



# Flash Research

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## Germany, safe haven for asylum seekers

**Caroline Newhouse**

- In 2015, Germany could welcome as many as 800,000 asylum seekers.
- Germany's robust economy should be strong enough to absorb this unprecedented migration shock.
- The economic stakes are high for Germany, for the survival of its social model as well as for the long-term sustainability of growth.

Germany's unfavourable demographic equation might well be in the process of changing, radically modified by the increase in its immigrant population. According to World Bank statistics, Germany ranks second to Japan and ties with Italy for the highest percentage of persons in the over-65 age group (25% for Japan and 21% for Germany). Germany's aging population is primarily due to the decline in the fertility rate. In the late 1960s, Germany's fertility rate dropped below the population replacement rate (2.03 and 2.1, respectively), and since the 1980s, it has continued to fall by a third, to 1.56. In 2013, the fertility rate was only 1.40. This factor, combined with the increase in life expectancy (by more than 11.5 years between 1960 and 2012), resulted in the rapid aging of the German population. If this trend were to continue, the working population would begin to contract as of 2020 as the baby-boom generation takes its retirement leave. According to Eurostat statistics, the working population would decline by more than 30% over the next 50 years, and the dependency rate (inactive population over the working population) would rise from 43% to 77%.

### A godsend?

Since the beginning of the year, Germany has welcomed more than 400,000 asylum seekers<sup>1</sup> from the Middle East<sup>2</sup>. This wave of immigration is unprecedentedly big in several

<sup>1</sup> Asylum seekers are individuals who request refugee status in a country other than their home country (i.e. someone who has left his or her home country due to reasonable fears of being persecuted due to race, religion, etc.) or some other form of protection, which is generally granted to individual's fleeing war zones. These protections are usually terminated once the hostile conditions end in the home country.

<sup>2</sup> As a share of its population, Germany ranks fourth for hosting refugees, with 3.7 asylum seekers per 1000 inhabitants, after Hungary (10.4), Sweden (8.1) and Austria (5.6) over the 12 month period to June 2015.

### Germany's net migration

In thousands

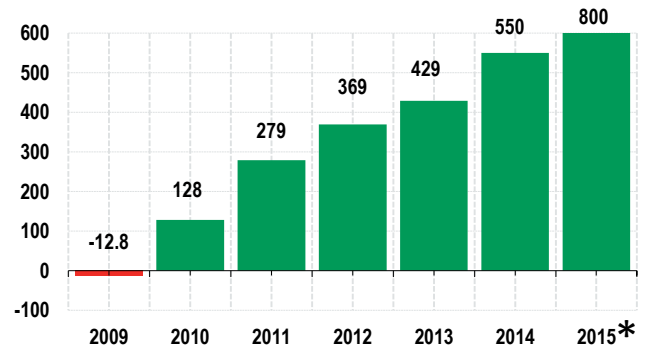


Chart 1

Source: Destatis, \*: BNPP forecast

### Demographic inversion?

Y/y, %

- Total population (seasonally adjusted, LHS)
- Working population (seasonally adjusted, RHS)

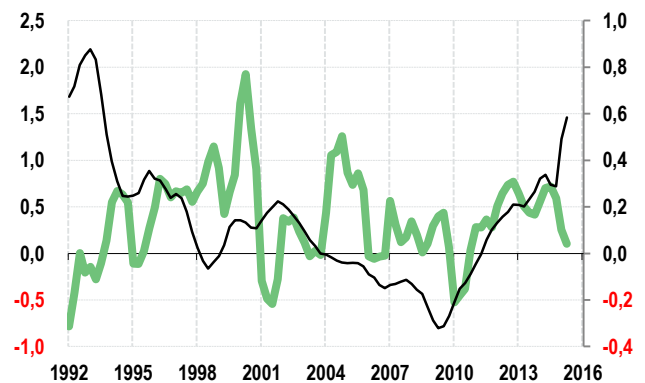


Chart 2

Source: Destatis

respects. It raises both humanitarian and economic questions given the size of the movement (in 1992, following the collapse of the Soviet Union and German reunification, 438,000 asylum seekers arrived in Germany, a so-far unmatched record), its duration, and also the variety of situations of the refugees. By the end of the year, the number of asylum seekers could reach

800,000 (vs. 24,000 planned in France), four times more than in 2014.

### A humanitarian response above all else

Many asylum seekers, especially the Syrians and Eritreans, arrive in Germany without a basic understanding of the language. According to the Ministry of the Interior, 30% of Syrian refugees are minors, and 15-20% are illiterate adults. European surveys show that the highest barriers to labour mobility are the diversity of cultures and languages, even more so than administrative red tape due to heterogeneous social welfare systems. To this extent, Germany's attractiveness for migrants can be attributed to the country's robust economic growth and the humanitarian welcome the government and the local population extends to refugees.

Germany will thus face a major social challenge to integrate a largely unskilled population that does not speak German, as it was previously open primarily to high skilled foreigners. In 2012, Berlin improved its recognition of foreign diplomas and qualifications obtained abroad. The federal government eased the conditions for issuing visas and residence permits to high-skilled professionals by transposing the European directive of 2009 into German law. This created a European "blue card", which provides visa and residence rights to graduates who land job contracts within the European Union. Yet only 26,500 individuals have benefited from this law since it was enacted, far short of the estimated 300,000. The real challenge will be to shorten the time it takes for these low or unskilled individuals to integrate the job market. The share of immigrants without professional training has held virtually constant over the past 20 years (about 30% in 2013), which raises questions about Germany's capacity to face up to the current wave of immigration.

### Striking the right balance

In mid-September, there was such a big inflow of refugees that the Interior Minister, Thomas de Maizière, had to announce the reintroduction of passport controls on its borders with Austria. In just one weekend, Germany welcomed more than 20,000 refugees who had originally fled to Hungary and Austria.

The need to regulate the inflow of asylum seekers can also be attributed to the fact that in Germany, refugees are authorised to work only 3 months after obtaining refugee status, compared to 9 months in France and a year in the UK. In H1 2015, it took 5.3 months on average to obtain refugee status in Germany.

<sup>3</sup> The Schengen area allows the free movement of persons between member countries that signed the agreement. Since 1 July 2013, the area comprises 26 countries: 22 of the 28 EU member countries (Bulgaria, Romania, Cyprus and Croatia have not joined yet, while the UK and Ireland have opt-outs and only participate in part of the measures) and 4 non-EU members (Norway, Iceland, Switzerland and Liechtenstein). According to the principle of the free movement of persons (article 3 of the Treaty on European Union), once an individual has entered the territory of a member country, regardless of whether they are from the EU or a third country, he or she may cross the borders of the other member countries without passport checks or other border controls. Border controls can only be re-introduced when the public order or national security is threatened.

### A permanent relocation mechanism

On 9 September 2015, Jean-Claude Juncker presented the European Commission with a plan for a permanent relocation mechanism for the European Union to relocate 120,000 asylum seekers currently in Italy (15,600), Greece (50,400) and Hungary (54,000), in addition to the 40,000 refugees the EC already proposed to relocate last May. The proposal would modify the Dublin rules that asylum must be claimed in the first safe country, and would only be applicable under "strict" conditions. The European Commission would determine the number of asylum seekers to be relocated from countries with a disproportionately high number of refugees in relation to their host capacity. It would also determine the duration of this emergency procedure. The distribution key for asylum seekers would take into account GDP (40% weighting), the number of inhabitants (40%), the unemployment rate (10%) and the number of asylum seekers arriving in the country over the past six months (10%). Countries that do not want to take in refugees can request the application of an opt-out clause, which would be examined by the Commission. If accepted, the exempted country would have to pay the EU financial compensation based on 0.002% of national GDP.

The European Commission also proposed to create a EUR1.8bn trust fund for Africa and a single EU list of safe home countries. For nationals from the listed countries, a single list would help accelerate the processing of individual asylum requests for the EU as a whole, and to facilitate their repatriation if an evaluation of their request confirms that they cannot claim the right to asylum.

Romania, the Czech Republic, Hungary and Slovakia categorically refused Mr. Juncker's proposal. Spain proposed a different distribution key that would give a higher weighting to the unemployment rate and/or the number of refugees already in the country. The UK, Ireland and Denmark have opt-out rights to any decisions concerning the Dublin and Schengen agreements<sup>3</sup>, which include the application of this mechanism.

Box 1

Source: BNP Paribas

### Minor budget impact

Welcoming refugees also raises the question of how to finance the inflow. Since World War Two, Germany has set up a permanent, mandatory mechanism for the relocation of immigrants. This very precise quota system is set according to the wealth and population of each region (Land), which then relocates the migrant population within local districts based on a regional distribution key. This system has proven to be effective so far. Yet faced with an unprecedented inflow of refugees, the Chancellor announced that it would allocate EUR6bn in 2016 (equivalent to 2% of public spending next year), including EUR3bn to help local and regional governments finance the cost of accommodating immigrants. Last year, EUR11bn was needed to host refugees. 150,000 new beds will also be constructed in temporary refugee shelters. The government also decided that the refugee benefits distributed by shelters would be paid in kind, essentially in the form of food stamps and health care services, instead of previous plans for a cash payment of EUR153. Generally speaking, financing for the refugee programme will not jeopardise the government's target of balancing the budget in 2015 and 2016, thanks to the country's healthy public finances. To the contrary, it could even have a positive albeit



mild impact on growth next year, estimated at less than 0.2 percentage points.

### What about the economic impact?

Over the long term, immigration is considered to have a positive impact on economic growth and public finances, regardless of the country's demographic situation. The economic contribution of immigrants is higher than the cost in terms of benefits and additional public spending generated by their presence (i.e. shelters and related accommodations, social and sanitary support policies). In Germany, the amount of social welfare benefits and other benefits received in kind by refugees is identical to that received by local residents. This contrasts with the situation in North America, Sweden and Denmark, where refugees receive more benefits than local residents. Moreover, according to the latest research by the OECD, migrant labour generally responds to a demand for jobs that is not met nationally, whether in fast-growing economic niches or in sectors in decline.

In other words, immigrants and local residents are not really in competition with each other but are fairly complementary. Thanks to immigrants, local residents have easier access to less manual, more skills-intensive jobs that offer higher wages. Under these conditions, the arrival of migrant workers boosts job market flexibility and reduces employment bottlenecks in certain sectors. Germany has major labour needs in the engineering and manufacturing sectors. According to Destatis, there are still 574,000 job openings this year. Moreover, the arrival of immigrants should have little impact on the equilibrium wage and employment level of domestic workers, notably because immigrants address an unsatisfied demand for labour. Whereas most studies examine the impact of immigrant labour on job supply, Gihoon Hong and John McLaren looked at its impact on the demand for locally produced services<sup>4</sup>. Looking at US census data between 1980 and 2000, they concluded that for each immigrant, 1.2 local jobs were created, most of which were filled by local residents (nearly two thirds in the services). Similarly, the majority of studies conclude that immigration has an insignificant or slightly positive impact on the public finances of the host country. Lastly, immigration increases the working age population and thus contributes to the development of the host country's human capital. It eases the financial constraints straining public finances via the long-term sustainability of the health care and pension systems.

Thanks to immigration, Germany's population increased in 2014 for the fourth consecutive year. According to Destatis data published in September 2015, Germany had 81.2 million inhabitants at year-end 2014, a figure that could prove demographic forecasters wrong. Germany reported a net migration balance of 550,000 individuals last year, the highest on record since 1992. Under these conditions, it could reduce the economic constraints of Germany's aging population: the net migration inflow necessary to offset the expected decline in

the working population as the baby-boom generation leaves on retirement is estimated at about 250,000 individuals a year. Considering that the average age of the immigrant population is 28, compared to 44 in Germany, the working age population could remain virtually constant through 2060. The share of foreigners residing in Germany would thus be at about 40%. Moreover, the dependency rate would decline to about 55% by 2060, which would significantly ease pressures on the equilibrium of the pay-as-you-go pension system.

Under these conditions, the ongoing increase in the working population (a net migration surplus of about 300,000 individuals would represent an annual increase in the working population of 0.75%) would help stave off the expected decline in growth potential to 1% by 2020, and could ultimately favour a turnaround.

All in all, faced with this unprecedentedly large migration movement, Angela Merkel provided exemplary leadership in deciding to welcome thousands of refugees fleeing war zones without imposing any conditions. Her humanitarian response was welcomed unanimously in Germany. In a way, though, she was also responding to a certain economic reasoning. In a very tight job market near full employment, the arrival of a young labour force that wants nothing more than to be quickly integrated in the job market represents a godsend that should ease Germany's demographic constraints.

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<sup>4</sup> Gihoon Hong and John McLaren "Are migrants a shot in the arm for the local economy?"  
Working paper 21123 NBER April 2015



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