

# Explanation for the high money transfers from Russia to Georgia in 2022: relocation and arbitrage

by Sebastian Staske

NO 01 | NOV 2022

**TECHNICAL NOTE**  
**GEORGIA**

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Financed by the Federal Ministry for Economics and Energy, 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](mailto: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](mailto:info@german-economic-team.com)  
[www.german-economic-team.com](http://www.german-economic-team.com)

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## Executive summary

Money transfers from Russia to Georgia reached extraordinary levels in 2022, with an especially strong increase in Q2.

There is strong consensus that these inflows are not associated with remittances, i.e. people sending money to their relatives. Instead, it can be explained by 1) capital flight from Russia, 2) relocation of people from Russia to Georgia and 3) the temporary existence of an arbitrage scheme.

The increase in money transfers coincides with a strong influx of people from Russia to Georgia. From the beginning of the war until end of May, approx. 31,000 Russians relocated to Georgia. The subsequent transfer of savings is part of the explanation for the rise in money transfers.

Additionally, for some time, a profitable arbitrage scheme existed as there was an exploitable price difference between the official and black market USD/RUB exchange rate in Russia.

The arbitrage scheme stopped due to regulatory changes as transfers of rouble must be converted in lari (instead of US dollars). The high spread on the GEL/RUB exchange rate then turned the scheme economically unviable.

Statistics on money transfers in 2022 may easily be misleading as they are inflated by the arbitrage scheme.

However, money transfers from Russia to Georgia remain high even after the arbitrage scheme stopped. The ongoing relocation of Russians to Georgia thus contributed to a rise in FX inflows and partially explains the appreciation of the lari in 2022.

The increase in money transfers is considered by experts to be a “one-off” event which will normalise in the coming months. As a result, it does not materially affect economic or monetary policy.

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# 1. Introduction

The National Bank of Georgia publishes statistics on money transfers by country.

They “reflect money transfers to and from Georgia through electronic wire systems (Western Union, Money Gram, Anelik, Unistream etc.)” based on the “monthly statistical reports of the commercial banks (including branches of nonresident banks in Georgia) and microfinance institutions in Georgia”.

Therefore, the statistic on money transfers is linked to the statistic on remittances, which are mostly personal transfers by individuals in a foreign country to support their relatives in the home country. As no statistics on remittances by country are available, the statistic on money transfer has been used as a proxy due to the usually high correlation.

However, while electronic wire systems are often used for the transfer of remittances, a transfer for other purposes is also possible so that the two statistics are not identical.

While Russia remains an important country of origin for money transfers, its importance has been on a continuously declining trend in the last decade, both in absolute volume and share in total money transfers (Table 1).

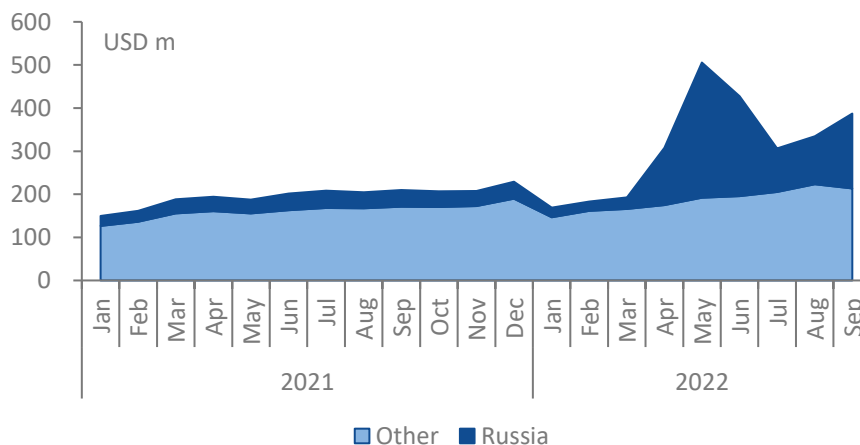
Table 1: Money transfers 2012 vs. 2021 (USD m)

	2012	2021	Change
<b>Russia</b>	748	411	-45%
<b>Other</b>	587	1,939	+230%
<b>Total</b>	1,335	2,350	+76%
<b>Russian share</b>	56%	18%	-38 Pp

Source: National Bank of Georgia

At the beginning of the war in Ukraine, most observers initially expected money transfers from Russia to decline even further due to the recession there. However, contrary to these expectations, money transfers increased strongly (Figure 1).

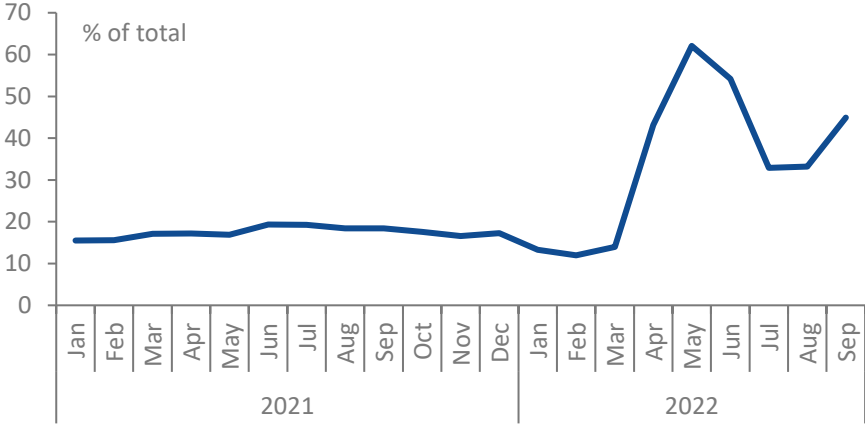
Figure 1: Money transfers to Georgia 2021/2022



Source: National Bank of Georgia

In particular, the high volume and growth in Q2-2022 (USD 678 m; +551% yoy) was extraordinary, elevating the Russian share to 62% in May, a value last recorded around 10 years ago.

Figure 2: Russian share in money transfers 2021/2022



Source: National Bank of Georgia

**Conclusion 1:** There was a strong and unusual increase in money transfers from Russia to Georgia in Q2-2022.

## 2. Explaining the high money transfers

### 2.1 Factors driving money transfers in 2022

In general, four possible channels for the money transfers must be considered:

1. Remittances, i.e. people sending money to their relatives
2. Capital flight (selling of Russian assets and repatriation of funds)
3. Relocation of Russians to Georgia, who transfer their savings
4. Arbitrage

There is strong consensus that the recent increase in money transfers from Russia is not attributable to an increase in remittances.

Capital flight played an important role especially in the early stages of the war when there was great uncertainty over possible new restrictions on money transfers from Russia.

However, it is likely that the last two reasons (relocation and arbitrage) are the main explanations for the increase in money transfers.

## 2.2 Relocation of Russians to Georgia<sup>1</sup>

Immediately after the start of the war in Ukraine and resulting sanctions against Russia, Georgia began to see a strong influx of people from Russia. Until the end of May, around 31,000 people from Russia relocated to Georgia.

Figure 3: Russians relocating to Georgia until May



Source: Ministry of Internal Affairs

The timing of the increase in the stock of Russian people in Georgia corresponds to that of the increase in money transfers from Russia. The recent influx was thus likely an important channel which partially explains the increase in money transfers as these people wired (part of) their savings to Georgia.

**Conclusion 2:** The growth in money transfers from Russia coincides with a strong influx of people from Russia to Georgia.

## 2.3 Arbitrage

Arbitrage is the result of market imperfections such as capital controls.

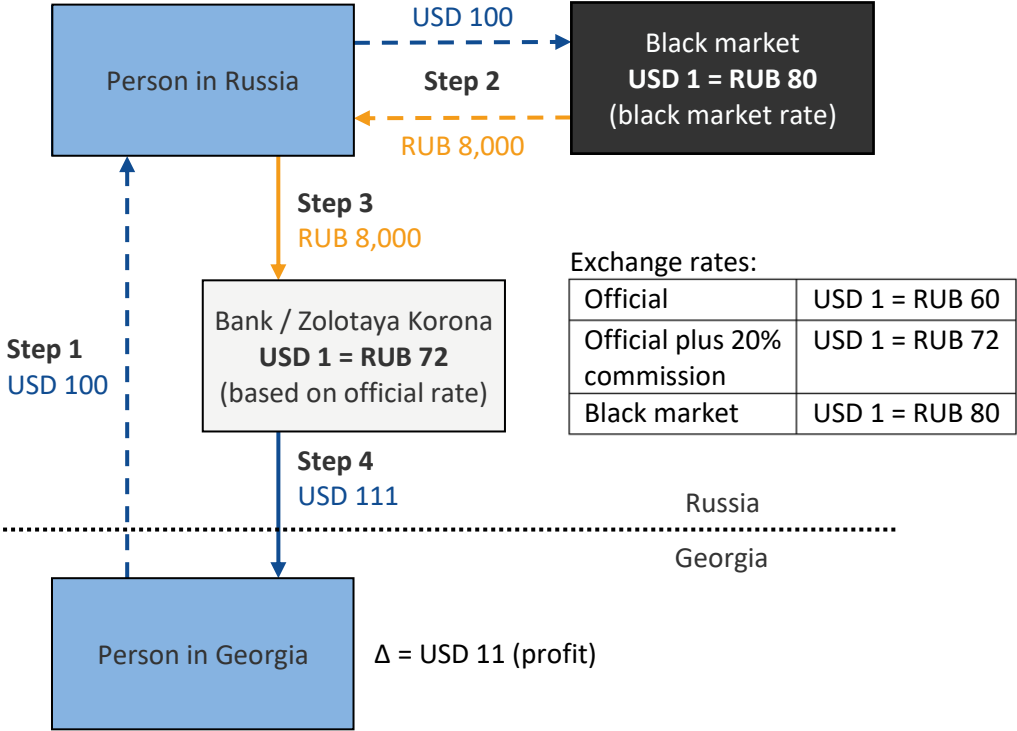
These imperfections may create separate markets for the same good, characterised by price differences. The good can then be bought at a cheaper price in one market and sold more expensively in another, thus generating a risk-free profit.

Here, an arbitrage opportunity arose as the war in Ukraine and sanctions against Russia caused significant turmoil for the Russian rouble. As a result, a black market emerged in Russia, where the price of the US dollar relative to the Russian rouble was more attractive than the official rate.

A graphical description for the arbitrage scheme in the case of Russian money transfers to Georgia can be found in Figure 4.

<sup>1</sup> More detailed information can be found in our Policy Study “[Relocation of people from Russia and Belarus to Georgia: results of survey and economic implications](#)”.

Figure 4: Simplified functioning of the arbitrage scheme<sup>2</sup>



Source: own display; blue/yellow lines correspond to USD and RUB flows, respectively; dashed lines indicate unregistered flows

1. A Georgian person sends USD 100 to a person in Russia (in cash, via truck driver or relatives). This transaction is not registered anywhere.
2. The recipient in Russia exchanges USD 100 into RUB 8,000 on the on the black/grey market at a high USD rate (USD 1 = RUB 80).
3. The Russian person takes RUB 8,000 to the bank and sends this money through payment service provider “Zolotaya Korona” to the person in Georgia indicating that the Georgian person should receive the money in US dollar. The Russian bank exchanges the roubles to US dollars based on the official, i.e. subsidised and in USD terms artificially low, exchange rate (USD 1 = RUB 60). While the bank charges a (sizeable) commission on the transaction (reportedly around 20%), the resulting ask price (approx. USD 1 = RUB 72) is not sufficient to offset the price difference to the black market: the RUB 8,000 are exchanged into USD 111.
4. The person in Georgia receives USD 111. The total profit is USD 11 which is split between the persons in Georgia and Russia.
5. Repeat.

<sup>2</sup> The figures correspond roughly to estimated values for May, based on discussions with experts. Similar values can e.g. be found [here](#).



This is a simplified example. In reality, the scheme involved many relatives or even paid people on the Russian side to avoid the limits on money transfers from Russia.

While the official and black market rate varied over the time, profits are rumoured to have been around 10% per cycle. This has made the scheme very lucrative and partially explains the strong surge in money transfers in Q2-2022.

**Conclusion 3:** Due to price differences between the official and black market USD/RUB exchange rate, there was a profitable arbitrage scheme.

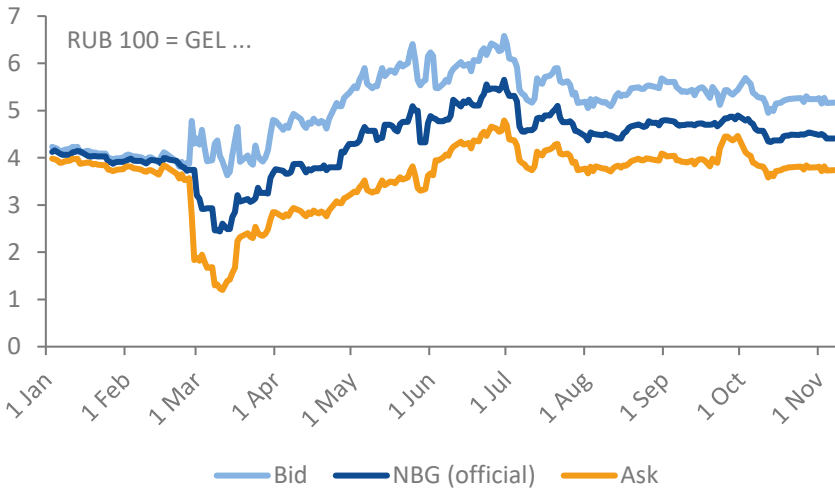
Arbitrage schemes persist as long as the price differences exist. In a mitigated form, arbitrage can at least be curtailed if the authorities can install effective instruments to prevent the exploitation of the price differences.

The scheme stopped because the National Bank of Georgia introduced a regulation that money transfers made through Zolotaya Korona can only be paid in lari (thus changing step 3 in the previous description).

The roubles must therefore be exchanged into lari by the bank.

However, banks' spreads on the rouble have widened considerably since the beginning of the war (Figure 5).

Figure 5: Development of RUB exchange rate vs. GEL

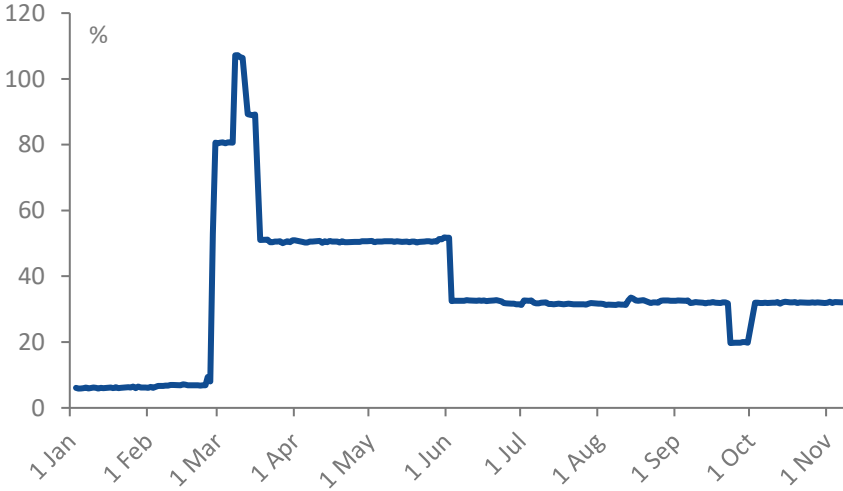


Sources: National Bank of Georgia, Bank of Georgia

In May, the month when money transfers reached its maximum, they were around 50%. Even after some normalisation, they are currently still around 30% (Figure 6). For comparison: spreads on the US dollar remained roughly constant throughout 2022 at around 4%.

The magnitude of the spread more than offsets the price difference to the black market, thus making the scheme economically unviable.

Figure 6: Spreads on the GEL/RUB exchange rate



Source: Bank of Georgia

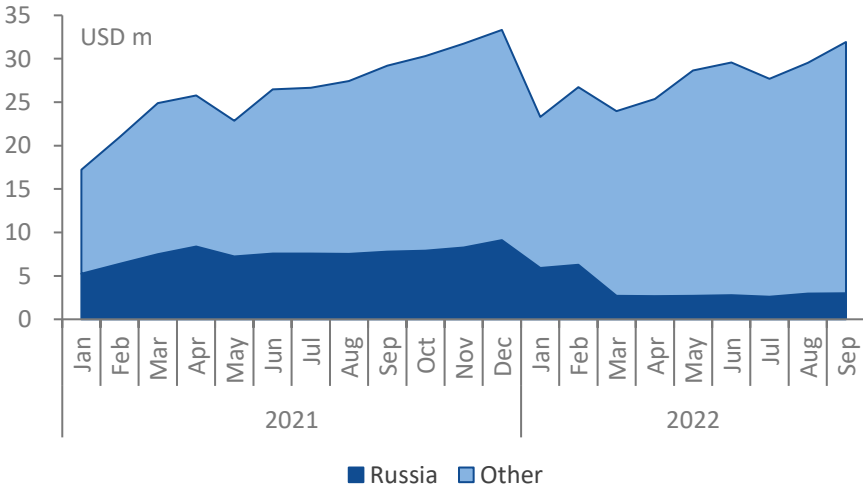
**Conclusion 4:** A regulatory change forced a conversion of money transfers in roubles to lari. High spreads on the GEL/RUB exchange rate then made the arbitrage scheme economically unviable.

### 3. Assessment

Overall, money transfers from Russia to Georgia in 9M2022 reached USD 850 m (+USD 625 m / +278% yoy).

In the data, it is not possible to distinguish between transfers due to capital flight, relocation (with subsequent transfer of savings) and arbitrage.

Figure 6: Money transfers from Georgia 2021/2022



Source: National Bank of Georgia

As a result of arbitrage, it is important to emphasise that money transfer statistics in 2022 may easily be misleading.

Data for money transfers from Georgia to Russia show very small (and relative to 9M2021 declining) volumes for 9M2022, with monthly values never exceeding around USD 3 m (Figure 6).

As the money makes a round-trip in the arbitrage scheme, actual figures for money transfers from Georgia to Russia should be much higher. The reason for the discrepancy is that the initial money transfer from Georgia to Russia is made in cash and is therefore not recorded in the statistics (see step 1 in the description).

The money transfers from Russia to Georgia, on the other hand, are processed through electronic wire systems and thus are recorded (step 4).

Overall, this implies that *gross* money transfers from Russia to Georgia are correctly recorded, but *net* money transfers are inflated.

This in turn means that only a small portion of the money transfers from Russia due to arbitrage are actual inflows and thus affect the economy.

In the example above, of the USD 111 that are sent from Russia, only the part of the overall profit of USD 11 which remains in Georgia is an actual inflow of FX. Assuming that profits are shared equally between the Georgian and Russian person, this means only around 5% (= USD 5.5 / USD 111) of the recorded money is an actual inflow.

These arbitrage inflows must therefore be differentiated from the money transfers due to relocation of people, as the latter are fully impacting inflows to Georgia and thus also contributed much stronger to the lari appreciation in 2022.

**Conclusion 5:** Statistics on gross money inflows from Russia to Georgia overstate the impact on the economy due to arbitrage. On the other hand, inflows due to relocation of people (e.g. transfer of savings) take full effect. The latter thus contributed stronger to the appreciation of the lari in 2022.

There is consensus that the extraordinary money transfers from Russia were a “one-off” effect, which is already visible in the declining volumes in Q3-2022 relative to Q2-2022.

However, the value for Q3-2022 remains high at USD 385 m (+USD 269 m / +231% yoy). Money transfers associated with the ongoing relocation of people from Russia thus remain a main driver for exchange rate movements in 2022.

As a special factor, which is assumed by experts to normalise in the next months, the temporary increase in money transfers does not materially influence economic or monetary policy.