Box 1. Wage development by its regularity

Wages are paid to an employee as remuneration for the production unit or for the time worked. The employee may be remunerated not only by paying a regular wage but also stimulating by an additional pay – bonuses or emoluments. Statistics Lithuania defines these additional pays as irregular payments. Historically (from 2005 to 2012) they made up in Lithuania from about 4 to 9 per cent of the average gross earnings. The majority of these pays, e.g., bonuses, by their nature are short-term; however, other payments such as emoluments may be long-term. Thus, gross wages can be divided into its regular and irregular or additional part of wage.

Because of rising pressure in the labour market and soaring enterprise profits, usually both regular and irregular part of wages increase when the economy grows. Theoretically the wage decrease if GDP drops is also possible; however, this is not a particularly frequent phenomenon. Flexibility of Lithuania’s labour market allowed wages drop in line with decrease in GDP.

Wage development in Lithuania in 2005-2008

From 2005 to the end of 2008 Lithuania’s economy was growing buoyantly, thus triggering a robust rise in gross wages – in some quarters the wage growth exceeded 20 per cent per annum. The share of irregular payments accounted for up to 10 per cent of the average earnings and their annual increase reached sometimes even 60 per cent, determining somewhat less than one-tenth of wage growth on average in 2005-2008.

The development of irregular payments differed in the private sector from that in the public one. Increase of irregular payments in the private sector resulted in a somewhat larger proportion of wage growth in this sector compared to that in the public sector. The share of irregular payments made up from 7 to 9 per cent of the private sector average earnings. It should be noted that in 2005-2008 the share of these payments increased in the fourth quarter of the year. In the public sector the additional pay volatility was substantially larger – it formed from 5 to 10 per cent of the average wage paid in this sector, the largest share of this pay was recorded in the last quarter.

In 2005-2008 the increase of irregular payments was observed in all private sector economic activities, particularly in the services and industry, while in 2007 – in construction as well. In the public sector the public service activity – public administration, health care and education – singled out.

Wage development in Lithuania in 2009-2010

The recent economic downturn that began in late 2008 resulted in decline in wages in the economy. This entailed a favourable impact on the competitiveness and contributed to the growth of exports and GDP. On the annual basis, wages in Lithuania were shrinking from the second quarter of 2009. However, similar to the period of an economic upturn, wage development in the private and public sectors during the downturn differed. Decrease of gross earnings in the private sector was registered for the first time in the first quarter of 2009 – one quarter later
than a drop of GDP. In the public sector the wage contraction was observed for the first time only in the third quarter of 2009. Thus, in line with the change of the phase of the business cycle, the private sector reaction to the changes in economic activity was more flexible than that of the public sector.

The effectiveness of the private sector in Lithuania is also supported by data of irregular payments. With the gross wage still increasing in the country’s economy in the fourth quarter of 2008, additional pays were already having a negative effect on the wage growth mainly due to a negative change of irregular payments in the private sector. That showed an especially quick reaction of this sector to a deteriorating economic stance and expectations regarding economic development. In the public sector irregular payments decreased one quarter later than in the private sector – in the first quarter of 2009. A drop in the private sector regular part of wages as well was observed in this quarter, whereas in the public sector this indicator started to shrink only from the third quarter of 2009. The share of irregular payments in the average earnings shrank to 4 per cent in private sector, whereas in the public sector – to 3 per cent.

Institutional decisions taken, in particular liberalisation of labour regulations by adopting certain amendments to the Labour Code (e.g., shortening the time during which the employer must warn employees about the change of conditions for remuneration), should have significantly contributed to the wage flexibility in 2009-2010 as it formed conditions for the reduction of the regular part of wage.

**Development of irregular payments in 2011 and early 2012**

GDP began to grow starting with the second quarter of 2010 and wages stopped decreasing in the economy from the fourth quarter of 2010 because of their positive annual change in the public sector. In the private sector the impact of the regular part of wage persisted to have a negative effect on the wage growth in the economy, whereas irregular payments generated a positive impact. They started to grow in the private sector already one quarter earlier – from the third quarter of 2010. Irregular payments in the public sector were increasing from the fourth quarter of 2010.

Thus, with an improvement of the economic stance of enterprises, the private sector tended to promote employees by raising first of all additional pays rather than regular part of wage. Only later, from the first quarter of 2011, in the environment of a strengthening economic activity, the regular part of wage started to increase in this sector as well. Regarding this, it is again possible to make a conclusion that irregular payments in the private sector are the most flexible part of wages.

A large share of the private sector wage increase (about a half) in late 2011-early 2012 is still supported by a rise of irregular payments, while in the public sector the regular part of wage contributes the most. In this sector irregular payments determine about one-tenth of the public sector wage growth on average. By economic activities, an increase of irregular payments in the private sector is characteristic to the services sector (trade in particular) and industry, as well as in various public sector services. However, the share of irregular payments in the private sector wages in 2011-2012 stepped up to 8 per cent, whereas in the public sector this share remains to be insignificant. Thus, in the context of uncertain economic development prospects, particularly those interrelated to the external environment, the private sector is not inclined to encourage employees by raising the regular part of wages. This is done in attempts to be secured against unfavourable external factors which may entail a negative effect on the enterprise performance results in the future. Therefore, should one more economic recession occur, the private sector would be able to promptly react to unfavourable economic conditions and decrease wages, primarily by reducing irregular payments.