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# The Impact of Labour Migration on the Ukrainian Economy

Jerzy Pieńkowski

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Jerzy Pieńkowski

## Abstract

This paper reviews evidence on the main economic impacts of the post-2014 wave of labour emigration on the economy of Ukraine, based on an overview of international and Ukrainian studies and surveys. Emigration reduces labour supply and pushes up wage growth for workers who stay in the country; one of the issues of concern is a skills waste – most of Ukrainians abroad work outside their qualifications or in very simple jobs. The main benefit for the Ukrainian economy is linked to an inflow of remittances equivalent to 8% of GDP. Remittances significantly improve the welfare of migrants' families and stimulate domestic demand, pushing up the GDP in the country and playing a counter-cyclical role. A stable and substantial inflow of remittances contributes to a more sustainable balance of payments, counterbalancing permanent trade and investment income deficits. The impact of emigration and remittances on Ukraine's public finance is mixed: remittance inflows lead to increased VAT, excise and customs revenues, while reduced labour supply diminishes revenues from labour taxes and social security contributions in Ukraine. The policy recommendations for the Ukrainian authorities include encouraging migrants, especially the skilled ones, to invest in, and return to, their home country; creating a more attractive business environment for this purpose (and beyond); a better use of the workforce remaining in the country through stimulating employability; improving social aspects of the Ukrainian migration, especially encouraging higher social security coverage of migrants.

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**Keywords:** migration, remittances, welfare, labour market, Ukraine, economy, balance of payments.

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**Contact:** Jerzy Pieńkowski, European Commission, Directorate-General for Economic and Financial Affairs, [jerzy.pienkowski@ec.europa.eu](mailto:jerzy.pienkowski@ec.europa.eu).



# CONTENTS

1.	Introduction.....	5
2.	The economic impact of migration on sending countries: a survey of the literature.....	6
2.1.	The macroeconomic impact of remittances.....	6
2.2.	The direct impact of migration on labour markets.....	8
3.	Key facts on Ukrainian labour migration.....	11
4.	The Impact on Ukraine's Economy.....	14
4.1.	Inflow of remittances.....	14
4.2.	Impact of remittances on households' incomes.....	16
4.3.	Impact on domestic demand and output.....	17
4.4.	Impact on Ukraine's labour market.....	18
4.5.	Fiscal Impact.....	19
4.6.	Impact on external sustainability.....	20
5.	Conclusions and policy recommendations.....	23

## LIST OF GRAPHS

1.	Main countries of residence of Ukrainian labour migrants.....	12
2.	Number of residence permits for remunerated activities for third country nationals in the EU, by citizenship .....	13
3.	Inflow of personal remittances to Ukraine, 2009-2018.....	14
4.	Remittances to Ukraine by country, 2018.....	15
5.	Inflow of remittances to EU Neighbourhood countries, 2019 estimate.....	15

6.	Average monthly salaries in Ukraine and main migration destinations.....	19
7.	Remittances and other foreign exchange inflows to Ukraine.....	20
8.	Remittances and other items of Ukraine's current account .....	21

## LIST OF BOXES

1.	How remittances flows are measured.....	16
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REFERENCES.....	26
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# 1. INTRODUCTION

Labour emigration has been a prevalent phenomenon in Ukraine since the country's independence in 1991. The number (stock) of Ukrainian workers now living abroad is estimated at between 2.2 and 2.7 million, equivalent to 13-16% of total employment in Ukraine. After the 2014 armed conflict in eastern Ukraine, the total number of Ukrainian migrant workers remained broadly similar, but the main destination countries have changed, with the majority of migrants now heading to EU countries, especially Poland, instead of Russia. The recent outbreak of coronavirus will certainly reduce the number of temporary labour migrants from Ukraine in 2020 and the inflow of remittances, but it is too early to assess its magnitude.

The economic literature describes two main channels through which labour migration affects the economies of the countries that send them. The first channel relates to an inflow of remittances from migrants working abroad; the second one works through changes in the domestic labour market and human capital. Both these channels can be observed in Ukraine and bring a combination of benefits and costs for the country. The impacts are complex and not always easy to assess.

This paper reviews the existing evidence on the main economic impacts of the post-2014 wave of labour emigration on the economy of Ukraine, based on an overview of the existing international and Ukrainian studies and surveys. Section 2 examines the recent international literature on the economic impacts of migration for sending countries. Section 3 provides key facts on Ukrainian labour migration – its size, features and destination countries. Section 4 analyses the main economic impacts of labour migration on the Ukrainian economy, including its effects on household income, growth, the labour market, public finances and external sustainability. The final section draws the main conclusions and puts forward some recommendations on how Ukraine could adjust its policies to improve the benefits and limit the costs associated with its large outflow of labour migration.

## 2. THE ECONOMIC IMPACT OF MIGRATION ON SENDING COUNTRIES: A SURVEY OF THE LITERATURE

### 2.1. THE MACROECONOMIC IMPACT OF REMITTANCES

Remittances are defined as ‘household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies’. Remittances include money flows through formal channels, such as bank transfers, or through informal channels, such as cash or goods carried across borders. (IMF 2009)

Remittance flows to low- and middle-income countries worldwide are estimated at USD 550 billion in 2019.<sup>1</sup> According to World Bank calculations, inflows of remittances represented more than 10% of GDP<sup>2</sup> in 29 countries around the world, including seven European Neighbourhood countries (Armenia, Georgia, Jordan, Lebanon, Moldova, Palestine<sup>3</sup>, Ukraine). Remittances are one of the main sources of foreign currency for developing countries. In 2018, they were more than three times higher than the inflow of official development aid (ODA) and, for the first time, higher than the inflow of foreign direct investment (FDI) (World Bank Group 2018).

Remittances bring both benefits and costs for the economies of the countries sending migrants. One of their uncontested benefits is improvement in the welfare of migrants’ families, lifting many of them out of poverty and insuring against income shocks. This is of particular importance in the socio-economic context of many low-income countries, where social services, pensions, insurance and financial markets are often inadequate or underdeveloped. An additional gain comes from the fact that remittances can be spent at lower, developing-country prices, so their purchasing power is actually higher (Kapur and McHale 2012).

The impact of remittances on economic growth in the country receiving them depends on their end use: whether they fund consumption or investment. The anecdotal evidence quoted in Chami et al. (2008) shows that recipients use the majority of remitted funds for family consumption and residential investment rather than for investment in businesses or other productive assets. However, an econometric analysis of the impact of remittances in Central and Eastern Europe by the IMF (2016) concluded that remittances may lead to an increased domestic investment rate, especially if financial constraints are significant. In these countries, remittances played an important role in financial deepening (measured as the share of private credit or deposits in GDP) as well as in supporting private sector activity. Remittances contributed to an easing of collateral constraints and decreasing lending costs for entrepreneurs, which stimulated private investment (IMF 2016).

Revenues from remittances – funding both consumption and investment – increase demand for both tradable and non-tradable goods. Part of this demand is directed towards domestic goods and therefore stimulates domestic output; another part of remittances is spent on imported goods, which deteriorates the trade balance.

Remittances, if they are large enough, usually help to reduce economic fluctuations in remittance-receiving countries. There are two main factors that affect the amount of remittances sent by labour

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<sup>1</sup> The World Bank’s remittances database:  
<https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

<sup>2</sup> The World Bank’s estimates of the inflow of remittances are frequently higher than the estimates by the central banks of the countries receiving remittances, for instance for Ukraine – see box on p. 16.

<sup>3</sup> This designation does not entail any recognition of Palestine as a state and is without prejudice to positions on the recognition of Palestine as a state.

migrants. On the one hand, migrants wish to compensate the households to whom they send remittances for having left them behind ('compensatory remittances'). On the other hand, the amounts of remittances depend on the economic cycles in the countries in which migrants work, as these have an impact on employment opportunities and salaries ('opportunistic remittances'). The evidence in Chami et al. (2008) suggests that remittances tend to be compensatory rather than opportunistic: they are sent to compensate their recipients for income shortfalls to a larger extent than to take advantage of higher salaries and better jobs when the economies receiving migrants are booming. Therefore, remittances tend to play a counter-cyclical role in the countries of origin. There is even evidence that migrants increase their remittances when their countries of origin go through difficult economic conditions or experience a natural disaster. Remittances act as a sort of informal social safety net or insurance, alleviating poverty and providing migrants' families with essential support in times of hardship in the home country (Temprano Arroyo 2019). The situation may differ in countries where temporary or seasonal migration prevails, where the demand for foreign labour and hence remittance flows are more dependent on the economic situation in the country receiving migrants.

Inflows of remittances can increase the government tax revenues both directly and indirectly. The literature underlines that remittances should not be taxed directly and that consumption-based taxation provides the optimal incentive structure for maximising the benefits of remittances (Chami et al. 2008). In addition, under consumption taxation, the presence of remittances usually has a countercyclical effect on the tax base (through consumption-smoothing). Remittances therefore reduce the volatility of tax revenues. Through an increased and less volatile revenue base, remittances can also lead to reduced country risk and lower debt servicing costs. In this way they can help to improve the sustainability of public debt.

The literature also finds that remittances have a positive impact on financial development; the resulting financial deepening tends to improve the growth responsiveness of remittances (Temprano Arroyo 2019). Studies that examine the impact of remittances on health and education show largely positive results, while the impact of remittances on inequality in the countries receiving remittances are mixed.

There are two main negative macroeconomic consequences associate with remittances. The first relates to the impact of remittances on real exchange rate appreciation; while the second relates to questions of moral hazard, as remittances can lead to changes in the economic behaviour of recipients.

Remittance inflows frequently lead to real exchange rate appreciation in the countries receiving them through a Dutch disease mechanism. In a similar way to inflows of revenues from a natural resources boom or substantial foreign aid, an inflow of remittances increases aggregate demand (Barajas et al. 2010). As prices of tradable goods are given exogenously, increased demand leads to higher relative prices of non-tradable goods (spending effect) and to a reallocation of resources towards non-tradables (resource movement effect) (Acosta et al. 2009). This, in turn, may increase wages in the whole economy and weaken the competitiveness of the domestic tradable sector. Real exchange rate appreciation may also have positive effects: it reduces the value of foreign currency debt expressed in domestic currency and may reduce the public and private debt-to-GDP ratio, as well as facilitate debt servicing.

A number of studies suggest that an increase in remittances is indeed positively correlated with real exchange rate appreciation. Acosta et al. (2009) applied a general equilibrium model and empirical analysis for the economy of El Salvador and confirmed that large flows of remittances to this country (around 16% of GDP) led to real appreciation through the Dutch disease phenomenon. Also, a more recent econometric analysis by the IMF (2016) points to a significant and positive relationship between remittance inflows and the appreciation of the real effective exchange rate: a 1 percentage point increase in the remittance-to-GDP ratio leads to an appreciation of the real effective exchange rate by 4%. This has been associated with lower competitiveness in the tradable sector, reducing the relative importance of this sector in sending countries.

Another channel through which remittances may harm economic growth is moral hazard: recipients may modify their behaviour because they receive remittances anyway. In particular, remittances alleviate the financial constraints of households and increase reservation wages (the lowest wage rate at which a worker is willing to accept a job). This leads to a higher inactivity rate and lower labour supply (IMF 2016), which increases labour costs for companies. There is also moral hazard in terms of investment: recipients of remittances tend to choose riskier investment and spend less on their existing investment projects, leading to an increased dispersion of investment returns and hence an increase in output volatility (Chami et al. 2008).

To sum up, the impact of remittances on the economy of countries sending migrants is mixed. Remittances have a positive impact on the welfare of the households receiving them and reduce poverty; they weaken economic fluctuations and increase the government revenue base. On the negative side, remittances may weaken the competitiveness of domestic economies through real appreciation of their currencies, and through moral hazard leading to higher labour costs. The empirical studies on the link between remittances and growth are inconclusive; some suggest a positive relationship, others a negative one. Reviews of these studies by Clemens and McKenzie (2018) and Temprano Arroyo (2019) point to a number of methodological problems in detecting this effect through econometric analysis, including reverse causality and measurement difficulties.

## 2.2. THE DIRECT IMPACT OF MIGRATION ON LABOUR MARKETS

The understanding of the economic impacts of labour migration has changed in recent decades. In the traditional, neoclassical growth model, labour is considered as one production factor (together with capital) which moves to countries and places where it is scarcer and where its remuneration is higher.

Emigration reduces labour supply and hence potential output in the sending countries. Reduced labour supply pushes up wages for workers who stay behind, which eventually should lead to convergence in incomes per capita between countries (World Bank 2009). This upward wage effect in sending countries is particularly prevalent when labour markets in the countries sending emigrants are tight and the departing workers cannot be easily replaced by new ones. The situation is different when a substantial pool of unemployed workers exists and filling the vacancies is easy. In this case, emigration does not have a visible effect on wages. Both these situations – tight labour markets or markets with surpluses of unskilled labour – exist across the countries and regions of the world (Katseli 2006). In addition, as mentioned in Section 2.1, remittances lead to higher inactivity rates and lower labour supply.

Empirical studies confirm that emigration indeed increases wages in the sending countries. An overview of studies in OECD (2011) concludes that a 10% increase in emigration leads to a 2% to 6% increase in wages. The IMF (2016) found that in some countries, for instance in Albania, Croatia and Estonia, emigration – especially of skilled workers – was the main factor contributing to increases in domestic wages.

While the neoclassical approach focuses on labour supply and salary costs, more recent approaches to migration based on endogenous growth theory and new economic geography underline the importance of skills, networks and agglomerations as factors affecting migration. Endogenous growth theories focus on the role of human capital, innovation and knowledge spillovers for total factor productivity. Economic geographers underline the role of agglomerations as sources of innovation and growth, thanks to knowledge spillovers, better matching between workers and firms on the local labour market, and sharing of local infrastructure (Crescenzi and Rodríguez-Pose 2011). Unlike unskilled labour and capital, skilled labour earns higher economic returns where it is abundant, not scarce. This explains the rising number of skilled migrants and entrepreneurs moving to leading areas in wealthy countries; agglomeration becomes the main driver of both international and internal migration (World

Bank 2009). This approach to migration is, however, less relevant when migrants are mostly low-skilled, as is the case for Ukrainian emigrants (see Section 3).

As regards the impact of migration on unemployment, some studies suggest that emigration relieves unemployment in sending countries. The argument is that many labour migrants come from the rank of unemployed or are substituted by unemployed. For instance, Prymachenko et al. (2013) found that emigration from the new Member States of the European Union during the period 2000 to 2007 had a significant impact on the decline in unemployment observed in these countries. The possibility to replace migrants by unemployed people is, however, limited due to skills mismatch. Emigration is also frequently a regional phenomenon – emigration from certain regions does not necessarily reduce unemployment in other regions of the country, although barriers to mobility within countries are usually lower than they are between countries and some rebalancing may take place.

The outflow of labour has a largely negative impact on the public finances of sending countries, which counterbalances the positive impact of remittances on the budget. Sending countries incur costs for the provision of public education to their inhabitants; this investment in human capital is ‘lost’ for the country if people decide to emigrate.<sup>4</sup> Emigrants do not pay labour taxes or social security contributions in their home country, although they also do not use public services in the country of origin. Moreover, emigration deteriorates the age dependency ratio for the sending country, as most migrants are young people of working age.

One of the most contested issues in migration literature concerns the economic impacts of emigration of high-skilled individuals (‘brain drain’). Traditionally brain drain has been considered to have detrimental effects on sending countries because it causes shortages of high-skilled individuals in certain key professions (doctors, engineers etc.). These shortages are confirmed by many empirical studies, such as the analysis of the IMF (2016) for Eastern Europe after 2000. In some cases, emigration may lead to ‘brain waste’ if skilled migrants are employed in the receiving countries in jobs much below their qualifications.

The impact of brain drain on productivity and technological development is considered to be largely negative for the countries sending migrants. Emigration reduces the pool of skilled professionals in sending countries, which hampers their technological progress (Docquier 2014); this also reduces the capacity of these countries to absorb innovations from abroad. Human capital externalities amplify this negative impact: skilled migration reduces the productivity of those that stay behind, including through a negative total factor productivity (TFP) channel. For instance, a counterfactual analysis in IMF (2016) indicates that cumulative TFP growth in Eastern European countries would have been about 2.5 percentage points higher in the absence of skilled emigration during 1995–2012.

On a more positive note, the literature shows that, in many countries, prospects for migration stimulate education efforts as they provide additional incentives to complete higher education (Docquier and Rapoport 2014). This can benefit the sending country, if it increases the share of educated people in the population and if the probability of emigration of high-skilled workers is sufficiently low, below 15-20%. Therefore, the optimal level of high-skilled emigration is positive for many developing countries. However, in the majority of emigration countries, the effective brain drain exceeds the optimal level (Docquier 2014).

The described impacts of labour migration may somewhat differ depending on the time horizon of migration: permanent, temporary or circular<sup>5</sup>. With decreasing global transportation and communication costs, temporary and circular migration becomes increasingly important. Temporary migration fills sectoral labour market shortages by matching labour demand in receiving countries and

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<sup>4</sup> Many high-skilled emigrants actually undertake university education abroad.

<sup>5</sup> Circular migration is defined as “a repetition of legal migrations by the same person between two or more countries” (European Migration Network 2011).

excess labour supply in sending countries (Zimmermann 2014). For migrants, temporary and circular migration provides more flexibility and offers them a chance to improve their skills, return and contribute to development in their country of origin. On the negative side, temporary migrants are less well integrated with the host society and have little possibility of upward mobility in the receiving country. Low-skilled temporary migrants tend to have fewer rights and opportunities than permanent migrants do, and are more exposed to poor working conditions, exploitation, and excessive charges taken by recruiters (European Migration Network 2011, Zimmermann 2014).

On the other hand, circular migration provides many opportunities for modern high-skilled migrants who differ from traditional migrants, leaving their home country soon after school or university graduation and permanently moving to a wealthier country. They tend to go to multiple destinations during their educational and professional careers, maintain closer contacts with their home countries and more frequently return (Kone and Özden 2017).

Pessimism about brain drain gives way to a more nuanced optimism about ‘brain circulation’ (Kapur and McHale 2012). Migration of scientists, engineers and workers and contacts with diaspora play an important role in international technology transfers, a role as important as purchases of patents or licences or foreign trade (technology embodied in products). High-skill migration also affects flows of foreign direct investment: studies quoted by Kone and Özden (2017) found a positive relationship between the number of skilled emigrants a country has in the United States and the level of FDI from the United States to that country. Migration can also have a stimulating effect on exports in countries of origin through network effects created by their migrant diaspora and because of demand from the diaspora itself for goods produced by their countries of origin. Returnees bring additional knowledge, financial capital and networks and thus stimulate entrepreneurship and investment. All these factors have a positive impact on productivity and business development in the countries that send migrants. This is why many countries encourage repatriation, especially of highly skilled individuals, and encourage the maintenance of close contacts with the diaspora.

Overall, labour migration brings both benefits (remittances, reduced unemployment, stimulation of education, benefits from return migration and diaspora) and costs (reduced labour supply, brain drain, negative impacts on public finances) for sending countries. While, as noted above, some empirical studies try to assess the impact of remittances on growth, there are few studies that try to quantify in a more comprehensive way the impact on growth of labour emigration. For instance, an analysis of labour migration from Eastern Europe carried out by the IMF (2016) concludes that, in spite of its benefits, emigration has lowered the region’s growth per capita and slowed down international income convergence in comparison to a counterfactual scenario without emigration. The study explains this decline in productivity by shortages of high-skilled labour caused by emigration and by negative externalities.

### 3. KEY FACTS ON UKRAINIAN LABOUR MIGRATION

Estimates of the total number of Ukrainians working abroad vary widely. A comprehensive survey carried out by the State Statistics Service of Ukraine in 2017 (SSSU 2017) estimates this stock at 1.3 million. Earlier surveys, carried out by the State Statistics Service using the same methodology in 2007 and 2012 (SSSU 2012) estimated broadly similar numbers of labour migrants: 1.48 million in 2007 and 1.18 million in 2012. Researchers dealing with Ukrainian migration consider that the SSSU survey underestimates the total number of migrants, but it is the most detailed survey of Ukrainian emigration<sup>6</sup> and therefore helps to shed light on its main features, structure and the destinations of migrants.

Other studies estimate the stock of Ukrainian labour migrants to be between 2.2 and 2.7 million. A study by the Ukrainian Centre for Economic Strategy (2018) estimated the average number of Ukrainians working abroad at 2.6-2.7 million, and the Ptoukha Institute for Demography and Social Studies of the National Academy of Sciences of Ukraine at 2.2 to 2.3 million. One can also extrapolate the results of the estimate of the Polish central bank, which assessed the average number of Ukrainians working in Poland – the main destination country – at 900,000 in 2017 (National Bank of Poland 2018), a number considered as plausible by Polish researchers (Jaroszewicz 2018). This figure is almost 80% higher than the number of Ukrainian migrants to Poland estimated by the SSSU (506,000) for the same year. If the number of Ukrainian migrants to other countries is underestimated to a similar extent, the total number of Ukrainian labour migrants could be estimated at some 2.3 million, which is in line with the estimates of Ptoukha Institute.

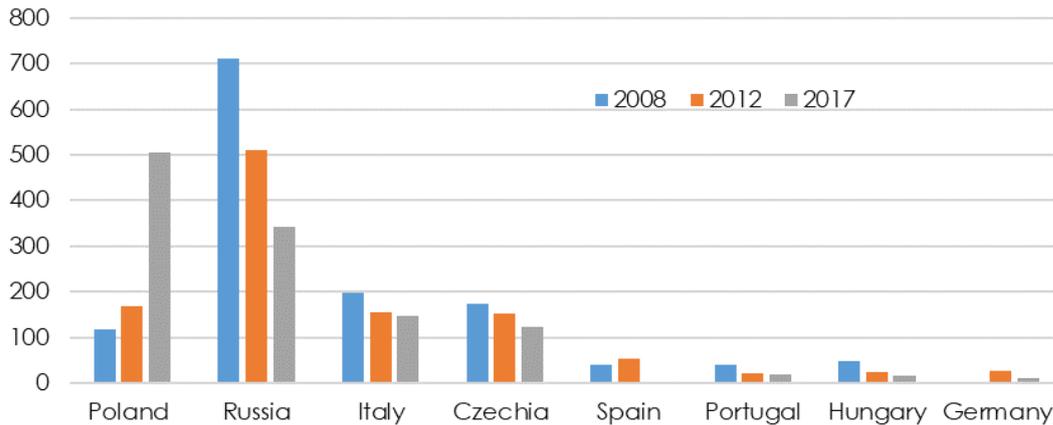
The SSSU surveys show that the main destination countries of the Ukrainian labour migrants changed after the armed conflict of 2014. According to their previous survey, carried out in 2012, Russia was by far the most popular destination, attracting 43% of Ukrainians working abroad. In 2017, the most popular destination for Ukrainian migrant workers became Poland (39%). The rapid increase in the number of migrants to Poland can be attributed to the dynamic growth of the Polish economy and the high number of job vacancies, but also to visa liberalisation (since 2017) and legislative changes facilitating the employment of Ukrainians. In spite of tense bilateral relations between Ukraine and Russia, the latter country still attracted 26% of Ukrainian labour migrants in 2017. Italy and Czechia have continued to be the third and fourth most popular destination countries; 67% of Ukrainian labour migrants worked in EU Member States in 2017, as against 54% in 2012. The right of Ukrainians to work depends on the national rules of their host countries, also within the European Union<sup>7</sup>, which partially explains the choice of destination countries by migrants.

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<sup>6</sup> The Population Census, to be conducted in Ukraine in 2020 for the first time since 2001, may provide new official estimates of the number of Ukrainian labour migrants.

<sup>7</sup> For instance, Ukrainian citizens employed temporarily in Poland (for a period of up to six months within a year) do not need a work permit; a simple registration in the district labour office is sufficient. This six-month period can be extended in a simplified procedure to receive a work permit. In Germany, Ukrainian citizens need to obtain a work permit prior to their arrival; in general, this permit can be issued if the vacancy cannot be filled by German or other EU citizen. This system is gradually being liberalised.

Graph 1: **Main countries of residence of Ukrainian labour migrants, thousands**



Source: State Statistics Service of Ukraine data.

The SSSU (2017) study confirms the temporary, circular and short-term nature of Ukrainian migration, with frequent travels between Ukraine and the destination country: 57% of the migrants surveyed declared that their last stay abroad lasted less than three months, while only 10% of migrants said that it lasted more than a year. The length of stay is especially short in the countries neighbouring Ukraine, such as Poland, Hungary and Russia.

As regards the origin of migrants in Ukraine, most (69%) emigrated from the western part of the country, which is geographically closer to the EU and less industrialised. Each of the other parts of Ukraine (north, east, south, centre) accounted for 6 to 9% of the total number of migrants. This pattern is particularly strong among migrants to Germany (almost 100% from the west), Czechia (95%), Hungary (82%) and Poland (74%).

Ukrainian emigration tends to be medium- to low-skilled. The education level of the migrants is lower than the average in Ukraine: only 16% of migrants had higher education, compared to 48% for the country as a whole (SSSU 2017; European Commission / EACEA / Eurydice 2018).<sup>8</sup> The Ukrainian case is different from labour migration from Czechia, Hungary, Latvia and Poland to Western Europe, where the share of emigrants with tertiary education is well above the equivalent ratio in the general population (IMF 2016). The share of Ukrainian emigrants with higher education was above the national average among Ukrainian migrants to the United States and Israel, but not among migrants to any EU Member State.

Men represent 70% of Ukrainian labour migrants. Only migration to Italy has a different gender composition, with 71% of migrants to Italy being women (SSSU 2017).<sup>9</sup>

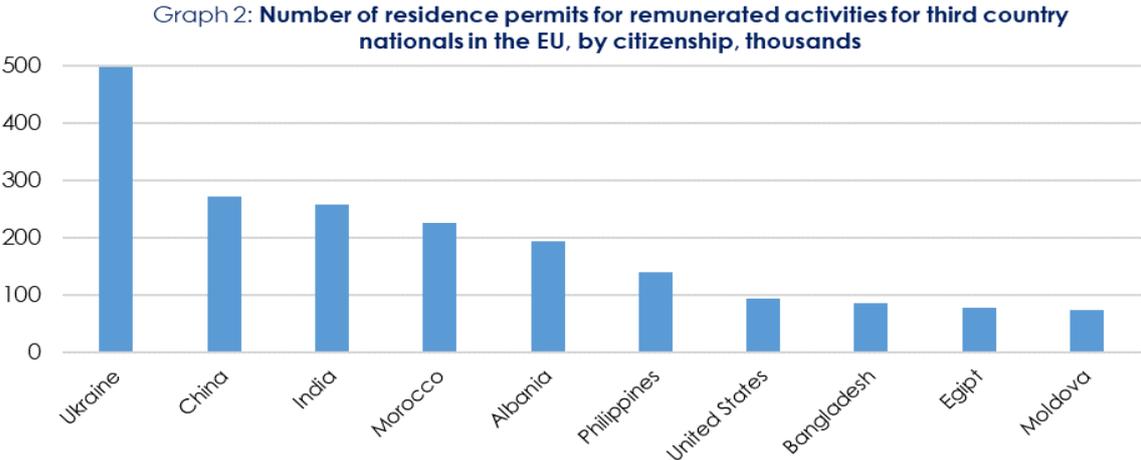
<sup>8</sup> The share of population with higher education is very high in Ukraine, the second highest in Europe after Russia: 57% among the 25-34 years old (European Commission/EACEA/Eurydice 2018). However, high enrolment rates in higher education do not translate into skills demanded by the labour market. Some of the reasons for this mismatch include outdated curricula, poor quality of education and high levels of corruption in higher education (World Bank 2019).

<sup>9</sup> Ukrainian migration to Italy emerged in the 1990s and 2000s in response to demand in Italy for care and domestic workers, especially for full-time work with elderly people, caused by the ageing of the Italian society and the specific features of the Italian welfare state and social model (Vianello 2016).

Half of Ukrainian migrants originate from rural areas, while the share of the rural population in Ukraine overall is only 31%. This means that the rural population is relatively overrepresented among migrants, which could have a rebalancing effect and reduce the rural-urban divide in unemployment rates.

As regards the age composition, the cohorts of 30-40 years and 40-50 years are the most strongly represented, with each of them accounting for 26% of the total number of migrants, compared to just 14-15% of the total Ukrainian population.

Looking from the perspective of the European Union, it is important to note that Ukraine has become the main source of economic migrants to the EU. While there are no precise EU statistics covering the number of economic migrants, Eurostat provides data on the stock of residence permits for remunerated activities. The recent data show that Ukrainian citizens held at the end of 2018 the highest number of such permits: 0.5 million out of 3.3 million of the total (see Graph 2). The breakdown of residence work permits is a good illustration of the importance of Ukrainians among EU labour immigrants, even though Ukrainians (and citizens of other countries) do not always need residence permits to legally work in the EU for limited periods of time.



Source: Eurostat.

## 4. THE IMPACT ON UKRAINE'S ECONOMY

### 4.1. INFLOW OF REMITTANCES

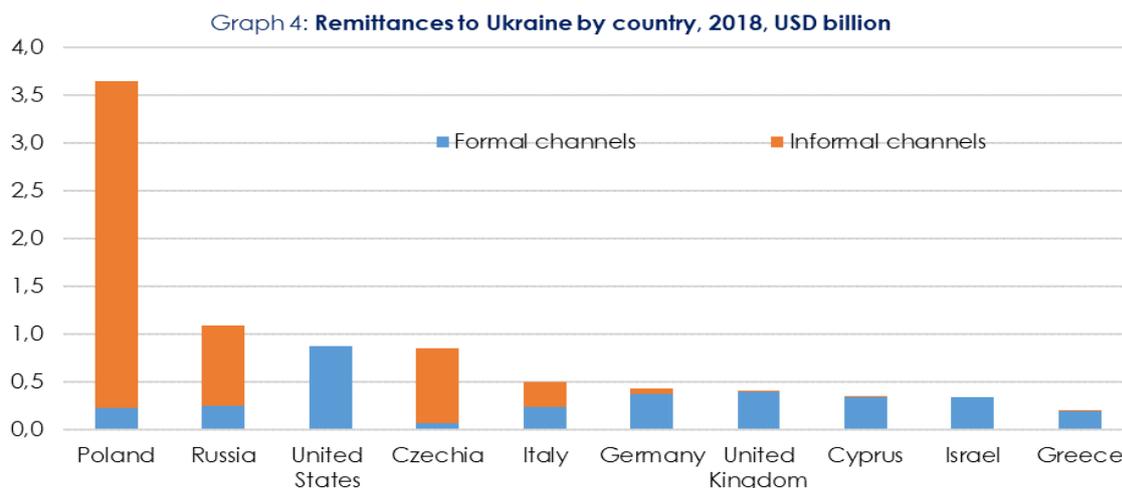
The National Bank of Ukraine (NBU) estimates the total inflow of remittances from migrants in 2018 at USD 11.1 billion, or 8.5% of GDP (Graph 3). The amount of remittances in USD terms gradually increased until 2013, declined by a quarter in 2014 (due to the conflict between Ukraine and Russia, from where the majority of remittances originated at the time) but has been growing since then. The share of remittances in Ukraine's GDP sharply increased in 2015 (when Ukraine's GDP shrank by a third in USD terms) and has continued increasing since then, although at a slower pace. Preliminary data for 2019 indicate that the inflow of remittances to Ukraine increased by 8% in USD terms to USD 12 billion, or 7.8% of GDP.



Source: National Bank of Ukraine data.

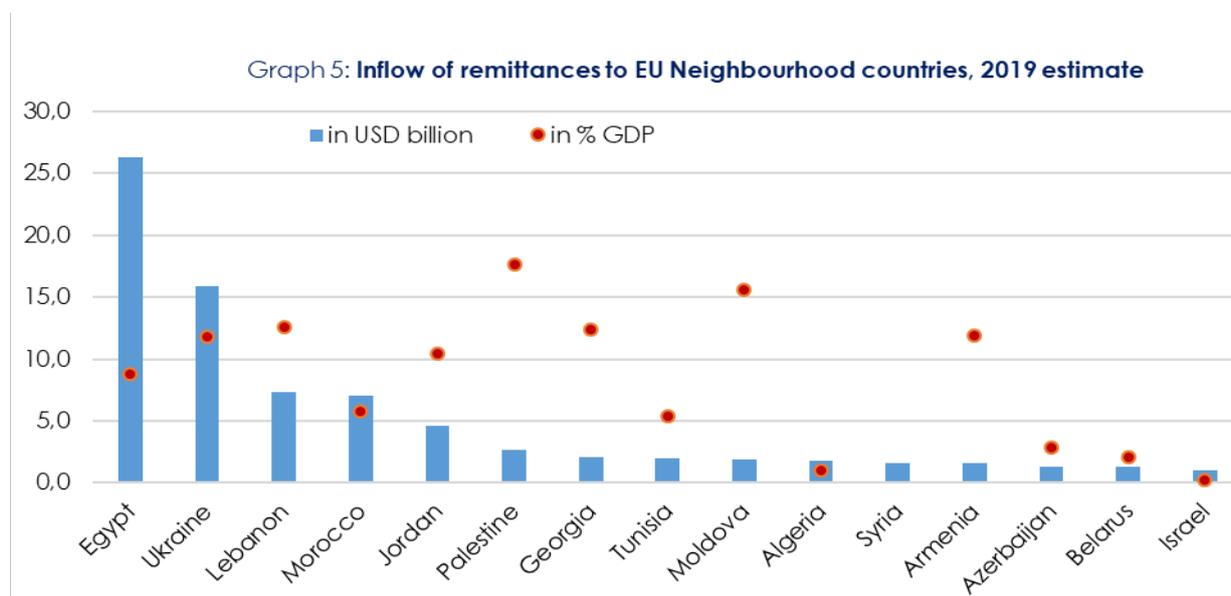
Since 2016, Poland has replaced Russia as the main country from which remittances are received. In 2018, 33% of remittances came from Poland (19% in 2015), 32% from other EU Member States, 9% from Russia (26% in 2015) and 9% from the United States and Canada.

Altogether, according to NBU statistics, 51% of remittances in 2018 came by formal channels (i.e. through bank accounts and money transfer systems) and 49% by informal channels (in cash or in kind). Remittances from informal channels are estimated through surveys conducted by central banks and compared between the countries sending and receiving remittances. In the case of Poland and Czechia, as much as 92-94% of remittances sent home by Ukrainian migrants are estimated to be transferred via informal channels. The shares are 75% for Russia, 51% for Italy and 13% for Germany. In the NBU statistics of remittances received from the United States, the UK and the rest of the world, 99-100% of remittances are indicated as received via formal channels. This suggests that the total amount of remittances reported by the central bank may be underestimated because the statistics may not include informal remittances received from some countries. The NBU is in the process of extending its estimates of remittances received through informal channels to more countries, which may lead to a certain, small upward adjustment of the NBU remittances data.



Source: National Bank of Ukraine data.

Ukraine is the tenth-largest recipient of remittances in absolute terms among low- and middle-income countries, and second, after Egypt, among the EU neighbourhood countries (Graph 5). Measured as a proportion of GDP, the share of remittances in Ukraine is similar to countries like Armenia, Georgia and Lebanon but significantly lower than in Moldova and Palestine. However, it should be noted that there are discrepancies between the amount of personal remittances reported by the World Bank and the aforementioned NBU data for Ukraine (see Box 1).



Source: The World Bank.

#### Box 1. HOW REMITTANCES FLOWS ARE MEASURED

In line with the International Monetary Fund's Sixth Balance of Payments Manual (IMF 2009), personal remittances include cash and non-cash items that flow through formal channels, such as via electronic transfers, or through informal channels, such as money or goods carried across borders. Personal remittances are the sum of two main components: (1) compensation of employees; and (2) personal transfers.

Compensation of employees means the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by non-resident entities (IMF 2009). This is a standard element of the primary income account, part of the current account in balance of payments statistics compiled by central banks. For the calculation of remittances, 'net' compensation of employees is taken into account, i.e. after deduction of the estimated travel expenditures, taxes and social contributions.

Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households. This is an element of the secondary income account. In the older versions of the BPM manual, this item was called 'workers remittances' and included mainly transfers from long-term migrants to their families in their origin country. The current definition is broader and covers personal transfers independently of the source of income of the sending household.

The World Bank compiles a regularly updated worldwide database on inflows and outflows of remittances by country, although with a caveat about significant heterogeneity in methodologies and the quality of remittance data compilations across countries. The Bank estimates and projects remittance flows based on their own methodology (see World Bank Group 2017, Appendix A), which takes into account the growth of GDP in sending countries, the number of migrants and other factors.

The National Bank of Ukraine compiles and publishes an estimate of personal remittance inflows once a year. This is based on a range of sources, including monthly balance of payments statistics (based on data collection from the financial sector, surveys of migrants, and estimations based on a model). The NBU underlines that compiling data on remittances is more complex than for other balance of payments items. In 2018, the NBU revised upwards the value of personal remittances following a comparison of Ukrainian data with new data on transfers from two main destinations of Ukrainian migrants – Poland and Russia (NBU 2018).

There is a significant difference between the amount of personal remittances reported by the World Bank and the NBU. The National Bank assessed the inflow of personal remittances in 2018 at USD 11.1 billion (8.5% of GDP), while the World Bank estimates it at USD 14.4 billion (11.4% of GDP). This discrepancy is due to the aforementioned methodological differences.

#### 4.2. IMPACT OF REMITTANCES ON HOUSEHOLDS' INCOMES

A comprehensive survey on the impact of Ukrainian migration and remittances, carried out in 2014-2015 by the International Organisation for Migration (IOM 2016), shows that, on average, 66% of Ukrainian migrant workers send remittances home on a regular basis, and emigrants transfer around 18% of their total incomes as remittances.

Remittances received from Ukrainians working abroad constitute an important item in household budgets. According to the Ukrainian statistical office, household disposable income was equivalent to USD 90 billion in 2018. A comparison of this figure with the inflow of remittances estimated by the central bank (USD 11.1 billion) suggests that in 2018, remittances accounted for over 12% of the income of households.

Remittances have a significant positive impact on the budgets of households. The IOM (2016) survey estimated that, on average, incomes per household member were 60-80% higher in households with

migrant workers sending remittances than in households not receiving remittances. For households with migrant workers, remittances contributed on average 50-60% of their budgets and thus represented the main source of income. The SSSU (2017) survey suggests a somewhat lower but still significant share of revenues from remittances: an average amount of remittances received by households receiving remittances was USD 1,409 in 2016, equivalent to 38% of the average income of Ukrainian households in that year (USD 3,740).

As regards the use of remittances, the survey carried out among migrants as part of the IOM (2016) study estimated that 39% of remittances sent to Ukraine were used for consumption purposes (including the purchase of durable goods), 42% for saving, 17% for purchase or renovation of real estate and only 1% for investment in business, stock or shares. The share of remittances allocated for consumption and for investment in business is lower and the share of savings is higher in this study than in similar studies covering other countries receiving remittances; this might be partially due to uncertainty related to the armed conflict in the east of Ukraine during the period when the study was carried out.

Another survey within the same study covered households in Ukraine receiving remittances (as mentioned above, remittances contributed on average 50-60% to their budgets). In comparison to households not receiving remittances, expenditures of families with migrant workers for housing and education were 2-4 times higher and for food 20% higher. These data confirm that remittances lead to improved welfare of migrants and their families but that their direct contribution to increasing private fixed investment is limited.

#### 4.3. IMPACT ON DOMESTIC DEMAND AND OUTPUT

As mentioned above, the revenues from remittances increase domestic demand for both domestic and imported goods and services. Purchases of domestically produced goods and services directly stimulate domestic production, while purchases of imported consumer goods have only a limited impact on domestic output – for instance by boosting retail and/or transport services. In addition, domestic demand might be indirectly stimulated through the fiscal multiplier, as higher consumption tax and customs duties paid on imported goods facilitate, on the margin, higher government expenditure or a lowering of tax rates. Increased domestic demand also contributes to price increases, especially for non-tradable goods.

The surveys of Ukrainian remittances do not indicate the share of remittances spent on domestic as opposed to imported goods and services. As a proxy, we can calculate the overall share of imported goods in the expenditure of Ukrainian households. According to the Ukrainian statistical office, the share of goods produced in Ukraine in total sales of retail trade in the country amounts to 53%. Goods represent 66% of the consumption expenditure basket of an average Ukrainian household. The quasi-totality of services, which make up the remaining 34% of consumption expenditure, can be considered as being of Ukrainian origin. Together, the share of domestic goods and services in the expenditure of the average Ukrainian household is therefore around two-thirds. Assuming that the share of domestically produced goods and services financed from remittances is similar to the average expenditure structure of Ukrainian households and that half of all remittances are spent on the purchase of goods and services<sup>10</sup>, the impulse from remittances may have pushed up demand for domestic production of goods and services by around USD 3.7 billion (2.8% of GDP) in 2018. This is a simplified estimate which does not include the multiplier effect of the increased consumption, the impact of private investment funded from remittances nor the impact of remittances on price increases.

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<sup>10</sup> Another half of remittances is allocated for saving and purchase of real estate.

#### 4.4. IMPACT ON UKRAINE'S LABOUR MARKET

Migration reduces the labour supply on the Ukrainian labour market and hence potential output. The stock of emigrant labourers is estimated to be between 2.2 and 2.7 million, equivalent to 13-16% of total employment in Ukraine. However, not all Ukrainian migrants were employed in Ukraine before leaving the country; according to the SSSU (2017) survey, only 58% of migrants were employed. Out of this group, 70% gave up their jobs in Ukraine because of a low salary; some 15% because they had been dismissed or their temporary contract had ended; and 15% for other reasons. The status of the remaining 42% of migrants before leaving the country is not clear from the SSSU survey; they could have been unemployed, inactive or, most likely, working in the informal sector or on a pause between consecutive periods of work abroad. These figures suggest that emigration attracted between 1.3 and 1.6 million people directly from employment in the Ukrainian labour market – 8-10% of the total number of people employed in Ukraine.

Between 2012 and 2018, total employment in Ukraine decreased by almost 3 million – from 19.3 to 16.4 million. However, this decrease happened almost entirely in 2014 and 2015 and reflected the fact that the statistics post-2014 do not include the people employed in the non-government controlled territories of the Donetsk and Luhansk regions. The stock of labour migrants increased by about 10% between 2012 and 2017 (according to SSSU surveys) and had a smaller effect on the overall decrease in employment.

There is some anecdotal evidence about labour shortages in certain professions popular among migrants. For instance, a lack of manpower is felt in the domestic construction sector, a sector in which almost 40% of Ukrainian labour migrants work. Employment in this sector decreased by some 20% between 2012 and 2017, mainly due to the migration of workers abroad (Andreyev et al. 2018).<sup>11</sup> Kupets (2016) also mentions labour shortages among health workers, welders, teachers and drivers in the regions sending migrants.

The insufficiency of labour supply is expected to aggravate in the coming years. Labour migration is one of the main drivers of this problem, along with below-replacement fertility levels and high mortality among working-age people. Assuming that labour force participation rates remain constant, the labour force is projected to shrink by more than 15% by 2035 (World Bank 2019).

As regards the impact of labour migration on unemployment, there is no evidence of a dampening effect in Ukraine, unlike in Lithuania, for instance (OECD 2013).

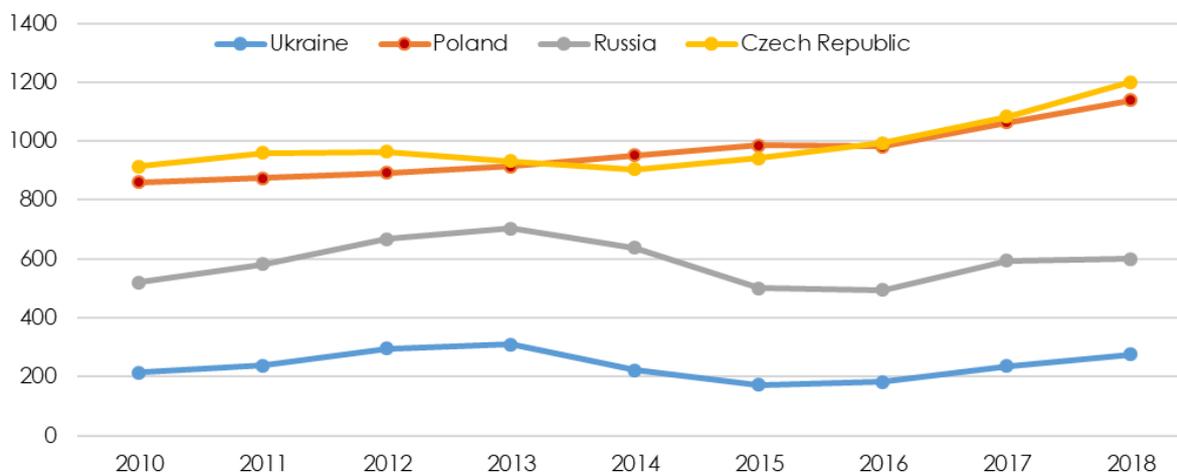
The difference in salary levels was, according to the SSSU (2017) survey, the main reason for emigration cited by 84% of Ukrainian labour migrants. In spite of its gradual increase, an average monthly gross salary in Ukraine, which was equivalent to EUR 276 in 2018, was still less than a quarter of the average salary level in Poland and Czechia (Graph 6). It also corresponded to less than half of the average gross monthly earnings of a Ukrainian working abroad (EUR 640).

Labour migration should, however, help reduce this large gap in salaries, by pushing up wage growth for workers who stay in Ukraine. This is done directly by limiting the pool of the workforce, but also in an indirect way by decreasing financial constraints (through remittances) and thus increasing reservation wages. Indeed, average salaries in Ukraine, after a substantial decline in 2014-2015, increased rapidly in 2016-2018, by 13% a year on average in real terms.

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<sup>11</sup> The most popular sectors in which Ukrainian migrants work are: construction (39% of the total number of migrants); home care (16%); agriculture and forestry (14%); industry (11%); and trade and repairs (9%). See SSSU (2017).

Graph 6: Average monthly salaries in Ukraine and main migration destinations, EUR



Source: Data from the Ukrainian, Czech, Polish and Russian Federation statistical offices.

Obviously, labour migration is not the only factor behind wage growth. Labour demand from Ukrainian businesses is strong: according to surveys, business expectations for the recruitment of additional staff are improving, reflecting more positive business sentiment about the future (NBU 2019). Economic growth (partially triggered, as noted, by the inflow of remittances and its effect on domestic demand) and positive business sentiment is also pushing up demand for labour and wages. At the same time there is a major supply and demand mismatch, i.e. firms demand skills that are undersupplied by the labour market (World Bank 2019). There are also regional labour market mismatches: the number of vacancies in metropolitan and other dynamic urban areas is increasing, while rural unemployment is on the rise.

As the share of highly educated people among Ukrainian emigrants is low, available studies on emigration from Ukraine do not find that brain drain – emigration of high-skilled individuals causing shortages of qualified labour in the sending countries – is a major issue (Kupets 2016). Emigration does not seem to have led to slower productivity growth in Ukraine because of the drain of skilled labour, as was the case in some eastern and southern European countries (IMF 2016).

A more relevant issue in the context of Ukraine is skills waste. Only 27% of Ukrainians working abroad declared in the SSSU survey that they worked in jobs that were in accordance with their qualifications: 30% worked in a different field; and 36% declared that they worked in a field not requiring any qualifications. Only 9% worked in professional and technical services; 14% in trade and services; 26% as workers with tools; and 42% in very simple jobs. This is a negative phenomenon, often leading to the attrition of skills acquired earlier and reducing migrants' chances to improve their economic situation. The low share of skilled emigrants working in line with their qualifications is also one of the reasons (in addition to other barriers) why not many migrants returning to Ukraine invest in their own businesses.

#### 4.5. FISCAL IMPACT

Inflows of remittances tend to increase the revenue base of public finances. The impact comes, first of all, from increased VAT and excise revenues. Assuming, like above, that half of the remittances are

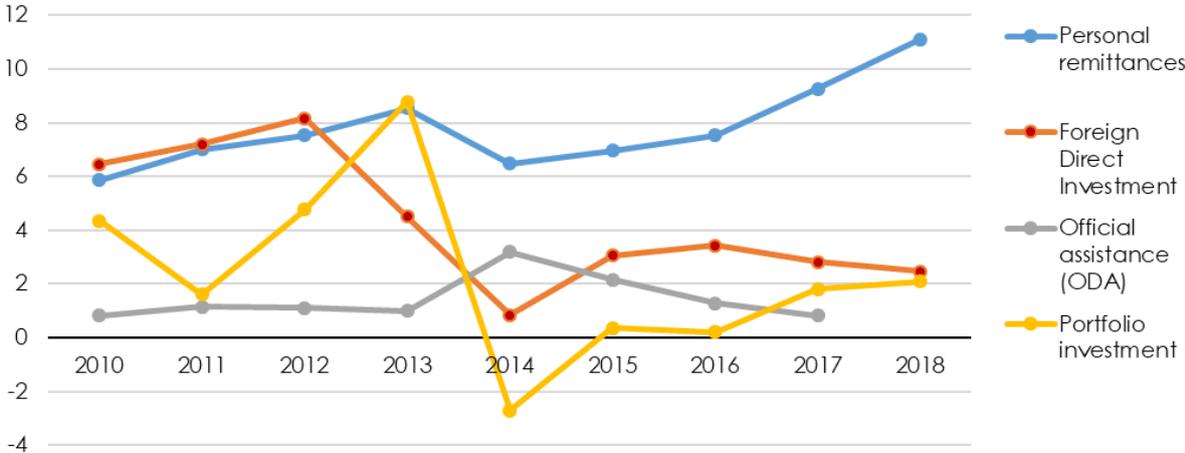
spent on the purchase of goods and services (USD 5.5 billion) with a VAT rate of 20%, the increased VAT revenues due to the inflow of remittances in 2018 can be estimated at USD 1.1 billion, or over 0.8% of GDP. The inflow of remittances also increases customs duties paid on imported goods. In addition, demand created by remittances stimulates domestic production, leading to increased revenues from corporate and personal income taxes.

However, aside from remittances, labour emigration has a negative impact on Ukraine’s public finances, which counterbalances the increased government revenues due to the inflow of remittances. The provision of education incurs public costs, while emigrants do not pay labour taxes nor social security contributions in Ukraine. According to one recent estimate, if all Ukrainian emigrants working in the EU had been employed in Ukraine, the revenues of the Ukrainian social fund would have been more than 7% higher in 2017, equivalent to 0.7% of GDP (EaP CSF 2019).

**4.6. IMPACT ON EXTERNAL SUSTAINABILITY**

Remittances are one of the largest sources of foreign exchange earnings in Ukraine. Since 2010, they have been almost twice as high as the inflow of FDI, more than three times the inflow of portfolio capital and over five times higher than the inflow of official development assistance (ODA) - see Graph 7.

Graph 7: Remittances and other foreign exchange inflows to Ukraine, USD billion

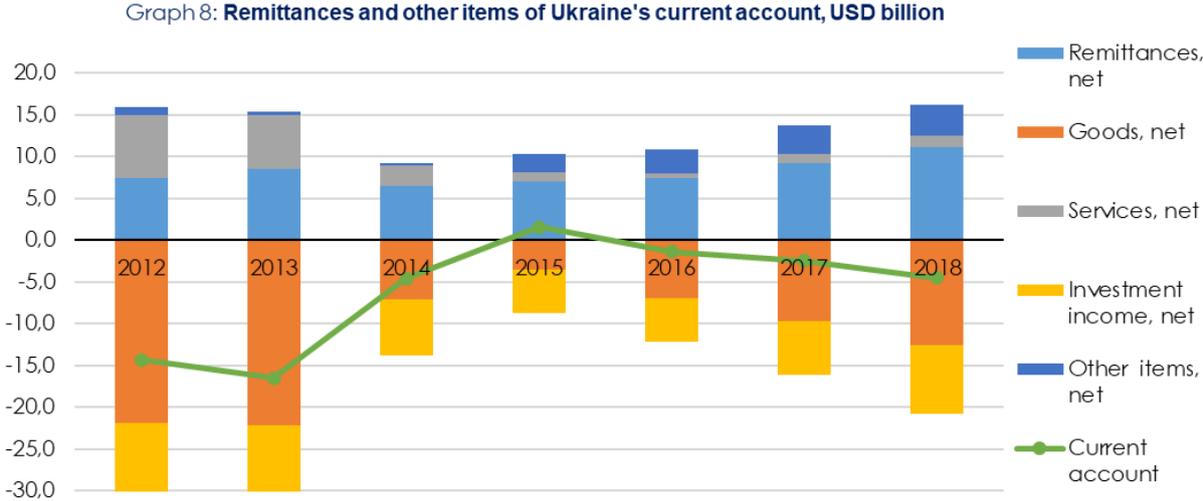


Source: Data from OECD and the National Bank of Ukraine.

Moreover, while the inflows of FDI and portfolio investment declined markedly during the 2014-2015 crisis and have since recovered only moderately, remittances were much more stable. They did not decline much during the crisis and in 2017 exceeded their pre-crisis levels, with the recovery continuing strongly in 2018.

The increasing inflow of remittances has had a visible and positive impact on Ukraine’s current account, where they have contributed to a positive balance of the primary income account and, to a

smaller extent, of the secondary income account.<sup>12</sup> Remittances have been the most important item counterbalancing large trade and investment income deficits. Ukraine’s trade deficit gradually deteriorated from USD 3.5 billion in 2015 to USD 12.6 billion in 2018 as imports, spurred by strong investment and consumer demand, rose much faster than exports. Investment income was also strongly negative due to the repatriation of dividends and interest on external debt. Altogether, Ukraine’s current account balance has improved from an unsustainable deficit before the crisis to a small surplus in 2015 and then gradually deteriorated to a much more lower deficit of USD 4.5 billion (3.5% of GDP) in 2018 (see Graph 8).



Source: Data from the National Bank of Ukraine.

At the same time, remittances contributed to a certain extent to the widening of the trade deficit as they stimulated demand for foreign goods. Assuming, as in section 4.3 above, that half of remittances are spent on the purchase of goods and services and that the share of imports in expenditures on goods and services is around one third, remittances may increase the value of imports by around USD 1.8 billion. This represents 14% of Ukraine’s trade deficit in 2018. However, the overall net effect of remittances is positive; without them, the current account deficit would be much higher.

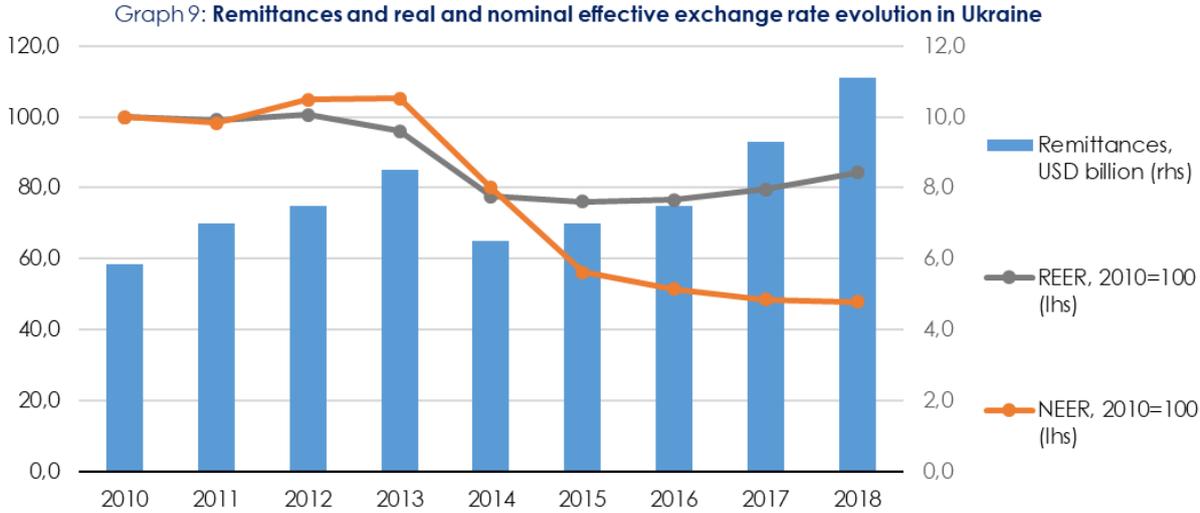
As previously noted, a strong inflow of remittances can contribute towards exchange rate appreciation. Remittances are one of the largest sources of foreign exchange earnings in Ukraine; the majority of them are exchanged by the recipients into local currency, which leads to a nominal appreciation of the hryvnia. Remittances can also lead to real exchange rate appreciation through a Dutch disease mechanism, described in section 2: an inflow of remittances increases aggregate demand, leading to higher prices of non-tradable goods and increased labour costs. This, in turn, makes all goods produced in the country more expensive.

Graph 9 below shows that some real appreciation of the Ukrainian currency has occurred in recent years, although the increase in remittances has been much bigger. The hryvnia depreciated substantially in 2014, in the wake of the military conflict and the economic crisis; the nominal depreciation was also reflected in the real exchange rate. The latter remained almost unchanged in 2015 and 2016 in spite of an annual increase in remittances of 7-8% in USD terms. In 2017,

<sup>12</sup> In line with the IMF Balance of Payments Manual, remittances are recorded on the credit side of the primary income and of the secondary income parts of the current account. As the counterbalancing item, remittances are recorded as a debit entry with an equal value in the financial account, mainly as “foreign cash outside the banking system”.

remittances increased by 23%, while the real effective rate of hryvnia appreciated by 4%. In 2018, the inflow of remittances increased by another 18%, while the hryvnia appreciated by 6% in real terms.

The increased inflow of remittances has been one of the factors affecting the exchange rate of the hryvnia in the recent years. Other main factors, which led to either weakening or strengthening of the Ukrainian currency, included tight monetary policy attracting foreign capital inflows, trade and investment flows, gradual removal of capital controls, as well as volatile expectations of market participants. An analysis using a macroeconomic model or econometric tools would be needed to distinguish the impact of remittances from other factors. No such analysis seems to have been carried out yet for Ukraine.



Source: National Bank of Ukraine data.

## 5. CONCLUSIONS AND POLICY RECOMMENDATIONS

Labour emigration and the inflow of remittances from migrants has a notable impact on the Ukrainian economy. Representing an inflow equivalent to more than 8% of GDP, remittances are improving significantly the welfare of migrants' families. Remittances are estimated to increase the domestic income of households by around 12%. While this mostly helps to boost private consumption, it also makes a small contribution to investment. As Ukrainian households spend around two-thirds of their consumption expenditure on domestic goods and services, the consumption demand from remittances directly pushes GDP up by almost 3%. And this estimate does not include the multiplier effect of consumption increased due to remittances, nor the impact of private investment funded from remittances.

Remittances are one of the largest sources of foreign exchange earnings in Ukraine. The average inflow of remittances into Ukraine since 2010 was almost twice as high as the inflow of foreign direct investment, more than three times the inflow of portfolio capital, and over five times higher than the inflow of official development assistance. Moreover, while the inflows of FDI and portfolio investment were highly volatile and have diminished since 2014, remittances have remained broadly stable and have gradually increased in the last years.

Although the inflow of remittances probably does contribute to a competitiveness-reducing real exchange rate appreciation in Ukraine, the increasing inflow of remittances has, over all, a visible and positive impact on Ukraine's current account and is the most important item counterbalancing trade and investment income deficits. It has contributed to the shift to a more sustainable balance of payments position of Ukraine, together with other factors including fiscal adjustment, prudent monetary policy, structural reforms, as well as the important official macro-financial assistance and other financial support provided to this country, including by the EU. The rise in remittances, which is a stable and sustainable type of financial inflow, should help Ukraine overcome the previous vicious cycle in which it was caught, where economic booms led to unsustainable deteriorations of the current account and crisis situations.

The emigration of between 2.2 and 2.7 million individuals (according to various estimates) has contributed to reducing the supply of labour in Ukraine and labour shortages in certain professions. It is also one of the factors (although not necessarily the main one) pushing up wage growth for workers who stay in the country; salaries in Ukraine increased on average by 13% a year in real terms between 2016 and 2018. However, due to the relatively low share of highly-educated workers among Ukraine's emigrants, brain drain does not seem to be a particularly relevant issue in Ukraine; an issue of greater concern is skills waste, as most of the Ukrainians abroad are working outside their qualifications or in very simple jobs.

The impact of emigration and remittances on Ukraine's public finance is mixed: remittance inflows lead to increased VAT, excise and customs revenues, while emigrants do not pay labour taxes nor social security contributions in Ukraine and their education entails a public expenditure.

One frequently asked question is whether Ukrainian labour migration will continue in its current form. Although wages in Ukraine are rising fast in real terms, salary differences with the main emigration destinations in the EU are so high that they are likely to continue to motivate individuals to work and earn abroad. Moreover, the existence of a large and growing Ukrainian diaspora tends to encourage the migration of other members of the family and friends, by providing information and logistical support in the countries of destination (network effect). This pull factor may intensify in the coming years and the diaspora may continue to expand. At the same time, the destination countries for a part of the emigrants may change, particularly due to the gradual opening of the German labour market for

Ukrainian employees. However, linguistic and geographical proximity will continue to weigh in favour of countries like Poland, Czechia and Russia.

The recent outbreak of coronavirus will certainly reduce the number of labour migrants in 2020. Because the majority of Ukrainian labour migration is temporary and short-term, it will be heavily affected by cross-border travel restrictions and jobs shortages in the receiving countries. The inflow of remittances from temporary emigration to Ukraine is therefore expected to be seriously reduced in 2020, with a negative impact on private consumption and on the balance of payments. On the other hand, there is some evidence in the literature that migrants, especially those having permanent jobs, tend to increase their remittances when their countries of origin go through difficult economic conditions or experience a natural disaster; this may happen if the economic situation in Ukraine deteriorates. However, it is too early to assess the magnitude of the impact of coronavirus on the number of labour migrants and remittance flows, and whether this impact will be only seasonal or will have long-term consequences.

In view of the impacts of labour emigration from Ukraine described in this paper, the question of how Ukraine could adjust its policies to improve the benefits and limit the costs associated with its large outflow of workers is particularly pertinent.

Studies on labour migration underline, first of all, the benefits of engaging with the diaspora and encouraging migrants, especially skilled ones, to invest in, and return to, their home countries (Kapur and McHale 2012, IMF 2016). The benefits include bringing back skills, diffusion of technological and managerial knowledge, and the emergence of modern SMEs. Returnees can also bring with them substantial savings: according to the IOM (2016) survey, the volume of savings accumulated by Ukrainian migrants abroad is more than twice as high as the volume of remittances sent. Some countries have managed to attract return emigrants (for instance Ireland) and involve the diaspora in the development of high technology sectors (India, Israel). Such programmes are not addressed solely to high-skilled migrants. For instance, the Moldovan PARE 1+1 programme<sup>13</sup>, supported by the EU, subsidised the setting up of new SMEs by emigrants returning to Moldova. In December 2019 the Ukrainian government announced a programme of low-interest loans “Return and Stay”, aimed at supporting the creation of new small companies, especially at encouraging citizens working abroad to return home and start a business there.<sup>14</sup>

Apart from special programmes for returnees, creating a more attractive business environment would clearly be beneficial both for encouraging migrants to return and for stimulating investment in the economy at large. In Ukraine, this requires more effective government institutions, strengthened anti-corruption efforts, the implementation of reforms in such sectors as the land market or the judiciary, as well as improved infrastructure. Increasing satisfaction with local amenities such as healthcare, education, housing, environment, roads and transport may also increase the likelihood of people wanting to return from emigration or to stay in the country in the first place (EBRD 2018).

Another possibility to explore could be a financial mechanism for directing remittances and migrants’ savings towards productive investments in Ukraine. Such instruments have been developed in some countries, such as the ‘diaspora bonds’ issued since 1950s by the Development Corporation for Israel and sold among the diaspora to finance infrastructure (Ketkar and Ratha 2004), or a fund channelling the savings of Filipino migrants in Italy into agricultural co-operatives in their home country<sup>15</sup>.

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<sup>13</sup> <https://www.euneighbours.eu/en/eu-in-action/stories/moldova-pare-11-encouraging-migrants-return-home>

<sup>14</sup> <https://www.kmu.gov.ua/en/news/uryad-zapustit-programu-deshevih-kreditiv-dlya-vidkrittva-biznesu-oleksij-goncharuk>. The programme is expected to be launched in early 2020. It is, however, not clear if the eligibility criteria or conditions of this programme will give any preferences to returning migrants versus domestic companies.

<sup>15</sup> Financial Times, 9 August 2019, Nations seek to tap expatriate workers as source of finance, available at: <https://www.ft.com/content/6cfd7b78-b92f-11e9-8a88-aa6628ac896c>

In order to overcome the shrinking effect of emigration on the supply of labour, Ukraine needs to better use the workforce remaining in the country. At 65%, the employment rate in Ukraine is below the average in the EU (73%) and below its EU neighbours like Poland, Romania or Slovakia (70-72%). Employment policy should seek to improve employability, in particular through reducing mismatches between supply and demand for labour and the reduction of employment in the informal sector. The pension reform, introduced in 2017, needs to be fully implemented and further strengthened in order to incentivise older employees to postpone retirement to a later age.

It is also important to improve social aspects of Ukrainian migration. Almost 30% of Ukrainian emigrants do not have any legal status (such as residence status or work permit) in their host country. Only 22% of Ukrainian emigrants are covered by social security in the countries where they work (SSSU 2017). Ukrainian authorities could provide more support to migrants, such as advice on legal and administrative issues in the countries where they work and back at home (Luecke and Saha 2019). They should also cooperate with the main destination countries to improve the legal status of labour migrants and increase their social security coverage. One of the key issues is improved portability of social security entitlements (EaP CSF 2019): international cooperation is needed to ensure that migrants can take benefits accrued in their host country back to their home countries.

The European Union helps Ukraine cope with many of these challenges. The EU decision to exempt Ukrainian citizens from visa requirement for short stays since June 2017 has improved mobility between the EU and Ukraine, although the rights of Ukrainians to work in the EU are regulated by the national rules of Member States. EU-funded programmes support, for instance, the modernisation of the vocational education system in Ukraine<sup>16</sup>, which is crucial for providing quality skills for the local labour market. The EU also supports improvements to the business environment, which plays a key role for potential returnees and for domestic entrepreneurs (anti-corruption, SME support, tax and customs reform etc.) – both through sectoral grants and as conditions in EU macro-financial assistance programmes.

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<sup>16</sup> Programme “EU4Skills: Better Skills for Modern Ukraine”.

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