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IN THE SHADOW OF THE WAR: ECONOMIC IMPACT OF RUSSIAN MIGRATION INTO GEORGIA SINCE 2022

...while 20% of Georgia is occupied by Russia

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Tbilisi, Georgia

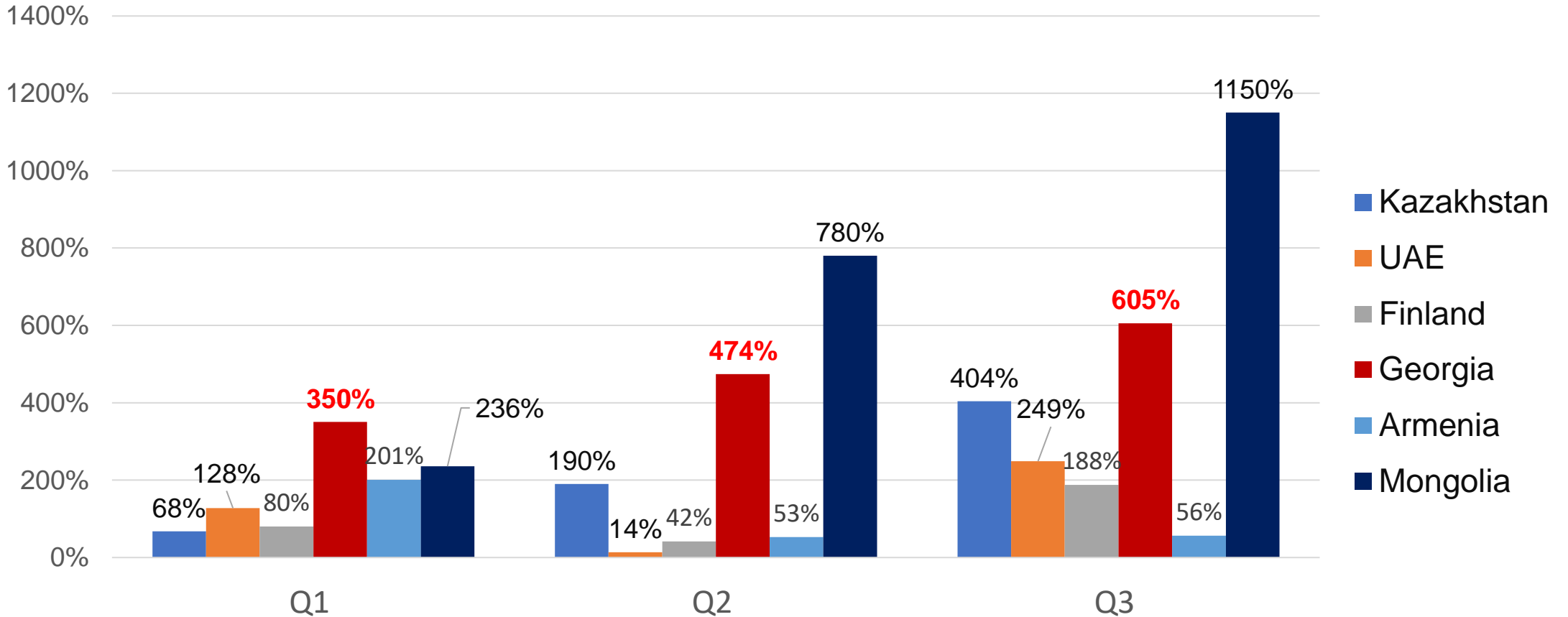
March 29, 2023

CONTEXT: TIMING AND SCALE OF RUSSIAN MIGRATION, 2022

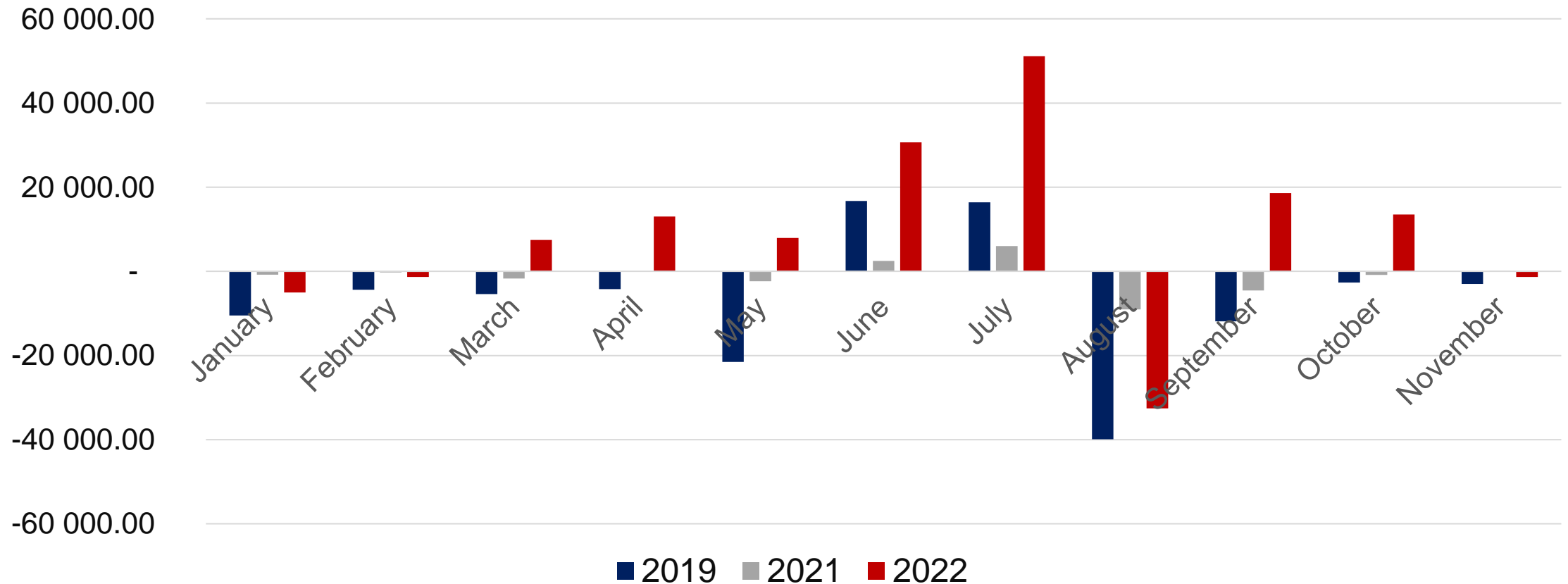
- Unprecedented outmigration of Russian citizens in the aftermath of the start of Russia's war on Ukraine in Feb. 2022
- Georgia, **20% of whose territory is occupied by Russia**, was one of the main destinations for Russian migrants.
- Migrants came in two waves March-August (approximately 50,000 migrants) and September-December 2022 (30-50,000)
- Georgia – 5th place in the world in first three quarters of 2022 as the destination for Russian citizens, and 3rd place in Q3 or 2022.

GEORGIA: TOP 5TH DESTINATION FOR RUSSIANS IN FIRST 9M OF 2022

Entries of Russian citizens, 2022: year on year increase



GEORGIA'S LAND BORDER WITH RUSSIA: CHANGE FROM NEGATIVE NET FOREIGN CROSSINGS IN 2021 TO OVER 100,000 IN 2022



UNPRECEDENTED SIZE OF RUSSIAN MIGRATION INTO GEORGIA

Between **80,000 and 100,000 Russian citizens** migrated into Georgia in 2022 – **more than the size of the population of Gori and Zugdidi combined (5th and 6th largest cities in Georgia).**

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PROFILE OF MIGRANTS – LIMITED EVIDENCE

German Economic Team (GET) survey, 366 in-person interviews of Russian citizens in Georgia, those who entered between Feb. 24-May 31st:

- Young (31 y.o. median age); urban, highly educated (84%)
- 65% came with a partner, 38% with children
- 60% full-time employed in high-skilled white-collar jobs.
- 24% work for IT companies based in Russia
- 21% for IT companies based in Georgia; 12% based in the US.
- Average monthly income of HHs: 2,600 USD
- Average expenditure: 1,600 USD - about 4 times higher than for an average Georgian household

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LIBERAL MIGRATION POLICIES MAKES GEORGIA A DESTINATION OF CONVENIENCE FOR RUSSIAN CITIZENS

Russian migrants face much more generous conditions for stay and work in Georgia than in many other countries. In Georgia:

- One year of visa-free stay; unrestricted right to work.
- Extremely easy to register and operate a business as a foreigner
- Temporary registration of cars – no requirement to pay import tax for 3 years. 200 GEL to obtain temporary registration.
- No income tax on income from foreign sources; no property tax for those who do not pay taxes in Georgia.

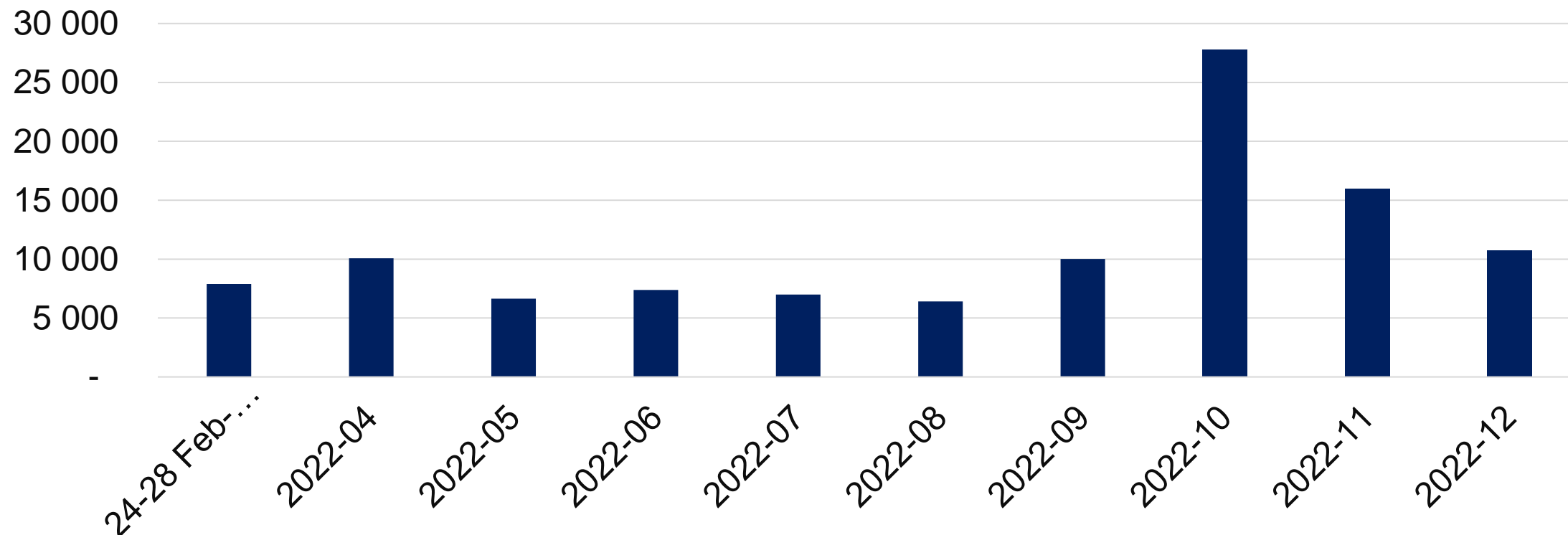
Meanwhile, other countries (in Europe, and some in Central Asia) have restricted the conditions for the entry or stay of Russian migrants.

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AGGREGATE DATA FROM FINANCIAL INSTITUTIONS:

Nearly 110,000 Russian citizens opened account in Georgian commercial banks between Feb 24-Dec 31, 2022



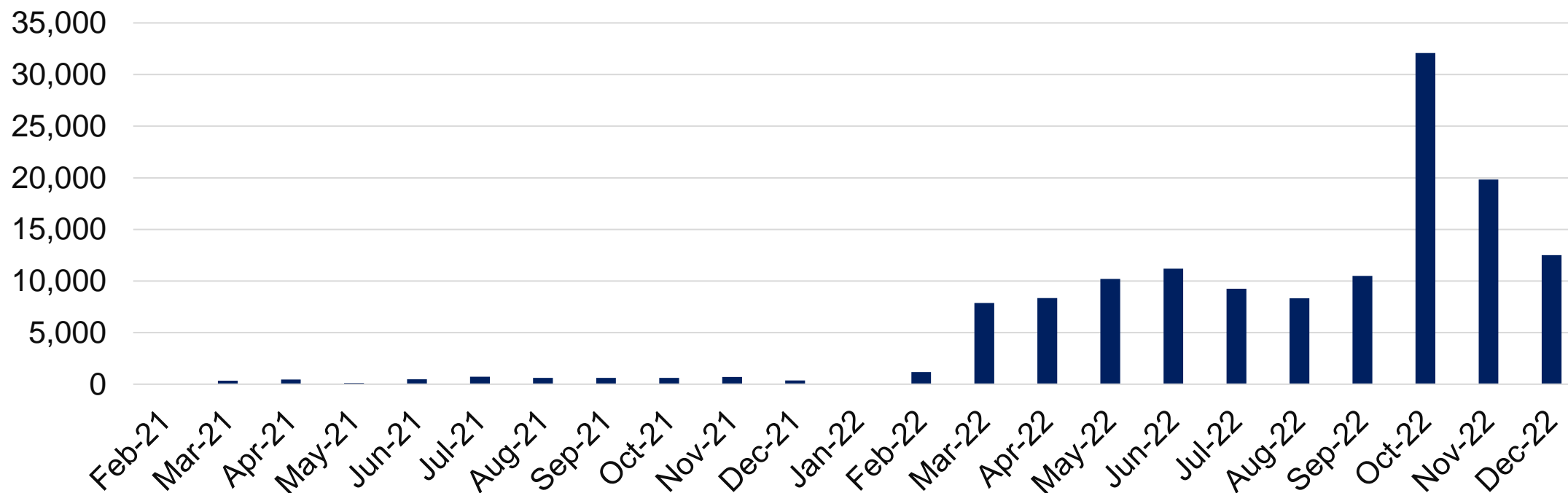
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AGGREGATE DATA FROM FINANCIAL INSTITUTIONS:

Nearly 160,000 liquid deposit accounts owned by Russian citizens were active at the end of 2022 – over five times more than in 2021

Number of active Demand Deposit accounts opened each month by Russian citizens in Georgia

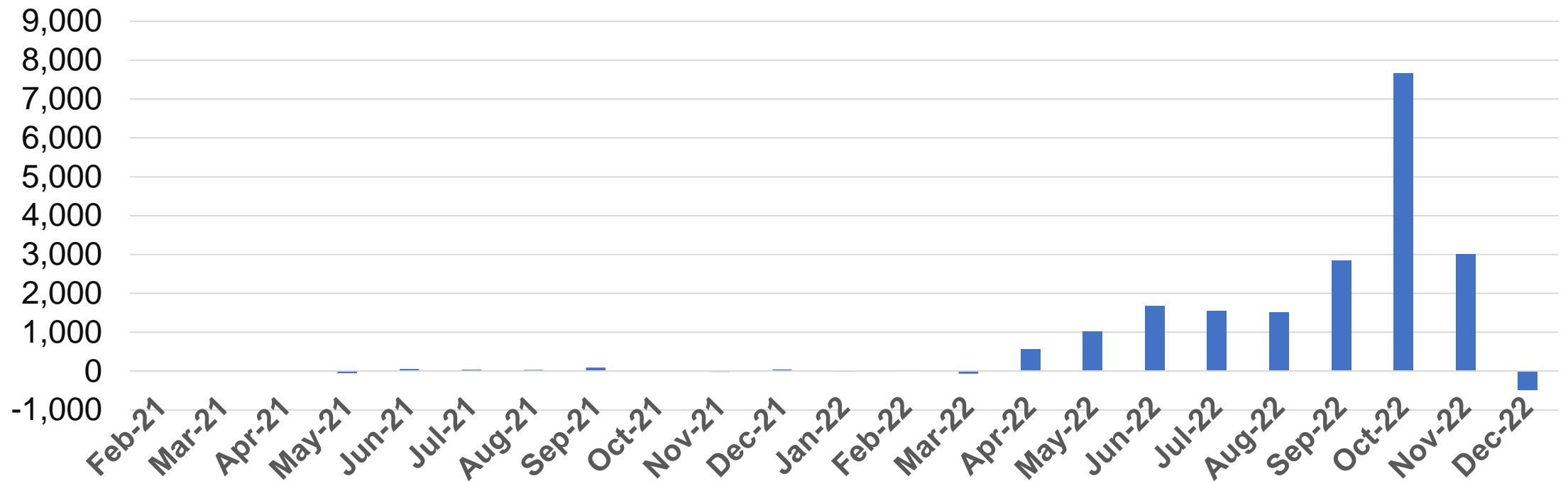


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AGGREGATE DATA FROM FINANCIAL INSTITUTIONS:

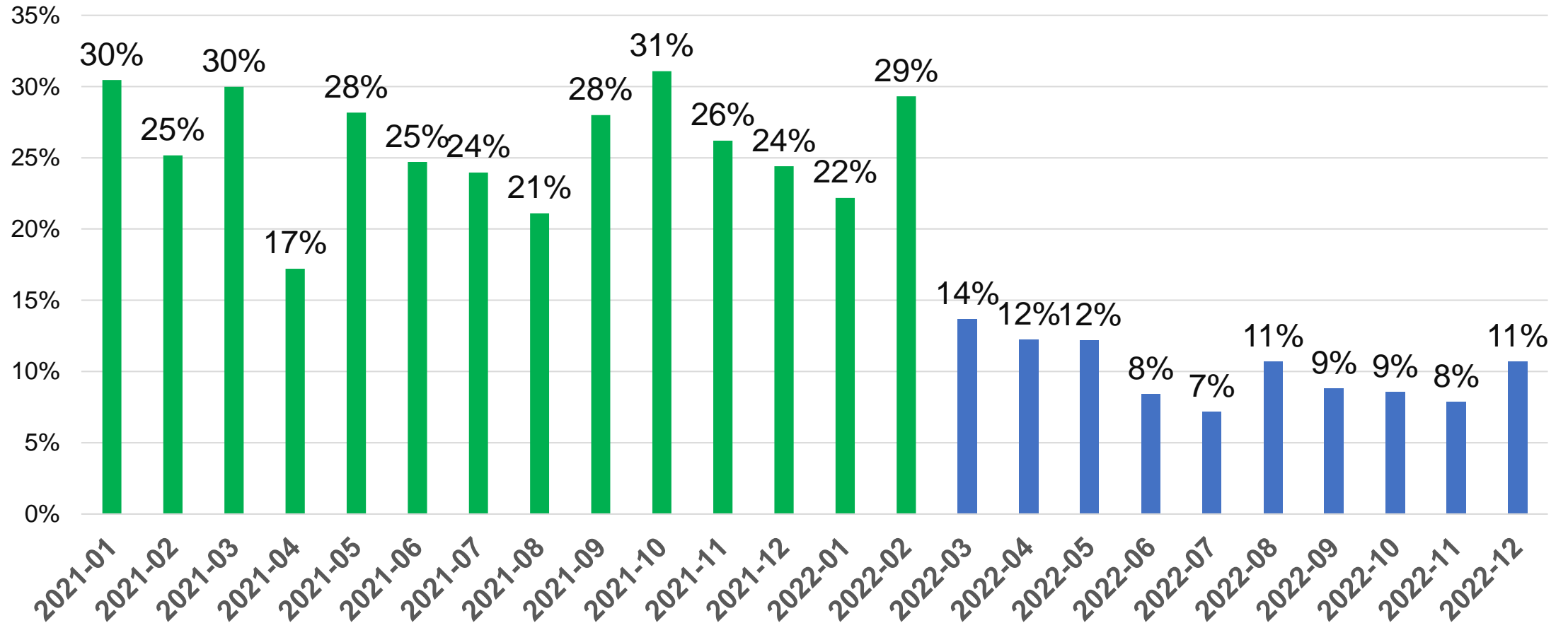
Nearly 20,000 term deposit accounts were opened by Russians since Feb. 2022 – a six-fold increase in the number of accounts



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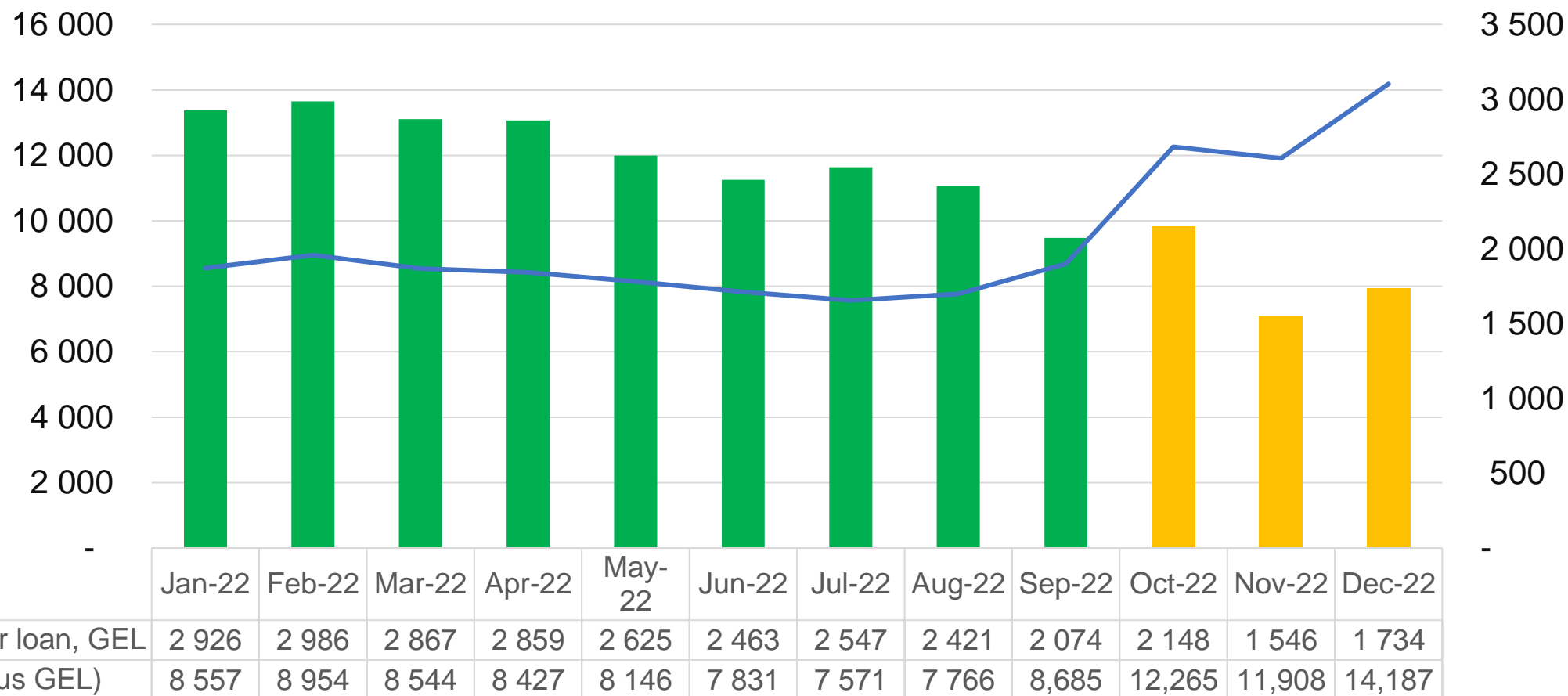
HOWEVER, RUSSIAN CITIZENS HOLD MONEY MOSTLY IN LIQUID DEPOSITS: THE SHARE OF MONEY HELD IN *TERM DEPOSITS* HAS GONE DOWN SIGNIFICANTLY



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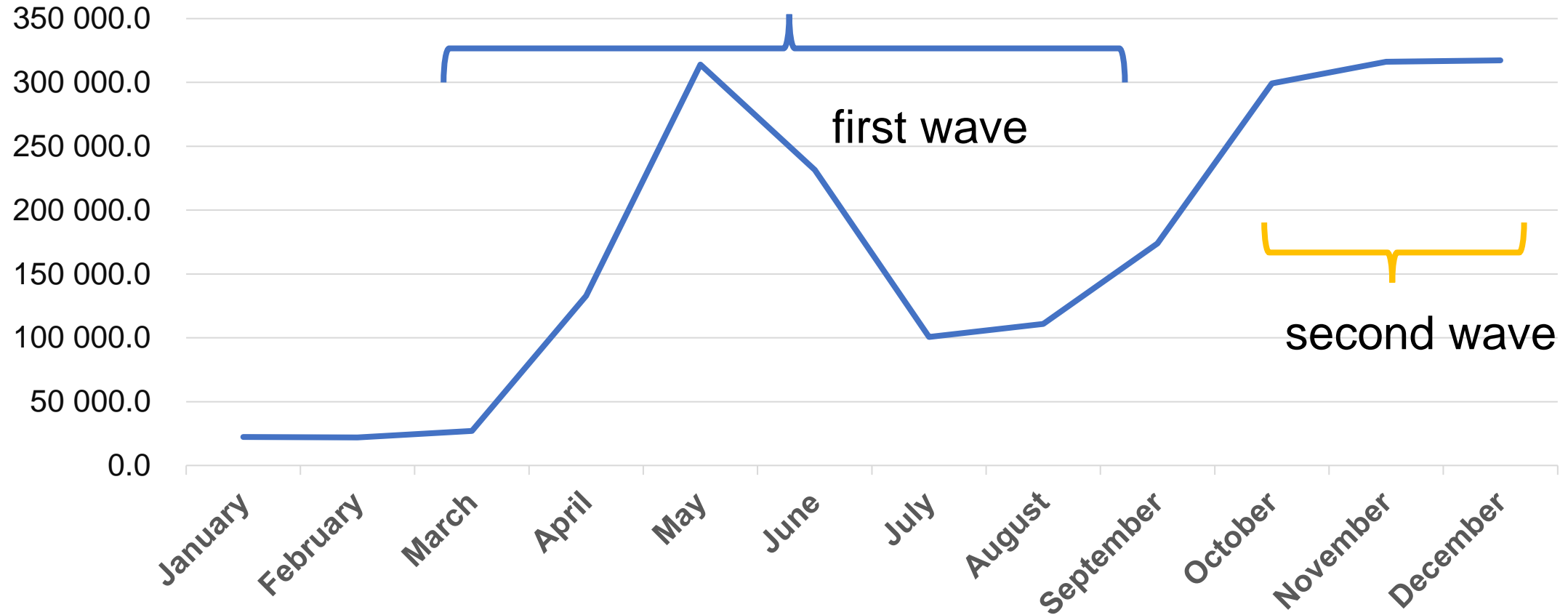
OVER 112 MILLION GEL IN LOANS EXTENDED TO RUSSIAN CITIZENS SINCE JANUARY 2022 – AROUND 22 % OF LOANS TO NON-RESIDENTS



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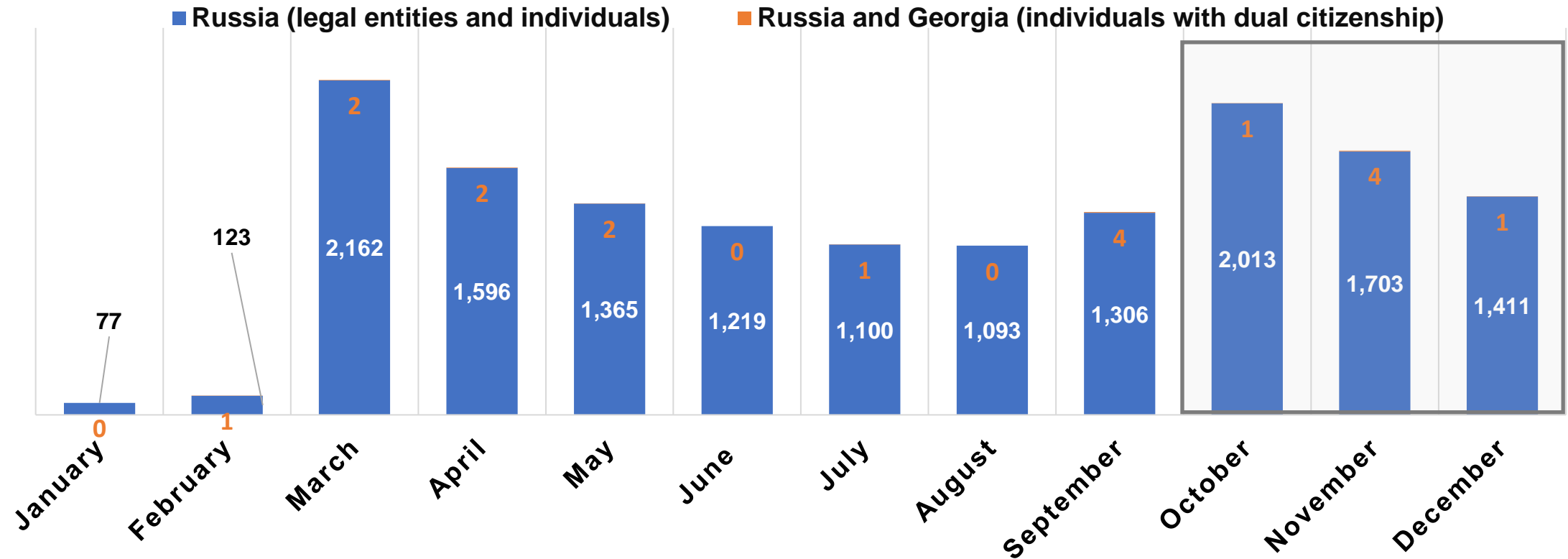
2.1 BILLION USD TRANSFERRED FROM RUSSIA IN 2022, NEARLY HALF OF ALL MONEY INFLOWS INTO GEORGIA – TWO DISTINCT WAVES



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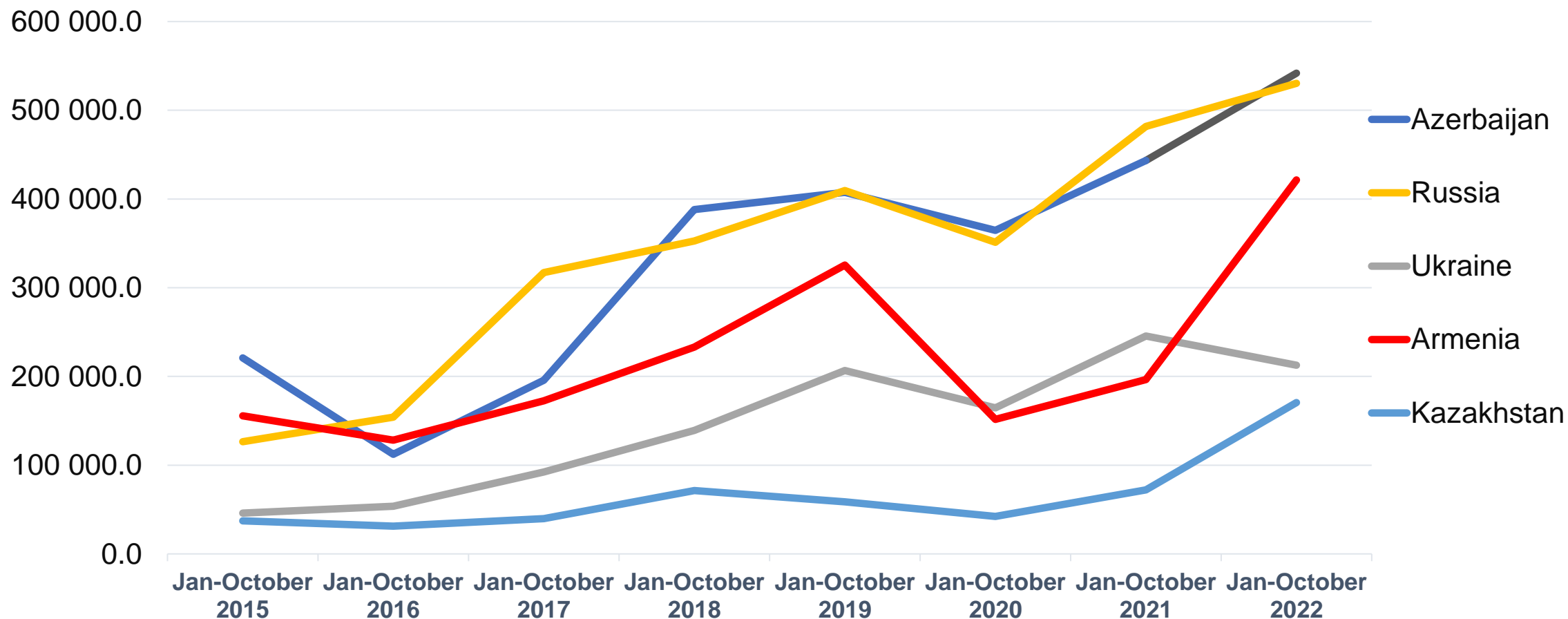
NEARLY 10,000 NEW RUSSIAN COMPANIES WERE REGISTERED IN GEORGIA MAY-SEPTEMBER 2022 – A TEN-FOLD INCREASE FROM THE TOTAL NUMBER REGISTERED IN 2021



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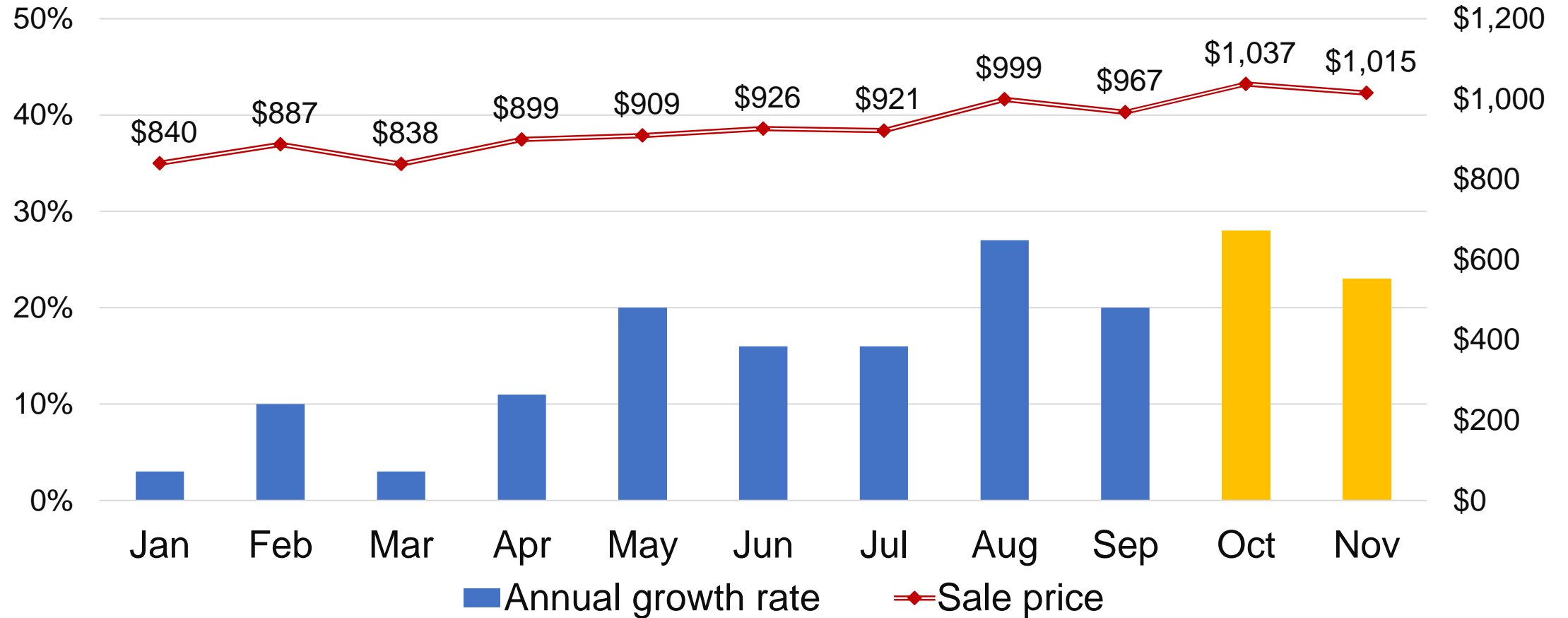
RED FLAG: INCREASED TRADE WITH CIS PARTNERS (ESPECIALLY EURASIAN ECONOMIC UNION): WHAT DOES IT MEAN IN TIME OF SANCTIONS?



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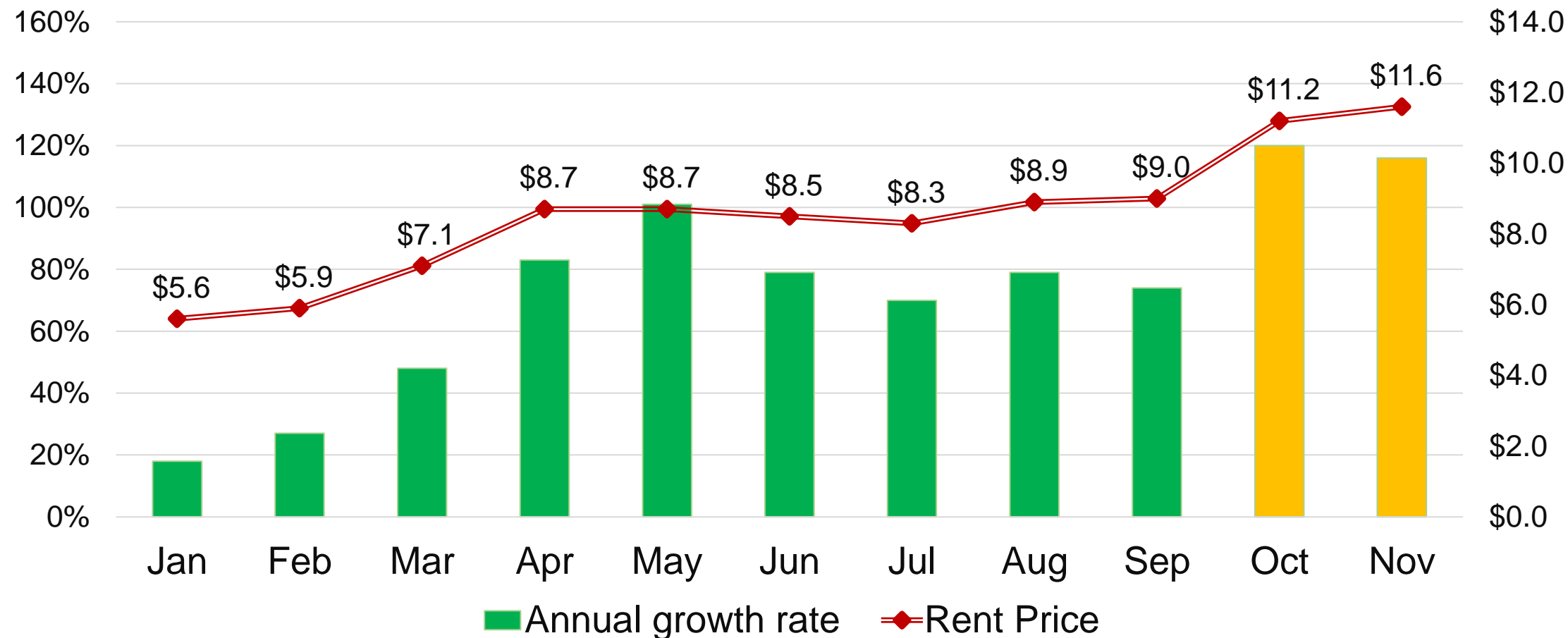
TBILISI REAL ESTATE SALES PRICES INCREASED BY CLOSE TO 30%



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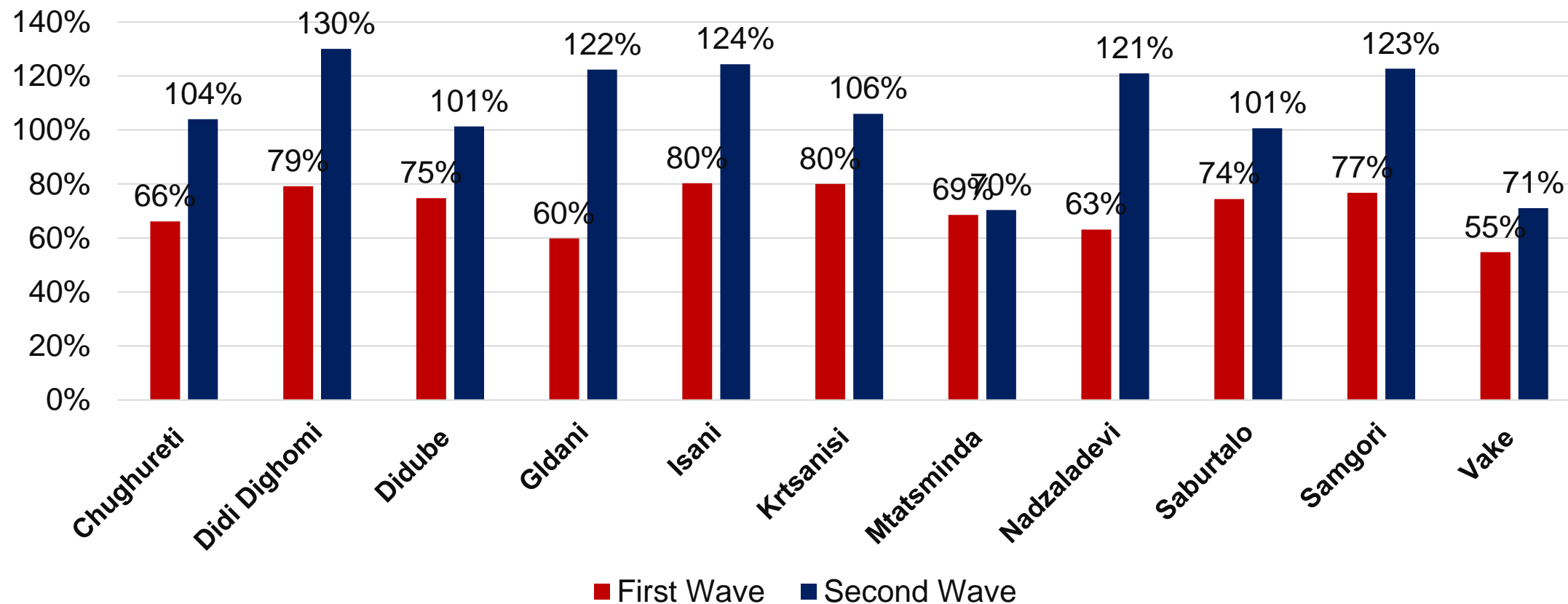
DRAMATIC INCREASE IN RENTAL PRICES – 120% INCREASE IN OCTOBER



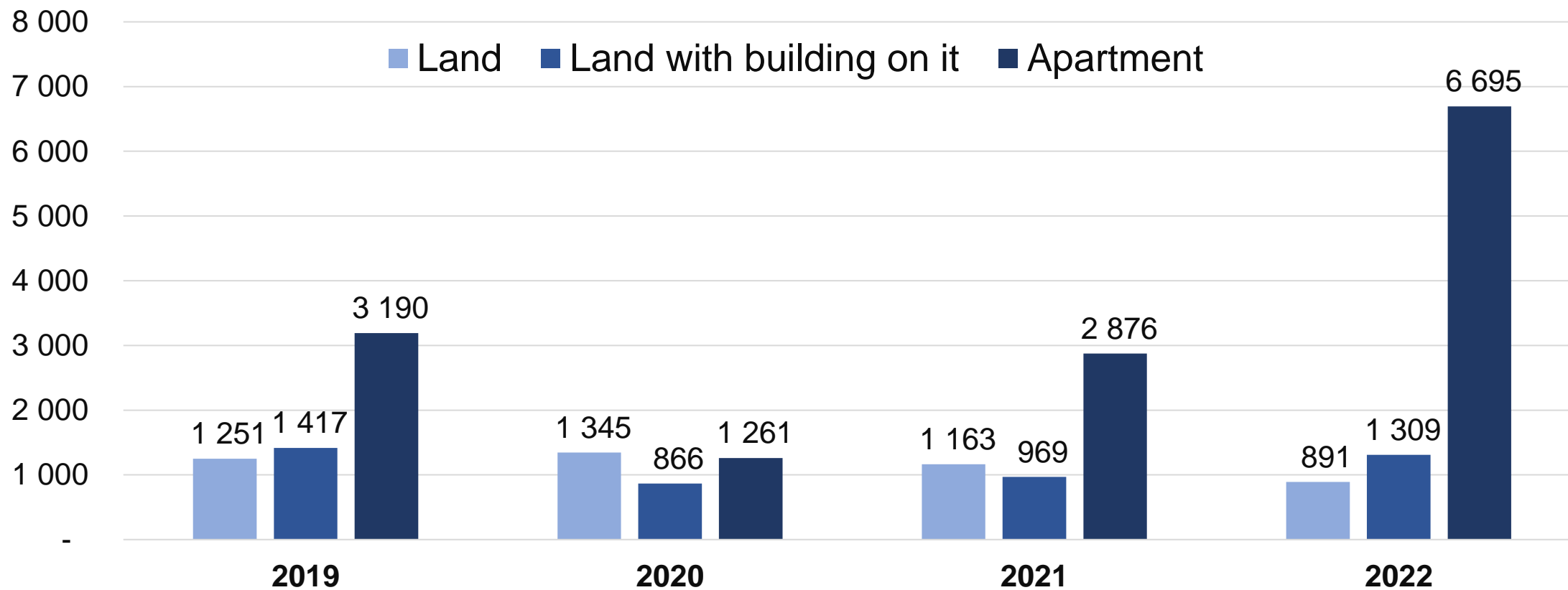
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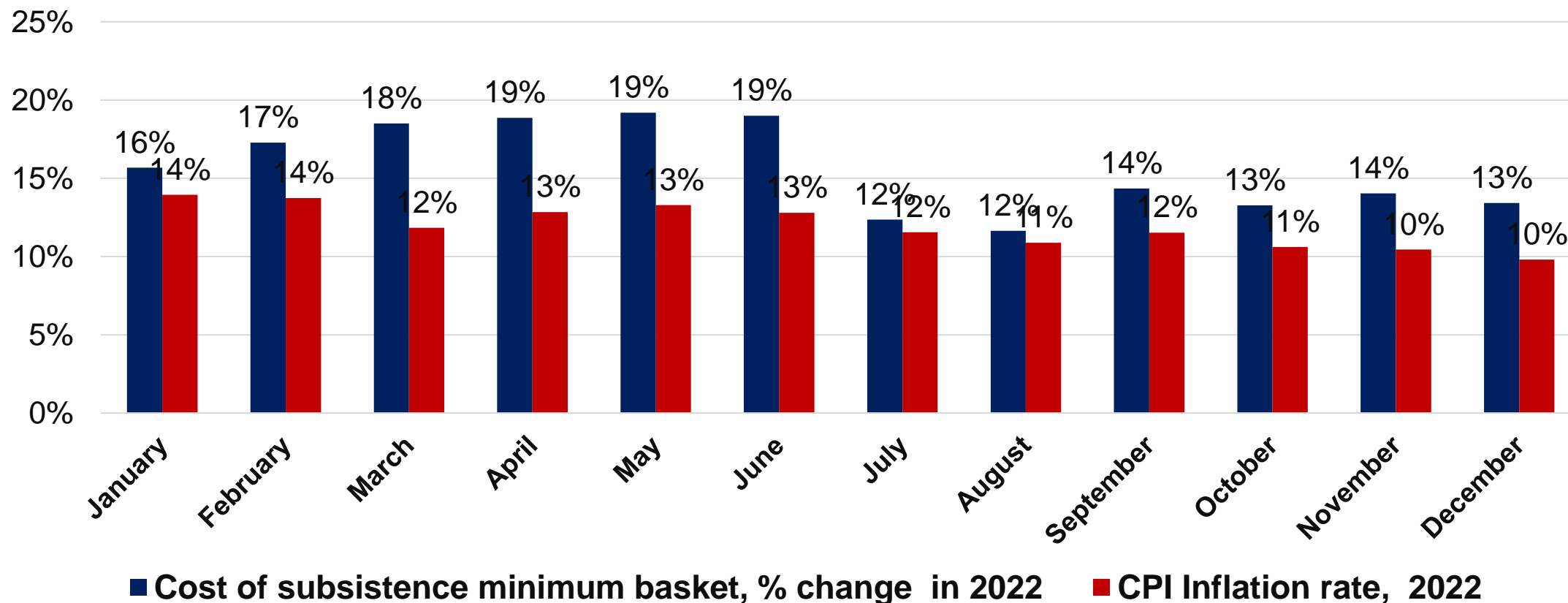
DIDI DIGHOMI, GLDANI, SABURTALO, SAMGORI, CHUGHURETI – RENTAL PRICES INCREASED OVER 100 PERCENT



DRAMATIC INCREASE IN THE REGISTRATION OF OWNERSHIP OF APARTMENTS BY RUSSIAN CITIZENS – MORE THAN TWICE HIGHER THAN IN 2019

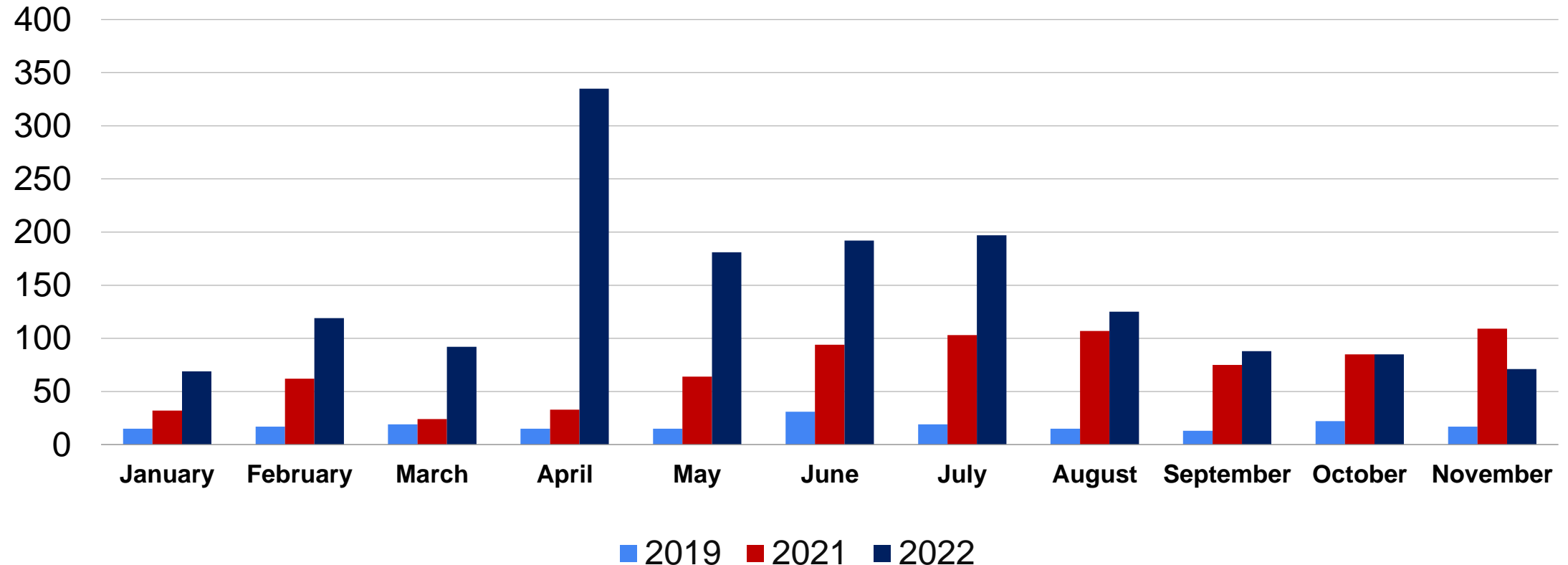


RED FLAGS: COST OF SUBSISTENCE MINIMUM BASKET INCREASED MUCH MORE THAN OVERALL INFLATION IN THE BEGINNING OF THE YEAR, DRIVEN BY FOOD PRICE INCREASES



RED FLAGS: CRIMES IN FINANCIAL ACTIVITIES HAVE SKYROCKETED SINCE BEFORE THE PANDEMIC

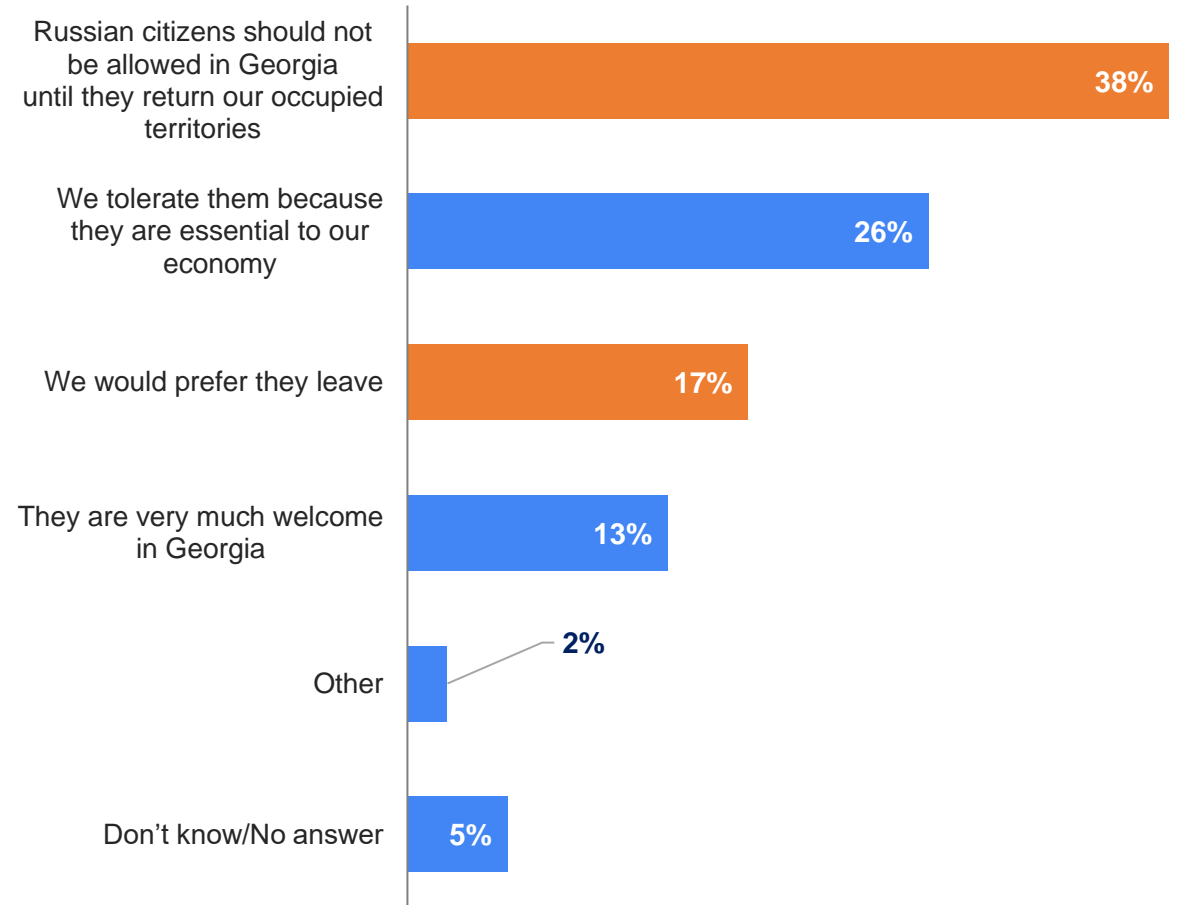
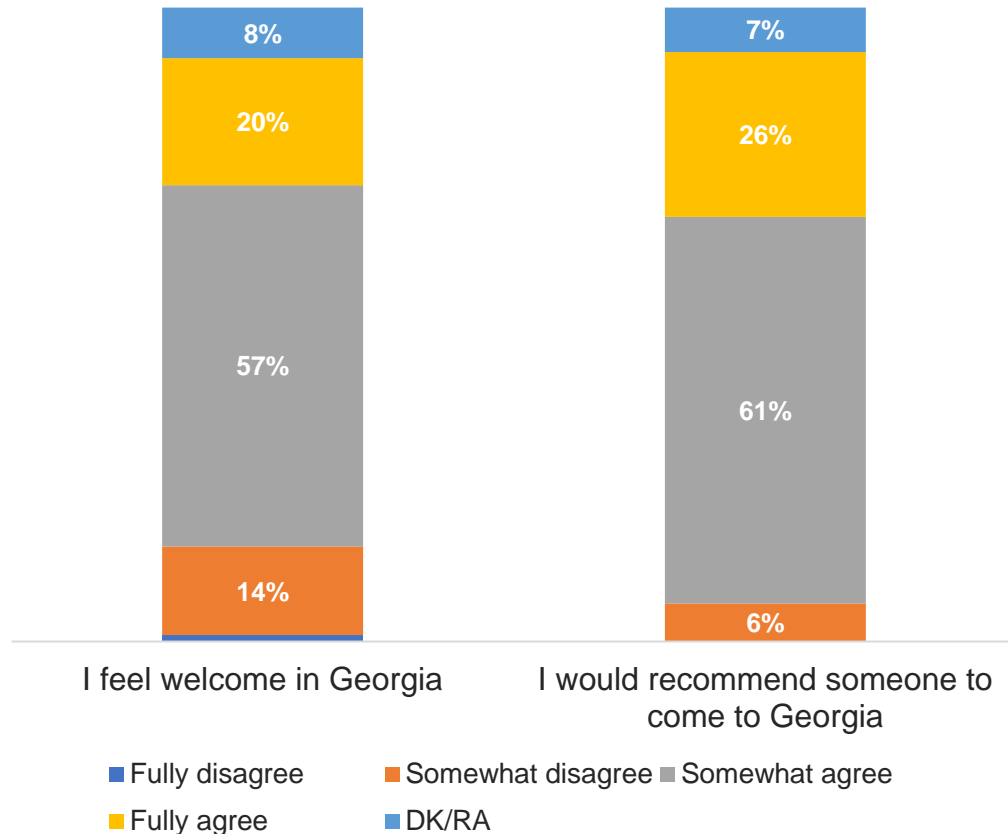
Crime in Financial Activities, Monthly Rates



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DISCONNECT: RUSSIAN AND GEORGIAN PERCEPTIONS ON BEING WELCOME IN THE COUNTRY



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MAIN ECONOMIC RISKS STEMMING FROM MIGRATION, IN THE CONTEXT OF CONTINUED RUSSIAN OCCUPATION OF GEORGIAN TERRITORIES

- Macro risks stemming from higher inflation, high capital inflows and GEL appreciation are expected to subside over this year. However, the risk of the reversal of capital flow from Russia remains.
- Negative impacts particularly on vulnerable population: e.g. rental real estate markets pressure increase on students, young couples, workers migrating from the regions of Georgia to the capital/large cities.
- Business effects are ambiguous: increased competition bring positive effects, but difference in resource base and access to credit may also disadvantage Georgian MSMEs: potential for crowding-out of local businesses.
- Implications for public services and budgets going forward as foreign/Russian citizens with foreign sources of income do not pay an income tax or a property tax.

MAIN ECONOMIC RISKS STEMMING FROM MIGRATION, IN THE CONTEXT OF CONTINUED RUSSIAN OCCUPATION OF GEORGIAN TERRITORIES

- Absence of strategy towards Russian migration: demographic and security risks (e.g. potential weaponization of migrants by the Russian state)
- Education: increasing demand for private Russian-language education in Georgia.
- Potential for escalating social tensions stemming from inequalities brought about the high migrant inflows.

SUGGESTIONS FOR SHORT-TERM ECONOMIC POLICY CONSIDERATIONS

- Georgia developing short and long-term strategy towards (i) existing Russian migration in Georgia and (ii) approach for potential future migration - e.g. considering visa regime/stricter conditions for entry.
- Raising migrants' awareness of Russian damaging actions in Georgia, Ukraine, and the broader region.
- Better monitoring of market activities and capital flow of Russian-owned businesses to reduce risks to economy, including reputational risks in light of Russia's increase international isolation.
- Defining better tax policies towards foreign/Russian migrants – e.g. tax policies targeting property tax, income tax from foreign sources. Preparing for the possibility of Russian capital flow reversals.
- Policy makers should also be cognizant of potential crime and national security threats stemming from the sheer number of migrants in the country. Monitoring financial crimes and strengthening consumer protection in the banking sector of Georgia.



THANK YOU!