

Current trends in the ICT sector: Pandemic as opportunity?

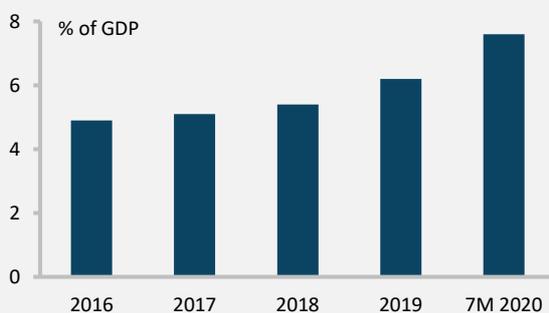
After the Belarusian ICT sector had already undergone impressive development in previous years, the current COVID-19 crisis has further accelerated this trend: in the first seven months of the year, the ICT sector's share in GDP reached 7.6% – significantly higher than in the previous year (6.2%). A key factor is the sector's strong export orientation, which generated total revenues of USD 2.4 bn in 2019 (equivalent to 25% of total service exports).

What explains this success? In addition to the good availability of highly qualified employees with a background in natural science, another important factor is the Hi-Tech Park (HTP), which was founded in 2005 and offers companies a special environment for doing business. Against the background of the accelerated trend towards digitisation, further prospects for the industry are broadly positive, even if current political developments are creating a considerable amount of uncertainty.

Growing importance of the ICT sector

The Belarusian ICT sector has shown impressive growth over the recent years: its share in GDP has almost doubled compared to 2015 and currently stands slightly below 8%. The sector has emerged as a robust driver of economic growth, particularly in times of COVID-19: it expanded by 8.6% over 7M 2020, while manufacturing and trade – the two largest sectors of the Belarusian economy – contracted by more than 3%. In addition, the ICT sector employs around 125,000 people or approx. 3% of the country's total employment – and the trend is rising.

Development of the ICT sector

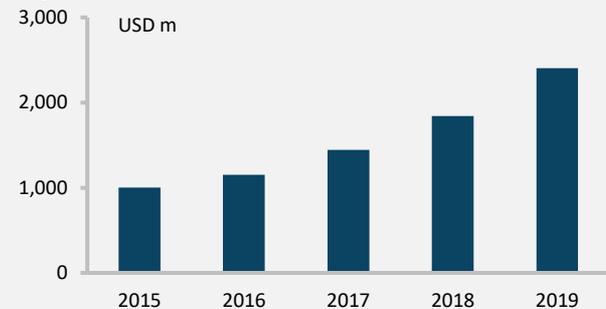


Source: Belstat

The ICT sector is also of particular importance due to its strong export orientation. For several years, exports of ICT services have been the second largest component of Belarus' positive services balance. The share of ICT exports in total services exports was 25% in 2019 and even increased to almost 30% in Q1 2020. The ICT sector thus guarantees a steady inflow of foreign currency

into the country, which is particularly important in view of the recent decline of international reserves.

Exports of ICT services



Source: NBRB

One reason for the rapid growth of the ICT sector are the high standards of secondary and higher education in science and technology. The share of students in the so-called STEM subjects (science, technology, engineering, and mathematics) recently stood at 24%. With over 15,000 graduates per year, this underpins a steady supply of software engineers for the ICT sector.

Large Belarusian ICT companies focus primarily on the traditional business of software development. In addition to their industry affiliation, world-renowned companies such as EPAM (software developers), Wargaming (developers of "World of Tanks") and Viber (instant messenger) have one thing in common: they are residents of the Belarusian Hi-Tech Park.

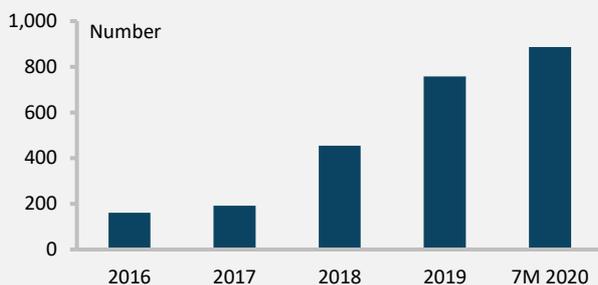
The Hi-Tech Park: a success story

The Hi-Tech Park (HTP), founded in 2005, is an essential part of the Belarusian ICT scene. The park offers its residents a special business environment with various tax advantages, but – in contrast to common clusters – it is not bound geographically to one location, but is rather to be understood as a virtual regime for IT companies throughout Belarus.

Residents of the park can operate in broad but clearly defined spheres and receive a number of income and corporate tax benefits (most recently significantly expanded by Presidential Decree No. 8 of December 2017). In addition, residents can also make use of elements of British law, as well as options and convertible loans - advantages not broadly available in other economic spheres of Belarus.

The park, which now hosts 886 companies, has attracted a considerable number of new members in recent years. Currently, its residents employ around 63,000 software engineers and other staff.

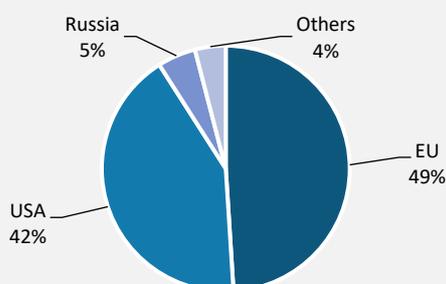
Companies in HTP



Source: HTP

In 2019, HTP-based companies exported a total of 87% of the country's total IT services exports. The main markets were primarily the EU (49% of exports) and the USA (42%).

HTP exports by countries (in %)



Source: HTP

Possible impact of the current corona pandemic

It is no coincidence that the ICT sector has been able to expand its share in the Belarusian economy by leaps and bounds, particularly during the global COVID-19 pandemic. While traditional sectors such as industry or trade are suffering from a variety of negative external and internal shocks, the ICT sector is relatively unaffected.

This trend is likely to continue in the future, as the current crisis is expected to move forward digitalisation in further areas and industries. In this context, retail trade and healthcare should be considered as promising areas, although the overall process of digitalisation will certainly take place on a broader scale and ultimately affect all sectors of the economy in one way or another. In particular, several mobile network operators are currently working on the development of a 5G network in Belarus – an important step towards economic modernisation in line with the concept of “Industry 4.0”.

Outlook

What are the chances that the Belarusian ICT sector's success story will continue in the future? In essence, the prospects are quite positive, as the current COVID-19 crisis will give a new boost to digitalisation worldwide. With its strong focus on service exports, the sector is actually predestined to benefit from this global trend. From a German perspective, new opportunities

for cooperation could also emerge in the future – especially in the areas of fin-tech and healthcare. Recently, there have been several events that have promoted the exchange between players of the Belarusian ICT scene and German business.

However, it is worth pointing out the two main factors that made this success possible. One is the availability of well-trained graduates for the dynamically developing sector. Here, higher and secondary education is primarily called upon to continue to complement the demand for qualified staff. Furthermore, the success of the industry can hardly be explained without the liberal business environment of the HTP. The further development of the regulatory framework is therefore crucial for business prospects in a highly competitive international environment. Should these conditions deteriorate against the background of current political events in Belarus and uncertainty further increase, the successes achieved in the past would be jeopardised.

Authors

Dmitry Chervyakov, chervyakov@berlin-economics.com
Robert Kirchner, kirchner@berlin-economics.com

Editor

Robert Kirchner

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German Economic Team

www.german-economic-team.com

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