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Positive side effects of the banking labor market decline

Slovakia saw its future in the EU from the Velvet Revolution in 1989 onwards. In late 1998, the preparation for EU accession was accelerated tremendously, and thorough preparation in many areas, was carried out until the accession in 2004. This included the transformation of the banking sector – privatization of state-owned banks to strategic investors and getting know-how, important for long-term profitability and sustainability. This transformation process meant that many of the institutions were well-prepared for the stormy times ahead.

Harvesting positive results – Slovakia and banks

Thorough preparation paid off in several ways. Slovakia was able to change over to the euro seamlessly – fulfilling all of the Maastricht criteria and having banks which were able to implement such a giant project successfully. Moreover, during the crisis Slovakia did not need to bail out any local banks. On the contrary, based on data from a world-wide industrial database, Slovak banks had, on average, a profit that was 40 times higher and capital with a four times higher adequacy (proxy to stability) than the banks in older EU countries in 2013.

The decline of the Slovak banking labor market…

Both in Europe and world-wide, banks are undergoing a massive transformation due to new regulations and common standards. The goal for banks is not only to comply with standards, but also to be (or return to being) relevant for customers. Independently of the overall success of the Slovak banking sector, the financial crisis left its traces on the market. Several smaller banks, with a focus on the corporate sector, withdrew from the market, and others decided to hand back the Slovak banking license in order to operate under another EU banking license, in order to reduce the burden of regulatory reporting. The consequence of this was a steady decline in the total number of employees in the banking sector, reaching roughly 10% by the end of 2013 compared to the peak in 2008.

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… led to rise of the consulting sector

A large part of both the banking and IT Slovak workforce, which is accustomed to big transformational projects as well as smaller ones for improvement of a chosen area/product/part in the form of small implementation projects, or also Six Sigma projects or process improvement, has attracted the attention of several consultancies, some of which even have worldwide competence centers located here now. Eurozone membership, the proximity of Vienna airport to Bratislava, an investment-friendly environment[1], the free movement of people, a joint labor market, and the capabilities of the Slovak workforce have attracted these companies, and led to at least the partial absorption of the highly skilled employees freed up by the banking sector in Bratislava.

Capco – a specific example of successful investment

The availability of highly skilled banking and IT experts also attracted Capco – the only global consultancy focused solely on financial services – to set up a nearshore office to support project teams in financial institutions in Western Europe. Thanks to both the capabilities of Slovak experts and the need for capable people to take part in challenging projects, the center has seen stellar growth from zero to 100+ within two years. This is a typical triple-win situation for the consulting company, the employees and for the country.

Triple-win for company, employees and for Slovakia

Why for the company? The massive demand for a financial services consulting workforce within Western Europe has led to a scarcity of suitable resources in Western European financial centers. The Bratislava office greatly helped to reduce this pressure.

Why for the employees? Switching to the consulting industry gave many of the highly skilled bankers, freed up by the local banks, a new perspective, allowing them to gain international experience in some of Europe's biggest institutions.

Why for the country? Low-qualification jobs creation has clearly shifted to the regions south and east of Slovakia. The labor market transformation to the higher value-added services is completely necessary to support country competitiveness, both now and in the future.

Conclusion

The massive transformational process going on in the banking sector, that started even prior to the accession to the EU in 2004 and accelerated with the financial crisis, has also had positive effects on the Slovak labor market, since it freed up a highly skilled workforce at a time when other sectors were desperately looking for such employees. This allowed Slovakia to move one step further away from being a low cost location, towards becoming an attractive source of highly skilled experts.

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1 "Global Best To Invest" report from Site Selection magazine (www.siteselection.com), proclaiming Slovakia as the Number One investment country in CEE (based on key factors including total number of projects, investments, jobs created as raw value and per capita value, as well as business costs, economic strength, infrastructure, regulatory burden and tax rates.