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Economic boom in the Caucasus and Central Asia in a time of Russian immigration



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Abstract

More than 1 million Russians, including many highly skilled professionals, have fled their country in the past two years to avoid economic sanctions and military conscription. Many of these have chosen to relocate to countries in the Caucasus and Central Asia, taking advantage of minimal migration restrictions and the relative ease of gaining residence and opening bank accounts. Their arrival has caused a spike in domestic demand and banking-sector profits, while also contributing to the development of the information and communications technology (ICT) sector. This note documents some of these recent trends. We argue that, while migration from Russia is likely to be a temporary phenomenon, the spill-over effects may result in long-term gains if accompanied by policies to ease immigration regimes, develop cross-border linkages with non-sanctioned economies, improve the environment for entrepreneurial activities (with a particular focus on the ICT and creative industries) and lower the costs associated with international money transfers.

Background

Since Russia's invasion of Ukraine on 24 February 2022, more than 1 million Russians have left their country.² This emigration came in two main waves: the first right after the start of the war amid fears of border closures, economic sanctions and potential martial law and the second after the announcement of national military conscription on 21 September 2022. Many Russians chose to move to the neighbouring countries of the Caucasus and Central Asia, as geographic proximity and cultural and linguistic ties were important draws. In addition, these countries typically impose minimal migration restrictions on Russian citizens, and opening bank accounts is relatively straightforward. For example, foreigners in Kazakhstan only need an individual identification number, a temporary registration certificate and a local mobile SIM card to open a bank account.

Since the start of the war, around 500,000 bank accounts have been opened by Russian visitors and migrants to Kazakhstan,³ while a further 100,000 have been opened in Georgia.⁴ Opening bank accounts in the Caucasus and Central Asia has given Russian citizens access to international payment systems⁵ and a safe haven for their savings. Moreover, bank accounts opened by Russian migrants and visitors have allowed payment for goods re-exported to Russia through the Caucasus and Central Asia⁶ following the imposition of Western sanctions and the voluntary exit by major international brands from the Russian market.

Official data on the number of Russian migrants to the CCA region are inherently problematic due to the liberal nature of the migration regime in place with respect to Russian and Commonwealth of Independent States (CIS) citizens. For example, Georgia allows international visitors from most Organisation for Economic Co-operation and Development (OECD) and all CIS members to spend up to 364 days in the country without registration and/or a residence permit. Moreover, formal registration or residency is not required for international visitors to be employed or even to start a business in Georgia.

¹ This paper was prepared by Eric Livny, Jongwoo Lim and Kamilla Mamatova, Regional Economist Team, EBRD Policy Strategy and Delivery Department. We thank Dimitar Bogov, Artur Radziwill and Peter Sanfey for their helpful comments and suggestions. The views expressed in this note are solely those of the authors and not of the EBRD.

² According to the UK Ministry of Defence, an estimated 1.3 million Russians migrated in 2022. See Kiseleva and Safronova (2023).

³ See Eurasianet (2023).

⁴ See UNDP (2023).

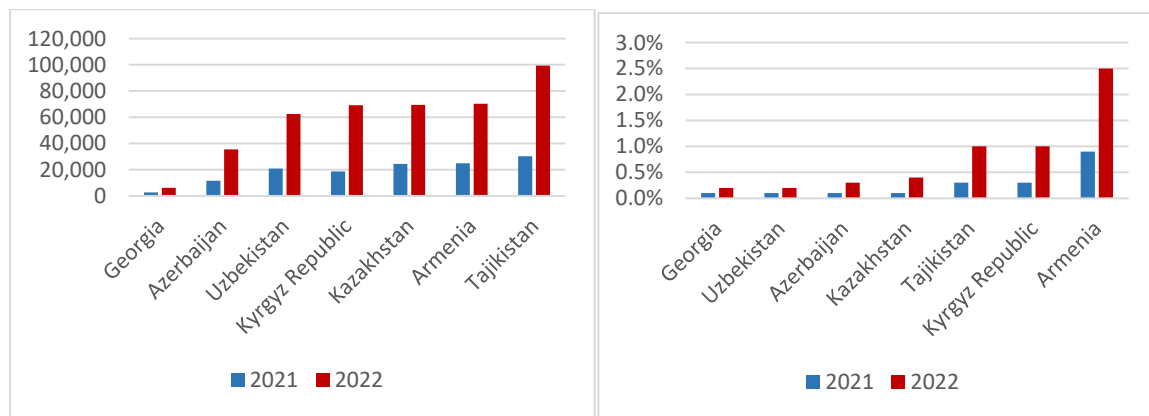
⁵ In March 2022, Visa, Mastercard and American Express banned money transfers from Russia-based accounts and the use of Russian cards. See BBC (2022).

⁶ See ADB (2023).

Figure 1 provides data on Russian migrants in 2022 based on official Russian statistics, which are likely to heavily underestimate the actual number of *relocant* (migrants) in the Caucasus and Central Asia. According to these data for 2022, the number of Russian migrants was lowest in Georgia (6,198), though, as elsewhere, it was significantly higher than in 2021 (when Covid-19 restrictions on travel were still in place). In contrast, one Georgian government report⁷ puts the actual number of Russians settling in Georgia as at October 2022 at more than 110,000 (the same report puts the number of Ukrainian *relocant* at more than 25,000). Some sense of the migration dynamics can also be gleaned from data on international visitors. The number of Russian “visitors” (as opposed to “migrants”) to Georgia in 2022 reached almost 1.1 million (more than 23 per cent of all international visitors to Georgia),⁸ a five-fold increase on 2021.

However unreliable, the Russian migration data suggest that the smaller countries (Armenia, the Kyrgyz Republic and Tajikistan) have seen the largest increases in the share of Russian immigrants relative to overall population – as high as 2.5 per cent of the population in Armenia in 2022 (Figure 1, right-hand graph).

Figure 1. Number of Russian migrants (left) and Russian migrants as a share of total population (per cent, right) based on Russian Federal Statistics Office data



Source: Russia Federal Statistics Office (2022, 2023) and authors’ calculations.

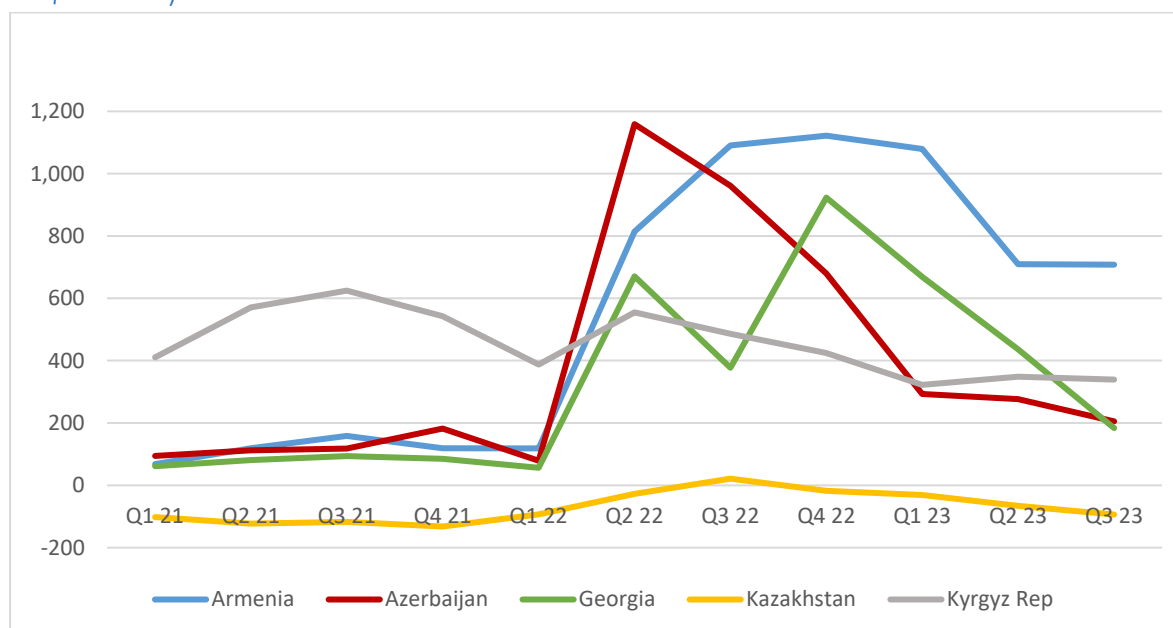
Note: Immigrants refer to only those who have migrated from Russia to Caucasus and Central Asia countries and exclude tourists and transit visitors. The share of Russians (RHS) represents the share of incoming Russian migrants only in 2021 and 2022 and does not include those who migrated earlier. The number of migrants may be underestimated, in part because of informal (unrecorded) migration and lax border controls in some countries.

The Caucasus and Central Asia has also seen an unprecedented surge in money transfers from Russia in the past two years. Some of these flows are remittances from migrants in Russia – a long-standing phenomenon in the region – but some are transfers by Russian citizens to their newly opened bank accounts in the Caucasus and Central Asian countries. Those money transfers have waned since the beginning of 2023 (Figure 2), as Russian migrants have likely depleted their savings and commercial banks in the recipient countries have strengthened their compliance practices and increased the cost of banking services for non-residents. Some migrants have also returned to Russia or relocated to third countries.

⁷ See Kucera (2023).

⁸ See Georgian National Tourism Administration (2023).

Figure 2. Net money transfers from Russia to the Caucasus and Central Asia (quarterly, US\$ million)



Source: Central banks and authors' calculations.

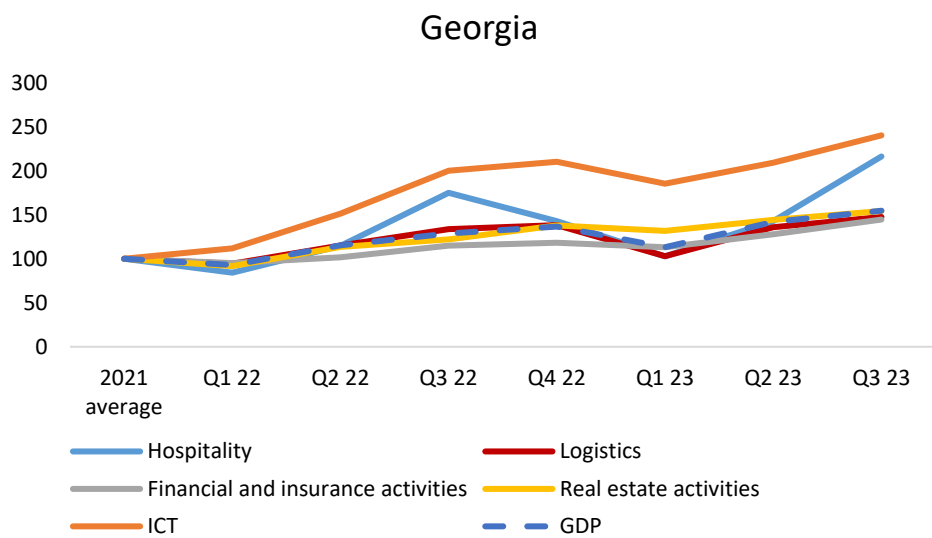
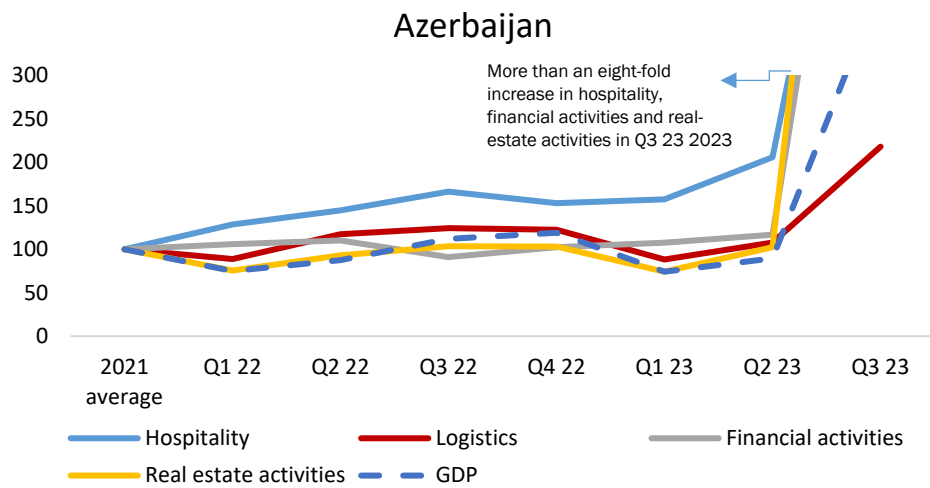
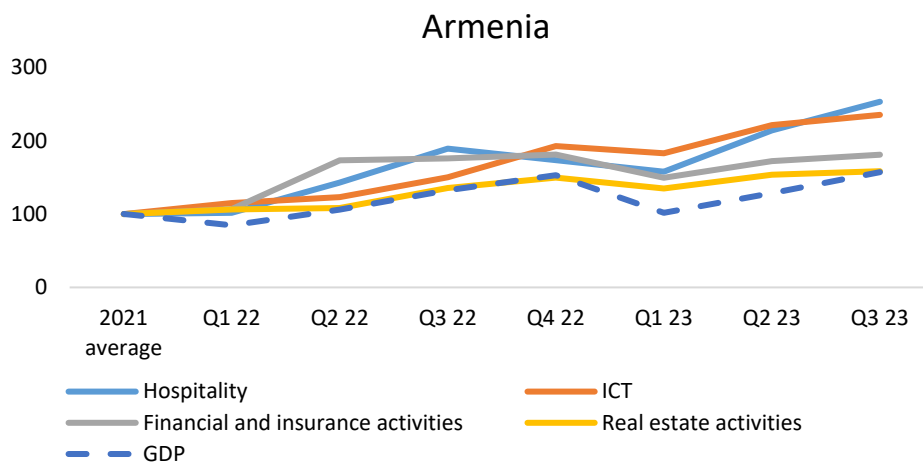
Note: Net money transfers = money inflow - money outflow. Tajikistan and Uzbekistan are omitted due to a lack of data. The Kyrgyz Republic has seen net remittances from Russia decrease from US\$ 2.1 billion in 2021 to US\$ 1.8 billion in 2022. This apparent anomaly is due to a spike in Russian demand for cash dollars, causing a shortage of cash dollars in the Kyrgyz Republic. The government reacted to this by imposing a ceiling of US\$ 5,000 on the physical movement of cash dollars for foreigners, resulting in a rise in money transfers from the Kyrgyz Republic to Russia of 71 per cent year on year.

Recent economic growth, bank profitability and ICT sector development

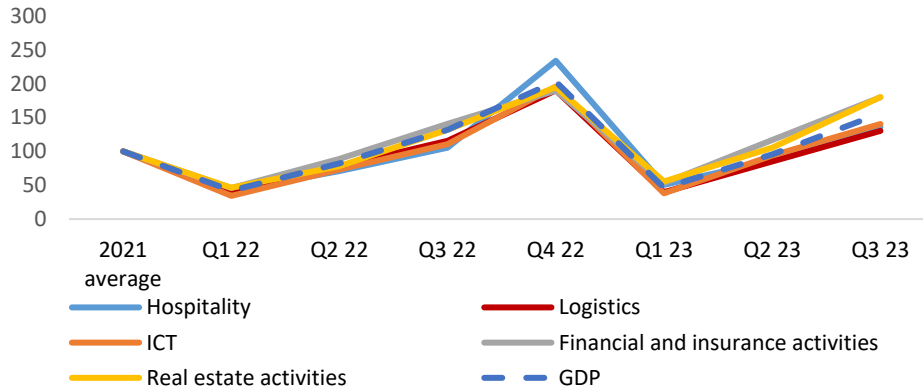
Since 2021, economies in the Caucasus and Central Asia have enjoyed something of a boom. In part, this is likely due to a post-pandemic rebound, as in other markets. Another source of growth, however, relates to the opportunity for businesses to sell into the vacuum in the Russian market created by sanctions and the voluntary exit of major international brands. Most countries in the Caucasus and Central Asia significantly increased their imports from the West while simultaneously expanding their own exports and re-exports to Russia, raising concerns about a lack of compliance with Western sanctions. These developments have been widely discussed in economic literature,⁹ so this note focuses on other sources of growth, such as the positive impacts of migration, business relocation and money transfers to the countries in question.

⁹ Since March 2022, most countries in the Caucasus and Central Asia have seen a marked increase in imports from the West and exports to Russia. See, for example, Chupilkin, Javorcik and Plekhanov (2023).

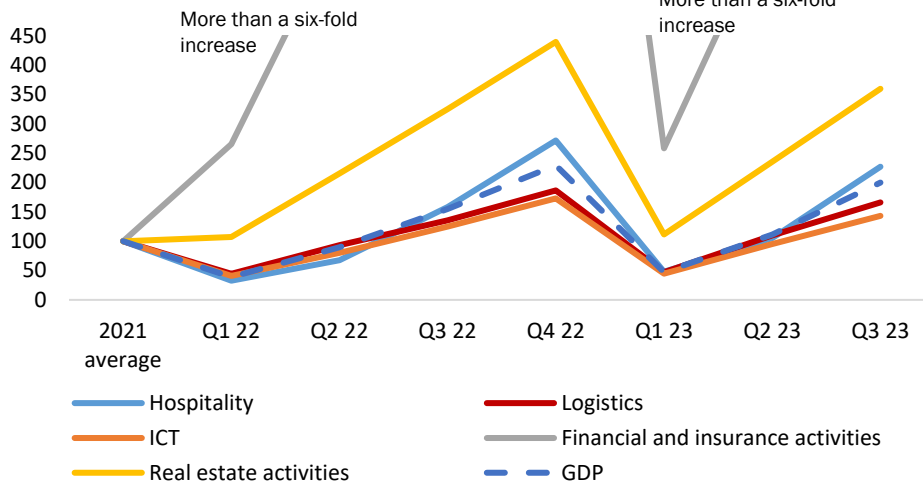
Figure 3. Economic growth, selected sectors (Q1-Q4 2021 average = 100)



Kazakhstan



Kyrgyz Republic



Source: National statistics offices through CEIC Data, authors' calculations.

Note: The Q1-Q4 2021 average (100) is calculated as a simple average of quarterly real gross domestic product (GDP). Due to a lack of data, quarterly real GDP was calculated using inflation rather than a GDP deflator – [quarterly nominal GDP/(1+quarterly inflation rate)]. Tajikistan does not release quarterly GDP data by production in real terms.

First, growth has been particularly strong in sectors that cater to the needs of high-income immigrants, such as real estate, hospitality, logistics, financial and insurance services, and the ICT sector (Figure 3). In the Caucasus, the ICT sector boomed most in Armenia, which has seen the highest influx of Russian migrants relative to population, and in Georgia, which welcomed more than 20,000 Russian tech professionals. The impact of Russian migration on the hospitality-related sectors was also quite strong across Central Asia. Fuelled by migrants' spending, the hospitality sector grew strongly in 2022, more than doubling in Q4 2022.

Second, while money transfers from Russia have decreased sharply since the end of 2022 and more than 30,000 Russians left Georgia in 2023, the ICT and hospitality boom appears to have been sustained throughout the period, as can be seen, for example, in Armenia.¹⁰

¹⁰ See Kucera (2024).

Third, in oil-rich countries, such as Azerbaijan, as the hospitality sector accounts for a very small share of GDP (only 1.8 per cent of Azerbaijan's gross domestic product (GDP) in 2022), the increase in migration and money transfers has had a limited impact on the economy as a whole.

Fourth, all countries in the Caucasus and Central Asia experienced a very significant expansion in financial services. For example, Kazakhstan saw its financial intermediation sector grow by 90 per cent in Q4 2022. In the Kyrgyz Republic, where money transfers from Russia accounted for almost 16 per cent of GDP in 2022, financial services saw a staggering 15-fold increase, bringing their share of GDP from less than 0.9 per cent in 2021 to 6.2 per cent in 2022.

Fifth, the Caucasus and Central Asian countries saw a very significant increase in bank deposits, driven in large part by a rise in money transfers from abroad. It is clear that the biggest winners were small countries that welcomed relatively large numbers of Russian migrants and visitors. Georgia, Armenia and the Kyrgyz Republic have seen their banking-sector deposits grow by about 60-70 per cent relative to the 2021 average, as opposed to just 5 per cent growth in Kazakhstan. Deposit growth improved banks' liquidity (the strongest increase in foreign-exchange liquidity was recorded in the Kyrgyz Republic) and lowered the cost of funding, allowing (at least in principle) an increase in lending to businesses and (most certainly) improving profitability. However, with Russian migrants returning home or moving to third countries, deposits started to decline and even returned to pre-2022 levels in some countries (Azerbaijan and Uzbekistan).

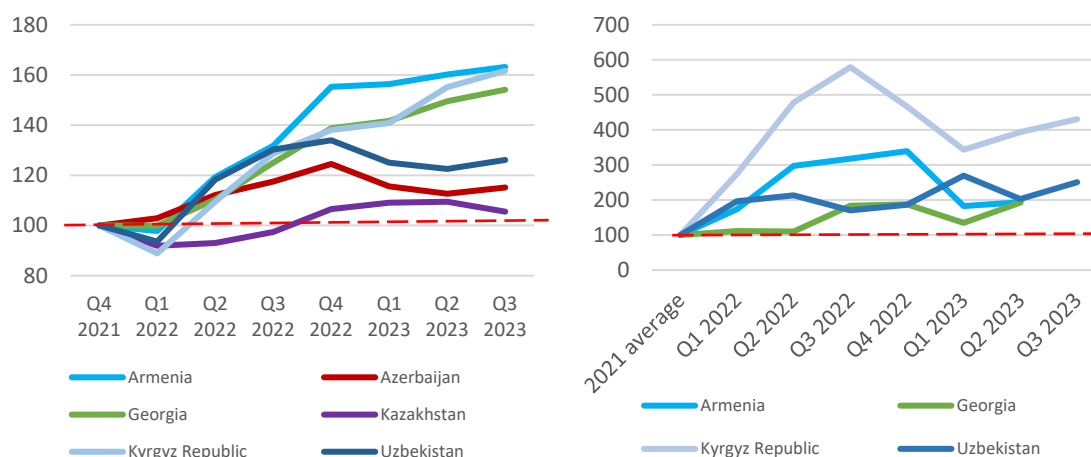
Sixth, elevated money transfers, migration and business relocation to the Caucasus and Central Asia led to very strong growth in the non-interest income of the banking sector. This is primarily related to a surge in transfer and currency conversion fees (Figure 4). Interest income increased as well on an abundance of cheap funding and an increase in high-margin consumer loans.

Seventh, in line with an argument put forward in a recent International Monetary Fund (IMF) paper,¹¹ the impact of *external* financial inflows on the banking sector appears to be stronger in countries with relatively underdeveloped financial sectors, where banks cannot draw on a large client pool or active *domestic* money or bond markets. The Kyrgyz Republic is an excellent case in point, as the country's financial sector is less developed than that of, say, Georgia, Kazakhstan or Uzbekistan.¹² By virtue of serving relatively large numbers of Russian visitors and migrants, Kyrgyz banks saw their non-interest income soar 359 per cent on the year in 2022, leading to very strong growth in profitability. In addition to money transfers, profitability was propelled by a sharp increase in trade-related transactions (and associated fees). Kyrgyz banks continued to record elevated profits in 2023 on the back of very high non-interest income. Another example is Armenia, which has received record numbers of Russian migrants (as a share of total population) while having an underdeveloped financial market. Armenia's banking-sector profits increased markedly in 2022. In 2023, the non-interest income of Armenian banks abated sharply, but remained above pre-war levels. Countries with somewhat more developed financial markets, such as Georgia and Uzbekistan, have enjoyed "more modest" increases in non-interest income of 80-150 per cent since Q2 2022. Interestingly, while exhibiting large quarter-to-quarter fluctuations, non-interest income shows no clear upward or downward trend through June 2023, even though Russian migrants have long begun to return home or move on to third countries.

¹¹ See Poghosyan et al. (2023).

¹² Based on the EBRD's Financial Market Development Index and comparing the Kyrgyz Republic with Armenia, Georgia and Uzbekistan.

Figure 4. Deposit growth of commercial banks (left; Q4 2021 = 100) and non-interest income growth of commercial banks (right; 2021 average = 100)



Source: National central banks through CEIC Data, authors' calculations.

Note: To remove seasonal fluctuations, we averaged the 2021 monthly non-interest income of commercial banks to calculate quarterly non-interest income.

Positive knock-on effects on local businesses

While many types of Russian firm relocated to countries in the Caucasus and Central Asia, the ICT sector received a particularly strong boost. In Georgia, for example, Russian migrants established 21,326 legal entities between the start of the war and July 2023,¹³ simultaneously increasing demand for and supply of highly qualified labour. Similar spikes in labour demand and supply due to migration and business relocation from Russia are also observable in other countries. In Kazakhstan, the impact of Russian migrants on local businesses was pronounced. The number of entities with Russian participation doubled, with the ICT sector recording the highest growth (almost a fivefold increase). Though some Russian entrepreneurs may have since left the region, the number of Russian businesses remains well above pre-war levels (18,927 firms in Kazakhstan as of 2 October 2023 compared with 7,929 in 2021).¹⁴

Russian migrants to the Caucasus and Central Asia tend to be highly skilled and well educated, with many specialising in ICT. To attract these specialists, most recipient countries introduced special tax regimes, simplified working permits and offered relocation support. Consequently, in 2022, the number of ICT sector employees almost doubled in Armenia.¹⁵ Also, some multinational corporations relocated their staff from Russia to countries in the Caucasus and Central Asia. For instance, Nvidia, a US chipmaker, opened a research centre in Yerevan, Armenia.¹⁶ While this might prove a temporary phenomenon, it has already intensified labour-market competition and enabled experience sharing and knowledge transfer, presenting youth with attractive role models and strengthening their incentive to acquire relevant knowledge and skills. This, in turn, will inevitably translate into better-quality ICT services and increased ICT exports.

Policy implications

Russian migration to the Caucasus and Central Asia since early 2022 appears to have been a driver of growth in all sectors of the recipient economies. This paper has documented some of the main recent trends. However, given the short timeframe and other data limitations, it is not possible to estimate with any precision the causal impact of Russian immigration on each sector. Still, it is plausible that the effects have been significant and have the potential to be long-lasting.

¹³ See Georgia Today (2023). The number of legal entities opened by Russian migrants exceeds the number of Russian migrants to Georgia illustrated in Figure 1. We reiterate that the number in Figure 1 is likely to be underestimated by the Russian authorities.

¹⁴ See Oxford Economics (2022).

¹⁵ See The World (2023).

¹⁶ See ADB (2023).

In particular, commercial banks have benefitted from a rise in money transfers, earning higher non-interest income (such as exchange-rate conversion and transfer fees), in addition to a rise in interest income. These increased profits could be channelled to lending to small and medium-sized enterprises (SMEs), strengthening the long-term potential of the economy. Most importantly, Russian migration to countries in the Caucasus and Central Asia has had a positive knock-on effect on the development of domestic ICT sectors, as many of the migrants were highly skilled ICT professionals. The associated technology transfer can provide a lasting boost to productivity on the ground.

The influx of Russian money and expertise carries obvious reputational risks for the recipient countries at a time of Western sanctions. These risks, however, can be managed and, with the right policies, turned into an advantage. With this in mind, therefore, policymakers in the Caucasus and Central Asia could focus on the following measures to lock in the gains of the transient flows of people and money:

(1) Work closely with international associations and development partners to strengthen sanctions compliance. Among other things, they could consider the full digitalisation of trade documents, capacity building for local authorities and the development of fair remuneration mechanisms for public-sector workers to discourage corruption.

(2) Ease immigration regimes and help with local logistical arrangements for highly skilled migrants. By liberalising migration, labour market and business registration regulations, countries in the Caucasus and Central Asia may facilitate the arrival of entrepreneurs, digital nomads and highly skilled workers from countries further afield. Moreover, developing and improving operations of the “single window” for relocating businesses and individual IT developers and entrepreneurs may further boost the attractiveness of countries in the Caucasus and Central Asia for foreign investors from the European Union and other advanced economies.

3) Improve general conditions for doing business. Many of the common problems for businesses in the Caucasus and Central Asia are associated with a high level of informality, skills mismatches, inefficiencies in tax administration and limited access to finance.¹⁷ Access to reliable broadband internet is also a constraint in many jurisdictions, particularly outside the (expensive) capital cities. Addressing these challenges through focused policy interventions could help to build a more business-conducive environment. Concurrently, the arrival of foreign businesses will strengthen competition and nurture a better business culture.

4) Introduce more friendly treatment of foreign companies. EBRD-supported investment councils, already present in most countries in the Caucasus and Central Asia, provide an excellent platform for dialogue on investment-climate issues, with a focus on international investors. Strengthening the capacity of these and similar platforms (and specialised government agencies) could further improve the business environment.

5) Create special technology/IT parks and creative industry parks. Progress in this area could be combined with measures to train, attract and retain talent related to advanced technologies. Several countries already provide incoming IT entrepreneurs with targeted benefits. In some Central Asian countries, ICT parks offer a special tax regime, access to the parks’ infrastructure, relocation support, and other tax and customs benefits for incoming foreign firms. Most recently, in 2022, the Kyrgyz Republic launched a “digital nomad” initiative to enable ICT developers who are Eurasian Economic Union citizens to work and reside in the country without the need for additional permits. The Kyrgyz Republic’s High Technology Park provides a unique bottom-up governance structure for export-oriented ICT companies. Financed exclusively by the contributions of resident companies (equal to 1 per cent of their export revenue), the High Technology Park has seen strong growth in the number of resident companies and a year-on-year doubling of ICT export revenues in recent years. More top-down (and government-financed) approaches to supporting ICT start-ups and companies are used by Kazakhstan’s Astana Hub and Uzbekistan’s IT Park. Favourable taxation regimes and other benefits are offered by other countries, such as Georgia, Armenia and Azerbaijan.

6) Facilitate the transfer of remittances and other funds from abroad to the home countries. The high cost of money transfers often prevents senders and recipients from using official channels. Further decreasing these costs may help formalise this channel and lead to greater financial intermediation.

¹⁷ For further details, please see the EBRD-World Bank Business Environment and Enterprise Performance Survey ([BEEPS](#)).

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