German Advisory Group Ukraine

NEWSLETTER

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Labour migration from Ukraine: A mixed blessing

Significant changes in patterns of labour migration from Ukraine have occurred since 2014. There has been a direction change of migrant streams from East to West and an overall increase of labour migration. The total number of labour migrants from Ukraine in the beginning of 2017 was at least 2 million. Out of these, at least 500,000 were in Poland and a further increase of this migrant stock by 200,000 migrants per year in 2017 and 2018 appears credible. Remittances of labour migrants amounted to ca. USD 11 bn in 2018, around 8% of GDP.

Migration can have positive and negative economic effects: Positive, as migrants support household incomes with remittances and eased pressure on the labour market in a time of crisis. However, emigration could also lead to "Dutch disease", a loss of competitiveness due to a real appreciation of the currency. Despite the strong increase in wages since 2015, no signs of Dutch disease exist so far and employment has been rising slightly. However, persisting emigration would eventually lead to Dutch disease as well as other dangers such as pressures on financing pensions.

Migration: Not a new phenomenon for Ukraine

Older and newer diaspora communities of Ukrainians exist around the world. Yet, developments in recent years are perceived to have strengthened and changed migration dynamics: The country has been through a deep economic crisis, prompting people to leave. The conflict with Russia has eroded old ties and weakened old migration patterns, whilst ties with the EU have deepened and many EU labour markets require migrant workers to fill shortages.

There has been much discussion recently of a vast increase of labour migration from Ukraine towards Poland and other EU countries, leading to shortages of labour in Ukraine. Recent research by the German Advisory Group contributes facts and analysis to this debate.

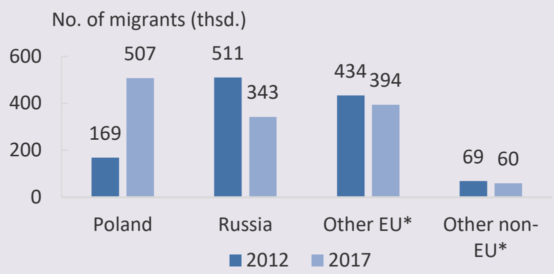
More than 2 million labour migrants from Ukraine

Measuring migration is complicated by the heterogeneity of migrants – e.g. formal and informal; seasonal, temporary and permanent. No single statistical method can cover all these migrants. Combining data from several sources, we estimate that in the beginning of 2017, the total number of Ukrainian labour migrants, who are linked to the Ukrainian economy by remaining attached to a Ukrainian household or regularly sending remittances, was at least 2 million persons, corresponding to around 10% of the economically active population in Ukraine.

Shift from East to West

An especially salient trend, both in statistical data and from anecdotal evidence, is the shift among the destination countries of Ukrainian labour migrants: Between the last available waves of the migration module in the Ukrainian Labour Force Survey 2012 and 2017, the best single data source, migration to Russia declined by at least one third, whereas the number of migrants in Poland tripled to half a million.

Distribution of migrants among destinations



**Finland is included in non-EU in 2012, but in EU in 2017 (approx. 13 thsd.). Source: Ukrstat, LFS 2012 & 2017*

With large numbers of Ukrainian migrants also in Italy and the Czech Republic, the EU is now by far the largest region of destination for migrants from Ukraine. This trend appears to be becoming yet stronger.

Labour migration continuing to increase

As labour migration data is only collected every 5 years in Ukraine, the development since 2017 is hard to measure comprehensively. However, recent research from Poland, the largest destination country indicates that an additional 200,000 Ukrainian labour migrants per year arrived in Poland in 2017 and 2018. We expect that a majority of these people did not have prior migration experience and have not relocated from another destination country. Overall, this appears to confirm the perception that total labour migration from Ukraine has been rising continuously and strongly in the past years.

Migration helps improving standard of life

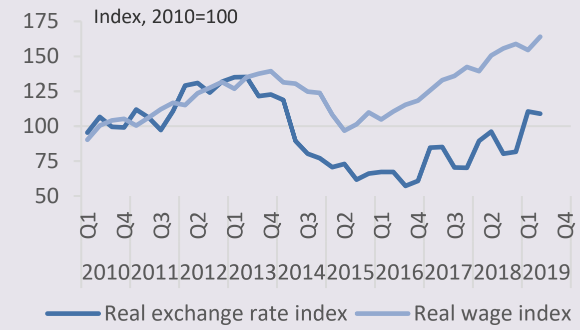
Especially for a low-income country, migration allows individuals to stabilise their standard of life in the short run. Working abroad enables them to earn solid wages and support household members with remittances, stabilising household income and domestic demand at home. Emigration will also ease pressures on labour markets during crisis, lowering unemployment and allowing wages to recover quicker. And remittances, which have been relatively stable at around 8% of GDP since 2015, are also an important factor to limit the current account deficit. Hence, migration has clearly helped stabilising the welfare of Ukrainians through the past years.

Competitiveness not negatively affected

However, the positive effects of migration can also turn into a problem: If wages rise quicker than productivity and remittances lead to an appreciation of the Hryvnia, Ukraine may develop "Dutch disease", with a resulting decline in international competitiveness.

Wages in Ukraine have risen sharply since hitting their low in 2015 and are now well above even pre-crisis levels. But Ukraine still has a very low wage level in comparison to other European countries. An increase of wages means a highly desired increase in living standards.

Development of wages and labour costs since 2010



Source: Ukrstat, LFS 2017, Eurostat, own calculations
Note: Real exchange rate based on comparing unit labour cost (ULC) in Ukraine to those in the Eurozone.

From the perspective of investors, the "real exchange rate" is more important, in this case measuring unit labour costs in Ukraine compared to the Eurozone. And indeed, labour costs in Ukraine have up to now only recovered to the level of 2010.

Despite rising wages, employment in the Ukrainian economy has risen slightly in past years. Although there is no reason to doubt the accuracy of reports from individual companies about labour scarcity and quickly rising wages, there is no evidence that Ukraine as a whole is suffering from "Dutch disease", a lack of competitiveness due to migration, at this time.

No danger in the short run, but long run risks remain

Our analysis shows that so far, migration has been largely beneficial for Ukraine. It helped stabilising household incomes and domestic demand without endangering growth and employment. However, if emigration continues at present rates, Ukraine will eventually experience negative effects of migration. Dutch disease may start as migration puts pressure on wages and the real exchange rate. Labour scarcity would increase, deterring investments in Ukraine. The lack of domestic taxpayers will make it difficult to finance pensions and other expenditures.

Conclusion

As the demand for labour migrants on EU labour markets is likely only to grow in the future due to shrinking domestic labour forces, the possibility to migrate will only become easier for Ukrainians. To avoid the risks of a negative economic spiral of emigration and low investment and growth, it is imperative for Ukraine to push ahead with reforms to create favourable conditions for economic growth and social development at home, inducing young people to stay and work at home rather than pack their bags and move west.

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