Investment banks are already leaving London. Other jobs will follow

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*The Brexit exodus is already happening. Investment banks have announced plans to relocate jobs from London to Frankfurt and Dublin, and Warsaw is also likely to benefit. With 8% of the UK's GDP coming from banking and finance, warns **Simeon Djankov**, the knock-on effects on other sectors – retail, education, entertainment and transport – will be considerable.*

In May 2017, new available jobs in London's financial sector fell by 16% relative to the same period the previous year. And while Frankfurt and Dublin are emerging as the favourite destinations after Brexit in terms of attracting investment banking jobs, Warsaw is also becoming a destination. The announcements of actual or planned reassignments add up to a potential 17,000 jobs leaving London, out of a total of 94,000 London-based positions currently accounted for by the dozen largest investment banks.

The biggest winner of the Brexit vote among European financial centres seems to be Frankfurt. Seven of the 12 largest investment banks with significant operations in London plan opening an office or moving their operations to Frankfurt. (The 12 largest investment banks with significant operations in London include Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Nomura, Standard Chartered and UBS.) Three of the remaining global banks look to expand in Dublin, and one to Paris. In May, JP Morgan and Standard Chartered became the latest global banks to outline plans for their European operations after Brexit. JP Morgan, for example, has started moving analysts to its Baltimore and New York office, and just bought a Dublin office for 1,000 employees. Standard Chartered decided on Frankfurt, lured by proximity to the European banking regulator. Deutsche Bank has warned that up to 4,000 London-based jobs could be moved to Frankfurt and other locations in the European Union as a result of Brexit, though it has yet to announce concrete plans.

Boom times … a restaurant at Canary Wharf in 2012. Photo: Jim Crossley via a CC-BY-NC-SA 2.0 licence

Warsaw is likely to benefit from another wave of outsourcing as investment banks move back-office jobs to low-cost jurisdictions. Mateusz Morawiecki, Poland's deputy prime minister, forecasts that Poland will create 35,000 jobs in financial services in 2017. That may be optimistic, but it has a legitimate basis. The main reason for Warsaw's rise is the large pool of Polish professionals working in the City of London who are willing to head home.

Poland's appeal lies primarily in its favourable business climate, well-educated labour force and the lower cost of living. The World Bank ranks Warsaw ahead of Amsterdam, Zurich and Luxembourg on the ease of doing business. The Warsaw School of Economics prepares young professionals to fill front office roles in banking, while the Warsaw University of Technology provides technology, risk and structuring skills for investment banks.

Polish professionals constitute the City of London's 5th largest group by nationality, behind only British, American, French and Italian bankers. Until 2015 Polish workers were also the largest single group entering the United Kingdom. This is no longer the case: in 2016 net migration to the UK was virtually zero. While the return to Poland mostly affects other sectors like transport, bankers as well as professionals in insurance and asset management are also considering their post-Brexit future.

No other advanced economy relies on its banking and financial sector like the United Kingdom, where the sector provides 8% of GDP and 29% of all exports. And other sectors may consider moving or reducing part of their workforce once investment banking becomes footloose. Such migration will have a multiplier effect on other financial jobs in the City of London, but also on construction, retail, and educational institutions (both universities offering professional degrees as well as private schools for children), to name a few. Beyond these obvious sectors, transport will suffer, especially airline transport. Investment banking tends to involve significant international travel. Entertainment will suffer too – many art exhibitions and cultural and sports events in London are sponsored by investment banks. The ultimate result will be a duller city.

This post represents the views of the author and not those of the Brexit blog, nor the LSE.

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