Forecasting skills demand and labour market dynamics in the Baltic States
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Abstract
The paper seeks to address the following question: how accurate in the short term are the produced forecasts for the Baltic States? If not, why? The forecasts provide estimates from 2007 to 2020. At the national level the data for 2008 and 2009 is already available. Hence, this paper seeks to explore the unique opportunity to compare forecasts with historical data.

There are several reasons for focusing on the Baltic States. First, exogenous economic shocks can have a profound impact on the structure of the economy, which changes the levels of demand for skills. In 2008-09 the EU experienced dramatic economic crisis. The Baltic States were among the countries that witnessed the largest decline in DGP and the highest growth of unemployment. Hence, comparisons of forecasts with historical data should reveal the sensitivity of forecasts to unexpected economic shocks.

Second, the Baltic States stand out from the other EU Member States in terms of the pace of economic change. While Estonia, Latvia and Lithuania demonstrated some of the highest rates of GDP growth between 2004 and 2008, they were also among the countries that exhibited the steepest decline in GDP in 2008-09. Furthermore, the Baltic States also exhibit very large sectoral fluctuations. For instance in Lithuania the number of employed persons in construction sector grew by nearly 50% between 2004 and 2007, but subsequently declined by nearly 30% between 2007 and 2009. Hence, comparisons of forecasts with historical data should shed light on the problems of forecasting skills demand in very flexible labour markets.

Standard methods of descriptive statistics will be employed for comparisons of forecasts with historical data. The comparisons will be performed at macro level (GDP change, unemployment levels) and micro level (demand for skills at occupational, educational and sectoral levels).

The structure of the paper is as follows. The first part engages in a theoretical discussion on the main factors that affect the accuracy of forecasts of skills demand. The second part provides a comparison of forecasts with historical data for the Baltic States. The last part discusses the implications of findings for the forecasting exercise and concludes.