POLICY STUDY 01 | 2022

German Economic Team
GEORGIA

In cooperation with

Relocation of people from Russia and Belarus to Georgia: results of survey and economic implications

David Sichinava, Sebastian Staske, Kristina Vacharadze, Natia Liluashvili and Dr Ricardo Giucci

Berlin/Tbilisi, July 2022

Summary (I)

<u>Relocation of people from RUS and BLR to GEO</u>

- 24 Feb - 31 May: stock of visitors increased by ca. 45,000 (RUS: 31,000; BLR: 14,000)
- Increase falls mostly in spring and thus outside the usual vacation periods
- <u>Thus</u>: ca. 45,000 relocated from RUS & BLR to GEO between start of war and end May

<u>Results of survey conducted by CRRC on behalf of GET</u>

- People from Russia and Belarus who relocated to GEO after 24 Feb 2022 are mostly young urbanites, with an absolute majority having higher education
- Three quarters are full-time employees, working in high-skilled white-collar jobs, mostly in the information and technology sectors for companies based in Russia (24%), Georgia (21%), the US (12%), and Belarus (10%)
- The average monthly income of a relocated household in GEO is approx. USD 2,600. The average monthly expenditure is around USD 1,600. Around USD 590 are spend on monthly rent per household. Relocated people's personal income is the major source of money for their households
- The plurality of relocated people plans to stay in GEO for at least one year. Safety-related factors, such as security and being safe from persecution, were primary motivators behind the decision to move to GEO
- Absolute majority feels welcome in GEO and would recommend others to relocate

Summary (II)

Estimation of economic impact

	March	April	May	Assumption for Jun - Dec (31 May values)
Relocated persons, avg.	22,200	35,400	41,700	44,900
Relocated households, avg.	11,100	17,700	20,850	22,450
Consumption of relocated HH (USD m)	17.8	28.3	33.4	35.9
			Total in 2022 (USD m)	**330.8**

- Assuming that average household size is two persons, average monthly consumption is USD 1,600 and that the stock of relocated persons remains stable after May, would yield total consumption expenditures of **USD 330 m (approx. 1.8% of GDP)** in 2022
- Thus, the relocation of approx. 45,000 persons from RUS and BLR entails a positive balance of payments shock that alleviates the negative shock of higher energy prices
- It also partly explains why Georgia's economy is only moderately affected by the war in Ukraine and why the GEL/USD exchange rate remains strong

Policy implications

- Economic/political prospects in RUS & BLR severely impaired for foreseeable future
- This may be a chance for Georgia to attract high-skilled people for the longer term
- It may also be an opportunity for the further development of Georgia's IT sector

Outline

1. **Influx of people from RUS and BLR: descriptive analysis**
2. **Results of survey conducted by CRRC-Georgia**
   i. Methodology and caveats
   ii. Demographic profile
   iii. Employment
   iv. Living and housing conditions
   v. Income
   vi. Expenditures
   vii. Relocation to Georgia
   viii. Integration and future plans
3. **Estimation of economic impact**
   i. Methodology and assumptions
   ii. Description of scenarios for remaining year
   iii. Estimation of total expenditures in GEO of RUS/BLR migrants
4. **Discussion on policy implications**

Motivation

- The war in Ukraine and the worsened living conditions in RUS and BLR have caused a significant relocation of people from RUS and BLR to GEO
- This influx has certainly an effect on the economy
- But: very limited data availability on socio-economic background
- Anecdotal evidence: many high-skilled workers, e.g. from IT sector
- Statistically, these people count as tourists but have different spending profile than regular tourists
- Result: so far, only limited insights on economic impact available

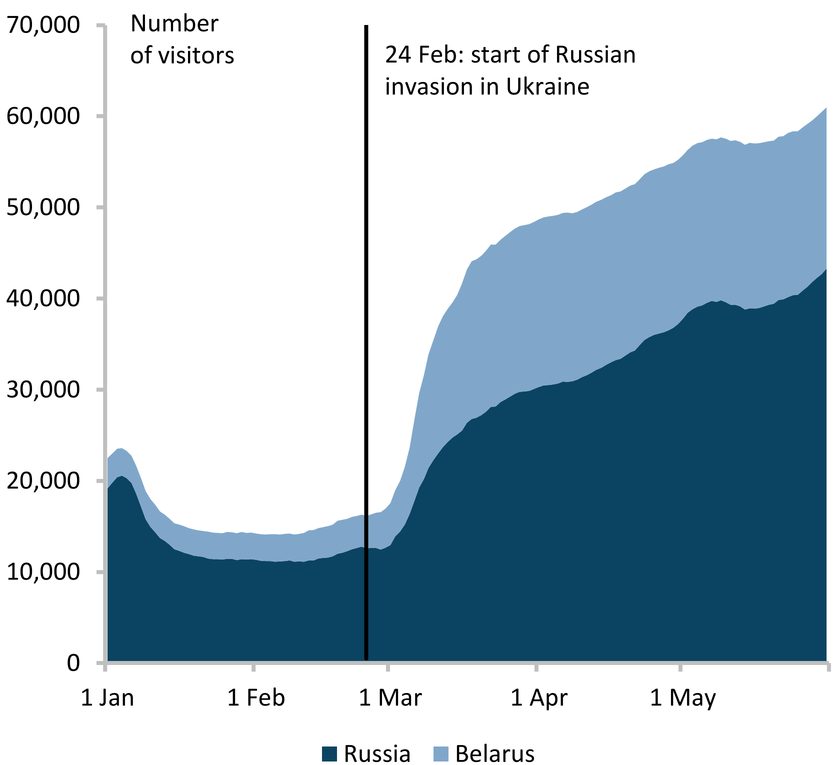
Goals of this Policy Study

i. Influx of people from RUS/BLR: descriptive analysis
ii. Presentation of results of own survey on demographic and economic profile of these people
iii. Estimation of economic impact for Georgia
iv. Discussion on policy implications for Georgia

1. Influx of people from RUS/BLR: descriptive analysis

1. Descriptive analysis

Stock of visitors by citizenship



Sources: Ministry of Internal Affairs, NBG calculations

- Strong influx of RUS and BLR citizens immediately after start of the war
- Increase continued in following months
- Challenge: no differentiation in data between regular (short-term) tourists and relocated persons due to war
- But: time-span lies outside of traditional vacation season in summer and winter
- Conclusion: vast majority of increase in spring likely to be explained by relocation
- Note: figures for June available, but likely affected by start of vacation season
- Overall, increase from start of war until end of May
  - RUS: approx. +31,000 people
  - BLR: approx. +14,000 people

➢ **Influx of 45,000 persons from RUS and BLR since start of war in UKR**

2. Results of survey conducted by CRRC-Georgia

2.1. Methodology and caveats

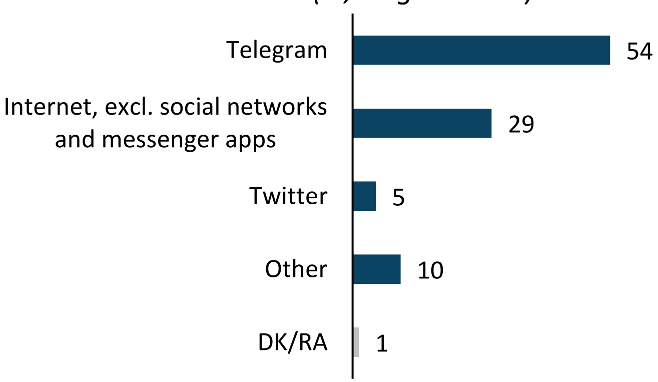
- This analysis is based on 366 interviews with relocated people from Russia and Belarus who entered Georgia on 24 February 2022, or after
- Interviews were administered face-to-face and online, using convenience and haphazard sampling approaches between 15 and 23 June 2022
- Due to the size and nature of the sample, **results should not be generalized to the complete population of relocated people from RUS and BLR in GEO**. Note that online interviews may bias towards technologically adept people
- Values for income and expenditure are imputed: if respondents were unable to reply with an exact value, then they were offered to name a category within which their incomes/expenditures fell. During the data cleaning, cases with such categories were assigned a middle value of the corresponding category (e.g., if a respondent earned between USD 201 and 400, then such individual was assigned a value of USD 300 and so forth)

2.2. Demographic profile

What is your citizenship?
(% of sample)

Note: About 2% of the sample reported additional citizenships

What is your primary source for information on politics and events?
(%, single choice)



DK/RA: Don't know / refuse to answer

<u>Citizenship</u>

- 56% hold Russian citizenship
- 44% are Belarusian nationals
- About 2% have multiple nationalities

<u>Demographics</u>

- Mostly male (56%)
- Relatively young (median age 31)
- Most (84%) have higher education
- Almost all from urban areas of their home countries (close to 100%)

<u>Primary source of information</u>

- Majority use Telegram (54%)

➢ **Mostly young urbanites with higher education**

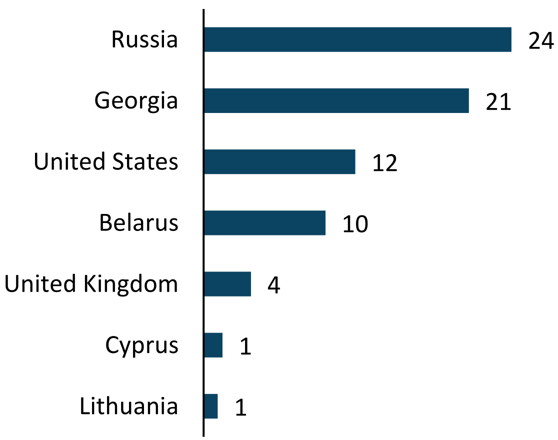
2.3. Employment

In which sector is your primary job?

(% of the employed respondents,
open-ended question coded into NACE rev.2 activity codes)

Resident country of the employer

(% of the employed respondents)



Employment profiles

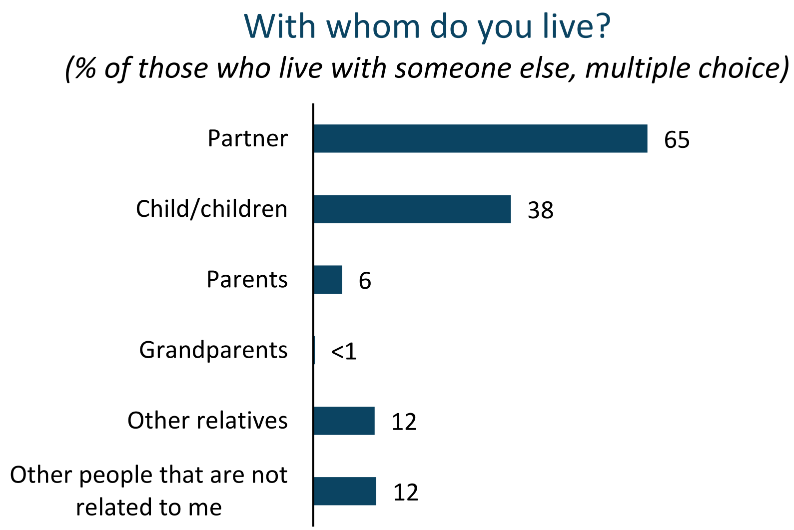
- High employment (74%), with full-time accounting for 62% and part-time 12%
- Main sector: information and communications (59%)
- Majority (60%) are involved in high-skilled, white-collar activities (managers and professionals)
- Two-thirds of the employed work for a company, while 32% are freelancers

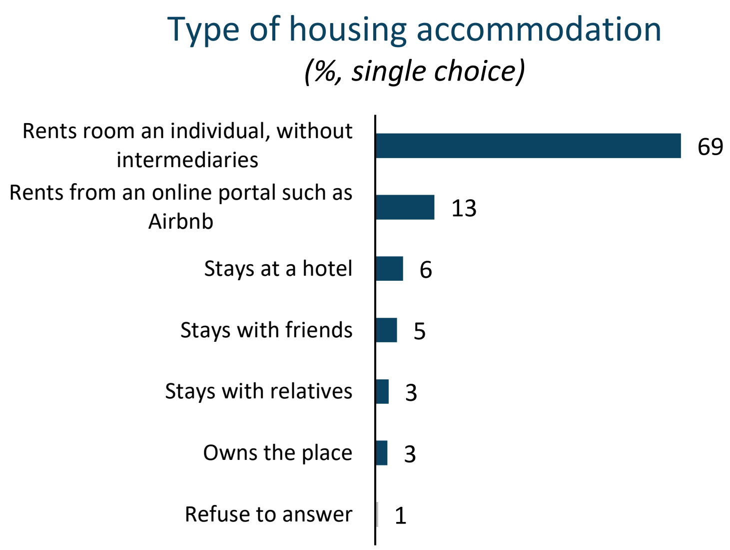
Resident country of employer

- About one fifth (21%) work for Georgian companies
- Most work for foreign companies, with Russia (24%), USA (12%) and Belarus (10%) among the top countries

➢ **High employment and skill-level**

2.4. Living and housing conditions





Location in Georgia

- Close to three quarters (72%) of the sample is based in Tbilisi, 27% lives primarily in Batumi

Household composition

- Absolute majority came with a partner (65%)
- 38% of respondents came with children

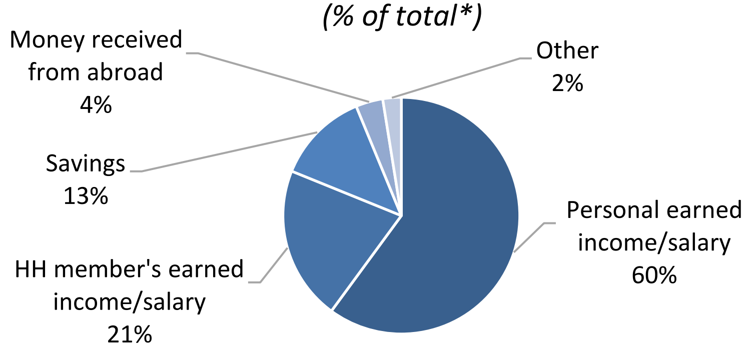
Type of housing accommodation

- 69% rent directly from individual
- Airbnb or similar (13%) and hotel (6%) with relatively small share

➢ **Most come with partner and/or children**

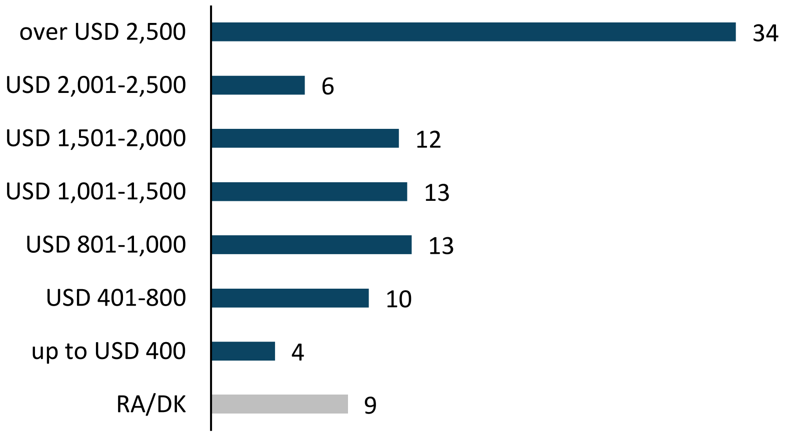
2.5. Income

Approximate share of income sources within the income structure of the household
(% of total)*



** Based on 284 answers. The rest refused to answer, did not know or provided unplausible answers which were exempted.*

Average monthly household income
(% of households)



Income sources

- Major part: personal income (60%)
- Other household members: 21%
- Savings: 13%

Household income distribution

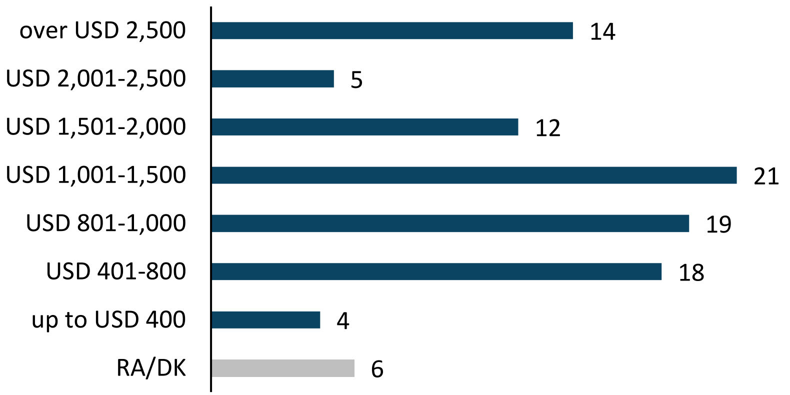
- Average: USD 2,600 per month
- Median: USD 2,000 per month
- Huge variation, 34% with incomes above USD 2,500 per month

➢ **Own earnings most important source of income**

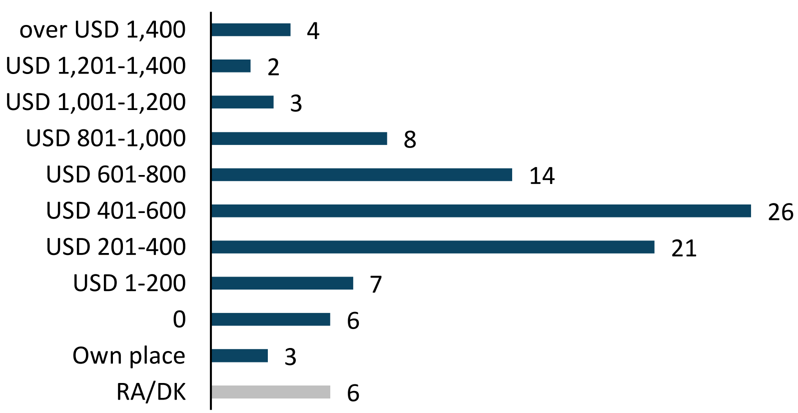
➢ **Incomes are high**

2.6. Expenditures

Average monthly household expenditures
(% of households)



Average rent per month
(% of households)



Household expenditures distribution

- Average: USD 1,600
- Median: USD 1,200
- More even distribution than for income
- Avg. expenditures of households from RUS slightly higher (USD 1,730) than those from BLR (USD 1,440)

Average rents

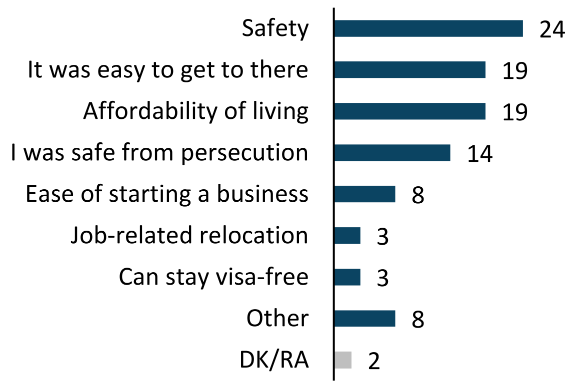
- Average: USD 590
- Median: approx. USD 500
- About 6% lives in a place without any charge

➢ **Expenditures likely relevant for overall consumption in economy**

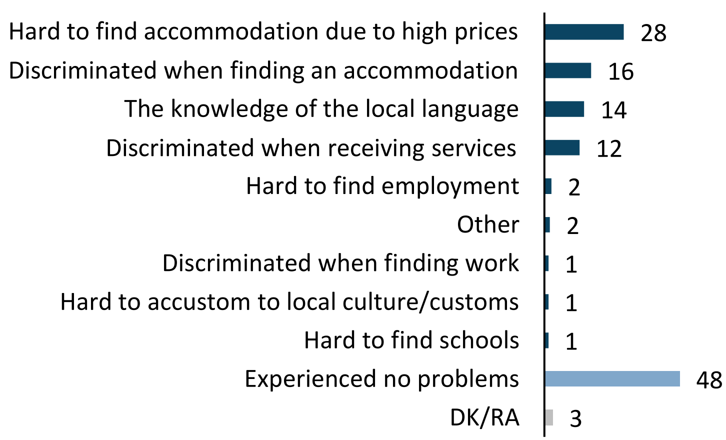
➢ **Rents relatively high**

2.7. Relocation to Georgia

What was the main reason for choosing Georgia as a final destination?
(%, single choice)



Have you experienced any problems in Georgia?
(%, multiple choice)



Residency status

- Majority (51%) uses tourist status, 40% have already obtained or applied to get permanent residency

Problems with relocation to GEO?

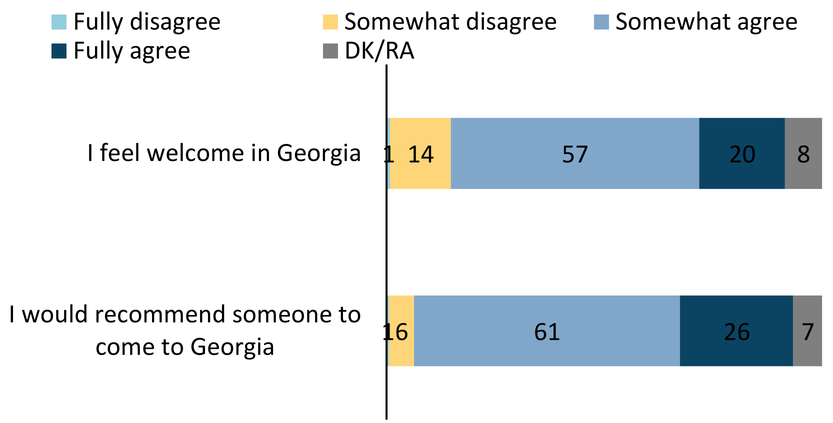
- Almost half (48%) have not experienced any problems
- If mentioned, problems were mainly related to accommodation: high prices (28%) and discrimination (16%)
- Language barrier only minor problem
- Problems with job search are insignificant

➢ **Safety most important reason for GEO as a destination**

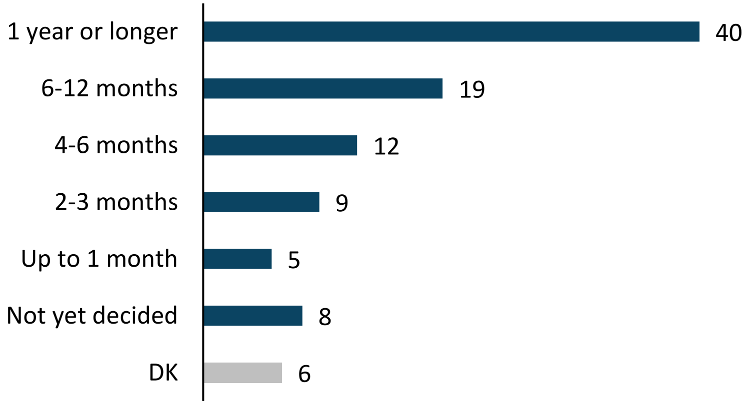
➢ **Most did not face any problems with relocation to GEO**

2.8. Integration and future plans

Do you agree or disagree to the following statements?
(%, single choice)



How long do you plan to stay in Georgia?
(%, single choice)



Reception in Georgia

- Absolute majority (77%) feel welcome in Georgia
- Similarly, vast majority (87%) would recommend Georgia to others

Planned length of stay

- Plurality (40%) plans to stay in Georgia for at least one year
- About one fifth of respondents want to stay approx. 6-12 months

➢ **Majority feel (very) welcome in GEO**

➢ **Most want to stay at least one year**

3. Estimation of economic impact

3.1. Methodology and general assumptions

- Combining (1.) data on inflow of people from RUS and BLR with (2.) data obtained in our survey allows for an estimation of total consumption expenditures in GEO (potential issues regarding sample bias notwithstanding)
- Assumptions:
  - Increase in visitor stock from 24 Feb to 31 May is fully attributable to relocation (see below)*
  - For simplification: no differentiation in consumption expenditures between RUS and BLR households (see 2.6 for details). This does not materially affect the calculation
  - Average household (HH) size: two people per HH (based on survey results, see 2.4 for details)
- Total consumption per month can then be calculated as follows:

*Consumption = [Number of households] * [Consumption per household]*

*Explanation regarding the assumption on the stock of visitors:

- The assumption does not imply that there was no vacation tourism from RUS and BLR during the time-span, but rather that these tourists did not (materially) affect the stock. This would be the case if incoming tourists and those returning home were in balance
- Reasoning: increase mainly in spring (no vacation season); COVID-19 still affected tourism in early 2022, propensity to spend on vacation likely declined after start of war
- Conclusion: overestimation possible, but effect likely small

3.2. Assumption for remaining months in 2022

- Data for March to May is already available, so the actual stock of visitors can be used for the analysis
- For the period of June to December, we assume that the stock of relocated persons will remain constant at the levels of the end of May
- Reasons:
  - The estimate is more robust as only people who are *already* in Georgia are included. As outlined in 2.8, most of these people will likely stay at least until the end of the year
  - An estimate of the possible increase would be highly speculative at this stage, as it largely depends on the development of the war in the UKR and the political situation in RUS/BLR
- Figures on the stock of visitors for June show a further increase
- However, with the start of the vacation season in June, these figures are likely to include a significant number of regular (short-term) tourists
- In general: due to the vacation season, making inferences on the number of relocated people based on the stock of visitors will be difficult during summer
- More reliable conclusions on the trend of relocated people may be drawn in autumn

<u>Note:</u> results are highly sensitive to changes in assumptions and should only serve as a rough estimation. However, results could be adjusted if better data becomes available.

3.3. Estimation of consumption in GEO

	March	April	May	Assumption for Jun - Dec (31 May values)
Relocated persons from RUS, avg.	11,500	20,600	27,300	30,700
Relocated persons from BLR, avg.	10,700	14,800	14,400	14,200
Relocated persons, avg.	22,200	35,400	41,700	44,900
Relocated households*, avg.	11,100	17,700	20,850	22,450
Consumption by relocated HH (USD m)**	17.8	28.3	33.4	35.9
	Total from March to May (USD m)			79.5
+	Total for June to December (USD m)			251.3
=	**Total in 2022 (USD m)**			**330.8**

*Sources: Ministry of Internal Affairs, NBG, own calculations. Visitor figures rounded to full hundreds. *Assumption: two people per household, **Average monthly consumption expenditure (approx. USD 1,600) applied to calculate total consumption, see 2.6 for details.*

- Overall, the influx of people will create additional consumption of around **USD 330 m (approx. 1.8% of GDP)** in 2022
- Positive shock on balance of payment, alleviates negative shocks in 2022 (e.g. from higher energy prices)
- Partly explains why Georgia's economy and the GEL/USD exchange rate are only moderately affected by the war in Ukraine, despite the economic exposure to Russia

4. Discussion on policy implications

4. Outlook and policy implications

- As outlined, the war in Ukraine and the worsening living conditions in RUS and BLR caused a significant influx of mostly high-skilled people from Russia and Belarus
- Many have a background in the IT sector
- Economic and political outlooks in Russia and Belarus to remain very difficult for the foreseeable future
- This may create an incentive for people to stay in Georgia for longer term

Key question: how should the government react?

Option 1: neutral stance
- No active management of influx, no direct policy interventions
- Situation eventually resolves itself

Option 2: active stance
- Idea: see influx as possibility to attract high-skilled people
- Possible to promote development of the IT sector? What kind of incentives?
- Distributional effects would also need to be considered (e.g. rising rent prices)

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

Implemented by