REPORT 2022

The long-term impact on Estonia of the war between Russia and Ukraine

Population, integration, foreign trade

Summary

FORESIGHT CENTRE

An independent think tank at the Riigikogu

Summary

On the anniversary of the Republic of Estonia, 24 February 2022, Russia invaded Ukraine. More than 5 million people have fled Ukraine since the war started, and by the middle of June some 43,000 of them had reached Estonia. It is inevitable that even if the war ends quickly, many of the people who have arrived in Estonia from Ukraine will remain here for a long time, and some of them will never return to their homeland. It is not currently possible to know though when the war will end, how many refugees would have reached Estonia by then, and whether they will be able to or will want to return to their homeland.

If 10,000 refugees from the war remain living permanently in Estonia, the population of Estonia would be higher than its level at the start of 2022 for nine years. If 30,000 refugees remain permanently in Estonia, it would raise the population for 22 years, and if 60,000 refugees remain it would raise it for 40 years. After that the impact of immigration by refugees on the population will fade, as the most recent population forecast shows the birth rate in Estonia remaining below the replacement level for the whole of the rest of the century, and this will not be balanced out by net migration, which is forecast at around 2400 people a year.

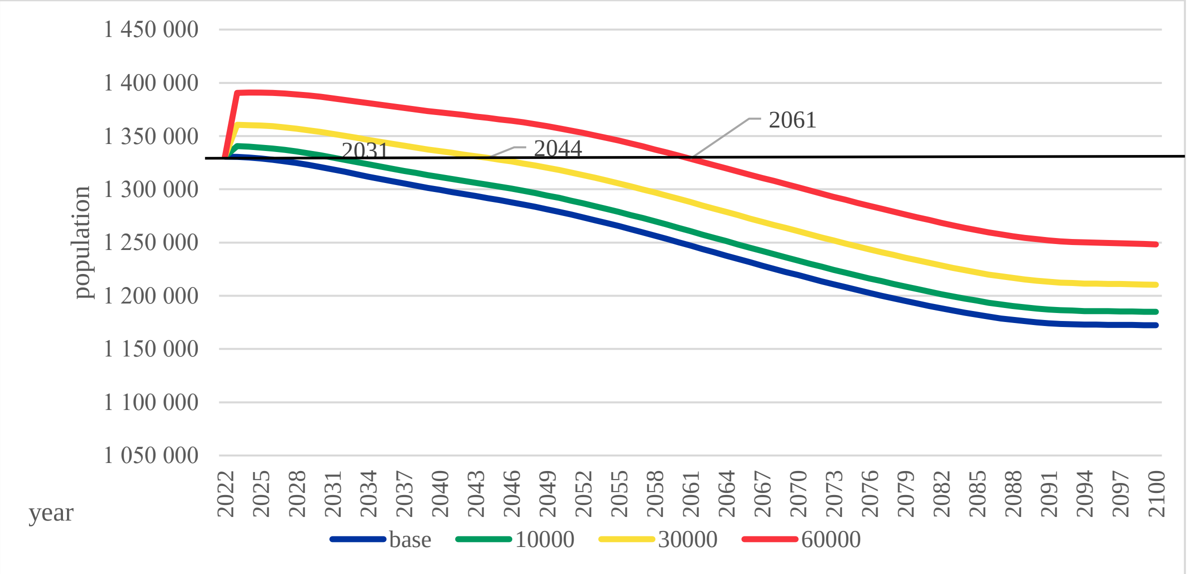

Figure 1. Estonian population 2022−2100

This means that **refugees moving to live permanently in Estonia will delay the decline in the population, but will not prevent it**. For the Estonian population not to shrink by 2100 needs either a higher birth rate, as a birth rate that is 10% higher than currently forecast in Estonia would stop the long-term decline in population, or more immigration, as the long-term forecast estimates 2400 people arriving through migration, while the actual net migration to Estonia in the past seven years has been 4000−5000 people a year.

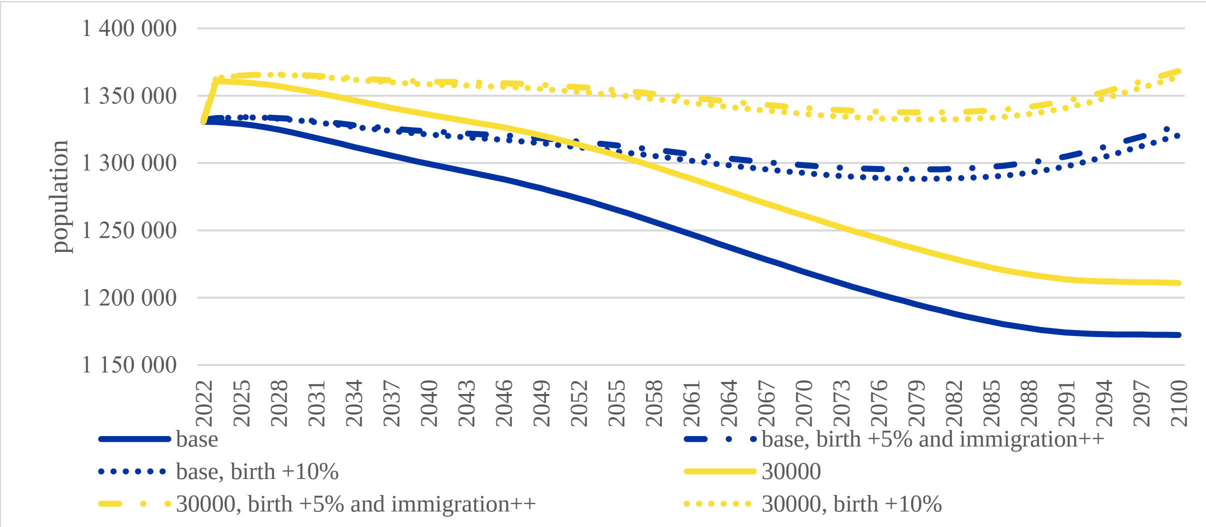

Figure 2. Estonian population 2022−2100

A key indicator for the labour market is the ratio of people of working age to those who are older. **The arrival of Ukrainian refugees from the war will help improve the ratio of people of working age to retired people until 2060**, and then the impact will disappear.

Integrating the refugees in society will impose substantial costs on the state, of which the largest will be the costs for general public services through spending not directly targeted at individuals. The next largest costs will be spending on individuals like healthcare, pensions and other social protection. **The best scenario for coping with the increased costs of the refugees is that they learn the language and adapt to Estonian society quickly so that they can have a similar level of income to that of Estonians within a decade.** If it takes longer to integrate, and the model calculates up to 16 years, and the incomes of refugees do not catch those of Estonians during that time but equal only those of national minority groups within the country, the revenues of the Estonian state will be one third of what they are in the best scenario.

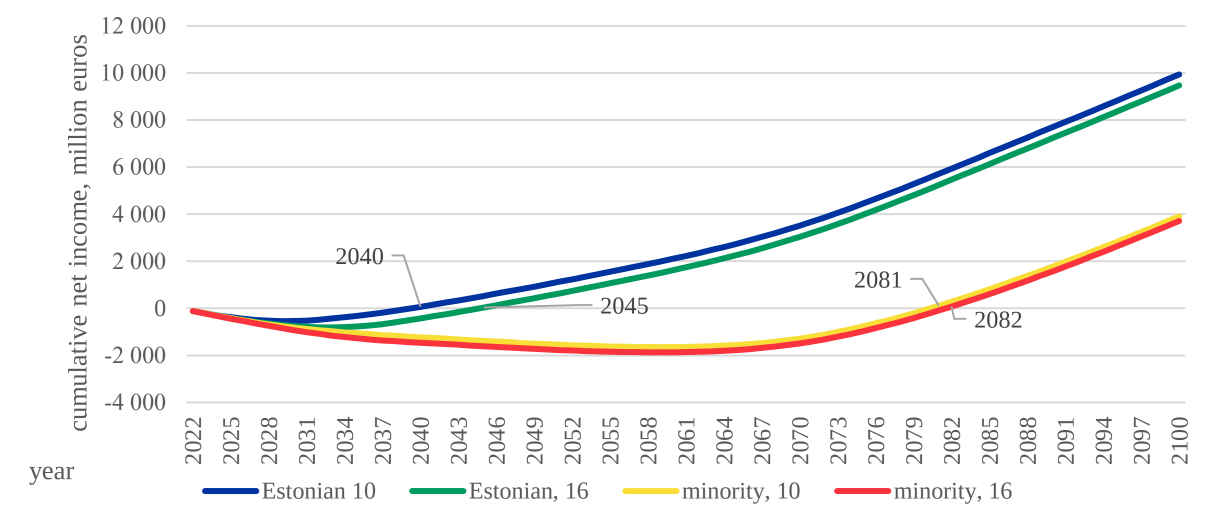

Figure 3. Cumulative state revenues and spending for different integration timescales and target levels with 30,000 refugees remaining in Estonia in 2022−2100

Estonian experts on integration believe that the Estonian social and education systems will be able to meet the needs of the refugees who arrive during the war between Russia and Ukraine and so **consider it more probable that they will integrate into the Estonian language community than into a different language community**. The refugees will also need substantial psychological help as well.

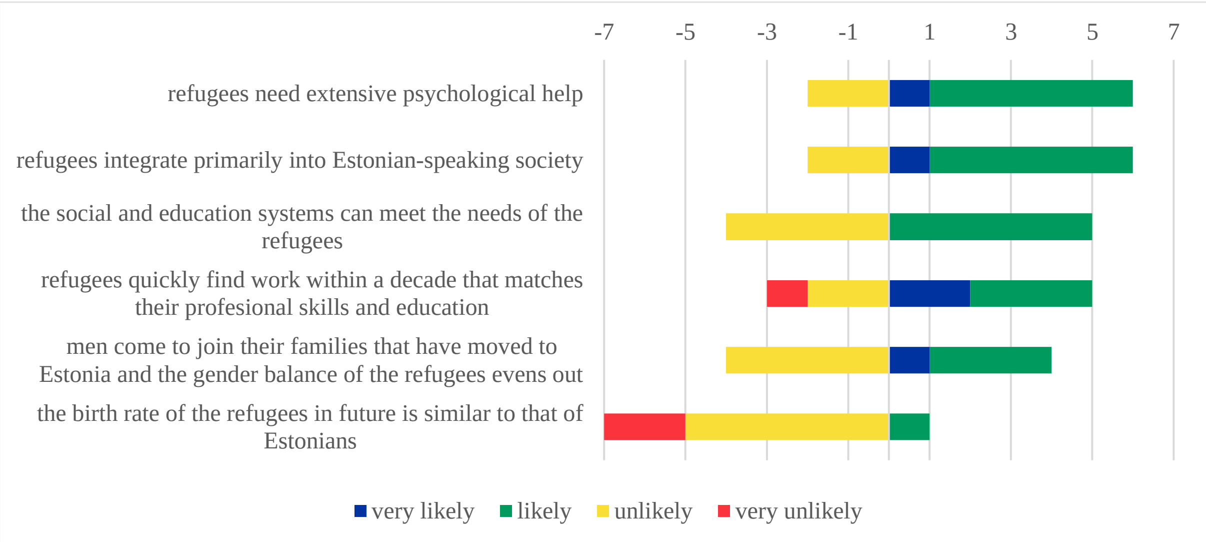

Figure 4. Expert estimates of the probability of possible developments

Successful integration of refugees into society is a two-way process that depends on the cultural and economic background of those arriving in the country, their readiness to adapt, and the capacity of the society to receive new residents. **International experience shows it is very important that the immigrants have rapid access to the labour market and the education system**. The success of integration is also affected by the reasons for arriving in the country, as people migrating for work integrate faster, while migrants who are in transit are less motivated to integrate. Integration is easier for refugees who have a similar cultural background to that of the local population. Success for the immigrants in the labour market depends on their qualifications being recognised.

The war in Ukraine means that Estonian businesses will have to look elsewhere to source the raw materials and semi-finished products that they previously got from Russia and Belarus. Detailed transaction data on foreign trade were used to analyse Estonian imports from Russia and Belarus in 540 groups of goods. Replacing imports from Russia or Belarus with products in the same group of goods from other countries was more expensive in 349 groups of goods, or two thirds of those analysed. **If Estonian companies were to replace all of their imports from Russia and Belarus it would cause an additional 860 million euros in expenses for businesses at 2021 prices, which is equal to 5% of Estonia's total imports**. The largest additional costs are related to fuels, wood products and metals, and also to replacing imports of salt and linen clothing for example, as those groups of goods depend heavily on imports from Russia and Belarus and replacement goods from other countries are expensive.

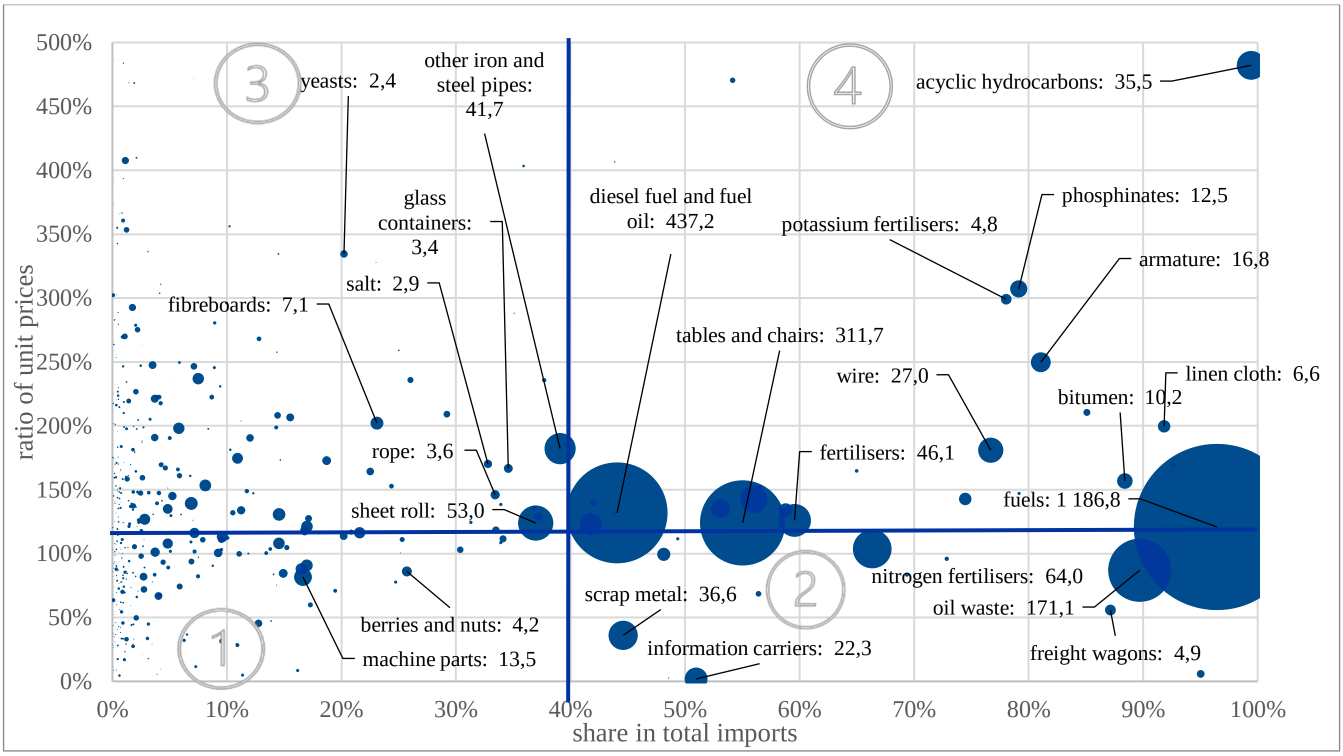

Figure 5. The share of imports from Russia and Belarus by groups of goods and the average import price ratio of groups of goods, showing the unit price of imports from other countries against the average price of imports from Russia and Belarus[1]

The sectors of the Estonian economy affected most are transportation and storage, and also metal production, and wood and chemical processing. A relatively small group of sectors has been seriously affected, as the price of total imported inputs will rise by more than 5% for only seven sectors. Replacing imports is made harder because there is often not any excess supply in the market, and so getting the goods means paying a higher price than other market participants. The construction of long supply chains means that logistics are more complex, requiring companies to hold larger stocks in inventories to manage risks, which raises costs.

[1] An interactive illustration of the groups of goods can be found online (in Estonian).

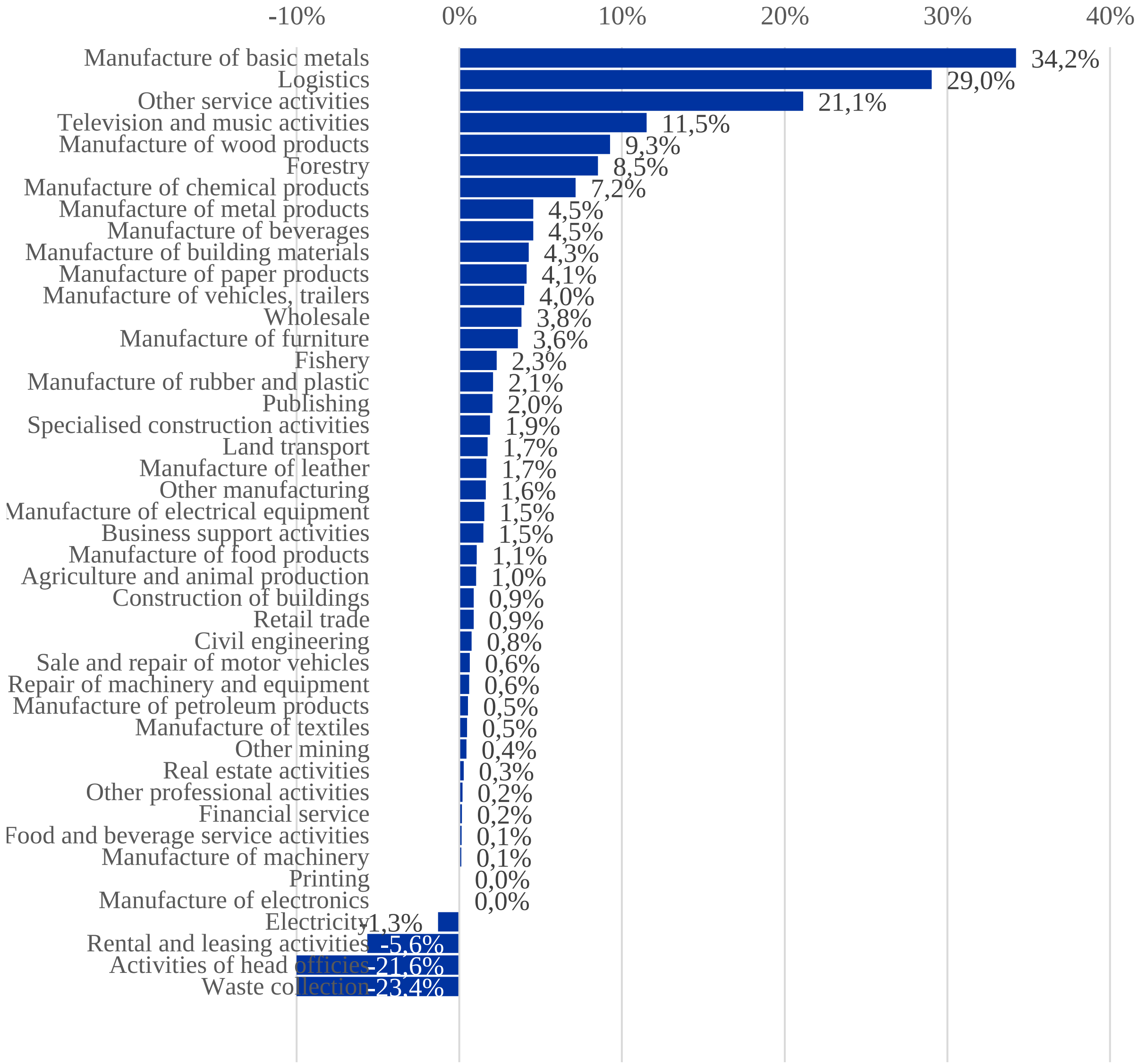

Figure 6. The aggregate impact of replacing imports from Russia and Belarus on the prices of imported inputs

The effect of limiting imports from Russia and Belarus will also be felt by Estonian businesses indirectly through higher prices for goods and services that are produced locally but depend on imports from Russia and Belarus, such as energy. The indirect effects will also reach Estonian companies through global value chains, and through the import of production inputs from countries that have applied sanctions and are dependent on Russian commodities.

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