

Migration and Mobility

Economic Update on Europe and Central Asia
Office of the Chief Economist
October 2017



ECA Economic Update Fall 2017

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ECA Economic Update, Fall 2017

- GDP growth forecasts have been revised upward, and growth in 2017 is on track to become the strongest in 6 years.
- With this robust cyclical performance, countries are shifting their focus toward structural challenges of new normal:
 - *Reforms are needed to adjust to lower oil revenues, remittances, and FDI inflows*
 - *Digital platforms and the sharing economy have created flexible working arrangements, and require rethinking of the social contract.*

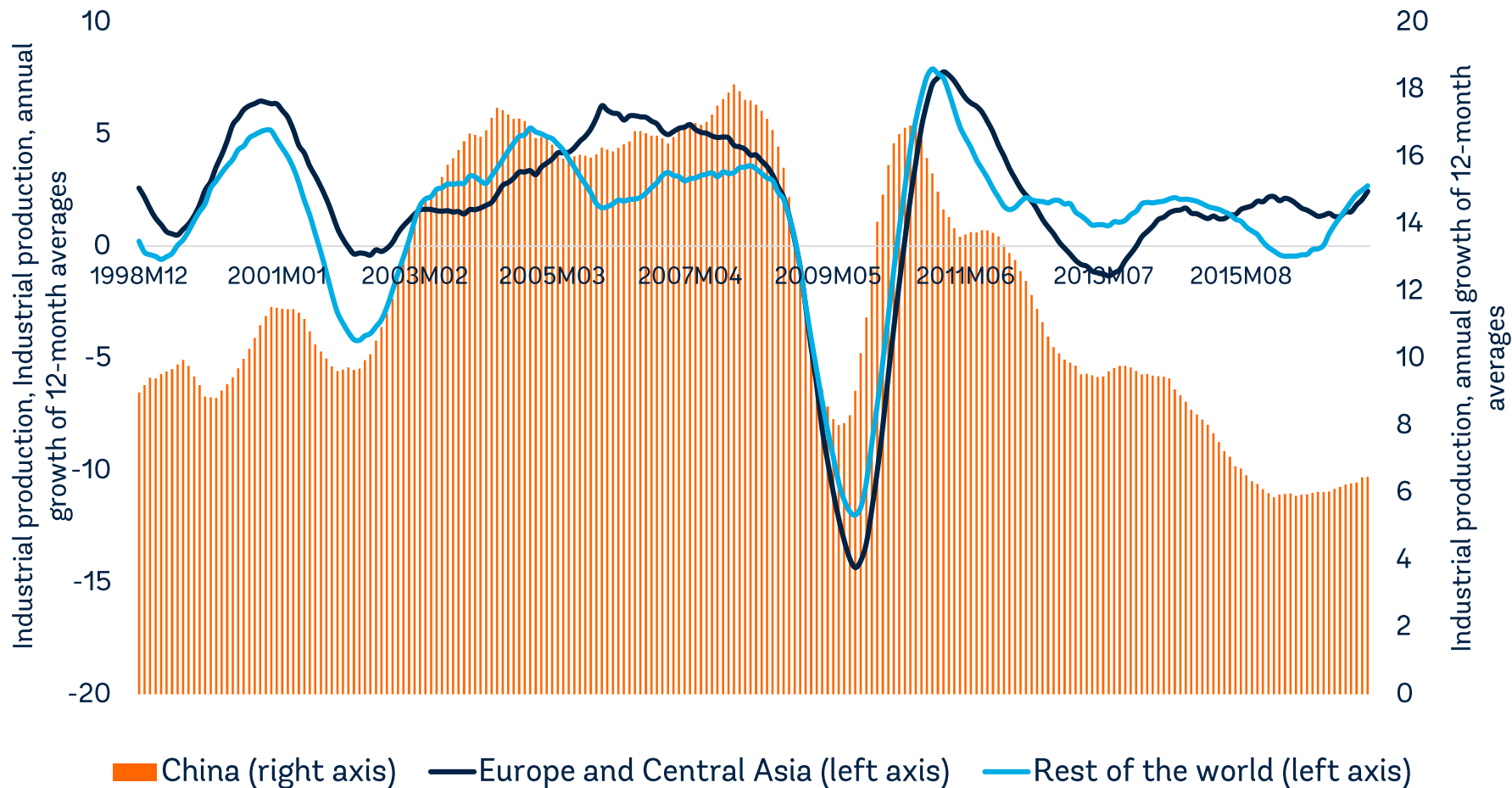
Migration and Mobility

- The refugee crisis has triggered concerns over migration, but the recent refugee inflow is not unprecedented, is likely to be temporary, and is a small share of total migration.
- Migration has long been vital to the region
- With new technologies and further cross-border connectivity, migration patterns will likely shift toward circular high-skilled migration.
- Reforms should help both migrants and nonmigrants cope with the inevitable increase in flexibility and uncertainty in labor markets.

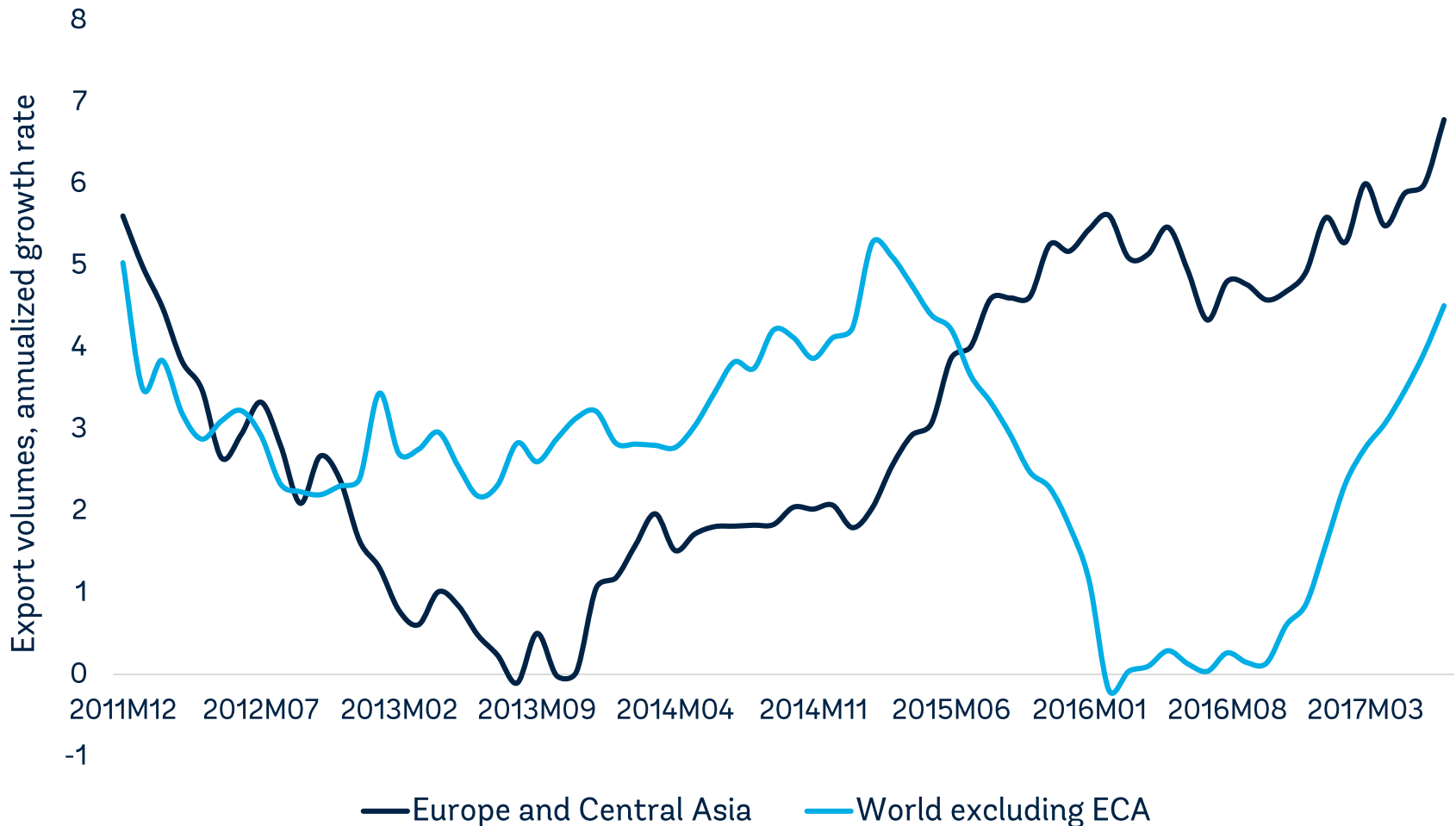
Upward revisions of GDP forecasts

Region/subregion	Annual GDP growth (percent)					Change in forecast since April 2017 (percentage points)		
	2015	2016	2017 (estimate)	2018 (forecast)	2019 (forecast)	2016	2017 (estimate)	2018 (forecast)
Europe and Central Asia	1.9	1.8	2.2	1.9	1.9	0.0	0.3	0.1
European Union and Western Balkans	2.2	1.9	2.1	1.8	1.7	0.0	0.3	0.2
Western Europe	2.2	1.8	2.0	1.6	1.5	0.0	0.3	0.2
Northern Europe	2.4	2.3	2.3	2.1	2.2	0.0	0.3	-0.1
Central Europe	3.7	2.9	3.7	3.4	3.3	-0.1	0.5	0.3
Southern Europe	1.6	1.7	1.9	1.5	1.4	-0.1	0.4	0.1
Western Balkans	2.3	2.9	2.8	3.2	3.5	0.1	-0.4	-0.3
Eastern Europe and Central Asia	0.1	1.1	2.6	2.5	2.8	0.1	0.4	0.0
South Caucasus	1.7	-2.1	0.3	1.9	2.4	0.0	0.2	0.3
Central Asia	2.9	2.8	4.4	3.5	3.8	0.1	0.6	-0.5
Russian Federation	-2.8	-0.2	1.7	1.7	1.8	0.0	0.4	0.3
Turkey	6.1	3.2	4.0	3.5	4.0	0.3	0.4	-0.4
Other Eastern Europe	-7.6	0.8	2.0	3.1	3.5	0.0	0.6	0.4

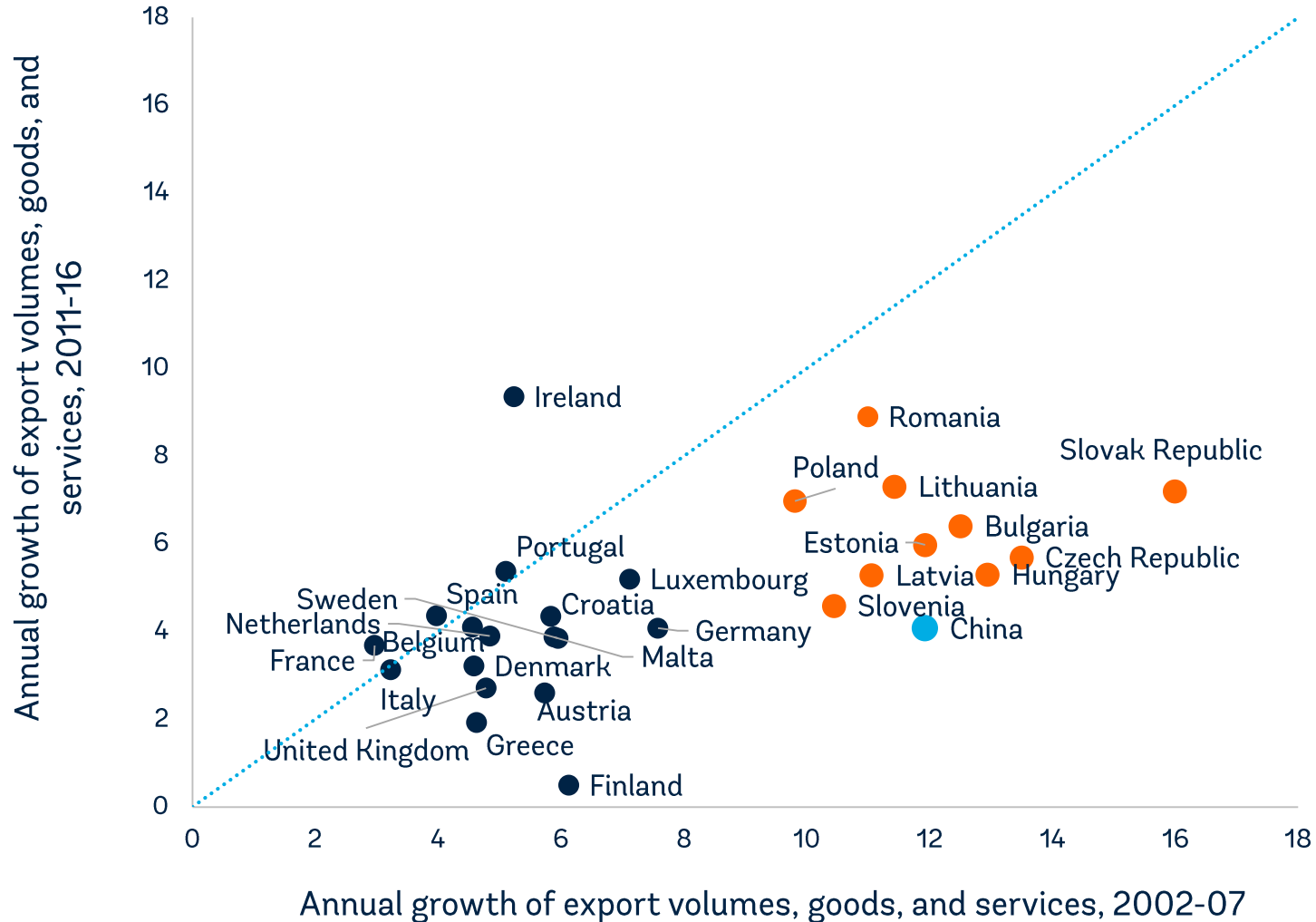
Industrial production has strengthened, despite slowdown in China



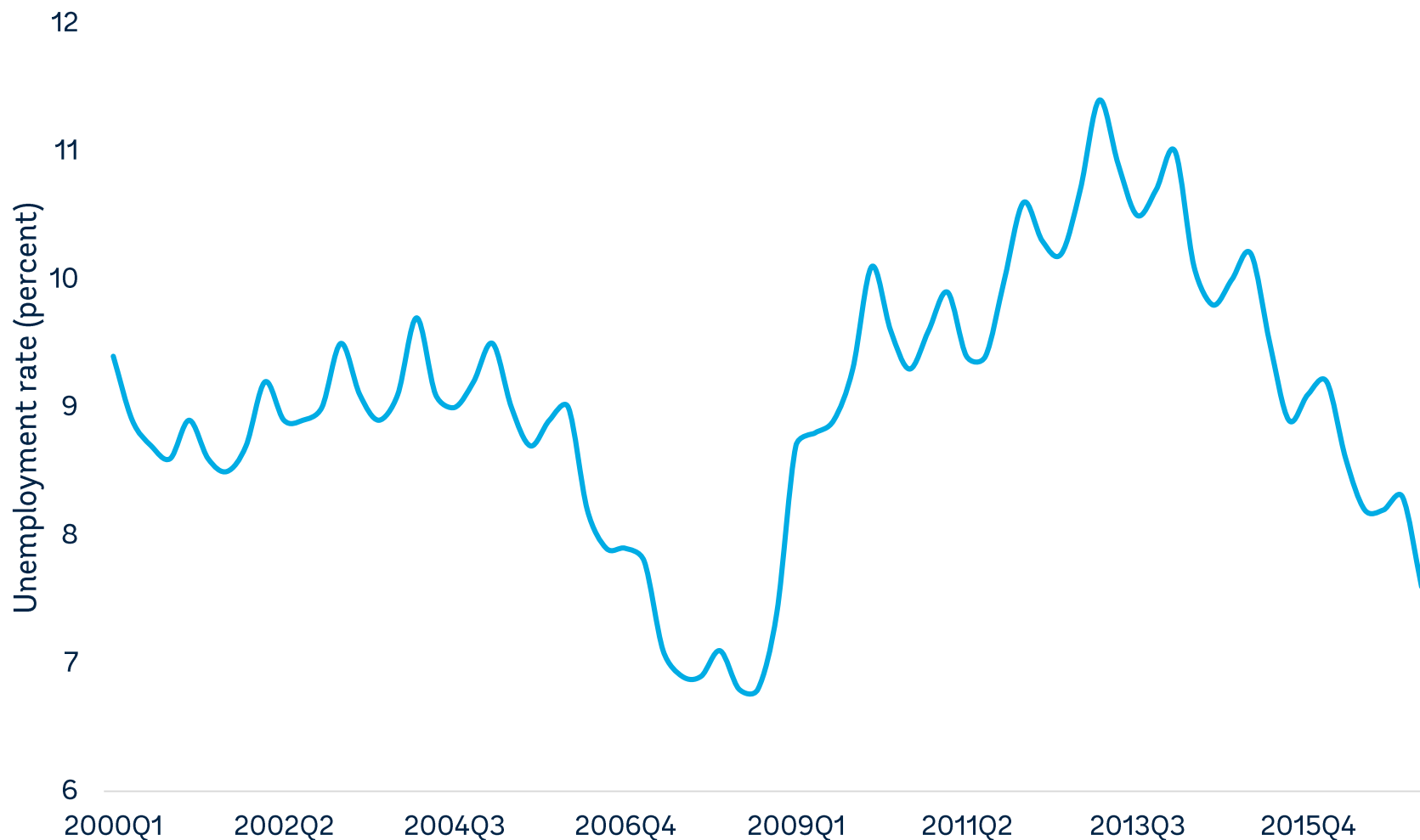
Europe and Central Asia exports outperforms the rest of the world in exports



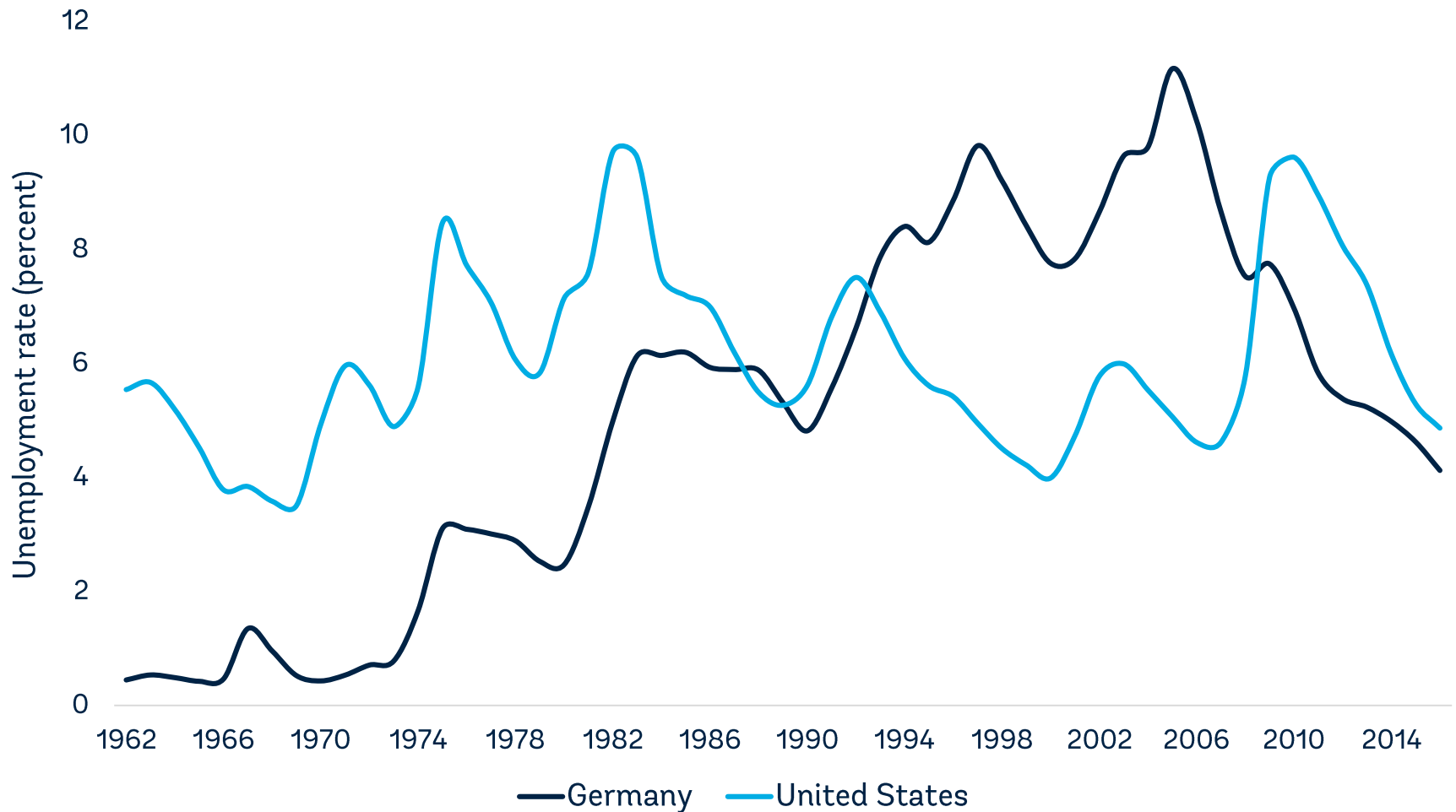
EU accession countries have outperformed China in export markets



The unemployment rate in the EU-28 has fallen back to pre-crisis levels



German unemployment has broken the upward trend



Fiscal balance has improved

Fiscal balance as percent of GDP

	2007	2009	2017
Europe and Central Asia	-0.3	-6.4	-1.6
European Union and Western Balkans	-0.8	-6.5	-1.5
Western Europe	-1.3	-6.4	-2.2
Northern Europe	3.9	-2.3	-0.7
Central Europe	-1.2	-5.4	-1.2
Southern Europe	-0.7	-8.3	0.3
Western Balkans	-0.1	-4.2	-1.5
Eastern Europe and Central Asia	3.2	-5.2	-2.1
South Caucasus	-0.2	4.4	1.5
Central Asia	4.2	-3.5	-5.1
Russian Federation	5.6	-5.9	-1.9
Turkey	-0.2	-5.2	-2.1
Other Eastern Europe	-1.4	-4.7	-1.5

The new normal in the eastern part of ECA

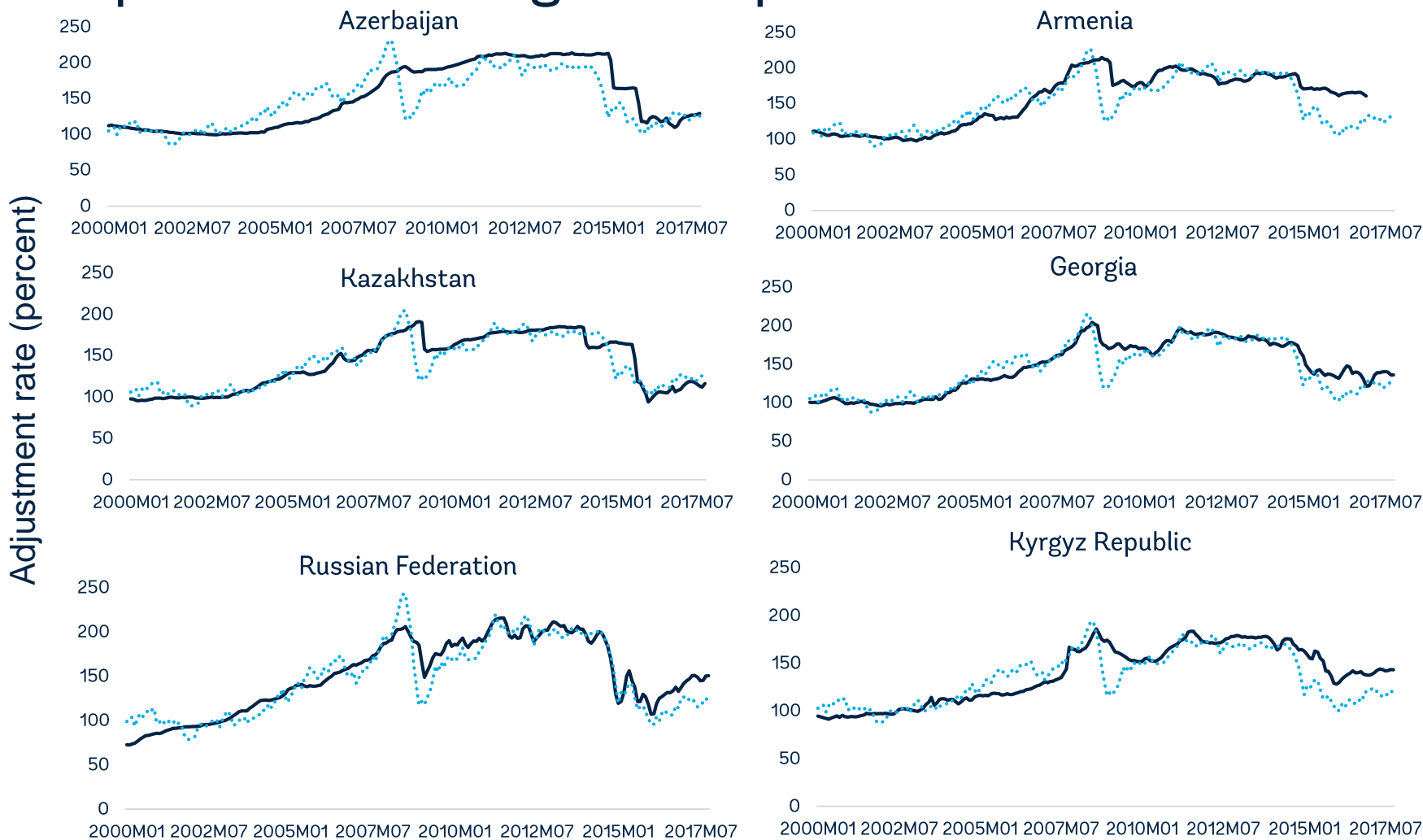
The decline in oil revenues, remittances, and (to a lesser extent) FDI inflows necessitates major reforms:

- change in monetary policy to achieve necessary relative price changes
- reforms in the banking sector to resolve non-performing loans and fund new, export-oriented firms
- promote private sector that is competitive in international markets

Foreign direct investment into Central Europe and Baltics has fallen

<i>FDI flows as percent of GDP, by subregion/country</i>	2000-2007	2008-2010	2011-2016
Central Europe and the Baltics	6.4	4.4	2.5
Bulgaria	14.4	10.0	3.7
Czech Republic	6.9	3.7	3.0
Estonia	12.1	10.2	3.9
Hungary	13.8	9.8	1.8
Latvia	4.6	1.9	3.2
Lithuania	4.1	2.1	1.8
Poland	4.1	3.3	2.5
Romania	5.5	3.7	2.1
Slovak Republic	6.6	2.9	2.2
Slovenia	3.2	0.6	1.7

Oil-exporting and remittance-receiving countries experienced strong real depreciations



The new normal in the western part of ECA

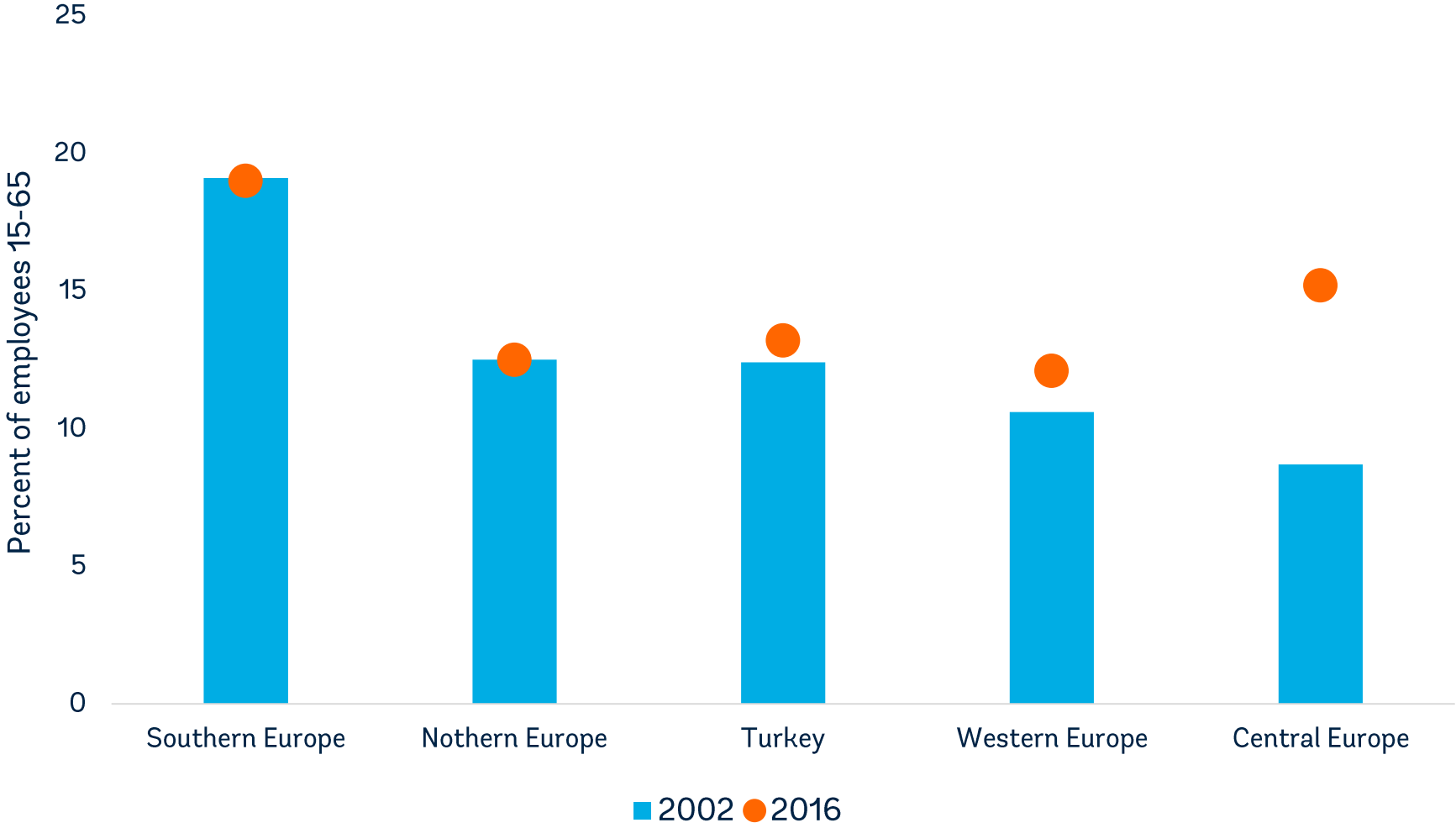
- Digital networks and the sharing economy have become successful in the wave of the global financial crisis, as investors were looking for new investment opportunities, workers were willing to accept flexible contracts, and consumers were eager to commercially use underutilized assets.
- These new technologies are changing the distribution of income and wealth, with larger inequality within young cohorts of the population.
- Rethinking the social contract is needed to address new inequalities and to help individuals cope with uncertainty.

Transformational companies came on the market at the beginning of the crisis

- In 2007 Netflix started streaming and the first iPhone came on the market.
- In 2008 the term MOOC (massive open online course) was first mentioned, the first prosthetic leg was created by a 3D printer, genome sequencing costs fell dramatically, bitcoin was invented, and Airbnb was created.
- In 2009 Uber came on the scene.



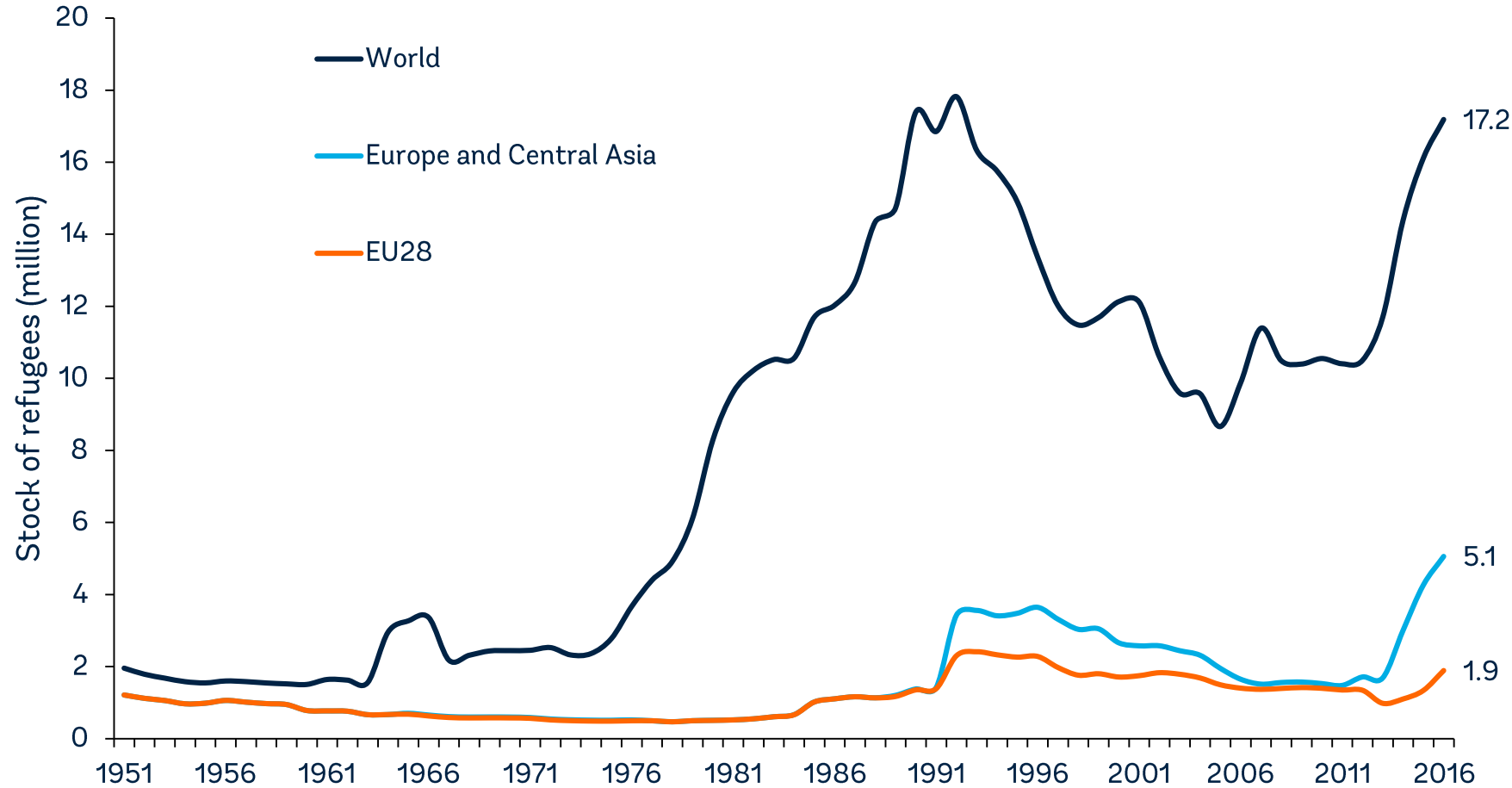
The share of temporary employment increased in Europe and Central Asia between 2002 and 2016



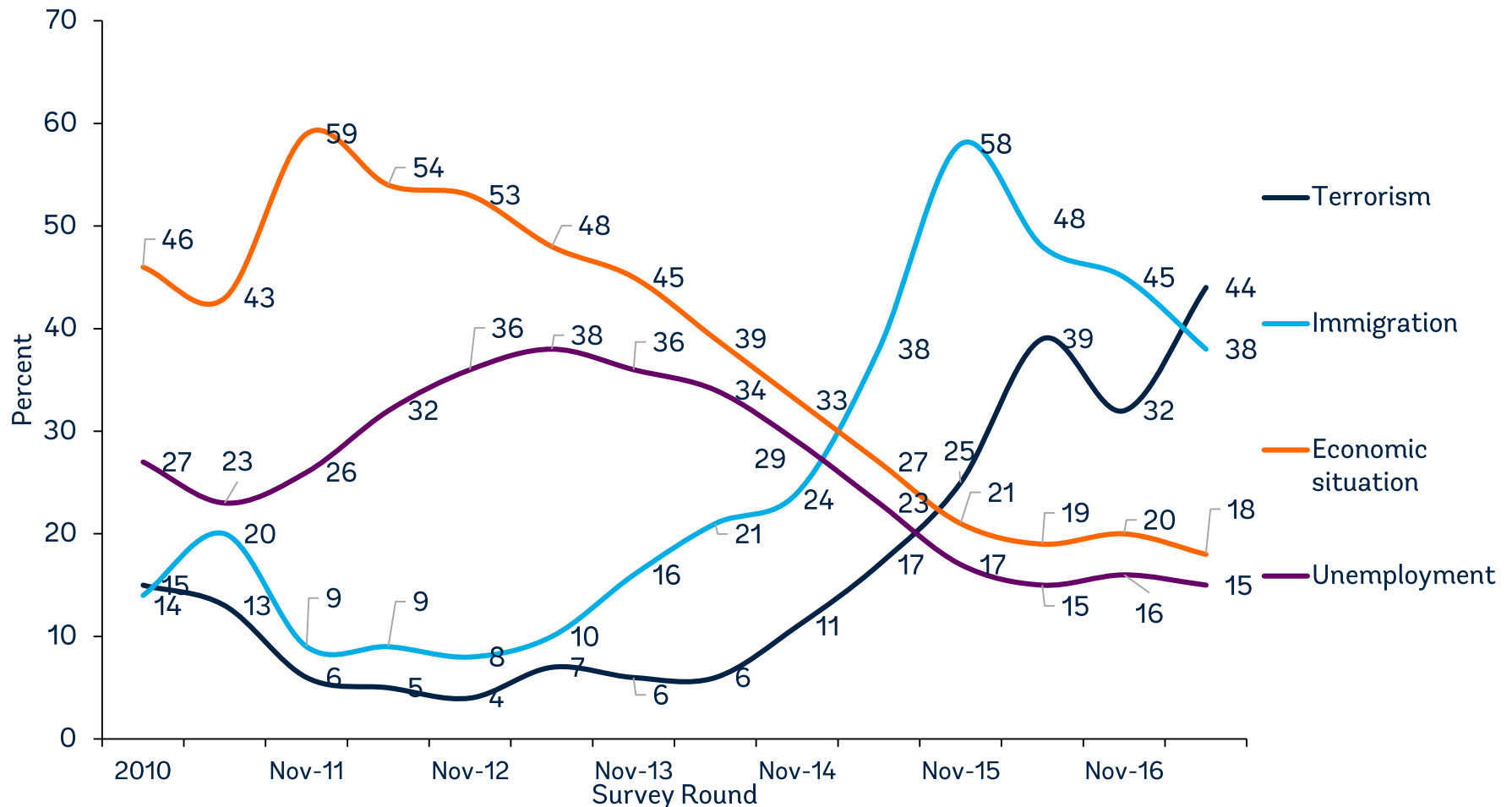
Migration and Mobility

- The refugee crisis has triggered concerns over migration, but the recent refugee inflow is not unprecedented, is likely to be temporary, and is a small share of total migration. Migration has long been vital to the region
- With new technologies and further cross-border connectivity, migration patterns will likely shift toward circular high-skilled migration.
- Reforms should help both migrants and nonmigrants cope with the inevitable increase in flexibility and uncertainty in labor markets.

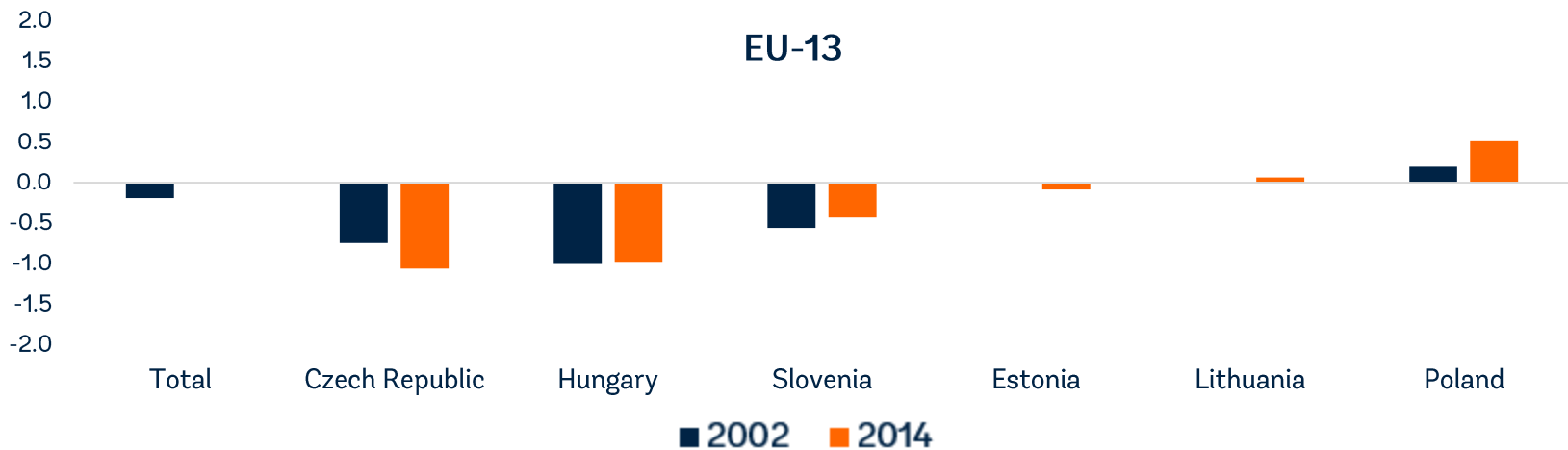
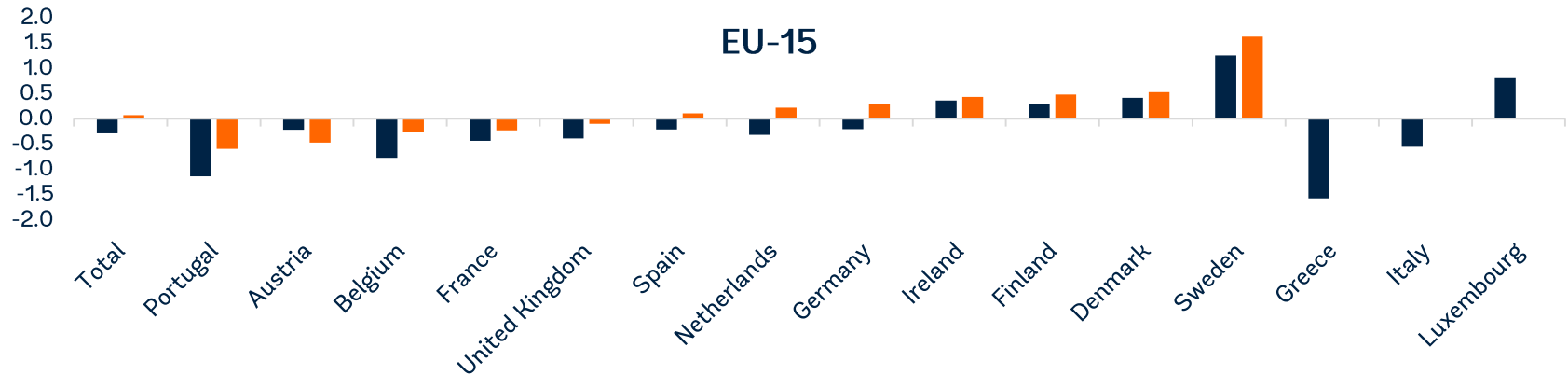
The stock of refugees has risen, globally and in Europe and Central Asia



Survey respondents have cited immigration and terrorism as the most important issues facing the European Union since November 2015

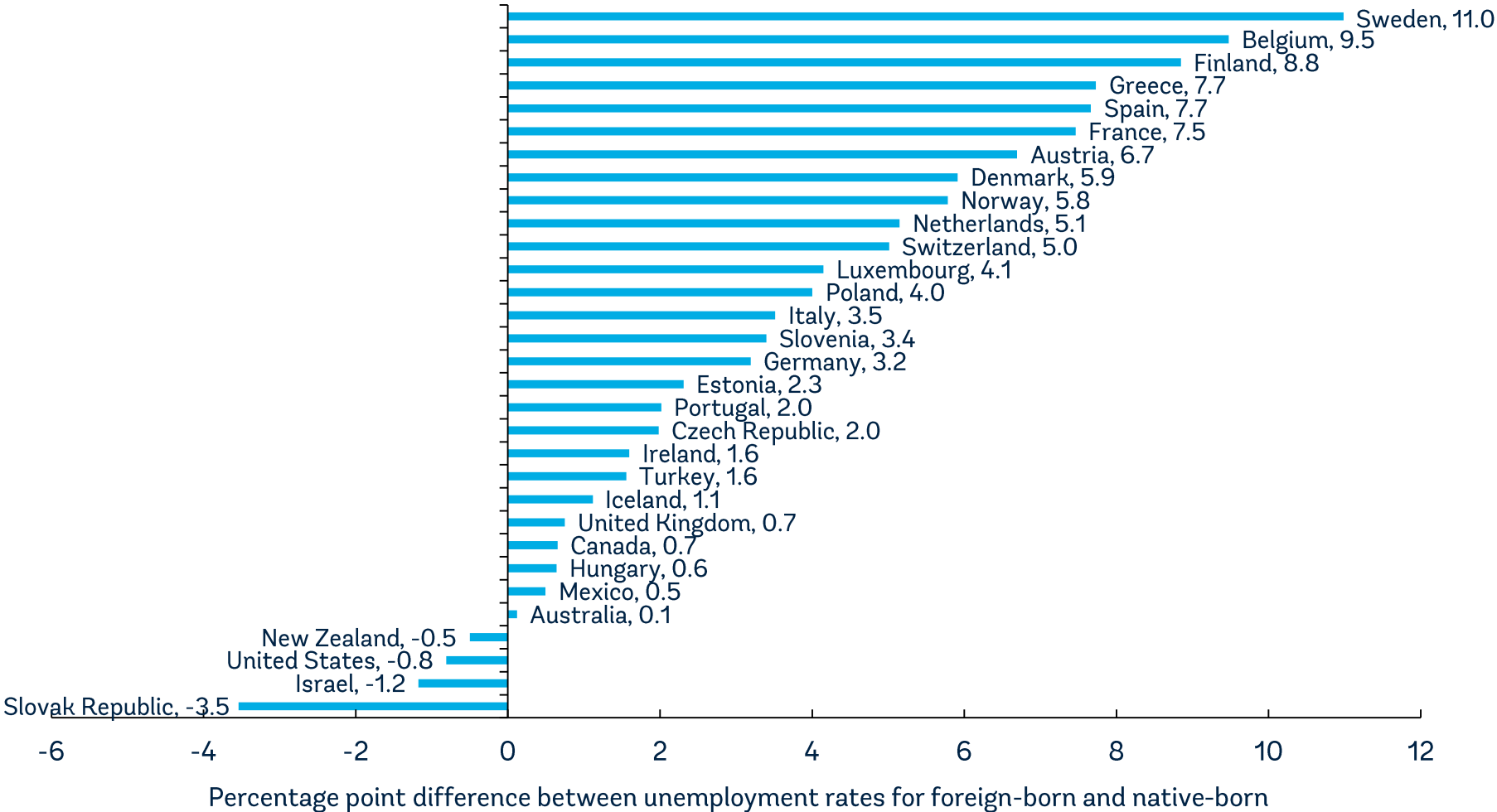


Public perceptions of immigration are more positive in Northern Europe than in the rest of the region



Country made better or worse place to live (-2 = Worse, +2 = Better)

Unemployment rates are higher for foreign-born than for native-born workers in most countries in Europe and Central Asia

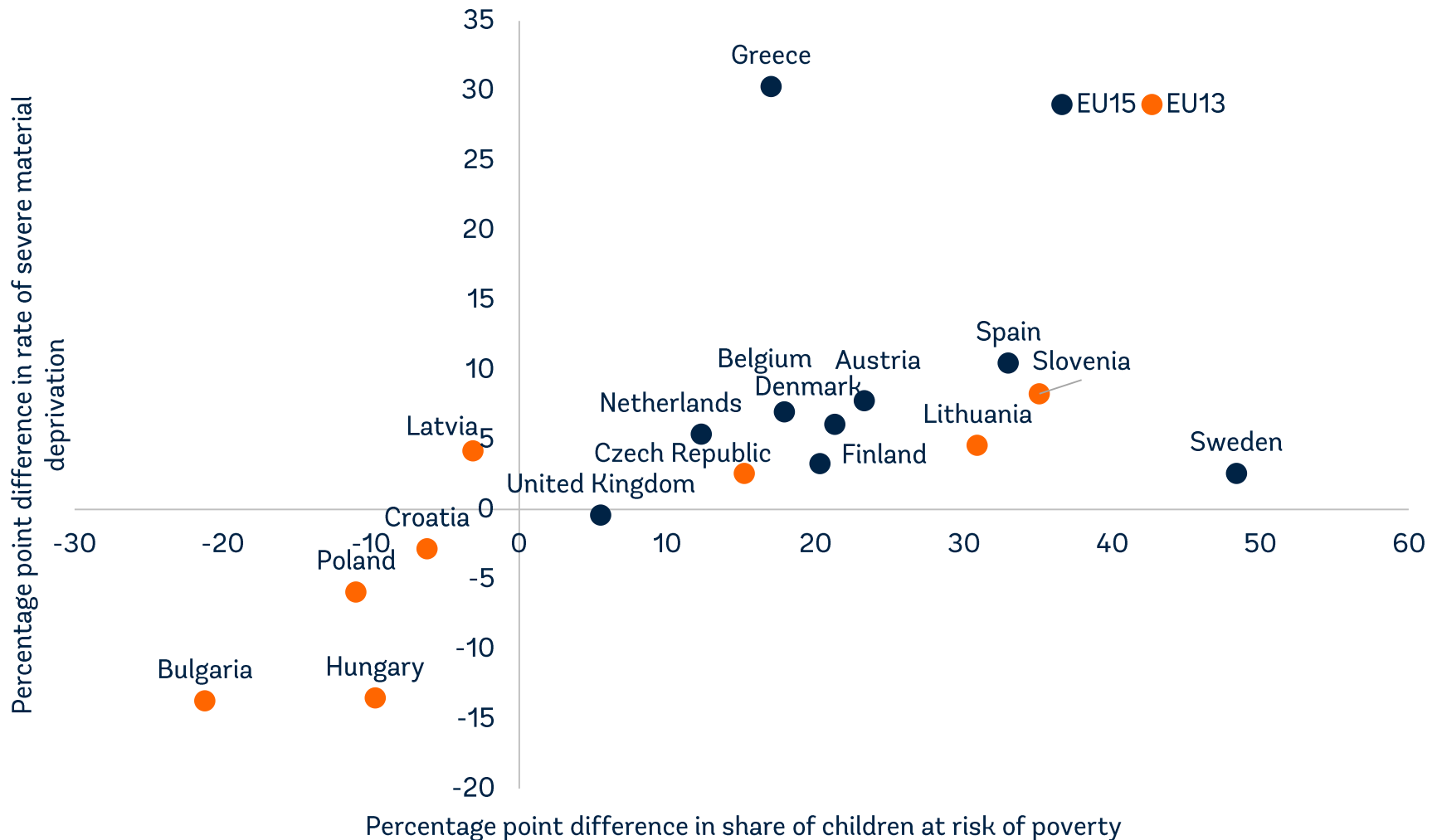


Selected social statistics for people born in the European Union and elsewhere

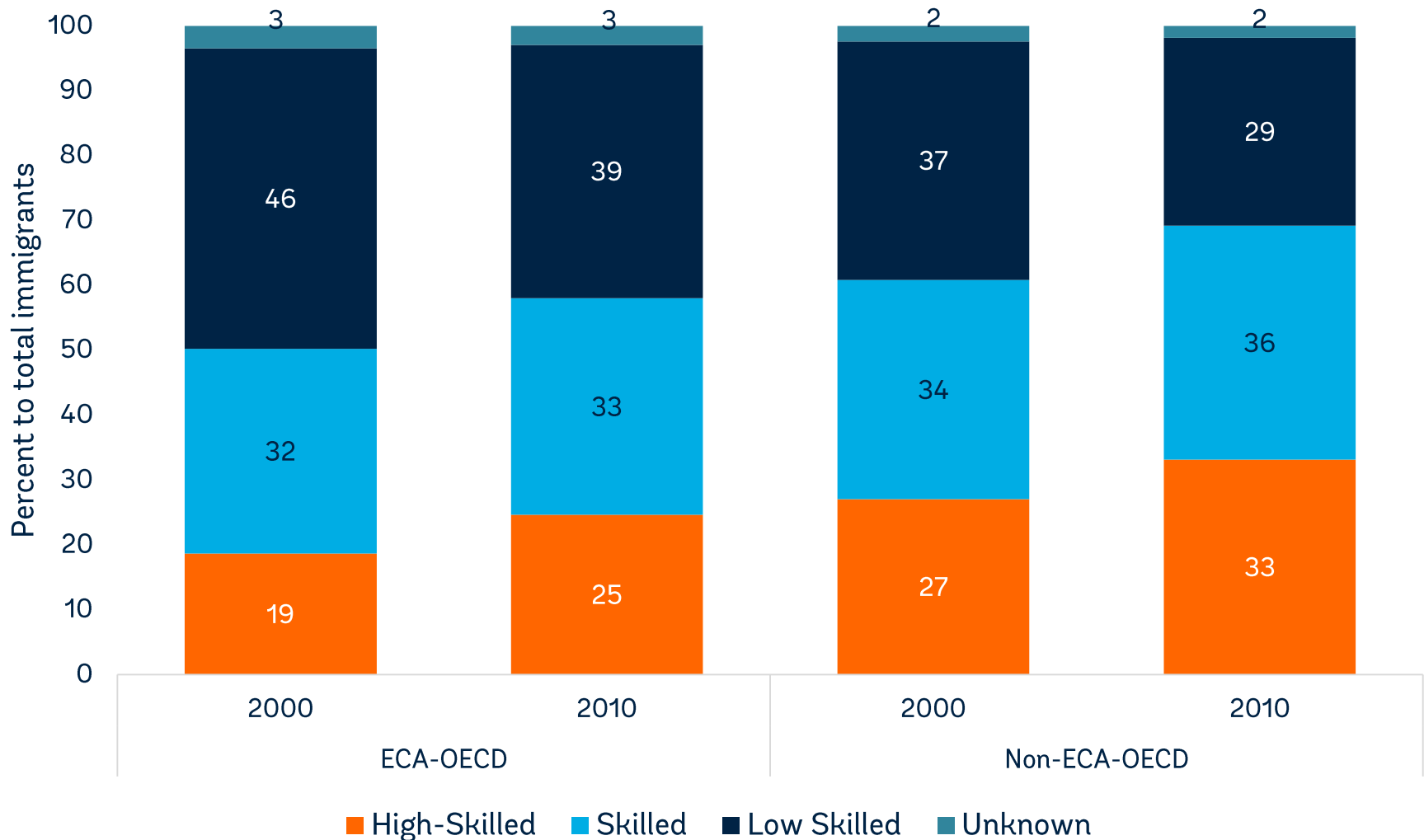
Item	Born outside the European Union	Born in the European Union	Gap
Unemployment rate among people 15–74	16.4	8.0	8.4
Housing overcrowding rate Percent of population 20–64 living in household with insufficient number of rooms	24.6	16.5	8.1
Housing cost overburden rate Percent of population 20–64 living in households in which total housing costs exceed 40 percent of disposable income	29.6	10.8	18.8
Mean annual income of people over 18 (thousands of euros)	15.4	19.0	3.6
Severe material deprivation rate Percent of population over 18 with inability to afford four of nine necessary items for leading an adequate life	17.9	7.5	10.4
Children at risk of poverty rate by birth place of parents (percent of population below 18)	37.6	19.0	18.6



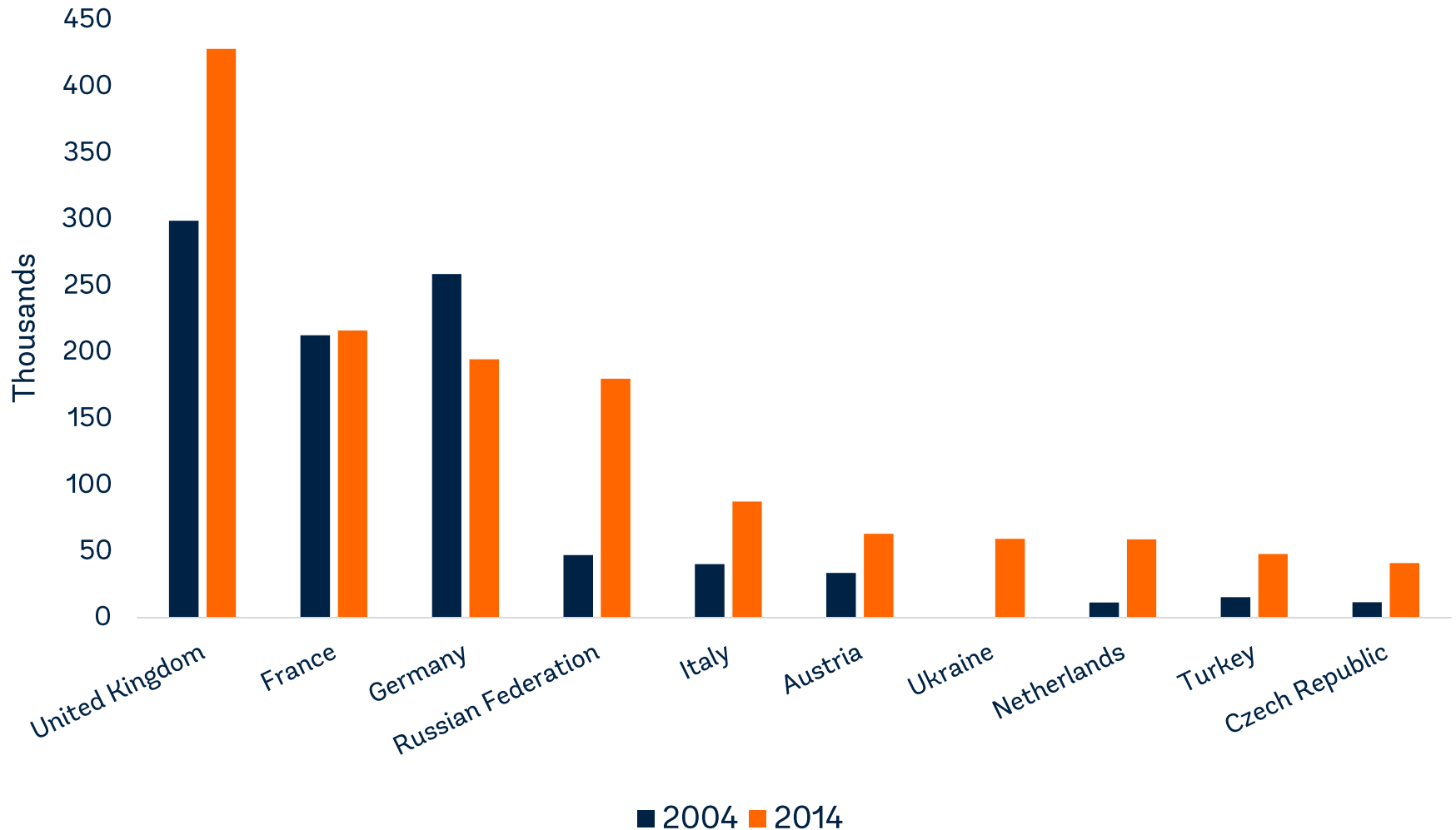
The gap between measures of deprivation and poverty of the foreign-born and native-born populations is larger in the EU15 than in the rest of the European Union



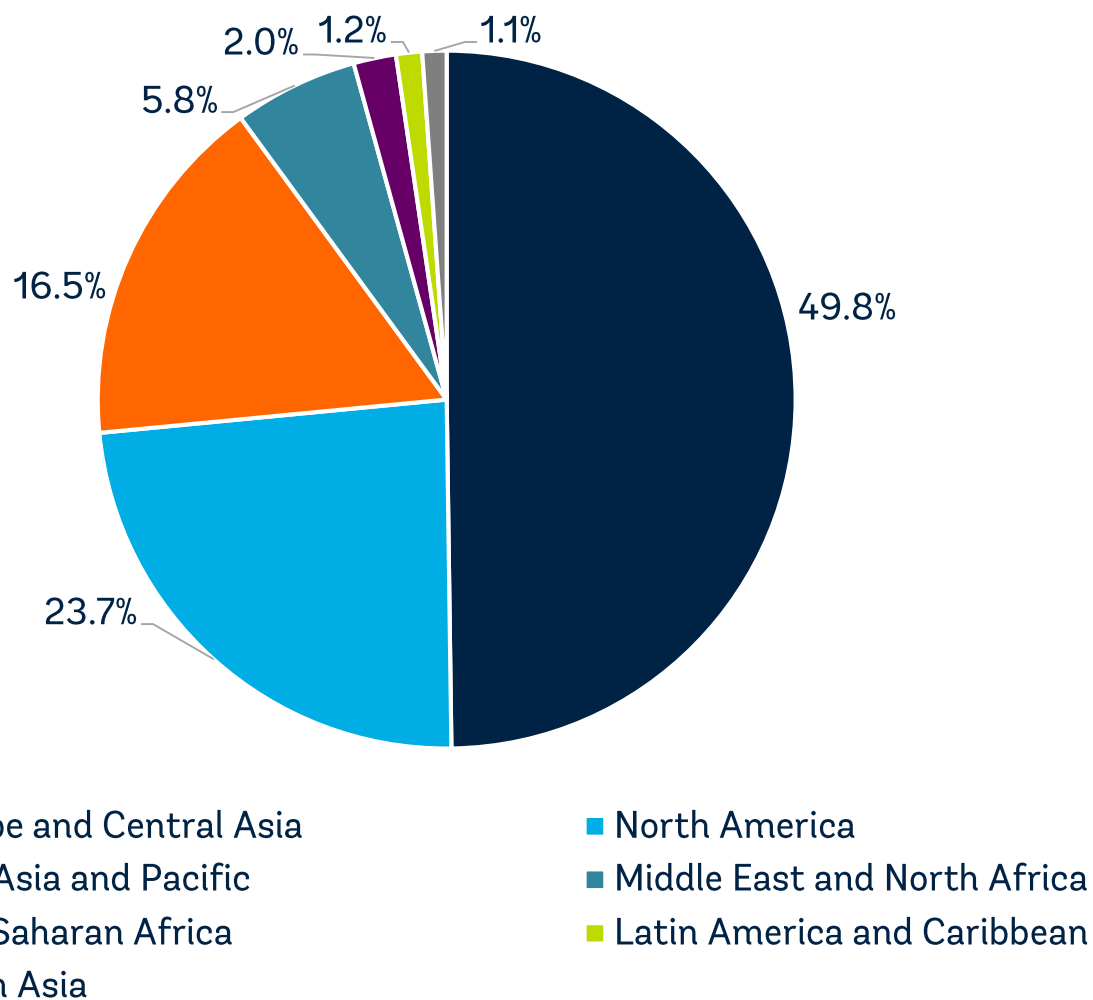
The share of high-skilled immigrants in OECD countries increased between 2000 and 2010



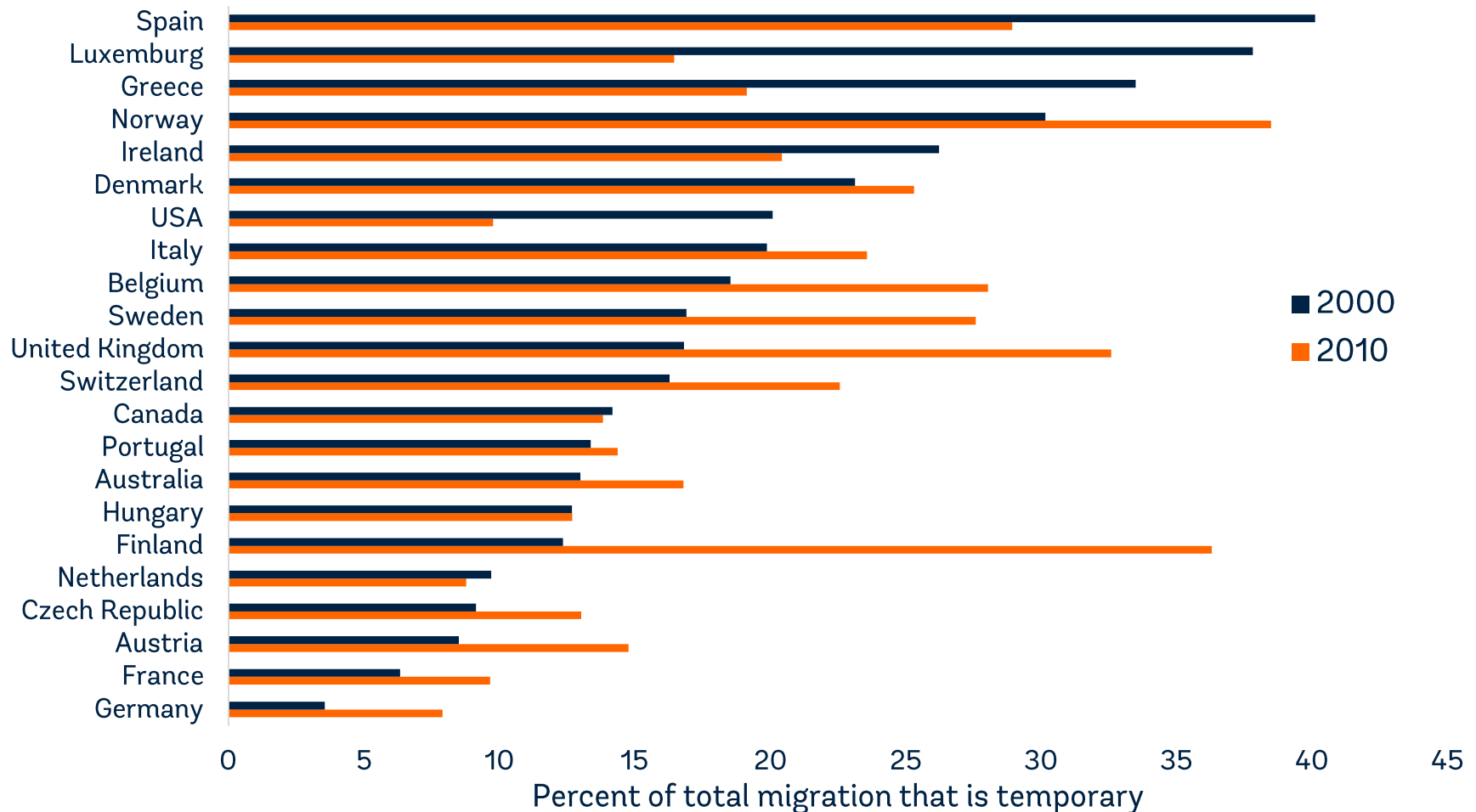
Most top ECA destinations attracted more international tertiary students in 2014 than in 2004



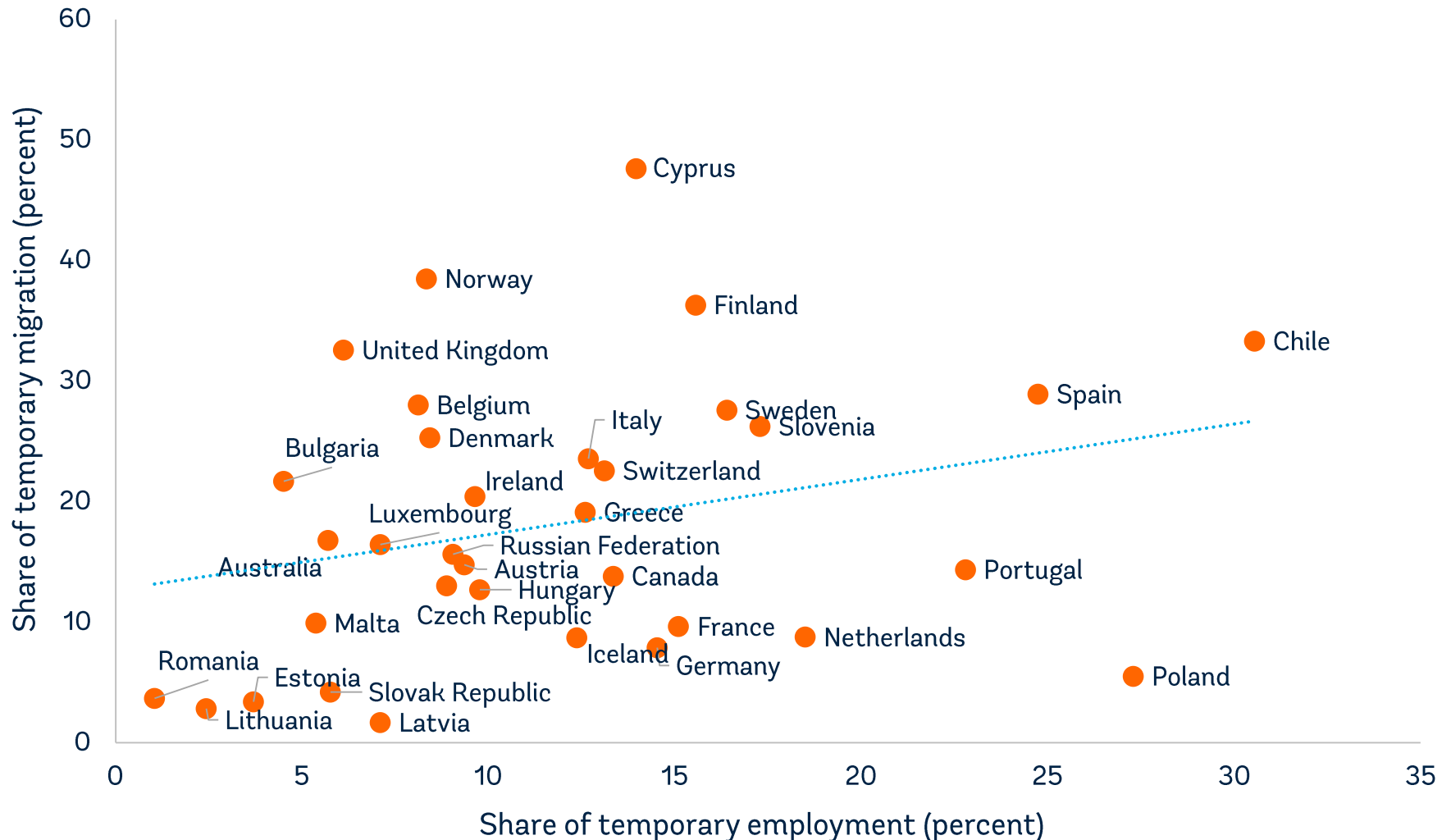
ECA hosted half of the world's tertiary students in 2014



The share of temporary migration in total migration increased in most countries in Europe and Central Asia between 2000 and 2010



The share of temporary migration is positively related to the share of temporary employment



Countries in Europe and Central Asia with highest and lowest connectivity

Country	Combined connectivity	Trade	FDI	Migration	ICT	Airline	Portfolio flows
<i>Countries with highest overall connectivity</i>							
Luxemburg	1	2	1	1	1	3	32
Ireland	2	3	5	5	3	5	27
Netherlands	4	5	3	18	14	12	9
Belgium	5	4	4	7	5	18	78
Switzerland	6	6	6	2	2	6	7
Poland	38	36	38	34	49	55	35
<i>Countries with lowest overall connectivity</i>							
Belarus	95	75	103	42	98	106	99
Georgia	102	105	101	62	104	104	93
Armenia	104	91	102	64	103	98	86
Azerbaijan	105	104	108	110	109	107	107
Tajikistan	107	109	106	109	110	110	106

Policy priorities

- Further integration of migrants in destination countries;
- Facilitation of circular migration;
- International agreement on a multilateral framework for migration;
- Conditions to help migrants and nonmigrants cope with more flexible labor markets

Summary

- ECA is registering strong cyclical performance
- But the new normal come with daunting structural challenges caused by new technologies and changes in relative prices
- The influx of refugees has increased concerns over migration, but refugee flows are relatively small and migration has always been a vital part of ECA's history
- Policy reforms should help both migrants and nonmigrants cope with increasingly flexible and connected labor markets



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Thank you!



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