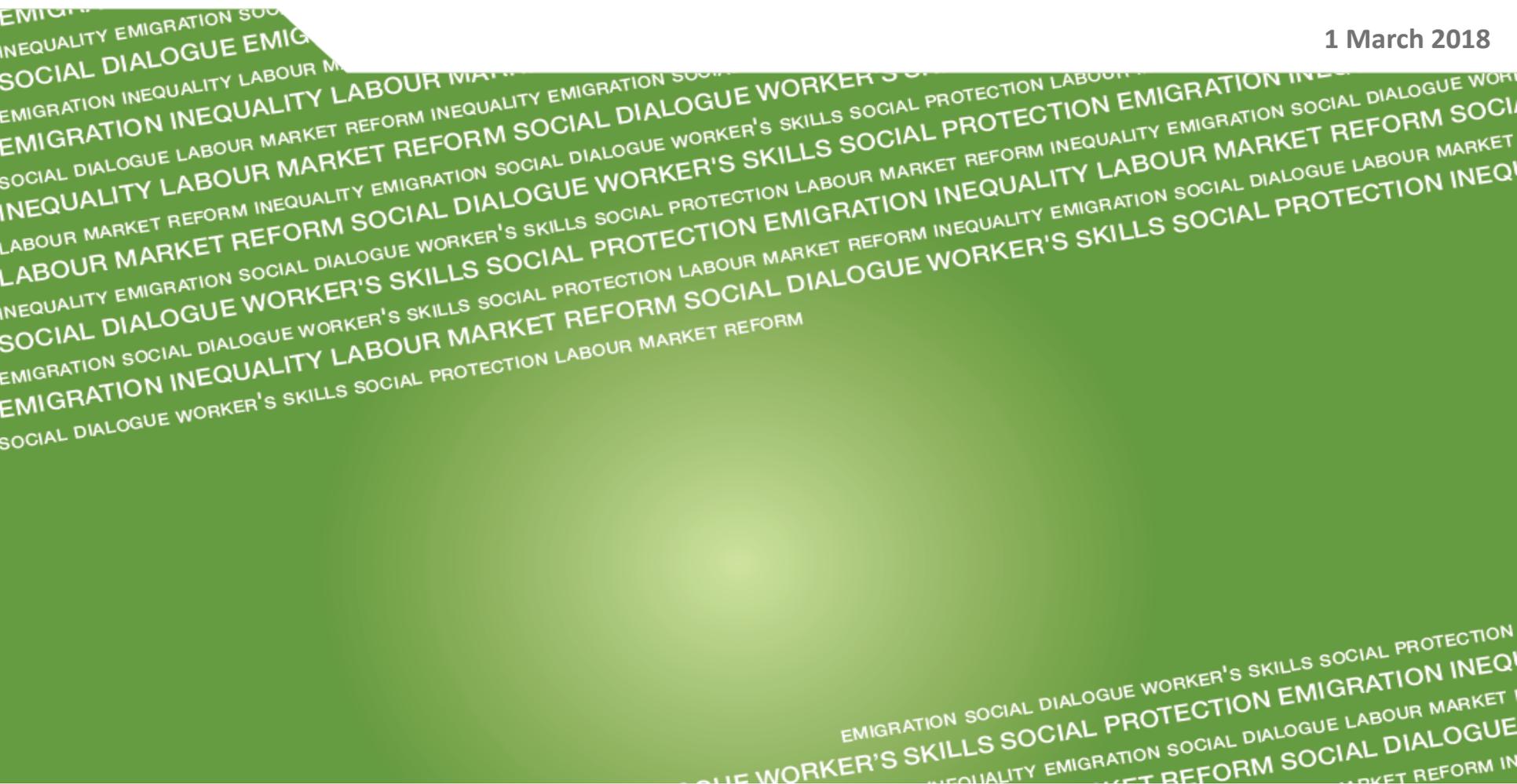




# OECD Reviews of Labour Market and Social Policies **LITHUANIA**

1 March 2018





# Accession review

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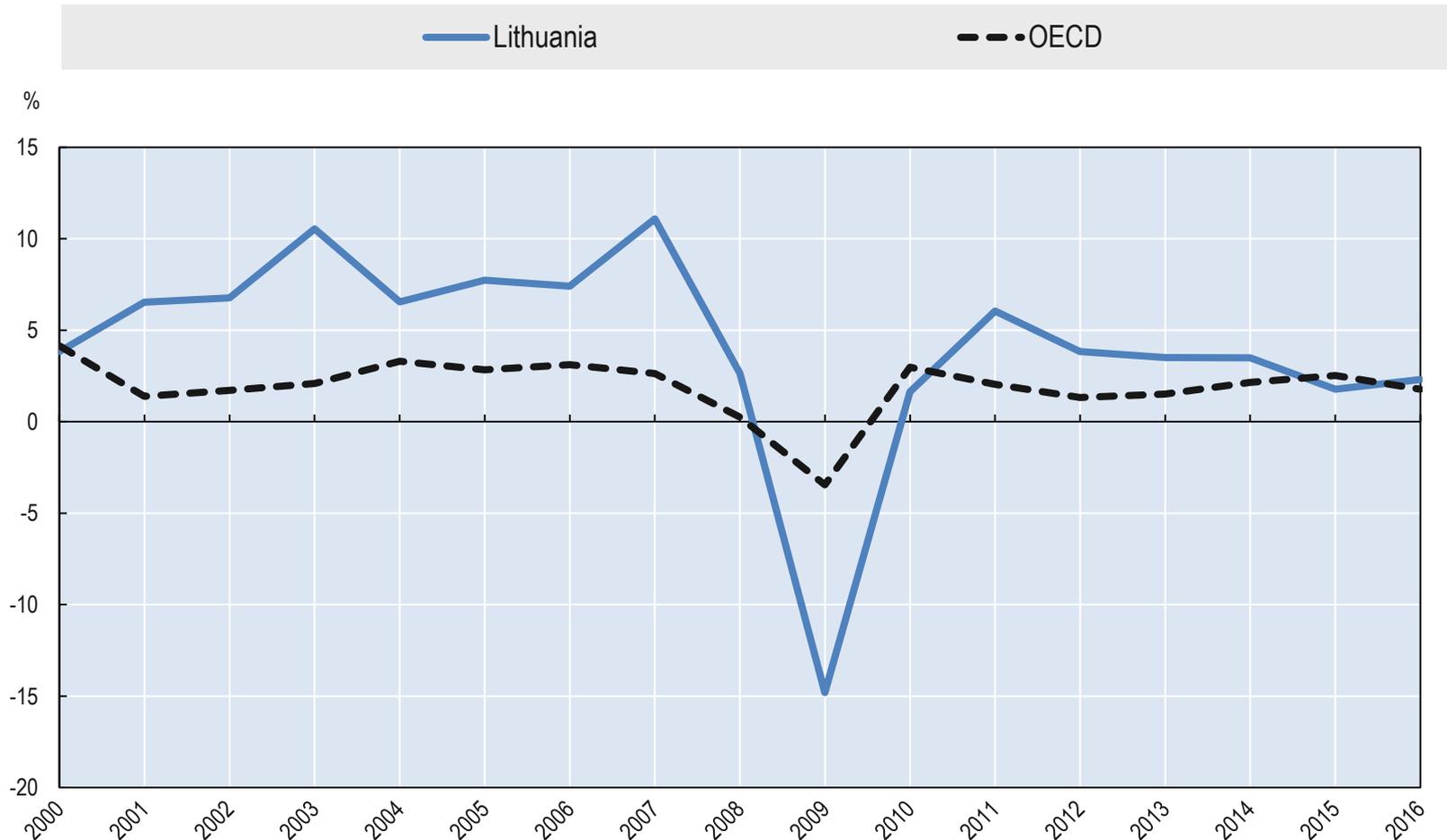
- As part of Lithuania's accession process to the OECD, our Department for Employment, Labour and Social Affairs was requested to provide an evaluation of Lithuania's policies and practices as compared with OECD best policies and practices in the area of labour market, social and migration policies
- => Labour market, social and migration policy review:
  - Excellent support provided by the Lithuanian authorities, incl. extensive answers to our policy questionnaire and follow-up discussions
  - A fruitful ELS fact-finding mission to Lithuania on 11-16 November 2016. In-depth discussions with government officials, parliamentarians, private- and public-sector employers, social partners, academics and NGOs.



# Context and challenges

## Deep crisis and a swift recovery

GDP growth rates 2000-2015, annual averages, %

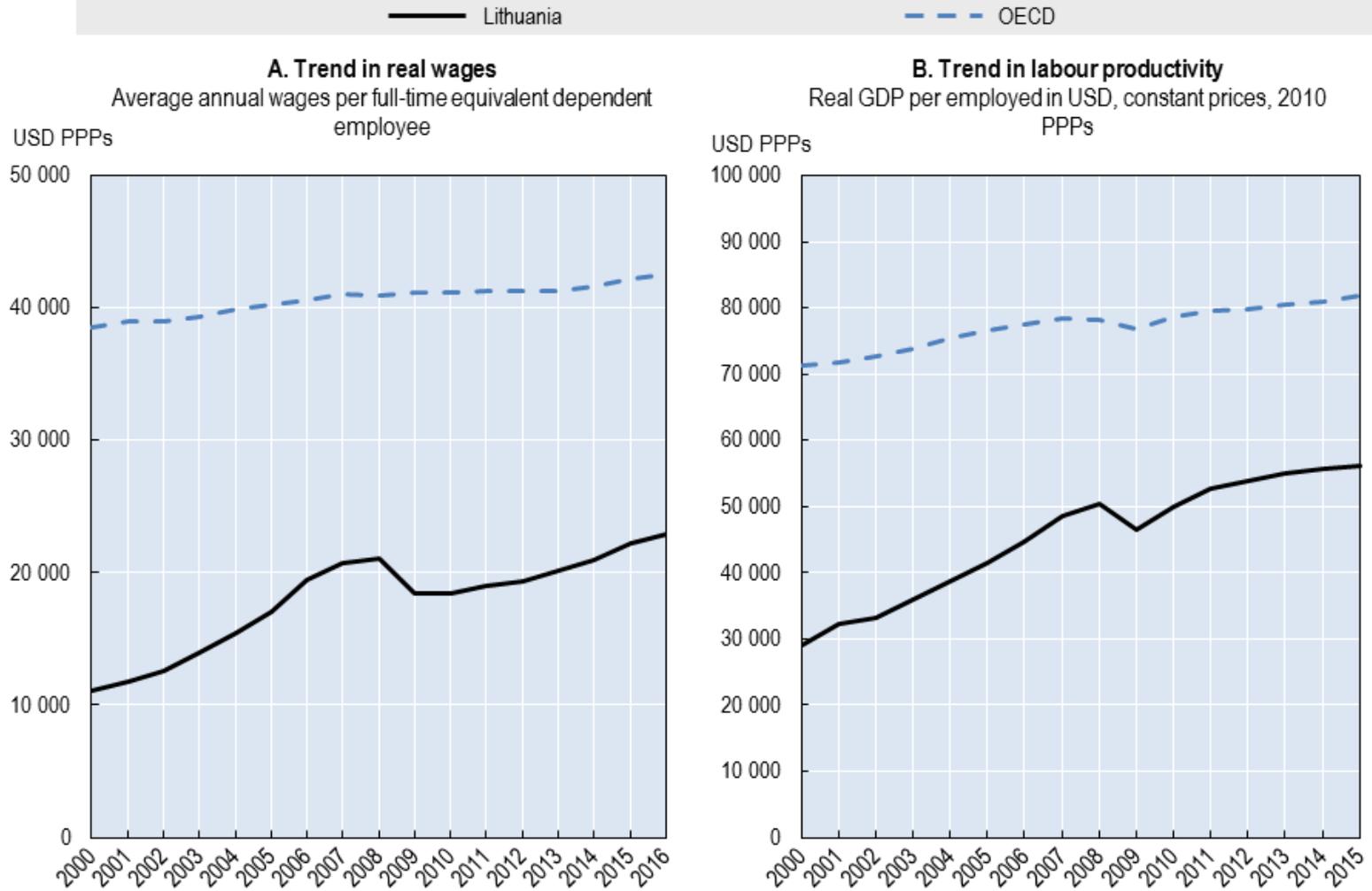


Source: OECD National Accounts.



# Context and challenges

## Wages remain low despite rapid catch-up



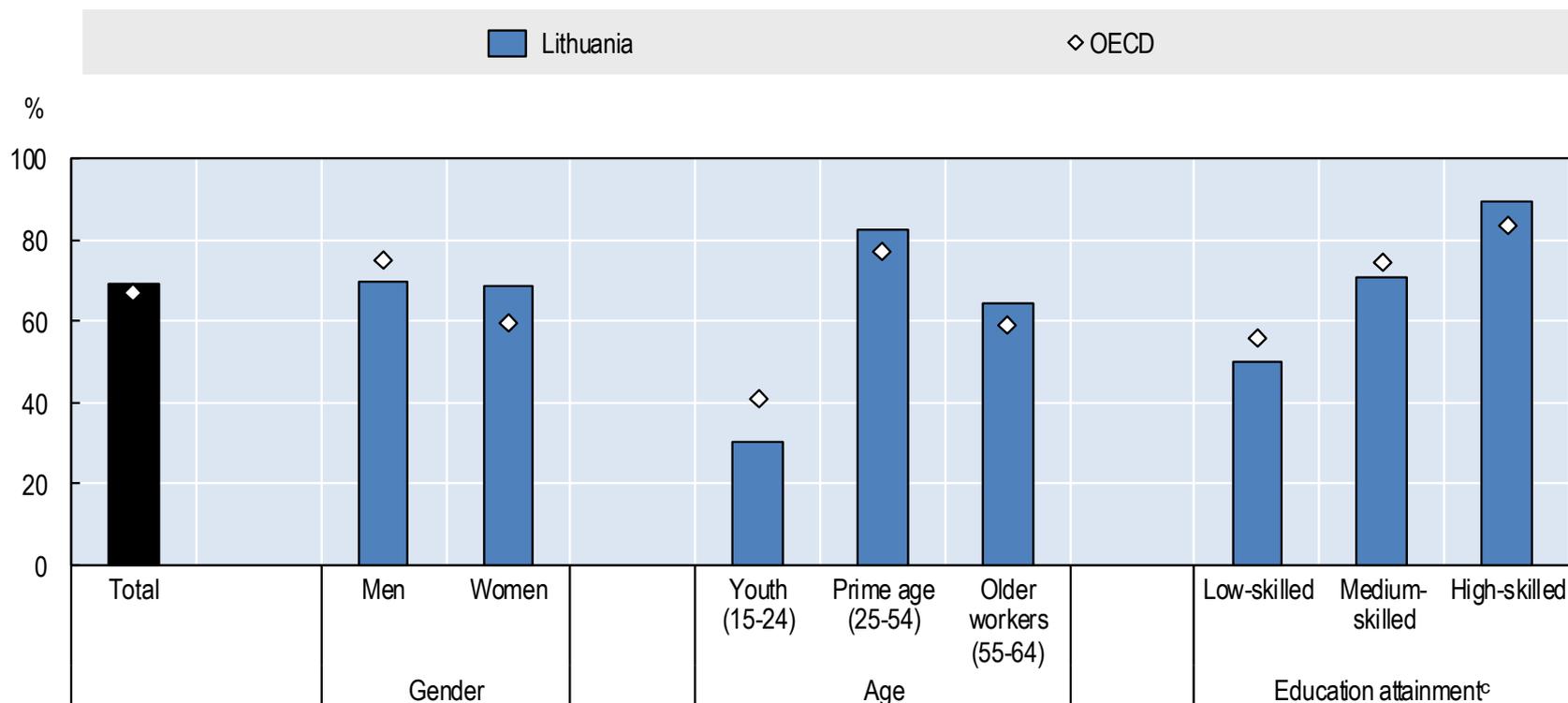


## Context and challenges

# Employment outcomes differ strongly with skills

### Employment rates by socio-demographic groups in Lithuania and OECD countries<sup>a</sup>

Percentage of the population of the indicated group, 2016<sup>b</sup>



Sources: OECD Employment Database, OECD (2016), "Educational attainment and labour-force status", OECD Education at a Glance database

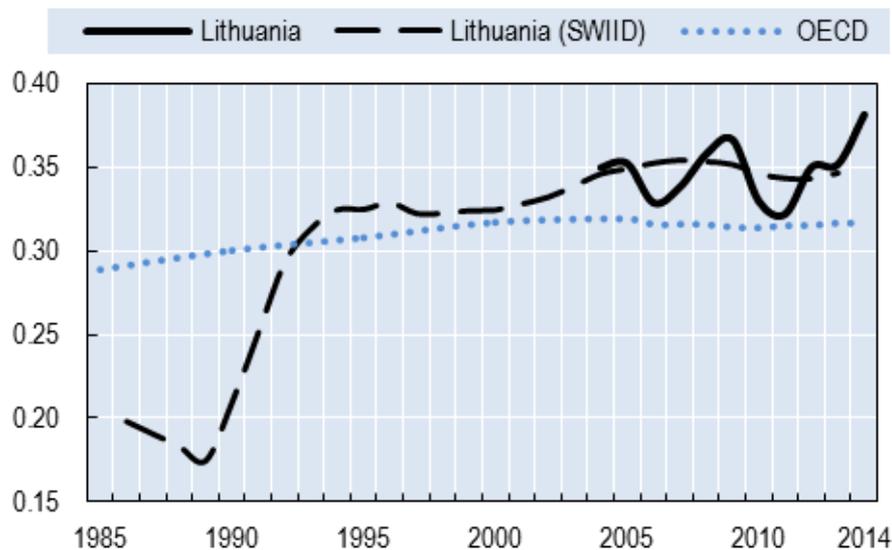


# Context and challenges

## High income inequality and material deprivation

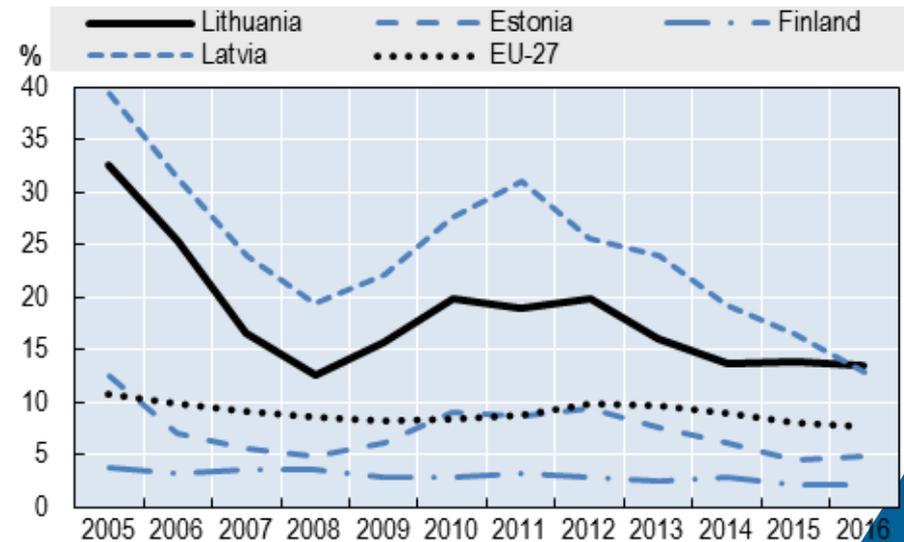
- Income inequality soared during the transition years and is higher today than in most OECD countries (incl. Estonia and Latvia);
- Severe material deprivation remains stubbornly high

Gini Index, 1985-2014



Sources: OECD Income Distribution Database IDD ([oe.cd/idd](http://oe.cd/idd)) and Standardised World Income Inequality Database (SWIID)

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



Source: Eurostat (2017)

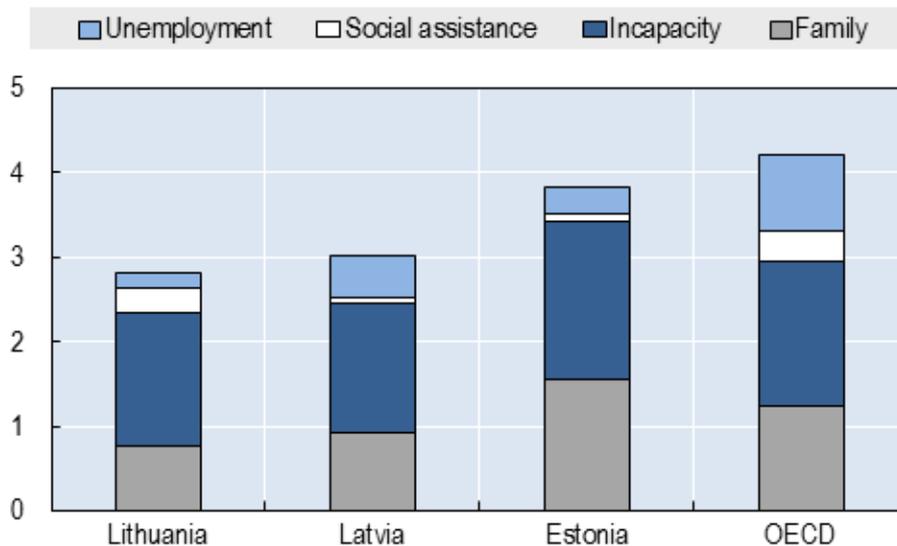


# Context and challenges

## Low social spending and weak targeting

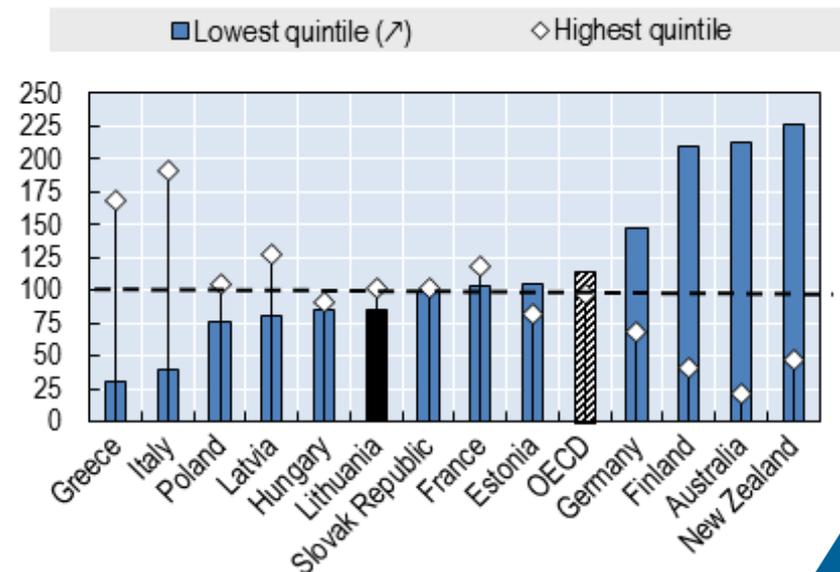
- Public social spending is lower than in most OECD countries and does not show an upward trend; especially spending on unemployment benefits is very low
- Working-age cash transfers are largely contribution-based and hence do not always reach the most vulnerable households

Cash social spending on working-age benefits as a percentage of GDP, 2014



Note: Results are for Estonia, Latvia and the OECD are for 2013.  
Sources: OECD Social Expenditure database SOCX,  
[www.oecd.org/social/expenditure.htm](http://www.oecd.org/social/expenditure.htm).

Relative cash transfers received by working-age persons in low- and high-income households, 2014



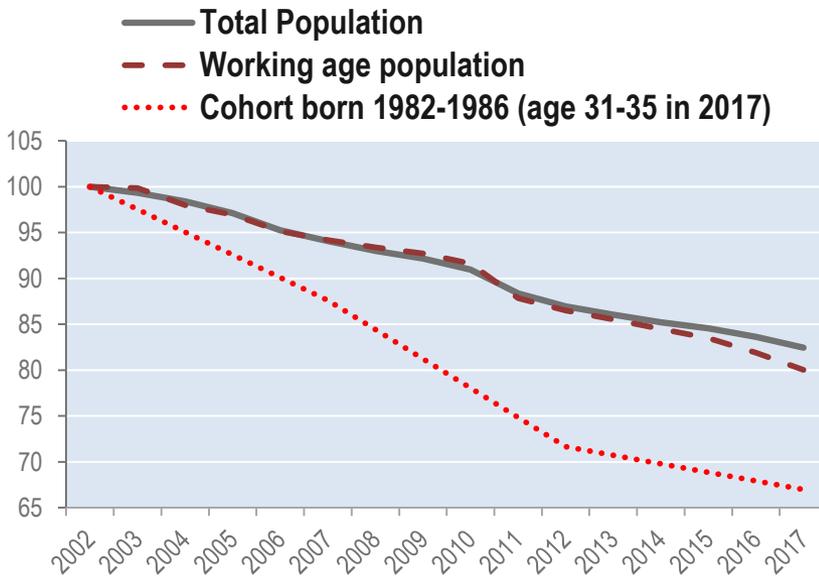
Source: OECD Income Distribution Database IDD, [oe.cd/idd](http://oe.cd/idd)



# Context and challenges

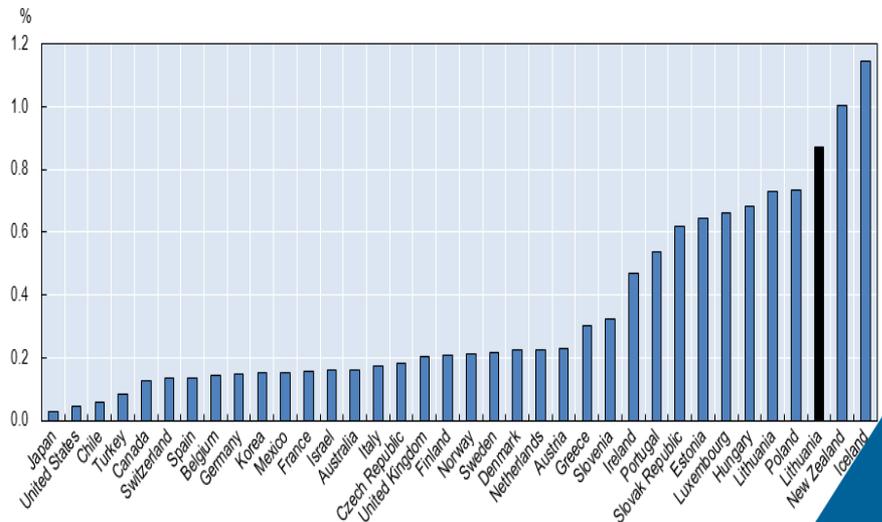
## Emigration drives major population decline

- Lithuania's population is declining by 1% annually
  - More than half of the population decline is due to high and sustained net emigration: over 10% of Lithuanians have left since 2004; the emigration rate is higher than in almost any OECD country
  - Youth cohorts are particularly hard hit: one-third of those born 1987-1991 have left;
- The working-age population is forecast to decline by 30% from 2015 to 2030



Source: Statistics Lithuania.

Average annual emigration rate to OECD countries, 2007-2015



Source: OECD International Migration Database.



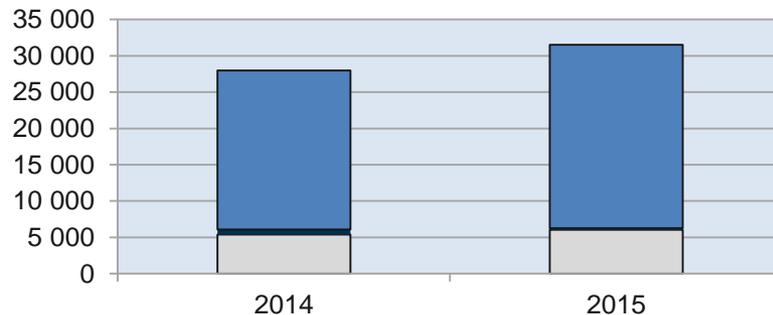
## Context and challenges

# Lithuanians are not emigrating from employment and are not returning to work

- Emigration appears to affect primarily the inactive population and young people who never start working in Lithuania
- Lithuanians are working abroad, but mostly in jobs for which they are over-qualified
- The share of Lithuanian nationals who were employed in the year following return was just 32.9% in 2014 and 31.5% in 2015

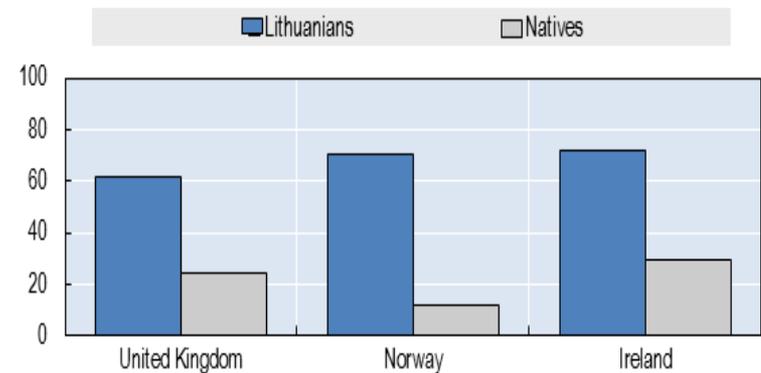
**Employment situation in the 12 months prior to emigration of Lithuanian residents aged 15-64**

□ Employed ■ Registered unemployed ■ Not registered as unemployed



Source: Statistics Lithuania

**Over-qualification of Lithuanian emigrants vs. natives, 2016**



Source: EU Labour Force Statistics



# Main conclusions of the review

## 1. Demographics and migration

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### Changes to the diaspora policy are needed...

- Main budget item of Global Lithuania is Lithuanian language learning abroad
  - Important for future connection with emigrants' offspring
  - Less relevant to draw back emigrants to a changing Lithuania
- Active diaspora policy focus is on the most successful and highest-achieving Lithuanians abroad, yet only 10% of Lithuanians in Europe work in professional jobs
- Outreach to Lithuanians abroad should
  - be broadened to cover more workers with medium qualifications
  - become more employment-focused, especially as an alternative to over-qualification abroad



# Main conclusions of the review

## 1. Demographics and migration

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### **... as well as to the policy for returning emigrants and new immigrants**

- Return-migrant services should be expanded and made more visible
  - The Migration Information Centre needs to be better promoted as a support for returning migrants
  - Certification of returning workers' competences by the LLE
  - More access to ALMPs for return-migrants
- Labour migration policy could bring more value added
  - The policy framework for inward labour migration is capable of responding to future labour shortages...
  - ... but is underutilised (except for favourable provisions for international truck drivers who are posted to other EU countries rather than meeting local demand)



# Main conclusions of the review

## 2. Labour market inclusiveness

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### **The New Social Model brings major changes in labour market institutions:**

- Substantially reduces employment protection legislation for permanent and temporary contracts and significantly eases working-time regulations
  - Reduces incentives for informal employment
  - But risks further lowering job quality
- Introduces a new division of competences between trade unions and work councils
  - Context: very low trade union density and collective bargaining coverage
  - New Labour Code strengthens the role of work councils by providing them exclusive information and consultation functions
  - Important to monitor the effects of these changes on workers' representation and collective bargaining



# Main conclusions of the review

## 2. Labour market inclusiveness

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### **Further improvement in labour law enforcement requires increasing sanctions**

- Activity of State Labour Inspectorate has evolved in line with international best practice
- But sanctions remain too low to effectively dissuade violations

### **Workers' skills need to be further developed**

- ALMP spending is very low and highly dependent on EU financing
- Caseloads should be reduced to enable LLE staff to provide intensive counselling to jobseekers in need
- Participation in training programmes needs to be increased
- Recent efforts to develop VET and apprenticeship should be complemented by financial incentives for employer-based training



# Main conclusions of the review

## 3. Social Protection

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### **Lithuania has taken significant recent steps to improve working-age income support**

- Strengthened unemployment insurance system under the NSM
  - Shortened minimum contribution period, extended maximum benefit duration and higher benefit levels particularly for those with high earnings
- Reform of Cash Social Assistance
  - Decentralization in 2012-15 reform improved targeting and reduced fraud
  - More recently, Social Benefits raised and tied to minimum-consumption basket; introduction of an earnings disregard
- Introduction of universal child benefit

### **... and improved the sustainability of the public pension system**

- Introduction of pension indexation formula, increase in the minimum entitlement period for the full general pension component, start of a gradual shift towards tax-financing



## Main conclusions of the review

### 3. Social Protection

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#### **Further steps are needed to tackle high inequality and reduce poverty**

- Further extend maximum unemployment benefit duration, while possibly reducing replacement rates in the initial months
- Gradually further raise Social Benefit levels; consider introduction of a housing benefit

#### **... secure future pension adequacy and close the financing gap**

- Use the shift towards tax-financing to raise revenues in the pension system

#### **... and raise the revenues needed to finance higher social spending**

- Raise progressivity of the personal income tax system and increase property, capital gains and environmental taxes



# Thank you

<http://oe.cd/lmsp-lithuania2018>

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