

REFUGIES' CRISIS – A NEW CHALLENGE FOR THE EUROPEAN UNION ECONOMY

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Abstract

The paper deals to the idea of analysing the impact of the refugees' crisis on Cohesion Policy. In order to do this, the analysis is focused on three representative indicators: GDP growth rate, inflation rate and unemployment rate. The analysis approach is built on four levels: comparative analysis, regression in order to highlight the economic disparities, cluster analysis and forecasting procedures in order to quantify the economic evolution until 2020. According to the analysis in the paper, EU is not in the best economic position to finance the refugees' crisis costs. Moreover, some Member States face to low economic development and support the idea of an EU with at least two economic development speeds. Germany will achieve the greatest advantages from this new crisis, while the less developed Member States will become net financial donors. The analysis and the conclusions in the paper are supported by the latest official statistical data and pertinent diagrams. The main conclusion of the paper is that EU will not be able to achieve its economic targets as a result of this new crisis.

Keywords: economic clusters; economic disparities; forecasting procedures; refugees' crisis.

General approach

The recent global crisis was the first major challenge for the EU economy. The crisis' impact on individual Member States was powerfully and the European Cohesion Policy

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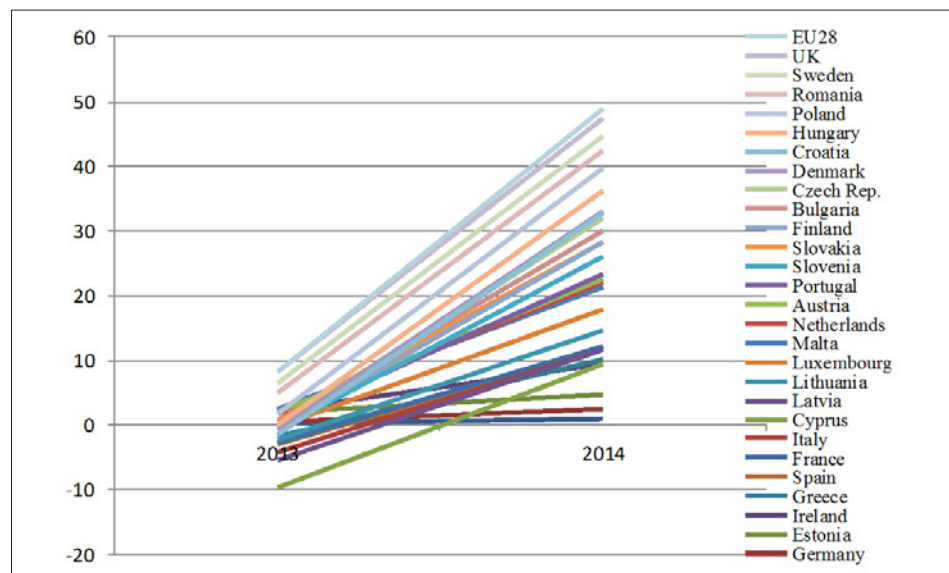
was far away of protecting them. Moreover, the economic recovery process was difficult and led to increasing the economic disparities across the EU28.² As a result, the economic growth rates allowed cluster approaches for the Member States' economies (see Fig. nr. 1).

According to above figure, the economic growth's disparities increased in 2014 compared to 2013. Moreover, some Member States (Italy, Cyprus, Finland and Croatia) faced to negative growth rates even in 2014.

The first semester of 2015 brought a new challenge: the Greek crisis, which is far away of solving. Greece was a perfect example for the cohesion policy's failure: a developed country, "old" member of the EU faced to deep recession, to default and to possibility to leave Euro area.

On the other hand, the short term economic forecasts are not too good. The EU average economic growth rate will be lower than the world average during 2015-2016, the inflation rate will increase, from 0.1% in 2015, to 1.5% in 2016 and the unemployment rate will be greater than in USA or Japan, for example.³

Fig. nr. 1: GDP growth rate's disparities across the Member States (%)



Source: personal contribution using⁴

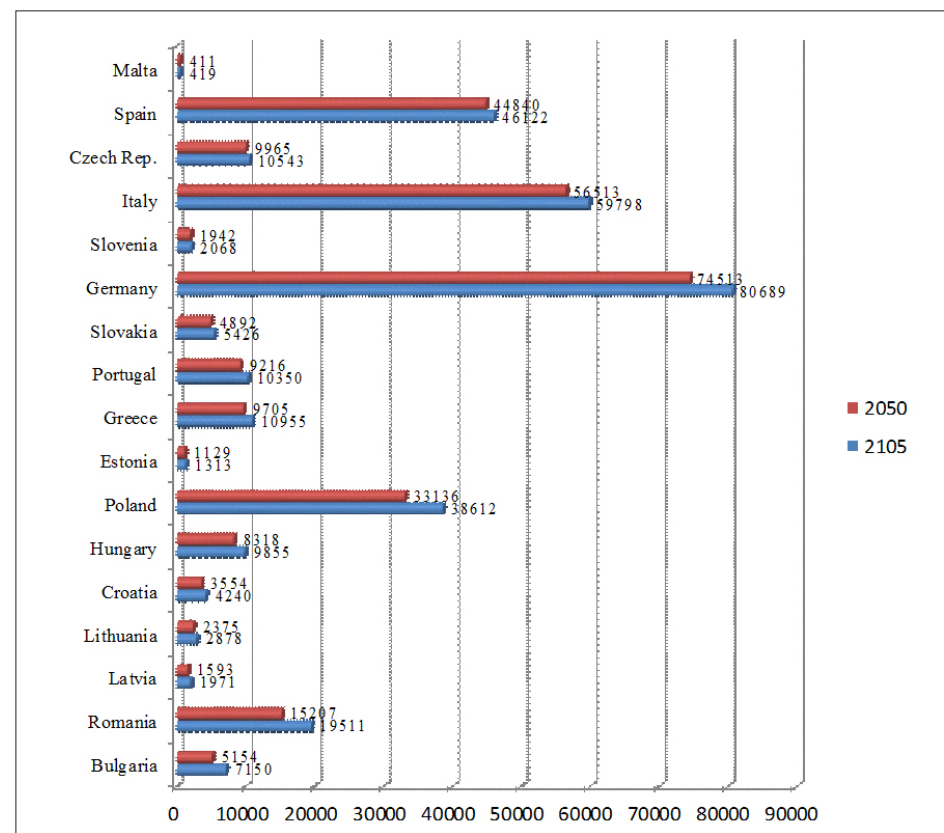
² European Commission - *Growth differences between euro area Member States since the crisis*, Quarterly Report on the Euro Area, June 2014, Vol. 13, No 2, pp. 7-20.

³ European Central Bank - *Comparisons and contrasts of the impact of the crisis on euro area labour markets*, ECB Occasional Paper Series, No 159, February 2015.

⁴ European Commission – *European Economic Forecast- Winter, European Economy*, no. 2, Brussels, 2015, pp.1, 75, 81, 83, 85, 87, 91 and 109.

In order to complicate this economic overview, the EU demographical trends are not positive and are not able to support labour for long term economic growth.⁵ As a result, 17 Member States will face to a population projected decrease between 2015 and 2050 (see Fig. nr.2).

Fig. nr. 2: Population's trend (thousands)



Source: personal contribution using United Nations, 2015

The same demographical forecasts places Italy, Portugal, Spain, Greece, Slovenia and Germany as countries with the oldest population in the world top ten in 2030. The median age of the world population will be 33.1 in 2030, little than in Italy (50.8), Portugal (50.2), Spain (50.1), Greece (48.9), Germany (48.6) or Slovenia (48.1). Such median ages are not able to support enough labour for the economic growth in these countries.

⁵ United Nations, Department of Economic and Social Affairs – *World Population Prospects: The 2015 Revision, Key Findings and Advance Tables*, Population Division, Working Paper no. ESA/P/WP.241, 2015, pp. 26-32.

The present refugees' crisis is more different than the economic and financial crisis, because it was encouraged by Germany, which tried to impose its point of view to the other Member States. On the other hand, Germany (4.8 million persons) and France (4.7 million persons) have the greatest Muslim populations from the EU28 and had another experience with such migration in 2010.

Research methodology

The analysis in the paper is based on three representative indicators: GDP growth rate, inflation rate and unemployment rate. In order to quantify the economic disparities across the EU28, regression is useful. The regression uses as dependent variables the economic indicators' values for each indicator, while the independent variable is time. Regression is realised according to ANOVA table.

Regression is followed by cluster analysis, which is used in order to support the idea that the Member States' individual economies are too different. The distance measure is the Euclidian one and the clustering criterion is Schwarz's Bayesian Criterion (BIC).

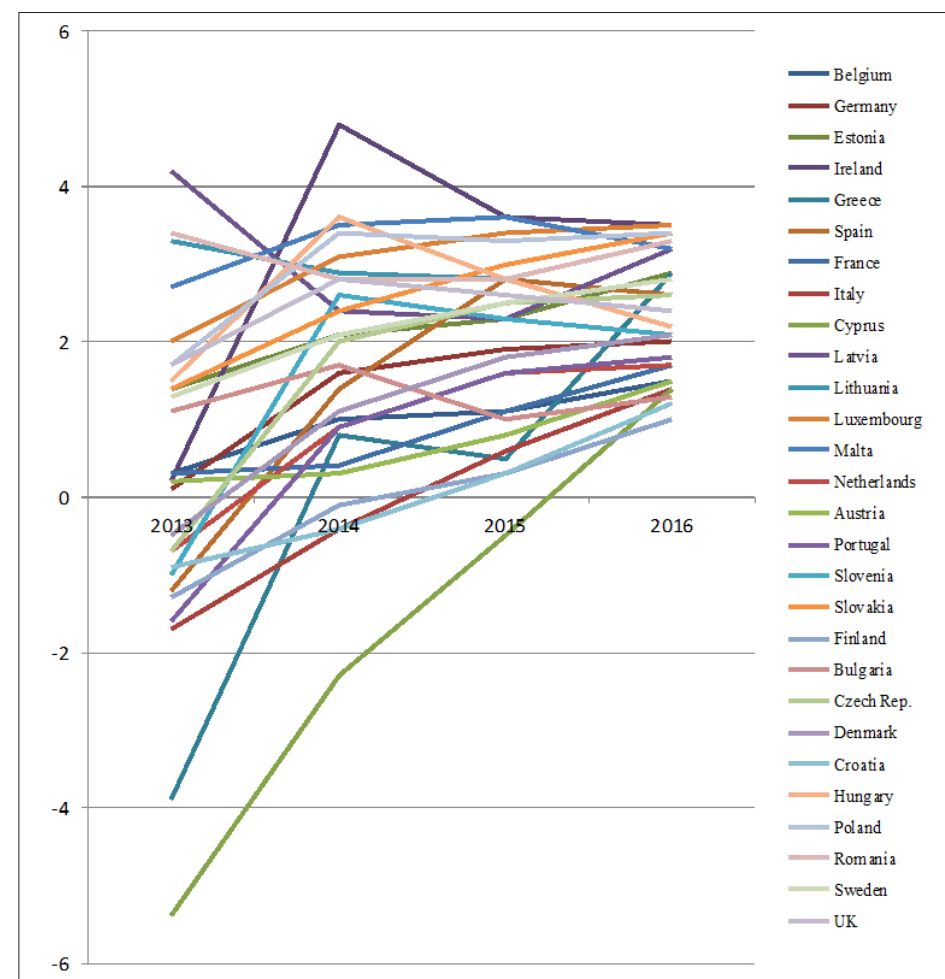
Finally, forecasting procedures lead to obtain an image of the EU economy in 2020. The forecasts dependent variables are the above there indicators, the independent variable is time and the forecasting method is ARIMA.

EU28 economy performance on short term

All Member States faced to economic challenges during 2013-2015 under the economic recovery process. The short term forecasts are not better. As a general overview, the Euro area economy achieved worst economic performances than EU28.

As a result, the economic disparities are important even in 2015. The disparities connected to GDP growth rate are presented in Fig. nr. 3.

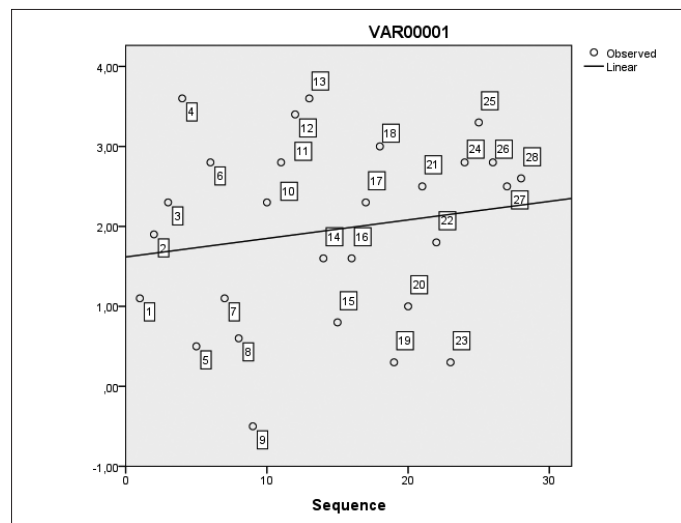
Fig. nr. 3: GDP's trend (%)



Source: personal contribution

In order to highlight the economic disparities' dimension, a regression analysis is presented in Fig. nr. 4

Fig. nr. 4: GDP's disparities in 2015 (%)



1. Belgium; 2. Germany; 3. Estonia; 4. Ireland; 5. Greece; 6. Spain; 7. France; 8. Italy; 9. Cyprus; 10. Latvia; 11. Lithuania; 12. Luxembourg; 13. Malta; 14. Netherlands; 15. Austria; 16. Portugal; 17. Slovenia; 18. Slovakia; 19. Finland; 20. Bulgaria; 21. Czech Republic; 22. Denmark; 23. Croatia; 24. Hungary; 25. Poland; 26. Romania; 27. Sweden; 28. UK.

Source: personal contribution using IBM-SPSS software

At least two clusters can be built using Fig. nr. 4. Under the hypothesis of two clusters, the cluster's quality is good enough (0.7) and the clusters ratio of size is 1.33.

Fig. nr. 5: GDP's clusters in 2015

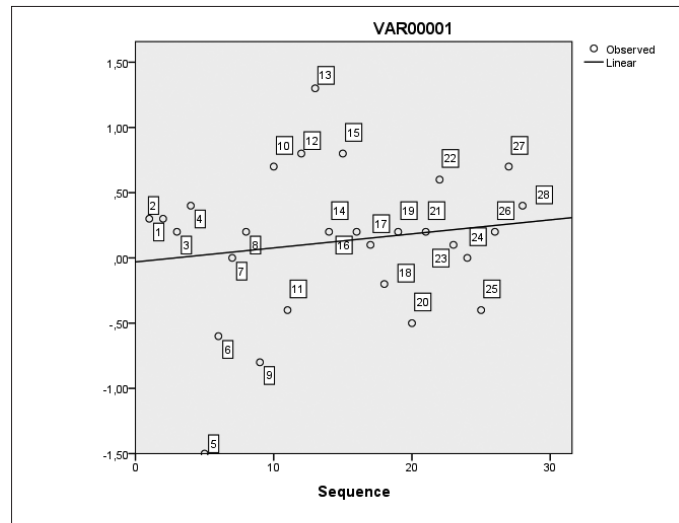


Source: personal contribution using IBM-SPSS software

The economic disparities are greater under the inflation rate's analysis (see Fig. nr. 6).⁶

⁶ Trehan B. - Survey measures of expected inflation and the inflation process, Journal of Money, Credit and Banking, Vol. 47, No 1, February 2015, pp. 207–222.

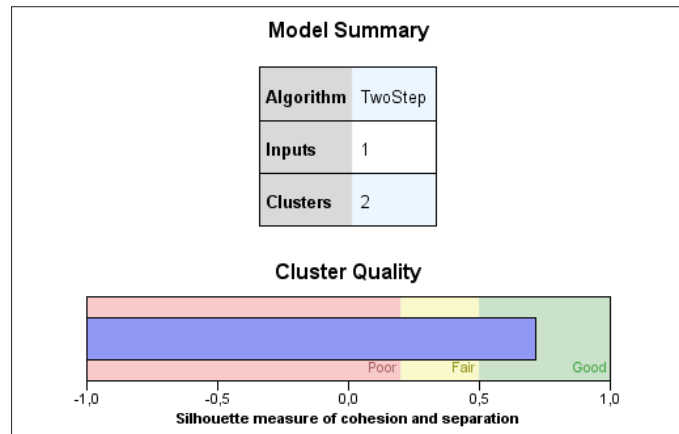
Fig. nr. 6: Inflation's disparities in 2015 (%)



Source: personal contribution using IBM-SPSS software

Under the same two clusters approach, the clustering process leads to a cluster quality of 0.7 (see Fig. nr. 7). Moreover, the initial two clusters grouping are the same for 15 Member States.

Fig. nr. 7: Inflation's clusters in 2015

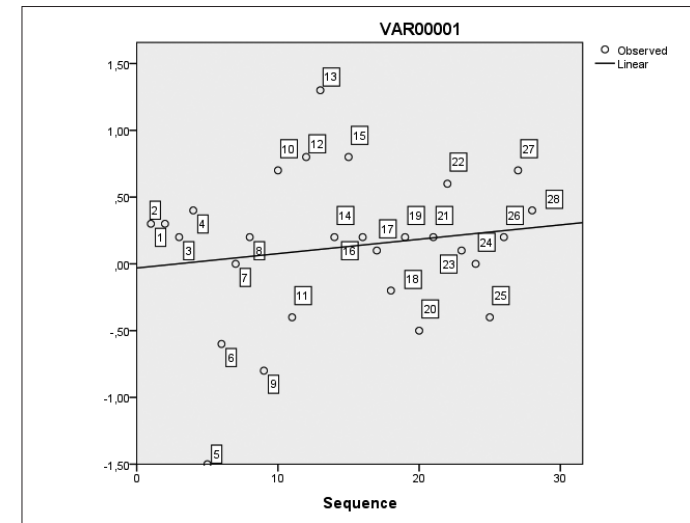


Source: personal contribution using IBM-SPSS software

The unemployment is one of the greatest challenges for EU28. In 2015, the EU average unemployment rate (9.6%) was greater than in USA (5.4%) or Japan (3.6%).

Moreover, there are great disparities between Member States related to this economic indicator (see Fig. nr. 8).

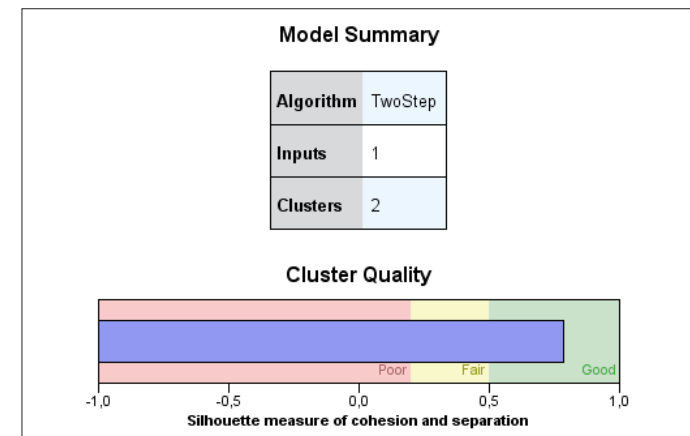
Fig. nr. 8: Unemployment's disparities in 2015 (%)



Source: personal contribution using IBM-SPSS software

According to Fig.nr.8, the same cluster grouping can be used in order to analyze the EU individual economies. The quality of such cluster grouping is good (0.8).

Fig. nr. 9: Unemployment's clusters in 2015



Source: personal contribution using IBM-SPSS software

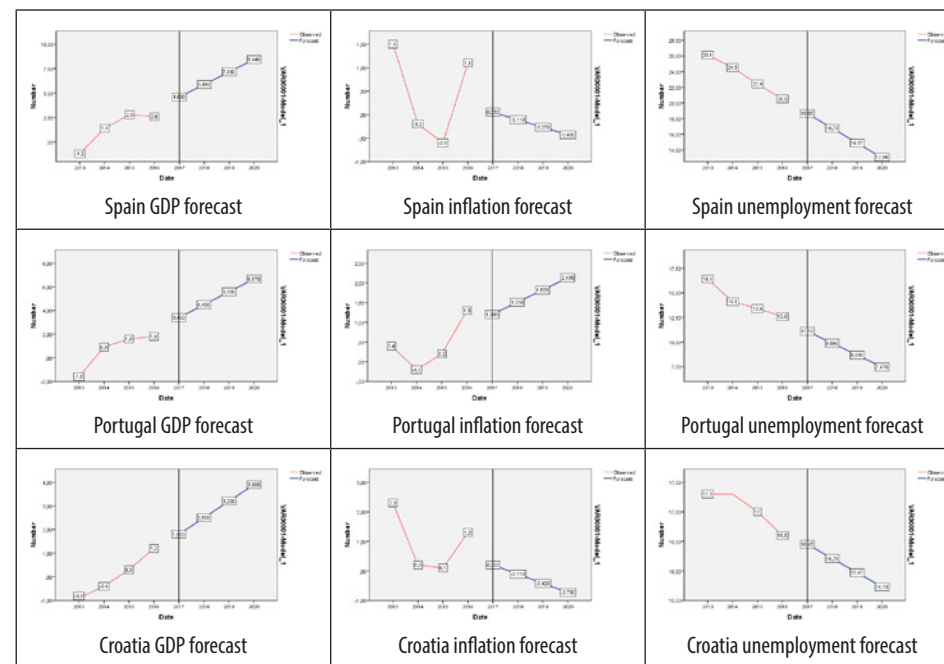
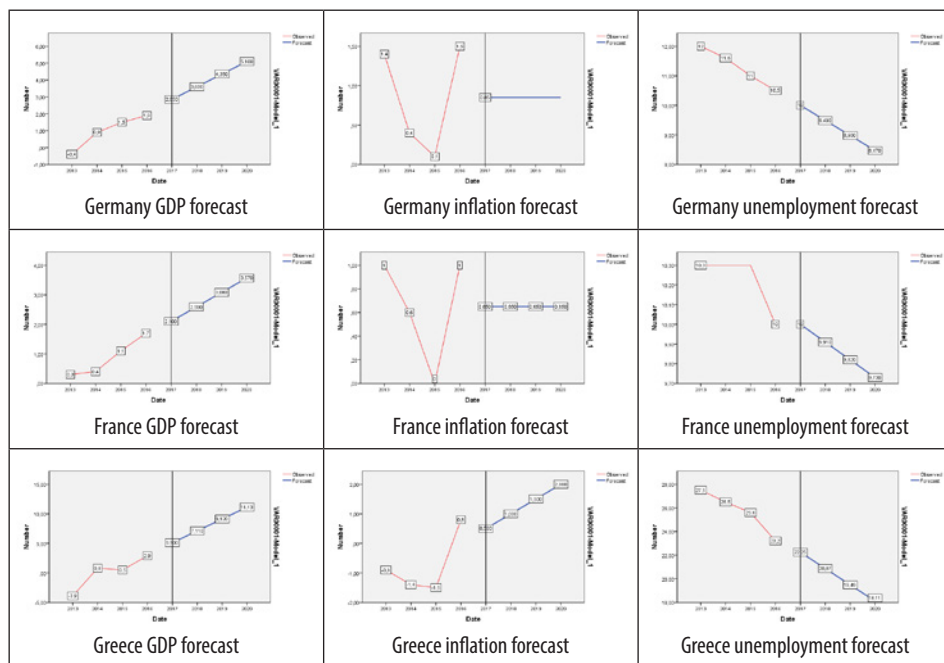
The first intermediate conclusion of the analysis is that Member States' economies are not a good example for the European Cohesion Policy. As a result, these countries can be grouped into distinct clusters, which lead to the idea of EU with at least two economic development speeds.

Economic impact of the refugees crisis on EU economy

Germany became the greatest supporter to the refugees in Europe. There are at least three major reasons which lead to this position. First of them is its experience connected to Muslim population. The second is more realistic and is the German old population. Germany will achieve the 7th rank in the world oldest population top in 2030.⁷

Moreover, the employment growth rate decreased from 1.3% in 2011, to 0.7% in 2015 and the forecasts are not positive. Even the unemployment rate (4.6% in 2015) is not able to supply the German labour market.

Fig.nr.10: Economic forecasts in specific Member States



Source: personal contribution using IBM-SPSS software

As a result, Germany is interested in attracting young population (as these refugees) in order to support its economic growth on medium term. This is why it allocated 6 billion Euros only this year to solve refugees' problems.

France has the second great Muslim population in the EU28, but it faces to higher unemployment rate (10.3%) and lower employment growth rate (0.5%) in 2015.

Interesting situations will be in Greece, which faced to the crisis yet and which will not be able to allocate money to refugees, in Cyprus, which faces to negative economic growth rate even in 2015 and in Spain, Portugal and Croatia, which face to high unemployment rates.

Many specialists are not confident in EU's economy to face to this new crisis. In order to have a scientific point of view, some forecasting procedures are applied to the above three indicators.

According to Fig.nr.10, Portugal and Greece will face to growth of the inflation rate in 2020. The other economic trends seem to be positive for all analyzed countries. Unfortunately, the above forecasts are realized under the assumption that the present economic environment will not change.

Every refugee represents additional costs for the national economy. For those Member States which belong to less developed economies' cluster these costs can become

⁷ United Nations, Department of Economic and Social Affairs – *World Population Prospects: The 2015 Revision, Key Findings and Advance Tables*, Population Division, Working Paper no. ESA/P/WP.241, 2015, pp. 26-32.

too high and can have negative impact at least on short and medium terms. Moreover, all refugees can bring their relatives in the EU, according to European legislation. This means new higher costs for host countries. The proposal of using European Funds to cover these costs is not good, because the European Policies' targets will not be achieved without European financing.

On the other hand, the possibility to increase the labor supply on the European labor market using Muslim refugees depends on their interest to learn the local language, to integrate to the European socio-economic and cultural environment and finally to want to work in the European companies.

Conclusions

The refugees' crisis started to divide again the EU into countries which will obtain advantages and countries which will pay the economic development for other Member States.

Nowadays, Germany is the most competitive economy across the EU and it wants to maintain its position in time. The German project to attract refugees in order to complete its labor deficit will have great negative impact on the economic development of the EU's sensitive economies.

Moreover, the refugees' crisis present approach will support the building of different clusters across the Member States using their present and future economic performances.

As a result, the Cohesion Policy will become a nice dream and the economic disparities between Member States will increase at the end of the present financial perspective.

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