



THE REFUGEE SURGE IN EUROPE: ECONOMIC CHALLENGES

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February 16, 2016



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- Institutional Framework

Economic Impact

- Labor Market
- Fiscal Effects
- GDP Growth
- Age-Related Spending

Policies

- Labor Markets
- Product Markets
- Housing and Mobility
- Fiscal Policy

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A solid green horizontal bar is positioned behind the "Facts" section header.

Facts

- Numbers in Perspective
- Institutional Framework

REFUGEE SURGE IN PERSPECTIVE

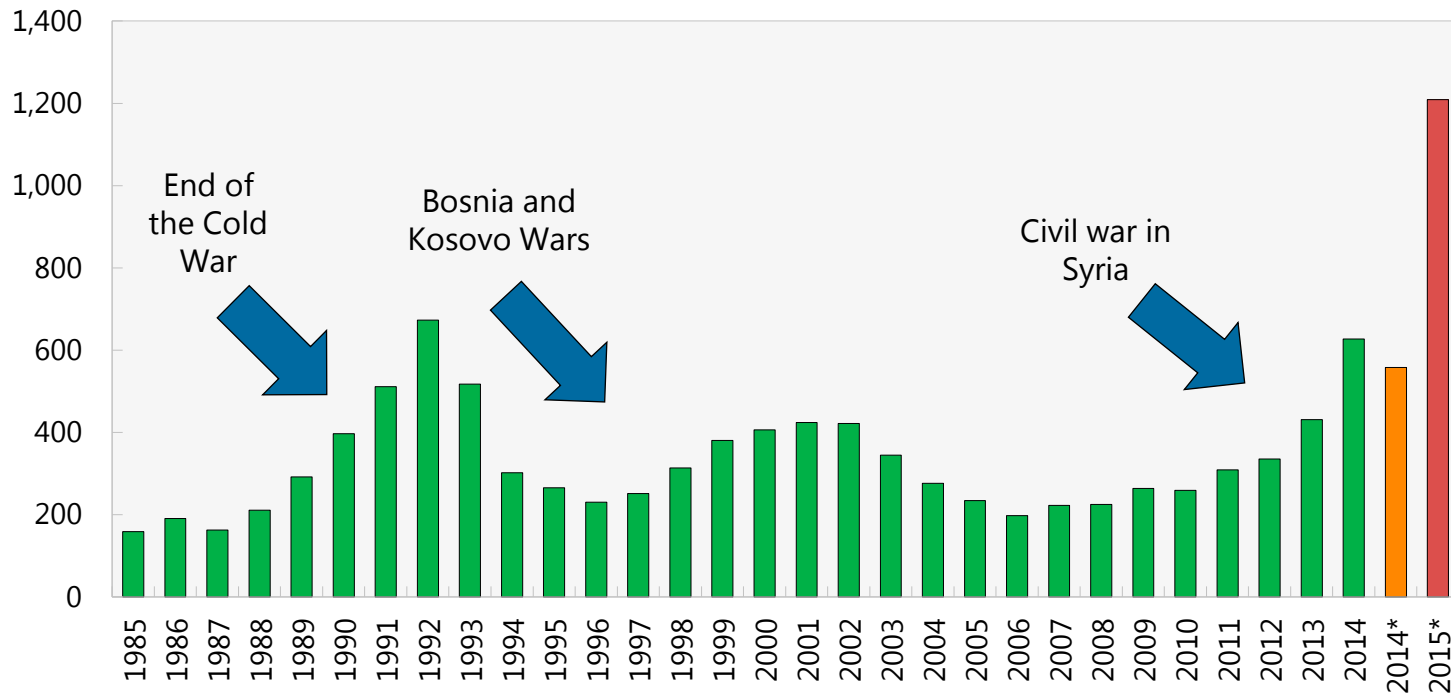
- Worldwide refugees: **14.4 million** in 2014 (up 25 percent from 2013)

- Inflow of first-time asylum seekers to the EU has increased dramatically:
 - Through November 2015 the inflow was **1,140,000**, up 128% over the same period in 2014.
 - In Q3 2015 the inflow was **415,000**, up 153% over Q3 2014.

- More could come:
 - **8 million** displaced people in Syria
 - **4.3 million** having fled to neighboring countries
 - Ongoing conflicts in Iraq, Afghanistan, and Eritrea
 - Network effects

ASYLUM APPLICATIONS IN THE EU OVER TIME

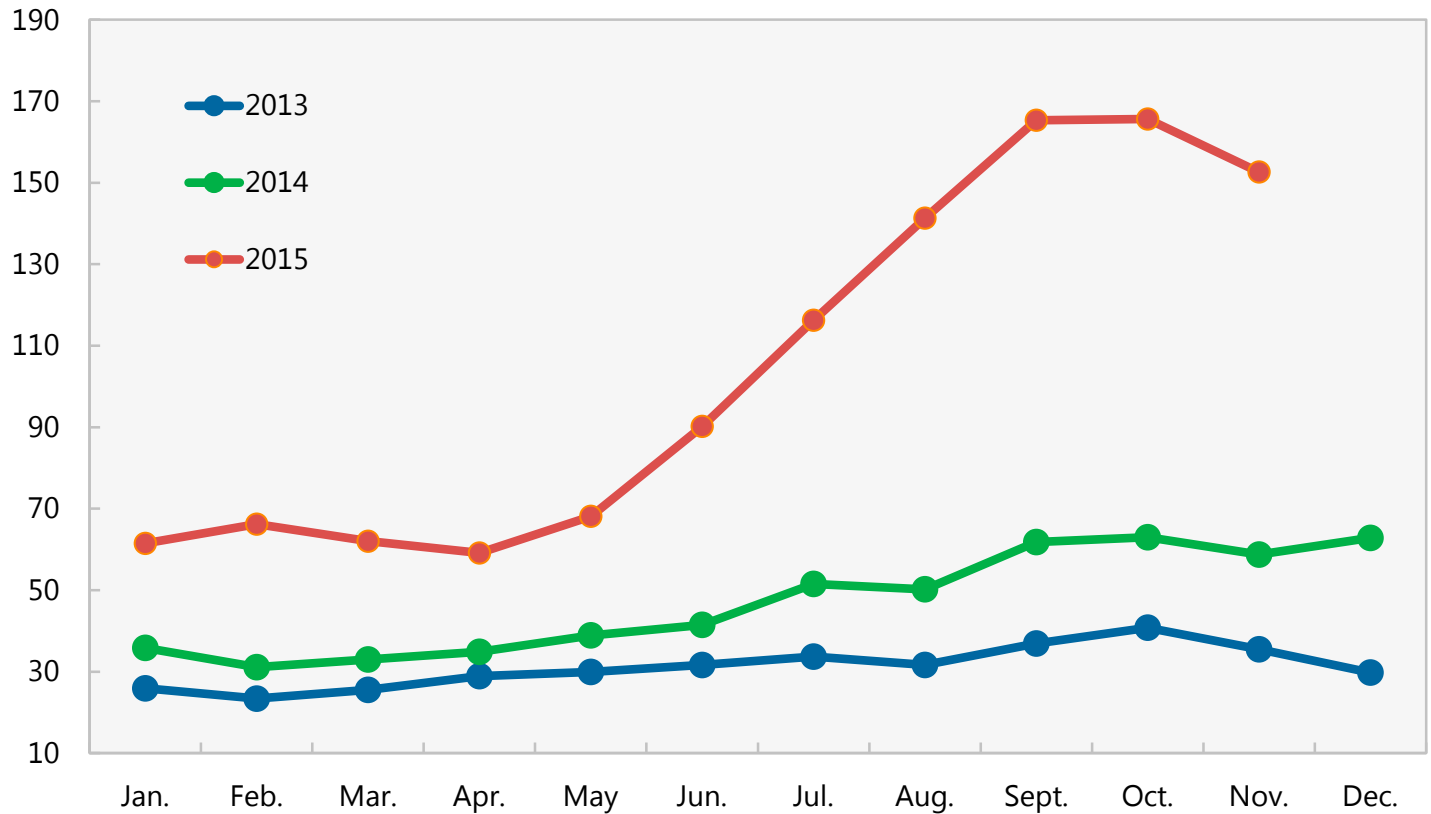
EU-28: Asylum Applications
(Thousands)



Sources: Eurostat.
*Data is through November.

SURGE IN MID-2015

First-Time Asylum Applicants
(Thousands)

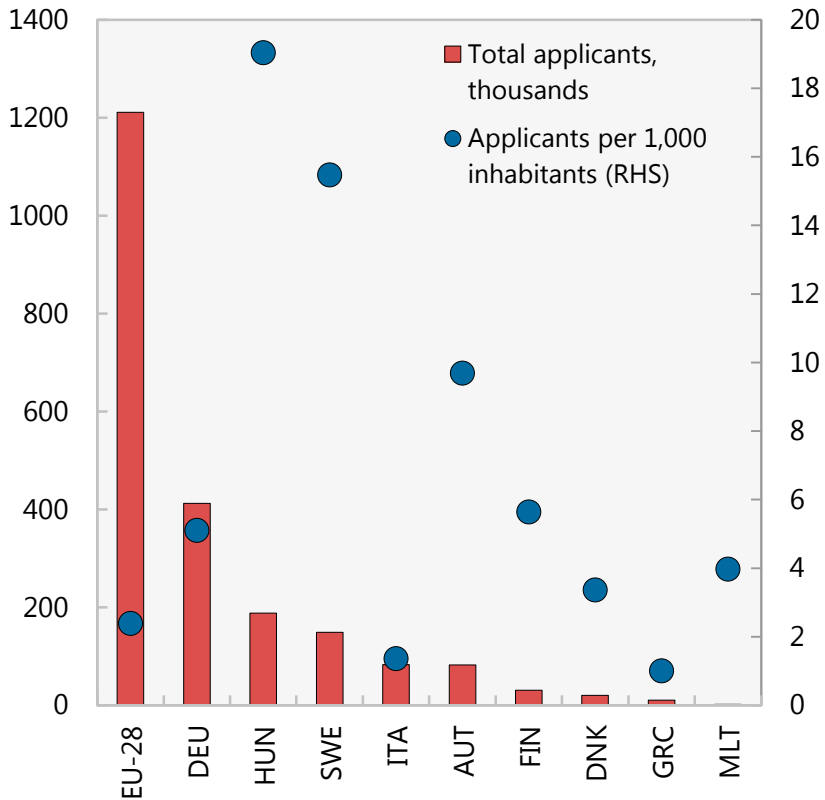


Source: Eurostat.

UNEVEN IMPACT ACROSS EU COUNTRIES

Selected Asylum Seekers' Destinations in the EU-28

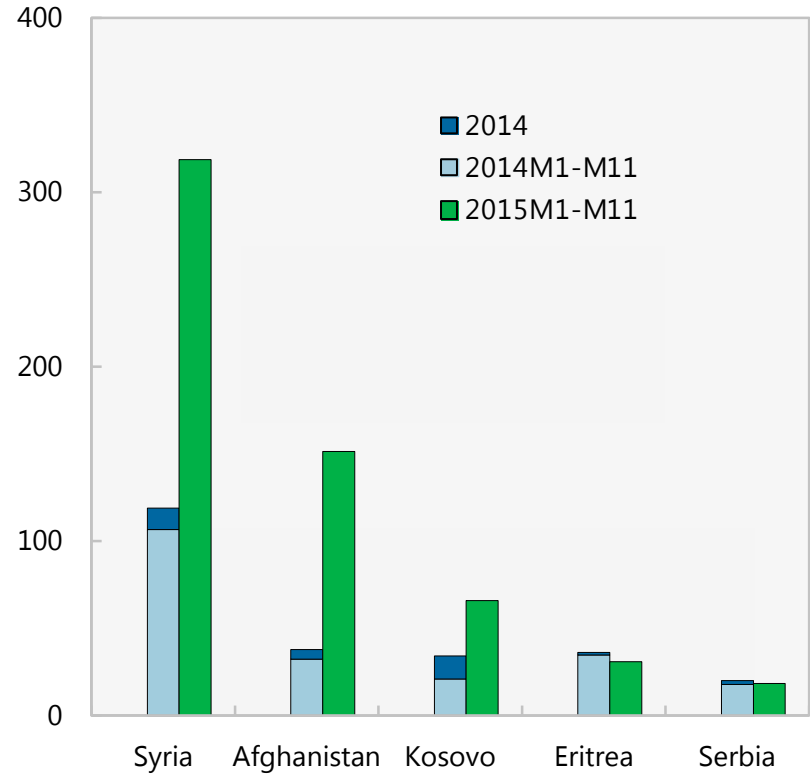
(December 2014 to November 2015)



Source: Eurostat

First-Time Asylum Applicants in the EU by Major Countries of Origin

(Thousands of Applications)



INSTITUTIONAL FRAMEWORK - I

UN

- 1951 Refugee Convention and its 1967 Protocol

Common European Asylum System

- The 2013 Dublin Regulation
- Standards on asylum procedures

Countries

- Many other asylum rules are national, including when/on what grounds residency is granted

INSTITUTIONAL FRAMEWORK - II

Consensus that the current EU system is not working

- Few countries are fully respecting *the minimum standards*
- Scope for returns under the Dublin system is limited
- Lack of resources. Gateway countries are overwhelmed
- Asylum seekers want to apply for asylum in their favored destination

Temporary (partial) solution

- In the fall of 2015, EU countries agreed to:
 - “Hot spots” in gateway countries where asylum seekers can be registered, identify people in clear need of international protection
 - Relocation of 160,000 asylum seekers from Greece and Italy on an *ad hoc* basis over the next two years
 - Stepped up border enforcement
 - Humanitarian help for Turkey

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Economic Impact

- **Labor Market**
- Fiscal Effects
- GDP Growth
- Age-Related Spending

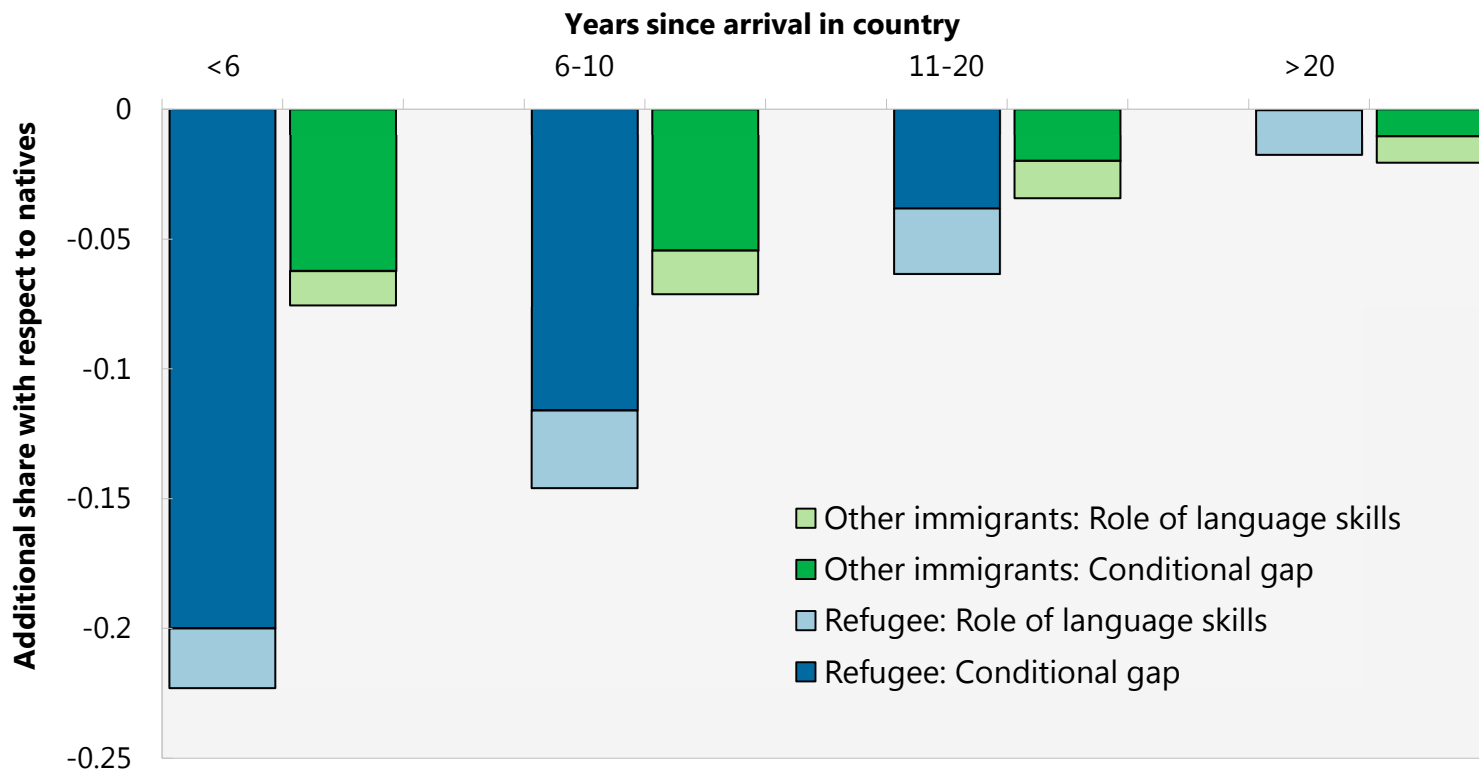
LABOR MARKET AND INTEGRATION

- How do migrants perform in the labor market?
- Which policies facilitate the entry of immigrants in the labor market?
- What is the economic impact of immigrants on natives?

REFUGEES INTEGRATE SLOWLY *

Employment relative to native workers

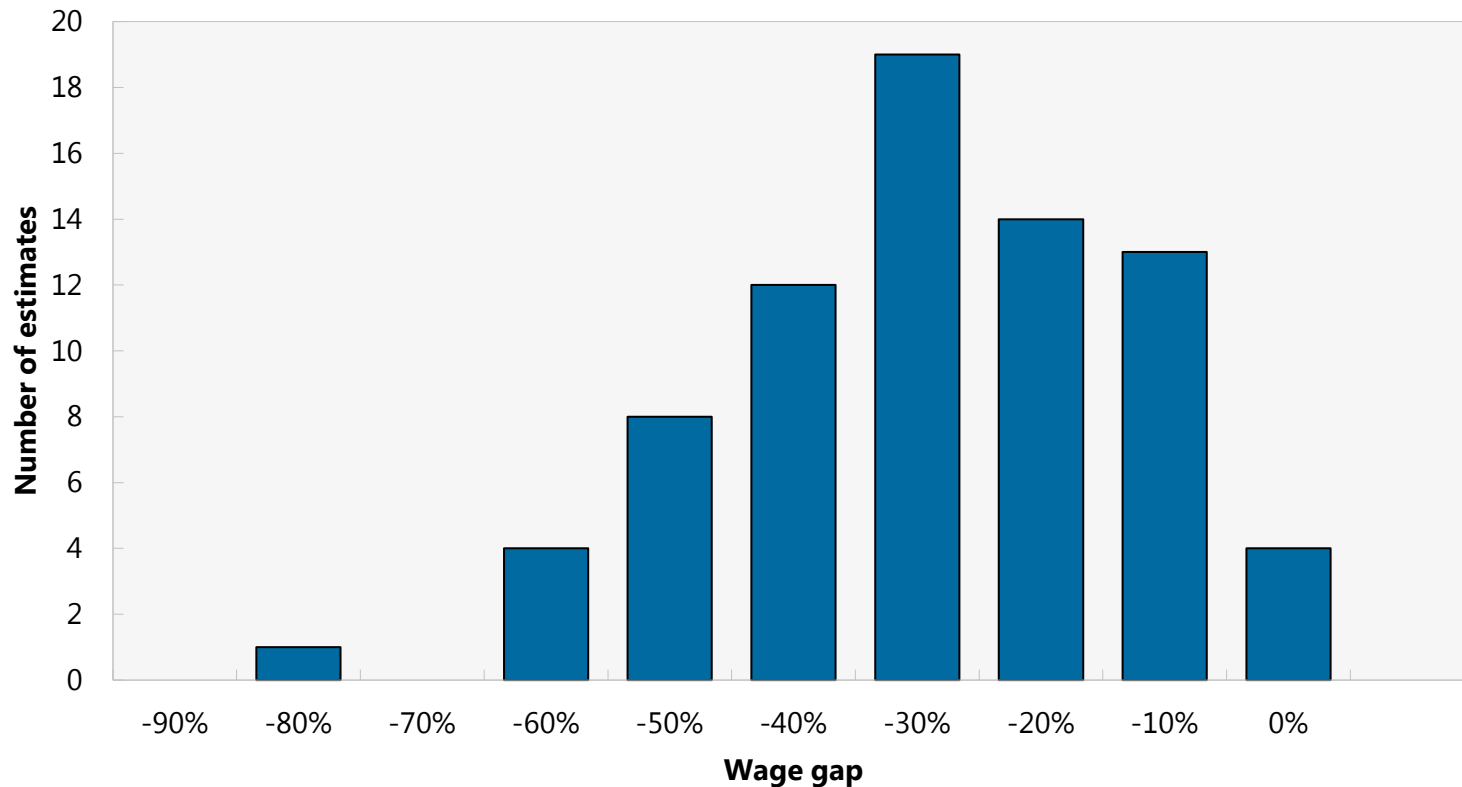
(Share)



•We proxy the refugee experience using that of immigrants from refugee-sending countries

LARGE WAGE GAPS

Immigrant Wage Gap: Distribution of Estimates in Select Studies



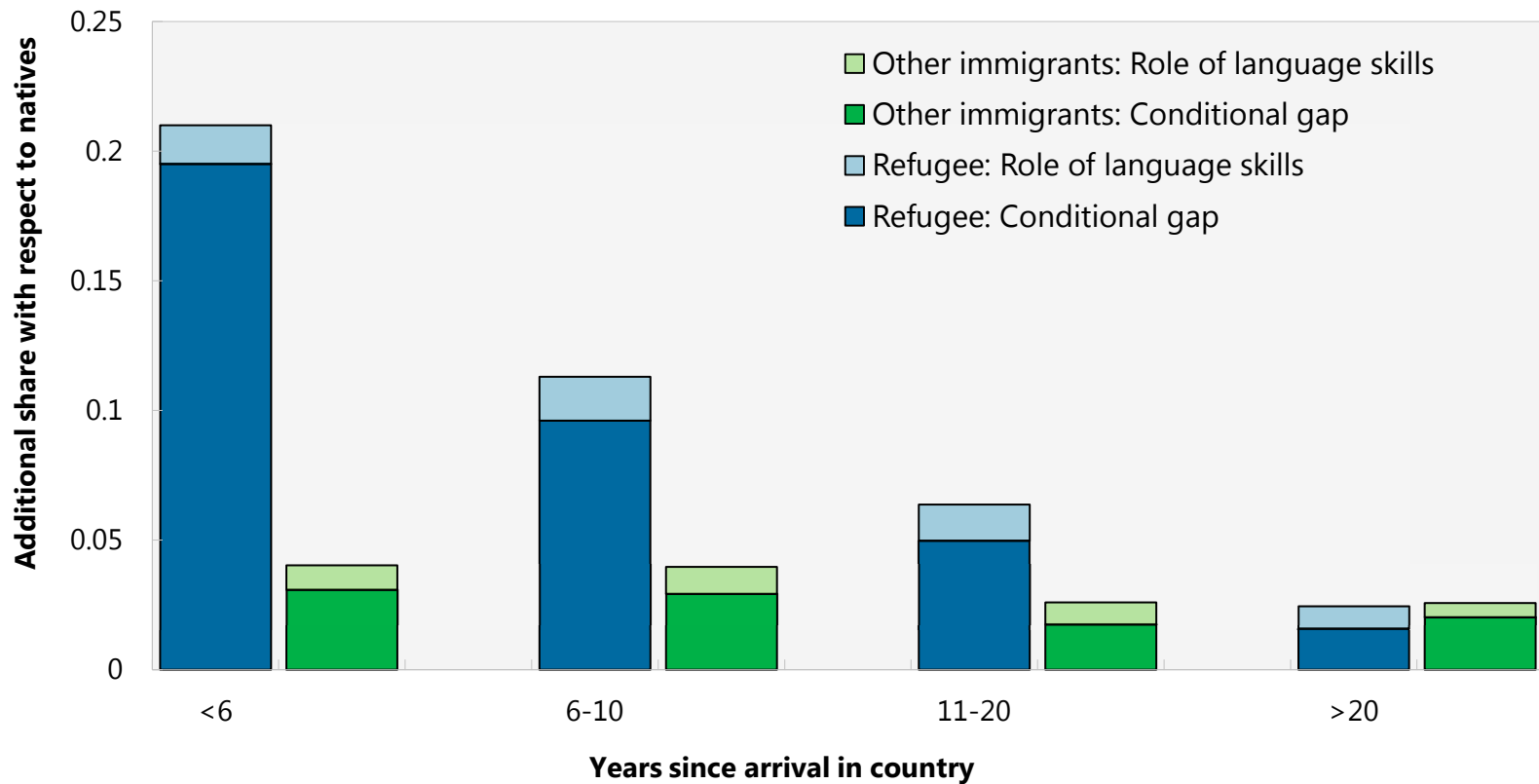
Source: IMF Staff Estimates

Note: Histogram of migrant wage gap, conditional on observables, based on 75 estimates across 9 studies on earnings assimilation of immigrants in the US, Canada and Europe.

HIGHER RELIANCE ON SOCIAL BENEFITS

Social Benefits: Main Source of Income

(Share)



INTEGRATION POLICIES: **STRONG** EVIDENCE OF EFFECTIVENESS

Policy	Measure	Evidence
Active Labor Market Policies	Wage subsidies	Denmark, Germany
	Training / skill provision	Germany, Denmark, Israel
	Access to temporary employment agencies	Denmark, Netherlands, Sweden

INTEGRATION POLICIES: **SOME** EVIDENCE OF EFFECTIVENESS

Policy	Measure	Evidence
Overall labor regulation	Lower entry wages / limited exception from minimum wages	Cross-country
	Lower employment protection	
	Reduce taxes and social security contributions for low-wage workers to address “inactivity traps”	
Product market regulation	Lower barriers to self-employment	Cross-country

EFFECTS ON NATIVES

- Migrants do not steal natives' jobs
 - Numerous studies have documented only small and short-lived effects

- Why?
 - Migrants' skills often complementary to those of natives
 - Demand effects of large population outweigh any substitution effects
 - Natives upgrade their skills

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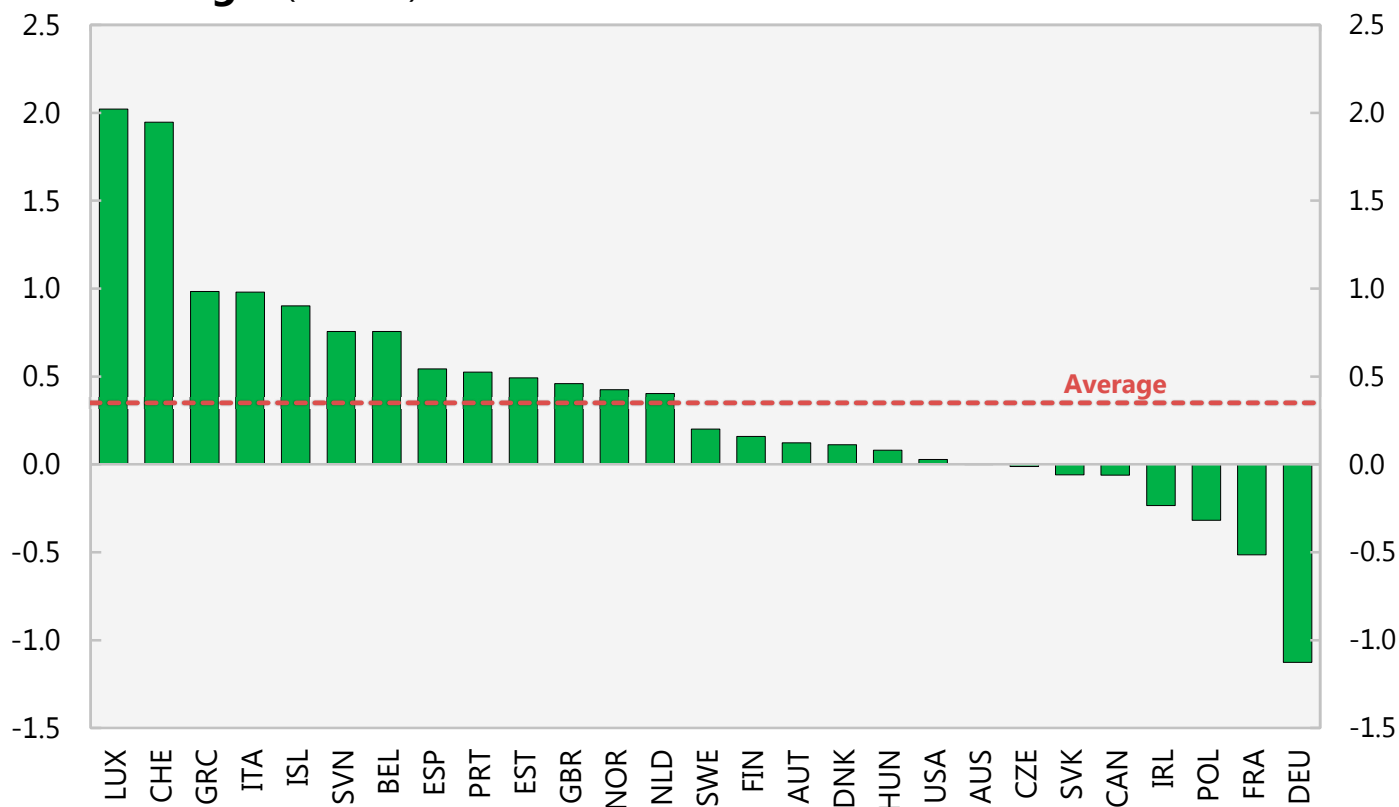
A light gray map of Europe is visible in the background. A red horizontal bar is positioned across the middle of the map, partially overlapping the "Economic Impact" section header.

Economic Impact

- Labor Market
- **Fiscal Effects**
- GDP Growth
- Age-Related Spending

SMALL POSITIVE IMPACT ON PUBLIC FINANCES

Estimated Net Fiscal Impact of Stock of Immigrants, 2007-09
Average (% GDP)

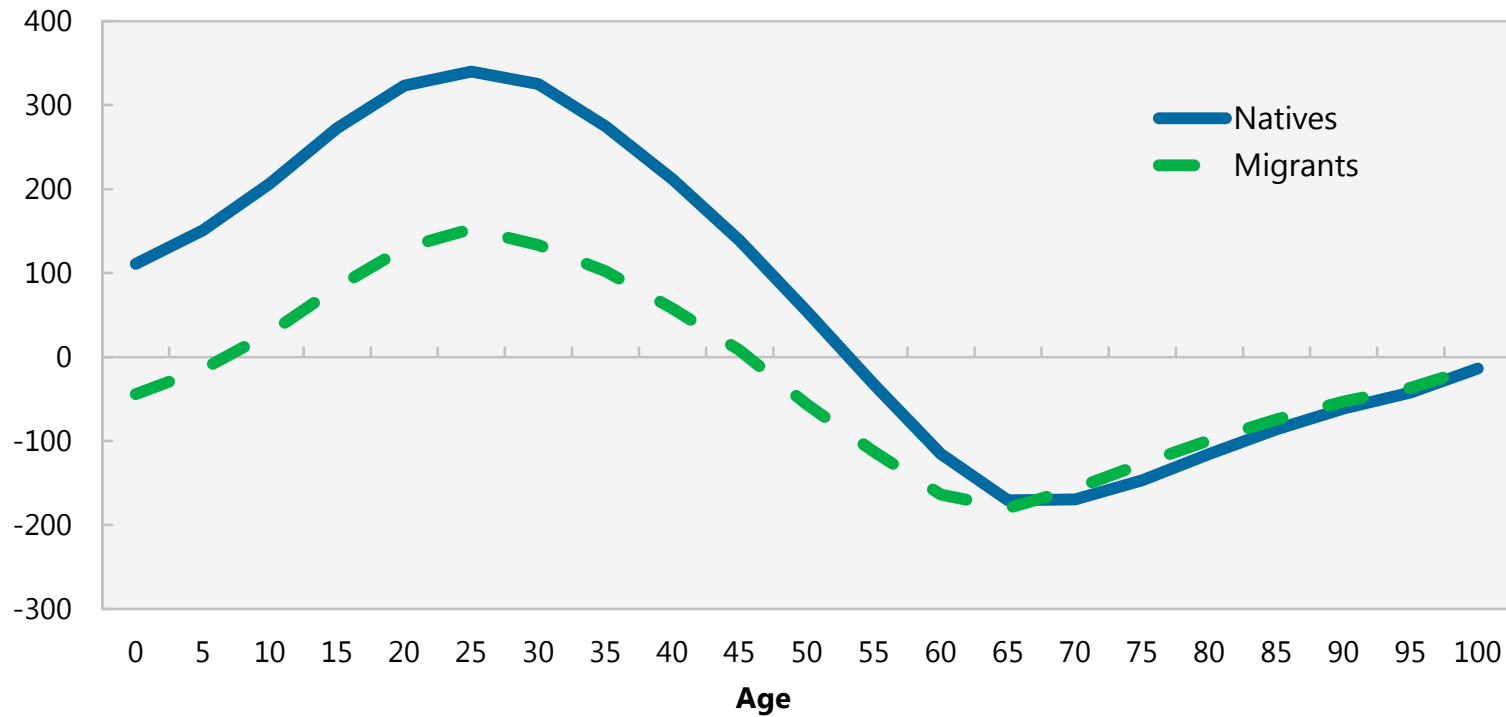


Source: OECD, *International Migration Outlook 2013*.

DEMOGRAPHICS MATTER

Germany: Present Value of Expected Future Net Fiscal Contributions, By Age Group

(Thousands of euro, generational account approach, base year=2012)



Source: Bonin (2014).

ESTIMATED SHORT-TERM FISCAL EFFECT OF CURRENT REFUGEE WAVE

Fiscal Cost of Asylum Seekers, 2014-16

(Percent of GDP)

	2014	2015	2016
Austria	0.08	0.16	0.31
France	0.05	0.05	0.06
Germany	0.08	0.20	0.35
Hungary	0.0	0.1	0.0
Italy	0.17	0.20	0.24
Spain	0.01	0.01	0.03
Sweden	0.3	0.5	1.0
GDP-weighted average	0.08	0.13	0.19

Source: IMF staff estimates based on authorities' information and/or other sources.

CONTENTS

A light gray map of Europe serves as the background for the content area. A thick red horizontal bar is positioned across the middle of the map, behind the "Economic Impact" title.

Economic Impact

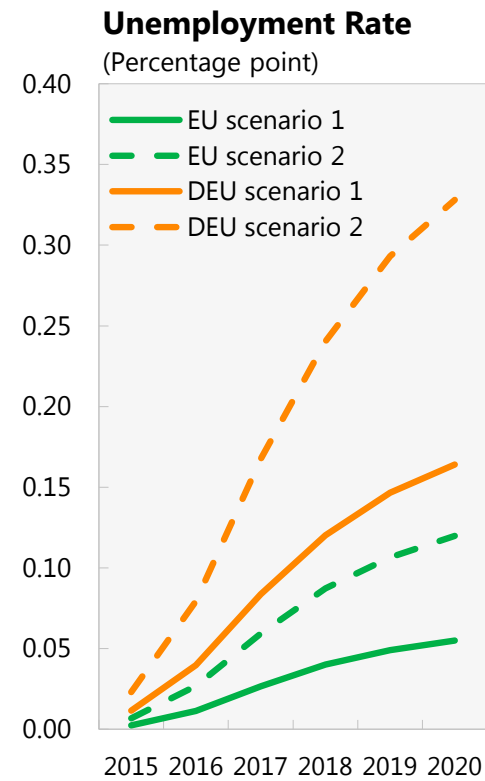
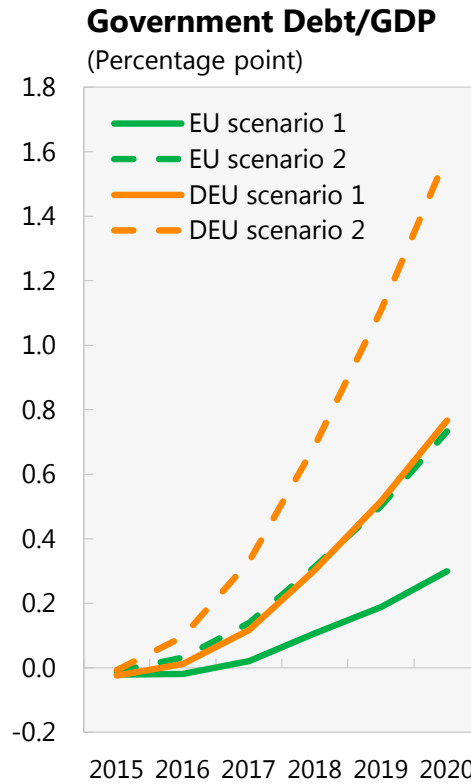
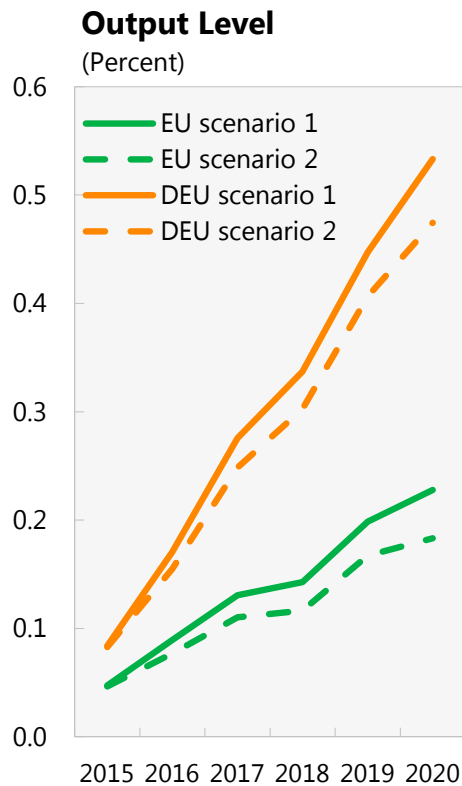
- Labor Market
- Fiscal Effects
- **GDP Growth**
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GROWTH SIMULATIONS: ASSUMPTIONS

- Asylum Applicants:
1.3 million annually during 2015-17; falling off sharply subsequently
- Approval and transition to labor market :
40 percent rejection rate
Become eligible to work within **up to two years of application**
- Labor market integration:
Scenario 1: lower participation and **higher unemployment** rates than natives—but gap declining over time
Scenario 2: “Slow integration scenario”: unemployment gap doubles
- Fiscal costs:
12,000 euro per year before becoming eligible to work;
same amount for rejected applicants for one year
- Model: EUROMOD semi-structural global models; country-specific calibrations

GROWTH EFFECT POSITIVE, BUT UNEVEN

Impact of Refugee Inflows (Deviation from baseline scenario)



Sources: IMF staff estimates.

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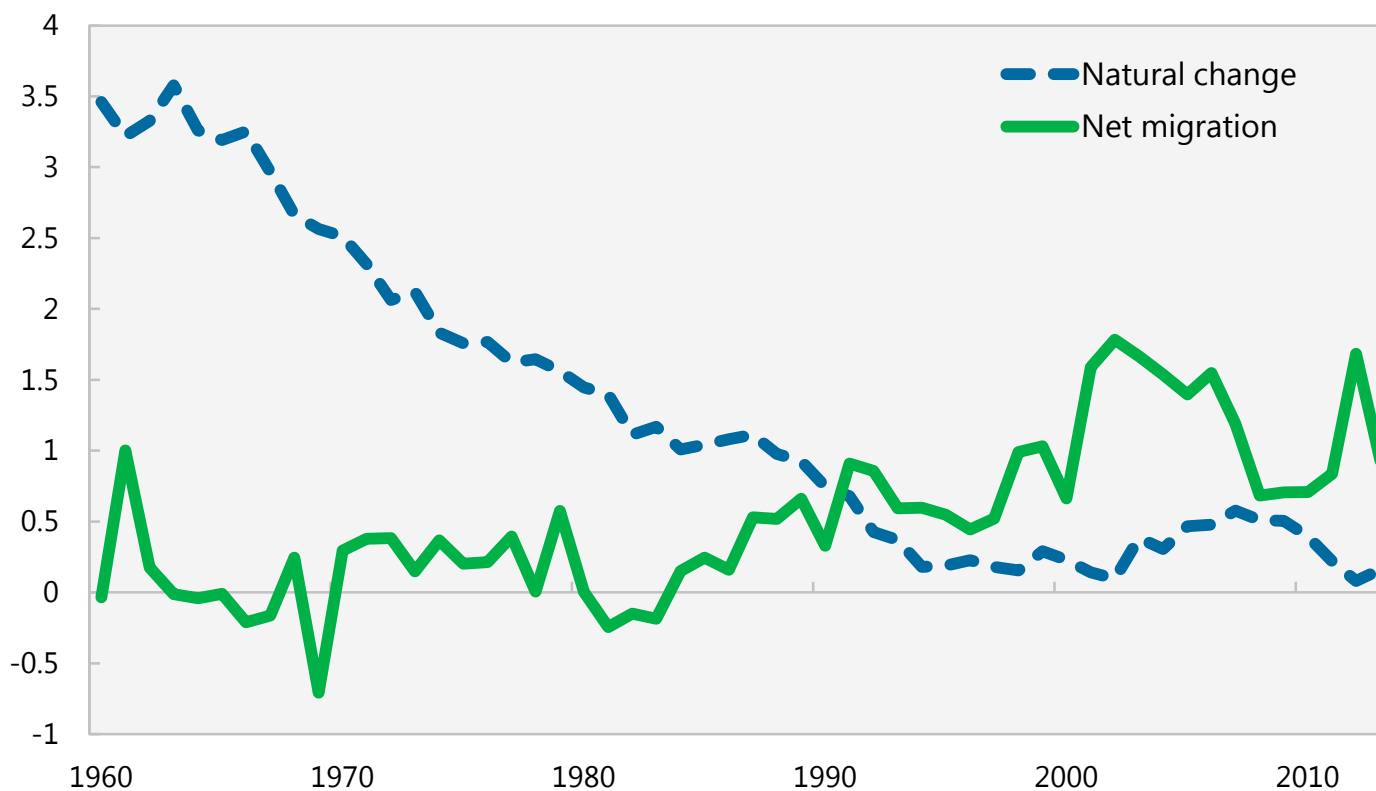
Economic Impact

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MIGRATION KEY FOR POPULATION GROWTH

EU28: Population Changes

(Millions)



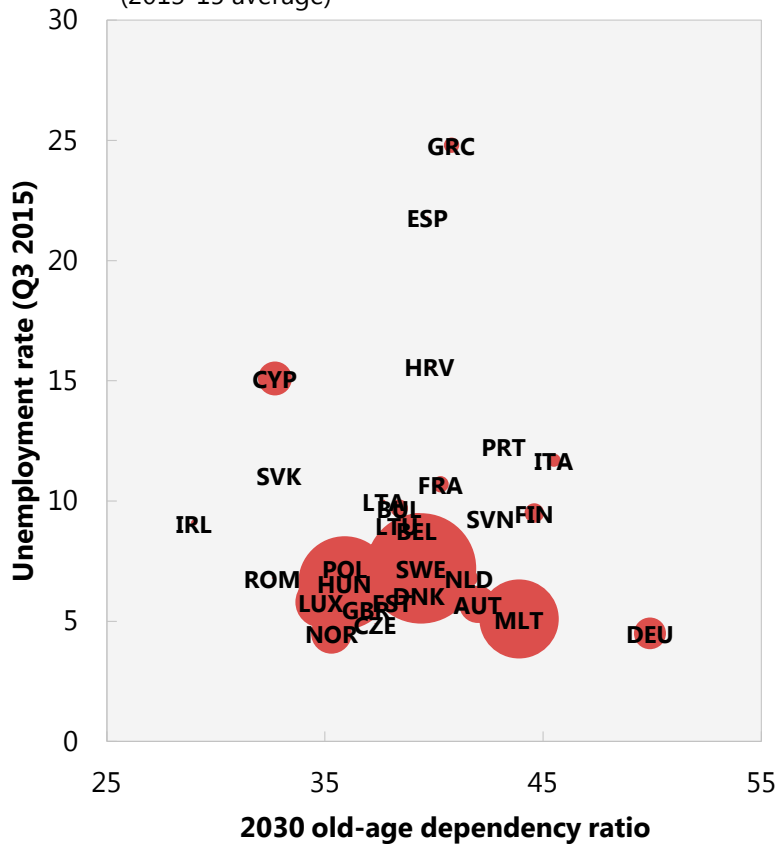
PENSION EFFECT LIKELY POSITIVE

- Refugees younger than the average EU citizen
- Quantification: assume same inflow as in scenario 1
- Pension expenditure would be lower than in the baseline EC Aging Report scenario by some **¼ percent** of EU GDP by 2030
- Effects on health spending also favorable
- Heterogeneity across countries reflecting refugee distribution

LABOR MARKET PULL, NOT AGING

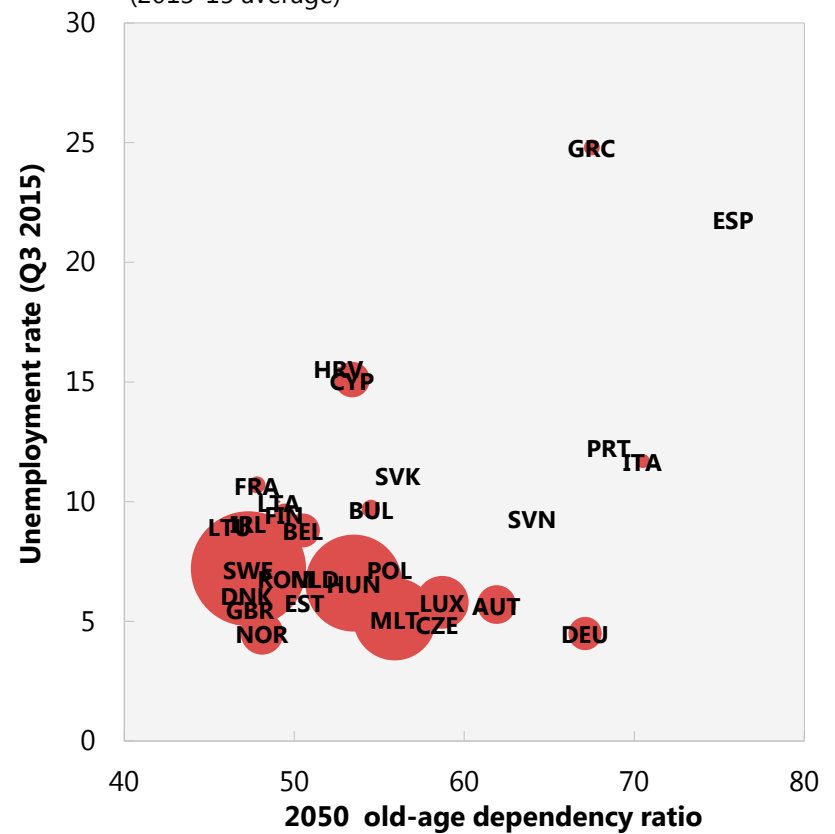
Size of Bubble = Asylum Seekers per 1,000 Inhabitants

(2013-15 average)



Size of Bubble = Asylum Seekers per 1,000 Inhabitants

(2013-15 average)



Source: Eurostat ('no migration' scenario).

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Policies

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- Product Markets
- Housing and Mobility
- Fiscal Policy

LABOR MARKETS

Prompt integration of refugees into labor markets is key to favorable economic impact

- Reduce restrictions to work for asylum seekers
- Ensure early language/tailored skill training
- Provide targeted and temporary
 - Wage subsidies
 - Exemptions from some labor market regulations?
- Strengthen active labor market policies

PRODUCT MARKETS

***Ease avenues to self-employment
and facilitate skill recognition***

- Simplify regulatory and administrative procedures for new firms
- Provide start-up support
- Accelerate skill recognition; targeted training

HOUSING AND MOBILITY

Mobility to high-labor-demand areas requires affordable housing

- Tackle construction bottlenecks (e.g., land use regulation, permissions, rent control)
- Financial incentives to build social housing
- Full geographical mobility of accepted asylum seekers, within and between countries?

FISCAL POLICY

How should the short-term fiscal costs related to refugees be handled?

- Many EU countries have limited fiscal space but...
- Most countries should be able to absorb the immediate fiscal cost within their SGP targets
- SGP flexibility for non-recurrent expenditures.
Caveat: There are major operational issues

SUMMARY

- Flows of displaced people are large by historical standards and may persist
- The economic implications are notable, but not major:
 - The international experience is that the impact on native workers is likely limited
 - Faster labor market integration lowers costs and raises gains
 - Policies help, especially ALMP and labor and product market reforms
 - Fiscal costs are limited. Immigration can help reduce population ageing pressures but will not solve the problem