OECD ECONOMIC SURVEY OF LITHUANIA 2018

Promoting inclusive growth

Vilnius, 5 July 2018

Incomes are converging

GDP per capita, 2010 USD PPP

Source: OECD Economic Outlook database.
Unemployment is declining

Unemployment rate

% labour force 15-74

Source: OECD Labour force statistics database.
Export performance is robust

1. Export performance is measured as actual growth in exports relative to the growth of the country’s export market, which represents the potential export growth for a country assuming that its market shares remain unchanged. Source: OECD Economic Outlook database.
The budget is now in surplus

Government net lending, in % of GDP

Source: OECD Economic Outlook database.
Poverty remains high

Relative poverty rate
2015 or latest year available

Note: The relative poverty rate is the ratio of the number of people whose income falls below the poverty line; taken as half the median household income of the total population. The indicator is calculated in disposable income after taxes and transfers.

Source: OECD Income Distribution and Poverty database.
Well-being could be improved

1. Lowest OECD refer to the 17 countries with the lowest score among the OECD countries. Data are for 2016 or latest available year.
Source: OECD Better life index indicators database; Eurostat; Gallup database; and World Bank World Development Indicators.
The New Social Model improved labour market flexibility…

Strictness of employment protection legislation: Regular workers
Scale from 0 (least restrictions) to 6 (most restrictions), latest year

Note: The indicator is calculated in disposable income after taxes and transfers.
Source: OECD Income Distribution and Poverty database.
... and unemployment benefits are now more generous

Note: For Lithuania, the results for January and July 2017 represent the situation before and after introduction of the New Social Model reform, respectively; 2015 for the remaining countries.

Private sector debt and house prices remain below historical peaks

Credit growth and housing prices

Source: European Central Bank; OECD Economic Outlook database; and OECD House price index database.
Debt is falling but could decline further

% of GDP

No deficit  
Deficit 1% of GDP  
Deficit 0.5% of GDP

Note: Projected debt reduction paths under different deficit scenarios.
Source: OECD calculation.
High social security contributions reduce employability of the low-skilled

Decomposition of the tax wedge, 2016
Single without children 50% of the average wage

% of total labour cost

Source: OECD taxing wages database.
Property taxes are low

Source: OECD Revenue statistics database; and Ministry of Finance of Lithuania.
Key recommendations for more inclusive growth

• Set a debt target and establish a credible path to reach it
• Reduce social security contributions, especially for low-income workers
• Increase property taxation, while exempting low-income households
• Assess spending efficiency by carrying out spending reviews
• Actively use macro-prudential measures once financial imbalances emerge
Productivity and inclusiveness: a twin challenge
Labour productivity is low

Labour productivity, USD PPP per worker, 2017

Source: OECD Economic Outlook database.
The labour market is not very inclusive

1. Calculated on the labour force aged 25-64.
2. Data refer to 2016.
Source: OECD Gender employment database
Informality is high

People carrying out undeclared paid activities

% of population aged 15+

Poland
European Union
Lithuania
Estonia
Latvia

Source: Eurobarometer.
Insolvency procedures are cumbersome

Strength of insolvency framework index (0-16), 2017

Firms and research institutions could collaborate more

% of innovating firms

Source: Eurostat.
Vocational education and training should be strengthened


Share of vocational students on upper secondary students, 2015

Social support is relatively weak

Net income from minimum-income benefits as a % of the median equivalised household income, couple with two children, 2015¹

1. 2017 for Lithuania, with Heating Compensation ("Lithuania (HC)") and without ("Lithuania (no HC)").
More should be done to get people back to work

1. Active labour market programmes (categories 2-7) include: cover training, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives.

Source: OECD Labour database.
Key recommendations for raising productivity and inclusiveness

- Address skills mismatch by continuing the reform of the education system at all levels
- Strengthen work-based learning, including apprenticeships
- Continue the reform of innovation policy and strengthen collaboration between firms and research institutions
- Simplify bankruptcy procedures and facilitate restructuring
- Increase investment in active labour market programmes upon close monitoring of results
- Further increase the level of social assistance while maintaining strong work incentives
Ageing together
The population is ageing

Old age dependency ratio, projections, 2010 - 2060

% population 65+ on population 15-64

Lithuania
EU
OECD

The pension system is not targeted at the poor

Old age population at risk of poverty, 2016

% of population 65+

Source: Eurostat.
Life expectancy of men is low

Healthy life years at birth for men, 2016

Source: Eurostat Health statistics database.
Health care is too hospital-centric

Health expenditure by function, difference to OECD average

<table>
<thead>
<tr>
<th>Percentage points</th>
<th>Hospital care</th>
<th>Outpatient care</th>
<th>Long term care</th>
<th>Medical goods</th>
<th>Collective services</th>
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<tr>
<td>2004</td>
<td>3.6</td>
<td>-10</td>
<td>-6.5</td>
<td>15.2</td>
<td>-2.1</td>
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<tr>
<td>2015</td>
<td>2.2</td>
<td>-4.5</td>
<td>-4.4</td>
<td>12.3</td>
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</table>

Source: OECD Health Statistics database.
Participation in life-long learning is low

Note: Data refer to the share of 25 to 64 year-olds who participated in education or training in the 4 weeks prior to the survey.
Net migration contributes to skill shortages

Emigration and immigration, absolute numbers

Thousands of persons

- Emigration
- Immigration including return migrants

Source: Statistics Lithuania.
Key recommendations for an ageing society

- Continue moving pensions from the pay-as-you go (first) pillar to the funded (second) pillar
- Fund the wage-independent basic pension through the general budget rather than social contributions
- Continue reorganising the hospital sector and improve outpatient and long-term care
- Provide financial incentives for life-long learning to firms and employees, especially older
- Reach out better to emigrants and ease restrictions for high-skilled immigrants
- Extend and improve support for childcare, to help parents reconcile work and family
For more information

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