

# LABOUR MARKET TRENDS AND PROSPECTS FOR ECONOMIC COMPETITIVENESS OF LITHUANIA

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# *Labour market trends and prospects for economic competitiveness of Lithuania*

*Conference  
Competitiveness Strategies  
for the EU Small States*

*By Dr. Aušrytė Rastėnienė  
& Neringa Ramanauskė*

# Plan of the presentation

- 1. Introduction: issues under consideration**
- 2. Demographic tendencies of Lithuania**
- 3. Employment and unemployment**
- 4. Economic growth and competitiveness**
- 5. Policy insights**
- 6. Conclusions**





# 1. The issues under consideration

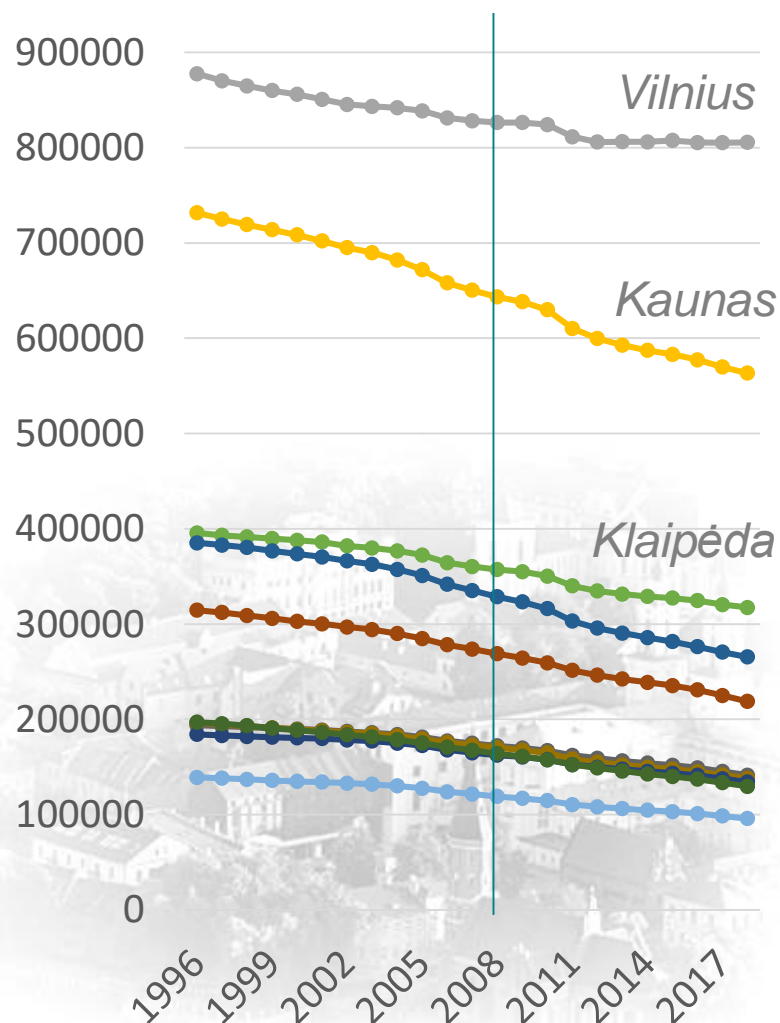
*Labour market trends and prospects for economic competitiveness of Lithuania*

- Lithuania is facing unprecedented **emigration**, leaking the young and the promising out from the labour market
- Local enterprises are facing an increasing constraint in the choice of specialists needed because of both – the **lack of qualified labour** and the **discrepancies in qualifications** needed and available
- The **average earnings** of the employed remain comparatively low in the context of the EU states, however, **labour productivity** is also comparatively low
- Economic competitiveness of Lithuania has dropped from the rank **35** in 2016 to **41** in 2017 according to the **Global Competitiveness Report** published by The World Economic Forum

## 2. Demographic tendencies of Lithuania

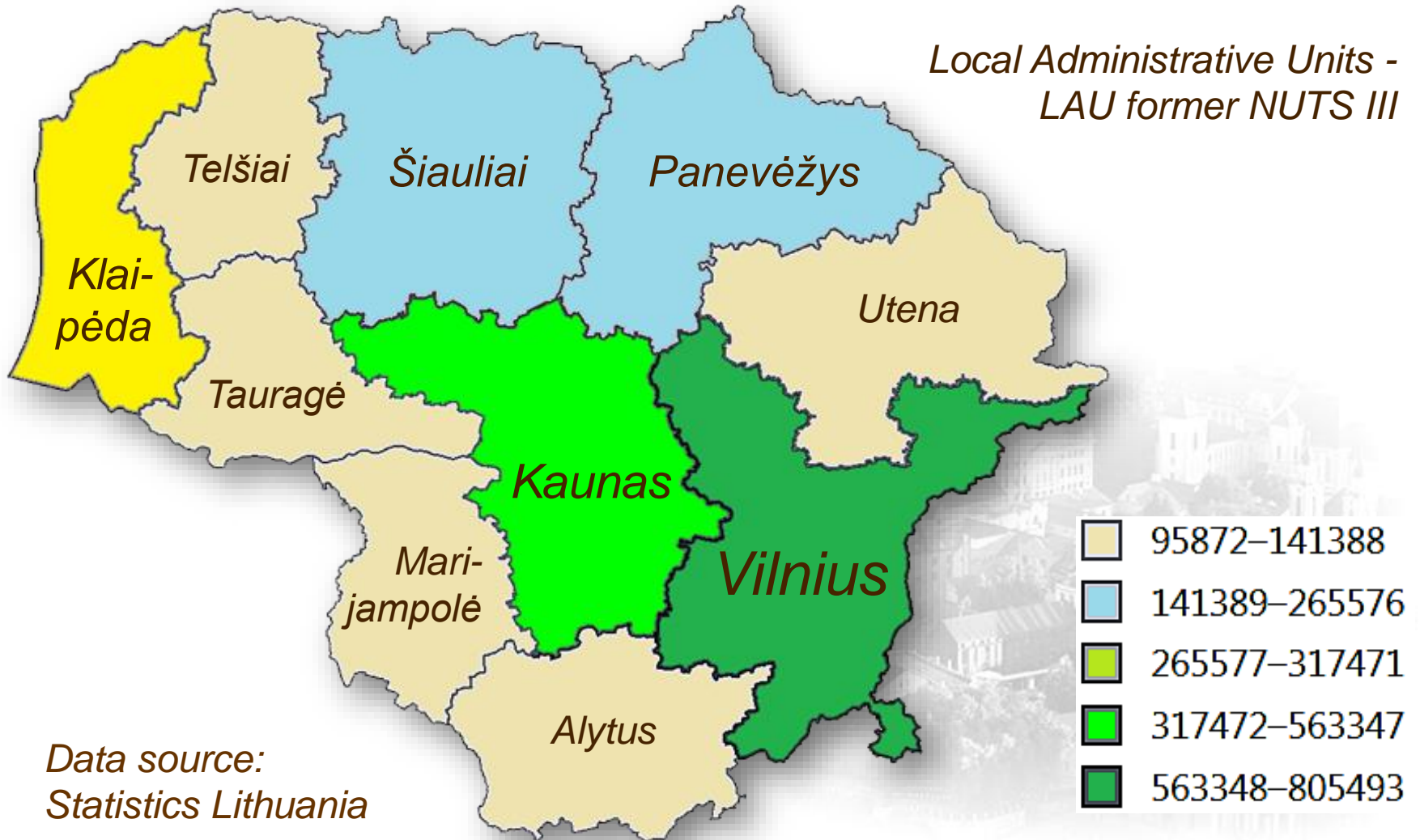
Labour market trends and prospects for economic competitiveness of Lithuania

- During 22 years (1996 – 2018) Lithuania has lost 22,3% of its population, i.e. 805 thous. people
- The capital region lost 8,2%, whilst the rest of the country 26,8%
- Major share of emigrants – young citizens of 20-39 years old
- The share of young population from 15 to 29 years is decreasing since 2009
- Emigration target countries (as of 2016): UK (46,2%), Ireland (8,4%), Norway (7,8%), Germany (7,6%)



# Population by counties as of Jan. 2018

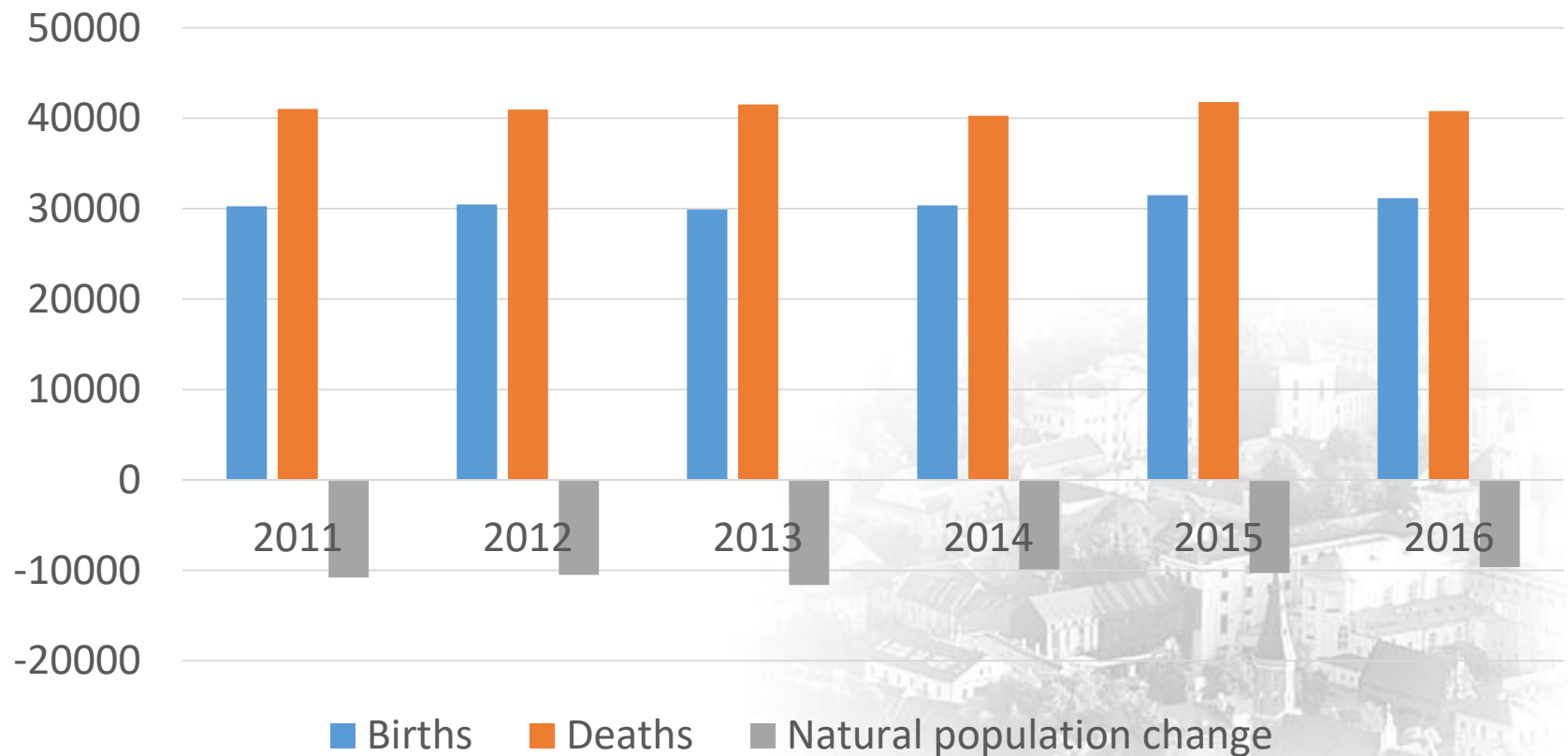
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# Natural population change in Lithuania

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Live births, deaths and natural population change, persons



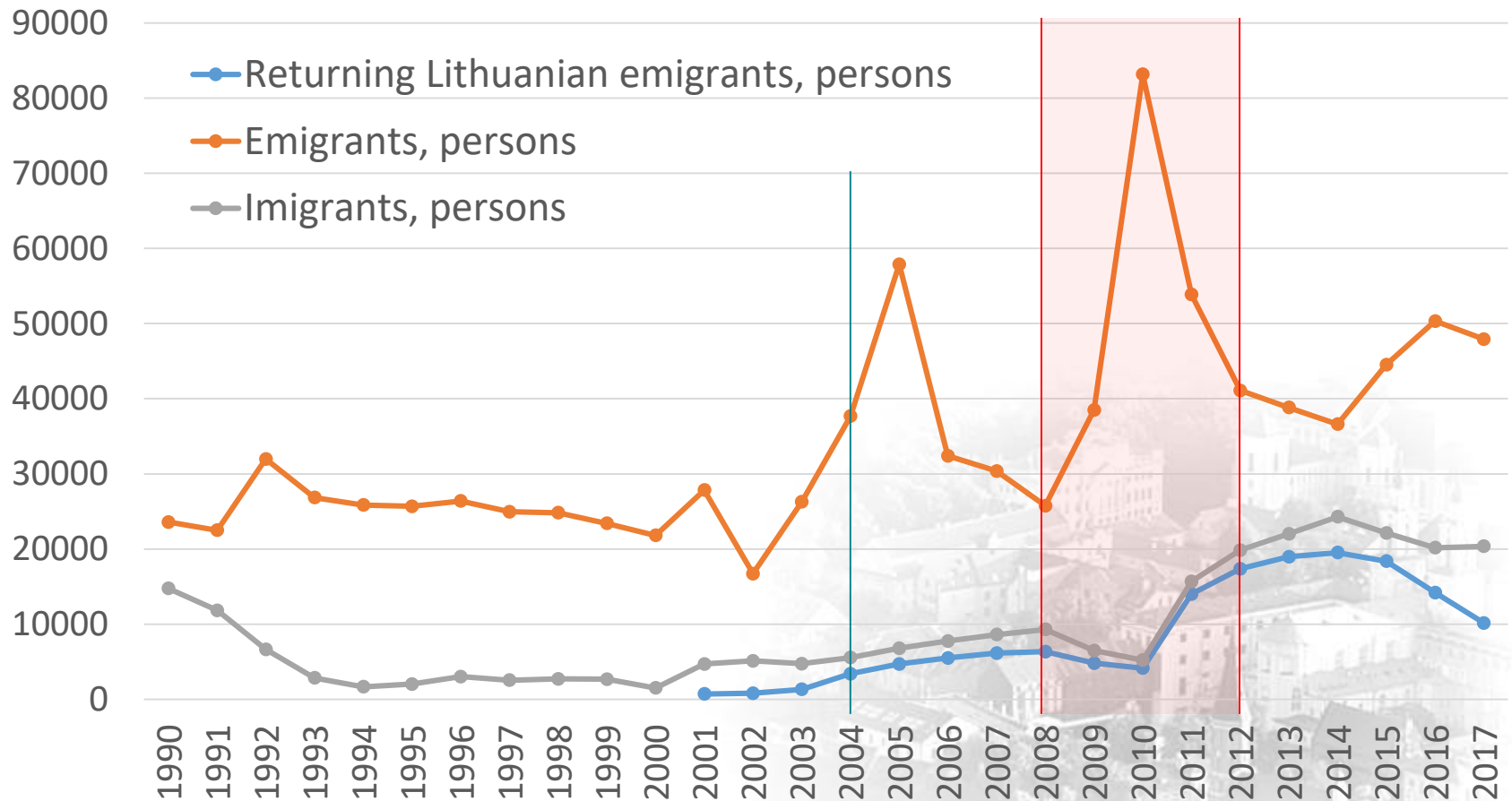
Data source: Statistics Lithuania

Aušrytė Rastenienė & Neringa Ramanauskė, Vilnius University, Lithuania



# Overall emigration and immigration

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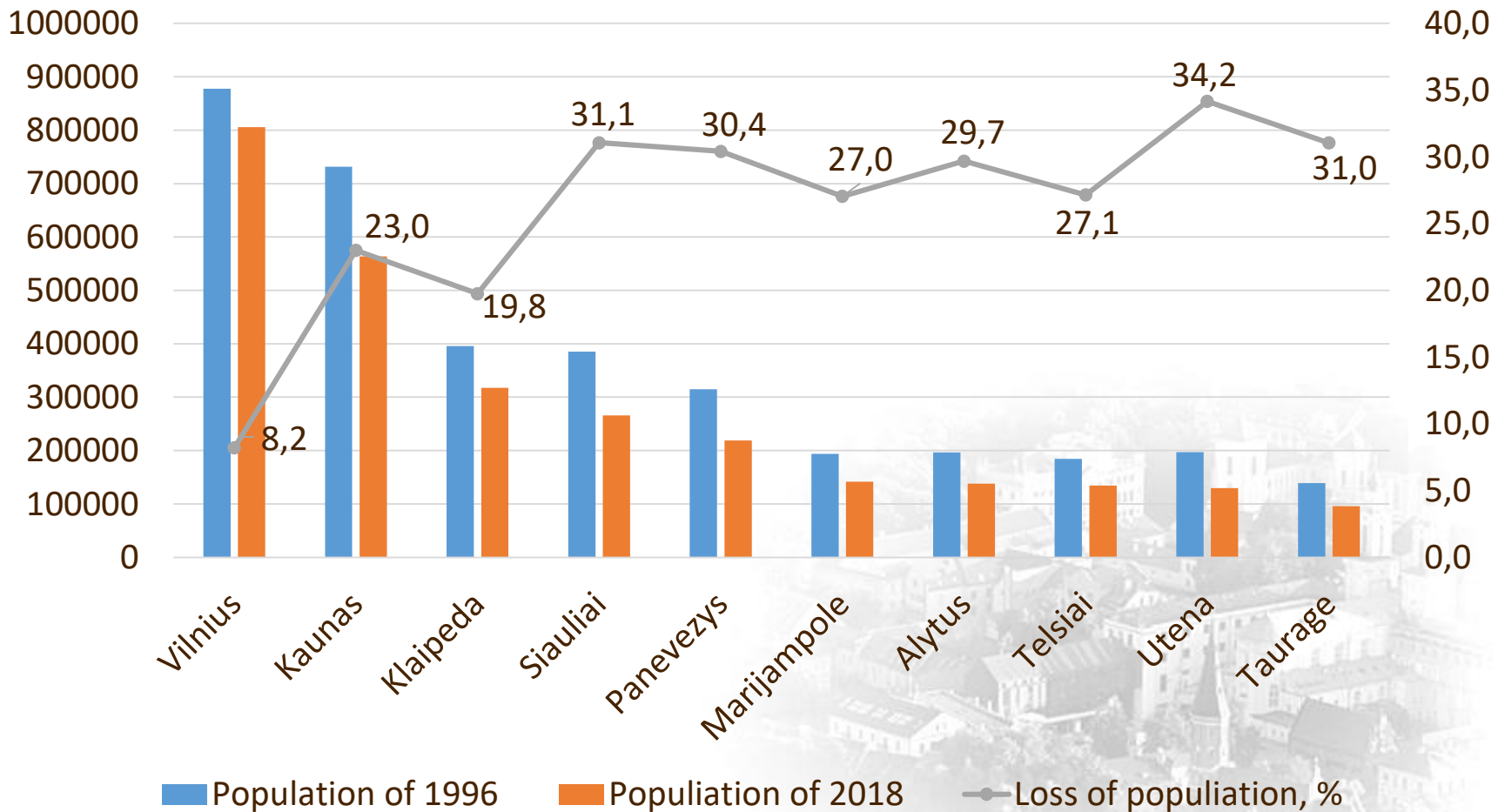


Data source: Statistics Lithuania



# Loss of population by region

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Data source: Statistics Lithuania

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# Emigration impacts on economies of countries of origin

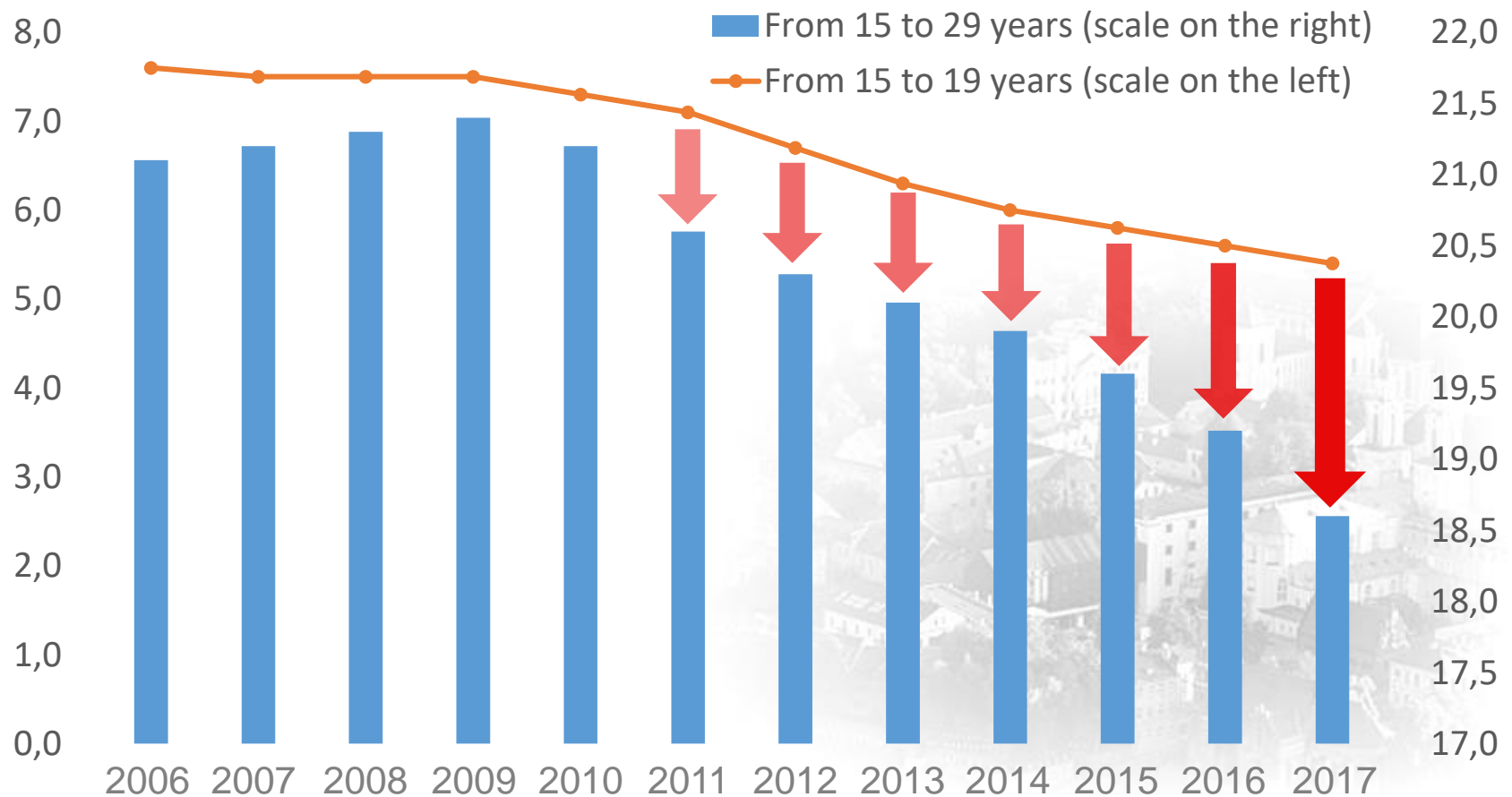
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	Positive	Negative
Short term	<ul style="list-style-type: none"><li>▪ Unemployment is reduced</li><li>▪ Benefits from remittances (payments sent home by migrants)</li><li>▪ Returning migrants bring savings, skills, business ideas and international contacts</li></ul>	<ul style="list-style-type: none"><li>▪ A steep rise in wages in sectors that require labour</li><li>▪ Loss of young workers and skilled professionals</li><li>▪ Reduction of current social insurance financing</li><li>▪ Immigrant adaptation costs</li></ul>
Long term	<ul style="list-style-type: none"><li>▪ Returning migrants bring savings, skills, business ideas and international contacts</li><li>▪ Returning migrants also contribute to technological progress</li><li>▪ greater cultural links with more developed countries that enhance international trade</li></ul>	<ul style="list-style-type: none"><li>▪ Loss of human capital investments</li><li>▪ Loss of highly trained people, especially health employees, engineers and very bright professionals</li><li>▪ Deterioration of demographic situation</li><li>▪ Decrease in aggregate demand</li></ul>

# Share of young population in Lithuania

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Share of young population as percentage of the total population  
(based on Eurostat data)

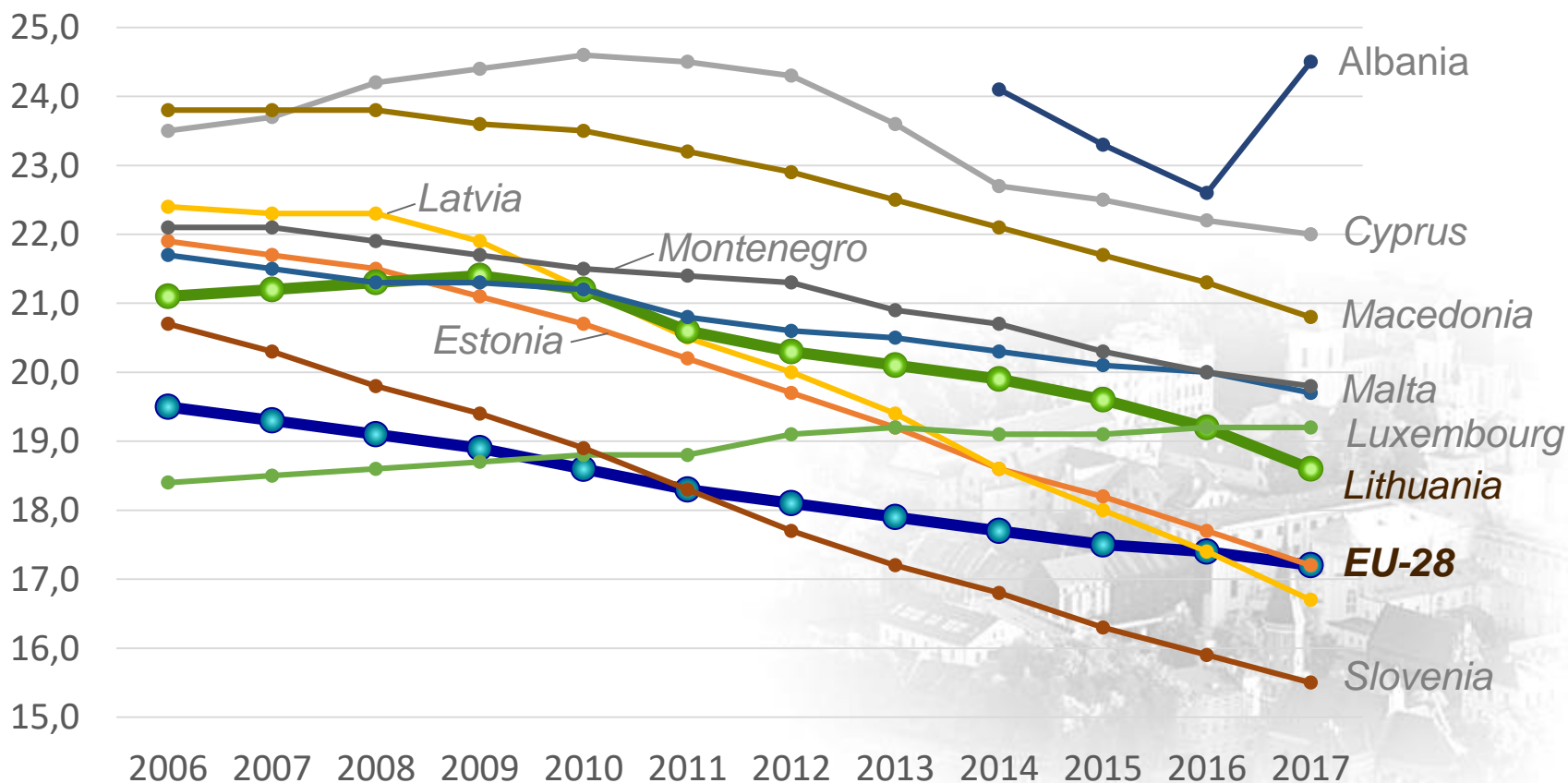




# Share of young population (comparison with the other small states)

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Share of young population as percentage of the total population  
(based on Eurostat data)





# SR effects of emigration on wages

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- According to Rosenzweig (2005), emigration from a country affects its aggregate income by affecting **the skill price** and the **level of skill**. There are a number of mechanisms
- **First**, there is a general-equilibrium effect on the skill price: a reduction in the population because of out-migration makes labor more scarce and thus raises the skill price. The more skilled are the out-migrants the greater the amount of aggregate skill reduction and thus the larger the upward effect on the skill price. This effect is quantified in the world-wide general-equilibrium model of Hamilton and Whalley (1984), Walmsley *et al.* (2003) and Winters *et al.* (2003),
  - Nevertheless, they show both the enormous **worldwide efficiency gains** from moving persons from low to high skill price countries (as approximated by wages).
  - They also show that the general-equilibrium **rise in skill prices** (wages) in sending countries from increased international migration are significant

# SR effects of emigration on wages

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- The **second** effect of migration on average wages is the **compositional effect**. If out-migrants had the same average skill as the country as a whole average skill levels of remaining residents would be unchanged compared with the state prior to migration. However, If out-migrants are more skilled than average in the home country, then **average wages could decline**. However, all remaining residents still benefit from the rise in the skill price
  - The **average wage effect of out-migration can thus be a misleading indicator** of home-country welfare effects of migration due to compositional effects
  - Brain drain (or skilled migration) lowers the average skill level in sending countries and raises it in receiving countries (the compositional effect). Thus it lowers the skill price in the receiving country and raises it in the sending country, and therefore reduces the skill price gap. This will **decrease incentives for migration**





# LR effects of emigration on wages

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- **Effect on incentives to invest in skills.** The general-equilibrium rise in the skill price induced by the decrease in the quantity of skill in the economy increases the return to augmenting skills and thus will induce a rise in skill levels.
  - The higher the level of the skill of the out-migrants the greater the rise in the skill price, **more skilled out-migration will have a bigger effect** on skill upgrading than less skilled outmigration
- **Effect on skill investments** (Beine et al., 2003). Residents of a country face an exogenous probability of being able to migrate to a higher skill price country. The skill price relevant to the skill investment decision is then not just the home country skill price, but the expected skill price in the potential destination country.
  - Increasing prospects for emigration thus has a direct **effect on incentives to invest in skills** in sending countries
  - Moreover, investments in skills in sending countries would directly respond to changes in the skill prices of destination countries



# 3. Employment and unemployment

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## According to the Labour Force Survey data:

- In 2016 the **activity rate** of women aged 15 – 64 was **73,9**, that of men – **77,1%**. The **employment rate** of women aged 15 – 64 was **68,8**, that of men – **70%**. In IV quarter 2017, the **unemployment rate** in the country stood at **6,7%**. During 2012 – 2017 unemployment of all types decreased.
- The **average gross monthly earnings** of women made up 84,4% of those of men. The gender pay gap in the private sector was bigger than in the public one and was 17,6% (in the public sector – 13,7%).
- According to Statistics Lithuania, in IV quarter 2017 average gross monthly earnings in the whole economy (individual enterprises excluded) totalled **EUR 884,8**: in the public sector – EUR 906.7, in the private sector – EUR 874. Average annual gross earnings of full-time employees of the private sector (according to Eurostat data) **differ by 4-6,5 times** in Lithuania and the emigration target countries



# Changes in Labour market regulation

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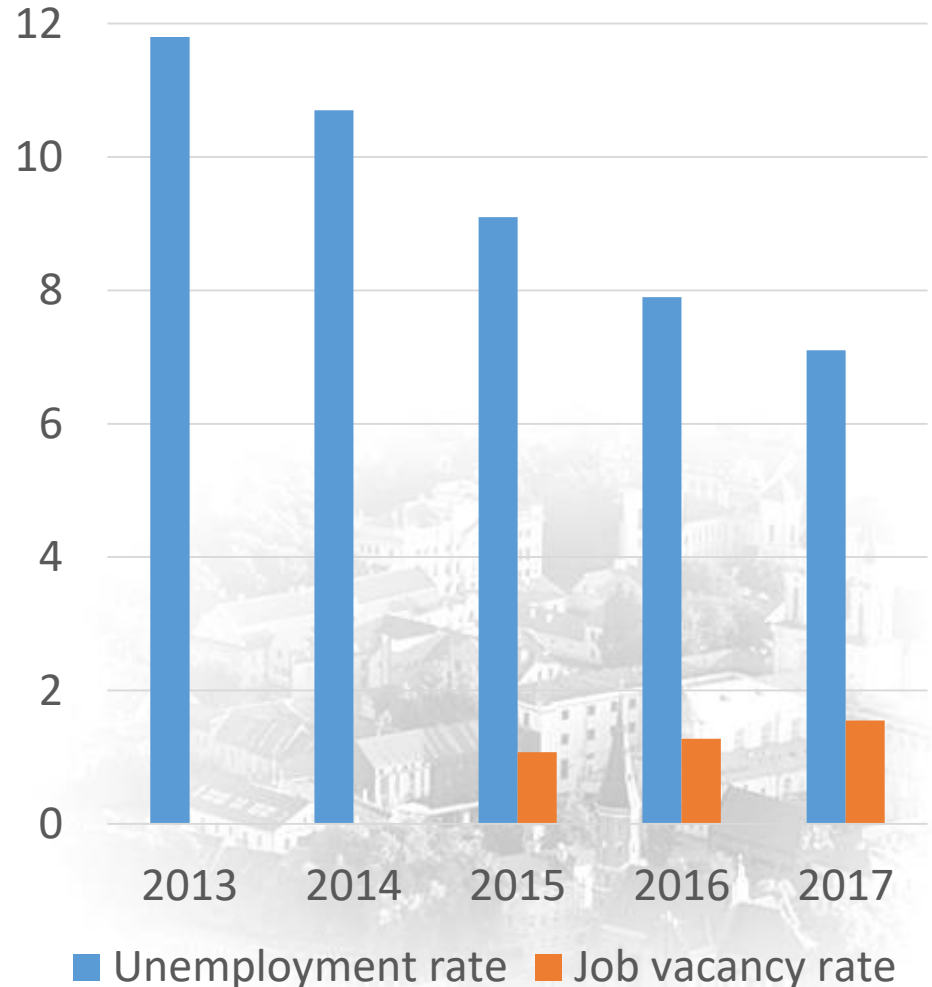
- On 6 June 2017 the Lithuanian Parliament adopted amendments to the new Labour Code, and thus **changed labour market rules**, adding more flexibility in employer-employee relations as well as ensuring some important rights of the employees
- From the perspective of labour market preconditions, potentially facilitating economic growth, the following amendments were important:
  - Employment termination, working time, overtime and annual leave conditions were liberalised, new types of employment contracts (i.e. project-based, job-sharing, apprenticeship employment contracts and employment contract for several employers) appeared, etc.



# Unemployment rate vs. Job vacancy rate

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- Labour market of Lithuania faces decrease in labor supply and growing demand for labour
- Unemployment rate is decreasing, whilst job vacancy rate slightly increases
- At the beginning of 2008, Labour demand grew the most in agriculture and construction

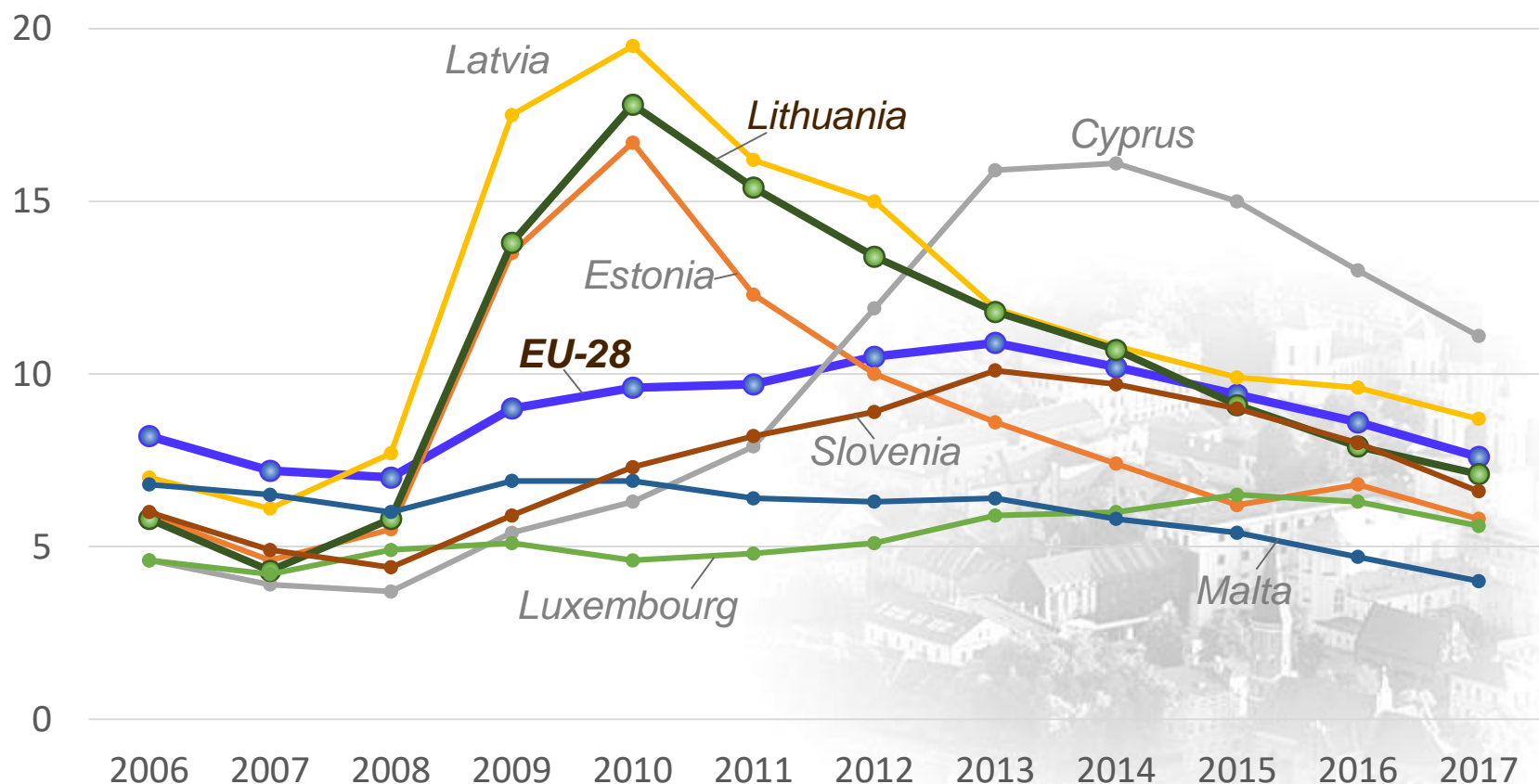


Data source: Statistics Lithuania

# Total unemployment rate comparison

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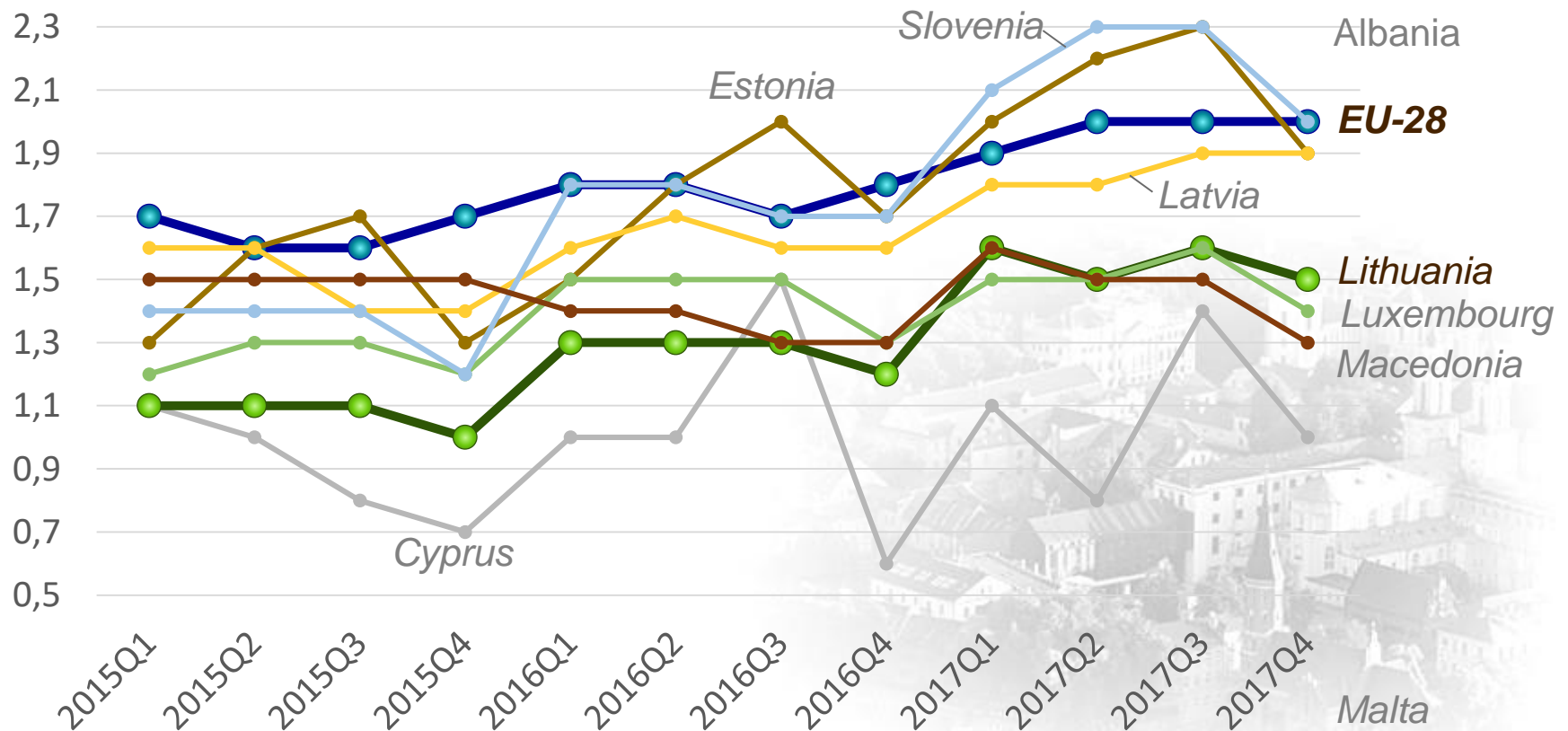
Unemployed persons as a percentage of the labour force (based on Eurostat data)



# Job vacancy rate comparison

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Job vacancies in percent, measured as the proportion of total posts that are vacant (based on Eurostat data)







# Labour supply characteristics

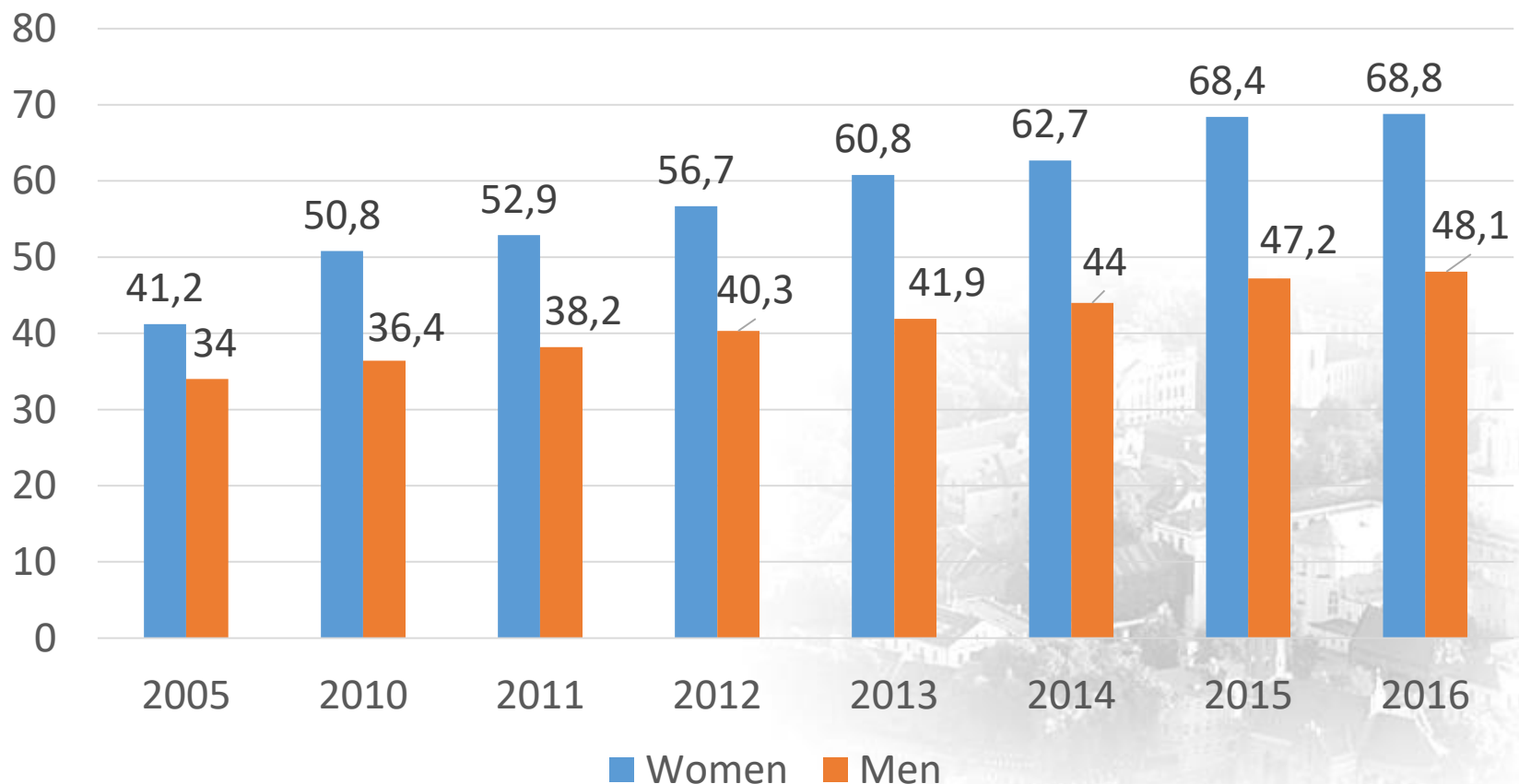
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- In 2016, 94% of women and 89% of men aged 20–24 had at least upper secondary education. Recently, 50% of all students are women.
- In 2016, according to a survey on **research and development** (R&D), the number of inhabitants with a scientific degree engaging in R&D (in the general government and higher education sectors) totalled 7,7 thousand (51% of them women)
- According to the data of the survey on the **use of information technologies** in households, in 2016, computers were used by 73,5% of population (aged 16 – 74), the Internet – by 74,5%
- 86% of women and 80% of men aged 25–54 were using the Internet on a regular basis (at least once a week). In the youngest age group (aged 16–24), the proportions of women and men regularly using the Internet were similar (99 and 98% respectively).

# Labour characteristics: education

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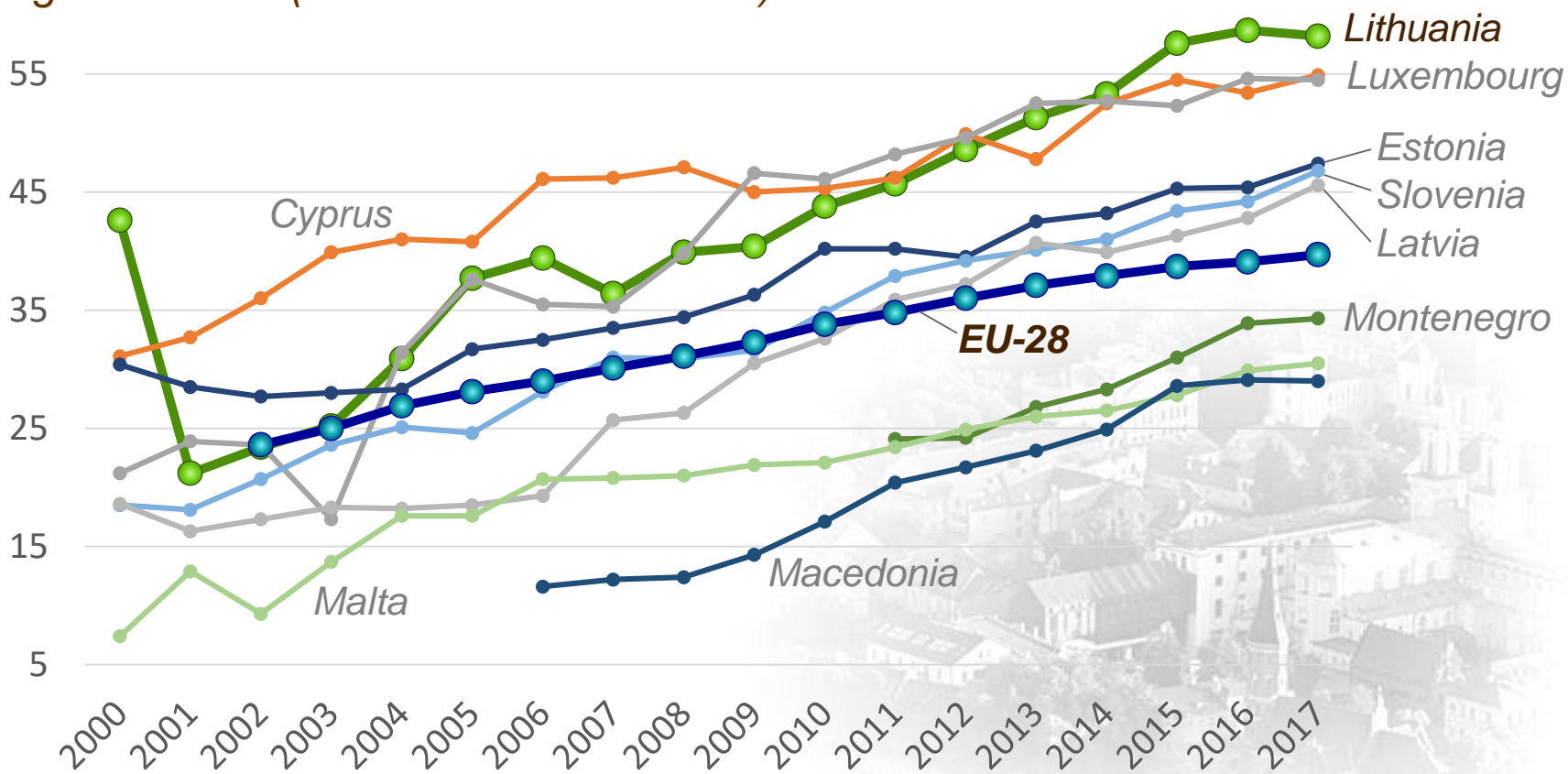
Women and men, aged 30 – 34, having completed tertiary education, in percent (based on Eurostat data)



# Tertiary educational attainment

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Tertiary educational attainment as a percentage of population aged 30 to 34 (based on Eurostat data)





# World talent rankings 2017

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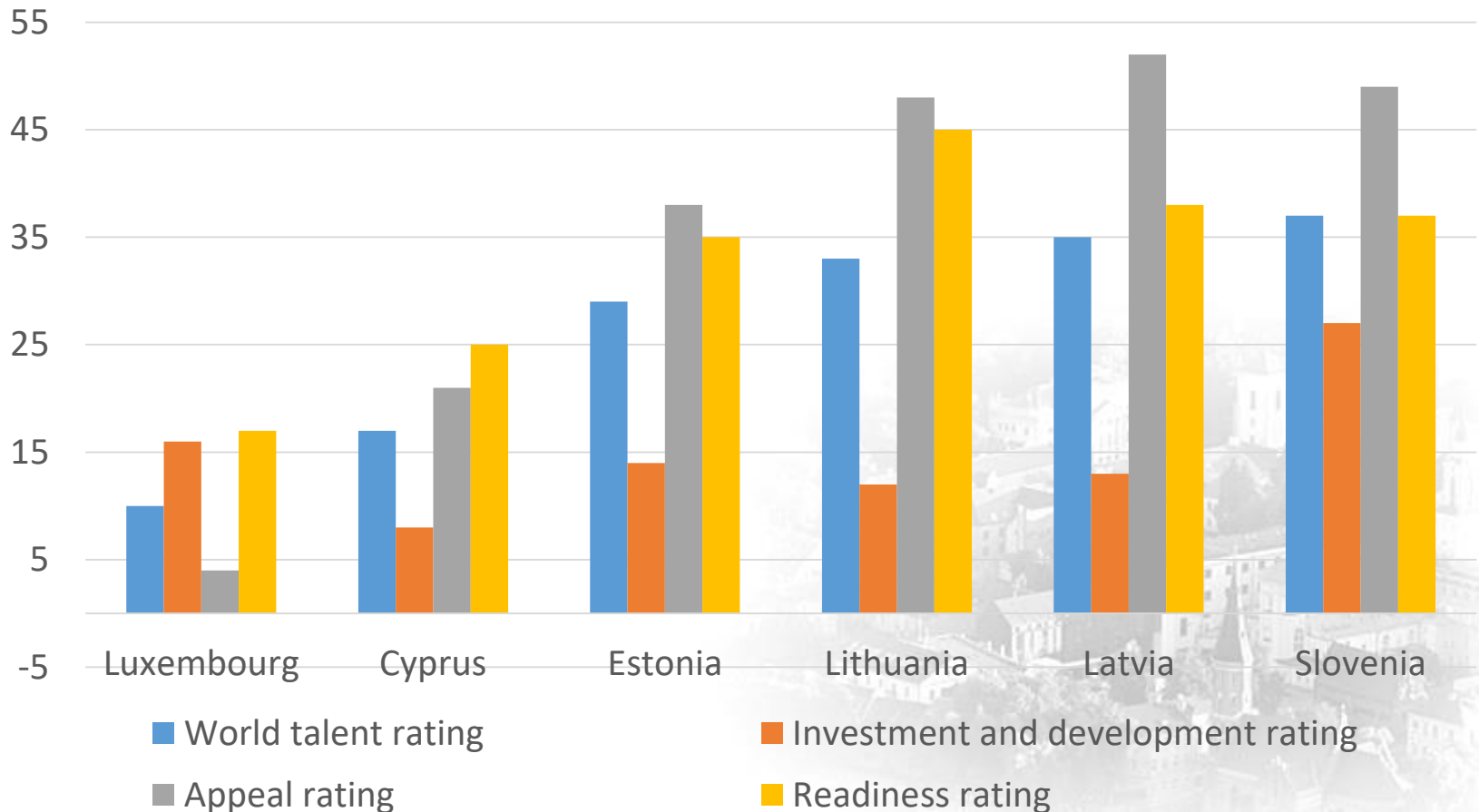
- World Competitiveness Center of the Institute for Management Development, Switzerland presents World talent rankings
- The objective is to assess the extent to which countries develop, attract and retain talent to sustain the pool that enterprises employ to create long-term value
- The methodology of the World Talent Ranking defines Talent Competitiveness into three main factors:
  - **Investment and development** (The investment in and development of home-grown talent)
  - **Appeal** (The ability of the country to tap into the overseas talent pool)
  - **Readiness** (The availability of skills and competencies in the talent pool)
- These are calculated using Statistics from international, regional and national sources as well as survey data (International Panel of Experts and Executive Opinion Survey)



# World Talent Rankings 2017

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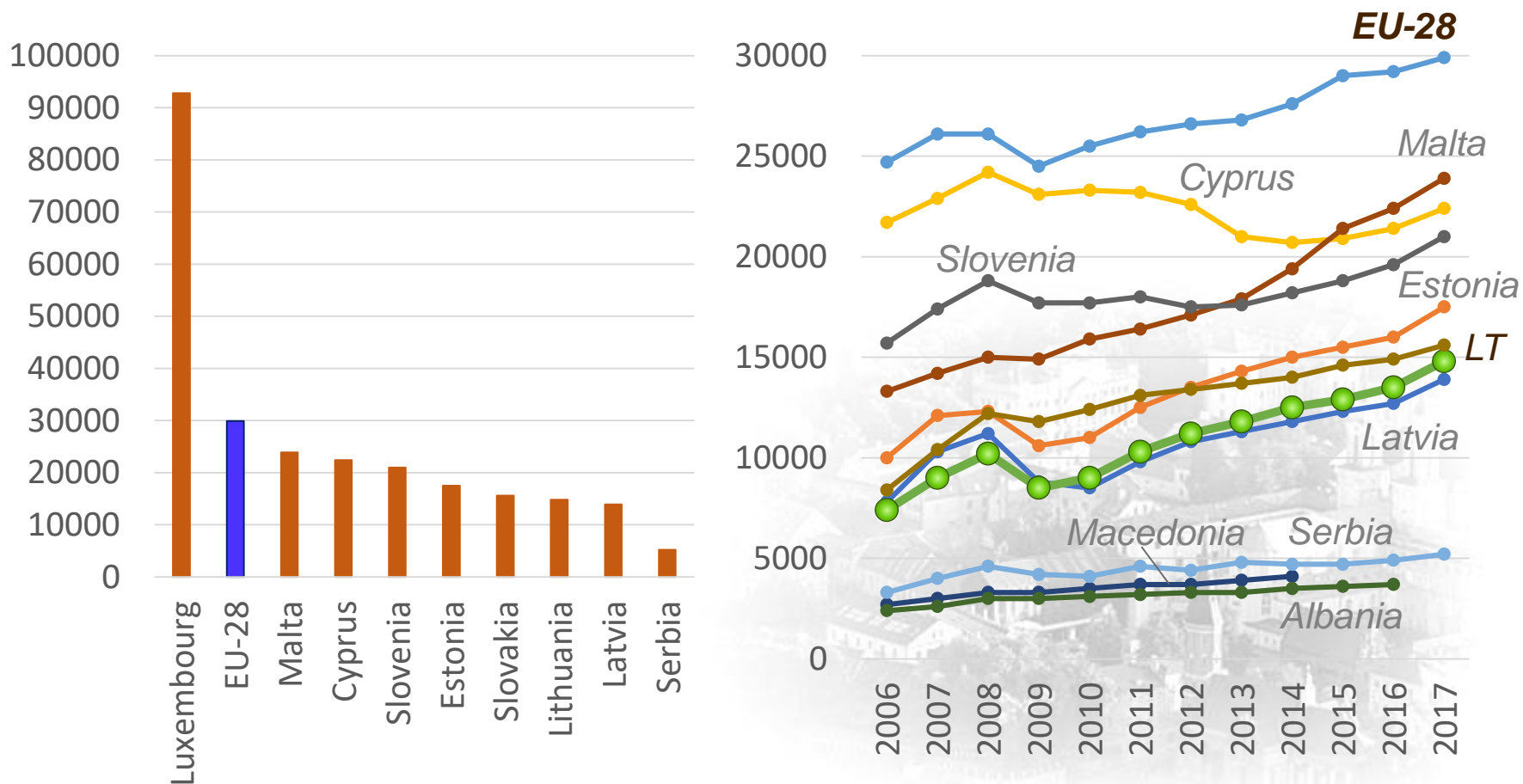
Data source: World Competitiveness Center, 2017



# 4. Economic growth and competitiveness

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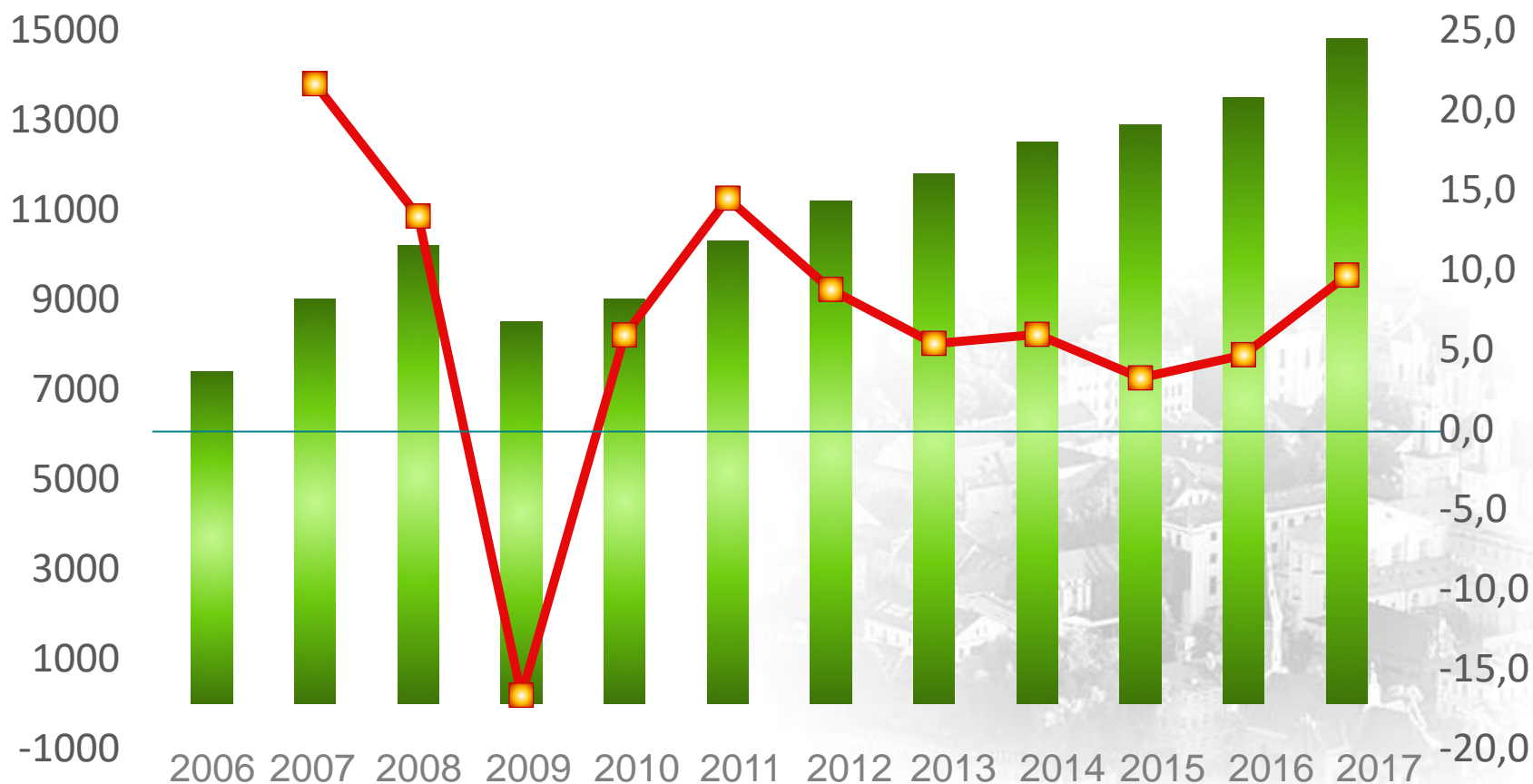
GDP at current prices, euro per capita. Data source: Eurostat



# GDP per capita and economic growth

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GDP at current prices, euro per capita (columns, scale on the left) and change in GDP per capita, percent (line, scale on the right). Data source: Eurostat





# Economic competitiveness index

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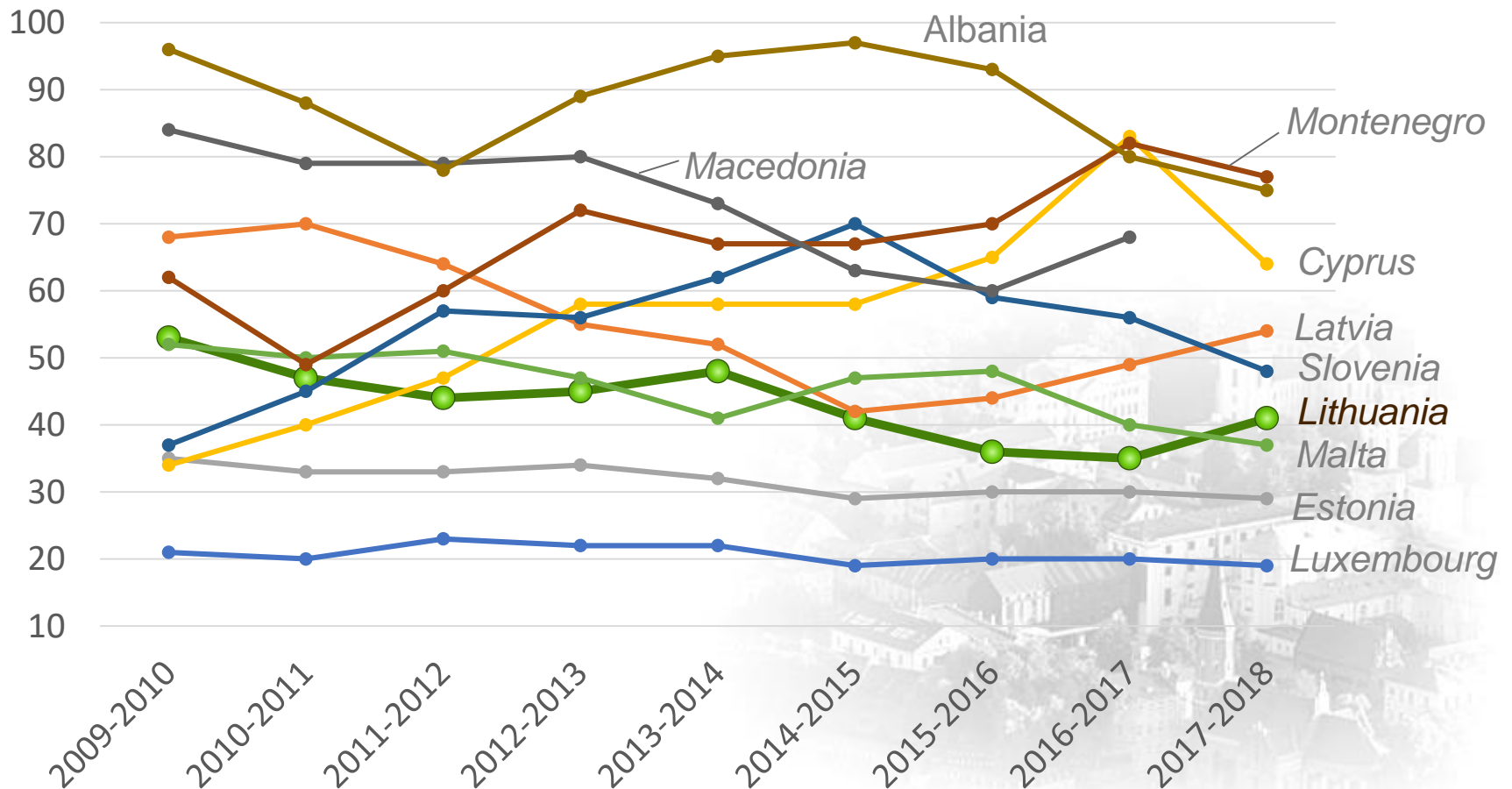
- Competitiveness of a country's economy is universally measured using the *Global Competitiveness Index (GCI)*, developed by Sala-i-Martin and Artadi (2004) and released by The World Economic Forum
- A central objective of the GCR is to assess the capacity of the world's economies to achieve **sustained economic growth** (and subsequently to provide high levels of prosperity for their citizens)
- GCI quantifies how productive a country is as it uses available resources. It comprises of over 110 variables, organised into twelve pillars, with each pillar representing an area considered as an important **determinant of competitiveness** (Schwab, 2010)
  - two thirds of the variables come from the Executive Opinion Survey (of a representative sample of business leaders in their respective countries), and one third comes from publicly available sources such as the United Nations



# Global Competitiveness Index rankings 2009-2010 to 2017-2018

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Data source: World Economic Forum





# 5. Policy insights

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- The substantial out-migration of persons from low-income countries is in part a manifestation of problems in those countries. In the case of Lithuania, **increasing cost of living**, **income differences** and **ineffective labour market regulation** serve as economic preconditions, because of which migration is inevitable. Government should take preventive measures against emigration
- Perhaps the most important mechanism, that can benefit Lithuania, is much **more attention for the return migration**, where migrants, who acquired new skills, accumulated assets, gained better knowledge of foreign markets, made business contacts and mastered new technologies, could kick-off economic spurt
- Other measures could encompass **creating jobs**, improving **labour efficiency**, enhancing **internal mobility of labour**, providing **better infrastructure** to ensure the before mentioned means



# 6. Conclusions

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- Lithuania faces extensive emigration, leaking young and promising specialists out of the country and causing extra costs to the economy in the short run. This has improved **employment statistics** and facilitates **wage growth**, on the other hand, businesses feel **labour shortage** as well as **discrepancies between qualifications** of the available labour supply and the demanded qualifications in the labour market.
- skilled migration lowers the average skill level in Lithuania and is supposed to reduce the **skill price gap** in the long run and **decrease incentives for migration**. However, due to the very **high wage differences**, comparatively **higher job vacancy rates** in the hosting countries and the **small absolute numbers of the emigrants**, making little effect on the labour markets of the latter, it is not likely that the compositional effect will provide the desired impact in the nearest future

# Conclusions (2)

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- The available theoretical data suggest that, on net, in the long term emigration can have a **positive effect on the sending country**. Thus, labour migration can be economically beneficial for both countries – of origin and host countries. However, with present comparatively low productivity rates and existing major wage differences, it is the rich and powerful countries that benefit most





*Thanks for your attention!*

