



Influx of refugees: An opportunity for Germany

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As a result of a growing list of conflicts, more than 60 million people worldwide have fled their homes. The war in Syria alone, now in its fifth year, has triggered a mass exodus of around 11.5 million Syrians, four million of whom have fled to other countries. Since refugees initially flee to bordering countries as a general rule, economically less developed countries ended up taking in some 85% of the refugees through the end of 2014.

For the past one and a half years an increasing number of refugees as well as asylum seekers from the Balkans have attempted the difficult (onward) journey to the EU. The influx of refugees has uncovered serious flaws in the EU system for registering and taking in asylum seekers. An agreement on an alternative distribution procedure is not expected to be reached any time soon.

The influx of refugees has raised net immigration to Germany to the record level of more than one million. Among the OECD countries, this trend could put Germany ahead of the United States, traditionally the No. 1 destination country for migrants. For the time being, Germany is likely to remain a magnet for refugees. As a result, the country faces the difficult – and costly – task of integrating the refugees and absorbing the supply shock to the labour market.

The refugees represent an opportunity for rejuvenating an ageing population in Germany, where there is a growing scarcity of labour and the threat of lower structural growth. Without immigration, the country's economic growth is predicted to drop in the next ten years from its current average of around 1.5% to just 0.5% annually. The stability of the social security systems, especially the pay-as-you-go pension system, would be put to the test.

The Herculean task of integrating the refugees must be seen as an investment in the future. The refugees are young; the share of those who are younger than 18 years old is 30%. The qualification profile may be U-shaped, meaning relatively high percentages of better qualified and less qualified workers. In addition to providing the refugees with housing and healthcare services, there is an urgent need to provide language classes and to make capacities in schools and other educational and training institutions available.

As part of a win-win scenario, successful integration offers Germany the opportunity to consolidate its position as Europe's economic powerhouse. Germany's appeal as a country of immigration stands to benefit greatly. And more importantly, the necessary changes have the potential to provide German society, in which the preservation of the status quo has become a Leitmotiv, with new momentum for the decades ahead. A sustained high level of net immigration will go a long way towards attenuating the decline of the trend growth rate brought on by an ageing population. Instead of moving closer to stagnation, the trend growth could still amount to 1% in ten to 15 years as well, which would also benefit social systems.



Influx of refugees: An opportunity for Germany

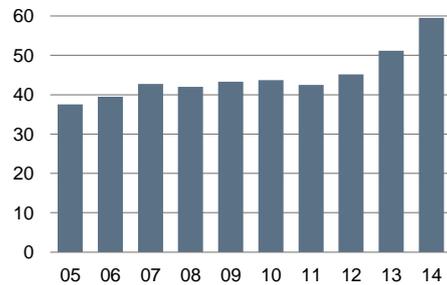


Influx of refugees: An opportunity for Germany

New record of the number of forcibly displaced persons worldwide

1

Million persons

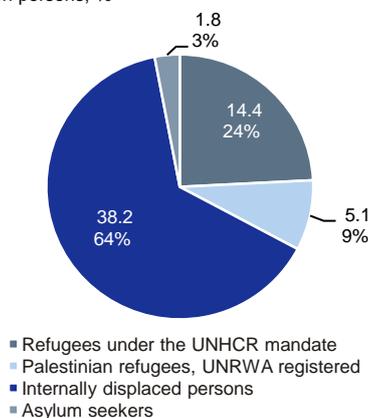


Source: UNHCR

Approximately 2/3 flee to other regions within their own country

2

Million persons, %

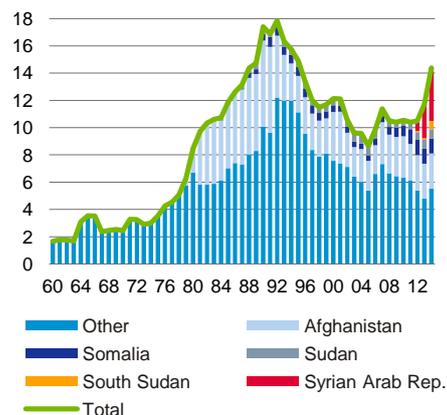


Source: UNHCR Global Trends 2014

Number of refugees on 20y-high

3

Million persons



Source: UNHCR

Growing list of conflicts lead to mass exodus on a global scale

The number of people worldwide who find themselves fleeing their homes may be even higher this year than the historic record level of some 60 million people in 2014. This development is due to the staggering number of conflicts – 15 in total – that have either flared up again or arisen within the past five years, triggering a mass exodus within the countries that are directly affected as well as to places of refuge outside of national boundaries. Around two-thirds of refugees worldwide are internally displaced persons. Broken down by region, there are eight conflicts in Africa (Côte d'Ivoire, Central African Republic, Eritrea, Libya, Mali, north-eastern Nigeria, South Sudan and Burundi), three in the Middle East (Syria, Iraq and Yemen), one in Europe (Ukraine) and three in Asia (Kyrgyzstan, and in parts of Myanmar and Pakistan). In some cases, conflicts, such as those in Afghanistan and Somalia, have dragged on for decades with no end in sight, forcing millions of people to remain in their places of refuge without any prospect of returning to their homelands in the near future. As a result, the number of refugees who were able to return home remained at a 31-year low.¹

In particular, the war in Syria, which is now in its fifth year, has triggered a mass exodus of around 11.5 million people – more than half of the population. At the end of 2014, the majority of them were internally displaced persons, numbering 7.6 million in total. Nearly four million sought refuge outside of Syria.

Number of refugees worldwide at 20-year high

Syrians accounted for approximately half of the increase in the number of refugees across national boundaries. The number of refugees increased 23% in 2014 to 14.4 million people. The three main countries of origin for refugees in 2014 were Syria, Afghanistan and Somalia.

Since the countries bordering on the conflict region serve as the first port of call for refugees, 85% of them were taken in by economically less developed countries. In some cases, this has exacerbated an already tense situation in these countries. The main host countries for refugees were Turkey, Pakistan and Lebanon.

Major countries of origin and host countries of refugees

4

Million persons (% of global number of refugees), end of 2014

Countries of origin		Refugee-hosting countries	
Syrian Arab Rep.	3.9 (27%)	Turkey	1.6 (11%)
Afghanistan	2.6 (18%)	Pakistan	1.5 (11%)
Somalia	1.1 (8%)	Lebanon	1.2 (8%)
Sudan	0.7 (5%)	Islamic Rep. of Iran	1.0 (7%)
South Sudan	0.6 (4%)	Ethiopia	0.7 (5%)
Dem. Rep. of the Congo	0.5 (4%)	Jordan	0.7 (5%)
Myanmar	0.5 (3%)	Kenya	0.6 (4%)
Central African Rep.	0.4 (3%)	Chad	0.5 (3%)
Iraq	0.4 (3%)	Uganda	0.4 (3%)
Eritrea	0.4 (3%)	China	0.3 (2%)
Total	14.4	Total	14.4

Numbers include people in refugee-like situations
Sources: UNHCR, Deutsche Bank Research

¹ UNHCR (2015) World at war, Global Trends – forced displacement in 2014. June 18, 2015.

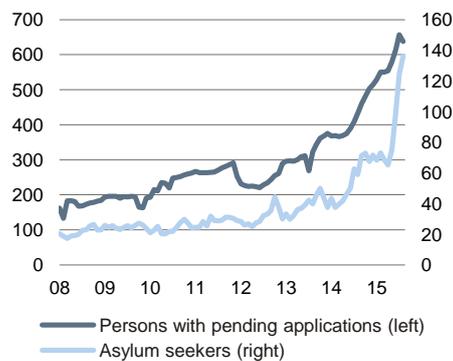


Influx of refugees: An opportunity for Germany

Europe as a magnet for waves of refugees

Massive rise in refugee influx to Europe 5

'000 persons,
EU-28 + 4 Schengen non-EU countries



Sources: Eurostat, Deutsche Bank Research

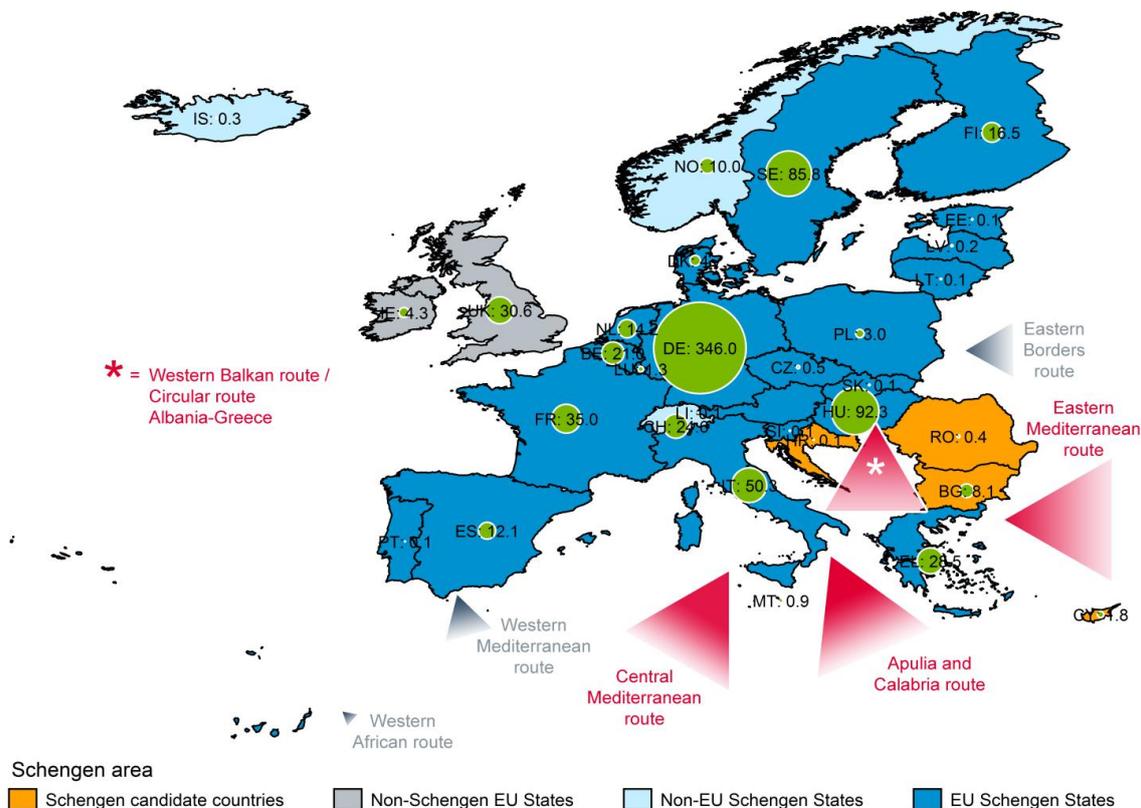
Due to the situations at home, some of which appear quite hopeless, and the prospect of the conflicts dragging on for years to come, more and more people – especially from Syria – have decided to attempt the difficult (onward) journey to Europe. In addition to the refugees immigrating to Europe from another continent, there is also a large number of asylum seekers from the Balkans who are leaving their homes in many cases primarily for economic reasons.

There are eight main routes that refugees use in their attempt to reach Europe (figure 6), though the refugees – totalling some 700,000 illegal border crossings from January to August/September 2015 – almost exclusively entered Europe via the eastern Mediterranean route (~50%, especially from Syria, Afghanistan and Kosovo), the western Balkan route (~30%, especially from Syria, Afghanistan and Pakistan) and the central Mediterranean as well as Apulia and Calabria route (~18%, especially from Eritrea, Nigeria, sub-Saharan Africa).²

Within the 28 EU member states plus the four non-member states that are part of the Schengen area, the number of asylum seekers rose to 710,000 people by August. Compared to the same period in 2014, this represents an increase of almost 90%. The number of people with pending asylum examination procedures climbed to 657,000 in August 2015. This considerable influx of refugees has put the cooperative efforts of European countries to a serious test.

Refugees travel almost exclusively along three main routes to Europe 6

'000, persons with pending applications



Data as of June/July/August/September 2015
Sources: EU Commission, Frontex, Eurostat, Deutsche Bank Research

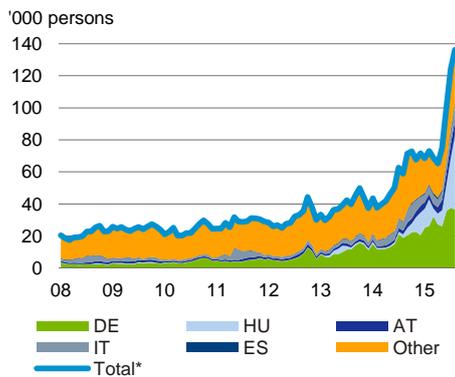
² Frontex (2015). FRAN Quarterly. Frontex Migratory Routes Map.



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Number of asylum seekers shoot up to over 100,000 per month recently

7



* EU-28 + 4 Schengen non-EU countries

Sources: Eurostat, Deutsche Bank Research

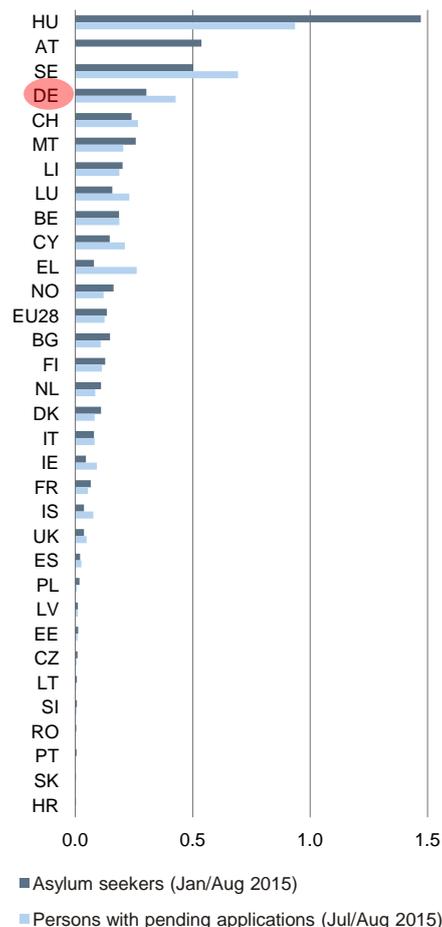
The Dublin Regulation in crisis

The established EU regulations for the registration and acceptance of asylum seekers vis-à-vis the Schengen system have been increasingly called into question due to the skyrocketing numbers. This set of rules, known as the Dublin III Regulation (Regulation [EU] No 604/2013), in addition to the supplemental guidelines on its detailed implementation, has two objectives: (1) it aims to ensure that one, and only one, member state is responsible for examining the asylum application of a particular individual. The purpose is to safeguard procedural efficiency and, in particular, prevent multiple examination procedures for the same applicant in various countries. (2) The regulation defines a clear (hierarchical) ranking for criteria that can be used to determine which member state is responsible for examining the application and, in the event it is approved, taking in the asylum seeker in question. In short, if an asylum seeker has neither (close) family members nor a residence permit, including a visa, in another member state, and he or she has not illegally crossed the border to the member state in question, "...the first Member State in which the application for international protection was lodged shall be responsible for examining it."³

High share of refugees flee to Germany

8

% of total population



Sources: Eurostat, Deutsche Bank Research

It is clear that, in accordance with the Dublin system, the countries located at the relevant external border areas of the European Union are responsible for the bulk of the asylum examination procedures. As the overview on page 3 shows, these countries, known as the "frontline countries", include, in particular, Greece, Italy, Hungary and – to a lesser extent – Spain. These countries have felt increasingly overwhelmed by the duties incumbent upon them pursuant to the Dublin system. As a result, some border countries have permitted refugees to enter the EU without examining their asylum applications and often without registering or taking and comparing their fingerprints, as stipulated by the Eurodac system. In some cases, these countries have failed to prevent and even made it possible for refugees to continue on to other member countries. Many asylum seekers have thus left the border countries relatively unimpeded and headed northward, where they have entered Austria, Germany and Sweden in particular. One factor that may have contributed to the rise in the number of people migrating to Germany recently was the media's interpretation of statements made by the federal authority in charge of the matter that the Dublin system had been suspended for Syrian refugees in Germany.⁴

Germany, however, has submitted requests to other member states to take charge of or take back refugees for only a small portion of those who have arrived in the country – and has transferred an even smaller number of such refugees. There were some 24,000 requests lodged in the first six months of 2015, and approximately 35,000 in total for 2014. In 2014, only around 4,800 people were transferred to partner states, most of whom went to Poland (1,218) and Belgium (844).

Not just in absolute, but also relative terms, Germany has taken in significantly more refugees to date than the majority of the other European countries. Of the total number of refugees who migrated to the 28 member states of the European Union from January to August 2015, Germany took in approximately 35% of them. Germany also accounts for around 55% of the pending asylum examination procedures in the 28 EU member states. Relative to the size of its population, Germany is ranked fourth in this regard within the 28 EU member states.

³ Article 3(2) Regulation (EU) No. 604/2013.

⁴ Die Zeit. Flüchtlinge: Deutschland setzt Dublin-Verfahren für Syrer aus. August 25, 2015.

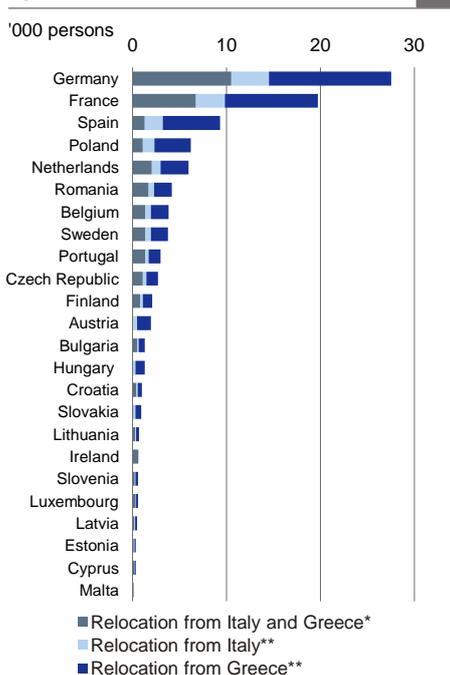


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Rudimentary EU approaches to managing migration

Within the EU, there has been a discussion for some time now about the Dublin system's weaknesses and the introduction of a Common European Asylum System. However, European politics only began focusing on the problem of rapidly increasing numbers of refugees and the difficulty that member states have had coping with them over the course of this year. In late May, the European Commission thus proposed to relocate 40,000 refugees – primarily Syrians and Eritreans – within two years from Greece (16,000) and Italy (24,000) to other member states, even though several of them had already taken in more refugees in both relative and absolute terms. A key comprising four differently weighted criteria is used to determine the distribution of asylum seekers to the member states. The four criteria are the GDP and the size of the country's population, each accounting for 40%, in addition to the employment rate and the number of the asylum seekers a country has already taken in in the past four years, each accounting for 10%. Plans only included member states to be host countries – with the exception of Ireland and the United Kingdom, which are not Schengen countries, and Denmark, which has an opt-out clause for the corresponding agreements.⁵ For the first time, the European Commission hoped to make use of the emergency clause pursuant to Article 78 (3) of the Treaty on the Functioning of the European Union (TFEU), which implies mandatory participation.

Relocation of 100,000 refugees agreed - 60,000 to follow



* First stage in the relocation of 32,256 refugees of a total 40,000 planned; ** First stage in the relocation of 66,000 refugees of a total 120,000 planned.

Source: Rat der Europäischen Union

In September, the European Commission also presented the proposal – likewise as part of an emergency measure – to relocate 120,000 people, primarily from Italy and Greece, to other countries based on a similarly devised quota.⁶ As provided for already in the first measure, it included the provision that host countries will receive one-time financial support of EUR 6,000 per relocated person from the EU budget.

Of course, the refugee relocation proposal based on a mandatory quota was met with resistance from the outset in particular from the states comprising the Visegrád Group (Poland, the Czech Republic, Slovakia and Hungary) and Romania. It was also clear that the United Kingdom would not participate. In July, the Council of Ministers therefore initially agreed on the voluntary relocation of 32,256 people. In mid-September, the Council then resolved to increase the number in December to the 40,000 envisaged by the Commission. The 22 member states participating in the relocation as it currently stands will receive, as planned, EUR 6,000 for each refugee it takes in. In this context, Germany has agreed to take in 10,500 refugees.

On September 22, the Council of Ministers also reached an agreement on the more extensive relocation proposal. Romania, the Czech Republic, Slovakia and Hungary were outvoted, while Poland voted with the majority. Slovakia and the Czech Republic have announced, however, that they will not be party to the relocation. It is not clear yet whether this will have any consequences and, if so, what those consequences will be. In contrast, Ireland, which is outside of the Schengen area, and Denmark (despite its opt-out right) have announced that they will participate to a limited degree. The decision has been taken to relocate within two years 120,000 refugees, primarily from Eritrea, Syria and Iraq, who

⁵ Article 78(3) TFEU: "In the event of one or more Member States being confronted with an emergency situation characterised by a sudden inflow of nationals of third countries, the Council, on a proposal from the Commission, may adopt provisional measures for the benefit of the Member State(s) concerned. It shall act after consulting the European Parliament."

⁶ As early as late May, the European Commission also requested the member states to relocate 20,000 people from UNHCR refugee camps within two years. The plans call for the provision of financial support to the member states that participate in this voluntary relocation. An agreement could be reached on this request already in July. At the time, the United Kingdom as well as all countries in the Schengen area, with the exception of Hungary, agreed to voluntarily relocate a total of 22,000 people from outside Europe within the given time period.



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are in clear need of international protection. Plans call for the relocation from Italy and Greece of 66,000 of these refugees during the first year. During the second year, the remaining 54,000 could come from other countries as well – principally from Germany – in the event of a special emergency situation and after close inspection. It is not to be expected, however, that Germany will take advantage of the opportunity, which means Germany would be taking in slightly more than 30,000 people.⁷

If we assume that approximately 35% of the refugees come to Germany, as in the year to date, the resolved redistribution will reduce the number of asylum seekers in Germany by around 23,000. That would be less than 3%, even if we were to apply the figure only to those asylum seekers expected in Germany this year.

The intense debates and occasionally highly disparate positions among the European countries is a clear indication that a joint European solution for dealing with the refugees is still a long way off. In reaching the agreement, which was not unanimous, to relocate a total 160,000 refugees – a figure that likely corresponds most recently to the influx of about one month – the member countries failed to even present a solution at the outset.

It is uncertain whether the member states will agree on a general alternative to the problematic Dublin system in the foreseeable future. The possibility being contemplated by the EU of establishing the mandatory quota regulation, so far proposed as an emergency measure, as a new, generally applicable system was neither (officially) the subject of debate at a recent meeting of the Council of Ministers nor at the informal meeting of the heads of state or government in Brussels on September 23. The summit meeting therefore requested that the member states “...maintain, apply and implement” the Dublin Regulation.⁸ To facilitate the organisational efforts involved with registering and identifying refugees in border countries as prescribed by the Dublin system and necessary for carrying out the agreed relocation, capacities in border countries – particularly Greece and Italy – which are deemed hotspots will be developed and expanded with financial and staffing support from the EU, according to the latest resolutions.

In another positive step towards a common European asylum policy, the Commission proposed in early September to prepare an EU list of safe countries of origin to facilitate asylum procedures in the member states. As part of the first step, there are plans to include the following countries on the list: Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey. The Council of Ministers of the Interior have so far been unable to reach a final agreement on the list, however.

But the decision was taken to engage in negotiations with Turkey. Plans call for Turkey to offer refugees who have taken up residence there better prospects of remaining in the country, such as through better access to the labour market. In addition, the country is tasked with better securing its borders to Bulgaria and Greece so that fewer refugees enter the EU. In return, the EU plans to support Turkey financially. It has offered Turkey a possible EUR 3 billion, though Turkey will likely demand a greater amount and especially visa facilitation for its citizens

⁷ See EU Justice and Home Affairs Council meets in Brussels. 120,000 refugees to be allocated to EU member states. September 22, 2015.
http://www.bundesregierung.de/Content/EN/Artikel/2015/09_en/2015-09-22-eu-innenministerrat_en.html;jsessionid=B734F823B2E50E467E78C95313FF3DE5.s2t2.

⁸ The summit participants agreed on aid for refugees in the UNHCR camps and support for the countries in the Middle East which have taken in refugees as priority actions. Plans also call for providing the refugees' countries of origin with support (countries in Africa and in the Western Balkans region). In accordance with the migration strategy, controls are to be enhanced at the EU's external borders, including through additional resources for EU institutions, such as Frontex, which are involved.

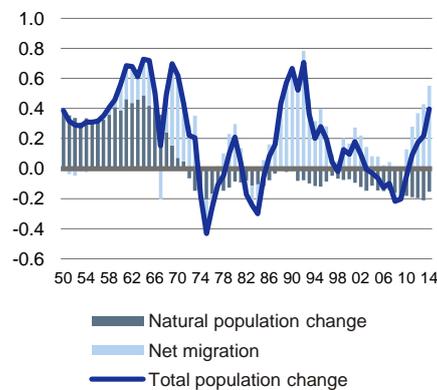


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Higher net migration has stopped population decrease since 2011

10

Million persons, Germany

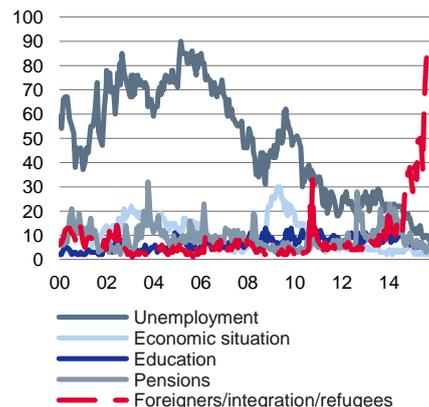


Sources: Federal Statistical Office, Deutsche Bank Research

Refugee influx named biggest problem since end of September

11

Maximum of two answers

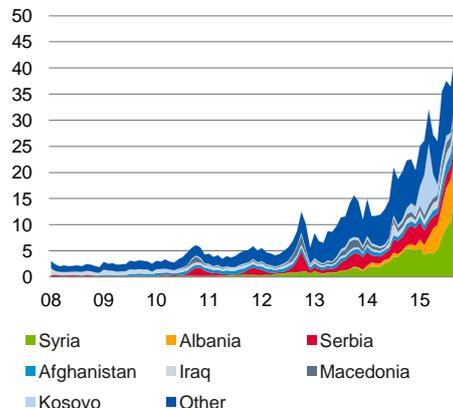


Source: Forschungsgruppe Wahlen: Politbarometer (October 23, 2015)

Number of asylum seekers and of ...

12

'000 persons, Germany



Sources: Eurostat, Deutsche Bank Research

in the Schengen area as well. In addition, Turkey aims at a swift resumption of the EU accession negotiations, which have been frozen.

Ultimately, there will most likely not be a comprehensive EU solution, but rather only compromises in certain regards. These may include a fairer distribution of the load, aid for border countries and assistance with relocation, an improvement of the situation in the places of refuge, stricter controls and longer-term measures for combating the reasons why refugees are fleeing their homes in the countries of origin in the first place.

This was the direction of the recent extraordinary EU meeting on the western Balkans migration route, at which the heads of state and government agreed on a 17-point plan. It includes various aims, such as better exchange of information, provision of shelter to refugees, joint management of the refugee flows and enhanced border management. Given that only eleven countries took part in the meeting, it is clear that a comprehensive EU solution is still a long way off and the measures taken so far resemble a patchwork.

Refugee influx raises net immigration to Germany to the record level of more than one million

While there is no sign that the EU will succeed in reaching an agreement on a common policy in the near future, the flood of refugees continues unchecked, especially migrants coming to Germany – the preferred destination country for the majority. Faced with this massive influx, Germany has reached its organisational limits in arranging the necessary emergency or initial lodging and first aid as quickly as possible – none of which would be possible without the tremendous assistance from private individuals and the culture of acceptance that took root at an early stage. As a result of the continued influx of refugees, the German population is becoming increasingly aware of the major challenge this poses, which is reflected in the results of the “political barometer” poll’s query about Germany’s most pressing problem: the answer “foreigners/integration/refugees” has skyrocketed.

In light of the global crises, the search for asylum as a reason for migration has grown significantly more important since 2013. The number of asylum applications initially rose to more than 200,000 in 2014. In the first nine months of 2015 alone, the number of asylum seekers reached 289,000, topping the figure for all of 2014. More than half of the asylum seekers came from the following five countries: Syria, Albania, Serbia, Afghanistan and Iraq.

This phenomenon has come on top of levels of labour migration that have already been increasing since mid-2010 due, on the one hand, to the opening of the labour market to Eastern Europe, and to the catastrophic labour market situation in some areas and sectors of those countries in Southern Europe hit hardest by the euro crisis on the other.⁹

⁹ Since 2011, there has been unlimited freedom of movement for workers for the eight countries that joined the EU in 2004 (Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania), which also went into effect in 2014 for Romania and Bulgaria, which joined in 2008, and applies to Croatia as well from July 2015. See Bräuninger, D.; Peters, H. (2015). Migration boom continued in 2014, but calls remain for policy action. Talking point. Deutsche Bank Research.

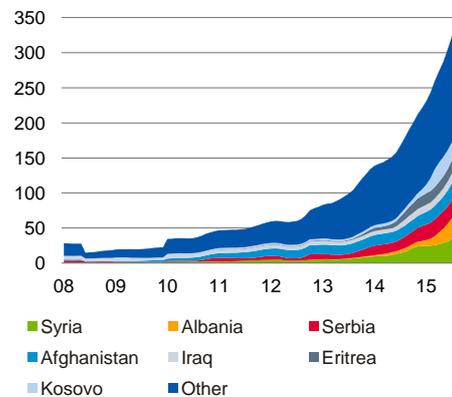


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... persons with asylum applications pending strongly up

13

'000 persons, Germany

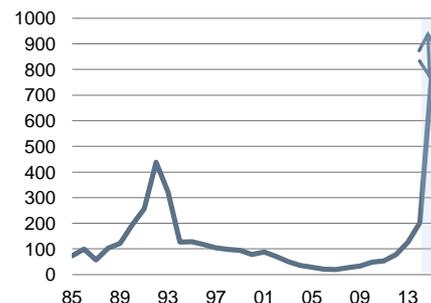


Sources: Eurostat, Deutsche Bank Research

Number of asylum seekers in Germany in 2015 likely at historic high

14

'000 persons



Sources: Eurostat, Deutsche Bank Research

Take-up rates: "Königsteiner Schlüssel" formula

15

Federal Land	Quote
North Rhine-Westphalia	21%
Bavaria	15%
Baden-Württemberg	13%
Lower Saxony	9%
Hesse	7%
Saxony	5%
Berlin	5%
Rhineland-Palatinate	5%
Schleswig-Holstein	3%
Brandenburg	3%
Saxony-Anhalt	3%
Thuringia	3%
Hamburg	3%
Mecklenburg-West Pomerania	2%
Saarland	1%
Bremen	1%

Source: BAMF

This year, a total of approximately 800,000 to one million refugees have made their way to Germany, which corresponds to between 1% and 1.2% of the population.¹⁰ In October alone, 195,000 refugees came to Germany according to the Bavarian interior ministry.¹¹ By itself, that already represents an historic record level of net migration to Germany. However, it is likely that on top of that several hundred thousand more migrant workers will come. The net migration of foreigners to Germany during the first six months of 2015 totalled 435,400, putting it 54% higher than the figure for the first six months of 2014. The net migration for all of 2015 may be well over the one-million mark. This trend could put Germany ahead of the United States, traditionally the No. 1 destination country for migrants.

Distribution of and housing for asylum seekers in Germany

The large (and partially unregulated) influx of refugees to Germany represents a tremendous challenge for the state, the economy and German society, which begins with the initial reception facilities. So far, it has been incumbent upon Germany's federal *Länder* to register the asylum seekers and provide them with initial housing. In future, however, the federal government will also be involved with these tasks. The federal government is also responsible for carrying out the (legal) asylum examination procedures. In principle, asylum seekers are allocated to the individual federal *Länder* as based on the formula known as the "Königsteiner Schlüssel", which is anchored in the Basic Law for the Federal Republic of Germany. The share of asylum seekers allocated to the individual federal *Länder* is determined by their tax receipts, which account for two-thirds of the formula, and their population numbers, accounting for one-third. (However, the *Länder* can agree on rules which deviate from these by mutual consent under certain conditions.) Based on this method, most asylum seekers end up in North Rhine-Westphalia (see table 15).

In terms of the further distribution of asylum seekers within the *Länder* at the municipal level, as a rule, the *Länder* also gear their approach towards the criteria of the "Königsteiner Schlüssel", so that as a matter of principle, fewer asylum seekers must be provided for in structurally weaker regions. The municipalities are also responsible for paying for the benefits stipulated by the German Asylum Seekers' Benefits Act (*Asylbewerberleistungsgesetz - AsylbLG*).

Accommodation at initial reception facilities is temporary. The legislation in force since October 2015 stipulates a maximum housing period of six (previously three) months in principle. Applicants from safe countries of origin, however, are obliged to live in the provided accommodation for the entire duration of the asylum examination procedure. Due to the extremely high number of refugees in the country at the present time, the capacities of the initial reception facilities are no longer sufficient. Consequently, many asylum seekers are being allocated to the municipalities ahead of schedule. The districts, cities and municipalities currently face a Herculean task as it is. They have to provide lodging for the asylum seekers and cope with the wide range of tasks that ensuring basic services and helping them to integrate entails (see p. 13 ff.). To facilitate accommodation, lawmakers have now eased building, zoning and energy standards for reception facilities, shared accommodation and other housing for refugees.

¹⁰ BAMF is working from the assumption of 800,000 refugees (forecast communication regarding the number of registered persons in the EASY distribution system in accordance with 44(2) Asylum Procedure Act dated August 20, 2015), while Federal Minister for Economic Affairs and Energy Sigmar Gabriel was already speaking of one million refugees as early as mid-September (Sigmar Gabriel zur Flüchtlingspolitik. 14. September 2015 - Kein Land kann die Aufgabe allein stemmen).

¹¹ Flüchtlingsgipfel - ein Thema im Bericht aus Berlin. Was geht, was nicht? tagesschau.de, 01.11.2015.



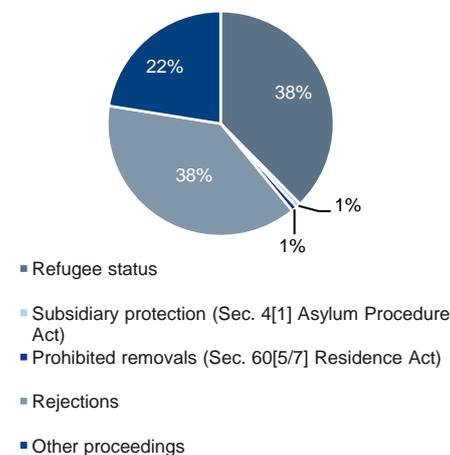
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Lengthy examination procedures to date

Decisions on asylum applications

16

% total decisions on asylum applications
Jan/Sep 2015



In Germany, the average processing time for asylum applications is currently 5.4 months. The processing time has picked up as compared to 2014, when the average processing time for applications was 7.1 months. In the first six months of 2014, processing times were even as high as 11.1 months. However, there is a lot of variation within the average figures with respect to the duration of the procedures for individual countries of origins. While the examination procedures for applicants from Syria took an average of 4.2 months in 2014, for other countries, the average processing time until a decision was reached by the appropriate authorities was nearly a year or longer. However, these figures do not include the (average) length of possible legal proceedings. Moreover, experts say that it can take several weeks before asylum seekers even lodge (or are able to lodge) an application and the corresponding file is created.

For the entire duration of the examination procedure, applicants have the right of residence in Germany (temporary residence permit) as a matter of principle. According to the official statistics for the end of 2014, there were just under 178,000 temporary residence permits for persons from third countries outside of the 28 EU member states. Nevertheless, the lengthy examination procedures seen at present appear particularly problematic. The EU Procedures Directive stipulates that an examination procedure must be completed after six months. However, the time limit for the examination procedure may be extended for a period not exceeding a further nine months if (among other criteria) "...a large number of third-country nationals or stateless persons simultaneously apply for international protection".¹²

The public authorities, however, are working on reducing the amount of time necessary for completing examination procedures. Since autumn 2014, the German Federal Office for Migration and Refugees (BAMF) has considerably increased the number of employees for processing and accepting applications to around 3,300 at the moment, and it will take on additional staff by the end of November. Frank-Jürgen Weise, the new head of BAMF, has announced that BAMF's capacities will receive an additional boost in the form of 3,000 employees from the German Federal Employment Agency. On top of this, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia have held "safe country of origin" status since November 2014. They were joined by Albania, Kosovo and Montenegro at the end of October. This goes hand in hand with the efforts to process applications lodged by persons from these countries more quickly. In addition, BAMF introduced an accelerated asylum procedure for Syrians and religious minorities from Iraq in mid-October 2014. This procedure was extended at the end of June 2015 to include Eritreans as well. Despite rising application numbers, the German federal government aims to reduce the average duration of asylum examination procedures to three months and to limit their length to a maximum of five months in 2016.

Large backlog of pending examination procedures

The tremendous rise in the number of asylum seekers, on the one hand, and the relatively long examination procedures on the other, have resulted in a dramatic increase in the number of pending procedures yet to be decided upon. In the last twelve months alone, from September 2014 to August 2015, the backlog of pending procedures has nearly doubled from 190,500 to 346,000 (see figure 13). That corresponds to 54% of all examination procedures pending in the EU. These figures also demonstrate the need to further expedite asylum

¹² Directive 2013/32/EU on common procedures for granting and withdrawing international protection (new version) from June 26, 2013.



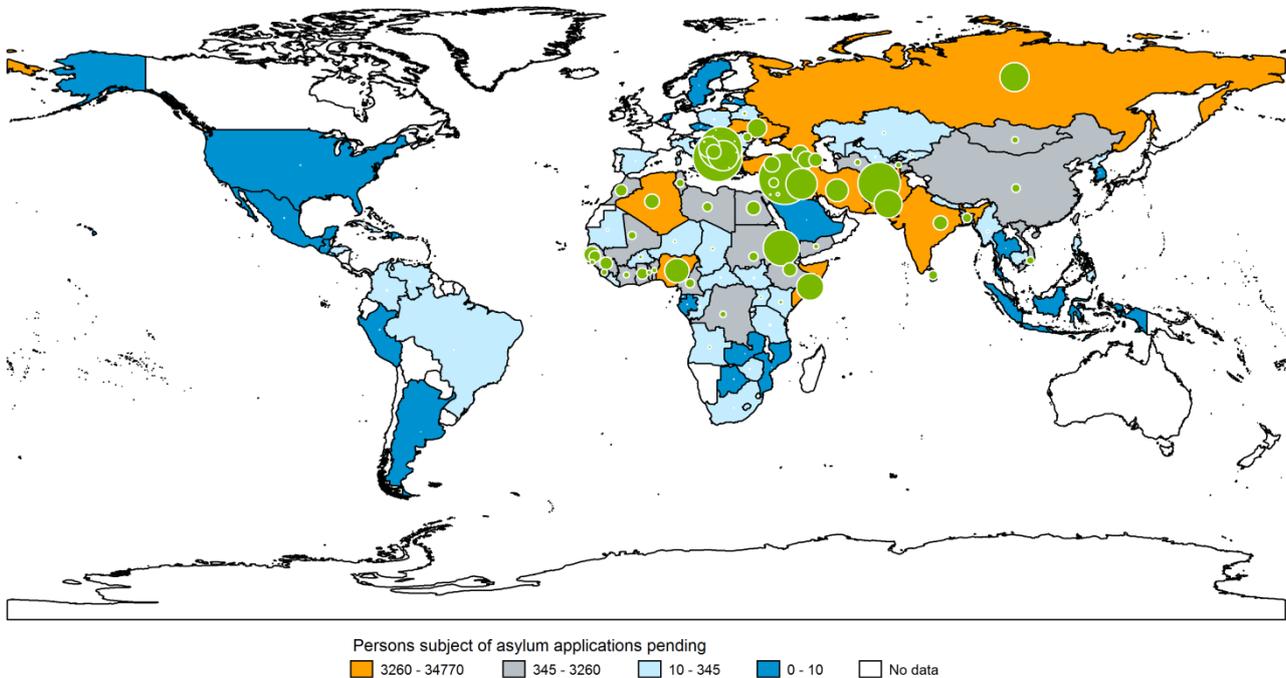
Influx of refugees: An opportunity for Germany

procedures in Germany. Of course, the number of pending procedures in the specified time period has also risen dramatically in other countries, such as Sweden.

Persons with pending asylum applications in Germany by country of origin

17

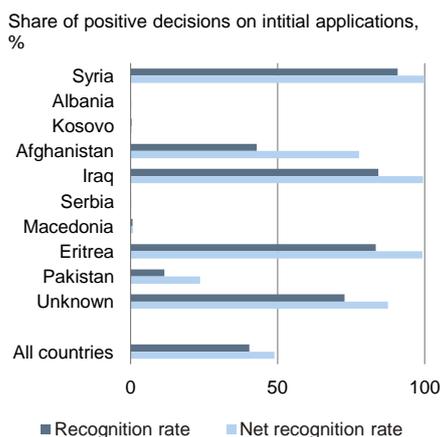
'000 persons, August 2015



Sources: Eurostat, Deutsche Bank Research

Recognition rates for applicants from top 10 origin countries 2015*

18



* January - September

Sources: BAMF, Deutsche Bank Research

More than half of the decisions are favourable at present

Due to the length of the procedures, the number of decisions is increasing only after a corresponding delay. From January to September 2015, BAMF reached decisions in more than 174,500 cases (151,100 of which concerned initial applications). As a result, the number of decisions made in these nine months has already surpassed the total figure for all of 2014 (128,900) by more than one-third. Of those decisions made this year, around 39% or 68,300 were favourable.¹³ In 2014, favourable decisions totalled 31.4%. Up to and including September of this year, 38.4% of applications were denied (2014: 33.4%).¹⁴

A look at the rate of protection for individual countries of origin reveals that asylum seekers from crisis areas suffering from war and/or displacement, such as Eritrea, Syria and Iraq, enjoy a high rate of acceptance for refugee claims. Adjusted for formal decisions (see footnote 13), the (net) rate in the first nine months of 2015 was nearly 100%. The number of favourable decisions made in cases of people whose origins are not known is also above average. However, the adjusted rate for those countries declared safe in autumn 2014 amounted to only around 0.8% or lower. Similarly, in 2015, favourable decisions have been

¹³ The favourable decisions, which imply a right of protection or residence in Germany, are based on a variety of legal considerations. In addition to recognition as a refugee pursuant to the Geneva Convention (Section 3[1] Asylum Procedure Act and Article 16a Basic Law), these include subsidiary protection (Section 4[1] Asylum Procedure Act) and prohibition of deportation (Section 60[5] and [7] Residence Act).

¹⁴ In just under one-quarter of the cases (22.5%), the decisions are purely formal and can be concluded without closer examination because an earlier application was already denied or the applicant has withdrawn his or her application. If the formal decisions are factored out of the equation, the net protection rate – meaning the share of favourable decisions – amounts to 48.5% for 2014 and 51% for January to August 2015. Thus, in the current year, more than half of the decisions have been positive, and the trend is rising.



Influx of refugees: An opportunity for Germany

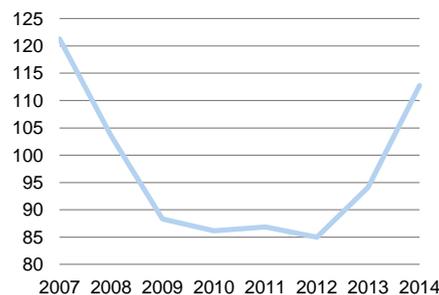
reached for only 0.2% and 0.4% of the (initial) applications from persons from Albania and Kosovo. The corresponding acceptance rates in terms of follow-up applications are not substantially different either. There is a clear trend towards decisions in favour of applicants from crisis areas, while positive decisions are made for only a small number of requests from (safe) Balkan countries (approximately three out of 1,000 from January to September 2015).

Relatively low number of repatriations, many tolerated persons

Number of tolerated persons in DE from third countries to EU-28

19

End of the year, 1,000



Source: Federal Statistical Office

Migrants whose applications have been rejected must leave the country or be deported. In 2014, 10,900 people were sent back home – nearly 7% more than in 2013. In addition, some 4,000 people were repatriated to their countries of origin within six months after irregular entry in 2014 (2013: 4,500). In the first six months of 2015, 8,200 asylum seekers whose applications were denied were repatriated. Compared to the same period in 2014, this represents an increase of 42%. According to the information provided, more than 12,600 people returned voluntarily to their countries of origin by the end of June 2015; 85% of them came from the Western Balkans. The federal government and the *Länder* have now committed themselves to the strict enforcement of the rejected asylum seekers' obligation to leave Germany.

However, not all such people whose asylum applications have been rejected and who do not comply with the obligation to leave the country are here illegally. Instead, they can obtain the status of "tolerated persons" if deporting them is not possible under international law or for humanitarian or political reasons. The number of tolerated persons has risen dramatically in the past two years from almost 85,000 at the end of 2012 to 112,800 at the end of 2014.

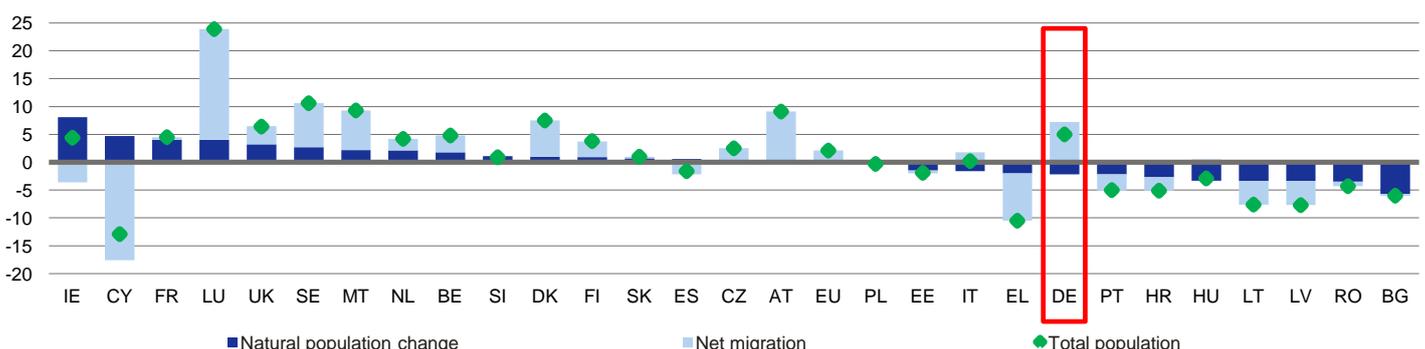
Influx of refugees: An opportunity for Germany

In light of the formidable demographic challenges ahead, the German labour market's excellent situation by international comparison, the shortage of skilled professionals growing more acute in the medium term and the favourable fiscal situation, the influx of refugees has the potential to prove beneficial to Germany in the medium and long term. However, this will require the successful integration of the refugees and asylum seekers into the labour market and German society, which will take considerable effort on the part of the German populace as well as the migrants. In addition, an established culture of acceptance and integration stands to enhance Germany's appeal as a destination country for migrants and thereby also attract a growing number of more highly qualified workers in the medium term.

Net migration compensates for relatively strong decrease of the domestic population in Germany

20

Per '000 persons (of the average population), 2014



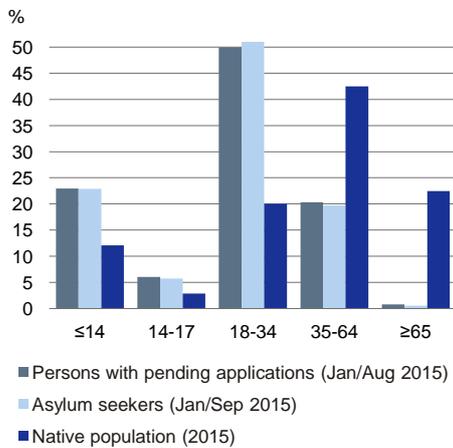
Sources: Eurostat, Deutsche Bank Research



Influx of refugees: An opportunity for Germany

Refugees markedly younger than German populace

21



Sources: Eurostat, Deutsche Bank Research

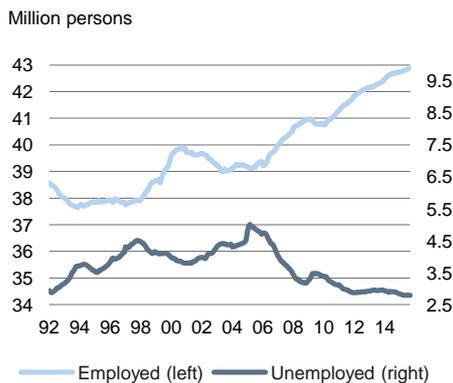
New population dynamics: More people, better age structure

Compared to other countries in Europe, Germany is facing considerably greater demographic changes. The country's domestic population has been declining for more than 40 years now, and the trend may become even more acute in the years ahead. However, immigration has prevented a decline in population numbers time and again, which has also been the case in recent years since 2011. Since then, net immigration has risen from 279,000 to 550,000 people in 2014. However, the resulting balance for 2008 and 2009 was negative. In the past five years since 2010, about 1.8 million people have moved to Germany in net terms, so that factoring in a decline of the domestic population by 932,000, the population grew in size by 820,000 people.

In addition to normal migration to the country, the refugees are also having a very positive impact on the age structure of Germany's population, which faces the risk of ageing in the long term if immigration declines. In the past, the average age of immigrants upon their arrival in Germany was 23.3 years, which is considerably below the average age of the population overall (44.5 years) and people without a migration background (46.8 years). The refugees who are arriving in Germany at present are also considerably younger. Accounting for some 70% of the refugees, men are highly overrepresented. The share of those refugees who are younger than 18 years is around 30%, while 18- to 64-year-olds make up approximately 70%. These same figures in terms of the German population are 15% and 62%, respectively.

Employment at record high...

22



Sources: Federal Employment Agency, Deutsche Bank Research

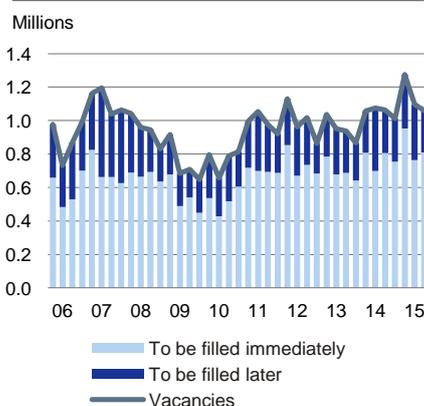
Successful integration is the decisive factor

Given the uncertainty about the further development of numerous international crisis hotspots, the lack of availability of extensive, reliable data about socio-economic characteristics and the uncertainty as to whether the refugees arriving in Germany will indeed be able to exploit the human capital they built up in their home country, we examine two scenarios as based on our population model¹⁵ to which we compare the hypothetical scenario of neutral net migration. In the hypothetical scenario without net immigration or adaptive responses by the domestic population concerning a longer professional life, for example, the population would shrink in the next ten years by approximately 3.5 million people, and the labour force potential would decrease by as much as 4.5 million people on account of the baby boomers going into retirement. The growth potential would likely drop considerably in this scenario – from approximately 1.5% at present to around just 0.5% in ten years, and could even become stagnant by 2030. It would scarcely be possible to sustain the pay-as-you-go pension system in its current form without drastic cuts.

The short-term economic and fiscal effects of the influx of refugees are very similar in the two other scenarios we consider. They are first outlined below before being used to demonstrate the potential medium- and long-term effects.

More than one million vacancies

23



Source: IAB

German labour market in great shape

The excellent condition of the German labour market currently provides favourable conditions on the whole for taking in additional workers. The employment level is at an all-time high, and the unemployment rate remains at the lowest level since reunification. Aggregate vacancies for the regular labour

¹⁵ Our calculations assume a constant birth rate of 1.4 and an increase in the life expectancy at birth of +7.2 years for men and +6.1 years for women by 2060.

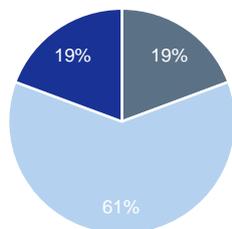


Influx of refugees: An opportunity for Germany

About 20% of vacancies are for persons with no formal qualification

24

%, Q4 2014



- No formal qualification
- Formal educational qualification
- University of applied sciences or university degree

Source: IAB

market amounted to just over one million positions in Germany in the second quarter, of which nearly 80% were ready to be filled with immediate effect.

Broken down by qualification, some 20% of them comprised positions for unskilled labour, around 60% for workers who have completed formal training and around 20% for people with a degree from a university or technical college. The difficulty many companies face in trying to fill vacancies rapidly is reflected in the rise in the amount of time a position remains vacant – measured from the departure of the previous worker to the date when it is filled again. The year-to-date vacancy length is 84 days on average. Broken down by requirement level, complex specialist activities currently face the biggest bottleneck (88 days), followed by specialist activities (84), highly complex activities (83), and unskilled or semi-skilled activities (68 days). Compared to 2014, the vacancy period for unskilled or semi-skilled activities saw the largest increase of seven days. Approximately one-third of these positions are vacant for longer than three months.¹⁶ The simultaneous emergence of some 200,000 vacant jobs for workers who do not have qualifications/are unskilled and a sustained high unemployment rate of more than 20% for people without training or qualifications reveals existing mismatch problems. Evidently, it is not possible in many cases to fill the vacant positions with the domestic workforce.

Due to the current lack of information about the qualifications of the refugees and the possibility of exploiting the human capital they built up in their home countries on the German labour market, it is scarcely possible to assess whether the additional labour supply (in the medium to long term) as a result of immigration will eliminate mismatches on the labour market.

U-shaped refugee qualification structure?

Sharp increase in vacancy periods

25



Sources: Federal Employment Agency, Deutsche Bank Research

In the case of many asylum seekers, considerable human capital investment – financed largely by the state – will likely be necessary before it is even possible to integrate such persons into the German labour market. No reliable data on the asylum seekers' qualification structure is currently available. Assessments are further complicated by the fact that many asylum seekers enter Germany without documentation of their professional or academic qualifications. Typically, the refugees arriving in Europe do not come from among the most impoverished social groups in their home countries and boast a better qualification structure.¹⁷ However, consulting qualification statistics of the countries of origin would only be of limited use to an analysis, since it is unclear whether the migrants' previously acquired human capital can be utilised in a similar way on the German labour market.

According to information from the German Federal Employment Agency, more than half of the asylum seekers may not have completed vocational training. However, between 15% and 25% have a university degree, according to the same information. These figures indicate a U-shaped qualification structure. Many of the migrants are well qualified, though a large proportion of them are insufficiently qualified. Those with medium-level qualifications are underrepresented. In light of such estimates, the German Federal Ministry of Labour and Social Affairs anticipates additional need for funding dedicated to integration and social services totalling between EUR 2.3 and 2.8 billion.¹⁸

¹⁶ German Federal Employment Agency (2015). Analyse der gemeldeten Arbeitsstellen nach Berufen (Engpassanalyse). August 2015.

¹⁷ OECD (2015). Is this humanitarian migration crisis different? Migration Policy Debates No 7. September 2015.

¹⁸ Federal Ministry of Labour and Social Affairs (2015). Gemeinsam jetzt an die Lösung der Aufgaben machen. Die Bundesministerin für Arbeit und Soziales, Andrea Nahles, im Interview mit dem Deutschlandfunk vom 20. September 2015. <http://www.bmas.de/DE/Presse/Interviews/2015/20-09-15-deutschlandfunk.html>.



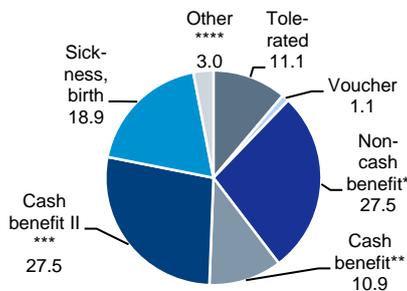
Influx of refugees: An opportunity for Germany

Dramatic increase initially in expenditures for asylum seekers' housing and subsistence, and ...

Public expenditures for asylum seekers benefits 2014

26

%, total gross EUR 2,396 bn



* incl. housing, excl. transit camps,
** for personal needs ("allowance"), *** to cover living expenses ; **** e.g. relocation and travel costs, care benefits, baby articles

Sources: Federal Statistical Office, Deutsche Bank Research

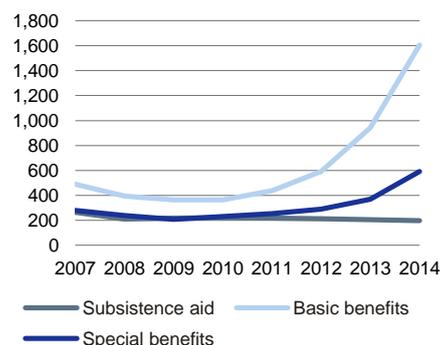
In the short term, taking in refugees is always associated with significant costs, as people with temporary residence permits – in this case, asylum seekers with ongoing examination procedures – have the right to receive benefits and services according to the German Asylum Seekers' Benefits Act. This includes the right to accommodation, benefits that ensure the minimum conditions for their physical subsistence and healthcare. Providing accommodation consists of two stages. The first stage takes place at the central "initial reception facilities" of the federal *Länder* (cf. p. 7). Asylum seekers must stay at the reception facility for at least six weeks, but no longer than six months. In this respect, they do not enjoy the right of freedom of movement.¹⁹ In the second stage, which usually lasts until they are recognised or the procedure has been concluded, the asylum seekers are housed in a decentralised fashion within the respective *Länder* in "shared accommodation". However, another type of housing is also possible. As a result, the districts and cities responsible are currently housing asylum seekers in (rented) flats or hotels as well as provisional facilities (gymnasiums, tent camps, unused commercial properties). Asylum seekers receive the right of unrestricted freedom of movement only after their procedure has been concluded with a positive outcome.

Besides accommodation, asylum seekers also receive other basic benefits during the examination procedure to ensure their physical subsistence, as well as services in case of illness, pregnancy or giving birth.²⁰ In addition, all persons entitled to benefits receive a monthly sum – known as "pocket money" – for covering personal, day-to-day needs. The total amount of the pocket money is determined according to age and family status (see below). According to the most recent changes to Germany's asylum laws, pocket money is to be replaced in future at initial reception facilities by in-kind benefits, provided that it makes sense and is possible to do so from an administrative standpoint. Financial benefits will also be disbursed only one month in advance. If the asylum seekers do not live in a reception facility, the need for ensuring their subsistence is primarily covered by cash sums paid out in addition to the pocket money.

Gross expenditures for asylum seekers by type of benefit

27

Benefits acc. to Asylum Seekers' Benefits Act
EUR million



Source: Federal Statistical Office

Tolerated persons also receive corresponding benefits. At the end of 2014, a total of some 363,000 people obtained standard benefits in accordance with the German Asylum Seekers' Benefits Act. Benefits were granted to 115,000 people for situations involving special requirements, such as illness, pregnancy and giving birth.

In 2014, the state paid a net total of EUR 2.36 billion for the benefits and services in question, nearly EUR 870 million – or 58% – more than it did in 2013. In-kind benefits (including lodging, but excluding stopover facilities) and subsistence payments, especially for people living outside of facilities, each accounted for slightly more than one-quarter (27.5%) of the gross expenditures, which totalled EUR 2.396 billion. Nearly one-fifth went towards healthcare. The pocket money, which was the subject of intense public debate, amounted to almost 11%, or EUR 262 million.

¹⁹ In the case of asylum seekers who are not (or are no longer) obliged to live at a reception facility, but whose means of subsistence is not ensured, the requirement to live in a certain city or district comes into effect instead of the requirement to reside at a reception facility. The refugees are then able to move about all of Germany. However, social security benefits can only be obtained at the place of residence stipulated by the requirement. Any person who secures his or her own means of subsistence is not subject to this requirement and may take up employment anywhere in Germany.

²⁰ For accommodation at reception facilities, the essential needs for food, clothing, healthcare and durable and consumer goods are always covered by benefits in kind, though vouchers can also be distributed for clothing, for example.

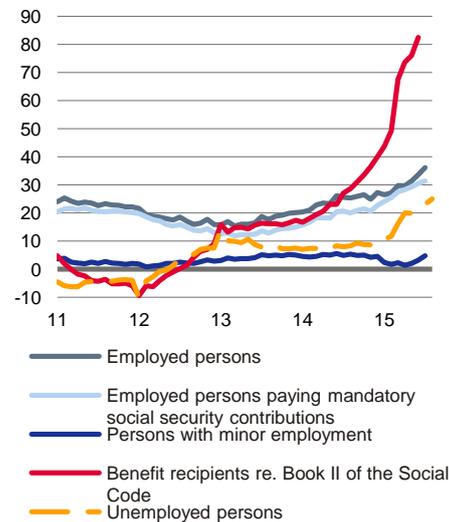


Influx of refugees: An opportunity for Germany

Sharp rise in benefit recipients and unemployed persons among those from asylum host countries

28

Benefit recipients re. Book II of the Social Code
Yoy change, '000 persons



Source: Federal Employment Agency, Auswirkungen der Migration auf den deutschen Arbeitsmarkt, August 2015

The regional authorities spent EUR 266 million on tolerated persons. The majority of that went to expenditures for people who have resided in Germany for longer than 15 months. The benefits available to this group of people are based on the basic income benefits (according to Book II of the Social Code, Hartz IV).

... a considerable increase in Hartz IV costs

If a positive decision is reached in the review of their application, the recognised refugees as well as beneficiaries of subsidiary protection or persons who cannot be legally deported (Section 60 (5/7) Residence Act) have the right to basic income benefits (Hartz IV, i.e. unemployment benefits type II, welfare benefits and education and participation benefits). The standard rates for Hartz IV are around 7% to 11% higher than the cash benefits for asylum seekers living outside of facilities. The state also pays for heating and housing costs, provided they are within reason. Of course, not all Hartz IV recipients actually receive the full standard rate. Some 1.2 million gainfully employed people, known as "Aufstocker", currently receive reduced benefits which supplement their earned income.²¹ In total, the claims of the nearly 6.1 million recipients amounted to EUR 34.3 billion in 2014.²²

Monthly cash benefits for asylum seekers (EUR per person)

29

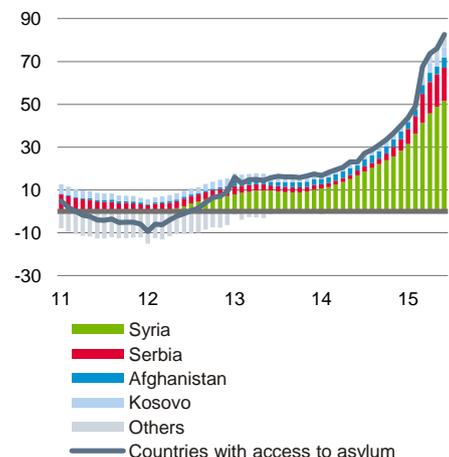
	Cash benefits for personal needs	Additional cash benefits for asylum seekers living outside of facilities	Cash benefits for persons outside of facilities
0-6	84	133	217
7-14	92	157	249
15-18	85	198	283
Single	143	216	359
With partner	129	194	323
Additional adults	113	174	287

Source: BAMF

Rise in benefit recipients, especially due to influx from Syria

30

Benefit recipients re. Book II of the Social Code
Yoy change, '000 persons



Source: Federal Employment Agency, Auswirkungen der Migration auf den deutschen Arbeitsmarkt, August 2015

However, there is no direct data on what proportion of the recipients consists of refugees or the expenses attributed to this group. As an alternative, it is possible to consult analyses of employment statistics by nationality. Changes to the basket of countries with access to asylum may have changed primarily on account of the influx of refugees.²³ The number of benefit recipients with regard to Book II of the Social Code has sharply increased by more than 80,000 yoy in June. For the most part, this trend has been driven by the rise in the number of transfer payment recipients from Syria. Hartz IV expenditures have already risen considerably as a result, and the majority of benefit recipients may be entitled to the full standard rate as it applies in their case respectively.

²¹ In 2014, the average net entitlement to benefits (including housing and heating) amounted to EUR 396.30 per capita per month. See: BIAJ (ed.) (2015). Bremer Institut für Arbeitsmarktforschung und Jugendberufshilfe. Hartz IV: Personen und Zahlungsansprüche - Bund und Länder 2008 bis 2014 (SGB II).

²² The standard rates were raised in the meantime by around 2% at the start of the year.

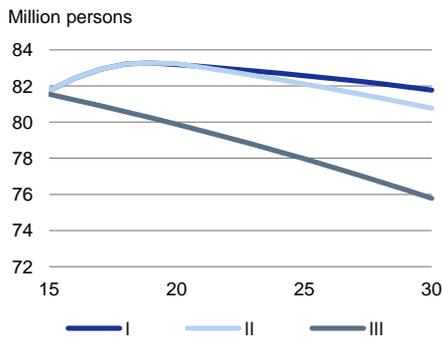
²³ According to the Federal Employment Agency, they are the following 15 countries: Afghanistan, Albania, Bosnia-Herzegovina, Eritrea, Iran, Iraq, Kosovo, Macedonia, Nigeria, Pakistan, Russian Federation, Serbia, Somalia, Syria and Ukraine. See Federal Employment Agency (2015). Hintergrundinformation - Auswirkungen der Migration auf den deutschen Arbeitsmarkt. Nürnberg, September 2015.



Influx of refugees: An opportunity for Germany

Only high net immigration could prevent a decrease in population ...

31

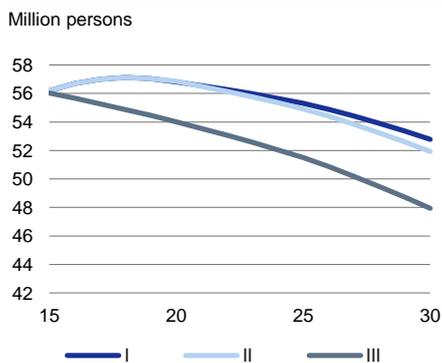


Scenarios:
I Net immigration drops to 200,000 p.a.
II Net immigration drops to 100,000 p.a.
III Net immigration = 0

Sources: Federal Statistical Office, Deutsche Bank

...stabilise labour force potential and...

32

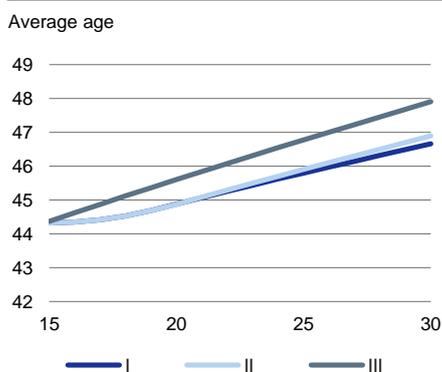


Scenarios:
I Net immigration drops to 200,000 p.a.
II Net immigration drops to 100,000 p.a.
III Net immigration = 0

Sources: Federal Statistical Office, Deutsche Bank

...mitigate the impact of an ageing population

33



Scenarios:
I Net immigration drops to 200,000 p.a.
II Net immigration drops to 100,000 p.a.
III Net immigration = 0

Sources: Federal Statistical Office, Deutsche Bank

Integration and participation benefits need to be expanded

In addition to subsistence benefits, the state provides different means of aid and assistance whose aim is to promote the integration and participation of migrants in German society. Such aid is available at a particularly early stage for children and young people. Children with temporary residence permits have the right from the age of one year to day care (playschool [*Horst*], preschool [*Kindergarten*] from the age of three) until they begin attending school. The respective youth welfare office in charge bears any costs associated with these services. Children and young people from the ages of six to 16 are obliged to attend school after residing in Germany for three months. The municipalities must provide the necessary space for these services and see to the staff for the childcare facilities, while the *Länder* are responsible for staffing schools.

Adults are not entitled to integration and participation benefits to the same extent as children and young people. To date, only recognised refugees have the right to attend an integration course.²⁴ However, (state) services for asylum seekers are still in the development stages or currently being expanded. In collaboration with the Bavarian State Ministry of Labour and Social Affairs, Family and Integration, BAMF has designed a concept for a course focused on providing asylum seekers with initial guidance and helping them to learn German, for example. The federal government has also committed itself as a matter of priority "... to giving asylum seekers and people with 'tolerated stay' status who have good prospects of staying in Germany access to 300 hours of integration courses as a top priority ... Once their entitlement to protection is officially recognised this is to rise to 600 hours."²⁵

Two contrasting scenarios

After a considerable cost burden at the outset, the extent to which the influx of immigrants will lessen the challenges Germany faces as a result of demographic changes as well as bring relief to Germany's social security funds hinges on how successful the integration of younger immigrants into the school system and those of working age into the labour market is. To illustrate the differences, the following sections present the calculations for two scenarios – win-win and lose-lose – for the period of the next ten years. Both scenarios are based on the working assumption that the influx of refugees will remain at a high level for the next three years and then drop back down to the average figure from the 2000s of 50,000 per year. In terms of labour immigration, our assumption is based on a varying development. In the positive scenario, Germany is a shining international beacon thanks to a continued culture of acceptance and therefore fares better in competing for talent, while net immigration tails off in the medium term down to 200,000 people per year. However, the basis for the pessimistic scenario is a fall in net immigration to 100,000. Of course, none of the scenarios presented here will actually happen as described. They serve instead to outline two possible – and highly contrasting – paths of development.

²⁴ Such a course consists of language and orientation components and generally lasts 660 hours. These courses are mandatory for refugees who are unable to express themselves in a simple or sufficient manner in German. People who have already completed an integration course or whose German is already sufficient and are registered as seeking employment and/or receiving Hartz IV or unemployment benefits I can also receive occupation-related language assistance. Plans called for a total of 25,000 spots for these courses in Germany in 2015. The capacities are now to be expanded in the near term to 100,000.

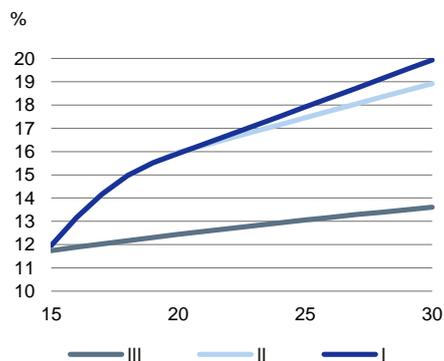
²⁵ The Federal Government (2015). Refugees – federal government to double financial assistance. http://www.bundesregierung.de/Content/EN/Artikel/2015/06_en/2015-06-18-spitzentreffen-im-kanzleramt_en.html.



Influx of refugees: An opportunity for Germany

Percentage of foreigners could double by 2030

34



Scenarios:
I Net immigration drops to 200,000 p.a.
II Net immigration drops to 100,000 p.a.
III Net immigration = 0

Sources: Federal Statistical Office, Deutsche Bank

Win-win scenario: High level of net immigration reduces demographic challenges

In the win-win scenario, a relatively quick labour market integration is possible through a tremendous societal effort and large initial investments.²⁶ Immigration (in accordance with the assumptions outlined in the overview) ensures that there is no decline in the potential growth rate during the next five years and considerably mitigates the drop-off after that. Instead of decreasing to around 0.5% in ten years, it could still amount to approximately 1%. Employment may rise by some 1.7 million in the next ten years on account of immigration. The significant rise in employment levels will also bring considerable relief to the social systems. In particular, Germany's pension scheme will enjoy greater stability. The initial investments in the human capital of the recently arrived migrants, amounting to more than EUR 10 billion annually at the outset, more than pays off in this scenario for the country's domestic population.

Assumptions that form the basis of the scenarios

35

	Scenarios	
	Win-win	Lose-lose
Net immigration 2015-2025	5,250,000	4,450,000
of which		
Refugees	2,850,000	2,850,000
Labour migration	2,400,000	1,600,000
Deportation rate	37%	37%
Medium-term labour market integration rate (% of labour force)	50%	30%
Adjustment for initially low levels of productivity/working hours		
Refugees	40%	60%
Labour migrants	30%	40%
Unemployment for normal immigration	10%	25%

Source: Deutsche Bank Research

New momentum on the labour market through productivity-oriented wages, corporate citizenship and more self-employed workers

The key assumption of a swift integration process has wide-reaching implications, including new momentum on the labour market that is rather unlikely under the status quo conditions. But it is possible to shape the development on the labour market and break up old, rigid structures. The past decade provides proof of this. The reforms package known as Agenda 2010, coupled with moderate wage policies, created a favourable framework for boosting employment levels on a broad front that many in Germany had never considered possible before. These experiences provide a good argument for tackling the current situation with a similar approach used at the start of the last decade, removing obstacles to employment, especially for the less well-qualified refugees, facilitating productivity-oriented wages and also ensuring greater latitude and freedom for self-employment. As a general rule, the refugees are geographically mobile and flexible in their choice of job, and they are highly motivated to materially improve their living situation. We can be confident that

²⁶ Census data from the Federal Statistical Office was used as the basis for a rough estimate of the percentage of employed persons as well as the working time and productivity of immigrants vis-à-vis members of the domestic population. The negative wage gap of the younger age cohort was used as a rough approximation for the productivity gap, according to which the wage handicap amounts to 25%. The working time of foreigners is approximately 5% lower due to the different workforce structure.



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they will take advantage of new opportunities for easier access to the labour market and self-employed economic activity.

Lawmakers have already removed some specific barriers for refugees on the labour market. In autumn 2014, for example, the period that asylum seekers and tolerated persons must wait before having access to the labour market was greatly reduced to three months across the board. And thanks to the latest pieces of legislation, temporary work is now an option at a considerably earlier stage than it used to be. In terms of highly qualified workers and professions facing a staffing bottleneck, temporary work is now possible after three months, and after 15 months instead of four years for other refugees. However, the year-long “priority check”, which enables asylum seekers to take up a position only if there are no other similarly qualified applicants (though this does not apply to highly qualified workers or professions facing a staffing bottleneck), no longer seems in keeping with the times.

To accelerate the creation of new jobs, the issue of labour costs should also be addressed. From an economic perspective, a convincing case for our assumption that even the hundreds of thousands of less well-qualified refugees will find a job in the years ahead can only be made if the German minimum wage of EUR 8.50 – high by international standards – is temporarily suspended or considerably reduced. A look at France provides evidence that suggests taking such action would be justified. France’s minimum wage, which is also high, is considered one reason for the country’s high youth unemployment rate²⁷ which especially affects young people with a migration background. The necessary cut to the minimum wage may admittedly result in an increase of the number of Hartz IV “Aufstocker” who receive benefits to supplement their income. But the alternative to productivity-oriented wages would be even more unemployed Hartz IV recipients or public employment programmes and/or wage subsidies for companies that employ refugees to such a degree that would not be soundly affordable, even in Germany. Such programmes and especially incentives for companies to hire less qualified workers could prove to be helpful and potentially even indispensable as supplemental measures in terms of labour market policy to have a chance at swiftly integrating the refugees. However, they are not a substitute for a viable, long-term adjustment using market mechanisms.

Irrespective of the necessity of wages that are in line with the market and supplemental hiring incentives, companies can also get involved with the task of integrating migrants in a number of ways, and we are proceeding from the assumption that this will indeed happen. For example, companies could make (more experienced) employees available (on a part-time basis) as mentors who train refugees either at or outside the place of business. Doing so could create opportunities for many refugees who are not suited to traditional (dual) training, such as for reasons of age. In this way, it is plausible that additional jobs – especially in the care services sector which is experiencing increasingly stronger demand – could be created relatively quickly.

The self-employment sector also harbours potential for expansion. Why shouldn’t refugees fill the role of employer for other immigrants from their homeland? It would also remove the pressure to have an excellent command of German right away. It would suffice if their boss had the necessary German skills and could be responsible for communicating with customers, on the one hand, and providing his or her employees with instructions on the other – even doing so remotely, if necessary, with modern means of communication if employees find themselves doing a job on-site at the customers’ premises, for example. In the services sector in particular, such as those services related to

²⁷ See e.g. Gorry, Aspen (2013). Minimum Wages and Youth Unemployment. *European Economic Review*, Vol. 64 C, pp. 57-75.



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household needs, there are likely still favourable opportunities for expanding such business models. KfW loans and other assistance programmes could help promote self-employment activities.

Measures for further opening up markets, such as the continued liberalisation of closing times, could also encourage the creation of jobs for employees as well as self-employed individuals. In general, requirements and regulations are being curbed in many areas, such as is the case currently with building regulations, in order to deal with the demands. Studies show that children from a migrant background have a very high readiness to learn.²⁸ However, in Germany, a lack of language proficiency has led to educational outcomes that are considerably below average. In this win-win scenario, priority is given to integration policies, and the low average age of the migrants is a major advantage where these are concerned.

Lose-lose scenario: Failed integration exacerbates distribution conflicts and is the source of sustained high levels of government spending

The likelihood of a lose-lose scenario in which there is failure to integrate migrants into the labour market increases if fewer of the necessary changes are made. The relatively high minimum wage is again a factor in this scenario, which also includes the failure to enact measures for further opening up markets, thereby considerably reducing the opportunities of less-qualified immigrants to establish a foothold on the official labour market. As a result, many of them have no choice but to seek work in the shadow economy. Competition for workers in the low- or minimum-wage sectors becomes intense in the absence of additional jobs. Employment opportunities may deteriorate in particular for less-qualified foreigners from earlier immigration cohorts and the wages above the minimum wage could come under pressure.

On the back of the failure to integrate migrants into the labour markets in this lose-lose scenario comes the failure to integrate them into society as well. In addition, there are just as few satisfying prospects for relatives who join their family members later. The number of unemployed persons shoots up, resulting in massive distribution conflicts and social tensions. There is an increasing tendency for parallel societies to form. The effort and expense of maintaining national security rise steeply. The danger of unrest similar to that seen in other European large cities grows considerably. This problem is rarely resolved in the longer term, as rising social security contributions and higher taxes in particular mean that there will likely be fewer available jobs.

In the short run, there may be a positive growth effect of around one-quarter of a percentage point as a result of increased consumption through state-financed transfer payments. The potential growth rate, however, is not likely to experience any boost in the medium term; instead, the rate's decline owing to demographic changes will be more likely to take its (full) toll and the unemployment rate will move towards 10%. The growing strain on social security systems experienced in the absence of immigration will be further intensified by a large percentage of the immigrants requiring permanent transfer benefits. The rising costs for social benefits and of maintaining national security could amount to well over EUR 10 billion per year in the medium term. The state would have to finance these expenses through tax hikes and/or larger budget deficits.

²⁸ See e.g. Stanat, Petra; Christensen, Gayle (2006). Schulerfolg von Jugendlichen mit Migrationshintergrund im internationalen Vergleich. Eine Analyse von Voraussetzungen und Erträgen schulischen Lernens im Rahmen von PISA 2003. Bundesministerium für Bildung und Forschung. Bildungsforschung Band 19.



Conclusion: Integration as a Herculean task and investment in the future

Europe is currently witnessing immigration at historic levels from war zones and crisis areas in its vicinity. As a result, the Dublin III Regulation for determining which country in the EU is responsible for taking in refugees and examining their applications for refugee status has not proved to be robust enough for handling the current situation. The consequently skewed distribution of asylum seekers within the European Union threatens to permanently harm the citizens' acceptance of the EU. A quota system that ensures a fairer distribution of the refugees among the member states could provide a remedy. The initiatives that the EU has launched with the aim of improving the refugees' situation in those areas where they are seeking safety, especially Turkey, as well as the (longer-term) elimination of the reasons why refugees are fleeing their homes in the countries of origin in the first place are helpful. However, the demand from some EU countries to loosen the debt rules because of the influx of refugees should be clearly rejected on account of the continuously high level of government debt.

Due to its high level of prosperity, favourable labour market situation and a widely signalled culture of acceptance, Germany will remain a magnet for refugees – especially since the social benefits for people in need of protection will continue to be relatively high. The German government, economy and society therefore face Herculean tasks. The initial reception and registration of the refugees, as well as providing them with housing, healthcare services and the necessary subsistence benefits, entail heavy costs. On top of that, there is the challenge of helping them obtain the necessary qualifications for employment and integrating them into German society. Priority must be given to creating the necessary capacities in preschools, schools and integration courses.

The immigration of so many young people to Germany, which has to contend with an ageing society, also represents a unique opportunity, however. Due to the low birth rate, which has persisted for more than 40 years now, and in light of the approaching retirement of the baby boomers in a few years, Germany faces the prospect of an increasing labour shortage and economic stagnation in the longer term. Immigration could counter these trends if the refugees are integrated successfully. The costs of integration should therefore be seen as an investment in Germany's future.

Based on experience, immigrants are geographically mobile and flexible in their choice of job, and they are very keen to improve their own economic situation. Many of them are willing to perform work that few workers within the domestic labour force are prepared to take on. In 2010, for example, nearly one-quarter of geriatric care staff had personal experiences as migrants.²⁹ Under the right basic conditions, a new wave of companies being founded – especially small businesses – is to be expected. In the services sectors, such as those services related to household needs, there is still great potential. Germany can and must become more creative. In doing so, Germany can expect greater flexibility on the labour market and more economic momentum. This applies all the more as the successful integration of the refugees stands to increase Germany's appeal in the global competition for highly qualified workers. Successful integration and a corresponding positive economic effect provide the basic assumptions in a win-win scenario that we propose. In the model calculations, the sustained high level of net immigration will go a long way towards attenuating the decline of the trend growth rate brought on by an ageing population. The social systems,

²⁹ Afentakis Anja and Tobias Maier (2014). Können Pflegekräfte aus dem Ausland den wachsenden Pflegebedarf decken? *Wirtschaft und Statistik*. March 2014, p. 173 ff.



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especially the pension scheme, will benefit from additional net contributors. In this scenario, immigration consolidates Germany's leading economic role within Europe.

However, failure to integrate refugees carries with it the potential threat of considerable economic and social upheaval. In this lose-lose scenario, Germany is unable to take advantage of the opportunities it has. Instead of new economic momentum, the costs of providing a high number of unemployed persons with social benefits and services as well as maintaining public safety will increase.

The negative scenario, which serves as a useful contrast, also aims to reveal what is at stake for Germany. This presents a good argument in favour of granting high priority to measures for the successful of integration of refugees. Beyond a proactive approach to helping the refugees obtain the necessary employment qualifications and integrating them, as well as the willingness of refugees to take steps to this end, barriers that impede access to the labour market and other regulations that stand in the refugees' way to engage in legal economic activity also need to be removed. This includes, in particular, certain adjustments – such as a temporary cut – to the minimum wage as a significant share of the refugees probably has to do intense job familiarisation and training measures after finding a job, which will be at the expense of the effective working time. At EUR 8.50, the minimum wage in Germany is relatively high. It therefore represents a considerable obstacle for less well-qualified workers – an obstacle that could prove too great for many refugees as well.³⁰ This must be prevented.

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³⁰ For a detailed analysis of the impact of the introduction of the minimum wage, see: Peters, H. (2014). Minimum wage of EUR 8.50 per hour: Grand Coalition on the wrong track. Deutsche Bank Research. Focus Germany. June 4, 2014. Peters, H. (2015) Minimum wage: First negative effects become visible. Talking point. April 20, 2015.



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