

The Impact of the Russia-Ukraine War on the Information Technology Sector

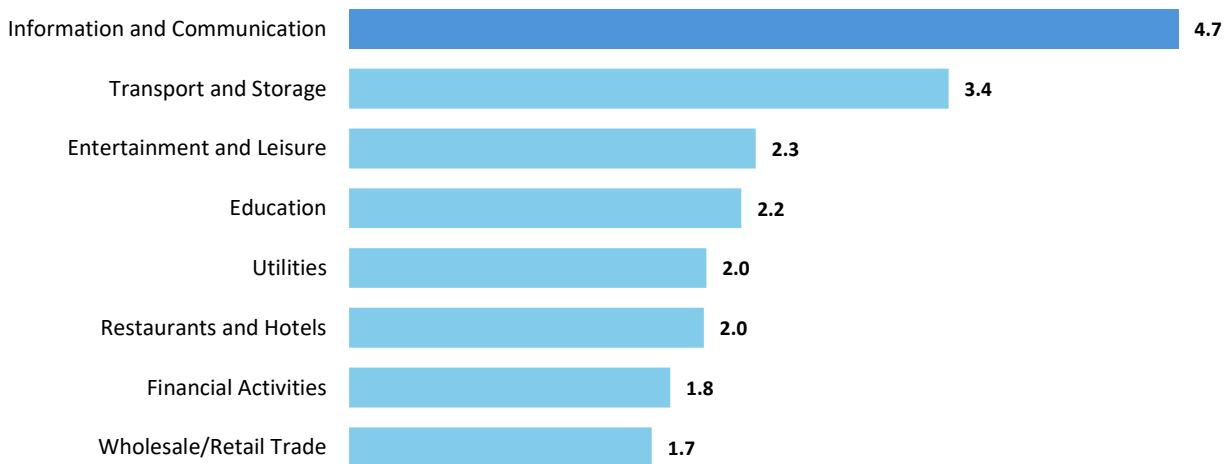
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In Georgia, exports of services exceed imports, unlike trade in goods. In 2024, Georgia exported services worth 7,699.9 million USD, reflecting an annual increase of 9.2%, while imports during the same period totaled 3,822.9 million USD, with an annual increase of 5.6%.

The surplus in trade in services is largely driven by tourism, which plays a dominant role in service exports, contributing more than half of the total. However, the computer and information services sector also makes a significant contribution to exports, with these services comprising a major part of the information technology industry.

The information technology sector in Georgia is growing rapidly compared to other areas of the economy. While many sectors have nearly doubled in size over the past decade, the real output in the information technology sector has expanded 4.7 times.

Graph 1: Real Growth of the Sectors of the Economy in 2015-2024 (times)



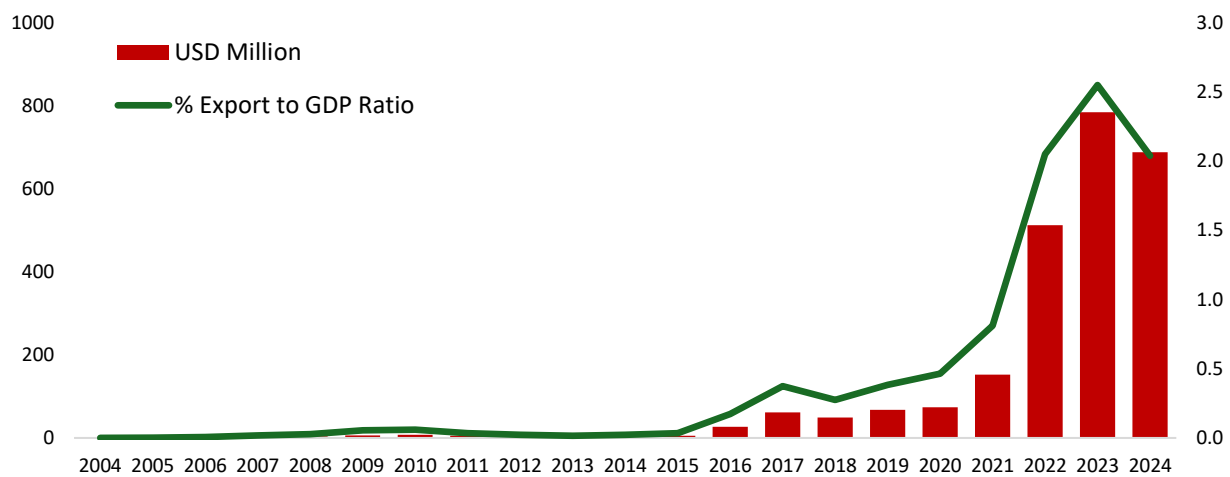
Source: National Statistics Office of Georgia

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During this period, the information technology sector employs approximately 30,000 working-age individuals. According to estimates, 70-75% of those employed in the sector are foreign nationals, and more than 80% of the capital is foreign.² A significant portion of the wealth generated by the sector is exported.

Over the past decade, the export of information technology services has grown substantially. This growth can be attributed to Georgia's low tax burden and affordable labor costs compared to developed economies. As a result, it is highly advantageous for companies from developed countries to source information technology services from Georgia.

Graph 2: Export of Computer and Information Services



Source: National Bank of Georgia; International Monetary Fund

Since 2020, Georgia has implemented an export-oriented preferential tax treatment³ for information technology and a foreign investment support program.⁴ These fiscal policies have created a more

² Galt & Taggart. (2024). IT Sector in Georgia. Galt and Taggart.

https://api.galtandtaggart.com/sites/default/files/2024-05/report/it-sector-in-georgia_may-2024_eng.pdf

³ Companies that earn at least 98% of their annual revenue from exporting information technology services abroad are eligible for substantial tax benefits. Dividend distributions and property from such companies are exempt from taxes, while distributed profits and wages are taxed at just 5% (compared to the standard 15% and 20%).

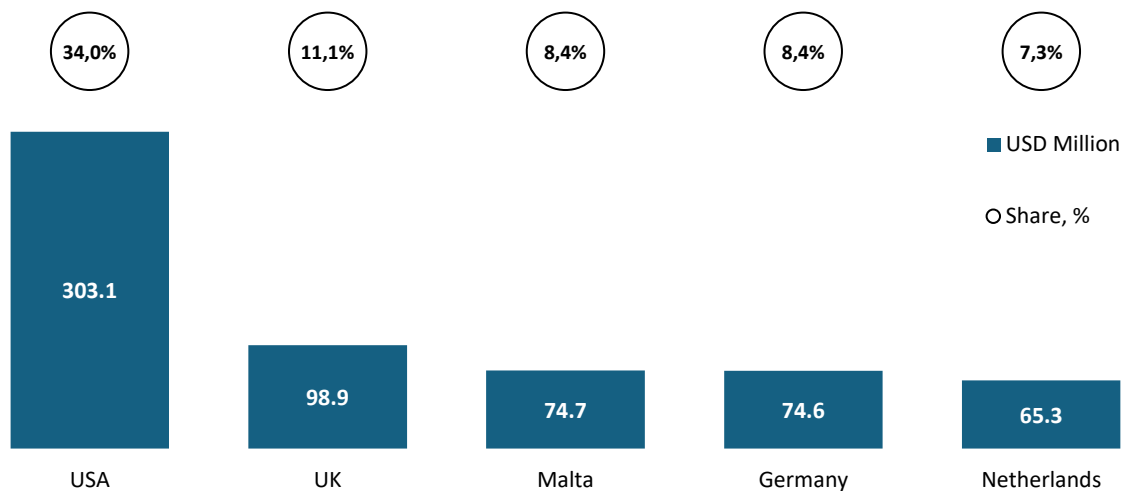
⁴ Export-oriented companies established with foreign capital are eligible for a 15% reimbursement of capital expenditures.

favorable environment for companies and labor forces focused on exporting computer and information services.

Additionally, since 2022, a significant factor in the rapid expansion of production and exports in computer and information services has been migration to Georgia following the Russia-Ukraine war. This period saw an influx of skilled labor, particularly from Russia, with many migrants employed in the information technology sector.⁵

As a result of these factors, exports of computer and information services increased by 235.2% in 2022 and by 53.2% in 2023. Consequently, the total value of exports reached 784.4 million USD by 2023.

Graph3: Export of Telecommunication, Computer and Information Services, 2023



Source: National Statistics Office of Georgia

The primary destination for services provided by the Georgian information technology sector is the American market. In 2023, the value of exports to the US reached USD 303.3 million, accounting for 34% of total exports. Computer services are the leading export from Georgia to the US, not only in the services sector but across all categories of trade.

⁵ Shilagadze, G. (2023) Life of Russian Emigres in Georgia. In CRRC. CRRS Georgia. https://crrc.ge/wp-content/uploads/2024/02/ned-russians-report-v3_geo.pdf

The sharp increase in computer services exports in the post-war period was largely driven by one company, EPAM Systems Georgia, whose revenues accounted for 35.2% of the value of computer services exports.

However, since the second half of 2023, the real growth rate of the information and communication sector has slowed. In 2024, exports of computer and information services decreased by 12.3%. The primary reason for this decline was the departure of some migrants who had arrived in Georgia after the war. The outflow of migrants began in the second half of 2023, and by the beginning of 2024, at least half of those who had arrived had left the country.⁶ This trend is highlighted by EPAM Systems Georgia, a major employer of migrants and a leading exporter of computer services. At the end of 2022, the company employed more than 5,000 people; by the end of 2023, this number had decreased to 3,500. According to the company's management report, the reduction in employees was due to the re-emigration of individuals who had arrived during the Russia-Ukraine war and were initially employed by the company⁷.

After the outbreak of the Russia-Ukraine war, exports of computer and information services from Georgia increased significantly. This surge can be attributed to the influx of migrants, many of whom were information technology specialists. Their arrival in Georgia and their continued activity directly contributed to the sector's growth. This process was preceded by substantial tax incentives for export-oriented information technology companies and their employees. As a result, the favorable tax environment aligned with the effects of the war.

However, in the following period, some of the migrants left Georgia, leading to a decrease in the export of computer and information services. If the re-emigration of the skilled workforce continues, the source of expansion for the information technology sector may diminish. This would likely result in a decline in the growth of computer and information service exports.

⁶ Shamugia, E. (2024). The Impact of Russia-Ukraine War on Georgia's Economy has Faded Away. In Gnomon wise. <https://gnomonwise.org/public/storage/publications/February2024/pfW7trrYr2QzFBA8cYno.pdf>

⁷ For more details please see financial and management reports of the EPAM Systems Georgia. Accessible at: <https://reportal.ge/ka/Reports/GetFile/71524>