



Immigration may increase the population up until 2030

Is India becoming the most important country of origin?

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In 2019, 327,100 people migrated to Germany (in net terms). Thus, immigration figures were clearly down in comparison to earlier years, when they amounted to 400,000 or more.

In particular, the number of Polish immigrants dropped from more than 20,000 to less than 2,000 within a single year. At the same time, immigration from India rose at a surprisingly strong clip. With 21,700 net immigrants in 2019 (up from 16,875 in 2018), India was the third most important country of origin after Romania and Syria.

In 2020, immigration is likely to slow considerably due to the COVID-19 pandemic. We believe that significantly less than 200,000 immigrants are going to come to Germany. The figure for 2021 will depend on both the economic recovery and the future development of the pandemic. In the long run, Germany's healthcare system might make the country attractive for immigrants. In particular, immigration from non-European countries might increase on the back of Germany's efficient handling of the pandemic so far and of the recently adopted Skilled Immigration Act.

Based on the assumption that the Statistical Office's upside immigration projections (which foresee more than 300,000 immigrants per year) materialise, the German population looks set to grow to more than 84 million by the beginning of the 2030s and decline slowly afterwards. Such a development would be highly welcome, seeing that the ageing of society will have a negative impact on growth.



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Germany proved highly attractive during the past decade

Immigration makes an important contribution to the pool of available workers and, in turn, economic growth in Germany. In the long run, its importance is likely to increase, as many workers will reach retirement age by 2030 and there are not enough young people to fill the gap. At the same time, immigration will play an important role for the economic development of regions with poor infrastructure, as immigrants are increasingly moving to the edges of metropolitan regions and beyond to more rural areas, mainly due to a lack of affordable accommodation. Immigration is also an important driver on the demand side of the housing market. During the past decade, a total of 4.5 million people have come to Germany, and the workforce has increased by 2 million to 47 million. The impact of immigration on the overall age structure has already been visible during this decade. After all, the increase in the overall population was considerably smaller, at only 2.8 million, to a total of 83.1 million. This means that Germany's future economic development might depend to a considerable extent on immigration. During the last few years, several interesting country-specific trends have emerged, which might intensify in the coming years.

Immigration declined in 2019

Top 20 countries in 2019: Aggregates

Net immigration in '000

	2019	2018
EU-eastern Europe	85.3	123.8
Arabian countries/Persia	56.5	65.5
Non-EU-Balkans	60.2	48.1
Large European countries/non-EU	33.4	30.2
Asia excl. Arabian countries/Persia	34.1	30.0
Others	13.5	23.3
Total	283.0	320.9
Share of top 20 in total, %	86.5	80.3

Source: Deutsche Bank Research

In 2019, 327,100 people migrated to Germany (in net terms) according to the official statistics. The total was clearly down from 400,000 or more in the preceding years. In 2019 and before, most immigrants came from eastern European EU member states. However, while in 2018 more than 150,000 immigrants hailed from one of these countries, the total dropped to less than 92,000 in 2019. In particular, the number of Polish immigrants slid from more than 20,000 to less than 2,000 within a year. According to the Federal Statistical Office, the decline is due to a registration effect in the framework of the European parliamentary elections. However, the slowdown in growth probably played a role as well. The number of temporary workers declined from more than 800,000 at the end of 2018 to less than 700,000 by the end of 2019. As a consequence, Germany has become less attractive.

Immigration from Arabian countries and the Middle East declined slightly in year-on-year terms, but this development was probably not linked to the economic situation. At the same time, net immigration from European non-EU member states rose to almost 100,000 or by roughly 20% yoy. While several large countries, such as Russia, Turkey or Ukraine, belong to this group, it is the small Balkan countries which are home to most of the immigrants from this group (more than 60,000 out of the total of almost 100,000). Net immigration from Asian countries was up by about 10%, to 34,100 people. 21,700 of them came from India alone, thus making India the third most important country of origin after Romania and Syria. In fact, in 2018 India already was the most important country of origin in Berlin, with its dynamic IT and start-up sector. Moreover, immigration from India has risen steadily during the past decade.

Immigration likely to drop to its lowest level in ten years in 2020

In 2020, immigration declined considerably when internal EU borders were re-established during the lock-down period. At 7,600, net immigration in March 2020 reached its lowest level in any March since 2010. During the subsequent months, the number of net immigrants probably remained very low or even negative. Even though we expect a gradual increase during the second half of the year, total



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immigration in 2020 is likely to remain considerably below 200,000 and drop to its lowest level since 2010.

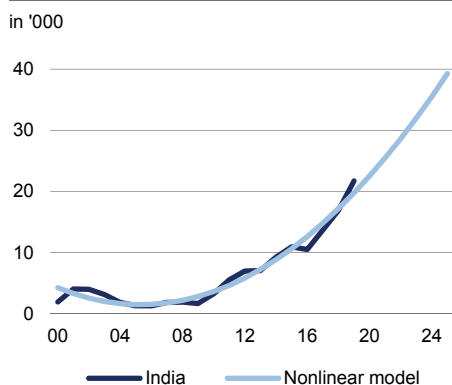
Immigration from non-European countries of origin might rise in the coming years

Immigration figures in 2021 will also depend on the development of the coronavirus pandemic in Germany compared to that in the countries of origin and on the economic situation. The quicker the global economy returns to a growth path, the quicker exports and, in turn, demand for labour will pick up. In this respect, trends in China are encouraging, whereas the situation in the US (Germany's main export market) is quite heterogeneous and differs from state to state. If the global economy quickly passes the trough and German companies re-start their search for workers (in 2020, the number of vacancies dropped from more than 700,000 to less than 600,000), immigration is likely to accelerate again. And if the pandemic and healthcare situation in Germany compare favourably to the situation in the countries of origin, even more people are likely to come to Germany.

Economic crises regularly result in higher bilateral immigration

Germany: Net migration from India

2



Sources: Deutsche Bank Research, Federal Statistical Office

A number of pandemic data suggest that Germany is doing better during the coronavirus crisis than many other countries.¹ Immigration to Germany increased both during the euro-area crisis and during Brexit. At the same time, annual immigration figures from the UK and Italy to Germany remained positive during the past decade; in aggregate, 27,000 British and more than 150,000 Italians came to Germany. This suggests that the COVID-19 crisis might trigger additional immigration. This may also apply to some eastern European countries, which have done quite well so far, but are now seeing their infection numbers rise despite relatively low testing ratios. Immigration from non-EU countries might increase as well in the coming years. During the last few weeks, some large countries have been moving towards ever more serious health crises. This includes Russia and India, which are important countries of origin anyway. And it is also true for Brazil and the US, which were only among the top 30 countries of origin in 2019, with about 4,000 people coming to Germany from either of them. The Skilled Immigration Act, which entered into force on 1 March 2020, might steer global demand for labour. Once the labour market returns to full employment, the abolishment of the priority check might boost immigration considerably. If, for example, net immigration from India continues to rise in a non-linear fashion, India may become the main country of origin by the middle of the coming decade. The German IT sector in particular, which is urgently looking for experts, might benefit from the immigration of Indian specialists. Overall, immigration might strengthen structural growth. During the past decade, the principle of free movement of workers in the EU or humanitarian reasons tended to be the main causes of immigration. That is why immigration often had only a cyclical impact on growth, for example due to higher demand for housing or higher public spending.

¹ Schneider, Stefan et al. (2020). Crisis resilience made in Germany. Focus Germany. Deutsche Bank Research. 10 June.

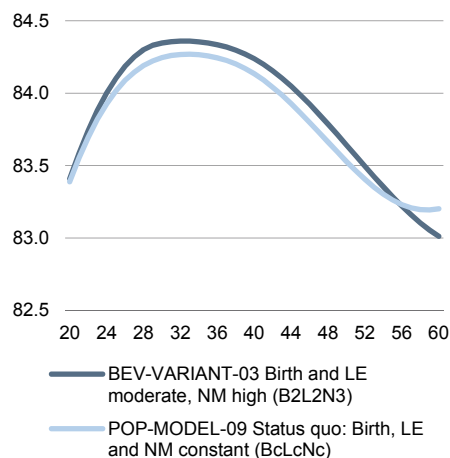


Immigration may increase the population up until 2030

Official population projections

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POP = Population off. projection, LE=Life expectancy, NM = net migration. B2L2N3 = Birth version 2, Life expectancy version 2, Net migration version 3. c=constant.

Sources: Deutsche Bank Research, Federal Statistical Office

Our immigration scenario forecasts population growth beyond 2030

Based on these considerations, we expect relatively high net immigration during the coming decade. Calculations by the Federal Statistical Office, which are based on high net immigration scenarios (with more than 300,000 people coming to Germany each year), suggest that the total population will increase from 83.2 million to more than 84 million people by the beginning of the 2030s and decline towards 83 million by 2060. This implies additional demand for housing and real estate. The trend will reinforce the current cycle on the residential real estate market and buffer the negative impact of the pandemic for commercial real estate. Since an ageing society tends to have a negative impact on growth, immigration is highly welcome and might even bring relief for the social security systems. And this effect might make it easier to integrate migrants into society than it has been the case in the past.

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