



Lithuania

# Assessment of the 2008-2010 National Reform Programmes for Growth and Jobs from a social inclusion perspective: The extent of synergies between growth and jobs policies and social inclusion policies

## A Study of National Policies

Romas Lazutka, Arunas Poviliunas  
Vilnius University

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## Summary

Despite the Government's attempts to manage inflation it is growing faster since the second half of 2007 and is much higher than the EU average. The Law on Fiscal Discipline restricts the Government's power to expand financing of social policy measures in favour of public budget balance.

The renouncement of so-called social tax on profit for enterprises, the reduced personal income tax, and transfers from Social Insurance Fund to private pensions fund reduce the Government's opportunity to finance social protection and social inclusion measures in the threshold of economic decline. The ability to finance social protection, employment and social inclusion measures in period of economic decline will decrease. 2008-2010 NRP does not provide adequate measures to protect people at risk of poverty and in social exclusion.

The 2008-2010 NRP does not reveal social dimension explicitly, but there is the reason to claim about the implicit social dimension of the 2008-2010 NRP. Lithuanian social policy belongs to the liberal path of development. The approach of the Varieties of Capitalism proves the liberal profile (liberal *versus* coordinated) of Lithuanian capitalism. Main focus in the 2008-2010 NRP is how to increase economic activity, but not to decrease the unemployment; how to reduce public expenditure but not to support income and thus to activate demand.

The 2008-2010 NRP to the different degree discusses the issues of the employment policy that promote social inclusion (feeding out). The Programme reports about the arrangements drafted for flexicurity, financial incentives for employers to set up jobs for vulnerable people, and the role of SMEs. But the Programme is lacking more elaborated approach on the issues of in-work poverty and reconciliation of work and family life. Fiscal policy aimed at reducing government deficits is orientated exclusively on expenditures of public budget and have not any measures on revenue side. That means further restriction of development of social protection and health services, further poor financing of education. The Programme addresses territorial differences and regional gaps but only on the level of access to internet information.

The 2008-2010 NRP does not apply explicitly the principles of the active inclusion agenda of combining employment activation, adequate minimum income and access to supporting services. However, there is set of measures of employment activation and access to employment supporting services in the 2008-2010 NRP. One of the weaknesses of the 2008-2010 NRP is that the drafters of the Programme disregard the adequate minimum income.

The 2008-2010 NRP does not have special part on the issues of governance. The governance issues are discussed in the Annual Progress Report on the Implementation of the National Lisbon Strategy Implementation Program of Lithuania. The system of governance is lacking appropriate arrangements to monitor and assess the impact of economic and employment policies on social inclusion and social inclusion/social protection policies on economic and employment growth, the system does not inform about the procedure of selection of relevant stakeholders, the issue of the coordination is limited to introduction of the electronic network for communication.

## **A. Overall assessment of implementation of the 2005-2008 NRPs during the past year from a social inclusion perspective**

Despite the Government's attempts to manage inflation (The Mid-Term Inflation Targeting Strategy approved by Resolution No. 1314 of the Government of the Republic of Lithuania of 12 December 2007) it is growing faster since the second half of 2007 and is much higher as EU average. Fast growth of food prices has erased Government's attempts to secure living standards of vulnerable and poor people except those who receive social assistance. Social assistance is related with State Support Income and increase of social assistance overtakes the rise of food price indices. But the percent of social assistance beneficiaries amounts to 1 percent of population when the percent of poor people is about 20 percent of population.

The Law on Fiscal Discipline adopted on 8 November 2007 with purpose to oblige the authorities to observe the provisions of fiscal discipline restricted Government's power to expand financing of social policy measures in favour of public budget balance.

In 2005-2007, LTL 1,691 million was transferred to personal pension accumulation accounts (from 0.4% of the GDP in 2005 to 0.9% of the GDP in 2007). This is evaluated in the Report as achievement. However, surplus of Social Insurance Fund was due the overheated economic growth.

Since 1 July 2006 the previous individual income tax rate of 33% was reduced to 27%, and since 1 January 2008 this rate was set to 24%. Proportional decrease of tax rate on wages decrease social cohesion and the chance to reduce social exclusion was missed.

In 2005 in order to ensure funding of social programmes and measures reducing poverty and social exclusion, the temporary the Republic of Lithuania Law on Social Tax was adopted setting out the social tax rates of 4% (for 2006) and 3% (for 2007) for legal entities paying corporate income tax. From 1 January 2008 the social tax is no longer imposed on legal entities. Refusal of social tax on profit does not strengthen social inclusion.

All together, the renouncement of social tax on profit, the reduced personal income tax, and transfers from Social Insurance Fund to private pensions fund reduce Government's opportunity to finance social protection and social inclusion measures in the threshold of economic decline.

Minimal non taxable income for wage earners was not adequately adapted to inflation and income growth. Only in 2007 the non-taxable income rate of LTL 290 was increased to LTL 320 of the base monthly non-taxable income rate and individual non-taxable income rates for some vulnerable groups of earners were increased accordingly. However these rates are still negligible for vulnerable people (disable, single and large families).

The Government made some efforts to stop economy overheating. It has prepared some fiscal measures that may restrict growth of social benefits. However at the same time the Government and Central bank has done nothing to slowdown rapid growth of households borrowing from banks. This made risk of over indebtedness of low income families and supported increase of inflation at the same time.

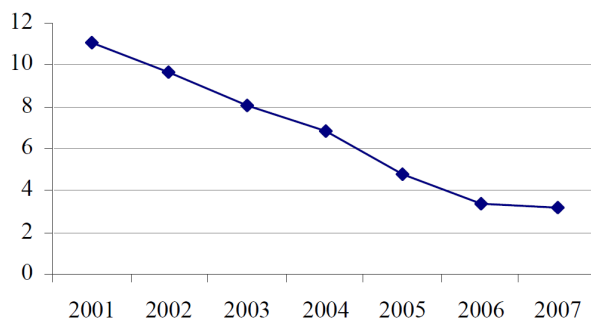
Employment support development policy measures that were taken pursuant to the Law on Support for Employment were accomplished by labour market institutions. A number of new active labour market policy measures have been introduced, for example: employment by offering

subsidies, support for labour skills, labour rotation, support for self-employment, etc. Emphasis is placed on support to employers who create new quality jobs or new jobs adapted to the needs of persons with special needs.

But National Audit Office of Lithuania stressed that implemented measures of formation of labour market policy are not sufficient enough, since long-term salary regulation measures and criteria are not specified; the gradual transition to the implementation of measures of the active labour market, financing from the state budget of the national labour exchange and local labour exchanges as laid down in the Law on Unemployment Social Security have not been launched since 2005; some provisions of legal acts on the measures of the labour market policy do not precondition for their effective implementation.

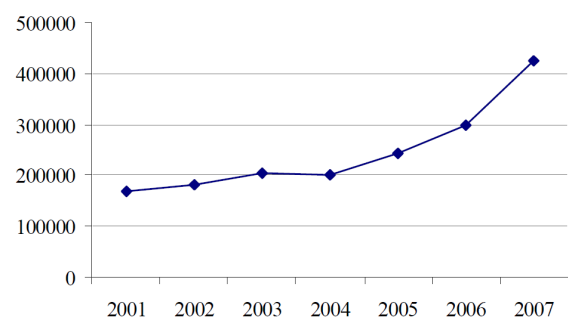
The implementation of active labour market policy measures is being improved, since in 2007, 49.6 percent more of the funds were used for the implementation of those measures as compared to 2006, however 27.8 less of unemployed persons were directed to those measures. The cost of participation in one measure increased more than twice. Active labour market policy measures organised by the Lithuanian Labour Exchange in 2007 provided with jobs less than a quarter of the total number of persons employed within a year. On general the investments in active labour market measures are increasing despite significant decrease of the percent of unemployed population (Figures 1 and 2).

Figure 1. Part of unemployed, % of employable population



Source: the National Audit Office, 2008

Figure 2. Investments in labour market measures, in thousands of LTL



On the other hand in 2007 the number of employed persons increased not only due the application of active labour market policy measures, but also due to the increase in the demand for labour force in the labour market because of rapid growth of economy. The participation in the active labour market policy measures influenced less than a quarter of all the persons employed in 2007. In 2007 the active labour market policy measures were implemented insufficiently, since it had fewer participants and cost more as compared to 2006.

## B. Assessment of the 2008-2010 NRP from the perspective of social inclusion

For the purposes of this report, **feeding out** refers to the contribution that growth and jobs policies are making to achieving social inclusion objectives whereas **feeding in** refers to the contribution that Lithuanian social inclusion policies and programmes are making to achieving the EU's growth and jobs goals.

### B.1 Overall assessment

The 2008-2010 NRP does not reveal social dimension **explicitly**. This statement could be documented by the fact that the concepts of *social inclusion*, *feeding in* and *feeding out* were not used in the 2008-2010 NRP. The 2008-2010 NRP does not have any reference to the 2008-2010 NSRSPSI. But at the same the 2008-2010 NRP includes the developments that directly influence social issues, therefore there is the reason to claim about the **implicit** social dimension of the 2008-2010 NRP.

Moreover since the development of economy and social matters are inseparable interlinked; we would like to claim that there is the matter of the priorities or dominant ideologies or discourses. The liberal ideology and residual welfare system assigns the most weight to the market economy and the least to the state. It means that the achievements in the area of the social dimension are subordinated to the rise of the market economy.

Despite the common features of European Social Model EU countries differ in the way they shape their social policies (look: Second Semester Report. Lithuania: Assessment of the social inclusion strand of the 2008-2010 NSRSPSI). According to different classifications Lithuanian social policy belongs to the **liberal path** of development and some researchers claim that this path was heavily influenced by the recommendations of the World Bank and the International Monetary Fund. The approach of the Varieties of Capitalism (VoC) proves the liberal profile (liberal *versus* coordinated) of Lithuanian capitalism (look: Annex 1).

2008-2010 NRP mostly based on economic and financial situation that was before decline of economy, before high inflation and before increasing public budget deficit and unemployment. Macroeconomic and fiscal situation started to turn over in second half of year 2008. Forecast for 2009 is much more negative (look Annex 4). Main focus in the 2008-2010 NRP is still not to fight unemployment, in contrary, is increase economic activity; not to support income and thus to activate demand, but to reduce public expenditure. There is high risk of ability to finance social protection, employment and social inclusion measures in period of economic decline. 2008-2010 NRP do not provide assurance to protect people at risk of poverty and in social exclusion.

Unfortunately the 2008-2010 NRP as well as 2008-2010 NSRSPSI does not use advantages of the new developments of European Social Policy that include the Renewed Social Policy Agenda and Financial inclusion. Renewed Social Policy Agenda opens the possibility to change not only wording but the approach towards social inclusion. The approach of the investments into the human resources creates favourable conditions for the linkages between 2008-2010 NRP and 2008-2010 NSRSPSI.

## B.2 Feeding out

### B.2.1 Employment and feeding out

The 2008-2010 NRP mentions the balance between security and flexibility in the labour market. Implementation of certain measures related to better combination of employment security and more flexible (**flexicurity**) working arrangements has started. Social partners have become more numerous and active in this process.

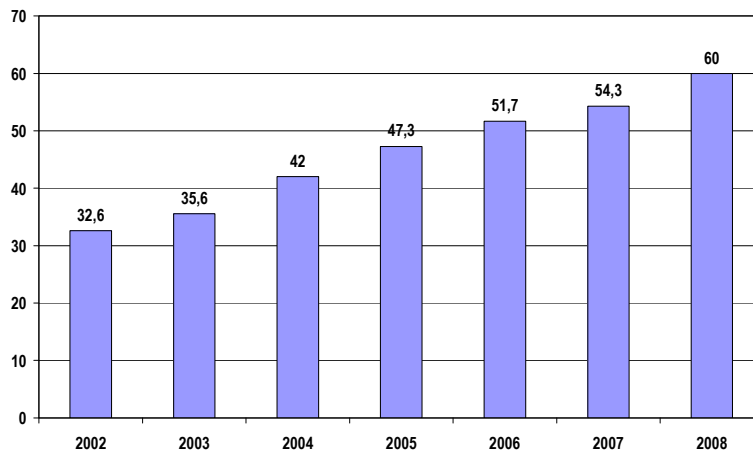
Amendments to the Labour Code expand opportunities for regulating issues of setting part-time working hours, overtime and seasonal work organisation conditions in collective agreements. The Law of the Republic of Lithuania on Lease of Labour is being drafted to enshrine agency work, the situation with work from home, telework and other practices and prospects of employment contracts is being analysed. A study has been carried out to find out the reasons for the labour force emigration and information campaigns have been initiated on working and living conditions in Lithuania, a piece of research "Seeking for an Integrated Flexicurity Approach in order to Increase Employment in Lithuania" is conducted.

The Programme for Strengthening the Social Dialogue in Lithuania for 2007-2011 is intended for development and strengthening of the social dialogue in Lithuanian regions, promotion of social partnership, bilateral and trilateral cooperation for training members of bipartite and tripartite councils and commissions and for improvement of activities of trade unions and employers' organisations.

In order to promote bilateral social dialogue at the sector and enterprise level, consideration is given to the opportunity to improve the Law of the Republic of Lithuania on Works Councils. In expanding the social dialogue, more flexible opportunities for contractual arrangements for certain categories of employees are being implemented, though slowly. The share of hired part-time employees increased from 7.1% in 2005 to 8.6% in 2007.

The Law of the Republic of Lithuania on Social Enterprises has provided better opportunities for setting up of social enterprises and creating financial incentives for employers **setting up jobs for vulnerable people**. The Law on Support for Employment that is not included into the 2008-2010 NRP names the following groups of the vulnerable people: the disabled; persons who have completed vocational rehabilitation programmes; persons taking up their first employment according to the acquired speciality or occupation; the long-term unemployed; persons over 50 years of age who are capable of work; pregnant women; persons who have been released from places of imprisonment; persons whose unemployment period is or exceeds 2 years from the date of registration with a local labour exchange office; persons addicted to drugs, psychotropic or other psychoactive substances, who have completed psycho-social and/or vocational rehabilitation programmes; victims of trafficking in human beings.

The **in-work poverty** is caused by low minimal wage, increasing taxation of low wages (look: Figure 3), and low child allowances. The person without dependant family members is the only option to escape from poverty if earning minimal wage (in 2006 minimal wage was LTL 575, at risk poverty rate was LTL 437). Taxation on minimal wage has increased since non taxable part of the income remained the same for few years. The amount of child allowance is only 6.5 per cent of the minimal wage. The 2008-2010 NRP does not provide any measures to change the situation.

Figure 3. Taxable part of minimal wage (in per cent)<sup>1</sup>

Source: Lithuanian Statistics.

During the last year the amount of social insurance maternity (paternity) leave has been increased and the period of paying thereof has been prolonged. But some experts claim that these measures do not answer the strategic aim **to reconcile work and family life**. Long maternal (paternal) leave and comparatively generous maternity (paternity) allowance (first 12 months – 100 percent of the salary, next 12 months – 85 percent of the salary) could complicate the return to the labour market after maternity (paternity) leave.

**Older people** have strong motivation to remain in the labour market due to two reasons. First, retirement pensions are rather low. Pensions' theoretical replacement rate does not exceed 45 per cent. Because of that older people have incentive to earn wages as supplementary income to retirement pension. Second, full pensions are paid together with wage without any restrictions. So, all measures to increase jobs or growth of economy, increase space for older people to get jobs and they use this opportunity; vis-à-vis, current decline of economy will overweight older workers incentives to work.

**SMEs** are given the most important role in implementing the goals set out in the Lisbon Strategy promoting implementation of innovations and development of partnership, competitiveness and employment. In Lithuania like in the EU, SMEs account for more than 99% of all enterprises active in the country. SMEs create about 60% of the total added value of all enterprises of the country and employ more than 70% of all employees.

In general the index of business regulation<sup>2</sup> (Annex 1, Figure 1.3.) demonstrates comparatively favourable conditions for SMEs. But experts claim that Lithuanian markets are oligopolic and SMEs faces difficulties to compete the bigger enterprises. Corruption Perception Index indirectly demonstrates the conditions of the SMEs in the market. Lithuania came 58th out of 180 countries and scored 4.6 out of 10 in the 2008 Corruption Perception Index put together annually by Transparency International. The report saw Lithuania come in third from bottom in the European Union ahead only of Bulgaria and Romania. Lithuania's 2007 Corruption Perception Index was 4.8, marginally closer to 10, the highest level of perceived transparency. The report revealed that Lithuania has returned to the levels of 2004. Lithuania shares 58th place with neighbouring

<sup>1</sup> Taxable part of wage is calculated as full wage minus minimal non taxable income.

<sup>2</sup> The index of business regulation was calculated on the bases of following indicators: Number of start-up procedures to register a business; Time to resolve insolvency (years); Number of procedures to register property; Stock market relative to banking sector in the financial system. (look: Knell, Srholec 2007, p. 44).

Poland and Turkey. Latvia reached 5 points on the CPI with Estonia remaining the least corrupt Baltic state on 6.6.

The 2008-2010 NRP does not mention special conditions creating employment for those distant from the labour market. But SMEs is under the regulation of the Law on Support for Employment according to which SMEs could supported for the employment of the persons additionally supported in the labour market.

### *B.2.2 Economic growth, financial sustainability and feeding out*

The objective 1 of the 2008-2010 NRP claims to ensure **macroeconomic stability** and carry out strict **fiscal policy**. But fiscal policy aimed at reducing government deficits is orientated exclusively on expenditures of public budget and have not any measures on revenue side. That means further restriction of development of social protection and health services, further poor financing of education. Implementation of foreseen measures can even increase social inclusion, because of more availability of fiscal resources for social inclusion policy financing.

The objective 2 of the 2008-2010 NRP is to strengthen long-term **public finance stability** by implementing pension and healthcare reforms and improving quality of finances of the public sector. Long-term public finance stability is seen through the process of implementation of the key structural reforms improving sustainability of the public finances will cover pension and healthcare reforms.

In the approved budget of **Social Insurance Fund** for 2009 incomes fractionally exceed expenditures. From the beginning of 2009 new groups of working people (sportsmen, creators, etc.) were involved into the system of social insurance. But extra social tax could reduce the employability of them. Transfers from Social Insurance Fund to private pensions' funds become damaging in face of global fiscal crisis. Despite the fact that the Government has reduced the transfers from Social Insurance Fund to the private pension funds, the participants of private pension funds are losing part of future public pension, value of individual pensions' accounts is decreasing considerably. The Social Insurance Fund and State budget could experience deficit and the Government could be forced to borrow money.

Further development of the **health system** is going to promote growth of the private sector and development of private-public partnership in the health sector to enhance competition and attract more private investments. This development will increase risk to health care accessibility for vulnerable people and split health care sector into two sections for different income layers of population.

The **social impact** of the liberalisation of services including energy utilities was taken into account. As from 1 August 2008 state supported income has increased from LTL 285 to LTL 350 or by LTL 65 per person. The increase in state supported income affected residents with lowest income: approximately 25 thousand residents became eligible for compensation for heating expenditure (in the first quarter of the year 2008, 100 thousand people a month received compensation for heating expenditure); and the social assistance benefit increased to 39.4 thousand recipients; 11 thousand more residents are eligible for social benefits. But VAT concessions for heating are favourable for the wealthy part of population as well.

From 2006 in implementing the EU Structural Funds project Development of the Network of **Public Internet Access Points** (hereinafter – PIAP), all new and already functioning PIAPs are integrated in one administration system. In implementing the goals set, the following activities were carried out: public awareness raising, PIAP selection, PIAP website created, PIAP work memos drafted, instructions for filling in reports drafted, information boards installed near PIAPs being established, procurement documents of hardware, furniture and Internet access drafted. Now Lithuania has 475 PIAPs (in 2005 300 PIAPs were established) and in 2008, 400 PIAPs will be established and 83 PIAPs functioning in rural areas since 2002 will be modernised. New PIAPs are being established to ensure that at least 1 PIAP would be in any place of Lithuania at a radius of 8 km. This will ensure even distribution of PIAPs all over the country's territory.

From 2005 the project **RAIN Broadband Network of Information Technology in Rural Areas** is being implemented with a view to establishing a broadband network covering all rural neighbourhood centres where business is not interested in development of the broadband network infrastructure. In 2007 the broadband network development project RAIN Broadband Network of Information Technology in Rural Areas which is implemented by the Public Institution Broadband Internet was among the best projects carried out in the European countries – it was selected by the EU experts from among 163 projects submitted and demonstrated by the EC in 2007 at an exhibition of promising EU projects reducing social exclusion which took place in Brussels.

PIAP together with RAIN Broadband Network addresses the **territorial differences and regional gaps**.

Unfortunately 2008-2010 NRP does not mention any measures for **financial inclusion** and does not address the issue of **over-indebtedness** amongst people experiencing poverty and social exclusion. The approaching economic crises will increase the number of people who are facing the problem of over-indebtedness. 2008-2010 NRP does not talk about the measures designed to improve access to **housing** for the people experiencing poverty and social exclusion.

### B.3 Feeding in

The 2008-2010 NRP does not apply explicitly the principles of the **active inclusion** agenda of combining employment activation, adequate minimum income and access to supporting services. However, there is set of measures of employment activation and access to employment supporting services in the 2008-2010 NRP. One of the weaknesses of the 2008-2010 NRP is that the drafters of the Programme disregard the adequate minimum income. Net income of social assistance recipients is below for 40 percent of the At Risk of Poverty Threshold for single person and about 65 percent for families and lone parent with children in Lithuania. It is one of the lowest indicators in EU.<sup>3</sup>

The **youth education** attainment level (percent of population aged 20-24 having completed at least upper secondary education) in Lithuania is 88.2 percent while in the EU-27 it is 77.8 percent. But the indicator of participation in life-long learning (per 100 population aged 25-64) in Lithuania (4.9) is lower than the EU-27 average (9.6). In solving the objectives in childcare, the number of **pre-school education** groups was increased and the Pre-School Education Development Programme for 2007-2012 approved. In 2006-2007, 171 pre-school education

<sup>3</sup> Monitoring progress towards the objectives of the European Strategy for Social Protection and Social Inclusion. Commission of the European Communities. Brussels, 6.10.2008. P. 52.

groups were established. But there is a lack of places and jobs in pre-school education institutions and there are few of them in rural areas.

While investing in people the following was approved the new wording of the Law of the Republic of Lithuania on Vocational Education and Training which is intended for establishment of an efficient general **vocational training system** covering both initial vocational training and continuous vocational training. To increase involvement of persons over the age of 45 in vocational training and non-formal education, the Lithuanian Labour Exchange was assigned to annually give a priority to involve of these persons in education/training activities.

National Vocational Guidance Programme in Educational System intended for creating conditions for development of a **vocational guidance system**: to ensure integrity and consistency thereof when transferring from general education school to vocational or higher education institutions, variety of vocational guidance services, high quality and accessibility thereof to all participants of the educational system, creation of vocational guidance measures and training of specialists, participation of social partners and other stakeholders in development of vocational guidance services.

The importance of social inclusion through **promoting gender equality** is considered only taking measures to organise training for women coming back to the labour market after a long break and elderly women to encourage them to work and learn. These measures will not promote growth and new jobs, but will help for women if growth and new jobs will accrue. Another measure on gender equality is plan to organise seminars intended for changing stereotypes related to roles of women and men in economic activities. It could have positive effect in the long run.

The 2008-2010 NRP statement **about anti-discrimination measures** to ensure greater social inclusion that could have impact on growth and jobs is too general to be evaluated. The 2008-2010 NRP includes the measure “to draft and implement projects for reduction of discrimination on the labour market and prevention of social problems” (p. 55). But the content of the possible projects is not discussed.

Most direct impact on growth and jobs may be from the accessible and affordable **childcare facilities** and measures for better reconciliation of work and family life. Both are mentioned in the 2008-2010 NRP. For the first it is plan to create a model of improvement of living and educational conditions for children starting from birth and finishing with the commencement of compulsory education and to draft the Law of the Republic of Lithuania on amendment or supplement to the Law on Child Benefits which would set out a new child care benefit and ensure implementation of payment of this benefit. The potential effect of these measures on growth and jobs hardly could be assessed until the content of these measures remain unrevealed.

The same with the measures focussed on conditions for **better reconciliation of work and family** life. There is only plan to draft and implement projects for reconciliation family and work responsibilities and to draft the Law of the Republic of Lithuania an amendment or supplement to the Law on Support of Employment to support parents of large families and to enable them to create jobs for themselves and ensure implementation thereof when adopted.

**Social economy** as a third sector between the private sector and public sector remains underdeveloped in the country. Cooperatives do not play role in creation of employment. The 2008-2010 NRP contains some measures for the objective “To attract and retain more people in employment while promoting a lifecycle approach to work and enhancing work attractiveness”,

which deal with non-formal entrepreneurship training. However they are limited to youth. It is said "To develop non-formal entrepreneurship training for youth through implementing projects of the youth and youth organisations. To finance youth initiative projects of neighbourhoods in rural residential settlements as well as projects encourage engaging in community activities, teaching and informing also the rural youth and those having fewer opportunities".

Non-governmental organizations are involved in social care services provision but on the small scale. The 2008-2010 NRP does not foresee development of this sector. On another hand this aim is included in the 2008-2010 NSRSPSI.

The sector of social economy remains underdeveloped and the measures of the 2008-2010 NRP do not address it. Therefore the potential of the social economy to create employment for people furthest from the labour market is not employed. The 2008-2010 NRP includes several measures focussed on youth entrepreneurship (the National Youth Entrepreneurship Education and Promotion Programme for 2008-2012). The programmes like this are more accessible for active part of population with good perspective of employability and they are not affordable for those who are far from the labour market.

#### **B.4 Governance**

2008-2010 NRP does not have special part on the issues of governance. We do not find any information in the text of the whole 2008-2010 NRP that evidence the coordination in the process of preparation of the 2008-2010 NRP and NSRSPSI.

The governance issues are discussed in the Annual Progress Report on the Implementation of the National Lisbon Strategy Implementation Program of Lithuania (Annex 3). It is worthy to mention that in 2006 EC assessment of Lithuanian progress the model of governance of the NRP was named as exemplary model for other Member States of the EU. Presumably Coordination structure of the National Lisbon Strategy Implementation Program (Annex 3) will be used in the 2008-2010 NRP.

According to the Annual Progress Report on the Implementation of the National Lisbon Strategy Implementation Program of Lithuania structure of implementation and supervision of the NRP (Annex 3) consists of 2 parts: **state part** and **public part**.

**State part** includes Ministry of Economy of the Republic of Lithuania which is in charge of coordination of Lisbon Strategy Implementation in Lithuania and coordination of the connections with the EU institutions. Ministry of Finances, the Ministry of Economy, the Ministry of Social Care and Employment compose interdepartmental task forces for resolution of issues of Lisbon Strategy implementation. Issues of the NRP implementation are constantly in discussion by the committees of the Seimas of the Republic of Lithuania as well as by the Government of the Republic of Lithuania.

The base of the **public part** is four target forces of the NRP: (1) Macroeconomic policy force; (2) Scientific research and experimental development and innovations force; (3) Business competitiveness force; (4) Employment stimulation and investment in human capital force. The most important goals of corresponding target forces is to supervise and assess according to its competence implementation and upgrading of the NRP as well as to provide offers to supervision committee of the National Lisbon strategy drafting and implementation when making decisions in regards of such issues. Members of the target forces have a right to represent and present work

results and offers of the force in state institutions, institutions and organizations, invite experts and other persons to the meetings.

Until the beginning of 2008 all the ministries in charge of implementation of the NRP's measures have to provide resources for introduction of electronic control system of measures. Goal of introduction of this electronic control system is to simplify the **coordination** process. The electronic control system will be created for collective work, i.e. all institutions will have an opportunity to post the latest information on measures implemented, being implemented or planned to be implemented, on terms of measures implementation as well as individuals in charge. The electronic control system will allow forming required reports on the course of implementation of the NRP's measures in Lithuania at any time.

The coordinator of this control system will be able to include specialists into the project's task force and provide various access to the project's control resources right. Also, all the individuals included into the task force will be able to access the project's information. All updated versions of electronic control system and its changes will be saved centrally on the server; therefore, all the participants will be able to receive the newest information available on it.

#### *B.4.1 Monitoring and assessment*

We do not detect any appropriate arrangements to monitor and assess the impact of economic and employment policies on social inclusion and social inclusion/social protection policies on economic and employment growth.

#### *B.4.2 Involvement of stakeholders*

The relevant for social inclusion stakeholders, for example, those experiencing poverty and social exclusion and the organisations that represent them, were not involved in the design, implementation and monitoring of the NRP.

#### *B.4.3 Coordination*

The discussion on the issue of coordination is limited to the principles and introduction of the electronic network for communication of the coordination structure of the NRP.

## C. Update on Key Social Indicators

**Social protection expenditures** in Lithuania are low and projected change for next decade is negative. That raises question about readiness of country to seek more social cohesion and ability to finance social inclusion policy measures.

**Table 1. Social protection expenditures as percent of GDP**

	EU25	LT
2004	23,4	16
Change 2004-2010	-0,7	-0,7
Change 2004-2020	-0,2	-0,9
Change 2004-2030	1,5	0,3
Change 2004-2040	3	0,8
Change 2004-2050	3,4	1,4

**Number of children living in jobless households** fluctuates during the last six years of period of high economic growth rates and period of sudden decreasing of unemployment. Growing supply of jobs doesn't affected ability of parents to get a job. At the same period numbers of adults, living in jobless households decreased substantially (from 9 to 6 percent).

**Table 2. Children (0-17 years) and adults (18-59) living in jobless households (percent)**

	Children	Adults
2002	8,4	9,1
2003	6,1	7,4
2004	6,5	8,1
2005	6,2	6,6
2006	5,3	7
2007	6,9	6,3

**Employment rate of older workers** increased during the last six years by 13 percentage points (from 40 to 53 percent). That may be explained by positive impact of growth of economy and incentives of older people to work. The incentive is supported by ability to get full retirement pension and income from employment without any restrictions. Incentive to work of older workers is supported by rather low pension's benefits. Provision according to early retirement scheme, on another hand, is restricted only for long term unemployed people having long period of insurance (30 years) and heavy penalty on early retirement pension benefit.

**Table 3. Employment rate of older workers (% of people aged 55-64)**

	EU27	LT
2000	36,9	40
2002	38,5	42
2004	40,6	47
2005	42,3p	49
2006	43,5p	50
2007	44,7	53

The decrease of the **activity rate** during the period of economic growth questions the accuracy of data. For example, The Department of Statistics to the Government of the Republic of Lithuania reported the increase of the level of employment: 2004 - 61.1%; 2005 – 62.6%; 2006 – 63.6%; 2007 – 64.9%. Decrease of activity rates may be affected by incorrect total number of population aged 15-64. Lithuania experiences high emigration that is not fully reported. Actual number of working age population may be lower, if unreported emigrants would be taken into account.

**Table 4. Activity rates (% of population aged 15-64)**

	Total	Male	Female
2000	71	75	67
2002	70	74	66
2004	69	73	66
2005	68	72	65
2006	67	71	65
2007	68	71	65

**Gender dimension of poverty** much more expressed in the old age. Only 10 percent of aged (65+) men and 28 percent of women of the same age are at risk of poverty.

**Table 5. At-risk-of-poverty rate by age and gender before and after social transfers, 2006**

		LT before	LT after	Difference
Total population	Total	27	20	7
	Men	26	19	7
	Women	27	21	6
Children aged 0-17	Total	32	25	7
People aged 18-64	Total	25	18	7
	Men	25	18	7
	Women	25	18	7
People aged 65+	Total	26	22	4
	Men	12	10	2
	Women	33	28	5

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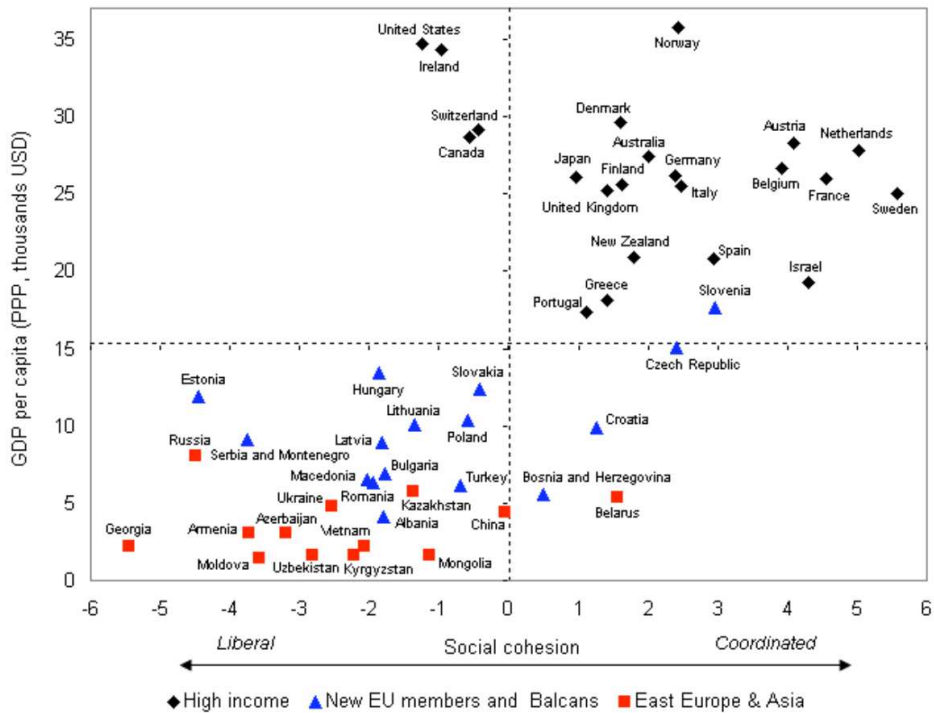
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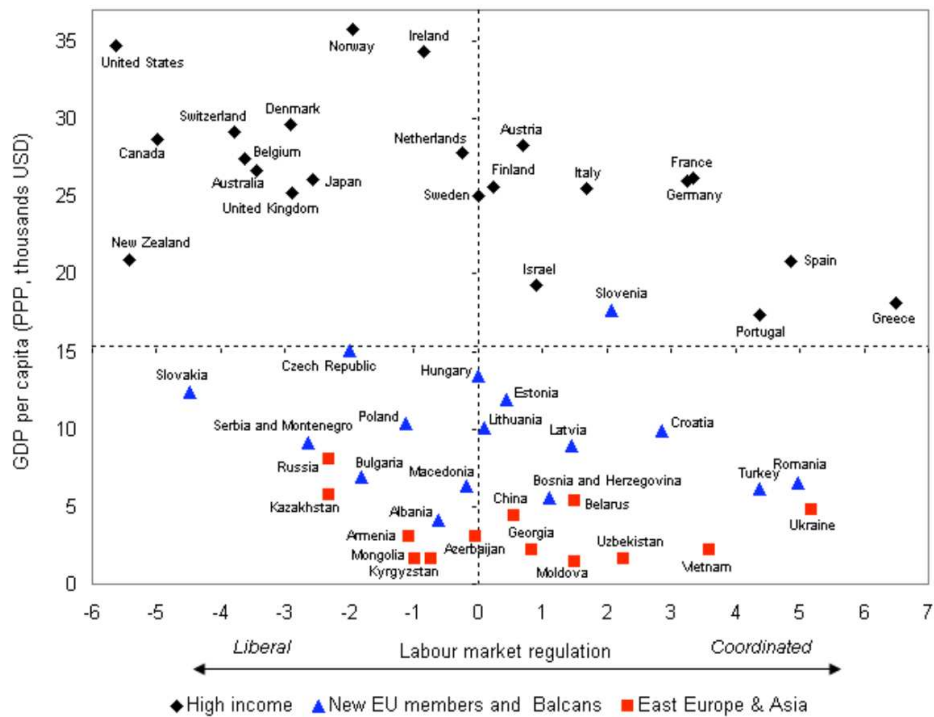
## Annex 1. Different Dimensions of the Varieties of Capitalism

Figure 1.1. The index of social cohesion



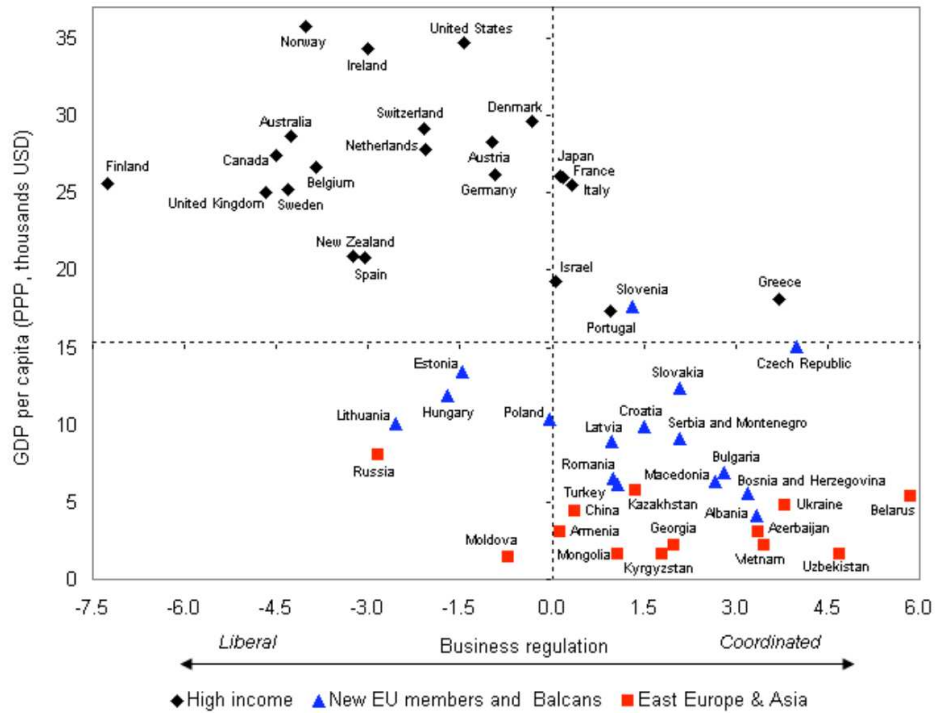
Source: Knell, Srholec, 2007

Figure 1.2. The index of labour market regulation



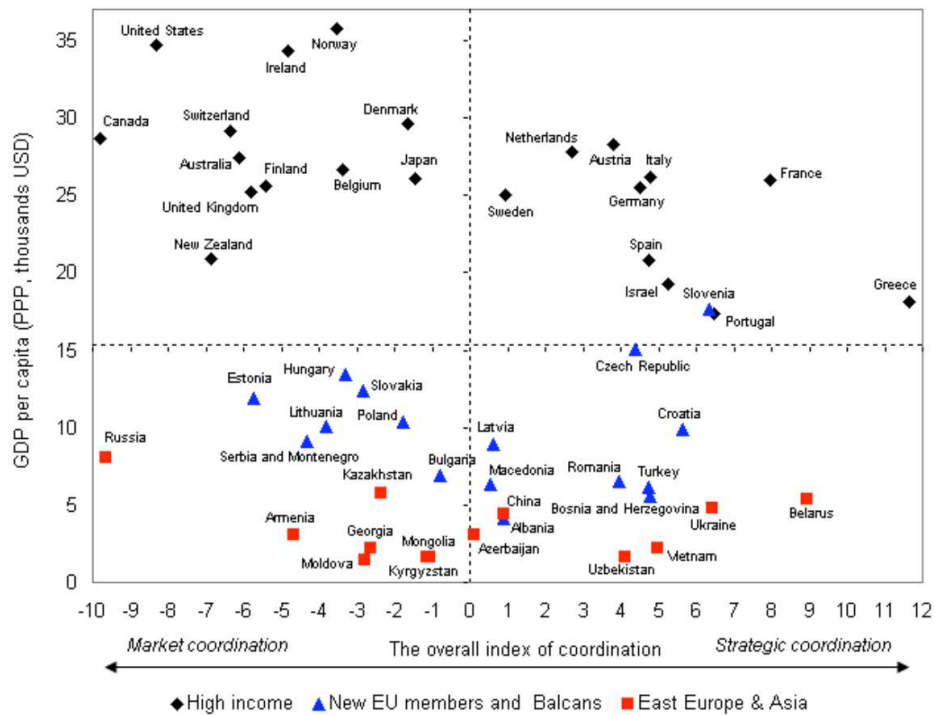
Source: Knell, Srholec, 2007

Figure 1.3. The index of business regulation



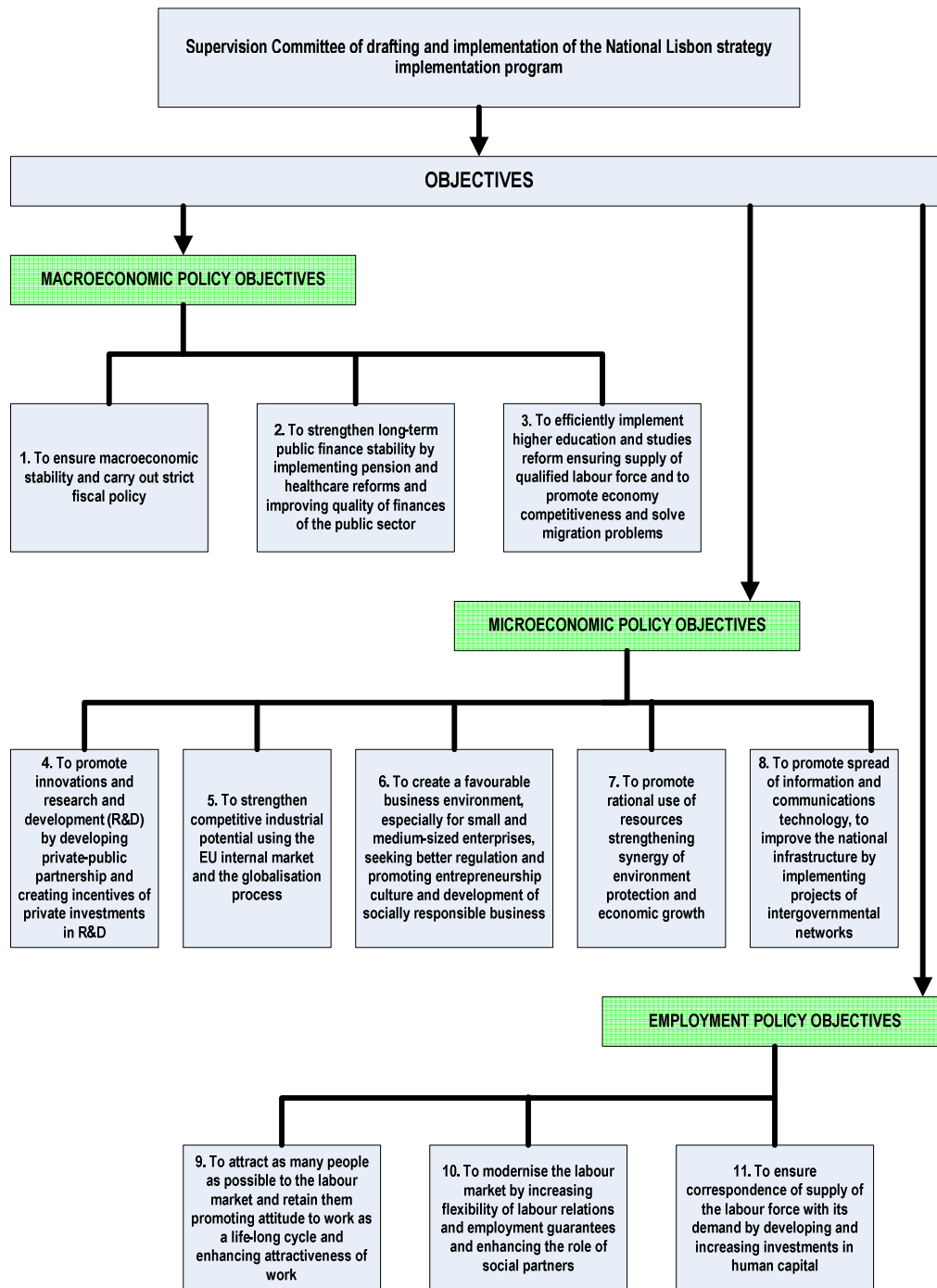
Source: Knell, Srholec, 2007

Figure 1.4. The overall index of coordination



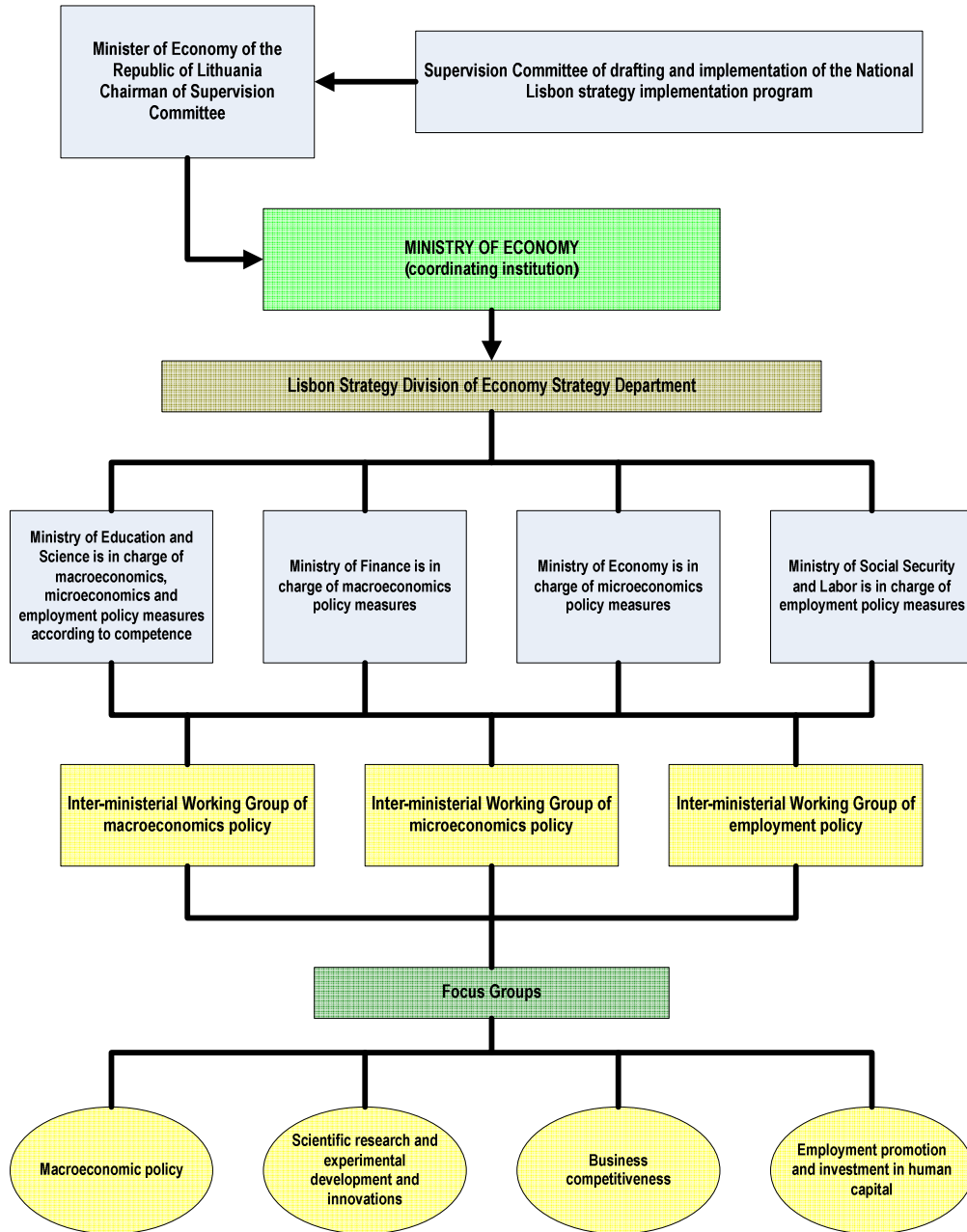
Source: Knell, Srholec, 2007

## Annex 2. Strategic Approach of the Programme



Source: National Lisbon Strategy Implementation Programme for 2008-2010

### Annex 3. Coordination structure of the National Lisbon Strategy Implementation Program



Source: Annual Progress Report on the Implementation of the National Lisbon Strategy Implementation Program of Lithuania

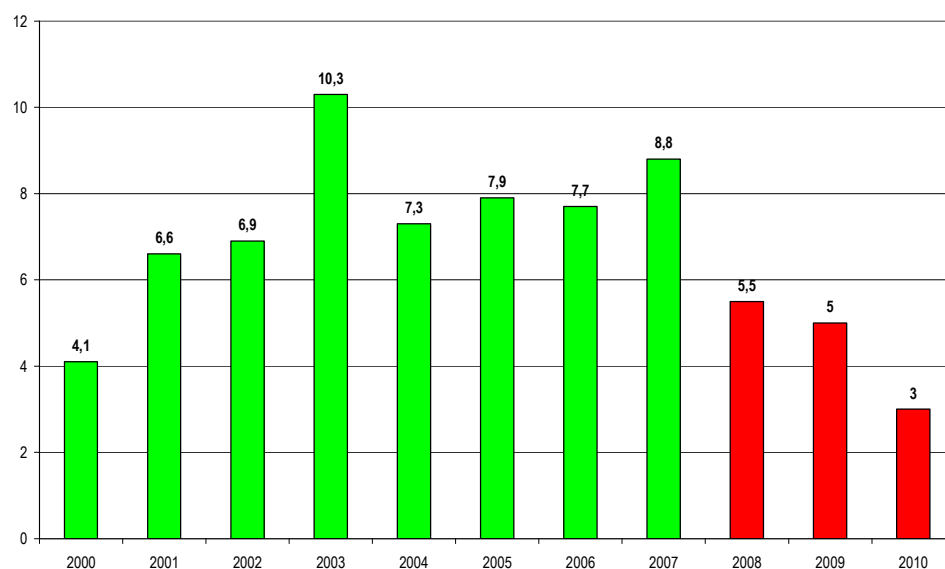
## Annex 4. The macroeconomic indicators and forecasts (2008-2010)

Table 4.1. Some macroeconomic indicators and forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP (constant 2000 prices), annual change, %	4,1	6,6	6,9	10,3	7,3	7,9	7,7	8,8	5,5	4,0	3,0
Current account deficit, % of GDP	5,9	4,7	5,1	6,8	7,7	7,2	10,8	13,7	12,0	10,0	11,0
HICP inflation, average annual, %	1,1	1,6	0,3	-1,1	1,2	2,7	3,8	5,8	11,5	8,0	11,0
Unemployment rate, ILO, average, %	16,4	17,4	13,8	12,4	11,4	8,3	5,6	4,3	5,0	5,5	6,5

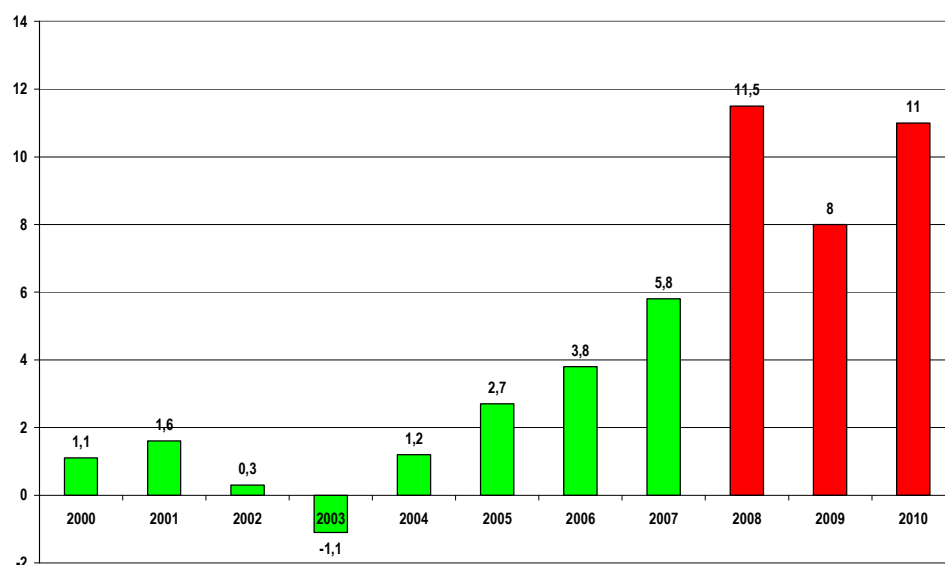
Source: SEB Bank

Figure 4.1. Real GDP (constant 2000 prices), annual change and forecast (2008-2010), %



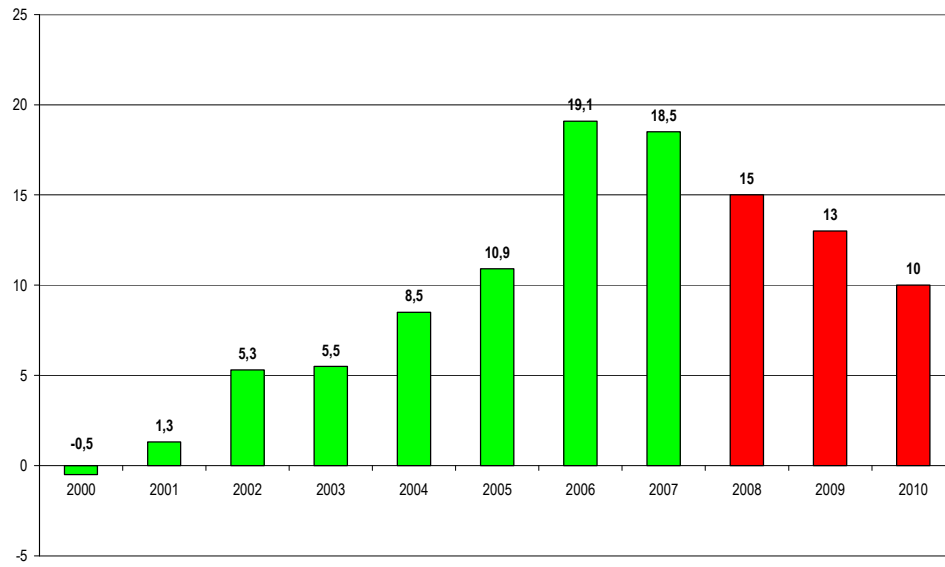
Source: SEB Bank

Figure 4.2. HICP inflation, average annual and forecast (2008-2010), %



Source: SEB Bank

Figure 4.3. Average salary annual change and forecast (2008-2010), %



Source: SEB Bank