



**European Economic Integration**

Nazarii LYPKO

**EMIGRATION FROM UKRAINE  
AS A FACTOR AFFECTING THE STATE  
OF ITS BALANCE OF PAYMENTS**

**Abstract**

This study problematizes how emigration from Ukraine impacts the condition of its balance of payments. A comparative analysis was conducted to determine whether the patterns of international financial inflows from emigrants have changed since the outbreak of the war, compared to the pre-war period. A forecast is made regarding how the country's situation and state policies will further affect these flows and shape the balance of payments situation. The results prove that the financial inflows from emigrants have had, and continue to have, a significant impact on the balance of payments, acting as a stabilizing factor against external economic shocks. However, despite the enormous emigration of Ukrainians abroad, the volume of international financial inflows from emigrants has not changed since the beginning of the full-scale war. For the first time, the author proposes policy recommendations for the Government of Ukraine and the National Bank of Ukraine aimed at avoiding adverse balance of payments shocks in the face of declining remittances from emigrants to Ukraine.

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**Problem Statement and Literature Review**

One of the most significant consequences of the war for Ukraine has been the tremendous emigration of people from the country. Typically, it has been women with children who have fled, but recently more men have also sought to leave the country. This has resulted in a loss of labor resources for the country and could lead to a major demographic crisis in the long term. The integration of refugee children abroad puts into doubt the effectiveness of generational reproduction and threatens the entire Ukrainian nation. The emigration of Ukrainian people and their potential failure to return poses significant social and economic risks for Ukraine. These risks can be divided into immediate and long-term challenges. The long-term challenge is the preservation and reproduction of the Ukrainian nation within its state borders. Immediate challenges include, first and foremost, the loss of labor resources and the slowing of economic growth. The negative, primarily economic, consequences of emigration are obvious. A more debated question is whether Ukrainian emigrants can have a positive impact on the national economy of Ukraine. Remittances sent by emigrants from abroad provide a direct channel for such an influence, which should affect the country's balance of payments. An indirect and delayed impact of emigration on the country's economic growth is channeled through the potential emigrant returnees, who become skilled labor due to the education and work experience they gain abroad.

This study focuses on the impact of emigrant remittances on the state of the balance of payments of Ukraine. **The aim of the research** is to identify trends

in the relationship between international remittances and the balance of payments situation, caused by the outbreak of the full-scale war and significant emigration from the country, to identify state policy directions and instruments that can affect this relationship, and to propose relevant recommendations.

The impact of emigration on the economy of Ukraine, the state of its balance of payments, and the economy of the receiving countries has been extensively studied in academic literature and professional applied research. In recent years, the National Bank of Ukraine has presented several studies on emigration and its impact on national economies. In particular, Tucha et al. (2022) examined the impact of Ukrainian emigrants on the economies of recipient countries. This impact is usually seen in a positive context. Before the full-scale invasion, Tokarchuk (2020) studied the dynamics of labor migrants' remittances. This study can be used to compare the dynamics of remittances before and after the start of the full-scale war.

The issue of emigration from Ukraine and its economic consequences has not escaped the attention of international financial organizations, including the IMF, the World Bank, the OECD, the UN, and International Organization for Migration, as well as academia. Even before the war, Strzelecki et al. (2021) recognized the positive contribution of Ukrainian migrants to the Polish economy. Kubiś-Lodzińska and Solga (2023), in their study, examined the economic aspects of the integration of Ukrainian emigrants and refugees into Polish society. Duszczyk and Kaczmarczyk (2022) studied the impacts of the war in Ukraine on the Polish economy, including immigration.

## **Methodology**

A horizontal and vertical analysis of Ukraine's balance of payments was conducted to identify the dynamics of financial flows and the impact of emigrant remittances on the balance of payments situation. The time horizon chosen for our analysis is five years. Thus, it covers both the pre-war period and the period of full-scale war. The main task was to compare the dynamics of remittances with the dynamics of the balance of payments in order to reveal the correlation between them.

The analysis of the balance of payments follows the methodology and recommendations set forth by the IMF in the 6<sup>th</sup> edition of its *Balance of Payments Manual* (IMF, 2013).

The study adopts a standard approach to classifying and interpreting the balance of payments accounts, which is important for accurately identifying the impact of remittances on the state of the current account and the balance of payments.

## Research Results

According to data of the UN Refugee Agency (UNHCR Operational Data Portal, n.d.), 5,982,900 refugees from Ukraine were recorded in Europe as of March 14, 2024. A total of 6,486,000 Ukrainian refugees were recorded globally. According to Eurostat (n. d.), this represents nearly 15% of the country's population registered at the start of the war in 2022. According to the Ukrainian government, the number of Ukrainian refugees abroad was 7.5 million in early fall 2024. Given the potential problems with electricity and heat supply in the winter of 2024-2025, this number can be expected to increase.

The main receiving countries for Ukrainian citizens have been Poland, Germany, Czechia, Italy, and Spain. A survey conducted by the UN Refugee Agency reported that 87% of emigrants were women with children, 65% were women of working age. Nearly 70% of emigrants had higher education (Tucha, 2022). Recently, it has become evident that the proportion of men who have used various methods – including illegal ones – to flee Ukraine has been increasing among emigrants. In any case, labor resources that could have worked and paid taxes here are leaving Ukraine and working for the benefit of receiving countries. The country's labor market is already grappling with a significant shortage of labor resources, especially in certain professions.

According to an OECD (2023) study, Ukrainians integrate much better into the European labor market compared to other ethnic refugee groups. In Poland, 65% percent of Ukrainian refugees found employment. Statistics for other countries are as follows: the United Kingdom – 61%, Sweden – 56%, Lithuania – 53%, Czechia – 51%. Ukrainians in countries such as Italy and Switzerland face major challenges in employment, with only 19% employed. A significant proportion of Ukrainians work remotely for Ukrainian companies.

Various studies show that the additional contribution to annual GDP growth in Czechia, Poland, and Estonia, driven by the work of Ukrainian migrants, will be about 1.2% per year, while in Hungary, Latvia, Slovakia, Lithuania, and Romania migrants will add nearly 0.8% to GDP (Tucha, 2022). Thus, Ukrainian migrants are filling certain niches in European labor markets and playing a role in driving GDP growth in the receiving countries. For the Ukrainian economy, however, emigration primarily represents a loss of labor resources, a decline in domestic aggregate demand, and an outflow of money abroad. It is for good reason that the Government has begun to consider the creation of a separate ministry tasked with encouraging and stimulating Ukrainians to return to Ukraine.

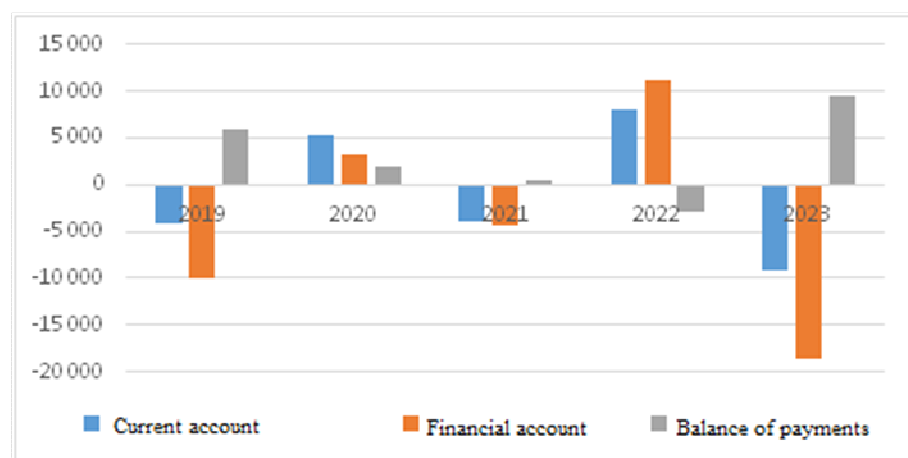
In turn, Ukrainian emigrants have traditionally sent substantial amounts of money back to Ukraine. The question is whether the increase in the number of emigrants has led to an increase in the volume of remittances and how this has

affected Ukraine's balance of payments. Taking this into account, the state should develop its strategy and policy for the return of Ukrainian citizens from abroad. This strategy should include not only the Ukrainian government's internal policy, but also its communication with other countries, since the latter will approach Ukrainian immigrants based on their own national interests. In particular, this strategy will define the policy of the National Bank of Ukraine with regard to restrictions and regulations on payments by individuals, both incoming and outgoing. This strategy will determine the Ukrainian government's tactics of communication with foreign partners regarding instruments for facilitating the return of Ukrainian refugees.

The first stage of this study involved analyzing the overall dynamics of Ukraine's balance of payments over the past five years. The capital account has a minimal contribution to the overall dynamics of the balance of payments, so the main focus was placed on the analysis of the current and financial accounts. The dynamics of the current and financial accounts, as well as the overall balance of payments of Ukraine over the last five years, are shown in Figure 1.

Figure 1

**Dynamics of current account, financial account  
and the balance of payments**



Source: compiled by the author based on data from the NBU (n. d. – a).

In 2022, the negative balance of payments amounted to \$2.9 billion. Although the current account recorded a surplus of almost \$8 billion, the financial account balance of \$22 billion resulted in a deficit. This was primarily due to the \$19 billion outflow of foreign currency from Ukraine. Direct foreign government support of \$15 billion proved insufficient to balance the financial account (NBU, 2024). The balance of goods and services amounted to -\$25.7 billion in 2022. The positive current account balance was achieved due to the balance of primary income (\$8.5 billion) and secondary income (\$25.2 billion). The balance of compensation of employees within the primary income amounted to \$12.8 billion (NBU, 2024). Thus, inflows from residents' income earned abroad, remittances, and humanitarian and grant assistance from partners played a crucial role in balancing the current account in 2022.

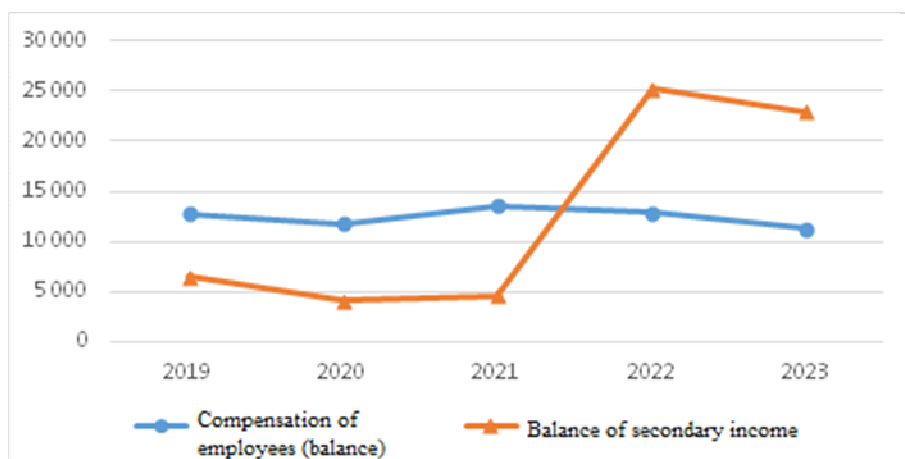
In 2023, the current account had a deficit of \$9.2 billion. The balance of goods and services stood at -\$37.4 billion, partly offset by the balance of employee compensation of \$11.3 billion and the balance of secondary income of \$23 billion. The positive balance of payments was achieved thanks to the performance of the financial account and, primarily, direct foreign support to the government sector amounting to \$26 billion. Overall, this allowed the country's foreign exchange reserves to increase by \$11.4 billion (NBU, 2024).

Our preliminary analysis shows that primary and secondary incomes significantly affect the state of Ukraine's balance of payments. In the balance of payments statistics, personal remittances are part of the current account, captured by two items: primary income (compensation of employees) and secondary income (personal transfers). The balance of compensation of employees and the balance of secondary income over the past five years are shown in Figure 2.

As Figure 2 shows, the balance of compensation of employees has remained stable over the past five years. The balance of secondary income, on the other hand, has grown significantly since the outbreak of full-scale war. This growth is attributed to the increase in international humanitarian aid and grants after the war began. Within secondary income, it is important to single out personal transfers. The dynamics of personal remittances from abroad over the past five years are shown in Figure 3.

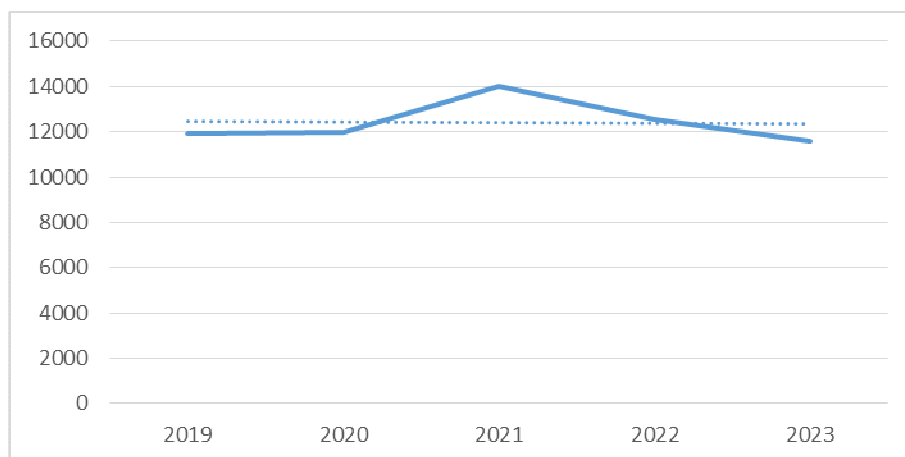
Personal remittances remained at an average of around \$12 billion. In 2023, their volume decreased by 9.4% to \$11.4 billion. Overall, the volume of remittances sent through formal channels decreased by 15.4% compared to 2022, while flows through informal channels decreased by only 1.5%, remaining almost at the level of 2022 (NBU, n. d.-b). According to the National Bank of Ukraine, personal remittances to Ukraine from January to May 2024 amounted to \$4.37 billion, which is 8.59% less than during the same period in 2023. This indicates a downward trend in remittances from emigrants, which means that Ukraine is losing a stabilizing factor for its balance of payments. One of the main reasons, if not the main reason, is that our citizens are integrating abroad, losing ties with Ukraine, family reunions are taking place, and the situation in the country discourages them from sending money back.

Figure 2

**Dynamics of compensation of employees and the balance of secondary income**

Source: compiled by the author based on statistical data from the NBU (n. d. -a).

Figure 3

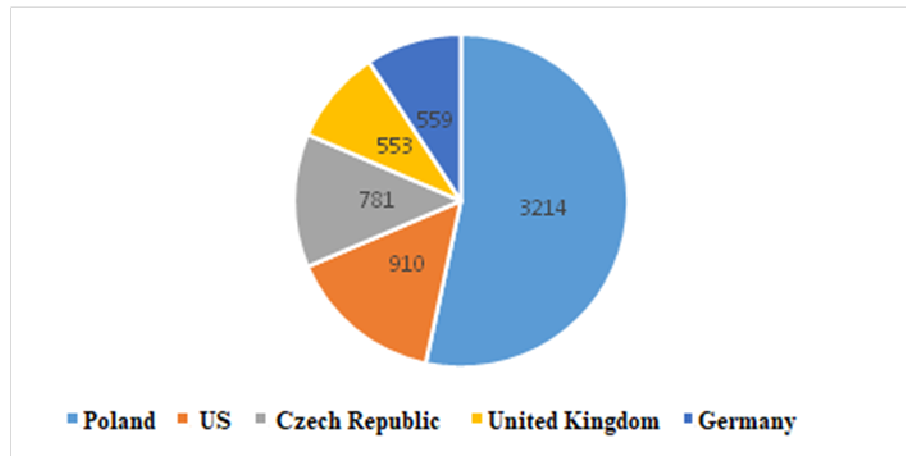
**Dynamics of personal remittances from abroad**

Source: compiled by the author based on statistical data from the NBU (n. d. -b).

Remittances by main countries of origin for the three quarters of 2023 are shown in Figure 4. The countries of origin generally correspond to those that received the largest number of Ukrainian refugees.

Figure 4

**Personal remittances into Ukraine by country of origin in 2023  
(top 5 countries)**



Source: compiled by the author based on statistical data from the NBU (n. d.-b).

Remittances from emigrants have traditionally been a reliable source of foreign exchange inflows to Ukraine. In 2019, Ukraine ranked 30<sup>th</sup> in the world in terms of the ratio of personal remittances from abroad to GDP, at more than 10%. Personal remittances are less dependent on the economic cycle and tend to be more stable. Thus, remittances act as a financial buffer during various economic crises and shocks (Tokarchuk, 2020). At the present stage of our state's and national economy's development, the role of this factor cannot be overstated. First of all, this lever must not be lost. The NBU should pursue a balanced policy on international remittances, as well as a balanced government policy on the return of citizens. Second, Ukraine should limit the outflow of foreign currency abroad and encourage other channels for bringing currency into the country, including foreign direct investment. Finally, Ukrainian emigrants should be encouraged to save in Ukraine, including in private pensions and the real estate market.



It is also worth mentioning another channel through which emigration impacts the country's balance of payments: the emigration of highly skilled labor, particularly professionals from certain fields and representatives of small and medium-sized businesses. For example, IT specialists have traditionally been the professionals who bring billions of dollars into the Ukrainian economy. Their emigration deprives the country of these revenues, which negatively affects the balance of payments with all its ensuing consequences. When businesses emigrate, they no longer create jobs in Ukraine, no longer export, and no longer bring foreign currency into the country. This is an urgent issue, as thousands of businesses have been relocated or established abroad, bringing economic benefits to the recipient countries. In this context, we propose that the government pursue a policy of incentivizing these sectors to remain in Ukraine, including tax incentives, the simplification of business establishment and regulation, and the creation of clusters and free economic zones.

## **Conclusions**

In conclusion, it is worth noting that personal remittances from Ukrainian emigrants to Ukraine have always played an important role as a stabilizing factor for the country's balance of payments. For example, in terms of volume, these remittances have historically exceeded both direct and portfolio foreign investments in Ukraine. However, the growing number of Ukrainian emigrants abroad has not led to an increase in remittance inflows to Ukraine, largely due to the socio-demographic characteristics of Ukrainian refugees mainly women with children. As Ukrainian citizens continue to integrate abroad and families are reunited, the volume of remittances is expected to decrease.

Ukraine is thus losing not only its population and labor resources, but also a stabilizing factor for its balance of payments. The country needs to motivate Ukrainian migrants to return home without losing financial ties with them. Such motivation, however, cannot be repressive. Instead, there must be effective policies for economic recovery, social security, a safe environment, and the protection of human rights. Human resources should be competed for in the international marketplace, with other countries as the main competitors.

It will also be necessary to communicate with other states to develop a joint and optimal strategy for the return of Ukrainians. Receiving states may also have different priorities regarding immigrants. They may be interested in them to stay, or vice versa. Therefore, we need to work with them and offer our citizens better conditions, if at all possible.

There is no doubt that Ukraine suffers economic and social losses due to the emigration of its citizens. However, this problem cannot be solved immedi-

ately with simple measures as long as the war continues and significant risks remain. Even after the war, it will be difficult to bring Ukrainian citizens back. Nevertheless, at this stage, Ukraine cannot afford to lose their support in balancing the balance of payments, and thus ensuring the stability of the national currency, price levels, and economic growth. Therefore, it is essential not to create problems for Ukrainians, not to alienate them, and not to restrict their remittances. Instead, Ukraine should proceed from the assumption that they are a resource that contributes foreign currency to the country.

Government policy in this area should be based on effective communication with other countries and Ukrainian citizens abroad. It is necessary to create incentives and appropriate socio-economic conditions in Ukraine to encourage Ukrainians to return. The NBU's policy on regulating international remittances directly affects the intensity and nature of remittances from abroad. The NBU should adopt a balanced approach to the regulation of international transfers by individuals. Excessive restrictions on the transfer of funds abroad can have the opposite effect, reducing the inflow of funds into Ukraine. The NBU's restrictions on money transfers by individuals to other countries and cash withdrawals from Ukrainian bank cards should be eased. Currently, the limit on currency withdrawals from hryvnia accounts abroad is 100,000 hryvnias per month, which is less than 2,500 euros. Tight limits encourage Ukrainian citizens to abandon employment in Ukraine and seek work abroad.

Another important issue is the potential for double taxation of Ukrainian citizens' incomes. This problem should be regulated at the level of intergovernmental agreements, including with those countries that have received the largest influx of Ukrainian refugees. Related to this is the issue of financial monitoring and identifying the sources of funds. If a family receives a money transfer from abroad, they should not encounter problems when purchasing an apartment or, accordingly, going through the identification process at the bank. Recently, Ukraine implemented the Common Reporting Standard (CRS), which allows the country to exchange information on financial accounts with other countries. This is the first step toward effective financial monitoring, identification, and the avoidance of double taxation.

An issue closely correlated to labor incomes is the issue of pensions. People who have worked abroad for several years should have the right to have their pension contributions credited to the Ukrainian pension system. It is necessary to work with the governments of other countries to ensure that pensionable years of service and contributions made by Ukrainians abroad are counted toward their pension entitlements within the Ukrainian system. Until recently, this could only be done if there was an intergovernmental agreement between the countries. Ukraine had such agreements with Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Azerbaijan, Moldova, and Georgia. As we can see, none of these are major receiving countries for Ukrainian refugees. For this reason, on April 25, 2024, the Verkhovna Rada of Ukraine passed a law allowing

pensionable service gained in other countries to be taken into account when determining pension eligibility, even in the absence of a pension agreement. The downside of this law is that it takes into account only the length of pensionable service, not the amount of contributions paid. This means that the size of the pension will be determined by the contributions paid in Ukraine.

To partially address this problem at the Ukrainian level, Ukrainians should be encouraged to invest in domestic private pension funds and contribute to the expected funding level of the pension system. This will allow them to maintain a sufficient replacement rate (the ratio of pension to pre-retirement salary) at retirement. This will provide hope for emigrants and serve as one of the straws that bind them to Ukraine. The direct impact of this measure will be to ensure an inflow of funds from abroad and investment in the national economy.

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