
Study on the socioeconomic impact on CCA economies of the Russian invasion of Ukraine and of regional conflicts

- Summary of results: Regional Brief 1 & 2 -

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Outline

1. Introduction
2. Key transmission channels
3. Commodity prices and inflation
4. Migration
5. Foreign trade and logistics
6. Financial markets
7. Government finances and government responses
8. Other regional conflicts
9. Summary

1. Introduction

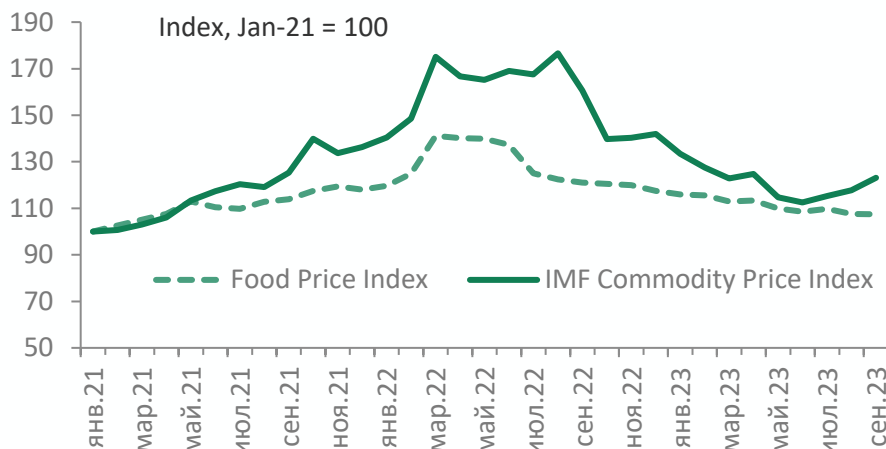
- » The Russian invasion of Ukraine has sent shockwaves through the global economy, requiring a comprehensive assessment of its socio-economic impact
- » To assess the economic consequences of the invasion, as well as other regional conflicts, on the Central Asian and Caucasus (CCA) economies, a comprehensive study was commissioned by the ADB, with Berlin Economics being the Principal Investigator
- » Together with National Consultants, who perform a more detailed country-specific analysis, we follow the development of 7 countries (AZE, GEO, UZB, KAZ, KRG, TRK, TJK) and other conflicts (e.g. between ARM and AZE and in Gaza)
- » The analysis is based on
 - interviews with stakeholders (policymakers, businesses, and other segments of the population)
 - media reviews
 - analysis of government policy decisions
 - economic data, and available research by other institutions
- » This first two regional briefs which are summarised here, cover the period from February 2022 to December 2023

2. Key transmission channels

- » We identified four key transmission channels, through which the war in Ukraine (and other regional conflicts) impacted the CCA economies
 - Commodity prices
 - Migration
 - Foreign trade and logistics
 - Financial markets
- » In addition, we analyse the impact on government finances and how governments reacted to the various challenges and chances
- » Analysed time period presented in two steps in line with prepared regional briefs
 - Feb-22 – Sep-23
 - Q4-2023

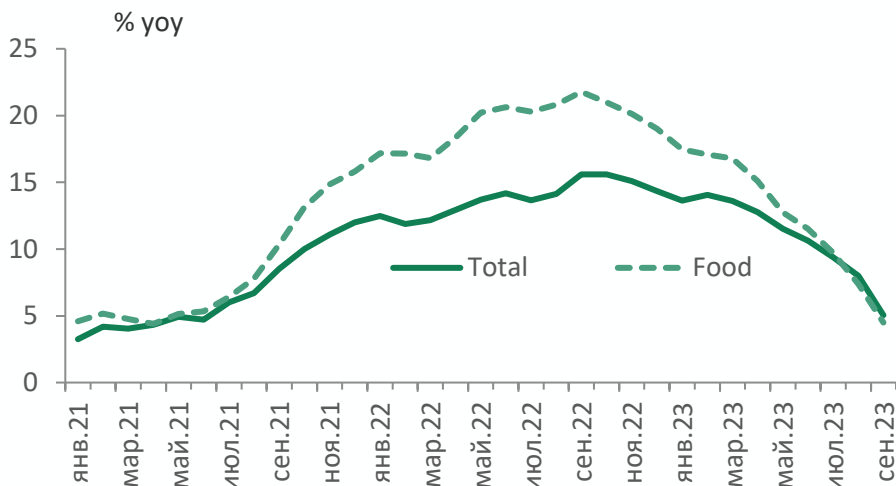
3. Commodity prices and inflation (until Q3-23)

Commodity price indices



Source: FAO, IMF

Inflation in AZE



Source: National Statistical Committee Azerbaijan

Commodity prices

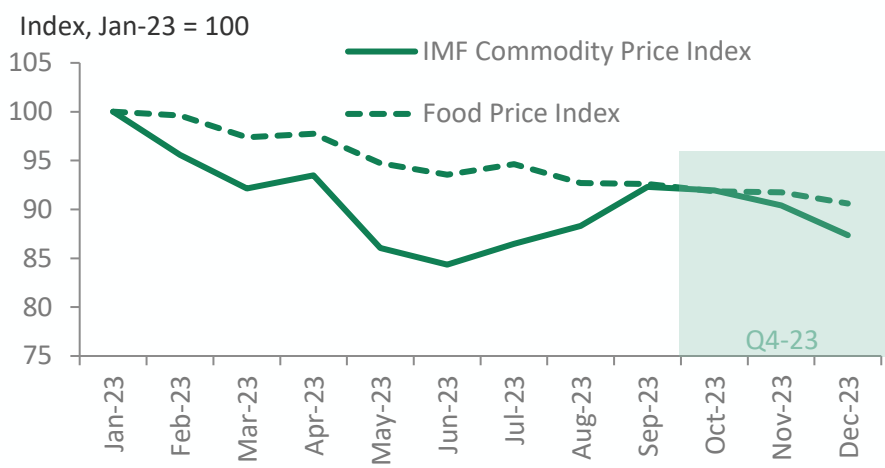
- » RUS war in UKR caused an increase in global food & energy prices and inflationary pressures across most CCA economies
- » The commodity price index of the IMF jumped by 25% from January to March 2022
- » The FAO food price index increased in the same period by 18%
- » International commodity prices started to decline again at the end of 2022

Impact on CCA economies

- » These developments were echoed in the inflation dynamics of most CCA economies
- » E.g. inflation rate in 2022 spiked to double digit averages for AZE, KGZ and KAZ
- » However: inflation pressure also eased as commodity prices declined in 2023
- This increase in inflation had a strong negative impact on social disparity/welfare

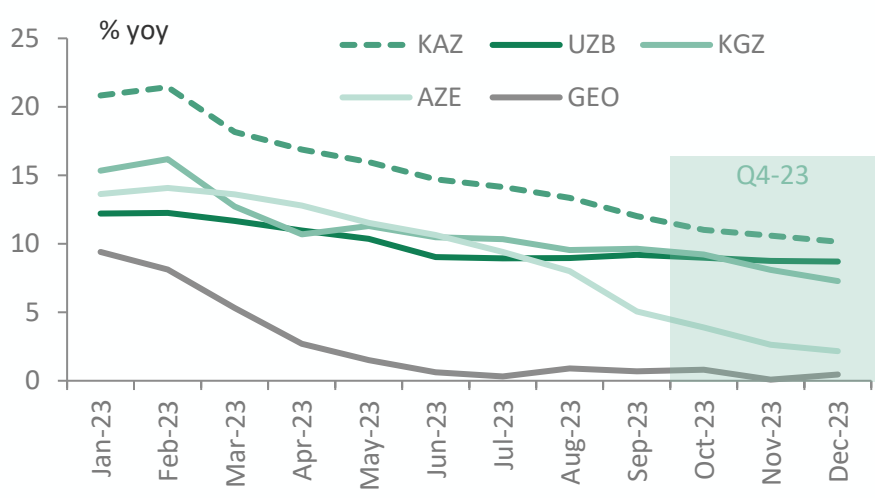
Commodity prices and inflation (Q4-23)

Commodity price indices



Source: FAO, IMF

Inflation



Source: IMF, National Statistics Offices, own calculations

Commodity prices

» In Q4-23 global commodity prices were on average 10% lower than in Jan-23

Impact on CCA economies

» The decrease of international prices has also had a direct impact on inflation in the CCA countries

- E.g. inflation in Kazakhstan decreased to 10% by end of 2023 compared to over 20% at the beginning of the year

» Despite a decline, inflation remained high in countries such as KGZ and UZB

» Strong differences between countries, e.g. in GEO inflation since June at just over 0%

➤ With inflation on the decline, the negative socio-economic implications should also gradually subside

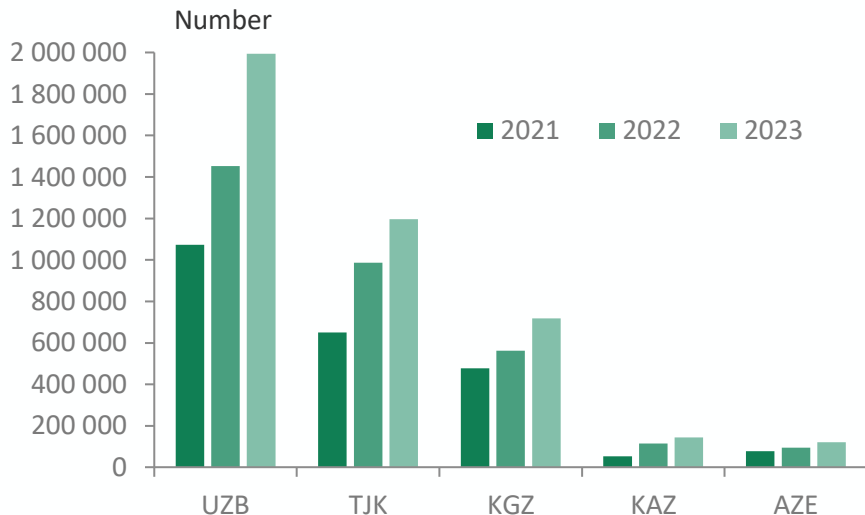
4. Migration (until Q3-23)

Relocated RUS/BLR people in GEO



Source: German Economic Team

Border crossing to take up work in RUS

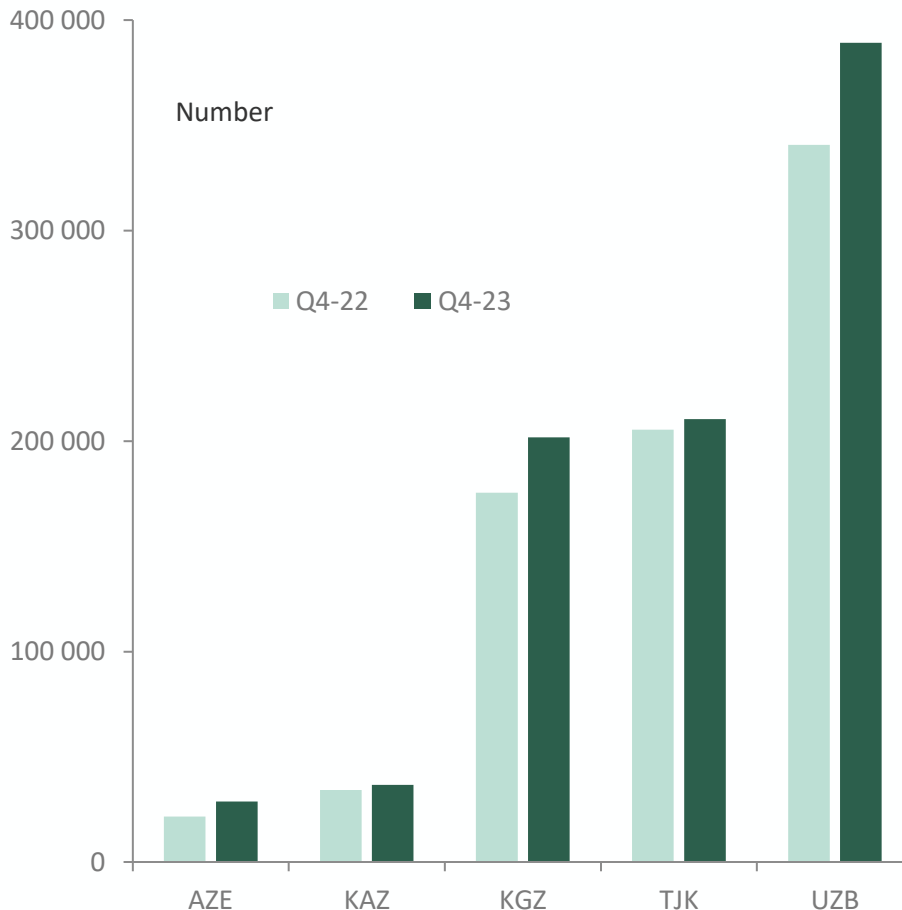


Source: Own calculations based on Russian Border Guard data

- » The RUS invasion of UKR had a strong impact on migration flows in the CCA region
- » There was an influx of migrants to CCA countries from RUS during the course of RUS partial mobilisation waves
 - E.g. for GEO the stock of migrants reached around 100,000 people in 2022
 - This led to rising housing prices / rents and increasing demand for imports such as construction materials & cons. goods
- » Simultaneously, labour demand in RUS increased, leading to higher labour migration from CCA countries to RUS
 - 2022 vs 2021: Number of labour migrants increased for UZB, TJK and KGZ by 378 thsd. (+35% yoy), 337 thsd. (+52%) and 85 thsd. (+18%)
- Positive impact from skilled RUS migrants in CCA economies
- Increasing number of labour migrants in RUS

Migration (Q4-23)

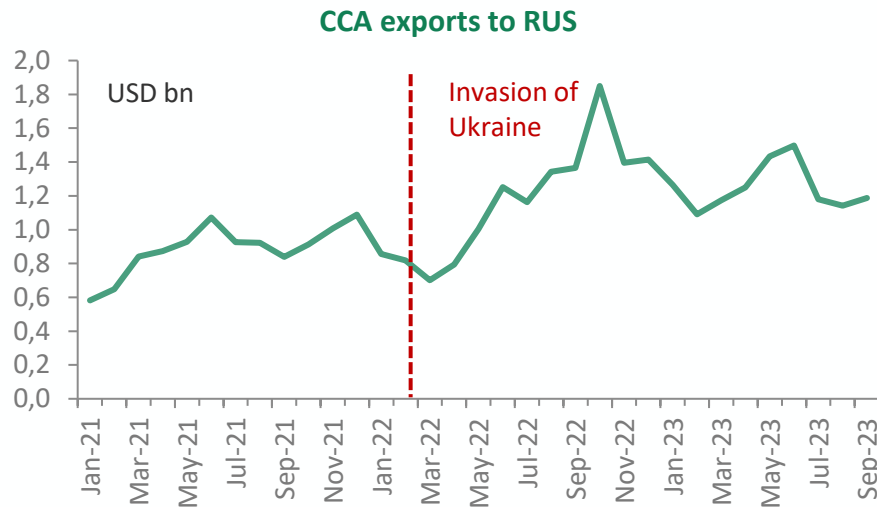
Border crossing to take up work in RUS



Source: own calculations based on Russian Border Guard data

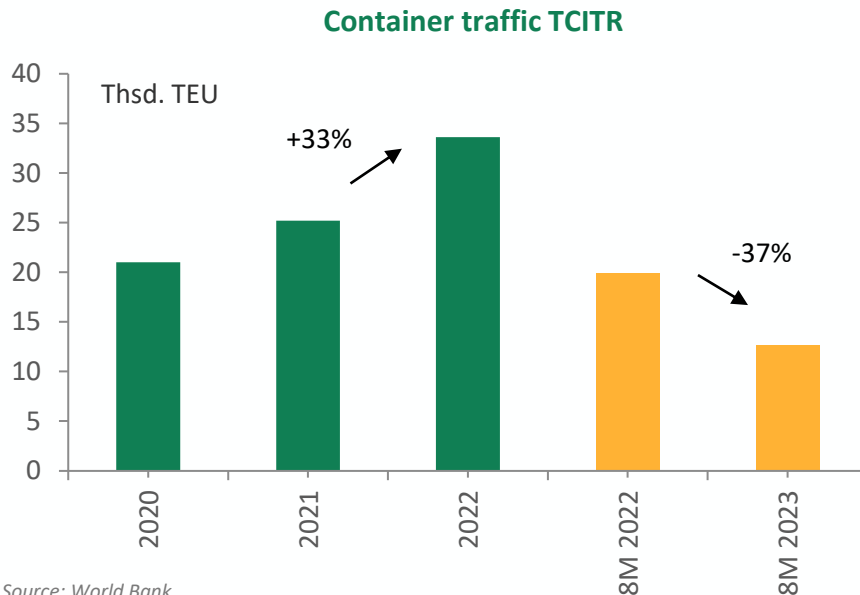
- » Lack of hard statistical data, but qualitative reports that RUS citizens started to leave CCA countries again
 - Rents decreased: In Tbilisi rent prices for appartements were more than 5% lower in Nov-23 than in Mar-23
 - Comparable developments are also reported for Kazakhstan
- » The number of labour migrants from the CCA countries in RUS continued to increase
 - Border crossings from the CCA countries to RUS for work purposes increased from 3.2 m in 2022 to 4.2 m in 2023
 - Trend continued in Q4-23: more border crossings than in Q4-22, but slowing growth rate
- Number of Russian citizens in CCA economies decreased
- Number of labour migrants from CCA economies in RUS continued to grow

5. Foreign trade and logistics (until Q3-23)



Note: Without TJK and TKM due to data limitations

Source: Own calculations based UN Comtrade, QazStat and Kazakh State Revenue Committee data



Source: World Bank

Goods exports

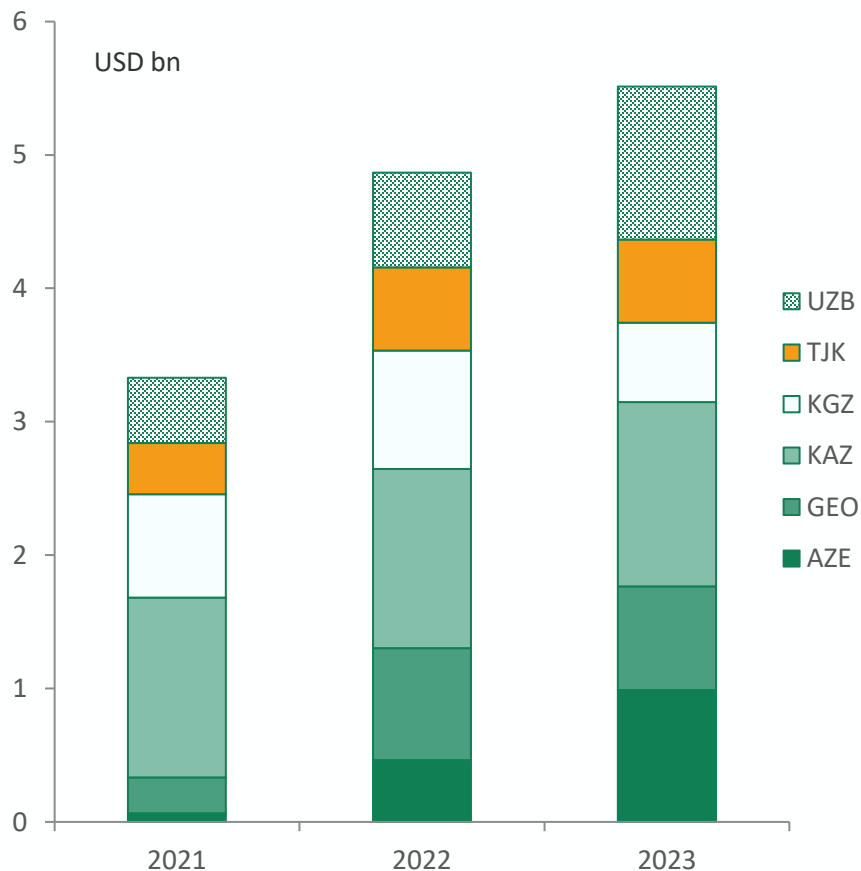
- » 2022: Exports of CCA economies to RUS increased by 32% yoy (KAZ +25%, UZB +53% KGZ +173%)
- » Trade creation played a main part, but also re-exports (mainly not connected to sanctions evasion)
- » 9M2023: CCA economies exports to RUS continued to grow by 21% but declining dynamics, exports in Q3-23: -9% yoy

Trade routes

- » Sanctions led to a shift of trade flows to the Trans-Caspian transportation route (TITR)
- » Trade volume in 2022 through TITR reached 33.6 thsd. TEU, +33% to 2021
- » But bottlenecks remain in infrastructure and organisational inefficiencies; decline of transported containers in 8M2023 yoy
- More CCA economies exports to RUS and impact of trade routes between Europe and Asia

Foreign trade and logistics (until Q3-23)

Energy imports from Russia



Source: Own calculations based on UN Comtrade and Qazstat

Service exports

- » Tourism to CCA countries from RUS increased e.g.
 - GEO: 2022 tourism exports to RUS: USD 891 m (+451% yoy); 9M2023: USD 767 m (+36% yoy)
 - UZB: 2022: number of tourists from RUS tripled to 568 thsd. vs 2021; 9M2023: 559 thsd. RUS tourists (+41% yoy)
 - Similar trends are also reported for other countries in qualitative interviews

Energy trade

- » RUS significantly expanded energy exports to CCA from USD 3.3 bn in 2021 to estimated USD 5.5 bn in 2023
 - AZE imports more crude oil and gas; GEO more oil products imports
- » Strongly growing energy imports from RUS and tourism exports

Foreign trade and logistics (Q4-23)



Note: Without TJK and TKM due to data limitations
Source: Own calculations based UN Comtrade, QazStat

Goods exports

- » Q4-23: export growth reversed, export of CCA countries to RUS decreased 20% yoy

Trade routes

- » Oct-23: KAZ, AZE and GEO established a joint company to offer a one-stop-shop for transportation of goods through TITR, which should solve organizational inefficiencies

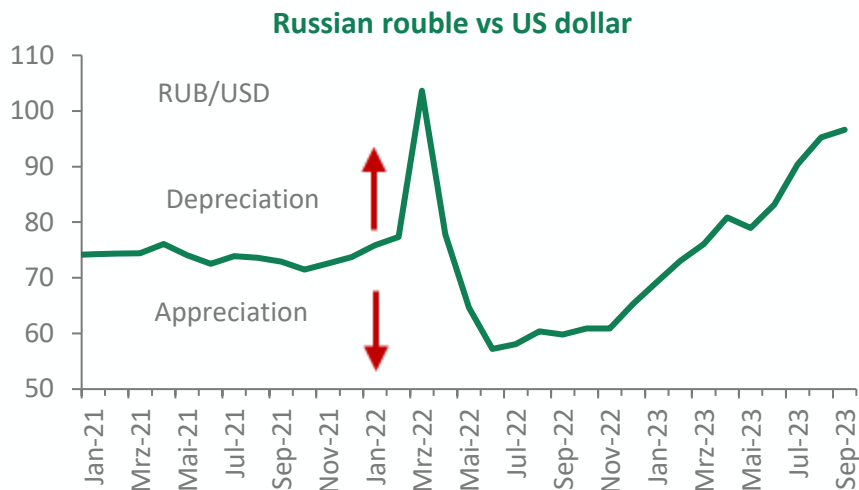
Service exports

- » Q4-23 vs Q4-22: exports from CCA to RUS remained strong but started to decline
 - GEO tourism exports to RUS: -48% yoy;
 - UZB: -10% on visitors from RUS yoy

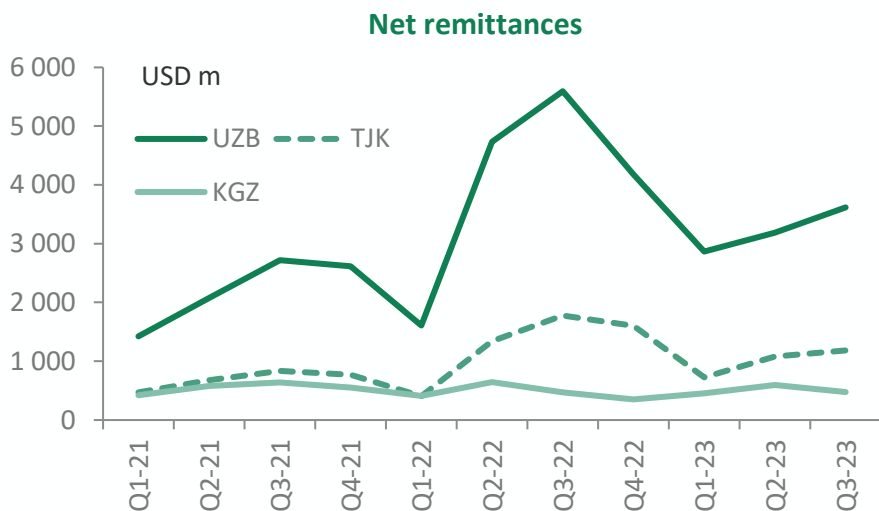
Energy trade

- » Oct-23: RUS started to export gas to UZB via KAZ and committed to export 2.8 bcm in next to years
- Goods and services trade with RUS started to normalise in Q4 2023

6. Financial markets (until Q3-23)



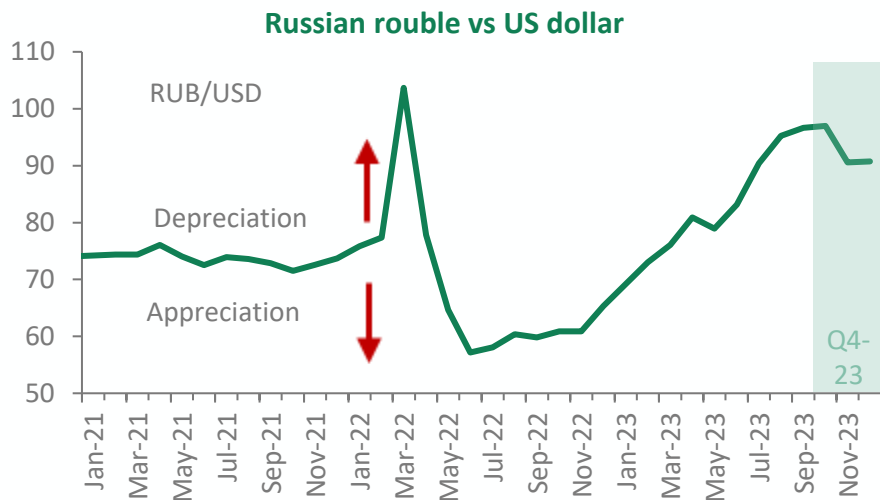
Source: Bank of Russia



Source: Own calculations based on IMF BoP statistics; Remittances calculated based on Compensation of employees and net personals transfers committee data; for KGZ use of National Bank data

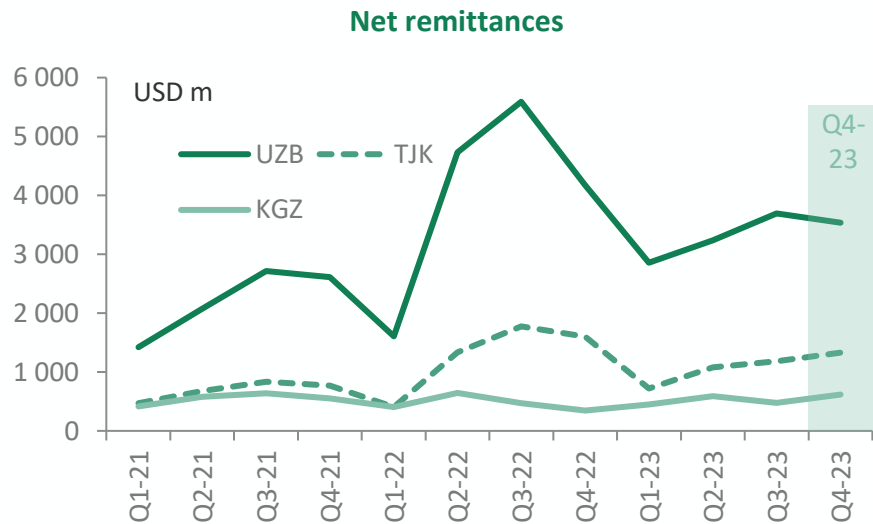
- » CCA currencies saw an initial depreciation against US dollar in line with the depreciation of the RUB
- » Influx of RUS migrants led to an inflow of FX and an appreciation of local currencies
- » UZB, TJK saw strong growth of remittances from RUS due to more labour migrants and the strong Russian rouble
- » Banks benefitted from additional business due to Russian migrants and remittances
 - E.g. net profit of banks in Kyrgyzstan increased by 6.5 times in 2022 vs 2021
- Strong exchange rate volatility and increased remittances
- Banks benefitted in the short-term

Financial markets (Q4-23)



Source: Bank of Russia

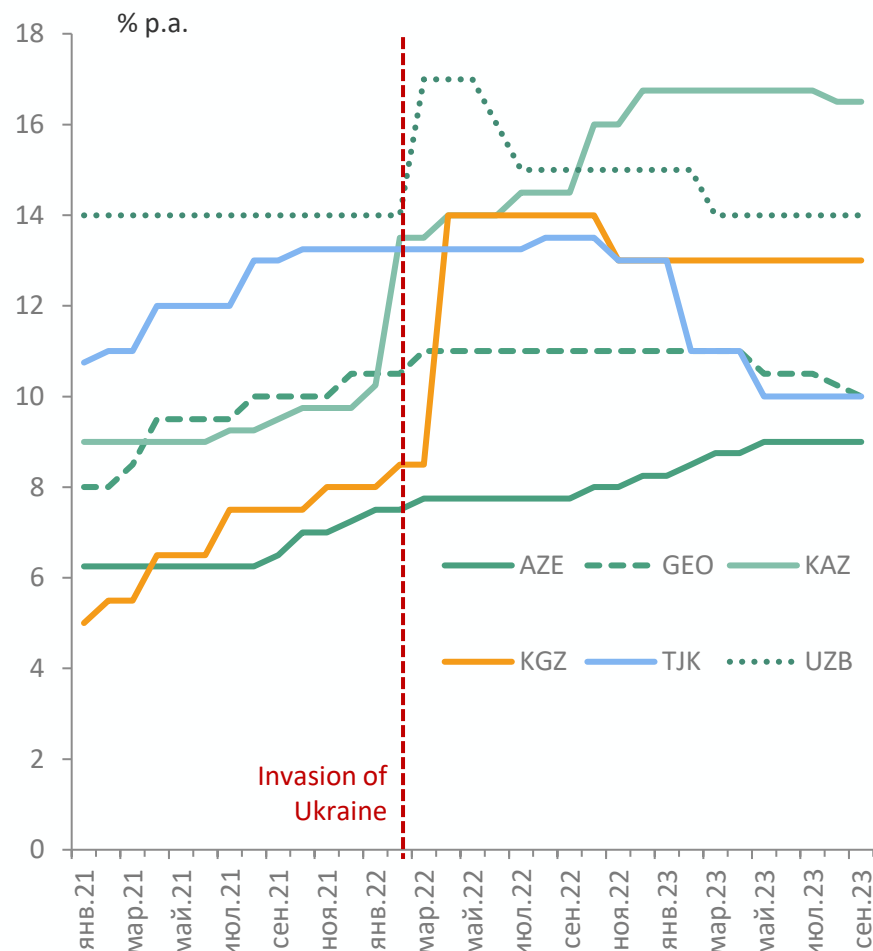
- » Remittances in Q4-23 below Q4-22 levels despite increase of labour migrants
- » Reason: despite appreciation in Q4-23 overall weakened position of the Russian rouble versus 2022
- » In terms of exchange rate volatility: nearly all currencies remained rather stable in Q4-23
- Decline of remittances compared to the previous year



Source: Own calculations based on IMF BoP statistics; Remittances calculated based on Compensation of employees and net personals transfers committee data; for KGZ use of National Bank data

7. Government finances and responses (until Q3-23)

Policy rates



Source: Central Banks

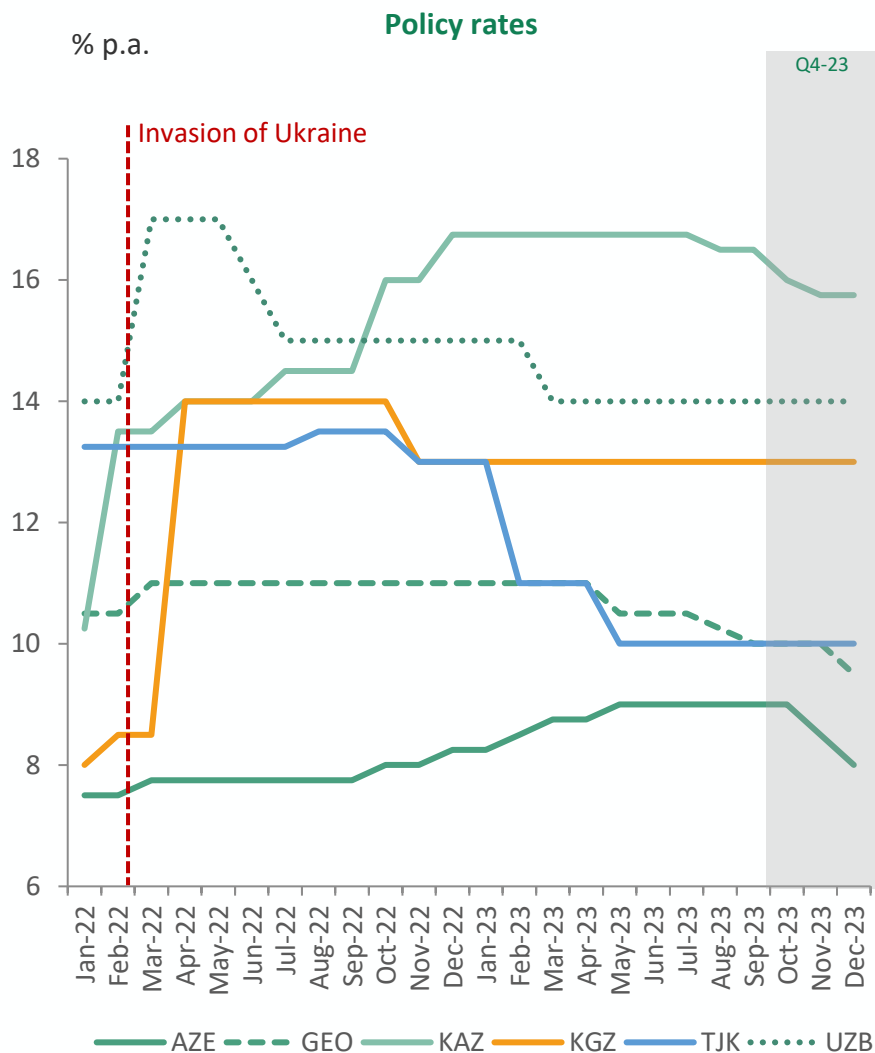
Government finances

- » Russia's invasion of Ukraine had an impact on the countries' public finances
- » KAZ benefitted from the higher oil price in 2022; KGZ from more trade and higher import VAT; GEO from higher tax revenues linked to RUS immigration

Government responses

- » All governments raised policy rates to combat inflation, some restricted food exports or decreased tariffs (UZB)
- » Support to population: KGZ increased salaries of civil servants; UZB increased transfers to vuln. households by 78% in 2022
- » Measures to attract skilled professionals (e.g. by providing IT visas in KAZ and UZB)
- Positive impact on revenues
- Various measures to combat inflation and support population

Government responses (Q4-23)



Source: Central Banks

- » Inflation dynamics eased noticeably in most of the CCA countries in Q4-23
- » As such: AZE, GEO and KAZ continued to ease their monetary policy
- » KGZ, TJK and UZB did not change the main refinancing rate in Q4-23 but are likely to follow
- Decrease of policy rates

8. Other regional conflicts

Construction of the Qush-Tepa canal

- » In 2022, Afghanistan started the construction of the Qush-Tepa canal, which will take in water from the Amu Darya a major river in Central Asia supplying water to UZB and TKM
- » The canal is planned to have an intake of 25% in 2030 of current water volume and will further exacerbate the existing water shortage in Uzbekistan and Turkmenistan

Border clashes between Tajikistan and Kyrgyzstan

- » The clashes escalated in September 2022, but whose economic impacts seems to have remained on the local level

Conflict between Armenia and Azerbaijan

- » The conflict escalated in September 2023
- » AZE significantly adjusted its investment and fiscal plans with priority to finance the reconstruction of the Karabakh and East Zangezur regions

The conflict in Gaza

- » The conflict escalated after an attack by Hamas in October 2023
- » Of special significance here is the blockage of the Suez Canal which caused most of the maritime trade to be re-routed through the Cape of Good Hope
- » As the impact on logistics materialised only at the end of Q4-23, there were no major implications on the CCA countries for the period of this report

9. Summary

- » **Commodity prices** led to increase of inflation and had a negative impact on social disparity/welfare (especially for low-income households)
- » With falling commodity prices, inflation is also declining
- » **Migration:** Strong immigration from RUS and emigration of labour migrants to RUS had a positive impact: qualified workforce and higher remittances
- » **Trade:** CCA economies benefitted from more exports to RUS, including but not mainly due to re-exports
- » Negative impact due to blocked trade routes but potential benefits from investment in TITR
- » Strongly growing tourism exports and energy imports from RUS
- » **Financial markets:** Strong exchange rate volatility and increased remittances led to profits of banks in the short-term
- » Remittances started to decline but still very high level
- » **Government finance and response:** Positive impact on revenues
- » Various measures to combat inflation and support the population
- » With decreasing inflation, policy rates decreased
- » **Other regional conflicts** with local impacts and possible future impacts on trade routes

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