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Economic commentaries

Temporary halt in labour migration to Norway?

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Labour migration to Norway increased considerably following EEA enlargement in 2004. In summer 2008, close to 95 000 persons from the Baltic countries and Poland were employed in Norway in addition to 60 000 from Nordic countries and 30 000 from other EU and non-EU countries. Since 2006 Norges Bank's regional network has monitored the use of foreign labour in an annual special focus survey. The survey shows that while in the first few years after EU enlargement, foreign workers were often hired on temporary contract, around 70 per cent now hold permanent positions. Migrant workers from Eastern Europe are increasingly being employed because of their qualifications and not because of a shortage of Norwegian labour. It is nevertheless likely that migrant workers in Norway will be more severely affected by the current contraction than other groups.

The ample supply of labour during the period of strong expansion 2005-2008 provided a significant boost to potential output. Population growth, which in the 1990s had been stable at around an annual 0.5 per cent, was more than 1.5 per cent in 2008. Inward labour migration from Eastern Europe is assumed to have contributed about 30 per cent of labour force growth in this period.

The number of migrant workers entering Norway has stabilised in the past few months. Experience from previous waves of inward labour migration suggests that many of these workers will choose to stay in Norway even if finding work becomes more difficult.

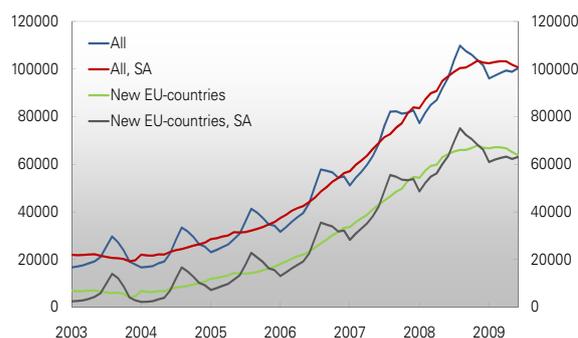
Norges Bank's regional network conducted the first of four special focus surveys so far on the use of foreign labour in 2006¹. The survey provides perspectives on past and expected developments in the use of foreign labour. A total of close to 300 contact

firms were included in each of the annual surveys.² The most recent results were obtained in April 2009.

Inward labour migration after 2004

Figures from the Norwegian Directorate of Immigration show that as of May 2009 63 069 persons from countries included in the EU after 2004 held work permits in Norway, while 37 200 were from other EU and non-EU countries (see Chart 1).

Chart 1 Work permits issued by the Norwegian Directorate of Immigration. In number of persons. Jan 2003 - jun 2009



Source: UDI

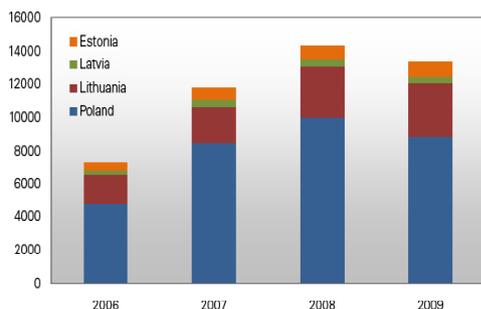
In addition, 13 901 persons from the new EU countries were employed in foreign firms in Norway (see Chart 2)³. Migrant workers also include other Nordic nationals. Although the statistics are inadequate, 67 999 workers from other Nordic countries were in Norway in 2008 Q4, of whom 55 per cent were registered as resident.⁴ The figures correlate fairly well with reports from the regional network indicating that a good 25 per cent of migrant workers come from the Nordic countries and about 40 per cent from Eastern Europe. The remaining third originates in roughly equal shares from other European and non-European countries.

2) The firms have been selected to represent the breadth of industries in Norway's economic structure and include manufacturing, building and construction, retail trade and services, and local government and hospitals.

3) The Central Office – Foreign Tax Affairs, 31 May 2009. Persons working in foreign firms in Norway do not need a work permit but are registered with the Central Office - Foreign Tax Affairs (SSU). Work carried out by this group is normally classified as imported services.

4) Cf. Statistics Norway; <http://www.ssb.no/kortsys/>

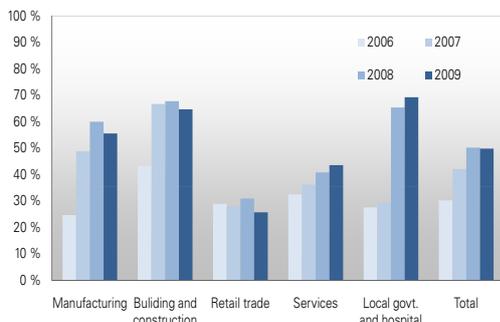
Chart 2 Registered employees from new EEA countries employed in foreign firms. In number of persons. Figures as of May each year, 2006 – 2009



Source: The Central Office – Foreign Tax Affairs (COFTA)

The share of regional network contact firms using foreign labour increased from more than 30 per cent in 2006 to about 50 per cent in 2008, but did not rise from 2008 to 2009 (see Chart 3).

Chart 3 Share of contact firms using foreign labour, 2006 – 2009



Source: Norges Bank's regional network

Norwegian Directorate of Immigration figures also show that inward labour migration has stagnated in the past year. The preliminary peak in the number of nationals from new EEA countries was reached in July 2008 when there were 75 132 persons holding valid work permits and 17 940 persons working in foreign firms in Norway, giving a total of 93 072. The figure excludes persons who since 2004 have been awarded permanent residence in Norway and

therefore do not need a work permit and persons who work without being registered. On the other hand, we include some who held work permits but were not in Norway in July 2008.

Why do enterprises use foreign labour?

Many of the first migrant workers from Eastern Europe worked in the agricultural sector. Inward labour migration was highly seasonal. As shown in Chart 1, this pattern still applies to some extent. The importance of seasonal inward migration, however, has been reduced. While the number of migrant workers has risen throughout the period, the level of seasonal inward migration was the same in 2008 as in 2005.

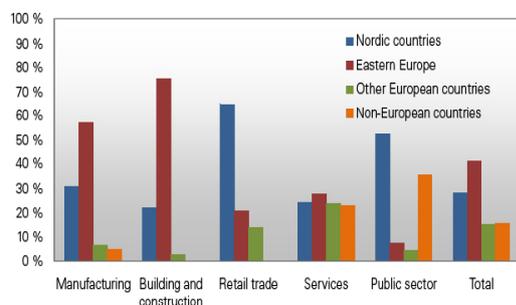
According to the Norwegian Directorate of Immigration, about 50 per cent of migrant workers from Eastern Europe work in manufacturing and building and construction.⁵ About 17 per cent are employed in commercial services. However, this group includes persons employed by private, recruiting agencies who primarily work in manufacturing and building and construction. The same picture is reflected in regional network reports. As shown in Chart 4, Eastern Europeans dominate in manufacturing and building and construction, while Nordic nationals are most often employed in retail trade and public services.

There are a number of reasons why Eastern Europeans are primarily employed in manufacturing and building construction. Partly owing to Norway's compressed wage structure, manufacturing and craft occupations are relatively well paid in Norway compared with many other countries. A supply of cheap labour also improved the competitiveness of these

5) EEA report for May 2009.

industries. Building and construction and manufacturing exhibited sharp growth through the most recent upturn. As a result, inward labour migration had a self-reinforcing effect – a large number of migrant workers provided the basis for strong growth in sectors that were pushing up demand for labour.

Chart 4 Foreign labour by country of origin. Share of foreign employees by sector, 2009



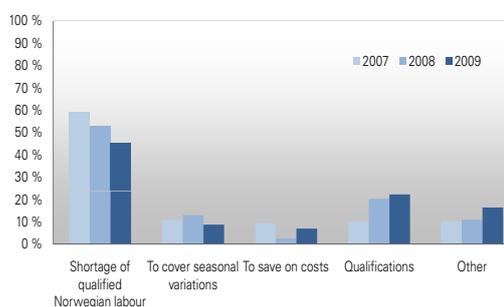
Source: Norges Bank's regional network

As more foreign workers settle in Norway, they compete for jobs to a greater extent on an equal footing with Norwegian nationals. Moreover, experience of using foreign workers has improved employers' ability to assess qualifications, and as result they know more about the employees they take on than previously. In 2006 most regional network contact firms reported that they took on foreign labour because of a shortage of Norwegian labour. Since then, the share reporting this reason has fallen. Employers increasingly use foreign workers because they are regarded as the best qualified applicants (see Chart 5).

The results are also reflected in a rise in the number of permanent employees. The share of permanent employees has increased by 10 per cent just in the past year. According to regional network reports, almost 75 per cent of foreign workers were perma-

nent employees in April 2009, while only 25 per cent were hired labour (see Chart 6). The transition to permanent positions is also confirmed by results from the Fafo survey on the use of foreign labour.⁶

Chart 5 Reasons why contact firms use foreign labour. Share of firms, 2007 - 2009

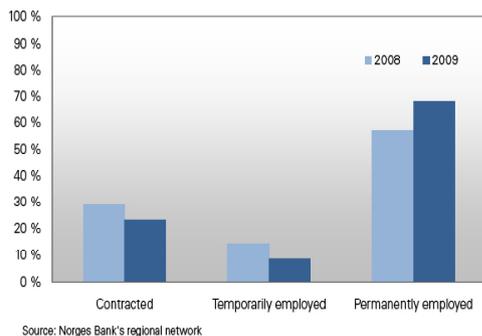


Source: Norges Bank's regional network

Information from the contact firms indicates that permanent employment is rising particularly in retail trade and services. Firms in building and construction report that over half of all employees are hired workers and one third are employed on temporary contract. In manufacturing, the categories of permanent employees and hired labour among foreign workers are roughly equal, with around 45 per cent in each category.

6) See presentation in Norwegian from "Fafo Østforum", <http://www.fafo.no/Oestforum/090429/lysark.html>. Fafo's survey was conducted in 2006 and 2009.

Chart 6 Conditions of employment. Share of foreign employees. 2008 – 2009



Source: Norges Bank's regional network

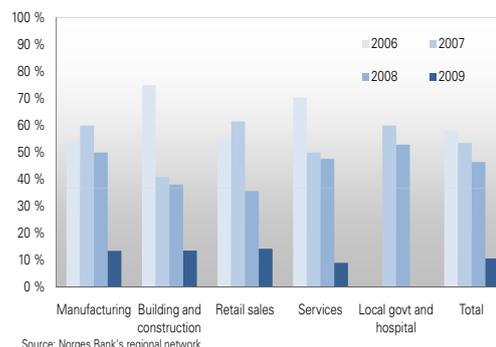
Plans for the use of foreign labour

Inward labour migration picked up as unemployment continued to fall and reached a peak in autumn 2007 when pressures in the Norwegian economy – as measured by Norges Bank's output gap – were at their strongest. However, the number of migrant workers continued to rise until as late as summer 2008. As shown by the seasonally adjusted figures in Chart 1, inward labour migration only began to level off when employment started to rise.

Regional network contacts expect to reduce overall employment ahead. About 20% of the contacts will reduce the number of foreign employees while 70% will keep the number unchanged. Only 10% of contact firms are planning to increase the number of foreign employees in the year ahead (see Chart 7). By comparison, in 2008 about 50% of the firms reported that they would increase their use of foreign labour. Overall downsizing of the labour force is highest in manufacturing and building and construction. In building and construction, firms are primarily cutting down on hired labour. Migrant workers are

overrepresented in this group and the impact on migrant workers is therefore expected to be particularly severe.

Chart 7 Share of contact firms planning to increase the number of foreign employees in the year ahead. 2006 – 2009



Source: Norges Bank's regional network

Contacts in manufacturing are reducing the number of both contractual and permanent employees. In contrast to building and construction, many foreigners in manufacturing hold permanent positions. Nevertheless, language problems and a lack of formal qualifications seem to be making them vulnerable. It cannot therefore be excluded that this group of foreign workers will also be harder hit by downsizing than Norwegian workers.

The outlook further ahead

To what extent migrant workers will remain in Norway or return home may be analysed in the context of so-called lock-in effects. Turkish and Pakistani nationals who came to northern Europe in the 1960s and 1970s remained, while Spanish and Italian nationals returned home. The explanation for this may be that Turkish and Pakistani nationals who left would not have been permitted to return to Norway,

while Italian and Spanish nationals had access to a free labour market through membership of the EU.

Another lock-in mechanism is social security and welfare benefits. A person working in one country accumulates entitlements that are only to a limited extent portable across national borders, even within the EEA area. The longer a person has worked in a country, the higher will be the threshold for relocation.

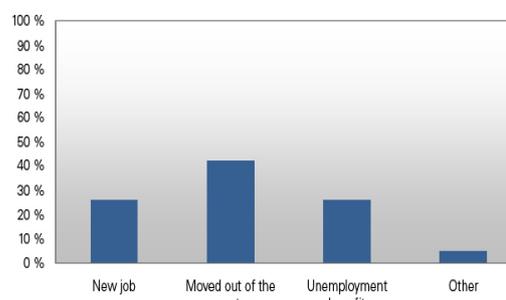
Polish and Baltic country nationals are entitled to re-enter Norway even if they should return to their home country for a period. Some accumulated entitlements are portable, but some schemes require continuous residence in Norway. On balance, these workers are likely to be more flexible than for example Pakistani nationals were when they first came to Norway. However, they will be less flexible than for example Swedish and Danish workers, whose do not stand to lose out financially if they decide to return to their home country to work. Information from the regional network confirms this picture.

Retail trade employees from other Nordic countries are more likely to return home when they lose their jobs than unemployed Eastern Europeans in the building and construction sector. The latter group more often apply for unemployment benefit in Norway. Manufacturing presents a more mixed picture. Unemployed workers are more likely to return home, although it must be assumed that many of these are skilled workers with ample job opportunities in their home country. Overall, the regional network firms estimate that around 40 per cent of employees who lose their jobs move from Norway (see Chart 8).

Another question is whether inward labour migration

will pick up again as employment growth in Norway begins to recover. The cost of moving is reduced in proportion with the number of migrant workers from the same country that have arrived before you, while the advantage of moving is partly dependent on job opportunities.

Chart 8. What has happened to foreign employees in contact firms when they lost their job? Share of contract firms 1), 2009



1) Svarfordeling blant kontaktbedriftene som hadde sagt opp utenlandske ansatte og som i tillegg hadde informasjon om hva som disse oppsagte ansatte har gjort i ettertid.
Kilde: Norges Banks regionale nettverk

A large group of Polish nationals have settled in Norway in recent years, establishing an extensive infrastructure related to church, voluntary organisations and schools. This reduces the costs for future immigrants from Poland. At the same time, it is likely that some labour-intensive sectors, such as manufacturing industries supplying capital goods to the petroleum industry, will continue to grow in the years ahead. Moreover, staffing requirements in other sectors, not least in the healthcare sector, are also expected to rise. This may attract more female migrant workers to Norway. Inward labour migration from Eastern Europe to Norway has so far been dominated by men.

Who is entitled to work in Norway?

Nordic nationals do not require a work permit or a residence permit to live in Norway and must submit an inter-Nordic document for change of address when they settle in Norway. Tax is paid to the Norwegian tax authorities if the employee works for a Norwegian employer or is resident for more than 183 days in Norway over a twelve-month period.

Nationals of EEA countries outside the Nordic region can stay in Norway as a jobseeker for six months without a permit. Once a job has been secured, an application for a residence permit can be submitted. The worker may apply from Norway and may work for up to three months in Norway before receiving

the residence permit. The criteria for a residence permit are that there must be a genuine vacancy of a reasonable duration. Work for more than one employer is permitted. If the offer of employment has a duration of more than one year, a five-year residence permit will be approved and an application for family reunification may be submitted.

Citizens from Bulgaria and Romania may stay for up to six months in Norway as jobseekers. Work permit application requirements for persons from these countries are somewhat more stringent. For example, the offer of employment must be for full-time work. Work permits also normally apply for a shorter period.

Up to 1 May 2009, these rules also applied to countries that joined the EU on 1 January 2004.

Workers from non-EEA countries may apply work permit on special grounds, as a skilled or seasonal worker, for example. In addition, Russians are subject to special rules in parts of Finnmark in northern Norway.

For further information, see:

<http://www.udi.no>

<http://www.nordisketax.net>