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In the first three quarters of 2015, more than one million asylum requests were registered in the OECD. The total number by the end of the year is likely to rise significantly given the intensity of most recent new inflows. Such huge inflows will have an economic impact, on both on public finances and the labour market.

*This edition of **Migration Policy Debates** provides an assessment of the possible economic impact of the refugee crisis in Europe. It stresses that while there will obviously be short-term costs arising from such large flows, there will also be sizeable economic and public-finance benefits, provided that refugees are integrated into the labour market.*

How will the refugee surge affect the European economy?

The past gives us only a few clues as to the economic and fiscal impacts on host-nations of a sharp rise in refugees and most existing research focuses on the impact of total immigration (within which the share of refugees is usually quite small). Furthermore, many factors make the appraisal of the economic impact of the refugee crisis particularly challenging, notably: estimating the number of asylum seekers is far from easy as they are highly mobile and may be registered several times in different countries; the expected duration of stay is uncertain and will depend on how many are recognised as refugees and the enforcement of return for those who are denied international protection; and the time required to process the asylum claims varies a lot across receiving countries, as does the time required to enter the labour market. In the longer run, the effect of the inflow of refugees on other categories of entries (e.g. intra EU movements, family reunification) remains uncertain. With all these caveats in mind this brief highlights the available evidence and simulations regarding the likely impact of the refugee crisis.

Impact on public finances

- OECD countries have responded to the emergency situation by scaling up public spending to process asylum applications and welcome refugees. Additional funding has also been made available at EU and national levels to support countries of origin and transit.
- As the crisis has unfolded, Germany has projected an additional 0.5 per cent of GDP per annum of public spending in 2016 and 2017 to meet initial needs of the newly arrived immigrants and to integrate them in the labour market; Austria 0.3% of GDP in 2016 and Sweden 0.9% of GDP in 2016. The Turkish government has provided aid to Syrians under temporary protection in Turkey since 2011, equivalent to 0.8% of GDP in 2014.
- In the short run the additional public spending may act as a demand stimulus. The latest edition of the OECD Economic Outlook (OECD, 2015a) estimates that in 2016 and 2017, the additional spending to provide support on refugees could boost aggregate demand in the European economy by about 0.1-0.2% of GDP.

Impact on the labour markets

- Conditions for accessing the labour market during the processing of an asylum claim vary significantly across countries. In some, labour market access can be granted, under specific conditions, almost immediately, whereas in others the waiting period can be as long as a year.
- Higher bound estimates for the European Economic Area (EEA) and Switzerland as a whole indicate that the cumulative impact of the asylum seekers inflow by the end 2016 will correspond to less than 1 million entries in the labour market, or 0.4% of EEA labour force. The figure for Germany alone would be less than 400 000, or 1% of the total labour force.
- In general, the effects on host country labour markets should build up only very progressively over time as refugees become better integrated and as they reunite with their family. For refugees to realise their full potential it will be however important to enable them to locate where their skills are the most needed.

Effects on public finances

Estimates of the fiscal impact of total immigration are quite varied across studies, but are usually small, with some indicating net fiscal benefits and others net fiscal costs to host countries (OECD, 2013).

Short-term expenditure required to provide support to newly-arrived asylum seekers can be substantial and includes humanitarian assistance to provide food and shelter and basic income support; up-front expenditures associated with necessary language training and schooling; steps to identify the skills of migrants and the expenditures associated with processing asylum claims and enforcing returns.

Monthly allowances provided to asylum seekers vary significantly between countries and according to housing conditions. It can go from about €10 for single adults housed in reception centres to more than €300 for those without accommodation. Typically, the total cost for processing and accommodating asylum seekers can be in the range of €8 000 and €12 0000 per application for the first year, although the figure may be much lower for fast track processing.

Additional support is needed as soon as possible to assist recognised refugees to integrate into the labour market and society. Such investments will have a positive pay-off if they help new arrivals enter employment and start to contribute to the welfare system.

Past evidence on the fiscal impact of refugees (see Box 1) shows that net direct fiscal impact of welcoming refugees can be relatively high in the short term, but that it will also decrease rapidly over time as their labour market integration improves. For refugees to realise their full potential it will be however important to enable them to locate where their skills are the most needed.

Box 1. Past evidence on the fiscal impact of refugees in Australia, Canada, and Sweden

For many years, the Australian Department of Immigration and Citizenship has operated a Migrants' Fiscal Impact Model (Cully 2012) that allows for a detailed analysis of the effect of new arrivals for the eight main visa categories for permanent migration, and the main temporary labour migration visa. This model shows that humanitarian migrants have a negative fiscal impact during the first 10-15 years but then start to make a positive contribution.

Estimated net impact of immigration on the Australian Government Budget, by visa category, 2010–11

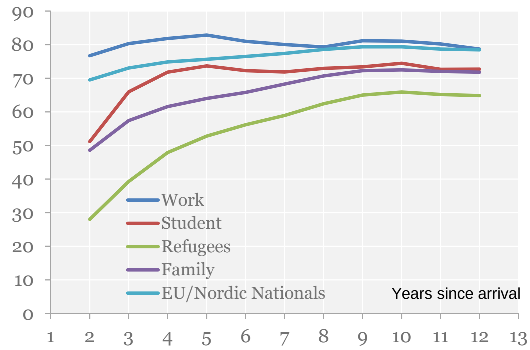
Entry category	Visa grants in 2010-11	Net fiscal impact (AUD million)				
		Period of settlement in Australia (years)				
		1	2	3	10	20
Family	54 543	212	60	43	201	146
Labour	113 725	747	839	915	1033	1154
Humanitarian	13 799	-247	-69	-62	-12	48
Total permanent	**182 067**	**712**	**829**	**896**	**1221**	**1349**

Source: OECD (2013) adapted from (Cully 2012)

In Canada, a new study on social assistance receipt among refugees (Lu, Frenette and Schellenberg 2015) shows that 80% rely on social assistance shortly after opening their refugee claim and that among those whose claims were still open after four years, between 25% and 40% were collecting social assistance. Several other studies have confirmed the rapid progress of refugees over time. An evaluation by CIC (2011) shows that four years after the beginning of the social assistance spell, 75% of government assisted refugees moved out of social assistance.

A similar pattern is observed in the case of Sweden where initial labour market outcomes of refugees are quite low but progress quickly over-time.

Percentage of employed, by duration of residence in Sweden, Men, cohort arriving 1997-99



Source : Source: Swedish Public Employment Service (Arbetsformedlingen)

A recent study by Ruist (2015) estimates the fiscal cost of refugee immigration for Sweden. The author shows that the net fiscal contribution of the total stock of refugee -and their family- was in 2007 equivalent to 1 percentage point of GDP.

In the main countries affected by the present, large inflow of asylum seekers, the additional expenditures announced so far have been relatively contained. Germany has projected an additional 0.5% of GDP support per annum in 2016 and 2017, to meet initial needs of the newly arrived immigrants and to integrate them in the labour market. Austria has projected that spending on refugees and asylum seekers will rise from 0.1% of GDP in 2014 to 0.15% of GDP in 2015 and 0.3% of GDP in 2016. Sweden, which has been a major host country for refugees for a number of years, has budgeted for additional spending in 2016 of 0.9% of GDP per annum, in order to improve the integration of newly-arrived immigrants. Hungary, a major transit country into the Schengen area, has announced additional spending of 0.1% of GDP in 2015, to cover costs associated with the new flows of refugees. Since 2011, the Turkish government has provided aid to Syrian refugees amounting to 0.8% of 2014 GDP. The European Commission has announced additional funding of €9.2 billion to address the refugee crisis over 2015-16 (0.1% of EU GDP).

These additional fiscal measures should provide a modest boost to aggregate demand, provided they are not offset by budgetary cuts elsewhere, with most of the public funds spent on non-tradable goods and services. In addition, the marginal propensity to consume of refugees is likely to be quite high, given their low income levels.

The latest edition of the OECD Economic Outlook (OECD, 2015a) estimates that in 2016 and 2017, these additional fiscal measures will provide a boost to aggregate demand in the European economies of about 0.1 - 0.2% of GDP. These results are in line with the estimates recently published by the European Commission (EC 2015) but contrast with those found for neighbouring countries of Syria that host most Syrian refugees (see Box 2)

Box 2. Estimated effect of the Syrian crisis on Jordan

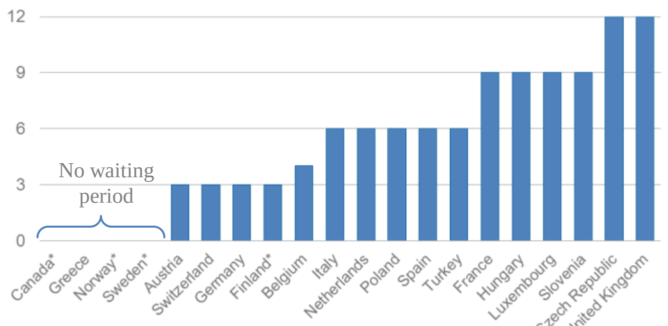
With more than 630 000 Syrians refuges, constituting almost 10% of its population, Jordan is one of the main receiving countries, after Turkey and Lebanon. Several recent studies have estimated the impact of this inflow on the economy (e.g. Nasser and Symansky 2014, IMF 2014). They show that:

- The Syrian crisis does not seem to have had a negative impact on the formal labour market, but it has raised informal employment.
- In 2014, the fiscal costs are estimated to have been more than USD $800 million or 2.4% of GDP. Approximately 60% of the costs were budgetary expenditure. Jordanian government spending indeed increased by about 1% of GDP, in 2013 and in 2014 to meet the humanitarian needs of the Syrian refugees, including the provision of water, electricity, security, health care, and education services.
- Without the Syrian crisis, with higher exports to neighbouring Syria, the annual growth rate of the Jordan economy for 2013 could have been one percentage point higher. The crisis has also put upward pressure on the prices of non-tradables, notably housing prices.

Effects on labour markets

The initial impact of higher asylum seekers on the labour force will depend upon the success of asylum-seekers in gaining refugee status, the length of the application process, and whether or not they will enter the labour force. These factors vary considerably by country of origin and over time.

Most favourable waiting periods for accessing the labour market for asylum seekers in selected OECD countries



Source : OECD : * Under certain conditions

The conditions to access the labour market during the processing of the asylum claim vary significantly across countries. In some of them, labour market access can be granted, under specific conditions, almost immediately, whereas in others the waiting period can be up to a year. The provisions for employment during the asylum procedure, however, do not necessarily imply that asylum seekers enter the labour market immediately (OECD, 2011).

The impact of recently arrived refugees on the labour market can only be estimated by making a large number of assumptions (see Box 3). Under the low scenario, the total number of registered asylum seekers (including children) reaches 1.2 million in 2015 for the EEA and Switzerland as a whole, and 730 thousand for Germany alone.

In this scenario, corresponding figures for the first six months of 2016 would be 610 000 for Europe and 370 000 for Germany. These are relatively conservative estimates, as there is currently no sign of decline in the inflows. The high scenario assumes that the inflow of asylum seekers would remain constant until June 2016 at the historical peak of about 200 000 new requests per month. Under this scenario, 1.4 million asylum requests could be registered in Europe for 2015, of which 900 000 in Germany. This could then reach 1.1 million and 900 000, respectively, for the first six months of 2016.

Box 3. Estimating future entries of refugees in the EEA and German labour markets

Considering the monthly asylum applications available from UNHCR by country of origin until September 2015 and applying recognition rates observed in 2014, the number of refugees by date of entry in the country can be inferred. Data for August and September have been adjusted based on available information on early registrations to take into account the surge in applications.

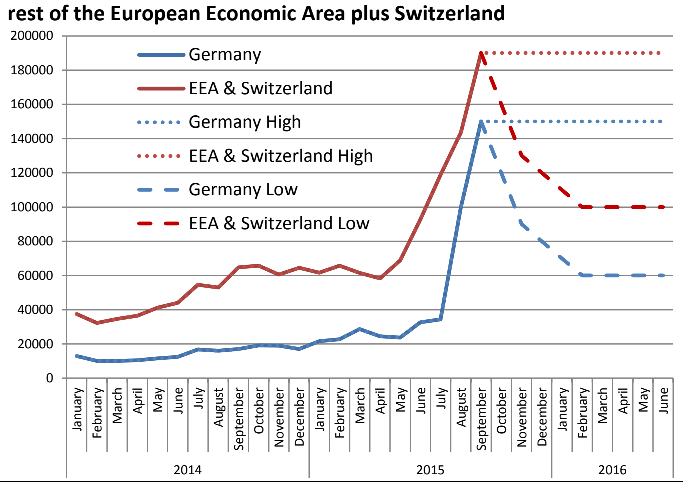
The information available from Eurostat on demographic characteristics of recognised refugees (first instance) in the first half of 2015 by country of origin can be used to break down the population by age (0-18; 15-64; 65+) and gender. In the first half of 2015, one in four recognised refugees was a woman, while 22% of men and 36% of women were under 18.

On average in the EU, the participation rate of those who entered as humanitarian migrants increases with duration of stay up to about 75% for men and 50% for women (EU Labour Force Survey ad hoc module 2008). Recently arrived refugees are assumed to converge to that level progressively as they start to settle and learn the host country language.

Finally, 50% of adult men who are coming without a spouse are assumed to reunite with their family within a period of 12 months. Spouses are then assumed to enter the labour market progressively as well.

Asylum applications are available through Q2 2015; thereafter, the assumptions made until June 2016 are illustrated below.

Observed and anticipated asylum seeker inflows in German and the rest of the European Economic Area plus Switzerland

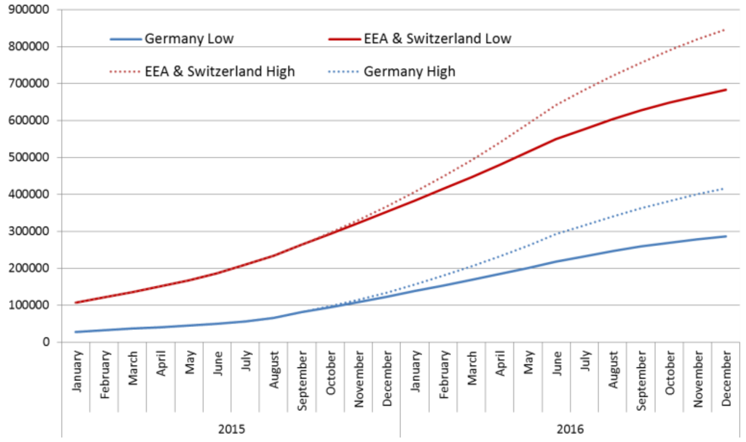


Taking into account the composition of inflows by country of origin, the age structure of refugees, labour market participation rates and the lagged effect of family reunification, the cumulative impact of refugees accepted between January 2014 and June 2016 in the low scenario would correspond to about 380 000 additional entries in the EU labour market as of January 2016 and 680 000 by December 2016, at which point they would, amount to 0.3% of the EEA labour force.

As the main receiving country of asylum seekers in the OECD in absolute terms, Germany may witness up to 140 thousand cumulative entries as of January 2016 and 290 thousand by the end of 2016. This would represent 0.7% of its labour force and less than 60% of the total inflow of permanent migrants observed in 2014.

In the high scenario, the cumulative impact of the asylum seekers inflow by the end 2016 would still represent no more than 0.4% for the EEA labour force with less than 1 million new entries on the labour market (less than 430 000 in Germany; i.e. 1% of the labour force).

Estimated cumulative entries in the labour market due to refugees who have arrived since January 2014



Box 4. Estimated effects of the inflows of refugees on the Swedish and Turkish labour markets

In the case of Sweden, Ruist (2013) looks at the labour market impact of refugees who have arrived between 1997 and 2007. He finds no significant effect on total unemployment but a large effect on previous immigrants from low and middle income countries, many of whom might be refugees themselves.

In the case of Turkey, which hosts more than 2 million Syrian refugees, concentrated in specific geographic areas, the effects are clearly visible. Del Carpio and Wagner (2015) show that even if most Syrians under temporary protection in Turkey do not have a formal work permit, they have displaced informal domestic workers (notably low educated female Turkish workers in agriculture) but have also pushed formal wages up through increased demand for goods and services. Furthermore the authors report that 26% of new registered business in Turkey in 2014 had Syrian ownership or capital.

Taking into account the significant uncertainty about the evolution of the inflows, the estimations presented above can only be illustrative of the progressive but overall rather limited impact of the refugee inflow on European labour market, which has globally the capacity to absorb a shock of this magnitude. A number of factors may however temperate this positive note.

Firstly, inflows are likely to be concentrated in specific countries, some of which are still facing high level of unemployment. Secondly, within countries, inflows into the labour market may be concentrated in some areas with, depending on integration measures, potentially sizeable local effects. Thirdly, the above estimates assume that asylum seekers with an unsuccessful claim will return to their home countries. If rejected asylum seekers remain in large numbers, however, they may swell the ranks of the informal labour market. Finally, the ultimate economic impact will largely depend on the success of medium and long-term labour market integration, as most refugees will actually settle. Failure to find work will increase the fiscal cost associated with welcoming refugees, precisely in those countries least able to cope.

For all these reasons it is important to foster a bold, coordinated and comprehensive policy response at the EU level in addition to policy measures in individual European countries, notably to foster the labour market integration of refugees.

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