

# LITHUANIAN FINANCIAL SECTOR AND ITS HUMAN RESOURCE CHANGES AND TRENDS BEFORE AND AFTER THE INTRODUCTION OF THE EURO

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## **Abstract**

The purpose of the article is to analyse and discuss the Lithuanian financial sector, its segments and its human resources changes and trends before and after the adoption of the euro; and influence to Sustainable National Economic development.

Article uses general scientific methods, especially analysis, synthesis, comparison, induction and deduction. Essential sources of information were professional publications, data of state Statistics Department, the Bank of Lithuania and the Ministry of Finance documents.

The article gives an overview of the Lithuanian financial sector, its segments and its human resources, changes and trends before and after the adoption of the euro, analysis of the evolution, structure and their perspective. Lithuanian financial sector institutions staff must provide and implement measures that would increase the financial and economic literacy of the Lithuanian public. During the whole process, a big load was placed on the banks staff. Article examines the financial sector and its future human resource development, improvement perspective. Due to the changes in knowledge economy, the finance specialist's profession competence changes as well. The euro adoption also reduced banks' income from services and commissions.

**Key words:** Financial sector, Human Resources, Human Development, Economic Development.

**JEL Code:** J24, G14, O15.

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## **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. 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. A prevailing majority of the motivation theories were created by American psychologists (Landy, Conte, 2010). 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). Many human resource development (HRD) scholars are likely to agree, if not fully then at least partly, with the assertion that this research is barely scratching the surface of practically important problems (Ardichvili 2012). The concepts and the underlying principles of HRD may be similar throughout the globe, but its practice differs due to contextual factors such as culture, technology, resources and national policies (Asrar-ul-Haq 2015). One way in which HRD research could refocus its activities and move forward in an epistemologically coherent, practically relevant and impactful way is by engaging with the notion of design and by learning from developments in parallel fields such as business and management and education (Sadler-Smith, 2014).

The article gives an overview of the Lithuanian financial sector, it segments and its human resources, changes and trends before and after the introduction of the euro, analysis of the evolution, structure and their perspective. This paper analyses the Public Information Working Group and financial sector staff activity, the principles of public information on the euro adoption and the Republic of Lithuania's preparedness to adopt it. Membership in the euro area is an extension of the consistent euro integration policy of Lithuania. During the whole process, a big load was placed on the banks staff. Public survey: after the euro adoption, the population's support for the single currency grew up and neared 70 per cent. Article examines the financial sector and its future human resource development, improvement perspective. Information technology advances have changed not only the finance's strategy, but also promoted the evolution of the banking system and its human capital. The euro adoption also reduced banks' income from services and commissions. Deeper economic integration of Lithuania into the European Union creates a favourable environment for international trade, creating jobs, strengthens the economy and provides new opportunities. The article research object is the Lithuanian financial system and human resource development after 2008 financial crisis in 2010 – 2015. This article gives an overview of the Lithuanian financial system, its segments structure and its human resources, analysis of the changes.

The first paragraph is dedicated overview of the Lithuania financial system changes and a main driver the banking sector from 2010 to 2014, and preparation adaption of euro.

The second paragraph is dedicated Lithuania financial system changes from adaption of euro in 2015.

The third paragraph is dedicated Human resources changes in Lithuania financial sector. Human capital is a broad concept, which covers plenty of components.

## **1 Lithuania finance sector changes from 2010 to 2014, preparation to euro adaption.**

Seeking to adopt the euro an economically and politically evaluated step, which Lithuania agreed to when it joined the European Union. In the 2003 referendum, Lithuania's population unanimously agreed to the country's accession to the European Union, and on 1 May 2004 Lithuania became a member. Adoption of the euro is one of the terms of the agreement of accession to the European Union. Lithuania can only join the euro area when it meets the convergence criteria.

Bank of Lithuania, the new united Supervision Service, which started its operation in beginning of 2012, supervises commercial banks and other credit and payment institutions, securities and insurance markets, and investigates disputes between consumers and financial institutions. These functions were performed by the liquidated Securities Commission and Insurance Supervisory Commission, as well as the Credit Institutions Supervision Department of the Bank of Lithuania.

Let us analyse Composition of the Lithuania financial system Tab. 1. It consist of: Banks, Credit unions, financial undertakings controlled by foreign banks, payment institutions, Leasing companies, Insurance companies, Capital market participants, Pension funds. At present the Bank of Lithuania has licensed seven commercial banks, 8 foreign bank branches. The banks' assets 24,076 EUR million, and was 66.3 per cent of Gross domestic product (GDP) and 81.1 per cent of the total financial system assets in 2014. It was 64.8 per cent of GDP and 81.4 per cent of the total financial system assets in 2013. The banking assets continue slowly grows up, with the economic growth. Their weight and influence in the economy decreases. The bank assets 64.8 per cent of GDP, insurance segment 2.5per cent of GDP, Pension funds 4.7per cent of GDP in 2013. In 2014 bank assets 66.3per cent of GDP, insurance segment 3.4per cent of GDP, Pension funds 6.4per cent of GDP. Credit unions number decrease from 76 to 74, two was closed by central bank, Insurance companies' number decrease from 10 to 8, Capital market participants number decrease from 110 to 104, Pension funds and Banks number the same in 2013 and 2014.

**Tab. 1: Composition of the Lithuania financial system 2014**

|  | 2014       |                     |             |                     |                    |
|--|------------|---------------------|-------------|---------------------|--------------------|
|  | Number     | Assets, EUR million | Assets, %   | change in assets, % | Assets as % of GDP |
| <b>Banks</b>                               | <b>15</b>  | <b>24,07</b>        | <b>81.1</b> | <b>7.4</b>          | <b>66.3</b>        |
| Banks, excluding foreign bank branches     | 7          | 19,09               | 64.3        | 5.3                 | 52.6               |
| Foreign bank branches                      | 8          | 4,978               | 16.8        | 15.9                | 13.7               |
| <b>Credit unions</b>                       | <b>74</b>  | <b>617</b>          | <b>2.1</b>  | <b>-0.6</b>         | <b>1.7</b>         |
| <b>Central credit union</b>                | <b>1</b>   | <b>111</b>          | <b>0.4</b>  | <b>4.9</b>          | <b>0.3</b>         |
| <b>Leasing companies</b>                   | <b>9</b>   | <b>1,33</b>         | <b>4.5</b>  | <b>0.3</b>          | <b>3.7</b>         |
| <b>Insurance companies</b>                 | <b>8</b>   | <b>1,02</b>         | <b>3.4</b>  | <b>19.0</b>         | <b>2.8</b>         |
| Life assurance companies                   | 5          | 648                 | 2.2         | 14.5                | 1.8                |
| Non-life insurance companies               | 3          | 376                 | 1.3         | 27.6                | 1.0                |
| <b>Capital market participants</b>         | <b>104</b> | <b>621</b>          | <b>2.1</b>  | <b>3.9</b>          | <b>1.7</b>         |
| Financial brokerage firms                  | 8          | 5                   | 0.0         | -14.1               | 0.0                |
| Management companies                       | 13         | 19                  | 0.1         | -21.0               | 0.1                |
| Collective investment undertakings         | 28         | 261                 | 0.9         | 7.4                 | 0.7                |
| Foreign collective investment undertakings | 55         | 336                 | 1.1         | 3.4                 | 0.9                |
| <b>Pension funds</b>                       | <b>38</b>  | <b>1,91</b>         | <b>6.4</b>  | <b>18.6</b>         | <b>5.3</b>         |
| Second pillar pension funds                | 26         | 1,868               | 6.3         | 18.4                | 5.1                |
| Third pillar pension funds                 | 12         | 48                  | 0.2         | 26.0                | 0.1                |
| <b>Financial system</b>                    | <b>249</b> | <b>29,69</b>        | <b>100</b>  | <b>7.8</b>          | <b>81.8</b>        |
| <i>Equity market capitalization</i>        | -          | <i>5,71</i>         | -           | <i>15.0</i>         | <i>15.7</i>        |

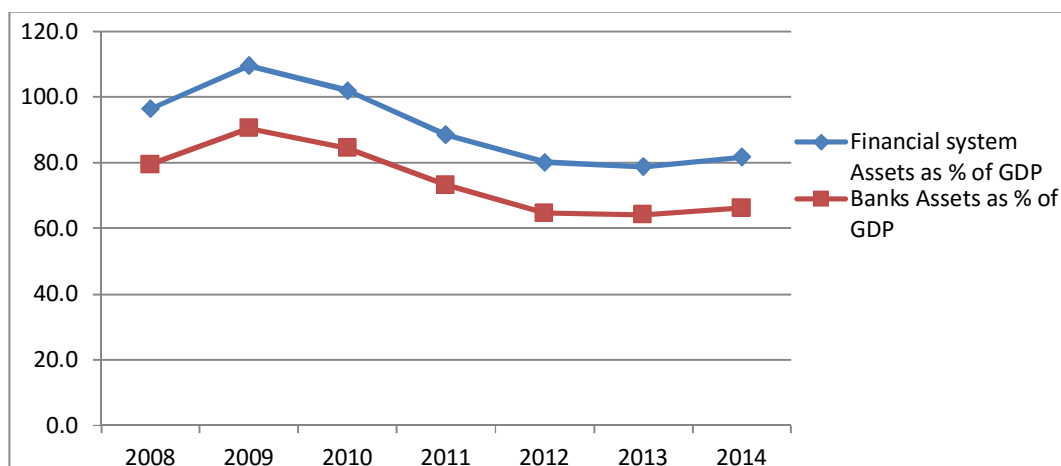
Sources: Association of Lithuanian banks, NASDAQ OMX Vilnius, Statistics Lithuania and Bank of Lithuania calculations.

Lithuania now has all XXI a. Finance sector segments, but some make just first steps, like Electronic money institutions. In comparison with the EU's old Member States, Lithuania's financial sector is very small. Lithuania financial sector assets consists 82% of GDP. The banks' assets are 66.3 per cent of GDP, is a little better than 2013, but is too low compeer to EU average. Further analysis will concentrate on the development of the most important in Lithuania banking sector and its human resources. 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.

Lithuania's economy is recovering, but the financial system and in particular banks still not recovering (Fig.1). Banks' relative indicators better reflects the weight of the financial

sector and the impact on the national economy. Scientists studying the dependencies use relative indicators, measured by the ratio of assets to GDP.

**Fig. 1: Financial system and Banks Assets as % of GDP**



Sources: Association of Lithuanian banks, Statistics Lithuania and Bank of Lithuania calculations.

The analysis of Financial system and the bank's main indicators in 2010-2014 (Fig.1) shows changes in Lithuania finance sector. The Financial system and banks relative indicators, assets to GDP, continue to decline with the economic growth in 2010-2013 (Fig.1). Only in 2014 have slight growth of assets as % of GDP. Lithuania banks' assets are not adequate to economy development to compare to GDP. It is a problem of Lithuania and need a deeper research of causes in future.

On 23 July 2014 the General Affairs Council of Ministers of the European Union adopted final decision on Lithuania's membership of the euro area from 1 January 2015. From this date Lithuania became the 19th full-fledged member of the euro area, which will start using the euro as the single currency of the European Union.

The aim of the information campaign, run by the Bank of Lithuania jointly with the ECB, is to introduce the public to the security features of the new currency. This information campaign also comprises of distribution of publications on the euro across Lithuania. In December 2014 1.3 million information packages about the euro banknotes were delivered to all post boxes: a special publication of the ECB and cards with the litas and euro exchange rates. Other public information activities have also been projected. A total of 77 seminars were arranged 2014 spring and autumn; experts from the Bank of Lithuania presented the key security features of euro banknotes, introduced the euro coins; participants had an opportunity to become acquainted with banknotes of euro's. The Bank of Lithuania has prepared educational and methodological material on the euro for both pre-schoolers and

schoolchildren of different age groups. It was prepared based on the principle that schoolchildren of different age groups do not equally absorb educational material. During the training organized by the Bank of Lithuania, 1,200 cash handlers from financial services, trade and postal companies have been taught to recognize our future currency's euro banknotes and coins. According to the data as of November 26, 2014, the Bank of Lithuania has already issued to commercial banks more than 100 million coins (about 60% of the total amount projected for this year) and 4.2 million euro banknotes (13.2%). The decreasing amount of cash in circulation is facilitating preparations for the euro adoption. The amount of cash in circulation in early 2014 was LTL 11.9 billion, decreasing by 33 per cent — to LTL 8 billion until early December.

## **2 Lithuania finance sector changes from adoption of euro 2015.**

With the adoption of the euro, Lithuania has the opportunity to participate in making decisions in the euro area. Deeper integration will strengthen the security of the state, increase the political weight of Lithuania in European and international policy. Adoption of the euro provides an additional impulse to Lithuania's economy: exchange rate risk disappears, therefore, in implementing responsible fiscal policy, strong preconditions appear, which would decrease interest rates for the cost of borrowing; exchange costs disappear, and this allows people and companies to save money; meeting of the convergence criteria shows that the country is able to perform responsible economic policy, and this increases Lithuania's attraction among investors that lead to the state and create jobs. Deeper economic integration of Lithuania into the European Union creates a favourable environment for international trade, creating jobs, strengthens the economy and provides new opportunities. The fact that all Baltic countries adopt the euro, the region will be more integrated and more attractive to investors and business partners, assessing it as a whole. According to the International Monetary Fund (IMF), the adoption of the euro as of 2015 is proof of the success of Lithuania's economy, it will positively affect the economy and will consolidate even more Lithuania's place in Europe. In the newest evaluation report attention was also paid to the fact that due to effective supervision the country's financial sector strengthened. The report emphasises that Lithuania's financial sector is well-capitalised and liquid, while effective supervision of financial institutions strengthened the system's resilience to shocks.

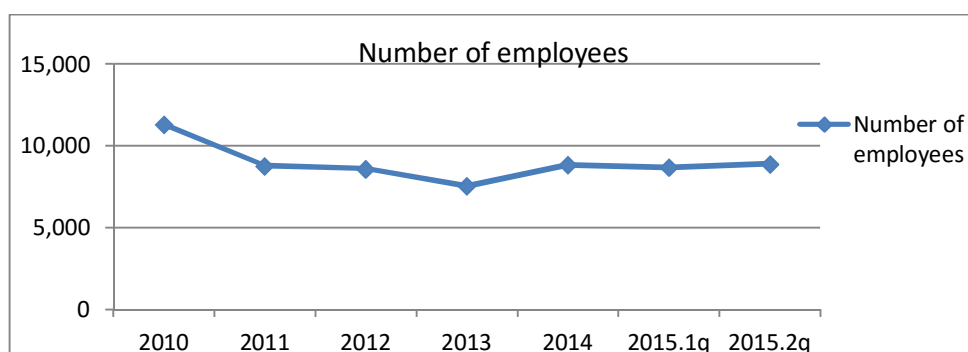
From 1 January of this year until 1 March, 343 commercial bank branches, Lithuania Post, the Bank of Lithuania and some credit unions exchanged, free of charge, litas cash in the value of 2.8 billion (EUR 0.81 billion) and performed more than 1.2 million exchange

operations. During the whole process, a big load was placed on the banks. On 1 March, the supply of cash issued by the Bank of Lithuania amounted to slightly more than EUR 1.8 billion. The Bank of Lithuania will exchange the litas into the euro free of charge for an unlimited period of time. In order to speed up customer service, banks have projected various organisation measures, including shifting of staff to work with cash, additional employment of staff, mobile groups, which will be sent where the largest loads are. Lithuanian financial sector institutions staff must provide and implement measures that would increase the financial and economic literacy of the Lithuanian public, by explaining economic and financial processes at the individual, sovereign and EU levels.

### 3 Human resources changes in financial sector

Human resources in financial sector segments are educated, with abilities of knowledge and skills. 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 financial enterprises, insurance companies. Human capital effects economic growth, increases advantageous national competitiveness. A. Balkevicius, G. Cernius (2014) analyse Human resources Composition of the Lithuania financial system. The largest segments: „Monetary intermediation enterprises“ (8929), Non-life insurance enterprises (1740), Insurance brokers (1311), Life insurance enterprises (469), Other credit granting enterprises (948).

**Fig. 2: Number of employees of Lithuania Banks 2010-2015**



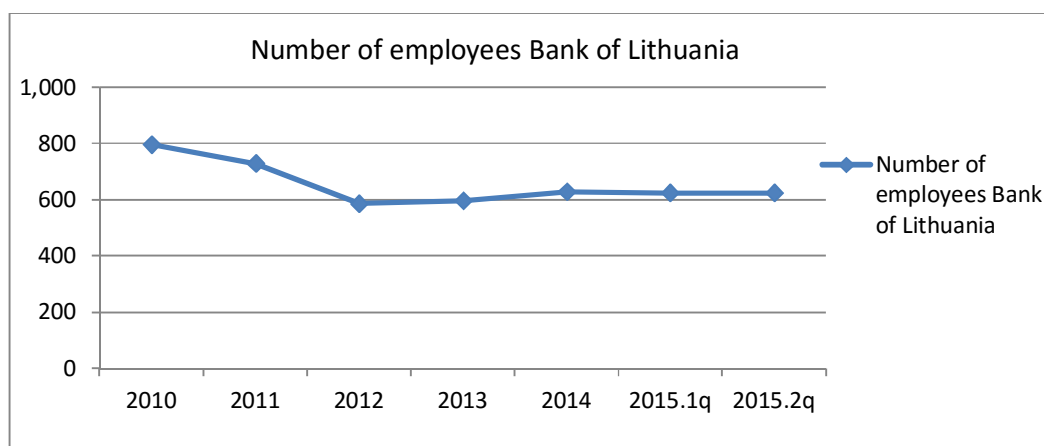
Sources: Association of Lithuanian banks

The banks' human resources take 59% of financial system. Further analysis will concentrate on the development of the banking sector human resources. We see Fig.2 the evolution number of the employees in Lithuania banks. Employees number in the banking sector, in

2010 decreased by 8.7 per cent. Process lasting and in 2012 decreased by 24 per cent. Minimum was in 2013. In 2014 have a little growth number of employees. Banks personnel department's interviews argued what growth was induced by preparation to euro adoption.

In 2014, the Bank of Lithuania paid particular attention to staff training, in order to ensure a successful process of the adoption of the euro in the Republic of Lithuania, active participation in ECB policy and readiness to operate in the conditions of the Single Supervisory Mechanism. On 31 December 2014, the Bank of Lithuania employed 628 staff members (of whom, 49 worked under fixed-term employment contracts). The majority of staff members under fixed-term contracts were employed due to the implementation of the euro adoption project. Employees aged 40 to 50 made up the largest age proportion of employees (34%). Employees aged 50 to 60 made up 27 per cent; those aged 30 to 40 – 22 per cent. Twenty four of the Bank of Lithuania's employees hold doctoral degrees. Let us analyse number employee changes 2010-2015 in the Bank of Lithuania Fig.3.

**Fig. 3: Number of employees Bank of Lithuania 2010-2015**



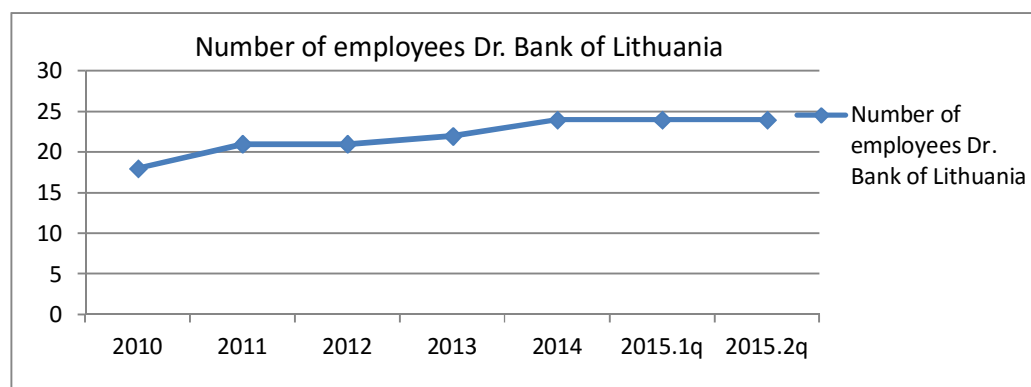
Sources: Bank of Lithuania

Minimum number on 2012, the Bank of Lithuania employed 586 members of staff. Over the year, the number of staff dropped by nearly 20 per cent. This reduction was mainly effected by a reduction of managing positions and servicing staff, optimisation of the main functions. The same functions began to implement with a smaller number of staff.

Let us analyse number employee who hold doctoral degrees changes 2010-2015 in the Bank of Lithuania Fig.4. Number of Doctors employees Bank of Lithuania is growing. This shows quality of staff. To achieve organisational efficiency, the potential of the main functions of the central bank was strengthened, the number and quality of staff in the areas of economic analysis, financial stability and supervision increased.



**Fig. 4: Number of Doctors employees Bank of Lithuania 2010-2015**



Sources: Bank of Lithuania

Supply of professionals in the financial labour 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). Education policies, for instance, can play a role in raising economywide productivity through boosting levels of education or better matching of educational training with labour market needs.

## Conclusion

Lithuania financial sector assets consists 82% of GDP. The banks' assets are 66.3 % of GDP. In comparison with the EU's old Member States, Lithuania's financial sector is very small.

According to the International Monetary Fund, the adoption of the euro as of 2015 is proof of the success of Lithuania's economy. Deeper economic integration of Lithuania into the European Union creates a favourable environment for international trade, creating jobs, strengthens the economy and provides new opportunities.

Banks personnel department's interviews and research of statistical data result: – banking sector HR trends is decreasing the number of personnel and increasing personnel qualification.

The majority of bank staff members under fixed-term contracts were employed due to the implementation of the euro adoption project.

Bank of Lithuania staff reduction was mainly effected by a reduction of managing positions and servicing staff, optimisation of the main functions.

Lithuania is one of the fastest growing economies in the EU. Human capital effects economic growth, increases advantageous national competitiveness. We have new challenges for the financial sector workers and their knowledge.

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