

### 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.

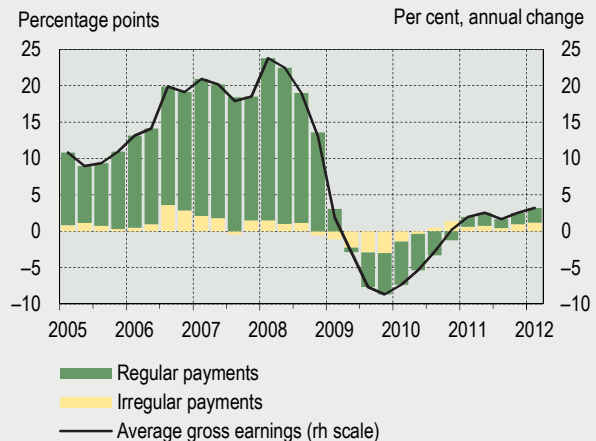
The development of irregular payments differed in the private sector from that in the public one. Increase of irregular payments in the private sector resulted in a somewhat larger proportion of wage growth in this sector compared to that in the public sector. The share of irregular payments made up 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

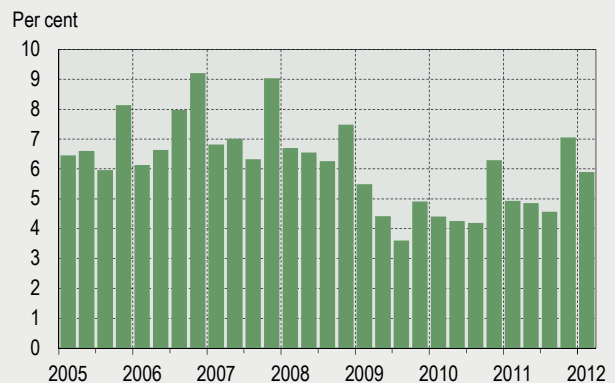
The recent economic downturn that began in late 2008 resulted in decline in wages in the economy. This entailed a favourable impact on the competitiveness and contributed to the growth of exports and GDP. On the annual basis, wages in Lithuania were shrinking from the second quarter of 2009. However, 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

Chart A. Contributions to the change of average earnings in the whole economy (by regularity)



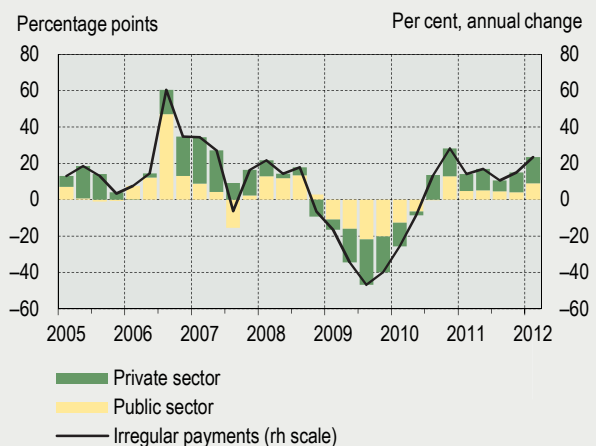
Sources: Statistics Lithuania and Bank of Lithuania calculations.

Chart B. Ratio of irregular payments to average earnings in the whole economy



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Chart C. Contributions to the change of irregular payments (by sector)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

