



POLITICAL UNCERTAINTY DAMPENING EUROPE'S ECONOMIC RECOVERY

ECONOMIC SITUATION

- **The modest economic recovery in the EU and Euro Area is expected to continue.** We forecast GDP to grow by 2.0% in the EU in 2016 and 1.9% in 2017. For the Euro Area, we expect growth of 1.7% in both 2016 and 2017.
- **Domestic demand remains the key driver of growth**, with EU private consumption expected to grow by 2.2% in 2016, while imports growth (4.5%) overtakes export growth (3.5%). **Investment is expected to gradually pick up** with 3.3% in 2015 and 3.4% in 2016 in the EU, although remaining below pre-crisis levels.
- **However, a number of global and domestic factors lead to substantial uncertainty and in many cases firms postponing investment decisions.** This includes the slowdown and rebalancing of China, the potential for renewed financial market instability, the upcoming UK referendum, as well as the ongoing migration crisis and the strain it is placing on the Schengen agreement.
- **We expect some gradual improvements in unemployment rates in the EU** (from 8.6% in 2016 to 8.2% in 2017) **and the Euro Area** (from 9.7% in 2016 to 9.4% in 2017), although strong country differences persist.
- **Inflation is set to remain low** in 2016 with 0.4% for the EU and Euro Area but to gradually increase to 1.3% in the EU and 1.4% in the Euro Area in 2017, once the effects of higher import costs and stabilising energy prices work through.

POLICY CONSIDERATIONS

- We support an independent **European Central Bank (ECB)** acting under its mandate to undertake the measures it believes are necessary to maintain price stability, and without prejudice to this, to support the economic policies of the union including full employment and balanced economic growth.
- The ECB's actions will be more effective if they are supported by **structural reforms** to increase urgently needed growth capacity. Member States must not use supportive monetary policy to postpone essential structural reforms and **fiscal consolidation** where necessary.
- Amidst continuing signs that world trade growth is slowing there is a need for the EU to press ahead with a number of **free trade agreements**, including **TTIP**, which would increase growth, prosperity and employment.
- **Migration** has the potential to increase overall EU GDP. But migrants need to be well integrated in the labour market – which is difficult to achieve – particularly to reduce the pressure on public finances.
- It is important that Member States and the EU give a **clear commitment to maintaining the integrity of the Schengen area**. A fragmentation of Schengen would undermine confidence, significantly reduce EU growth, and put at risk the ongoing recovery.
- While **access to finance**, particularly bank lending, is improving in many Member States, continued measures both to reduce country differences and improve access to diversified financing routes through implementation of the **Capital Markets Union** are essential.



WHAT IS THE ECONOMIC OUTLOOK?

The Economic Outlook twice a year provides a business insight into recent and projected economic developments in Europe, based on a survey of BUSINESSEUROPE Member Federations.

Answers to this spring's questionnaire were received in April 2016.

FOR FURTHER INFORMATION:

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1. OVERVIEW

The EU's economic recovery continues, albeit at a moderate pace

Over the last 6 months, EU businesses reported a gradual continuation of the economic recovery. In particular, businesses observed a continuing moderate increase in consumer spending, in line with lower energy prices supporting households' disposable income, and improvements in the labour market. Against this background, first growth estimates point to a relatively strong start into 2016 with EU GDP up by 0.5% in Q1 compared to Q4 2015, while GDP in the Euro Area grew by 0.6%.

However, the recovery is expected to remain only moderate and in part driven by temporary factors. A number of political issues are contributing to uncertainty which is weighing on business confidence. These issues include the migration crisis, and its potential impact on the Schengen agreement (considered in detail in two separate boxes), the UK referendum, and continuing slowing global trade growth. It is therefore essential that policy measures which can increase economic growth, particularly around product and labour market reforms, are pursued with vigour.

Overall, we expect growth to reach 2.0% in the EU and 1.7% in the Euro Area in 2016 (unchanged for the EU and a slight downward revision of -0.1 pp for the EA from our Autumn forecast) (table 2). Growth in 2017 is forecast to remain broadly unchanged from 2016 with 1.9% in the EU and 1.7% in the Euro Area. We expect inflation to remain low in 2016 with 0.4% for the EU and Euro Area but to gradually increase to 1.3% in the EU and 1.4% in the Euro Area in 2017, once the effects of higher import costs and stabilising energy prices work through.

Table 1 Economic prospects for the EU and Euro area remain positive

BUSINESSEUROPE main forecast

Main Variables	EU28		Euro area	
	2016	2017	2016	2017
Real GDP (annual % growth)	2.0 (+/-0.0)	1.9	1.7 (-0.1)	1.7
Inflation (%)	0.4 (-0.8)	1.4	0.4 (-0.7)	1.3
Unemployment (%)	8.6 (-0.4)	8.2	9.7 (-0.4)	9.4
government net lending (% of GDP)	-2.2 (-0.1)	-1.8	-1.9 (-0.1)	-1.6
gross public debt (% of GDP)	86.7 (+0.2)	85.5	92.0 (+0.2)	91.2
GDP components	EU28		Euro area	
	2016	2017	2016	2017
Private consumption (%)	2.2	1.8	1.8	1.6
Public consumption (%)	1.4	1.2	1.4	1.1
Gross fixed capital formation	3.3	3.4	3.3	3.1
Exports (%)	3.5	3.9	3.3	3.8
Imports (%)	4.5	4.4	4.3	4.5

Source: *BUSINESSEUROPE's forecast based on survey of Member Federations*



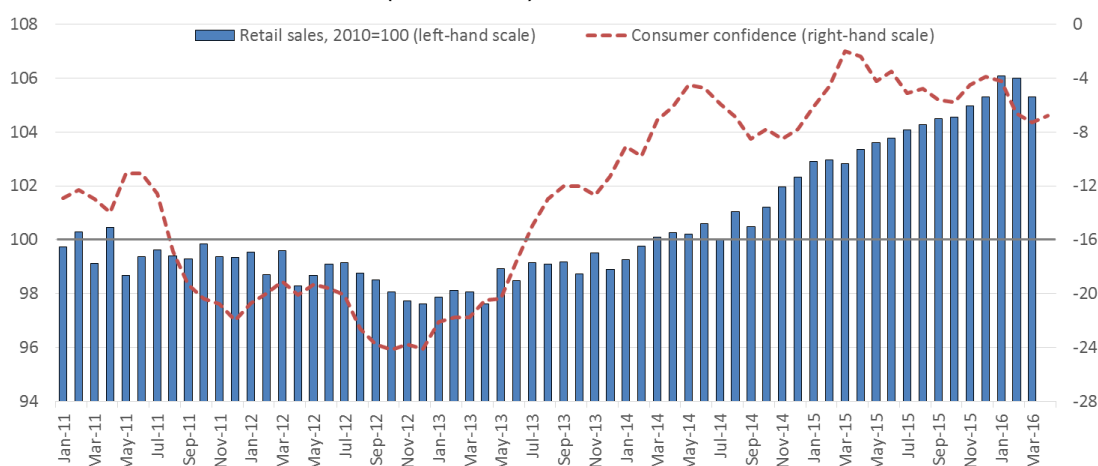
2. KEY GROWTH DRIVERS

a) Consumer spending supporting growth

The gradual increase in consumer spending constitutes the key driving force behind economic growth, as would be expected under a normal economic recovery path. The EU has experienced an overall pick-up of retail trade since the beginning of 2013 (up by 1.1% in 2013, 3.1% in 2014 and 2.3% in 2015; Fig 1). Consumers continue to benefit from relatively low oil prices which are increasing disposable household income. In addition, conditions in the labour market are gradually improving with unemployment rates slowly coming down from high post-crisis levels.

Figure 1 Increasing consumer confidence and retail sales

Real turnover for retail trade (2010=100) and consumer confidence



Source: Eurostat & European Commission

Whilst the slight dip in consumer confidence in recent month is a concern as well as the fall in retail sales in February and March, we nevertheless expect private consumption to increase by 2.2% in the EU and 1.8% in the Euro Area in 2016.

b) But the EU faces a more challenging international trading environment

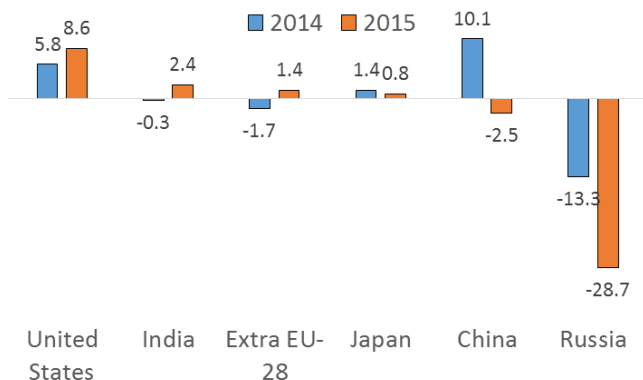
However, the EU faces an increasingly challenging international trading environment given the ongoing slowdown in global trade growth (2% volume growth in 2015, compared to 2.8% annual growth between 2008 and 2014). Whereas export growth to the US has remained strong, in particular EU exports to China and Russia (where GDP declined by -3.7% in 2015) were down over the last year (fig 2).

Overall EU exports are expected to grow by 3.5% in 2016 and 3.9% in 2017, while imports grow by 4.5% and 4.4% respectively, leading to a negative contribution of net exports to EU-GDP growth.



ECONOMIC OUTLOOK SPRING 2016

Figure 2 Growing exports to the US contrast with lower exports to China and Russia
EU exports in volumes to different partner countries, % change compared to previous year

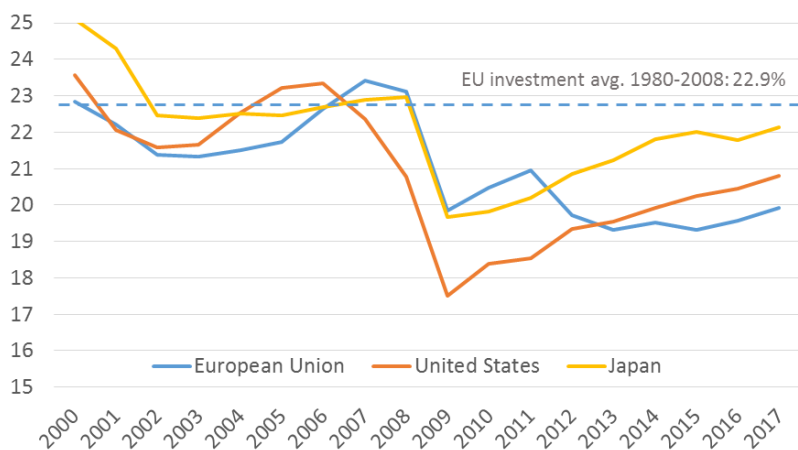


Source: Eurostat

c) Investment yet to take off amidst continuing uncertainty

EU investment has yet to see the more sustained increases that can normally be hoped for at this stage in the economic cycle. Whilst EU investment growth was with 3.4% in 2015 only slightly below the 3.7% seen in the US, figure 3 illustrates that the post-crisis recovery of EU investment relative to its economic output proceeds at a much slower pace than in the US. Moreover, the overall EU figure is still characterised by strong country differences. While investment in 2015 grew by over 28% in Ireland and 14% in Cyprus and Slovakia, investment was flat in France and declined in Finland and Estonia with around -1% and -4%, respectively.

Figure 3 Much slower recovery of EU investment compared to US and Japan
Investment as % of GDP the US, Japan and EU, 2000-2017



Source: IMF, WEO, April 2016

Looking forward, our survey indicates that over 50% of companies are intending to expand investment over the next 6 months (fig 4). However, the rate of expansion is lower than that we have seen in our last Autumn 2015 Economic Outlook, with a number of political uncertainties both in the EU and outside dampening business confidence. For example, a number of member federations have told us that European businesses are currently postponing decisions around investment in the UK until the political situation becomes clearer following the June referendum on EU membership.

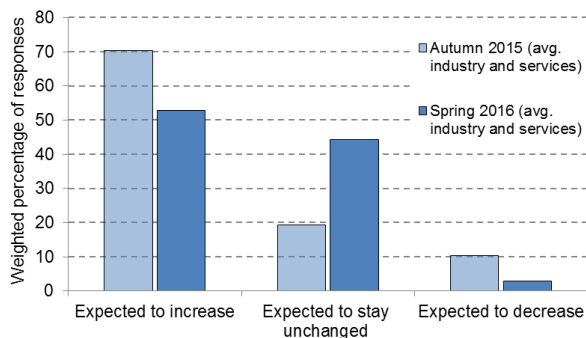


ECONOMIC OUTLOOK SPRING 2016

Against this background, we expect overall investment growth of slightly above 3% for both the EU and Euro Area in 2016 and 2017.

Figure 4 Companies are planning more future investment, but at a slower rate

Investment trends over the next 6 months compared to the last 6 months



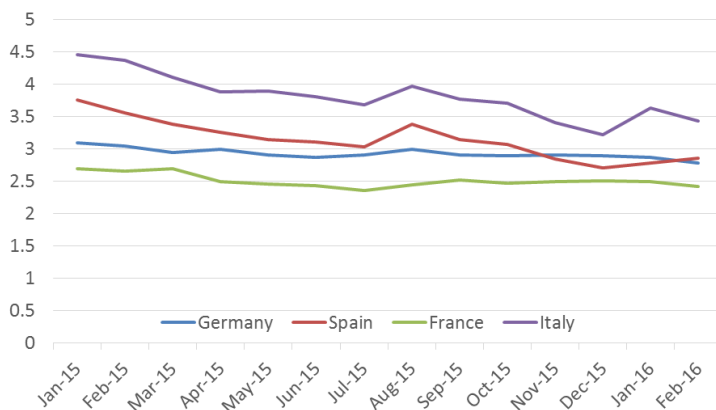
Source: BUSINESSEUROPE's forecast based on survey of Member Federations

Companies' investment plans are also subject to finding access to finance, with a number of measures suggesting that provision is improving, but constraints remain, particularly in certain Member States. Since the height of the European debt crisis in 2012, we have seen a gradual convergence of interest rates on business loans between Euro Area countries, although as illustrated in figure 5, convergence appears to have paused in recent months.

The ECB's latest bank lending survey nonetheless reports a further net easing of credit standards on loans to enterprises in the first quarter of 2016 (a net percentage of -6%, compared with -4% in the previous quarter). This is now the eighth consecutive quarter that we see an easing of credit conditions in Europe. Having said this, euro area banks still assess their current level of credit standards for loans to enterprises as tighter compared with the historical average since 2003, indicating that while prudential rules and strengthened supervision restored confidence in financial institutions and made them more resilient, also put back bank lending under pressure.

Figure 5 Little downwards convergence in interest rates for business loans

Interest rates on business loans, up to € 1 million, of maturity 1-5 years



Source: European Central Bank



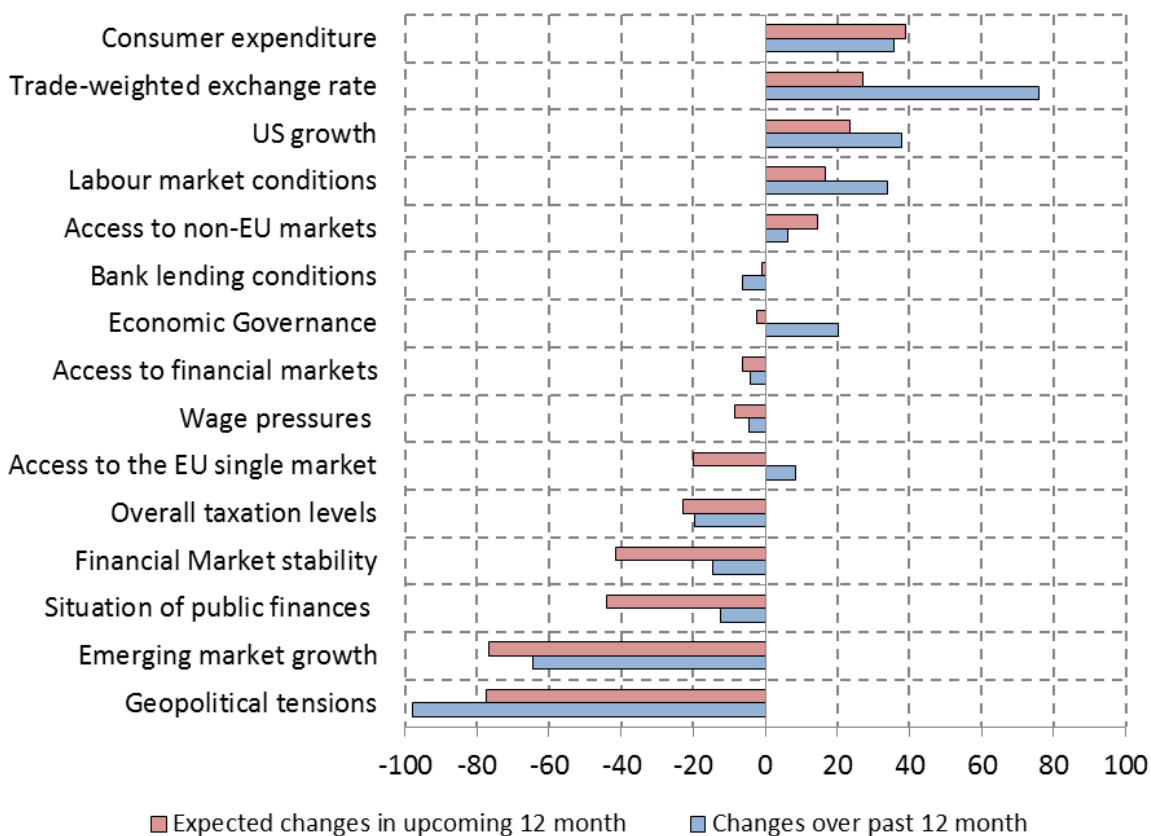
d) Risk factors: Lower emerging market growth remains key concern

The overall picture of growth supported by a gradual increase in consumer spending but held back by concerns about global growth and related geo-political tensions is emphasised by our specific survey of what Member Federations see as growth drivers (fig 6).

While consumer expenditure and labour market conditions rank as two key growth drivers, geopolitical issues, already a significant concern in the autumn, have increased in importance, with emerging market growth also a negative factor. In addition, the lower trade-weighted euro exchange rate and US growth are expected to have a positive impact, but to a significantly lesser extent when compared to the previous year, in particular against the background of a relatively weak first estimate for US growth in the first quarter of 2016 (0.5% annual rate, the weakest since the first quarter of 2014).

It is also important that those countries who have implemented structural reform in the past, or are planning to do so in the future, do not stop now as this would constitute a risk to impede their economic recovery and generate uncertainty. Finally, Member States must not use supportive monetary policy to postpone fiscal consolidation, in the case of having not yet reached their medium-term budgetary objective (MTO).

Figure 6 Lower emerging market growth and geopolitical tensions remain key obstacles
Impact of changes of factors on growth forecast



Source: BUSINESSEUROPE's forecast based on survey of Member Federations



Box 1: Economic consequences of a fragmentation of the Schengen Area

The Schengen Agreement that abolished border controls between 26 European countries¹ is one of the most important achievements and visible symbols of European integration. But massive inflow of refugees led some countries to introduce temporary border controls. This box considers in more detail the importance of the Schengen agreement to the EU economy and the potential costs if the agreement were to breakdown.

Directs cost of a breakdown could be significant...

As a starting point, the Commission has outlined some of the potential direct costs of a breakdown of Schengen². It estimates that a full re-establishment of border controls to monitor the movement of people within the Schengen area would lead to direct costs of €5bn to €18bn annually. These costs include:

- €1.7 bn to €7.5 bn in additional road haulage costs,
- €1.3 bn to €5.2 bn in terms of time lost for the 1.7 million workers in the EU who cross borders daily to go to work (particularly high for Slovakia where 5.7% of workers cross a border),
- €1.2 bn in lost tourism, potentially rising to up to €20 bn if the EU's common visa policy fragments,
- €0.6 bn to €5.8 bn in administrative costs for more border guards.

... and lead to a significant reduction in trade

Such direct costs are a good starting point for analysis, but do not consider the potential impact on trade of a fragmentation of Schengen.

The impact on firms and their responses to fragmentation will vary, particular in the longer-term. In some cases firms will bear the increased costs of higher delivery costs and longer delivery time, but in other cases we expect that firms would switch to domestic suppliers, either because the price becomes relatively more attractive, or because firms, particularly when involved in just-in-time delivery, are unwilling to bear the increased risk of cross-border delivery. As the Commission has also noted, any fragmentation may place a particular strain on the haulage industry where margins are often already tight. Finally, we expect a different impact between countries in the centre of Europe, with more densely integrated value chains and shorter transport distance, and those located at the periphery.

Independent studies have attempted to quantify the potential reduction in trade. For example, a study by France Stratégie finds that widespread permanent border controls would decrease trade between Schengen countries by 10% to 20% in the longer run. This would be equivalent to a shadow tax of 3% on the value of the exchanged goods and services³. However, a study by Ifo suggests that the increased costs of trading would be much lower and estimate tariff equivalents of 0.54% for bilateral good exports and 0.82% for service exports per border crossing.

Cross-border work is particularly important in some Member States. Whilst some workers may decide to endure longer border crossing times, others will choose to look for jobs in their home country.

Reduced trade would damage competitiveness and growth

The overall impact of a fragmentation of Schengen is expected to be much broader given the fall in trade would damage competitiveness. This is because a large and accessible home market is both essential for companies who wish to grow and benefit from economies of scale, particularly as a platform for competing globally, and because an open single market contributes to increasing competition and thus incentives for firms to raise productivity and competitiveness.

Similarly, reducing the ease with which workers can travel across borders will lead to a less efficient allocation of labour which may both raise costs for businesses and lead to increased pressures on unemployment.

¹ Including 22 EU Member States as well as Norway, Switzerland, Liechtenstein and Iceland.

² European Commission (2016). Communication from the Commission to the European Parliament, the European Council and the Council. Back to Schengen - A Roadmap.

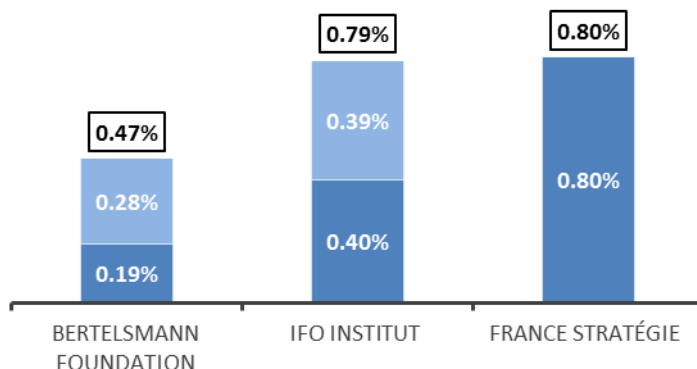
³ The study relies on estimates from Davis D. and Gift T. (2014) "The positive effects of the Schengen agreement on European trade", The World Economy, showing that membership of the Schengen Area increases bilateral trade flows by 10-15%.



A number of studies have attempted to consider the broader impact of a Schengen fragmentation on GDP. As figure 7 illustrates, the studies suggest that if allowed to fragment, by 2025 the size of the EU economy could be between 0.2% and 0.8% smaller.

Fig 7: Wide-ranging uncertainty about effects on economic output

Estimated reduction in the level of EU-GDP in 2025 with permanent border controls (2 scenarios for Bertelsmann and Ifo)



* EU-24 for Bertelsmann Foundation, EU-27 for Ifo and Schengen Zone for France Stratégie
 Source: Institutes labelled on chart

Conclusion: Strong policy action needed to avert wide-ranging negative economic consequences

It is clear that a fragmentation of Schengen would lead to wide-ranging and significant negative economic consequences at a time when the economic recovery remains relatively fragile. Moreover, a breakdown of Schengen, which has been a cornerstone of economic integration would reduce confidence in the EU. It is therefore vital that Member States and the Commission take all necessary measures to safeguard Schengen.

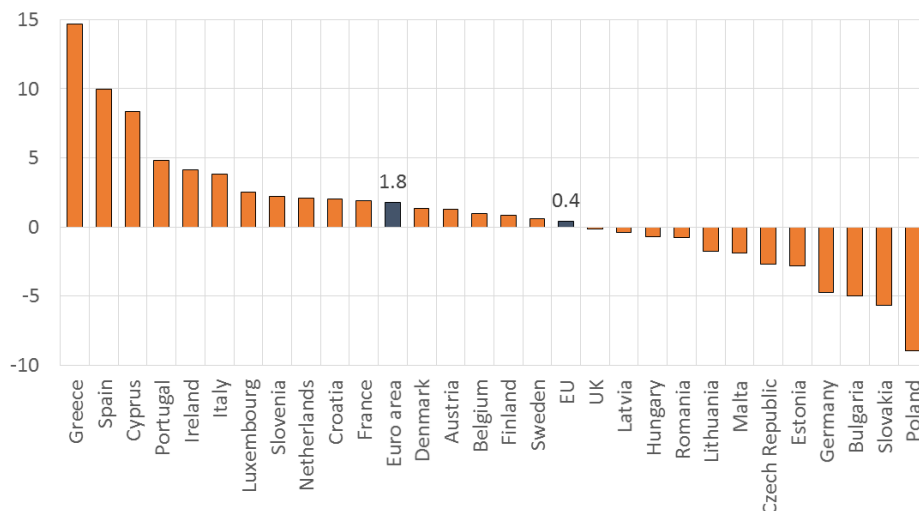
3. UNEMPLOYMENT IS FALLING BUT REMAINS TOO HIGH IN MANY COUNTRIES

High structural unemployment, and the related dangers of a gradual skill erosion and social exclusion of the unemployed, still remains a key concern for the European economy. As displayed in figure 8, Euro Area unemployment is still 1.8 percentage points above its pre-crisis average in February 2016. In particular several countries with financial assistance still report unemployment rates which are significantly above pre-crisis levels, while some of the Eastern European countries clearly benefited from EU membership in 2004 and experienced strong declines in unemployment.

For the EU as a whole, we expect unemployment to reach 8.6% in 2016 and 8.2% in 2017. In the Euro Area, unemployment is expected to decrease to 9.7% in 2016 and 9.4% in 2017.



Figure 8 Unemployment rates remain above pre-crisis levels for the EU and Euro Area
 Difference in countries' unemployment rates between Feb 2016 and their pre-crisis average (2000-8), in percentage points



* January data for Estonia, Greece and Hungary. December data for the UK.

Source: Eurostat

4. COUNTRY DIFFERENCES

Competitiveness improvements are bearing fruit, while country divergences remain

Across Europe we still see a large diversion in countries economic prospects, with expected growth ranging from 4.6% in Ireland and 4.2% in Romania to 0.9% in Finland and -0.6% in Greece in 2016. While inflation rates of below 2% are expected for all 28 EU countries, in five countries prices are expected to fall in 2016. Finally, unemployment rates are significantly different across EU Member States, with rates above 20% in Greece and below 5% in Germany and the Czech Republic.

Looking at the EU's largest Member States, the **German** economy recently performed well in a difficult international environment. This is mainly due to the good development in the labour market with unemployment at 4.2% in March and robust domestic consumption. The strong expansion of industrial production in the 1st Quarter 2016 surprised (+2.0% q-o-q; 1.9% y-o-y). Exports increased slightly in the 1st Quarter 2016 (+0.7% y-o-y). This indicates strong economic activity in Q1. We expect for the whole year a similar development as in 2015, i.e. growth in the range of 1.5% to 2%, the January forecast for real GDP is 1.9% which may have to be revised downwards to 1.5 – 1.7% given to bleak outlook for net exports. The development of foreign trade will be particularly important for the German economy.

In the case of **Spain**, GDP is expected to grow above European average, at a rate of 2.7%, thanks to domestic demand and current account surplus. Although unemployment rates are far above average, they show a consistent downwards tendency along with economic recovery.

We expect **Ireland** to remain the EU's fastest growing economy. Growth is forecast to slightly come down from the high 7.8% in 2015 to 4.6% in 2016. Ireland's growth is coupled with strong job creation (employment growth of slightly over 2%) and a steady reduction in unemployment (from 9.4% in 2015 to an expected 8.4% in 2016). Inflation is expected to remain below 1% up to 2017.

In the **UK**, we expect growth to continue at a similar rate as recently experienced, with 2.3% forecast for 2016, the same pace as in 2015. Most recently, GDP increased by 0.4% in the first quarter of 2016, in line with expectations, albeit slightly down from the 0.6% reached in Q4 2015. Whilst the Office for National Statistics say that no conclusions can be drawn from the latest GDP data itself regarding the current impact of the forthcoming referendum on UK membership, the Bank of England has noted that uncertainty relating to the referendum is weighing on certain areas of activity.

Table 2: Wide growth divergence in surveyed countries in 2016 and 2017

Main forecasts for all the economies surveyed⁴

% Change	Real GDP growth		Inflation		Unemployment	
	2016	2017	2016	2017	2016	2017
Austria	1.5	1.5	1.4	1.9	6.0	6.2
Belgium	1.2	1.5	1.3	1.5	7.9	7.9
Cyprus	1.5	1.6	0.9	1.4	14.5	14.0
Estonia	2.2	2.8	1.2	2.5	5.8	6.8
Finland	0.9	1.2	0.3	1.1	9.4	9.3
France	1.2	1.0	0.4	1.2	9.7	9.8
Germany	1.9	1.6	0.3	1.4	4.4	4.8
Greece	-0.7	2.7	0.5	0.8	24.0	22.8
Ireland	4.6	3.9	0.5	0.8	8.4	7.6
Italy	1.4	1.3	0.5	0.9	11.6	11.1
Latvia	3.0	3.3	0.4	2.0	8.9	8.4
Lithuania	2.5	3.0	0.8	1.0	8.6	8.3
Luxembourg	3.4	4.4	0.4	2.4	6.0	6.0
Malta	3.4	3.2	1.6	1.9	5.4	5.4
Netherlands	1.9	2.0	0.3	1.0	6.5	6.3
Portugal	1.5	1.7	0.5	1.4	11.7	10.9
Slovak Republic	2.5	2.7	-0.1	0.4	10.5	9.7
Slovenia	1.8	2.3	-0.3	1.1	8.8	8.4
Spain	2.7	2.5	-0.4	1.5	20.0	18.1
Bulgaria	2.0	2.5	-1.0	1.0	9.0	8.5
Croatia	2.1	2.1	0.3	1.6	15.1	13.8
Czech Republic	2.5	2.7	0.8	1.9	4.5	4.4
Denmark	1.2	1.8	0.4	1.3	5.6	5.4
Hungary	2.1	2.5	1.7	2.5	6.0	5.2
Poland	3.7	3.7	0.0	1.3	6.5	6.0
Romania	4.2	3.7	-0.2	2.5	6.6	6.5
Sweden	3.5	2.7	1.2	1.6	7.2	6.6
United Kingdom	2.3	2.1	0.8	2.0	5.3	5.1
Norway	0.6	1.1	///	///	4.8	4.5

Source: *BUSINESSEUROPE's survey of Member Federations*

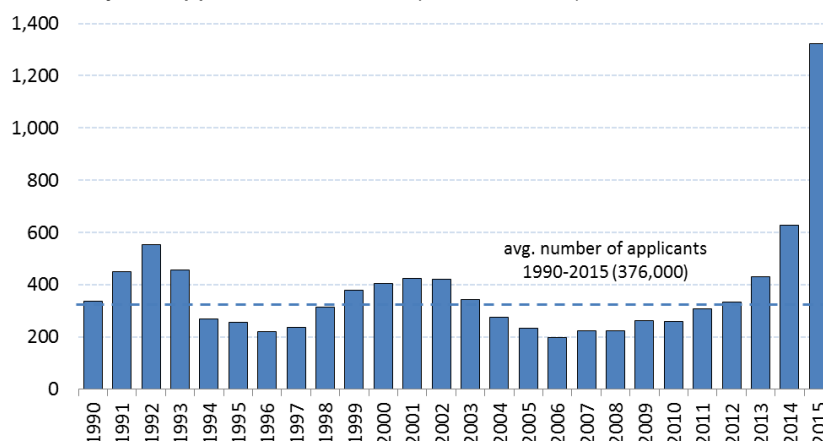
⁴ Note that for blank surveys we used figures from the Spring forecast of the European Commission. This is the case for Slovenia, Croatia, Hungary, Romania.

Box 2: The impact of refugees on the European economy

The European Union is experiencing the highest influx of refugees since World War II,⁵ with 1.3 million applicants registered in 2015 (fig 9). The first two months of 2016 show that the high number of incoming refugees continues (186,000 in Jan and Feb 2016 combined compared to 140,000 in the same months a year earlier), although preliminary national estimates for March point to a decline after the EU-Turkey agreement.⁶

Fig 9: Historically high influx of asylum applicants in the EU in 2015

Total amount of annual asylum applicants in the EU (in thousands)



Source: Eurostat 2016

This box examines the impact of the refugee crisis on economic growth, the labour market and public finances. We find that:

- Most studies suggest a **short-term boost to overall GDP** as a result of the incoming refugees (+0.1-0.25% by 2020), while per-capita GDP is expected to fall (-0.4% by 2020). The **long-term economic impact is uncertain** and will crucially depend on the quality and speed of refugees' labour market integration.
- The labour market integration of refugees is still hampered by **employment obstacles** in particular in the form of slow labour market access. While **refugees are on average younger than the EU population** (~80% below 35 years, compared to 40% for the EU population), initial estimates indicate that their **education and skills level is lower**.
- While refugees will put **pressure on public finances**, in particular for those countries experiencing the largest influx relative to their size, the **impact is expected to be only moderate**.

Details

The impact on GDP?

While estimates vary, most studies suggest that the refugee influx could have a slightly positive contribution to the level of EU-GDP in the short-term (OECD⁷: +0.1-0.2% of GDP, Commission⁸: +0.21% by 2020, IMF⁹: +0.25% by 2020) (fig 10). This will be driven by the refugees' need for the consumption of essential goods.

⁵ European Parliament (Dec 2015). "Economic challenges and prospects of the refugee influx".

⁶ For example Handelsblatt (10.03.2016) "Immer weniger Flüchtlinge kommen nach Deutschland durch" notes that at the start of March only slightly over 300 refugees arrived in Germany per day, compared to over 2000 mid-February.

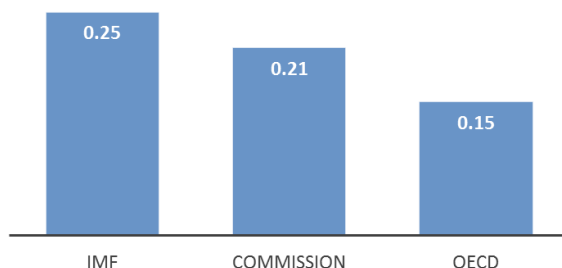
⁷ Migration Policy Debates © n°8 November 2015, OECD.

⁸ Economic Outlook, Autumn 2015. Average of "low-skillset" of refugees and "same skillset as EU-natives".

⁹ IMF "The Refugee Surge in Europe: Economic Challenges", January 2016; EC, European Economic Forecast, Autumn 2015 p.51; Migration Policy Debates © n°8 November 2015, OECD



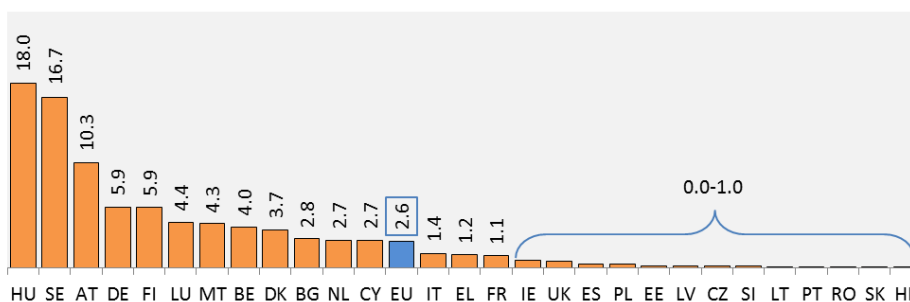
Fig 10: Additional boost for GDP due to refugees in short to medium-term
 Additional annual EU-GDP by 2020 compared to a baseline scenario without refugees, %



Source: BUSINESSEUROPE calculation with IMF, European Commission, OECD data

The effects on growth are likely to vary strongly between EU countries given their share of arriving asylum seekers relative to the total population size largely differs (fig 11), but it will also depend on countries' acceptance rates.

Fig 11: Share of asylum seekers to native population differs strongly between EU countries
 Number of asylum applicants per 1000 inhabitants in 2015



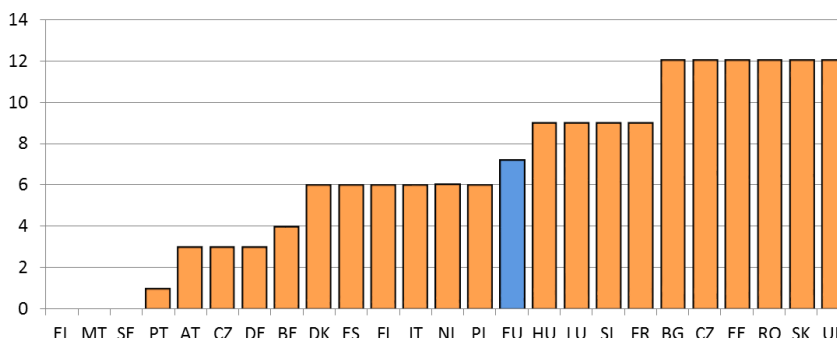
Source: BUSINESSEUROPE calculation with Eurostat data

However, the arrival of refugees is expected to have a negative impact on per-capita GDP (-0.4% by 2020; IMF) as it will take an adjustment period until refugees will be able to fully participate in the labour market.

The impact on the labour market?

The long-term effects are difficult to forecast, in particular as they will to a large extent depend on refugee's labour market integration. First, it is important to bring down legal barriers to employment. While there are strong country differences, the time it takes until asylum seekers are allowed to fully access EU labour markets remains excessive, with an average of 7.2 months (fig 12).

Fig 12: Large EU country differences regarding labour market entry permission
 Average time for asylum seekers to obtain full working permission upon arrival, in months



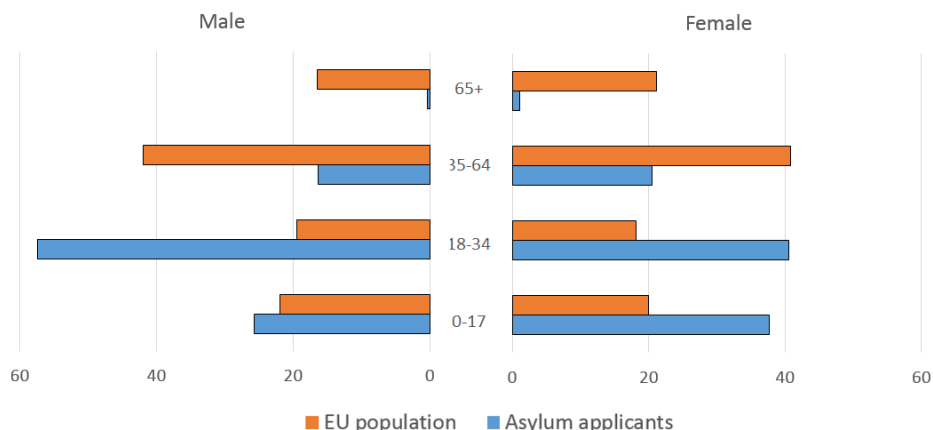
Source: National agencies and BUSINESSEUROPE's research



Second, refugees' labour market integration will crucially depend on their education and skills, which is, according to several sources¹⁰, assumed to be relatively low compared to EU-natives, but also to previous generations of immigrants. From our Member Federations a weighted average of 60% estimate that the average skills (excl. languages) of refugees is significantly lower compared to the EU average, while 39% think it is lower. Third, refugee's integration depends on their age. Here we can see that refugees are relatively young compared to the native European population (Fig 13), with positive effects against the background of an ageing European society.

Fig 13: Predominantly young asylum seekers compared to EU natives

Age distribution of asylum applicants and EU population by gender in 2015, %¹¹



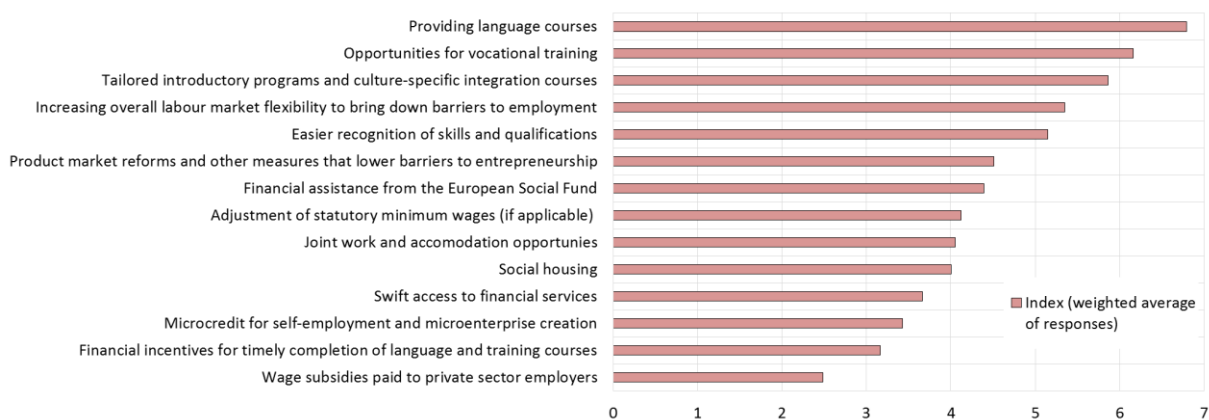
Source: Eurostat

Given these estimates, the majority of our members (weighted average of 57%) believe it might take refugees 5 years or more to find employment (42% think it might take between 2 to 4 years).

According to our membership survey on the importance of factors for integrating the refugees in the labour market (fig 14), it is of utmost importance for governments to offer adequate vocational education and training as well as language courses to refugees. Our members also point to the need to increase overall labour market flexibility to bring down barriers to employment and reform product markets to lower barriers to entrepreneurship. Governments should also work towards easier recognition of skills and qualifications.

Fig 14: Language courses and vocational training are key to integrate refugees

Importance of factors in integrating the refugees in the labour market on a scale from 1 to 7 (with 1 less important and 7 highly important)



Source: BUSINESSEUROPE based on survey of Member Federations

¹⁰ IMF 2015, UNHCR 2016, CESIFO Institute Munich 2016

¹¹ There is slight discrepancy in the ranges at younger age (0-19 years and 20-34 years for the EU population).



The impact on public finances?

Due to the need for essential goods, housing and training as well as limited earnings of refugees, there will be increasing pressure on government expenditure in the short-term. The IMF estimated that the average budgetary expenses for asylum seekers in the EU could rise from 0.08% of GDP in 2014 to 0.19% in 2016. This will be higher for those countries with a relatively large share of incoming refugees – fiscal costs in Sweden are expected to go up from 0.3% of GDP in 2014 to 1.0% in 2016, while they could increase from 0.08% to 0.35% in Germany and 0.08% to 0.31% in Austria. Expenditure in Italy in 2016 will be similar to that in 2015 (€3.2 bn, equal to approximately 0.2% of GDP), this is 2.5 times higher than the average amount spent in 2011-2013.

Against this background, the IMF notes that “deviations from prior SGP targets to accommodate asylum seeker spending should be considered on a case-by-case basis and should be only temporary [...]. In addition, the EC should develop transparent criteria to identify refugee-related expenditures, recognizing that the composition of these expenditures might be quite different between transit and host countries.”

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