Box 5

MIGRATORY FLOWS IN SPAIN DURING THE COVID-19 CRISIS AND THEIR IMPACT ON LABOUR SUPPLY

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The COVID-19 crisis has had an unprecedented impact on migratory flows worldwide. The restrictions on international travel associated with combating the pandemic, fear of the virus itself and a context of high uncertainty have prompted a very significant decline in migratory movements. For instance, permanent migrations[1] to Organisation for Economic Co-operation and Development (OECD) countries fell by more than 30% in 2020, standing at their lowest level since 2003.

In the case of the Spanish economy, in 2020 the migration balance of foreign nationals declined by 48%, with net inflows falling to 232,000 individuals from 446,000 in 2019 (see Chart 1).[2] This reduction was mostly driven by the marked decrease in immigrant inflows (37.7%), down from 666,000 in 2019 to 415,000 in 2020. Meanwhile, outflows of foreign nationals declined by close to 17%, from 220,000 in 2019 to 183,000 in 2020.

On the latest information available, outflows rebounded sharply in 2021 H1 compared with 2020 H1 (83%), while inflows remained in decline (-22.6%). Thus, the migration balance in 2021 H1 was virtually zero, barely amounting to some 8,400 people.

In addition to the very significant adjustment in net immigrant inflows in Spain since the onset of the pandemic, there has also been something of a compositional change in terms of the geographical origin of the immigrants. In particular, in recent half-year periods, inflows of foreign nationals from Europe have gained considerably in prominence, rising from 27% of the total in 2019 to 31% in 2020 and 42% in 2021 H1. Also noteworthy is the performance of inflows from Central and South America, which accounted for 47% of the total in 2019 and 44.5% in 2020, but declined to 26% in 2021 H1 (see Chart 2).

The migratory dynamics described here can affect the economy's aggregate performance through multiple channels. One of the most significant is the impact of migratory flows on labour supply. In this respect, the labour force in Spain shrank by 1.3% in 2020, but grew by 2.1% in 2021 to stand slightly above pre-pandemic levels. However, this performance masks highly uneven developments between domestic and foreign labour supply. Thus, in 2021 H2 the domestic labour supply had recovered to a level consistent with its pre-crisis trend, whereas the foreign labour force remained well below that trend (see Chart 3).

This impact of migration flows on labour supply could have a very uneven effect across the various sectors of activity in the Spanish economy. For instance, since in Spain the share of foreign workers is higher in accommodation and food service activities, agriculture and construction (see Chart 4), these could be the sectors experiencing, to a greater extent, a certain shortfall in the availability of workers as a result of the decline in migratory flows. Indeed, this might be inferred from the information from the Banco de España Business Activity Survey (EBAE),[3] which points to a positive relationship between the labour shortages reported by employers at end-2021 and the share of foreign workers in each sector before the pandemic (see Chart 5). In fact, it is precisely in the accommodation and food service activities, agriculture and construction sectors where firms are reporting a greater perceived shortage of workers as a constraint on their current activity.

Looking ahead, it is difficult to foresee to what extent the changes in migration flow patterns since the onset of the pandemic will persist over time and will continue to affect labour supply in Spain. However, over a long time horizon, a certain recovery in immigration flows is to be expected as mobility restrictions ease and the pent-up demand for migration that could not be met during the pandemic materialises.[4]

However, from a sectoral standpoint it is worth noting that, besides migration flows, other factors will also play a major role in explaining the labour shortages that some sectors may face in the future. Particularly, these tensions

1 Permanent migrations are those where the migrant intends to settle permanently in the destination country. They therefore exclude instances such as movements to take up seasonal employment. See *International Migration Outlook 2021*, OECD (2021).

2 This box focuses on the migratory flows of foreign nationals, given their greater relevance as a factor conditioning recent labour force developments in Spain, as analysed here.

3 See M. Izquierdo (2021), "Encuesta a las empresas españolas sobre la evolución de su actividad: noviembre de 2021", Economic Notes, *Economic Bulletin* 4/2021, Banco de España.

4 See K. Bodnár and D. O'Brien (2022), "The role of migration in weak labour force developments during the COVID-19 pandemic", *Economic Bulletin* 1/2022, ECB.

Box 5

MIGRATORY FLOWS IN SPAIN DURING THE COVID-19 CRISIS AND THEIR IMPACT ON LABOUR SUPPLY (cont'd)

Chart 1
MIGRATORY FLOWS OF FOREIGN NATIONALS IN SPAIN

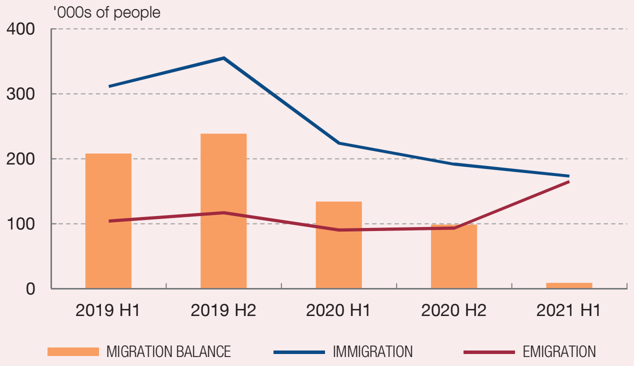


Chart 2
DISTRIBUTION OF FOREIGN IMMIGRATION FLOWS BY REGION OF ORIGIN

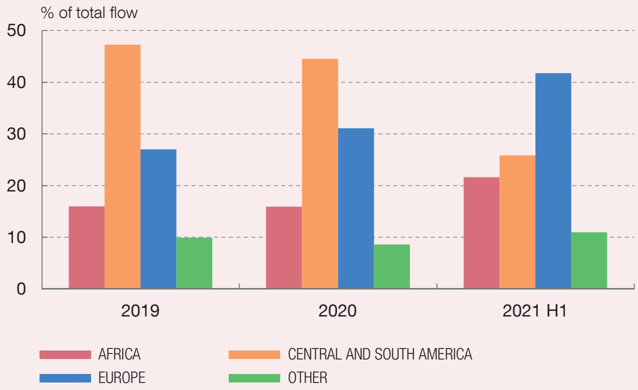


Chart 3
LABOUR FORCE (a)

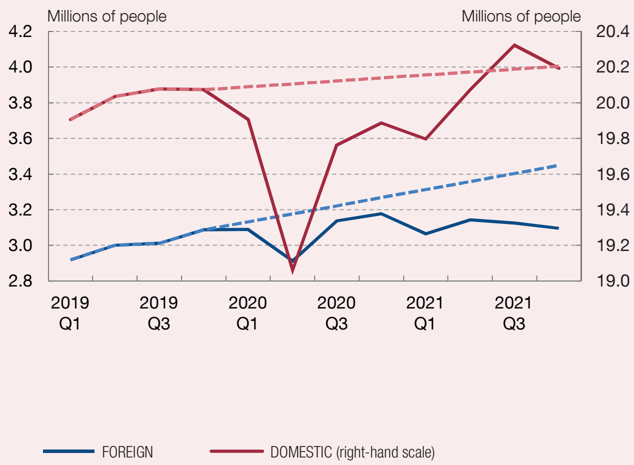


Chart 4
PERCENTAGE OF FOREIGN EMPLOYMENT BY SECTOR

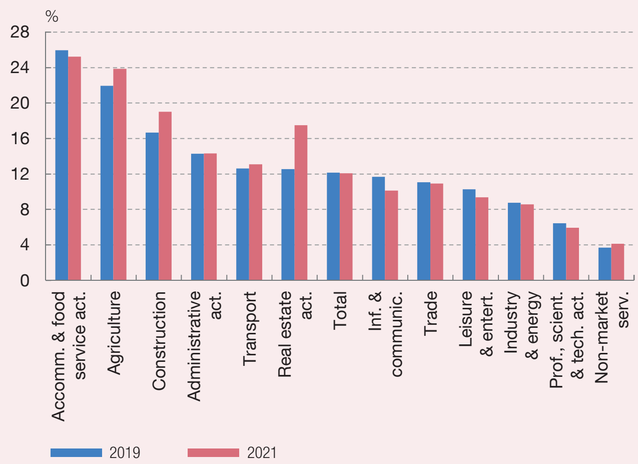


Chart 5
LABOUR SHORTAGE AND FOREIGN EMPLOYMENT (b)

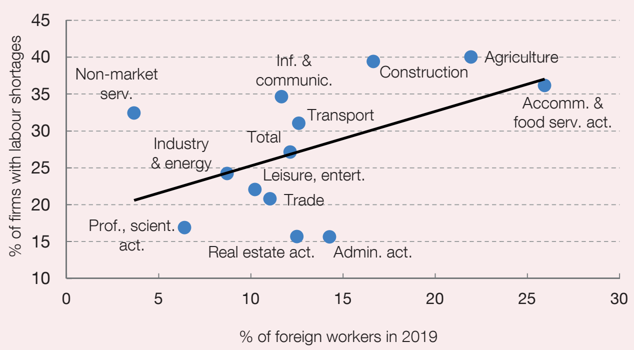
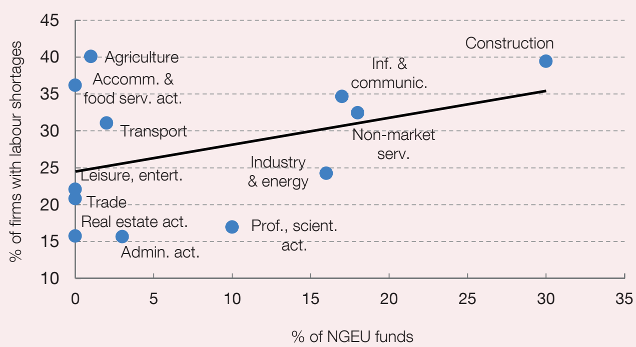


Chart 6
LABOUR SHORTAGE AND ALLOCATION OF NGEU FUNDS (c)



SOURCE: Migration statistics and Labour Force Survey of the INE, the Banco de España Business Activity Survey, the Recovery, Transformation and Resilience Plan and Banco de España.

a The dotted lines are extrapolations of the pre-pandemic trends of the different aggregates (from 2018 Q1 to 2019 Q4).
b Labour shortages reported by firms in 2021 Q4 and average foreign employment in 2019 by sector.
c Labour shortages reported by firms in 2021 Q4 and percentage of NGEU funds by sector.

could be higher in those sectors whose relative demand is boosted to a greater extent by the roll-out of the investment projects linked to the Next Generation EU (NGEU) programme. Indeed, there is a positive association between perceived labour shortages according to the EBAE and the share of NGEU funds allocated to each sector, drawing on the information available in the Recovery, Transformation and Resilience Plan (RTRP).[5] Moreover, since the priority areas identified under the NGEU programme are very similar across countries, the tightening of some segments of the labour market could be aggravated by the European context.[6]

5 See A. Fernández-Cerezo, E. Moral-Benito and J. Quintana (2022), "A production network model for the Spanish economy: an application to the impact of NGEU funds", *Working Papers,* Banco de España (forthcoming).

6 The percentage of European firms reporting that labour shortages have been a constraint on their activity is at record highs according to the European Commission's business and consumer surveys. See also P. Ramskogler (2022), "Feeling the Heat? – Assessing Labor Shortages in the Euro area", *SUERF Policy Brief* No 266.