



# Migration and the EU

Challenges, opportunities,  
the role of EIB



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## Challenges, opportunities, the role of EIB

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## **This is a report of the EIB Economics Department**

### **Lead Authors**

P. de Lima, S. Bernabè, R.L. Bubbico, S. Leonardo, C. Weiss

Debora Revoltella – Director of the Economics Department

### **Communication support**

S. Wheeler, V. Siclari

### **About the Economics Department of the EIB**

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in its positioning, strategy and policy. The Department is a team of 35 economists and staff.

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## FOREWORD

Migration is not a new phenomenon: Europe has increasingly become a destination of significant migratory flows in the last decades. However, the current refugee crisis – the most severe since World War 2 - presents an additional, urgent challenge to European policymakers and financial institutions alike. While the solution to the root causes of the crisis – war, terror – will ultimately be found around the negotiating table, there is in the meantime a role and a responsibility for those of us committed to furthering peace and prosperity in Europe and its neighbourhood to confront the challenges and even the opportunities that this more and more relevant component of migration presents. This document looks at both short and long term impacts of migration flows, assessing how migration can be a decisive factor in helping Europe to address its challenges.

The European Investment Bank is the EU bank. As such we are in the business of promoting jobs and growth in the EU and also supporting the EU's external policies. In this context the paper seeks to make a contribution to the debate and discussions on the vital issue of migration both in Europe and beyond. Drawing on the most recent studies and analysis, the paper looks at the implications of migration on Europe's labour market. It seeks to shed light on whether migration can be an opportunity for certain parts of Europe, in certain economic sectors. And it questions our current and widespread reading of migration as purely a burden. While of course there are short term costs - as well as political and social ones - of hosting newcomers, the analysis of many authors suggests fiscal and macro-economic benefits in providing these people with the chance for employment and education.

This paper examines what the EIB is already doing in the EU and outside Europe - and what, in partnership with others, we might do to move from humanitarian assistance to economic development, for example through support of the private sector. But unlocking and managing the potential of migration will require a much more coordinated policy response from EU governments. The European Commission has put important building blocks in place, but we still lack a sustainable and coordinated system of migration management that also has Europe's labour market in mind, the potential for brain-drain as well as the need to provide a humanitarian as well as an economic response.

This paper is a contribution to the growing debate on how Europe should frame this response. It lays out present action and possible action from the EIB. It is a call for a common set of definitions and approaches to measure what is needed in Europe's labour market and what can be done in the EU neighbourhood and other emerging markets.

The EIB, the EU Bank, is the largest multilateral lender in the world and the most active International Financial Institution in the Middle Eastern, North African neighbourhood. As I told world leaders at the Supporting Syria and the Region Conference in London recently, if the EIB could access significant amounts of third party funding for blending into concessional loans and to provide technical assistance, the EIB could propose a significant increase of its activities in the region. The women, men and children in the region that are leaving their homes today need to be given new hope. We must be ambitious. We all need to step up our activities and to act in concert to address the current situation, whether in Europe itself or in the region where the causes of the problem lie.

A handwritten signature in blue ink, appearing to read 'Werner Hoyer', is centered on the page. The signature is fluid and cursive, with the first name 'Werner' and the last name 'Hoyer' clearly distinguishable.

Werner Hoyer  
President  
European Investment Bank

## CONTENTS

Executive Summary .....	7
Introduction.....	9
1. Stylised facts: international migration to the EU .....	14
2. EU labour market challenges and the potential impact of international migration	24
3. Demographic challenges and immigration potential .....	32
4. Migration and refugees: a role for the EIB? .....	37





## Executive Summary

### *Migratory flows to Europe: new dimensions to deep-rooted patterns*

- **In 2015 more than 1.2 million people have applied for asylum in the EU.** While this exceptional flow has been one of the drivers for the growing interest and concern about migration, the fact is that migratory movements to Europe are not new and are likely to remain strong in the future. In addition to political and other man-made conflicts, demographic pressures and poverty in some of Europe's neighbouring regions will keep on feeding migratory flows. Similarly, the increasing number and magnitude of natural disasters resulting from climate change could be another push factor for migration.
- Migration impacts on many different aspects of society, both in the countries of origin and destination. Economists typically view migration as a flow from regions of lower labour productivity to higher labour productivity regions. As such, migration leads to economic gains, although its distribution can be uneven. Furthermore, migration has a cultural and social impact that goes well beyond its economic dimension. This paper focuses on the economic aspects of migration.

### *Migration and Europe: low short-term costs for a long-term economic opportunity*

- **Refugee and overall migrant flows have a relatively limited fiscal impact, even in the short term.** The current refugee crisis takes place against the background of significant economic challenges across the EU. However, recent studies by the European Commission and the IMF show that fiscal costs are limited, temporary and could be easily outweighed by the benefits of integration in the medium term. The IMF estimates the fiscal costs to be 0.1% of European GDP per year between 2015 and 2017, but with EU GDP increasing by 0.13% above the baseline by 2017. In the medium term, the growth impact can be more sizeable (especially for the countries registering higher inflows), depending on the pace of labour market integration, as well as migrants' skills and age structure. In other words total GDP is expected to increase, but the shift of GDP per capita will depend crucially on the contribution of migrants to the economy of the hosting countries.
- **Job and wage losses of native born are small and concentrated on the low-skilled. Furthermore, migrants can help reduce skills shortages and mismatches across the Union, compensating for still insufficient intra EU-mobility.** The arrival of new migrants is typically perceived as a threat to pre-existing workers, particularly among the low skilled. Current economic conditions, particularly unemployment in some EU countries, make this a serious concern and in fact, studies indicate that low-skilled workers and pre-existing immigrants do tend to lose out. That said, labour market development in the EU reveals a remarkable paradox: high unemployment rates go hand in hand with serious skills shortages and mismatches in several regions, sectors, occupations and Member States. Migration can thus play a role in tackling these issues and thereby partially compensate for insufficient intra-EU mobility.

- **Migrants can help the EU mitigate its ageing challenge.** To help sustain economic growth in line with historic trends under current demographic projections, Europe would need to attract a significant additional number of migrants. However, the demographic imbalance is so great, that migration alone will not be sufficient to address it. For this reason, Europe needs to increase its competitiveness and productivity through better and more flexible use of human capital in responding to rapid shifts of labour market needs in the future.

#### *Unlocking the benefits of migration demands the right policies*

- In the short run, much remains to be done to facilitate and speed up the integration of migrants in local labour markets; this would also be an important step towards the social integration of newcomers to Europe.
- In the medium term, key policy advances would be the establishment of a shared and coordinated definition of what an optimal migration flow is, as well as agreement on the mechanics and the principles for entry and internal movements.

#### *The EIB supports EU policy and emergency response, long-term economic development and integration and resilience of distressed neighbouring regions*

- The EIB is helping the emergency response in the areas of infrastructure and equipment, and financing projects aimed at providing housing, education, healthcare and shelter for refugees, both in Europe and in its North African, Middle Eastern neighbourhood, including Turkey.
- The EIB can act, as the EU bank and according to its mandate, by supporting integration in Europe and by being an active agent for the medium to long term development of the neighbouring regions.
- The EIB has a lead role in addressing the development challenges of those countries which are ultimately the root causes of migration flows. In this regard, the EIB is prioritising projects that lead to job creation, economic resilience and poverty reduction in line with the European Union's external policies.

## Introduction<sup>1</sup>

### *Forced migration has increased on the top of large and persistent migratory movements due to economic factors*

The recent increase in the flow of asylum seekers to Europe has undoubtedly provoked a growing interest and concern about migration. In 2015 around 1.2 million people applied for asylum in one or other of the EU's Member States. In September 2015 alone the number of applications exceeded the total number made for the entire year of 2008. The current increase in migration represents a significant challenge for many European governments in the short to medium term. The fiscal impact of refugees is particularly relevant for countries facing budgetary constraints or unprecedented numbers of people coming in or passing through.

At the same time, forced and economic migratory movements are likely to continue in the future. This is due to the persistency of conflicts in neighbouring regions and to the evolution of push and pull factors generating economic migration in other countries, such as demography and poverty. In fact, forced migration determined by political developments or by natural disasters explains only a fraction of total migration. Economic migration – that is, migration flows determined by the wish of men and women to improve their living conditions – is a reality that is almost as old as mankind itself. Either way, the increased magnitude of recent arrivals to the EU, as shown in section 1, requires additional efforts by public authorities and NGOs in terms of humanitarian and integration support.

### *This has relevant impacts on the economies concerned, both in the short and in the long term*

Migration impacts on many interrelated aspects of growth and development for countries in different stages of development. For Europe, one of the most evident outcomes of migration in the long term is its influence on population dynamics: in the past decades short-term population growth in the Member States and in EU regions has been increasingly determined by net migration. The last time that natural change contributed more than net international migration to EU's population growth was in 1992. That said the rate of foreign-born people living in the EU (6.6%) is still small compared to the US (13%).

More broadly, the impact and consequences of migration both for the countries of origin and destination is a topic of intense debate and rather polarizing views. Countless pages have been devoted by economists to the question of the economic impact of migration. As recently summarized by Sachs (2016), economists typically view migration as a flow from regions of lower labour productivity to higher labour productivity regions. As such, migration leads to economic gains. However, the distribution of these gains is uneven. In the countries of destination, low-skilled native workers and pre-existing immigrants might be on the losing side, at least in the short run. Furthermore, unlike capital flows, migration has a cultural and social impact that goes well beyond its economic dimension. In the countries of origin, migration typically leads to brain drain and demographic – hence social – imbalances.

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<sup>1</sup> The authors thank their colleagues of the ECON department for valuable comments and suggestions and assume responsibility for any remaining errors.

This paper covers two related economic questions. The first regards the short term and medium term impact of migration flows, looking in particular at the impact on wages and employment conditions of native born population. The second confronts the long-term growth challenges faced by the EU and how migration can be a decisive factor in helping the union addressing those challenges.

*In the short to medium term, economic costs of migration are likely to be small, or even outweighed by the benefits.*

The issue of migration flows on jobs and wages is particularly topical as Europe faces a slow recovery and considerable unemployment, particularly among its youth. However, a remarkable paradox has been emerging in this phase of the EU's recovery. High unemployment rates go hand in hand with serious labour shortages – especially relating to skills shortages and mismatch – in several regions, sectors, occupations and Member States<sup>2</sup>. Migration can play a role in reducing these shortages and thereby partially compensate for insufficient intra-EU mobility. This development would be consistent with recent analyses showing that migration tends to have a limited overall impact on unemployment rates and wages. However, the impact is not equally spread: a larger impact is observed on pre-existing immigrants, younger and less skilled workers.

Over the short and medium term, migrant flows can also have a fiscal dimension. This is particularly the case for the current refugee crisis, which takes place against the background of significant economic difficulties across the EU. A recent assessment carried out by the European Commission shows that fiscal costs are limited, temporary and could be easily outweighed by the benefits of integration in the medium run<sup>3</sup>. This is consistent with IMF estimates: with fiscal costs equal to 0.1% of European GDP per year between 2015 and 2017, the EU GDP would increase only slightly (+0.13% compared to the baseline) by 2017<sup>4</sup>. In the medium term, the growth impact can be more sizeable on aggregate (especially for the countries registering higher inflows) but this will depend on the pace of labour market integration, as well as migrants' skills and age structure. Costs of non-integration are high and might be paid by the weakest. Without an efficient integration of migrants, GDP per capita might actually decline in the next few years and unemployment rate might rise.

Europe has tried to assemble financial means to respond to the large inflow but widespread budgetary constraints are limiting a swift mobilisation of resources. The latest state of play by the European Commission on the refugee crisis<sup>5</sup> shows that national financial contributions to the measures approved at EU level amount to only EUR 583 million, with significant shortfalls in contributions to humanitarian aid (EUR 58 million), to Syria Trust Fund (shortfall of EUR 440 million) and Africa Trust Fund (shortfall of EUR 1.7 billion). The main contributor remains the EU budget, with an allocation of EUR 10.1 billion in 2015 and

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<sup>2</sup> European Parliament (2015)

<sup>3</sup> European Commission (2015a)

<sup>4</sup> Aiyar et al. (2016)

<sup>5</sup> State of Play on 10 February 2016, see [http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/european-agenda-migration/background-information/index\\_en.htm](http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/european-agenda-migration/background-information/index_en.htm)

2016, for projects both within and outside the EU (EUR 3.9 billion and EUR 6.2 billion respectively). The recent measures taken for a special consideration of the exceptional expenses related to refugees under the Stability and Growth Pact<sup>6</sup> should facilitate the mobilisation of additional national resources, although the funding gap seems difficult to bridge for all Member States.

*If properly managed, migration represents an economic opportunity for Europe in the long run*

Europe faces an ageing problem. In the long run this will weigh on the potential of Europe as a global player, and under current demographic projections it will affect all European countries. There is significant evidence suggesting that Europe could increase its competitiveness by better use of human capital in order to improve its growth potential. It is also clear that without sustained migration inflows, the growth challenges for Europe would be much more complicated. Migration can help to counterbalance the drag of ageing and to support much needed productivity growth – but migration can help to improve only to some extent the demographic situation of Europe.

The complexity of migration and the many aspects it touches upon makes its management by policy makers a rather complex task. Different objectives do sometimes conflict with one another. The pursuit of economic efficiency can clash with the public's reaction to incoming refugees; and the willingness of receiving countries to address skills shortages can come at the cost of significant brain drain for the sending countries. European policy makers face an additional essential challenge. The management of migration in the EU mixes responsibilities of Member States with some European wide policies while the policy area is inherently affected by ideological divergences that make consensus difficult to reach.

This current refugee crisis has highlighted severe limitations of the EU migration policies in place and the lack of policy coordination across MS. The European Commission launched a new EU agenda for migration in May 2015, and since then several measures have been introduced to stabilise the situation. The relocation schemes for refugees across Member States (launched in September 2015), the so-called hotspot strategy and the new EU coast guard represent a first departure from the previous uncoordinated approach. However, much remains to be done to facilitate the integration of migrants into local labour markets (i.e. reduce waiting period to receive work permits, access to language courses, as well as improving visa facilitation schemes). People moving to Europe seeking asylum are the group of migrants registering the lowest employment rates. The removal of some barriers to employment would benefit migrants in general and this group in particular. As also reported by Aiyar et al. (2016), immigrants' employment rates and quality of jobs are higher in countries where entry wages and employment protection are low. In this context it is vital to highlight that more flexible labour markets suffer less from displacement effects generated by sudden inflows of migrants. Lower barriers to self-employment, facilitation of start-ups and access to financial services would also support integration.

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<sup>6</sup> European Commission (2015b)

From a medium to long-term perspective, EU policy makers will need to address the question of how to manage migration flows with a view to tackling European long term growth challenges. Key policy elements to determine are the qualification and quantification of an 'optimal' migration flow, as well as the mechanics and the principles for managing it. Recent measures to retain students and researchers can be combined with an expansion of the legal entry paths for people seeking jobs. However, not due consideration is given to family reunification (the main component of legal migration to the EU and one of the groups with the lowest employment rates) and the integration of family members in the workforce once they arrive to Europe. In many of these legal aspects there is no coherent approach as legislation varies from Member State to Member State. Lastly, in order to efficiently compensate for limited intra-EU mobility of workers, an improvement of intra-EU mobility schemes of third country nationals seems necessary. The housing situation is another key area of concern: the lack of affordable housing might generate barriers for internal mobility and prevent migrants to move to areas where labour demand is high (Aiyar et al. 2016).

It is fair to anticipate that migratory flows to the EU will remain strong in the foreseeable future. The driving forces behind those flows – demographic pressures and poverty levels in Africa and the Middle East, together with man-made and natural disasters in those regions – are unlikely to disappear any time soon. For this reason, the EU is bound to benefit from migration.

***Europe needs to build an appropriate policy and investment platform to turn migration into an asset.***

All this requires an appropriate policy response. Europe should strengthen quickly its rescue, humanitarian assistance and integration capacity. Beyond intolerable human and social costs for migrants, costs of non-integration could be significant for Europe and its citizens. Developing a common strategy on labour migration (after the first steps of the EU Agenda for Migration), on access modalities and on intra-EU mobility can support labour market adjustment and increase long term growth potential. In this context, the removal of barriers to employment, economic initiative and movement for migrants makes economic sense (and has little and temporary impact on domestic workers).

***The EIB can support this process.***

As EU Member States and the European Commission are working on the best way to frame the policy response, the EIB can act in the framework of the existing shared strategic approach by supporting integration in Europe and by being an active agent for the medium to long term development of the neighbouring regions. In response to the on-going refugee crisis, in transit and destination countries, the EIB is helping the emergency response in the areas of infrastructure and equipment, and financing projects aimed at providing housing, healthcare, education, opportunities and shelter for refugees. Furthermore, as a committed partner to Countries in Africa and the Middle-East as well as Turkey, the EIB has a lead role in addressing the development challenges of those countries currently hosting millions of refugees in the region where these challenges mirror the causes of outward migration flows. In this regard, the EIB - the most active International Financial Institution in the region - is giving priority to projects that lead to job creation through support of the private sector,

economic resilience and poverty reduction. The EIB is ready to step up its activities but the right conditions need to be met especially for projects in Syria's neighbours. An improved medium-term strategy to support the countries most affected by the large influx of refugees (Lebanon, Jordan and Turkey) is necessary.

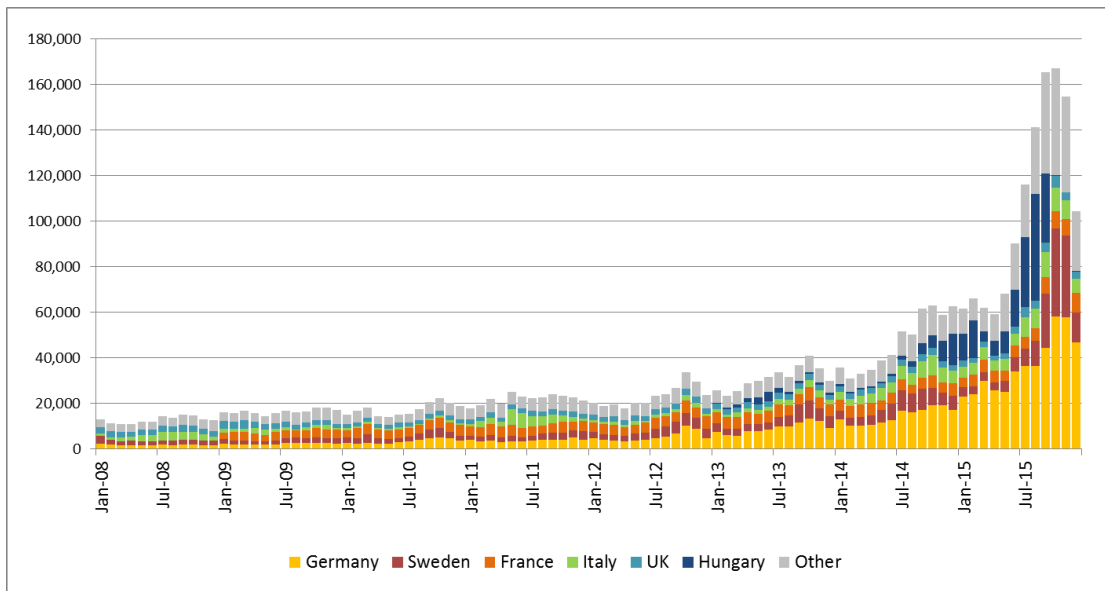
# 1. Stylised facts: international migration to the EU

## *In 2015, Europe registered a staggering increase of asylum seekers*

In 2008-2011, first time asylum applicants averaged 205 thousand per year. The figure went up to 280 thousand in 2012 and to 560 thousand in 2014. In 2015, more than 1.2 million people applied for asylum for the first time in one or other of the EU member states. The number of total applicants in the month of September 2015 was higher than the total applicants in the entire 2008. As shown in figure 1a, this flow registered a drastic acceleration in the second half of 2015. In September and October, the number of asylum applicants recorded one third of the 2015 total.

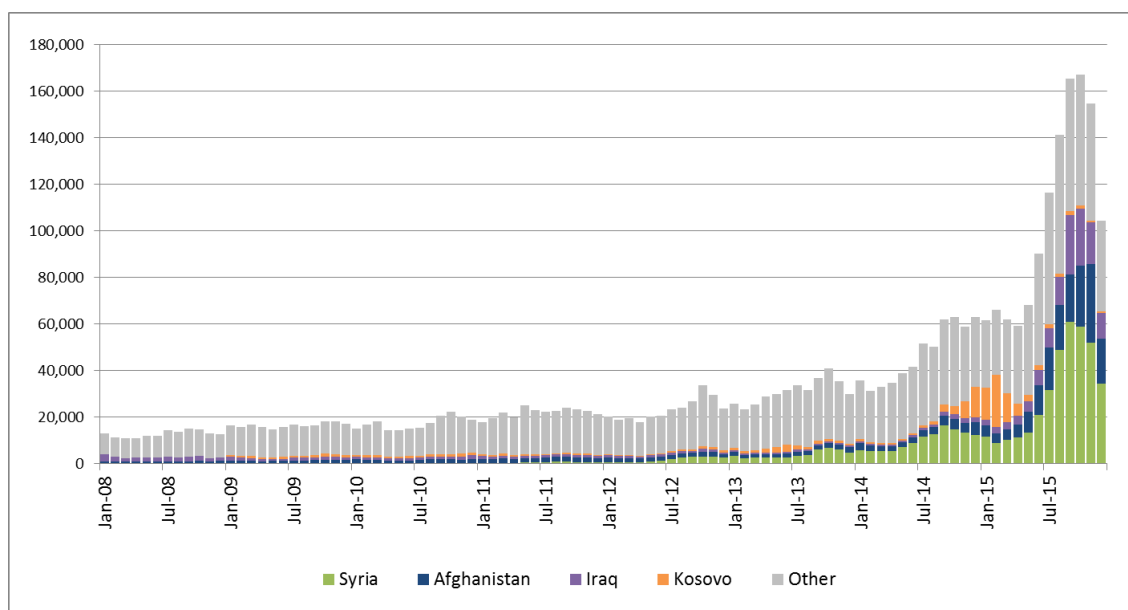
This can be mainly explained by the conflict in Syria, and by the two stages of the related refugee crisis: a first large movement of refugees to Syria's neighbouring countries (2012-2013) and a second wave from these countries to other destinations, mainly in Europe (since mid-2014). Yet, most of the refugees are still hosted in the region where they represent a very large component of resident population. In January 2016 UNHCR registers 2.5 million Syrian refugees in Turkey (3.3% of population), 1.1 million in Lebanon (24%) and 600 thousand in Jordan (10%). In total, around half a million are still hosted in camps. The UN estimates 6.6 million internally displaced people and 13.5 million people in need of humanitarian assistance in Syria (nearly half the population of the country).

**Figure 1a: First time asylum applicants in the EU-28 by destination – Jan 2008 - Dec 2015**



Source: Eurostat (migr\_asyappctzm). Retrieved: March 2016



**Figure 1b: First time asylum applicants in the EU-28 by origin – Jan 2008- Dec 2015**

Source: Eurostat (migr\_asyappctzm). Retrieved: March 2016

### *A continued increase in the flow of arrivals to Europe in 2016 would quickly put the EU rescue, humanitarian assistance and integration capacity under pressure*

Preliminary data for January 2016 show that the flow to Europe is far from slowing down, with more than 52,000 first time asylum applicants in Germany (third largest monthly number of applications on record since the crisis started) and 65,000 arrivals via sea in Greece and Italy (5,550 in January 2015). UNHCR reports a death toll of 403 migrants during the first six weeks of 2016 in the Mediterranean. In 2015, 3,771 deaths were registered.

As reported in figure 1a, the top receiving countries for refugees in Europe are Germany (442 thousand in 2015), Hungary (174) and Sweden (156). Eurostat reports that the applications lodged in these three countries account for 62% of total applications in 2015. Syria is the main country of origin since August 2012. In 2015, 29% of total applicants were from Syria, followed by Afghanistan (14%), Iraq (10%) and Kosovo (5%).

Since 2012, asylum applicants are mainly males (around 70%) and young. More than 50% of all applicants are aged 18-34, 20% are under 13 and only 20% are aged between 34 and 65. The country of origin is a key factor in the recognition of the refugee status or other forms of international protection. The recognition rate for Syrian nationals currently stands at 95% while, for example, for people from Albania, Kosovo and Serbia the chance of a positive outcome for an asylum claim is less than 5%<sup>7</sup>.

### *The flow of asylum seekers comes on top of significant inward migration*

The ongoing refugee crisis represents only one part of the movements of people towards the European Union. Europe became a destination region mainly since the 1950's, with flows

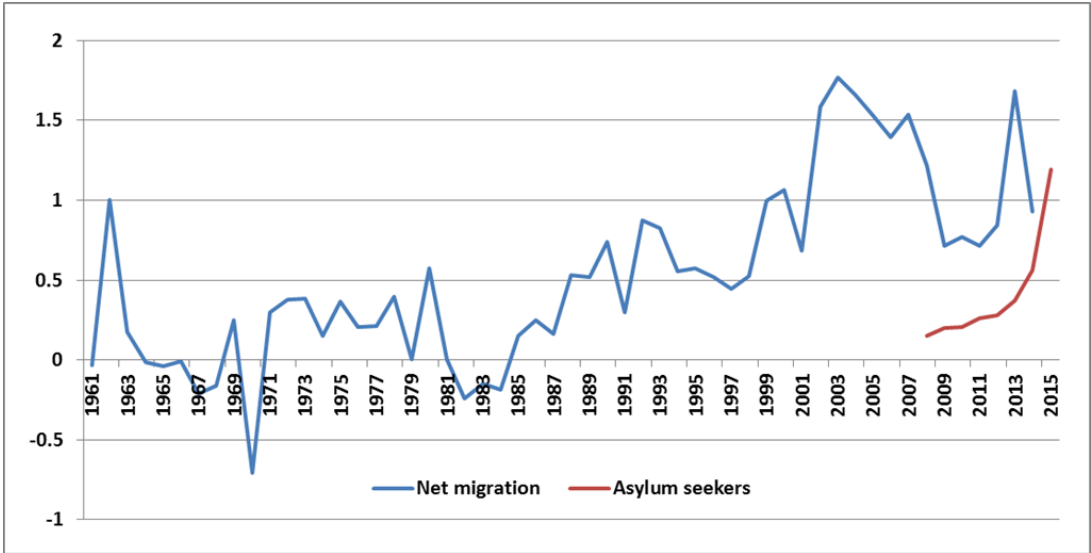
<sup>7</sup> This is in line with the recent decision taken by some Member States of considering countries in the region of the Western Balkans to be 'safe countries' of origin.

towards countries with a colonial history or in need of post-war labour. Southern European countries became a more popular destination later, during the 1990's. Push and pull factors driving migration are manifold and are connected to different modalities of movement. In Europe, it is possible to identify four main categories: recognised labour migration, family reunification, humanitarian protection and irregular migration. Historically labour migration has been the main component of total migration inflow (1950's through the 1970's), followed by family reunification in the 1980's and by humanitarian protection and irregular migration in the 1990's. In recent years family reunifications have reached 28% of total residence permits, while labour migration has been linked with the European economic cycle. Estimates suggest that people residing irregularly in Europe have increased from 2008 to 2014, reaching a total of more than half a million<sup>8</sup>.

*Migration to Europe is on an upward trend. Yet, in the EU, only 1 person out of 15 was born outside the Union.*

Overall, international migration towards the EU has suffered some variation in the past decade. Migration flows have been consistently above 1 million per year since the beginning of the 2000's up until 2008. A sharp decrease is observable in the years corresponding to the financial crisis in Europe. Migration flows picked up again in 2012 and 2013 (peak of 1.7 million), but showed a slowdown in 2014. As shown by the blue line in figure 2, until 2008 total asylum applicants represented only a limited percentage of the total net flow, while in the last years forced migration has become a very relevant component of total migration.

**Figure 2: Net migration (1961-2014) and asylum applicants (2008-15) in the EU – million**



Source: Eurostat data – migration flows (online data code: [demo\_gind]). Retrieved: January 2016.

Note: Net migration data includes statistical adjustment of total population

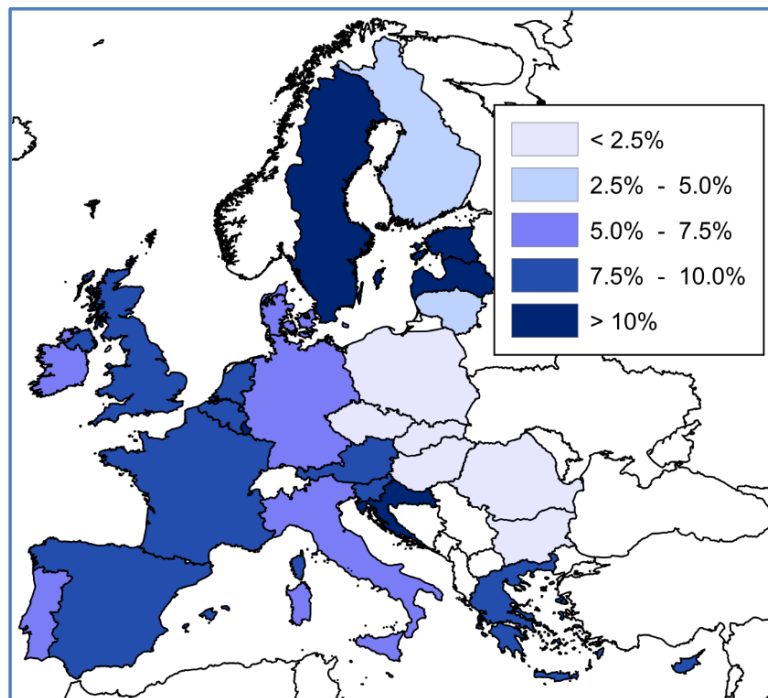
<sup>8</sup> The European Parliamentary Research Service estimates of April 2015 suggest that irregular migrants are mainly Syrian, Eritrean, Afghani, Moroccan and Albanian.

Overall, 85% of all third country nationals moving to the EU are of working age (15-64 years). As a consequence, migrants have a much lower median age than EU nationals (28 years vs. 42) while gender distribution is almost even (53% males).

The population born outside but living in the EU was 33.6 million in 2014, corresponding to 6.6% of the total population of the EU, vs. some 13% in the USA. Overall, only 10.2% of people residing in an EU country were born in another country (including other EU countries).

The countries with highest total resident non-EU born population were, at the end of 2014, Germany (6.0 million), France (5.5), the UK (5.2), Spain (3.9) and Italy (3.9). In these countries, the non-EU born population ranges roughly between 6.5% and 8.5% of the total. As reported in Map 1, the highest shares of non-EU born over total population are registered in Estonia (19.2%), Latvia (12.2%), Croatia (11.7%), Luxembourg (11.0%) and Sweden (10.6%). Instead, in Bulgaria, Poland, Slovakia and Romania the share of non-EU born over total population is below 1%.

**Map 1: Non-EU born population residing in the EU (2014) – % of total population**



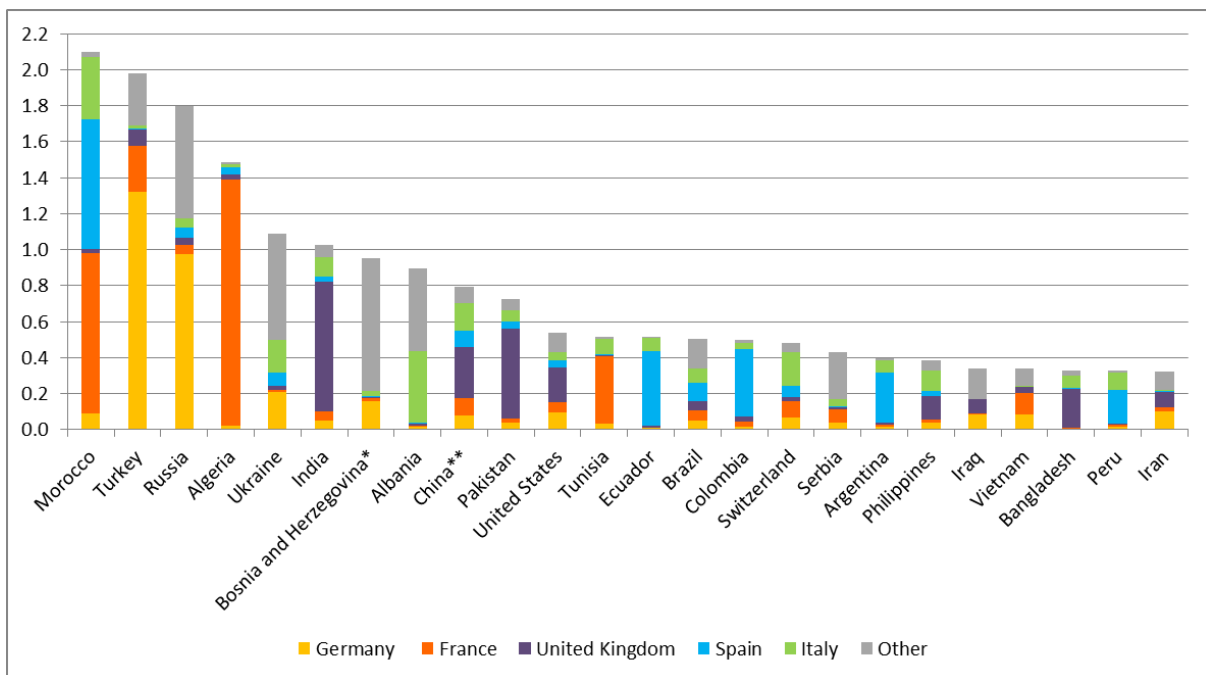
Source: Eurostat

***Migrants move mainly to countries where they can be part of a community***

Countries of origin vary greatly among the EU Member States. The 2011 census data (figure 3) shows that the main countries of origin were Morocco, Turkey, Russia and Algeria. The top origin countries between 2010 and 2013 were India, China, Morocco, Pakistan, US and Ukraine.

Turkey is the main country of origin in Germany, Austria and the Netherlands. Morocco is a major country of origin for Spain, France and Italy. Geographical proximity, historical links and absence of linguistic barriers explain most of the matchings between hosting countries and the largest national groups of international migrants (e.g. France / Algeria; UK / India and Pakistan; Italy and Greece / Albania; Spain / Ecuador, Colombia, Argentina and Peru; Croatia / Bosnia and Herzegovina; Portugal / Brazil; Baltics / Russia; Poland / Ukraine etc.).

**Figure 3: Non-EU born population residing in the EU (2011 census) – top 20 countries of origin – million people**



Source: Eurostat Notes: \* including 0.4 million people residing in Croatia; \*\* including Hong Kong. Belgium, Netherlands, Ireland: no data.

***Europe is falling short in fully integrating international migrants: they tend to register lower living/housing standards and higher poverty and social exclusion rates than native born.***

Table 1 shows how labour and social conditions for the foreign, non-EU born people are much lower than for the native born population. Average income levels of international migrants are lower by 5.5% compared to native born population. The income gap is relevant especially for males (-10%) while on aggregate only a very limited gap (-1.1%) is observed for females, albeit not everywhere (e.g. Greece, Spain, Italy and Belgium). Very significant gaps between native born and non-EU born are registered for the youngest age groups, raising some concern over the possibility to close promptly the current social gaps. The youth unemployment rate and share of 'NEET' (people aged 18-34 neither in employment, nor in education and training) are significantly higher for those born outside the EU.

Table 1 – Integration of international migrants, EU-28, 2014

	Non-EU born	Native born	Gap	Large gaps in
<b>Employment rate, total (15-64)</b>	57.0	65.2	-8.2	SE (-18.2); BE (-18.1); NL (-17.0); DK (-15.9); FI (-15.2)
<b>Unemployment rate, total (15-74)</b>	18.9	9.6	9.3	BE (16.7); SE (13.0); ES (12.4); FI (12.2)
<b>Female employment rate, (15-64)</b>	49.4	60.4	-10.8	BE (-23.7); SE (-22.4); FI (-22.4); NL (-20.5)
<b>Female unemployment rate, (15-74)</b>	19.5	9.7	9.8	BE (15.8); FI (13.8); SE (13.6)
<b>Youth unemployment rate, total (15-24)</b>	38.0	21.6	16.4	LU (42.7); BE (22.0); SE (21.1)
<b>NEET, young people neither in employment nor in education and training (18-34)</b>	27.1	15.6	11.5	LU (21.7); BE (21.2); SI (21.0); FR (15.9)
<b>Housing overcrowding rate</b> % of population (20-64) living in a household with insufficient number of rooms	24.5	17.0	7.5	AT (32.4); EL (24.3); IT (23.8); DK (21.3)
<b>Housing cost overburden rate</b> % of pop. (20-64) living in households where the total housing costs exceed 40% of disposable income	23.4	10.7	12.7	ES (31.4); EL (28.8); BE (19.5); IE (18.0)
<b>Mean income (1000 EUR), over 18</b>	17.4	18.4	-5.5%	ES, EL (-39%); IT (-32%); AT (-31%); BE (-30%)
<b>Mean income - females (1000 EUR), over 18</b>	17.7	17.9	-1.1%	EL (-41%); ES (-36%); IT (-32%); BE (-29%)
<b>People in low working intensity households</b> % of pop. (18-59) living in a household where yearly working time is below 20% of full time potential	17.0	11.4	5.6	BE (22.6), FI (16.7); NL (15.5); SE (13.3)
<b>Severe material deprivation rate</b> % of pop > 18 with inability to afford 4 out of 9 necessary items for leading an adequate life	14.7	8.2	6.5	EL (31.1); BE (18.1); IT (16.6); ES (14.4)
<b>At risk of poverty or social exclusion rate</b> % of pop.>18 either at risk of poverty (<60% of nat. median income), or severely materially deprived or living in a household with a very low work intensity	40.1	22.5	17.6	BE (37.9); EL (34.7); ES (30.4)
<b>At risk of poverty rate for children by nationality of parents (% of pop. below 18)</b>	36.4*	19	17.4	SI (45.2); SE (37.2); EL (37.0); LT (36.5)

\*foreign born, including other EU countries; Source: Eurostat

People born outside the EU have a much lower house ownership ratio (30% vs. 71% of Europeans living in their country of birth), a lower median income and higher unemployment. Therefore it is not surprising to observe significantly higher housing cost overburden ratios for the non-EU born population<sup>9</sup>. Four international migrants out of ten are at risk-of-poverty or social exclusion, the double of native born. Rates of population

<sup>9</sup> Share of population living in households where the total cost of housing accounts for more than 40% of a household's disposable income.

living in households where working hours are limited ('low working intensity households') or without the possibility to afford most basic goods for themselves or their house ('severe material deprivation') are also significantly higher (see table 1). As stressed by the recent analysis carried out by the IMF (Aiyar et al. 2016), the housing situation is a factor to take into particular consideration. Large inflows of migrants might put under pressure the market of affordable housing of the areas concerned by large and sudden shocks, with potential negative consequences on the poorest groups that are already settled in these areas. Migrants might encounter difficulties in finding housing in areas where labour demand is high, especially because this group is more likely to face obstacles in securing temporary or permanent housing<sup>10</sup>. Moreover, scarcity of affordable housing and housing barriers are a limitation for the mobility of migrants.

### *Gaps in living conditions between migrants and non-migrants vary among countries*

Inequalities between international migrants and native born are diversified by country. In eight EU countries, international migrants have higher employment rates and in a few countries (Czech Republic, Bulgaria and Hungary) larger average income levels. In contrast, high negative labour market differentials are registered in Belgium, Sweden, Finland and the Netherlands. Inequality emerges as a serious issue in terms of housing quality and affordability particularly in Greece and Austria. Very sizeable challenges for the integration of young migrants are registered in Luxembourg, Belgium and Sweden.

Employment rates of non-EU born are lower by 8.2 percentage points compared to domestic-born, with a larger gap for female employment (10.8 p.p.). The unemployment rate of non-EU born women is more than the double of the rate registered for native-born. With the economic and financial crisis, the gap in employment rates between migrants and native born has turned from positive to negative, showing that migrants' employment situation has suffered more. Between 2008 and 2013, the employment rate for native born people decreased by 1.5 percentage points, while the fall for non-EU born was 7.1 p.p. Instead, the increases in employment rates between 2013 and 2014 were similar among the two different groups.

The employment rate of immigrants is particularly dependent on migration drivers. As shown in table 2 (reporting data for both EU and non-EU born), in all countries except Slovenia economic migrants have a much higher employment rate than asylum seekers and people moving for family reunification. Employment rates of people moving for family reunification are lower than the average of migrants in 20 of 23 European Member States reporting these rates. Very low employment rates are registered for people seeking humanitarian protection in Spain, Finland and Belgium.

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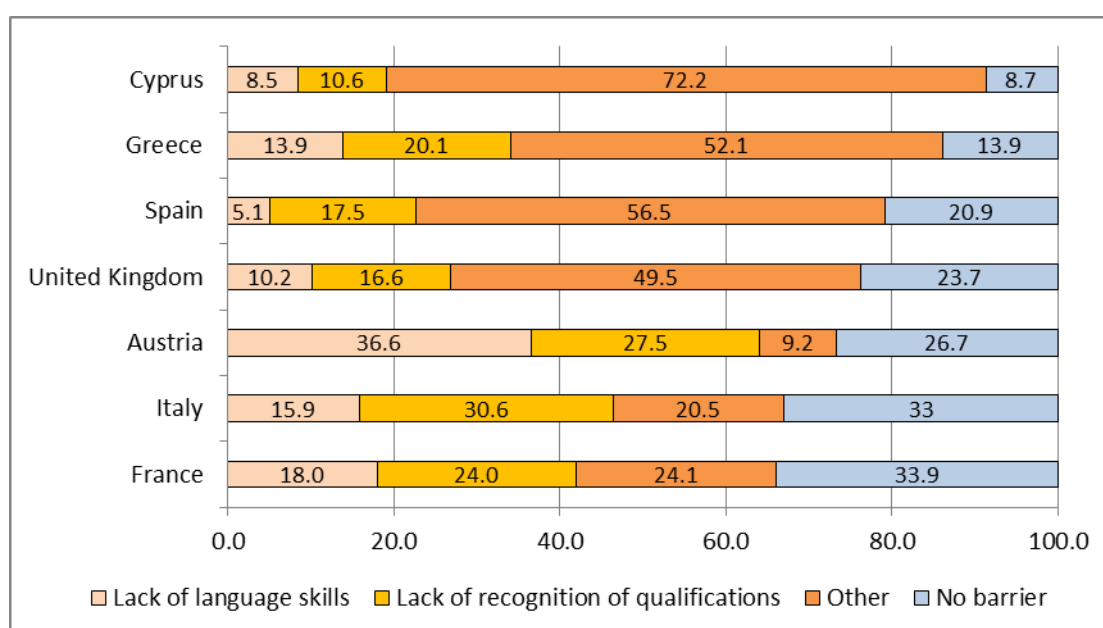
<sup>10</sup> UN (2015)

**Table 2 – Employment rate of first generation immigrants by reason for migration, 2014**

	All migrants	Work		Education	Other	Family	Asylum
		Job found before migrating	No job found before migrating				
United Kingdom	69.3	92.8	85.9	65.9	73.3	58.8	51.8
Portugal	66.8	79.7	69.4	71.2	59.6	66.7	53.0
Sweden	65.4	88.5	64.4	78.9	66.4	64.2	58.2
Austria	64.9	81.6	66.4	55.2	71.7	63.4	60.2
Finland	63.6	85.9	80.2	73.7	52.5	62.5	43.4
Slovenia	60.6	72.6	60.5	56.1	70.9	54.9	74.1
Italy	59.1	78.8	74.5	60.9	66.3	42.5	61.3
France	58.0	73.1	72.7	69.8	67.2	52.4	58.4
Belgium	53.9	86.8	67.1	55.6	63.1	46.3	47.1
Spain	52.3	64.8	63.2	60.8	56.6	40.8	40.6

Notes: Age 16-64; selected countries: MS reporting data on employment of migrants seeking asylum. Source: Eurostat [lfsa\_14l1empr]

As shown in figure 4, reporting the data of only a few MS, one of the main issues in getting a suitable job, for the ones that are employed, has been the recognition of personal qualification. The lack of language skills is a problem especially in Austria and France, while in Spain only 5% of international migrants mention this as an issue. In Cyprus the main obstacle is the residence permit (33% of respondents) while in Greece origin and religion is mentioned as an obstacle by 20% of respondents.

**Figure 4: Obstacles to getting a suitable job, non-EU born employed, 2014**

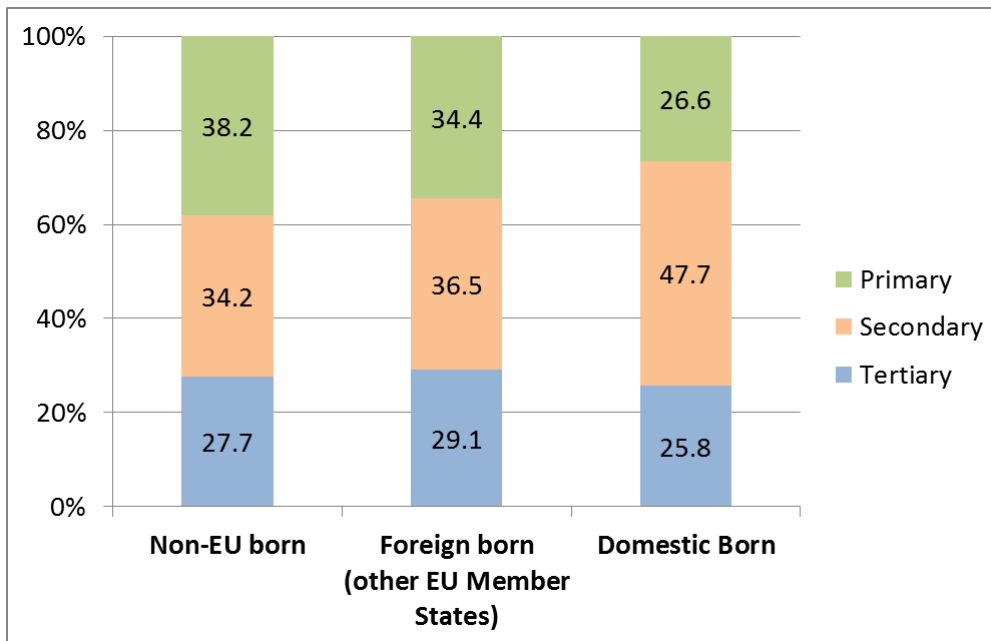
Note: selected countries, reporting full set of obstacles. Source: Eurostat (lfsa\_14ociti)

*Educational levels of migrants are not always below those of native born. Gaps vary widely across EU countries and are evolving fairly quickly.*

Looking at educational attainment (figure 5), non-EU born people living in Europe are highly represented at both ends of the distribution, with higher percentages of people with primary and tertiary education compared to native-born, and a lower percentage of people with secondary education.

This picture is evolving fairly quickly both for native-born and migrants, as people entering in the working age group have completed more years of schooling than those leaving the group. In 2010-2014, the share of non-EU born with primary education has contracted by three percentage points, in line with the trend registered for the native-born. However, the share of non-EU born with a university degree increased by 4.5 percentage points in 2010-2014, increasing the positive gap with those born in the EU from 0.5 to 1.9 p.p..

**Figure 5: Educational attainment in the EU (ages 16-64) by country of birth - 2014**

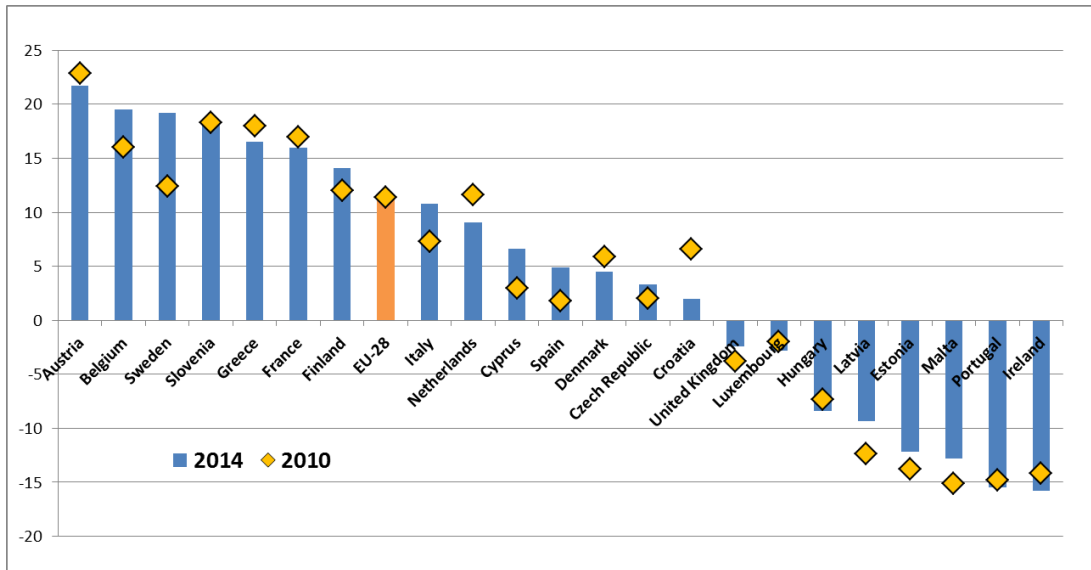


Source: Eurostat

The aggregate data hinders large variations across countries. In Austria, Belgium and Sweden, the gap in primary education attainment is particularly wide (see figure 6), with the proportion of non-EU born with only basic education being higher than that of native born. In Belgium and Sweden, in particular, the gap has increased in the last few years. In countries such as Ireland and Portugal, native born are on average less educated than non-EU born people.



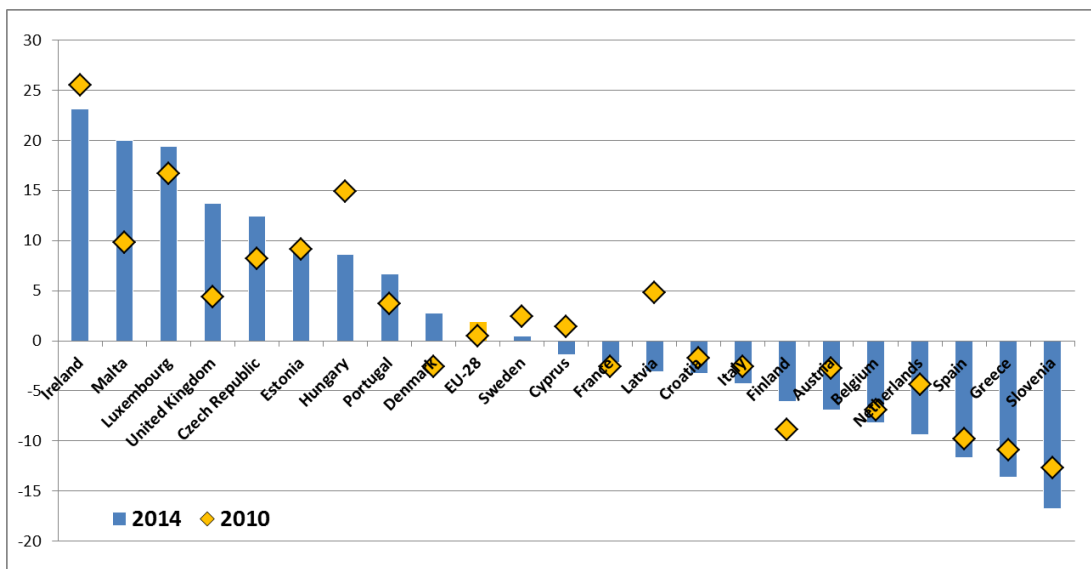
**Figure 6: Primary education, gap between non-EU born and native-born population (p.p.)**



Notes – Bulgaria, Germany, Lithuania, Poland, Romania, Slovakia: no data. Source: Eurostat. p.p: percentage points

Figure 7, reporting the gap in tertiary education, shows how the proportion of non-EU born with tertiary education is higher than the one of native born in Ireland, Malta, Luxembourg and the UK. In the latter and in Czech Republic, the gap has increased significantly in the last few years. At the other end of the spectrum, in the Netherlands, Slovenia, Greece and Spain, the share of foreign-born tertiary educated is low compared to native born and has contracted since 2010.

**Figure 7: Tertiary education, gap between non-EU born and native-born population (p.p.)**



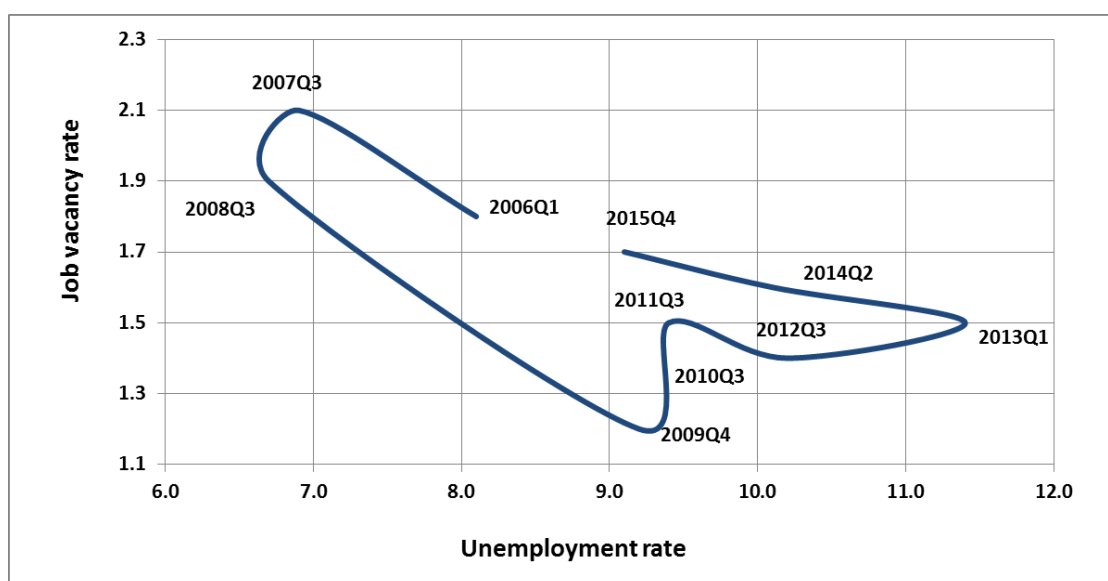
Notes – Bulgaria, Germany, Lithuania, Poland, Romania, Slovakia: no data. Source: Eurostat. p.p: percentage points

## 2. EU labour market challenges and the potential impact of international migration

*The EU labour market faces a contradiction: on the one hand, high unemployment rates; on the other, some MS register high vacancy rates and labour shortages in certain geographical areas or skills.*

Europe continues to face high unemployment rates (8.9% in January 2016), with considerable disparities between Member States. Long-term unemployment and youth unemployment remain at very high levels. Indeed, there is no evidence of quantitative labour shortages at EU level. That is to say, there is no absolute lack of workers in the European labour market. Labour supply and demand are largely in equilibrium. In fact, the tightness of the labour market has decreased substantially compared to the pre-crisis situation and the current labour market can be described as loose overall. Figure 8 shows that for the EU-28 as a whole, despite the progress registered since 2013, a relatively high unemployment rate (9.1 in Q4 2015) coincides with a relatively low job vacancy rate (1.7). This indicates that there are many more workers looking for work than vacancies available.

**Figure 8: EU-28 Beveridge curve 2006Q1 to 2015Q4**



Source: Elaboration on Eurostat data; Note: Job vacancy rate in industry, construction and services

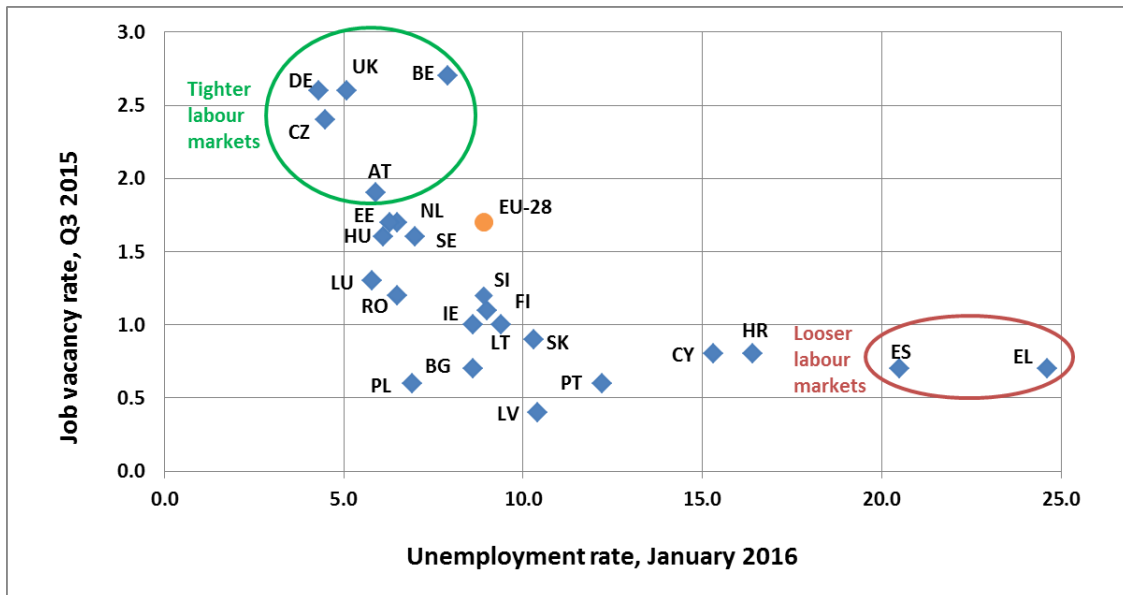
### *Low intra-EU mobility is detrimental to EU's long-term growth potential*

However, at the same time, there are labour shortages in certain Member States, certain regions within Member States, and certain occupations. Labour supply and demand are not balanced across Europe, with some labour markets tighter than others. As reported by recent EC analyses<sup>11</sup>, intra-EU mobility is increasingly becoming an adjustment mechanism in the Euro area, with a quarter of asymmetric labour shock being absorbed by mobility within

<sup>11</sup> European Commission (2015a)

one year and above 60% in ten years. Intra-EU mobility is a largely untapped resource of higher employment and higher growth as it contributes to improving labour allocation within the EU, helping reduce unemployment in times of crises<sup>12</sup>. However, intra-EU mobility remains limited<sup>13</sup>. A large variance in labour tightness is observed across Member States despite the free movement of workers in the European Union.

**Figure 9: Beveridge points, EU Member States**



Source: Eurostat. Notes: Job vacancy rate in industry, construction and services. No data on job vacancy rates for FR, IT, DK and MT. Unemployment rate: UK, EL - Nov 2015; HU, EE - Dec 2015; Job vacancy rate – DE, CZ, UK, SI, RO, ES: Q4 2015

Figure 9 shows relatively higher labour market tightness in some countries, namely Austria, Belgium, Germany, Czech Republic and the United Kingdom. In Germany, Hungary and Luxembourg the vacancy rates are at their highest levels in the last six years, while in the UK the vacancy ratio is at its highest level in 15 years. Meanwhile other countries combine high unemployment rates with a low vacancy rate, namely Greece and Spain, making competition for jobs much higher.

Regionalised data shows how geographical mismatches are affecting a few countries, with a shortage of workers in one region and a surplus in another. Regional mismatch is greatest within Italy, Belgium and Spain and smallest within Denmark, Netherlands and Sweden. For instance, in 2014, in Italy, the lowest employment rate was 39.0% in Sicily compared to 70.8% in Bolzano, while in Sweden the lowest employment rate is 72.2% in East middle Sweden relative to 77.5% in Stockholm. Overall, 25 regions out of 272 (for a total of 38 million inhabitants) register unemployment rates below 4%, while 54 regions (total population of 87 million) register unemployment rates below 5%.

Although sectoral shortages decreased after the crisis, specific occupational shortages remain: namely for metal, machinery and related trade workers, science and engineering as

<sup>12</sup> European Commission (2016)

<sup>13</sup> European Commission (2014b)

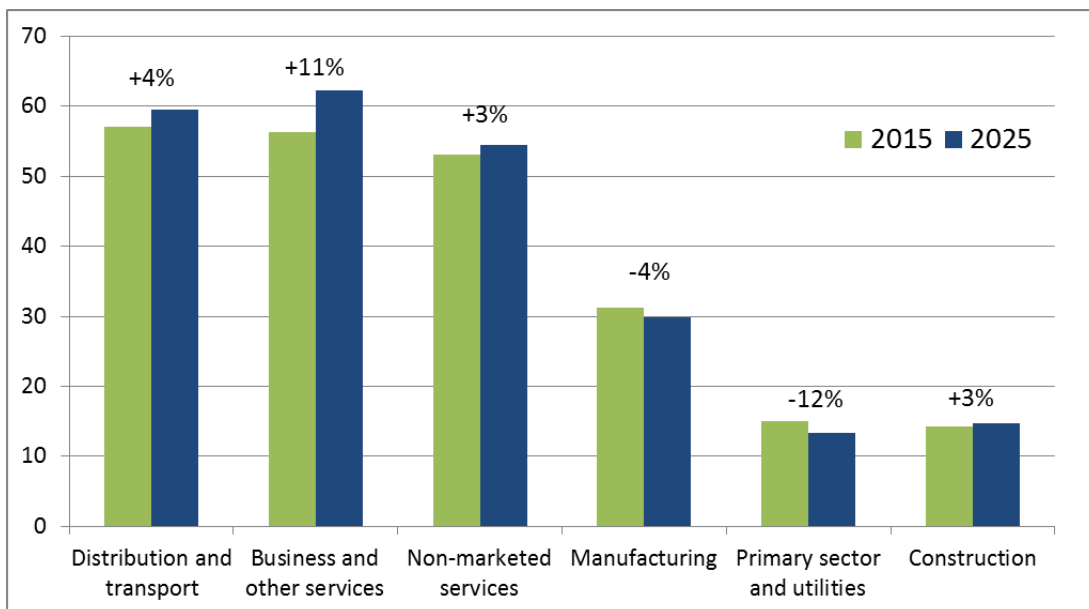
well as ICT professionals. In Europe there are also qualitative shortages, with issues of skills shortages and mismatches, which vary in intensity between Member States. A number of employer surveys show that up to two in five companies claim to have difficulties recruiting people with the required skills. Skills shortages are highlighted as a recruitment challenge in Luxembourg, Germany, Austria and Slovenia while they are less pronounced in Eastern and Southern Europe. Recent reports on the job market in the UK show that employers find increasing difficulties in recruiting in construction and manufacturing due to skill shortages<sup>14</sup>.

The EU agency for vocational training (CEDEFOP) reports a relative shortage of medium level qualifications compared to the share of jobs at that level and a relative oversupply of employees with low level qualification. Skills supply and demand for high qualifications is roughly balanced. There are significant disparities in skill mismatch between EU countries. The greatest incidence of mismatched workers overall (both over and under-qualified) is observed in Ireland (51%), Spain (48%), Belgium (44%), Greece (43%) and France (43%).

***The EC skills forecasting model shows that most jobs will be created for medium to high qualifications and for highly skilled people by 2025, but more highly qualified jobs need to be created.***

According to the CEDEFOP forecasts, in line with Eurostat’s current demographic and growth assumptions and the associated workforce projections<sup>15</sup>, total employment in the EU is projected to grow by 7 million between 2015 and 2025 (+3.1%).

**Figure 10: Total employment by broad sector, 2015-2025 (million)**



Source: CEDEFOP database

As shown in figure 10, a large part of the job growth between 2015 and 2025 in the EU as a whole will be in business and other services, distribution and transport, and non-marketed

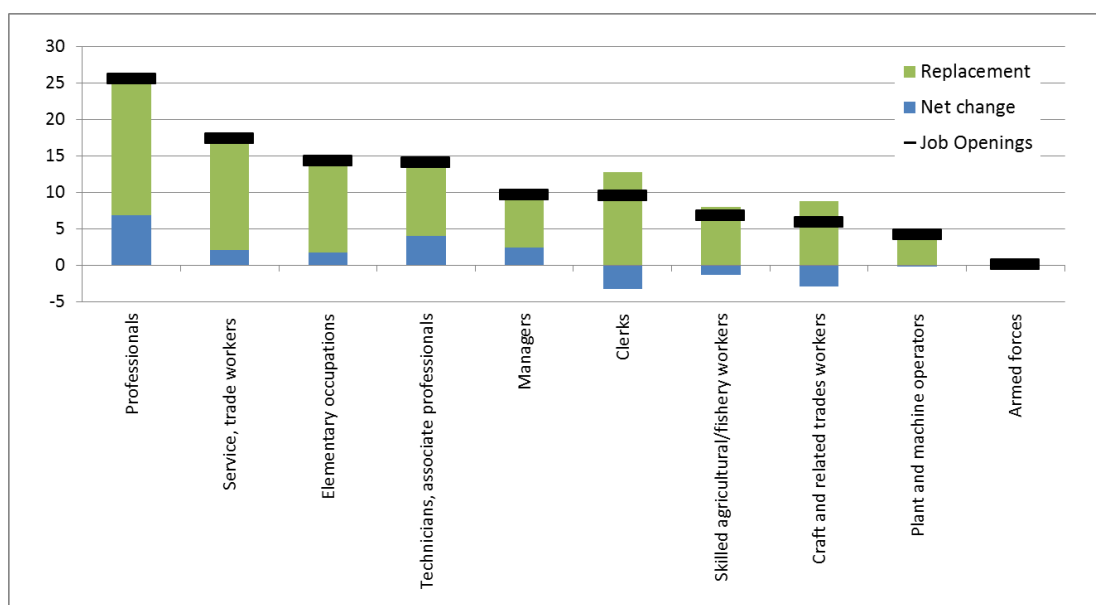
<sup>14</sup> Markit / REC (2016)

<sup>15</sup> see next section

services (in particular health, education and social services). Job losses will keep on affecting the primary sector. Employment in construction, which saw most job losses between 2008 and 2013, is expected to increase slightly over the next ten years. Manufacturing is expected to see job losses overall, but employment in certain sectors is projected to rise (in particular in the optical/electronic equipment and automotive sectors).

Considering the process of replacing existing job positions and the creation of new jobs, a total of 107 million job openings are expected for the 2013-2025 period. Job opportunities for medium and low qualifications are expected to result exclusively from replacement needs, as the overall number of jobs in low and medium skilled professions is expected to shrink (with some exceptions like elementary occupations). Instead, opportunities for highly qualified occupations are expected to come also from increased opportunities (around 40% of the total). Up to 2025, as shown in figure 11, more than 25 million job opportunities in the EU are forecast for professionals (high-level jobs in science, engineering, healthcare, business and education), around 24% of the total. This is followed by around 16% for service and sales workers and around 13% for both technicians and associate professionals (occupations applying concepts, operations and regulations in engineering, healthcare, business and the public sector) and elementary occupations (jobs traditionally requiring low-level or no qualifications). Most of these job opportunities are related to replacement needs, albeit for professionals there is a substantial component of net growth through newly created jobs. It is expected that total openings for clerks, craft workers and skilled agricultural workers will be lower than replacement needs.

**Figure 11: Expected job openings by occupation 2013 - 2025 (million)**

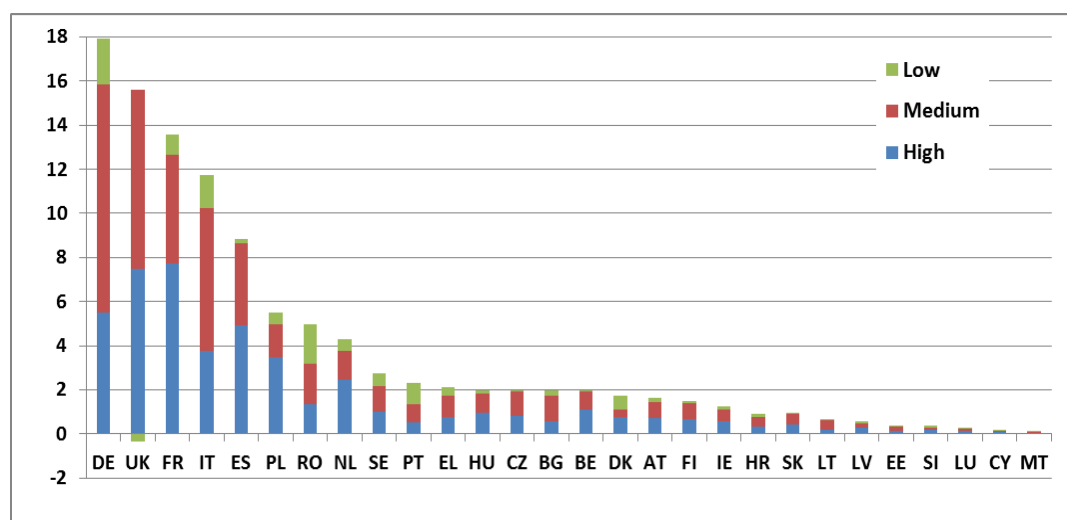


Source: CEDEFOP database

As shown in figure 12, in many EU countries, most job opportunities will be found in highly qualified professions (e.g. in the UK, France, Poland and Belgium). In countries with high replacement demand most job opportunities are expected to require medium qualifications (Germany, Italy and Bulgaria). However, in some countries a substantial proportion of job

openings is expected in occupations with low qualifications (e.g. Portugal, Romania, Denmark).

**Figure 12: Expected job openings 2013-2025 by MS and qualification (million)**



Source: CEDEFOP database

As reported in table 3, total employment in low skilled jobs is expected to shrink by 16.8% in the next ten years in Europe. In most countries, consequently, the rise of total employment is projected to depend on high-skilled employment (+21.1). All EU-28 countries are expected to register an increase, except Finland (-2.8%) and Germany (-0.4%). Medium-skilled occupations will face a more limited decrease (-1.7%).

**Table 3: Total employment by skill levels, change 2015 - 2025**

	Low	Medium	High	Total
IE	-26.4%	13.7%	28.3%	13.6%
CY	-15.9%	-5.5%	31.6%	9.6%
LU	-29.9%	4.0%	33.3%	9.5%
BE	-25.8%	8.1%	23.1%	8.7%
HR	-24.0%	12.0%	15.7%	8.4%
FR	-23.6%	1.5%	30.3%	7.9%
SK	-6.9%	-8.8%	44.8%	7.2%
DK	2.1%	-16.5%	29.3%	5.9%
IT	-25.6%	6.9%	45.5%	5.6%
EL	-10.7%	-1.4%	25.3%	4.9%
UK	-19.7%	8.9%	11.2%	4.8%
FI	-11.7%	13.9%	-2.1%	4.1%
ES	-9.5%	18.5%	4.6%	3.7%
NL	-20.5%	-6.3%	27.4%	3.4%

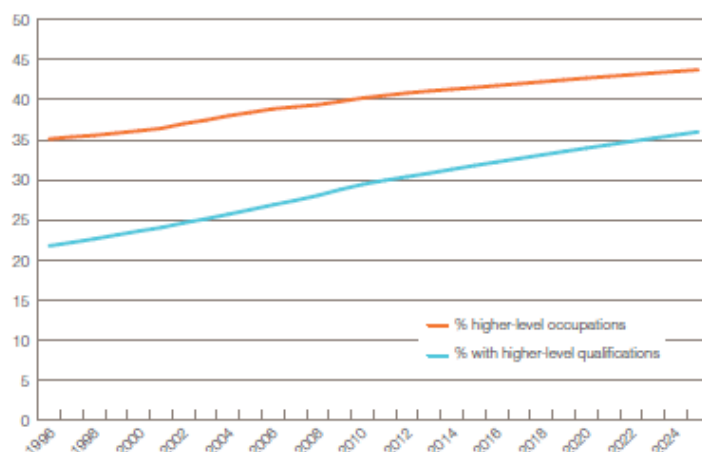
	Low	Medium	High	Total
SE	-15.3%	-16.4%	30.1%	3.3%
AT	-5.8%	1.9%	11.4%	3.0%
MT	-35.7%	27.0%	27.0%	2.3%
CZ	-10.8%	-11.1%	37.9%	1.7%
LT	1.5%	-17.1%	20.2%	1.5%
HU	-25.7%	-14.1%	34.8%	1.3%
PT	-22.9%	20.6%	28.7%	0.8%
SI	-38.8%	-4.7%	23.3%	0.7%
RO	7.0%	-23.7%	35.3%	0.6%
PL	-27.1%	-28.9%	41.5%	-0.3%
LV	23.1%	-21.8%	19.8%	-1.0%
BG	-15.4%	-5.7%	8.7%	-1.8%
DE	-8.8%	-1.3%	-0.4%	-2.0%
EE	21.7%	-18.2%	6.9%	-3.2%
EU- 28	-16.8%	-1.7%	21.1%	3.1%

Source: CEDEFOP database

The trends of employment for the medium-skilled are anticipated to vary considerably across countries. A large increase is anticipated in Malta, Portugal and Spain, while large reductions are expected in Poland. Despite the overall trend, some countries are expected to register an increase of low skilled employment: this is the case of Latvia and Estonia but also Romania, Denmark and Lithuania.

On the supply side, the workforce in Europe is becoming older and more qualified, and many countries are already close to their Europe 2020 tertiary education targets. As highlighted by Hogarth and Wilson (2015), people with tertiary education are growing at a faster pace than the number of jobs requiring high qualification (see figure 13). As a consequence, changes are needed on the demand side of the labour market to ensure that jobs with higher qualifications are created through innovation and entrepreneurial drive.

**Figure 13: High-level skills vs high-skilled employment, EU, 1996–2025 (% of total employment, actual and projected)**



Source: Hogarth and Wilson (2015), based on CEDEFOP database

*Despite general beliefs on the (negative) impact of migration on employment and wages of domestic born, studies show that migration has little effect on them.*

Recent empirical literature finds that overall immigration appears to have only a moderate, if any, impact on wages and employment. Increasing the foreigner share in the labour force by one percent reduces wages of the native-born in receiving countries by less than 0.1 percent and their employment rate by 0.026 percentage points<sup>16</sup>. Native-born workers, high skilled workers and older workers tend to benefit more than immigrant, low skilled and younger workers. The size of the impact depends on the flexibility of the labour market and on the complementarity between the skills base of native-born people and migrants. In addition, migration can have a significant aggregate demand effect and increase the diversity of products and technology of hosting economies. At the same time, together with

<sup>16</sup> Longhi et al. (2005) and (2008)

an increase in intra-EU migration, inward migration could play a role in reducing labour shortages in specific countries, sectors or regions..

### *Migrants and native-born are not perfect substitutes.*

A set of recent studies<sup>17</sup> considers that native workers and immigrants are imperfect substitutes in the labour market. They differ in language proficiency, cultural and ethnic backgrounds. Given the same skill level and work experience they tend to be integrated in the production process in different ways. Most of these studies find that either all groups of native-born workers benefit or that only the less skilled native-born workers suffer, while there are largely adverse effects on the immigrant workforce. For example, empirical findings from Germany indicate that a one percent increase in the labour force through inward migration increases the unemployment rate of immigrants by 1.16 percent and reduces their wages by 1.09 percent while the wages of the native-born work force tend to increase and their unemployment rate tends to fall<sup>18</sup>. As a rule of thumb, these studies find that native-born workers tend to benefit and foreign works tend to lose out , that high skilled workers tend to benefit more than less skilled workers and, lastly, that older workers tend to benefit more that younger workers.

### *International migration could compensate for low mobility in the EU, can support a better utilisation of available skills by contributing to improving the skill-mix and by increasing the overall improvement of human capital*

In a context where the EU registers relatively low internal labour mobility, migration can play a role in reducing labour shortages in particular countries, regions, sectors or occupations. Some studies suggest that migrants can improve the adjustment capacity of regional differences for instance, by taking on jobs in sectors where native-born people may be unwilling to work and by being more responsive to regional differences in economic opportunities<sup>19</sup>. A meta-study on the impact of immigration on European Labour Markets suggests that migration is a vehicle for labour market adjustment. In this context immigrants bring useful skills into their host country and fill labour shortages<sup>20</sup>. A number of studies argue that immigrants bring in valuable skills, but warn that their potential is often not fully realised due to mismatches between immigrants' skills and the jobs they actually take which are typically below their (formal) skill level. Finally, although empirical evidence on the responsiveness of migrants to labour or skill shortages is scant, a study in the US as well as a recent study on the EU provide evidence that immigrants are equally or more responsive than the natives of their destination countries to shortages across sectors, occupations and regions<sup>21</sup>. As reported in the following section, the demographic issues of Europe can be only partially tackled by migration. Other factors such as better use of available human resources could also help. Different sectors with different skills requirements decline and expand continuously and more rapidly than population. Moreover, a number of business

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<sup>17</sup> Brucker and Jahn (2011), Brucker et al. (2012), D'Amuri (2010), Manacorda et al. (2012)

<sup>18</sup> Brucker et al (2012)

<sup>19</sup> Guzi et al. (2015a)

<sup>20</sup> Guzi et al (2015b)

<sup>21</sup> Borjas (2001), Kahanec (2013)



surveys, have also revealed large micro-level mismatches between labour supply and demand.

With a potential growth perspective, the quality of the new entrants (in terms of skills and education) plays a crucial role in keeping and improving the productivity of labour. The European experience of the first decade of the century shows that 70% of the increase of the total labour force was due to migrants, but this percentage is only 14% for the highly educated segment. Almost half of the low-skilled jobs are taken by immigrants in the EU<sup>22</sup>. As a consequence, there is the risk of creating a segmented labour market, with low skilled occupations taken only by immigrants. Moreover, recent analysis<sup>23</sup> shows that the potential contribution of migrants is below potential mainly for the segment of higher educated, resulting in over-qualification or lower employment rates for the highly-educated international migrants.

As highlighted by a joint OECD-EC paper (2014), for potential growth in the long run, skill mismatches are likely to be more important than labour shortages. In this context, migration can play a positive role on the productivity drivers, with a better utilisation of available skills, by contributing to improving the skill-mix and by increasing net accumulation of human capital. This will require, however, a better use of skills of already settled migrants together with well identified and managed pathways for recruiting new migrant workers with the appropriate set of skills.

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<sup>22</sup> OECD-EC (2014)

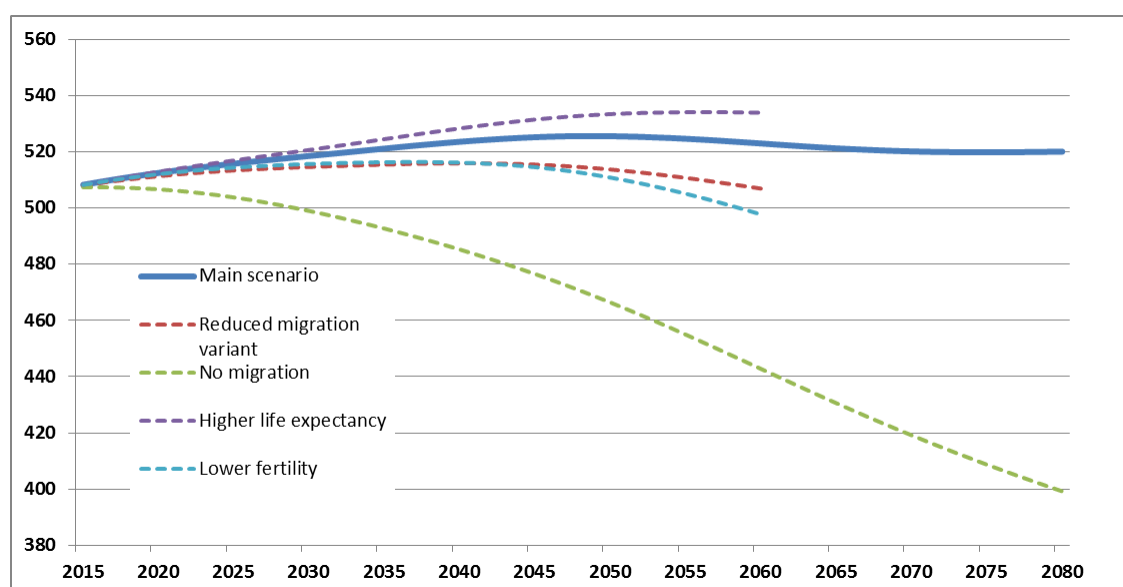
<sup>23</sup> Stirling (2015)

### 3. Demographic challenges and immigration potential

*Europe's population is ageing fast: no single variable can reverse this trend and no country is spared from this phenomenon. Without international migration, the demographics of Europe would be much worse.*

Demographic change is a challenge for all Member States of the EU. Overall, in the main forecast scenario of the EU Commission<sup>24</sup>, population in the EU-28 is expected to increase from 508 to 526 million by 2050, and to decrease to around 520 million by 2080. The different scenarios reported in figure 14 show how assumptions on fertility, life expectancy and migration weigh heavily on these forecasts. For instance, in a scenario with no contribution from net international migration, the population in the EU would shrink by more than 20% by 2080.

**Figure 14 : Total population (EU-28, million people)**



Source: Eurostat, EUROPOP 2013 database

Overall, the European population will be larger but also much older. This represents undoubtedly a challenge for the sustainability of welfare and health systems, but also a challenge in terms of potential growth, as it puts constraints on employment growth<sup>25</sup>. The challenge faced by Europe is not unprecedented: in the last two decades, Japan has witnessed very low fertility rates and relatively modest migration inflows, with a rapid increase of demographic and economic dependency ratios. Instead, countries with declining fertility rates but a growing working age population ('WAP', population aged 16-64), mostly in the developing world, benefit from a so-called demographic dividend (Bloom et al. 2003). This window of opportunity usually lasts 20-30 years, and it leads to faster economic growth for the countries concerned.

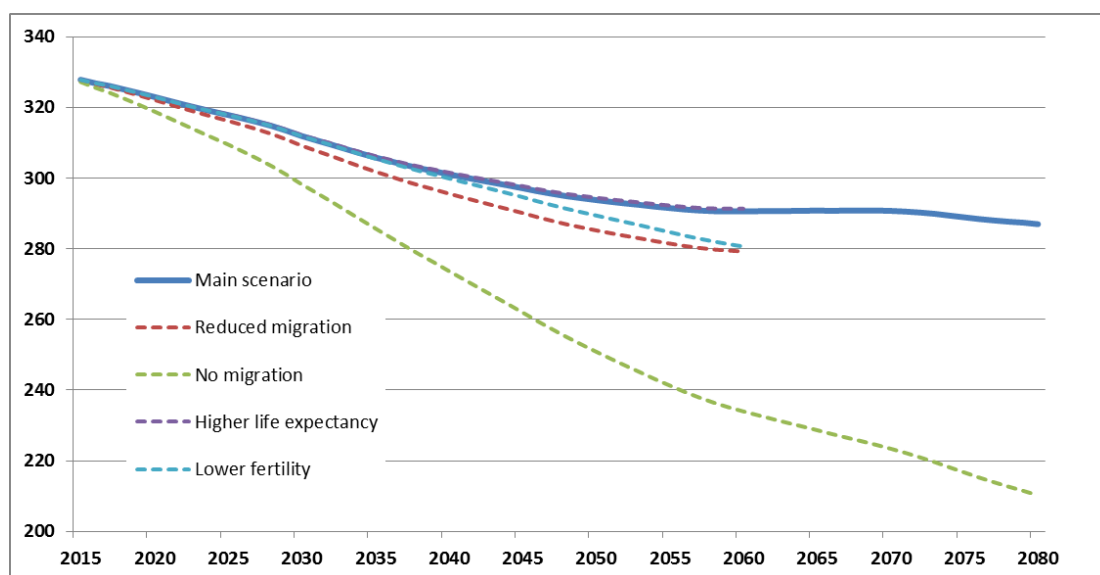
<sup>24</sup> Eurostat EUROPOP2013 model

<sup>25</sup> Fotakis and Peschner (2015)

In the EU, life expectancy continues to increase and the number of births to fall (further) below the replacement level<sup>26</sup>. The fertility rate needed to keep population constant over time – or natural replacement rate - is 2.1. The current European average is around 1.6 and only two countries (France and Ireland) register levels close to the replacement threshold. After decades of decline, fertility has stabilised in the last ten years and has actually increased in a number of countries. However, it is hard to find general economic or cultural causal forces behind this rebound<sup>27</sup>. The EUROPOP 2013 model projects fertility rates on the rise from 1.59 in 2013 to 1.68 by 2030 and then up to 1.76 in 2060, with an increase compared to the previous 2008 projections. Yet, even assuming a larger increase in fertility, this factor alone would be insufficient to stop the ageing trend in Europe, unless it is kept at a rate above 2.0 for several decades.

Overall, age dependency is expected to double while total working age population (aged 16-64) is expected to decline by 0.3% per year by 2060. According to the EUROPOP2013 forecast, working age population will decrease from 64% to 44% of total population until 2060. This is particularly relevant for potential growth as the share of working age population indicates the potential supply of labour relative to total population.

**Figure 15: Working age population (EU-28, million people)**



Source: Eurostat, EUROPOP 2013 database

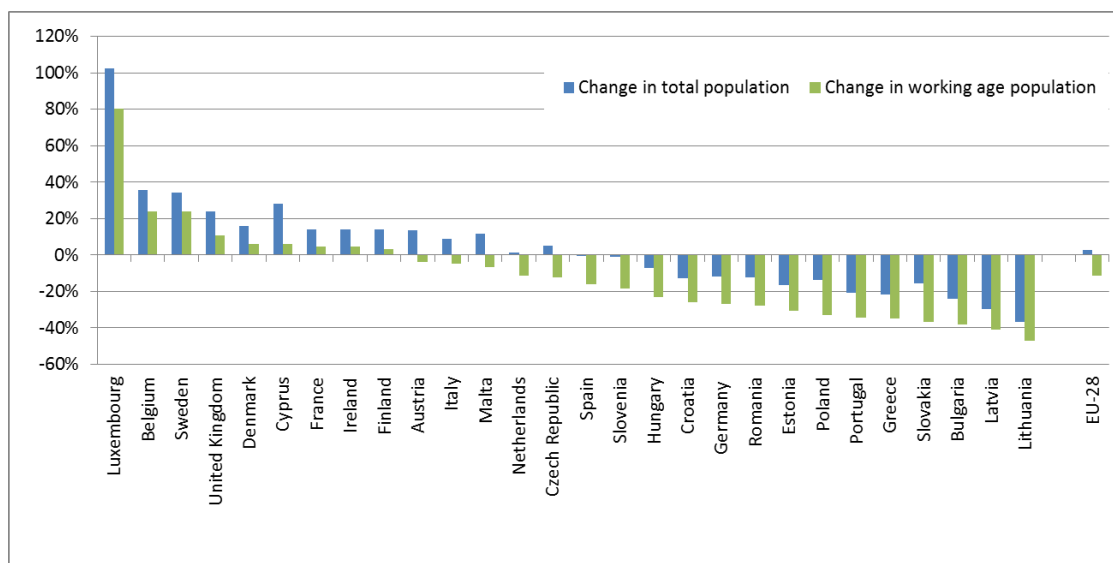
As shown in figure 16, the decline of the working age population is expected to affect only 19 countries by 2060. In particular, Luxembourg, Belgium and Sweden are expected to witness a significant increase of people in working age, but at a slower rate than total population. Instead, Baltic States, Slovakia and Bulgaria are expected to register a significant decrease of working age population, with a faster rate than total population. There are no

<sup>26</sup> EC (2014a)

<sup>27</sup> Hoorens et al. (2011)

cases where working age population is expected to grow more (or to contract less) than total population.

**Figure 16: Demographic changes by EU Member State (2015-2060)**



Source: Eurostat, EUROPOP 2013 database, main scenario.

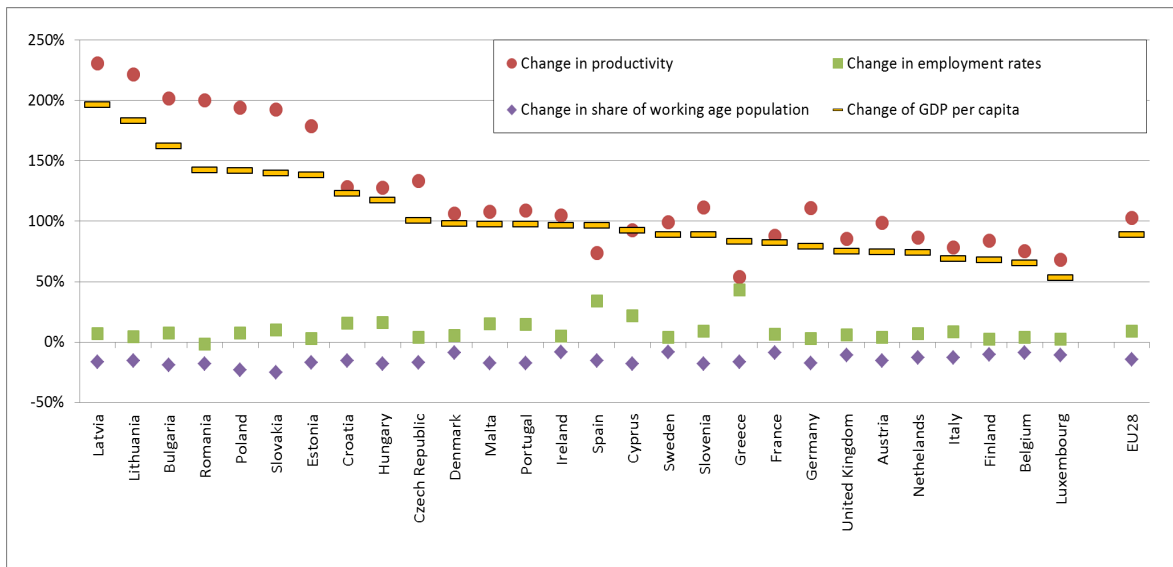
*As potential workers are expected to decline, productivity gains and the increased employment of the labour force are the only sources of growth.*

Growth of GDP per head can be broken down into changes in labour productivity, employment rates and the share of the total working age population.

$$\text{GDP per capita} = \frac{\text{GDP}}{\text{Total pop.}} = \frac{\text{GDP}}{\text{Employed (16-64)}} * \frac{\text{Employed (16-64)}}{\text{Working age pop.}} * \frac{\text{Working age pop.}}{\text{Total pop.}}$$

The evolution of each of these components between 2013 and 2060 is shown in figure 17. The main contribution to growth is expected to come from productivity gains. Productivity is expected to register a higher growth pace than total GDP per capita in all Member States except in Greece and Spain. In all MS, the change in the share of working age population has a negative contribution to growth. Higher employment is expected to bring relatively limited benefits, with the exception of Greece and Spain where it is expected to increase more substantially.

Figure 17: Changes of GDP per capita components (total), 2013-2060



Source: ECON calculations based on EUROPOP 2013 projections

**Migration can help increasing labour productivity by matching the rapid evolution of skills' demand.**

The potential need for immigrants in the ageing context cannot be assessed on the basis of demographic imbalances alone, but must take into account changes in the nature of employment, which appear to be more dynamic than changes in the age composition of the population and labour force<sup>28</sup>. The growth of employment, however, is bounded by the potential labour force. As shown by Peschner and Fotakis (2013), even assuming a high employment scenario with all labour sources tapped (e.g. women, older workers, inactive people aged 16-64 and unemployed) and a growth of 1% of employment per year, it would be practically unavoidable to face a decline of total employment after 2032, when labour reserves would be exhausted.

The conclusion is that, even under optimistic active population scenarios, the decline of WAP will put pressure on growth. Overall, following the main scenario of EUROPOP2013, in order to keep the share of working age population constant over total population (64% in 2015) Europe would register a gap of 61 million people in working age by 2030 and 130 million people by 2060. This gap cannot be easily filled by increased fertility (as discussed above) nor by a marginal increase of migration. According to projected trends, the demographic impact of migration is expected to reach only 14 million by 2030 and 57 million by 2060. As discussed above, certain countries will face drastic declines of population and increased migration cannot be a simplistic solution to overcome these country specific issues. In fact, an additional element to take into consideration when assessing the demographic impact of international inflows is that migrants tend to go to countries where labour market is dynamic and unemployment is low, rather than areas where population is ageing<sup>29</sup>.

<sup>28</sup> Peschner and Fotakis (2013)

<sup>29</sup> Ayiar et al. (2016)

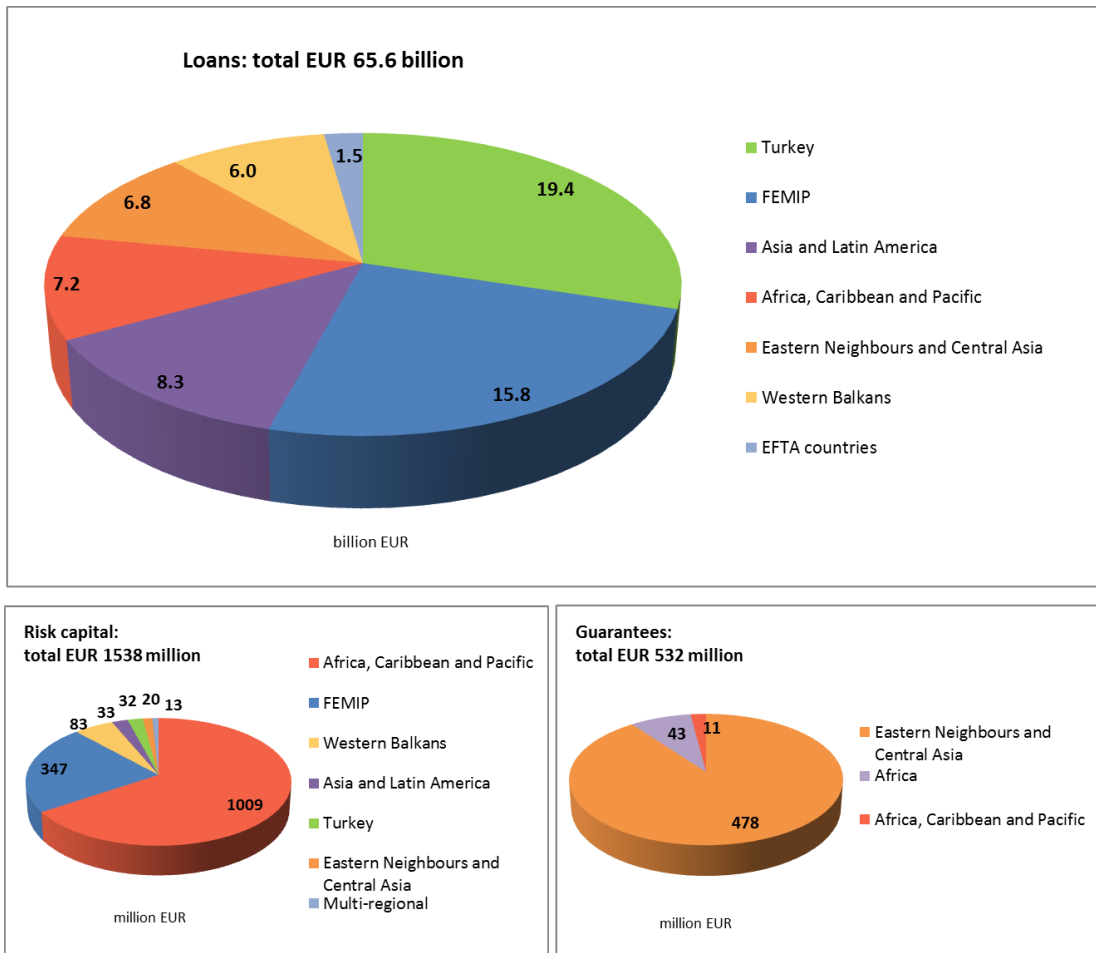
*Migration helps to tackle the demographic decline but simply allowing more people in Europe would not be a panacea for long term growth issues: a mix of policy measures is required*

The analysis of the demographic trends briefly carried out in this section suggests that the potential growth challenge stemming from ageing cannot be tackled by any of the growth and demographic drivers alone: a mix of measures to increase labour productivity, employment, fiscal sustainability and to extend working life could also be matched by measures aimed at attaining larger net flows of international migrants and higher fertility. It is clear that international migration would be beneficial for labour supply and for the population structure. At the same time, though, the contribution of migration will crucially depend on how efficiently new entrants will be responding to specific skill requirements on the labour market and how they will meet emerging labour demand.

## 4. Migration and refugees: a role for the EIB?

As the EU bank, the EIB’s mission is to support EU policies and to address EU needs both within the EU and outside of the EU. The EIB contributes in an effective manner to respond to the challenges created by migration. As argued in the previous sections of this note, migration is closely linked to the development challenges in the countries of origin and it needs therefore to be addressed from a development perspective. The EIB has had a long presence in the regions that feed most migration flows to Europe, financing a range of projects that contribute to the development of infrastructure and private sectors. In 2015, EIB lending across the globe reached EUR 7.9 billion – with a focus on European neighbourhood (EUR 2.7 billion), Eastern neighbourhood (1.5), and non-EU Mediterranean countries (1.4). The overall portfolio exposure at-end-2015 is provided in Figure 18.

**Figure 18: EIB external lending mandate portfolio – end 2015**



Source: EIB

These projects aim at developing a dynamic private sector, one of the crucial elements for achieving inclusive development. However, success in doing so crucially depends on the ability of entrepreneurs to obtain financing to implement business ideas. Promoting access

to finance for firms (in particular SMEs) and households thus forms an integral part of the Bank's effort to support growth and development in partner countries.

However, as recognized by the Agenda for Sustainable Development adopted in September 2015, development challenges across the globe remain paramount. Based on its long experience, expertise knowledge and capacity to mobilize resources, the EIB stands ready to step up its commitment to improve livelihoods around the globe. The EIB is prioritising projects that lead to job creation, economic resilience and poverty reduction in line with the European Union's external policies. In the Africa, Caribbean and Pacific region (ACP) – one of the main geographical areas of EIB intervention – poverty is widespread in Africa and 27% of the world's poor live in a state of ACP. Around 50% of sub-Saharan Africans live on less than USD 1.25 a day. Common to most ACP countries is that they tend to have a narrow export base and be heavily dependent on a small number of commodities (or on tourism). Lack of diversification makes ACP countries vulnerable to exogenous shocks. In terms of sectors, EIBs activity in the ACP region is focused on access to finance and energy infrastructure. The strong focus on access to finance operations and energy makes sense given the Bank's mandate, EU objectives and economic needs in the region. Having a strong sector focus also increases operational efficiency and visibility through scale effects.

In Turkey and in Mediterranean Partner Countries, the EIB has more than three decades of experience and a consolidated local presence and it is the largest International Financial Institution lender for projects in the region. However, recent developments such as the Arab Spring, the Syrian crisis and the resulting refugee flows suggest that the mobilisation of complementary resources is a sine-qua-non to support economic development, long term economic resilience and job creation. For this reason, the EIB will continue to support investment in infrastructure (including municipal infrastructure) and transport, energy (including renewables), support to private sector development (including entrepreneurship, employment, SMEs, microfinance), water supply and sanitation, urban development, waste management, education and health, as well as agri-business in the region. Total lending volumes over the next five years are expected to be in excess of 15 billion EUR (Turkey, MENA) which includes in excess of 12.5 billion EUR for Turkey, Jordan, Lebanon and Egypt.

In addition to supporting projects that aim at addressing the root causes of migration, the EIB is also stepping up its operational activities in response to the refugee influx. The Bank quickly carried out an assessment addressing the short to long term investment needs related to the refugee crisis both in host countries, transit countries and countries of origin.

In recent months the EIB has already approved several new projects responding to refugee-related needs, while a large set of operations is currently in the pipeline, also with a blending with EU funds. The EIB in this field is working in particular with local authorities, supporting medium term investment projects for the provision of affordable housing and local services' infrastructure (e.g. health, childcare, transportation, education) or co-financing medium-term regional development plans. Another key thematic area in this context is micro-finance, to support a swift integration of refugees based on their entrepreneurial drive and on the full utilisation of their personal skills. For the medium-to-long term challenges, increasing productivity of Europe is the key priority. The EIB has focussed its activities



targeting this issue by being the leading EU investor in venture and growth capital funds and plays a key role in financing SMEs and R&D.

Within Europe, the EIB has a long and wide experience in partnering with local counterparts in areas such as health, social housing, education and micro-finance. The EIB has committed to support the smallest companies in Europe, through its L4SME intermediate lending activities. In 2015, the EIB allocations to micro-enterprises (with less than 10 employees) have reached EUR 5.2 billion. Education is one of the main investment areas to support human capital upgrade and therefore innovation and competitiveness in Europe. In 2015, EIB has signatures in this area have reached EUR 4.2 billion, with a focus on school and university facilities' upgrades, and vocational training schemes. In the area of urban development, the EIB has signed projects for EUR 3.2 billion, while in health the signatures amount to EUR 1.7 billion. Several running projects were found suitable to respond to new or emerging needs originated by the influx of refugees, supporting local and national authorities in facing sudden increases of demand.

A key area where possible EIB activities could increase is access to finance for SMEs and microenterprises, especially in areas with high concentration of refugees. Infrastructure financing and local economic development projects could also be pursued with concessional lending. However, many private sector projects are not easily bankable and lending activity should be combined with grants. To fill the existing gaps and realise opportunities for the private sector and infrastructure financing, further EIB activity in the region requires access to significant amounts of grants for blending and technical assistance. EIB can also act as an active agent to mobilise other sources for increasing the impact on the real economy. Moreover, the EIB can enhance the effectiveness of these investments with its expertise in advisory, project implementation support and monitoring for the deployment of donor grants and project delivery.

The refugee crisis has also touched the Western Balkans, as one of the main migratory routes to Europe has been the Western Balkan Route, crossing primarily the Former Yugoslav Republic of Macedonia and Serbia. As the leading international financier in the region, having financed projects totalling EUR 6.8 billion, the EIB is well-positioned to help the region withstand the impact of the refugee crisis. In 2014 in this region the EIB signed financing contracts amounting to EUR 380 million and total disbursements were EUR 520 million, including sectors such as health, education, R&D and foreign direct investment. Furthermore, the Western Balkans Enterprise Development and Innovation Facility (EDIF) launched in 2012 jointly with the EBRD, contributes to improve access to finance for SMEs and supporting economic development in the region. This platform, coordinated by the EIF, the EIB's arm specialised in supporting Europe's micro, small and medium-sized businesses, was created with the aim of promoting the emergence and growth of innovative and high-potential SMEs as well as the creation of a regional venture capital market.

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### **Online resources and databases**

Eurostat

<http://ec.europa.eu/eurostat/data/database>

UNHCR

<http://data.unhcr.org/mediterranean/regional.php>

<http://data.unhcr.org/syrianrefugees/regional.php>

CEDEFOP

<http://www.cedefop.europa.eu/en/publications-and-resources/statistics-and-indicators/databases>







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**Information Desk**

 +352 4379-22000


 +352 4379-62000


 [info@eib.org](mailto:info@eib.org)

**European Investment Bank**

98-100, boulevard Konrad Adenauer

L-2950 Luxembourg

 +352 4379-1

 +352 437704

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