

Lithuania: A COVID-19 jobseekers' allowance to fill (temporarily) a gap in the unemployment protection system

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In May 2020, with a view to filling a major gap in its unemployment protection system during the COVID-19 pandemic, Lithuania adopted a temporary non-contributory jobseekers' allowance. The allowance is primarily targeted at around 60% of the registered unemployed who were previously not eligible for contributory unemployment benefits. It also tops up the contributory unemployment benefits, aiming to increase their replacement rates and adequacy. The measure and its first results are controversial and are the subject of heated debate in Lithuania.

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Description

Lithuania, like many other countries, introduced numerous measures this year to mitigate the economic and social consequences of the COVID-19-related crisis. One of these measures is a non-contributory jobseekers' allowance, which is targeted at registered unemployed people not eligible for unemployment insurance benefits. These include: people who were receiving unemployment benefit but no longer receive it because "standard" unemployment benefit is paid for a maximum of 9 months; as well as various other groups of persons such as: small farmers, full-time students (who are allowed to register as unemployed according to Lithuanian law), previously economically inactive working-age people, etc. The allowance also increases the duration and adequacy of income protection for those covered by unemployment insurance. Moreover, it is designed to serve as a buffer between the unemployment insurance and social assistance systems, as well as to help stabilise income and consumption during the pandemic.

Approved in May 2020, the new mechanism started functioning in June and is planned to be in place until 31 December 2020. It amounts to €200/month, i.e. one third of the minimum monthly wage. The maximum duration of the allowance is six months. In addition, a supplement of 7% of the minimum monthly wage (€42.5) is paid as a top-up to those eligible for unemployment insurance benefits.

The total cost of the new allowance was estimated at €265 million, making up about 30% of the total COVID-19-related package of measures approved back in May for the second half of 2020. By mid-November, the jobseekers' allowance has been paid for a period of four and a half months with a total bill of €108.11 million. However, the sum should go up as the number of registered unemployed is exceeding expectations: it was around 266,000 or 15.4% of the working-age population in the middle of November. This is 3.6 percentage points higher than the number of registered unemployed before the introduction of the allowance, and 6.1 percentage points higher than the situation in mid-March. It is also substantially above the official seasonally-adjusted unemployment level as defined by Eurostat, which was 10.4% (around 155,000 people) in October in Lithuania.



Outlook and commentary

The jobseekers' allowance sparked heated debate and controversy in Lithuania. First, the increasing unemployment rates are portrayed as being to a large extent caused by the measure. Indeed, the seasonally-adjusted unemployment level in Lithuania increased to 9.6% in August and 10.4% in October, as compared to 8.5% in May and to around 6.4% during the same period last year and in February-March this year. The current unemployment level in Lithuania is above the EU-27 average of 7.6%. Still, there are eight other countries in the EU facing similar levels of unemployment of

8-10%, including the other two Baltic states, Sweden and Finland. At the same time, the Nordic and Baltic countries share relatively high proportions of economically active and employed population. The employment rate of the working-age population (71.3%) and the activity rate (78.4%) in Lithuania are above the EU-27 averages (67.2% and 72.1% respectively). Moreover, while seasonally-adjusted unemployment went up (from around 90,000 before the pandemic and around 125,000 in May to around 155,000 in October), the number of employed remained broadly unchanged, with a marginal decrease of around 0.3% in September compared to January and February 2020 according to administrative data. Hence, there is little evidence that the instrument has caused a substantial decrease in employment and/or a dramatic increase in unemployment.

Second, the continuous increase in the number of registered unemployed and the high rate attract a lot of attention. As mentioned above, there were around 266,000 persons registered as unemployed in mid-November, compared to about 200,000 in May and 160,000 in mid-March. Obviously, many of these persons are not unemployed according to the statistical definition used by Eurostat (e.g. students; see above). Data on the exact composition of the registered unemployed are not available. However, only around 40% of them were eligible for unemployment social insurance benefits according to the latest available data. This percentage is similar to that before the pandemic and the introduction of the jobseekers' allowance. It indicates

a gap in the Lithuanian unemployment insurance system despite the reform implemented in 2017, which increased the duration of these benefits and introduced less strict eligibility conditions for potential recipients. This shows the flaws in the design of the allowance, which need to be fixed for the instrument to function properly. But it may also become a stepping-stone for hard-to-reach groups into the formal labour market through activation programmes offered by the Employment Services.

On the other hand, the number of social assistance recipients fell by more than half, from around 70,000 people in March-May to around 33,000 in October-November as both the maximum amount and the income test applied for social assistance are below those applied for the jobseekers' allowance. This creates a space for more financial and professional resources to be targeted at those remaining in the social assistance system, as well as for allocating funds not used for social assistance to other increased social needs at the municipal level.

Finally, there is no explicit government plan on how to improve the design of this temporary jobseekers' allowance and to transform it into a permanent mechanism. It is not clear how the situation will develop when it is discontinued on 31 December 2020.

The jobseekers' allowance has highlighted important gaps in the Lithuanian system of social protection. It needs thorough evaluation, to better understand its positive and negative aspects and effects on the labour market and beyond.

Further reading

[Lietuvos Respublikos užimtumo įstatymas. Suvestinė redakcija nuo 2020-05-15](#) [Law on Employment of the Republic of Lithuania. Consolidated version as of 15/05/2020]. TAR, 05/07/2016, No. 18825.

[Covid-19 pasekmių valdymas: socialiniai rodikliai](#) [Managing Covid-19 consequences: Social statistics]. Lithuanian Ministry of Social Security and Labour.

[COVID-19 pasekmių švelninimo priemonių paketo poveikio vertinimas](#). Trumpraštis, 2020-05-18 [Evaluation of the effects of the package of measures to mitigate social consequences of the COVID-19. Policy brief, 18/05/2020]. Lithuanian Ministry of Social Security and Labour.

Romas Lazutka. [200 euru efektas](#). [The effect of €200]. Delfi, 31/08/2020.

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