

Economic sanctions on Russia: impact on remittances from Russia to Armenia

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Berlin, April 2022

1. Introduction

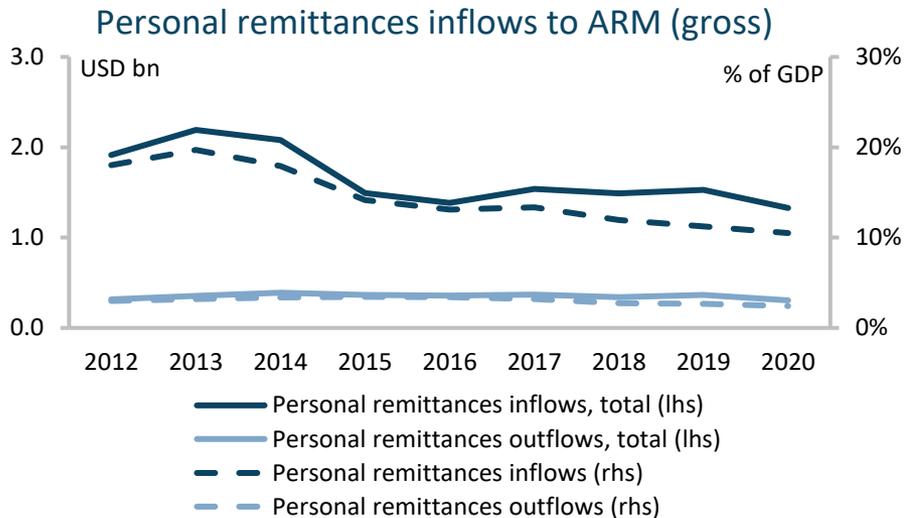
Background

- ARM is traditionally reliant on remittances
- Despite some decline in importance, RUS continues to be the main source of remittances
- Economic and financial sanctions against RUS due to invasion of UKR may lead to a reduction of remittances from RUS to ARM

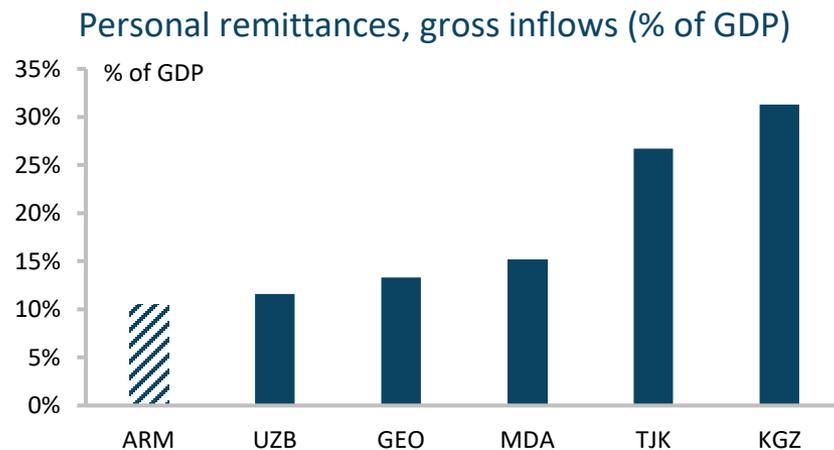
Content of this Policy Briefing:

- Review of importance of remittances from RUS to ARM
- Estimation of impact of current situation on remittances from RUS
- Recommendations to aid affected individuals

2. Remittance inflows to ARM



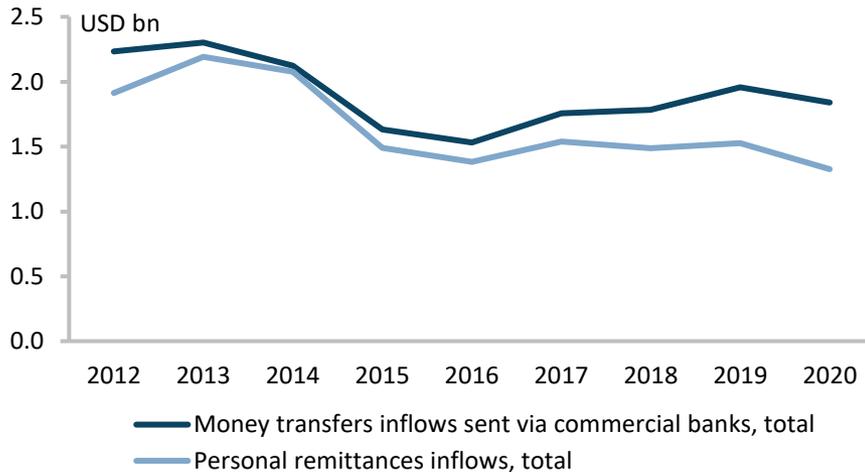
Sources: Central Bank of Armenia, IMF, own calculations; Note: personal remittances = personal transfers + compensation of employees



- Personal remittances inflows have decreased in absolute terms
 - USD 1.9 bn (18.0% of GDP) in 2012
 - USD 1.3 bn (10.5% of GDP) in 2020
 - No component of GDP, but support domestic demand
- Outflows comparatively small
 - USD 0.3 bn (2.4% of GDP) in 2020
 - Only ca. 1/4 of inflows
- Similarly high dependency on remittances compared to UZB/GEO/MDA

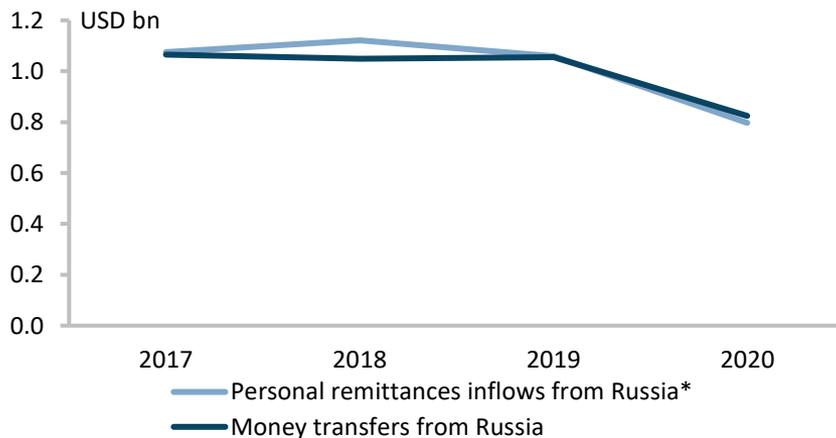
Use of money transfers data as a proxy

Total money transfers vs. total personal remittances



Source: Central Bank of Armenia

Money transfers from Russia vs. Russian CB data



Sources: Central Bank of Armenia, Rosstat, *based on RUS statistics for remittances sent to ARM

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Reason to use money transfer data

- Personal remittances data is not disaggregated by sending country
- Breakdown by sending region is only possible using money transfer data
- But: not conceptually identical
 - includes commercial transactions
 - excludes cash remittances

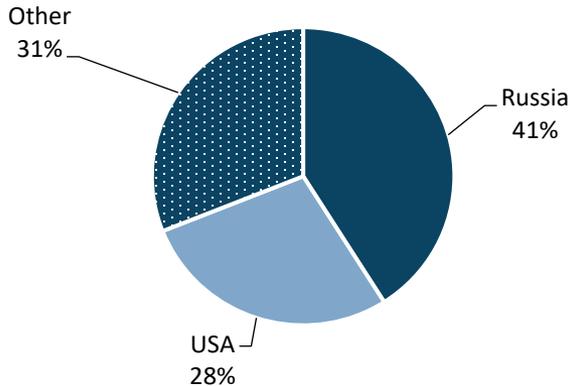
Result of cross checks

- Money transfers are bigger than total remittances: role of commercial transactions
- But: bilateral money transfers from RUS match with RUS CB estimation for remittances to ARM

➤ **Good proxy for bilateral remittances**

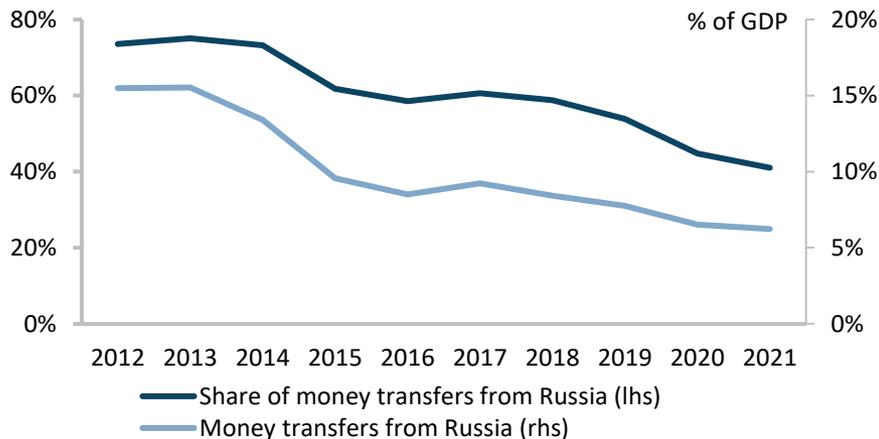
Remittances from Russia

Money transfers inflows by sending region, 2021



Source: Central Bank of Armenia, share in money transfers of individuals sent via commercial banks

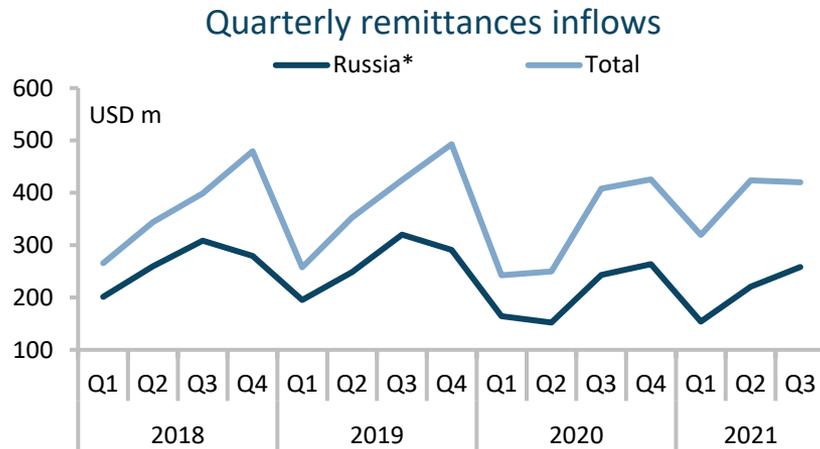
Money transfer inflows from Russia



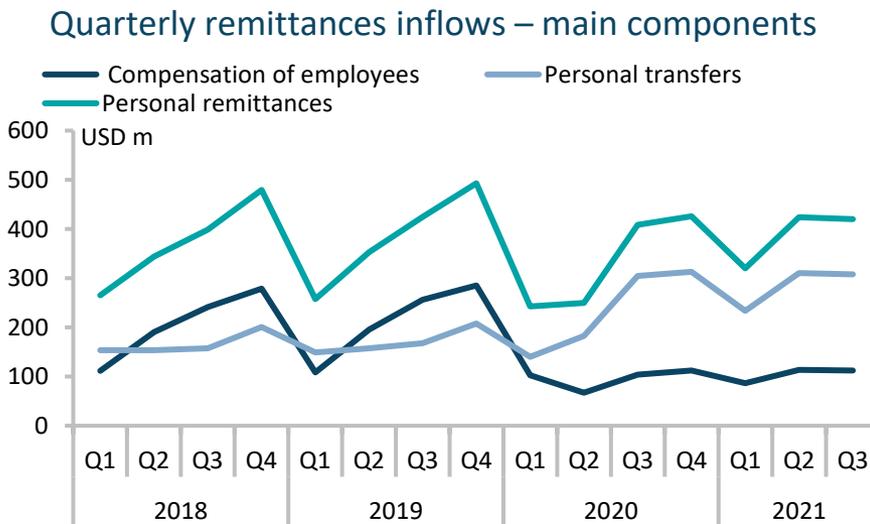
Sources: Central Bank of Armenia, IMF, own calculations

- RUS remains main source of remittances for ARM
- Share of RUS in total money transfer inflows has decreased considerably
 - 2013: 75% of inflows
 - 2020: 41% of inflows
- Other inflows mainly from USA, CAN, and European countries
- Ongoing declining trend in remittances from RUS
- **Remittances from RUS still very important for ARM (USD 865.6 m, 6.2% of GDP in 2021)**

Seasonality of remittances



Source: Central Bank of Armenia, *based on RUS share in money transfers of individuals sent via commercial banks



Source: Central Bank of Armenia

- Clear seasonality visible in total and Russian inflows
- For total inflows peak reached in Q4 (points towards additional transfers before the festive season)
- For inflows from RUS Q3 accounts for 30% of annual inflows
- Patterns for RUS inflows reflect incomes of seasonal workers (e.g. construction)
- Total remittances: seasonality stems mainly from “compensation of employees” (i.e. seasonal workers, not diaspora transfers)

3. Impact channels of sanctions on remittances from RUS

International sanctions against RUS

- Implemented as a reaction to aggression against UKR in March 2022
 - Significant impediments to trade (including logistics) as well as to foreign investments
 - Countermeasures by RUS, including a tightening of financial conditions (e.g. emergency rate hike to 20% p.a.)
 - Material risk that RUS defaults, ratings only slightly above „Default“ status
- RUS economy expected to contract by 10% in 2022, inflation 20%, exchange rate of 120 RUB/USD

Impact on remittances

- Earnings of economic migrants/seasonal workers will be disproportionately affected (e.g. no hiring of seasonal workers, migrants first to be laid off)
- So far no major obstacles for sending remittances reported
- Important, but not quantified here: large influx of Russians to ARM will lead to other inflows of money

4. Estimation of impact on remittances to ARM

Methodology

- Focus only on remittance inflows from RUS
- Baseline
 - Baseline remittances from RUS include long-term declining trend
 - Identified trend: decline of inflows from RUS by 0.45% of ARM GDP p.a.
- Expected scenario:
 - Reduction of remittances from RUS due to real GDP contraction (remittance elasticity of 2), inflation and exchange rate changes
 - No assumptions regarding difficulties affecting sending of remittances
 - No immediate compensation (shift to other countries) assumed
 - For reference: maximum exposure (no remittances sent from March onwards)

Impact on remittances to ARM

	Remittances from RUS 2022		Change compared to baseline ("shock")	
	USD m	% of GDP	USD m	% of GDP
Baseline	909.2	5.8%	N/A	N/A
Expected scenario	472.5	3.0%	-436.7	-2.8%
Maximum exposure	44.8	0.3%	-864.4	-5.5%

Source: Own calculations, based on average of latest economic projections GS and own estimates; note: maximum exposure reflects zero remittance inflows from RUS from March 2022 on

- Expected scenario based on forecast RUS economy contraction:
 - Real growth: -10% (GS)
 - Inflation: 20% (GS)
 - Exchange rate: 120 RUB/USD (own estimate)
- **Result: reduction of remittances inflows by USD 436.7 m, 2.8% of GDP**
- **Very large shock to remittance income**

5. Economic impact of reduction in remittances

	Reduction in remittances from RUS		Effect on GDP		Effect on consumption		Effect on investment	
	USD m	% of GDP	USD m	% of GDP	USD m	% of GDP	USD m	% of GDP
Expected shock	-436.7	-2.8%	-206.4	-1.3%	-315.5	-2.0%	-49.5	-0.3%
Maximum exposure	-864.4	-5.5%	-439.4	-2.8%	-679.0	-4.3%	-98.0	-0.6%

Source: Own calculations; note: economic effects calculated as a short-term demand shock caused by declining remittances, methodology analogous to GET MDA, PP/03/2014

- Reduced remittance inflows will cause a big decline of domestic demand
- Some dissaving will occur, compensating part of the shock
- Most affected: Consumption (mainly by households): -2.0% of GDP
- Large negative effect on GDP growth: -1.3% (shock moderated by 43.5% import ratio in consumption)
- Limited effect on investment: -0.3% of GDP (investment share in GDP ~20%)

6. Conclusion/Policy recommendations

- ARM will experience a very big shock due to reduced remittance inflows since still large share of remittances comes from RUS
 - Reduction of GDP growth by 1.3%
 - 2.0% of GDP reduction in total consumption
 - Most severe effect on individual households dependent on remittances from RUS
- Increased balance of payments inflows due to large influx of RUS citizens will at least partially compensate macroeconomic effects, but will increase distributive issues (increasing rent costs etc)
- Recommended reaction by ARM government
 - Allow macroeconomic adjustment (monetary policy)
 - Targeted social assistance for affected individuals/households
 - Retraining and relocation assistance for returning labour migrants

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, ARM, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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