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An economic take on the refugee crisis

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Europe is facing an unprecedented surge in the number of asylum seekers and refugees. These flows have put considerable strain on public authorities in several Member States. From a purely macroeconomic point of view, the impact appears moderate, stemming in the short term from increased public spending and, over time, a slight rise in labour supply. This report focuses on asylum seekers and refugees, presenting a first assessment of the impacts of the unexpected inflows of these individuals on the economies of the EU. It only presents a first snap-shot, reflecting the fact that much will depend on the size, scope and composition of the flows, as well as the capacity of host countries to integrate those that will be granted protection and the actual number of individuals who remain in host countries whether or not they are granted protection.

While heterogeneous as a group, many asylum seekers are relatively young, the vast majority is of working age, and increasingly more people come from countries considered unsafe. Based on the information available, the number of asylum seekers in the EU more than doubled between 2014 and 2015 to reach about 1.26 million persons. Given that around 70 % of asylum seekers are of working age (between 18 and 64 years old), compared to 63 % in the EU's population in 2014, their arrival has somewhat altered the age distribution in the countries most concerned. More individuals are coming from countries deemed by EU Member States to be 'unsafe', such as Syria. As a result there has been an increase in the share of applicants recognised as refugees (in 2015 the first instance recognition rate was 52 % compared to 46 % in 2014). Evidence from some recent studies suggests an average education level of asylum seekers below that of natives, with a relatively large share of low-skilled, and the educational attainment of the population in the country of citizenship of the asylum seeker seems to be lower than in the EU Member States.[1]

EU Member States are affected to different degrees. The routes taken by asylum seekers to enter the EU have changed over the course of 2015 and 2016, thereby gradually affecting more Member States, but the flows have differed substantially across countries. Greece and Italy have remained the most important front line countries, but many people did not submit asylum claims in those countries. As for transit, flows via Hungary, Croatia and Slovenia have proved important in 2015. Germany and Sweden, on the other hand, are the main destination countries and they registered the highest number of asylum seekers arriving in 2015. Austria is to a certain extent both an important transit and destination country. These trends have seen major changes since the introduction of new policies in the spring of 2016, particularly the implementation of the EU-Turkey Statement of 18 March. At the time of this report, arrivals in Greece had fallen and transit had slowed dramatically, while arrivals to Italy were still relatively high.

Estimates suggest moderate direct fiscal implications for Member States but these could prove to be at the low end in some cases. The rise in public spending comes typically for rescue operations, border protection (especially if managing an external EU border), registration of asylum seekers, and the short-term provision of food, health care and shelter for transit countries. For destination countries, spending may also include elements like social housing, training, education and expenditure related to refugees' integration and welfare benefits. Estimates from the Commission's spring 2016 economic forecast suggest that the direct additional fiscal implications for the Member States most concerned is expected to fall in the range of 0.1-0.6 % of GDP, on a cumulative basis over 2015-2016. It must be recognised, though, that those estimates may prove to be at the low end, depending on how the

[1] World Development Indicators 2016, The World Bank: http://data.worldbank.org/data-catalog/world-development-indicators.

situation evolves. In terms of EU budgetary surveillance, the Commission has indicated[2] that it is willing to use the 'unforeseen events' provision embedded in the Stability and Growth Pact (SGP) for net extra costs stemming directly from the refugee crisis when assessing, ex post and on a case-by-case basis, possible deviations from the SGP requirements for 2015 and 2016.

The short-term impact on growth from additional spending is moderate, although more pronounced for some countries. When looking at the economic impact, it is bound to differ across countries, though not only because of differences in the size of inflows. The short term impact depends on whether a migrant transits or stays; is granted protection status or is rejected. It also depends on an individual's profile, as well as the host country's economic structure and capacity to integrate those that will be granted protection. This includes differences, for asylum seekers, in terms of legal access to the labour market. Drawing on the stylised scenarios presented by the Commission in its autumn 2015 economic forecast and updating the assumptions on asylum seeker inflows to reflect the effects of the latest policy developments, notably the implementation of the EU-Turkey Statement, EU GDP could increase by an additional 0.2 % by 2017, compared to a baseline scenario.[3] The impact, however, may be larger for some Member States: simulations from the Commission on Germany, for example, pointed to a potential increase in the GDP for Germany of between 0.4-0.8 % by 2017, depending on the assumptions made about the skill level of migrants. Overall, the Commission's simulation results appear to be largely in line with others, including those by the International Monetary Fund (IMF).[4] However, the estimated small and positive impact on growth may only materialise if appropriate integration policies are put in place.

In the medium to long term, integration is key. If well integrated, refugees can contribute to greater flexibility in the labour market, help address demographic challenges, and improve fiscal sustainability. The characteristics of the migrants, as well as of the structure, cyclical position and the integration policies of the destination countries will define the results. The impact will differ across countries, but also across regions within countries, as it depends on the extent to which the skills of migrants substitute or complement the native work force. Nevertheless, what is clear from previous research and literature, is that the earlier and better the integration, the more likely it is that legally-residing, third-country nationals — regardless of their reasons for coming to the EU — will make a positive contribution to growth and public finances in the medium term. In particular, lowering barriers to facilitate the 'employability' of migrants is essential for their ability to get a regular job and to have a positive impact on growth and public finances in the medium term. In particular, lowering barriers to facilitate the 'employability' of migrants is essential for their ability to get a regular job and to have a positive impact on growth and public finances in the medium term.

A comprehensive policy response and a long-term view are essential to turn the perceived threat in the public debate into an opportunity. The degree to which refugees are integrated, in particular into the labour market but also into society at large, is a key variable to determine the macroeconomic effects in the medium to long term. While the cost-benefit analysis for an early intervention is clear-cut and the financial impact is likely to be modest, the cost of a failed integration, socially and politically, would potentially be markedly more important. The political priority and importance of

[2] COM(2015) 800 final, *2016 Draft Budgetary Plans: Overall Assessment*, of 16.11.2015.
[3] The assumptions used in those simulations should by no means be construed as official Commission forecasts of actual asylum seeker flows, as they are merely used in a model scenario to illustrate possible medium-term impacts.
[4] IMF Staff Discussion Note, 2016.

integration is also reflected in the Commission's Action Plan on the integration of third-country nationals adopted today.[5]

1. Introduction

Managing the current inflow of asylum seekers has proven to be a major challenge both for individual Member States and for the EU. First, the scope and pace of flows are unprecedented in size, putting the EU's migration management structures and reception facilities under considerable strain. For that reason, a number of important reforms are now proposed to border and asylum management. Second, the newly-arrived migrants represent a very diverse group of people whose needs and potentials cannot easily be addressed or nurtured with one-size-fits-all solutions. The macroeconomic impact of the inflow of asylum seekers is also set to differ substantially across Member States, not all of which are directly or equally affected.

This Staff Working Document (SWD) looks at the possible economic impact in the short to medium term of the recent large inflow of asylum seekers. The fiscal impact crucially depends on the characteristics of those arriving, of the capacity of transit countries to manage the flows and the capacity of destination countries to integrate those asylum seekers that are recognised as refugees (as well as the policies in place for the management of those who are not). By gaining a better understanding of the possible economic effects of the refugee crisis, this SWD aims to address some of the misconceptions in the public debate and thereby allow for a more informed and targeted policy response, whilst recognising that the longer-term costs of this humanitarian emergency, if mismanaged, could be significant.

The rest of the SWD is organised as follows: Section two provides a description of the different available data sets and assumptions, Section three looks at the fiscal impact, while Section four presents some stylised scenarios of a possible, rather small and potentially positive, economic impact. Section five discusses a few economic policy areas that are key for reaping the potential benefits of migration. Some concluding remarks are presented in Section six.

2. Characterising the asylum seekers arriving in the EU

A better understanding of the size, pace and composition of the recent inflows, is needed to be able to respond in an orderly and adequate manner and to prepare for the long-term. This section tries to navigate the different sources of data, using a consistent terminology to present the 'best possible data' for the Member States most affected. Although considerable efforts have been made to that end, data availability and reliability remain a source of uncertainty when assessing the macroeconomic impact of these flows at the current juncture.

The number of asylum seekers arriving in the EU has reached unprecedented levels, with about 1.26 million first-time asylum applications received in 2015, compared to the 565 000 in 2014.[6] The level of inflows continued in early 2016 in several Member States, but the number of arrivals from Turkey to Greece seems to have diminished since the implementation of the EU-Turkey Statement of 18 March.

[5] COM(2016) 377 *Action Plan on the integration of third country nationals,* of 7.06.2016.

[6] Source Eurostat. Data available at: http://ec.europa.eu/eurostat/documents/2995521/7203832/3-04032016-AP-EN.pdf/790eba01-381c-4163-bcd2-a54959b99ed6.

Several push factors have forced or encouraged people to leave their home countries. These push factors are mainly of a political nature, related to a lack of basic security, notably the presence of Daesh in Syria and Iraq and the security challenges in Afghanistan. According to the United Nations High Commissioner for Refugees (UNHCR), displacement from wars, conflict, and persecution worldwide is at the highest levels ever recorded, and is accelerating fast, reaching 60 million people in 2014.[7] Compared to 2013, there has been an increase of more than 8 million displaced persons, the highest increase ever seen in a single year. Around 14.5 million are seeking refugee status outside the borders of their own country. Syria, now in its sixth year of civil war, had the greatest number of migrants leaving the country in 2014 (3.9 millions) followed by Afghanistan (2.6 millions) and Somalia (1.1 million).

There is also an important economic component in the push factors, as a large number of migrants come from countries with no on-going wars, but it cannot explain the sudden surge in migration flows. A lack of job opportunities, in particular for young people and including the well-educated, has long been among the key problems in many countries of the EU's southern neighbourhood. However, it is a structural factor shown in a steady number of economic migrants seeking to come to Europe and therefore cannot explain the surge in migration seen in 2014-2015. That said, economic and political/security factors may interact. In war-torn countries, for example, insecurity may be exacerbated by high inflation also for basic goods, driven by an insufficient supply resulting from sieges or blockages of supply routes.

A characterisation of the influx would help to better understand the challenge. While acknowledging the complexity and multiple dimensions of the problem facing Europe, a better understanding of the characteristics of current asylum seekers in terms of their demographic composition, education and skills would facilitate a more coherent discussion and shape a more effective response to the crisis.

Box 1: Using the right terminology to facilitate the debate

The terms migrant, asylum seeker and refugee have distinct and different meanings, although they are often wrongly used interchangeably in media and public speeches. According to the European Migration Network (EMN):[8]

- **Migrants** are, in the EU context, third-country nationals establishing their usual residence in the territory of a Member State for different purposes (e.g. work, study, research family reunification or on humanitarian grounds), and potentially for different durations/lengths.

- **Asylum seekers** (or asylum applicants) are, in the EU context, individuals who have submitted an application for international protection, seeking either refugee status under the Geneva Convention or subsidiary protection status, in respect of which a final decision has not been taken yet.

- **Beneficiaries of international protection** are, at EU level, either Geneva Convention refugees or beneficiaries of subsidiary protection.[9] Under the Geneva Convention, the term 'refugee' shall apply to any person who, 'owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to

[7] UNHCR Statistical Online Population Database, available at: http://www.unhcr.org/statistics/country/45c06c662/unhcr-statistical-online-population-database-sources-methods-data-considerations.html.
[8] European Commission (2014), 'Asylum and Migration Glossary 3.0' European Migration Network.
[9] See Directive 2011/95/UE on standards for the qualification of third-country nationals or stateless persons as beneficiaries of international protection, for a uniform status for refugees or for persons eligible for subsidiary protection, and for the content of the protection granted**.** According to Article 2.(b) of the Directive *'beneficiary of international protection' means a person who has been granted refugee status or subsidiary protection status as defined in points (e) and (g)'.*

such fear, is unwilling to avail himself of the protection of that country'.[10] 'Subsidiary protection' refers to those not qualifying as conventional refugees but who would face the risk of suffering serious harm if returned to their country of origin.[11] For the sake of simplicity, these two groups are covered together in this report and referred to as '**refugees**'. For possible future work on fiscal and economic impact and once more is known about the newly arrived, the two groups could be treated separately as Member States are allowed under EU law to have some differences in their respective rights (i.e. in regards to some social rights,[12] allowing for family reunification and duration of residency permit).

There are different categories of migrants, beyond potential refugees. An asylum seeker, seeking protection due to her/his well-founded fear of persecution, clearly differs from other categories of migrants, who are migrating for the purpose of *employment*, *family reunification* or to *study* or carry out *research*.

Other useful definitions when looking at the statistics related to asylum seekers, based on Eurostat metadata,[13] are the following:

- First-time asylum applicant, a person having submitted an application for international protection for the first time in a reporting country, irrespective of the fact that he or she is found to have applied in another Member State of the European Union;

- First instance decision on asylum applications, which can be either positive (the asylum application is accepted and the person is granted refugee status or subsidiary protection or national humanitarian status) or negative (the asylum application is rejected);

- Final decision, taken by administrative or judicial bodies in appeal or in review of first instance decisions and which are no longer subject to remedy;[14]

- **Recognition rate** is the ratio between total positive decisions and total decisions at a given instance level (first instance or final instance). This report presents the recognition rate in terms of first instance decisions only;

- Undocumented migrant, a person who, owing to unauthorised entry, breach of a condition of entry, or the expiry of his or her visa, lacks legal status in a transit or host country, including rejected asylum applications;

- Country of origin, the country of citizenship or, for stateless persons, of former habitual residence;

- Country of transit, the country through which migration flows — regular or irregular — move;

- Country of destination, the country that is a destination for migration flows — regular or irregular.

The standards for the reception of asylum applicants across EU Member States are determined by the Reception conditions Directive from 2013/33 (recast).[15] In addition the Dublin III Regulation from June 2013 lays down the criteria and mechanisms for determining the Member State responsible for examining an asylum application lodged by a third-country national or a stateless person. The criteria for establishing responsibility run, in

[10] UN 'Convention relating to the Status of Refugees', adopted on 28 July 1951 by the United Nations Conference of Plenipotentiaries on the Status of Refugees and Stateless Persons convened under General Assembly resolution 429 (V) of 14 December 1950 Entry into force: 22 April 1954, in accordance with Article 43.

[11] According to Article 2.f) of the Directive 2011/95/UE, '*person eligible for subsidiary protection' means a third- country national or a stateless person who does not qualify as a refugee but in respect of whom substantial grounds have been shown for believing that the person concerned, if returned to his or her country of origin, or in the case of a stateless person, to his or her country of former habitual residence, would face a real risk of suffering serious harm as defined in Article 15, and to whom Article 17(1) and (2) does not apply, and is unable, or, owing to such risk, unwilling to avail himself or herself of the protection of that country*'.

[12] Article 29 of the Directive 2011/95/UE.

[13] Source Eurostat: http://ec.europa.eu/eurostat.

[14] Statistics related to final decisions should refer to what is effectively a final decision in the vast majority of all cases: i.e. that all normal routes of appeal have been exhausted.

[15] Directive 2013/33/EU of the European Parliament and of the Council, (2013), ''Laying down standards for the reception of applicants for international protection (recast)', of 26 June 2013.

hierarchical order, from family considerations, to recent possession of visa or residence permit in a Member State, to whether the applicant has entered EU irregularly, or regularly.

Using clear definitions and appropriate data is a prerequisite for a sound analysis of the implications of the recent surge in asylum seekers. As a first step, it is important to define the proper terms since they are often interpreted differently, and sometimes improperly, by media, policy makers and the public in general (see Box 1). Similarly, the data used should be carefully specified to guarantee a consistent comparison across Member States. For example, the timing and steps to reach a decision over an asylum application, as well as the exact rights enjoyed by the asylum seeker during the process, vary across Member States. Nevertheless, it is possible to derive some descriptive statistics based on Eurostat, providing a rough picture of the evolution of inflows in 2014-2015 and partially in 2016 (see Table 1).[16]

Table 1: Evolution of inflows of asylum seekers in selected Member States

	2014					2015					2016
	First time asylum applicants		First instance decisions	Positive decisions	Recognition rate	First time asylum applicants		First instance decisions	Positive decisions	Recognition rate	First time asylum applicants
	#	% of pop				#	% of pop				*latest available data**
EU 28	565.000	0,11%	360.000	160.000	44%	1.260.000	0,25%	595.000	310.000	52%	340.000
Belgium	15.000	0,13%	20.000	8.000	40%	40.000	0,36%	20.000	10.000	50%	6.000
Germany	175.000	0,22%	100.000	40.000	40%	440.000	0,54%	250.000	140.000	56%	235.000
Greece	7.500	0,07%	15.000	2.000	13%	10.000	0,09%	10.000	5.000	50%	3.000
France	60.000	0,09%	70.000	15.000	21%	70.000	0,11%	80.000	20.000	25%	n.a.
Italy	65.000	0,11%	35.000	20.000	57%	85.000	0,14%	70.000	30.000	43%	30.000
Hungary	40.000	0,40%	5.000	500	10%	175.000	1,78%	3.500	500	14%	13.000
Netherlands	22.000	0,13%	20.000	15.000	75%	45.000	0,27%	20.000	15.000	75%	6.000
Austria	25.000	0,29%	n.a.	5.000	n.a.	85.000	0,99%	20.000	15.000	75%	14.000
Finland	3.500	0,06%	2.500	1.200	48%	30.000	0,55%	3.000	2.000	67%	2.000
Sweden	75.000	0,78%	40.000	30.000	75%	155.000	1,59%	45.000	30.000	67%	8.000
UK	32.000	0,05%	25.000	10.000	40%	40.000	0,06%	40.000	15.000	38%	10.000

Sources: Eurostat. Data for EU28 are the simple sum of Member States' data. Data are available up to April 2016 for Belgium, Germany, Italy, Hungary, Netherlands and Sweden; up to March 2016 for Austria, Finland and UK; and up to February 2016 for Greece.
Notes: Table 1 summarises the evolution of flows for Member States having received 30 000 (or more) first time asylum applications in 2015 (Greece being the only exception).The EU28 number for first time asylum applicants likely includes double counting as it considers applications submitted for the first time within a Member State, but there is no control on whether the application has been already submitted in another Member State. The number of decisions in one year can be higher than the number of applications received in the same year, due to the stock of pending applications from previous years.

The flows and their relative impacts differ across transit and destination countries. When looking at the economic impact across countries, it is bound to differ not only because of the differences in the inflows size, but most importantly whether the asylum seekers transit or stay (and for the latter, for how long); whether they are granted protection or rejected; the extent to which those who are rejected appeal against the decision and/or stay irregularly; as well as differences in legal provisions on access to the labour market for asylum seekers (see Box 2).

Routes taken to reach the EU have changed since 2015. According to Frontex data,[17] some 885 000[18] migrants arrived in the EU via the Eastern Mediterranean Route in 2015. That figure is over

[16] Figures for first time applicants and first instance decisions differ as only part of the asylum applications submitted are reviewed within the year, due a) the statistical delay for asylum applications to be registered in administrative statistics b) the time to treat the application and issue a decision. The recognition rate observed in 2015 has increased compared to 2014, probably due to a composition effect: more individuals applying for asylum are from so-called unsafe countries.
[17] Frontex is the EU Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (Council Regulation (EC) No 2007/2004 and Regulation (UE) 656/2014). Information on data and statistics available at: http://frontex.europa.eu/trends-and-routes/migratory-routes-map/.

17 times the number of arrivals in 2014, which was itself a record year. The vast majority of them arrived on Greek islands, especially Lesbos. The record number of migrants arriving in Greece had a direct knock-on effect on the Western Balkan Route, as the people who entered the EU via Greece tried to make their way via the former Yugoslav Republic of Macedonia and Serbia into Hungary and Croatia (and later via Slovenia to Croatia) and then towards western Europe. In all of 2015, the Western Balkan region recorded 764 000 detections, with the top-ranking citizenships being Syrian, followed by Iraqi and Afghan. Those trends have changed significantly since the introduction of new policies in the spring of 2016, such as the implementation of the EU-Turkey Statement of 18 March. At the time of writing, arrivals in Greece had fallen, and transit had slowed dramatically. The number of people arriving through the Central Mediterranean Route seem to have remained relatively stable, with little sign of substitution effects (i.e. no strong deviation of the earlier Eastern flows), judging by the origin of the new arrivals.[19]

On a per-capita basis, Sweden and Austria are the largest destination countries, while Germany received the highest number of asylum applicants in absolute terms.[20] Sweden, with around 155 000 asylum applicants in 2015, is the country with the highest percentage of asylum applications received, as a percentage of its total population (equal to 1.6 %). In Austria, more than 85 000 asylum applications were submitted in 2015, equal to around 1 % of the total population. In Germany, more than one million migrants arrived in 2015, leading to over 440 000 first-time asylum applications in 2015.[21] Although data is not yet available for all Member States, the number of asylum applications submitted in the EU in the first months of 2016 is higher than the number of applications submitted during the same period in 2015. However, the monthly number of applications received in these past months has fallen since late 2015, when the number of asylum applications peaked.

Overall, around 300 000 asylum seekers were granted refugee status in the EU in 2015.[22] Notwithstanding a sharp increase in the number of arrivals which has translated into an increase in the number of asylum seekers (up to 1.26 million), the total number of people granted protection in 2015 was around 310 000, less than 0.1 % of the EU population. Although they have put considerable administrative strain on several Member States, the asylum-related inflows are still far from the levels seen in other parts of world. According to the Commission's estimates[23] by the end of 2015, Turkey had registered 2.5 million Syrian refugees; Lebanon, around 1 million; and Jordan, 600 000 (see Figure 1).

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[18] There can be double counting in that figure since it aggregates the number of arrivals in several Member States and not individuals as such.

[19] The 155 000 arrivals registered in 2015 in Italy were mainly from Eritrea, Nigeria and Somalia while the almost 30 000 registered between January and April 2016 were from Nigeria, Gambia and Ivory Coast.

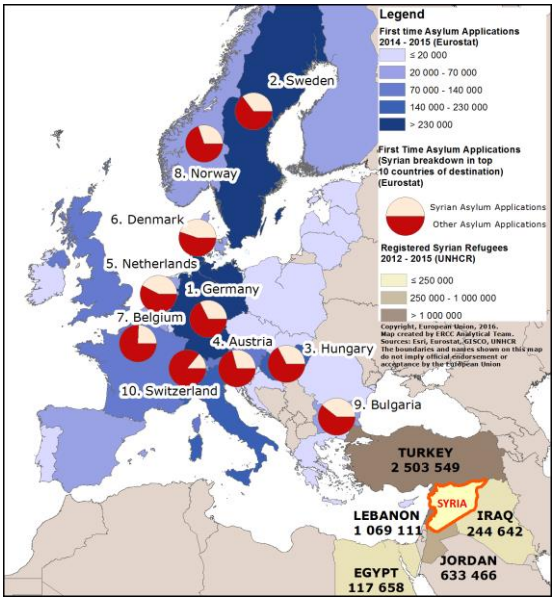
[20] Source: Eurostat. Hungary also received a high number of applications in 2015 although many applicants have likely moved to other Member States: according to Eurostat, despite the high number of applications (174 435 in 2015 and 41 215 in 2014), only few of them were actually reviewed (3 420 in 2015).

[21] In Germany, a migrant who seeks asylum will be referred to the nearest ''initial reception facility' (*Erstaufnahmeeinrichtung*) of the particular Federal State (Land). On the basis of the country of origin and the so-called Koenigstein Key quota system, the asylum-seeking will be forwarded from the initial reception facility to a ''reception centre' by the responsible Federal State. Though not part of the official asylum procedure, upon arrival at the responsible reception centre, asylum seekers also have to register in the local residents' ''registration offices'. The reception centre provides accommodation, takes care of individual needs and informs the closest branch of the Federal Office, which is responsible for processing the asylum application.

[22] Source Eurostat. Data available at: http://ec.europa.eu/eurostat/documents/2995521/7233417/3-20042016-AP-EN.pdf/34c4f5af-eb93-4ecd-984c-577a5271c8c5.

[23] Map produced by the Emergency Response Coordination Centre (ERCC) – Analytical team. Sources: Eurostat data for EU Member States, and UNHCR data for the neighbouring countries.

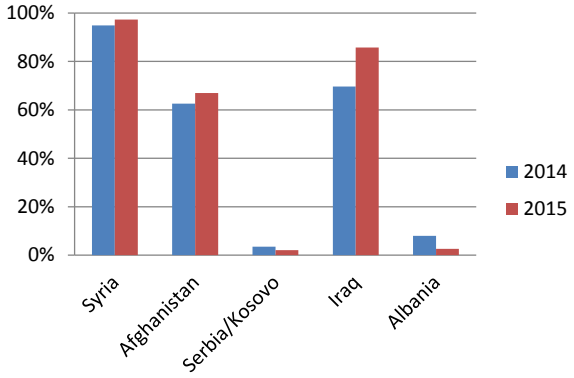
Figure 1: Syrians in neighbouring countries and Europe



Source: European Commission

The recognition rate is on the rise as more people arrive from *unsafe* countries. The information available shows that the recognition rate has increased from 46 % in 2014 to 52 % in 2015, but there are differences depending on the countries of citizenship (see Graph 1).

Graph 1: EU 28 Recognition rate for asylum applications in the EU, by citizenship



Source: European Commission

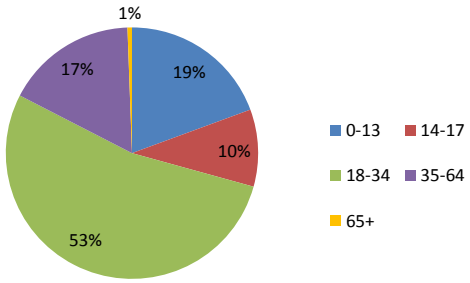
One of the most important factors behind recognition as a refugee is the *country of citizenship* of the asylum seeker, which is essential when assessing if he/she has a well-founded fear of persecution directly linked to his/her race, religion, nationality, political opinion or membership of a particular social group. There are countries considered *safe*, whose citizens have a lower probability of seeing their asylum application accepted or of being granted protection status; and countries considered *unsafe*, for which the conditions of persecution appear more likely.[24] The increase in the recognition rate for 2015 likely reflects in part a composition effect, when more individuals applying for asylum

[24] The Commission proposed in September 2015 to establish a common EU list of safe countries of origin, initially comprising Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia and Turkey. Currently, lists of safe countries are defined at national level and they are not coordinated, which can lead to different recognition rates of similar asylum applications and the incentive to apply for asylum in Member States with higher recognition rates. For more details: http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/european-agenda-migration/background-information/docs/2_eu_safe_countries_of_origin_en.pdf.

come from so-called *unsafe* countries. Based on 2015 data, out of the 1.26 million first-time applicants in the EU around 360 000 came from Syria, a sharp increase from the 120 000 received in 2014.[25]

Around 70 % of asylum seekers in 2015 were of working age, i.e. between 18 and 64 years old (see Graph 2), which is in line with the inflows of asylum seekers observed in earlier years.

Graph 2: Age composition of asylum applicants 2015



Source: European Commission

The age distribution of asylum seekers as a group is relatively more youthful compared to the native EU population, where the share of working-age population was 62 % in 2014. In particular, 19 % of asylum seekers are between 0 and 13 years old and another 10 % are between 14 and 17 years old.[26] An important consequence of this age distribution is the short-term effect those flows will have on the education systems of destination countries, as all young asylum seekers will have direct access to them. Moreover, on average, asylum seekers are slightly younger than other categories of migrants, which usually have a higher per cent of individuals in working age or older, and a smaller percentage of children.[27] This difference in age composition differentiates asylum seekers from other type of migrants, such as economic migrants, in terms of their labour integration and education needs.

Evidence from some recent studies suggests that asylum seekers tend to have a lower average level of education and a higher proportion with low-skills than the native, although this varies greatly by citizenship.[28]

- Based on a voluntary survey of people who requested asylum in Germany in 2015, 18 % said they had attended a tertiary education institution (while not necessarily completing a degree), 20 % a grammar school, 32 % a secondary school other than grammar school, 22 % an elementary school, while 7 % had not attended a formal school. Among people who received protection in 2015, the share of better-educated is expected to be somewhat higher than among asylum seekers, as many of the rejected asylum seekers were from the Balkans (countries

[25] Source: Eurostat. In 2015, the five largest countries of citizenship, in terms of first time applications received in EU, were: Syria 29 %; Afghanistan 14 %; Iraq 10 %; Serbia/Kosovo* 7 %; and Albania 5 %. (*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ opinion on the Kosovo declaration of independence).

[26] As a comparison, the age composition of the EU28 is: 0-13 years 15 %; 14-17 years 4 %; 18-34 years 21 %; 35-64 years 41 %; and 65+ years 19 %.

[27] According to Eurostat, the age composition of the long-term international immigrants (from non EU-28 countries) in 2014 was as follows: 0 – 15 years 16 %; 15 – 19 years 9 %; 20-64 years 73 %; and 65+ years 2 %.

[28] According to the latest available World Development Indicators, the literacy rates in 2011 range from only 31 % in Afghanistan to 79 % and 85 % in Syria. This means that in Afghanistan, the third most important country of origin for asylum seekers, 69 % of the population is illiterate. In Syria, which it the country of origin with highest educational attainment among the main countries of origin, only 19.8 % of the labour force had secondary education in 2007, which is the latest year for which data is available.

considered *safe*) and asylum seekers from Kosovo and Albania tend to be particularly low qualified.[29]

- The German consensus, as summarised by the Organisation for Economic Cooperation and Development (OECD) recent Economic review of Germany,[30] is that '*The education level of most refugees appears to be low, although information on the qualification structure of the refugees is still scarce'*.
- In Austria, the public employment service has launched a skills check ('Kompetenzcheck'), where the pilot phase involved 898 people who benefited from international protection and who agreed to be part of the exercise. This also showed that education levels differ depending on the country of origin. While the proportion of highly-educated people from Syria and Iran was higher than that of Austrians, for Afghanistan it was very low. The pilot covered five weeks of testing during the second half of 2015.[31]

The education level of asylum seekers may also differ compared to other migrant categories. Data from the 2014 Labour Force Survey (LFS)[32] ad hoc module on migrants shows that almost half of the working age refugees that came to the EU by 2014 had a low level of education (44 %) compared to little over a third of other migrants (37 %) and a quarter of the native-born (27 %). Similarly, refugees had a lower share of individuals with a high level of education than other migrants (20 % *versus* 27 %) and the native-born (26 %).

3. Fiscal aspects of migration

The short-term economic impact of the recent inflows comes primarily via higher public spending. This section aims to review the types of spending affected and, drawing on the Commission's spring 2016 economic forecast,[33] provides some very preliminary estimates of the direct and immediate budgetary impact across Member States. Looking beyond 2017, it sketches out a likely small, possibly positive, impact on public finances, conditional on successful integration into the labour market. At this stage, if and once asylum seekers receive protection status and are integrated, it is difficult to predict their impact on the sustainability of welfare systems across countries, such as their effect on health care and education in the medium- to long term. It is also difficult to predict medium-term inflows of asylum seekers, hence the size of future additional spending linked to their reception.

Any assessment of the (net) fiscal impact of migration is surrounded by uncertainty and even more so as regards the recent surge in asylum seekers in Europe. There are no general conclusions that would be applicable in all circumstances and to all countries reflecting: i) the diversity in the composition of asylum seekers and refugees and how they differ from the native-born population; and ii) the nature of tax and expenditure systems across countries.[34] It is, however, reasonable to assume that asylum seekers receive, at least initially, more from the public sector than they put in. Asylum seekers differ from other types of migrants as they have few, if any, resources with them upon arrival.

[29] Rich, A.K. (2016).
[30] http://www.oecd.org/germany/economic-survey-germany.htm.
[31] http://www.ams.at/ueber-ams/medien/ams-oesterreich-news/asylberechtigte-auf-jobsuche.
[32] Calculations based on EU LFS 2014 AHM, covering 21 Member States. Notes: high educated people are defined as those having the highest level of qualification equal or above tertiary education level (ISCED 5–6), medium educated are defined as those who have finished upper secondary and post-secondary non-tertiary education (ISCED 3 to 4) and low educated are defined as those who have finished up to lower secondary school level (ISCED 0-2).
[33] COM(2016), *The 2016 European Economic Forecast*, Spring 2016.
[34] Preston, I. (2014).

If recognised as refugees, they may also take longer than other categories of migrants to integrate into the labour market and society, depending on the reason behind their forced migration.[35]

Several, but not all Member States face additional short-term budgetary costs related to the current refugee crisis. For those that are to a large extent *transit countries*, additional public spending typically relates to rescue operations, border protection (especially if managing an external EU border), registration of asylum seekers and the short-term provision of food, health care and shelter. For *destination countries*, spending also includes elements like social housing, (language) training, and education. To assess the budgetary impact of high levels of migrant flows, in addition to the number of migrants, ideally, information on social assistance and/or costs associated with welcoming migrants would be required. However, this information is not yet reliable. Therefore, the analysis looks at some components of public services that migrants are likely to benefit from such as health care, unemployment benefits, and education. The cost of labour market integration is not included in the analysis, due to the lack of robust information currently available on those spending programmes. Such costs, however, may be considerable.

The impact on the budget balance from the increase in costs related to asylum seekers depends on several factors. If net spending is increased, the additional public consumption and investment raises GDP growth (albeit less than proportionally, assuming a fiscal multiplier of less than one).[36] Governments, moreover, may choose to offset the additional spending with expenditure cuts in other areas or an increase in taxes and other revenues. For destination countries, an additional impact on growth comes from a gradual increase in the labour force. However, the lag may be longer following the recent sharp increase in arrivals, as the processing of a higher number of asylum applications, integration, recognition of qualifications, training, which usually takes time, may become lengthier until some countries' capacity constraints have been addressed.

While unevenly distributed across countries, the Commission's spring forecast points to moderate additional fiscal costs in the short-term. Sweden, which has the highest share of asylum seekers relative to its population, is expected to record a short-term budgetary cost that is significantly above the EU average. The net impact on Sweden's headline balance is expected to reach a peak of 0.9 % of GDP in 2016. For the rest of the affected transit and destination countries, the cumulative net incremental impact over 2015 and 2016 ranges from 0.1 % to 0.6 % of GDP. Within that range, the largest cumulative impact is expected in Austria (0.6 % of GDP), Germany (0.5 % of GDP), Finland (0.3 % of GDP) and in Belgium, the Netherlands and Greece (0.2 % of GDP). For most of the other affected Member States (Denmark,[37] Italy, Luxembourg, Hungary, and Slovenia), the cumulative impact over 2015 and 2016 is around 0.1 % of GDP. For both transit and destination countries, expenditure is expected to continue to increase in 2016, in some cases by significant amounts reflecting the surge in arrivals as well as rising costs. In 2017, the budgetary impact is projected to increase at a slower pace or to remain stable at 2016 levels, although this largely reflects the no-policy-change assumption used in the Commission's forecasts.

[35] Evidence from Member States shows that for refugees may take longer than other categories of migrants to integrate into the labour market and society.

[36] This is in line with the findings in the literature, with the exception of periods of acute financial crisis, see: Report on Public Finances in the EMU, European Commission, (2012), European Economy 4/2012.

[37] In the case of Denmark, the additional gross impact of refugees/asylum-seekers on the budget balance (0.3 % of GDP) is much higher than the net impact (0.1 % of GDP) over 2015-2016. The lower net impact reflects the fact that the government reallocated resources from the budget for development aid to cover part of the increase in expenditure related to newly arrived migrants.

The immediate and direct budgetary impact is relevant for the EU's budgetary surveillance, while the overall fiscal impact will be the result of several factors acting on both the short and the medium term. The Treaty does not allow for a specific treatment of one type of spending compared to others, but there is a flexibility embedded in the SGP that allows countries to accommodate exceptional spending linked to unusual events that are outside the control of the government, both under the preventive and the corrective arm of the Pact. In its Communication on the overall assessment of the Draft Budgetary Plans (DBPs) of 16 November 2015,[38] the Commission stated that it is its intention to use the 'unusual event' provisions of the SGP for net extra costs that originate directly from the refugee crisis when assessing, ex post, possible temporary deviations from the SGP requirements for 2015 and 2016. The Commission took this into account in its Country-Specific Recommendations issued on 18 May 2016. Concerning 2015, the Commission made a final case-by-case assessment, including on the concerned amounts, on the basis of the data observed as provided by the authorities of the concerned Member States in their Stability or Convergence Programmes (Belgium, Italy, Finland, Hungary, Austria, and Slovenia). For 2016, a final assessment, including on the eligible amounts, will be made in spring 2017, on the basis of the data observed, as provided by the authorities.

In the medium term, the fiscal impact of migration tends to be low, and it requires some time before it turns positive for asylum seekers. According to the OECD,[39] labour migrants have often more favourable labour market outcomes than those experienced by other categories of migrants such as *family* and *humanitarian migrants*. This difference will likely have a strong impact on fiscal effects of migrants. In particular, the OECD study shows that it may take up to 10-15 year before humanitarian migrants have a positive effect on national budgets. On the other hand, labour migrants provide a strong positive contribution to the hosting country economy. For example, the Australian migration model highlights the importance of duration of residence, as immigrants' outcomes tend to converge to those of the native-born over time.

In the long term, migrants can help strengthen fiscal sustainability —— if they are well integrated. For Member States with ageing populations and shrinking workforces, migration could alter the age distribution in a way that may strengthen sustainability.[40] However, if the potential human capital is not used well, the inflow could also weaken fiscal sustainability. Moreover, while migration flows can partly offset unfavourable demographic developments, earlier studies have shown that immigration on such a scale could not solve all the EU's population ageing-related problems on its own, as the number of migrants is not high enough compared to the total population. Other policy measures are required to tackle ageing such as boosting the employment rate of native workers.

Employment is usually the single most important determinant of a migrant's net fiscal contribution. Related data currently shows a low initial employment rate of refugees and a very gradual catch-up over time.

[38] COM(2015) 800 final, *2016 Draft Budgetary Plans: Overall Assessment*, of 16.11.2015.

[39] http://www.oecd-ilibrary.org/social-issues-migration-health/international-migration-outlook-2013/the-fiscal-impact-of-immigration-in-oecd-countries_migr_outlook-2013-6-en.

[40] COM(2015), *2015 Ageing Report*.

4. Economic impact

In the short run, the focus has been and remains managing and supporting a large number of asylum seekers, sometimes amid political and social tensions in the countries most affected. From a broader point of view, migration is not an unusual phenomenon and the economic impact can be positive — although this is not automatic and depends on the policy response. This section presents stylised scenarios for the EU as a whole and for Germany. Migrants — if well integrated — can help improve the flexibility and performance of the labour market, as well as fiscal sustainability. That conditional reasoning points to the importance of an appropriate policy response, notably in terms of labour market and social integration. Given the scarcity of data on asylum seekers and the specificities of the recent flows, this section will start by looking at migration in broader terms, before presenting tentative estimates for asylum seekers and refugees.

The short-term impact on growth is mainly driven by a fiscal spending shock, such as higher government consumption and transfers, while in the medium term, growth is driven by a labour supply shock that raises output.[41] Literature on the economic impact of migration in the medium term is rich and often focuses on the EU and the US as receiving countries. Studies from the IMF[42] and the OECD,[43] among others, focus specifically on the impact of refugee flows and typically point to a small positive impact on growth in the short term, while the effects on medium and long-term growth depend on how migrants are integrated into host country labour markets.

In the medium term, a successful and timely integration of migrants into the labour market can reduce unemployment levels. Migrants can improve the labour markets' adjustment capacity to regional differences or regional shocks by taking on jobs in sectors where natives may be unwilling to work and by being more responsive than natives to regional differences in economic opportunities.[44] Studies by the OECD point to the importance of migration and labour mobility to react to changes in labour market conditions.[45]

Box 2: Labour market participation rights for asylum seekers and refugees

According to EU law, refugees shall have immediate access to the labour market, benefit from equal treatment and be subject to specific integration measures. Moreover, asylum seekers too have, under certain conditions, the right to access the labour market: this should be granted, at the latest, after nine months from submitting an application, varying quite widely across Member States. It is important to note that there have been recent changes (reduction of the time limit) in many Member States, due to the entry into force in July 2015 of the recast Reception Conditions Directive (2011/95/EU) but also due to the need to provide early access in order to facilitate integration (e.g. Belgium). In particular, asylum seekers have the right to work immediately as soon as their asylum applications have been processed in Sweden, Greece and Portugal; after two months in Italy; after three months in Austria, Germany and Romania; after four months in Belgium; six months in Cyprus, Czech

[41] Other important effects are impacts on infrastructure and access to public services, impact on earnings' inequalities or long-term impact on productivity.
[42] IMF Staff Discussion Note, 2016.
[43] OECD Economic Outlook (OECD, 2015).
[44] In legal migration policies, there are several examples of this, such as under the Seasonal Workers Directive.
[45] In the OECD (2014), Jauer et al argues that up to a quarter of an asymmetric labour shock would be absorbed by migration within one year; Arpaia et al. (2014) showed that cross-border labour mobility absorbs about 25 % of an asymmetric shock within one year and about 60 % after ten years. It also found that the responsiveness have grown over time.

Republic, Denmark, Estonia, Finland, Spain, Poland and Netherlands; and after nine months in Bulgaria, Croatia, France, Hungary, Latvia, Luxembourg, Malta, Slovakia, and Slovenia.[46]

Equally, or even more important than the minimum periods applied by Member States, are the actual procedural steps or other conditions of access that Member States set, as these can limit labour market access to a great extent. Here too there are significant difference among Member States 'ranging from full access without work permits —in Finland, Italy, Latvia, and Sweden— to more restricted access (e.g. limited to certain sectors) as in Cyprus (where asylum seekers have access only to farming, animal food production, waste management, gas station and cleaning and food delivery) or in Austria, the UK, Bulgaria and Romania (where asylum seekers only have access to seasonal work, tourism, agricultural sector). In some countries (Austria, the UK, Luxembourg, Hungary, and Germany) asylum seekers may only work after a 'labour market check,' although there are plans to suspend this practice in Germany[47]. Other criteria apply in the Netherlands, such as time limitation (asylum seekers are allowed to work for 14 or 24 weeks per year and only if they stay in an open reception facility). Moreover, EU, EEA and legally residing third-country nationals may all be prioritised over asylum seekers when filling a post.

Finally, it is also important to consider that the time between the arrival of a migrant in a destination country and the moment the asylum application is reviewed varies across countries and can obviously be affected by the magnitude of the arrivals the country has to deal with. Factors that might impact the length of the asylum procedure are: i) the efficiency of the national administration; and ii) the composition of the influx in terms of citizenships (in case most asylum seekers are from safe countries — the procedure may be faster or accelerated) which leads to the prioritisation of the dealing with asylum seekers from specific countries. For example, in Sweden, the large inflow of asylum seekers means it can take 1 to 1.5 years for an application to be processed and a temporary residence permit to be granted (although a recently implemented increase in processing capacity should reduce this).

In the medium to long term, migration can also contribute to a qualitative change in human capital beyond its aggregate positive impact on the labour force. The degree of substitution or complementarity between third country and national workers depends crucially on their education and skill levels. A recent study on all workers in Denmark during the period 1991-2008 concluded that the increase in low-skilled refugees influenced less educated native workers, especially the young and low-tenured ones, to change occupations away from manual-intensive work,[48] thus demonstrating a positive effect from migration on native low-skilled workers' wages, employment and occupational mobility.[49]

[46] Lithuania does not have provisions on access to the labour market for asylum applicants claiming that all asylum applications are assessed within three months and exceptionally six months. Regarding refugees, Denmark has an 'opt-out' on the Recast Qualification Directive 2011/95/EU and previous Directive 2004/83/EC, meaning neither of them is binding on that Member State, while Ireland and UK have an opt-out from the recast Qualification Directive 2011/95/EU. Regarding asylum seekers, Denmark and Ireland have opted out from both directives while UK has opted out from the recast Qualification Directive 2011/95/EU, having the earlier Directive still applying.

[47] On 25 May 2016 the German federal cabinet passed the integration draft bill (Entwurf eines Integrationsgesetzes). Draft Bill available at: https://www.bmi.bund.de/SharedDocs/Downloads/DE/Gesetzestexte/entwurf-integrationsgesetz.pdf?__blob=publicationFile; and Regulation: https://www.bmi.bund.de/SharedDocs/Downloads/DE/Gesetzestexte/verordnung-integrationsgesetz.pdf?__blob=publicationFile.

[48] Similar results from Constant A., (2014), and Peri G., (2014).

[49] Foged and Peri, (2016).

Box 3: Earlier studies show how the impact of migration differs across larger Member States

Research on migration has intensified in recent years with most studies focusing on the impact on employment, wages, and public finances.[50] In a standard model, supply increases due to immigration and competition among native workers and migrants, lowers employment and wages for native workers.[51] In the short run, with the capital stock fixed, lower relative cost of labour implies a deviation from the optimal capital-labour ratio, which lowers productivity until a new optimum is achieved via investment. However, such considerations depend on strong assumptions. For example, it is assumed that the labour market is in equilibrium before and after immigration, whereas migration is often a consequence of labour market disequilibria. Moreover, international capital mobility could lead to a shift in the labour demand curve, which could reduce or avoid declines in native worker incomes. The simple approach also disregards migrants' skills, which is a very significant variable. A negative impact on native worker incomes is more relevant when the skill levels of both groups are similar, but when skills levels are different, immigrants may serve as a complement rather than a substitute to native workers. They may even encourage native workers to upgrade their skills to specialise in more complex jobs. Those considerations emphasise the importance of compositional effects providing a rationalisation for selective economic migration policies in many advanced economies.

Lessons from earlier research on migration need to be extrapolated with care with respect to the current situation. Asylum seekers and refugees are a diverse group and may not have the same profile in terms of country of origin, age, gender, education and skillset as the wider group of migrants considered in earlier studies. The structure, cyclical position and the integration policies of the destination countries (such as the unemployment level, existing rigidities, legislation, economic growth, etc.) will affect the results. Moreover, refugees may also face additional disadvantages than other categories of migrants due to the forced and unexpected nature of their migration, including a lack of preparation in terms of language and other pre-departure activities, trauma, having lost their documents attesting their academic or professional qualifications etc.[52] Refugees are more likely than other categories of migrants to work below their qualification level, partly because of language problems and partly because prior qualifications and experiences obtained outside the host country are sometimes undervalued, according to some studies.[53] The employment rate of refugees tends to start at a low level before catching up to that of other migrants over time.[54] Labour-market outcomes thus crucially depend on how quickly and how well refugees are integrated and on their educational level and skills. The figure below shows the different employment rates of various categories of immigrant:[55]

[50] Kerr, S. P., and Kerr, W. R. (2011.

[51] For a discussion of this approach, see G. J. Borjas (1995).

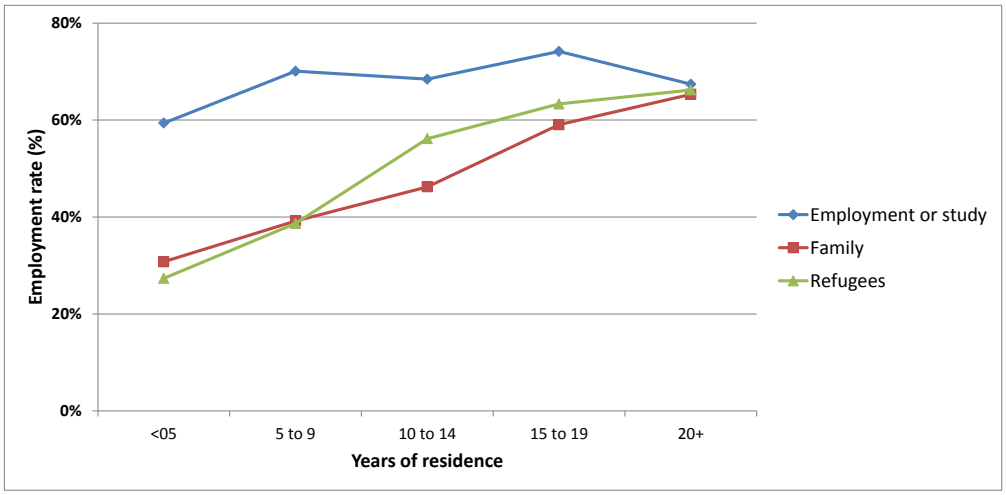
[52] Anecdotal evidence suggests that refugees attach high efforts and strong motivation to education and learning programmes.

[53] For a further discussion see, for example, the 'qualifications of immigrants and their value in the labour market: a comparison of Europe and the US', in OECD/European Union, 2014, Matching Economic Migration with Labour Market Needs and OECD Migration Policy Debates (2015).

[54] OECD Migration Policy Debates (2015).

[55] COM(forthcoming), *'Labour Market Integration of Refugees'*. Calculations based on 2014 EU LFS Ad Hoc Module and [lfsa_ergacob] for native-born. *Note: The EU-25 total is an approximation for the EU without Denmark, Ireland and the Netherlands for which no data is available. The migrant's categories are consistent with the self-declared reasons why a non-EU born person migrated to the EU: i.e. those who came for employment or study, for family reunification, or for international protection (refugees).

Figure 2: Employment rate of non-EU born persons by duration of residence and migration categories



Source: European Commission

Stylised scenarios can be used to provide a tentative estimate of the impact of the refugee crisis. To serve as an illustration of the possible medium-term impact, the Commission has carried out simulations using its global macroeconomic model QUEST.[56] They serve to explore how a sudden and temporary increase in the population, with different assumptions about skill levels as regards the newly arrived, may affect growth, public finances and labour markets. To understand the importance of skill distribution, two extreme cases are considered: in one scenario (high-skilled scenario), the skill distribution of migrants is assumed to match that of the EU; in a second scenario (low-skilled scenario), all migrants are assumed to be low-skilled. Those two scenarios provide and upper and lower bound given the uncertainty about the actual skills level of refugees.

These results should not be over-interpreted, given uncertainty about data and the far-reaching consequences of the assumptions made. In terms of the EU as a whole, the simulations are based on a number of technical assumptions, such as an additional increase in the EU population of 2.5 million over the period 2015-2017.[57] These assumptions are largely in line with those of other international financial institutions that have published assessments of the impact of the refugee crisis.[58] However, it must be remembered that these assumptions are not official Commission forecasts of actual refugee flows, but simply assumptions used to model the macroeconomic effects under various scenarios. The level of arrivals is thereafter assumed to gradually revert to more typical levels. Other assumptions underlying the simulations concern the recognition rate of refugee status (assumed to be 50 %); the actual return of irregular migrants; the working age of refugees, and labour force participation rates.[59]

[56] QUEST is the global macroeconomic model the Commission uses for macroeconomic policy analysis and research.

[57] In particular, 1 million people in 2015, 1 million in 2016 and about half a million in 2017. According to Eurostat, in 2015, the EU received 1.26 million asylum applications but this number likely includes double counting of applications submitted in more than one Member State. The assumption on the number of asylum applications for 2016 were revised compared to the simulations presented in the European Commission autumn 2015 forecast, to take into account the latest policy measures, with special reference to the EU-Turkey Statement.

[58] For example, the IMF (IMF Staff Discussion Note, 2016) is assuming an influx of 1.3 million per year in 2015-2017. In a special feature of their December 2016 forecast, the European Central Bank (ECB) assumed an additional 2.4 million over 2015-2017 in total.

[59] For the EU simulation, the participation rate was assumed to gradually converge over the years to a 65 %. For Germany, the participation rate was assumed to gradually converge over the years to a 60 % in the high-skilled scenario and to a 40 % in the low-skilled scenario. The employment rate is endogenously given by the QUEST model.

As a result, the implied increase in the EU labour is about 0.1 % by the end of 2015, 0.2 % by the end of 2016, and 0.3 % by the end of 2017.

Assuming a skill distribution similar to that of EU nationals (high-skilled scenario), GDP could be about 0.2 % higher by 2017 in the EU compared to a baseline scenario. The impact from higher public spending and a larger labour force with a skillset similar to the existing one in the EU is expected to:

- **contribute to a small increase in the level of GDP in 2015 and 2016**, compared to a baseline scenario, rising to about 0.2 % by 2017 and beyond, until 2020. This increase being lower than the rise in the underlying population, it implies a **small, negative impact on GDP per capita throughout the reference period (2015-2020)**; and
- **strengthening the outlook for employment** (which is expected to improve gradually to about 0.3 % more employed persons by 2017), in part from a wage response.[60]

The impact will be smaller if migrants are primarily low skilled (low-skilled scenario). Turning to the second scenario, where the increase in the labour force is based on low-skilled workers, the positive impact on growth is more limited.[61] GDP is expected to increase by 0.2 % by 2017 and by 0.1 % by 2020 (see Table 2). The outlook for employment is expected to improve by about 0.2 %.

Table 2: Combined effects of increase in public spending and a higher labour force for the EU

	High-skilled scenario						Low-skilled scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
GDP	0,1	0,2	0,2	0,2	0,2	0,2	0,1	0,1	0,2	0,1	0,1	0,1
GDP per capita	-0,1	-0,1	-0,1	0,0	-0,1	-0,1	-0,1	-0,2	-0,1	-0,1	-0,1	-0,1
Employment	0,1	0,2	0,3	0,3	0,3	0,3	0,0	0,1	0,2	0,2	0,2	0,2
Current account (% GDP)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Real wages	-0,1	-0,2	-0,2	-0,2	-0,2	-0,1	0,0	-0,1	-0,2	-0,2	-0,2	-0,2

Source: European Commission. Note: Level difference compared to base-line scenario.

Some countries are clearly more affected than others.[62] In order to illustrate how an individual Member State could be more affected by large inflows, a similar set of simulations has been undertaken for Germany. The simulations point to an increase in the level of GDP by 0.4-0.8 % by 2017, depending on the skill level assumed. The scenario where the newly-arrived are assumed to have the same distribution of skills as the native population points to an increase in GDP of about 0.3 % in 2015, rising to 0.6 % in 2016 and about 1 % higher than a baseline scenario by 2020. Should the influx consist of low-skilled workers only, the impact on growth is reduced to 0.3-0.4 % in the medium term. The model impact is primarily driven by the larger labour force in both simulations. As a result,

[60] In the model, a fall in wages compared to baseline brings the labour market back into equilibrium. This is partly reflecting a composition effect as earlier studies point to relatively low wages for refugees when entering the labour market. Empirical studies show mixed results on whether immigration lowers the wages of native workers primarily reflecting the degree of substitution or complementarity. The actual effects on wage for non-migrants will depend on the policy response put in place.

[61] A lack of language skills and contextual knowledge may also reduce the potential value added by the migrant.

[62] For Sweden, the Fiscal Policy Council has released a report investigating the labour market, remuneration and fiscal effects of migration. The Council's conclusions are that it will take several years for new arrivals to find work. The high level of asylum immigration justifies educational initiatives, increased labour market initiatives and more subsidised employment. It is also necessary to stimulate the creation of more jobs with low requirements of qualifications in both private and public sectors. New forms of employment with lower wages may be a tool to stimulate such a trend: lower starting wages will probably have little effect on overall employment, but the effects may be greater for weak groups. .

employment is set to increase by about 1.3 % in 2020 in the high-skills scenario, against a 0.6 % in the low-skills scenario.[63] More refined assumptions on the labour market — in particular the strength of real wage rigidities — seem to point towards the low-skills scenario as being more realistic.

Table 3: Combined effects of increase in public spending and a higher labour force for Germany

	High-skilled scenario						Low-skilled scenario					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
GDP	0,3	0,6	0,8	0,9	1,0	1,0	0,1	0,3	0,4	0,4	0,4	0,3
GDP per capita	-0,6	-0,9	-1,0	-0,9	-0,9	-0,9	-0,7	-1,2	-1,4	-1,4	-1,5	-1,5
Employment	0,3	0,6	0,9	1,1	1,2	1,3	0,2	0,4	0,5	0,6	0,6	0,6
Current account (% GDP)	0,0	0,0	-0,1	-0,1	-0,1	-0,1	0,0	-0,1	-0,1	-0,2	-0,2	-0,2
Real wages	-0,2	-0,7	-1,0	-1,3	-1,3	-1,3	0,0	0,0	0,0	-0,1	-0,2	-0,3

Source: European Commission. Note: Level difference compared to base-line scenario.

5. A comprehensive policy response

A comprehensive migration policy needs to go beyond the development of policies to receive and allocate asylum seekers across the EU. It is important to promote and strengthen policy areas that address the influx of refugees and asylum-seekers in the short run while maximising possible longer-run benefits. Indeed, those newly arrived that will obtain refugee status will benefit from integration support covering legal, economic and socio-cultural dimensions, of which all are important to facilitate the full integration of refugees into the host society.[64]This section mostly discusses the economic aspects of migration policy, notably on how to foster participation in the labour market directly and indirectly. It also briefly presents the main strands of the EU's targeted policy response so far.

A coordinated approach and a long-term perspective are needed to turn the perceived threat in the public debate into an opportunity. Research can only give indications of the possible impact of the current influx of migrants on growth and public finances. The characteristics of the migrants, as well as the structure, cyclical position and the integration policies of destination countries (such as their unemployment level, existing rigidities, legislations, economic growth, etc.) will define the results. The impact will differ across countries, but also across regions within countries, and it will depend on factors including the extent to which the skills of migrants substitute or complement those of the native work force. It is clear that for migrants in general, the earlier and better their integration, the more likely they are to find a job and thereby to make a positive contribution to growth and public finances in the medium term.[65] Refugees may also need more and different types of support and for a longer period of time. While the cost-benefit analysis for an early intervention is clear-cut and the financial impact is likely to be modest in size, the cost of a failed integration, socially and politically, would potentially be markedly more important. As an ageing region with a higher income level than many of its neighbours and the countries from where most asylum seekers are now coming, the EU can be expected to remain a destination for 'onward' migration flows in the future. A comprehensive policy response, including adequate investments by Member States in integration policies and a long-term view going beyond crisis management will be needed to allow the refugee crisis to turn into a partial response on how to enhance fiscal sustainability within the EU.

[63] The simulation does not consider other potential channels through which migration can impact positively employment in the host country.
[64] See also the 1951 UN Convention relating the Status of Refugees and its 1967 Protocol.
[65] See OECD, (2016) and IMF Staff Discussion Note, 2016.

Refugees may also help to make the EU labour market more resilient to country-specific shocks. Migrants can reinforce cross-border labour mobility within the EU. Research from the US has shown that migrants with specific skills are more responsive to wages differences across States, thereby relieving labour shortages and improving labour-market efficiency.

Box 4: Good practices on how to integrate refugees and others in need of protection

In a stock taking exercise, the OECD highlighted the following ten lessons from different countries in fostering integration of refugees.[66] Recognising that refugees are a particularly vulnerable group of immigrants, in part reflecting the forced nature of their migration with possible traumatic experiences associated with it, the policy response may need to go beyond language training, skills assessment, access to education systems and health care, to also include social issues, tackle key barriers as well as engage with employers to e.g. strengthen refugees' prospects of finding a job.

1. **Begin activation and integration services as soon as possible,** especially for groups of asylum seekers with likely high recognition rates (such as Syrian and Iraqi nationals).

2. **Facilitate labour market access for applicants with high prospects of remaining,** e.g. by abolishing possible 'labour-market tests' for humanitarian migrants that would show that no domestic worker could have filled the post before an employer is allowed to recruit an asylum seeker or a provisionally admitted humanitarian migrant.

3. **Locate humanitarian migrants according to the availability of jobs, not housing.** Notwithstanding a wish to distribute asylum seekers across and within countries and a tendency to place newly arrived in areas where housing is available (often combined with poorer labour-market conditions), local labour-market conditions at arrival have proven to be a crucial determinant for lasting integration.

4. **Avoid underutilisation of skills by documenting foreign qualification, work experience and skills earlier in the integration process.** Many humanitarian migrants have higher skill levels than the average population in their country of origin (reflecting that the poorest can often not afford the costly journeys). Many hold post-secondary qualifications, although across the OECD, education and work experience acquired outside the region is strongly discounted by employers. Where formal documents are missing, provide for alternative assessment methods.

5. **Customise integration policy instruments given the growing (skill) diversity** among humanitarian migrants, as a one-size-fits-all approach may not be appropriate for refugees with different educational backgrounds, language skills and career prospects.

6. **Identify mental and physical health issues early on** to prevent any distress from turning into chronic and severe disorders and ensure that they are addressed in a targeted manner (with problems typically more pronounced among minors and orphans as well as separated families).

7. **Speed-up access to education and training for unaccompanied minors** as they are a particularly vulnerable group and, for most coming at the end of the age of compulsory schooling, risk ending up in neither employment, education or training.

8. **Take into account future 'family reunification' when designing integration policies for humanitarian migrants** as many of the newly arrived are adult men and have the right to family reunification (under certain conditions) and ensure that their families have access to the same integration support.

9. **Limit differences in access to integration services across a country.** Integration primarily takes place at the local level, which may make it easier to reflect local needs but can also result in uneven standards with differences in quality and availability.

[66] The OECD defines humanitarian migrants as permanent migrants who have been admitted for humanitarian reasons and obtained a status that generally enable them to stay in the host country, at least as long as conditions in the origin country do not change.

10. For some humanitarian migrants, sustained support will be needed. For those humanitarian migrants arriving with little or no prior education, support will need to be both substantial and long lasting. It may require several years to become 'employable' and this investment may pay off only in the very long run (incl. the next generation).

Source: OECD (2016), Making Integration Work: Refugees and others in need of protection, OECD Publishing, Paris

There is a need to speed-up the process of assessing asylum seekers' skills at an early stage, at least for some groups. The unprecedented large number of arrivals of asylum seekers has put considerable strains on the capacity of some Member States to process applications and manage the flow of people in an orderly way. Efforts to speed-up or limit the build-up of bottlenecks and a lengthening of the reception phase can be critical, as a drawn-out 'enforced idleness' and isolation from host communities can reduce the effectiveness of subsequent integration measures.[67] For that reason, the Commission has proposed a revision of the procedures of the Common European Asylum System, with the first legislative proposals adopted on 4 May 2016.[68] Moreover, given the importance of employment for a migrants' net contribution to society, an early evaluation of skills, in particular for migrants that are likely to be recognised, such as those coming from Syria and Iraq or other countries with a high recognition rate, can make it easier for authorities to locate them to areas where their skills are in demand, and possibly to start with trainings even before the recognition decision.[69] Alternatively, vocational training could in some cases represent a first set of integration measures and make the waiting period more useful. Access to vocational training is not obligatory (Article 16 of the Directive 2013/33/EU), however, and analysis of available information points to a rather limited access to this right in most Member States.

Social housing and urban planning are useful first policy tools to ensure the successful integration of refugees. Experiences from suburbs in some Member States that have become increasingly segregated and polarised point to the need for the successful social integration of refugees.[70] Bakker et al. (2014) find that staying for too long in asylum accommodation (e.g. more than five years) had a negative impact on the labour market integration of refugees in the Netherlands. Although the short-term priority is to manage the arrivals of asylum seekers, it is essential to have in place a medium-term strategy at the local and municipal level to facilitate the integration of refugees. Inaccessible rental markets and a shortage of social housing may not only limit the chances of finding proper accommodation but also of integrating in the labour market. In those Member States where the stock of affordable housing is low and prices are high, such as Sweden, policies may also be needed on the supply side, to encourage the construction of new housing.[71]

Refugees and native workers share a mutual interest in well-functioning labour markets. Some of the labour market measures needed to facilitate the integration of migrants into labour markets would also improve the employment prospects of native workers. This is the case, for instance, with strengthening active labour market policies (ALMPs) or with measures to encourage entrepreneurship among refugees. Conversely, measures aimed at improving the performance of the labour market and at reducing unemployment should be beneficial for native workers as well as refugees. Certain groups, such as family migrants who arrived earlier may share challenges that are very similar to those of

[67] UNHCR note on refugee integration in Central Europe (2009).
[68] COM(2016) 270 final, COM(2016) 271 final and COM(2016) 272 final.
[69] See OECD. (2016), *Making Integration Work: Refugees and others in need of protection*.
[70] With the Solidarity and Renewal Urban Act (2000) new housing and urban planning policies have been implemented in France to favour social diversity in wealthy areas and deprived neighbourhoods.
[71] See OECD. (2016), *Making Integration Work: Refugees and others in need of protection*, lesson 3.

refugees — and addressing these labour market challenges can help both groups. In particular, female non-employment is a major contributor to the employment gap between the non-EU born and native-born, hence a special focus integrating women into the labour market seems indispensable, although this could be challenging given cultural differences in the origin countries of many asylum seekers.[72]

Active-labour market policies and coaching can be used to encourage employment. Recognising that newly-arrived asylum seekers face significant information hurdles beyond language barriers, active-labour market policies, job-training, proactive job placement and coaching, as well as the setting-up of entrepreneurial centres, can help migrants' to find a job or become self-employed. Measures that lower barriers in general can also affect the capacity of refugees' to enter the labour force and find a job, although they are not a policy action directly targeting the refugee crisis per se. Not only employment-protection legislation but also lowering barriers to product markets may improve refugees' ability to effectively enter the labour force. Refugees can also contribute to the economic growth of their host countries through self-employment or entrepreneurship, which not only enables them to sustain their own livelihood, but can also create jobs both for their communities and among native-born.[73] A study based on data from 2007-2008 shows that in the majority of OECD countries, migrants are more likely to be self-employed than non-migrants.[74][75] As discussed by the IMF, [76] measures that strengthen refugees' capacity for entrepreneurship — going from easing the procedures for the creation of new firms, facilitating access to financing, as well as having adequate market access and start-up support — could be an important tool in addressing a possible perceived fear among (sub) groups of the native population that the current migration flows are bound to generate sustained higher unemployment.

Labour cost is an important variable to monitor. To the extent that the skill set and working experience of refugees are such that their marginal productivity is low, the overall labour cost when entering the labour market may discourage hiring, sometimes even at the minimum wage. Among active labour market policies, wage subsidies paid to private sector employers have been found to be particularly effective in aiding the integration of migrants into the labour market[77] and were considered the 'most effective' at improving the likelihood of refugees' finding regular employment in Denmark.[78] Against this background, carefully designed hiring subsidies, targeted programs aimed at temporarily reducing the tax wedge, or a more gradual tapering of the withdrawal of benefits, could significantly facilitate the gradual integration of refugees into the labour market. Such programs should be temporary in nature (to avoid the formation of a dual labour market) and are already in place in several Member States, often in association with training schemes and generally targeting the long-term unemployed.

The empirical literature on the impact of minimum wages on the employability of low-skilled workers is vast but rather inconclusive.[79] In the particular case of refugees, there are very few empirical studies.[80] At a more policy-oriented level, it can be argued that both skill and price

[72] In 2010, before the crisis, the activity rate of Syrian men was 72.7 %, while 13.2 % for women.
[73] OECD/COM(2013) *The Missing Entrepreneurs: Policies for Inclusive Entrepreneurship in Europe*.
[74] International Migration Outlook, 2011, *Migrant entrepreneurship in OECD countries*.
[75] Open for Business, Migrant entrepreneurship in OECD countries, 2010.
[76] IMF Staff Discussion Note, 2016.
[77] Butschek and Walter, (2014).
[78] Clausen et al., (2009).
[79] Card and Krueger (1995, 2000), Neumark et. al (1998).
[80] One exception is Orrenius and Zavodny (2008). They use data from the Current Population Survey during 1994-2005 to examine how US minimum wage legislations at the federal and state level are related to labour market integration among

mismatches are likely to be at play in the early phases of refugees' integration. For instance, as long as prospective job-seekers do not obtain a certain degree of language proficiency, the wage floor and other regulations may well be a secondary, though not unimportant, issue. In such circumstances, active labour market policies or integrated programmes combining skill development for employees with cost incentives for employers may be a better solution. Secondly, although temporary exemptions from the minimum wage are already possible in some countries,[81] further weakening minimum wage legislation — beyond being politically controversial and sensitive for social partners, particularly trade unions — may exert negative pressures on demand and prices at a time when deflationary forces are strong. This is why the alternative solution for low-skilled workers, notably in those countries where they are high, may have more positive effects, if financed in a growth-friendly way.

Migration is one of the 10 priorities of the European Commission. The European Agenda on Migration was proposed in May 2015,[82] and actions and implementation packages have thereafter been discussed and proposed as a follow-up. The Agenda, which recognises migration as both an opportunity and a challenge for the EU, sets out medium to long-term priorities that will help Member States to manage the challenge and, looking beyond the crises and emergencies, to capitalise on the opportunities. It has four pillars: (i) reducing the incentives for irregular migration; (ii) saving lives and securing the EU's external borders; (iii) strengthening the common asylum policy; (iv) developing a new policy on legal migration. The progress made and further actions needed have been spelled out in a number of the' Communications adopted by the Commission in recent months.[83]

Migration can be an important tool to address the EU's shrinking labour force and ageing population. The EU's working-age population is expected to decline by some 3.5 % by 2020 (assuming zero net migration), and labour supply shortages could become bottlenecks to growth. It will bring demographic challenges in the next decades that could, to some extent, threaten the future growth of the EU economy. There are factors that can partially compensate for this trend, such as boosting activity and employment rates in the domestic EU labour market by, for example, increasing the activity rate of women and resident third-country nationals, as well as fostering intra-EU mobility of the EU workforce (including migrants).[84] In that sense, legal migration and refugees could become increasingly important factors in altering the age distribution, maintaining the optimal level of the workforce in the EU, and helping to fill structural skills' shortages. In this way, they could contribute to the sustainability of our welfare systems and to the growth of the EU economy.

6. Conclusions

The number of asylum seekers arriving in the EU has reached unprecedented levels, with about 1.26 million first-time asylum applications received in 2015, twice as many as in 2014. While that number is lower than in some other parts of the world, the surge in arrivals has put considerable strain on several Member States, where managing, and subsequently integrating, these inflows has increasingly affected public authorities in the countries most concerned.

native- and foreign-born adults who do not have a high school diploma. The results do not indicate that minimum wages have adverse employment effects among low-skilled.

[81] In Germany, long-term unemployed are exempt from the minimum wage for the first six months of employment.

[82] COM(2015) 240 final, 'A European Agenda On Migration', of 13.5.2015.

[83] COM(2015) 490 final/2, COM(2015) 510 final, COM(2015) 678 final, COM(2015) 679 final, COM(2016) 85 final and COM(2016) 141 final.

[84] COM report (2016), '*Employment and Social Developments in Europe 2015*'.

The routes taken by migrants have changed since 2015, gradually affecting more EU Member States but the relative economic impact still differs substantially across countries. Based on the information available today, the short-term economic impact of the refugee inflows on the EU's GDP appears small and positive, although it is more pronounced for some Member States than others. The short-term effect is mainly driven by higher public spending. In the medium to long-term, how well refugees are integrated into the labour market will be a key factor in determining the macroeconomic effects that refugee inflows will have on Member States' economies.

If well and quickly integrated, refugees can help to improve the performance of the labour market, address demographic challenges, and improve fiscal sustainability. The characteristics of the migrants as well as of the structure, cyclical position and the integration policies of host countries will define the results. The impact will differ across countries, but also within countries, as it depends on the extent to which the skills of migrants substitute or complement those of the native work force. Nevertheless, the earlier and better the integration, the more likely migrants are to make a positive contribution to growth and public finances in the medium term. Given that the cost of an inappropriate policy response could prove to be substantial, especially in the medium term, the Commission presented an Action Plan on the integration of third country nationals on 7 June 2016.

While the current situation of refugee inflows to the EU suggests that there is a potential for moderate economic gain ahead, downside risk appears substantial if the required investment is not urgently undertaken to facilitate the management of flows and, for those who are granted international protection, their subsequent integration.

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