

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

David Saha and Sebastian Staske

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1. Introduction

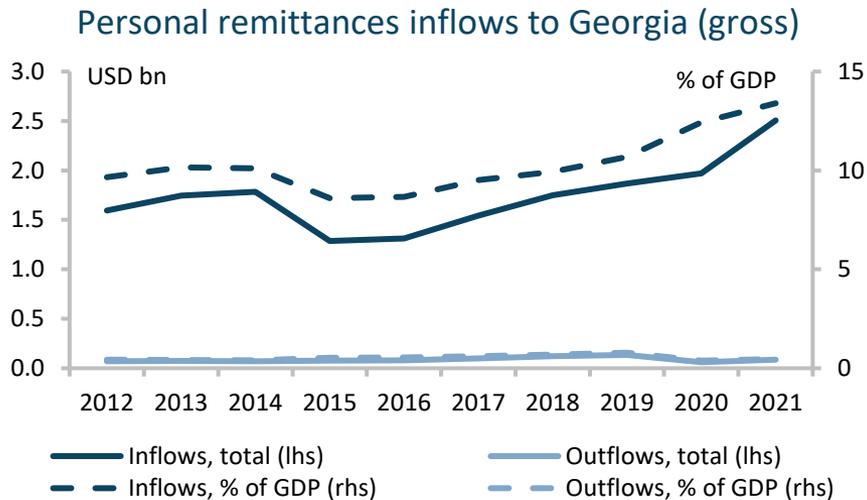
Background

- Remittances continue to be a major source of income for Georgia
- The share of Russia as a sending country has halved over the past decade, but were still equivalent to more than 2% of GDP in the past two years
- Economic and financial sanctions against Russia due to invasion of Ukraine may lead to a reduction of remittances from Russia to Georgia

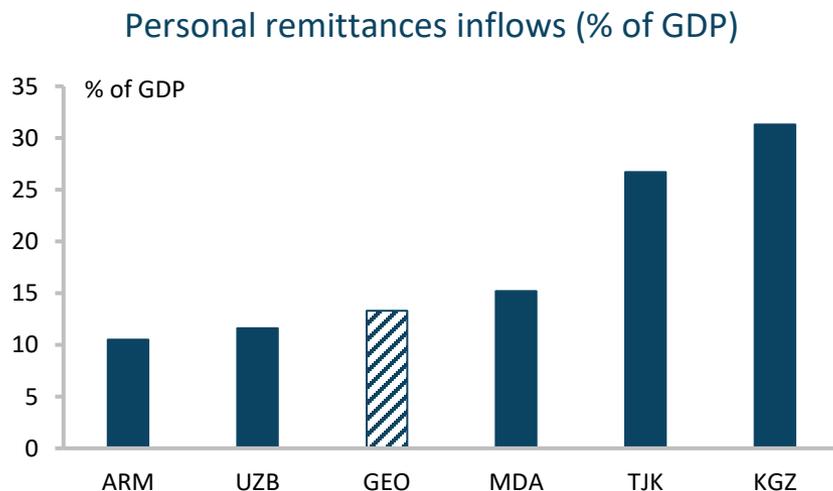
Content of this Policy Briefing:

- Review of importance of remittances from Russia to Georgia
- Estimation of impact of current situation on remittances from Russia
- Recommendations to aid affected workers

2. Remittance inflows to Georgia



Source: National Bank of Georgia; data refers to „Personal remittances“

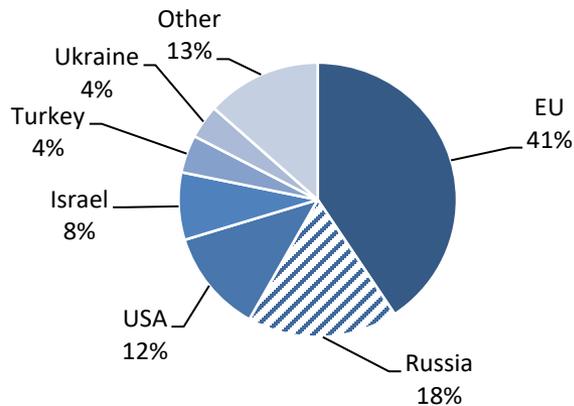


Source: World Bank, data for 2020

- High and increasing dependence of Georgia on remittance inflows
 - Remittance inflows averaged around 10% of GDP before 2020
 - Up to 13.4% in 2021 as Georgia's economy suffered during pandemic
 - Inflows increased from USD 2.0 bn in 2020 to USD 2.5 bn in 2021
- Negligible outflows
- Georgia is among the countries with highest dependency on remittances

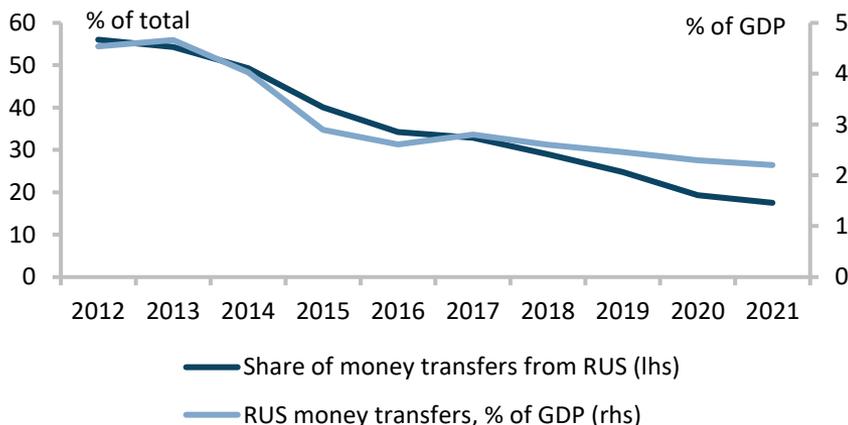
Remittances from Russia

Money transfer inflows by sending region



Source: National Bank of Georgia; data for 2021

Money transfer inflows from Russia



Source: National Bank of Georgia

- Breakdown by sending region is only possible using money transfer data
 - Not conceptually equivalent: includes commercial transactions, excludes cash remittances
 - But cross-checks indicate that practically equivalent (Annex)
 - EU share of remittances increased from 25% in 2012 to 41% in 2021
 - Share of Russia in total remittance inflows has decreased considerably
 - 2012: 4.5% of GDP
 - 2020: 2.2% of GDP
- **Reduction in Russian remittances due to economic stagnation; would continue without sanctions**

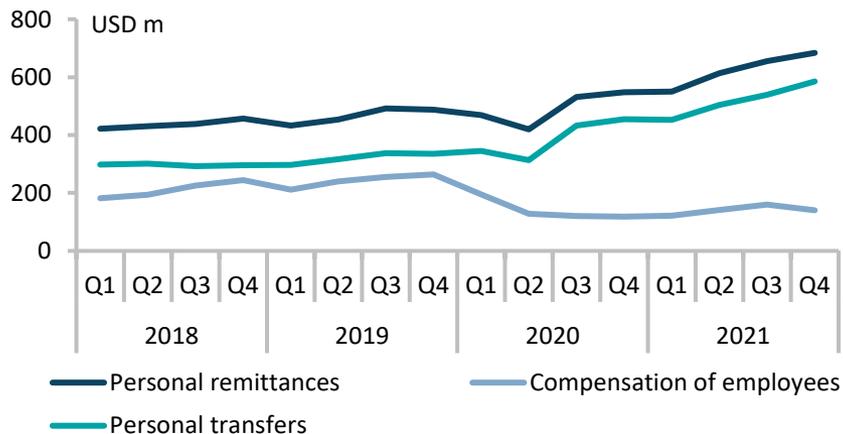
Seasonality of remittances

Quarterly money transfer inflows



Source: National Bank of Georgia

Quarterly remittances inflows – main components



Source: National Bank of Georgia

- Some seasonality visible in total and Russian money transfer inflows,
- Inflows usually peak in Q4, with around 27% of annual inflows
- Pattern reflects incomes of seasonal workers (e.g. construction, harvest workers migrating each summer, returning in Q4)
- This is evident from remittance components:
 - High seasonality in compensation of employees (seasonal workers)
 - No seasonality in personal transfers (permanent residents abroad)

3. Impact channels of sanctions on remittances from RUS

International sanctions against Russia

- Implemented as a reaction to aggression against Ukraine in March 2022
 - Significant impediments on trade (including logistics) as well as on foreign investments
 - Countermeasures by Russia, including a tightening of financial conditions (e.g. emergency rate hike to 20% p.a.)
 - Material risk that Russia defaults, Ratings only slightly above „Default“ status
- Russian 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)
- Possible obstacles for sending remittances :
 - Conflicting reports about ability to withdraw/send FX from Russia
 - Exchanging rubles subject to high exchange rate risks, large buy/sell spreads

4. Estimation of impact on remittances to Georgia

Methodology

- Focus only on remittance inflows
- Baseline
 - Baseline remittances from Russia include long-term declining trend
 - Pre-pandemic average decline 2016-2019 of -0.1% of GDP per year was applied to calculate remittances for 2022
 - Total baseline remittances estimated by applying constant 2020 GDP share to remittances sent from countries other than Russia
- Expected scenario:
 - Reduction 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 Georgia

	Remittances from Russia 2022		Change compared to baseline ("shock")	
	USD m	% of GDP	USD m	% of GDP
Baseline	437.1	2.1%	N/A	N/A
Expected scenario	227.1	1.1%	-209.9	-1.0%
Maximum exposure	44.3	0.2%	-392.7	-1.9%

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

- Expected scenario based on forecast Russian economy contraction:
 - Real growth: -10% (GS)
 - Inflation: 20% (GS)
 - Exchange rate: 120 RUB/USD (own estimate)
- **Result: reduction of remittances inflows by USD 209.9 m, 1.0% of GDP**
- **Sizeable shock**

5. Economic impact of reduction in remittances

	Reduction in remittances from Russia		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	-209.9	-1.0%	-60.5	-0.3%	-124.9	-0.6%	-23.8	-0.1%
Maximum exposure	-392.7	-1.9%	-132.2	-0.6%	-280.3	-1.3%	-44.5	-0.2%

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 decline of domestic demand
- Some dissaving will occur, compensating part of the shock
- Most affected: consumption (mainly by households): -0.6% of GDP
- Moderate negative effect on GDP: -0.3% (shock moderated by 59.3% import share in domestic demand)
- Small effect on investment: -0.1% of GDP (investment share in GDP ~25%)

6. Conclusion/Policy recommendations

- Although remittances from Russia no longer very big, halving of remittances would have economic and social consequences
 - Reduction of GDP growth by 0.3%
 - 0.6% of GDP reduction in total consumption
 - Most effect on individual households dependent on remittances from Russia
- Recommended reaction by Georgian government
 - Allow macroeconomic adjustment
 - Targeted social assistance/retraining for affected individuals/households

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, Armenia, 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.*

CONTACT

Sebastian Staske, Project Manager Georgia
staske@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59
10627 Berlin

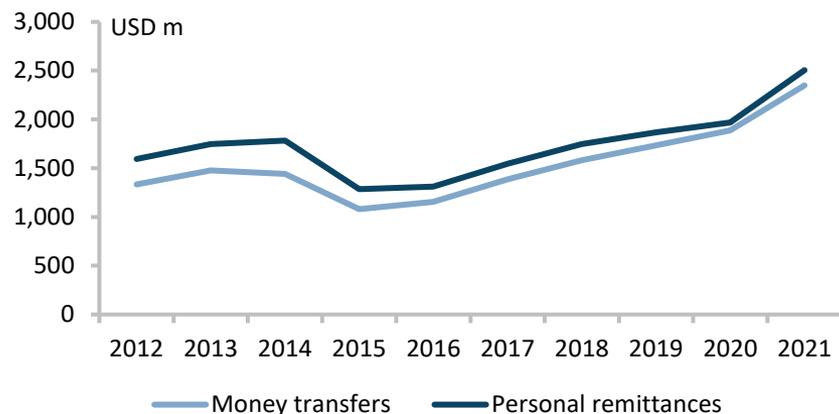
Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com

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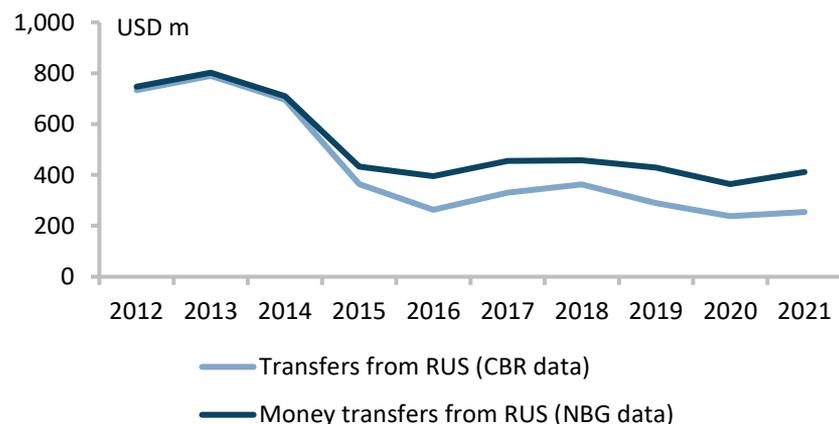
Annex: Comparison of money transfer with remittance data

Comparison personal remittances vs. money transfers



Source: National Bank of Georgia

Money transfers from Russia vs. Russian CB data



Source: National Bank of Georgia, Central Bank of Russia

Two cross-checks

- Total sums of personal remittance and money transfer inflows from all countries
- Data on bilateral remittance flows from Russian CB and money transfers from Russia

Results

- Aggregate totals of money transfers almost identical to pers. remittances
- Russian CB data slightly higher than money transfer data
- But Russian CB generally estimates higher than receiving countries with bilateral remittance data

➤ **Money transfer data is usable**