

## Talking point

### Migration boom continued in 2014, but calls remain for policy action

June 22, 2015

Germany was an attractive destination for migrants in 2014 for the fifth year in a row. The net migration balance climbed again by roughly 20% on the year and clearly exceeded the 500,000 mark for the first time since 1992.\* Roughly 1.4 million persons immigrated to Germany, the second highest total in the last 65 years (1992: 1.5 million). Since the beginning of the sovereign debt crisis in the eurozone in 2010 a net 1.7 million persons have migrated to Germany, so despite a shrinking domestic population the total population has expanded by approximately half a million.

Given the currently high demand for labour and the huge demographic challenges ahead, the higher immigration figure is a boon to the German economy as the majority of the migrants have found jobs and thus made much of the past few years' employment boom possible in the first place. In 2014, roughly one-third of the GDP growth of 1.6% is likely to have been attributable to immigration.

The main drivers of the immigration boom over the past few years were the opening of the German labour market towards eastern Europe on the one hand and the catastrophic labour market situation in the countries hit hardest by the euro crisis on the other. In 2014, slightly over half of the immigrants came from south-western, central and eastern Europe.

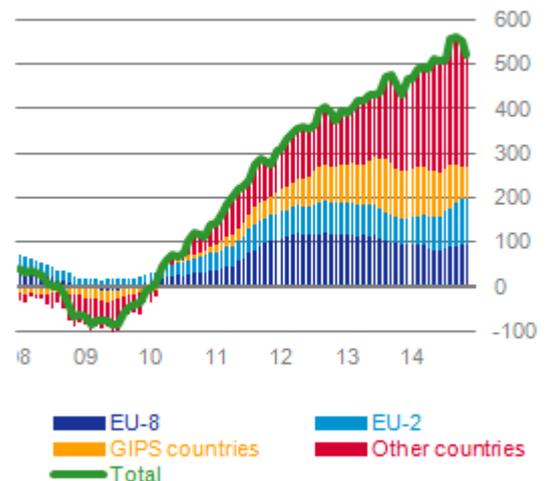
Since the start of May 2011 the eight countries which acceded to the EU in 2004 (EU-8: Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania) have enjoyed full freedom of movement of workers. The same applies since the beginning of 2014 to the accession countries of 2007, i.e. Romania and Bulgaria (EU-2). The much higher income levels in Germany were probably the chief motive for the migrants from central and eastern Europe to relocate. Net earnings in the EU-2 were roughly 85% below German levels, and in the EU-8 about 70%. About 75% of the immigrants from central and eastern Europe obtained gainful employment immediately. They mainly found jobs in the areas of administrative and support service activities (28%), manufacturing (13%) and construction (12%).

In terms of immigration from the eurozone, the persistently difficult labour market situation in many countries – Greece, Spain, Portugal and Italy (the GIPS countries) in particular – was likely the driving force for migration to Germany. In the GIPS countries, the unemployment rate ran to around 19%, even though it declined slightly in 2014. However, net immigration from the GIPS was down on the previous year in 2014 and totalled only about 70,000 persons (2013: 96,000). As there are 10.8 million unemployed persons in these countries this is hardly indicative of increased labour mobility within the eurozone. Around half of the GIPS immigrants took up a job, most of them finding work in hotels and catering (22%), administrative and support service activities (17%), and wholesale and retail trade, repair of motor vehicles (11%).

Over the past two years asylum seeking has also become a much more significant motive for migration. The number of initial asylum applications increased by 58% in 2014, to 173,000, or roughly 12% of the immigrants from abroad. About one-third of these initial applicants were from the Middle East and Afghanistan. About 25% came from the six Balkan countries of Serbia, Macedonia, Bosnia and Herzegovina, Kosovo, Montenegro and Albania.

#### Net immigration topped 500,000 in 2014

'000 persons



Sources: Federal Statistical Office, Deutsche Bank Research



Asylum seekers still face substantial obstacles in efforts to gain labour market access. True, the waiting period for asylum seekers and those given discretionary leave to remain was substantially reduced last autumn to a uniform three months. However, a "priority" check continues to apply after that – for a period of one year. This means that, in principle, market access is granted during this period only if there is no other equally qualified candidate for a given job. Thus, a restriction remains, even though the waiting period here was also noticeably shortened to the 4th to 15th months altogether and totally eliminated for skilled labour. Besides, asylum seekers and those given discretionary leave to remain are still barred from temporary agency work.

There are many persons not only among the asylum seekers who are not – or not able to be – economically active, though. The number of unemployed and marginally employed has also increased among the immigrants from central, eastern and southern Europe, as indicated by the statistics on recipients of social security. For instance, the share of those from the EU-2 and the EU-8 receiving social assistance (Hartz IV benefits in Germany) increased by about 4.5 percentage points (pp) and 0.5 pp to 15.4% and 11.3%, respectively, from December 2013 to end-2014. Moreover, in December 2014 around 12% of the population stemming from the GIPS countries applied for Hartz IV benefits – up from 11.1% one year earlier.

All of the above shows a further need for policy action. Government policy should promote immigration into the labour market. A clear signal is needed to show that skilled workers from abroad, and those from non-EU countries in particular, are welcome. An immigration law might be a help in this regard. Also, further efforts are required to facilitate the integration of immigrants into the labour market. Considering the continuing rise in the number of asylum seekers it is vital to dismantle the barriers to enter in this market and speed up asylum procedures. The access restrictions – not only for asylum seekers – resulting from misguided policy obviously include Germany's recently introduced minimum wage. Finally, a restrictive approach ought to apply to economically inactive migrants from EU countries seeking to access the social security system.

Swift improvements are overdue, especially considering that several of the ruling coalition's policies (think minimum wage and above all pensions package) have seriously perforated the much-vaunted "demography-proof" fabric of the German economy. The current immigration boom can at best only temporarily mask the demographically induced shortage of skilled labour.

\* The reading for 2014 is based on the migration figures from January to November. Net migration of zero was assumed for December, corresponding to the average balance of the previous two years.

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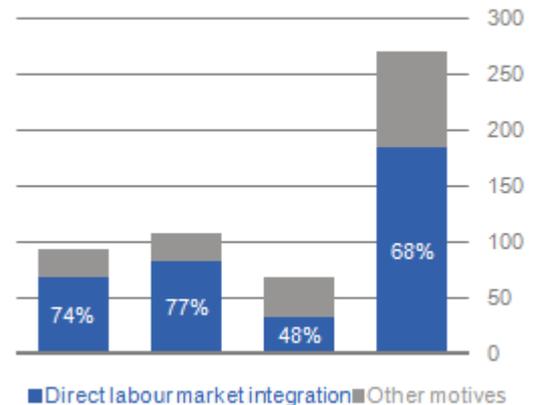
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## Large share of labour migrants

'000 persons, 2014



Total: Sum of EU-8, EU-2 and GIPS countries

Sources: Federal Statistical Office, Federal Employment Agency, Deutsche Bank Research

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