Eurofound

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

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Research project: Working conditions and social dialogue

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Executive Summary

In the summer of 2007, the deepest world financial crisis since the stock market crash in 1929 surfaced in the US. It spread globally and spilled over the real economies, leading to the most acute global economic downturn in the last decades. The financial crisis has been heavily concentrated in the US and Europe, while the banking sectors in Japan, Brazil and China have not been significantly affected. As a consequence, between 2008 and 2010, employment levels declined in the banking sectors of the US and many European economies, while employment trends remained relatively unchanged in Japan, China and Brazil.

In Europe, the effects of the financial crisis on the banking industry are difficult to disentangle from those arising from the important restructuring that the sector was already experiencing in the years prior to the crisis. Employment was increasing in the new Member States and Spain, Greece, Portugal and Ireland and was already decreasing in some of the western European countries (Austria, Germany, the Netherlands, Denmark or Belgium), partly reflecting the increasing shift of operations of large banking groups from the latter countries to the the former countries.

Policy context

The economic crisis has had a major impact on overall employment levels, but despite large job losses across many economies, the impact of the falls in economic activity would have been higher in the absence of public interventions. Most developed and emerging economies have implemented expansive fiscal and monetary policies to tackle the crisis.

The impact of the financial crisis on banking sectors has been uneven across the major world economies. On the one hand, financial sectors in Japan, Brazil and China have not been significantly affected and public authorities only had to deal with some liquidity problems in banking systems. On the other hand, banking systems in the US and many European countries faced not only liquidity but also solvency problems. Several financial institutions had to be bailed out and public programmes of an unprecedented nature were put in place in order to avoid the collapse of the financial systems.

Initially, central banks responded to the emerging crisis by injecting liquidity into the financial systems and later on, governments started to use ad-hoc rescue measures targeted at individual institutions. After the collapse of Lehman Brothers on 15 September 2008, governments in Europe and the US strengthened their approach to support financial sectors by adopting broad national schemes: deposit insurances, guarantees on bank bonds, capital injections and measures to provide relief from legacy assets. Capital injections have been larger in US than in the EU, as have the repayments of capital made so far by US banks.

European industrial relations systems have been challenged by the crisis, but social partners have assisted the sector in dealing with the negative impact in labour markets. Collective bargaining has become more difficult during the crisis but it has nevertheless intensified and it has been used to implement change in the sector. Trade unions and employers associations have resorted, although in varying degrees, to different tools available to them: collective bargaining aimed at protecting employees in the event of restructuring and redundancies or aimed at safeguarding employment in the sector by implementing measures like reducing working time; social dialogue aimed at analysing the situation and proposing measures to maintain or create jobs in the banking sector; other social partners initiatives that may result in the improvement of employment and working conditions in the sector.

Key findings

- In the EU27 as a whole, 250,000 jobs were lost in the banking sector between 2008 and 2010. This means that employment decreased by 6%, above the average employment reduction in the whole economy (-2.4%), but far from the large employment corrections in the manufacturing and construction sectors (above 10%). Importantly, 187,000 jobs were lost in the UK alone, the main European financial centre. This means that without the UK, employment decline in the banking sector would have been lower than the average in the EU between 2008 and 2010.

- By countries, the picture is mixed. The largest employment reductions took place in the UK (-25%), Belgium (-15.2%), Portugal (-14.8%), Hungary (-12.7%), The Netherlands (-12.5%), Bulgaria (-11.9%), Spain (-11%), Latvia (-10.1%) and Czech Republic (-9.9%), while important employment increases were observed in Romania (25.3%), Luxembourg (23.1%), Lithuania (16.9%), Malta (10.9%), Poland (7.6%) and France (5.4%).
- In the US, the impact of the crisis was felt earlier: the number of employees in the banking sector declined by more than 10% between 2006 and 2010 (400,000 jobs lost) and by 7% between 2008 and 2010. In Japan, and particularly in Brazil and China, employment in the banking sector seems to have increased during the crisis.
- In Europe, industrial relations are well established in the sector, social dialogue is strong, unionisation levels are above the national average in most countries and collective bargaining coverage is relatively high. Collective bargaining in the banking sector takes place mainly at the sector level in Germany, France, Spain and Italy; the company level prevails in the UK, Hungary and the Netherlands and it does not take place in Estonia.
- Collective bargaining has increased during the crisis in some European countries. There are examples where already existing measures to safeguard jobs have been adapted, like the Redundancy Fund in Italy or some instruments that were created in Germany to deal with a previous crisis. Nevertheless, unlike in the manufacturing sector, collective bargaining aimed at maintaining overall employment levels through solutions like short-time working schemes has been negligible in the banking sector. In most cases, collective bargaining has focussed on wage moderation and on limiting the extent and social impact of redundancies (often voluntary) through social plans negotiated at the company level in cases of major restructuring.
- Some innovative examples in collective bargaining at the sectoral level during the crisis can be found in Germany and France, while the cases of Unicredit and Danske Bank show important steps towards the establishment of European cross-border systems of industrial relations at the company level. While discussions between social partners at the European level in the banking sector did take place, no joint action has been agreed so far.
- In the US, collective bargaining does not play a role in the banking sector. The level of unionisation is 1.2% in the finance and insurance sector, well below the national average, and only 13 out of 7,830 commercial banks have unions.
- In Japan, most trade unions are company unions, as collective bargaining takes place at the company level. The unionisation rate in the financial sector (34.8%) is above the national average (below 20%). Due to the limited impact of the financial crisis in the Japanese banking sector, collective bargaining rounds have concentrated on traditional issues like salaries, bonus payments, fringe benefits or working hours.
- The role of social dialogue and collective bargaining is limited in Brazil since the Brazilian labour relations system is characterised by a high degree of state intervention. The banking sector is one of the few sectors in Brazil where the bargaining takes place at the national level instead of at the regional state level: the collective agreement is renewed annually and the outcome is valid for the entire industry, with some clauses complemented by company-level agreements.
- In China, all employees in banks are automatically members of the unions at the local units, and all of them are represented by the China's Financial Union, one of the ten industry-level unions in the country. Collective bargaining does not take place.

Introduction

Financial activities were both at the origin of the crisis that surfaced during summer 2007 in the USA and affected by the economic downturn that resulted from it. The financial sector has suffered its worst crisis since the 1929 crash, and although the crisis was heavily concentrated in the USA and Europe, its effects have spread to financial systems globally and spilled over to the real economies, leading to the deepest world economic downturn since the Second World War.

This report presents a profile of the banking sector in the major world economies, with an emphasis on the impact of the recent financial crisis and economic downturn. The focus is on the role played by social partners at all levels in helping the sector face the difficult situation, as well as the role played by public authorities, which have had to make unprecedented interventions to support their economies and financial sectors.

The core areas of this study are:

- the analysis of industrial relations systems in the banking sector in the countries analysed;
- the impact the crisis may have had on them;
- the way in which collective bargaining and social dialogue may have assisted the sector in dealing with the negative impact of the downturn.

The proposals for financial market reforms are not covered.

The focus on the banking sector derives from the aim of concentrating on the more tangible part of financial activities. The business of banking can be divided between:

- retail banking, referring to direct transactions with individual consumers;
- wholesale banking, usually involving higher value transactions through the provision of services to other banks or financial institutions, to large corporate clients, real estate developers and investors or institutional customers.

The wholesale arm of the banking sector has traditionally been more closely linked to the so-called 'real' economy than the retail arm. Nevertheless, in the past few decades the borders between banks and non-bank financial intermediaries have become less clear and the banking industry has played a growing role in the global financial markets.

Financial sectors across the globe have been experiencing a process of market integration for more than two decades due to liberalisation, the introduction of new information technologies and commercial expansion. Market integration processes have resulted in financial sector restructuring and, as a consequence, mergers and acquisitions (M&A) and job losses have taken place in many countries. This process of market integration has presented considerable difficulty for this study. Given the process of restructuring in the banking sector in recent years and the fact that financial and banking activities are both at the origin of the crisis and have suffered its consequences, it is especially difficult to disentangle the effects arising from the crisis and those arising from the restructuring, especially when it comes to job losses.

Scope of this report

This overview report covers nine EU countries offering a wide mix of industrial relations systems (Estonia, France, Germany, Italy, Hungary, the Netherlands, Spain, Sweden and the UK) as well as Brazil, China, Japan and the USA. It includes:

- a general description of the origins and consequences of the financial crisis;
- an overview of the banking sectors in the analysed countries and the impact of the current crisis on them;
- a brief description of industrial relations in the banking sector in the countries covered by this study, the impact of the recession on industrial relations and collective bargaining practices, and the role of social partners in tackling the effects of the crisis in the banking sector;
- the public policy responses to support the banking sectors in the major world economies.

This report draws on desk research, desk data and information gathered through fieldwork. In each of the countries analysed three kinds of interviews were conducted:

- with the two sides of the industry at the sector level (trade unions and employers' representatives);
- with both management and employee representatives at the company level in different kinds of banking institutions;
- with the government.

In terms of the data used to characterise the banking sector in the different countries, it is not easy to establish a common statistical delimitation of the sector since countries classify banks differently. But when available, data for the banking sector refer to financial activities excepting insurance and pension funding as defined by the United Nations ISIC code 64.[1]

[1] According to the International Standard Industrial Classification of All Economic Activities (ISIC rev.4), financial and insurance activities (code J) are divided into three sub-sectors: Financial service activities, except insurance and pension funding (code 64); Insurance, reinsurance and pension funding, except compulsory social security (code 65); and Activities auxiliary to financial service and insurance activities (code 66).

Emergence of the financial crisis

The financial crisis, the deepest the world has experienced since the stock market crash in 1929, originated in the US mortgage market and led to a liquidity shortfall in the US banking system, the full effect of which started to be felt in August 2007. Liquidity strains spread and, because of the linkages between the US and European financial systems, one of the first victims was the UK bank Northern Rock – an early indication of the problems soon to be faced by other financial institutions. The second phase of the financial crisis, starting in September 2008 with the fall of Lehman Brothers, was more intense and caused a general loss of confidence and solvency problems in many financial institutions. This resulted in the collapse of some financial institutions and in large government interventions to avoid a contagion effect in their financial systems.

The financial crisis has been more concentrated in the financial systems of US and Europe than elsewhere in the world, but the economic downturn that it set off has affected the real economies of all developed and emerging countries.

Origins of the financial crisis

Financial crises are not something new, as underlined by the economist John Kenneth Galbraith in his 1994 book, *A short history of financial euphoria*: 'The world of finance hails the invention of the wheel over and over again, often in a slightly more unstable version … Financial genius is before the fall.'

Every few years there is a financial crisis of some kind somewhere in the world: Argentina, Indonesia and South Korea, Japan, Mexico, Russia, Sweden, Thailand, the UK and the US are among the countries that have been hit by the most recent ones. Each crisis has unique causes and characteristics, but the following are typically among the factors that may have generated the crisis:

- overshooting of markets;
- credit booms;
- excessive leveraging of debt;
- incorrect perception of risks;
- capital flight from a country;
- off-balance sheet operations by banks;
- non-sustainable macroeconomic policies;
- deregulation without a proper system of supervision;
- new financial instruments used in an inappropriate way.

The particularity of the current crisis is that it combines a financial crisis originating in the largest world economy, the USA, with a global downturn. The current financial crisis was triggered by the bursting of the housing bubble and the ensuing subprime mortgage crisis in the USA. While the crisis has not yet been fully analysed, experts have suggested many causes to explain why the subprime crisis erupted in August 2007 in the USA.

Two important trends in the years leading up to the crisis are worth mentioning. Firstly, interest rates had been on a downward trend since the 1980s (for instance, from 2000 to 2003, the US Federal Reserve lowered the federal funds rate target from 6.5% to 1.0%). Secondly, after the financial crisis in Asia in 1997–1998, countries started to accumulate foreign exchange reserves, facilitated by the US current account deficit. Some countries diverted some of their reserves into sovereign wealth funds invested in higher-yielding assets than US Treasury and other government securities, flowing into high technology stocks and, after the 'dot.com bubble' burst in 2000, into housing markets in the USA and other countries. Steadily falling interest rates and large inflows of foreign funds created easy credit conditions, encouraging debt-financed consumption and fuelling the housing bubble in the USA.

At the same time, new financial vehicles were developed, loans of various types were easy to obtain and consumers assumed an unprecedented debt load. As part of the housing and credit booms, there was a big popularity of the securitisation[2] of assets, particularly mortgage debt (including subprime mortgages) into collateralised debt obligations (CDOs).[3] Mortgages went through the securitisation chain, linking home buyers, lenders, investment banks and investors together:

- home buyers got credit to buy houses;
- lenders sold the mortgages to investment banks;
- investment banks combined mortgages and other loans to create complex derivatives (CDO and mortgage-backed securities) which derived their value from mortgage payments and housing prices;
- the investors bought the CDO, many of which received the highest qualifications from rating agencies and became popular with retirement funds.

The securitisation chain led to a big increase in CDOs, especially the subprime elements, since they yielded higher interest rates for investment banks. Banks borrowed large amounts of money so that they could buy more loans and sell more CDOs and their levels of leverage (the ratio between borrowed money and the bank's money) greatly increased. This process was made possible by a distorted system of incentives and underestimation of risks along the securitisation chain. A report to the US Congress on the global financial crisis links the origins of the crisis to three developments that increased risks in financial markets (Nanto, 2009).

- The originate-to-distribute model for mortgages. The originator of mortgages (often mortgage finance companies) passed them on to the provider of funds (banks, other financial institutions or funds borrowed) or to a bundler who then securitised them and sold the collateralised debt obligations to investors. The originator was paid by each mortgage originated but had no responsibility in case loans went bad, so it did not need to ensure that the borrower was qualified for the loan.
- The increase of incentives and complexity for credit rating agencies. Investors depended heavily on ratings by credit agencies because the buyer of the securitised debt had little information about the quality of the loans. But credit-rating companies received fees to rate securities based on information provided by the issuing company and, moreover, they may have advised clients on how to structure securities in such a way as to increase their ratings.

[2] Securitisation is a financial practice by which some types of contractual debts (residential and commercial mortgages, student and car loans or credit card debt obligations) and some methods of selling such debt (bonds, pass-through securities and collateralised mortgage obligations) are pooled together to various investors.

[3] A collateralised debt obligation is a type of asset-backed security that can be split into different risk classes, or tranches: the 'senior' are the safest, while the 'subprime' are the most risky.

- Lines between issuers of credit default swaps and traditional insurers were blurring. In order to cover the risk of defaults on mortgages, particularly subprime mortgages, the holders of CDOs purchased credit default swaps (CDSs). Since the purchaser of the CDS did not have to have a financial interest in the referenced entity, CDSs quickly became more of a speculative asset than an insurance policy. As long as the credit events never occurred, issuers of CDSs could earn huge amounts in fees relative to their capital base (since these were technically not insurance, they did not fall under insurance regulations requiring sufficient capital to pay claims). Once the bankruptcies and default rate, particularly on subprime mortgages, started to increase, things changed for CDS issuers and, in October 2008, exposure became too great for companies such as American International Group (AIG).

Because of the ready availability of mortgages, the prices of houses greatly increased. But the housing bubble peaked in 2005–2006 and once the interest rates began to rise, house prices started to drop significantly and major global financial institutions that had borrowed and invested heavily in subprime mortgage-backed securities reported significant losses. As house prices fell, the value of some homes became less than the mortgage loan. This led to a foreclosure epidemic beginning in late 2006 in the USA, eroding consumers' budgets and the financial strength of banking institutions. Defaults and losses on other loan types also increased significantly as the crisis expanded from the housing market to other parts of the economy.

To sum up, the recent conclusion of the US Financial Crisis Inquiry Commission (FCIC) in January 2011 was:

> *The crisis was avoidable and was caused by:*
>
> – *Widespread failures in financial regulation, including the Federal Reserve's failure to stem the tide of toxic mortgages;*
>
> – *Dramatic breakdowns in corporate governance including too many financial firms acting recklessly and taking on too much risk;*
>
> – *An explosive mix of excessive borrowing and risk by households and Wall Street that put the financial system on a collision course with crisis;*
>
> – *Key policy makers ill prepared for the crisis, lacking a full understanding of the financial system they oversaw;*
>
> – *And systemic breaches in accountability and ethics at all levels.*
>
> (FCIC press release, 27 January 2011)

Importantly, one of the main characteristics of this financial crisis compared with previous ones is that the credit boom, especially between 2004 and 2007, was not restricted to the USA, but was global in scale, with increasing leverage[4] and risk-taking in advanced economies and many emerging economies. Therefore, many of the elements that explain the emergence of the financial crisis in the USA were present in Europe as well: low interest rates, aggressive credit expansion that increased financial and investment opportunities, increasing complexity in mortgage securitisation or a loosening in underwriting standards combined with expanded linkages among national financial centres to create a broad expansion in credit and economic growth. This encouraged debt-financed consumption and fuelled housing bubbles in countries other than the USA, notably Ireland and Spain.

[4] Leverage is a broad term for any technique to multiply gains and losses. Common ways to attain leverage are borrowing money, buying fixed assets and using derivatives. Companies leverage when they borrow capital to buy assets that increase their growth potential or increase returns on investments (because they expect the profits made to be greater than the interest payable).

The rapid economic growth and investment forced up the price of equities, commodities and real estate, which had a negative impact on consumer expenditure over time and led to declining economic activity and house prices. At the same time, this reduction in the price of housing led to a large-scale downgrade in the ratings of subprime mortgage-backed securities and the closure of certain hedge funds with subprime exposure. Problems spread quickly throughout the financial sector over fears of undervalued assets. When problems started to surface in the subprime mortgage market in the USA in July 2007, the perception of risks emerged in European markets as well.

The financial turmoil quickly spread to Europe, reflecting the growing interdependence between financial markets and between the US and European economies. Moreover, the rapidly deteriorating economic situation in eastern European countries aggravated the problems faced by financial institutions in the EU. One of the first victims was the UK bank, Northern Rock, which requested security from the Bank of England, leading to investor panic in mid-September 2007 and finally to nationalisation of the bank in February 2008. This case was an early warning of the problems that would soon be faced by other financial institutions and would be shared by the real economies of countries around the world.

From financial crisis to global economic crisis

Given the interconnected nature of financial markets, the financial crisis in the USA spread rapidly through the financial sector and spilled over to other industrialised and emerging market economies. It spread to the real economies of countries across the globe, leading to the deepest global downturn since the Second World War.

In the year following the emergence of the US subprime crisis in August 2007, activity slowed against the background of tightening credit conditions, with advanced economies falling into mild recession by the middle quarters of 2008, but with emerging and developing economies continuing to grow at fairly robust rates. As can be seen in Table 1, the growth in gross domestic product (GDP) was severely reduced in advanced economies even in 2008, while the impact on GDP was less in emerging economies.

Table 1: *Real GDP (percentage change, seasonally adjusted)*

	2005	2006	2007	2008	2009	2010*	2011*	2012*
World	4.6	5.2	5.3	2.8	-0.6	4.8	4.2	4.5
Advanced economies	2.7	3.0	2.7	0.2	-3.2	2.7	2.2	2.6
European Union	2.2	3.5	3.2	0.8	-4.1	1.7	1.7	2.1
Central and eastern Europe	5.9	6.5	5.5	3.0	-3.6	3.7	3.1	3.8
Commonwealth of Independent States	6.7	8.8	9.0	5.3	-6.5	4.3	4.6	4.7
Developing Asia	9.5	10.4	11.4	7.7	6.9	9.4	8.4	8.4
ASEAN-5 **	5.5	5.7	6.3	4.7	1.7	6.6	5.4	5.6
Latin America and Caribbean	4.	5.6	5.7	4.3	-1.7	5.7	4.0	4.2
Middle East and North Africa	5.3	5.8	6.0	5.0	2.0	4.1	5.1	4.8
Sub-Saharan Africa	6.3	6.4	7.0	5.5	2.6	5.0	5.5	5.7
United States	3.1	2.7	1.9	0.0	-2.6	2.6	2.3	3.0
Japan	1.9	2.0	2.4	-1.2	-5.2	2.8	1.5	2.0
Brazil	3.2	4.0	6.1	5.1	-0.2	7.5	4.1	4.1
China	11.3	12.7	14.2	9.6	9.1	10.5	9.6	9.5

Note: * Projected.
** Indonesia, Malaysia, Philippines, Thailand and Vietnam
Source: *IMF World Economic Outlook Database (October 2010)*

The situation deteriorated rapidly after September 2008, following the collapse of the US investment bank Lehman Brothers, the rescue of the largest US insurance company (AIG) and intervention in a range of other systemic institutions in the USA and Europe. International investors reacted to financial shocks by rebalancing their portfolios and this created a feeling of uncertainty and lack of confidence that greatly affected financial institutions, especially in the US and Europe. The capital base of banks was severely reduced (due also to new accounting rules affecting capital–asset ratios), negatively affecting their capability to issue more loans. The prospect that almost any company could go bankrupt froze credit markets. In a climate where trust and confidence were absent, borrowing became very difficult.

These events brought a huge increase in the perceived risks and the solvency of many of the most established financial names came into question. Emerging markets, until then relatively protected from financial strains by their limited exposure to the US subprime market, were hit hard. When values in the US stock market fell dramatically, those in other countries were affected as well. For instance, by October 2008, the stock indices in the USA, Japan, Russia and the UK were at half their level of the previous year.

Despite the efforts by governments and central banks to remedy the situation, business and consumer confidence levels plunged and the economic outlook deteriorated further. This further aggravated financial strains in a global feedback loop. Advanced economies experienced an unprecedented decline in the fourth quarter of 2008.

All economies around the world were affected, although on a different scale. In 2009, the world output was negative for the first time in many years, with the USA and EU27 registering large falls in output. In the USA, where GDP declined by almost 3% in 2009, the impact was mainly explained by intensified financial strains and the continued adjustment in the housing sector. Western Europe and the advanced economies of Asia were badly hit by the large decline in trade and rising financial problems of their own, as well as housing corrections in some national markets. The EU27 experienced a fall in economic activity of more than 4% in 2009. Emerging economies suffered an important impact from the fourth quarter of 2008 as a consequence of both financial and trade developments. Central and eastern European countries and the Commonwealth of Independent States (CIS) were strongly affected due to a strong dependence on external financing, manufacturing exports and, in the case of CIS, commodity exports. East Asian economies with a strong dependence on exports also felt the impact: Japan's already sluggish economy declined by more than 5% in 2009, while the downturns in China and India were less intense given the lower shares of their export sectors in domestic production and more resilient domestic demand (China registered a growth rate of 9% in 2009, though still far from the 14% seen in 2007). African, Latin American and Middle Eastern countries faced decreasing commodity prices, financial strains and reduced demand for their exports. Brazil's GDP declined slightly in 2009 (IMF, 2009; IMF, 2010).

The conventional view has been that the economic crisis experienced at the end of 2008 and the beginning of 2009 was caused by the freeze in the supply of bank credit. The 'credit crunch' would have forced banks to restrict credit, while binding capital constraints increasingly forced banks to de-leverage, diminishing their lending capacity further.

A paper published by the International Monetary Fund (IMF) in 2010, based on a quantitative analysis in the G7 countries, takes the opposite view (De Nicolo and Luchetta, 2010). The authors' results suggest that the sharp declines in real activity would have been the main drivers of the reduction in the demand for bank credit, explaining the observed decline of bank credit after the collapse of Lehmann Brothers in September 2008. The authors argue that bank loan growth in the USA and the euro area was intense at the start of the crisis and only started to decelerate after Lehman's collapse. For this reason they suggest that the financial shock would not have originated in the financial sector, but would have amplified a shock in the real sector, whose origins would be the severe contraction in consumption growth and investment by households and companies.

Whatever the causality relationship may be, it seems clear that in the years before the crisis large inflows of foreign funds from countries with big trade surpluses created easy credit conditions, leading to a credit boom that encouraged debt-financed consumption in many advanced economies and some emerging countries. This imbalance proved unsustainable over time as pointed by the International Institute for Labour Studies (IILS, 2010): 'The coexistence of private-debt-led growth in certain developed countries with export-led growth in large emerging economies has proved to be the Achilles' heel of the world economy.' Moreover, against this background of booming credit, a rather lax regulatory framework led to the development of new financial products, the full nature of which may not have been clear to many regulators and financial market experts, leading to distorted financial markets.

Responses to the economic downturn

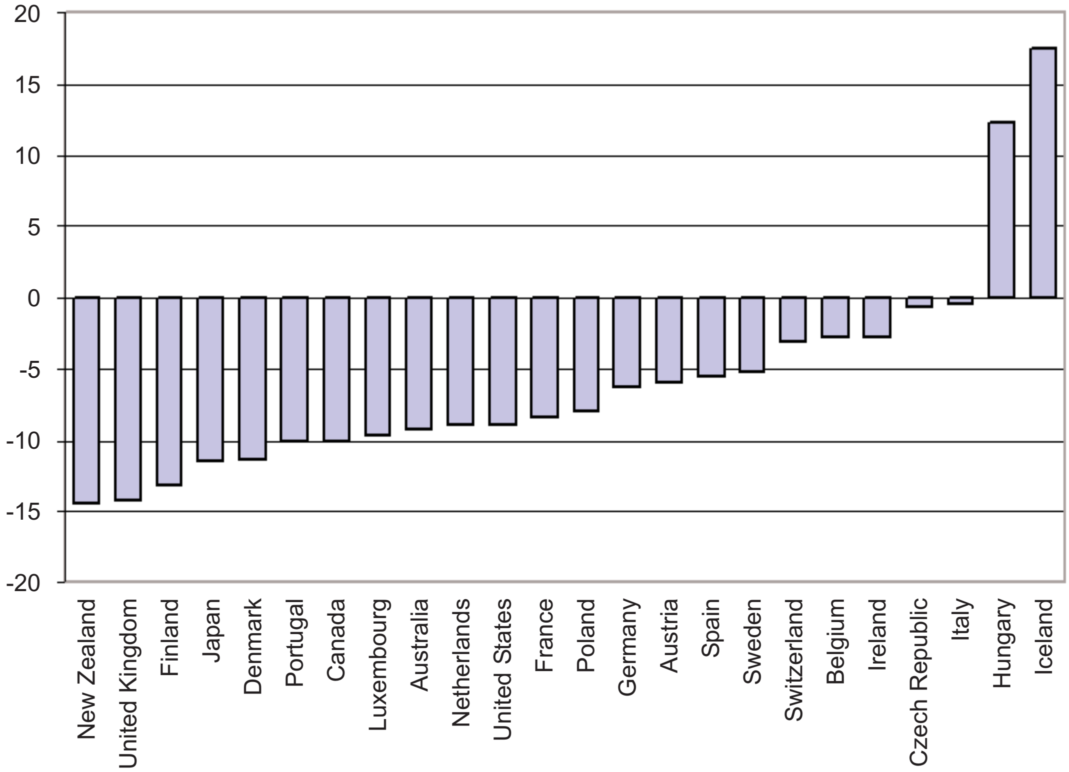
Growth in the world economy declined from 5.3% in 2007 to 2.8% in 2008 and -0.6% in 2009. However, the IMF's *World Economic Outlook October 2010* projected that it would rise strongly to 4.8% in 2010 and remain buoyant at around 4.5% in 2011 and 2012 (Table 1). All the world's major economies returned to economic growth in 2010 and IMF projections for 2011 and 2012 are positive, pulled up by the strong performance of Asian economies. The economies of Brazil, China and Japan registered large growth rates in 2010, while the USA and the EU27 recovered considerably as well (with projected growth rates of 2.6% and 1.6%, respectively).

The main triggers for this rebound have been expansive monetary and fiscal policies that have supported demand, stabilising economic activity across advanced countries and many emerging economies. Major central banks have reduced their policy interest rates rapidly since the onset of the recession as a way of stimulating aggregate demand via greater availability of money (monetary policies are dealt with in more detail in the final section of this report since they are linked to the banking system). In addition, public budgets in all areas of the world behaved in a countercyclical way in 2008 and, especially, 2009 (see Table A1). Large fiscal stimulus packages had been announced by all major countries by the end of 2008 and the beginning of 2009 (Nanto, 2009):

- the European Economic Recovery Plan (the total package amounted to €200 billion, 1.5% of the EU's GDP, with 80% coming from EU governments and the rest from EU funding);
- the US American Recovery and Reinvestment Act (package of USD 787 billion (€546 billion as of 2 June 2011), consisting of expenditure plans and tax cuts);
- the Chinese USD 586 billion (€406 billion) package (consisting of major investment plans and tax deductions for capital spending by companies);
- Japanese packages totalling USD 396 billion (€275 billion) and also combining public expenditures and tax cuts.

Regardless of the policies implemented by governments, public budgets are naturally expansionary during recessions as declining activity lowers government tax receipts and raises government expenditures. To avoid this effect, Figure 1 presents data from the Organisation for Economic Co-operation and Development (OECD) on changes in government balances only as a consequence of structural effects, capturing discretionary fiscal policy measures as well as the disappearance of exceptional revenue buoyancy prior to the crisis. With the exception of the Czech Republic, Hungary, Iceland and Italy, structural balances have deteriorated significantly since 2008, reflecting the fact that discretionary fiscal easing is supporting economic activity in almost all countries.

Figure 1: *Cumulative changes in government balance 2009–2011 in OECD countries relative to GDP in 2008*

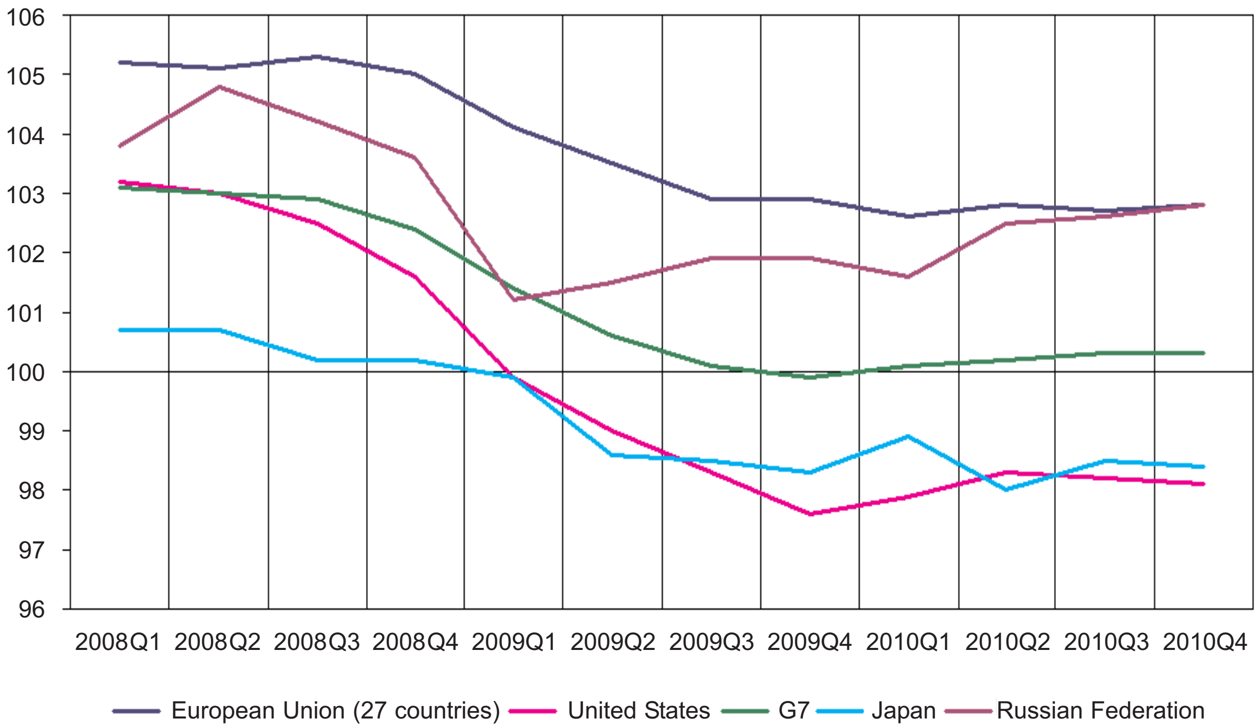


Note: Data on the composition of initial plans for (discretionary) fiscal packages in response to the crisis are based on information collected by OECD up to early June 2009.
Source: *OECD*

There are strong similarities between the early stages of the Great Depression of the 1930s and the early stages of the current crisis. Both started in the USA and turned into global crises, and both share similar causes: inadequate supervision and regulation, global imbalances, a real estate bubble and credit boom (although in the 1920s the credit boom was specific to the USA whereas in 2004–2007 it was global). The key difference between the crises is to be found in the reaction of governments: while the lack of a coherent macroeconomic policy response to the crisis in the USA and other advanced countries seems to have contributed to the severity and duration of the Great Depression (until Roosevelt began his programmes in 1933), monetary and fiscal policies have been deployed on a bigger scale and have responded more quickly in the current crisis. The traumatic adjustment in the financial sector that took place in the early 1930s (about a third of all US banks failed in the period 1930–1933) has been avoided and declines in economic activity and employment in the USA and other major economies have so far been less intense than in the initial years of the Great Depression. It is now widely believed that the worst of the financial and economic crisis is over.

Employment levels in the USA had already declined by the last two quarters of 2008, while in the EU27 and Japan, employment began to be significantly hit by the crisis in 2009. Even though the major economies started to improve and financial markets began to recover in the last two quarters of 2009, labour markets showed little sign of improvement, reflecting the lower flexibility of employment compared with economic activity. Employment levels seem to have bottomed out by the end of 2009 and a stabilisation (EU27) or sluggish recovery (USA, G7) was perceived during 2010 (see Figure 2), while some countries have even witnessed encouraging signs of employment recovery, notably in Asia and Latin America.

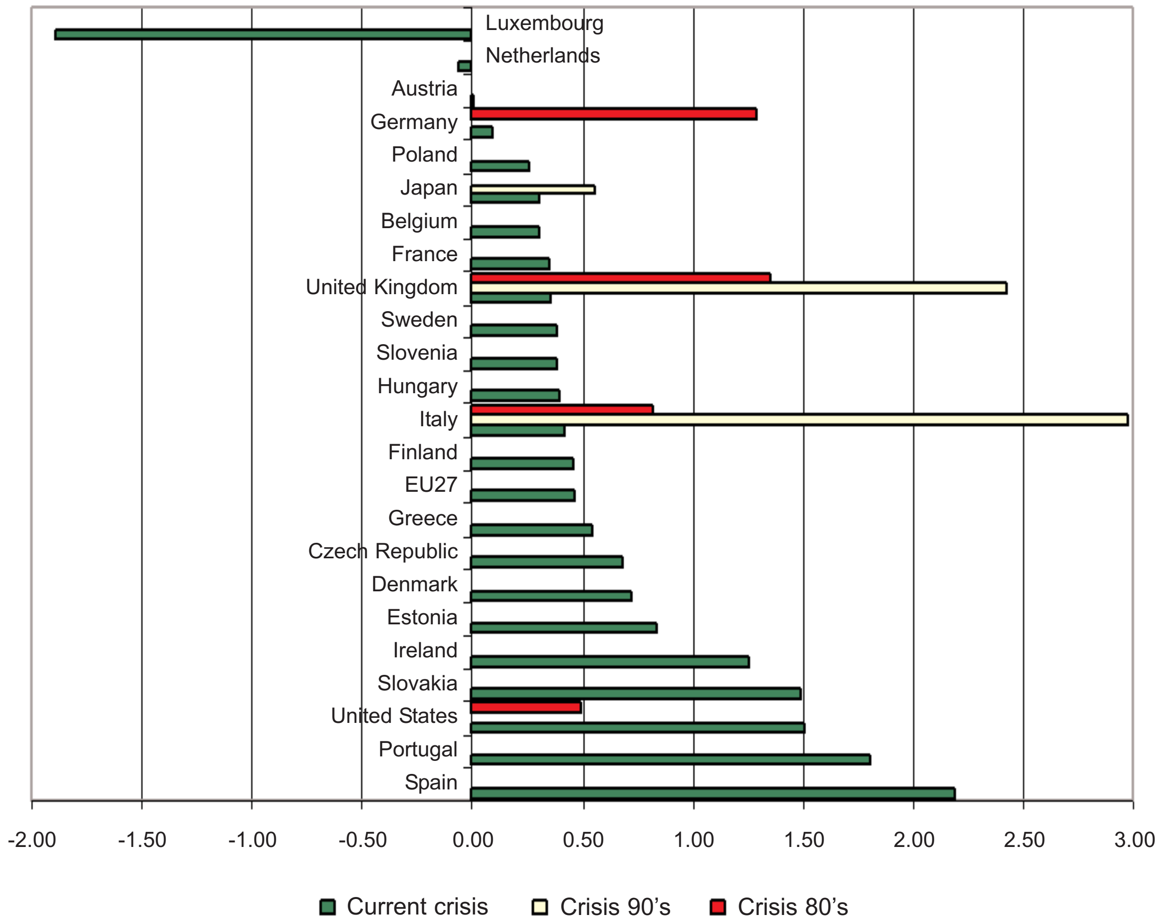
Figure 2: *Employment levels 2008–2010*



Notes: Data are seasonally adjusted
Index, base value 2005 = 100
Source: *OECD*

Figure 3 shows the employment elasticity in several OECD countries; that is, the extent to which employment has responded to declines in output. In Spain, Portugal, the US, Slovakia and Ireland there have been large employment corrections during the current crisis (the declines in employment have been larger than those in economic activity, which translates into an elasticity value above 1). The employment elasticity value for the EU27 is around 0.5, which means the rate of reduction in employments levels is half that of the reduction in activity levels. Luxembourg and the Netherlands show negative elasticities, since they have created employment despite declining economic activity. In the case of other European economies like Austria and Germany, and Japan, employment elasticity shows relatively low values, which may be partly explained by the wide use of short-time working schemes in Europe and the culture of job protection in Japan in addition to the stimulus measures already mentioned. It is interesting to note that available data on employment elasticity from previous crises in the last decades show that, except for the USA, the decline in employment has been less pronounced in the current crisis in Germany, Italy, Japan and the UK.

Figure 3: *Employment elasticities*



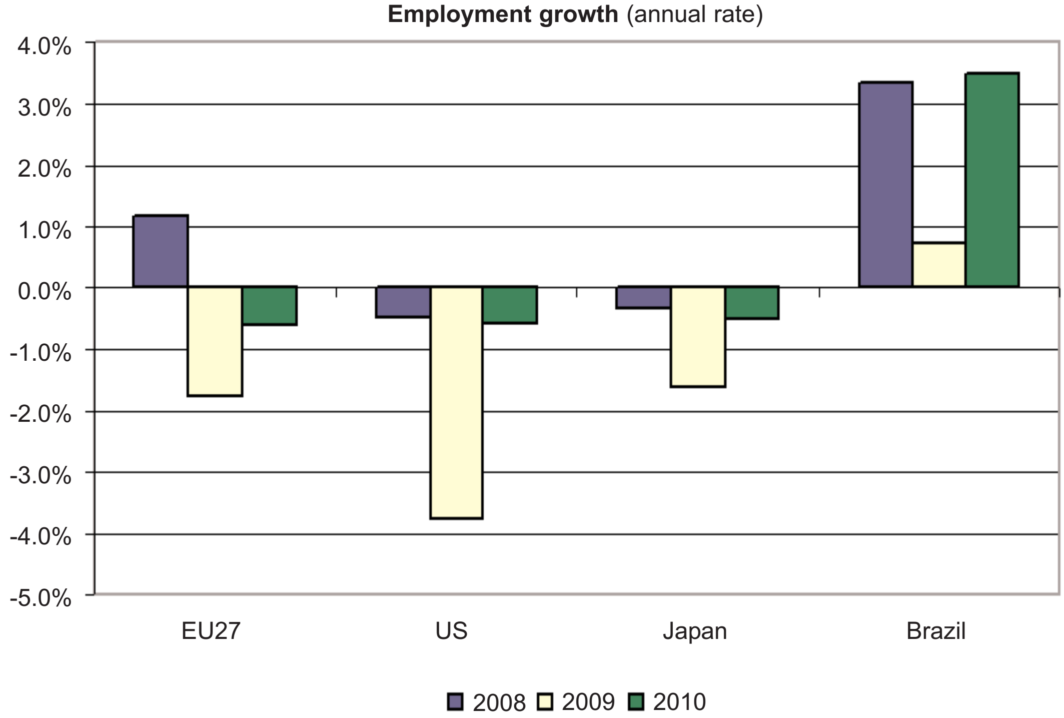
Notes: Employment elasticity is the ratio of the percentage change in employment to the percentage change in economic activity. The later refers to Real Gross Domestic Product, while the former refers to total level of employment.
Declines in GDP and employment are measured from the quarter after which economic activity starts falling to the moment they bottom out (typically, employment bottoms out later than economic activity).
In the current crisis, data refer to the period 2008 Q1 to 2009 Q3, with the exceptions of those countries where economic activity or employment continued to fall after 2009Q3 (for instance GDP in Greece and Ireland or employment in many countries, even up to 2010Q4 in Denmark, Greece, Ireland, Portugal and Spain)
Data are seasonally adjusted.
Source: *Own calculations based on OECD data*.

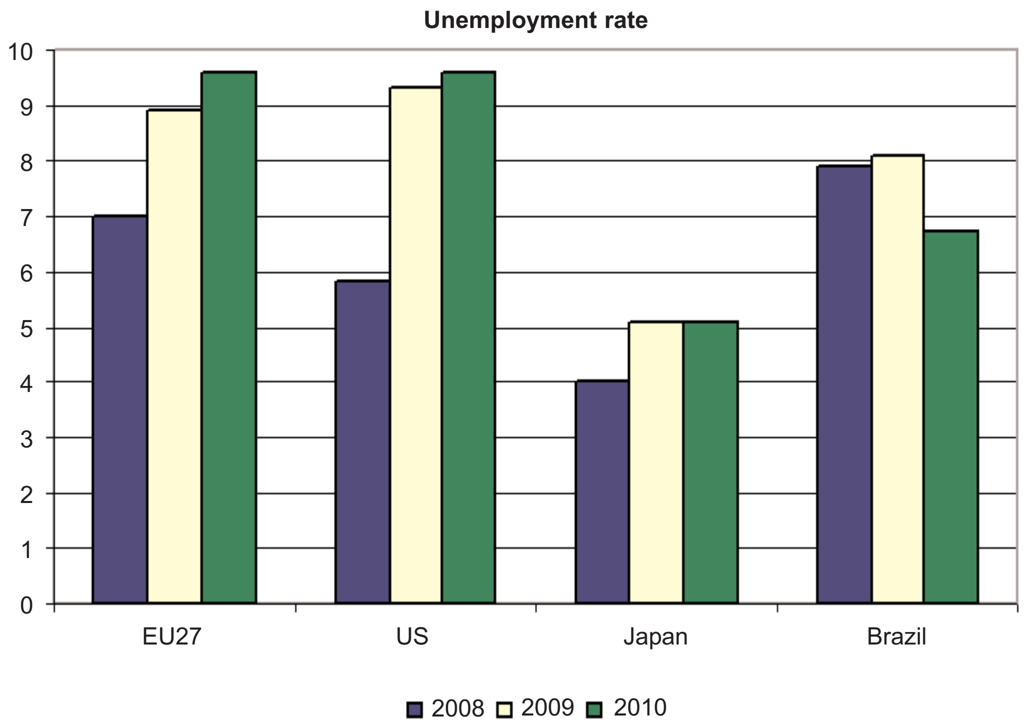
Therefore, despite large job losses in many countries, the employment impact of the falls in output seems to have been lower than might be expected considering previous episodes of recession, probably because of the strong public policy response in the current crisis. Nevertheless, caution is needed. According to a recent study by the IMF (IMF, 2009), economic crises that have a financial origin are, due to their systemic effects, typically characterised by longer-lasting macroeconomic effects: higher output and employment losses followed by protracted unemployment increases due to slower recovery as a consequence of weak domestic demand and tight credit conditions. Based on a study of recessions and recoveries in 21 advanced economies in the past 50 years, the IMF found that:

> *Countercyclical monetary policy can help shorten recessions, but its effectiveness is limited in financial crisis. By contrast, expansionary fiscal policy seems particularly effective in shortening recessions associated with financial crises and [in] boosting recoveries.*
>
> (IMF, 2009)

Since the current recession is associated with a severe financial crisis and is highly synchronised across countries, recovery could be sluggish. Some of the previous crises showed that employment levels carried on falling or remained sluggish for many quarters after economic activity growth resumed. Figure 4 shows that the reduction in employment levels in the USA and Europe in 2009 and 2010 has resulted in rising unemployment rates; strong economic recovery and employment creation will be required to reduce them. The increase in the unemployment rate seems to have stabilised in Japan due to the lower employment destruction, while the unemployment rate in Brazil declined in 2010 following strong employment creation.

Figure 4: *Employment growth and unemployment rates*





Source: *ILO, LABORSTA database*

Against this background, the IILS warned in its *World of work report 2010* against the deteriorating employment prospects in many countries and suggested some explanations for them.

> *The first reason behind the deteriorated outlook is that fiscal stimulus measures, which were critical in kick-starting a recovery, are being withdrawn. Governments are worried about larger public deficits in view of investors' reluctance to fund these deficits. Fiscal policy has shifted to austerity which, if badly designed, will prolong the job crisis. A second, more fundamental factor is that the root causes of the crisis have not been properly tackled.*
>
> (IILS, 2010)

The banking sector: restructuring and impact of the crisis

Financial activities are both at the origin of the current global crisis and have been strongly affected by the economic downturn. The ERM Report 2010 (Eurofound, 2010) includes 15 cases of banking groups announcing employment cuts involving at least 5,000 employees worldwide in the period 2008–2009. The largest case of restructuring in the sector was that of Citigroup (USA) which announced in November 2008 that, due to the large losses on subprime mortgage-related securities, it would cut around 52,000 jobs worldwide, particularly in two major financial centres, London and New York (this announcement followed earlier announcements of 4,000 job losses in January 2008 and 9,000 in April 2008). European banks have been as severely hit by the global financial crisis, with 11 reporting at least three restructurings during the period.

Nevertheless, it is not easy to assess the real impact of the global crisis on the banking sector because, before the crisis surfaced, the sector was already experiencing a deep restructuring as a consequence of a strong process of market integration and internationalisation during recent decades due to the liberalisation in global capital markets, new information technologies and commercial expansion.

The financial markets have been among the sectors of the economy attaining the highest levels of globalisation in their activities and have become very integrated and interdependent. On an international level, the financial industry used to be highly regulated and barriers existed even within countries. Since the 1980s the world economy has experienced significant structural changes as a consequence of liberalisation and globalisation processes facilitated by rapid technological development, and the financial markets have been central to these developments due to increased capital movements between countries. The commitments on market access and national treatment for non-national businesses under the World Trade Organization (WTO) General Agreement on Trade in Services (GATS), which entered in force in 1995 as a consequence of the Uruguay Round, resulted in commercial expansion and facilitated a rapidly growing market for financial companies operating globally.

The banking sector has benefited from the liberalisation and market integration processes in the past three decades by adopting two main strategies:

- expansion and consolidation;
- product diversification.

To achieve economies of scale, banking groups have expanded, either by internally generated growth or through mergers and acquisitions (M&A). They have also become more diversified geographically.[5] Moreover, the banking business has become more complicated: because interest margins (the typical source of revenue for banks) have been strongly reduced due to enhanced competition, many banks have focused on other non-interest income sources such as bank assurance,

[5] By increasing their cross-border activities in different ways including setting up branches or a subsidiary in a different country, by providing banking services directly across national borders, by establishing a strategic partnership with an institution in another country, and by locating different functions in different countries.

mutual fund sales, private banking and in general off-balance sheet business, which generates fee and commission income. New markets have developed in the areas of investment banking, private equity and asset management. As a result, the distinction between banks and non-bank financial intermediaries has become increasingly blurred.

At the same time, new technologies developed in the past 20 years are modifying the way in which customers access banking services and the way in which companies provide such services. Big changes in the banking industry related to technology include:

- the automation of back office administration;
- the outsourcing of internal support services;
- the expansion of automatic teller machines (ATMs) and internet and phone banking – all of which are reducing the number of people accessing the system though branches.

The OECD Banking Statistics[6] shown in Table 2 (see annex for detailed annual data) reflect how the structure of the banking sector in Europe, the USA and Japan has been shaped by the factors referred to above, which have affected all monetary institutions (commercial banks, saving banks, cooperative banks and other miscellaneous financial institutions). Firstly, a huge increase in the banking market as measured by the assets or liabilities of banking institutions is evident in all countries between 1999 and 2008: the European market almost tripled in size and the US market doubled, while the Japanese market grew by only 10%, for reasons that are explained later (alternative data show a large increase in the Brazilian and Chinese market as well). Secondly, data show that the consolidation process in the banking sector has resulted in a clear reduction in the number of institutions in all countries, while the technological changes may explain the observed trend towards an expansion in the number of branches.

Nevertheless, the picture of employment growth is mixed in the sector. While national employment sources suggest an increase in Brazil and China, and OECD data reflect an increase of 15% in the number of employees in the USA, their number increased only slightly in the EU (2%) and declined in Japan (up to 2003).

[6] The OECD Banking Statistics include those institutions in the USA, Europe and Japan that conduct ordinary banking business; that is, institutions which primarily take deposits from the public at large and provide finance for a broad range of purposes (but are not fully comparable since countries classify banks differently). It is a narrower definition of the sector than that provided by ISIC rev.4 code 64.

Table 2: *Evolution of banking sector variables, 1999 to 2009*

Number of institutions			
Year	**USA**	**EU**	**Japan**
Change 1999–2008	-22.50%	-23.30%	-10.20%
Change 2008–2009	-3.30%	-2.30%	

Number of branches			
Year	**USA**	**EU**	**Japan**
Change 1999–2008	21.40%	9.70%	
Change 2008–2009	0.60%	-1.70%	

Number of employees			
Year	**USA**	**EU**	**Japan**
Change 1999–2008	15.10%	2.00%	-17.50%
Change 2008–2009	-3.70%	-3.00%	

Assets/liabilities (millions in national currencies)			
Year	**USA**	**EU**	**Japan**
Change 1999–2008	100%	175.20%	9.40%
Change 2008–2009	-4.20	-2.30%	

Notes: OECD Banking Statistics for Europe include EU15 plus the Czech Republic, Hungary, Poland and the Slovak Republic. The growth rate in 2009 is calculated for the same set of countries excluding Austria, Belgium, Luxembourg and the UK. For the variable of assets or liabilities, EU data refers to the 13 countries that are members of the Euro Area (that is, excluding the UK, Denmark, Sweden, Czech Republic, Hungary and Poland), while the growth rate in 2009 is calculated for the same set of countries excluding Austria, Belgium and Luxembourg.
For number of branches and employees, change 1999-2008 refers in fact to 1999-2003 in the case of Japan.
Data for 2009 are provisional for some countries.
Source: *OECD Banking Statistics*

Data for 2009 show that the impact of the crisis was more intense in the banking systems of the EU and the USA than in Japan (and Brazil and China, as is shown later), reflecting the fact that the financial crisis has been heavily concentrated in the former. In both areas, total assets or liabilities have been reduced, employment has declined and the number of institutions has decreased further. On the contrary, employment in the banking sector in Japan (and Brazil and China) seems to have increased during the crisis (as is shown in Table 3).

Despite the general trend towards internationalisation and the concentration of banking activities, the banking sector in each of these countries has been undergoing certain processes that deserve individual analysis and which explain the different impact of the crisis in their banking sectors.

EU

The European banking sector was probably experiencing the deepest restructuring process of all the areas analysed in the years before the global financial crisis surfaced. The general trends affecting the banking sector globally were especially strong in EU countries due to:

- the progressive market deregulation that ended in the liberalisation of capital movements at the beginning of the 1990s;
- the introduction of the euro in 1999;
- the enlargement to 27 Member States with the accession of the 12 new Member States (NMS) in 2004 and 2007.

Even though the European Single Market for financial services is not yet fully complete, common standards for banks (Basel I and II) supported the integration of banking systems.

An intense process of market integration began to take place from the second half of the 1990s in Europe, when European banks became more internationalised than banks in the USA, Japan or China. Until 2004, most M&A were domestic (that is, within national borders), but from 2004 cross-border bank mergers involving large banking groups began to take place within Europe and became predominant in value terms. The mergers between Spain's Banco Santander and the UK's Abbey in 2004 and Italy's Unicredit and Germany's HVB in 2005 are important examples of these early cross-border M&A.

Because of this market integration process, European banking is dominated by very large banking groups whose strategic decisions may have large systemic impacts. The Royal Bank of Scotland, Deutsche Bank, Barclays and BNP Paribas are the largest banks in Europe in terms of assets. Ranked by the number of employees, BNP Paribas is the largest bank in Europe with more than 330,000, followed by RBS (197,600), Banco Santander (165,946), HSBC (163,615) and ING Group (160,430) (Table A2 lists the 30 largest banks in the EU).

Data from the European Central Bank (ECB) on credit institutions[7] reflect this market concentration process and confirm the trends shown by the OECD data in Table 2. The number of credit institutions in EU27 fell by 4%, while the number of branches grew by 12% between 2004 and 2008.

[7] According to ECB, excluding central banks there were 10,067 monetary financial institutions (MFIs) in the European Union in July 2010, of which 82% were credit institutions, 17% money market funds and the remainder were classified as 'other institutions'.

Crucially, the evolution of the European banking sector in the years prior to the crisis shows an important divide between the most economically advanced Western countries and the NMS and other less advanced countries. This reflected the increasing operations of large banking groups from the former taking place in the latter, resulting in a declining number of banking institutions and branches in countries like Denmark, France, Germany, the Netherlands and Sweden, and a growing number in most NMS and Greece, Italy and Spain.

Table 3 shows the evolution of employment in the EU banking sector from 2000 to 2010 and reflects the increased activity in new and emerging European markets. Employment in the banking sector increased by more than 12% in the EU as a whole between 2000 and 2007, but the picture varies from country to country. Employment rose in all NMS (except for Romania), Ireland, Sweden, Greece, France, Spain, the UK, Luxembourg and Portugal while it fell by almost 10% in Austria, Germany and the Netherlands, and more moderately in Romania, Denmark, Belgium and Finland.

Table 3: *Employment in the banking sector in EU27 (thousands, 15 years or older)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Change 2000 to 2007	Change 2008 to 2010
EU27	3674.6	3671.9	3675.7	3696.3	3737.1	3912.2	4016.7	4126.8	4149.4	4033.4	3899.2	12.3%	-6.0%
Austria	94.5	87.2	93.0	90.0	93.4	94.0	88.0	85.7	99.0	94.8	92.9	-9.3%	-6.2%
Belgium	110.3	106.1	101.8	94.4	101.7	109.2	105.9	106.9	107.5	93.7	91.2	-3.1%	-15.2%
Bulgaria	24.4	28.4	26.9	20.1	27.4	27.7	27.4	32.0	42.8	47.5	37.7	31.1%	-11.9%
Cyprus	11.5	12.6	12.4	11.4	10.5	12.6	14.1	14.9	14.7	13.3	14.7	29.6%	0.0%
Czech Republic	57.9	55.8	52.0	54.4	52.0	56.3	56.9	60.3	71.5	69.6	64.4	4.1%	-9.9%
Denmark	67.9	64.0	69.5	55.9	54.2	64.2	71.5	64.6	65.6	70.9	67.5	-4.9%	2.9%
Estonia	:	:	:	:	5.2	:	:	:	7.5	8.5	7.2		-4.0%
Finland	32.3	31.2	28.7	32.9	30.8	29.6	29.8	31.9	34.6	34.4	32.9	-1.2%	-4.9%
France	435.2	441.5	456.3	453.1	419.1	479.2	487.7	496.0	520.2	566.2	548.3	14.0%	5.4%
Germany	844.8	869.9	838.3	823.4	757.5	778.4	769.2	774.9	786.7	782.8	761.0	-8.3%	-3.3%
Greece	68.8	66.8	64.7	74.0	76.9	74.9	76.6	79.4	83.3	76.9	81.6	15.4%	-2.0%
Hungary	47.5	46.4	48.6	42.9	51.1	50.4	55.0	58.5	62.4	65.4	54.5	23.2%	-12.7%
Ireland	44.7	42.3	47.0	47.6	45.4	47.1	57.1	63.1	63.9	67.1	61.5	41.2%	-3.8%
Italy	456.6	448.6	456.1	465.7	428.5	427.8	457.5	455.0	444.2	446.5	447.1	-0.4%	0.7%
Latvia	6.7	8.7	7.0	10.1	12.0	13.3	17.4	15.5	14.9	14.2	13.4	131.3%	-10.1%
Lithuania	11.0	9.7	6.3	8.2	8.9	8.5	8.9	14.2	13.6	13.4	15.9	29.1%	16.9%
Luxembourg	14.7	16.0	17.2	16.4	16.3	16.9	16.5	16.5	17.3	22.1	21.3	12.2%	23.1%
Malta	4.5	4.4	3.5	4.0	3.1	4.5	4.5	4.8	4.6	5.1	5.1	6.7%	10.9%
Netherlands	156.7	151.3	152.3	147.0	153.4	148.6	150.2	145.3	136.4	131.1	119.4	-7.3%	-12.5%
Poland	:	:	:	:	180.8	200.8	231.1	271.1	240.8	254.7	259.0	49.9%	7.6%
Portugal	64.5	62.8	54.5	65.4	75.3	71.6	65.5	72.2	70.5	61.8	60.1	11.9%	-14.8%
Romania	73.6	63.2	56.6	66.1	62.9	59.5	63.6	69.4	77.9	88.6	97.6	-5.7%	25.3%
Slovakia	20.8	24.1	24.4	26.2	27.4	26.5	30.1	29.7	30.5	32.2	29.9	42.8%	-2.0%
Slovenia	14.0	15.6	14.7	15.2	13.3	13.9	13.7	14.2	15.1	16.7	15.6	1.4%	3.3%
Spain	279.8	260.9	267.7	276.5	254.2	282.4	305.1	318.3	317.8	299.3	282.9	13.8%	-11.0%
Sweden	46.8	58.3	55.1	54.4	53.6	50.2	51.6	54.8	57.1	57.3	54.5	17.1%	-4.6%
United Kingdom	680.3	694.5	718.3	736.7	721.9	759.5	756.4	772.0	748.9	599.4	561.8	13.5%	-25.0%

Notes: The banking sector definition is broader than in the data from ECB and OECD.
Data before 2007 refer to NACE rev.1 code 65, while data from 2008 refer to NACE rev.2 code 64 (financial service activities, except insurance and pension funding), equivalent to ISIC rev.4 code 64. Data for Estonia and Lithuania is unreliable and for the latter the change 2000 to 2007 refers in fact to 2004 to 2007.
Source: *Eurostat (Labour Force Survey)*

In general terms, the evolution of employment levels in the banking sector over the past 15 years is explained by two opposite trends. On one hand, the privatisation and liberalisation of the sector resulted in higher profitability, value added and employment, in particular in countries where the sector was less developed. On the other hand, the concentration process of the sector increased the number of redundancies and resulted in job losses even before the crisis, in particular in countries where the sector was already mature and well structured.

Assets managed by credit institutions increased across all EU countries from 2004 to 2008, but especially so in all NMS countries, Greece, Ireland and Spain; the lowest increases were recorded in Germany, Luxembourg, the Netherlands and the UK. It is obvious that the sector was already in difficulties in 2008 because the annual growth rate at EU level was only 2.8%, much lower than in previous years. In some cases, the signs of the crisis became evident as far back as 2007: the UK credit institutions' assets, representing around a quarter of the EU banking sector's assets, registered a low rate of growth in 2007 and were severely reduced in 2008 (for more information, see the overview European report; Telljohann et al, 2011).

Between 2008 and 2010, employment fell by 6% and more than 250,000 jobs were lost. The impact was felt more strongly in some countries than others. Employment decreased in 17 countries, remained constant in Cyprus and increased in nine countries. The largest falls took place in the UK (-25%), Belgium (-15.2), Portugal (-14.8%), Hungary (-12.7%), The Netherlands (-12.5%), Bulgaria (-11.9%), Spain (-11%), Latvia (-10.1%), Czech Republic (-9.9%) and Austria (-6.2%). Meaningful employment growth rates were observed in Romania (25.3%), Luxembourg (23.1%), Lithuania (16.9%), Malta (10.9%), Poland (7.6%), France (5.4%), Slovenia (3.3%) and Denmark (2.9%) – see Table 3.

By far the largest job correction took place in the main European financial centre, the UK, where more than 187,000 jobs disappeared. The British sector was particularly exposed because its investment banking sector had a low level of regulation, and stocks and securities trading had gone further than elsewhere. The UK bank, Northern Rock, was one of the first victims of the financial crisis, when it requested security from the Bank of England, leading to investor panic in mid-September 2007 and finally to the nationalisation of the bank in February 2008. Job losses have been particularly dramatic since 2006 at Lloyds Banking Group and Royal Bank of Scotland (RBS), but occurred at all four major banks in the UK in 2009.

As a consequence of the crisis some UK banks were partially nationalised and downsizing was imposed on banks that were already facing restructuring. Lloyds will have to sell 600 of its branches by 2013, while RBS will get rid of its insurance business. In May 2010 RBS announced that it would start reducing its insurance workforce of 16,000 by dismissing 2,000 employees and outsourcing about 500 jobs to India. The announcement of a further 3,500 job cuts in September 2010 by RBS meant that, since the declaration of its partial nationalisation in October 2008, 20,600 UK-based job cuts had been announced.

Among the other selected countries in this study, the Hungarian banking sector seems to have also been particularly affected, both in terms of bank profitability and employment levels. The main source of its vulnerability has been the excessive borrowing by both the public and private sectors, which has resulted in the bankruptcy of many households facing mortgage and loan interest payments. The economic crisis drastically affected the banking sector from the second half of 2009: from the second quarter of 2009 to the second quarter of 2010, employment in the banking sector decreased by more than 20% (the Budapest Bank dismissed 300 people in 2009, 10% of its staff), while it did by 12.7% between 2008 and 2010 overall.

However, in the large majority of European countries analysed, the specific impact of the financial crisis on the banking sector has been more moderate, even if job losses may have resulted as a consequence of the worsening economic situation and on-going restructuring trends. In Estonia, France, Germany, the Netherlands and Sweden, the crisis in the financial sector only had an impact on certain banks, while the rest were not significantly affected. In Germany, where employment in the sector fell by more than 3% between 2008 and 2010, the effects of the subprime crisis and the bankruptcy of Lehman Brothers in September 2008 affected a small number of banks (mainly the large banks, Landesbanken, mortgage banks and special purpose banks – all of which were involved in own-account trading in securities, financial instruments and foreign exchange assets), while savings and cooperative banks have done well during the crisis. In France, banks like Natixis and Société Générale suffered high losses in 2008 and 2009 due to speculative investment banking, but employment levels in the sector have increased overall during the crisis. In the Netherlands, where employment levels were already decreasing, the crisis resulted in a further employment reduction of 12.5% between 2008 and 2010. Large banks with global operations exposed to the effects of the financial crisis announced major job cuts: ING announced 7,000 job cuts worldwide (2,800 in banking activities and the remainder in insurance) and ABN Amro announced a plan to cut 6,500 jobs after the merger with Fortis. In Sweden, employment levels declined by almost 5% sine the major banks (Swedbank and SEB) suffered heavy losses as a result of severe loan losses in foreign countries where they operated, such as the Baltic states, although none was so badly affected that the government had to take over ownership of the bank. Estonia, like other eastern European countries, was hit hard by the financial crisis as the credit freeze negatively impacted its credit-fuelled economic growth and real estate sectors and therefore banking groups were affected, but the reduction of employment in the banking sector (-4%) was well below the national average (-13%).

Finally, the employment losses in the banking sector in Spain and Italy are mainly explained by the general impact of the economic downturn, but with only a limited impact of the financial crisis on their banking systems. In Spain, following the deep economic contraction and increase in unemployment in the whole economy after the bursting of the housing market bubble, the banking sector has seen a large fall in employment (-11% rate between 2008 and 2010); however, the exposure of Spanish banks to the international ‘toxic’ assets was very limited due to strict supervision by the Bank of Spain.[8] In Italy, where employment in the sector has slightly increased between 2008 and 2010, banks have been largely unaffected because they tend to focus more on traditional retail banking activities; they are not very internationalised and they have been more cautious and strict in allowing credit.

Therefore, jobs are being lost in the banking sector in many countries, but two facts are worth mentioning. First, it is difficult to assess to what extent the job cuts are only the result of the crisis or are due to the ongoing restructuring. M&A have continued during the crisis, but the banking sector in Europe was already going though a market concentration and expansion process prior to the crisis. Secondly, the significant employment losses in the EU27 banking sector between 2008 and 2010, while above the average for the economy as a whole, are much lower than those in the manufacturing or construction sectors. Indeed, if the UK is excluded, employment reduction in the EU banking sector would have been lower than that of the whole economy.

It is interesting to compare the way the banking sector has weathered the crisis with the experience of the manufacturing and construction sectors. While employment in the banking sector in EU27 decreased by 6% between 2008 and 2010, employment continued to increase in the other financial sub-sectors, that is, insurance and pension funding activities and insurance and financial intermediaries. The employment reduction experienced by the banking sector is above the overall employment reduction in EU27 (2.4%), but far lower than the employment losses in the manufacturing or construction sectors (above 10%).

[8] Even though they were not involved with ‘toxic’ assets, the Spanish regional banking groups (Cajas), which are highly dependent on regional governments, were heavily involved in the real estate sector and badly hit by the bursting of the Spanish housing bubble. They will need recapitalisation, the full amount of which is not yet known, and as a means to get it they are being forced to restructure, carry out mergers and start participating in the stock markets (depending on the individual case).

The evolution of the wages and salaries component of the labour costs index shows that wage increases in the financial sector between 2008 and 2010 (3.7%) were below the increases in manufacturing, construction and business economy as a whole (around 4.5%). This may be partly explained by the lower incidence of temporary employment in the sector, facilitating an adjustment to the crisis via the wages paid instead of dismissing temporary workers.[9]

The average number of actual hours of work per week and employed person slightly increased in the financial services sector between 2008 and 2010, while they decreased in the construction and manufacturing sectors.[10] This may partly reflect the fact that the financial sector made very little use of short-time working schemes during the crisis, whereas such schemes were widely used in the sectors of construction, wholesale and retail trade, transport and storage and, especially, manufacturing (Eurofound, 2010).

According to the European Commission, the health of the financial system improved in 2010 due to the higher capital ratio of the euro area banking system and because the prolonged de-leveraging normalised the financial markets and reduced their vulnerability (European Commission, 2010).

There is not enough evidence at this stage to assess how the crisis has affected the restructuring process that was already taking place in the banking sector. But it seems that the financial crisis has pushed EU banks to shift their focus to domestic issues and markets and engage less in internationalisation. Government rescue acquisitions modified the process of consolidation, boosting M&A within national borders and contributing to a reduction in the transnational footprint of EU banks (European Commission, 2009).

USA

The US financial sector, which is much larger than those in European countries, was the epicentre of the crisis and US banking institutions have suffered the deepest effects. Among the earliest to shed jobs was City Group, which made three job cut announcements in 2008, mainly affecting New York and London. Up to November 2010, there were 146 bank failures in the USA in 2010 alone, the highest number since the savings and loan crisis of the 1980s and 1990s, but far from the traumatic adjustment that took place in 1930–1933, when a third of the banks failed.

Because the commercial banking industry had been undergoing important legislative changes for many years before the crisis, deregulation blurred the distinctions between the different categories of financial institutions. In 1999, the Financial Services Modernization Act eliminated barriers to affiliations among banks and securities companies, insurance companies and other financial service providers. This made it legal for commercial banks to own insurance companies and securities companies, ending the restrictions put into place during the Great Depression by the Bank Act of 1933.

As in Europe, the number of institutions in the US banking sector fell by more than 20% between 1999 and 2008 and the number of branches increased by more than 20% (Table 2). But the US banking sector had gone through a market integration process earlier, so that between 1985 and 1999 the number of institutions in the sector had declined by 40% and the number of branches grew by 50%. Importantly, in the case of the USA, job losses took place in the sector during the 1980s and 1990s, but employment rose steadily from 1999 until the crisis.

[9] Eurostat's labour cost index (LCI) refers to the total average hourly labour costs.

[10] The average number of actual weekly hours of work in main job per employed person increased in the EU27 from 37.7 to 37.8 hours in the finance sector between 2008 and 2010, while it decreased in the overall economy (from 37.3 to 36.9h), the manufacturing (39.2 to 38.9h) and the construction sectors (from 40.6 to 40.1h) (Eurostat Labour Force Survey).

The impact of the financial crisis on banking employment is clear because it interrupted the positive trend seen since from the beginning of the decade. The number of employees in both the financial and the banking sectors increased constantly from 2000, but declined every year from 2007, especially in 2009 (Table 4). Between 2006 and 2010 the number of employees in the banking sector fell by more than 10%, returning to levels below those observed at the beginning of the decade. This means that almost 400,000 jobs have been lost in the banking sector (almost 700,000 in the finance sector).

One of the first relevant cases of companies experiencing problems was that of the two Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, which had to be rescued by the Federal Housing Finance Agency. In September 2008 Lehman Brothers and Washington Mutual, two large financial institutions, had been allowed to fail. Because of the disruptive impact of the failure of these two institutions on global financial markets, the government changed its approach and provided extensive support to many large institutions.

Table 4: *Number of employees in the US financial and banking sector (thousands)*

Year	Financial sector	Banking sector
2000	7,687	3,352.30
2001	7,808	3,428.20
2002	7,847	3,475.40
2003	7,977	3,550.10
2004	8,031	3,583.10
2005	8,153	3,655.10
2006	8,328	3,743.20
2007	8,301	3,714.90
2008	8,145	3,596.90
2009	7,769	3,401.50
2010	7,630	3,345.60
Change 2006 to 2010	-8.40%	-10.60%

Note: Data for the banking sector is more in line with the ISIC rev.4 code 64, since it offers a broader classification of the banking sector than that of OECD. It refers to credit intermediation and related activities (NAICS 522) and securities, commodity contracts, investments (NAICS 523).
Data for the financial sector refer to NAICS code 52.
Source: *Bureau of Labor Statistics*

Table 5 ranks the five largest banking institutions in the US in 2010 in decreasing order of assets. All five were affected by the subprime mortgage crisis and had to receive tens of billion of dollars in government funds in order to survive. Goldman Sachs and Morgan Stanley, the last major banks still to be classed as investment banks, changed their status from investment bank to commercial bank in order to be eligible for public funds. The rest of the major investment banks went bankrupt or merged with other banks. Wells Fargo received public funding to help acquire the failing Wachovia Bank, JP Morgan Chase received support to acquire failing Bear Stearns and Washington Mutual, and Merrill Lynch was acquired by Bank of America. As a consequence of the crisis, a clear process of market concentration has occurred: the market share of the top four companies in the banking sector has rocketed from 39.1% in 2002 to 63.7% in 2010 (US Census).

Table 5: *Five largest US banking institutions (30 June 2010)*

Rank	Institution	Total assets (thousands)
1	Bank of America Corporation	USD 2,366,086,945 (€1,641,980,000)
2	JP Morgan Chase & Co.	USD 2,014,019,000 (€1,397,650,000)
3	Citigroup Inc.	USD 1,937,656,000 (€1,344,660,000)
4	Wells Fargo & Company	USD 1,225,862,000 (€850,702,000)
5	Goldman Sachs Group, Inc.	USD 883,529,000 (€613,136,000)

Source: *US Federal Reserve System National Information Center* (**http://www.ffiec.gov/nicpubweb/nicweb/top50form.aspx**)

Among the largest banks, Citigroup was the worst hit by the financial crisis. Citigroup is the third largest US bank. It has the largest financial services network, 16,000 offices and approximately 300,000 employees worldwide, covering 160 countries. Due to its large exposure to collateralised debt obligations (CDOs) and the national housing market, it faced huge losses (USD 19 billion in 2008 and USD 1.6 billion in 2009) and had to be rescued by the US government (USD 45 billion in October 2008 and January 2009), which resulted in Federal funds gaining a 34% stake in the group. After the rescue, Citigroup implemented an aggressive downsizing and cost cutting plan. The public funding injected into the bank gave the government the right to regulate the salaries of the top 20 executives: the new CEO (from 2007) agreed to take only USD 1 for his salary in 2009 and bonuses were cut for nearly everyone (stock was issued instead of bonuses for the top executives). On 17 November Citigroup announced layoffs of 52,000 employees, in addition to the 17,000 employee layoffs announced earlier in 2008. In December 2009 Citigroup was divided into Citicorp, retaining the core assets, and Citi Holdings, which took the non-core assets to be sold. As a result of the crisis, total employment in Citigroup fell from 375,000 in 2007 to around 300,000 in 2010, although the group registered USD 10 billion profits during the same year.

Japan

Despite the strong impact of the global economic downturn on the already sluggish Japanese economy, the Japanese banking sector was relatively unaffected by the financial crisis. Some measures had to be taken by the government in order to secure liquidity in financial markets, but the Japanese crisis did not have a financial dimension. One of the reasons was that the sector had suffered a financial crisis at the end of the 1980s, as a consequence of which it was deeply restructured, the international operations of Japanese banks were reduced and a new dual system of financial supervision was put in place.

As a consequence of continuous high investment rates and trade surpluses since the Second World War and decreasing interest rates set by the Bank of Japan during the 1980s, loans and credits were increasingly easier to obtain in Japan, which finally led to speculation, mainly on the stock exchange and the housing markets, and resulted in the creation of the famous bubble economy from the mid-1980s. After the bursting of the Japanese asset price bubble in the early 1990s, Japan decided in 1997 to modernise its financial system through a process of liberalisation.

The liberalisation led to the so-called Japanese ‘Big Bang’ of 1998 when financial institutions were exposed to a completely different competitive environment, leading to an integral restructuring of the banking sector in the coming years. A symbolic decision was taken with the privatisation of Japan Post, originally proposed in 2003, approved in 2005 and implemented in 2007 (to be fully accomplished by 2017).

As in the EU and the USA, a process of market integration took place in Japan, especially intense among those banks more involved in M&A like the city banks. Several independent financial institutions merged and formed five large city banks:

- Mitsui-Sumitomo Group;
- Mizuho Financial Group;
- Mitsubishi UFJ Financial Group;
- Resona Holdings;
- Chuo Mitsui Trust Holding.

Available OECD data for Japan show that the number of banking institutions fell by 10% between 1999 and 2008 (Japanese data sources show that the reduction was already intense from the end of the 1990s). Unlike in the EU and USA, the number of branch offices and premises declined in Japan; by 18% between 1995 and 2003 according to OECD data.

The restructuring had a negative effect on sectoral employment, especially on regular employees: between 2000 and 2005, regular employment fell between by 30% in city banks, and by around 20% in regional banks and trust banks. OECD data show that the reduction in employment began even before this: the number of employees in the banking sector fell by 30% between 1995 and 2003.

Evolution in recent years suggests that the Japanese banking sector has overcome its own crisis and has not been significantly affected by the current financial crisis. Japanese banking institutions faced losses in the years 2008 and 2009, but as a consequence of the worsening economic situation. Since 2006 there have been signs of recovery and these have persisted during the global financial crisis. Employment in the financial sector[11] decreased during the early years of the 21st century and bottomed out in 2006. Employment grew by almost 6% in 2008 and has almost remained constant since then; it increased by 0.6% in 2009 and decreased by 1% in 2010. Regular employment, which fell drastically up until 2006 (dropping to an average of about 63% of the level before the restructuring), has remained constant over the past few years (Table 6).

[11] There are no updated employment data specifically for the banking sector in Japan. These data refer to the whole financial sector, including insurance and pension funding.

Table 6: *Employment in the Japanese financial intermediation sector, 2002–2010*

Year	Number of employees
2002	1,690,000
2003	1,610,000
2004	1,590,000
2005	1,570,000
2006	1,550,000
2007	1,550,000
2008	1,640,000
2009	1,650,000
2010	1,630,000

Note: Data refer to the whole financial intermediation sector (ISIC-rev.3, code J).
Source: *ILO*

The sound capital position of Japanese banks allowed them to expand their international activities by acquiring parts of failing US banks when the crisis deepened in October 2008. The Mitsubishi UFG Group, Japan's largest bank, bought 21% of Morgan Stanley for USD 9 billion (€6.25 billion), while Nomura, the largest Japanese brokerage, acquired the Asian, European and Middle East operations of Lehman Brothers.

Several reasons help to explain why the Japanese banking sector has not been significantly affected by the current financial crisis. First and most importantly, as explained in detail above, Japan had already suffered its own very acute financial crisis by the early 1990s, as a consequence of which the banking industry was thoroughly restructured. This resulted in financially stronger entities as a result of multiple M&A. Many banks increased their equity capital and the international business activities of Japanese banks were considerably reduced, making them less exposed to damaging practices in international financial markets. Moreover, as a result of the bursting of the bubble economy, Japanese households adopted a very conservative approach to their capital management. Currency and deposits account for more than half of household assets followed by life insurance or pension fund reserves.

Secondly, together with the legal reforms, a new dual system of financial supervision and inspection was put in place in 1998, which seems to have been effective in controlling business behaviour in Japan's financial institutions. The system is a mix of binding and voluntary rules. On the one hand, the Financial Services Agency (FSA) authority emanates from the Japanese Banking Act, the binding law for the banking institutions. On the other hand, there is a second system of supervision through the Bank of Japan based on voluntarily accepted rules for supervision based on negotiated agreements.

Finally, even though Japan was not directly affected by the Asian crisis of 1997, this episode may have been an important lesson for Japanese financial institutions to limit dangerous business practices and risk exposure, and to focus on more conservative banking with tight lending requirements.

Brazil

When the crisis surfaced, the Brazilian economy and its financial sector were in a strong position. The government reacted quickly to address some liquidity shortages in the sector, but the global financial crisis did not have a meaningful impact in the Brazilian banking sector. As in Japan, some historical episodes before the current crisis forced the restructuring of the sector and acted as a warning for future episodes.

Brazil has a relatively small banking sector compared to the more mature banking systems in the USA, Europe and Japan. A process of market expansion and integration in the Brazilian banking sector began years ago when the government decided to increase the efficiency of the financial sector. The process intensified after banks had to restructure drastically because of a dramatic fall in the demand for banking services when chronic inflation was finally controlled in 1994. More than 150 jobs were lost in the banking sector in the second half of the 1990s.

From 2000 to 2008, sectoral employment increased constantly and grew by almost 25% overall; assets multiplied by four, the number of branches expanded and the number of banking and especially non-banking institutions boomed, while the number of banking institutions was further reduced due to the market integration process (Table 7). 'Non-banking' institutions refer to small shops, post offices, lottery shops and other form of small business used by banks to offer their services.

As a result of these trends, the Brazilian banking sector is very concentrated: the 10 largest banks hold 77% of total assets, 73% of total equities, 68% of total net profits and 87% of total deposits in the entire industry. Three of them are publicly owned: Banco do Brasil and Caixa Economica Federal (Federal Government) and Banrisul (Rio Grande do Sul State Government). The other seven are private banks: four owned by Brazilians (Itau-Unibanco, Bradesco, Votorantim and Safra) and three by foreign groups (Santander, HSBC and Citibank).

Important M&A have taken place in the past few years involving large banks. In October 2007, Banco Santander acquired Banco Real, the Brazilian operation of Amro Bank, as an extension of the global merger between Santander and ABN Amro; during 2008, after months of negotiations, Banco do Brasil acquired Nossa Caixa, a medium-sized bank owned by the government of the state of São Paulo, as a part of a larger deal between the federal administration and the state of São Paulo administration. Finally, in November 2008 the merger between Itaú (known as Brazilian Bank at the time) and Unibanco (the fifth largest bank) was announced after months of negotiations, resulting in the creation of the second bank, Itaú-Unibanco. The financial crisis may have precipitated the latter merger (Unibanco was the most vulnerable among the large Brazilian banks), but it had been planned and negotiated for months before the crisis hit.

Table 7: *Brazilian banking sector variables*

	1995	2000	2002	2004	2006	2008	2009	2010*	Change 2000 to 2008	Change 2008 to 2009
Employment	609,210	452,689	463,368	466,316	519,251	562,195	568,298	604,263	24.2%	1.1%
Total assets (millions of BRL)	566 million	945 million	1,228 million	1,419 million	1,952 million	3,230 million	3,530 million	4,163 million	241.7%	9.3%
Number of banks	248	168	147	140	134	136	136	140	-19.0%	0.0%
Number of branches		16,396	17,049	17,260	10,087	19,142	20,046		16.7%	4.7%
Banking institutions		54,075	82,136	98,746	134,114	177,587	233,156		228.4%	31.3%
Non-banking institutions		13,731	32,511	46,035	73,031	108,074	149,504		687.1%	38.3%

Notes: * Data for 2010 refer to September 2010.
1 BRL = €0.436 (as of 2 June 2011)
Source: *For employment, Brazilian Department of Labour (referring closely to ISIC rev.4 code 64).*
For number of institutions and assets, Central Bank of Brazil (banks of the same economic group are aggregated into one single institution).
For the rest of variables, see Zylberstain (2011).

The Brazilian banking sector was not strongly impacted by the financial crisis. Data show that the same trends seen in the past few years can be observed through the global crisis in 2009 and 2010. In addition, employment continued to increase – by 1% in 2009 and by 6% in 2010.

The effects of the global financial crisis were felt in the Brazilian banking sector via some liquidity problems. The international credit freeze had an impact in the domestic market and credit became more difficult to obtain. Moreover, there was a concentration of liquidity in the large banking institutions, while smaller banks lost the applications that funded their credit operations and this increased their vulnerability.

The government addressed the liquidity situation through several measures that had an impact on the structure of the sector in terms of ownership. Publicly owned banks were used by the authorities to keep the flow of credit into the economy when credit became more difficult, while foreign banks, large financial institutions belonging to countries where the effects of the financial crisis were more severe, followed a more conservative credit policy. In consequence, the market share of publicly owned banks increased from 30% to 38%, and the market share of foreign banks dropped from 23% to 17%.

Banco do Brasil provides an example of success during the current crisis. It is the largest bank in the country and has about 110,000 employees. Owned by the federal government, it was active in pumping liquidity into the capital markets and has increased its market share. It will recruit 10,000 new employees by the end of 2011. Recently the bank decided to operate as a financial institution abroad, and began buying an Argentinean bank in the Patagonia region, with 3,000 employees.

There are several possible reasons why the Brazilian banking sector has been largely unaffected by the current financial crisis. Firstly, the sector was deeply affected by the financial crisis in Mexico, Russia and the Asian countries during the 1990s, which forced the country to seek IMF support to avoid defaulting at the end of that decade. This experience provided important lessons for the banking sector on avoiding crises in the future. Secondly, controls and regulations in the banking sector are strict, which helps explain the low level of leverage under which Brazilian banks operate and the stronger position of the banking sector in facing the current crisis compared with the crisis of the 1990s. There is tight regulation of leverage and restrictions on variable pay under Brazilian labour law, which limits the possibility of companies using aggressive performance-related pay to compensate their executives. In addition, bank owners are individually responsible and may have their own private assets seized to cover debts or default of the bank. After the financial crisis of the 1990s, the monetary authorities set a minimum Basel capital requirement of 11% (by December 2008, the average Basel rate in the banking industry was 20%, and 18% in the large banking institutions). Additionally, the Brazilian banking sector had a lower exposure to both the real estate sector and the credit derivative market and, as a consequence of solid macroeconomic performance in the past few years, the country had a lower exposure to international financial markets.

China

The banking sector in China is less mature than in more developed economies and is dominated by the state. There are more restrictions on capital flows to and from China than elsewhere, with low participation by foreign banks in domestic banks. The Chinese economy is less dependent on international financial markets and hence has hardly been exposed to the effects of the financial crisis. This has allowed China to continue its strong economic growth, which is thought by some experts to have prevented the global crisis from being of even a larger scale. Chinese authorities took some measures to grant liquidity in capital markets and Chinese banks also continued their ongoing reorganisation and expansion during the years of the crisis.

The Chinese banking sector has gone through important developments in the past few decades. Before the 1980s, strictly speaking there were no banking institutions and banking regulation in China. Legal regulations were introduced in the 1990s, while bank reform was deepened and the state-owned banks were transformed into commercial banks in the sense of becoming self-operating and assuming their profits and losses, even if they remained owned by the state to varying degrees. In 2003, the China Banking Regulatory Commission (CBRC) was established and several deregulatory measures were introduced with the aim of fostering the expansion of banks. These measures included:

- lowering the entry threshold for some banking activities;
- reducing the restrictions on the prices charged for banking services;
- allowing foreign institutions to invest in Chinese financial institutions.

These deregulation initiatives meant that multiple shareholders could potentially own commercial banks (joint-stock). They have pushed the reform of commercial banks and their expansion, while at the same time, CBRC has strengthened financial regulation and risk management.

Table 8 shows the number of employees, institutions and assets value of Chinese banking institutions. Commercial banks (including large-scale state-owned commercial banks, joint-stock commercial banks and city commercial banks) and rural credit cooperatives are by far the two most important kind of institutions (the latter especially in terms of number of institutions and employment and less in value of assets). With more than half of the assets and the employment in the sector, the state-owned commercial banks are the most important group. On the other hand, there are 12 joint-stock commercial banks, many of them established during the late 1980s, of which the Minsheng Bank was the first one with a majority of non-state ownership.

The group of state-owned commercial banks includes five banks:

- Industrial and Commercial Bank of China;
- Bank of China;
- China Construction Bank;
- Agricultural Bank of China;
- Bank of Communications.

Table 8: *Chinese banking sector variables*

	Assets (CNY billions)		**Employees**		**Institutions**	
	2007	**2010***	**2008**	**2009**	**2008**	**2009**
Total	**525,982.5**	**842,565.4**	**2,718,857**		**5,634**	
State-owned commercial banks	280,070.9	429,180.1	1,483,250		5	
Joint-stock commercial banks	72,494.0	126,459.0	167,827		12	
City commercial banks	33,404.8	59,931.9	150,920		136	
Rural credit cooperatives	43,434.4		583,767		4,965	
Other financial institutions	140,012.8	226,994.4	276,610		513	

Note: CNY 1 = €0.107 (as of 2 June 2011). * Data for 2010 refers to March 2010.
Source: Yearbook of China Finance (2008 and 2009) and China Banking Regulatory Commission website

All the large commercial banks, apart from the Bank of Communications, were originally fully owned by the state, but after the reforms in 2003, they were progressively converted into joint-stock commercial banks and listed on the Hong Kong and/or Shanghai stock exchange (the Bank of Communications was directly established as a joint-stock commercial bank), even though state ownership is still dominant in these banks. The joint-stock reform and listing of the first three of the state-owned large commercial banks in the list above has been the deepest restructuring experienced by the Chinese banking sector, during which many non-profitable branches were closed and a large number of employees lost their jobs.

After the fall of Lehman Brothers, it was known that six Chinese banks (Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Bank of Communications, China Merchants Bank and China CITIC Bank) had some funds involved with subprime loans. Nevertheless, the proportion of such investments compared with their total assets was small and the joint losses of all six banks were estimated at only CNY 4.9 billion (€0.525 billion), which did not affect their regular operations. Moreover, authorities reacted quickly to secure credit availability against the background of international credit scarcity and the loans offered by banking institutions increased rapidly.

Therefore, the impact of the financial crisis on the banking system has been very limited. Chinese banking institutions have continued their expansion and restructuring during the years of the global crisis, as shown by the ongoing increase in employment in the sector and the 20% increase in the assets of the banking institutions in 2010.

By the end of 2008, the focus of the three large state-owned commercial banks shifted from corporate governance to transformation and business reform, and in 2009, they cautiously expanded their overseas markets. By the end of 2009, the Industrial and Commercial Bank of China was the bank with the largest capitalisation, customer deposits and profits in the world. Its workforce increased by more than 4,000 employees during the global crisis, totalling almost 390,000 employees in 2009. The last state-owned large commercial bank to start its joint-stock reform, the Agricultural Bank of China in 2008, completed its reforms during the global financial crisis, being listed on both the Hong Kong and Shanghai stock exchanges in July 2010. The number of employees in the Bank of China rose by over 13,000 in 2009, reaching more than 260,000.

Other commercial banks also expanded to overseas markets during the crisis. In 2009, the China Merchants Bank expanded its workforce from around 37,000 in 2008 to more than 40,000, established five new domestic branches, and acquired a subsidiary in Hong Kong. City commercial banks went through an integration process: the insolvent and riskiest banks were forced to declare bankruptcy, while strongly performing banks expanded their activities, in many cases beyond their original regions.

Foreign banks participate in domestic ones through minor ownership levels (in most cases they were simply initially strategic investors) and no mergers between foreign and domestic banks have taken place, underpinning the relatively low level of integration of the Chinese banking sector in global financial markets.

Industrial relations in the banking sector

The processes of expansion, integration and restructuring experienced by the banking systems in the analysed countries, both before and during the financial crisis, have had different effects on employment. The differences across countries may be explained by:

- the structure of the national banking system;
- the previous evolution of the banking sector;
- the concrete impact that the financial crisis had on the sector concerned;
- the different strategies adopted by banking institutions;
- the quality and features of industrial relations and social dialogue.

This section deals with the last factor. It analyses the characteristics of industrial relations systems in the banking sector in each of the countries concerned and assesses the impact of the crisis on them. The contribution of social dialogue and collective bargaining to tackle the effects of the crisis in the banking sector is central to this study since it may partially explain why, in some countries, restructuring led to large job losses while in others there were attempts to limit the extent of redundancies.[12]

Examples of initiatives in the area of social dialogue and collective bargaining to combat the negative effects of the crisis on the banking sector include:

- collective bargaining aimed at protecting employees in the event of restructuring and redundancies, or at safeguarding employment in the sector by implementing measures such as a reduction of working time;
- social dialogue aimed at persuading the government to introduce measures targeted at maintaining or creating jobs in the banking sector;
- any other initiatives by the social partners that may result in the improvement of employment and working conditions in the sector.

Two facts are worth mentioning regarding industrial relations in the banking sector in the current recession. The banking sectors in Japan, Brazil and China were not significantly impacted by the financial crisis and employment levels continued to rise during the crisis. In the case of the USA, the level of unionisation in the banking sector is very low and the role of social dialogue and collective bargaining is marginal, unlike other sectors such as the automotive industry. This is why the report gives European examples when identifying social partners' initiatives in the banking sector to tackle the negative employment effects of the current crisis.

[12] Eurofound conducted research on an Austrian bank, BAWAG PSK, closely linked to trade unions, where a 'socially acceptable' workforce reduction programme was implemented when the institution had to restructure (Eurofound, 2009a).

EU

The industrial relations systems in the nine European countries analysed range from models with a high level of institutionalisation, shaped by law as in Germany, to models based on voluntaristic approaches, as in Italy, where industrial relations are decentralised and social partners have high degrees of autonomy.

Level of unionisation

Most of the countries have a higher level of unionisation in the banking sector than the national average (Table 9), reflecting strong social dialogue in the sector. This is especially the case in Italy (80% against 33%) and Spain (70–80% against 13%). The level of unionisation in the French banking sector is under 10%, but still higher than the overall unionisation rate – which is the lowest among EU Member States. The Hungarian unionisation level is also higher than average in the banking sector, although large differences are observed between banks (over 60% in the Budapest Bank and OTP Bank, but 10% in CIB bank). The exceptions to the higher unionisation rate in the banking sector are:

- Estonia, where there are no trade unions in the banking sector;
- Germany;
- Sweden – despite its high unionisation rate in the banking sector.

This picture is confirmed by a recent representativeness study carried out by Eurofound in the banking sectors of EU countries, which found that:

> *Whereas in countries such as Denmark, Finland, Italy and Spain sectoral unionisation rates tend to be very high, the converse holds true of several other countries, in particular among the new Member States. However, bearing in mind that in the private service sector unionisation rates generally tend to be low, trade union density in banking compares favourably with most other private sectors in most countries under consideration.*
>
> (Eurofound, 2011)

Fragmentation of union representation and increasing competition between trade unions are observed in all countries due to:

- rivalry between union confederations at the national level;
- increasing number of autonomous unions based on industrial sector, occupational category or company.

Italy has nine unions in the sector, while Unite the Union (the sector-wide trade union representing finance workers since 2007) in the UK has to compete with company-based staff associations such as the Lloyds company-based union and the staff unions Accord and Advance.

Employer organisations range from those that only represent a certain kind of bank, as in Germany where there are separate organisations for public, private and cooperative banks, or those that may represent all banks in the sector, such as the Dutch Banking Association. Moreover, many organisations are business associations not involved in social dialogue. The British Bankers Association does not have a mandate to enter social dialogue and it is represented through the two main private banks, while the French Bank Federation and Hungarian Banking Association do not have the mandate to enter collective bargaining (even if the later acts de facto as an employer association).

Table 9: *Unionisation rates in European banking sectors*

Country	Trade unions	Trade associations and employer organisations	Unionisation at national level (2008)	Unionisation in the banking sector
Germany	Ver.di (DGB), DBV and DHV (CGB)	AGV Banken (private banks), VOB (public banks) and AVR (cooperative banks)	19.1%	8% Ver.di 3% DBV
UK	Unite the Union and company-based staff associations	British Bankers Associations (BBA) and Building Societies Association (BSA)	27.1%	30.5%
Estonia	No trade unions	Estonian Banking Association	7.6%	0–1%
Hungary	BBDSZ Federation of Unions of the Finance Sector, BDSZSZ and KASZ (commercial banks)	Hungarian Banking Association (private banks), National Federation of Savings Cooperatives and the National Interest-Representation Association of Savings Cooperatives (TESZ)	16.8%	25%
Italy	Italian Federation of Insurance and Credit Workers' Unions (Fisac) (affiliated to Cgil) Italian Banking and Insurance Workers Federation (Fiba) (affiliated to Cisl) Union of Italian Credit, Collection and Insurance Workers (Uilca) (affiliated Uil) Ugl Credito, affiliated to the General Union of Workers (Ugl) Autonomous Credit and Allied Services Union (Silcea) Independent Federation of Italian Banking Workers (Fabi) Independent Federation of Italian Credit and Savings Workers (Falcri) National Trade Union Association for Credit, Financial and Banking Managers (Dircredito-FD) National Federation of Independent Trade Unions – Credit, Finance and Insurance Personnel (Sinfub)	ABI (private and saving banks) and BCC (cooperative banks)	33.4%	80%
France	French Democratic Confederation of Labour (CFDT) National Bank and Credit Union (SNB) Force Ouvrière (FO) General Confederation of Labour (CGT)	French Banks Federation (FFB) and French Banks' Association (AFB-private banks)	7.7%	9.6%
Netherlands	FNV Bondgenoten, CNV Dienstenbond, De Unie (MHP) and Professional Organisation Banking and Insurance (MHP)	Dutch Banking Association (VON-NCW)	18.9%	20–25%
Spain	UGT Federation for private services (FES) Commissions for Financial and Administrative Services (COMFIA-CCOO) Confederation of Independent Trade Unions in Saving Banks (CSICA) Regional trade unions	Spanish Banking Association (AEB- private banks) and Spanish Confederation of Saving Banks (CECA-saving banks)	14.3%	70–80%

Country	Trade unions	Trade associations and employer organisations	Unionisation at national level (2008)	Unionisation in the banking sector
Sweden	Financial Sector Union (Finansförbundet) Swedish Confederation of Professional Associations (SACO) Swedish Association of Graduates in Business Administration and Economics (Civilekonomerna) Swedish Union of University Graduates in Law, Business Administration and Economics, Computer and Systems Science, Personnel Management and Social Science (Jusek)	BAO (Bank Employers Federation)	68.3%	64.1%

Source: *OECD and national European research reports*

Collective bargaining

The collective bargaining coverage in each country depends mainly on union density, the legal framework for collective bargaining and the role of the government (which may extend the coverage in some cases such as the Netherlands). The proportion of employees covered by collective bargaining in the sector in the countries analysed varies from 98% in France[13] to 25% in Estonia and Hungary. Based on the data provided for Italy and the UK, collective bargaining coverage in the banking sector is higher than the national average, while it is slightly lower in Germany.

According to the representativeness study conducted by Eurofound in 2011, collective bargaining coverage is relatively high in the sector:

> *About two-thirds (i.e. 16) of the 23 countries for which related data are available record high coverage rates of 80% or higher … One can infer from these findings that in clearly more than half of the 26 countries under consideration the sector's industrial relations structures are well-established. Closer consideration of the different countries reveals that collective bargaining coverage rates tend to be (relatively) high in the 'old' EU15 (with the notable exception of Ireland and the UK), while sectoral bargaining standards widely vary from one of the 2004/7 accession countries to the other.*
>
> (Eurofound, 2011)

The level at which collective bargaining takes place in the banking sector and how the different levels interact varies greatly. The sector is the main level in France, Germany, Italy, Spain and Sweden, but the company level prevails in Hungary, the Netherlands and the UK (in the Netherlands, this is because all large institutions have their own agreements).

A trend towards decentralisation in collective bargaining is seen in some of the countries analysed.

- In Italy, the national collective agreement signed in 2007 in the banking sector introduced a push towards the decentralisation of collective bargaining at company level.

[13] The collective bargaining coverage in the French banking sector must be treated with caution since many of the agreements refer to agreed wages that are below the level of the French national minimum wage.

- In France, company agreements adopting exist clauses from the sectoral level agreements have been facilitated by legislation in the recent years.
- The German trade union Ver.di did not sign the cooperative banks collective agreement in 2008 because it did not agree with converting up to 14% of the collective wage into variable remuneration depending on company performances.

Workplace representation

Four structures governing the workplace representation of employees can be identified based on the role played by unions and work councils in banking institutions.

- In Germany and the Netherlands, employees mainly represent themselves through elected work councils and there is no role for unions at the workplace.
- In France, Hungary and Spain, there is a role for both unions and works councils.
- In Estonia and the UK, unions have traditionally played a leading role in workplace representation though elected workplace representatives have recently joined them. Estonian law allowed for employee representatives to be elected from 2007, while in the UK this situation may be reached through negotiated agreements.
- In Italy and Sweden, union representatives are the main representative bodies at the workplace. In Italy, each of the nine trade unions in the banking sector has a plant-level union structure.

Industrial relations during the crisis in European banking sectors

Company strategies to tackle the effects of the crisis

Due to its strategic role, jobs in the banking sector have traditionally been considered well protected, with a low incidence of temporary contracts and with higher than average levels of remuneration. However, this favourable outlook for working conditions has been challenged by company strategies to tackle the effects of the crisis.

In nearly all countries, banks have implemented cost-saving programmes (or strengthened them, since in many cases they existed before the crisis) to reduce labour costs by means of:

- wage moderation or wage reduction;
- a more flexible labour force;
- higher labour productivity through changes in work organisation and work intensification.

These cost-reduction initiatives have commonly had a negative impact on wage levels and resulted in an intensification of work.

Regarding remuneration, a reduction of variable wages and reduced wage increases for senior employees outside the scope of collective agreements have been observed in Germany, while in the UK, the performance-based part of the wage of many low-paid staff has been reduced.

Regarding work organisation and working time, RBS and Lloyds TSB in the UK are making a higher use of offshoring mainly to India, increasingly affecting jobs with higher skills content, while the Italian UniBanco is offshoring activities to NMS. Moreover, most British banking workers have been forced to accept an opt-out from the EU Working Time Directive.

A higher use of flexible temporary contracts seems to have taken place in Italy, while in the Netherlands the trend towards flexibilisation of the past few years (via the creation of a detachment pool for lower-qualified functions, outsourcing of non-core business parts of the company or the hiring of self-employed staff) seems to have been strengthened during the crisis, with ABN Amro loosening the conditions for flexibilisation while its restructuring takes place until 2012. The second Spanish bank, BBA, offered its employees in 2009 the chance to take sabbaticals of up to five years in exchange for nearly a third of their usual salary and a job guarantee of their return.

Collective bargaining

Collective bargaining became more common during the crisis in some countries, as shown by France, where 92% of companies in the banking sector conducted collective bargaining in 2009 compared with the national average of 83%. Both government and employer organisations have stressed the importance of wage restraint against the background of the current crisis. Wage moderation took place in many cases (France, Germany, Italy, Sweden and the UK), often after stormy negotiations, as collective bargaining became more difficult during the crisis.

In Germany, the last collective agreement for cooperative banks in 2008 included the employers' proposal to change up to 14% of workers' wages into variable remuneration depending on company performance. As a result of this proposal, the union Ver.di refused to sign the collective agreement, marking the first time the three relevant trade unions had not signed.

The Employers' Association of the Swedish Banking Institutions (BAO) emphasises the importance of individual wage negotiations over agreed wage increases at the sectoral level, claiming that more individualised wage negotiations would increase 'downward' flexibility when companies perform poorly and 'upward' flexibility when companies are doing well.

In the French wage negotiation in 2010, unions asked for a 1.5% wage increase that was initially opposed by employers, but after strikes in several banks, the employers raised their initial offers. The wage increases in some banks (the highest were those of Société Générale and BNP Paribas, 1% plus a bonus) were still, however, judged insufficient by unions. More generous wage increases took place in the Hungarian OTP Bank, which agreed on a wage increase of 5% from 1 July 2009.

Italy offers two company-level examples of concession bargaining where some wage reductions were agreed in exchange for employment creation, contributing to a segmentation of the internal labour market.

In the first case, the management and trade unions of Banca Intesa Sanpaolo concluded an employment agreement at the beginning of 2010 by which trade unions agreed on a wage reduction over four years for newly hired employees in exchange for the transformation of 400 fixed-term contracts into open-ended contracts and the creation of about 600 new jobs. The trade union Fisac–Cgil did not sign the agreement since the wage reduction results in wages below the level negotiated in the collective agreement.

The second example is provided by the Agreement on the Reorganisation Plan signed at Unicredit in October 2010 by all trade unions and management. The agreement provided for 3,000 voluntary dismissals between 2011 and 2013, affecting employees coming up to retirement, plus 1,700 employees expected to leave during 2014 and 2015. However, the agreement also made provision for 1,077 apprentices, the hiring of 1,000 new employees by 2013 and the hiring of an additional 121 employees which had already been provided for in a previous agreement. In this case, the new employees are not hired through derogations from the national collective agreement and Fisac–Cgil signed the agreement together with the other unions. However, the wage increases determined by the company-level collective agreement will only apply to the newly hired employees after four years of employment at Unicredit.

Social plans

As described above, job losses associated with restructuring were common in many European countries even before the crisis due to M&A, the closure of branches, offshoring or outsourcing processes. In some European banks facing restructuring, the management and the trade unions negotiated what may be called social plans; that is, agreements that detail the consequences of the company restructuring and ways of mitigating them through, for example, redundancy payments, help in finding a new job, outplacement or training. These social plans are common in the event of major restructurings in countries such as France, Germany, Italy and the Netherlands. In the Netherlands, they have the same legal status as collective agreements.

In the Netherlands, the social plan created for the merger between ABN Amro and Fortis created a redeployment centre to assist employees in finding an alternative job through job fairs and collaboration with temporary work agencies. If the employee does not find a job after one year of being supported by the redeployment centre, 75% of the voluntary leave premium is given to the employee. The agreement signed between ABN Amro and the four main unions in the sector on 1 March 2010, for a period of 34 months, had in fact a broader scope. It was titled 'from employment to employment' and apart from the creation of the redeployment centre, the plan includes almost unlimited access to training for ABN Amro personnel as a way of increasing their employability and the setting up of a mobility organisation in case direct replacement is not an option. It is estimated that some 2,000 employees have made use of this scheme. There are provisions in place to protect existing terms of employment, information provision and consultation of employees particularly in the event of the bank deciding to outsource or offshore some of its activities.

An example of the importance of involving employee representatives at a very early stage of restructuring can be seen in the merger between Crédit Agricole Asset Management and Crédit Lyonnais Asset Management in France in 2004. This older example shows how, before the consultation procedure had even started, trade unions and management negotiated a model agreement that laid the ground for a shared diagnosis on the impact of the merger on employment. The main elements of this agreement were:

- shared understanding of the impacts of this merger;
- the setting up of a social plan based on voluntary departures and high redundancy payments;
- adapting representation structures to the new work organisation instead of sticking to the legal minimum requirements.

An information body was created before the merger became effective to deal with its impact.

One of the typical elements included in the social plans in the case of major redundancies is the offer of voluntary redundancies in exchange for a high severance payment. The ING Social Plan in the Netherlands created a special taskforce to pay close attention to employability and established a redundancy payment that would be reduced in the case of those employees finding alternative employment. In the UK, one of the main reasons mentioned for the high number of job losses during the crisis is the relatively high level of compensation being offered through high severance payments in the case of 'voluntary' redundancies. In November 2010, the Budapest Bank in Hungary signed a collective agreement detailing the employer's information and consultation obligations in case of dismissals and the works council shaped assistance measures for employees facing dismissal or moving from full-time to part-time work.

As shown by these examples of sectoral and company-level agreements, the main focus of collective bargaining during the crisis has been on wage moderation and in trying to limit job losses due to redundancies and their social effects, for example, by trying to train and redeploy affected workers. These rather reactive initiatives have been the norm in the banking sector and have played a functional role in addressing change in the sector, but examples of collective bargaining aimed at maintaining employment levels during the crisis through flexible working time arrangements, such as the short-time working schemes widely used in manufacturing, either did not take place or had only a marginal role. Nevertheless, there were some measures implemented by social partners aimed at preserving employment levels that are worth mentioning, even if none of them was an innovative solution to deal with the effects of the crisis, but rather the application of an existing measure.

Measures to safeguard jobs

In some European countries, measures to safeguard jobs have been implemented as a consequence of collective bargaining in the banking sector. Even if they had been designed before, their use during the crisis has helped maintain employment levels and limit the negative impacts of the crisis on the labour market. One example is the Redundancy Fund in Italy, jointly financed by social partners in the banking sector through a contribution of 0.5% of the total wage bill. In the absence of public measures, the fund is a wage guarantee fund that operates as a private social shock absorber. Since its introduction in 1998, it has been used mainly as an innovative way of dealing with early retirement, which has been a typical way of dealing with restructuring and redundancies in southern European countries.

Employees benefiting from the fund who are close to retirement age may qualify for a seniority pension (representing 50–60% of the previous wage for up to five years); the intensive use of the fund may partly explain why employment fell by only 2% in the Italian banking sector from 2008 to 2010. Thirty percent of the employees in the sector who lost their jobs in 2009 benefited from one of the two existing funds: one for the whole sector and one for the cooperative banking sub-sector. Although the Redundancy Fund was established as early as 1998 to deal with the restructuring of the Italian banking sector, the social partners signed a 'protocol on labour market and employment' in December 2009 in which they agreed to:

- extend the use of the fund to support employees in need of training;
- support incomes in cases of temporary job stoppages;
- extend the fund's application in case of emergency.

In Germany, instruments created through collective bargaining in the banking sector to deal with the crisis in 2002–2004 have been extended to safeguard employment levels in the current crisis:

- agreement on the application of some measures (internal mobility or further education) in case of collective redundancies before considering dismissals;
- partial retirement scheme that allows for the possibility of part-time employment prior to retirement;
- the possibility to reduce working hours without full wage compensation (31-hour scheme).

The financial crisis has affected collective bargaining by introducing new issues. Arguing that it could prevent stress at work, the German union Ver.di brought to the collective bargaining table the need for a 'fair trade' agreement with clear rules on advising clients to prevent a situation where employees have to sell risky and complicated financial products only to meet performance criteria. As a result, the latest collective agreement for private and large public banks (June 2010) has a common declaration on health protection containing a statement that targets in general should be fair, achievable and specific, and formulated by taking into consideration client requirements. In France, collective bargaining in 2010 addressed the need to adapt job definitions to changes in work organisation in the banking sector by introducing new employment categories for both front- and back-office jobs, both in retail and investment banking.

Social dialogue at the national level

Social dialogue during the crisis at a national and a European level can be distinguished. Social dialogue at the national level on the evolution of the sector has taken place mainly at the sectoral level in France and at the company level in most other countries. French social partners established an ad hoc discussion body at sector level to allow for an exchange of views about the causes and the impacts of the crisis. The government also set up another discussion body integrating trade unions, employers and consumer associations. The Hungarian Federation of Finance Sector Unions and the Hungarian Banking Association signed an agreement in 2007 about the establishment of a sectoral social dialogue committee to act as a consultation forum where the social partners are expected to discuss issues such as the future of the sector, information and consultation, and professional reconciliation.

In most countries social dialogue has been taking place at the company level, and in many cases it has deepened during the crisis, which may be explained by the need for management to deal with establishment-specific matters when implementing restructuring measures. In the UK banking sector, characterised by low levels of social dialogue, the senior management of RBS and Lloyds Banking Group seems to be more willing to enter social dialogue. In the case of Lloyds Banking Group, a partnership agreement was signed at HBOS (owned by Lloyds), which seems to have worked well through the crisis and is influencing management practice within certain parts of Lloyds TSB (one of Lloyds Banking Group brands).

European industrial relations

At a European level, both the sectoral and the company levels have had a rather limited role in dealing with the effects of the crisis. The European sectoral social dialogue committee in the banking sector comprises UNI Europa Finance on the employee side and the European Banking Federation (EBF[14]), the European Saving Banks Group (ESBG) and the European Association of Cooperative Banks (EACB) on the employers' side.

There was a high-level meeting between the European industry federation (EIF) and the three European employers' associations in the banking sector in January 2009 at which social partners agreed to share information about the impact of the financial crisis and to collect and share data on employment trends in the sector. However, the European social dialogue in the banking sector did not produce meaningful results during the crisis.

According to the European Commission, the European sectoral social dialogue committee in the banking sector in 2009 made efforts to re-launch its activities, after a de facto suspension of its work in 2007 and 2008, and a joint text on 'Reassessing Social Dialogue' was signed by the European social partners on 13 May 2009. Nevertheless, the European social partners in the banking sector did not sign any common text on the financial and economic crisis.

According to the European Social Observatory, one of the reasons why European-level social dialogue has not delivered results is the weak follow-up at national level. The signatory parties of joint texts and their national affiliates have to implement them through national arrangements (legislation, collective agreements and joint promotion of tools), and if national affiliates are not engaged and involved in European-level dialogue, results may be poor.

European social partners have different positions regarding the transposition of EU-level outcomes into national provisions. Although UNI Europa Finance is in favour of the binding implementation of joint texts at national level, employers' associations believe the autonomy of national-level actors needs to be respected and that the transposition should be carried out on a voluntary basis.

[14] The EBF committee dealing with social policy issues is the Banking Committee for European Social Affairs (EBF-BCESA).

If at the sector level the role of European social dialogue has been rather limited in addressing the consequences of the crisis, at the company level European Works Councils (EWCs) have rarely gone beyond their statutory right to information and consultation. In addition, they have not been used to develop transnational coordination of cross-border restructuring processes. Nevertheless, the case of Unicredit shows that EWCs can play a role when a European cross-border system of industrial relations at the company level is established.

During the crisis, the European Works Council at Unicredit (the only one in the Italian banking sector) has signed joint declarations with management on training and equal opportunities. It has also agreed with management the development of a common strategy for managing restructuring processes with union involvement and favouring voluntary exits and early retirement. These joint declarations are meant to apply to the whole group and there have already been some examples of their transposition in the context of collective bargaining in the NMS.

The example of Unicredit gives some insights into the potential future scenarios for transnational banking groups as banking institutions increasingly respond to growing internationalisation by pursuing more international human resources and business strategies. In this respect, the transnational framework agreements might be considered by management as a tool for rationalising industrial relations at group level.

In September 2008, the global union Union Network International (UNI) signed an international framework agreement on fundamental labour rights covering 24,000 employees of the finance multinational Danske Bank, the largest in Denmark. Since most of the employees of the group are based in Denmark, Finland, Ireland, Norway and Sweden, the agreement was negotiated by UNI Finance, the global union for finance workers, in cooperation with six finance trade unions from those countries. The agreement established a transnational framework of industrial relations to be used for the implementation of the group-wide human relations policies. Danske Bank agreed to:

- respect fundamental labour rights (employees' right to join associations of their own choice, policy of non-discrimination and equal opportunities, etc.) to ensure a healthy work–life balance for its employees;
- support dialogue at both national and global levels, encouraging a higher degree of employee involvement;
- develop best human resources practices across companies and national borders in consultation with trade unions and workers' representatives (Telljohann and Dazzi, 2008).

Information and consultation

European and national legislation on information and consultation in cases of restructuring has generally been respected during the crisis. In the case of the British HBOS it was even agreed to extend trade union recognition to first-level managers to encourage their involvement in consultation and negotiations, while in Estonia information and consultation procedures seem to be well-established despite the absence of structures of workplace representation in the country's banking sector.

Although Directive 2002/14/EC establishing a general framework for informing and consulting employees in the European Community has not had a major impact on information and consultation processes in the countries analysed, new trends in interest representation at workplace level seem to be emerging in all countries as a result of the restructuring process of the banking sector in the past few decades. While the general trend in industrial relations is towards decentralisation, the trend of industrial relations within companies is towards centralisation, due to the fact that major banks centralise management functions in order to reach economies of scale. This increases the importance of centralisation of information and consultation.

In 2010, the Italian social partners signed an agreement on union rights establishing that the decisions taken by the steering committee at group level are immediately effective for the banking group and do not require the consent of the structures for interest representation in the individual banks belonging to the group. Moreover, externalisation and outsourcing processes undermine the representatives' powers in many cases, since entire business units drop out of their remit. To overcome these difficulties, employee representatives in France have negotiated the so-called 'method agreements', which by organising the procedure of information and consultation, contribute to a better articulation between different representation levels within the company.

USA

The level of unionisation in the US banking sector is very low – about 1.2% in the finance and insurance sector compared with the national average of 12.3% in 2009. The activities of the trade unions at the national level are related more to lobbying than employee representation in the banking sector, while at the company level, there seem to be only 13 unionised commercial banks out of 7,830. On the employers' side, there are two primary trade associations representing banks, the Securities Industry and Financial Markets Association (SIFMA) and the American Banking Association (ABA). Therefore, collective bargaining in the commercial banking sector is rare and has a negligible impact on the sector.

One of the 13 unionised commercial banks is the small Ameriserv Financial Bank (Johnstown, Pennsylvania) with 18 branches and 318 workers, whose union contract and wages serve as a benchmark for wages at other banks in the region. Against the background of the crisis, an Asset Quality Task Force was established to monitor the quality of the portfolio and to maintain customer relations, which improve profitability and reduce losses on bad loans. All work practices and working conditions in a union contract are potentially mandatory subjects of bargaining, but in the case of Ameriserv, it seems the financial crisis did not have any significant change in the pay and benefit levels, overall working conditions and the number of employees. A new four-year collective bargaining agreement was reached in 2009 with annual pay increases of 1.5%, 2.0%, 2.0% and 3.0%, respectively.

In 2008, the average weekly wage in the financial industry of USD 798 (€554) was higher than the average of USD 608 (€422) in the private sector. However, wages in the banking sector are not as high due to the high proportion of jobs in low-paid administrative support.[15]

Japan

The unionisation rate in Japan's financial sector was 34.8% in 2007, much higher than the national average, which was below 20%. Only regular full-time employees in Japan are eligible for union membership, which explains the relatively low national unionisation rate and the declining unionisation rate in the banking sector in the past few decades, reflecting the reduction in the proportion of regular forms of employment.

The unions in the banking sector are mainly company-level unions, which are common in Japan. This practice results in a large number of unions – around 150 in the commercial banking sector. There is no nationwide bank union federation combining the forces of the majority of company unions and the few bank union federations do not incorporate many

[15] Wheaton, A. and Basefsky, S (2011).

company unions from regional banks and member banks of the Second Association of Regional Banks. Among these limited number of bank union federations, the largest is Shiginren, the Federation of City Bank Employees' Unions, representing about 77,000 members, but it is not a member of one of the three labour unions federation umbrella organisations in Japan.

Four bank union federations are represented among the three national umbrella organisations:

- Zengin Rengō (All Japan Federative Council of Mutual Bank Labours' Unions) representing the employees of 22 regional banks with 15,782 members;
- Zenshin Rōren (National Federation of Credit Association Workers' Unions) representing 4,886 union members of cooperative banks;
- Zenrōkin (Federation of Labour Bank Workers' Unions of Japan) representing the 13 Labour Banks in Japan with 7,008 members;
- Kinyū Rōren (All Japan Federation of Labour Unions of the Financial Sector) representing 62 unions with just over 5,000 members.

There is just one major trade association, the Japanese Bankers Association, which with 248 members represents almost all banks in the country. It is a member of Japan's largest employer organisation, the Japanese Business Federation. Since it is a trade association, it only supports its members in collective bargaining rounds.

Collective bargaining takes place at the company level. Due to the reduced impact of the current crisis on the Japanese banking sector, protecting employment and reaching agreements between the different stakeholders has not been complicated. Unlike the beginning of the 2000s, when the Japanese sector was suffering its own deep financial crisis, recent collective bargaining rounds have concentrated on the traditional issues of salaries, bonus payments, fringe benefits and working hours. Salaries in the banking sector are still relatively high despite the increase in non-regular forms of employment in the past decade, while the widespread overtime work in the financial sector is an important source of income for workers (especially those aged between 30 and 45).

Although Japan never had a system of social dialogue like that in Europe, the post-war management and company system worked as a consensus-based approach to maintaining a social balance. One of its pillars (together with the seniority principle, company unions and the main bank system, and cross-shareholding) was lifelong employment; that is, the traditional Japanese commitment towards job protection. During the 1990s, this system started to be progressively eroded and, during the major reorganisation of the financial sector between 2000 and 2005, regular employment in the sector was reduced drastically, dropping to an average of about 63% of the level before the restructuring. Nevertheless, the evolution in recent years suggests that the Japanese banking sector has overcome its own crisis and some of the mechanisms of the traditional job protection system in Japan are still in place.

The signs of recovery seen from 2006 have persisted during the global financial crisis. Overall employment in the financial sector is increasing and, importantly, the number of those in regular employment seems to have been maintained during the crisis.

Brazil

Trade union density seems to be high in the banking sector in Brazil. In the metropolitan area of São Paulo, the trade unions claim to represent around 60,000 out of 110,000 workers, which would result in a unionisation level of over 50%, much higher than the 20% national average.

The Brazilian labour relations system does not provide for workplace representation structures (there are no company trade union in private banks). It is characterised by a high degree of state intervention and room for social dialogue and collective bargaining is therefore limited.

The two largest national confederations, Contraf and Contec, represent 30 state federations and 220 unions in the banking sector. There are 8,000 union directors in the sector, 40% of whom are released from job duties and are paid by the bank in which they are employed. A third national confederation of unions, Conclutas, represents just five unions in the banking sector.

Technology is helping overcome the problems resulting from an absence of workplace representation in private banks; for example, the banking union of the metropolitan area of São Paulo distributed 30,0000 mobile phones to its members to allow information sharing and better communication at the company level.

There is only one employer organisation in the banking sector, characterised by a dual legal structure: while Febraban is set as a trade association dealing with the business of banking and representing the interests of bankers at the government level, Fenaban deals with labour issues. Fenaban conducts two separated bargaining processes with Contraf and Contec, even if the results from both are the same; the employers will not negotiate with Conclutas as it is considered a Trotskyite party.

In Brazil, collective bargaining normally takes place at industry level but separately for each of the states of the Brazilian confederation. This was formerly the case in the banking sector as well, resulting in the same bank applying different rules in each state in cases of large banks operating in more than one state. But with the market concentration process, banks increasingly became national institutions and the banking sector collective bargaining began to be implemented at the national level in 1992.

Thus, the banking sector is one of the few cases where bargaining takes place at the national level. The collective agreement is renewed annually and the outcome is valid for the entire industry, even if some clauses may be complemented by company-level agreements such as a clause on profit-sharing. A separate non-binding collective agreement has allowed some banks, for instance, to sign separate agreements on weekend work in call centres.

During the bargaining process in the sector, negotiations frequently reach deadlock and workers strike. This was the case in 2009 when there was a 30-day strike. But because the impact of the financial crisis on the Brazilian banking sector has been rather limited, no negative impacts have been observed on employment and industrial relations during the crisis. For example, Banco do Brasil, which is owned by the federal government, negotiated with the unions a commitment to increase the number of jobs by 10,000 in 2010 and 2011.

Another example of social dialogue during the crisis is the case of the merger between Banco Itaú and Unibanco which, according to the unions and management, did not result in a significant reduction of the workforce (the merged institution employs 85,000 workers). Initially, 6,000 employees were dismissed and the management planned 2,000 more dismissals. But after agreement with the trade unions, the management cancelled the new dismissals and announced the creation of a reallocation centre to relocate employees within the bank.

Banco Itaú, which took on human resource managers from the motor industry due to their experience in dealing with unions, seems to have been the most successful among large banks in developing good relationships with unions during the past few years. For example, employees participate in the administration boards of the pension and health care plans. However, Banco Itaú's success in employee relations arises from its pioneering negotiation with unions on a mechanism to solve individual grievances.

Brazil is characterised by a prevalence of litigation at the labour courts to solve labour disputes and by the absence of workplace representation of employees. Hence, when massive layoffs took place in the banking sector after 1994, dismissed employees presented thousands of grievances in the Labour Courts that resulted in an unknown amount of money being claimed from banks. Against this background, Banco Itaú signed an agreement with trade unions that stopped the practice of grievances being taken to the labour courts immediately. This move was welcomed by the Supreme Labour Court and the agreement was transferred into a general document approved by the Congress, ending the monopoly of labour courts in dealing with labour grievances.

Banks now had the option to use the so-called procedure of 'previous conciliation' by which labour grievances may be settled at the company level without the need for labour court intervention. This voluntary procedure to solve individual grievances is currently included under a clause of the non-binding part of the banking sector collective agreement and has so far been signed by other three banks (Banco Santander, Banco do Brasil and HSBC).

Emerging issues in collective bargaining include the limits of picketing, services outsourcing, the increasing use of non-banking correspondents and moral harassment. Unions claim that outsourcing is a management strategy to reduce costs, the use of non-banking correspondents is a kind of deregulation of the market and moral harassment is mainly the result of increasing variable pay schemes. However, employers see outsourcing as a competitive tool, non-banking correspondents as a useful solution where the scale of demanded services is not big enough to open a branch, and the establishment of goals as a right for the company.

Although no supranational agreement has been signed, trade unions are raising the issue of the need to internationalise labour relations and social dialogue, given the internationalisation of Brazilian banks and the increasing operation of foreign banks in the country. Brazilian unions are establishing links with UNI, which represents workers in the service sector, and they have as an initial objective to channel the internationalisation of their operations through three banks:

- Banco do Brasil, with branches around the world;
- Itau, operating in South American countries;
- Banco Santander, which already has a Brazilian union representative on its company board in Spain.

China

Because all employees in a bank automatically become members of the union, the trade union density in the banking sector in China is 100%. All the unions in the banking sector are represented at the industry-wide level by China's Financial Union, which consists of union leaders and employee representatives from the unions of the five large commercial banks, other important banks and various regulatory commissions.

Importantly, even if unions exist at the Chinese banks, they work as a department under the leadership of management to function as a bridge between management and employees. The union work committee in each bank organises the annual employee representative congress where employee representatives are elected by employees and typically assigned to participate on the board of directors or supervisors. The main activities of the unions are to:

- organise recreational activities for employees;
- support employees going through personal difficulties;
- support annual health examinations by providing examination fees.

Banks are represented by the China Banking Association, a trade association with 132 members under the sponsorship of the China Banking Regulatory Commission which aims to help its members in attaining common goals.

Since unions are in practice bank departments under the control of management, collective bargaining does not take place and banks sign individual contracts with individual employees. Labour contracts can be signed with formal employees (planned employees), while service contracts are signed with ‘unplanned’ employees. Some banks used to hire unplanned employees through outsourcing companies; such employees did not belong to the unions since there was not a direct employment relationship between the bank and the employee. This situation changed in 2008 with a new labour law that allows the assigned employees to join the union and keep their legal rights.

The most challenging period for industrial relations in the banking system in China was during the joint-stock reform of state-owned commercial banks in 1998–2000 when many layoffs and early retirements took place, leading to appeals requesting higher compensations from banks.

Due to the relatively higher wages and job stability in the banking sector, industrial relations are currently harmonious and strikes or appeals are rare. Unlike other sectors of the Chinese economy, the current global financial crisis has not had a significant impact on the banking sector. Banks continue to expand and employment continues to rise. For example, the Industrial and Commercial Bank of China increased its workforce by more than 4,000 employees to reach 389,827 in 2009, a new performance-based evaluation system was adopted and the bank implemented a supplementary medical insurance system.

Public responses to support the banking sectors

One of the most prominent features of the current crisis compared to previous ones has been the scale of the public intervention deployed. Almost all developed and many developing countries have put in place significant measures in order to tackle the crisis and limit its effects.

Even if the public measures aimed at supporting the banking sector were not designed to maintain employment levels but to support banking institutions and improve credit supply (and further restructuring and job losses have resulted in many cases), the considerable public support has certainly helped the sector in dealing with the crisis and may have reduced the extent of job losses.

Government interventions have taken place in two main overlapping phases. During the first phase, governments focused their efforts on trying to strengthen their financial systems to avoid contagion in other sectors of the economy. These measures took the form of:

- macroeconomic monetary policies to improve the functioning of capital markets and the availability of credit (lowering interest rates, expanding the money supply, quantitative monetary easing and actions to restore confidence in credit markets); or
- microeconomic policies targeted at helping financial institutions, especially in Europe and the USA.

During the second phase, the financial crisis spread to economies across the globe and government policies focused on expansionary monetary and fiscal policies to boost their economies.

This section is concerned mainly with the first phase when the following efforts were made to stabilise the banking sector.

- Monetary policies were used across countries to improve the functioning of capital markets. The stimulus from monetary policy took two main forms. Initially, central banks reduced interest rates and conducted traditional market operations to increase the liquidity in capital markets. When this proved insufficient and many central banks exhausted the room for further reduction in policy rates, monetary policy shifted to more unconventional measures to support the functioning of financial markets by expanding the credit supply:
  - provision to banks of easy access to liquidity (greater access than would normally be required to keep market short-term rates in line with policy targets);
  - expansion of money supply through quantitative easing;
  - excess reserves or direct interventions in broader segments of credit markets (beyond the traditional counterparty of banks) aimed at easing overall credit conditions in the economy.
- More micro measures to help and rescue financial institutions were concentrated in the USA and Europe where banking institutions were more severely affected by the financial crisis.

Europe and the USA

Although the impact of the crisis on the banking sector in the analysed European countries and the USA has varied from country to country, national governments have reacted in a rather similar way.

From the summer of 2007, central banks started to inject liquidity into the financial systems in Europe and the USA (the Federal Reserve, which followed a more expansive policy, had already cut its interest rates from the summer of 2007).

Initially, they did so through traditional market operations to keep short-term money market rates close to policy rates. This proved insufficient to contain the worsening conditions in the capital markets and more unconventional monetary policy aimed at facilitating credit in the banking sector had to be taken.

Central banks injected liquidity in financial markets through several ways. According to OECD, ECB measures concentrated on easing the conditions and increasing the scale of its operations to provide liquidity to financial institutions, while in the USA, the Federal Reserve intervened directly in dysfunctional key segments of the credit market (such as commercial paper and securitised products) by means of outright open-market purchases of mortgage-backed securities, agency bonds and long-term government bonds.

Soon afterwards, when the liquidity crisis seemed to be turning into a solvency crisis that was putting the stability of the whole financial system at risk, governments started to implement measures directed at individual institutions. Initially this micro strategy consisted of ad hoc measures tailored to the needs of institutions (such as credit lines to institutions that had suffered large losses), after which these institutions were often sold and merged with an institution in a better position.

- In Germany, as early as 2007, the group IKB received liquidity guarantees and recapitalisation from Kreditanstalt für Wiederaufbau (KfW)[16] and a group of private banks, after which it was sold to LoneStar.
- In the UK, Northern Rock requested security from the Bank of England, leading to investor panic in mid-September 2007 (and finally to the nationalisation of the bank in February 2008).
- In the USA, the government provided support to Bear Sterns (sold to JP Morgan Chase in March 2008) and Fannie Mae and Freddie Mac (September 2008) before the fall of Lehman Brothers.

After the fall of Lehman Brothers on 15 September 2008, governments had to strength their approaches to save the financial sector due to raising doubts about the solvency of financial institutions and declining confidence of depositors. The Central Banks of the euro area, the UK, Sweden, Switzerland, the USA and Canada announced coordinated cuts in interest rates on 8 October 2008. In December 2008, the US Federal Reserve established a target range for its Federal Reserve rate of 0% to 0.25% and it communicated that rates would be kept exceptionally low for an extended period. The ECB cut its main policy rate less aggressively, lowering its rate on the main refinancing operation progressively, reaching 1% in May 2009.

After September 2008 it became clear that the measures had to be broader and apply to more banks, and therefore countries developed comprehensive schemes subject to more transparent and predictable procedures that banks would follow to obtain financial support. After an emergency meeting in Paris in October 2008, euro area countries announced a coordinated EU approach to provide support for the financial systems through the following four main measures:

- harmonising the provision of retail deposit insurance;
- issuing government guarantees for bank debt securities;
- making funds available for bank recapitalisations;
- providing asset relief measures.

[16] KfW Banking Group is a German government-owned development bank.

These four kinds of broad national support schemes for banking institutions have had a similar scope and size in Europe and the USA.

Deposit guarantee schemes

Deposit guarantee schemes were among the first comprehensive measures to be implemented. Before the crisis, EU law established a minimum deposit insurance level of €20,000, with an optional 10% coinsurance element by which depositors bear 10% of the potential losses. But after the Irish government announced in September 2008 that all bank liabilities (retail, corporate and interbank deposits) would be protected, EU countries agreed in October 2008 to raise the minimum level of deposit insurance to €50,000 (to be increased to €100,000 before the end of 2010). This led other EU countries to reform their national deposit insurance schemes and eliminate coinsurance. In Germany, for instance, a full coverage for retail deposits was adopted.

In the USA, the deposit guarantee was raised from to USD 100,000 to 250,000 (€69,400 to 173,500) on a temporary basis (until January 2014). In November 2008, the Federal Deposit Insurance Corporation offered full coverage of non-interest bearing deposit transactions accounts under the Transaction Account Guarantee, part of the Temporary Liquidity Guarantee Programme (TLGP).

Government guarantees on bank bonds

The other measure to be adopted soon after the fall of Lehman Brothers was the provision of government guarantees on bank bonds, allowing banks to issue bonds insured by the government against the bank's default.

- The French government provided €320 billion guarantees for credits between banks over a five-year period.
- In order to increase liquidity in its domestic financial market, in November 2008, the Hungarian government signed a USD 25 billion (€17.35 billion) financial stabilisation package agreed with the IMF, EU and the World Bank, which contained a refinancing guarantee fund to guarantee the rollover of loans and wholesale debt securities to promote lending between banks.
- The Swedish bank guarantee programme offered banks the opportunity to contract with the government for a guarantee covering part of their borrowing, by which the government, in exchange for a charge, would interfere in the event that the institution could not pay its lender.

However, despite several countries committing large amounts to guarantee the issue of bank bonds, the take-up by banks was sluggish. In some countries, few banks applied and the amount of government-guaranteed debt issued was low. In others, schemes were implemented but banks did not use them, as shown by the case of Italy. The 'Tremonti bonds' were devised by the government to provide credit to banks that were judged to be sufficiently solid and able to meet certain conditions, since banks benefiting from the scheme had to guarantee the provision of credit to companies and households. However, only a few banks applied for it, perhaps because the credit shortage was less acute in Italy or because banks considered the interest rate applied by the state on the bonds was too high.

In the USA, guarantees on bonds were offered to banks under the Debt Guarantee Programme, which is part of the Temporary Liquidity Guarantee Programme (launched in November 2008).

Capital injections

As the financial strains persisted, banks faced continuous negative impacts on their capital and it became clear that some banks in certain countries were facing not only liquidity problems but also serious risks to their solvency, several governments started to use direct capital injections into banks.

For those banks that needed to be bailed out, the involvement of the state resulting from the intervention has varied. In some cases, the government only provided the funds. In some cases, capital injections have been made through the acquisition of preference shares to ensure the priority of public sector claims, but without modifying the private ownership of the bank. In other cases, banks have been directly nationalised or have been nationalised de facto when the government has acquired the majority of stakes in them.

Recapitalisation of banks through capital injections has been larger in the USA than in Europe; at their peak in June 2009 they amounted to 2.6% of GDP in the USA compared with 1.3% in the euro area. The repayments made by banks to the state so far are also much larger in the USA, possibly reflecting the fact that capital injections were a requirement in the USA but typically voluntary in most European countries.

In Europe, the first example of a comprehensive scheme was that adopted by the German government on 17 October 2008 with the passage of the German Financial Market Stabilisation Act, under whose terms some of the largest German banks were rescued by state aid. Commerzbank received €18.2 billion and the government gained influence over the bank's long-term management strategies, while Hypo Real State came into public ownership after the government granted more than €100 billion in guarantees to the bank.

The UK government injected the largest volume of capital (5.1% of GDP up to June 2009) and a massive public recapitalisation took place in two of the largest UK banks: the Royal Bank of Scotland received €50.1 billion and was taken into public ownership and Lloyds Banking Group received €25.2 billion. The European Commission accepted the bailout but stated that the banks receiving state aid had to divest themselves of many of their business operations outside 'core' banking.

In Hungary, the banking package under the IMF agreement had a capital base enhancement fund, and in order to strengthen their foreign exchange market position, three banks received loans in April 2009 (€1.36 billion for OTP Bank, €400 million for mortgage lender FHB and €600 million for state-owned development bank MFB).

In the Netherlands, several banks received capital injections (ING Group €10 billion, ABN Amro €4.4 billion, Aegon €3 billion and SNS Reaal €750 million). The Fortis Group received €11.2 billion from the three Benelux countries by the end of September 2008, but each country provided capital to their respective part, and Dutch government took a 39% interest in Fortis Bank for €4 billion. A week after the bailout of the group, the Dutch government decided to nationalise its part and the Fortis Group was split along national lines.

In France, BNP Paribas received €5.1 billion.

In other countries such as Estonia, Italy, Spain and Sweden, direct capital injections into banks have not been necessary.

Asset relief programmes

Governments have developed asset relief programmes in order to clean up toxic assets from the balance sheet of banks (either by removing or insuring them), so that lending in the interbank market could resume.

The best example is provided by the US Troubled Assets Relief Programme (TARP), one of the first comprehensive programmes to be introduced (in October 2008). Because of the systemic effects of the fall in Lehman Brothers, the US government decided to provide support to those institutions that were considered too big to fail. TARP authorised the US

Treasury to purchase or insure up to USD 700 billion (€485 billion) of troubled assets from October 2008 to October 2010. The largest US banks have received TARP funding:

- Citigroup and Bank of America each received USD 45 billion (€31.2 billion) in TARP funds and government ownership;
- AIG received USD 40 billion (€27.8 billion);
- Wells Fargo and JP Morgan Chase received USD 25 billion (€17.4 billion) each to acquire failing Wachovia and Washington Mutual respectively);
- Goldman Sachs received USD 10 billion (€7 billion).

Japan, Brazil and China

Because the financial crisis was heavily concentrated in the USA and Europe, the banking systems of Japan, Brazil and China were relatively isolated until the fall of Lehman Brothers. After September 2008, these countries faced liquidity constraints in their financial markets and were increasingly impacted by the worsening economic downturn. As a consequence they had to adopt expansive monetary and fiscal policies. But the liquidity crisis did not turn into a solvency crisis and banking institutions did not have to be bailed out as in the USA and Europe.

Japan

Between October 2008 and December 2009, the government of Japan implemented three stimulus programmes:

- 'Measures to Counter Difficulties in People's Daily Lives' in October 2008;
- 'Efforts to Revive Local Areas' in October 2009;
- 'Assistance to Small and Medium-sized Enterprises' in December 2009.

These programmes consisted mainly of fiscal stimulus measures. Only the first one included measures targeted at the financial system, the most important of which were:

- facilitating corporate financing for small and medium enterprises (SMEs);
- partial relaxation of capital adequacy ratio requirements;
- reductions in the interest rate;
- supplying funds to the short-term money market;
- operations supplying US dollar funds;
- resumption of the purchase of shares held by financial institutions;
- provision of subordinated loans to banks.

In late September and early October 2008, the Japanese central bank (Bank of Japan) injected billions of dollars into the financial system, announcing on 14 October that a temporary facility would provide an unlimited amount of capital to banks to secure the flow of credit in the interbank market (funds were provided against the collateral of corporate debt at the target overnight rate). On 31 October 2008, together with the US Federal Reserve, Japan used its already limited room for manoeuvre to cut interest rates from 0.5% to 0.3%, and then to 0.1% in December.

Brazil

Brazil implemented a large fiscal stimulus (around 8.5% of GDP) and monetary policies aimed at increasing liquidity in the financial sector in order to fight the effects of the economic downturn in the Brazilian economy. During 2008, the Brazilian stock market index was cut by half after investors fled both equities and the Brazilian currency, the real (BRL). The Central Bank reacted rapidly to address the situation through the following measures.

- There were constant interest rates cuts from 13.75% in September 2008 to 8.75% in July 2009.
- To reduce the concentration of liquidity in reals, the Central Bank reduced the volumes of compulsory deposits and imposed a partial conditionality on large institutions to acquire the credit portfolios of small and medium-sized financial institutions; from the volume of the compulsory deposit reductions, which amounted to BRL 100 billion (€43.6 billion), BRL 42 billion (€18.3 billion) were redirected to small and medium-sized institutions.
- To assure liquidity in the US dollar market, the Central Bank injected USD 5.6 billion (€3.9 billion) into the banking system between September 2008 and July 2009 by:
  - selling dollars;
  - expanding their supply in the currency swap transactions markets by an agreement with the US Federal Reserve;
  - selling auctions directed to finance export trade contracts.

China

When the financial crisis turned into an economic crisis by the end of 2008, China adopted a combination of expansive fiscal policy (a large fiscal stimulus programme focused on infrastructure was announced in November 2008) and moderate easing of the monetary policy to stimulate the economy.

In September 2008 the Central Bank lowered interest rates and the reserve-requirement ratio and Central Huijin Investment (an investment company owned by the government) announced that it would buy stocks of the Industrial and Commercial Banks of China, the Bank of China and China Construction Bank in the secondary market to support the stability of national key financial institutions.

At the same time, the China Banking Regulatory Commission required banking institutions to disclose their profits or losses of finance products or services in foreign currencies as a way to avoid uncertainties. Several measures were adopted with the aim of securing the flow of credit and guaranteeing funds for SMEs, as a result of which the loans available to other economic sectors increased rapidly.

Commentary

As a result of a process of internationalisation and market integration in the past few decades, the banking sector has been undergoing a restructuring as a consequence of which M&A, offshoring, outsourcing and the job losses associated with these measures have been common in most of the countries analysed for this study.

Against this background, the banking sector has suffered the deepest global financial crisis since the 1930s, but with diverging effects in the analysed countries. The financial crisis has been concentrated in the USA and Europe, where some banking institutions had to be bailed out and employment levels suffered a negative impact.

The impact of the financial crisis was strongest where it originated, in the USA, where the positive employment trend observed in the sector in the years before the crisis has been clearly reversed. In Europe, it had a strong impact on the European financial centre, the UK, which had a large, lightly regulated investment banking sector, and in Hungary, due to excessive public and private borrowing. In the rest of the European countries, the impact of the crisis has only been moderate, and only certain banking groups have been significantly affected, particularly in Germany and the Netherlands, but also in Estonia, France and Sweden.

The effects of the economic downturn have affected European economies and employment has fallen in most European banking sectors. Nevertheless, the downward trend in employment is not easy to disentangle from the effects of the ongoing restructuring that was already causing job losses in the past decade in many of the most developed western European economies.

The banking sectors in Japan, Brazil and China were not significantly affected by the financial crisis. Japan and Brazil had suffered financial crises in the previous few years that had left them better prepared for the latest crisis, while the Chinese banking sector is less mature and remains relatively isolated from international financial markets.

The financial crisis spilled over into the real economy and set off the deepest global economic downturn since the Second World War. Large public interventions have tried to deal with the crisis. Almost all developed and many emerging countries have implemented expansive macroeconomic policies to fight the economic downturn, while specific rescue packages for the financial sector have also been put in place in those areas most affected by the financial crisis, that is, Europe and the USA.

These public measures to specifically support the banking system have had an unprecedented scale and have helped in stabilising the sector. They have, however, been designed primarily to avoid the failure of banking institutions and secure credit supply into the economy rather than to maintain employment levels in the sector during the crisis. As a result interventions on the labour market side have been lacking. For example, in Europe, the use of short-time working schemes, widespread in the industry sector during the crisis, has been negligible in the banking sector. Nevertheless, the measures implemented to support the banking sector may have avoided larger layoffs; with the exception of the UK, employment reduction in the banking sectors have been more contained than in manufacturing industry and construction in European countries.

The traditional view of employment in the banking sector is that it offers better working conditions, with better protected and remunerated jobs than in other sectors. This still seems to be the case in the countries analysed despite the cost reduction strategies observed in the past few years in most countries, during which outsourcing and offshoring have been common elements. In Europe, it seems clear that the crisis has reinforced the challenge posed to this traditional view of the banking sector, since cost reduction strategies have continued or intensified during the crisis, normally resulting in wage reduction and work intensification.

The analysis of industrial relation systems is essential to monitor the actions taken to safeguard employment in the banking sector during the current crisis. Nevertheless, since collective bargaining and social dialogue are negligible in the US banking sector and the employment levels in the Japanese, Brazilian and Chinese banking industries grew during the crisis, social partner initiatives to deal with the effects of the crisis are mainly provided in this study for Europe.

Among the European countries included in this study, collective bargaining takes place at different levels depending on the national industrial relations system and the relative importance of the sector in the country. The role of employee representatives varies depending on the national industrial relations system. For instance, in some countries works councils deal with work organisation issues whereas trade unions focus more on pay and conditions. In the two new Member States analysed (Estonia and Hungary) and the UK, collective bargaining is negligible or very limited. While industry-level collective bargaining is still very important in countries such as France, Germany and Italy, there have been some trends towards the introduction of wage flexibility in company-level agreements. Exit clauses are becoming more visible in industry collective agreements (for example, in France and Germany) and there are pressures for more decentralised collective bargaining which follows a more general trend across sectors. More often than not large banks have their own collective agreements.

Collective bargaining in the banking sector has been prominent during the crisis and has worked as an important tool in implementing change in European banking industries. Nevertheless, collective bargaining has been rather reactive and has become more difficult. This is because it has focused mainly on wage moderation negotiated at the company or sectoral level and in trying to limit the extent of redundancies and addressing their social effects, primarily through social plans negotiated at the company level in cases of major restructuring. These social plans show that, in the case of dismissals, active labour policies such as education, training and the creation of deployment centres may be important in increasing people's employability. Nevertheless, these measures are reactive since they are put in place once restructuring decisions have been taken in order to limit their negative effects.

More ambitious and proactive collective bargaining aimed at maintaining overall employment levels in the sector through innovative solutions (such as short-time working schemes, anticipating change[17] and adopting industry-level programmes to retrain the labour force) did not exist in the banking sector or were very marginal during the crisis. Nevertheless, existing instruments such as the Italian Redundancy Fund or the collectively agreed German measures on internal mobility, training and working time flexibility show how social partners may help a troubled sector in tackling the effects of the crisis.

Examples of innovative steps in collective bargaining during the crisis in European countries include:

- the French attempt to adapt job definitions to changes in work organisation in the banking sector;
- the German statement on the need for fair banking targets to be formulated by taking into consideration client requirements.

[17] French multinational companies in the metal industry (Schneider Electric, Areva, Thales) provide an interesting case of anticipation of change as a way to avoid redundancies; see Eurofound (2009b).

An interesting development in social dialogue at the sectoral level may be found in France, where the government has established a discussion body in which consumer associations have been allowed to participate. During the crisis social dialogue has been more intense at the company level and it has deepened in countries such as Hungary and the UK, although this may be explained by the need for management to deal with employee representatives to plan restructuring processes.

The role of European social dialogue has been limited during the crisis, both at the European sectoral social committee level and at the company level. Nevertheless, at the company level, the example of Unicredit shows the importance of internationalising industrial relations at the company level in cross-border banking groups. During the past few years, EWCs and management have agreed on some measures meant to apply to the whole Unicredit group:

- a joint declaration on training;
- a joint declaration on equal opportunities;
- the development of a common strategy for managing restructuring processes with the involvement of trade unions.

Broadly speaking, industrial relation systems in Europe have not suffered a major shift during the crisis. The existing structures and mechanisms have remained unchanged and have been used as a tool to implement changes in the sector. This is despite the fact that the crisis has made collective bargaining more difficult, as evidenced by the breakdown of the traditional consensus culture in Germany, and has emphasised the need for better coordination between national and European levels to improve the functioning of European sectoral social dialogue.

Looking at the future of the banking sectors, it seems the key structural trends observed over the past two decades have not been modified by the crisis. While the banking industry has not been significantly affected in Japan, Brazil and China, the health of the banking sector in the USA and Europe is normalising and banking institutions are reducing their vulnerability by means of prolonged de-leveraging and higher capital ratios.

The sector still faces risks as the full extent of the impact of the crisis in certain banking institutions may not yet be fully apparent in the USA and Europe. The next steps will certainly imply further restructuring and capitalisation of those banks identified as vulnerable, and reinforcing confidence in the system by an increase in regulatory capital. Moreover, the current European debt crisis and sovereign bond market volatility pose further challenges to the European banking sector and, eventually, the health of the banking system in all countries will depend on the general economic situation. Nevertheless, the fundamental drivers of banking integration remain in place and structural trends are expected to resume.

Against the background of further restructuring and the need for better regulation and coordination in banking sectors, the main challenge for industrial relations will be to develop proactive initiatives able to anticipate changes, for instance through transnational framework agreements in large banking groups. A better regulation of restructuring processes would imply that information and consultation processes at the European level need to be strengthened. Moreover, since large banks increasingly provide their services across borders, they are interested in internationalising their business and human resources strategies. In that respect, the establishment of transnational social dialogue structures is linked to the globalisation of production structures and human resource strategies. It can also be beneficial for both the trade unions and the employers: unions can develop transnational representation structures and management can introduce transnational policies, thus avoiding the cost of repeating (parallel) negotiations.

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Table A1: *General government revenue and expenditure (% GDP)*

		2007	2008	2009	2010*	2011*	2012*
EU27	Revenue	43.7	43.2	42.6	42.2	42.6	42.8
	Expenditure	44.5	45.7	49.4	49.1	48.1	47.4
US	Revenue	33.9	32.4	30.4	30.3	31.5	33.1
	Expenditure	36.6	39.1	43.3	41.4	41.2	39.7
Newly industrialised Asian economies	Revenue	23.3	22.4	21.4	21.9	21.8	22.0
	Expenditure	19.7	21.8	22.9	21.9	21.1	20.9
Commonwealth of Independent States	Revenue	39.0	39.0	34.9	35.0	35.4	35.5
	Expenditure	33.8	35.3	39.8	39.0	38.2	37.5
Emerging and developing countries	Revenue	27.3	27.7	25.5	25.5	25.7	25.9
	Expenditure	26.8	27.8	30.0	29.3	28.6	28.2
Brazil	Revenue	35.7	36.6	36.1	36.3	36.5	36.6
	Expenditure	38.3	38.0	39.3	38.0	37.8	38.2
China	Revenue	19.8	19.7	20.0	19.4	19.8	20.5
	Expenditure	18.9	20.0	23.0	22.3	21.7	21.8
Japan	Revenue	31.0	31.5	29.5	30.1	30.9	31.3
	Expenditure	33.4	35.6	39.7	39.7	39.8	39.5

Note: * Projected.
Source: *IMF (World Economic Outlook October 2010)*

Table A2: *Evolution of banking sector variables, 1999 to 2009*

Number of institutions			
Year	**USA**	**EU**	**Japan**
1999	21,079	8,270	137
2000	20,430	7,794	136
2001	19,812	7,455	133
2002	19,245	7,154	134
2003	18,752	6,887	131
2004	18,176	6,638	129
2005	17,706	6,528	126
2006	17,293	6,481	125
2007	16,878	6,419	124
2008	16,345	6,341	123
2009	15,801		
Change 1999–2008	-22.50%	-23.30%	-10.20%
Change 2008–2009	-3.30%	-2.30%	

Number of branches			
Year	**USA**	**EU**	**Japan**
1999	67,281	192,191	13,778
2000	67,807	190,707	13,753
2001	68,773	188,082	13,380
2002	70,571	184,316	12,820
2003	71,860	182,623	12,510
2004	74,519	193,038	
2005	77,086	194,160	
2006	78,561	206,149	
2007	79,692	208,713	
2008	81,696	210,818	
2009	82,190		
Change 1999–2008	21.40%	9.70%	
Change 2008–2009	0.60%	-1.70%	

Number of employees			
Year	**USA**	**EU**	**Japan**
1999	2,078,902	2,875,079	366,000
2000	2,093,973	2,875,846	352,000
2001	2,158,815	2,868,397	332,000
2002	2,210,997	2,844,399	321,000
2003	2,242,872	2,812,921	302,000
2004	2,299,508	2,820,318	
2005	2,361,370	2,819,440	
2006	2,433,386	2,870,478	
2007	2,450,506	2,923,450	
2008	2,391,916	2,931,324	
2009	2,302,628		
Change 1999–2008	15.10%	2.00%	-17.50%
Change 2008–2009	-3.70%	-3.00%	

Assets/liabilities (millions in national currencies)			
Year	**USA** (USD)	**Euro Area** (€)	**Japan** (JPY)
1999	7,369,962	13,741,720	737,233,300
2000	7,961,768	15,006,462	804,290,500
2001	8,446,192	16,123,912	756,083,300
2002	9,045,488	16,478,596	746,269,400
2003	9,623,188	17,062,169	746,656,900
2004	10,666,422	18,935,824	745,889,842
2005	11,488,389	21,466,209	766,868,478
2006	12,608,106	23,646,290	761,095,759
2007	13,835,998	26,719,283	780,650,313
2008	14,737,225	28,135,554	806,888,705
2009	14,113,124		
Change 1999–2008	100%	175.20%	9.40%
Change 2008–2009	-4.20	-2.30%	

Notes: OECD Banking Statistics for Europe include EU15 plus the Czech Republic, Hungary, Poland and the Slovak Republic. The growth rate in 2009 is calculated for the same set of countries excluding Austria, Belgium, Luxembourg and the UK. For the variable of assets or liabilities, EU data refers to the 13 countries that are members of the Euro Area (that is, excluding the UK, Denmark, Sweden, Czech Republic, Hungary and Poland), while the growth rate in 2009 is calculated for the same set of countries excluding Austria, Belgium and Luxembourg. For number of branches and employees, change 1999-2008 refers in fact to 1999-2003 in the case of Japan. Data for 2009 are provisional for some countries.
Source: *OECD Banking Statistics*

Table A3: *The 30 largest banks in Europe (by total assets) in 2008*

Banks	Country	Total assets (€ million)	Total income (€ million)	Number of employees
Royal Bank of Scotland Group (RBS)	United Kingdom	2,521,118	23,845	197,600
Deutsche Bank	Germany	2,202,423	12,948	79,931
Barclays	United Kingdom	2,155,230	24.010	149,773
BNP Paribas	France	2,073,325	27,766	331,458
HSBC Holdings	United Kingdom	1,814,646	57,515	163,615
Credit Agricole	France	1,783,248	29,027	80,672
UBS	Switzerland	1,356,968	1,545	125,285
ING Group	Netherlands	1,325,866	14,834	160,430
Société Générale	France	1,129,704	21,765	139,688
Banco Santander	Spain	1,049,173	29,912	165,946
Unicredit	Italy	1,045,611	27,065	47,950
Credit Suisse Group	Switzerland	788,114	7,341	74,676
HBOS	United Kingdom	722,857	8,004	28,099
Dexia	Belgium	650,919	5,008	110,021
Intesa SanPaolo	Italy	636,093	17,762	40,532
Commerzbank	Germany	625,196	7,063	60,252
Rabobank Nederland	Netherlands	612,120	11,973	37,010
Fortis Bank	Belgium	586,777	5,290	65,545
Credit Mutuel	France	581,709	8,898	111,936
Banco Bilbao Vizcaya Argentaria	Spain	542,621	18,149	23,755
Danske Bank	Denmark	475,406	5,499	33,944
Nordea Bank	Sweden	474,065	7,920	66,473
Lloyds Banking Group	United Kingdom	457,373	11,455	13,646
Landesbank Baden-Wuerttemberg	Germany	447,932	1,059	24,642
Dz Bank	Germany	427,090	2,212	19,405
Bayerische Landesbank	Germany	421,666	680	30,195
Dresdner Bank	Germany	420,961	824	1,892
Hypo Real Estate Holding	Germany	419,654	516	4,228
Kreditanstalt für Wiederaufbau (KfW)	Germany	394,826	3,971	59,150
KBC Group	Belgium	355,037	920	6,221

Source: *Mediobanca R&S, 2010*

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