The arrival of refugees in Germany since 2015: a positive short-term demand shock and a positive medium-term supply shock

In Germany, the migration balance has offset the negative natural balance since 2010 and has risen sharply since 2015

The migration balance in Germany has increased sharply since 2010, resulting in an increase in the total population. Between 2010 and 2014, this was due mainly to migrants from Eastern Europe (predominantly Poland and Romania), but from Western Europe too (especially Italy and Spain): on average over these years, the migration balance stood at 300,000 per year. In 2015 and 2016, numbers entering Germany accelerated as a result of the country's open-door policy for refugees: the migration balance stood at 1.1 million people in 2015, according to Destatis (See Focus in the December 2015 *Conjoncture in France*), and around 800,000 in 2016. This additional influx compared to the 2010-2014 trend, which was around 1.3 million people over two years, came mainly from countries at war, primarily Syria. All in all, the German population grew by 1.8% between 2014 and 2016: such an increase in two years had never been seen before in the history of the Federal Republic since reunification.

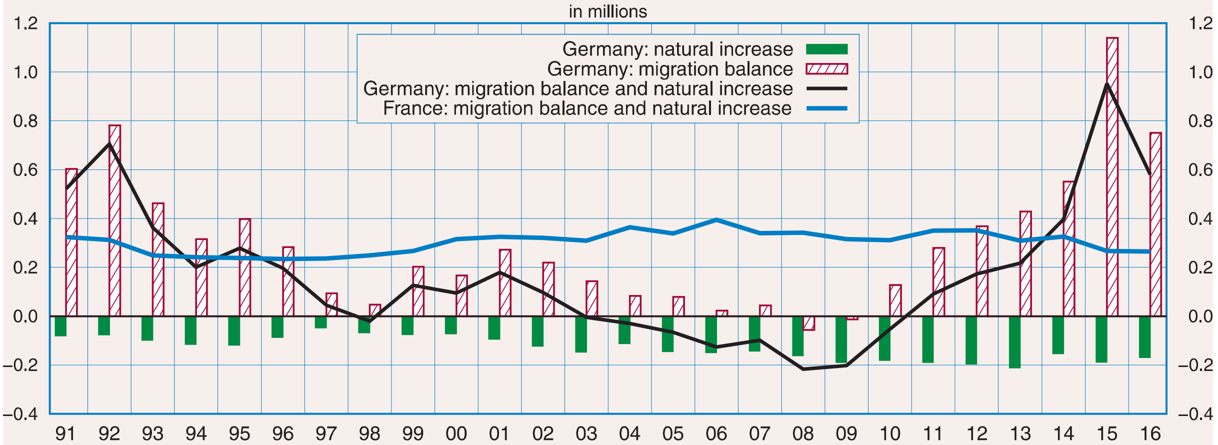
Germany's negative natural balance has therefore been offset by its migration balance. Population growth in the country was higher than in France from 2013, for the first time since 1995 (*Graph 1*). However, arrivals into the country have declined, according to the German Federal Office for Migrants and Refugees (BAMF), and the migration balance looks set to return gradually to a lower level, while still remaining very positive.

In the short term, this influx stimulated activity *via* an increase in government consumption and in construction

To cope with this massive influx, the German government increased spending from 2016: the German Ministry of Finance[1] estimated that the rise in public expenditure associated with refugees was about 18 billion euros per year (or 0.6% of GDP) for their support and help with integration. In the national accounts this has resulted in a sharp acceleration not only in public spending, which has seen its greatest rise since 1992, just after reunification (+3.7%, *Graph 2*), but also in benefits to households, which increased by 3.1% in 2016 and 3.7% in 2017, contributing to the upswing in private consumption. In 2017, this effect is already starting to wane and public consumption is likely to slow to +1.1%. In addition, the arrival of refugees has contributed to the recovery of construction in Germany (+2.5% in 2016 then +4.3% in 2017 after –2.0% in 2015), through the buoyancy of housing starts for collective accommodation, for example (*Graph 3*).

1. "Bund kalkuliert bis 2020 mit rund 94 Milliarden Euro Kosten", *Der Spiegel*, May 2016.

1 - Comparison of migration balance and natural balance in Germany and France



Sources: Destatis and INSEE

In the medium term, the integration of refugees into the labour market is a positive supply shock as it increases the labour force

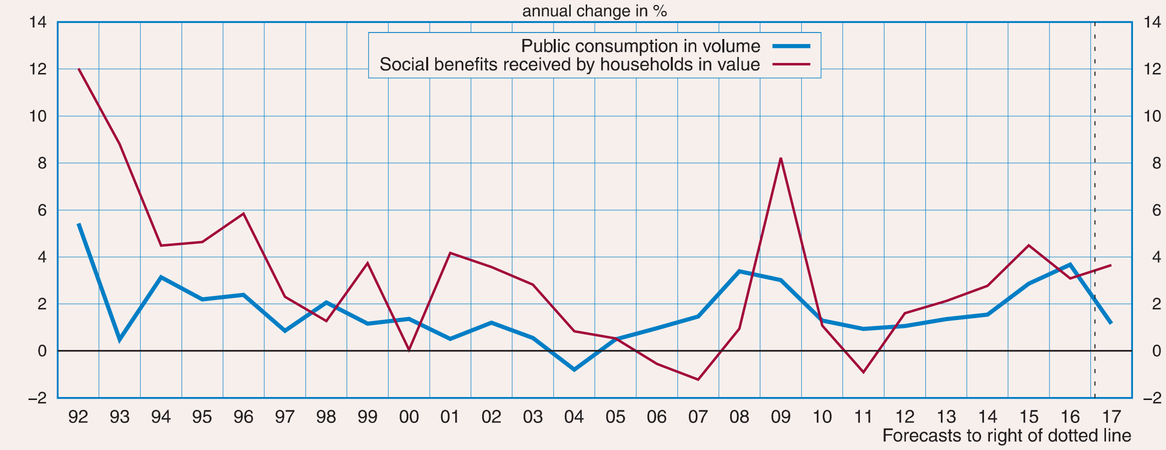
According to the LFS[2] published by Eurostat, the arrival of foreigners accounts for virtually all of the increase in the labour force in Germany since 2011. The contribution of the foreign labour force to this rise was +0.4 points per year from 2011 to 2014, whereupon it suddenly accelerated to +0.7.points in 2015 and +1.1 points in 2016, thus confirming the gradual integration of refugees into the labour market. This represents an average annual rise of 8.8% for the foreign labour force between 2014 and 2016, after +5.2% between 2011 and 2014 (*Graph 4*). However, at this stage, only some of the refugees have entered the labour market: the foreign inactive population has increased more rapidly than the foreign active population: +12.3% per year between 2014 and 2016, against only +3.8% per year between 2011 and 2014.

2. Labour Force Survey: household sample survey in the European countries. This survey gives information on the activity of nationals and foreigners. The LFS applies the definitions of the ILO, where an active person is considered to be employed if they work at least one hour per week. However, although the LFS trend is similar to that of the German accounts series, it is much more volatile.

All in all, according to the same source, between Q1 2015 and Q2 2017 the foreign population aged 15 to 64 increased by 1.2 million (*Table 1*), of whom around 710,000 were active and 530,000 were inactive. The vast majority of the increase in the foreign labour force was due to people in employment, while the number of unemployed remained very low. Thus the arrival of refugees in Germany caused the labour force to rise but without increasing the unemployment rate. Comparing these figures with those for the period 2011-2014, to identify the specific effect of the arrival of refugees and assuming that the flows of other types of migrants remained constant, clearly a large proportion of refugees aged 15 to 64 who arrived since 2015 are inactive (about 410,000 inactive people by mid-2017) while only 250,000 had entered the labour market by mid-2017. Most of these migrants are men of working age, therefore this inactive population constitutes a potential recruitment pool of future employees.

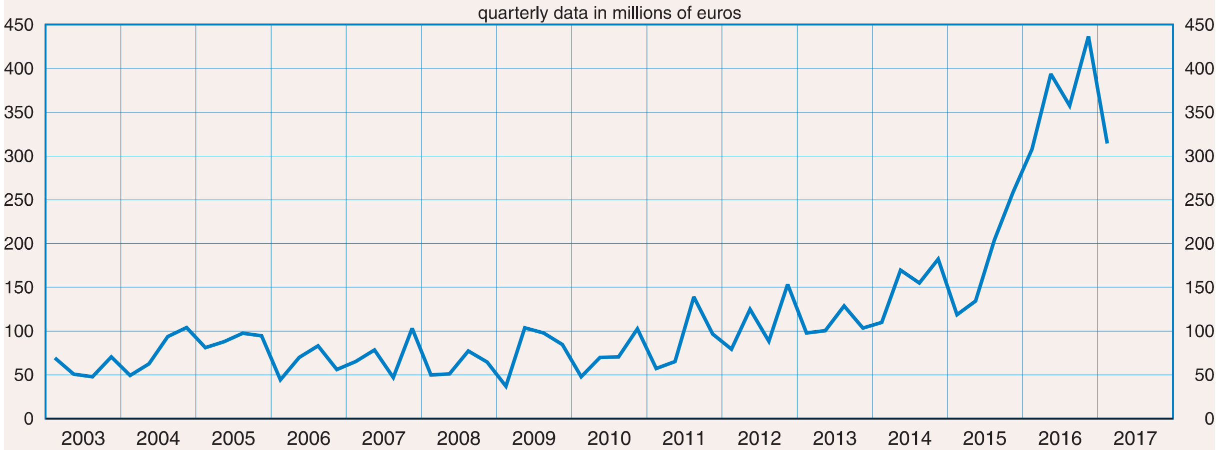
The LFS survey do not accurately identify those migrants who have arrived from war-torn countries, unlike the Federal Employment Agency (BA) data, which do differentiate within the foreign population between refugees from countries at war (Afghanistan, Eritrea, Iraq, Iran, Nigeria, Pakistan, Somalia, Syria) and other foreigners.

2 - Government consumption and social benefits as an annual variation



Source: Destatis

3 – Estimated costs related to new building permits for hotel residences



Source: Destatis

However, the BA data are not aligned with the ILO concept and cannot therefore be perfectly tied to the change in the labour force and employment in the national accounts. Thus the unemployment rate as a national concept according to the BA is 5.6%, against 3.4% for ILO unemployment. The BA also counts jobseekers, of which there are twice as many as there are unemployed.

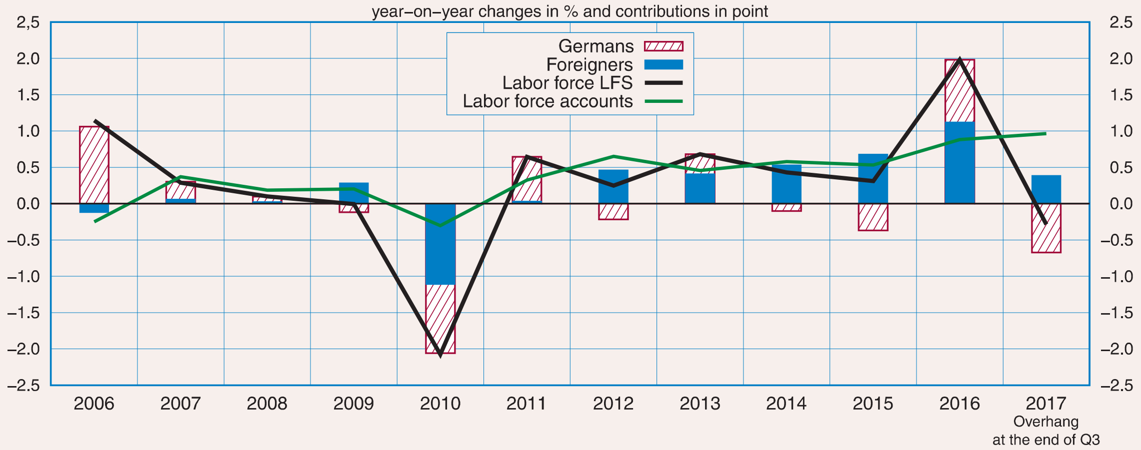
After arriving on German soil, refugees of working age receive a basic social allowance of at least €350[3] (mid-2017, at least 1.5 million recipients) but they are not all immediately available to take up employment: most are therefore considered to be inactive. Training courses are organised, especially German language learning, while mini-jobs, created specifically to assist their integration, may be offered. Integration into the German labour force is very gradual.

3. Those who are fit for work, aged between 15 and the normal legally established retirement age, usually resident in Germany and in need of assistance, are entitled to the basic social allowance (or unemployment benefit II, Grunsicherung). The amount is adjusted according to family composition.

The BA data highlight different trajectories according to where foreigners originate from: currently, the vast majority of refugees of working age are jobseekers or are under-active as defined by the BA, whereas the majority of non-refugees who entered the country during the period 2015-2017 are employees subject to social contributions (*Table 2*). Thus, since 2015, the integration of non-refugee foreigners has continued as before, whereas refugees are still largely on the fringes of the German labour market.

However, although their integration is slow, it is ongoing: the number of refugees who are employees and paying social contributions increased from 70,000 at the beginning of 2015 to about 160,000 by mid-2017. In addition, around 350,000 refugees who have entered the territory since 2015 are under-active and are therefore in precarious forms of work (mainly mini-jobs). Although some of them are already counted as being active they may increase their contribution to the supply of labour in the coming months. Lastly, the number of people arriving from war-torn countries who are looking for work (but who are mainly inactive within the meaning of the ILO) increased by 390,000.

4 – Change in the labour force in Germany



Note: The employment serie derived from the LFS on households is more volatile than that of accounts from company administrative sources. Nevertheless, the trend over the last seven years is similar in both. Unemployment in the national accounts is taken from the LFS: the difference in employment numbers as measured in the LFS and in the national accounts results in a difference in the labour force.

Source: Destatis

Table 1 - Breakdown of variation in foreign population aged between 15 and 64 in Germany (LFS)

in thousands people

	Variations between Q4 2014 and Q1 2011 (1)	Variations between Q2 2017 and Q1 2015 (2)	Increase at the period 2 (10 quarters) compared to the period 1 (16 quarters) (2)–(1)*10/16
Foreign population	929	1,240	659
Labour force	745	713	247
in employment	778	709	222
unemployed (ILO definition)	–33	4	25
Inactive population	184	527	412

Source: Destatis

All in all, depending on whether the LFS or the BA data are used, there should be about 400,000 people to be gradually integrated into the German labour force. The German government is relatively optimistic that the majority of refugees will find a job in the next five years[4]. Assuming that 400,000 refugees can be integrated into the labour market in 4 years at a rate of 100,000 per year between now and 2021, then refugees would contribute 0.2 to 0.3 points on average to the annual growth of the labour force. Given that since 2010 migrants from other countries (especially Eastern Europe) have already contributed +0.5 points, the German labour force looks set to continue to increase at about 0.8% per year, simply as a result of immigration.

This integration is made possible by the very favourable context of the German labour market: the ILO unemployment rate stands at 3.4%, its lowest level since reunification, and never have so many of the enterprises interviewed in the business tendency surveys said they had difficulties with recruitment (*Graph sheet Germany*). The arrival of refugees is therefore a positive supply shock for the German economy, at precisely the time when the country is considerably constrained in terms of labour supply. ■

4. "Bund kalkuliert bis 2020 mit rund 94 Milliarden Euro Kosten", *Der Spiegel*, May 2016

Table 2 - Breakdown of population according to employment situation, as defined by the German Federal Employment Agency

in thousands people

	Variations between June 2017 and January 2015	Level in June 2017
Entitled to minimun coverage (*Grundsicherung*)	**282**	**10,527**
Of which foreigners	1,131	3,488
Of which refugees	*1,156*	*1,512*
Of which foreigners except refugees	*–25*	*1,976*
Of which German	–867	6,981
Jobseekers (*Arbeitsuchende*)	**–298**	**4,706**
Of which foreigners	389	1,393
Of which refugees	*394*	*508*
Of which foreigners except refugees	*–4*	*885*
Of which German	–696	3,298
Subject to social contributions (*Sozialversicherungspflichtige Beschäftigte*)	**1,905**	**32,180**
Of which foreigners	855	3,486
Of which refugees	*86*	*157*
Of which foreigners except refugees	*769*	*3,330*
Of which German	1,049	28,694
In under-activity (*Unterbeschäftigung*)	**–336**	**3,482**
Of which foreigners	311	1,050
Of which refugees	*345*	*437*
Of which foreigners except refugees	*–34*	*613*
Of which German	–655	2,418

Source: German Federal Employment Agency (BA)