

IMF STAFF DISCUSSION NOTE

The Refugee Surge in Europe: Economic Challenges

Shekhar Aiyar, Bergljot Barkbu, Nicoletta Batini,
Helge Berger, Enrica Detragiache, Allan Dizioli,
Christian Ebeke, Huidan Lin, Linda Kaltani, Sebastian Sosa,
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The Refugee Surge in Europe: Economic Challenges

Prepared by Shekhar Aiyar, Bergljot Barkbu, Nicoletta Batini, Helge Berger, Enrica Detragiache, Allan Dizioli, Christian Ebeke, Huidan Lin, Linda Kaltani, Sebastian Sosa, Antonio Spilimbergo, and Petia Topalova¹

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Authors' E-mail Address: saiyar@imf.org; hberger@imf.org; edetragiache@imf.org; aspilimbergo@imf.org

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EXECUTIVE SUMMARY

The dislocation of large parts of the population in Syria and other conflict zones is, first and foremost, a humanitarian catastrophe with important ramifications across many countries in the Middle East, Europe, and beyond.

This note focuses on one facet of this complex issue, the economic aspects of the surge in asylum seekers in the European Union (EU), where asylum applications in 2015 have surpassed those in any of the last thirty years. This surge has exposed flaws in the common asylum policy and is raising questions about the EU's ability to quickly integrate the newcomers into the economy and society. Security, political, and social concerns compound these challenges. A better understanding of the economic aspects could help inform the political debate.

In analyzing the economic impact of the inflow, the paper draws from the experience of previous economic migrants and refugees. In doing so, it is important to be mindful that the characteristics of economic migrants can be different from refugees in terms of demographics and skills, in addition to the motivations for departing their home countries and in the likelihood that they will establish long-term residence in their destination countries. That said, a number of important lessons can be drawn on economic issues, which are the focus of this SDN.

In the short term, the macroeconomic effect from the refugee surge is likely to be a modest increase in GDP growth, reflecting the fiscal expansion associated with support to the asylum seekers, as well as the expansion in labor supply as the newcomers begin to enter the labor force. The effect is concentrated in the main destination countries (Austria, Germany, and Sweden). The impact of the refugees on medium and long-term growth depends on how they will be integrated in the labor market. International experience with economic immigrants suggests that migrants have lower employment rates and wages than natives, though these differences diminish over time. Slow integration reflects factors such as lack of language skills and transferable job qualifications, as well as barriers to job search. In the case of refugees, legal constraints on work during the asylum application period also play a role. Factors that make it difficult for all low-skilled workers to take up jobs, such as high entry wages and other labor market rigidities, may also be important, as may be "welfare traps" created by the interaction of social benefits and the tax system.

Policies can help open up the refugees' path to the labor market: restrictions on taking up work during the asylum application phase should be minimized, and active labor market policies (ALMPs) specifically targeted to the refugees strengthened. Wage subsidies to private employers have often been effective in raising immigrants' employment; alternatively, temporary exceptions to minimum or entry level wages may also be considered. Initiatives to ease avenues to self-employment (including access to credit) and facilitate skill recognition could also help refugees succeed.

Reducing restrictions on their geographical mobility (including those linked to housing) would allow them to move to where labor demand is high. While this can raise legitimate concerns among native workers that they will face lower wages and higher unemployment, past experience indicates that any such adverse effects are limited and temporary.

Rapid labor market integration is also key to reducing the net fiscal cost associated with the current inflow of asylum seekers. Indeed, the sooner the refugees gain employment, the more they will help the public finances by paying income tax and social security contributions. Their successful labor market integration will also counter some of the adverse fiscal effects of population aging.

INTRODUCTION

1. **The dislocation of population, often associated with wars, is a humanitarian tragedy.**

The number of forcibly displaced people worldwide reached almost 60 million at the end of 2014, the highest number in the past 70 years. Among these, 14.4 million were refugees, an increase of about 25 percent since the end of 2013.¹ This abrupt increase is mostly due to the civil war in Syria and unrest throughout the Middle East, although other regions, including parts of Africa and the Balkans, are also major sources of refugees.

2. **The current surge of asylum seekers is also a challenge for the receiving countries in the European Union (EU).** More than twice as many asylum seekers sought to enter the EU in the first ten months of 2015 as in the same period in 2014, with the situation reaching crisis proportions during the summer. For advanced economies this surge is very sizable by historical standards, straining recipient countries' capacity to respond to the humanitarian challenge, process asylum requests, and prepare for the integration of those accepted into the labor market and larger society.² Security, political, and social concerns further add to the task.

3. **This paper focuses exclusively on the economic effects of the current wave of refugees on the destination countries in the EU.** The analysis draws on studies of large and sudden flows of immigration that have occurred in the past, including in Europe. Although each migration surge had its own peculiarities, the available empirical evidence can shed light on the likely effects of this new immigration wave on recipient countries' labor markets and fiscal positions. The paper also discusses how policies can affect labor market integration based on evaluations of past experiences. This should help inform policy decisions on how to address the current challenge. The paper further provides some tentative estimates of the short-term macroeconomic impact of the refugees. Finally, broader issues such as the implications of access to financial services, education policy and housing market regulations on the integration of refugees are also briefly discussed.

4. **The paper is organized as follows.** The next section describes the demographic characteristics of the recent flow of asylum seekers and the current institutional framework for asylum in the EU. The subsequent section presents the results of a macroeconomic model simulation of the effects of refugees on GDP growth in the short term. The next two sections look at the international experiences with migration surges focusing on the labor markets. These sections present policy lessons for the integration of the current refugee flows covering the labor market,

¹ The data are from the Office of the United Nations High Commissioner for Refugees (UNHCR). Individuals applying for refugee status are designated as asylum seekers until they are granted that status. Under international law, refugees are individuals outside their country of nationality or habitual residence who have a well-founded fear of persecution because of their race, religion, nationality, membership in a particular social group or political opinion and are unable or unwilling to avail themselves of the protection of that country, or to return there, for fear of persecution. They are protected under both international law under the Geneva Convention and the laws of the recipient country.

² Forthcoming IMF work will discuss the experience of the sending, transition, and host countries outside the EU. See also Box 1 on the recent surge of displaced individuals from Syria in Turkey.

education, housing, and financial inclusion. A discussion of the effects of immigration on fiscal outcomes and aging-related spending follows, while the concluding section summarizes the findings in the paper.

THE RECENT SURGE IN ASYLUM SEEKERS IN THE EU

5. **The number of asylum seekers arriving at the EU borders is unparalleled in recent times.** In 2015 about 995,000 first-time asylum applications were submitted in EU countries through October, more than twice the number over the same period in 2014 (Figure 1).³ The increase has been fastest in Germany, Hungary, and Sweden, partly due to geographic location (Hungary) and partly due to the refugees' desire to reach more prosperous and accepting EU member states (Germany and Sweden). The presence of well-established ethnic networks also plays a role in the choice of destination.

6. **The large flow of asylum seekers may persist for some time.** There are an estimated 8 million displaced people inside Syria, an additional 4 million Syrians in neighboring countries, and conflicts continue in Iraq, Afghanistan, and Eritrea.⁴ Moreover, flows from other parts of Africa are intensifying. Given all these geopolitical factors, there is large uncertainty surrounding forecasts of asylum applications. With about 2 million foreign displaced individuals, Turkey plays a key role as first step and transition country (see Box 1). Within Europe, Greece and Italy often serve as the first landing point for refugees arriving by sea.

7. **While most asylum seekers come from conflict-ridden countries, until recently significant numbers came also from the Balkans.** In the first ten months of 2015, Syrians and people from the Balkans each accounted for around a quarter and 15 percent of asylum seekers, respectively. Other countries with a large share of asylum seekers included Afghanistan (13 percent), Iraq (9 percent), and Pakistan (4 percent). However, most applications from Balkan asylum seekers were rejected, compared with much higher acceptance rates of above 85 percent for asylum seekers from Syria and Iraq. In the fall, the number of asylum seekers from Balkan countries appears to have declined substantially.

8. **Asylum seekers make up an increasing share of migration to the EU, though the share of refugees in the population remains small.** In 2013, asylum seekers represented 27 percent of immigration of non-EU citizens overall, and the share is likely to have increased significantly in 2014 and 2015. However, at end-2014, the number of refugees per 1,000 inhabitants ranged from 0.01 in Latvia, Luxembourg, and Slovenia, to 14.8 in Sweden. In comparison, the highest proportions

³ These data are from Eurostat, which compiles comparable data across European countries. However, these data pertain to actual asylum applications, which tend to lag behind the entry of asylum seekers into host countries. For example, Germany alone reports that over 1 million asylum seekers entered the country in 2015, while first-time asylum applications were 442,000. Note that the most recent (but incomplete) data point to a slowdown in arrivals in November and December, possibly reflecting weather conditions and a crackdown on human smugglers.

⁴ According to the UNHCR, 4.3 million Syrian refugees are registered in Egypt, Iraq, Jordan, Lebanon, Turkey, and North Africa.

worldwide were for Lebanon and Jordan, with 232 and 87 registered refugees per 1,000 inhabitants, respectively. The male-female ratio of asylum-seekers has risen from 1.9 in 2012 to about 2.7 in the first ten months of 2015.

9. **Asylum applications in 2015 surpassed the previous peak reached after the fall of the Berlin Wall and during the conflict in the former Yugoslavia**—until now the largest recent refugee inflows to the EU in recent times (Figure 2). Asylum applications in the EU peaked at 670,000 in 1992, and remained at elevated levels during 1990–93. The number of refugees from the former Yugoslavia reached 1.4 million in 1996, and decreased thereafter, with many going back to their home countries after the return of stability (accounting for the hump-shaped pattern of the top right panel in Figure 2). The Kosovo crisis in 1999 also led to a surge in asylum applications, above 400,000 annually. Before the current surge, the number of refugees living in Europe was well below the levels of the 1990s—and it amounted to only 11 percent of refugees globally.

10. **Recently, countries have taken unilateral steps to reduce the inflow of asylum seekers.** The surge has strained the Common European Asylum System, and the Dublin system is no longer being applied systematically (see Box 2.) Some EU border countries have closed their external border to asylum seekers while destination countries, including Austria, Germany, and Sweden, have temporarily reinstated border checks within the Schengen area. Sweden has announced plans to replace permanent with temporary resident permits for some asylum seekers, while Germany has broadened its list of safe countries of origin and replaced cash benefits with in-kind support. Many EU countries are engaging in independent information campaigns aimed at potential and current refugees to clarify the rules for receiving asylum status.

Box 1. Syrian Refugees in Turkey

Turkey has one of the largest numbers of refugees in the world. Since the beginning of the crisis in March 2011, Turkey has received about 2 million Syrian refugees (47 percent of total Syrian refugee inflows and 2.5 percent of its own population). According to authorities' estimates, Turkey has spent US\$ 8 billion (including foreign contributions of US\$ 0.4 billion) or roughly 1 percent of GDP on housing Syrian refugees, since 2011.

The refugees are changing the local labor markets. As of late 2014, 86 percent of Syrian refugees had left the refugee camps and moved mostly to the provinces near the Turkish-Syrian border (62 percent) and to Istanbul (21 percent). The 2014 migration reform granted refugees temporary protection status, but provisions to allow them access to the formal local labor market are not operational yet. Thus, as of now, refugees can only work in the informal sector. Their entry seems to have resulted in the withdrawal from the labor market of low-educated, female Turkish workers in informal agricultural jobs, as employment and unemployment rates of that group in some regions have decreased (Del Carpio and Wagner, 2015). At the same time, higher-paid formal jobs filled by native workers have increased and so have average wages for natives, suggesting that there has been an important compositional change in employment. Absorption of the refugees into the formal labor market will depend on whether they will be granted work permits and on the restrictions that might be attached to such permits.

Contributor: Recai Çeçen.

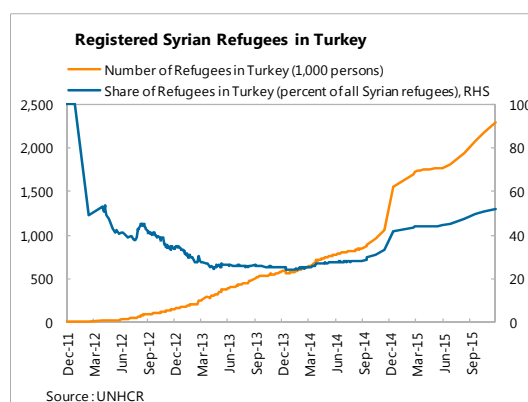
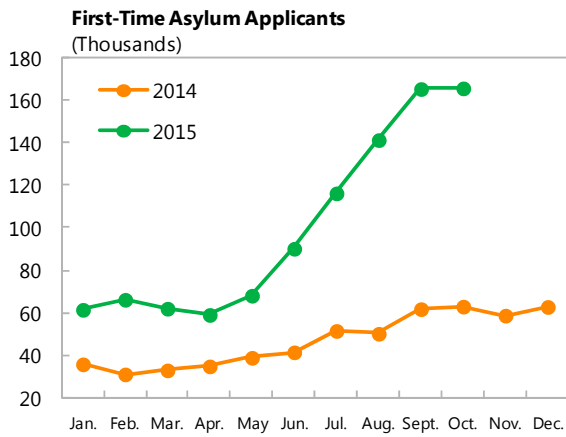
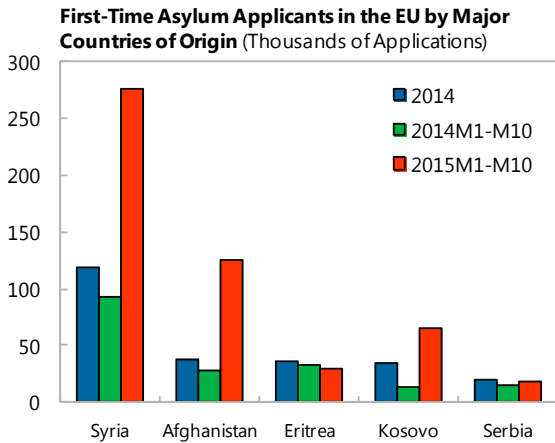


Figure 1. Asylum Applications in the EU¹

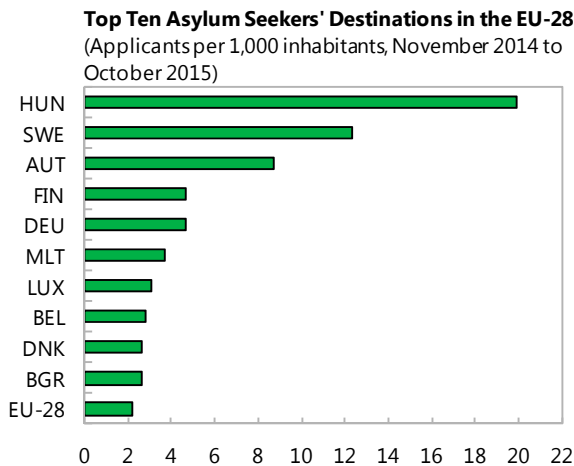
Asylum applications in EU countries surged in 2015



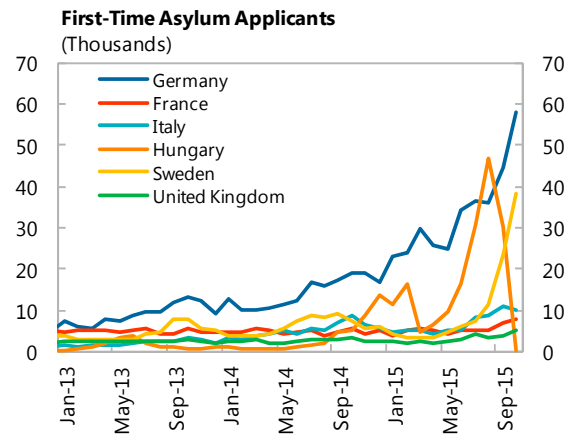
Asylum seekers escape conflict in Syria, Afghanistan, and Eritrea



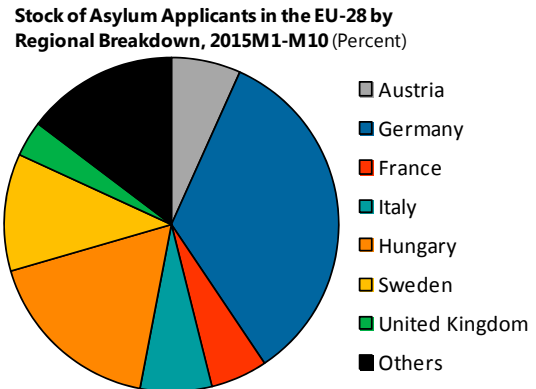
Hungary, Sweden and Austria receive the most applications relative to their populations



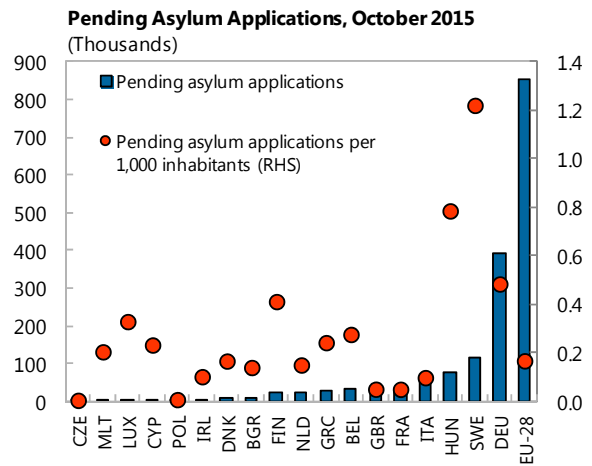
Within the EU, Hungary and Germany are receiving the bulk of the applications



Germany and Sweden are main destinations, and Italy, Greece, and Hungary are gateways



Large inflows have led to a backlog of pending applications

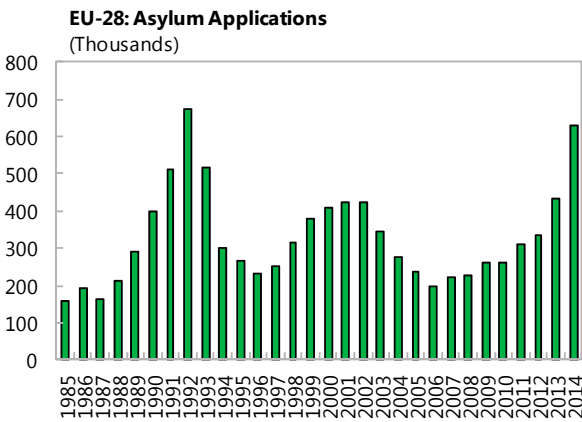


Sources: Eurostat and IMF staff calculations.

¹ Data show first-time asylum applications in each country, hence there could be double-counting if an asylum seeker is registered in two countries. It is likely that the large number of registered asylum seekers in Hungary may also count asylum seekers that have moved on to destination countries such as Austria, Germany, and Sweden.

Figure 2. The European Refugee Surge in Perspective

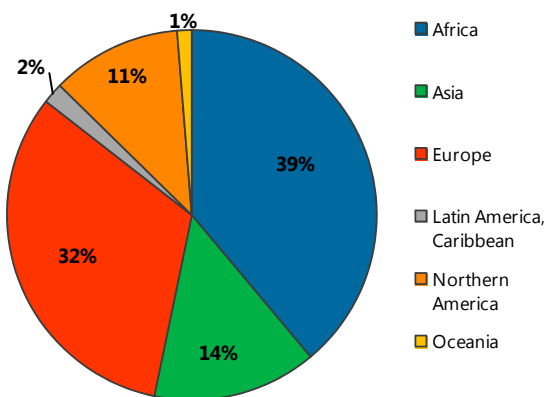
Asylum applications have reached levels seen during the conflict in the former Yugoslavia



Sources: Eurostat

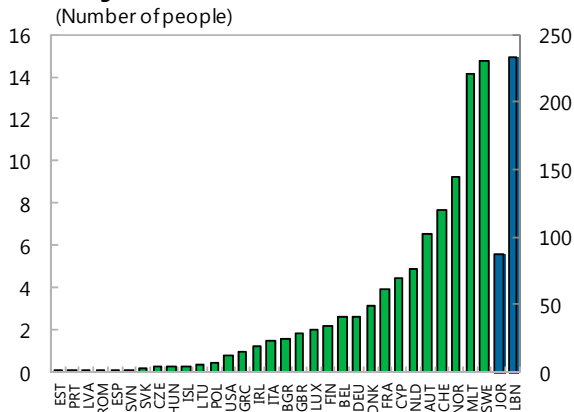
Europe received 32 percent of worldwide asylum applications in 2014.

Asylum Seekers by region, 2014



The refugee share of the population varies across EU countries, but is relatively low

Refugees to 1,000 Inhabitants, 2014



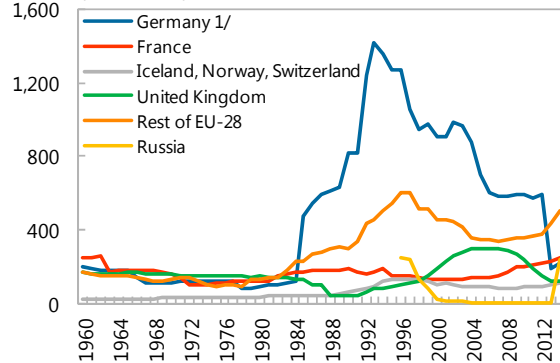
Note: Bars in blue are shown on the right axis.

Sources: Eurostat, UNHCR, and IMF staff calculations.

The number of refugees living in European countries now is still low compared to the 1990s

Refugees, 1960-2014

(Thousands)

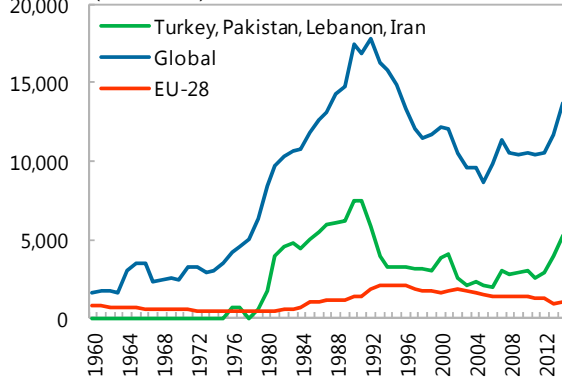


1/ Due to a national change in definition, the number of refugees in Germany was reduced in 2013.

Of about 14 million refugees worldwide, only 1 million live in the EU

Refugees, 1960-2014

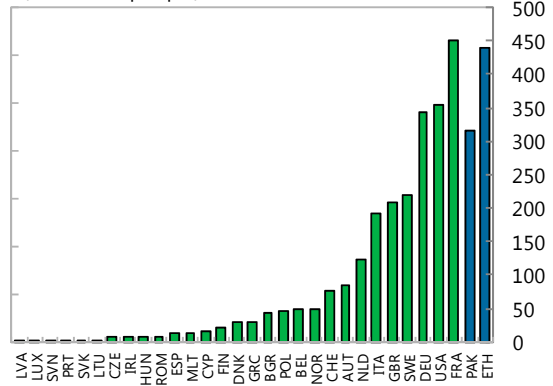
(Thousands)



The number of refugees to income ratios are among the lowest globally in most EU countries

Refugees per GDP (PPP) Per Capita, 2014

(Number of people)



Note: Bars in blue are shown on the right axis.

Box 2. Institutional Framework for Asylum Policy

The EU regulates asylum procedures only partially. Under the Common European Asylum System, to prevent multiple applications, the first country where the asylum seeker is registered is responsible for processing the asylum application, with a few exceptions such as family cases (the *Dublin regulation*).¹

Most other asylum rules are national and differ across EU member countries. National rules cover when and on what grounds residency is granted; which countries of origin are deemed safe; the extent and nature of the support given to asylum seekers; and how quickly access to the labor market is granted. Countries also have different interpretations of the “cessation of refugee status.”²

The surge in asylum seekers has strained the Common European Asylum System.

- Only a few countries are fully respecting *the minimum standards* for asylum, and the European Commission (EC) launched 41 infringement procedures during September–December 2015, in addition to 34 pending cases.
- Lack of resources has led to a *large backlog of pending asylum applications*, totaling 809,000 for the EU at end-September. This backlog is worsening the humanitarian crisis and delaying a prompt absorption of refugees into the labor force of the recipient countries.
- The strict application of the *Dublin system* would imply that gateway countries, such as Greece, Italy, and Hungary, receive a large number of applications, which would overwhelm their accommodation capacity. In addition, asylum seekers have an incentive to apply for asylum in their favored destination country rather than the country of first entry, as rejection rates, benefits offered, and employment opportunities vary widely across countries.

As a result, the Dublin system is not being applied systematically and a reform is on the agenda. In practice, countries such as Germany and Sweden have been accepting asylum applications from migrants entering from other EU countries. Recently, EU countries have agreed to create “hot spots” in gateway countries where asylum seekers can be registered and live temporarily. They also agreed to relocate 160,000 asylum seekers from Greece and Italy on an *ad hoc* basis over the next two years. However, this agreement, while helpful, covers only a small fraction of the inflow. In addition, its implementation has been slow. A reform of the Dublin system remains on the agenda of the EU Council, together with a proposal for a European Border and Coast Guard to protect Europe’s external borders and increased support for Syria and other sending countries and their neighbors. In November 2015, an agreement was reached between the EU and Turkey to step up cooperation in managing migration flows and provide €3 billion of additional humanitarian assistance to Turkey to support Syrian refugees.

¹ Regulation (EU) No 604/2013. Denmark, Ireland, and the UK have opt-out rights. Norway, Iceland, Lichtenstein, and Switzerland also participate in the system.

² Annex I documents the prevalent heterogeneity by summarizing differences in asylum procedures for four countries: Italy (a frontline entry state); Germany and Sweden (host countries favored by asylum seekers); and the United Kingdom (which has opted out of the Dublin regulation).

SHORT-TERM MACROECONOMIC IMPACT

11. **The initial macroeconomic impact from the inflow of asylum seekers is through aggregate demand while labor supply effects develop gradually.** In the short term, additional public spending for the provision of first reception and support services to asylum seekers, such as housing, food, health and education, will increase aggregate demand. The fiscal expansion will— together with supportive monetary policy—help compensate for possible downward pressures on wages and inflation associated with the gradual entry of refugees into employment (see below). In the medium and long run, the impact of the refugees on employment and GDP will depend on the speed of their integration in the labor market, the extent to which the newcomers' skills will complement or substitute those of the native labor force, and their impact on the allocation of resources, product mix, and production technology.

The immediate fiscal impact

12. **The short-term fiscal costs of caring for the asylum seekers could be sizable in some countries.** IMF staff estimate that, on a GDP-weighted basis, average budgetary expenses for asylum seekers in EU countries could increase by 0.05 and 0.1 percent of GDP in 2015 and 2016, respectively, compared to 2014 (see table). These estimates are highly tentative, reflecting, in particular, uncertainty over the number of asylum seekers. Austria (at 0.08 and 0.23 percent of GDP), Finland (at 0.04 and 0.28 percent of GDP), Sweden (at 0.2 and 0.7 percent of GDP), and Germany (at 0.12 and 0.27 percent of GDP) are expected to shoulder the largest spending increases in 2015 and 2016, respectively, relative to 2014.

13. **Refugee-related fiscal costs are materializing while a number of European countries have to consolidate their fiscal positions.** However, the Stability and Growth Pact (SGP) has built-in flexibility that should allow countries to respond to the refugee surge. Under the preventive arm, countries can deviate from the adjustment path toward the

Medium-Term Objective in case of an “unusual event outside the control of the member state which has a major impact on the financial position of the general government.” Under the corrective arm, spending on the refugee surge can be taken into account as a “relevant factor” when calculating the

	2014	2015	2016
Austria	0.08	0.16	0.31
Belgium	0.07	0.09	0.11
Croatia	0.002	0.09	0.11
Cyprus	0.003	0.012	0.012
Czech Rep.	0.0	0.0	0.02
Denmark	0.24	0.47	0.57
Finland	0.09	0.13	0.37
France	0.05	0.05	0.06
Germany	0.08	0.20	0.35
Greece	n.a.	0.17	n.a.
Hungary	0.0	0.1	0.0
Ireland	0.03	0.04	0.05
Italy	0.17	0.20	0.24
Luxembourg	0.05	0.09	0.09
Netherlands	0.10	0.18	0.23
Serbia	0.00	0.06	0.1
Spain	0.006	0.006	0.03
Sweden	0.3	0.5	1.0
U.K.	0.015	0.016	n.a.
Simple average	0.07	0.14	0.22
GDP-weighted average	0.08	0.13	0.19

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

¹ Assumptions behind estimates vary across country. For example, assumptions about per head spending (both for staying applicants and for immigrants transiting to other destinations); length of stay of and benefits received by rejected applicants; and coverage of benefit-related spending (e.g., security and education) and local government costs.

fiscal effort undertaken. Whether the additional spending related to refugees is substantial enough to qualify for accommodation under the SGP should be considered on a case-by-case basis. Where SGP flexibility is granted, the exemption should be temporary and the relevant expenditures should be clearly and fully spent on the surge response.

14. **Only a small part of the immediate fiscal costs is borne by the EU budget.** In September 2015, the European Commission (EC) proposed to boost the central EU resources devoted to the refugee surge in 2015–16 by €1.7 billion (0.01 percent of EU GDP) to €9.2 billion (0.07 percent of EU GDP) by reallocating resources from other parts of the EU budget. This includes funding for the FRONTEX budgets, support to member countries for migration and border management under the Asylum, Migration and Integration Fund, transfers related to the relocation and resettlement schemes, and support to countries outside the EU (for example, through the EU Regional Trust Fund in response to the Syrian crisis and additional funding for Turkey). The 2015 increases have already been adopted.

Simulation

15. **To illustrate the short-run economic impact of the current surge in asylum seekers, a simulation has been conducted using the EUROMOD model.**⁶ In the simulation, the effects of the asylum seekers are captured by two simultaneous “shocks”, one to the size of the population and one to government expenditure. The assumed change in population is calibrated to reflect the expected magnitude of the inflows in 2015 and the assumption that large inflows will continue through 2016–17 and peter out thereafter. The change to the fiscal baseline captures the anticipated fiscal cost of supporting the asylum seekers (see above). Among the key assumptions are the following (see Annex II for further details):

- **Population.** The assumed annual increase in population is of 0.15 percent of the EU total population (or 0.8 million) in 2015–17 and 0.1 percent in later years.⁷ It is assumed to take up to two years for the refugees to become eligible to work. Once eligible to work, refugees have a lower participation rate than natives—a gap of 5 percentage points (pps) initially, gradually declining to 3 pps by 2020—and a higher unemployment rate—a gap of 15 pps initially, gradually declining to 12 pps by 2020.
- **Fiscal.** As discussed above, in the short term the inflows result in additional government spending and fiscal transfers. The direct fiscal costs include costs for all individuals in the asylum process (while not eligible to work) for up to two years as well as financial support for rejected

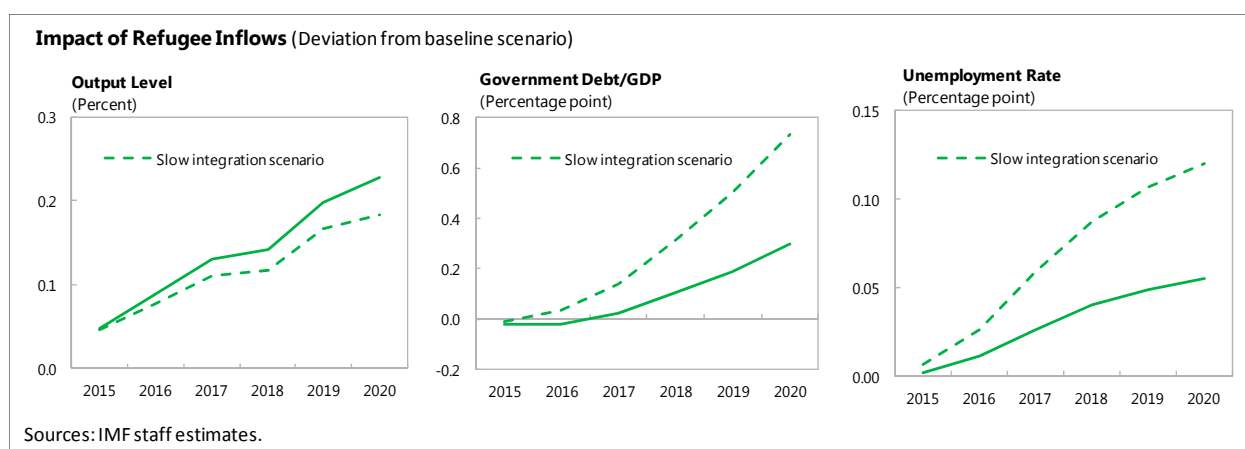
⁶ EUROMOD is part of the IMF’s Flexible System of Global Models (FSGM) capturing the global economy. FSGM is a semi-structural model: private consumption and investment are micro-founded; trade, labor supply and inflation are reduced form; supply is determined by an aggregate Cobb-Douglas production function. The model only has one type of labor, so that productivity differences between refugees and natives are not captured. See Andrieu and others (2015) for more details.

⁷ Based on an inflow of 1.3 million first-time asylum seekers annually from 2015–17, tapering off afterwards, coupled with a 40 percent rejection rate.

applicants for one year. For the EU, these direct fiscal costs amount to about 0.1 percent each year in 2015–17. Additional fiscal costs related to social transfers and unemployment benefits for accepted refugees who remain unemployed are endogenously generated in the model. All associated fiscal costs are assumed not to be offset by new fiscal measures, such as cuts in other expenditures.

16. **The expected initial effects on aggregate EU GDP are positive but small, with a more significant impact on the countries where the refugee inflows are concentrated.** Relative to the baseline, the level of GDP is lifted by about 0.05, 0.09, and 0.13 percent for 2015, 2016, and 2017, respectively (solid line in the chart below, representing the response of EU GDP as a whole).⁸ For the first year, the output impact is entirely due to the aggregate demand impact of the additional fiscal spending. Labor supply is increasing as well, but the effect on potential GDP takes time to unfold. The impact is quite different across countries, reflecting the asymmetric distribution of the asylum seekers relative to countries' own population. By 2017, the largest impact is in Austria, with GDP rising by 0.5 percent, followed by Sweden (0.4 percent) and Germany (0.3 percent).⁹

17. **The medium-term impact can be larger and depends crucially on labor market integration.** For instance, by 2020, the level of GDP could be about 0.25 percent higher for the EU as a whole and between 0.5 and 1.1 percent higher in the three main destination countries (Austria, Germany, Sweden). This assumes that labor integration proceeds successfully, with the initial employment gap between new labor market entrants and the natives gradually narrowing over time. However, as long as the labor market performance of refugees falls short of the performance of the native population, their contribution to GDP will also be lower. As a consequence, by 2020, GDP per capita including refugees will be lower by about 0.4 percent compared to the baseline. If labor integration is less successful, the positive output impact would diminish but government debt and the unemployment rate would further rise, as illustrated in a scenario where labor market



⁸ The scenario assumes that monetary policy in the EU will remain unchanged relative to the baseline. However, with a more supportive monetary policy, which could be warranted if the labor supply expansion lowers inflation, the output impact would be slightly greater.

⁹ Based on inflows of 86, 107, and 413 thousand first-time asylum seekers annually from 2015–17 for Austria, Sweden and Germany, respectively, coupled with a 40 percent rejection rate.

integration is assumed to be slower (dashed line in the chart).¹⁰ Prospects for the labor market integration of refugees and the role of policies are the focus of the next section.

LABOR MARKET IMPACT AND ABSORPTION OF IMMIGRANTS

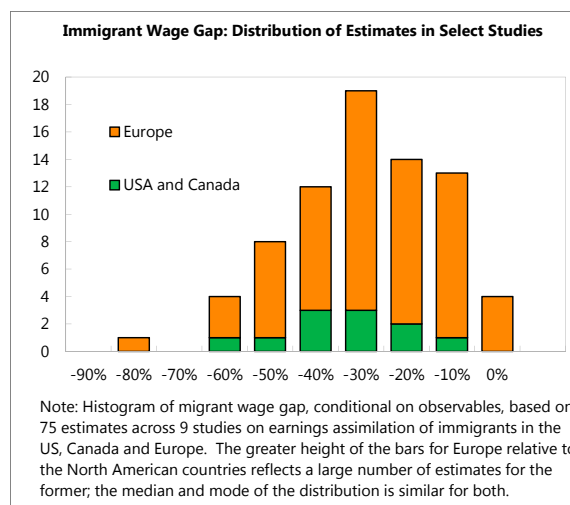
18. **What do we know about immigrants' integration in host countries' labor markets, the effect of immigration on native workers, and the policies shaping these outcomes?** To answer this question, this section distills key empirical findings from the literature on migration.

An important caveat is that existing studies do not generally distinguish between economic immigrants and refugees. The labor market performance of refugees may be less favorable than that of other migrants, particularly in the short run (Ott 2013): while their asylum application is being considered, asylum seekers often face greater legal barriers to employment (Hatton 2013). Furthermore, while economic immigrants—by definition—choose their destination to maximize employment outcomes, asylum seekers' primary goal is to secure personal safety. It should be noted, however, that the current asylum seekers have a strong preference for destinations with low unemployment rates, such as Germany, Austria, and Sweden.

The labor market integration of migrants

19. **Immigrants typically integrate slowly in the recipient countries' labor markets.**

In Europe and other advanced economies, immigrants have, on average, lower participation rates, employment rates, and wages than natives.¹¹ The earning and employment gaps are particularly pronounced in the years immediately after arrival and diminish with time spent in the host country, as immigrants improve their language skills or obtain more relevant job experience. In addition, there is heterogeneity in labor market performance. Immigrants from advanced economies or with better initial language skills often do better than other groups (Box 3). Female migrants and refugees have significantly worse labor market outcomes, especially in the short run (Aldén and Hammarstedt 2014; Ott 2013).



¹⁰ In the scenario with slower labor market integration, the unemployment rate among refugees is assumed to be 30 pps higher than natives in 2015, with the gap gradually declining to 24 pps by 2020.

¹¹ See Kerr and Kerr (2011) for a review of the literature on the labor integration of immigrants in general, and Ott (2013) for a review of the literature on the labor market integration of resettled refugees.

Box 3. Labor Market Performance of Immigrants in Germany

Germany has a higher share of foreign-born population than the United Kingdom or the United States. After earlier waves in the 1960s and 1990s, immigration to Germany has been on the rise again since the global financial crisis and skyrocketed in 2015, as upwards of 800,000 asylum applicants are expected to have arrived, nearly twice as many as during previous heights in the 1990s.

Recent new research by IMF staff has studied how immigrants fared in the German labor market over the last 40 years (Beyer, forthcoming). The study uses micro-data from a large household survey, the German Socio-Economic Panel, to estimate empirical models of the determinants of wages, unemployment, and labor force participation.

The analysis shows that immigrants earn 20 percent less than natives with similar characteristics when they arrive in the country. Initially, immigrant wages catch up by 1 percentage point per year, but the process slows over time and wages never fully converge. Immigrants without German writing skills or a German degree have a wage gap as high as 30 percent initially. Good German writing skills close the gap by 12 percentage points (pps) and a German degree by another 6 pps. The gap for migrants born in advanced economies is a third of that of other immigrants.

The lower wages of immigrants largely reflect “skill downgrading”—66 percent of highly skilled natives have a job that actually requires higher education and over 60 percent have jobs with very high “autonomy,” both characteristics strongly associated with higher wages. However, for immigrants not born in advanced economies the respective fractions are only 42 percent and 33 percent.

In 2013, the immigrants’ unemployment rate was twice as high as natives’, and fewer immigrants participated in the labor market. The probability of unemployment is initially 7 pps higher for recently arrived immigrants than for natives with similar characteristics. While the gap narrows over time, in the long run the unemployment rate remains 3 pps higher among immigrants. Again, German language skills and a German degree help close the gap and immigrants from advanced economies perform better than other immigrants. Female immigrants have a high probability of unemployment than otherwise comparable male migrants. While the participation rate of immigrants is initially lower—with the expected effects of the immigrants’ characteristics—the participation rate converges fully after 20 years. The analysis of the German experience shows that immigrants make substantial contributions to the economy but face considerable obstacles in the labor market that are overcome only gradually.

Contributor: Robert Beyer

20. **The condition of the labor market at the time of entry can affect the speed of labor market integration.** When immigrants arrive in a period of high local unemployment, their employment rates and wage assimilation have been found to suffer for many years (Äslund and Rooth 2007). This is especially relevant given the slow recovery of many European economies from the global financial and sovereign debt crises, although asylum seekers’ revealed preference for host countries with low unemployment rates alleviates this concern to some extent.

Labor market performance of immigrants from current surge countries

21. **Previous immigrants from the same countries of origin as the current wave of asylum seekers have typically faced more obstacles to labor market integration than other migrants.** A three-way comparison among the natives of key asylum-seeker source countries residing in Europe, natives, and immigrants from other countries reveals significant differences in demographic

characteristics (Figure 3).¹² Immigrants born in Afghanistan, Iran, Iraq, Syria, Somalia, Eritrea, and the former Yugoslavia—the main countries of origin of the current wave of asylum seekers—are on average less educated than the native population or other immigrants. They are twice as likely to have only a lower secondary education or less, and significantly less likely to have gone to college. On the contrary, immigrants born in other countries, including other EU and advanced economies, tend to have better educational outcomes than the native-born population.

22. It is possible that the most recent wave of asylum seekers is better educated than past immigrants from the same countries of origin. Reliable data on the skills and education of the current asylum seekers are not available. However, some relatively recent statistics are encouraging. For example, in Germany, 21 percent of the Syrian asylum seekers who arrived in 2013–14 reported having tertiary education, close to the average for the native population (23 percent).¹³ Obtaining reliable information on age, language skills, years of education completed, and occupation, at the time of registration or in the asylum application could significantly accelerate the process of integration and help design specific policies at a minimum incremental cost. At the same time, the longer the conflicts persists, longer spells of inactivity and absence of education will worsen the challenges the refugees are facing.

Policies to facilitate labor market integration

23. Policies can facilitate the labor market integration of refugees. Granting asylum seekers early access to the private and public sector labor market and self-employment is a key prerequisite for their speedy integration in the workforce. In addition, across the EU, various measures have been used to help integrate immigrants and refugees once they are permitted to work—with varied success (Figure 4).¹⁴

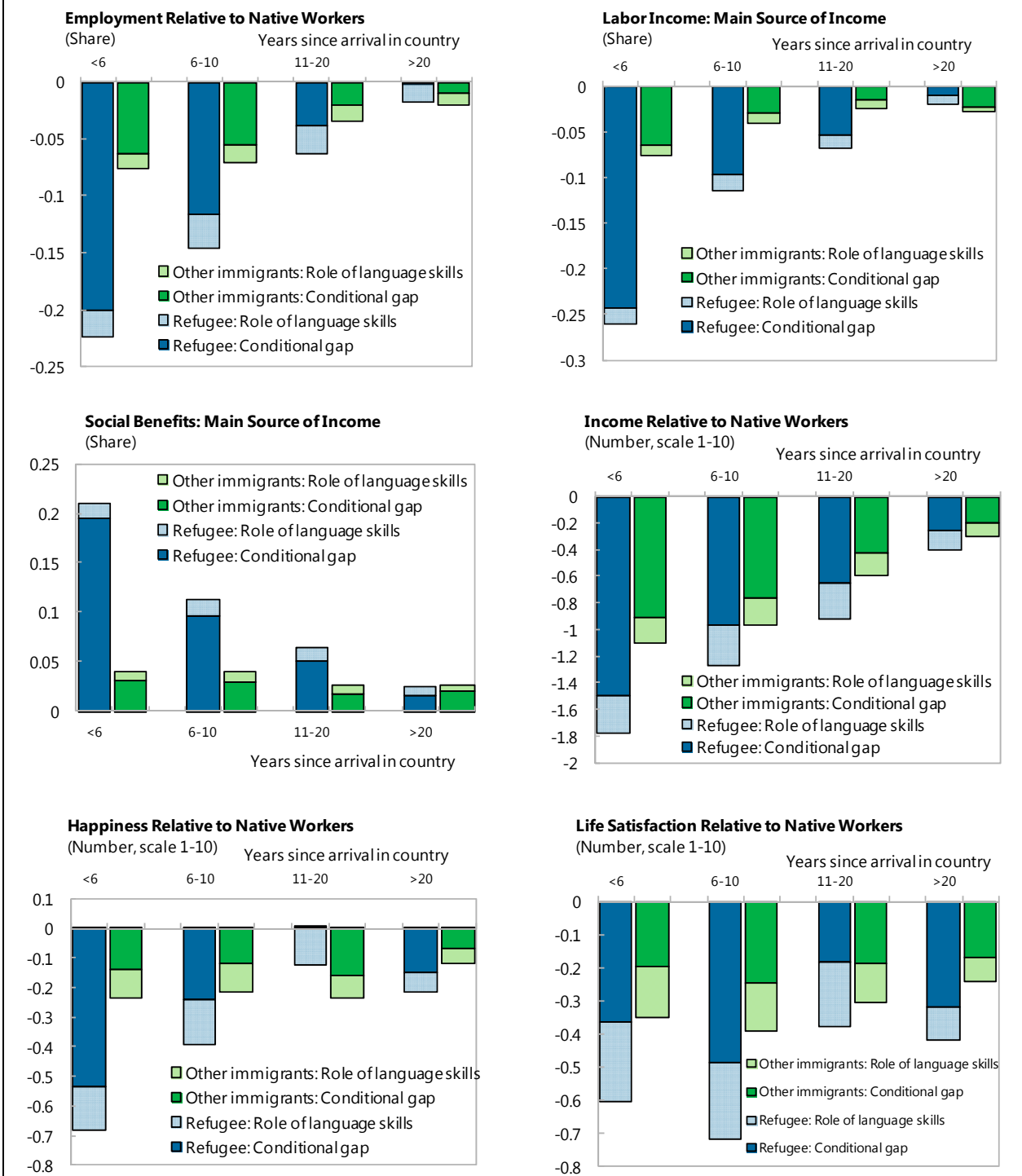
24. Increasing the overall flexibility of the labor markets could improve refugees' integration in the workforce. Excessive employment protection significantly reduces the likelihood of exiting unemployment, particularly for those workers whose productivity is a priori uncertain, such as refugees (Blanchard, Jaumotte, and Loungani 2013). A high statutory minimum wage may also prevent from hiring low-skilled workers, who are likely to be overrepresented among the

¹² To make this comparison, we use data from 6 rounds of the European Social Study (ESS) survey, which cover close to 300,000 people across 36 European countries over 2002–12, and report country of birth as well as current location. Immigrants from other countries include all respondents not born in the country of residence, excluding respondents from Afghanistan, Iran, Iraq, Syria, Somalia, Eritrea, and the former Yugoslavia. Note that it is not possible to distinguish between economic immigrants, asylum seekers and recognized refugees in the data. The causes of migration will likely impact the demographic characteristics of migrants from the same country.

¹³ Eakin (2015) suggests that the high cost of illegal border crossing implies that only relatively wealthier (and more educated) individuals can afford the journey from countries like Syria to Europe.

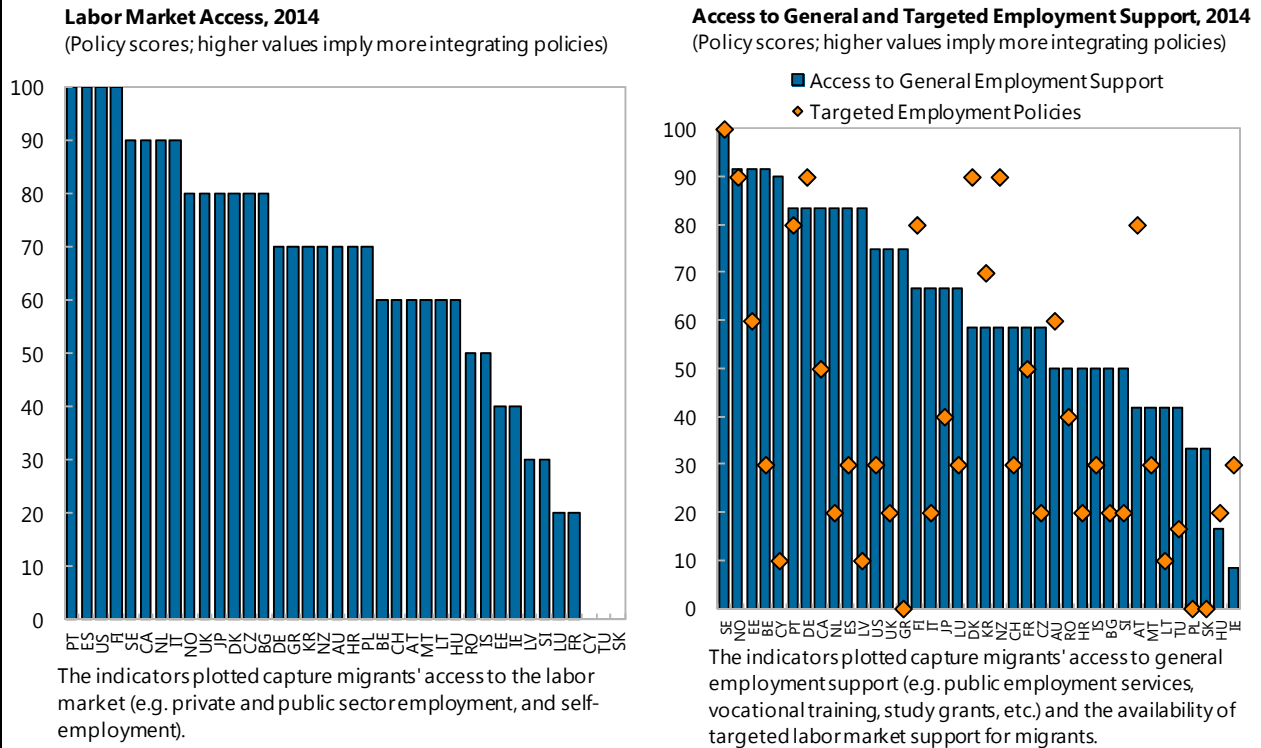
¹⁴ Bilgili, Joki, and Huddleston (2015); Butschek and Walter (2014); and Rinne (2013) review the literature on the role of labor market and migration policies in the assimilation of immigrants. Annex III provides a summary of several empirical studies of these policies in EU countries.

Figure 3. Immigrant Outcomes Relative to Natives: Evidence from ESS



Source: European Social Survey, Rounds 1–6, and IMF staff calculations. Conditional gap measures the difference in the outcome of interest between natives and immigrants; conditional on age, gender, years of education, language skills, host country, and time period. The role of language skills reflects how much larger these gaps will be if language skills are not controlled for.

Figure 4. Migrant Integration Policies, 2014
(Policy scores; higher values imply better integration policies)



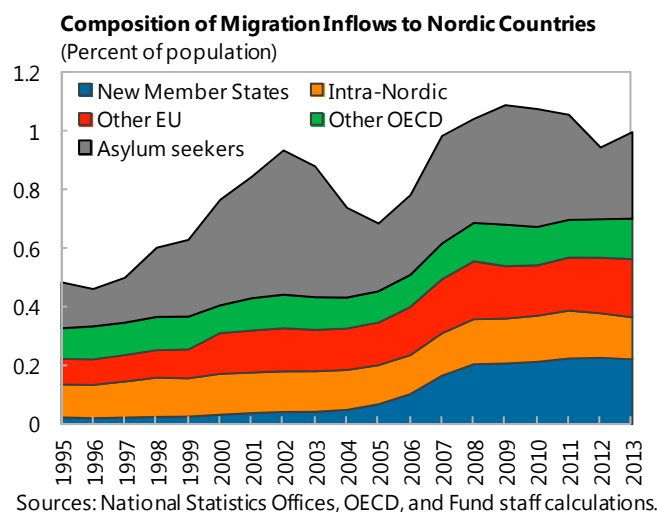
Source: Migrant Integration Policy Index (MIPEX) Database.

refugee population. While empirical evidence remains scarce, existing studies suggest that immigrants' employment rates and the quality of the jobs they hold are higher in countries with low entry level wages, less employment protection, and a less dualistic labor market (Aleksynska and Tritah 2013; Bisin and others 2011; Ho and Shirono 2015). Removal of some barriers to employment would be helpful. For instance, in Austria and Germany, the obligation should be dropped for employers to prove that they were unable to find a so-called "preferred employee" (that is, a national of an EU country, an EEA country, or a recognized refugee) for a job before offering the job to an asylum-seeker with a work permit.

25. **Granting temporary and limited exceptions from minimum wages for refugees may also be helpful.** Targeted and temporary exemptions from minimum wages may be justified on the grounds that they would offset the asylum seekers' unique initial disadvantages relative to native workers. Legislation in many countries allows this flexibility. For instance, in Germany recognized refugees should be treated like the long-term unemployed in the minimum wage legislation, as suggested by the German Council of Economic Experts, that is, they should be exempt from the minimum wage for the first six months of employment. However, the benefits of these targeted interventions should be carefully weighed against the risk of creating labor market dualities that may be difficult to unwind. The temporary nature of such schemes and their underlying motivation should be clearly communicated to the native labor force to minimize potential resentment against refugees who may be perceived as competitors on the labor market.

Box 4. The Nordic Experience with Migration

Migration is increasing rapidly in the Nordic economies. With the exception of Sweden, the size of the immigrant population living in the Nordics is still relatively low compared to other advanced economies. However, net migration inflows have picked up considerably since the mid-2000s, driven by a surge of labor migration from new EU member states. In the case of Sweden, which has a relatively open humanitarian immigration policy, inflows of asylum seekers are sizable, mainly from countries like Syria, Eritrea, and Somalia. In all four Nordic countries, intra-Nordic flows and migration from non-Nordic OECD countries have been large and stable, also thanks to the long-standing common Nordic labor market.



Both economic and other push factors explain migration flows to the Nordic region. Migrants—especially those from within the region—respond to cyclical differences in growth or labor market conditions. In addition, long-term income differences and network migration (that is, the fact that there is already a stock of migrants from certain countries) play an important role, especially for non-Nordic EU labor migrants. Other, non-economic factors at work include flows of asylum seekers and migrants for family reunification purpose (see Ho and Shirono (2015) for more detail).

Migration helps cushion the impact of adverse demographic trends. About 80 percent of Nordic labor force growth during recent years has come from increases in the foreign born population as opposed to growth in the native workforce. Over the longer horizon, the expansion in labor supply helps boost potential output; a “back-of-the-envelope” calculation shows that real GDP in the average Nordic country will be about 2.5 percent higher by 2020 compared to a scenario in which there is no continued migration.

Immigrants are more prone to unemployment than Nordic natives but gaps decline over time. Non-Nordic immigrants on average tend to be younger and less educated than natives; even among the more highly educated immigrants, foreign qualifications are less likely to be accepted by Nordic employers. Despite the lower participation rate among the immigrant population, a large gap exists between the unemployment rate of foreign born workers and that of Nordic native workers. Nevertheless, immigrants’ labor market outcomes improve over time. For example, Bevelander and Irastorza’s (2014) study of different immigrant cohorts arriving in Sweden between 1993 and 2011 finds that, among the different types of immigrants, asylum seekers display the greatest gains in employment rate over time. Sweden allows asylum seekers to work without a work permit if certain conditions are met (see Annex I).

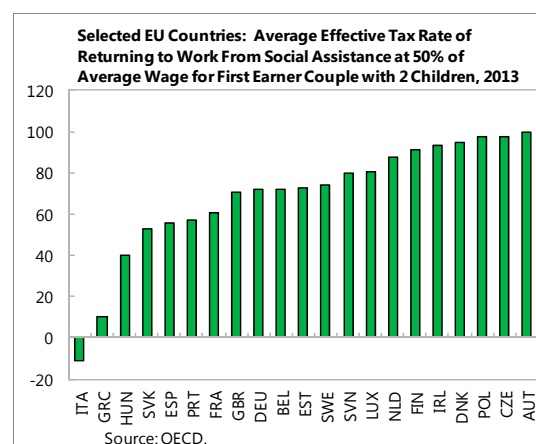
The Swedish introduction program has helped refugees and their families achieve relatively high rates of employment, although the integration process remains lengthy (see for example, Wiesbrock 2011; Bevelander and Pendakur 2012; and El-Ganainy 2015). The program is accessible to all refugees, aged 20–64 years (and those 18–19 years old without parents living in Sweden), regardless of background or routes of entry. It includes an introduction interview by the Public Employment Service (PES) to assess experience, education and ambitions and develop an “introduction plan.” The plan entails (i) language training; (ii) employment preparation (including validation of education and professional experience); and (iii) social studies to provide a basic knowledge of Swedish society. Participation is voluntary but comes with financial benefits that continue for six months after participants have found work, with the benefits being reduced in proportion to the time spent working. The PES can assist participants in finding accommodation where labor demand is high but housing bottlenecks exist (for example, in urban areas) or where this helps to make use of further educational opportunities.

Contributor: Giang Ho

26. **Tailored introductory programs can further facilitate integration.** Such programs help overcome disadvantages such as lack of information, poor access to informal networks, lack of transferable skills and qualifications, and low language proficiency. For example, Sweden’s “introduction program”, which links personalized training and employment assistance to financial and housing support, has facilitated immigrants’ transition to regular jobs with its recent focus on integrated language instruction, more labor-oriented activation measures, and intensive personal counseling (Box 4). Similarly, in Austria, further strengthening ALMPs and job-entry instruments such as training/apprenticeship contracts, work placement programs, and skill-bridging courses could help migrants leverage and build their skills. Work at temporary agencies has also been a stepping stone towards regular employment for migrants and low-skilled workers in Denmark, the Netherlands, and Sweden.

27. **Among active labor market policies (ALMPs), wage subsidies paid to private sector employers have often been effective in raising the employment of immigrants.** In principle, ALMPs that support all the unemployed, including refugees, could speed up the job matching process. For refugees, studies of the Danish integration program, introduced in 1999, provide valuable insights about the relative effectiveness of various ALMPs, such as direct public sector employment, education provision, counseling, training, and private sector wage subsidies. The main finding is that wage subsidy programs for private employers were the most effective in improving refugees’ likelihood of obtaining a regular job in Denmark.¹⁵ Participants in such programs took, on average, 14–24 fewer weeks to find employment (Clausen and others, 2009). In Germany, wage subsidy programs aimed at supporting immigrants (and native workers) during the initial phase of self-employment also had durable positive effects (Caliendo and Künn, 2010).

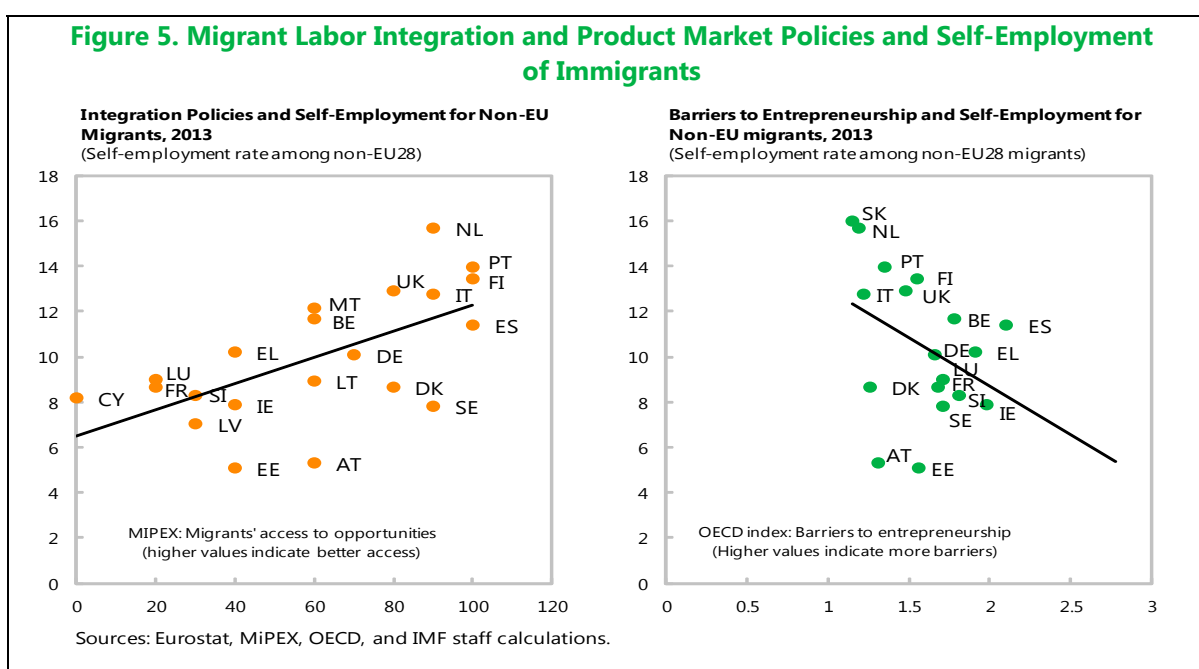
28. **The effectiveness of wage subsidies may indicate that high entry wages and “inactivity traps” are a significant barrier to immigrant integration.** As discussed above, immigrants in Europe (possibly including those in the current wave of asylum seekers) are more likely to be unemployed and rely on social assistance than native workers. Wage subsidies make hiring immigrants more attractive to employers where entry wages (for example, minimum wages or wage agreements) are high. Wage subsidies could also tilt the balance in favor of working as opposed to relying entirely on social assistance. Currently in most EU countries the incentive to switch from benefits to working is weak given high marginal effective tax rates (MERTs) when shifting from unemployment with social benefits to taxed labor income.



¹⁵ More broadly, wage employment subsidies have been shown to yield the most consistently positive results in terms of improved employment probabilities of the unemployed. See Nekby (2008) and Kluge (2006) for a review of the literature on ALMPs.

29. **Other policies that address “inactivity traps” for all workers would likely benefit labor market integration of refugees.** These include reducing taxes and social security contributions for low-wage workers or more gradually tapering the withdrawal of benefits as individuals take up work. In many EU countries, there is ample room for reducing the MERT either by cutting social security contributions (e.g., Germany), lowering personal income tax rates (for example, Sweden, Austria, France), or shaving social assistance and housing benefits (for example, Ireland).

30. **Product market reforms and other measures that lower barriers to entrepreneurship are also important.** Across European countries, simpler regulatory procedures, a lower administrative burden on startups and weaker protection of incumbents are associated with higher incidence of self-employment among non-EU migrants. Start-up funds for immigrant entrepreneurs, granting migrants equal access to public and private sector jobs, and the right to take up self-employed activity under the same conditions as natives are also associated with greater entrepreneurship among non-OECD migrants in Europe (Figure 5). Measures to accelerate skill recognition (for example, transcription services) and targeted training can also help immigrants fulfill certification requirements for certain careers.



Effect of migration on employment and wages of native workers

31. **Immigrants may affect the labor market outcomes of native workers through three main channels:**

- *Labor supply effect.* Large immigration flows may have an adverse effect on the employment and wages of existing workers if migrants have similar skills to the native labor force. The more different the immigrants' skills are with respect to the existing workers, the smaller natives'

employment displacement and negative wage pressure from migrants' integration into the labor force. (Borjas 1995)

- *Aggregate demand effect.* The increase in population will occur hand-in-hand with greater demand for goods and services and, as firms increase output, labor demand. Over the long run, it should also spur more investment (Peri 2010a, 2010b). The rise in aggregate demand counteracts some of the adverse wage effects of the labor force expansion.
- *Allocation of resources, product mix and technology effects.* Immigration may lead to changes in the mix of goods and services produced. It may spur change in the occupation and industry composition of the labor force, or alter production technologies within industries and occupations. For example, Israel's high-tech industry benefited from high-skilled migrants from the former Soviet Union.

32. **The effect of new arrivals on native workers is usually small.** Most studies on episodes of sizable immigration waves in European economies (as well as studies for the United States) find that the average wages of native workers' respond little and that the effect on unemployment is also limited.¹⁶ This may reflect the fact that immigrants and natives operate in separate segments of the labor market, so there is low substitutability between the two types of workers. It may also reflect a relatively rapid investment response to sudden increases in labor supply. Furthermore, research shows that employment displacement, while limited, is more likely in Europe than in the United States, possibly replacing wage displacement.

33. **The size of the effect depends on several factors:**

- *Complementarity of natives' skills with those of the immigrants.* An influx of lower-skilled immigrants might hurt lower-wage native, as well as recent immigrant workers, while higher-paid workers gain. Several studies document such effects in the cases of the United Kingdom, Switzerland, and Spain.¹⁷
- *Flexibility in the labor market.* In the 1990s, the displacement of native workers from the sudden influx of asylum seekers due to the wars in Bosnia and Kosovo was significantly higher in countries with high employment protection, rigid wages, and high business entry costs (Angrist and Kugler, 2003).

¹⁶ See Kerr and Kerr 2011 and Longhi, Nijkamp, and Poot 2005 for a review of the literature, and Cattaneo, Fiorio, and Peri 2015; D'Amuri and Peri 2014; Docquier, Ozden, and Peri 2014; and Dustmann, Frattini, and Preston 2013, among others. In a series of studies, Borjas challenges the limited response of native workers' wages to immigration, and documents a more sizable negative effect when considering the national U.S. labor market for workers of different skills, accounting for internal migration or correcting measurement issues (Borjas 2003, 2006; Aydemir and Borjas 2007, 2011). Recent literature has focused on estimating the degree of substitutability between immigrant and native workers, a key factor in determining potential wage effects (see, for example, Peri 2007; Ottaviano and Peri 2012; and Borjas, Grogger, and Hanson 2008).

¹⁷ See Dustmann, Frattini, and Preston 2013 for evidence from the U.K.; Beerli and Peri 2015 for evidence from Switzerland; and Farré, González, and Ortega 2011 for evidence from Spain.

- *The state of the economy and the size of the net immigration flow.* High net migration flows have been associated with larger displacements of low-skilled workers during recessions than during booms.¹⁸

34. **By promoting skill upgrading, immigration can have a positive impact on native labor market performance.** In a number of countries, the influx of immigrants has prompted native workers to specialize in more complex tasks, associated with higher skills and better pay. As a result of this upward career mobility, natives' incomes may rise in response to immigration.¹⁹

Housing and geographical mobility

35. **The inflow of refugees will put pressure on the market for affordable housing.** The resulting increase in rents and housing prices could have detrimental effects on the existing population—especially lower income households—and make it difficult for incoming refugees to find housing where labor demand is high. Indeed, lack of affordable housing and other housing barriers (for example, difficulties in securing subsidized housing in new locations, or lock-in effects from rent controls) have been found to impede refugees' geographical mobility.²⁰

36. **Policies may be needed to encourage a supply response to the growing demand for housing.** Depending on the country, a rapid response of housing construction to the new demand may require tackling bottlenecks from overly restrictive land use regulations or cumbersome construction permitting processes, as well as ensuring that rent control mechanisms do not undermine incentives to build new affordable housing. Revisiting regulations that contribute to raising construction costs may also be warranted. In Germany, for instance, a recent policy package has increased flexibility in the urban planning code, introduced exemptions from energy efficiency norms in buildings for asylum seekers and refugees, increased federal financing for social housing, facilitated the transfer of land from the federal to the state governments for social housing construction, and provided new incentives to build affordable housing. Housing policies will likely be particularly challenging in countries or regions where housing is already very expensive (for example, Sweden).

37. **The geographical mobility of migrants can play a useful economic role, and can be fostered by improving housing policies and homogenizing asylum regulations.** Geographical mobility by migrants can help the EU adjust to asymmetric shocks, ultimately helping growth. For example, cross-border migration is an important part of economic adjustment within the Nordic region (Ho and Shirono, 2015). And international experience (notably from the United States) suggests that immigrants are one of the most geographically mobile parts of the population, and that they help balance the labor market when asymmetric shocks take place (Cadena and Kovac,

¹⁸ See Devlin and others 2014 and Peri 2010.

¹⁹ See Cattaneo, Fiorio, and Peri 2015; D'Amuri and Peri 2014; Foged and Peri 2015; and Beerli and Peri 2015 for evidence from Denmark, Switzerland, and Europe as a whole. See also Box 1 on Turkey.

²⁰ The link between housing bottlenecks and mobility is discussed in Janiak and Wasmer 2008 and Sánchez and Andrews 2011. See also the [Concluding Statement](#) of the IMF's 2015 Article IV mission to Sweden.

forthcoming). To take advantage of such mobility, it may be desirable to revisit current EU asylum policies that prevent the cross-country mobility of refugees before they are naturalized. However, approaches toward asylum may need to be further harmonized to make this possible.

Education

38. **Children of immigrants have, in general, lower education outcomes than their native peers, and the size of the gap varies across educational systems.**²¹ This has important economic consequences because education is a key determinant of subsequent labor market performance and may affect social inclusion and integration. Comparative studies show that there is substantial cross-country heterogeneity in immigrants' educational achievement gaps (Algan and others 2010; Schnepf 2007) even for immigrants of the same origin (Dustmann and others 2013). Moreover, while socio-economic background and language spoken at home explain a large part of the performance gap in some countries (for example, Australia, Canada, United Kingdom), in others a significant gap persists even after accounting for these factors (e.g., Germany). Overall, this suggests that other factors—in particular the quality of education and some features of the education system—can affect the educational outcomes of immigrant children.

39. **Education policies—at both the system and school levels—can improve the educational success of immigrants' children** (Heckmann 2008; OECD, 2010). A high degree of concentration of immigrant students in low-quality schools, partly reflecting residential segregation, tends to widen the immigrant-native education gap (Borgna and Contini 2014). Also, compared with differentiated school systems based on so-called 'ability grouping' (that is, sorting of students into classrooms, tracks, and schools based on abilities), systems that delay the age of tracking tend to reduce the disadvantage of immigrants' children (Nusche 2009).²² Early inclusion in the education system, including a well developed preschool system, is also beneficial. Moreover, targeted measures for immigrant students, such as allocating more resources to schools with a high share of immigrants, training teachers for intercultural education, providing adequate language support, and encouraging parental involvement have also shown positive results.²³

Financial inclusion

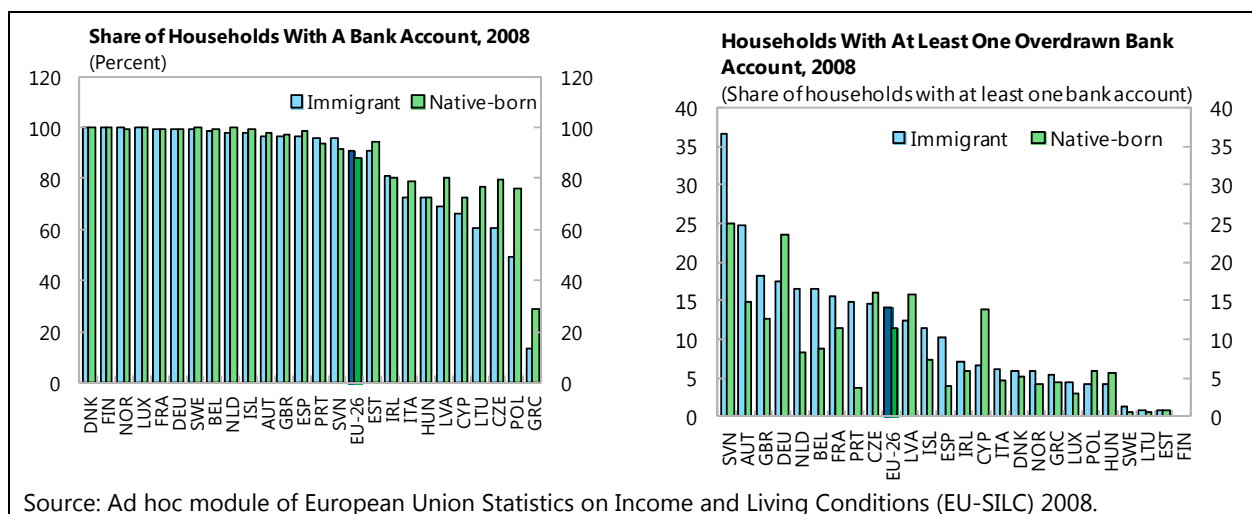
40. **Immigrants' access to financial services can help their integration.** Having access to a basic payment account makes it easier to gain employment in countries where it is common for employers to pay salaries directly into bank accounts (European Migration Network, 2013). Better access to financial services is also likely to help immigrants better manage risks, build up wealth, and become entrepreneurs.

²¹ This is the case for both first and second-generation immigrants, although the latter typically perform better than the former.

²² Some studies point to policies geared to managing school choice to avoid segregation, such as lotteries, or the so-called 'bussing' approach, but the evidence on their impact is mixed and mostly inconclusive.

²³ See Nusche (2009), Essomba (2014), and Sacramento (2015) for country-specific programs that have exhibited positive results in improving the education outcomes of children of immigrants.

41. **Several barriers may hinder the access to, and use of, formal financial services by immigrants.** These include documentation requirements (such as proof of residency), high transaction fees, lack of financial literacy, language barriers, lack of infrastructures especially for immigrants living in remote or rural areas, and cultural and religious differences (Atkinson and Messy, 2015). In spite of these barriers, in most EU countries migrants are as likely as natives to have a checking account. However, immigrant households with a bank account have higher overdraft rates, possibly indicating problems in financial market integration (OECD 2015)



42. **Microfinance may help immigrants’ access credit.** Immigrant entrepreneurship can be promoted with tailored products such as microcredit for self-employment and microenterprise creation. In Europe, 18 percent of all new microloans were disbursed to immigrants and ethnic minorities in 2013, with large heterogeneity among countries. While in Belgium and the United Kingdom microfinance institutions have tended to allocate more loans to immigrants or ethnic minorities, in most other large European countries have allocated less. One key measure to improve the successful use of microfinance (from the availability of microloans to a better survival rate of migrant businesses) is to ensure specific services, such as pre-loan assistance with business planning followed by legal assistance.²⁴

LONG-TERM FISCAL IMPACT

What determines the net fiscal impact of immigrants?

43. **The net fiscal impact of migrants is mostly driven by their success in the labor market.** Assessing the fiscal effects of immigration requires a comparison between taxes paid and other fiscal contributions made by migrants, and the costs of services and benefits used by them. The

²⁴ See European Migration Network, 2013. OECD (2011) showed that migrants’ enterprises have lower chances of survival than businesses managed by native-born people, even considering qualification, experience and other factors.

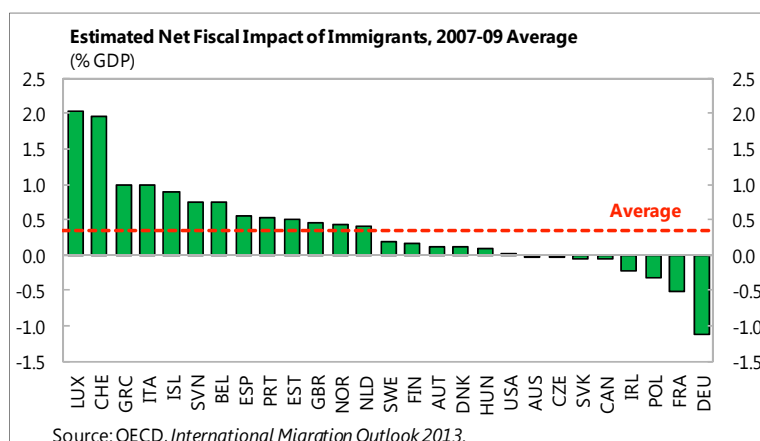
resulting net fiscal impact largely depends on how migrants fare in the labor market, which, in turn, is linked to individual characteristics such as skills and age as well as the state of the business cycle, as discussed above. Since all of this is also true for natives, it is often useful to compare the fiscal impact of migrants with that of the rest of the population.

44. **Immigration can also affect the use of fiscal resources by natives.** Fiscal accounts may worsen because of displacement effects—for example, if the inflow of migrants increases natives' unemployment rate (and, thus, the unemployment benefits bill), or lowers their wages (and related taxes). This effect can be mitigated, however, if immigration leads to a relative increase in the income from capital accruing to natives (Borjas 1999). In Spain, the rapid immigration in the early 2000s buoyed the personal services sector, which had a positive impact on female labor market participation (Conde Ruiz, Ramón Garcia, and Navarro 2008).

45. **The generosity of the benefit system also matters.** When they first arrive, asylum seekers receive accommodation, subsistence, as well as integration support (such as language classes). Moreover, they are often not allowed to work initially, or may do so only under restrictions, until their legal status is decided. This tends to lower their net fiscal contribution relative to those of other migrants and natives. After they receive asylum, if they find work, refugees pay taxes and social security contributions under rules that are broadly similar to those of other migrants or the native population. If they are not working, refugees receive welfare benefits, although in some cases they are not entitled to the same benefits as natives. Thus their net fiscal contribution also depends on the generosity of welfare benefits, which varies a lot across EU countries.²⁵

Stylized facts from past experience

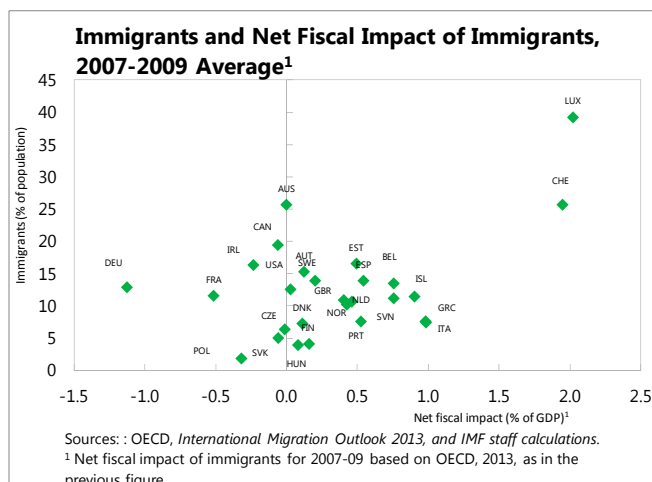
46. **Immigration tends to be associated with a small overall positive contribution to the public finances, but the range of estimates is wide.** A recent cross-country study by the OECD (2013), representative of the larger literature, suggests that during 2007–09, the average fiscal contribution of the migrant population in advanced economies amounted to 0.35 percent of GDP, with most country results falling between ± 1 percent of GDP. However, by focusing on a static snapshot of the existing stock of immigrants, these numbers may not provide information about the expected



²⁵ Reliance on welfare may be exacerbated if refugees actively select destination countries where the welfare provisions are more favorable (“welfare shopping”). Current mobility regulations (for example, on the freedom of movement and the portability of social benefits) limit “welfare shopping” opportunities in the EU. See Razin and Wahba (2015) for a recent discussion of the European case.

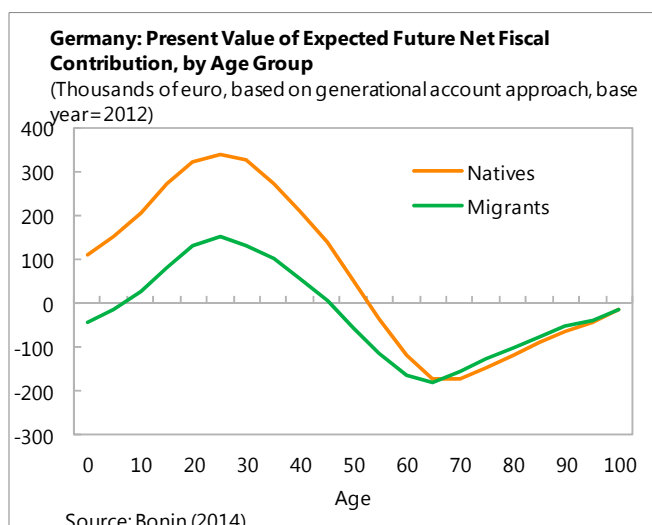
performance of future immigrants.²⁶ Neither do they tell us about the long-term fiscal effects or any indirect impact stemming from the broader effect of immigration on the economy.²⁷ We will return to these aspects below.

47. **There is no clear link between the number of immigrants and their net fiscal balance.** Excluding outliers such as Luxembourg and Switzerland, there is no correlation between the net fiscal impact of immigration in terms of GDP at a point in time and the share of immigrants in the population, which suggests that other factors than the number of immigrants are playing a role.



48. **The fiscal impact of immigrants changes over their lifetime, so the age-structure of the immigrant population is a key determinant of its net fiscal impact.**

Like native workers, immigrants have a weaker net fiscal balance at young and old age and a stronger net contribution during their working-age phase. Thus, the relatively large fiscal cost of the immigrant population in Germany in 2007–09 partly reflects the high proportion of immigrants who were pensioners at that time. Similarly, in Denmark the difference between the negative fiscal contribution of non-Western immigrants and the positive contribution of Western ones can be explained by the different incidence of pensioners in these two groups (Hinte and Zimmermann 2014). Relative to natives, immigrants' net present value of expected future contributions turns positive later, peaks at a lower level, and often turns negative earlier. The figure above illustrates this pattern as reported in a recent study using a dynamic approach for Germany (Bonin, 2014).



²⁶ The static approach used here is simple and based on readily available data, especially tax and social contributions and use of benefits. As such, it ignores that net fiscal contributions change over an individual's life span (see below). Dynamic approaches take this into account but require more assumptions, for example about future wages and retirement.

²⁷ The analysis includes indirect taxes paid by migrants as well as the cost of education, health, and ALMPs. It excludes, however, the cost of providing public goods, such as defense.

49. **Immigrants entering when they are of working age tend to be associated with higher net fiscal contributions than other immigrants.** This derives mostly from savings on education expenditure in the host country, and from the higher number of working years ahead (and the correspondingly higher tax contribution). Fertility rates of immigrants, typically higher than those of natives, can help reduce the adverse fiscal impact of population aging (see paragraph 54).

50. **High-skilled immigrants typically make larger net fiscal contributions than natives.** This is the case even if the return to education is often lower for immigrants than for natives. For instance, immigrants to the United Kingdom, who arrived after 2000 were highly skilled, and had a higher positive net fiscal contribution than the native population (Dustmann and Frattini 2014),

51. **Refugees' fiscal contribution tends to be less favorable than that of economic immigrants.**²⁸ For example, in Australia humanitarian immigrants have a negative fiscal impact during the first 10–15 years, whereas economic migrants have a positive contribution. Although the fiscal impact of humanitarian immigrants turns positive at later stages, their overall impact over the lifecycle is still negative (OECD 2013).

Implications for the current wave of refugees

52. **The net fiscal contribution of the current refugee wave is difficult to predict.**

As discussed, the short-term cost of caring for the incoming refugees could be sizable for some countries. In the medium and long term, their fiscal impact—like that of natives—depends on a number of factors. In particular, there is considerable uncertainty regarding the expected number and composition of the incoming refugees, how many of them will be allowed to (or will want to) stay in the longer term, or how fast and successfully they will integrate into the labor market.

- That said, the new immigrants are expected to be *younger* and have *higher fertility rates* than natives, which would point to broadly positive net fiscal contributions in the longer term, including through their inclusion in public pension systems (see next section).
- As discussed above, information on the *education* and *skills* of recent EU immigrants is scarce. To the extent that the skill mix is less favorable than that of the current immigrant stock or natives, fiscal contributions will be relatively lower.
- Importantly, with *unemployment* being high in a number of European countries, labor market integration of refugees in those countries might take longer than otherwise, which would tend to lower the lifetime contributions of immigrants as well as natives. It should be noted, however, that asylum seekers—and immigrants in general—tend to choose countries with better economic and labor market prospects and relatively low unemployment rates.

²⁸ In some countries, this partly reflects the existence of legal obstacles preventing refugees from starting to work quickly upon arrival.

Population aging and immigration

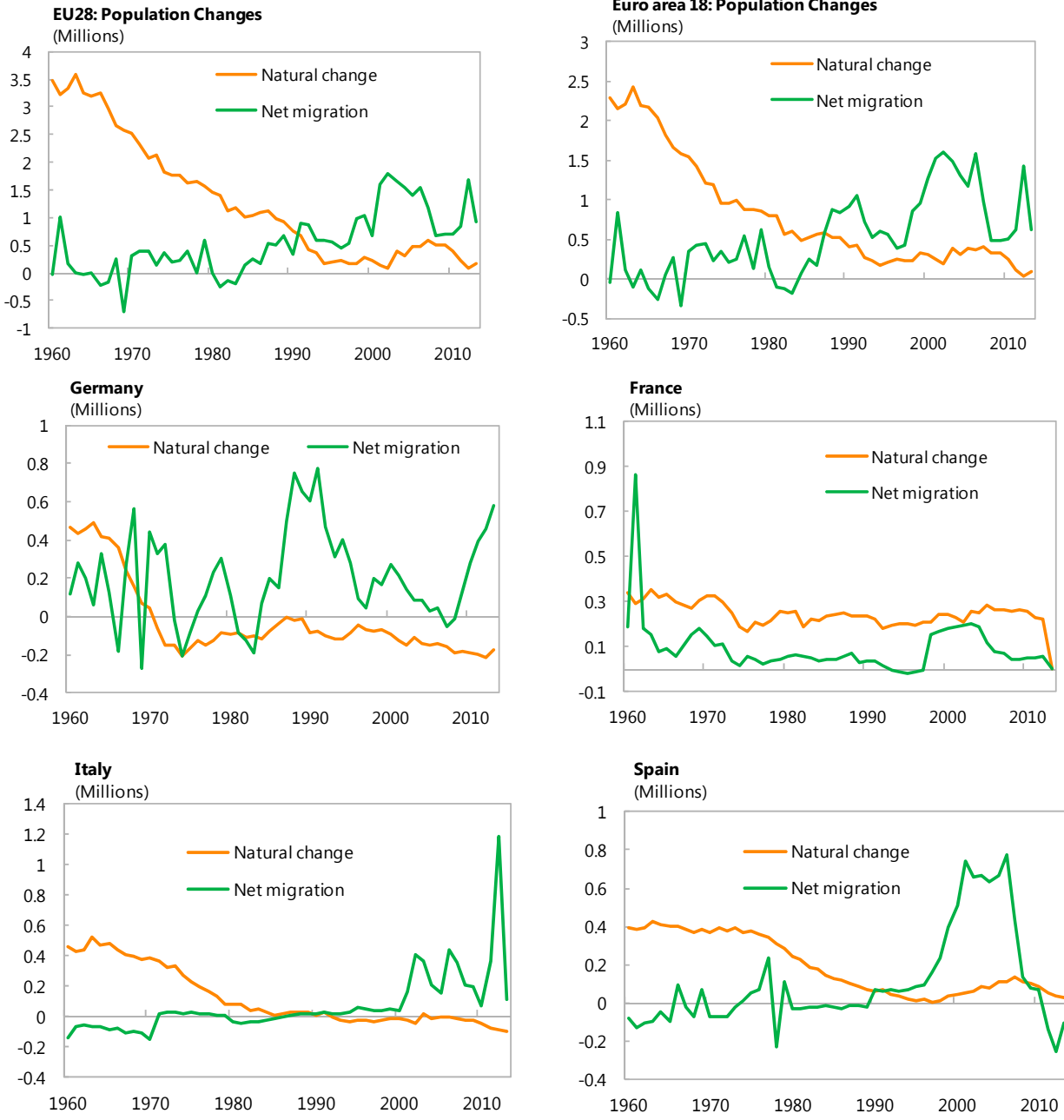
53. **Looking further ahead, Europe’s population is forecast to age rapidly over the next few decades**, reflecting several decades of low birth rates and rising longevity (Figure 6). According to Eurostat projections, Europe’s old age dependency ratio—the ratio between the number of persons aged 65 and over and the number of people in the working-age population—will rise steeply from about 30 in 2015 to above 55 in 2050 in the *absence* of migration. This will lower potential growth, and likely place a large burden on public finances, pensions and benefits schemes, and healthcare provision (Clements and others, 2015). Migration could help counteract the economic impact of this transition.

54. **The impact of the refugee inflow on pension spending is likely to be favorable, but small.** The 2015 Ageing Report (European Commission, 2015) examines the effect of population aging on pension and other government expenditures assuming no policy changes in the pension systems. One of the variants to the baseline scenario shows that a reduction in immigration flows by some 210,000 individuals per year over 2015–30 would result in higher pension spending of 0.1 percent of GDP by 2030. Applying this relationship in reverse to the refugee baseline scenario used for the macroeconomic model simulations (see Annex II), and assuming that the effect is linear, and that the refugees have similar characteristics as the average immigrant in the EC scenarios, pension expenditures by 2030 would decline by about $\frac{1}{4}$ of a percentage point of GDP for the EU as a whole.²⁹ The effect would be different across countries, of course, with countries receiving the largest inflows experiencing the strongest reduction in pension outlays (Figure 7).³⁰ The projected increase in refugees would also help shave healthcare and long-term care spending, as working age individuals rely less on these services than elderly ones, though the EC’s Ageing Report does not provide a quantification under alternative migration scenarios. The favorable effect on health care, however, is likely to be smaller than that on pensions, since refugees will start using healthcare services immediately as they arrive, while they will claim pension and long-term care benefits only when they reach retirement age.

²⁹ This may be regarded as a favorable estimate of the impact of refugees on pension expenditures, since it is likely, as discussed previously, that refugees’ labor market outcomes are worse than that of other immigrants. Clements and others (2015) provide estimates of aging costs under a baseline and high migration scenario for a group of highly developed countries. They find that higher immigration reduces pension and health care costs in these countries, though they also point out that the increase in immigration necessary to keep the dependency ratio constant over time would be too high to be realistic.

³⁰ Some EU countries where dependency ratios are forecast to rise quickly absent immigration (Italy, Portugal, Spain, and Greece) are not receiving large refugee inflows at the moment (Figure 7).

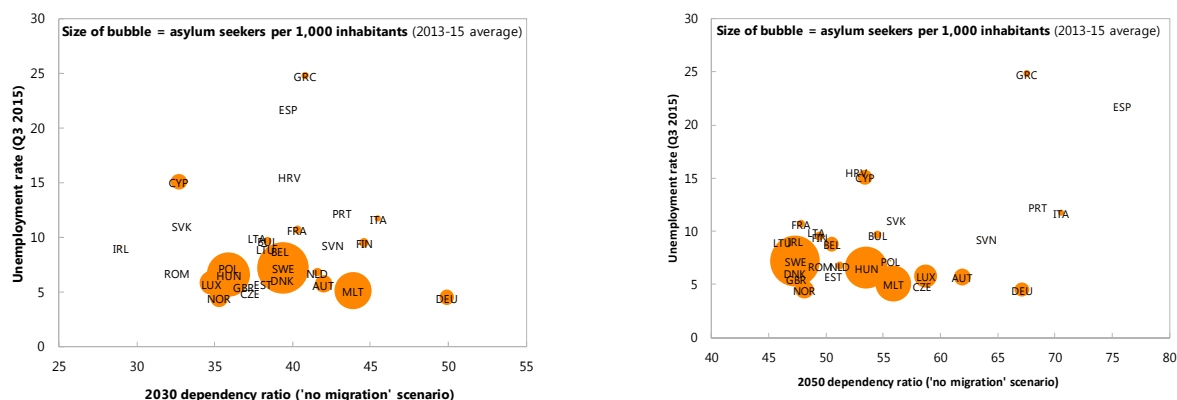
Figure 6. Population Changes by Region and Country



Sources: Eurostat and IMF staff calculations.

Figure 7. Asylum Seekers and the Aging Problem

Migrants tend to go where unemployment is low, not where the aging problem is the most severe



Sources: Eurostat and IMF Staff Calculations.

CONCLUSIONS

55. **The first priority is to address the humanitarian emergency in conflict countries, neighboring countries, along the refugee routes, and in refugee destination countries.** In the EU, with the current system for accommodating and processing asylum seekers overwhelmed by the size of the inflow, policies must focus on strengthening receptive capacity and processing capabilities. The surge has also highlighted the inadequacy of the common EU asylum policy, and reforms to build a more harmonized and cooperative approach are necessary to achieve a workable asylum and border management system. In addition, providing financial resources to countries bordering conflict areas, where the majority of displaced people and asylum seekers are located, can contribute to slow asylum seeker flows and relieve current strains.

56. **Past international experience provides valuable lessons about what economic effects should be anticipated, and what policies enacted.** There are important caveats, however. First, this study looks at only the economic dimension of a multi-faceted issue. Second, many of the episodes studied pertain to economic migration rather than refugee flows, and the two can have different characteristics.

57. **The inflow of asylum seekers is likely to have an immediate expansionary effect on the economy.** In the short term, additional public spending will increase domestic demand and GDP. IMF staff estimate that this effect will be modest for the EU as a whole (raising the level of GDP by some 0.1 percent in 2017), but more pronounced in the main asylum seeker destination countries. GDP per capita will be lower, reflecting the weaker labor market performance of refugees and restrictions on labor market access to asylum seekers in some countries. In the long run, the economic impact will depend on the speed of integration of refugees into the labor market.

58. **Deviations from prior SGP targets to accommodate asylum seeker spending should be considered on a case-by-case basis and should be only temporary.** The SGP framework provides flexibility to accommodate exceptional spending linked to unusual events outside the government's control. Therefore, significant additional expenditures should be taken into account when assessing a country's fiscal effort toward its SGP targets, consistent with the overall fiscal consolidation progress. The EC should develop transparent criteria to identify refugee-related expenditures, recognizing that the composition of these expenditures might be quite different between transit and host countries.
59. **Rapid labor market integration of the refugees has important economic, fiscal, and social benefits.** Quick labor market integration can unlock the potential economic benefits of the refugee inflow. It would also minimize the risk of social exclusion for the newcomers and maximize their net contribution to the public finances in the longer term. The refugees' successful labor market integration could also help alleviate the fiscal effects of population aging, although the effect is likely to be small and will not be a panacea for demographic problems. At the same time, rapid integration policies, including education, housing and ALMPs, entail some upfront fiscal costs.
60. **Displacement effects on native workers—a major political concern—are likely to be short-lived and small.** In the face of an influx of refugees, concerns among native workers that they will face lower wages and higher unemployment are understandable. Yet, past experience with both economic and humanitarian immigration indicates that adverse effects on wages or employment are limited and temporary, possibly because of low substitutability between immigrants and native workers, and because investment usually increases in response to a larger workforce.
61. **A range of policies can foster the refugees' economic integration.** Rapid economic integration would allay concerns that the newcomers will cause long-term fiscal costs for host countries and help their social integration and acceptance. Although the specific design of suitable policies is ultimately country-specific, because countries differ in their institutional structure and economic situation, economic theory and the analysis of past experiences point to several areas where policy attention should be directed, including asylum regulation, labor and product markets, housing, and education.
62. **Asylum seekers should be allowed to work and receive targeted support early on.** Legal obstacles such as restrictions on asylum seekers to take up work while their case is being processed should be eased. ALMPs specifically targeted to the needs of asylum seekers should be strengthened to address language barriers and help identify and leverage existing skills. To help tailor these policies to the specific needs of asylum seekers, surveying their characteristics at the time of registration would also be useful.
63. **High entry wages and "inactivity traps" are a barrier to refugee integration.** Low education and poor linguistic skills likely limit the attractiveness of refugees on the job market, especially soon after arrival. The lack of job search skills and local informal networks constitute additional obstacles. Temporary wage subsidies for employers who hire refugees have proved to be effective in overcoming barriers to employment. Allowing for temporary, targeted exceptions to

minimum or entry level wages or other labor market regulations for refugees may also be helpful where such regulations are tight. However, the benefits of avoiding prolonged exclusion from the labor market should be weighed against the risk of creating labor market dualities that may be difficult to unwind. Incentives to find work may also need to be strengthened through tax/benefit reforms that make work pay. Easing restrictions on the geographical mobility of refugees could also allow them to go where labor market prospects are more favorable.

64. **Flexibility in product markets can also help integrate refugees.** Easing barriers to starting a new business—for example through simpler regulatory and administrative procedures for new firms, ensuring equal market and job access, access to finance, and start-up support—could help newcomers and natives alike become entrepreneurs by tapping a growing number of business opportunities. Flexibility also helps native workers adjust to immigration surges, by moving to more highly skilled jobs that are complementary to those taken up by the immigrants.

65. **Education and housing policies can support integration efforts.** School systems with well-developed preschools, less school segregation, and limited early tracking of students have been found to be more suitable to the educational success of immigrants' children. Housing policies should foster the expansion of affordable accommodation by ensuring that housing supply responds promptly to increased demand, especially in areas where it is easier for migrants to find work.

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Annex I. Asylum Seekers and Refugees in Italy, United Kingdom, Germany, Sweden: Facts

	Italy	United Kingdom	Germany	Sweden
Applicants in 2015	77,970 (through November)	32,090 (through October)	476,649	162,877
Top countries of origin	Nigeria, Pakistan, Gambia, Senegal, Bangladesh	Eritrea, Sudan, Pakistan, Iran, Syria	Syria, Albania, Kosovo,, Afghanistan, Iraq	Syria, Afghanistan, Iraq, Eritrea, Somalia
Recognition rate¹	40 percent	37 percent	50 percent	80 percent
Average time to process application			5.3 months	4.5 months in 2014 rising to an average of 7 months in 2015.
Permit to work	<p>Granted after 2 months from asylum application.</p> <p>New residence permit is of a 6 month duration and renewable until decision on application made.</p>	May be possible 1 year from asylum application	Entitled to a work permit 3 months after registering.	<p>Asylum seekers are allowed to work without a work permit if certain conditions are met. This right lasts until the final decision on their asylum application, including during appeal procedures, and can extend beyond that if the applicant cooperates in preparations to leave the country voluntarily.</p> <p>Asylum seekers who get jobs can switch status to become labor market migrants if they work for 6 months before receiving a final negative decision at the second instance or after their appeal to the Migration Court of Appeal is refused.</p> <p>A successful applicant will receive a temporary permit of at least 1 year and at most 2. After 4 years on temporary permits, a person who still has a job can then apply for a permanent residence permit.</p>

¹ Q3 2015, data from Eurostat. Share of first instance positive decisions. Large disparity in rejection rates persists even for the same applicant nationality.

	Italy	United Kingdom	Germany	Sweden
Restrictions to work permit once granted	<p>None</p> <p>Asylum applicants have access to vocational training.</p>	<p>Can only apply for vacancies in narrowly defined “shortage” occupation, making it difficult to find employment. No special access to retraining.</p> <p>Self-employment prohibited.</p>	<p>Employers must prove that they were not able to find so-called preferred employees—German nationals, EU citizens or recognized refugees—for the job.</p> <p>This priority check is not applied in case of professions with labor bottlenecks and after 15 months of residence.</p>	<p>None</p>
Reception facilities	<p>Yes but only after asylum application formalized. This can take weeks or months. In the meantime asylum seeker has to rely on friends or be homeless.</p> <p>Shortage of facilities and overcrowding is a major problem.</p> <p>Centers are located in remote areas and there is no subsidy for public service provided to access city centers.</p> <p>Typically asylum seekers stay in second accommodation facilities for 6 to 12 months. If they work, they need to contribute financially to the accommodation center.</p>	<p>Usual first accommodation is in reception centers. These tend to be overcrowded. No cash is provided. Max time spent here is 19 days.</p> <p>After this phase they are dispersed to smaller units mainly flats or shared houses. Policy is to disperse asylum seekers away from south east. This leads to asylum seekers preferring to “sofa hop” in order to stay in London.</p> <p>Asylum seekers are entitled to housing and monthly allowance if deemed destitute. Application procedures are very cumbersome and not available in languages other than English.</p>	<p>Asylum seekers are distributed across states, according to quotas. The reception centers are stretched far beyond capacity, and other buildings (gym halls at schools and so on) are now also being used.</p> <p>The maximum time in the reception center has been increased from 3 to 6 months, as of October 2015. After that, asylum seekers will stay in collective accommodations or be granted a permit to take an apartment.</p> <p>The residence obligation ends once the asylum or refugee status is granted.</p>	<p>Housing offered by the Migration Agency is either in an apartment, in a normal housing area, or at a reception center.</p> <p>The approach to accommodating asylum seekers is based on a dispersal or solidarity principle where every municipality is expected to be ready to accommodate asylum seekers. However, municipalities have the right to refuse receiving asylum seekers, although the government is changing these rules, so that municipalities will be designated to receive refugees according to criteria that mainly involve employment prospects.</p>
Cash support	<p>In addition to accommodation asylum seekers are entitled to 2.5 euros per day in first accommodation centers and between 1.5 and 2.5 in secondary accommodation.</p>	<p>Cash support amounts to 374 euros for a couple. Payments are not automatic. You need to apply for them.</p> <p>The amount of support is not adequate to meet basic living needs. The link to welfare payments for nationals has been broken with benefits being 52 percent of that of nationals.</p>	<p>Until October 2015, the following cash allowances were provided for 15 months in addition to benefits in kind: individuals received €143 a month and adults sharing a household €129 each; a family also received between €85 and €92 a month for each child, depending on age. Since late October 2015, cash allowances have been replaced by benefits in kind “as much as possible” for those waiting in reception centers.</p>	<p>All asylum applicants have access to the benefits of the reception system. If they have their own resources, they must use these first.</p> <p>Monthly cash support is about 76 euros for a single adult (38 euros for children age up to age 17) if applicant is in an accommodation center (food included) or about 225 euros (about an average of 130 euros per child, though it varies slightly by age) if in an apartment (no food included).</p>

	Italy	United Kingdom	Germany	Sweden
Application period	<p>Formal asylum request should happen within 8 days (although no legal requirement). Personal interview should happen within 30 days that the claim and documents have been received.</p> <p>Commission should decide within 3 days but typically it takes 6 to 12 months.</p> <p>Legislation does not allow for admissibility/screening procedure or any border or accelerated procedure.</p>	<p>All requests go through a screening process and then applications are divided into unaccompanied minors, accelerated procedures (detained fast track or unfounded-processed in 15 days), safe third country procedure or regular procedure.</p> <p>Safe third country cases are made very quickly and do not allow for an appeal.</p> <p>Typically a decision by regional office or home office should be made within 6 months. This happens in only half the cases. It is not unusual for cases to take 36 months.</p>	<p>An appointment to make the application is set in consultation with the initial reception center.</p> <p>The asylum seeker is briefed on his or her rights and obligations.</p> <p>The date for a personal interview is set (which can take several weeks, given capacity problems). The case officer provides a decision in writing, including reasons for the decision. If the application is denied, the instructions for appeal are also provided.</p>	<p>Fast-track procedure for “well-founded” (Syria, Eritrea, to some extent Somalia) and “unfounded” (Western Balkans) applications.</p> <p>Decisions in accelerated procedures must be taken within 3 months from the lodging of an application. However, with the rising numbers of late, these times have been extended.</p>
Right to appeal	<p>Yes, two levels. Asylum seekers can appeal within max 30 days against a negative decision.</p> <p>Average appeal time is 6 months to 1.5 years. Short time frame to lodge appeal undermines the asylum seeker’s ability to build a case, given legal and linguistic challenges.</p>	<p>Yes, two levels. Need to lodge appeal within 14 days. Appeals are completed within 15 weeks.</p> <p>Applications are very cumbersome, fee must be paid (can be waived for destitute).</p>	<p>Yes, three levels.</p> <p>Asylum seekers may lodge a complaint to the Administrative Court within 14 days of the decision.</p> <p>If the Court refuses to hear the complaint because it is manifestly inadmissible or unfounded, no further appeal is possible. Other decisions may be appealed to the Higher Administrative Court within 1 month if it grants the permission to appeal.</p> <p>The decision may be appealed in the final instance to the Federal Administrative Court, if the Higher Court grants to permission to appeal.</p> <p>There is no appeal against the Federal Court’s decision, though a complaint can be filed with the European Court of Human Rights.</p> <p>No court costs are imposed on the asylum seeker.</p>	<p>Yes, two levels. A first appeal may be lodged before the Migration Court. A special division of the County Administrative Courts.</p> <p>There is a further possibility to appeal before the Migration Court of Appeal, where leave to appeal has to be requested.</p> <p>First-instance decisions must be appealed within 3 weeks.</p> <p>When the Migration Court of Appeal hands down its decision, the expulsion order is enforceable and the rejected applicant is expected to leave Sweden voluntarily within 2 weeks.</p>

REFUGEE SURGE IN EUROPE

	Italy	United Kingdom	Germany	Sweden
Education	Schooling is mandatory until age 16 for asylum seekers or their children.	Schooling is mandatory between ages 5 and 16 for asylum seekers or their children. No prep classes to facilitate entry are offered.	Compulsory schooling between ages 6 and 15	Voluntary and available for children ages 6 to 16. Children between 16 and 19 often have to attend a preparatory course to improve their skills in Swedish and other core subjects before being able to access vocational education.
Access to healthcare	Free access (if destitute)	Free emergency access and registration with a general doctor.	Asylum-Seekers' Benefits Act ensures that basic needs such as healthcare are met	Entitled to emergency medical, dental care, and maternity care until residency permit granted or asylum application denied. Asylum-seeking children and young people under 18 have the right to the same cost-free medical care and dental care as other children. A small nominal fee is charged but can be waived if health-related expenditures exceed a total of 42 euros for 6 months.

Annex II. Assumptions Underlying the Short-Term Economic Impact Simulation

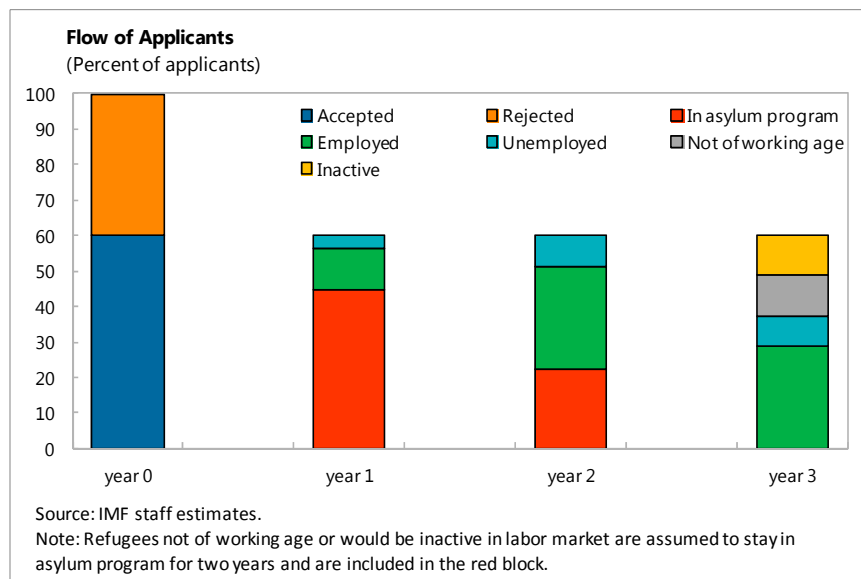
Arrivals and applications. It is assumed that about 1.3 million of first-time asylum seekers enter the EU each year over 2015–17, declining by one-half in 2018, and growing again thereafter at 5 percent annually, roughly in line with the historical trend. The distribution of asylum seekers across the EU is assumed to be the same as in the first nine months of 2015.

Approval, support, and transition to the labor market. It is assumed that 40 percent of asylum applications are rejected. Rejected applicants receive support for one year and then leave the country (see below). Accepted applicants become eligible to work at a rate of 25 percent in the first year and 50 percent in the second year. Those not eligible to work continue to receive support for two years after arrival.

Demographics. The share of working-age population (ages 15–64) among the accepted asylum seekers is assumed to be 81 percent, based on the average share among total asylum applicants in the first eight months of 2015.

Labor market integration. Based on the stylized facts discussed in the main text, the simulation assumes that the participation rate of asylum seekers is 5 percentage points (pps) lower than that of the native population in 2015, with the gap gradually declining to 3 pps by 2020. The unemployment rate is assumed to be 15 pps higher than that of the native population in 2015, with the gap gradually declining to 12 pps by 2020. The assumed gaps are the same across countries. In the scenario with slower labor market integration, the unemployment rate among refugees is assumed to be 30 pps higher than among natives in 2015, with the gap gradually declining to 24 pps by 2020.

Fiscal costs. Fiscal costs are assumed to comprise support for asylum applicants of 12,000 euros per year per person. Additional fiscal costs occur related to basic social support for those who are not of working age or who entered the labor market but are unemployed. This support is provided at the same rate as for natives. Note that the fiscal assumptions are consistent with the fiscal cost estimates discussed in the Fiscal Impact section.



Annex III. Labor Market Programs for the Integration of Immigrants into the Labor Market: Selected Studies

Study	Country	Type of program	Migrant (Y/N) ¹	Effect
Thomsen and Walter, 2010	Germany	Temporary Extra Jobs: the most frequently used welfare-to-work program in Germany. It provides temporary work opportunities in the public sector (for example community services, public infrastructure) for welfare recipients. Participants receive welfare benefits and are paid a 1–2 euro hourly wage.	No	Negative effect on employment of immigrants
Aldashev, Thomsen and Walter, 2010.	Germany	Four different types of training that welfare recipients' might be assigned to under the "integration contract" as part of Germany's Unemployment Benefit (UB) II scheme. During training, participants receive UBII payments; child care, examination fees, travel grants are covered.	No	
		Aptitude Tests: tests to assess the skills, capability and labor market opportunities of participants for specific occupation. During the program, which lasts up to 4 weeks, occupationspecific skills are provided.	No	Positive effect on employment
		Job Search Training: training programs aimed at improving the applicant's presentation and job search abilities. Lasts up to 2 weeks.	No	No effect
		Skill Provision: practical training (up to 8 weeks) in specific working techniques (for example, business administration, computer courses)	No	Positive effect on employment, esp. for female immigrants
		Combined training programs: combination of different modules (up to 12 weeks), targeted for the long-term unemployed	No	No effect
Caliendo and Kunn, 2010 Wolff and Nivorozhkin, 2012	Germany	Start-up subsidy: allowance to secure the initial phase of self-employment. Unemployed are entitled to the subsidy if business plan is externally approved.	No	Significant effect on employment, income, and occupational satisfaction; program most effective for the disadvantaged groups in the labor market

Clausen, Heinesen, et al., 2009	Denmark	Danish municipalities offer a 3 year integration program for migrants, starting 1999. The program consists of Danish language training for all, and ALMPs for immigrants receiving social security benefits. There are 6 different types of ALMPs offered to immigrants	Yes	Significant lock-in effects of language training and ALMPs (i.e., probability of finding employment falls while immigrant part of the program). Among the different types of ALMPs, only private sector subsidized employment has a significant effect on employment probability.
		Employment with wage subsidy in private sector firms: very little used by employers in Denmark		Significant positive effect on probability of employment (shorten the mean duration until employment by 14–24 weeks)
		Direct employment programs in the public sector		No significant effect, but positive point estimate
		Education and training		No significant effect, but positive point estimate
		Mixed special programs: designed to improve personal and vocational skills through various measures		No effect
		Counseling and upgrading: introduction programs and counseling regarding employment and education options		Significant negative effect
		Special employment programs in private sector firms: subsidized private sector employment with vulnerable immigrants		Significant positive effect
Heinesen, Husted and Rosholm, 2011	Denmark	Perform similar evaluation as in Clausen and others (2009), but instead of focusing on newly arrived immigrants, they examine immigrants receiving social assistance.	Yes	Significant effect of all type of programs on the hazard rate of regular employment for immigrants receiving social assistance. The effects are the largest for subsidized employment programs, which reduce the duration of social assistance by 10–15 months; direct employment programs reduce it by 4 months, and other programs reduce it by 2 months.
		Employment with wage subsidy in private sector firms: very little used by employers in Denmark		
		Direct employment programs in the public sector		
		Other: Education and training, counseling and upgrading		

Jahn and Roshol, 2012	Denmark	Temporary agency employment	No	Significant positive effect on the transition rate to regular employment for both natives and immigrants, but particularly for immigrants
De Graaf-Zijl, Van den Berg, and A. Hemya, 2011	Netherlands	Temporary agency employment	No	Significant positive effect on the transition rate to regular employment, especially for ethnic minorities.
Andersson and Wadensjö, 2004	Sweden	Temporary agency employment	No	Immigrants more likely to use temporary employment agencies and more likely to leave temp work for regular employment, relative to natives.
Sarvimaki and Hamalainen, 2010	Finland	Integration program for immigrants introduced in late 1990s: tailored programs consisting of an individualized sequence of training and subsidized employment, with non-compliance sanctioned by reduction in welfare benefits	Yes	Significant positive effect on employment and reduction in welfare dependency. Only overall impact of the program is estimated, not distinguishing between the importance of its various elements.
Aslund and Johansson, 2011	Sweden	Swedish pilot integration program , introduced in 2003, called Special Introduction (SIN) targeted at immigrants and refugees who are deemed to be job ready. A client can be part of the program for 6 months. Once in the program, they are assigned to a SIN officer who help immigrants with (1) job search analysis—case workers maps the individual's capabilities and wishes; (2) job gathering—the case worker looks for suitable jobs; case worker informs prospective employers that the aim is employment, even if immigrants start with trainee positions; (3) work analysis—case worker investigates whether work environment suit the client; (4) workplace introduction—help workers integrate with the workplace community; (5) follow-up: case worker follows-up on the assignment	Yes	SIN increases rate of transition into work experience schemes, which are associated with higher chances of becoming employed. The cost per job year created is 30,000 euros.

Andersson, Joona and Nekby, 2012	Sweden	Trial program introduced in 2006, which provided newly arrived immigrants intensive coaching by public employment services case workers . Participants had access to all standard ALMPs available for immigrants in Sweden (job search activities, validation of foreign credentials, course on interview skills, and wage-subsidized employment. But they got the extra coaching, which helped them select the appropriate ALMPs, and so on.	Yes	Significant (but small) positive effect on employment rates
Cohen-Goldner and Eckstein, 2010	Israel	Training program for immigrants from the Soviet Union to Israel	Yes	Significant positive effect on job offer rates, and a small positive effect on wages of female immigrants
¹ The column indicates whether the program is targeted specifically at immigrants or available to all job seekers.				

Annex IV. Summary of Policy Recommendations

Issue	Policy Recommendations
<p>Asylum policies. The European asylum system for registering and absorbing refugees is strained.</p>	<ul style="list-style-type: none"> • Create a more harmonized and cooperative approach to processing and accommodating asylum seekers among member states. • Take collective action to secure the external border. • Give assistance to countries bordering conflict areas, where the majority of displaced people are resident.
<p>Labor market integration. In the short term, slow integration of refugees raises fiscal costs and could exacerbate social tensions.</p>	<ul style="list-style-type: none"> • Lower barriers to work eligibility during asylum processing phase. Provide language and job search training early. • Where high entry wages are a concern, allow for temporary exemptions to the minimum wage regime or provide wage subsidies to employers. • Tackle “inactivity traps” by reducing marginal taxes on low wage workers and / or tapering social benefits more gradually upon entering employment.
<p>Stability and Growth Pact (SGP). In some countries the short-term costs of absorbing refugees could conflict with the SGP rules.</p>	<ul style="list-style-type: none"> • Allow for temporary deviations from the SGP to accommodate refugee expenditures on a case-by-case basis, as announced by the EC.
<p>Longer-term problems. Persistent lack of integration will raise government debt, worsen income inequality, and miss an opportunity to alleviate demographic pressures on social insurance systems.</p>	<ul style="list-style-type: none"> • Tackle bottlenecks to low-cost housing such as overly restrictive land use laws and time-consuming construction permits. • Ensure early inclusion of immigrants’ children to the schooling system; avoid segregating immigrants’ children in particular schools; provide adequate language support and cultural immersion. • Facilitate access to basic financial services (for example, bank accounts) for refugees. • Grant geographical mobility to accepted refugees.
<p>Product markets. Inflexible product markets can raise barriers to self-employment for refugees.</p>	<ul style="list-style-type: none"> • Simplify regulations, reduce effective protection of incumbent firms, and accelerate skills-recognition for refugees.