European Foundation for the Improvement of Living and Working Conditions

Recession and social dialogue in the banking sector: a European perspective

Executive summary

Introduction

The worldwide banking system is at the heart of the greatest economic crisis for at least 70 years. The crisis has strongly affected a sector that had already experienced significant changes in the preceding 30 years. Structural changes in the world economy, caused by globalisation processes and technological development, transformed the banking system internationally. On top of these global developments, the European banking system faced challenges caused by the European integration process and the creation of the European Single Market. European banks adapted their strategies in order to compete in a larger market; they went through significant merger and acquisition processes, diversified their products and took advantage of technological changes. The evolution of the banking sector led to contrasting trends in its employment dynamics across Europe. Employment grew on average by 6.5% between 2004 and 2008. However, while employment levels rose significantly in a number of New Member States (particularly in Bulgaria, Estonia, Latvia, Lithuania and Romania), other countries saw jobs go in credit institutions, with the German banking sector, for example, losing over 26,000 employees in that period. Since 2008, the consequences of the economic crisis for the banking sectors of European countries have been mixed.

Policy context

Despite the different impact of the crisis on the nine EU Member States (Estonia, France, Germany, Hungary, Italy, the Netherlands, Spain, Sweden and the UK) analysed in this report, the action taken by national governments has been rather similar. All governments have sought to increase the confidence of consumers and investors and to ensure liquidity by means of guarantee funds or by the provision of affordable credit to banks. In the most affected countries, such as Hungary and the UK, and for some banks in the Netherlands, governments intervened with bail-out schemes, where the state took control of banks in full or in part.

In the next few years, it can be expected that the key structural trends developed over the last two decades will continue, in particular those related to further mergers and acquisitions, restructuring processes in advanced economies, and expansion in eastern Europe. But according to the International Monetary Fund (IMF), after the collapse of Lehman Brothers and the consequent financial crisis, the more recent volatility of the sovereign bond market has more clearly exposed the weaknesses of the European banking sector. In the euro area in particular, banks' holdings of government securities tightly link perceived sovereign and financial sector risks, limiting access to interbank lending for some institutions. These factors increase concerns about a credit crunch. The stress tests conducted on European banks provide pointers for possible interventions and, according to the IMF and the European Banking Forum (EBF), the next step in strengthening the sector is the restructuring and capitalisation of the vulnerable banks and the rebuilding of confidence in the whole system.

Key findings

The banking sectors in Hungary and the UK seem to have been particularly affected by the crisis in terms of profitability and employment. The impact was moderate in the majority of the countries analysed. In Estonia, France, Germany, the Netherlands and Sweden, the impact of the crisis differed depending on the characteristics of the individual banks. In these countries, only some banks experienced a loss of profits, portfolio quality and jobs, whereas others were not significantly affected. In Sweden, there was a sharp downturn in the economy, leading to a recession, but severe loan losses were experienced in foreign countries where Swedish banks operated. Swedbank and SEB had the largest exposure to the Baltic States, which were hit very hard by the economic downturn. In Italy and Spain, the impact of the financial crisis on the banking sector was almost non-existent.

Sector and company dialogue proved useful in tackling difficulties caused by the crisis in the relationships between unions and employers. Changes have been largely addressed through collective bargaining, both at sector and company level. The main issues addressed included measures to safeguard jobs, the impact of restructuring processes on employment, and the reduction of labour costs. In most cases, management strategies to cut costs involved an intensification of work and a reduction in pay. These trends contributed to changing the sector's traditional characteristics of good remuneration, working and employment conditions.

Although collective bargaining became more difficult, it has been shown to be an important factor in regulating the social impacts of the crisis. In some cases, it has also been possible to innovate in negotiations, as in the German study, where the need for regulating different aspects of selling products and advising clients has been introduced, at least indirectly, as an issue in sectoral collective bargaining. Collective bargaining systems characterised by coordination between sectoral and decentralised levels (as found in France, Italy, Spain and Sweden, and to some extent in Germany and the Netherlands) seem to represent a relatively effective model.

Industrial relations

In general, the crisis has had no qualitative effects on industrial relations, as their structure and mechanisms have remained basically unchanged. Sector and company dialogue proved useful in dealing with difficulties caused by the crisis. It is interesting to note that, in the case of Hungary and the UK, industrial relations at company level have become more important in recent years.

The different national systems have been affected by the increasing competition between trade unions. The limited resources and the reduced room for manoeuvre have led, especially on the trade union side, to different responses. One outcome is that agreements are signed only by some trade unions and possibly by trade unions that represent only a minority of employees. These cases of separate agreements reveal a lack of regulation in assessing the representativeness of the actors involved in the collective bargaining.

Another important trend in company-level industrial relations is the process of centralisation. The underlying objective of centralisation in industrial relations is to save time and costs, thereby increasing efficiency. These objectives may, however, conflict with established forms of trade union and industrial democracy. Thus, local trade union branches complain that employee representatives at plant level are more and more excluded from information and consultation procedures.

European-level industrial relations did not seem to play a significant role in addressing the consequences of the crisis either at a sectoral or a company level. One of the major challenges for the future in industrial relations is the need for more effective regulation of restructuring processes at European level. As restructuring processes are expected to continue, especially at large banking groups, information and consultation processes at European level need to be developed further.

However, the real challenge will be in developing and implementing proactive strategies that anticipate change. In this context, transnational framework agreements might be a useful tool. As large banks pursue international human resource and business strategies, there could be a growing number of companies interested in establishing transnational dialogue structures to facilitate the introduction of international policies, for example, in the areas of diversity management, skills development, and performance assessment.

Further information

The report *Recession and social dialogue in the banking sector: a European perspective* is available at http://www.eurofound.europa.eu/publications/htmlfiles/ef1161.htm

For further information contact Carlos Vacas Soriano, Research Officer, cva@eurofound.europa.eu