]).

10. The average fine has gone from EUR 1 362 in 2008 to EUR 495 in 2016. The effectiveness of fines also depends on how they are collected in practice. Fine collection used to be difficult in Lithuania, with about 50% of the fines having to be collected forcibly with a bailiff until 2014. Since 2015, a centralised fine recovery system has been put in place and the STI is now responsible for fine recovery, but there no evidence yet on how effective it is.

11. In the United Kingdom, employers who break the national minimum wage law can also be named (Department for Business, Energy and Industrial Strategy, 2017[61]).

12. Since 2013, LDCs received slightly more than 5000 cases a year, which they took on average about one month to resolve, an increase compared with before the reform which suggests.

13. In 2015, about 50% of the requests by employees have been satisfied at least in part, and the negotiation in the LDCs resulted in employees withdrawing their request in 16% of the cases.

14. Some statistics have been developed by the ILO to measure outcomes of labour inspectorate. See http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---safework/documents/publication/wcms_506961.pdf

15. According to the EU Barometer, 49% of those working without declaring income see high risk that tax and social security institutions find out and issue supplementary tax bills and perhaps fines, the highest percentage in the EU, much higher than Estonia 29% and Latvia 28%,

but that risk is not perceived to have increased since 2007; According to the LFMI survey, 8% of the population aged more than 15 perceived the likelihood to be detected working without a legal job contract or getting at least part of the wage as "envelop wage" as very high and 35% as high (Lithuanian Free Market Institute, 2015[18]). The same survey also show that punishment for such cases is perceived to be high in Lithuania (11% very high and 44% high), the highest in the Baltic Sea region.

16. Source: https://www.worker-participation.eu/National-Industrial-Relations/Countries/Lithuania/Collective-Bargaining

17. Some conferences were organised during the New Social Model process to which social partners where convened, together with researchers and representatives from public institutions, during which they could express their opinion and possibly influence the experts.

18. Source: European Working Conditions Survey.

19. Evidence on their existence and activity in practice is scarce; some work councils have been created in large (often multinational) companies, such as supermarkets. In any case, there is no evidence that they have allowed increased bargaining coverage (source : https://www.worker-participation.eu/National-Industrial-Relations/Countries/Lithuania/Collective-Bargaining and Ministry of Social Security and Labour).

20. Source: Proportion of full-time employees earning less than 105% of the monthly minimum wage, Eurostat, http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Proportion_of_employees_earning_less_than_105_%25_of_the_monthly_minimum_wage,_October_2010_and_2014_(%25)_YB17_I.png.

21. Source: https://www.eurofound.europa.eu/observatories/eurwork/comparative-information/national-contributions/lithuania/lithuania-evolution-of-wages-during-the-crisis.

22. Sources: Eurostat for Lithuania http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Breakdown_of_tax_revenue_by_country_and_by_detailed_tax_categories_in_2015_%28%25_of_total%29.png and OECD Revenue Statistics.

23. This is the second highest share in Europe. Source OECD calculations on the EU-LFS.

24. There is a cap on the amount that can be spent on any single unemployed of 40 minimum wages. If a jobseeker has benefited from integrated ALMP measures, he cannot benefit again before 3 years.

25. Source: Ministry of Social Security and Labour.

26. The demands on geographical mobility set a time limit on commuting of three hours by public transport, or two if the jobseeker has child below eight years of age. Other valid reasons for refusing job are very strictly defined: poor health, childbirth, and epidemics.

27. Until July 2017, sanctioned jobseekers were radiated from the LLE registers, but this is no longer the case with the new Law on Employment.

28. The programme was planned to support 14 000 older unemployed until end June 2017. As of end September 2016, 9 400 older unemployed had participated: 6 300 received employment subsidies, 3 000 participated in VET, and about a hundred received help with commuting costs.

29. Services are planned for about 8 000 persons, for a budget of EUR 6 million.

30. By October 2016, the programme Discover yourself has received 5 500 young persons not in employment or training, including 1 100 not registered with LLE, and "New start" received 1 000 young persons of whom 67% participated in vocational training activities.

31. 778 persons participated in the vocational rehabilitation programme in 2016, for a cost of EUR 4 573 per participant.

32. If the actual costs of training exceed the limits established by the government, the difference can be covered by the learner or employer in case of tripartite training.

33. Source: Eurostat, http://ec.europa.eu/eurostat/statistics-explained/index.php/Vocational_education_and_training_statistics

34. The largest ESF-funded project was implemented in the Vilnius region in 2013-2015, and trained about 1300 apprentices in health care, accounting, landscaping mechanics, logistics and service sectors.

35. Payback clauses, whereby the employee leaving his employer after having benefited from training has to reimburse the training expenses, are meant to correct this market failure. Such a clause is now included in the Lithuanian Labour code.

36. According to Johanson (2009[60]), levy-financed training funds existed in Belgium, Denmark, France, Greece, Hungary, Italy, Ireland, The Netherlands, New Zealand, Poland, Slovenia, Spain and Sweden.

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Annex 3.A. Background material

Annex Table 3.A.1. Statutory working times in selected OECD countries

	Normal weekly hours (excluding overtime)	Maximum weekly hours (including overtime)	Limits on overtime	Compensation for overtime (% increase in pay) or compensatory time off (CTO)	Hours limit can be averaged	Working time unit averaged	Maximum duration of averaging period
Australia	38	No limit	No limit.	Not statutory, set in awards or enterprise agreements.	Yes	Normal weekly hours	12 months (?); 26 weeks if CA
Austria	40	50-60	5 hours per week, 60 hours per year.	50% or CTO.	Yes, to be agreed with employee.	Normal weekly hours	52 weeks (maximum 48 hours per week) or eight weeks (maximum 50 hours per week); possibly longer if CA.
Canada	40-48	48- no limit	4 hours per week to no limit.	50%	Yes, with the consent of TU or employees, or from administration and only in industrial establishments when nature of work requires irregular distribution of working hours.		
Chile	45	57	2 hours a day.	50%	No		
Czech Republic	40	48	8 hours per week, 150 hours per year.	25%	Yes	Normal weekly hours	26 weeks if no CA 52 weeks if CA, no single shift longer than 12 hours.
Estonia	40	48-52	No limit.	50% or CTO.	Yes, to be agreed with employee.		Four months if no CA, 12 months for healthcare and agricultural workers if CA.
Finland	40	No limit	80 hours per year.	CTO unless specified otherwise by CA.	Yes, to be agreed with employee.	Normal weekly hours	12 months

	Normal weekly hours (excluding overtime)	Maximum weekly hours (including overtime)	Limits on overtime	Compensation for overtime (% increase in pay) or compensatory time off (CTO)	Hours limit can be averaged	Working time unit averaged	Maximum duration of averaging period
Germany	..	48	Two hours a day, 12 hours per week.	Determined in CA or employment contracts.	Yes	Maximum weekly hours	24 weeks if no CA, 52 weeks if CA.
Greece	40	48 (on six days)	Two hours a day, 120 hours per year.	20% for 41-45 hours per week; beyond 45 hours per week: 40% for first 120 hours per year and 60% subsequently; 80% for exceptional overtime.	Yes, to be agreed with TU.	Normal and maximum working hours	12 months for normal working hours, 4 months for maximum working hours.
Hungary	40	48	200 hours per year or 300 if agreed with employee or TU.	50-100% or CTO.	Yes, agreed with TU for the 300 hours.	Normal weekly hours	4 months if no CA, 6 months with CA and 12 months if continuous or alternating shifts and seasonal workers.
Ireland	_	48	No limit.	set in CA.	Yes	Maximum working hours	4 months if no CA, six months if CA
Israel	43	58		25% for first 2 hours a day; 50% for subsequent hours. Employer can choose CTO (at overtime rates) if employee is paid monthly or longer period.	Yes, to be agreed in CA.	Normal weekly hours	Set in CA
Japan	40	No limit	2 hours a day for underground work or work injurious for health.	25% or over up to 60 hours per month, 50% or over for more than 60 hours per month.	Yes, to be agreed TU or employee representing majority of workers.	Normal weekly hours	12 months
Korea	40	52		50% or CTO if agreed with workers' representatives.	Yes, to be agreed TU or worker representing majority of workers.	Normal weekly hours	
Lithuania (2012)	40	48	4 hours per two days and 120 hours per year.	50%, 200			
Lithuania (2017)	40	48 if no averaging, 52 if averaging and up to 60 if additional work.	8 hours per week or 12 hours if agreed with employee; 180 hours per year unless stated differently in CA.	50% or 1.5 CTO, 100% on rest day, 150% on bank holiday.	Yes	Normal and maximum working hours.	

	Normal weekly hours (excluding overtime)	Maximum weekly hours (including overtime)	Limits on overtime	Compensation for overtime (% increase in pay) or compensatory time off (CTO)	Hours limit can be averaged	Working time unit averaged	Maximum duration of averaging period
Mexico	48	No limit	3 hours a day on no more than 3 days per week.	100%			
Netherlands	48 on a 16 weeks period-55 on a 4 weeks period	60	No overtime.	In transport, storage, communication and agriculture agreed in CA, health and welfare services CTO, others nothing.	Yes	Normal weekly hours	16 weeks if no CA, 52 weeks if CA in case of fluctuating workload and managerial functions.
New Zealand	40	No limit	No limit.	Set in employment agreement (contract?).			
Norway	40	48 on average, 54 in absolute	10 hours per week, 25 hours per 4 weeks, 200 hours per year or when negotiated with employees 'representatives 20 hours per week, 50 hours per 4 weeks and 300 hours per year.	40% or CTO if agreed in writing (the 40% compensation must still be payed).	Yes, to be agreed with TU or employee	Normal and maximum working hours	52 weeks for normal hours, 8 weeks for maximum hours.
Poland	40	48	150 hours per year.	50%, 100% for nights, Sundays and public holidays (if not regular working time).	Yes	Normal weekly hours	4 months, up to 12 in specific cases set by law.
Portugal	40	50 if agreed with employee, 60 if agreed in CA.	4 hours a day, 60 hours per week, 200 hours per year.	25% for first hour, 37.5% after, 50% for rest day or bank holiday or according to CA.	Yes	Normal weekly hours	

	Normal weekly hours (excluding overtime)	Maximum weekly hours (including overtime)	Limits on overtime	Compensation for overtime (% increase in pay) or compensatory time off (CTO)	Hours limit can be averaged	Working time unit averaged	Maximum duration of averaging period
Slovak Republic	40	48	8 hours per week on average, 400 hours per year (150 hours + 250 hours extended upon employee agreement).	No less than 25% or CTO.	Yes, to be agreed with TU or employees' representatives.	Normal weekly hours	4 months if no CA, 12 months if CA.
Slovenia	40	48	8 hours per week, 20 hours per month, 170 hours per year; more than 170 hours per year up to 230 hours per year if worker's consent.	Set by CA	Yes	Normal working hours and maximum working hours if set by CA	6 months if no CA and 12 months if CA for normal hours, 6 months if CA for maximum hours.
Spain	40	No limit	80 hours per year (excluding hours compensated by CTO).	Not statutory, set in CA or individual contract.	Yes, to be agreed with employees' representatives; if not 10% of the working time can be distributed irregularly over the year.	Normal weekly hours	12 months
Sweden	Set in CA	48		Set by CA	Yes, within statutory or CA limits.	Maximum weekly hours	Normal weekly hours over 4 weeks if no CA, maximum working hours per 4 months if no CA, 12 months if CA.
Switzerland	45-50	No limit	2 hours a day, 140-170 hours per year.	25% or CTO	Yes	Normal weekly hours	4 months if no CA, 6 months with CA.
Turkey	45	11 hours per day.	270 hours per year.	50%	Yes, if agreed with employee or in CA.	Normal weekly hours	2 months if no CA, 4 months if set by CA.
United Kingdom	48	76	28 hours per week.	Agreed between employer and employee.	Yes, to be agreed with employee.	Maximum weekly hours	17 weeks or 52 weeks for objective technical or organisational reasons.
United States	40	No limit	No limit.	CTO allowed	No, except for healthcare workers and public fire workers, if not set by CA.	Normal weekly hours	2 weeks for healthcare workers, 4 weeks for public fire workers; 6 or 12 months if set by CA.

Note: ..: not available; CA: Collective Agreement; CTO: Compensatory Time Off; TU: Trade union;.

Source: Answers to the questionnaire in preparation of Chapter 4 of *Employment Outlook 2010* "How good is part-time work?"

Chapter 4. A flexible labour market needs strong social protection in Lithuania

The Lithuanian social protection system exposed substantial weaknesses during the economic crisis, and while the economy recovered quickly, households at the bottom of the income distribution failed to reap the full benefits of the recovery. As a result, Lithuania's society is more unequal – and poverty rates higher – than at any time over the last decade. Over the last years, Lithuania has gone a long way in addressing the deficiencies of its social protection system, however. Under the New Social Model, Lithuania strengthened its unemployment insurance system to balance the further flexibilisation of its labour market. A reform of the minimum-income benefit system enhanced targeting, strengthened work incentives and reduced fraud, though adequacy will have to improve further for high poverty and material deprivation to decline. The recent pension reform will reduce old-age poverty in the short run and improve financial sustainability, however at the cost of a further reduction in long-term adequacy. To achieve lasting improvements in social outcomes, Lithuania will need to make its tax-benefit system more redistributive. This will require strengthening tax progressivity and raising greater tax revenues to permit boosting low public social spending.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Rapid economic growth in Lithuania over the last decades brought about rising living standards across the entire income distribution, but the gains from growth have been very unevenly shared. And while Lithuania recovered remarkably quickly from the dramatic income losses suffered during the crisis, income disparities have lately grown again as households at the bottom of the distribution saw their incomes stagnate. Lithuania's society was as a consequence more unequal in 2014 – and poverty rates higher – than at any time over the last decade (see Chapter 1). This lack of inclusiveness reduces life quality in Lithuania and risks exacerbating the massive emigration challenge, hence endangering future prosperity. Strengthening social safety nets that effectively reduce high inequalities and boost the living standards of vulnerable groups must therefore be a policy priority for Lithuania.

This chapter reviews Lithuania's social policies, focusing in particular on the likely effects of the comprehensive labour market and social policy reforms carried out to introduce the "New Social Model". Its sets out by giving an overview of public social spending in Lithuania and by looking at the impact of taxes and transfers on redistributing incomes (Section 4.1). It then discusses the delicate balance between providing adequate income support and effective work incentives for the working-age population, looking at unemployment benefits, minimum-income benefits and disability pensions (Section 4.2). The chapter then goes on to present Lithuania's policies to help families balance responsibilities at work and at home (Section 4.3), before assessing the adequacy and sustainability of old-age pensions (Section 4.4). The chapter concludes by arguing for the need for greater resources for social spending and by discussing possible revenue sources (Section 4.5).

4.1. Lithuania's social protection system is comparatively weak

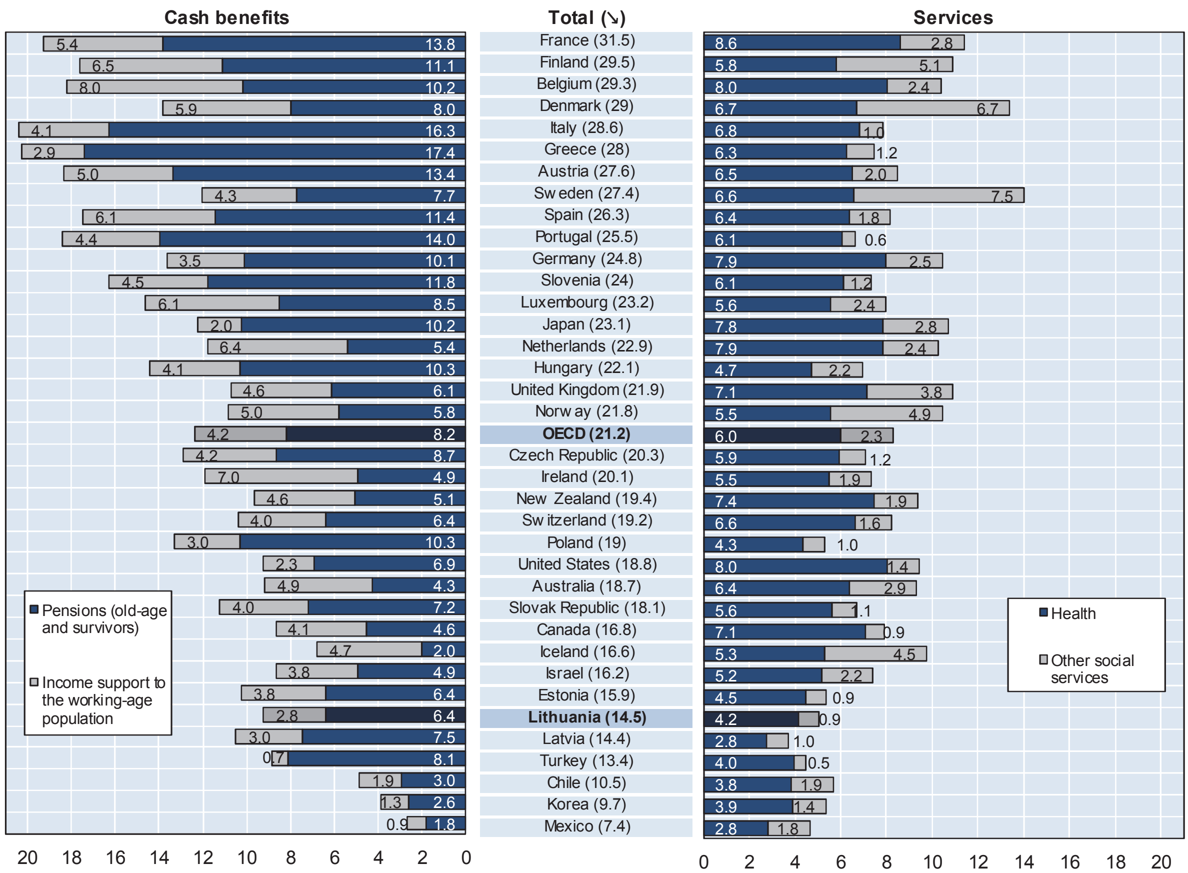
4.1.1. Public social spending is low

Lithuania's social protection system is largely based on the social insurance principle. The State Social Insurance Fund Board (SoDra) administers insurance-based benefits, collecting contributions, registering the insured and paying benefits in cases of unemployment, sickness or incapacity, childbirth, old age and death (see Annex Table 4.A.1. for an overview of the income support system). The municipalities administer most non-contributory income support benefits and provide social services. Cash benefits are funded directly from municipal budgets, though the state budget participates through allocations and grants; municipalities and the state share the responsibility for financing social services. All non-contributory benefits are exempt from personal income taxation, as are most insurance-based benefits, notably unemployment benefits and pension. Only maternity, paternity and parental-leave benefits are taxable.

Lithuania devotes comparatively few resources to social policies. Public social expenditures for cash support and in-kind services amounted to about 14.5% of GDP in 2014. This is broadly in line with the levels in Latvia (14.4%) and Estonia (15.9%), but much below the OECD average of 21.2% (Figure 4.1). Social expenditures have moreover not experienced the same upward trend as in many OECD countries: while the economic crisis led to a surge in public social spending relative to GDP – both because of a real increase in per capita spending and a sharp drop in GDP – spending quickly declined again during the recovery, and reached the average level of the pre-crisis decade by 2014.

Figure 4.1. Public social spending in Lithuania is low by OECD standards

Public social spending by broad policy area in percentage of GDP, 2013/4



Note: Data are for 2013 except for Lithuania (2014). Countries are ranked in decreasing order of public social expenditure as a percentage of GDP. Income support to the working-age population refers to spending on the following SOCX categories: incapacity benefits, family cash benefits, unemployment benefits and other social policy areas. Total public social expenditures (shown in the middle column) exceed the sum of expenditures on cash benefits and services because spending on active labour market programmes (ALMPs) cannot be attributed to either of these categories.
Source: OECD (2016), OECD Social Expenditure database SOCX, (www.oecd.org/social/expenditure.htm).

Old-age and survivors' pensions account for nearly half of public social spending in Lithuania, a relatively large share in OECD comparison. This does not so much reflect the generosity of the pension system or the population share of seniors – both of which are close to OECD averages – but rather low spending in other social policy areas. Relative to GDP, public pension expenditures are lower than in the OECD on average (6.4% vs 8.2%). While rapid increases in old-age pensions during the pre-recession years and plummeting GDP during the crisis temporarily lifted pension expenditures above 8% of GDP in 2009, modest pension growth during the recovery had brought expenditures back to their pre-crisis level by 2014.

Cash spending on income support for the working-age population is much lower than on average in the OECD:

- *Unemployment benefits*, as the primary safety net for persons affected by joblessness, accounted for only 0.2% of GDP in 2014 (0.9% in the OECD on average,). This reflects low coverage among the unemployed because of strict eligibility criteria and a short maximum benefit duration. Unemployment benefits were however considerably strengthened in 2017 under the New Social Model (NSM, see Box 3.1 and Box 4.2). Lithuania does not have an *unemployment assistance* scheme.

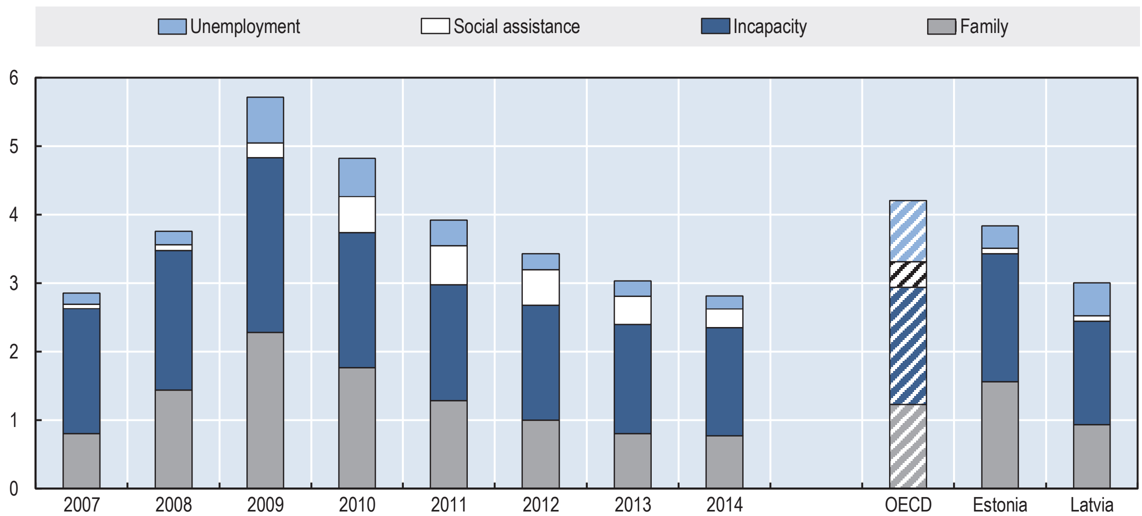
- Lithuania spends only little more on last-resort *minimum-income benefits*, at 0.3% of GDP (0.4% in the OECD), though spending remains much higher than before the crisis. Means-tested Cash Social Assistance is the main scheme in this category, providing last-resort income support to low-income households, including those with jobseekers without unemployment benefit entitlements. Its two components are “Social Benefits” and a “Compensation of Heating, Drinking and Hot Water Costs” (*henceforth*: “Heating Compensation”).[1] Lithuania does not have a housing benefit.
- *Incapacity benefits* account for the bulk of social spending for working-age persons, at 1.6% of GDP, nearly the same level as in the OECD on average (1.7%). This spending category primarily covers disability pensions for persons whose work capacity is permanently reduced by at least 45% and sickness benefits for those temporarily unavailable for work because of illness, injury or because they are caring for a sick family member.
- Expenditures for *family benefits* accounted for 0.8% of GDP in 2014, half as much as in the OECD on average. Family benefit spending had nearly tripled in the years leading up to the crisis as Lithuania rapidly increased the generosity of parental-leave payments, by raising replacement rates and extending the maximum receipt duration. Lithuania however reversed these spending increases during the crisis by tightening eligibility for tax-funded child benefits (by introducing means-testing and reducing the maximum age threshold) and partly reversing the earlier increase in the replacement rates of parental-leave payments.

Overall, cash spending on working-age benefits relative to GDP reached only about two-thirds of the level across the OECD (2.8% vs. 4.2%).

The share of public social spending going towards health is similar in Lithuania as in the OECD, which implies that health spending is relatively low compared to GDP (4.2 vs. 6.0% in the OECD on average). Out-of-pocket payments are however significant, accounting for nearly one-third of total health expenditures. In spite of low spending, the Lithuanian health system provides broad access to care: a large health insurance fund covers virtually the entire population, and the states funds health coverage for the economically inactive. The system is largely financially sustainable, and projections indicate that health spending will rise more slowly than in other rapidly ageing economies (OECD, 2017[1]).

Figure 4.2. Expenditures on working-age benefits are low, mainly because Lithuania spends little on unemployment benefits

Cash social spending by policy branch as a percentage of GDP, Lithuania (2007-14) and OECD average, Estonia and Latvia (all 2013)



Note: For Lithuania, expenditures in the categories "unemployment" and "social assistance" are primarily for unemployment benefits and Social Benefits, respectively. "Incapacity" includes primarily spending on disability pensions and paid sick leave. "Family" includes maternity / paternity and parental-leave benefits, but also other family allowances including tax-funded child benefits.
Source: OECD (2016), OECD Social Expenditure database SOCX, www.oecd.org/social/expenditure.htm.

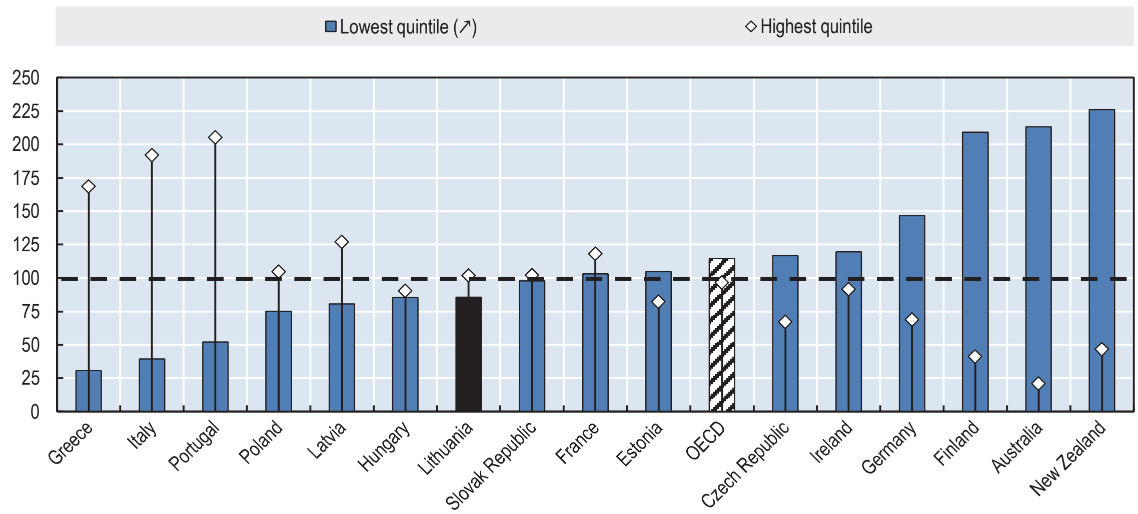
Also spending on non-health social services is much lower than across the OECD on average (0.9% vs. 2.3% of GDP). In Lithuania, the municipalities provide social services to vulnerable households, notably families with small children, the elderly, persons with disabilities and those with substance abuse issues. "General" social services include the provision information and counselling, mediation and representation services, socio-cultural activities, transportation and the provision of food and clothing. Persons with additional needs may receive additional "specialised" services, either in the form of temporary "social attendance" measures such as home visits, measures to develop social skills and support for independent living, or more permanent "social care". The municipalities are also responsible for providing early childhood education and care for below-7 year-olds, though funding comes in large part from the national government (OECD, 2017[2]).

4.1.2. Taxes and transfers do little to reduce high income inequality

The Lithuanian system of taxes and benefits is only weakly redistributive. Lithuania provides working-age income support primarily through contributory benefits. A large share of public transfers therefore go to persons with a work and contribution history, many of whom are higher up in the income distribution. This applies notably to disability pensions and sickness benefits, which make up the bulk of social spending for working-age persons, but also to maternity, paternity and parental-leave benefits, which account for most of the spending on families. The degree of redistribution *within* some of these systems is relatively strong: both disability pensions and unemployment benefits for instance have an important "general" component that is not earnings-related. Nonetheless, working-age persons in the top quintile of the income distribution receive on average higher cash transfers than those in the lowest quintile (Figure 4.3). Lithuania moreover operates a flat-rate personal income tax system with a uniform tax rate of 15%.[2] A set of tax allowances for persons with low earnings, with children or with disabilities introduce some weak progressivity at the bottom of the income distribution (Navickė and Lazutka, 2015[3]).

Figure 4.3. Social transfers are not very strongly targeted

Average total cash transfers received by working-age persons in low- and high-income households, as a percentage of average transfers, 2014

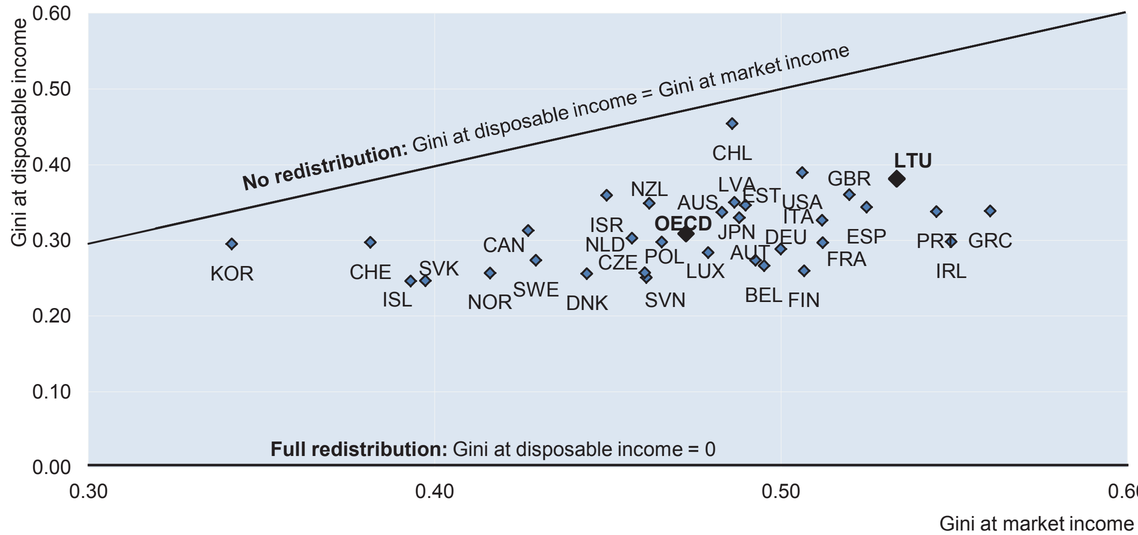


Reading note: Low-income families in Lithuania, i.e. those in the bottom 20% of the income distribution, received on average cash transfer payments corresponding to around 86% of the payment received across *all families* on average; payments to high-income families amounted on average to 102% of the average payment across all families (diamond-shaped marker).
Note: Working-age person are defined as those aged 18 to 65 years. Transfers include all public social cash benefits. The lowest and highest quintile are defined as the 20% of the population living in households with the lowest / highest equivalised disposable income, respectively.
Source: OECD (2017), OECD Income Distribution Database IDD, oe.cd/idd.

As a result of low and not very strongly targeted social transfers and a weakly redistributive flat-rate income tax system, taxes and transfers do little to reduce income inequality. Incomes before taxes and transfers are very unevenly distributed in Lithuania, with only three OECD countries – Greece, Ireland and Portugal – having a higher Gini index for "market income". These three countries however substantially reduce market income inequality (as illustrated by the large vertical distance from the "no redistribution" line in Figure 4.4) through high spending on working-age benefits (in Ireland and Portugal) or pensions (Greece). By contrast, social spending does comparatively little to reduce market inequality in Lithuania, and post-transfer "disposable incomes" are hence distributed more unevenly than in most OECD countries, including in Estonia and Latvia. The Lithuanians expressed considerable discontent with "the way inequalities and poverty are addressed" in their country in a 2014 Eurobarometer survey (European Commission, 2014[4])[3].

Figure 4.4. Taxes and transfers do little to reduce high income inequality

Gini indices after and before taxes and transfers (“disposable income” vs. “market income”), 2014



Note: Data are for 2012 for Japan and for 2015 for Chile, Finland, Israel, Korea, the Netherlands, the United Kingdom and the United States. There is no Gini at market income for Hungary, Mexico and Turkey.
Source: OECD (2017), OECD Income Distribution Database IDD, oe.cd/idd.

Income inequality, unlike poverty, however appears long not to have been a major policy concern for Lithuania. The recent “Lithuania 2030” strategy, for instance, lacks any reference to inequalities (Government of Lithuania, 2012[5]). The EU’s Europe 2020 process[4], which has partly shaped social policy in Lithuania over the past years, sets explicit quantitative targets for raising employment and reducing poverty and social exclusion, but not for addressing inequalities. The policy focus appears to be shifting, however, and unlike in previous years, the Lithuanian National Reform Programme for 2017 explicitly lists reducing income inequality as one of the country’s policy priorities (Government of Lithuania, 2015[6]; 2016[7]; 2017[8]).

4.2. Balancing income protection and work incentives for working-age persons

Under the enormous pressure of the heavy economic crisis, the Lithuanian social protection system exposed some structural weaknesses. Soaring jobseeker numbers overwhelmed the employment support system (see Chapter 3) and plunged the State Social Insurance Fund (SSIF) into deficit, forcing Lithuania to carry out pro-cyclical unemployment benefit cuts at the height of the crisis. Many jobseekers failed to qualify for unemployment benefits or quickly exhausted their entitlements as eligibility conditions were strict and the maximum benefit duration short (Box 4.1). Last-resort Cash Social Assistance was often not sufficient to prevent large income losses, and a growing number of households faced economic hardship (see Chapter 1). Meanwhile, too many working-age adults with reduced work capacity had little to no long-term labour market perspective (Figure 4.2).

Lithuania has since implemented two major reforms, which have addressed some of these challenges. The Cash Social Assistance reform, carried out between 2012 and 2015, decentralised the administration of Social Benefits and the Heating Compensation granting municipalities wide-reaching responsibilities for delivery and funding (Box 4.2). More recently, as part of the reforms leading to the NSM, Lithuania considerably strengthened its unemployment insurance system with a view to “balancing” the further flexibilisation of labour market regulations through the new Labour Law.

Box 4.1. Unemployment benefits provided weak income protection during the crisis

The unemployment insurance system offered only limited income protection to those affected by job and earnings losses during the Great Recession. As the economic crisis struck the labour market in late 2008, the number of registered jobseekers soared, increasing fivefold within less than two years, from 65 000 to 325 000 (Figure 4.5). Many of these new jobseekers initially received unemployment benefits; but given a short maximum benefit duration of six to nine months, they had quickly exhausted their entitlements. The share of those covered by benefits hence dropped rapidly, from 42% to only 14% between mid-2009 and mid-2011.[1]

Meanwhile, falling employment rates and wages and rising jobseeker numbers plunged the SSIF into deficit from 2008, forcing Lithuania to cut benefits. In the first year of the crisis, jobseekers in the first three months of unemployment still saw a high share of previous earnings replaced through unemployment benefits, after which the replacement rate declined.[2] To curb spending, Lithuania temporarily reduced the earnings-related benefit unemployment benefit component and lowered the maximum benefit ceiling in 2010. The cuts were progressive in nature, affecting particularly recipients in the first months of their benefit spell, when benefits are most generous, and those with relatively high previous earnings.[3] The average benefit payment dropped by 20 percentage points between 2009 and 2010, slipping below the poverty threshold.[4] Lithuania reversed the cuts in 2012.

The cuts permitted Lithuania to contain expenditure increases during the crisis (Figure 4.2), however at the cost of very heavy income losses for households affected by joblessness. They moreover likely contributed to Lithuania’s severe aggregate income losses during the recession by undermining the unemployment insurance system’s effectiveness as an automatic stabiliser. There is moreover a risk that ad-hoc benefit cuts such as those carried out during the crisis may counteract the fight against informality by raising doubts about the system’s reliability, and hence reducing incentives to contribute.

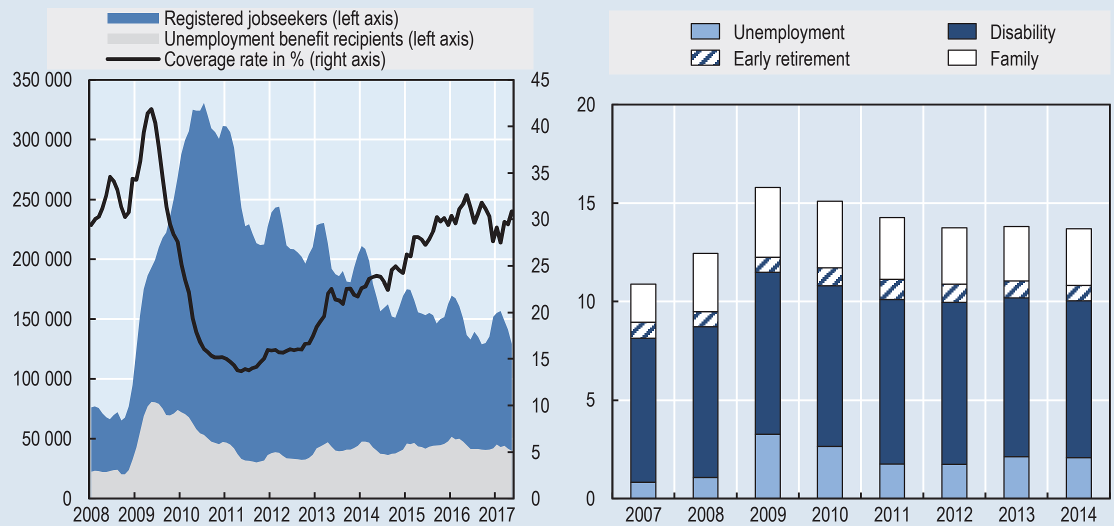
Figure 4.5. Only few jobseekers received unemployment benefits during the crisis

Panel A: Unemployment benefit coverage

Number of registered jobseekers and unemployment benefit recipients (left axis) and benefit coverage rate in percent (right axis), 2008-17

Panel B: Receipt of contributory out-of-work benefits

Percentage of the working-age population receiving insurance-based out-of-work benefits, monthly average, 2007-14



Note: Panel B: Receipt rates do not correct for double-counting and hence give a slight overestimate if persons receive multiple benefits simultaneously.

Source: *Panel A*: OECD calculations based on LLE and SoDra data; *Panel B*: OECD Social Recipients Database SOCR, www.oecd.org/social/recipients.htm

1. Figure 4.5 gives an overestimate of the unemployment benefit coverage rate because some jobseekers, and in particular those who lack benefit entitlements, did not register with the LLE. Calculations using European Union Labour Force Survey data suggest, however, that nearly three out of four jobseekers in Lithuania are registered with the LLE.

2. In 2009, the net replacement rate for a person with previous earnings at the median of the distribution was 79% during the first three months of benefit receipt, before dropping to 53% for the following three months.

3. The earnings-related benefit component was reduced by a 21%-cut in the value of the Annual Insured Income. The benefit ceiling was lowered by 38% to LTL 650, or about EUR 188. For a jobseeker with previous earnings around the median of the earnings distribution, the share of previous net earnings replaced through unemployment benefits dropped from 79% in 2009 to 53% in 2010.

4. Average benefit payments were EUR 200 and EUR 160 in 2009 and 2010, respectively, while the poverty line, defined at 50% of the median equivalised household income, fell from EUR 191 to EUR 182 (see Figure 4.7).

4.2.1. Unemployment benefit coverage and adequacy has substantially improved under the New Social Model

Lithuania substantially strengthened its weak unemployment benefit system with the adoption of the New Social Model in 2017 (Chapter 3, Box 3.1) – a welcome step given hitherto low benefit coverage (see Box 4.1) and further weakened job security for Lithuanian employees under the new Labour Law.

By broadening access and extending payment durations, the reform should considerably increase unemployment benefit coverage. Until the reform, jobseekers had to have worked and contributed for 18 out of the last 36 months to qualify for benefits, a high hurdle for young people and jobseekers with interrupted work careers. Most of those who qualified then received benefits only for a relatively short six months.[5] The reform shortened the minimum contribution period to 12 out of the last 30 months while extending the maximum benefit duration to nine months for all jobseekers entitled to benefits. For comparison, the median minimum contribution period across OECD countries is 12 months and entitles to an equal 12 months of benefit receipt. These changes should raise the share of registered jobseekers who receive benefits from 28 to 43% of registered jobseekers according to estimates by the Ministry of Social Security and Labour (MSSL), extending coverage to an additional 23 800 persons in 2017.

The reform also substantially raised payment rates, notably by strengthening the relationship between benefits and previous earnings, and coupled the future development of payment levels to economy-wide wages:

- *Strengthened earnings-related component:* The variable component of unemployment benefits was increased, in particular for recipients with longer spells. Under the new system, it equals 50% of previous earnings during the first three months of the benefit spell, before declining stepwise to 40% in month four to six and to 30% in month seven to nine. Before the reform, it had been 40% during the first three months and 20% thereafter.
- *Higher benefit ceiling and coupling to wage growth:* The maximum monthly amount that jobseekers can receive nearly doubled, from EUR 333.20 to EUR 617.10. It is now moreover expressed as a share (75%) of gross average earnings in the economy rather than as a share (70%) of annual insured income, which was set by the government. The benefit level of jobseekers with high previous earnings will hence keep pace with earnings growth.
- *General component linked to minimum wage:* Also the flat-rate general benefit component was directly coupled to wages, being now expressed as a 30%-share of the minimum wage instead of equalling to the SSI. This corresponds to a very modest rise; more importantly, it implies that the flat-rate part of unemployment benefits will in the future rise in line with minimum wage increases.

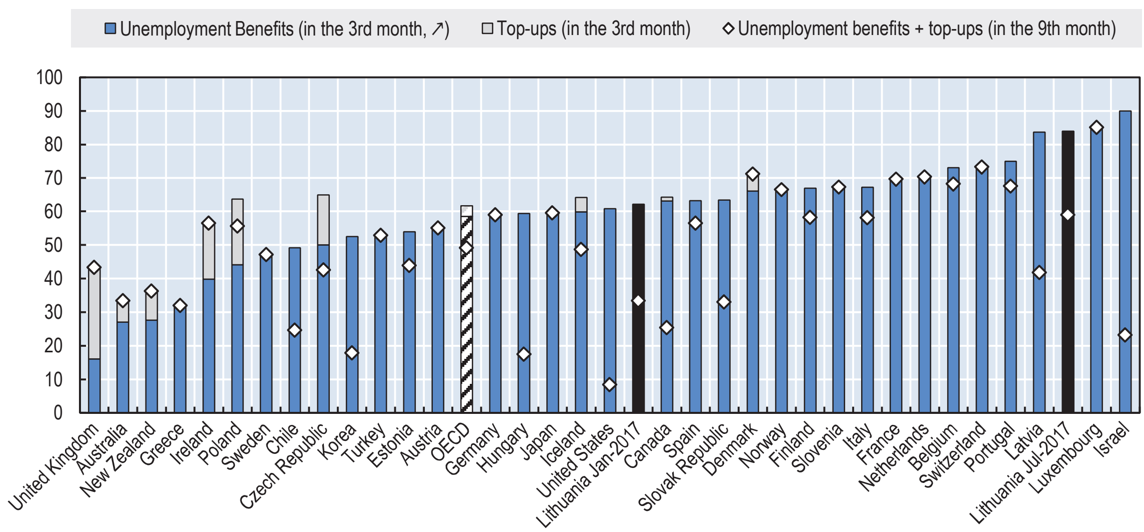
Meanwhile, Lithuania did not follow through on plans to subject unemployment benefits to income taxation, which would have partly offset these gains in net terms.

Lithuania will cover the costs of the reform – an estimated EUR 60.6 million per year – through higher employer social insurance contributions into the part of the SSIF earmarked for unemployment benefits (+0.5 percentage points to 1.6% since July 2017). This is projected to generate an additional EUR 53 million in revenues alone in the second half of 2017, according to MSSL estimates. This increase – and a new 0.5% contribution towards the recently established Long-Term Benefit Fund (see Chapter 3) – will be offset by a one percentage-point decline in the contribution for social insurance pensions. Overall employer contributions hence remain unchanged.

Post-reform benefit levels are quite generous in OECD comparison. The share of previous net earnings replaced through unemployment benefits, the “net replacement rate” (NRR), jumped from 62 to 84% for a jobseeker in the third month of the spell with previous earnings around the median of the earnings distribution (Figure 4.6). This is substantially higher than in the OECD on average (59% in 2015); only Israel and Luxembourg pay higher NRRs at this early point in the spell. A minimum-wage earner who loses his job will initially even receive 90% of his previous net wage in benefits. Payments moreover remain relatively high over the spell duration in spite of the decline in the variable component: in the ninth month of benefit receipt, they still reach 59% of previous net earnings for a person with previous earnings around the median, compared to 42% in the OECD on average. The reform weakened the degree of redistribution in the system, as recipients with higher previous earnings benefited more.[6]

Figure 4.6. Under the New Social Model, unemployment insurance benefits replace a greater share of previous earnings than in most OECD countries

Net replacement rates for a single person with previous earnings at the median of the distribution in the third and ninth month of registered unemployment, 2015 (January and July 2017 for Lithuania)



Note: NRRs give the case of a 40-year-olds who has been continuously employed since the age of 18. For Lithuania, the results for January and July 2017 represent the situation before and after introduction of the New Social Model, respectively, and the NRR after 9 months in January 2017 refers to the benefit level from Social Benefits plus Heating Compensation.
Source: OECD Tax-Benefit Model, www.oecd.org/els/benefits-and-wages.htm

Increased benefit coverage and payment levels should effectively contribute to reducing poverty in Lithuania, notably given the very high poverty rates among workless households (Chapter 1, Figure 1.25). The reform may also raise the attractiveness of formal employment, in particular given the now stronger link of payment levels and previous earnings.

Lithuania should, however, consider further extending the maximum duration of benefit payments given the comparatively high incidence of long-term unemployment (see Chapter 1). Over 20% of jobseekers who newly registered as unemployed with the LLE in the first half of 2016 stayed on the records for at least nine months. These jobseekers lose their entitlements to unemployment benefits after this period even under the new eligibility criteria, qualifying then only for the much less generous Cash Social Assistance. The majority of OECD countries pay unemployment benefits for at least twelve months.[7] A further extension of the benefit duration, e.g. from nine to twelve months, could be funded by lowering the cap on payments for jobseekers with high previous earnings or by somewhat reducing replacement rates in the initial months of an unemployment spell, when they are generous in international comparison. The distributional implications of such a change would of course need to be carefully evaluated. In particular, such a change may benefit primarily low-skilled and more senior jobseekers, who are likely overrepresented among the long-term unemployed.

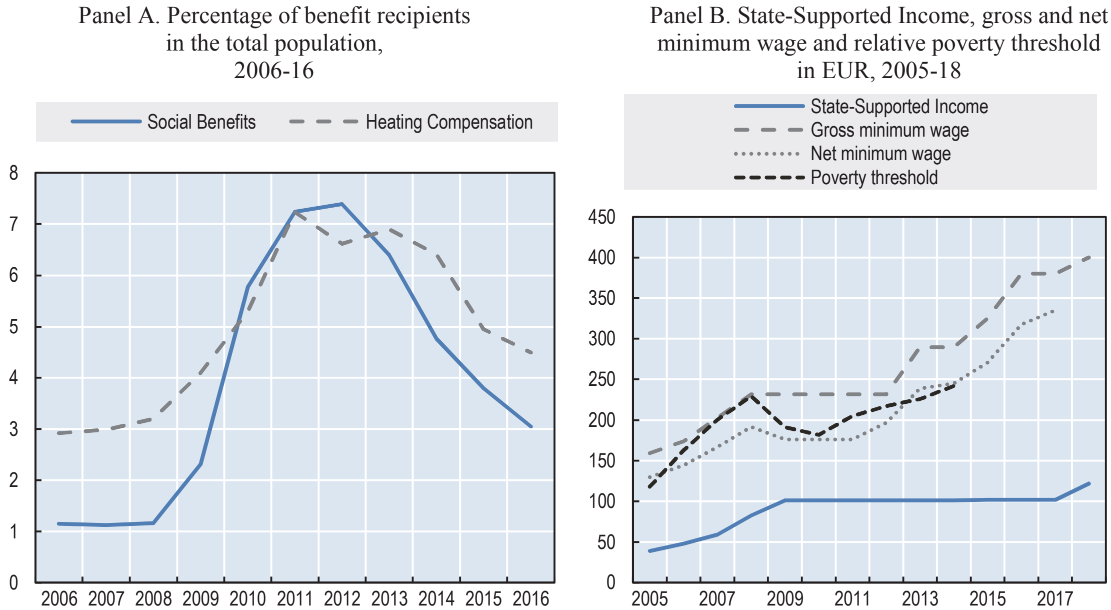
4.2.2. Minimum-income benefits are too low to prevent poverty

In light of the low unemployment benefit coverage during the economic crisis, many households affected by job losses had to rely on last-resort Cash Social Assistance for income support. The share of people living in households that received Social Benefits rose nearly sevenfold between 2007 and 2012, from 1.1 to 7.4% (Figure 4.7, Panel A), and remains higher than before the crisis. Also the percentage of households receiving a Heating Compensation more than doubled. As benefit levels were low, Cash Social Assistance has however not been effective at preventing large income losses among households affected by job losses, such that many vulnerable households faced economic hardship during the crisis (see Chapter 1, Figure 1.26).

And as Lithuania did not adjust payments levels for inflation, or even in line with the growing wages during the recovery, benefit adequacy has further declined since. While the guaranteed income level for Social Benefit recipients – the so-called State-Supported Income (SSI) – was rapidly increased in the years leading up to the crisis (by a factor of 2.6 between 2005 and late 2008), it remained frozen during the crisis and the recovery at EUR 102 per person per month. Recipient households hence saw their purchasing power decline in real terms, by around 8% between 2009 and 2016. In the meantime, the net minimum wage grew rapidly, by 64% over the same period after adjusting for inflation (Figure 4.7, Panel B).

Neither of the two recent major social policy reforms moreover addressed the low adequacy of minimum-income support. The large Cash Social Assistance reform, carried out between 2012 and 2015, brought important changes in benefit administration and delivery. Its main objectives were, however, to tackle benefit fraud and strengthen work incentives rather than to improve adequacy (see Box 4.2). The NSM then brought about important changes in a various areas of labour market and social policy, including to the unemployment insurance and pension system. Further changes to Cash Social Assistance were explicitly outside the scope of the reform, however, and a set of proposals focusing on poverty reduction made by one of the four expert commissions were not considered.[8]

Figure 4.7. Social Benefit receipt rates remain much higher than before the economic crisis, but benefit levels failed to keep pace with recent wage growth



Note: *Panel B*: The series for the State-Supported Income, the gross and the net minimum wage give nominal monthly values on 1 July of the respective year, i.e. they are unadjusted for inflation. The net minimum wage is for a single person. The relative poverty threshold is defined as 50% of the median equivalised disposable household income.

Source: *Panel A*: MSSL data; *Panel B:* OECD Income Distribution Database IDD, www.oecd.org/social/income-distribution-database.htm, OECD Social Recipients Database SOCR, www.oecd.org/social/recipients.htm and OECD Tax-Benefit Model, www.oecd.org/els/benefits-and-wages.htm

Social Benefit payments in 2017 were hence substantially below the levels needed to prevent poverty. A single person received around 21% of the median equivalised disposable household income in Social Benefits, less than half of the poverty threshold and considerably below the OECD average (34% in 2015, Figure 4.9).[9] Larger households tended to do slightly better, as benefit payments rise significantly with every additional adult or child in the household.[10] A couple without children on Social Benefits reached 26% of the median disposable household income (34% in the OECD on average), a couple with two children was paid 33% (37% in the OECD on average).

The Heating Compensation however makes a significant contribution to disposable incomes for those households who qualify for it, and over 80% of Social Benefit recipients received this compensation in 2016. MSSL data on average payment levels[11] suggest that the income of single households and couples without children who receive both Social Benefits and a Heating Compensation corresponds approximately to the OECD average, at around 36 to 37% of the median household income; for couples with two children, the allowance raises household income above the OECD average, though incomes remains below the poverty line (44% of median household income, Figure 4.9).

Box 4.2. The 2012-15 Cash Social Assistance reform made the benefit delivery more efficient

Lithuania carried out a major reform of means-tested Cash Social Assistance in 2012-15 to promote the labour market integration of working-age recipients, reduce long-term benefit receipt and persistent poverty and fight undeclared work and benefit fraud. The policy changes were first piloted in five municipalities in 2012 and 2013 before being rolled out across the whole country in 2014/15.

The reform's main components were:

- *Greater municipal responsibilities for funding and delivery:* Until the reform, municipalities had administered benefit payments but the expenditures had been covered from the state budget. The reform made the provision of Cash Social Assistance an independent municipal function financed from municipal budgets. Every municipality now receives an annual lump-sum allocation to cover benefit payments. Any unused funds become part of the municipal budgets and can be used for other purposes. The amount allocated to each municipality is equal to the average benefit expenditures in that municipality in the three years before the reform (2011-13). Municipalities were also given greater discretion in granting additional benefits in cases of special need.[1]
- Stronger work incentives for employable benefit recipients: The reform strengthened financial work incentives for Social Benefit recipients who are long-term unemployed: those who have been registered as unemployed for at least six months and start working may keep up to 50% of their previous benefits for six months if their new job pays between one and two times the minimum wage. Meanwhile, multi-person households and long-term recipients saw their Social Benefits cut: by introducing an equivalence scale, the reform reduced benefits from 100 to 80% of the SSI (minus any income earned) for the second person in a household and to 70% for the third and any additional persons. Employable long-term recipients face payment reductions after every 12 months on benefits, up to a maximum of -50% after 48 months. Benefits are paid in-kind after 60 months. Recipients are exempt from these reductions if they have not been offered a job or participation in an active labour market programme or if they engage in "socially useful activities", i.e. community work of up to 40 hours per month.[2]
- *Closer inter-agency collaboration and data exchange:* Since the reform, municipalities have direct access to the jobseeker database of Territorial Labour Exchange Offices (TLEOs) and co-operate more closely with the State Labour Inspectorate (SLI), the State Tax Inspectorate (STI) and SoDra to detect undeclared work and income. Municipalities have to establish Social Assistance Councils that advise welfare services on difficult or controversial cases. The council members – social or healthcare workers, senior citizens, NGO and community representatives and possibly LLE and STI staff – visit benefit claimants or recipients in their homes to assess their living conditions and make recommendations on the granting or suspension of benefits.

The reform was carried out at a time of declining benefit receipt rates during the recovery. The Social Benefit receipt rate more than halved since 2012, declining from 7.4 to 3.1% in 2016. Also the receipt rate of the Heating Compensation dropped significantly, from 7.3 to 4.5% between 2011 and 2016. Benefit expenditures decreased accordingly.

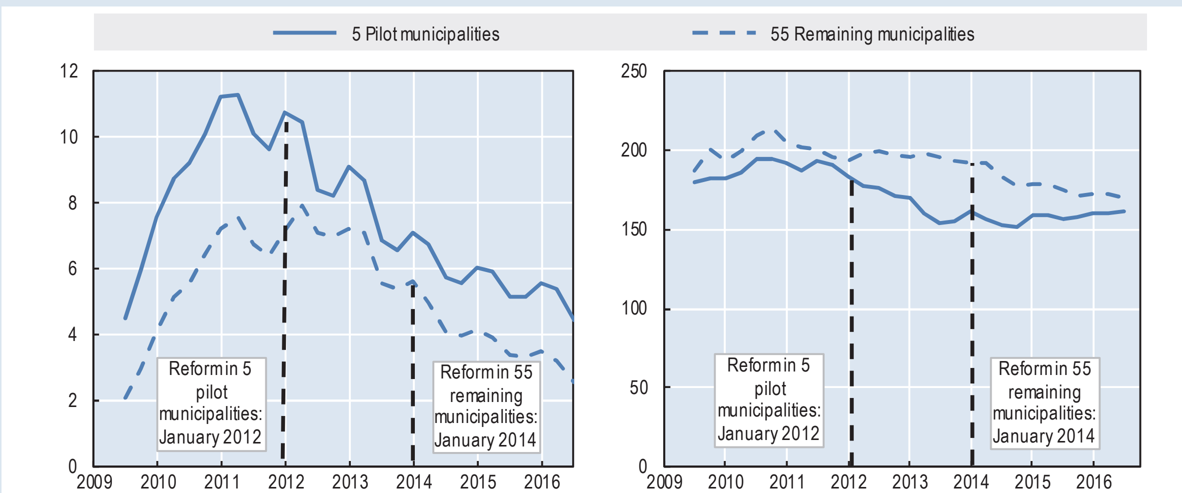
The reform's impact on receipt rates and expenditures is difficult to assess. Stakeholders in different municipalities suggested that the reform improved benefit targeting as social services stepped up their efforts to detect benefit fraud, for instance by identifying households with undeclared earnings or those collecting benefits while living abroad.[3] The newly introduced Social Assistance Councils reportedly provide useful inputs to this process. Trends in quarterly benefit receipt rates and expenditures do not show conclusive evidence of structural breaks at the time of the reform, however (Figure 4.8). In the five pilot municipalities, the reform was enacted briefly after the peak in receipt rates, making a meaningful pre-/post-reform comparison of receipt rates difficult. In the 55 remaining municipalities, benefit receipt rates do not appear to have declined more quickly after than before the reform, though per-recipient expenditures appear to have dropped a little.

A positive effect of the reform is that it equipped municipalities with substantial funding to strengthen social services. Allocations from the state budget exceeded benefit expenditures by nearly EUR 350 million in the three years following the reform. And while in the initial year after the reform, no legal guidelines existed yet as to the use of those resources, a 2015 amendment prescribes that unused funds should be spent primarily on social support. The MSSL monitors the use of those resources, and in 2016, 78% were used for various forms of social support, including to help vulnerable families cope with exceptional expenses in cases of emergency (e.g. illnesses, funerals, natural calamities), to cover the costs of public transport for the elderly, the disabled and school-aged children and to provide support to newly released prisoners (Pacifico, 2017[9]).

Figure 4.8. There is no strong evidence for an effect of the Cash Social Assistance reform on Social Benefit receipt rates or expenditures

Panel A. Percentage of Social Benefit recipients in the population, 2009-16

Panel B. Average quarterly Social Benefit expenditure per recipient in EUR, 2009-16



Note: The dashed vertical lines indicate the dates of the Cash Social Assistance reform: January 2012 for the five pilot municipalities (Akmenė, Panevėžys, Radviliškis, Raseiniai and Šilalė districts) and January 2014 for the 55 other municipalities.
Source: OECD calculations based on MSSL data.

Lithuania should however consider changing the mechanism used for allocating the state funding to the municipalities to increase transparency: allocations could for instance be made a function of the current labour market or demographic situation in a municipality, rather than to simply correspond to average pre-crisis spending.

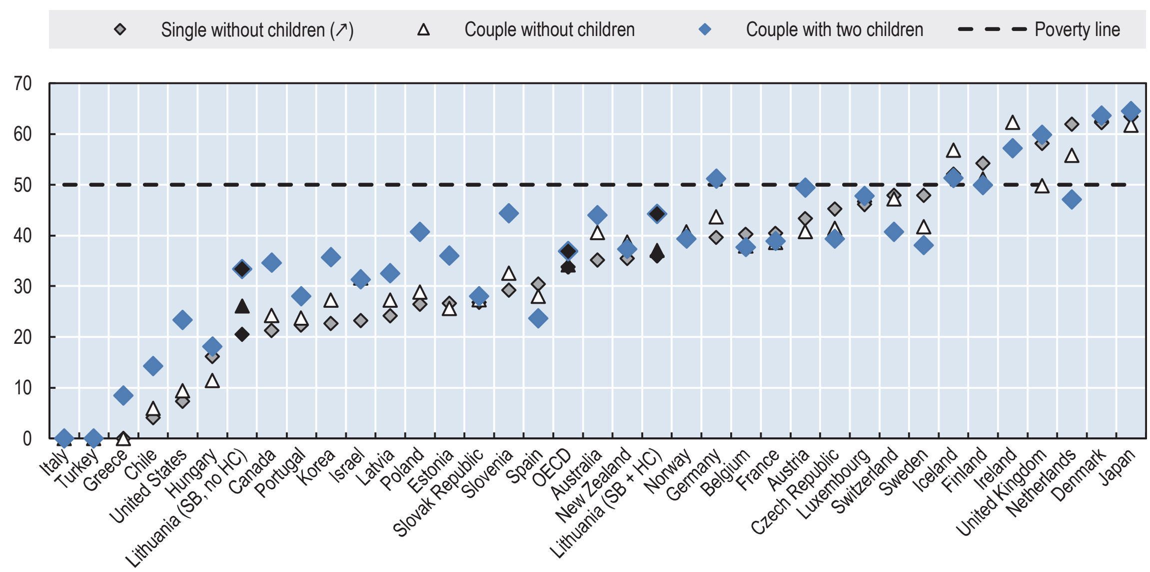
1. Municipalities may grant Cash Social Assistance in exceptional circumstances to households that would normally not be eligible as long as the household's income does not exceed 50% of the SSI. Additional lump-sum support can be provided to households burdened by high housing debt or those facing a special emergency, e.g. as a result of illness or fire.

2. These exemptions were only introduced in September 2016; until then, payments had moreover been completely suspended after 60 months of benefit receipt. The initial version of the law also foresaw a different schedule for the gradual reduction in benefit payments.

3. Meanwhile, there is little evidence that municipalities deny benefits to eligible households to reduce spending: even in poorer municipalities, social services appear rather to be concerned with extending support for the most vulnerable households.

Figure 4.9. Social Benefits are too low to prevent poverty, especially for smaller households

Net income from minimum-income benefits as a percentage of the median equivalised household income, by household type, 2015 (2017 for Lithuania, with and without Heating Compensation)



Note: The graph shows the relative income level derived across OECD countries from social assistance plus cash housing allowances. For Lithuania, the values refer to Social Benefits plus Heating Compensation ("Lithuania (SB + HC)") and Social Benefits only ("Lithuania (SB, no HC)").

The OECD tax-benefit model generally does not model compensations for heating or water costs. For the purpose of this review, the simulations for Lithuania have therefore been combined with administrative data to yield the figures presented in Figure 4.9. Administrative data on the Heating Compensation are for 2016, and have been adjusted for inflation to approximate 2017 numbers. Any heating or water allowances that may exist in other countries are not considered.

Source: OECD Tax-Benefit Model, www.oecd.org/els/benefits-and-wages.htm and MSSL data.

4.2.3. Lithuania is taking steps to improve the adequacy of Social Benefits

In response to rising poverty rates and growing agreement across stakeholders that the Social Benefit level is inadequate, Lithuania recently took significant steps to improve benefit adequacy. The SSI was increased by nearly 20% in January 2018, to EUR 122. As of 2019, it will moreover be directly tied to the value of a basic consumption basket, which is annually estimated using the methodology developed by an independent expert (Navickė, 2016[10]). The SSI will be set to 50% of the value of the previous year's basket, hence rising in line with the cost of living. Its value equalled EUR 238.35 per person per month in 2017. The MSSL predicts that the SSI increase will extend Social Benefit coverage by over 50%, or an additional 43 000 persons. Even after the recent increase, the gap between the SSI and the gross minimum wage will however have widened by over 40% since 2009.[12]

Lithuania will likely have to raise the SSI beyond mere changes in the price level to ensure that Social Benefits – combined with in-kind transfers and the Heating Compensation – reach the full value of the minimum consumption basket. At the same time, the equivalence scale used to calculate the benefit entitlements for multi-person households could be "steepened" as benefit entitlements for larger households are currently comparatively generous.

The recent changes do not address the large regional variation in living standards. Low benefit adequacy tends to be a challenge in particular for vulnerable households in urban areas, who face much higher costs of living, and in particular housing. Lithuania does not collect regional information on housing costs, but calculations using the 2016 Household Budget Survey suggest that per capita expenditures on housing, water, electricity, gas and other fuels are twice as high in the country's five largest cities as in rural areas.[13] Lithuania could more effectively help low-income households in urban areas deal with the high housing cost burden by including a region-specific housing component into Social Benefits. A – possibly undesired – consequence of such a policy change would be, however, that it would further encourage jobseekers to leave rural areas and move to Vilnius and other urban centres, where the number of vacancies but also the costs of living are higher. It would also further increase regional income disparities. An alternative would be to transform the Heating Compensation into a broader, means-tested housing benefit, as they exist in many OECD countries (Immervoll, Jenkins and Königs, 2015[11]). High informality would be a challenge for the targeting of such a scheme, however, as for means-tested benefits more generally.

4.2.4. More could be done to make work pay for benefit recipients

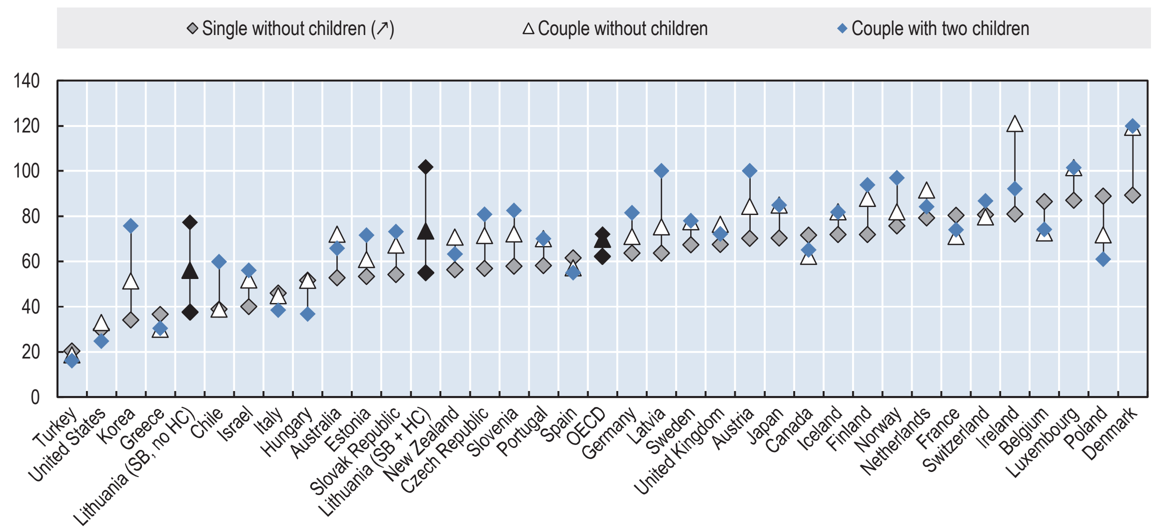
The receipt of Cash Social Assistance is in principle tied to clear activity requirements. To qualify for benefits, all employable adult members in a low-income household have to register as jobseekers with the LLE, where they are eligible for the same support and face the same activity requirements as unemployment benefit recipients. The municipal welfare services verify jobseekers' registration status before making the initial benefit payment, and then again every three months when recipients renew their benefit claim. Payments can be suspended if a jobseeker deregisters from the LLE, though such suspensions appear to be rare.[14] About 30% of Social Benefit recipients across all age groups were registered as jobseekers in 2016.

Jobseekers on Social Benefits often receive too little employment support, however, because the LLE lacks resources. Participation rates in active labour market programmes are low for Social Benefit recipients, as they are for unemployment benefit recipients (see Chapter 3): about one-third of registered Social Benefit recipients participated in an active programme in 2016 – in most cases in public work (56% of participants) or vocational training (28%). Jobseekers with multiple barriers moreover often do not get the comprehensive support they need. LLE offices aim to identify jobseekers' social or health barriers to employment in the initial profiling process, and users with such barriers are grouped into a lower jobseeker category and qualify for additional support. Given high caseload numbers and few specialised staff, the LLE however lacks the resources to systematically provide such intensified services. Adequate support for jobseekers suffering, for instance, from mental health issues or substance abuse problems therefore often hinges on a close collaboration with the municipal welfare services and NGOs. The co-operation tends to be better in smaller municipalities, where personal networks are often tight (OECD, 2016[12]).

As a result of the divergence between the SSI and net wages at the bottom of the distribution (Figure 4.7), taking up work generally pays for Social Benefit recipients. A single recipient without earnings who starts working at a wage a little above the minimum wage could expect to see his net income rise by around 62% of gross earnings in 2017 – the remainder was lost through income taxes and social insurance contributions or needed to make up for lost benefits. This implies a 38% "participation tax rate" (PTR), much less than in the OECD on average (62% in 2015, Figure 4.10). Taking up a job also tends to pay off for couples, whose net income gain still equalled nearly half of gross earnings (PTR of 56% compared to 70% in the OECD on average) in 2017.[15]

Figure 4.10. Social Benefit recipients generally have strong incentives to take up work, except those living in large households

Participation tax rates for a person taking up employment at the 20th percentile of the gross earnings distribution, 2015 (July 2017 for Lithuania, with and without Heating Compensation)



Note: The participation tax rate is calculated as the income gain from taking up work net of taxes, contributions and losses in benefit payments as a share of the gross earnings from work. The rates presented in the graph have been calculated for the 12th month of employment after a 24-month period of unemployment. Income from temporary in-work benefits paid is hence not taken into account.
For Lithuania, the values refer to those for households receiving Social Benefits only ("Lithuania (SB, no HC)") and Social Benefits plus Heating Compensation ("Lithuania (SB + HC)"). In the latter case, the calculations assume that the Heating Compensation is lost when a person takes up work. The 20th percentile of the gross earnings distribution corresponds to about EUR 440 per month.
Source: OECD Tax-Benefit Model, www.oecd.org/els/benefits-and-wages.htm.

Financial work incentives are weaker for larger households. In spite of the recent increases in tax allowances for families, a couple with two children faced a PTR of 77% (72% in the OECD) in 2017, and hence benefited only little if one partner took up low-paid work.[16] The net income could even decline if a household lost both Social Benefits and the Heating Compensation as a household member took up work.[17] These calculations moreover tend to overestimate work incentives for recipients with children, because they only consider cash support. In addition to Cash Social Assistance, Lithuanian municipalities provide in-kind support to low-income families in the form of free childcare and afternoon activities, school lunches, support for the acquisition of school supplies or subsidised public transport. The level of such support varies across municipalities and is difficult to quantify – the perspective of losing it is however often an important factor in a recipient's choice of whether or not to take up formal employment.

Lithuania has recently undertaken steps to raise the attractiveness of formal employment for Social Benefit recipient households by introducing an earnings disregard, i.e. by permitting recipients who work to keep some of their earnings. Since January 2018, households may keep between 15 and 35% of work income when receiving benefits depending on the number of children. Under previous legislation, Social Benefits could in principle be received as a top-up to earnings from work, but any positive income below the SSI was fully offset by an equivalent benefit withdrawal. Taking up formal work therefore did not bring any real income gain as long as the household continues to remain eligible for Social Benefits. This explains comparatively low work incentives for large households, whose total benefit payments are highest. It also implied that taking up part-time work does not pay for a recipient who either cannot find a full-time position or who were unavailable for full-time work.[18] Further reductions in the tax and contribution burden for low-earning households would serve little to address this issue (Navickė and Lazutka, 2015[3]; Navicke, Avram and Demmou, 2016[13]).

In-work benefits can be another effective tool for increasing financial work incentives for low-income households (Immervoll and Pearson, 2009[14]), and Lithuania recently introduced temporary in-work support for long-term-unemployed benefit recipients who move into work (Box 4.2). Participation in the measure is high in spite of its strict targeting to the long-term unemployed: around 11% of Social Benefit recipients registered with the LLE received this support in 2015, more than twice the share than in 2014. While total expenditures for this time-limited subsidy are comparatively modest (at about EUR 188 000, or EUR 164 per benefiting household, in 2016), available data should be used to evaluate how is effectiveness at bringing benefit recipients into stable employment.[19] If legally possible, Lithuania should also consider granting the municipalities, who pay for the measure, greater freedom to adapt its design to local circumstances. Permitting local variation for instance in the target population, the level of in-work payments or the duration of support could increase the measure's impact while providing valuable insights on the optimal policy design.

4.2.5. Informality is an obstacle for bringing benefit recipients into formal employment

Informal work can be a hurdle for the integration of benefit recipients into formal employment. Lithuanian officials report that many recipient households engage in some form of undeclared work, especially in rural areas. The scope of such activities ranges from the small-scale production and sale of agricultural produce or occasional skilled manual work to undeclared full-time work with an employer. In addition to raising concerns about lax tax enforcement, such activities increase the costs of taking up formal employment to the extent that engaging in formal employment leaves fewer opportunities for lucrative informal work. Informality is also a challenge for the design of effective "make work pay" policies, because offering low-income households options of combining work and benefit receipt may encourage employed persons to under-declare earnings or hours to qualify for benefits.

In an effort to curb undeclared work and strengthen recipients' incentives to take up formal employment, Lithuania introduced a community work requirement for long-term Social Benefit recipients in 2016.[20] Employable adult members in households who have been receiving benefits for at least twelve months have to participate in so-called Socially Useful Activities (*visuomenei naudinga veikla*) for up to 40 hours per month to avoid a gradual reduction in benefit payments (see Box 4.2). Recipients are exempt if the LLE did not offer them a job or the opportunity to participate in an active labour market measure. Participants in "socially useful activities" engage in simple tasks requiring no special training, either with a public employer, such as a utility provider or library, or with an NGO. They receive no payment for their participation.

The benefits of this community work requirement are unclear, however. Given the measure's limitation to 40 hours per month, its effectiveness at preventing undeclared work seems limited, except for persons working informally full-time. Meanwhile, the measure may deter eligible households from claiming benefits if participation is perceived as stigmatising, which would increase poverty and social exclusion. There moreover arise equity concerns as municipalities tend to make use of the measure to very different extents: While participation rates are generally high, at 33% of all recipients in 2016, they range from 0% in the Palanga City Municipality in western Lithuania to 73% in the Ukmerges District Municipality not far from Vilnius.[21] There are currently no data on the frequency of benefit reductions across municipalities. Lithuania would hence benefit from an empirical evaluation of the impact of "socially useful activities" on participants' (and non-participants') incomes and employment prospects, as well as from an examination of how the measure is implemented across municipalities.

4.2.6. Adults with health problems are not well enough integrated into the labour market

Promoting the labour market integration of adults with ill health should be a policy priority in Lithuania. A recent profiling of out-of-work persons and those with weak labour market attachment points to health issues as the main barrier to employment (Pacifico, 2017[9]). Every third person of this group reported suffering from health limitations, and even 40% of those persistently out of work. The share of the working-age population receiving disability benefits is moreover high in Lithuania, at 8% in 2014, nearly four times the unemployment benefit receipt rate (Figure 4.5, Panel B).

These outcomes deserve attention for a number of reasons: in the context of a rapidly shrinking working-age population, Lithuania cannot afford to let such a large share of its workforce under- or unexploited. Persons suffering from physical health limitations moreover face a higher poverty risk than in most European countries (European Commission, 2017[15]). Meanwhile, Lithuania spends too much of its public resources on health-related income support, with disability pensions and sickness benefits accounting for over half of all spending for working-age income support (Figure 4.2).

The high disability benefit receipt rates and high incidence of health issues among the jobless persons do not, however, appear to primarily reflect poor health outcomes in Lithuania. While the overall level of self-assessed health is low by OECD standards (Chapter 1, Figure 1.27), less than 15% of working-age persons reported experiencing limitations in their daily activities because of physical or mental health problems, illness or disability in 2014 (OECD calculations based on the EU-SILC); only 3.5% reported severe limitations. Both shares were among the lowest across European OECD countries.[22]

Instead, persons with disabilities appear to be just much less well integrated into the labour market than in other countries. Only 22% of working-age persons suffering from severe health limitations participated in the labour market in 2014, only 12% were in employment. These rates are lower than in all European OECD countries. This indicates that Lithuania does not enough to support persons with disabilities and other severe health issues find and retain work.

High disability benefit receipt rates reflect in part the low quality of work capacity assessments. In a 2012 report, Lithuania's National Audit Office criticised a lack of expertise of some of the staff carrying out work capacity assessments, and called for more transparent assessment procedures and better decision monitoring (National Audit Office of the Republic of Lithuania, 2012[16]). It also observed that regions with lower employment rates tended to have systematically higher shares of working-age persons diagnosed with reduced work capacity. Lithuania has addressed some of these weaknesses since, adopting stricter job requirements for expert staff, improving quality control and data exchange and tightening sanctions for doctors who support abuse by deliberately providing incorrect medical diagnoses. The number of persons with a recognised disability declined by 6% in 2016. Work capacity assessments however continue to rely too strongly alone on medical certificates, giving too little consideration to the persons' physical and professional capabilities (Pacifico, 2017[9]). No formal guidelines exist, moreover, on the possible maximum duration of a certified reduction in work capacity, and the SoDra lacks the resources to systematic re-assess cases.

Jobseekers with reduced work capacity moreover do not systematically benefit from active employment support. Registration with the LLE is voluntary; special programmes for the disabled exist, notably in the form of sheltered and supported employment and vocational rehabilitation, but participant numbers and spending shares are very low (Chapter 3, Figure 3.7 and Pacifico (2017[9]). The National Audit Office moreover raised doubts about the effectiveness of vocational rehabilitation measures (2012[16]).[23] Persons with mental disabilities do not receive specialised employment support (Ruškus, Mikalauskaitė and Makštutis, 2017[17]).

4.3. Supporting families in balancing responsibilities at work and at home

In light of the enormous demographic challenge, Lithuania needs to pursue policies that help counteract the rapid population decline. While the main focus has to lie on addressing the causes of high emigration as the main driver of rapid population decline, raising fertility rates may contribute to reducing population ageing and shrinking. Policies to support families in balancing their responsibilities at work and at home deserve special attention in this respect, as they may not only help boost birth rates, but potentially also increase labour force participation while improving the quality of life in Lithuania more broadly.

Fertility rates in Lithuania are however already fairly high in comparison to many OECD countries. As other countries in Central and Eastern Europe, Lithuania experienced a sharp drop in birth rates during the transition years, from on average 2.03 children per women in 1990 to only 1.23 in 2002. This decline is contributing to a shrinking working-age population today as recent cohorts of labour market entrants have been much smaller than previous generations (see Chapter 1, Figure 1.6). Lithuania has however made remarkable progress in raising birth rates since. The total fertility rate has been climbing continuously over the last 15 years, including during the crisis period, to reach 1.69 in 2016 (Statistics Lithuania, 2017[18]). While this rate is still substantially below replacement level[24], it corresponds to the OECD average and puts Lithuania approximately on par with Finland (1.65), the Netherlands (1.66) and Denmark (1.71; OECD (2017[19])).

The rise in fertility rates may partly reflect a substantial extension of income support for families over the last decade, which made benefits relatively generous at least for working families:

Parents receive quite generous *maternity* and *paternity benefits*, if they have the required social contribution record of 12 out of the 24 months before childbirth. At 18 weeks in total, the duration of maternity benefits is fairly typical by OECD standards (the OECD average is 17.7 weeks). Paternity benefits, however, are comparatively generous: fathers in Lithuania are entitled to one month of paid paternity leave, compared to one week in the OECD on average. At 100% of insured earnings, the replacement rates are moreover higher than in many OECD countries. Also *parental-leave benefits* are generous in OECD comparison, having been considerably expanded during the pre-crisis boom years.[25] They replace 100% of previous earnings until the child's first birthday, or alternatively 70% and 40% in the years up to the first and second birthday, respectively. Such a high replacement rate is quite unusual in OECD countries, where parental leave benefits more often replace around 40 to 60% of previous earnings for an average earner. Unlike in many OECD countries, however, parental leave cannot be split between the mother and father – only one parent per family is entitled to claim the leave benefit (OECD, 2017[20]). At the beginning of 2017, Lithuania moreover introduced a relatively generous tax-funded *childcare benefit* for young parents in education or training with a child below the age of one.

Lithuania had also substantially lowered the tax burden on families in recent years, in particular those with low earnings, by introducing and gradually raising a basic tax allowance for families with children. A one-earner couple with two children and earnings at the 40th percentile of the earnings distribution no longer paid any personal income taxes in 2017. The burden through income taxes and social insurance contributions for this family type was lower in Lithuania than in all but five OECD countries (Canada, the Czech Republic, Korea, Ireland and the United States).

In order to strengthen the income situation of families with little or no income from work, Lithuania however abolished this tax allowance for families with children to replace it with a universal *child benefit*. This payment of EUR 30 per child per month is payable up to the age of 18 (21 for those in education) and comes in addition to an already existing child benefit available only to families with low incomes and those with three children or more (see Figure 4.10).

Lithuania has also been expanding early childhood education and care (ECEC), making it easier for families, and in particular mothers, to combine work and family responsibilities. Total ECEC spending is comparatively high, at 0.7% of GDP in 2013, near the OECD average of 0.8% and above the levels attained in Latvia (0.6%) and Estonia (0.4). Participation is free of charge for children from birth, with parents only covering the costs of meals, though there is no legal entitlement to a place in childcare. In spite of recent progress in raising enrolment rates in formal childcare, participation remains low for very young children (0-2 years old), in particular in rural areas. Enrolment rates exceed the OECD average for 2-3 year-olds, and they are only a little below the OECD average for 4-6 year-olds (OECD, 2017[2]). High emigration rates among qualified staff are a particular challenge for the provision of childcare.

Employment rates of 25-64 year-olds in Lithuania are virtually identical for women and men, and female employment rates are substantially above the OECD average (Chapter 1, Figure 1.12). Also the gender gap in employment rates of parents with children below the age of 15 years is lower than in all OECD countries except Denmark, at only 10% (OECD, 2017[21]).

4.4. Ensuring a sustainable pension system that prevents old-age poverty

With the restoration of its independence in 1990, Lithuania inherited the Soviet system of employment-based state-financed pensions, which it has since transformed into a modern pension system through a series of reforms (Lazutka, 2006[22]). Only days after the declaration of independence in March 1990, the newly founded SoDra started laying the basis for a social insurance system by beginning to register workers and employers, collecting contributions and paying out benefits. The Lithuanian social insurance system was officially established a year later, while it took another three years before the old Soviet pension system was formally replaced in 1995.

With the 1995 pension reform, Lithuania's introduced a three-part public pension system, which remains in place until today with few adjustments:

- The main public pension scheme, commonly referred to as the *Social Insurance Pension*, is a defined-benefit (DB) scheme financed on a pay-as-you-go (PAYG) basis. Coverage is high, as participation is mandatory not only for private-sector employees, but also for members of the military, the police and the civil service as well as some groups of self-employed. Unlike in the old Soviet system, pension entitlements are coupled to pre-retirement earnings;[26] the scheme is quite redistributive, however, because payments have a large "general" component that only depends on the length of the contribution period. Persons earn "full" pension rights by contributing for at least 30 years, though additional contribution years bring higher entitlements. Persons with at least 15 years of contributions are entitled to a partial pension. The earnings-related pension component was initially indexed to the average insurable income in the economy, but Lithuania abandoned this rule in favour of discretionary adjustments during the 1999 recession to avoid pension cuts.
- *Social Assistance Pensions* of currently EUR 112 per month are available for elderly persons with insufficient rights to a social insurance pension, but also for those with reduced work capacity and orphans. Unlike their name suggests, they are not means-tested.
- *State Pensions* are granted to specific groups of merit, including victims of the Soviet regime and certain professional groups as supplement to social insurance pensions.

Lithuania also began raising the statutory retirement age in 1995, from initially 50 years for women and 55 years for men; it currently stands at 62.2 years for women and 63.5 year for men, and is set to rise to 65 years for both women and men by 2026. An early retirement pension is available to persons who have earned full pension rights and are within five years of the statutory retirement age, though the participation rate is low in international comparison.

A second major pension reform, carried out in 2004, introduced the two private funded DC pension schemes with the objective of raising long-term pension adequacy and strengthening the weak relation between entitlements and pre-retirement earnings: Persons contributing to the social insurance pension system have the option of diverting a fixed part of their public pension contributions into the private account of a *statutory* defined-contribution (DC) scheme, giving up a proportion of their public pension entitlements in return. Participation is voluntary, but, once made, the decision to join cannot be revoked. At retirement, participants use their private funds to purchase an annuity from a commercial provider or they receive a lump sum payment if their savings are below a given threshold. Around 64% of the working-age population (86% of the workforce) had an account in the statutory private funded pension in late-2016, though only about two-thirds of these people were paying contributions.[27] A second, *voluntary* private funded DC scheme can be set up individually or as part of an employment contract, and participants can withdraw their savings at any time. For a detailed discussion of the private pension system in Lithuania, see OECD (2017[23]).

4.4.1. Pensioners were shielded from the worst consequences of the crisis

After a period of rapid growth in the pension level during the pre-crisis boom[28], falling employment rates and wages put substantial pressure on the social insurance system during the crisis. Lithuania reacted to the large and growing SSIF deficits in 2008 and 2009 with discretionary pension cuts. The average social insurance pension fell by 8% in both 2010 and 2011 compared to its 2009 level. The design of these cuts was progressive: a reduction in the earnings-related pension component was cushioned by an increase in the general part, hence "flattening" the pensions profile and limiting cuts to lower pensions (Medaiskis, 2011[24]).[29] Because of these cuts and a modest 2% average annual pension growth in the years that followed, the part of the SSIF earmarked for pensions returned to a budget surplus in 2014.

The income losses that seniors suffered during the crisis were temporary, however. In a 2012 decision, the Constitutional Court ruled that the discretionary pension cuts carried out during the crisis were lawful given the difficult macroeconomic situation, but insisted that the government compensate pensioners for their losses "within reasonable time". Lithuania hence reversed the cuts in 2012 and recompensed pensioners with about EUR 289 million, or the equivalent of 11% of annual social insurance pension expenditures in 2016. The reimbursements, completed in early 2017, were fully covered by the national budget, hence avoiding further pressure on the indebted SSIF through a substantial transfer of tax payer funds to current pensioners.

In addition to causing financing problems for the SSIF, the crisis substantially slowed the rate of capital accumulation in the statutory private funded scheme. In the initial years after the introduction of the private scheme, the share of social insurance contributions that participants channelled into their personal accounts was raised from 2.5 to 5.5% of the gross wage in 2007. During the crisis, Lithuania stepwise reduced this rate to 2% to relieve pressure on the SSIF, and the pre-crisis rules have not been restored during the recovery. Instead, Lithuania provides tax subsidies to encourage capital accumulation while limiting outflows from the SSIF: under the current arrangements, employees have the option of matching the 2% coming from their contributions with an equal 2% personal contribution out of their wage, which is then matched by a government subsidy of 2% of the average wage (the "2+2+2" formula). About half of all active participants in the scheme have opted for this solution. The SSIF contribution into the private personal accounts is set to rise to 3.5% in 2020 ("3.5+2+2").

4.4.2. Low earnings lead to modest pensions

Lithuania's pension level relative to earnings is close to OECD and EU averages: Survey data suggest that following weak pension growth during the recovery, the most recent pensioner generation (65-74 year-olds) received gross pensions of around 46% of gross pre-retirement earnings in 2014 (approximated by the earnings of 65-74 year-olds; EU average of 57%, Eurostat (2017[25])). This "aggregate replacement ratio" however underestimates pensioners' relative incomes as pensions are non-taxable in Lithuania. The OECD pension model consequently predicts significantly higher net incomes: a person entering the labour market at the age of 20, working at average earnings until retiring at the age of 65 and contributing the minimum 2% to the statutory private scheme will receive a pension of around 59% of average lifetime earnings, net of income taxes and social insurance contributions. This theoretical “net pension replacement rate” is only little below the OECD average (64%), close to the rates in the two other Baltic countries (64% in Latvia, 59% in Estonia) and substantially above that for Poland (39%, OECD (OECD, 2017[26])).

And yet, pensions in Lithuania tend to be very modest, a consequence of the low earnings level. A person with the required contribution record of at least 30 years received a social insurance pension of on average EUR 249 in 2014, just above the poverty threshold and only about 70% of the gross minimum wage. Around one in ten seniors eligible for a social insurance pension moreover lacked the contribution period for a full pension, receiving a reduced pension of only EUR 141 on average.[30]

Seniors consequently face a higher risk of poverty and material deprivation than other age groups. In line with the recent overall increase in poverty (see Chapter 1), the old-age poverty rate rose to 17.2% among in 2014 – lower than the rate for minors but higher than in the total population. Seniors are more likely to experience severe material deprivation than any other age group, and more likely to do so than seniors in any European OECD country (Eurostat, 2017[27]).[31]

Women from older pensioner generations face a particularly high poverty risk (poverty rate of 23.9% among 76+ year-olds), as in many OECD countries. Given large gender differences in life expectancy (see Chapter 1), many of them likely live alone having to get by on a single pension. They often will moreover still have retired at the age of 55, i.e. after shorter work and contribution careers (European Commission, 2015[28]). The generally favourable labour market situation of women – notably high female employment rates and the relatively small gender pay gap – as well as the gradual equalisation of statutory retirement ages for women and men should however contribute to a future narrowing of the old-age poverty gap.

A challenge for future pension adequacy is that the generation nearing retirement is more likely than previous ones to have interrupted work and contribution histories, having experienced the difficult transition years earlier in their careers. These persons are likely to accumulate lower pension entitlements, and calculations based on EU-SILC data suggest that a greater share of them may fail to acquire the 15-year contribution history required to qualify for a social insurance pension.

4.4.3. Recent reforms should ensure the financial sustainability of the pension system but will further reduce adequacy

Lithuania’s dramatic demographic transformation represents a major challenge for the sustainability of the pension system. As a result of high emigration among younger people and low fertility rates, in particular during the late 1990s and early 2000s, Lithuania is ageing at a much faster pace than most OECD countries. And as the baby boomer generation approaches retirement, the ratio of seniors to working-age persons (the “old-age dependency ratio”) is projected to double over the next 25 years to reach one of the highest values across the OECD.[32] Long-term forecasts suggested that, as a result of this demographic transition, Lithuania’s gross expenditures on public social insurance pensions would rise by approximately 2.5% of GDP until 2037, from 6.8 to 9.2%, before starting to decline again. Meanwhile, public pension contributions were projected to shrink from currently 7.2 to 5.9% (Pastukiene, 2014[29]).

To address this financing gap, Lithuania carried out a major reform of its social insurance pension system as part of the NSM in 2016, focusing primarily on controlling future spending. The main components of this reform, which have gradually entered into force since 2017, are:

- *Indexing pensions to the overall wage sum* (since January 2017): Lithuania (re-)introduced pension indexation, both for the general and the earnings-related pension component. The new rule couples pensions to the wage sum in the economy, i.e. the product of average wages and total employment in full-time equivalents.[33] Unlike until 1999, when pensions grew at the same pace as average insurable income, pension growth is thus now directly linked to the sum of contributions paid, hence accounting for the projected workforce decline. The pension level will consequently rise more slowly than average wages in the medium run.[34]
- *Gradually shifting the financing of the general pension component to the national budget* (since July 2017): 12 percentage points of employers' social insurance contributions currently go towards the non-earnings-related general pension component. Lithuania intends to stepwise shift the financing of these expenditures to the state budget in order to lower employer contribution rates. A first, one-percentage-point contribution from the tax budget to the SSIF is being made since 2017; Lithuania will regularly assess the scope for further increasing this contribution during the annual government budgeting process.[35]
- *Increasing transparency through a simplified pension formula* (since January 2018): The earnings-related pension component depended so far on the contributor's past earnings relative to the past annual insured income. This led to unjustified entitlement growth as previous governments failed to raise the annual insured income in line with average wage growth. The new pension formula defines pension points as the ratio of a person's past social insurance contributions and the average contributions paid in the economy. This should lead to a slower and more transparent accrual of entitlements in the future; the value of entitlements earned in the past remains unaffected.[36]
- *Adjustment of the general pension component* (since October 2017): Lithuania raised the value of the general pension component by 16%. In line with the legislated rise in the statutory retirement age, the insurance period required for entitlements to the "full" component will however increase from currently 30 years to 35 years by 2027. This corresponds to a 14%-cut for persons with the required minimum contribution history, hence gradually reversing the recent increase.

Meanwhile, Lithuania abandoned initial plans to link the statutory retirement age to life expectancy after 2026.

Forecasts suggest that, once fully implemented, the reform should substantially improve the long-term financial situation of the public pension system. The MSSL predicts that the reform will reduce gross expenditures for public social insurance pensions by 2.5% of GDP in 2037; the deficit in the social insurance pension system is projected to rise to 0.3% of GDP around 2035 and to decline thereafter. Until 2026, total contributions are projected to *exceed* expenditures permitting Lithuania to build up a modest pension reserve fund.

The recent *ad hoc* increase in the general pension component will initially raise the pension level, in particular for persons with low lifetime earnings for whom the general component makes up a larger share of their pension. In the medium run, greater sustainability will however come at the cost of a further reduction in adequacy. The OECD pension model predicts that net pension replacement rates will fall by seven to eight percentage points depending on the level of previous earnings. Persons who worked their full career at average earnings and make the minimum contribution to the private scheme will for instance see their replacement rate decline from 59 to 51% of net earnings (Figure 4.11, Panel A). Future net pension replacement rates will be substantially lower for persons who do not participate in the statutory private funded pension or who pay only the required minimum contribution than for those who contribute the extra 2% to qualify for the government subsidy (Panel B). And those with low earnings are less likely to contribute more than the minimum required 2%.

Lithuania will hence need to carry out further reforms to be able to guarantee adequate pensions. The recent reform addressed the system's financing problems not by raising revenues but only by further reducing spending and hence adequacy. The current generation of contributors, and in particular those not fully participating in the statutory private scheme, can expect meagre pensions and a high risk of old-age poverty. The new legislation moreover foresees that pension indexation will be suspended if the implied increases would lead to a deficit in the social insurance pension system, which under the current forecasts will be the case after 2026. Future governments may therefore be tempted to interfere with the new indexation rule to permit faster pension growth – potentially undermining again the system's finances.

To improve adequacy in light of already relatively high social insurance contribution rates and a forecast financing gap after 2026, Lithuania will almost necessarily need to strengthen the degree of tax-financing of public pensions. The country has made a first move in this direction by beginning to provide limited tax funding for the general pension component, a reasonable step given that this part of social insurance pensions is not earnings-related. It is currently unclear, however, how soon Lithuania will realistically be able to fully finance the general pension component from tax funds alone, in particular as there are currently no concrete plans for raising taxes. The gradual transformation of the public pension financing mix may be an opportunity however for raising pension revenues if social insurance contributions are reduced at a slower pace than that of the increase in tax funding. This would permit strengthening the general component of social insurance pensions, likely an effective measure to reduce old-age poverty.

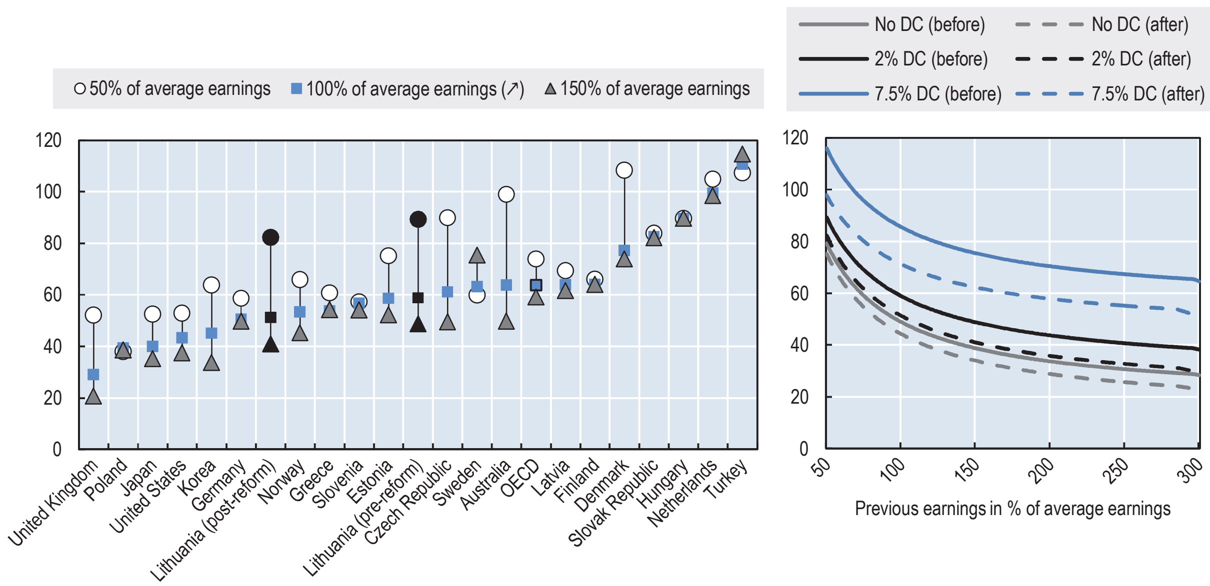
Lithuania should also consider again raising the statutory retirement age beyond the currently legislated limit of 65 years in 2026. The post-reform pension system accounts for the country's rapid demographic transition, however only through the pension level (via the indexation formula) and not the statutory retirement age. A further rise in the retirement age would provide additional revenues while reducing expenditures, hence permitting Lithuania to increase the pension level. Such an increase may, at this time, raise equity concerns given poor health outcomes and low life expectancy, particularly for men and lower-income groups (see Chapter 1). The coupling of the statutory retirement to future developments in life expectancy, as initially foreseen as part of the pension reform, could however be a suitable solution. Across the OECD, 24 countries already have a statutory retirement age of 65 years or over, and in 14 of them, the current legislation foresees a rise beyond the age of 65 (OECD, 2017[26]).

Figure 4.11. The pension reform will further reduce adequacy

Net pension replacement rates as a percentage of previous earnings

Panel A: Selected OECD countries at 50%, 100% and 150% of average earnings (assuming a 2% contribution to the statutory DC scheme for Lithuania)

Panel B: Lithuania, before and after the reform, for different contribution rates to the statutory DC scheme



Note: Net replacement rates are theoretical for a person entering the labour market at the age of 20 years and working without interruption until the statutory retirement age. They assume that all legislated changes to the pension system have been implemented already. Panel A assumes for Lithuania that the person contributes 2% to the quasi-mandatory private funded pension scheme. Panel B shows NRRs over different levels of previous earnings for persons who do not contribute to the statutory DC scheme, those who pay the minimum contribution of 2% and those who contribute the 3.5%+2% (from 2020) and receive the 2% subsidy from the state budget.
Source: OECD (2017[26]) and OECD pensions model www.oecd.org/els/public-pensions/.

4.5. Providing greater resources for social protection

While incomes in Lithuania are quickly converging towards OECD standards, high poverty rates and growing inequality indicate that economic growth during the last decades has not been sufficiently inclusive (see Chapter 1). To ensure that also the more vulnerable groups in society see their living standards increase, Lithuania will need to do more to bolster the incomes of those who are not benefiting from rising wages, including the long-term unemployed, out-of-work families and persons with permanent health issues. This will require raising the share of GDP that Lithuania devotes to social expenditures.

Lithuania’s capacity to significantly strengthen its social safety net is constrained by limited public resources, however. The country’s tax burden, i.e. total revenue from taxes and social insurance contributions as a share of GDP, is one of the lowest across OECD countries, at 29.2% of GDP in 2015 (34.3% in the OECD on average; Eurostat (2017[30]), OECD (2016[31])). This primarily reflects low direct taxation, given Lithuania’s flat-rate personal income tax system, low capital taxes and no significant wealth taxes. Direct taxes only account for around 18% of all tax revenues, the third-lowest share in the EU and only a little more than half the EU average (European Commission, 2016[32]).

Given this tax structure, a challenge for increasing social spending is to avoid reducing incentives to work and to fully declare earnings. Social expenditures are currently funded primarily from insurance contributions, which account for over 70% of the revenue earmarked for social spending (EU average of 59%; Eurostat (2017[33])).[37] Contribution rates are relatively high at 40% of gross wages (31% paid by the employer, 9% by the employee). In spite of low personal income tax rates, Lithuania is therefore rightly concerned about the high tax and contribution burden on earnings, especially for low-wage workers (see Chapter 3).

Meanwhile, the SSIF faces budgetary difficulties. The SSIF had accumulated only modest reserves during the pre-crisis boom as rising revenues were used to raise pensions and childcare benefits. As the crisis struck in 2008, the SSIF plunged into deficit and only returned to a balanced budget in 2016. Over the course of the crisis and the recovery, the SSIF borrowed around EUR 3.9 billion, or 113% of annual expenditures, from the state budget, funds that it will need to pay back over the next decade.

Broadening the contribution base, notably by reducing the large shadow economy (see Chapter 3), must be part of the solution for securing the funding necessary to increase social spending. High informality undermines the redistributive function of the Lithuanian tax and benefit system, and is one of the reasons for low social expenditures in spite of the relatively high insurance contribution rates. Improvements in tax enforcement would raise the revenue available to finance social safety nets and increase the entitlements of vulnerable groups. Lithuania has also taken recent steps to extend the unemployment insurance and sickness benefit systems to certain groups of self-employed, hence raising revenues while improving coverage. The country also introduced a social insurance "contribution floor" in January 2018 requiring employers of part-time workers to pay contributions corresponding at least to those of a minimum-wage worker.[38] Lithuania did not follow through on plans to introduce a contribution ceiling for persons with high earnings as part of the NSM reforms, which would have reduced the SSIF's revenues.

In addition to these efforts, Lithuania will have to consider raising taxes to be able to increase social spending:

- By strengthening the progressivity of the personal income tax system, Lithuania could generate the additional revenue while maintaining work incentives at the bottom of the income distribution. The country considerably increased tax allowances in recent years to boost the work incentives of low-income earners. It could reinforce the progressivity of its tax system by raising the personal income tax rate above its current level of 15% while further increasing tax allowances.[39] A more effective alternative, suggested in earlier work by the OECD (2016[12]) and the IMF (2016[34]), would be to introduce a second tax bracket for higher-income earners. A more progressive tax system would also directly contribute to reducing high income inequality.
- There is scope, moreover, for raising more tax revenue from sources that are less detrimental to economic growth than labour taxation. While Lithuania has taken first steps in this direction, the OECD recently pointed to the further potential for increasing property taxes and phasing out tax exemptions for certain types of capital gains (OECD, 2016[12]). Lithuania is also one of the only EU countries without any car taxation or road-use tax for private passenger vehicles (European

Commission, 2017[15]). The country recently announced plans to revisit its excise duties as well as the rules governing the taxation of vehicle pollution as part of its ongoing efforts to reduce the tax burden on labour (Government of Lithuania, 2017[8]).

Greater tax-financing of social benefits would permit Lithuania to direct a larger share of social expenditures to the neediest households. In particular, the additional means could serve to strengthen the system of tax-financed last-resort benefits, notably the modest Cash Social Assistance and Social Assistance Pensions. Lithuania's recent commitment to gradually shift the financing of the non-earnings-related part of social insurance pensions to the state budget could be an important first step towards a more balanced financing of social expenditures. It will not, however, increase the overall resources available for social protection if the tax funding is fully used to reduce social insurance contributions, as currently intended. The distributional impact of this measure is unclear, moreover, as long as it is uncertain how precisely the needed tax revenues will be raised.

Notes

1. The OECD Social Expenditure Database categorises the Heating Compensation as an in-kind benefit, which is why, in Figure 4.1, it is included among "other social services".

2. Lithuania introduced its flat-rate tax system in 1994, initially with a uniform tax rate of 33%. Between 2006 and 2009, the personal income tax rate was lowered stepwise to its current level of 15%.

3. Lithuanians scored their country with a -4.5 on a scale from -10 to +10, the fifth-lowest score across the EU.

4. The Europe 2020 strategy is the EU's growth and employment agenda for the current decade. As part of its "inclusive growth" targets, Lithuania committed itself to reducing the number of persons at risk of poverty and social exclusion to 814 000 in 2020, from 917 000 in 2013.

5. Jobseekers with contribution record of more than 25 years qualified for an extended maximum benefit duration of up to nine months for those with a contribution history of 35 years and over.

6. NRRs in the third month of employment increased by a substantial 34 percentage points for jobseekers with high previous earnings (70th percentile in the earnings distribution) compared to +15 percentage points for those with low previous earnings (30th percentile). Both types of jobseekers now see nearly the same share of their earnings replaced (NRRs of 82% and 87%, respectively). Similarly, NRRs in the ninth month of benefit receipt increased by factors of 3.8 and 2.6 for jobseekers with high and low earnings, respectively.

7. In some, jobseekers with the required contribution record can moreover receive unemployment assistance, which make for a smoother transition from unemployment benefits to social assistance (Immervoll, Jenkins and Königs, 2015[37]).

8. For an overview of the reform proposals (in Lithuanian), see www.socmodelis.lt/wp-content/uploads/Modelis.pdf.

9. Note that the poverty threshold used in this review (50% of the median equivalised disposable household income) is lower than Eurostat's at-risk-of-poverty line (60%).

10. Recipient households receive the 100% of the SSI (minus any income earned) for the first person, 80% for the second person and 70% for the third and additional persons, irrespective of the age of the household member.

11. The payment level varies with a household's expenditure for heating and water (Annex Table 4.A.1).

12. The SSI increase will raise not only the level of Social Benefits, but also of the Heating Compensation, which is paid if heating costs exceed more than 20% of the differences between household income and the SSI.

13. The average monthly expenditure on these items in 2016 was EUR 55 per household member in the cities of Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys, EUR 42 in other towns and EUR 27 in rural areas. Results from the latest Special Eurobarometer on Social Climate indicate that housing affordability is perceived to be a problem more generally in Lithuania (European Commission, 2014[4]).

14. According to MSSL statistics, about 3% of all exits from Cash Social Assistance between 2015 and 2016 resulted from the recipient's failure to remain registered with the LLE.

15. A single person on unemployment benefits with previous earnings at the median of the earnings distribution faces PTRs between 84 and 59% over the duration of his spell.

16. The reason is again that Lithuania reduces per-head benefit payments for persons in larger households only modestly compared to many OECD countries. The means-testing of child benefits does not further weaken work incentives in this example, because a couple with two children with earnings at the 20th percentile would remain entitled to these benefits.

17. Receipt of a Heating Compensation raises PTRs by 17 percentage points for both singles and couples without children under the assumption that the allowance is lost if the person / a household member starts working.

18. Cash Social Assistance recipients are generally not permitted to work part-time. Exceptions apply however for persons who cannot find full-time employment and remain registered with the LLE and for certain recipient groups who are not available for full-time work, for instance because of caring responsibilities or for medical reasons.

19. This could be done relatively easily, for instance, by comparing exit rates to employment and benefit re-entry probabilities of persons who do / do not qualify for participation in this measure because they have been receiving benefits just long enough / not yet long enough

20. The possibility of avoiding the gradual benefit cuts through participation in community work was only introduced in September 2016. The version of the law introduced as part of the Cash Social Assistance reform moreover foresaw a termination of benefit payments after 60 months of receipt.

21. The incidence of long-term benefit receipt is broadly comparable between these municipalities, and it seems unlikely that such large disparities could be explained alone by differences in recipient characteristics or in the LLE's ability to offer a job or participation in an active measure.

22. Rates are much higher for instance in both Estonia (24%) and Latvia (26%); the average across the 25 countries is 20%.

23. The report concludes that participant selection criteria are vague, that participants have insufficient freedom in choosing a course that corresponds to their skill and capacity level and that a majority of participants only have light disabilities and could have benefited from much cheaper standard vocational education programmes. While about two-thirds of programme participants find employment after programme completion, many of them become self-employed without generating significant income.

24. The replacement fertility rate of 2.1 is the rate that would be needed to keep the population constant assuming zero net migration.

25. The replacement rate of parental-leave benefits had initially been raised from 70% of previous earnings during the first year after childbirth (in 2006) to 100% during the first year plus 85% during the second year in 2008. These changes had to be partly reversed during the crisis in 2010/11, when the current payment rates were introduced.

26. A particular difficulty in this respect is that earnings data are lacking for most of the Soviet period. In the initial pension formula, pension points therefore depended on the length of employment and relative earnings during the best five out of the ten years before the 1995 reform. This rule was further simplified in 2012 to account only for earnings data in the post-reform years. Pension experts have criticised this rule, however, as creating adverse work incentives for seniors because taking up a low-paid job at old age may *reduce* pension entitlements (Medaiskis and Jankauskienė, 2014[35]).

27. Many of those with an account who are not paying contributions have emigrated or are temporarily working abroad.

28. Social insurance pensions were increased by over 50% in real terms between 2005 and 2009, from 25 to 35% of average gross earnings.

29. Social insurance pensions were more heavily reduced for employed pensioners, who faced reductions of between 13% (for those working at the MMW) up to 70%. Also tax-funded state pensions were progressively reduced by between 5 and 20%.

30. Private pensions will only start to meaningfully contribute to pensioners' incomes once the system has matured in two or three decades from now.

31. Severe material deprivation rate is defined as being unable to afford at least four of the following nine items: mortgage or rent payments, utility bills, hire purchase instalments or other loan payments; one week's holiday away from home; a meal with meat, chicken, fish or vegetarian equivalent every second day; unexpected financial expenses; a telephone (including mobile telephone); a colour TV; a washing machine; a car; and heating to keep the home sufficiently warm.

32. Eurostat projects that the number of 65+-year-olds relative to that of 15-64 year-olds will rise from 1 to 3.6 to 1 to 1.8 between 2015 and 2040 (Eurostat, 2017[36]). In the OECD, the projected old-age dependency ratio for 2040 is highest in Japan (1 senior for 1.5 working-age persons), Portugal and Spain (1 to 1.7) and Korea (1 to 1.8).

33. More specifically, pensions are indexed to the seven-year moving average of the (projected) wage sum over the current, previous three and upcoming three years. The wage sum is calculated / projected annually by the Ministry of Finance. It is also referred to as the Annual Fund for Wages and Salaries or Labour Compensation Fund.

34. The MSSL predicts that the wage sum might initially grow more *quickly* than average wages as a result of falling unemployment rates and the increase in the statutory retirement age.

35. Overall contribution rates have not declined accordingly, however, because the drop in the contributions earmarked for pensions was offset by an equivalent increase in the contributions towards unemployment insurance and the recently established Long-Term Benefit Fund.

36. The new pension formula will slightly raise pensions for persons with long insurance records.

37. The revenue raised through social insurance contributions remains relatively low relative to GDP by OECD standards because of the low labour share in the economy and high rates of informality.

38. Exceptions apply for below-24 year-olds, pensioners, persons working for two employers and persons insured by the state, e.g. during the second and third year of childcare leave.

39. The existing basic tax allowance is earnings-dependent: only persons with earnings up to the MMW qualify for the full amount of EUR 310 per month; the allowance then declines by 50 cents for every additional Euro earned, reaching zero at an earnings level of three times the MMW.

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Annex 4.A. The Lithuanian income support system

Annex Table 4.A.1. The Lithuanian income support system, 2017

Social Protection Branch	Programme name (*in Lithuanian*)	Entitlement criteria	Amount	Duration
Unemployment	Unemployment benefits (*nedarbo draudimo išmoka*)	Working age; contribution record of at least 12 out of the last 30 months; registered with the LLE and engaged in active job search	Flat-rate part of 30% of the monthly minimum wage (MMW), i.e. EUR 114 plus variable, earnings-related component that declines over time (50% in month 1-3; 40% in month 4-6; 30% thereafter); payments capped at 75% of average monthly gross earnings (EUR 617.10)	9 months, plus 2 months for jobseekers who are less than 5 years below the statutory retirement age
Minimum-income	Cash Social Assistance (*piniginė socialinė parama*)	Social Benefits (*socialinė pašalpa*): income below the State-Supported Income (SSI) of EUR 102 per person per month. Employable recipients who do not study or work generally have to register as jobseekers with the LLE, though there are exceptions (e.g. for persons with caring responsibilities); Compensation of Heating, Drinking and Hot Water Costs (*būsto šildymo, geriamojo ir karšto vandens išlaidų kompensacijos*): heating costs must exceed 10% of the difference between household income and the SSI and the costs of cold and hot water exceed 2 and 5% of household income, respectively.	The monthly benefit payment for a single person or the first person in a household equals the difference between the SSI (EUR 102) and any income received, to 80% of that difference for the second person in the household and to 70% of that difference for the third and additional household members.	
Incapacity	Disability pension (*neteko darbingumo pensija*)	Work capacity reduced by 45-55% ("light" reduction), 60-70% ("medium" reduction) or 75-100% ("heavy" reduction). Persons with a reduction of less than 45% do not qualify.	Flat-rate general component of 55%, 110% or 150% of the general pension component (EUR 112) in case of a "light", "medium" and "heavy" reduction in work capacity; earnings-related part that depends on work capacity and contribution history. Those with a shorter contribution record may qualify for a partial pension	

Social Protection Branch	Programme name (*in Lithuanian*)	Entitlement criteria	Amount	Duration
	Sickness benefits (*ligos pašalpa*)	Temporarily unavailable for work due to illness or injury or because they are caring for a sick family member and having paid contributions for 3 out of the last 12 or 6 out of the last 24 months	In case of sickness: the employer covers 80 to 100% of the employee's average earnings for the first 2 working days; from the 3 day, SoDra replaces 80% of the average earnings. Persons caring for sick family members: 85% of their average earnings from SoDra the day one	
Family	Maternity / paternity benefits (*motinystės / tėvystės pašalpa*)	Contribution record of 12 out of the last 24 months	100% of insured earnings; minimum and maximum thresholds apply	Mothers: 18 weeks during the period before and after childbirth (20 weeks in the case of multiple births or complications); for fathers: 1 month within the first 3 months after childbirth
	Parental-leave benefit (*motinystės / tėvystės pašalpa*)	Contribution record of 12 out of the last 24 months; only one of the two parents qualifies	100% of insured earnings for the firth year or 70% and 40% during the first and the second year after childbirth; minimum and maximum thresholds apply	1 or 2 years
	Childcare benefit for parents in education or training (*Išmoka besimokančio ar studijuojančio asmens vaiko priežiūrai*)	Parent or guardian and enrolled in a vocational training programme or higher education and below the age of 26 years or enrolled in doctoral studies or medical residency and below the age of 30 years, if neither of the parents is entitled to insurance-based parental-leave benefit for the same child	EUR 152, i.e. four times so-called Basic Social Benefit (*Bazinė socialinė išmoka*, BSB) of EUR 38	Until the child reaches the age of one
	Child benefits (*išmoka vaikui*)	Families with children whose average monthly per capita income did not exceed 150% of the SSI in the previous year and all families with three or more children regardless of income	EUR 28.50, i.e. 0.75 times the BSB per child up to the age of two; EUR 15.20 (0.4 times the BSB) per child between the age of two and 18.	Until the child reaches the age of 18
	Birth / adoption grant; benefit for multiple births	Birth / adoption grant: all new parents; Benefit for multiple births: parents of twins or higher multiples	Birth / adoption grant: 11 times the BSB (EUR 418) Benefit for multiple births: 4 times the BSB (EUR 152) per month for the 2nd and additional children	Birth / adoption grant: single payment; Benefit for multiple births: up to the children's 2nd birthday
Old-age pension	Old-age social insurance pensions (ocialinio draudimo pensijos: *senatvės pensija*)	30 years of contributions for "full" pension rights; 15 years for partial pension. Above the statutory retirement age of 62.2 years for women and 63.5 year for men.	(Quasi-)flat-rate general component plus earnings-related supplementary part, which depends on the length of the insurance record, the retiree's earnings relative to the economy-wide insurable income during the 25 most favourable years and the average insurable income at the time of payment.	

Social Protection Branch	Programme name (*in Lithuanian*)	Entitlement criteria	Amount	Duration
	Social Assistance Pensions (*šalpos pensija*)	Elderly, persons with reduced work capacity and orphans with no or insufficient rights to a social insurance pension.	90% of the general pension component (EUR 100.80 per month) in case of old age; between 50 and 200% of the general pension component (EUR 56 to EUR 224 per month) for persons with reduced work capacity	
	State pensions (*valstybinės pensijos*)	specific groups of merit, including victims of the Soviet regime and certain professional groups		
	Early retirement pension (*išankstinė senatvės pensija*)	Full pension rights and within 5 years of the statutory retirement age		
Survivors' / orphans' pension	Survivor's or orphan's pensions (*našlių ir našlaičių pensija*)	Surviving spouse or minor children of a deceased person with rights to an old-age or disability pension	Survivor's pensions are set by the Government (no lower than EUR 21 per month); orphan's pensions equal to half of the disability pension for a person with a "medium" reduction in work capacity or half of the old-age pension that the deceased person would have been entitled to. If a deceased person leaves two or more children, the payment is evenly split.	Orphan's pension: up to the age of 18, or 24 for children in education or training; until retirement age, for children with reduced work capacity.

Note: All non-contributory benefits and most insurance-based benefits are exempt from personal income taxation. Only maternity, paternity and parental-leave benefits are taxable.

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