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in

Giannias D.A. (ed.), Mergos G. (ed.).
Selected readings on economies in transition

Chania : CIHEAM

Cahiers Options Méditerranéennes; n. 44

2000

pages 29-40

Article available on line / Article disponible en ligne à l'adresse :

<http://om.ciheam.org/article.php?IDPDF=800085>

To cite this article / Pour citer cet article

Ciburienė J. **The main changes in the Lithuanian economy development in the transition to market economy.** In : Giannias D.A. (ed.), Mergos G. (ed.). *Selected readings on economies in transition*. Chania : CIHEAM, 2000. p. 29-40 (Cahiers Options Méditerranéennes; n. 44)



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THE MAIN CHANGES IN THE LITHUANIAN ECONOMY DEVELOPMENT IN THE TRANSITION TO MARKET ECONOMY

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ABSTRACT

The development of the economy until 1990 in Lithuania, as a composite part of the Soviet Union (the USSR), was based on totalitarian governing elements. Until 1989, the perspective of development of socialist property was tied together with the growing role of state property. It was estimated that the more economic process was rendered into the state property, the more developed society was. This caused a great deal of damage to the economic development. The purpose of this paper is to investigate the main changes of the development process in the Lithuanian economy. The difficulties of the economic development were displayed in the country's economy as a disproportion between demand and supply (producers dictate for consumers). Directive pricing, a monopolised economy, a centralised distribution system of production and administrative-command methods of governing were used.

KEYWORDS:

ECONOMIES IN TRANSITION, LITHUANIA

INTRODUCTION

Until 1990, the development of the economy in Lithuania, as a composite part of the Soviet Union (the USSR), was based on totalitarian governing elements, i.e. the official revolutionary ideology, one disciplined party, the terrorist character of the police, the party monopoly of the mass media, the party control of armed forces, the centralized planning of the economy and the abolition of boundaries between the private and public. The totalitarian state was based on Marxism ideology, the essence of which was class struggle, the theory of surplus value, the inevitability of revolution, dictatorship of the proletariat, and the pining away of the state.

Until 1989, the perspective of development of the socialist property was tied together with the growing role of the state property. It was estimated that the more economic process was rendered into the state property, the more developed society was. This caused a great damage to the economic development. The practice of socialisation showed that too much centralism didn't give the expected results. The slump in the socialized manufacturing process raised the question of the necessity to develop different forms of property, which must correspond to the state's productive forces, the development of public division of labour and economic organisational relationships. Any step forward (or backward) of the socio-economic form holds up growth of the productive and drags behind the economic development of society. So, the practice shows that the misguided imagination of the

socialist development as a uniform process, which transforms different forms of property into one and increases centralism when the social distinctions disappear, causes the amalgamation of production processes into one social manufacturing process, that is, the classical socialisation of manufacture. Mergers are insufficient in this manner of socialisation. The characteristics of the socialist period, which slow down economic development of society, were part of the same system. The difficulties of the economic development were displayed in the country's economy as a disproportion between demand and supply (producers dictate for consumers). Directive pricing, a monopolised economy, a centralised distribution system of production and administrative-command methods of governing were used.

There was no precedent for the level of state involvement in economics and there was no private property in Lithuania, as was common all over the USSR. The structure of the gross national product (GNP) in Lithuania and the USSR is shown in Table 1.

Table 1. The structure of the gross national product by the type of ownership in Lithuania and the USSR (%)

Index	1970	1975	1980	1985
Gross national product:				
Lithuania	100,0	100,0	100,0	100,0
The USSR	100,0	100,0	100,0	100,0
state sector:				
Lithuania	72,6	75,1	78,9	76,2
The USSR	86,5	88,3	88,8	88,2
collective - farm property:				
Lithuania	14,9	14,5	13,3	17,0
The USSR	7,6	6,8	6,5	7,3
private property:				
Lithuania	12,5	10,4	7,8	6,8
The USSR	5,9	4,9	4,7	4,5

Source: composed by the author according to data from the Lithuanian and USSR economic balances in 1970-1985.

In 1985 the idea of Lithuanian economic independence was created and was carried out on the basis of economic reforms in the USSR. This caused the movement for political independence of the Baltic States: Lithuania, Latvia and Estonia. Finally, the Baltic States restored their political and economic independence in the spring of 1990 and turned to the way of reforms leading to market economy.

At present, economic reorganization in Lithuania includes two independent but interrelated spheres:

1. the reform of the economic system;
2. the reform of the economic structure.

The basic purpose of the reforms of the economic system is to change the planned economy into a more effective market economy.

The reform of the economic structure had to address the problems of the creation of:

1. a variety of property forms;
2. the monetary and financial systems within the country;
3. the economic relations with foreign countries (integration into international divisions of labour).

PRIVATISATION AS THE MOST IMPORTANT REFORM IN THE TRANSITIONAL PERIOD

The main goal of the property reform is to change the structure of property forms in essence. The market economy, as a flexible and effective method of production organisation, requires private property and competition. The formation of private property in the period of transitional economy in Lithuania can occur with the help of the following methods:

1. the restitution of personal property;
2. the privatisation of state property;
3. the establishment of new private firms.

Thus, this reform opens up the possibilities for development of these property forms, which were analysed and estimated as having no future in planned economy. Private property in this period was estimated negatively. The dominating point of view was that in the nearest future the functions of private property would pine away. Thus, private property would be equal to zero.

The first method of the formation of private property is important because the economy of Lithuania, as an independent state until 1940, was based on private property. In 1940, Lithuania was annexed and included into the structure of the USSR. The private property of the population, including private land, was nationalised. However, in 1990 when Lithuania required its political independence, the law, satisfying the historical requirements concerning restitution of nationalised personal property, was adopted. This law has been extremely significant in the formation of the privatisation of the land property.

The second method of private property formation in Lithuania started in September 1991 when the privatisation method of the Czech Republic was adapted. This is the most important reform in the transition to market economy in Central and Eastern Europe. The reforms of this area will require parallel solutions to a number of economic, political and legal problems. The essence of this method is the participation of the whole population in the privatisation process and its publicity. The material base of the privatisation involved the payment granted by so-called investment cheques, the sum of which was defined by a simple criterion - the age of the Lithuanian citizen. This method was known as "social justice". The following amount of investment cheques was determined for different population groups according to their age:

- for persons, who were 35 years old before the 31st of December 1990 - 10 thousands roubles¹;
- for persons, who were 30 years old before the 31st of December 1990 - 8 thousand roubles;
- for persons, who were 25 years old before the 31st of December 1990 - 6 thousand roubles;
- for persons, who were 18 years old before the 31st of December 1990 - 4 thousand roubles;
- for persons, who were younger than 18 years old before the 31st of December 1990 - 2 thousand roubles.

The other source of this privatisation method was the means which calculated compensation given as money because of high inflation. Furthermore, bank deposits and the state insurance contributions were depreciated. Their compensated value was 50%, but no more

¹ Lithuania quit the rouble zone and introduced temporary national currency - a coupon - on the 1st of October 1992. Monetary policy is discussed in paragraph 1.2.

than 5000 roubles was attributed to each citizen, for a given date.

Five % of the bought state property is paid in cash. However, as a rule the starting capital of the major part of the population is small and they can buy only an insignificant part of state property.

The investment cheque can be used in some other ways:

- directly, to buy flats, plots of land, state enterprises or their shares;
- indirectly, to acquire private property by investing a personal investment cheque into investment funds;
- to sell off investment cheques in auctions.

The privatisation programme has been foreseen to be executed in two stages. The first stage is the privatisation using investment cheques during the period of 1991-1995. It was foreseen to privatise 82% of all state enterprises (or 6650 state enterprises) in the first stage of privatisation and 36% of total state capital (or 4.8 milliard litas)[13, pp. 49].

The second stage is that of privatisation using cash. This stage was foreseen to start at the end of 1995.

The third method to form private property is the establishment of new private firms. Private property is formed by this method in those spheres of economics where there is no need to have a large primary amount of capital, i.e. in commerce, household services, and public utilities. The main forms of business organisation in Lithuania according to the Law Enterprises of 1990 are:

1. sole proprietorship - that is, the management of ordinary production when a firm belongs to one person. The state gives patents for such enterprises;
2. partnership - that is, a firm where there are more owners than one person. There are two forms of partnership:
 - a. a real partnership - all its members are responsible for debt obligations;
 - b. conditional partnership where only the real partnership members are responsible for debt obligations while the others are not;
3. corporation - the capital to establish a firm is obtained by issuing shares ;
4. closed corporation - the authorized capital is owned only by a limited number of corporation members;
5. state-owned corporation - a part of the authorized capital is state property, as much as the law requires.

The privatization was the most important and complicated reform in which the following methods were used:

1. public subscription of stocks;
2. auctions;
3. selling of state enterprises using foreign currency;
4. competitions for the best business plan.

The significance of these different methods of privatisation is summarized in Table 2.

The method of privatization was stipulated by the size of an enterprise when the large and medium sized enterprises were privatized by the public subscription of stocks and small enterprises - by auctions. Of all the enterprises foreseen to be privatized, 51.7%, which forms 65% of foreseen to privatize capital, were privatized with the help of public subscription of privatised stocks.

The results of the privatisation programme according to national branches are summarised in Table 3.

Table 2. The methods used in the privatisation of state enterprises in 1991-1995 in Lithuania

Method of privatization	Privatised enterprises		Privatised capital	
	number of	%	milliard litas	%
Total	5706	100,0	4,00	100,0
public subscription of stocks	2920	51,17	2,60	65,0
auctions	2728	47,81	0,65	16,25
competitions for the best business plan	12	0,21	0,47	11,75
selling for foreign currency	46	0,81	0,28	7,00

Source: Composed by author according to "Aljansas", February, 1996, pp. 4 - 5; The studies of Lithuanian Department of Statistics, 1995, pp. 49.

Table 3. Privatisation of state enterprises in 1991 - 1995 by number of privatised enterprises (%)

Type of economic activity	Number of privatised enterprises	Degree foreseen to privatise capital (%)	Privatised (milliard litas)	Degree foreseen to privatise (%)
Total	5706	86	4,00	83
industry	799	88	2,70	91
other branches	1054	83	0,40	96
transport	161	86	0,10	31
contruction	599	91	0,40	98
commerce	1741	82	0,30	72
public utilities	359	77	0,04	30
household services	993	94	0,06	97

Source: The Studies of Lithuanian Department of Statistics, 1995, Nr. 4, pp. 49.

As shown in Table 3 the highest levels of privatisation are in construction, household services industry and building. All foreseen privatised enterprises account for 14% (938 enterprises) according to the number of privatised enterprises and 17% according to the degree of privatised capital.

Although the privatisation data seems to be impressive we must admit that a number of enterprises exist only formally.

The rate of privatisation in all the cases did not have the same stability during separate periods of time. This is shown in Table 4. The highest rate of privatisation was in the beginning of these processes in 1991-1992. The reasons for such a situation were:

1. The elections into the Sejm in 1992;
2. The changes in the rules of privatisation after the elections, and the fact that small and more profitable objects were privatised in the beginning of the privatisation process.

The size of privatised objects is characterised by the following data: in 1991-1992 the average value of one object was 0.38 million litas, in 1993; it was 0.99 million litas, in 1994; it was 1.30 million litas and in 1995; it was 0.98 million litas. Therefore, the biggest objects were privatised in 1994 [13, Pp. 50]. [13, Pp. 49].

Two groups of population that most actively took part in the processes of privatisation were:

1. the workers of enterprises in which privatisation took place;
2. those who purchased investment cheques from others who did not have any possibilities of using them.

Table 4. The rate of privatisation of state enterprises (%)

Type of economic activity	Index	Period			
		1991-1992	1993	1994	1995
Total	number of enterprises	54	22	14	10
	capital	29	31	26	14
industry	number of enterprises	39	28	19	14
	capital	25	29	31	15
transport	number of enterprises	40	32	17	11
	capital	37	31	20	12
construction	number of enterprises	52	27	13	8
	capital	41	36	17	6
commerce	number of enterprises	66	17	11	6
	capital	55	25	13	7
public utilities	number of enterprises	23	26	30	21
	capital	25	38	22	15
household services	number of enterprises	80	12	5	3
	capital	57	23	10	10
Other branches	number of enterprises	34	29	20	17
	capital	24	42	18	16

Source: The Studies of Lithuanian Department of Statistics, 1995, Nr. 4, pp. 50.

The results of the activity of these two groups of population in the privatisation are shown in Table 5.

It is seen, from this table, that during the so-called "total privatisation" period, i.e. when the state property was privatised by public subscription of the stocks and competition for the best business plan, 30% accounted for all branches, 29% in industry, 35% in transport, 31% in construction, 37% in commerce, 27% in public utilities and 4 % in household services. Capital was privatised without participation of the workers of enterprises in which privatisation took place. However, the workers of their respective enterprises bought more than half of the shares (from 50 to 100%) in 35 % of all branches. The same incident took place for 36 % of industries; 42% of transport, 32 % of construction, 27% of commerce, 6 % of public utilities, and 38% of household services.

Thus, some specific features of privatisation were revealed according to the data in Table 5:

1. the participation of the workers of enterprises, which were privatised, was very weak at the beginning of privatisation. During 1991-1992, this category of population did not have shares in 66% of the privatised capital. The workers of enterprises in which privatisation took place became the main participants of privatisation, only at the end of the first stage of privatisation. They bought from 50 to 100% of the shares; more specifically, 50% of the total capital in all factories in 1993, 67% of the total capital in 1994, and 89% of the total capital in 1995.
2. small and profitable objects were privatised at the beginning of privatisation. These processes took place in commerce, household services, transport and construction. During 1991-1992, in these spheres respectively, 56%, 82%, 74% and 59% of capital was privatised.

The Lithuanian population received investment cheques and other monetary compensation, the value of which was 10.5 milliard litas, according to the law of primary privatisation of state property. In the first stage of privatisation the privatised property was bought using investment cheques and other compensations, with 9.8 milliard litas or 97% of total amount of them being spent. The greatest part of the receipts, 6.8 million litas (or 65%) was used for the privatisation of state property, 2.0 million litas (or 19 %) for the privatisation flats, 1.0 million litas (or 9%) for the privatisation of agricultural firms and plots of land.

Thus, in this period, about 40% of state property, 95% of flats, and 85% of agricultural

wealth was foreseen in privatisation [13, pp. 48]. However, 7% of investment cheques and other monetary compensations remained. They have not been used in privatisation. Some were used in the limited possibilities of their usage in some economic spheres till January 1997.

In fact, the second stage of privatisation started in 1996. The beginning of this stage lasted a very long time. Only in the first quarter of 1996 was the Privatisation Agency formed. At the same time the list of foreseen objects to be privatised in that year was also passed. The following specific features will characterise this stage:

1. it will be very slow, because the state, with the help of the Stock exchange, will sell the shares of those enterprises which owns 5 to 20% of shares [7, pp. 3];
2. there are very few attractive objects in it;
3. the population of Lithuania as well as foreign countries can take part in this privatisation. There are no privileges for anyone. Such a position taken by the Government may stimulate foreign investment.

The privatisation process often meets with different problems. The main problem is that of the imperfection of the laws, which caused the inconsecutive order of privatisation processes. Nine direct and some indirect acts of privatisation were adopted in the first four years of privatisation. Besides, as a rule, every new Law is accompanied by the procedure of its performance and the explanation of the spheres, in which it is applied. These spheres are determined by the resolutions of the Government. Frequently, legal statements, which determine privatisation processes, are not suitably co-ordinated among themselves. Their rules often change.

THE MAIN ECONOMICAL AND SOCIAL RESULTS OF THE TRANSITIONAL PERIOD IN LITHUANIA

Up to now we have analysed only the formal sphere of the process. Now, it is worth examining the informal sphere of privatisation, i.e. the economical efficiency and social-psychological aspects of privatisation.

Privatisation is not a final goal, but only a means for achievement of more effective economic activity.

It is common knowledge that property and wealth form the interests of a person. However, not all privatised capital is used for producing products and providing services. This situation occurs due to the problems and the conflicts among the interests of producing and financing institutions.

These reasons determine the changes of economic development. The transition of planned economy to market economy is a very complicated process. Thus the Lithuanian population suffers from inflation, unemployment and the decline of the standard of living. As a matter of fact, such a situation was stipulated exactly by the capital transition from state to private property.

Total economic decline began in Lithuania in 1990. Real gross domestic product (GDP) in Lithuania decreased some years later: 3.3% in 1990, 13.1% in 1991, 37.7% in 1992 and 16.5% in 1993. The country's economy suffered a deep crisis. GDP in 1992 was only 50% of the 1989 GDP, and in 1993 GDP was only 43% of 1989 level [11, pp. 31; 4, pp. 6]. The level of GDP began to increase in the following way: 1% in 1994 and 2% in 1995 [3, pp. 5]. The changes in real GDP in Lithuania are shown in Figure 1.

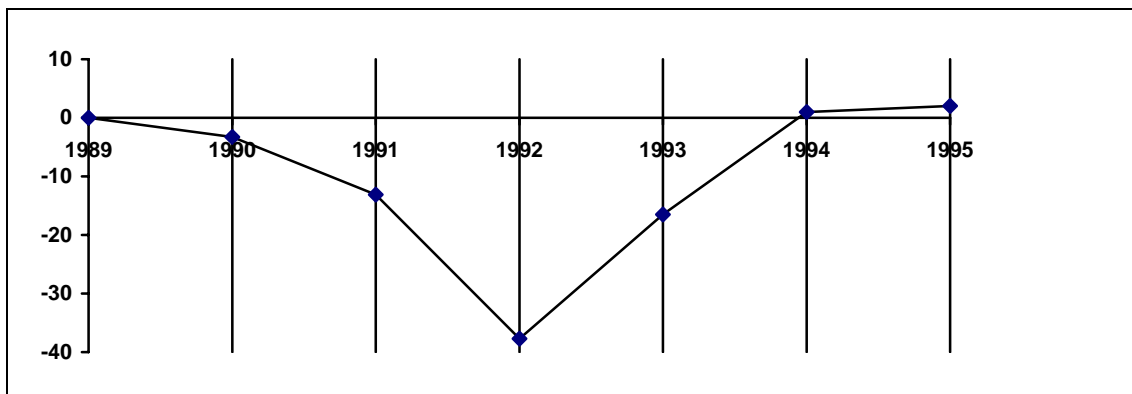
Table 5. The distribution of capital among the main population groups in the "total privatisation" process

Period	Capital million litas	Workers / part of shares, %				
		0	0 - 10	10 - 30	30 - 50	50 - 100
In all branches	1047	66	8	15	8	3
1991-1992	849	5	9	14	22	50
1993	510	0	2	12	19	67
1994	167	1	2	0	8	89
1995	2573	30	7	13	15	35
Total						
industry						
1991-1992	569	72	9	12	3	4
1993	555	5	10	15	21	49
1994	359	0	2	15	24	59
1995	115	0	4	0	6	90
Total	1598	29	7	14	14	36
Transport						
1991-1992	55	74	3	12	9	2
1993	25	2	11	10	19	58
1994	27	0	3	0	3	94
1995	10	0	1	0	10	89
Total	117	35	5	8	10	42
Construction						
1991-1992	169	59	5	23	12	1
1993	102	3	3	12	27	55
1994	46	0	2	0	3	95
1995	11	0	1	0	53	46
Total	328	31	4	16	17	32
Commerce						
1991-1992	132	56	4	21	19	0
1993	34	1	23	2	10	64
1994	29	0	0	0	15	85
1995	7	0	0	0	6	94
Total	202	37	6	14	16	27
public utilities						
1991-1992	8	67	6	10	14	3
1993	8	1	0	0	0	99
1994	3	0	0	0	0	100
1995	5	18	0	0	0	82
1995	24	27	2	3	5	63
Total						
household services						
1991-1992	23	82	0	6	10	2
1993	9	1	1	12	26	60
1994	3	0	0	0	9	91
1995	7	0	0	0	1	99
1995	42	44	0	6	12	38
Total						
others branches						
1991-1992	91	47	16	16	16	5
1993	117	10	10	13	25	42
1994	43	2	3	12	4	79
1995	13	1	0	0	0	99
1995	264	21	11	13	17	38
Total						

Source: The Studies of Lithuanian Department of Statistics, 1995, Nr. 4, pp. 48.

Growth rate of GDP, %

Figure 1. Changes in real gross domestic product in Lithuania



Source: Composed by author according to "Economic and social development in Lithuania". January - April, 1996; Main macroeconomics indicators of Lithuania, 1996, pp. 31; "Bulletin of the Bank of Lithuania", 1995, Nr. 4, pp. 5.

The decline processes revealed themselves in all sectors of the economy. Thus, for instance, the average annual growth of production in industry from 1983 to 1989 was 5%. It grew only to 4.2% in 1989 and in 1990 it began to fall. The production of 1992 at comparable prices was equal to that of 1973. The production of some products per capita in 1992 was smaller than in 1960 [5, pp. 3]. The changes of GDP per capita are shown in Table 6.

Table 6. Changes of gross domestic product and the level of inflation in Lithuania

Index	1992	1993	1994	1995
GNP:				
-at current prices, million litas	3382,6	11107,9	16980,7	22230,3
-at comparable prices, million litas	-	11107,9	11217,2	14685,3
GNP per capita:				
-at current prices, litas	904,0	2978,0	4564,0	5984,0
-at comparable prices, litas	-	2978,0	3015,0	3953,0
Level of inflation, %	1162,5	188,7	45,1	35,7

Sources: Composed according to Lithuania in figures 1994-1995, Vilnius, pp. 14; "The labour market and employment of population in the first quarter of 1996", 1996, pp.5.

Inflation is another macroeconomic problem causing many negative social and economic consequences. These results have affected the Lithuanian population very much. For instance, they lowered the level of consumption, increased social inequality, and disturbed functioning of monetary and financial systems. Due to the economic recession, the task to reduce inflation is especially complicated. It is impossible to solve these two problems (the reduction of inflation and the increase of production) together. A choice must be made: either to fight against inflation, or to fight against economic recession. The Government made a decision to reduce inflation first. As shown in Table 6, at present the level of inflation is decreasing; hyperinflation is "bridged" and inflation is not very threatening.

Since inflation is a complicated process and is the result of many factors, the selection of its decreasing methods is thus very difficult, and it is often a confusing and discrepant process. The process of the regulation of inflation in Lithuania is complex due to the following reasons:

1. There are no fully formed markets (commodity market, exchange market, securities market, and factors market);

2. There is no long lasting experience and tradition in monetary and fiscal policy;
3. The central bank, the Bank of Lithuania and the Government had no prior experience in solving the problems of inflation.

The following facts influenced the reduction of inflation in the country:

1. Lithuania left the rouble zone and introduced temporary national currency - a coupon, and later the permanent national currency a litas;
2. The required ratio of reserves in commerce banks was increased;
3. The use of foreign currency in money turnover was prohibited.

This strict money policy really helped to reduce the level of inflation. However, using these means the following negative effects occurred:

1. the interest rate grew and caused a rise in credit prices;
2. the investment decreased and directly influenced the process of production;
3. the costs of production grew and the prices of products and services rose;
4. the deductions among enterprises became slower while their insolvencies also grew;
5. the problem of realisation of production became very urgent.

Thus, the tendency to reduce the inflation was achieved through economic stagnation, i.e. by decreasing in production. On the other hand, the reduction of inflation increased unemployment and caused negative psychological consequences.

At the end of 1990 the law of employment of the population in Lithuania was accepted. In this particular law, the status of unemployment was first introduced.

The changes in economic structure during the transitional period to market economy complicated the labour market and created the problems of employment and unemployment. At present, the conditions of unemployment and its growth are the main problems of industrial relations in Lithuania. The changes of employment are showed in Table 7.

Table 7. Employment of population in Lithuania (average annual number, thousands)

	1991	1992	1993	1994	1995
Labour force	1904,0	1946,3	1859,3	1740,7	1752,6
in %	100,0	100,0	100,0	100,0	100,0
Employed	1898,0	1886,0	1778,2	1675,0	1643,6
in %	99,7	96,9	95,6	96,2	93,7
Unemployment, %	0,3	3,1	4,4	3,8	6,3
Employed according to economic spheres, %	100,0	100,0	100,0	100,0	100,0
- in state property	70,3	70,3	45,8	38,5	36,5
- in private property	15,5	15,5	54,2	61,5	63,5
- in collective farm property	14,2	14,2	-	-	-

Source: composed by author according to "Lithuania in Figures 1996", pp.18; Lithuania in Figures 1994-1995", Vilnius,1995, pp. 10; About Social Development in 1989-1992", Vilnius, 1992, pp. 5.

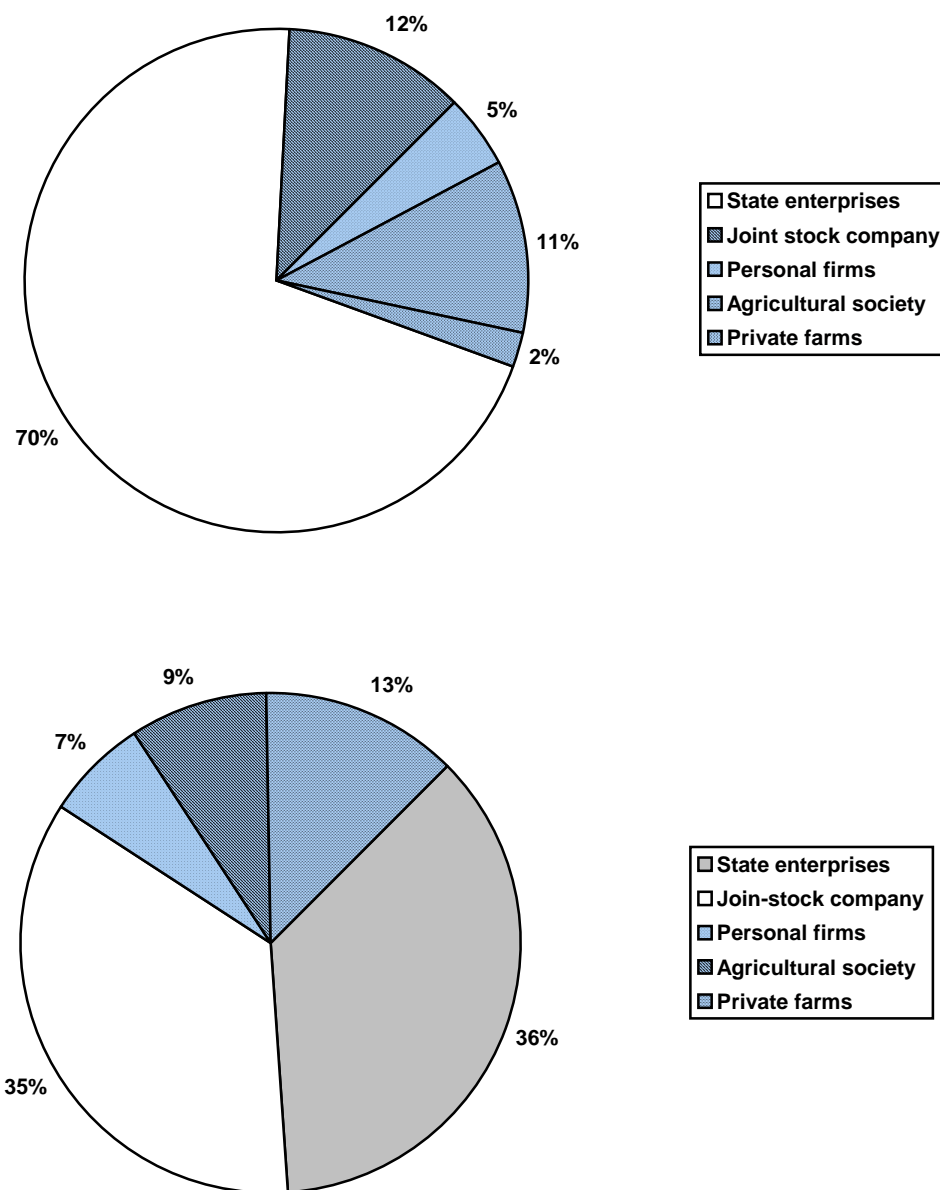
The total employment in the country decreased, as did the employment in specific sectors. For instance, employment in industry and construction fell. The increase of employment in commerce, household services and agriculture did not compensate for this decrease. From the employment point of view, agriculture in 1994 became the main form of economic activity in Lithuania, pushing the manufacturing industry out of first place. Many inhabitants of the villages worked in cities. However, a great part of them lost their work in the towns, as unemployment grew. Thus, agriculture, moving from second position, became the dominant form of employment for this category of the Lithuanian population.

The changes in the structure of the employment of the population are stipulated by problems of transitional economy: private property creation, economic recession and town-dwellers' migration to villages. These processes are illustrated in Figure 2.

What essentially changed is the structure of employment in Lithuania by property forms in 1991-1995:

1. Employment decreased from 70% to 36% in the state enterprises and from 11% in the agricultural society.
2. Employment increased from 12% to 35% in the joint-stock companies, from 2% to 13% in the private firms and from 5% to 7% in the personal firms.

Figure 2. Structure of employment in Lithuania by property forms in 1991-1995.

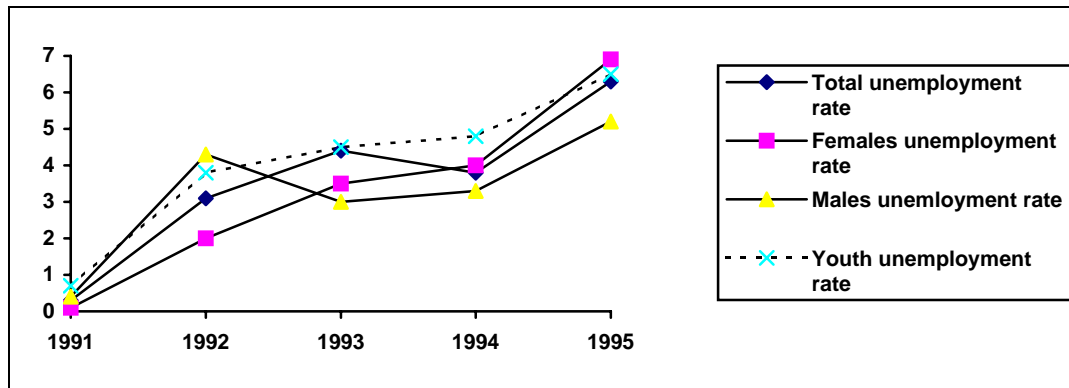


Source: "The Studies of Lithuanian Department of Statistics", 1996, Nr. 1, pp. 12.

As shown in Figure 3, the tendency of the total unemployment rate, as well as unemployment rates of males, females and youth, is growing. However, females and youth mostly suffer from unemployment.

Unemployed rate, %

Figure 3. The tendencies of the unemployment rate in Lithuania



Source: "Lithuanian labour market and the means of employment of the population 1991-1996 in figures", 1996, pp. 5.

The Government attempts to solve these complicated problems by creating and realising the support programme of employment.

Thus, the prognoses of Lithuanian economists for the years 1996-1998s are optimistic. The growth of GDP, foreseen for this period, is 4.1% for each year [7, pp. 1,3].

It is clear that a transitional period creates many discussed problems, but one more is the reliability on statistical data.

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