

FINANCIAL SECTOR AND ITS HUMAN RESOURCES EVOLUTION IN BALTIC STATES

Arturas Balkevicius

Abstract This article gives an overview of the Baltic States financial sector and its human resources, analysis of the evolution, structure and their perspective. The banking sector was most focused on, as is currently the most important financial intermediation chain, which has the highest weight in the financial sector. It analyzes the evolution of the financial sector and its human resources in Baltic States economy recovery. This paper analyzes the financial sector and banking staff efficiency indicators and its evolution. Article examines the changes in personnel costs with the economic growth and after the crisis. It examined the financial sector in different States and its future human resource development, improvement perspective.

Key Word: Financial sector, Human Resources, Human Development, Economic Development, Banks sector performance.

JEL classification: G14, O15, J24.

Introduction

The twenty first century brought major changes in the global financial dynamics. Human capital plays an important role in economic growth theory, because economic and social development of the state is closely connected with investments into human capital.

The crisis 2008 has highlighted the impact of globalization on the financial sector. Baltic States and several euro area countries experienced V-shaped gross domestic product development during the crisis, yet in the Baltic States the dive was followed by recovery, while some European countries experience protracted recession. The prevention and management of the crises of financial systems are integral functions of the modern central banks. Only a stable financial system can guarantee efficient reallocation of resources thereby contributing to the long-term price stability and the growth of domestic economy.

Financial stability in Baltic States is primarily related to the uncertainty caused by the European sovereign debt crisis and the poor growth outlook for the euro area. The financial markets have retained their high confidence in the Nordic parent banks throughout the euro area debt crisis and contributed to the strength of the Baltic States banking sector. Furthermore, the great dependence of the parent banks on market-based funding makes them vulnerable to possible unease on the financial markets.

The article research object is the Baltic States financial sector and human resource development in 1991 - 2012. It analyzes the evolution of the financial sector, the aggregated parts of the structure and human resources change. Examines the evolution of the financial sector human resource efficiency, workload.

The first paragraph is dedicated to short overview of the Baltic States finance sector evolution after the restoration of Baltic States independence from 1991 to 2000. The financial sector there as a main driver the banking sector creates the scope of conditions for the country's economy growth. One of the main problems was quality of human resources, the lack of qualifications and knowledge of bank employees.

The second paragraph is dedicated overview of the Baltic States finance sector evolution from 2000 to 2012. Information technology advances have changed not only the bank's strategy, but also promoted the evolution of the banking system and its human capital.

The third paragraph is dedicated Human resources evolution in Baltic States financial sector. Human capital plays an important role in economic growth theory. Formerly economic efficiency was measured only according to the criteria of physical capital. Human capital is a broad concept, which covers plenty of components. But the most important component is description of workforce quality and efficiency.

1 Baltic States finance sector evolution from 1991 to 2000.

After the restoration of Baltic States independence (Lithuania 1990.03.11; Latvia 1991.08.21; Estonia 1991.08.20), Baltic States did not have own finance sector, it was necessary to solve the banking dependency issue. All credit resources generated by the Baltic States banking system needed to be separated from the USSR (Union of Soviet Socialist Republic) central banks

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dependency. State banks functioned as instrument for financing central planned economy sectors. It was one functioning state insurance company. No stocks, no bonds, no leasing, no credit union, no Stock Exchange. From 1988 it was a few very new and very small commercial banks registered in Soviet Union Central Bank. Knowledge of market economy and finance was very low. Just few specialists in all state can work with foreign payments and foreign exchange.

Baltic States was still in the ruble zone, the Central Bank's of Baltic States was not able to pursue an active monetary policy, and its main efforts were aimed at preparing for the introduction of the national currency. However, open the Eastern market, the gap of high inflation led to get huge profits from trading in rubles, vouchers, and other currencies. Banking laws and normative documents were not complete and no one forced to follow them strictly, since the government's allowed banks to operate even in the absence of compliance with the baseline requirements. 1995-1996 after the banking crisis, the Bank of Lithuania has taken an important step to strengthening the banking sector control. Until the end 1995 the 15 of the registered 27 Lithuanian banks have collapsed or their activities were suspended due to liquidity problems, or other irregularities, now is 20 banks. Similar situation was in Latvia and Estonia. Latvia in 1993 has 61bank, in 2000 just 22, today 29. Estonia in 1992 has 21bank, now 16.

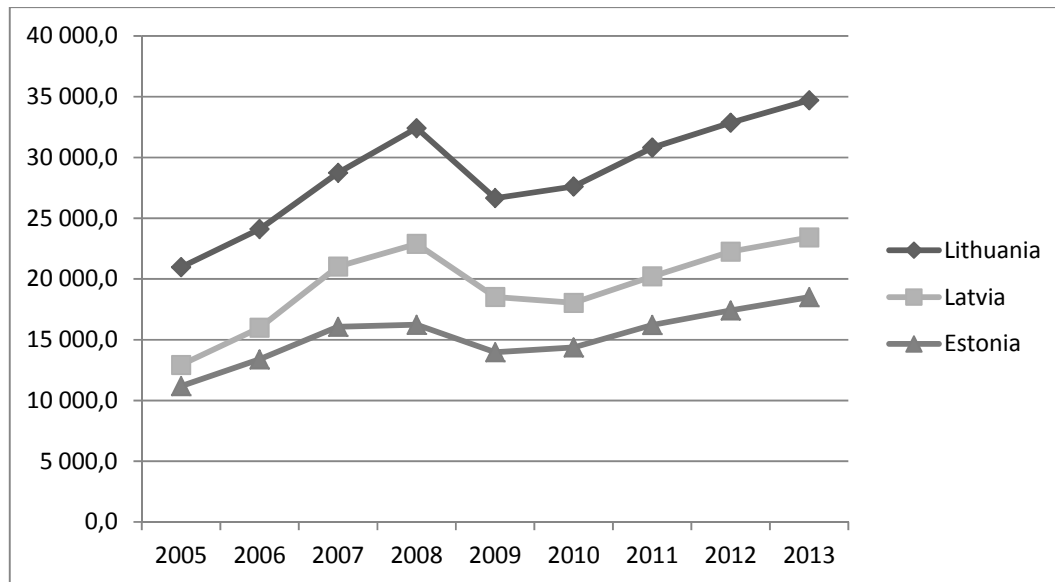
One of the main reasons was the lack of qualifications of bank employees. The banking analysts, risk management professionals shortage of Baltic States labor market. It was a very important for Baltic States to improve their human resources in the financial sector. Additional support came from the Danish, Norwegian, Swedish, Italian banks, Austrian bankers' college, by inviting the Baltic States banking personnel training.

2 Baltic States finance sector evolution from 2000 to 2012.

Information technology advances have changed not only the bank's strategy, but also promoted the evolution of the banking system and its human capital. Due to the changes in knowledge economy, the finance specialist's profession competence changes as well. XXI a. banking system is no longer able to bring such a success for banks, which would bring up to 2000. Popularity of electronic commerce, the rapid development of information and communication technology developments have role in enabling of an increasing number of banks in Baltic States started to provide online banking services in the beginning twenty-first century.

The analysis of the Gross domestic product (GDP) evolution in 2005-2013 (Fig.1) shows how big changes Baltic States had. The particularly strong growth of GDP 2005-2008, when Baltic States joined the European Union (EU) membership.

Fig.1: Baltic States GDP 2005-2013 Millions euro



Sources: Eurostat, Statistics Lithuania.

In the autumn of 2008, the Central and Eastern Europe faced a global financial crisis like a fireplace (Aslund, 2011). All new members perceived significantly increased inflation: in Bulgaria, Estonia, Latvia and Lithuania it became double. In 2009, GDP fell by more than 18 per cent in Lithuania. Latvia lost 21% of its GDP in a short period of time, unemployment tripled, the proportion of bad loans grew to 20%, and real estate market plummeted, whereas the government revenue decreased by almost one third. Estonia had a little better situation, having some reserves collected in good days, lost 14% of its GDP.

Lithuania has taken strict fiscal discipline and austerity measures. This have produced results quite quickly, in 2010 GDP grew by 3.4 percent, and in 2011 even 11.5 percent (Chain-linked volume growth 6.0), in 2012 - 3.6 per cent. The largely foreign-owned financial system is liquid and well capitalized. The recent intervention of “Ukio Bankas” has strengthened financial stability. The banking system’s high liquidity and capitalization, alongside declining non-performing loans and the improved economic outlook, should pave the way for healthy

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credit expansion. Exiting the currency board and joining the euro area is the next logical step for Lithuania on its path towards integration with Europe and will substantially reduce residual exchange rate and liquidity risk.

The Bank of Lithuania has licensed eight commercial banks, 12 foreign bank branches and representative offices. In Lithuania, the banks are major part of the financial system. The banks' assets consists of 75 billion LTL (1EUR=3.45LTL) 21.7 billion EUR, and was 65 percent of GDP, and more than 80 per cent of the total financial system assets in August 2013.

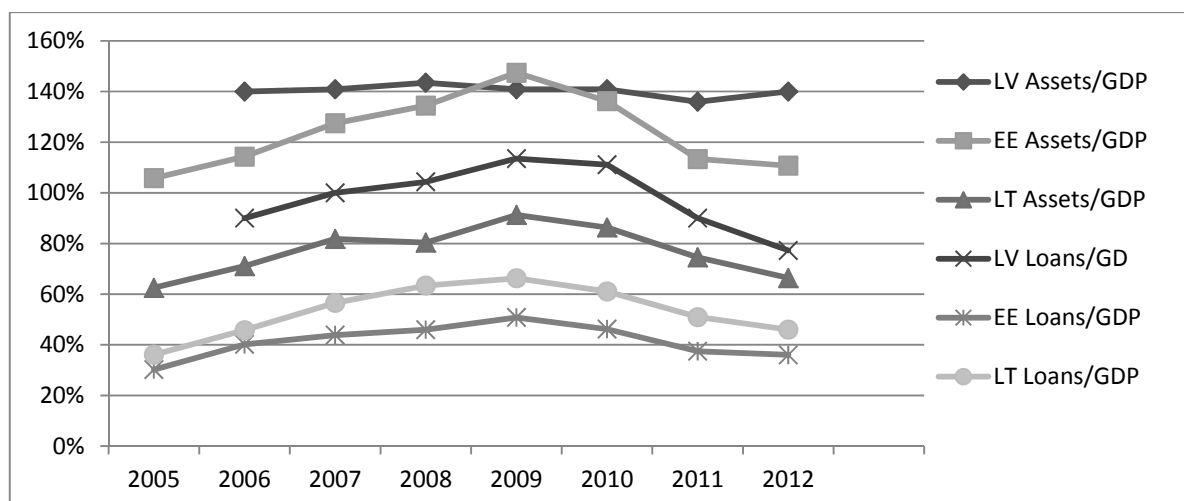
The Bank of Latvia has licensed 20 commercial banks, 9 foreign bank branches in 2013. Commercial banks assets consists of 20.29 billion LVL (1 LVL =1.42 EUR) 28.8 billion EUR, and was 129 percent of GDP. In Latvia, the banks are major part of the financial system. Mr. Åslund listed seven lessons (Macroeconomics, 2012) taught by Latvia to the rest of the world, including honest communication of the real situation to the population; early action to restore confidence; implementation of fiscal adjustment; expenditure cuts instead of tax raises; let expenditure cuts drive structural reforms; equity required; get international rescue financing, but with conditions. The grim predictions by Paul Krugman, Nouriel Roubini and Lars Christensen about Latvia falling into the abyss have not come true.

Estonia has 16 commercial banks operating. The Estonian financial sector is financially strong and sound at present. Capitalization in the banking sector is good and rapid deposit growth has provided sufficient funding for gradual increases in credit volumes. Despite the weaker external demand, the still buoyant economic activity has supported corporate revenues and stimulated the labour market. The financial position of Estonian households and businesses has also improved further, as their indebtedness has declined and their financial assets have increased. As a result, the Estonian economy has become more resistant to potential external shocks and has gained a solid foundation for balanced credit growth.

Banks' relative indicators better reflects the weight of the financial sector and the impact on the national economy (Levine, 2000). Studying the dependencies (Kendall, 2009) scientists use relative indicators, such as the depth of the financial sector (measured by the ratio of credit to GDP). We can see that in 2011 Lithuania (LT) and Estonia (EE) banks relative indicators dropped to 2006 level (Fig.2). In Latvia (LV) Banks relative assets have minimum changes, but

relative loans/GDP (depth of the financial sector) fall like in others Baltic States. This shows how much the financial sector's contribution decreased to economic development.

Fig.2 Banks Assets/GDP, Loans/GDP 2005-2012 in Latvia, Estonia and Lithuania



Sources: Eurostat, Association of Lithuania's Banks, Bank of Lithuania, Bank of Estonia (Eesti Pank), Bank of Latvia, Association of Commercial Banks of Latvia and the author's calculations.

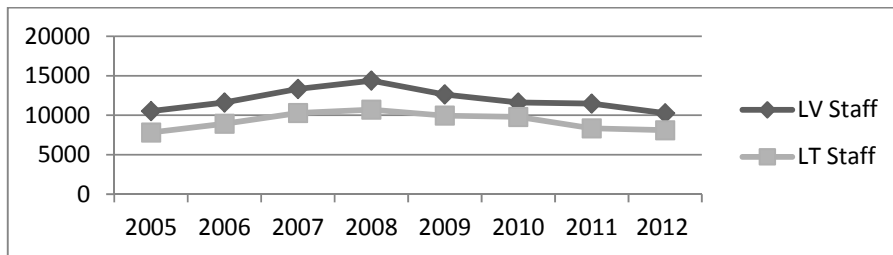
Lithuania GDP is biggest in Baltic States (Fig.1) it is 1,5GDP Latvia, 2GDP Estonia. But from (Fig.2) see that Lithuania has smallest relative assets/GDP. Lithuania banks' are not adequate to economy development to compare to GDP. Banking system did not support sustainable development of state efficiently. The largely foreign-owned financial system is liquid and well capitalized in Baltic States. But still wait for healthy credit expansion. Relative loans/GDP (depth of the financial sector) in 2012 is still at 2006 level in all Baltic States (Fig.2).

3 Human resources evolution in Baltic States financial sector

Customer capital is considered to be as the key source of competitive advantage in the economy of knowledge (Cabrita and Bontis, 2008) and it is an essential element of structural fund for any kind of company, especially for the know-how companies, which include financial services industry, such as banks, insurance companies. The ongoing globalization processes increase the value of human capital as the most essential factor of economy; thus offering priority to human capital, consisting of knowledge, abilities and skills, against material or financial resources (Gizienė, 2012). At the state level human capital effects economic growth, increases advantageous national competitiveness. We have new challenges for the financial sector workers

and their knowledge. Let analyze human resources evolution in Baltic States financial sector. We see (Fig.3) the evolution number of the employees in banks. The number of employees in the banks increased at economic growth and reached a maximum in 2008 in Lithuania (LT) and Latvia (LV). Latvia all time has more staff in banking sector, as well as banks number.

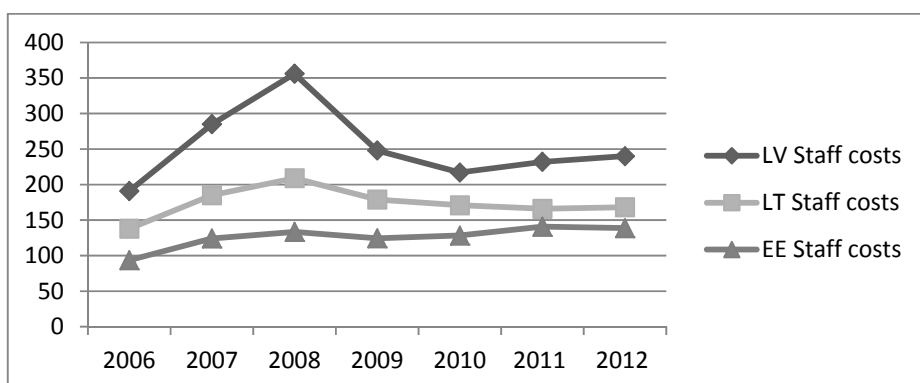
Fig.3 Banks staff number in Latvia, Lithuania in 2005-2012



Sources: Association of Lithuania's Banks, Association of Commercial Banks of Latvia.

The crisis has significantly responded to the banking sector, workers' number in 2010 decreased by 19 per cent in Latvia and 8.7 per cent in Lithuania. Process lasting and in 2012 decreased by 28 per cent in Latvia and 24 per cent in Lithuania. The crisis has had an impact on the financial sector and it has been forced to cut costs. One of the ways is to reduce the number of employees and their salaries. The total number of employees in banks decreased especially (Fig.3). Personnel costs declined too (Fig.4). Personnel cost curve almost echoes the GDP curve (Fig.1) in 2005-2012 in Latvia and Lithuania. In Estonia slower grow and less fall in crisis.

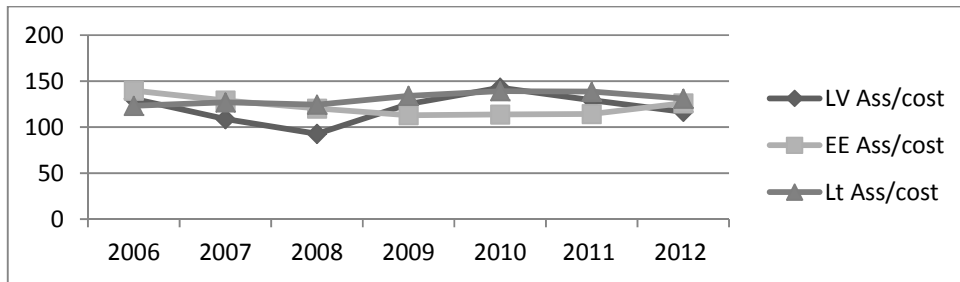
Fig.4 Labor costs evolution in Baltic States banks 2006-2012 (EUR million)



Sources: Association of Lithuania Banks, Bank of Lithuania, Bank of Estonia (Eesti Pank), Bank of Latvia, Association of Commercial Banks of Latvia.

Let us examine the banking employees work efficiency from 2006 to 2012 (Fig.5). Work efficiency is measured in banks assets in respect of staff cost. Different States different evolution but in 2012 efficiency is similar Latvia 117, Lithuania 130, Estonia 126 EUR of banks assets for 1EUR spend as staff cost. Latvia has smallest employees work efficiency 93 at 2008 (Fig.5).

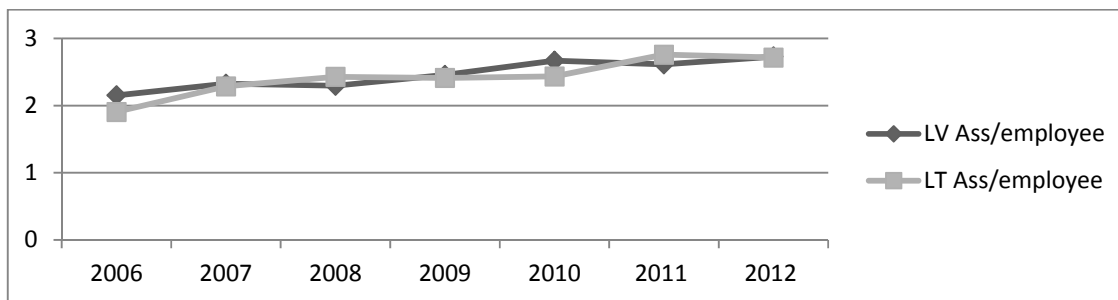
Fig.5: Banks employees work efficiency evolution (2006-2012)



Sources: Association of Lithuania's Banks, Bank of Lithuania, Bank of Estonia (Eesti Pank), Bank of Latvia, and Association of Commercial Banks of Latvia and the author's calculations.

Let us examine the banking employees work efficiency change from 2006 to 2012. Work efficiency is measured in million EUR assets in respect of employee. It has increased 1.4 times, from 1.9 million up to 2.7 million EUR assets per employee (Fig.6) in Lithuania, and 1.27 times in Latvia from 2.15 up to 2.73 million EUR.

Fig.6 Banks employees work efficiency evolution (2006-2012) (EUR million)



Sources: Association of Lithuania's Banks, Bank of Latvia, Bank of Lithuania, Association of Commercial Banks of Latvia and the author's calculations.

Enlarged supply of professionals in the financial labor market allowed banks to improve the quality of human resources and reduce number of employees. After all, what is a bigger asset for every company than educated, professional, motivated and thus retained employees (Němečková, 2012). A prevailing majority of the motivation theories were created by American

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psychologists (Landy, Conte, 2010). Starting from classical motivational theories, we proceed through new scientific findings to contemporary modern theories looking at a human as a scientific model. Article “Improving Employee Productivity” (Joo, Grable, 2000), conclusions is a direct link between productivity and education. Any action, that increases the productivity of labor market, may be considered as the investment into human capital.

Conclusions

Baltic States financial sector is very small. At the moment banking sector is the most important. Information technology advances have changed not only the bank's strategy, but also promoted the evolution of the banking system and its human capital. Due to the changes in knowledge economy, the finance specialist's profession competence changes as well.

Relative loans/GDP (depth of the financial sector) in 2012 is still at 2006 level in all Baltic States.

The crisis has significantly responded to the banking sector, employees' number in 2010 decreased by 19 per cent in Latvia and 8.7 per cent in Lithuania. Process lasting and in 2012 decreased by 28 per cent in Latvia and 24 per cent in Lithuania.

Latvia all time has more staff in banking sector, as well as banks between Baltic States.

Banks employees work efficiency is growing, in 2012 up to 2.7 million EUR assets per employee in Lithuania, up to 2.73 million EUR assets per employee in Latvia.

The grim predictions by Paul Krugman, Nouriel Roubini and Lars Christensen about Latvia falling into the abyss have not come true.

Today Baltic States are the fastest growing economy in the EU. Human capital effects economic growth, increases advantageous national competitiveness. We have new challenges for the financial sector workers and their knowledge.

The euro implementation will ensure stability, growth and investor confidence and it is important for Latvia and Lithuania to have a common currency with its main trade partners.

Now banks are looking how to reduce costs. Enlarged supply of professionals in the financial labor market allowed banks to improve the quality of human resources and reduce number of employees.

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Contacts

Dr. Arturas Balkevicus

Mykolas Romeris University, Faculty of Economics and Finance Management

Address: Ateities g. 20, LT-08303 Vilnius, Lithuania.

E-mail: a.balkevicus@mruni.eu roffice@mruni.eu; www.mruni.eu