

# Labour migration from Ukraine since 2014

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Berlin/Kyiv, September 2019

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# 1. Introduction

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## Situation

- Since 2014, Ukraine has faced conflicts in the East and over Crimea, along with a severe economic crisis that saw GDP collapsing in 2014 and 2015 and gradually recovering since 2016.
- Along with the recovery, emigration to Poland has increased sharply, while fewer Ukrainians apparently work in Russia.
- Many employers, including foreign-owned firms, are concerned about shortages of suitably qualified industrial workers and growing wages.

## Purposes of this policy briefing:

- Contribute to understanding of extent, dynamics and characteristics of labour migration from Ukraine since 2014
- Better understand the effects of migration and related phenomena (remittances) on labour markets and the macroeconomy
- Derive policy implications on how to react to increasing migration

## 2. The extent of labour migration from Ukraine

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### Our interest

- Emigrants that maintain linkages with the Ukrainian economy
- Not diaspora having left many years ago

### Difficulty: catching migrants in statistics

- Key distinctions with relevance to data sources:
  - **Temporary** (incl. circular, seasonal) migration: often belong to a household at home, send remittances, return occasionally
  - **Permanent** migration: household in destination country. May retain remittances or other ties to Ukraine
  - **Regular/irregular** (illegal) migration
- Different data sources cover different types of migration:
  - Ukrainian labour force survey: temporary only, but also irregular
  - Foreign administrative data (citizenship concept): temporary and permanent, but only regular
  - World Bank/UN (birthplace based): includes people who left long ago

## 2.1 Destination countries and number of labour migrants

	World Bank Data		Labour Force Survey		Eurostat Data**	
	2010	2017	2012	2017	2012	2017
<b>Former Soviet Union</b>						
Belarus	141	227	21	22	n.a.	n.a.
Kazakhstan	272	346	n.a.	n.a.	n.a.	n.a.
Russian Federation	3.647	3.272	510	343	n.a.	346**
<b>EU member states</b>						
Czech Republic	34	138	152	123	103	116
Germany	203	212	28	10	112	118
Italy	173	232	156	147	225	235
Poland	333	221	169	507	122	451
Portugal	15	48	21	21	44	32
Spain	88	96	53	n.a.	78	89
<b>Total EU (Eurostat)</b>					<b><u>779</u></b>	<b><u>1,177</u></b>
<b>Other</b>						
Israel	249	137	n.a.	14	n.a.	n.a.
United States	332	348	n.a.	23	n.a.	n.a.
<i>Not listed countries*</i>	1,038	717	70	93		
<b>TOTAL</b>	<b><u>6,525</u></b>	<b><u>5,995</u></b>	<b><u>1,182</u></b>	<b><u>1,303</u></b>	-	-

\*Difference between totals and countries listed; Labour Force Survey data include US, Israel in 2012; Spain in 2017

\*\* All EU data from Eurostat, RUS data from Rosstat

Source: World Bank; Ukrstat, Labour Force Survey migration modules 2012 and 2017; Eurostat; Rosstat

# Number of migrants: assessment

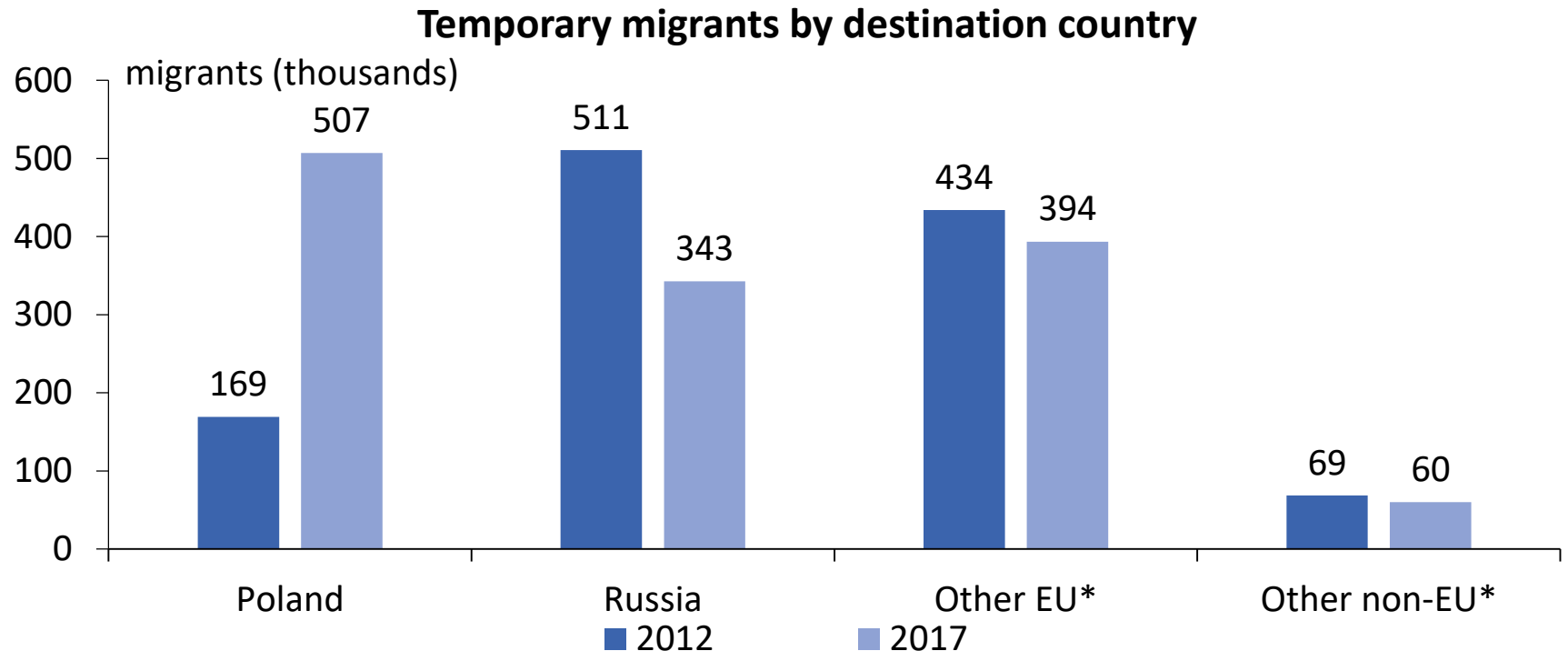
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- World Bank data: Numbers inflated by intra-CIS migration, too high (6 m Ukrainian “migrants” abroad, 5.4 m migrants in UA)
- UKR LFS data
  - Covers only temporary migrants , underestimates recent migrant flows: e.g. more Ukrainians are officially registered in Italy than shown in LFS
  - Shows only slight increase from 1.1 m to 1.3 m
  - Clear shift in destination countries to the West, esp. PL, IT, CZ
- Eurostat data
  - Represents lower bound estimate (regular migrants only)
  - Excludes irregular migrants due to visa liberalisation since 2017

## Conservative estimate of emigrants (still) interacting with Ukrainian economy:

- **2017: 2 m** (7% of working-age pop.), appr. **75% in EU**
- Partner country data + 1/3 of LFS migrant numbers to account for irregular temporary migrants
- **2012: 1.6 m** (corresponding estimate)

# East-West shift in destination countries



\*Finland is included in non-EU in 2012, but in EU in 2017 (approx. 13 thds.)

Source: Ukrstat, LFS 2012 & 2017

- Decline in Russia: probably related to conflict, migrants from Eastern Ukraine no longer in LFS sample
- Sharp increase in Poland: almost 200% increase 2012-2017
- National data > LFS data for DE, IT: prob. more permanent migration

## 2.2 Ukrainian migration to Poland since 2017

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### Background

- Uncertainty about alleged increases of migration to PL in 2018 and 2019

### The “simplified procedure”

- Flexible regulation for employing temporary workers from CIS countries
- Would not necessarily be contained in regular administrative data
- No data on actual employment under simplified procedure
- Estimates of total UA migrants in PL needed

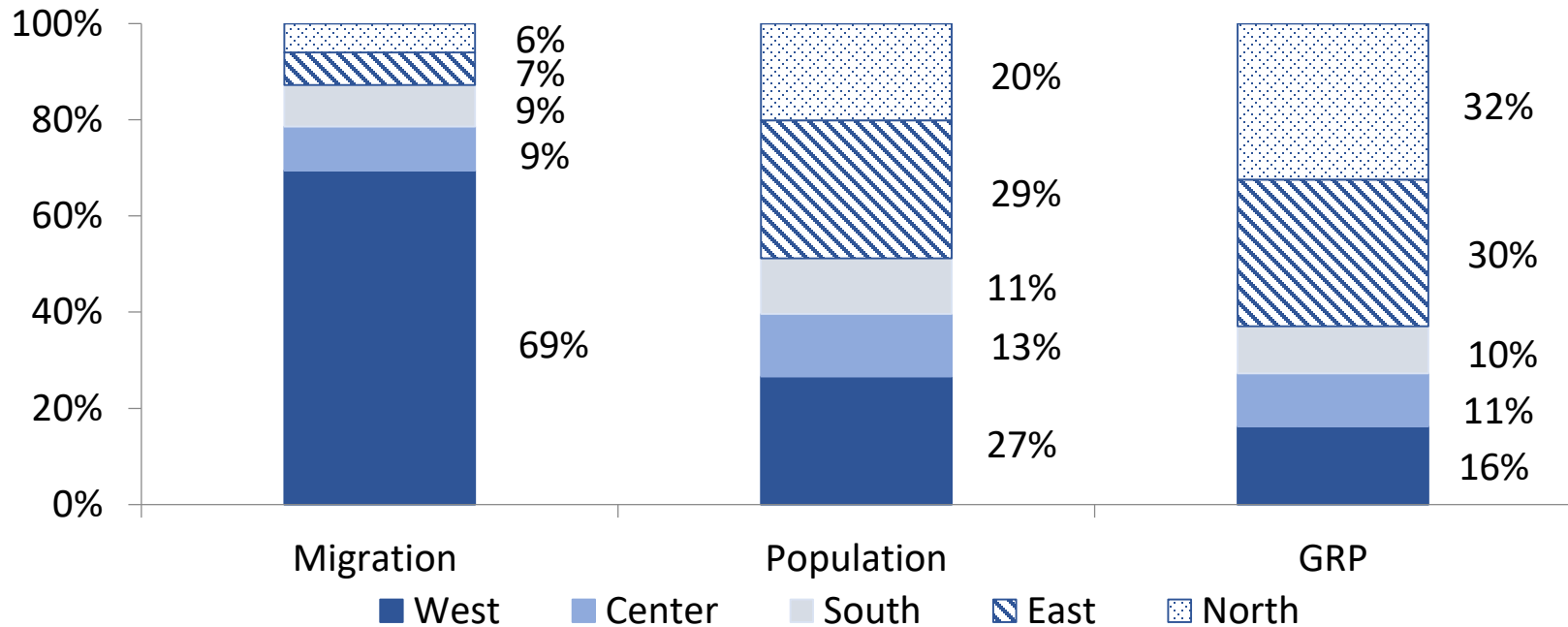
### Study by Growiec et al. (2019)

- Estimates Ukrainian migrants and their contribution to PL economy
  - 2014: 200-300 thsd.
  - 2017: 800-900 thsd.
  - 2018: 900 thsd. – 1.1 m
- Sharp increase of migrants in PL after 2017 (+200 thsd. per year) possible



## 2.3 Origin regions of (temporary) labour migrants

Migrants, population and gross regional product (GRP) by economic region

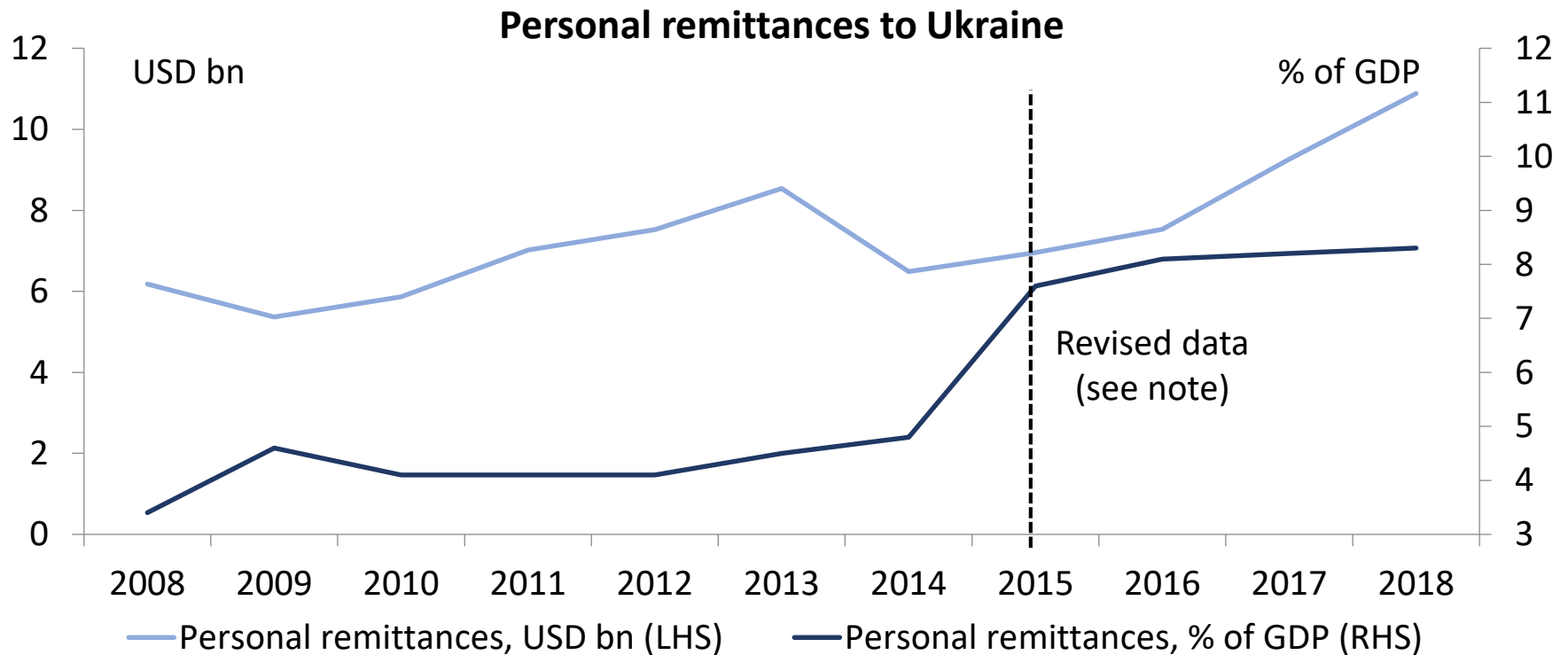


Source: Ukrstat, LFS 2017

Note: GRP denotes Gross Regional Product

- 69% of migrants stem Western Ukraine, vs. only 27% of total population.
- Western Ukraine is also the region with lowest per capita GRP.
- GRP per capita in the North may be overstated due to company registrations in Kyiv.

## 2.4 Remittances from labour migrants



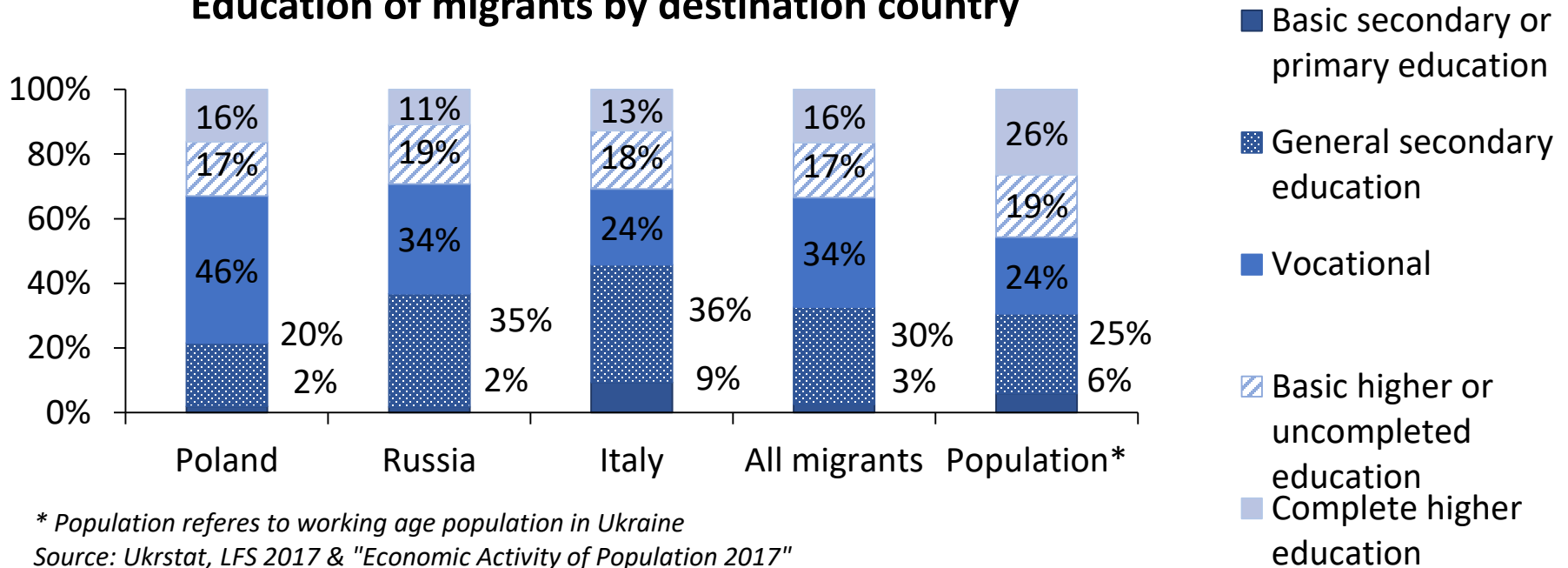
Source: National Bank of Ukraine

Note: Break in series from 2015 due to a new methodology for estimating informal remittances (see NBU 2018). The revised figures for 2015 through 2017 (as in the table) are app. US\$ 2 billion (2 percentage points of GDP) higher than the unrevised figures.

- Large nominal increase in remittances, since 2015
- But fairly constant in relation to GDP at 8%
- Important foreign income, keeping current account deficit at 3% of GDP

### 3. Socioeconomic characteristics of labour migrants

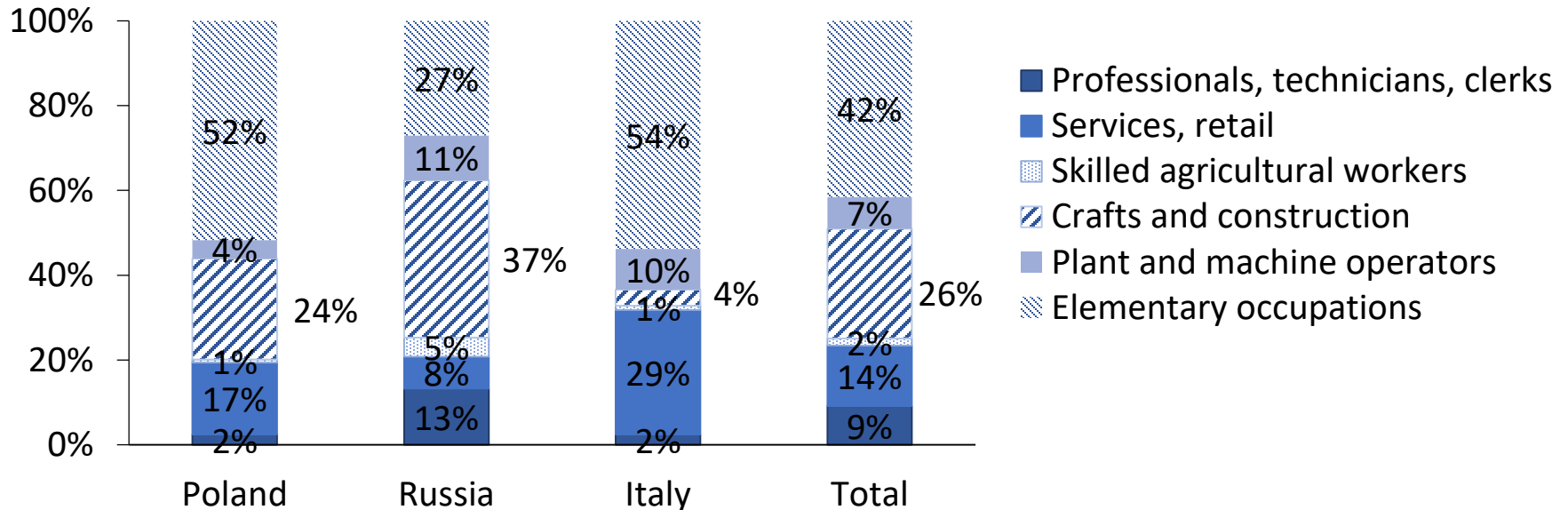
Education of migrants by destination country



- Migrants are less likely to be tertiary-educated, but more likely to have a vocational or upper secondary education.
- In particular, Poland attracts workers with a vocational education.
- With rising emigration to Poland, the reported shortages of industrial workers in Ukraine could become more pertinent.

# Occupations of migrants in their destination countries

Occupation of migrants by destination country



Source: Ukrstat, LFS 2017. Note: "Professionals..." denote the most complex occupations, "Elementary occupations" include various simple tasks in service and agriculture sectors

- PL, IT: mainly simple occupations, below-average share of crafts/construction
- Russia: concentration in crafts/construction, highest share of professionals
- Matches LFS statistics on "overeducation" :
  - 46% of migrants in PL, 56% in IT
  - Only 21% in RU
- Shift to EU caused by high wage differentials despite non-complex jobs?

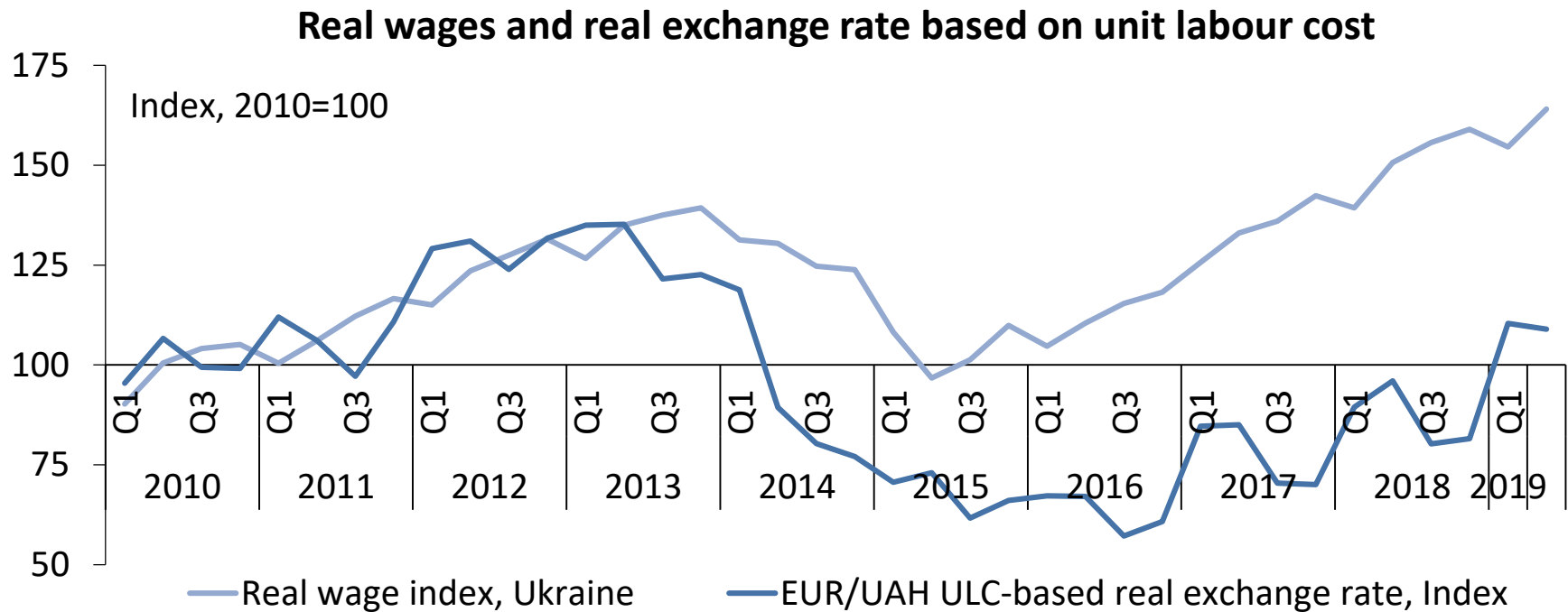
# Further socioeconomic characteristics of migrants

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## Labour migrants from Ukraine in 2017 (LFS data)

- Migrants are mainly male:
  - 70% of migrants male
  - Only in Italy 71% females (focus on domestic services, care jobs)
- Younger people overrepresented:
  - Almost 50% of migrants under 35
  - In population, only 34% under 35
- Half come from urban, half from rural backgrounds:
  - In Poland 50-50 match in migrants
  - Russia: 64% from urban areas
  - Italy: 67% from rural areas

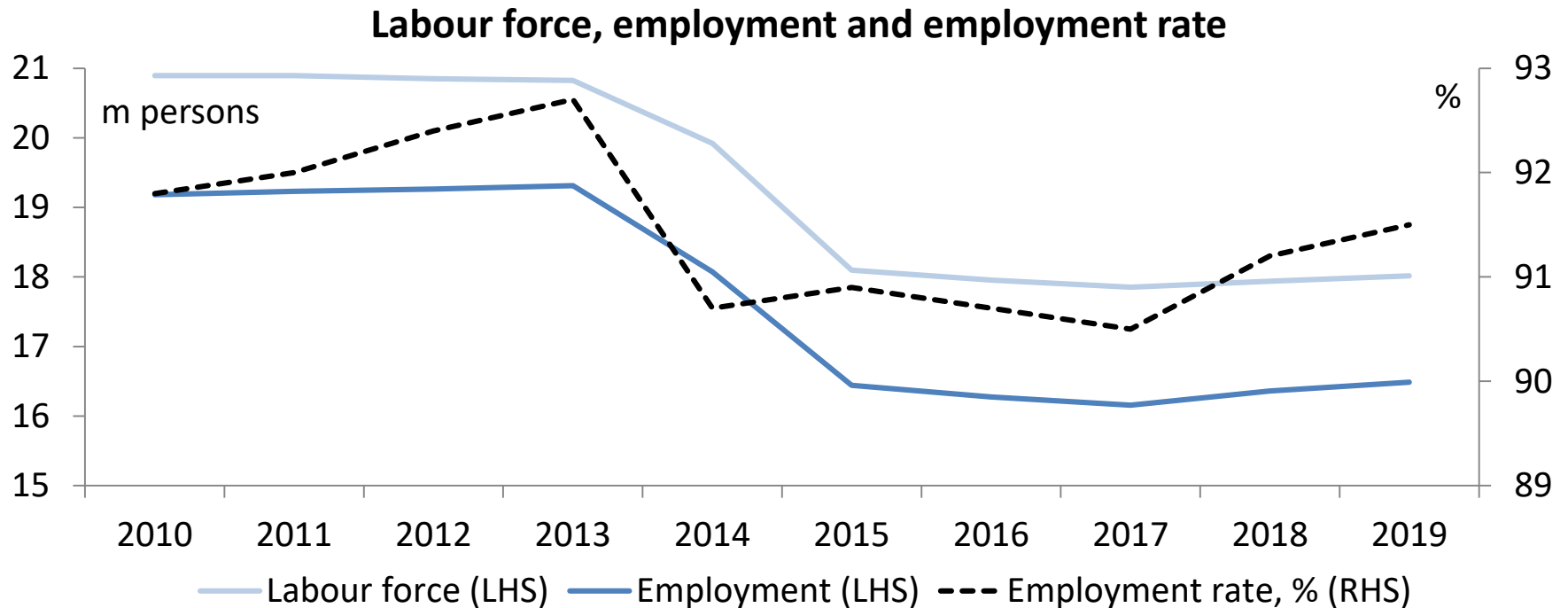
# 4.1 Effect of migration on the national labour market



Source: Ukrstat, IFS, own calculations

- Migration likely to cause rise in wages (labour supply + remittances effect)
- Real wages have increased sharply since 2015 (but are still lowest in Europe)
- But real exchange rate based on unit labour costs is still lower 2019 than 2013
- Ukrainian wages still competitive, but present rate of wage increases without corresponding productivity rises can cause problems

# Employment rise despite real wage increase

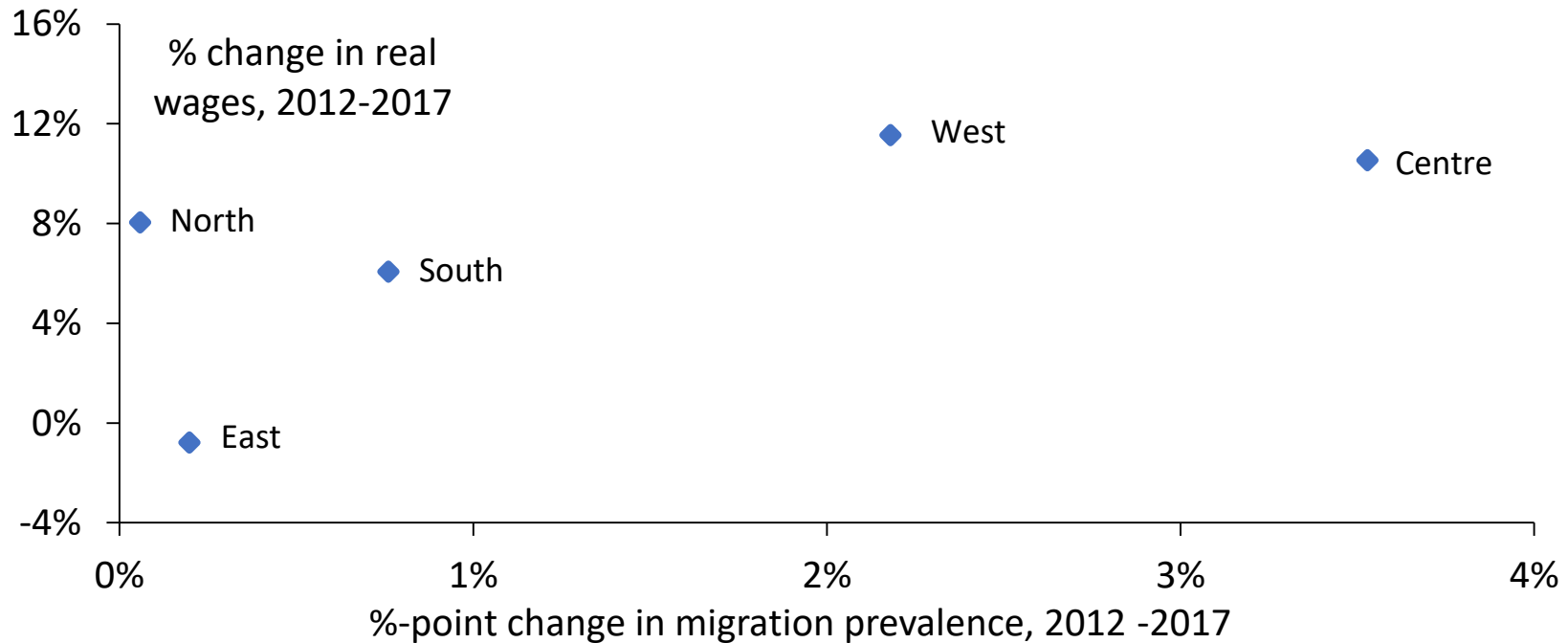


Source: Ukrstat

- Empl./labour force dropped 2013-2015 due to conflict and economic crisis
- Magnitude of migration compared to labour force is significant: 200 thsd. workers emigrating to PL per year would correspond to 1% of labour force
- Effect of migration on wages highly likely
- But employment has risen since 2017 despite wage increases!

## 4.2 Effect on regional labour markets

### Changes in real wage and migration prevalence by region



Source: Ukrstat LFS 2012 & LFS 2017, National Bank of Ukraine

- Real wages have grown fastest in the two regions with the largest increase in migration prevalence
- Positive correlation between emigration and wage increases
- Also: Weak (West) to no (Centre) growth recovery in main emigration regions



# 5. Macroeconomic effects of migration and remittances

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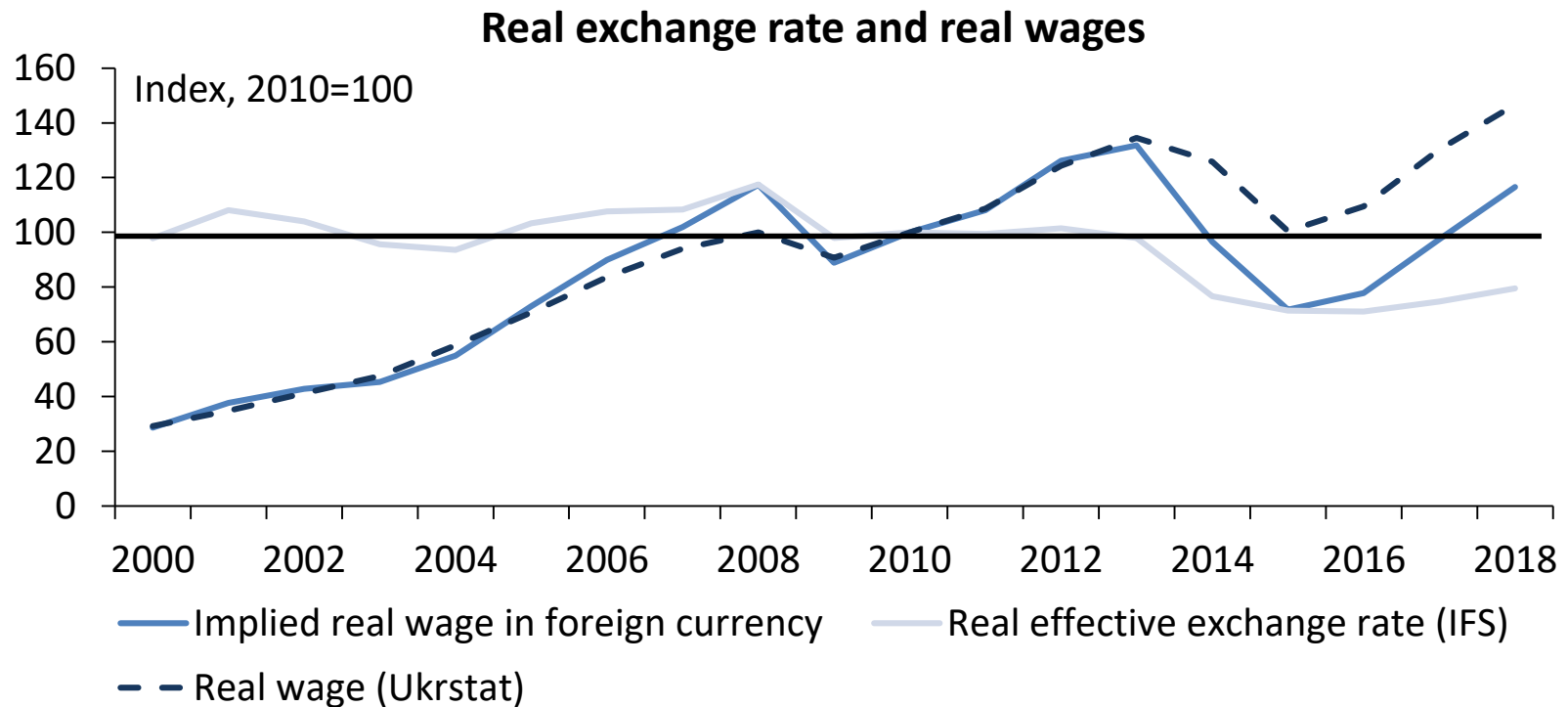
## Direct macroeconomic effects

- **Reduced domestic labour supply**
- **Higher domestic labour demand:** remittances also raise demand for locally produced goods and services (“non-tradables”)
- Remittances help to **finance the current account balance**
- The **domestic financial system** may be strengthened by handling remittances which are typically transferred in foreign currency

## Possible consequences

- Migration may cause “Dutch disease”: real appreciation of domestic currency, raising wages expressed in foreign currency
- This would lead to a loss of competitiveness
- Are there signs of “Dutch disease” in Ukraine?

# Real wages and real exchange rates



Source: IFS, World Bank, Ukrstat

- Strong gain in real wages and purchasing power of UA wages since 2000
- Measure of competitiveness: real effective exchange rate
- Has increased since economic bottom in 2015, labour supply effect prob. real
- But remittances have been fairly constant at 8% of GDP
- So far little evidence of a „Dutch disease“ effect of migration and remittances

## 6. Policy implications (I)

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### General approach: Mainstream migration into policy planning

- Migration should be mainstreamed into policy planning to harness benefits and address challenges
- Irrespective of whether it will rise or decline in future

### Need for more statistical data

- Migration data is incomplete and inconclusive, better statistics desirable
- Include migration questions in forthcoming census
- Increase frequency of LFS special module on migration to annual
- Include migration-related questions in regular, quarterly LFS
- Systematically use and integrate other data (partner country visa, administrative data, own border crossing data)

## 6. Policy implications (II)

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### Four potential challenges to policy due to migration

1. Diverging regional development *within* UA (difficulties of emigration regions)
2. Public finance difficulties as migrants pay taxes, pensions contrib. abroad
3. Better education may make migration more attractive for young people
4. Remittances may cause inflationary/asset price pressures

### Policy responses

- Accelerate general reform agenda: create favourable conditions for economic growth and social development in UA will slow/stop net emigration
- Counteract regional divergence: support key infrastructure/services, adequate reactions to falling population density, investment support
- Assist Ukrainian migrants/diaspora abroad (consular, employment services, legal advice): also leverages benefits of migration for UA
- Education: equip students with right skills for work in Ukraine AND abroad
- Constructive approach to remittances: reduce costs of sending remittances through formal channels (World Bank, G7, private companies), no special tax

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