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# ***Dynamics of Remittances in Georgia***

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## **Abstract**

The explanatory note examines the dynamics of remittances in Georgia after the dissolution of the Soviet Union. Amount of remittances has been increasing in Georgia steadily, experiencing a slight decline in 2008 as a result of the World crisis, but were able to regenerate and almost reach the pre-crisis level two years later. For many Georgian families remittances present a stable source of income. However, impact of remittances on macro and micro levels is not extensively studied in Georgian context – exciting studies rather focus on their amount, destinations, and consumption patterns of remittance receiving households.

## Dynamics of remittances in Georgia

During the years of 1990s economic crisis, labor migration from Georgia influenced the life of a large part of Georgian society. Those researching Georgia's migration are still unable to agree on the overall number of Georgian migrants (based on 2002 census, the population of Georgia decreased from 5400.8 thousand people to 4371.5 thousand people, i.e. by 1029.3 thousand people [Tsuladze, 2005]). Such a big difference cannot be explained only by migration. However, experts largely agree that during the period after the collapse of the Soviet Union nearly a million people emigrated from Georgia (Vadachkoria, 2004, page 52; Van Selm, J., 2005). Existing data indicate that the majority of migrants from Georgia are concentrated in Russia, where in the early years of Georgian independence mostly men migrated, mainly employed in construction or trade (Zayonchkovskaya, 1994). However, migration to Russia in the early 90's also included forced migrants who had to leave Georgia because of the conflicts in Abkhazia and South Ossetia. According to various estimates, the number of migrants from Georgia to Russia can reach up to 1.000.000 persons (IOM, 2008, p.11). At the same time, the introduction of visa regime by Russia in 2000 made Georgian migration gradually change its direction and start heading towards the countries of Western Europe and North America (IOM, 2008, p.21). To date, apart from Russia, the largest number of migrants from Georgia are concentrated in the following countries: Armenia, Cyprus, Germany, Greece, Israel, Latvia, Spain, Turkey, Ukraine, and the United States (IOM, 2008, p.21).

Given the nature of migration from Georgia, which is mainly due to economic reasons, it is only logical that migrants send regularly a large amount of remittances to their families and relatives. The volume of remittances began to grow in 2000, and resumed its growth already in the following year after the crisis of 2008, although the pre-crisis volume has not been reached yet, which may indicate that remittances are stable in times of crisis and are able to regenerate. The fact that the majority of migrants from Georgia stay in Russia is reflected in the fact that the biggest share of remittances comes from Russia, although in recent years there has been a tendency for relative increase in remittances from other countries. As the following table demonstrates, which contains data on remittances made only through the banking sector and MTO<sup>1</sup>, in 2009 remittances declined by about 15% compared with 2008, but in 2010 the reduction, compared with the pre-crisis year of 2008, amounted only to 6% , while total remittances amounted to U.S. \$ 940 million, and only during the first six months of 2011 U.S. \$ 509 million was sent<sup>2</sup>. One can only guess what amounts are sent home via informal channels. But even if we rely only on official channel data, the volume of remittances in 2006 amounted to 10% of the country's gross domestic product (National Bank of Georgia. Tbilisi, 2006, page 132). A study conducted by the European Bank for Reconstruction and Development (EBRD)<sup>3</sup> in 2006 in Georgia, Azerbaijan and Moldova demonstrated that a significant share of remittances - in case of Georgia, it was roughly one-third of all money transfers – is sent in an informal way, through friends or couriers (EBRD, 2006).

Such dramatic increase in remittances after 2006 can be partly explained by "formalization" of the banking sector in Georgia and in the host countries. As a result, some remittances, which had previously been sent via informal channels, were sent via formal banking system. A study made in Daba Tianeti, a small town in the northwest of Georgia, between 2006 and 2008 demonstrated that the amount of remittances sent in an informal manner reduced since 2006 from 57% to 27% (2008) (IOM, 2009, p.19-20). As demonstrated by this study, between 2006 and 2008 a center where money can be

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<sup>1</sup> Money Transfer Organizations - organizations involved in money transfer, for example, Western Union, MoneyGram, Anelik and others.

<sup>2</sup> Annual Reports of the National Bank of Georgia for 2005, 2007 and 2008 (<http://nbg.gov.ge/index.php?m=308>). Statistics of the National Bank of Georgia (<http://nbg.gov.ge/index.php?m=306>).

<sup>3</sup> European Bank for Reconstruction and Development

received or paid out was opened in the village, which did not exist in 2006, while in Greece, where the majority of migrants from Tianeti stay, the tariffs on money transfers decreased and amounted to 3-4% of the amount transferred. Unlike Russia – that for a long time used to be practically the only country accepting migrants from Georgia, and from which, as travel expenses were relatively low, the majority of money was brought either in person or via friends - migrants to Western European countries or the United States had to use more formal channels for money transfer. However, as noted above, the situation was also influenced by increased competition within the banking sector in Georgia and its development, resulting in the reduction of tariffs, increase of banking services, and expansion of banking network in rural areas.

It seems that the volume of remittances and their ability to regenerate fast make them one of most reliable sources of foreign currency, even in times of crisis, hence remittances become significant economic factor for such countries as Georgia. Nevertheless, despite the importance of remittances for migrants' families, until recently, in Georgia there had been virtually no studies addressing macro-micro economic implications of remittances. Recent studies, (Zurabishvili, 2008; IOM, 2009) from various years indicate that economic situation of families receiving remittances is almost twice better (1.72 times) comparing to general Tianeti population (IOM, 2009, page 11) . 81% of migrant families receiving remittances recognize that their financial situation improved after the emigration of members of their family.

In Georgia, a large share of remittances is spent in order to meet everyday needs of families, while investments in various types of production are quite limited (EBRD, 2007; Zurabishvili, 2008; IOM, 2009). At the same time, the money is often spent on education and health care. As regards investments in general, money mostly is invested into real estate (purchase or repair; if something is purchased, then, most likely, in Tbilisi) and not into start-ups or existing businesses. (EBRD, 2007; Zurabishvili, 2008; IOM, 2009) In this respect, Georgia is no exception, and, rather, repeats the experience of other countries receiving significant remittances.

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