

## **FORTRESS EUROPE BREACHED: POLITICAL AND ECONOMIC IMPACT OF THE RECENT REFUGEE CRISIS ON EUROPEAN STATES**

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**Abstract:** *The onset of the Syrian civil war, the expansion of the military influence of the Islamic State in the Middle and Near East and the ongoing conflicts in Africa has caused a significant number of refugees from the affected areas to flee towards Europe, generating a migrant crisis that has proven itself a contentious issue among European states as they struggle to find a solution to house the refugees and integrate them within the different host societies while also managing internal political debates and pacifying internal reluctance regarding the immigrants. The recent terrorist attacks in Brussels as well as various incidents associated with areas where refugees are concentrated have worsened the problem as European states fear security issues associated with the mostly Muslim population that seeks asylum within their borders. Beyond humanitarian, political and security concerns, the economic impact of the crisis upon European states has been varied. The immigrants have been seen both as blessings in disguise for the aging workforce of some European states and a potential financial burden on the economies of others in terms of social welfare costs and risks of increasing the local unemployment rates. Not only that, but the refugee problem has given way to a clash between two opposing viewpoints within the European Community: on the one hand, states who have sought to facilitate the accommodation of asylum-seekers on their territories, and on the other, states who have taken a tough approach to stem the flow of refugees within their borders and have rebuked the solutions thus far proposed by the EU. The present paper seeks to investigate the political and economic effects of refugees on host countries in Europe with a focus on the perceived division between countries that have welcomed immigrants versus those who have sought to restrict the number of refugees entering their countries.*

**Keywords:** refugees; Europe; Islam; immigration; geopolitics; security

**JEL classification:** F15; F19

### **1. Introduction**

The humanitarian crisis brought about by civil wars in the Middle East and the military actions of the Islamic State has been the subject of much controversy and many hectic debates among European states.

The topic has been examined before in economic literature, often with a focus on particular countries in particular contexts. One attempt to assess the impact of refugees on host countries comes from the United Nations' Refugee Agency – the UNHCR – following the situation in Rwanda (UNHCR, 1997). The UNHCR estimated that a large inflow of refugees leads to competition between them and

the local citizens for limited resources such as housing or healthcare. The paper notes potentially significant macroeconomic impacts, such as increasing the rate of unemployment by competing with native citizens on the local labour market, or altering aggregate demand and the flow of goods entailing difficulties in applying structural adjustment initiatives or inflationary effects (UNHCR, 1997). At the same time, the potential economic benefits on host areas are also acknowledged in the paper, as incurred by international aid, the creation of employment or the development of infrastructure, but at the cost of the government's willingness to bear the cost of accommodating the refugees. The authors of the paper touch on the social implications, namely negative effects such as the potential animosities aroused by ethnic differences between the migrants and the local communities, the allocation of social aid to migrants that would normally be unavailable to locals, or the increase in crime and security risk, as well as potential benefits in the form of skills and assets that immigrants bring that could steer the host community towards cultural and economic development (UNHCR, 1997).

A similar conclusion is reached by Karen Jacobsen (2002), who examined the implications of an increase in refugee, and similarly found that while in the short term an increase in the inbound flow of refugees may put pressure on a the resources of the developing countries hosting them, with appropriate assistance and humanitarian programmes they may benefit from the assets refugees bring. Jennifer Alix-Garcia and David Saah (2008:1) examined the impact of the refugee flow from Rwanda and Burundi in 1993 and 1994 on Tanzania, the country they'd fled to, finding that effects tend to be positive in rural areas and negative in urban ones. The reasons proposed by the authors to explain this difference in the distribution of the impact were that the increased demand brought about by the population increase leads to rural producers selling their goods at a more advantageous price while buyers from the urban areas see a decrease of their incomes due to the price increase (Alix-Garcia and Saah, 2008:13-21).

Last but not least, the Institute for Market Economics (IME) in Bulgaria (1999) assessed the economic and social impact of asylum-seeking refugees on Bulgaria, providing some insight into why Bulgaria, at the time, demonstrated reluctance towards accepting refugees: a *quid pro quo* against restrictive immigration treatment it received from Western countries, and a lack of proper popular and institutional support for any initiative (IME, 1999:6). Due to the lengthy bureaucratic process that refugees undergo in the attempt to be integrated in the host labour market, the IME explained that many refugees turn to opportunities in the shadow economy, bypassing fiscal regulations, and even when granted equal rights on the labor market as local citizens, they still have difficulties to face in finding employment due to an array of factors such as language barriers, a lack of a social network and of relevant local experience (IME, 1999:20-21). It was assumed (IME, 1999:24) that Bulgaria's efforts towards European integration would render it in a better position to accept asylum-seeking refugees; yet, in light of the recent refugee crisis, the reaction of the Bulgarian government has been mixed at best with regards to refugees.

Given the currently existing framework, the impact of refugees on host countries can be summarized thusly:

- An increase in aggregate demand which can lead to inflation as well as stimulate the development of markets where the increase is strongest.
- A rise of the unemployment rate as the foreign refugees compete with the native labor force for a limited amount of available jobs.
- An increase in the public sector expenditure as governments need to house refugees, provide them with basic social insurance and healthcare services as well as mitigate their ecological impact.
- In the long run, successful integration of migrants within the social fabric of the host country can lead to positive economic effects due to the human capital that they bring.

In this paper, we will provide an overview of the potential impact and challenges that the recent waves of migrants fleeing from regional conflicts in the Middle East and Africa may have on European economies with a focus on the differences between countries that have been more welcoming of refugees and those that have displayed a marked reluctance towards them.

## **2. Background of the refugee crisis and the EU's response**

The crisis began in 2015, when Europe saw a steep increase in the number of refugees seeking asylum. Most of these refugees came from areas affected by conflict, namely Syria, Afghanistan, and Iraq being the top three sources of fleeing citizens seeking safety and shelter on European territory, as reported by Eurostat (2016). A total of 1,255,600 asylum claims were submitted to EU countries, of which over 441,800 in Germany, 174,400 in Hungary and 156,100 in Sweden, according to the same source. This was a rise of almost 200% compared to the previous year, when a then-record over 625,000 applicants were registered in the European Union (Eurostat, 2014). Despite this, the highest number of asylum applications in relation to local population was registered in Hungary with almost 1,800 migrants per 100,000 native citizens, with Sweden and Austria coming 2nd and 3rd, respectively ('Migrant crisis: Migration to Europe explained in seven charts', 2016).

The European Union's response was a ten point plan designed to increase border control, enhance security checks and filters in order to better manage the refugee inflow as well as combat smugglers and human traffickers (European Commission press release, 2015).

The most controversial point, however was the relocation initiative employed to more evenly distribute the pressure of housing refugees among the member states of the EU, proposing the application of quotas in order to accomplish this goal. The suggestion was approved by the European Parliament with a total of 449 votes for and 130 against ('Parliament agrees on binding refugee quotas', 2015).

While Germany received a high number of immigrants due to its Basic Law which stipulates the right to asylum for humanitarian reasons (which was later amended to accommodate the possibility to impose quotas should the need arise) Hungary, on the other hand, built a border barrier in conjunction with the Czech Republic, Slovakia and Poland to prevent illegal entry to immigrants and boost control over the inbound flow of refugees. Slovenia sought a similar course of action, creating a border barrier of its own to halt the advance of the refugees. Slovakia, Poland, the Czech Republic and Hungary, collectively part of an alliance known as the

Visegrad Group, have all rebuked the quota plan, deeming it unfair to the host states as well as to the refugees (among whom, it was argued, Ukrainians fleeing the conflict in Donbass should be counted), as well as ineffectual ('EC failed in solving migration, quotas make no sense - Czech PM', 2016), compounded by the fact that asylum-seeking refugees would relocate to another destination, as several Syrian refugees relocated to Germany from the Czech Republic ('Malí Syřané se měli léčit v Motole, rodina obratem odjela do Německa'. 2015). The Paris attacks worsened concerns and proceeded to further divide the EU member states, with growing fears of terrorists entering European territory posing as refugees.

Slovakia has expressed its disapproval by filing a lawsuit against the EU to the European Court of Justice in Luxembourg over its decision to relocate around 120,000 immigrants, with the Slovakian Prime Minister calling the mandatory quotas "nonsensical and technically impossible" as reported by POLITICO ('Slovakia files lawsuit against EU's refugee relocation', 2015).

An interesting aspect to analyze is whether the difference in attitudes between the welcoming states, on the one hand, and the reluctant ones, on the other, is based mainly on economic considerations, or rather on political undertones.

### **3. Projected economic effects of refugees on host countries**

An analysis conducted by the International Monetary Fund has been carried out to determine the potential economic consequences of the refugee crisis. Aiyar et al. (2016) have foreseen in the short term an increase in GDP growth, due to the increase in aggregate demand, to the fiscal expansion required to accommodate refugees and to the workforce growth when the latter enter the labor market, while long term effects depend on the extent to which refugees are successfully integrated in the labor market (Aiyar et al, 2016:11-15). According to the same source, the average budgetary expenses for the immigrants may increase by 0.05% to 0.1% of the GDP compared to the previous year, while the GDP itself may grow by a projected 0.09% and 0.13%, with a more concentrated effect on the countries receiving the most applicants, namely Austria (0.5%), Sweden (0.4%) and Germany (0.3%) (Aiyar et al, 2016:13).

Considering the ideal scenario of successful integration of the immigrants in the labor market, the authors predict an overall increase of the average GDP of the EU by 0.25% by 2020, with increases between 0.5 and 1.1 percent for the main destination countries previously cited. Alternatively, failure to successfully accommodate asylum-seeking refugees in the host countries is predicted to result in a 0.4% decrease of the GDP per capita including refugees, and government debt as well as the unemployment rate will rise (Aiyar et al, 2016:14). Similar to previous research, Aiyar et al. conjecture that the integration of refugees in the host state's labor market is typically slow in the beginning as determined by the lack of language skills and relevant job experience as well as length of the application process in some countries, which is especially true of refugees from less advanced economies, such as the current surge originating from Iraq, Syria or Afghanistan (2016:15-16), resulting in a wage and employment gap between refugees and natives.

Another analysis has been conducted by the Organization for Economic Cooperation and Development (OECD), who noted (2015:1) a projected increase in public spending for the following two years in Germany (by 0.5 percent), Austria (by 0.3 percent), Hungary (by 0.1%) and Sweden (by 0.9 percent) which in the

short run should increase aggregate demand by 0.1 to 0.2 percent of the GDP. Similar conclusions regarding the potentially beneficial effects of the migrants have been reached in a study performed by the European Parliament (2015), which noted that the migrants may address the negative demographic trend in most EU states as well as bring innovation and entrepreneurship to the local economies. The same study highlights the ageing of the European population as one of the most serious challenges faced by the EU, with a low fertility rate that generates long-term concerns regarding the maintenance of social security systems as well as healthcare, as the ratio of active people to those over 65 is expected to decrease from 4 to 1 in 2013 to 2 to 1 in 2060. The paper also notes that despite the “weak but positive” (2015:7) economic effects, it is difficult to make predictions regarding the economic consequences due to the sheer complexity and dimensions of the refugee inflow.

Researcher Joakim Ruist (2015) looked into the fiscal cost of refugees in Europe and based on the case of Sweden, estimated a net redistribution from the native population to refugees of 1.5% of the GDP, and that the economic burden can be offset by rapid integration in the labor market. Ruist highlighted that refugees tend to be overrepresented in certain types of public spending such as social assistance, language training, crime and justice or labor market policy.

#### **4. Policies vs. Politics**

As noted above, while Austria, Germany and Sweden have been quite accepting of refugees, Hungary, Slovakia, Poland and the Czech Republic have been extremely reluctant, denouncing the attempt as unfair and ineffective, with implications that the mandatory quotas are an infringement of their sovereign right to control the immigration inflow. Yet, given that, as previously explained, there are potential economic benefits to helping refugees adapt to their new home in a given country it is worth to consider the differences in outlooks.

It has been noted that Germany's population decline may well weigh heavily in Germany's acceptance of immigrants settling on its territory. With an estimated population decline by 8 to 13 million people by 2060 (2015), given the number of deaths constantly overtaking the number of births, and thereby a decline of the active workforce, as it is expected that people within the age bracket of 20 to 64 will make up 50% of the population (from a current share of 60%), the arrival of refugees, most of whom are young, can counteract that effect since, as reported by Euractiv.com (2016), 46% of German employers have trouble recruiting. Moreover, the refugee pressure forces a raise in public spending in Germany, which would have positive effects both on the German economy and on the Eurozone thanks to the improvement of the infrastructure, the stimulation of domestic demand as well as an increased output and regional spillovers (Elekdag and Muir, 2014).

As Sweden has a similar problem with the ageing of its populations, economists from the Swedish bank Nordea suggested a growth of Sweden's GDP by 0.5 percent, thanks to greater investments in the building industry or in the educational sector to help train refugees to be more easily assimilated in Sweden's society, with any prospective impact on the labor market unlikely to materialize before 2017, according to Swedish news outlet *The Local* (2015). In a 2015 paper, Eriksson and Folster (2015) argue that the fiscal impact of immigration is small, and that the migrant influx may actually lead to positive economic effects such as increased exports, a deepened specialization of labor



and a diversification of the skills available on the job market, estimating that without immigration, Sweden would see a decline in wages of over 3 percent. The authors also note that in Sweden, migrants have proven to be especially beneficial to native economic entities, citing IKEA's use of immigrants to counteract the labor shortage.

Given the prospective economic benefits that housing asylum-seeking refugees in the long run provided successful integration, the reasons behind the refusal of Hungary, Poland, Slovakia and the Czech Republic to integrate larger numbers of refugees appear to be grounded in social and political concerns. It should be noted that both Sweden and Germany have significant proportions of their populations; Germany's Federal Statistical Office reported in 2015 that 16.5 million citizens (or 20.3% of the total population) have an migrant background, while in Sweden, over 14% of the population consisted of foreign-born citizens according to the OECD (2012).

In contrast, in the case of the countries of the Visegrad alliance, the same indicators point to much lower figures, such as 0.7% for Slovakia, 0.8% for Poland, 4.1% for Hungary and 6.4% for Czech Republic. It is also worth noting that while, according to the Pew Research Centre (2015), both Germany and Sweden house some of the largest Muslim minorities relative to the total population of any European country, namely 5.8% (about 4.8 million people) of Germany's total population and 4.6% of Sweden's citizens, Poland, Slovakia, the Czech Republic and Hungary all have the smallest Muslim minorities (below 0.1%). On this point, there have been press statements from government officials from some of these states explicitly stating that the integration of Islamic refugees in their societies is, if not downright impossible, then extremely difficult, especially in the fallout of incidents featuring refugees such as the large-scale attacks in the German city of Cologne involving robbery, sexual assault and battery on New Year's Eve and in particular, the Paris shootings of November 2015 by Islamic extremists.

For instance, Hungary's Prime Minister, Viktor Orban, stated last year in no uncertain terms that accepting Muslim refugees would spark security and societal risks such as "terrorism, criminalism [sic], anti-Semitism and homophobia", according to the *Business Insider* (2016) and that Muslim refugees are not welcome in Hungary, invoking Hungary's right to autonomy in managing the flow of refugees ('Hungarian PM: We don't want more Muslims', 2015), his country's history under Ottoman rule and incompatibilities between Islam and the Christian roots of European culture as grounds for his position ('Hungary's Orban invokes Ottoman invasion to justify keeping refugees out', 2015).

In a similar tone, Czech president Milos Zeman said that integrating Muslims in European societies is extremely difficult due to their core values differing too much from those of European population, cataloguing the attacks in Cologne to "Muslim culture" and considered that Middle Eastern asylum-seekers have caused the creation of ghettos and radicalized Muslim neighborhoods in the countries that welcomed them, according to the British newspaper *Express* (2016). Last but not least, the Slovakian Prime Minister has voiced his government's refusal to allow the formation of a united Muslim community in Slovakia, rebuffing multiculturalism as a viable objective, more pungently so due to Slovakia's socially conservative outlook with a large Catholic population ('Slovakian Prime Minister warns country will stop Muslim refugees from entering', 2016).

Beyond negative perceptions caused by past clashes between Christians and

Ottomans, a commentator wrote for *The Guardian* (2015) about several probable reasons why Central and Eastern European Countries have pronounced themselves against receiving immigrants and accepting the quota system: fears regarding the effect on their economies that refugees might have in light of their own economic issues or their own self-perceived status as “second class citizens” hence the desire to assert their sovereignty against the EU’s rules. The author also notes the importance of ethnicity and culture in how countries from these regions define a nation, beyond politically established conventions, with ethno-cultural homogeneity being vital to a state’s integrity, given the disintegration of Yugoslavia and Czechoslovakia.

Given these assessments, we can also further deduce the rationale behind the refusal of Central and Eastern European countries to accept refugees versus the more welcoming Western nations. As their societies are ethno-culturally homogeneous and conservative, integrating refugees with quite different values and religions would be very difficult to achieve and would require a large amount of political will and dedication as well as economic resources. It is very probable that accommodating significant numbers of asylum-seekers would be met with resistance by the respective societies which may take the form of violent protests or attacks on the foreigners, thereby jeopardizing societal security.

Not only that, but the difficulty in accepting refugees would lead the latter to relocate to more welcoming countries in other regions; as such, the countries that first received them would function as transit points, and therefore these countries would not benefit from the long-term economic benefits by refugees in the form of assets, innovation, entrepreneurship and human capital, but would have to put up with the short-term challenges of providing them with housing, food, healthcare and a minimum of social security, while also combating potential increases of the crime rate, political discord and stemming black market operations. As a result, politicians have a strong incentive to acquiesce to their voters’ stance and take a hard-line approach to controlling the passage of refugees on their territory and rejecting any quota imposed from without.

## **5. Political consequences**

Beyond any economic effects and the refusal of Central and Eastern Europe to accept quotas, refugees have yielded a social and political reaction even from the very countries which, as stated previously, have been more welcoming of them. In Germany, violent protests spurred by the anti-Islam group PEGIDA occurred in the city Dresden as 8,000 people expressed their disapproval for the government’s stance on accepting refugees, one of over 200 rallies in the course of a few months. Similar movements occurred in Calais, France and in the Czech capital of Prague where 2,200 people, both supporters and opponents of PEGIDA, have clashed, as detailed by *Reuters* (2016).

Such feelings have been noted in electoral preferences across several European countries where far-right factions have risen significantly in popularity. In France, the National Front, headed by Marine Le Pen, has managed to win 6 of 13 French regions with 28% of votes in its favor ‘National Front stuns Europe’s political elites’ (2015). Although they failed to secure any region in the second round of voting, it stands as proof of the increase in popularity of the right-wing, nationalistic, anti-immigration, eurosceptic, economically protectionist French party. In Germany’s recent local elections in March 2016, *Reuters* (2016) has pointed out that Angela Merkel’s party, the Christian Democrats, conceded significant ground to the anti-

immigrant party Alternative for Germany. In Austria, a similar strain on public acceptance of refugees allowed Norbert Hofer of the far-right faction Freedom Party of Austria to achieve victory in the first round of presidential elections held on April 24, 2016 according to *Politico.eu*. Last but not least, the Swedish right-wing group called the Sweden Democrats have reached, as figures provided by Swedish news agency *Metro* (2016), an all-time high of 28.8% of favorable opinions in January 2016, a 5-point increase from their standing in December 2015, and 7 points above the next political faction.

The political consequences of the refugee inflow, in the form of an increase in prominence for right-wing factions may have stark consequences for the future of European integration. Marine Le Pen is known for her eurosceptic stance, having once called the EU “the death of economy, our social welfare system and our economy” and promised to hold a referendum to pull France out of the EU should she emerge as president, says *Euractiv.com* (2015). Also, *Politico.eu* shed light on a request by the National Front to Russia for a €27 million to fund its campaign, hinting at potentially close ties between a National Front-led French government and Russia. In the same vein, the Alternative for Germany was reported by *Spiegel* (2016) to harbor strong xenophobic, anti-European and pro-Russian sentiment.

## **6. Conclusion and outlooks on further European integration**

The paper has sought to investigate whether the refugees have a significant economic impact on the host countries. Through the examination of existing literature as well as using open-source information, the economic effects tend to come in both boons for the host countries as well as challenges, especially with regards to long-term integration in the local society and labor market. The extent to which the advantages can be capitalized upon would depend on the ease with which the asylum seekers’ integration in the social and economic fabric of the recipient country is carried out. That may serve as an explanation as to why countries like Poland, Hungary, Slovakia and the Czech Republic, with conservative societies and politics, would face difficulties in achieving this goal, and thus fail to keep refugees within their borders for long enough to be able to reap economic benefits.

An extension to the above is that the more rigid public resistance becomes, the stronger the impact on local politics, as seen in France, Austria, Germany and Sweden, the most sought after countries by refugees. As such, should right-wing groups come to politically dominate the major players in the EU, it is foreseeable that this would have an impact on the future path of European integration. With anti-EU sentiments upheld by leaders of the far-right in Germany and France, for instance, this is likely to lead to foreign policies that would hinder if not halt the expansion of the EU, and it would cause a division between EU states based on differing outlooks that would hamper decision-making and the formulation of coherent common EU policies on external problems, while domestically, integrative efforts such as the expansion of the Schengen space could be jeopardized, for instance by powerful boycotts leveled against it. Economic protectionism would lead to restrictive commercial policies would weaken the EU’s position within the World Trade Organization, especially if actors such as France or the UK were to exit the EU. Closer ties with Russia, especially in terms of energy diplomacy, compounded with weakening integration, would probably lead to an increase in bilateral agreements between EU members and third parties



were they to come to see the EU as unviable for their national interests. To conclude, the refugee crisis may well have long-term political, social and economic consequences for the European Union, and it is through properly managed humanitarian aid, concerted effort and political will that such a crisis can be handled to prevent its worst outcome.

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