

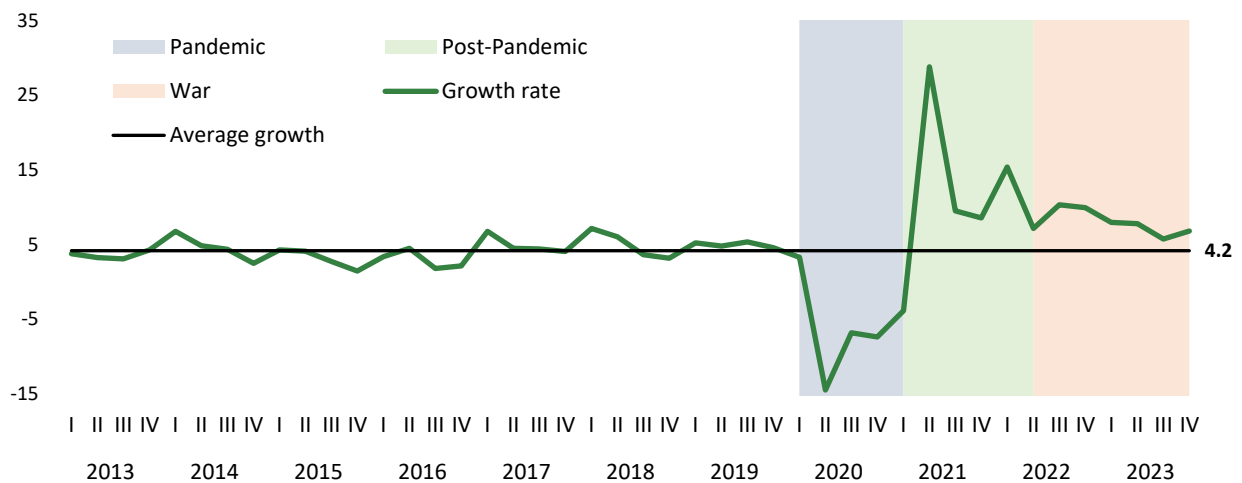
## The Impact of Russia-Ukraine War on Georgia's Economy has Faded Away

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The era of double-digit economic growth in Georgia has come to an end. Following to the 10.4% economic expansion in 2022, average annual growth of Georgia's gross domestic product in 2023 was 7%. It is noteworthy that economic expansion rate was higher in the first half of the previous year as compared to its last two quarters.

The economic growth rate in 2023 mirrored the dynamic of remittances from Georgia in the same period. After outbreak of Russia-Ukraine war, the role of financial capital – in the form of remittances – in the Georgian economy has increased markedly. Remittances serve as a source of foreign funding for the local economy and stimulate consumption, resulting in a better economic growth rate.<sup>2</sup>

**Graph 1: Georgia's Gross Domestic Product Growth (%)**



Source: National Statistics Office of Georgia

One of the major factors behind Georgia's double-digit economic growth in 2022 was the significant increase in remittances from Russia. Conversely, the sharp contraction of these remittances was the most visible reason behind the slowdown in economic growth.

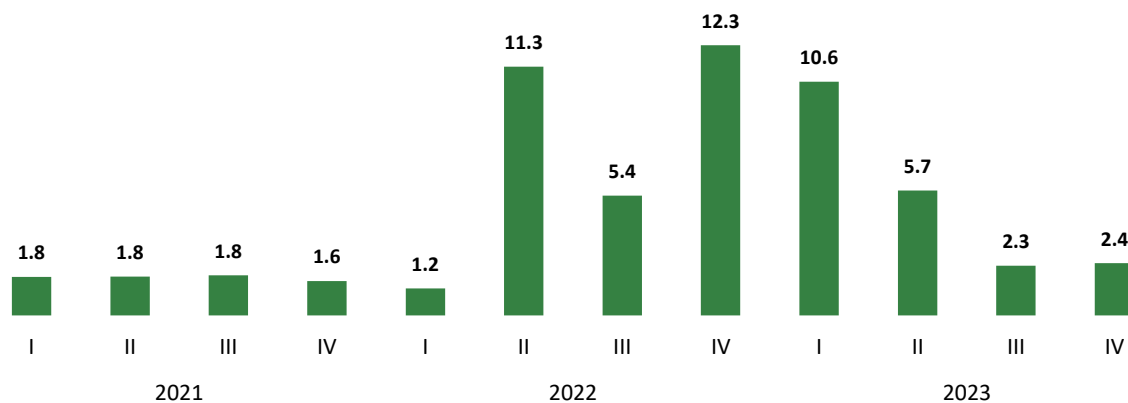
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<sup>2</sup> Cazachevici, A., Havránek, T., & Horváth, R. (2020). Remittances and economic growth: A meta-analysis. World Development, 134, 105021. <https://doi.org/10.1016/j.worlddev.2020.105021>

The growth of net remittances to Georgia is connected to the Russia-Ukraine war, specifically the mass migration from Russia during that period. Apparently, receiving additional human capital from another country has a positive effect on economic development in both the short-term and long-term perspectives.

Migration's positive impact on long-term economic development is evident in the improvement of the labor market. After the outbreak of the war, individuals who managed to escape from Russia were comparatively wealthier and more qualified, with some choosing to relocate to Georgia. Therefore, a more qualified labor force translates to increased production, and a larger population with income leads to higher consumption. Qualified migrants with diverse skills contribute added value<sup>3</sup> to the host country's human capital and drive technological progress.<sup>4</sup>

**Graph 2: Net Remittances from Russia to GDP Ratio (%)**



*Source: National Bank of Georgia, National Statistics Office of Georgia, author's calculations*

Regarding the short-term effects of migration, they have already been evident through the channel of net remittances in the 2022 economic growth rate. During the same period, the economy expanded by 10.4%, with the amount of net remittances from Russia being 6.3 times larger compared to the previous year. In 2022, the total monetary resources attracted from Russia as remittances reached USD 2,026.6 billion.

<sup>3</sup> Dolado, J. J., Goria, A., & Ichino, A. (1994). Immigration, human capital and growth in the host country. *Journal of Population Economics*, 7(2). <https://doi.org/10.1007/bf00173619>

<sup>4</sup> Hunt, J., & Gauthier-Loiselle, M. (2010). How much does immigration boost innovation? *American Economic Journal: Macroeconomics*, 2(2), 31–56. <https://doi.org/10.1257/mac.2.2.31>

However, the dynamics of financial flows became sluggish in the following year. In 2023, the amount of net remittances from Russia was USD 1,482.2 million, which is 26.8% less than in 2022. The trend of declining remittances became evident from the second half of the year. For instance, in the first quarter of 2023, the net remittances from Russia amounted to USD 668.9 million, whereas in the last quarter, it was merely USD 194 million.

Therefore, the slowdown in the economic growth rate in the last year can be largely explained by the shrinking net remittances from Russia. The drop in remittances, in turn, is related to two major factors: the outflow of migrants from Russia and the sharp depreciation of the RUB.

According to the National Statistics Office of Georgia, the number of migrants from Russia amounted to 56,400 in 2022. However, as per the Ministry of Internal Affairs' report, by the end of the year, the number of Russian nationals living in Georgia was 31,000 less compared to their number at the beginning of the year. The trend of Russian nationals leaving Georgia became particularly apparent in the second half of 2023. Overall, at least half of those Russian nationals who came to Georgia after the war have left the country. Currently, approximately 25,000 people from those migrants who crossed the border from Russia continue to stay in Georgia.

On the other hand, the well-being of those migrants whose incomes were in RUB has deteriorated. Compared to the beginning of 2023, the Russian currency lost 30% of its value against the USD by the end of the year, while the RUB also depreciated against GEL by 28%.

Eventually, the outflow of Russian nationals from Georgia and the depreciation of the RUB were most clearly reflected in incomes received in the form of remittances from Russia. As a result, since the second half of 2023, Georgia's economic growth trajectory started to deviate towards its normal historical rate.