

Overview of the labour market situation and employment policy developments in 2009-2011

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Summary

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1. Key economic and social indicators

1.1. Gross domestic product and inflation

Gross domestic product

Gross domestic product (GDP) in 2009 decreased by 15% comparing to the 2008 (see Table 1). This was one of the biggest GDP falls among all Member States. For comparison, in 1999 when the Lithuanian economy was heavily hit by the so-called Russian crisis, GDP dropped down by around 1%, but consequences were critical anyway – it took many years for the economy to recover, unemployment rates kept exceeding 10% for a number of years, etc.

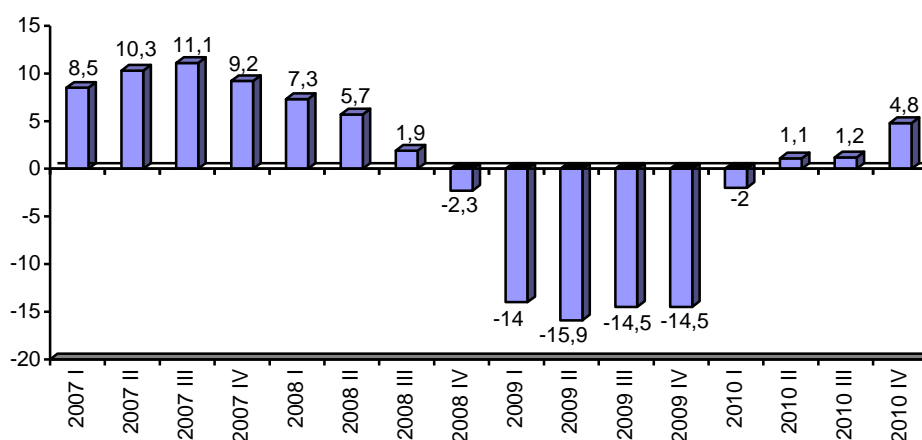
Table 1. Main GDP indices in Lithuania in 2006-2010

	2006	2007	2008	2009	2010
GDP at current prices, million LTL	82,793	98,669	111,483	91,526	94,625
GDP growth comparing to the previous period, %	107.8	109.8	102.9	85.2	101.3
GDP per capita at current prices, million LTL	24,393	29,230	33,198	27,408	28,790
GDP per capita growth comparing to the previous period, %	108.5	110.4	103.5	85.7	103.0

Source: Lithuanian Statistics

GDP decrease in 2009 was determined both by very big dependence of the national economy on export markets, which shrank considerably in 2009, and a high degree of economic overheating reached at the end of the preceding period of rapid economic growth. Decreased scope of activities in the construction sector and shrinking of the trade, railway transport, hotel and restaurant sectors had the strongest impact on the GDP decrease.

**Chart 1. GDP growth by quarter in Lithuania in 2007-2010
(comparing to the same quarter of previous year, %)**



Source: Lithuanian Statistics

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As we can see from the chart above (see Chart 1), GDP actually stopped falling down at the beginning of 2010, but to estimate recovery of this indicator one should have in mind that GDP increase by 1-3% in 2010 in fact means that it remains to be very similar to its 2009 level. At the same time, whilst speaking about GDP recovery, it is very important to keep in mind that even when economic recovery attains a certain level of stability, economic growth in the country will hardly ever reach pre-crisis levels. In employment terms it means that hopes should be pin not on economic growth, but rather on looking for other employment promotion measures, such as improving the quality of jobs, promoting development of labour-intensive production, small businesses, etc.

Inflation

The global economic downturn followed by a significant decrease in consumption both on local and foreign markets placed a very low ceiling on inflations. However, despite dramatic economic shrinkage, a relatively low annual inflation rate (1-2%) was recorded in Lithuania for quite a short period (3Q 2009 – 3Q 2010), but inflation started growing again since October 2010 (see Table 2).

**Table 2. Annual monthly consumer price index in Lithuania in 2010-2011
(comparing to the same month of previous year)**

Year	2010												2011	
Month	2	3	4	5	6	7	8	9	10	11	12	1	2	
Consumer price index	-0.5	-0.2	0.3	0.7	1.0	1.9	1.8	1.8	2.7	2.7	3.8	2.9	3.1	

Source: Lithuanian Statistics

Although the recession has been lasting in Lithuania for several years and prices should not grow due to decreased domestic consumption, increase in prices for energy resources and foodstuffs in global markets nevertheless determine (and will keep to determine in the nearest future) price growth in Lithuania. One should bear in mind that this will pose a certain threat to people's purchasing power, but on the other hand, the contracted domestic demand will prevent a surge in prices at the rates that could be evidenced in case of higher demand.

1.2. Investment and foreign trade

Investment

Losses suffered by economic entities, bad business expectations and tightened crediting conditions in 2009 determined a decrease in investments into fixed tangible assets: expenditure for gross fixed capital formation was by 1.8 times smaller than the indicator in 2008 and its share in the structure of GDP dropped by 8 percentage points down to 17%, reaching the ever lowest level over the entire period of official statistics.

Foreign direct investment (FDI) data also seem to be alarming – in 2009, the net investment flows into Lithuania almost halved compared to 2008. During the past few years Lithuania has been failing to attract more significant foreign investments into sectors determining export development, although things might change to the better in a result of activated efforts of the current government in the area of attracting FDI¹.

¹ http://www.dnbNord.lt/files/Apzvalgos/lep/lep_2010_lt.pdf

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The onset of the financial and economic crisis in Lithuania undoubtedly had implications for the export and import indicators of the country – in 2009, a decrease in exports exceeded 10% and imports fell almost by 30% in Lithuania year-on-year (see Table 3).

Table 3. Foreign trade in Lithuania in 2006–2009

	2006	2007	2008	2009
Export growth (comparing to the previous year, %)	112.8	105.7	114.0	87.8
Import growth (comparing to the previous year, %)	114.5	109.8	109.1	70.3

Source: Lithuanian Statistics

With the weakening domestic demand, development of the Lithuanian economy in the short-term perspective actually depends only on the development of exports. Although some recovery of exports has been recorded in Lithuania from the beginning of 2010 (see Table 4), it is quite slow and, according to experts in economy, “data of foreign trade and national balance of payments in 2010 and 2011 make one think that economic recovery will be slow”.

Table 4. Export in Lithuania in 2008-2010 (by quarter)

Year	2008				2009				2010			
	1	2	3	4	1	2	3	4	1	2	3	4
Export (billion LTL)	12.6	14.9	15.6	12.5	9.5	9.5	10.6	11.1	10.5	13.1	14.4	16.1

Source: Lithuanian Statistics

1.3. Wages and salaries

After some 20% annual growth in 2006-2008, wages and salaries not only stopped growing in 2009-2010, but actually were reduced by 5% in the public sector and by 9% in the private sector (see Table 5).

Table 5. Average monthly gross wages and salaries in Lithuania in 2008-2010 (including individual companies), LTL

	2008	2009	2010
Total	2151.7	2056.0	1990.0
Public sector	2334.9	2285.6	2168.0
Private sector	2058.3	1915.5	1878.0
Increase (comparing to the previous year, %)			
Total	119.4	95.6	96.8
Public sector	123.4	97.9	94.9
Private sector	117.2	93.1	98.0

Source: Lithuanian Statistics

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We can say that the situation got stabilised at the end of 2010, when average wage stopped decreasing and even showed a slight increase in the public sector (as compared with the corresponding period last year). However, attention should be paid to the fact that wages remained to be 9% down both in the public and the private sector in the 4th quarter 2010 as compared to the 4th quarter of 2008 (see Table 6).

Table 6. Average monthly gross wages and salaries in Lithuania in 2008-2010 (without individual companies), LTL

Year	2008				2009				2010			
Quarter	1	2	3	4	1	2	3	4	1	2	3	4
Total	2151	2237	2320	2319	2193	2173	2142	2118	2031	2056	2082	2122
Public sector	2179	2287	2390	2465	2319	2317	2272	2209	2136	2167	2178	2251
Private sector	2136	2208	2279	2230	2111	2074	2052	2052	1955	1977	2017	2033
Increase (comparing to the same quarter of previous year, %)												
Total	124	123	119	113	102	97	92	91	93	95	97	100
Public sector	123	124	123	121	106	101	95	90	92	94	96	102
Private sector	124	122	117	108	99	94	90	92	93	95	98	99

Source: Lithuanian Statistics

We can say that wage level (along with limited supply of job vacancies) remains to be one of the main factors facilitating emigration of Lithuanian people (particularly young ones and capable of work).

1.4. Migration

According to the Lithuanian Statistics, 83.2 thousand people emigrated from Lithuania in 2010. This is by 61.2 thousand or almost by 4 times more compared to 2009 (see Table 7). It's worth noting that every second person who declared emigrating in the past two years was from 20 to 34 years old.

Table 7. Migration in Lithuania in 2006-2010

	2006	2007	2008	2009	2010
Emigration	12,602	13,853	17,015	21,970	83,157
Immigration	7,745	8,609	9,297	6,487	5,213
Net migration	-4,857	-5,244	-7,718	-15,483	-77,944

Source: Lithuanian Statistics

The increase in the number of emigrants in 2010 was also influenced by an obligation entrenched in the Law on Health Insurance of the Republic of Lithuania stipulating that permanent residents of the country are required to pay compulsory health insurance contributions; during this period, change of the permanent place of residence from Lithuania to a foreign country could be declared not only by persons who emigrated in 2010, but also by those who had emigrated before.

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Although the problem of emigration has been quite widely addressed in Lithuania, its real impact and losses will be felt a few years later, when economic recovery will gain some momentum. However, no important concepts or strategies have been developed to encourage emigrants to come back to Lithuania. We believe the main reason for such a situation is insufficient understanding of responsible authorities that emigration is a multifactorial phenomenon which requires a number of very different solutions designed to different groups of population.

1.5. Labour market situation

Having gained momentum already in 2008, growth of the number of the unemployed accelerated even more in 2009-2010 and became the biggest social problem and key reason for intensification of emigration in Lithuania (see Table 8).

Table 8. Main labour market indicators in Lithuania in 2006-2010

	2006	2007	2008	2009	2010
Employment, thous.	1499.0	1534.2	1520.0	1415.9	1343.7
Unemployed, thous.	89.3	69.0	94.3	225.1	291.1
Labour force, thous.	1588.3	1603.1	1614.3	1640.9	1634.8
Employment rate, %	52.7	53.9	53.3	49.8	47.8
Unemployment rate, %	5.6	4.3	5.8	13.7	17.8
Activity rate, %	55.9	56.3	56.7	57.7	58.1

Source: Lithuanian Statistics

In 2010, unemployment rate fluctuated around 18% and was by three times higher than in 2008. Accordingly, the number of the employed decreased by 12% in 2008 through 2010 with the highest decrease being recorded in construction (by 73 thous.), manufacturing (by 52 thous.) and wholesale and retail trade (by 27 thous.) economic activities. According to relative data, the strongest hit was suffered by people employed in activities directed towards the domestic market, such as construction and other associated activities: electricity, gas, steam and air conditioning supply as well as water supply, sewerage, waste management and remediation activities (see Table 9).

Table 9. Employment in Lithuania in 2008-2010

Sector of economic activity*	2008	2009	2010	Employment decrease in 2010 comparing to 2008	
				thous.	%
F	166.5	122.6	93.3	-73.2	-44
C	260.4	226.0	208.2	-52.2	-20
G	270.1	249.7	243.0	-27.1	-10
D	21.0	18.5	15.2	-5.8	-28
I	38.9	34.9	33.6	-5.3	-14
P	152.3	149.0	147.8	-4.5	-3
H	94.9	90.8	90.8	-4.1	-4
E	14.5	12.4	11.1	-3.4	-23

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Q	94.4	92.6	92.3	-2.1	-2
J	25.9	24.7	23.9	-2	-8
R	22,6	25,4	21,4	-1,2	-5
O	83,1	84,9	82,2	-0,9	-1
B	4,0	3,1	3,3	-0,7	-18
L	12,3	12,0	13,6	1,3	11
A	119,8	130,5	121,4	1,6	1
M	47,4	44,8	49,0	1,6	3
K	20,4	22,0	22,3	1,9	9
N	38,1	42,1	42,4	4,3	11
Total	1520,0	1415,9	1343,7	-176,3	-12

Source: Lithuanian Statistics

*A – AGRICULTURE, FORESTRY AND FISHING

B – MINING AND QUARRYING

C – MANUFACTURING

D – ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY

E – WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES

F – CONSTRUCTION

G – WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES

H – TRANSPORTATION AND STORAGE

I – ACCOMMODATION AND FOOD SERVICE ACTIVITIES

J – INFORMATION AND COMMUNICATION

K – FINANCIAL AND INSURANCE ACTIVITIES

L – REAL ESTATE ACTIVITIES

M – PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES

N – ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES

O – PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY

P – EDUCATION

Q – HUMAN HEALTH AND SOCIAL WORK ACTIVITIES

R – ARTS, ENTERTAINMENT AND RECREATION

Changes in the structure of the employed had implications on the dynamics of unemployment rate by gender: in 2009-2010, male unemployment rates were growing much faster than female unemployment (see Table 10)

Table 10. Unemployment rate in Lithuania in 2006-2010 by gender, %

	2006	2007	2008	2009	2010
Men	5.8	4.3	6.0	17.0	21.2
Women	5.4	4.3	5.6	10.4	14.4

Source: Lithuanian Statistics

On the other hand, we can say that some levelling off was observed in 2010, when male unemployment rates started decreasing faster than female unemployment (see Table 11).

Overview of labour market situation and employment policy developments in 2009-2011**Table 11. Unemployment rate in Lithuania in 2008-2010 by gender, %**

Year	2008				2009				2010			
	1	2	3	4	1	2	3	4	1	2	3	4
Total	4.9	4.5	5.9	7.9	11.9	13.6	13.8	15.6	18.1	18.3	17.8	17.1
Men	4.6	5.1	6.0	8.4	14.6	16.7	17.3	19.6	23.2	22.3	20.3	19.1
Women	5.1	4.0	5.9	7.4	9.2	10.4	10.3	11.6	13.1	14.4	15.3	15.1

Source: Lithuanian Statistics

Though we can say that certain level of stabilisation of unemployment was achieved and unemployment even started insignificantly decreasing in Lithuania in the second half of 2010, it is important to note that long-term unemployed individuals, i.e. persons looking for job for a year or longer, accounted for more than 40% of the total unemployed in 2010 and reached 120.6 thousand persons. The number of the long-term unemployed grew by 2.3 times per year.

2. Key employment policy initiatives and the main legislative changes

As we can see from the data described in Chapter I, in Lithuania the worst effects of the crisis were experienced in 2009; coming of the crisis was given publicity at the end of 2008 after elections to the Parliament of the Republic of Lithuania (PRL) had been held and the new Government of the Republic of Lithuania (GRL) was formed. (The elections to the PRL took place in October 2008 and the new GRL was formed in December).

2.1. Ensuring support from the social partners

Looking back from a two-and-a-half year perspective, today we can describe the following scenario for the development of Lithuanian social and employment policy. Having faced extremely unfavourable economic situation and budget deficit at the very beginning of its formation, the Government of the Republic of Lithuania adopted very strict austerity measures: some taxes were raised, funds for maintaining public-sector employees were cut (resulting in the reduction of salaries and/or making public-sector employees take mandatory unpaid leaves), and publicity was given to a threatening deficit of the State Social Insurance Fund (Sodra), the need to (temporary) reduce old-age pensions and optimise (reduce) the number of public-sector employees, etc.

At the end of 2009 the PRL passed a Temporary Law on Recalculation and Payment of Social Benefits providing for, inter alia, temporary reduction of old-age pensions in 2010-2011. On demand of the President of the Republic of Lithuania, no reductions were applied to pensions amounting to LTL 650 (EUR 188) and less. All other pensions were reduced pro rata to their size applying a reduction rate from 2% to 12%. In addition, the temporary law provided for reduction of pensions to working pensioners. This type of reduction also depended on the earnings of pensioners: earners of LTL 200 (EUR 58) per month were applied a 2.5% pension reduction rate and pensioners earning LTL 4,200 (EUR 1,217) and more per month were applied a 70% pension reduction rate. The Law stipulated that the reduced pensions will be compensated from 2012. Procedure of compensation is to be considered at the PRL in 2011².

This policy and its prospects seemed to be very unattractive actually to all social strata, whether to business, the employed and/or the retired. In January 2009 trade unions even organised a raucous

² Blaziene I. Annual Review 2010. Report provided for the European Foundation for the Improvement of Living and Working Conditions, 2011.

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rally, during which windows were smashed in the PRL building and participants kept claiming for better working and living conditions:

On 16 January 2009, three national trade union organisations called for a national protest action ‘Stop impoverishment and unemployment, stop disruption of business, stop the “extermination” of sports, press and culture’, in front of Parliament and Government buildings. According to different sources, the number of protesters varied from 5,000 to 7,000 people. Although the trade unions advised the participants ‘to stay dignified, serious and quiet, respectful of the neighbourhood, not to violate each other’s rights and freedoms’, the anticipated peaceful protest action ended in riots and civil unrest³.

In such a situation it was crucial for the GRL to receive approval and support from the society for implementation of these unattractive measures of economic and social policy. This served as a ground for initiating negotiations at the beginning of 2009 with all parties concerned about signing of a [National Agreement](#) (further – NA), which was eventually concluded in October 2009 after several rounds of intense negotiations (the NA remained in force for the whole year 2010 – expired on the 31 December 2010). Inter alia, it was agreed in the NA that during the crisis the GRL would not adopt any decisions having effects on the social and economic condition of the population without prior consultation with the social partners. In their turn, the social partners committed themselves to ensure social peace – not a single strike or larger protest campaigns were held in 2010.

With the view to improve collaboration between the GRL and social partners, trade unions agreed at the end of January with the Speaker of the PRL and the Prime Minister to establish positions of trade unions’ representatives at the PRL and GRL as well.

Thanks to the NA and more active social partnering on the whole, all employment policy initiatives taken or planned during 2009-2011 and the main legislative changes in the employment and social policy fields in the given period were more or less related to the interests of different social partners – improvement of business environment and business development, better labour market flexibility, where a trade-off was sought through a higher security level, as well as reduction of unemployment, combating undeclared work, etc.

2.2. Policy initiatives aimed at increasing flexibility in the labour market

As the deteriorated economic situation made Lithuanian enterprises look for new and more effective ways to survive under the difficult conditions, a problem of more flexible labour relations appeared to be of a particular relevance. This gave rise to large-scale discussions of the social partners; quite many proposals and legislative amendments were drafted in order to liberalise the labour market (for more details see ad hoc Report “Amendments of the Lithuanian Labour Code (further – LC) designed to increase labour market flexibility and to foster social dialogue” prepared in 2009). However, only a few rather unessential and short-term amendments to laws (Labour Code in particular) have been finally adopted.

In July 2009, a number of amendments to the LC were adopted (allowing shorter periods of notice of dismissal and smaller severance pays to the dismissed employees to be agreed in collective agreements; allowing longer overtime hours; allowing settlement of accounts with an employee later than on the date of his/her dismissal from work; etc.), but stayed in force only until 31 December 2010. Although no surveys have been conducted to explore into effects of the LC amendments, if any, on labour relations in Lithuania, we can say that these amendments could not have any more significant impact on the flexibility of labour relations in Lithuania due to very short validity thereof.

³ Blaziene I. Trade unions organise national protest to demand action on economic crisis, 2009. EIROOnline: <http://www.eurofound.europa.eu/eiro/2009/01/articles/lt0901019i.htm>

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Another large package of amendments to the LC was adopted in June 2010:

- the LC amendments legalised an opportunity to sign fixed-term employment contracts on a temporary basis for newly established jobs; the number of such contracts in a company should not exceed 50% (the provision is to be in force until 1 August 2012). This is believed to encourage creation of new job opportunities, as employers would have fewer obligations than in case of permanent employment contracts;
- organisation of overtime work was alleviated, concurrently tightening the accounting of overtime jobs. Cases were defined when overtime work may be assigned on employer's initiative only and cases when employee's consent is required for overtime work. The duration of overtime work remains limited to maximum 4 hours per day and 120 hours per year; collective agreements may stipulate specific cases when maximum overtime shall be 180 hours per year;
- wider opportunities were provided for summary recording of working time. Summary recording of the working time may be introduced when it is necessary and taking into account opinion of employees' representatives or in other cases stipulated in the collective agreement. In the case of summary recording of the working time, the maximum working time must not exceed 48 hours per week and 12 hours per working day (shift) within a four months' reporting period. General requirements for uninterrupted daily and weekly rest periods remain the same. These amendments are expected to enable more expeditious adaptation to changing market conditions;
- in addition, the LC amendments entrenched a new type of employment contract – telework. Contracts of telework will also cover homeworking and work with information technologies at a location other than the traditional workplace.

With a view to promoting creation of new job opportunities, labour market flexibility and adaptation to different market conditions as well as implementing Directive 2008/104/EC on Temporary Agency Work, the Draft Law on Temporary Employment was issued. The aim of this law is to define specific features of employment relations between temporary employees and temporary employment enterprise, rights and obligations of the parties to temporary employment relations. The law has been already approved by the GRL and all the parties concerned. It is expected to be approved at the PRL during this spring session.

2.3. Policy initiatives aimed at increasing security and employment opportunities in the labour market

LC amendments

In order to compensate some liberalisation of labour relations and to increase security of employees and those who lost jobs in the labour market exposed to increased risks, certain amendments to laws were introduced in 2009-2010.

The LC amendments of 2009, inter alia, included an amendment stipulating that persons employed under fixed-term employment contracts may not be applied less favourable working conditions, qualification improvement and promotion opportunities than those applied to employees working under non-term employment contracts.

With a view to providing employees with more opportunities to protect their rights, the amendments of June 2010 legitimated going on sectoral strikes and modified (eased) the procedure for going on enterprise-level strikes structural-unit-level strikes.

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With the view of ensuring employment security, the 2010 LC amendments legalised a new institute in labour law – suspension of employment contract in case of employer's failure to fulfil his obligations.

LSE amendments 2009

In 2009, the Law on Support for Employment (LSE) of 2006 was substantially reformed. The amendments to the LSE aimed at reducing the negative impact of the economic downturn on the growth of unemployment, creating opportunities for retaining jobs and for getting more persons involved into active labour market policy measures as well as encouraging the unemployed to participate in these measures more actively. The new edition of the LSE:

- expanded the groups of persons eligible for subsidies to create new jobs and start up own business; stipulated measures to support self-employment of one of parents in families with three and more children;
- stipulated measures which, if effectively applied, might help companies facing economic difficulties to retain jobs by means of public works and other labour market policy measures;
- set forth that payment of unemployment social insurance benefits shall be extended by 2 months to unemployed individuals residing in territories where the rate of unemployment exceeds the average unemployment rate in the country by 1.5 times;
- set forth a number of measures to increase mobility of employees (to cover costs of getting to/from work, accommodation costs);
- stipulated that training grant may be awarded not only to the unemployed but also to the employees who have been given a notice of dismissal;
- set forth a number of measures to support employment of persons who are taking care of their family members due to various circumstances and cannot find a proper job, etc.

Although the new edition of the LSE provided for a number of various measures aimed at retaining and creating new jobs, we can nevertheless say that it has failed to produce the anticipated results. Although there are no special research giving grounds to found this opinion, we can nonetheless maintain that many LSE measures were quite complicated to implement in practice and given insufficient publicity. Moreover, many of them were quite specific and applicable only to a narrow group of people or under very specific circumstances (for more details see "Innovative Policies and Practices Spring Review 2009: Amendments to the Law on Support for Employment in Lithuania").

LSE amendments 2010

We can say that insufficient implementation of LSE provisions in practice was one of the factors that urged the Government to issue a new package of amendments to the LSE in 2010. These amendments were aimed at providing more opportunities to people starting up career and small businesses, creating conditions for the development of public works, etc. The LSE amendments of 2010 provided for:

- extension of the list of persons additionally supported in the labour market by adding thereto young people of working age (under 29) and those starting their first career in accordance with the acquired qualifications. In case of failure to find jobs independently, these people are eligible to an active labour market policy measure – subsidised employment. (Before this amendment, young people under 29 were not attributed to individuals additionally supported in the labour market and thus were not eligible for subsidised employment; they neither belonged to any other group of persons supported in the labour market);

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- support for the development of small business. The 2010 Law on Support for Employment stipulated that unemployed people willing to engage in individual activities on the basis of a business certificate shall receive reimbursement of the costs for acquisition of the business certificate and payment of State social insurance contributions. A subsidy in the amount of 0.25 MMW (LTL 200) shall be paid for each month of the activities transacted under business certificates;
- revision of the conditions for organisation of public works. Pursuant to the LSE amendments, public works may be organised for the unemployed, working-age employees who have been given a notice of dismissal, students of comprehensive and vocational training schools during school holidays, part-time employees of enterprises suffering economic difficulties;
- longer support for acquisition of professional skills. Different analyses of cases when employers, who organise acquisition of professional skills and employ persons assigned from labour exchanges, receive a subsidy to compensate for wages, suggest that a 3 months' period is not always enough for unemployed individuals to acquire occupational skills required to anchor in the workplace. To this effect, the LSE amendments stipulate the maximum duration of such measure to be 5 months or 12 months for people starting their first career in accordance with the acquired qualifications;
- extension of the definition of an unemployed person. The amendments stipulate that the unemployed include, inter alia, owners of individual enterprises given the status of an enterprise under liquidation in the Register of Legal Persons, when such owners have registered with a territorial labour exchange as job searchers and are ready to participate in active labour market policy measures.

Other initiatives

In order to promote employment of young people starting their first career, in 2010 amendments to the Law on State Social Insurance were adopted, providing that employers will have to pay only 7.7% social insurance contributions instead of compulsory 31% for employees starting their first career with effect from 1 August 2010. These amendments are of a temporary nature and will be valid till 31 July 2012. The measure is expected to result in employment of almost 25 thousand people. It will apply to persons whose remuneration for work does not exceed 3 MMW (LTL 2.4 thousand).

With a view to reducing the number of illegal workers and improving social guarantees of the employed, the draft Law on Illegal Work Prohibition was issued in 2010. The purpose of the law is to prohibit illegal work, including employment of illegally staying third-country nationals. The draft law defines the characteristics of illegal work, sanctions and measures against employers who allow illegal work and against illegal employees, procedure for imposing such sanctions and measures, illegal work control authorities and their functions as well as protection of the rights of illegally employed people. The drafters of the law expect the law to come into force on July 2011.

2.4. Policy initiatives aimed at improving business (especially – SME) environment

In 2009-2010, a number of legislative amendments were made and a number of measures were implemented in order to promote the development of small and medium business. To describe these initiatives in detail, we would need a separate report. As the initiatives directly relate to business development rather than to employment development, in this report we will restrict ourselves to the brief mentioning of some of them, which are most of all linked to the development of employment.

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Tax-related measures

- a rate of personal income tax, as levied on income derived from individual activities reduced with activity-related expenses, has been reduced from 24% to 15%;
- the minimum period for issuing business certificates has been reduced to 5 days and the annual price for a business certificate has been reduced from LTL 1,440 to LTL 120;
- owners of individual enterprises and general partners of partnerships have been allowed to pay social insurance contributions for pensions on a voluntary basis till 1 January 2012;
- a rate of corporate income tax has been reduced to 5% for all enterprises whose number of employees does not exceed 10 and income does not exceed LTL 0.5 million;
- a business plan has been standardised for being submitted to a tax administrator for the purpose of postponing tax payments;
- a person engaged in individual activities may reduce his taxable income not with actually suffered and documentary proved expenses, but establish that his expenses related to individual activities amount to 30% of income derived from individual activities (in this case documentary proof of expenses is not required).

Business start-up measures

- opportunities have been legitimated to found individual enterprises and private limited liability companies using standard forms of establishment documents without obligatory notarisation of the documents or to found individual enterprises and private limited liability companies through electronic means in cases when the founder is a sole shareholder;
- a term for establishing a legal person has been reduced from 5 working days to 3 working days;
- funding has been allocated to project "Business Start Up" (*Pradėk verslą*). The purpose of the project is to provide natural persons with free of charge information, consultation and training services relating to business start-up i.e., incorporation, accounting, tax, employer's liability, business planning, finance management and other issues.

Business funding measures

- EU aid is used to grant credits (including micro-credits), provide with guarantees and compensate interests;
- Entrepreneurship Promotion Fund started functioning. It supports such activities as entrepreneurship training, loan granting, etc.

It's worth mentioning that, in addition to the above-mentioned measures, the Lithuanian Government allocates especially big funds for export development and promoting innovations in Lithuania.

2.5. Institutional reforms

The reform of the Lithuanian Labour Exchange (LLE) was completed on 1 October 2010. It is said that 10 post-reform (local) labour exchanges (instead of former 46) will serve customers more efficiently. Units of labour exchanges will continue functioning almost in all municipalities to provide customers with consulting services, but administrative issues will be handled by territorial labour exchanges. About 90% of LLE's employees are anticipated to work directly with customers after the reform.

One more reform is planned in the area of labour market vocational training. According to scarce publicly available information, it constitutes an integral part of complex vocational training reform. The

Overview of labour market situation and employment policy developments in 2009-2011

Lithuanian Labour Market Training Authority was closed in Lithuania in 2010; today it is declared that primary and continuous vocational training are merged with a view to improving the efficiency of the vocational training system and the use of available resources. There are established/functioning 9 public institutions "Labour Market Training Centres", a network of [42] sectoral practical training centres is in the process of development in addition to a merger of vocational training establishments. It is expected that services of these centres will be used by students of all vocational training schools, colleges and universities, employers of relevant sectors, vocational teachers, etc.

Summary

To summarise the above material in brief, we can say that the economic crisis caused a certain "collapse in living standards" in Lithuania: unemployment level increased almost by 3 times (the number of registered unemployed individuals exceeded 300 thousand and reached the biggest number throughout the entire period of the Independence), the number of payers of social insurance contributions fell by more than 200 thousand, pensions were reduced (especially for working pensioners), average wages were reduced, and prices for fuel, electricity and food increased. All this conditioned a record-breaking increase in emigration (in a period from 1995) and decrease in immigration.

Basing on the analysis of years 2009-2011, social security and labour market policy pursued by the GRL should be evaluated negatively. The crisis has demonstrated that Lithuania doesn't have any stabilisation mechanisms, relations between national business and bank system are not attuned, employment and labour market policy is underemphasised, and general attractiveness of Lithuania as a place to live and do business is decreasing. All this leads to a conclusion that post-crisis stabilisation of economy and labour market in particular will take longer time in Lithuania (the number of long-term unemployed individuals grew by 2.3 times in 2010 accounting for 40% of the registered unemployed in total). On the other hand, such socially irresponsible policy resulted in a loss of some 100 thousand residents who emigrated from Lithuania within the analysed period; long-term unemployment leads to the loss of skills and employment motivation of workers. Despite high unemployment rates, employers more and more often face the shortage of skilled labour force. Indebtedness of the State social insurance system amounts to around 30 million litas per month.

The GRL has started emphasising certain signs of economic recovery and stabilisation of economic development since the middle of 2010. However, we can say that 1-3% GDP growth will not have significant positive effects on the labour market in the nearest future. This requires well-targeted, active and complex employment policy.