

# Will Ukraine's refugees go home?

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## Executive summary

**ABOUT 15 PERCENT** percent of the population has fled Ukraine since the start of the Russian aggression in February 2022. Nearly 4 million Ukrainians have already registered in European Union countries. Based in part on evidence that few refugees return voluntarily to poor countries once they settle in rich countries, even once security is re-established at home, it can be expected that large numbers of Ukrainian refugees are likely to remain in European host countries, and will likely be joined by others, including many men that remained to fight when the conflict is over.

**UKRAINE ALREADY HAS** a long history of emigration. Its shattered economy, the likelihood of a protracted conflict and significant uncertainty with regard to its final status reinforce the argument that most refugees will not return and many more will join them outside Ukraine. EU nations must prepare for this situation. There will be large short-term costs and long-term economic gains from Ukrainian immigration in Europe. The best way to help Ukraine, and to moderate the likely outflow of its people, will be to assist in the country's reconstruction, and not to place artificial impediments on the immigration of individuals who have already suffered greatly.

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more population, large parts of its industrial capacity, some of its most productive agricultural land, and several of its outlets to the sea.

- Large inflows of Ukrainian refugees have created significant strain on social services, labour markets and government budgets, especially in neighbouring countries such as Poland. However, provided Ukrainians are free to move and work across the EU, with time they are likely to settle where they are most needed and welcomed. In 2019, the total working-age population of Ukraine was less than 28 million and that of the EU (including the United Kingdom) was about 327 million, down from 334 million in 2010. Thus, even were a quarter of Ukrainian workers to migrate to the EU and the UK, they would just about compensate for the workforce decline over the last decade or so. The long-term economic gains accruing to EU nations from absorbing Ukrainian refugees will likely outstrip the short-term costs.
- The main policy implication is that EU members should prepare for the permanent establishment of a large Ukrainian diaspora. This means strengthening mechanisms to support countries large Ukrainian populations and, most important, progressively allowing Ukrainians to move and work more freely within the EU (Darvas, 2022). A large and settled Ukrainian diaspora in Europe and elsewhere, including the newly arrived, will help absorb the migrants, contain the humanitarian crisis and assist in the reconstruction of Ukraine through remittances to families who stay at home (Van Houtte and Davids, 2014). To mitigate the outflow of people from Ukraine and for humanitarian and security reasons, EU members and their NATO allies should prepare to assist in large-scale reconstruction of Ukraine. Ukraine's EU accession process establishes a framework within which the reconstruction of Ukraine, the refugee crisis and the eventual integration of the Ukrainian labour market with that of the European Union can be managed.

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## 2 Large scale return of Ukrainian refugees is unlikely

### 2.1 Pre-war, many Ukrainians migrated to richer neighbouring countries

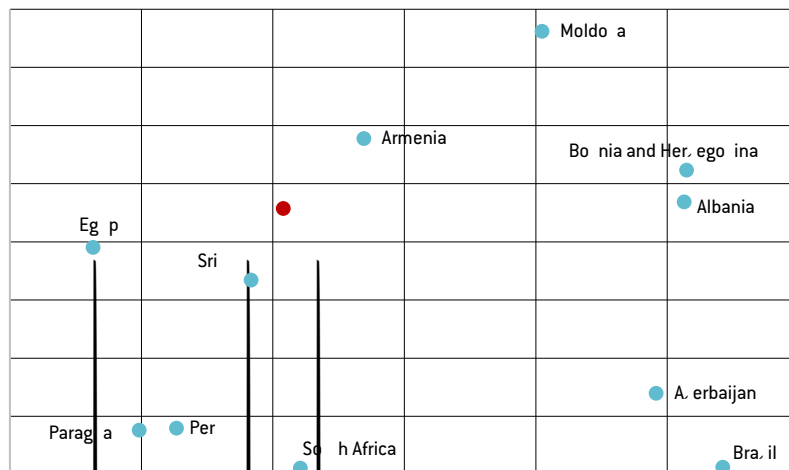
The voluminous literature on refugee flows shows that few refugees return from rich to poor countries, even after security situations have stabilised. This is far from the case in Ukraine, where Russian forces are estimated to control about 20% of the territory and much of the Ukrainian economy's productive potential. The security situation in Ukraine is likely to remain precarious for a long time. Even if the war ends with a clear Ukrainian victory, the threat from Russia and from separatists will remain. An analysis of Syrian refugees concluded that of 5.6 million who left since 2011, just 1.8 percent had returned to Syria voluntarily by 2018 (Beaman, 2022). According to UNHCR, of over 82 million refugees worldwide in 2021, 430,000 returned to their country of origin, or about 0.5 percent. The vast majority of refugees who returned in 2021 were displaced to other poor neighbouring countries in inhospitable environments. Ukraine is a poor economy at the border of the far-richer EU. Like other refugees, most Ukrainians want to return, but they will have to weigh economic and security concerns

transfer<sup>5</sup>. And regions controlled by Russia or targeted by Russia are home to 20 percent of the Ukrainian population (over 4 million people live in Donetsk, 2.3 million in Luhansk and 2 million in Crimea).

Even before the security imperatives created by the war, Ukrainians exhibited a high propensity to emigrate. In 2020, the Ukrainian diaspora represented 14 percent of the population, a high share among a sample of developing countries, and close to five times higher than the share for other lower-middle income countries. Only a few small-population nations in the European periphery, such as Albania, had a much higher share. Accordingly, Ukraine is highly dependent on migrant remittances, which represent 9.2 percent of its GDP, twice that of other lower-middle-income countries (Figure 1). Based on the distribution of its diaspora and its remittances, Ukrainians abroad are distributed overwhelmingly among the nations in its wider neighbourhood, and in the United States (Table 1). Historically, Russia has been the recipient of by far the largest number of Ukrainian migrants, although its importance as a source of remittances has declined and the flow of Ukrainian migrants to Russia slowed markedly after the invasion of Crimea in 2014.

Poland has been a destination of choice for Ukrainians because of its demand for labour and its favourable regulations. The close formal and informal links with Poland's labour market allowed many Ukrainians to engage in temporary or seasonal work in Poland (Duszczuk and Kaczmarczyk, 2022). Poland is the source of over a third of remittances to Ukraine even though, before the war, it officially hosted fewer than 300,000 Ukrainians (Table 1); 1.35 million Ukrainians were estimated to be working in Poland. One can presume that Russia will not remain a first country of choice for Ukrainians in the foreseeable future, so even greater demand will be placed on Poland and other countries nearby to absorb refugees and economic migrants. Emigration to other European countries will be supported by existing diaspora networks. Even before the war, Ukraine was the third nationality of non-EU residence permits in the EU, after Morocco and Turkey. If one estimates of temporary migrant workers are included, Ukraine would probably move to first place<sup>6</sup>.

**Figure 1: Remittances as a share of GDP in Ukraine are high compared to countries with similar GDP per capita**



<sup>5</sup> <https://www.latimes.com/world-nation/story/2022-07-20/ukrainian-refugees-sent-to-russia>

<sup>6</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Residence\\_permits\\_-\\_statistics\\_on\\_stock\\_of\\_valid\\_permits\\_at\\_the\\_end\\_of\\_the\\_year&oldid=546073](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Residence_permits_-_statistics_on_stock_of_valid_permits_at_the_end_of_the_year&oldid=546073)

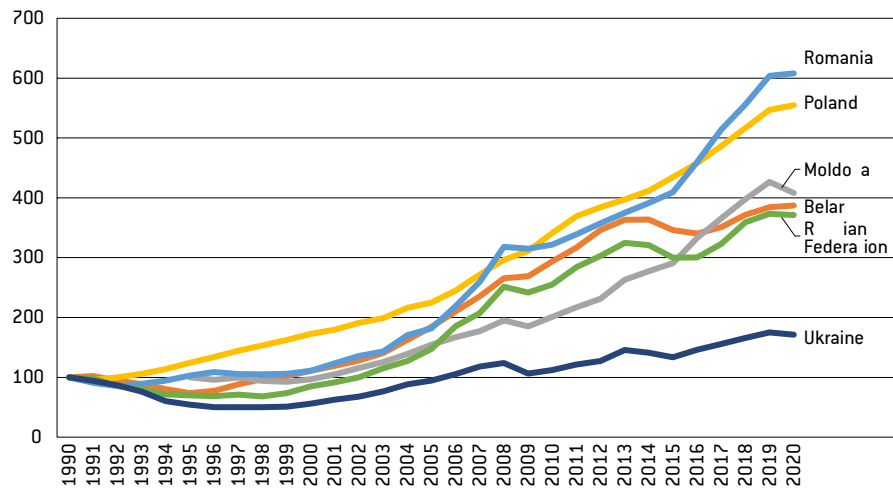
**Table 1: Ukrainians living abroad as of mid-2020**

	Stock of Ukrainians	As a share of Ukrainian population	Remittances to Ukraine in 2021 (% total)*
Russian Federation	3,268,000	7%	6% (from 26% in 2015)
United States	370,000	1%	11%
Kazakhstan	356,000	1%	n.a.
Germany	290,000	1%	4%
Poland	273,000	1%	33%
Italy	248,000	1%	4%
Belarus	222,000	1%	n.a.
<b>Total</b>	<b>6,139,000</b>	<b>14%</b>	

SOURCE: UN Population Division, "Data by Country and Area: Population of Ukraine", 2020. \* = Remittances to Ukraine as a % of GDP.

The historical propensity of Ukrainians to emigrate can be explained mainly in terms of economic incentives. Ukraine's economy grew relatively slowly in the post-Soviet era compared to other countries in eastern Europe (Figure 2). In 2020, wages in Ukraine were three to four times below those of Czechia and Poland (Figure 3). Ukraine's GDP per capita income before the war was about one-quarter that of Germany and about one third that of the EU (Table 2).

**Figure 2: Ukraine did not grow as much as neighbours after the dislocation of the USSR**



SOURCE: World Bank Development Indicators.



countries according to the World Bank, has remained in the grip of connected oligarchs. Foreign direct investment (FDI) was scarce and was directed mainly into the finance and

## 2.2 The Ukrainian economy is shattered

According to World Bank projections, Ukraine's GDP will fall by 45 percent in 2022<sup>11</sup>. In September 2022, the Ukrainian Economy Ministry estimated a lesser but still dramatic contraction of 33 percent for 2022<sup>12</sup>. Ukraine's economy is highly dependent on international trade (80 percent of GDP) and 70 percent of its trade was conducted through the Black Sea, three quarters of which was handled by the port of Odessa<sup>13</sup>. The blockade in the Black Sea, the only economically viable outlet for Ukraine's export of grain and other bulk commodities, is immensely damaging. Indeed, it is difficult to imagine a viable Ukrainian economy without its freedom to navigate those waters. Ukraine's GDP and trade growth had already decelerated following the annexation of Crimea. The severe damage to transport infrastructure which has already occurred, and with more likely to come, is bound to depress trade further. Land and river routes to the west are entirely insufficient to accommodate trade volumes commensurate to those pre-war, and only at far higher cost<sup>14</sup>. For instance, transporting the goods through Poland adds 1,000 kilometres to the journey and costs four times more<sup>15</sup>.

Agriculture represents 9 percent of Ukraine's GDP and 40 percent of exports (OECD, 2021). Maps of cereal production in Ukraine show that regions that came under Russian occupation since the February invasion account for a significant part of Ukraine's pre-war agriculture production<sup>16</sup>. In 2016-2020, Kherson Oblast and Zaporizhzhia Oblast in the south-east of Ukraine, and Odessa in the south, together accounted for 19 percent of Ukraine's barley production, 16 percent of sunflower seeds, 20 percent of rapeseed and 20 percent of wheat. The damage inflicted on the agriculture sector, including by disrupting its logistics, is a threat to Ukraine's food security and to countries in Africa and the Middle East that depend on imports from Ukraine.

The two other major sectors of the economy are metal and mineral production, which combined represent 30 percent of exports. The Dnieper-Donetsk and the Black Sea shores regions, occupied or targeted by Russia, contain 80 percent of Ukraine's mineral reserve<sup>17</sup>. The metal industry is also vulnerable because of its reliance on infrastructure. The damage already incurred in the port of Odessa is expected to take at least two and a half years to restore, while de-mining in the Black Sea could take six months<sup>18</sup>. The Donetsk region targeted by Russia in this phase of the war is the most populous of Ukraine, home to over 4 million people in 2021<sup>19</sup>.

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11. World Bank, "Ukraine: Economic Update," *World Bank*, 2022, <https://www.worldbank.org/en/country/ukraine/overview>.  
12. Ukrainian Ministry of Economy, "Ukraine's Economic Outlook for 2022," *Ukrainian Ministry of Economy*, 2022, <https://www.ukrministryofeconomy.gov.ua/en/press-releases/2022-09-08>.  
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## 3 With appropriate policies, the EU will derive significant benefits from the settling of Ukrainian refugees

### 3.1 Temporary protection status

In contrast to previous – and much smaller – waves of refugees from Syria and Iraq, for example, Ukrainian refugees have been largely welcomed across Europe. The EU Temporary



**From 2013 to 2018, Ukrainian migration added over 1 million workers to the Polish labour, amounting to 0.8 percent additional GDP growth a year**

in the labour market. The International Monetary Fund's April 2020 [World Economic Outlook](#) presented an econometric panel analysis of large migration episodes in rich countries, concluding that a 1 percentage point increase in the ratio of the immigrant flow relative to total employment increases GDP by almost 1 percent by the fifth year (IMF, 2020). About two-thirds of this increase is attributed to an increase in labour productivity and the remaining one-third to employment growth. There is no change in the growth rate of native employment.

Strzelecki *et al.* (2022) studied the economic effect of Ukrainian migration to Poland from 2013 to 2018. During this period, the authors estimated that Ukrainian migration added over 1 million workers to the Polish labour, amounting to 0.8 percent additional GDP growth a year. Using a growth accounting model, they concluded that this new workforce contributed by 0.5 percentage points to annual GDP growth (Strzelecki *et al.*, 2022). A comprehensive analysis of the effects of migration on the native population was carried out by a World Bank team using a computable general equilibrium model of the global economy (World Bank, 2006). The Bank's simulations have some bearing on the Ukrainian case because they assume movement of population from developing countries (Ukraine in this case) to rich countries (the EU plus the UK in this case), which boost the labour force of the rich countries by 3 percent.

That would be equal to 9.8 million working age people moving from Ukraine to the EU plus UK. Since about two-thirds of the Ukrainian population is of working age, the exodus from Ukraine, including families, would be 14.4 million people. This is an extreme but not entirely implausible scenario, given the war's devastating impact on the Ukrainian economy and the possibility of an indefinite standstill.

Insofar as the World Bank simulation exercise can be applied to the movement of Ukrainians into the EU, the income of EU natives would increase by 0.4 percent once a new steady state is achieved. This result arises because: a) the expansion of the labour force boosts the return to capital and increases the size of the economy, and b) natives gain from the presence of immigrant workers by taking on higher value-added and better-paid jobs. Though some natives compete directly with the newly arrived workers and may see somewhat lower wages, the assumption built into the model is that there is imperfect substitution between natives and migrants, so this effect is small. The assumption that immigrant workers and natives are not perfect substitutes is justified by the fact that migrants do not speak the language, have different types of skills, are less networked and have lower expectations.

The result of this highly stylised comparative statistics exercise suggests that the ongoing income accruing to natives from large inflows of Ukrainian refugees could easily outweigh the initial cost of absorbing Ukrainian refugees. For example, if one assumes that it takes five years for Ukrainian workers to be fully integrated into the EU labour force, and a real discount rate of 5 percent, the present value of the gains to natives would equal about 6 percent of GDP.

This would compare to the initial fiscal cost of absorbing the refugees, which based on the calculations presented in the previous section, would amount to less than 1 percent of the EU's GDP.

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## 4 Conclusion

Even in the best scenarios, large numbers of Ukrainian refugees will settle in the EU. The devastation wrought by the war on the Ukrainian economy is such that even larger numbers could be expected in the future. Ukraine will require massive assistance to rebuild, and countries receiving the largest numbers of refugees will require assistance during the settlement process. By far the most important step to facilitate the transition is to ensure that Ukrainians understand and use their freedom to work and move to wherever they are needed. The Ukrainian diaspora will help in reconstruction and in sustaining families back home.

In crisis, there is risk, but there is also opportunity. Natives in the countries receiving Ukrainian refugees may well derive significant economic gains from their arrival, expanding the size of markets, boosting investment, and enabling many natives to engage in higher paid work.

On 23 June 2022, the European Council granted Ukraine EU candidate status, conditional on reforms. This establishes an essential framework within which to manage the reconstruction of Ukraine, the refugee crisis and the eventual integration of the Ukrainian labour market with that of the EU. The best way to moderate the outflow of Ukrainians into the European Union is to help in the reconstruction of Ukraine, not to place obstacles in the way of people seeking a better life.

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