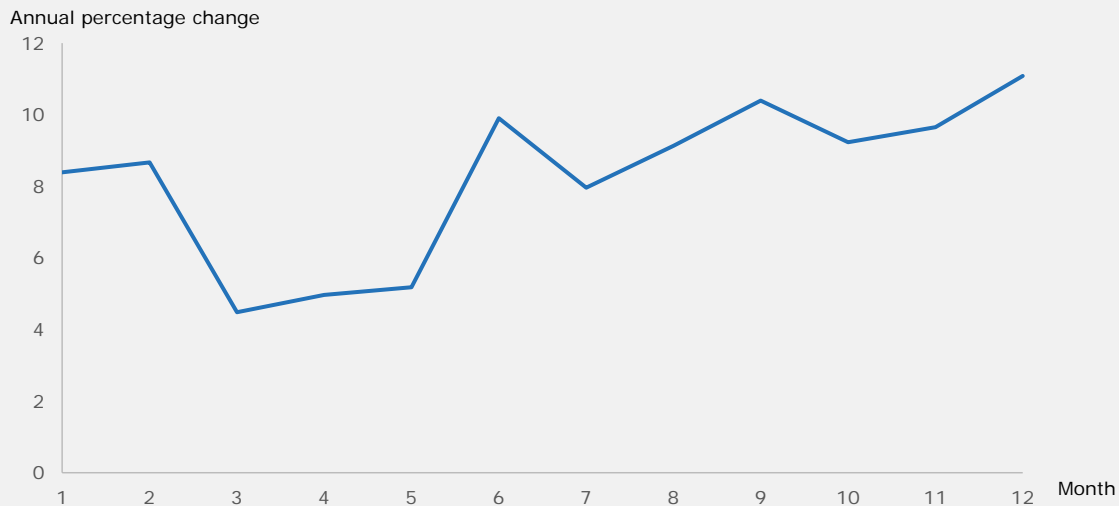


## BOX 2. ASSESSING WAGE DYNAMICS DURING THE COVID-19 PANDEMIC

**Real wages in Lithuania continued to grow at a double-digit rate despite the pandemic<sup>10</sup>.** Chart A portrays the annual growth rate of real wages at a monthly frequency. Before the onset of the first wave of the pandemic – in January and February – wages grew by more than 8%. The effect of the pandemic could already be observed in March when wage growth slowed down yet remained positive and higher by roughly 4% compared to 2019. After remaining at this level for three months, wages bounced back and finished the year with a strong growth of more than 10% despite the second wave of the pandemic.

### Real wages in Lithuania continued to grow at a double-digit rate despite the pandemic.

Chart A. Average real wage growth in 2020



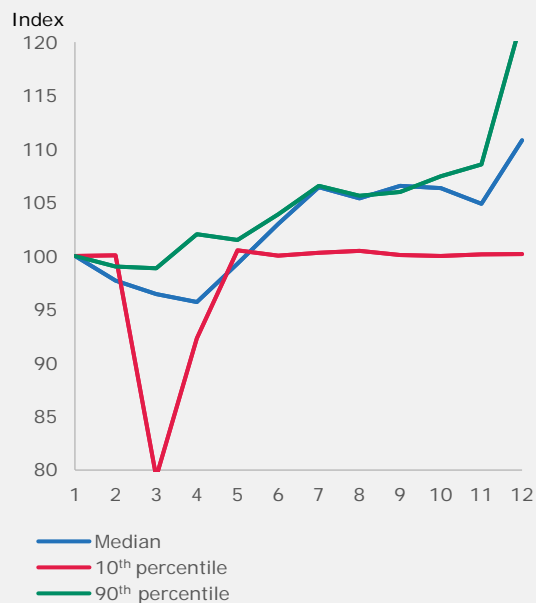
Sources: Sodra and Bank of Lithuania calculations.

**Aggregate wage dynamics hide significant trends in inequality.** The effect of the pandemic on average real wages appears to be limited (see Charts B and C). Median real wages did not move significantly during the first half of the year, before picking up growth in June and accelerating even further by the end of the year. The bottom 10% of wage earners suffered a 20% loss in their wages in March, then reduced their losses to less than 10% in April and finally returned to the initial level in May 2020. Importantly, their wages remained unchanged during the rest of the year. Average wages at the top 10% of the wage distribution, in contrast, grew significantly above the pre-pandemic level during 2020. The effect is also present when comparing the 25<sup>th</sup> and the 75<sup>th</sup> percentiles of the distribution of labour market earnings (see Chart C).

<sup>10</sup> The data source comes from administrative records provided by Sodra. The dataset is publicly available and updated on a monthly basis. It includes all insured workers who were employed in private or public institutions for at least 30 days each month between July 2013 and December 2020. The information available is not fully comprehensive: only total monthly labour income, age and sex are reported. A key limitation of the dataset is that part- and full-time workers cannot be distinguished.

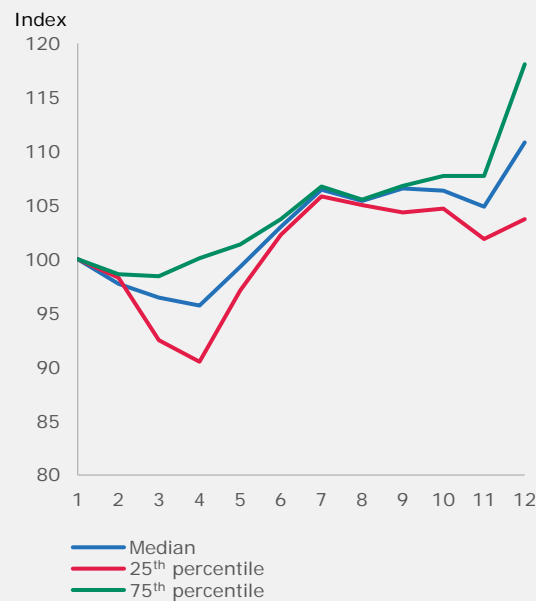
**Growth trends of labour income diverged: wages of top earners grew significantly more than those at the bottom of the wage distribution.**

Chart B. Real monthly wage index in 2020 (January 2020 = 100)



Sources: Sodra and Bank of Lithuania calculations.

Chart C. Real monthly wage index in 2020 (January 2020 = 100)



Sources: Sodra and Bank of Lithuania calculations.

**Low-income earners were more often employed in the fields that were restricted by the imposed containment measures, while high-income earners were more likely to continue working on a remote basis, which in turn led to increased inequality in 2020.** Such dynamics were shaped by various factors, including the increasing number of employees – many at the bottom of the wage ladder – that had to work reduced hours or received government subsidies at the minimum wage rate as part of the rescue policy. On the other hand, many high-wage earners had the opportunity to continue working remotely during the pandemic and still earn full wages. As a result, the distribution of labour market earnings has become more unequal: the ratio of labour earnings of the 90<sup>th</sup> and the 10<sup>th</sup> percentiles increased from 4.2 in 2019 to 4.3 in 2020. The trends in the labour market have potentially had a negative impact on the disposable income<sup>11</sup> inequality in Lithuania since unequal growth in labour market returns is one of its main drivers<sup>12</sup>. However, the increased benefits might have counteracted the negative developments in the labour market. Learning about the effect of the pandemic on the disposable income inequality as well the characteristics of workers whose income has been affected the most is key for policy purposes.

**The pandemic has taken a more significant toll on women: their total number in employment plummeted by more than 6% during the peak of the crisis, as opposed to a 2% decline experienced by their male colleagues.** Among the key reasons why the COVID-19 measures are taking a disproportionate toll on women in the labour market is the gender imbalance across different jobs. While the 2008–2009 global financial recession dealt the hardest blow to the male-dominated sectors that are more sensitive to the business cycle, the current crisis presents novel characteristics due to its atypical nature. The difference in response to the crisis is most likely driven by a compositional effect: women are overrepresented in the industries that involve frequent contact with customers, such as wholesale and retail trade, accommodation and food services, which were hit the

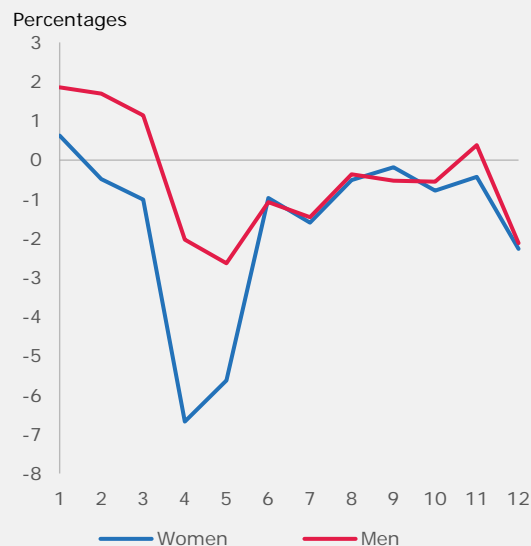
<sup>11</sup> Disposable income is the amount of money that an individual or household can spend or save after income taxes have been deducted and social benefits received.

<sup>12</sup> Černiauskas, N., Sologon, D. M., O'Donoghue, C. and Tarasonis, L. (2020), "Changes in income inequality in Lithuania: the role of policy, labour market structure, returns and demographics", Bank of Lithuania, *Working Paper Series*, 71.

most by the pandemic. **This evidence is in line with the findings of the majority of advanced countries.**<sup>13</sup> However, the gender shock in Lithuania appears to be less persistent: the gap in year-on-year changes in total employment by gender was eliminated by June 2020, and remained around zero throughout the rest of the year.

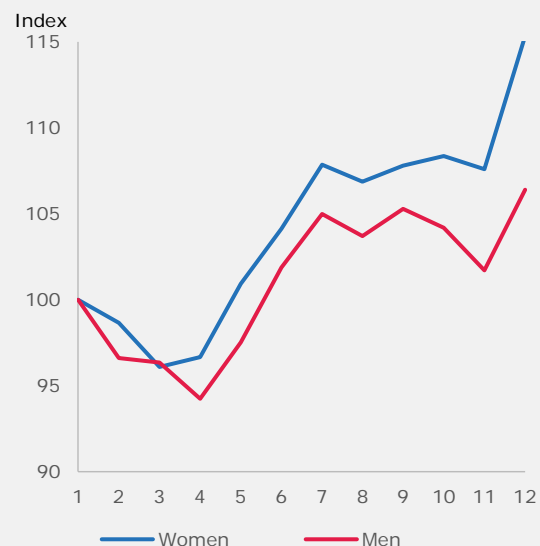
**The pandemic took a more significant toll on female employment, yet women’s wages grew at a faster rate.**

Chart D. Number of workers by gender, year-on-year change (2019–2020)



Sources: Sodra and Bank of Lithuania.

Chart E. Real monthly wage index by gender, 2020 (January 2020 = 100)



Sources: Sodra and Bank of Lithuania.

**Gender differences in real monthly wages uncover the opposite story.** While wage growth evolved in a similar manner during the first three months of 2020, women’s wages started to grow faster in April and continued to do so reaching an almost 10 percentage point difference with respect to men’s average wages by the end of the year. As a result, the average gender wage gap, expressed as a difference between average male and female wages, fell by more than 1% – from 13.6% in 2019 to 12.5% in 2020.

It is likely that a certain part of these developments has a temporary character. First, women are overrepresented in the public sector which experienced a stronger growth in wages. Second, selection can be another potential explanation: if low-paid jobs were more likely to be lost by women during the crisis, the composition effect could explain why wages for female employees grew at a faster rate. If female employees start filling low-wage jobs at a higher rate than their male colleagues when the business cycle recovers, we might observe the opposite – an increase in the gender wage gap.

<sup>13</sup> Alon, T., Doepke, M., Olmstead-Rumsey, J., and Tertilt, M. (2020), “This Time it’s Different: The Role of Women’s Employment in a Pandemic Recession”, National Bureau of Economic Research, No 27660.