

NEWSLETTER

BELARUS

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The Rise and Fall of the IT industry in Belarus

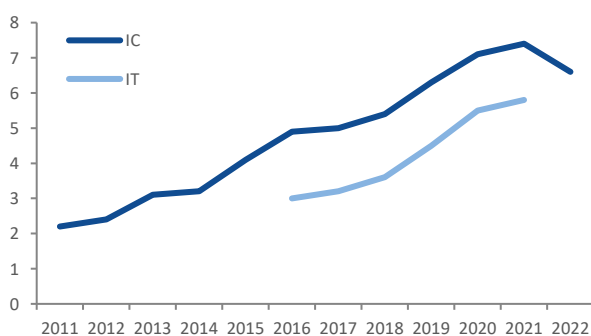
Since 2005, the IT industry has been one of the driving forces of the Belarusian economy with its share in the country's GDP being among the largest in Europe. With a special regulatory and tax regime (Hi-Tech Park, HTP) and up to 4 times higher wages than the country's average, the IT industry used to attract highly qualified employees and boosted Belarusian exports in services until recently. However, the ongoing Belarusian authorities' complicity with Russia in its aggression against Ukraine has far-reaching negative implications on the Belarusian IT industry. Since February 2022 the IT industry reversed its positive momentum, as the outflow of employees continues and the relocation of the most successful IT companies to neighbouring Poland and Lithuania grows rapidly. Possible solutions to the current negative developments in the IT industry depend heavily on the internal political situation in Belarus and on its future position towards the war in Ukraine.

IT industry as the key engine for economic growth

It is important to note that the IT industry encompasses software publishing, computer programming, consultancy as well as data processing, hosting and web portals and is considered being a part of two bigger categories - Information and communication technologies sector (ICT sector) and Information and communication section (IC section). The IT industry makes up more than 3/4 of both the ICT sector and the IC section, and thus, accounts for the substantial share of their overall economic performance.

Until recently, the IT industry was one of the largest and fastest growing industries of the Belarusian economy. Between 2016-2021 it was growing at double-digit annual pace (over 14% on average) and accounted for as much as 5.8% of the gross value added (GVA) in 2021 as compared to 3.0% in 2016.

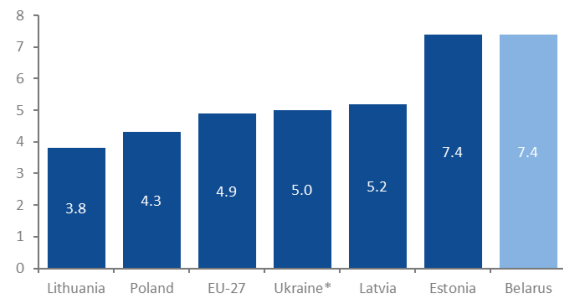
Gross Value Added in IC and IT (% of total GDP)



Source: Belstat

As a result of this growth pace, the share of the IC section (for which we have internationally comparable data) in Belarusian GDP was among the largest in Europe. With 7.4% of the overall IC's share in GDP in 2021, Belarus was at the same level with Estonia outpacing all other neighbouring countries.

Gross Value Added in IC (% of total GDP) in 2021



Sources: Belstat, Ukrstat, Eurostat. *Data for 2020 is the latest available

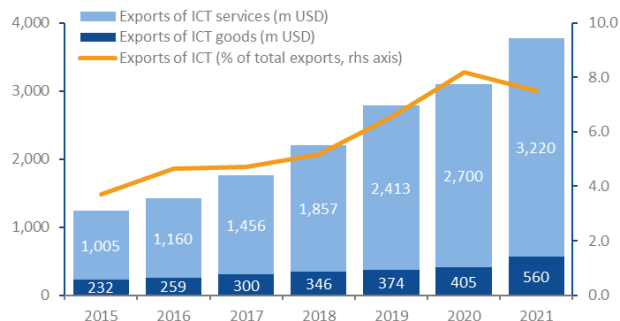
The main reason for the outstanding performance of this industry stemmed from the special treatment of the private IT companies within the generally restricted Belarusian private sector (good quality of tech education in the country and cost-competitiveness of Belarusian IT developers are also important). Among other factors, the HTP allowed the residing IT companies to enjoy significant tax and social security benefits, little or hardly any administrative control from the state (until 2020), free movement of capital, visa benefits and simplified residence permit procedure for foreign employees and founders. In addition to that wages in the IT industry were up to 4 times higher than the country's average, thus until recently, the number of employees in the IT industry was constantly growing and reaching 88.5 thsd. in 2021 (2.4% of total employees). Yet, another important feature of the Belarusian IT industry is its regional concentration in the city of Minsk with almost 80% of all ICT GVA being created there and the rest being distributed relatively evenly among the six regions of the country. The location of the HTP and the leading Belarusian universities in Minsk can be considered being the most important reason for this high regional concentration of the Belarusian IT industry.

IT industry as an export-driver

The Belarusian IT industry is strongly export-oriented. In 2021 Belarus exported ICT goods and services for USD 3.8 bn, what accounted for 7.5% of total Belarusian exports and for as much as 5.5% of the country's GDP. The largest share of the ICT exports is in services (mainly computer services), and over 90% of ICT exports goes to the West (mainly USA and EU). The revenues from the exports of ICT services more than tripled between 2015-2021, reaching USD 3.2 bn in 2021. With the continuing

upward growth trend in the last several years the exports of ICT services has become an important factor for the development of the Belarusian economy in general, and for currency inflows in particular.

ICT exports



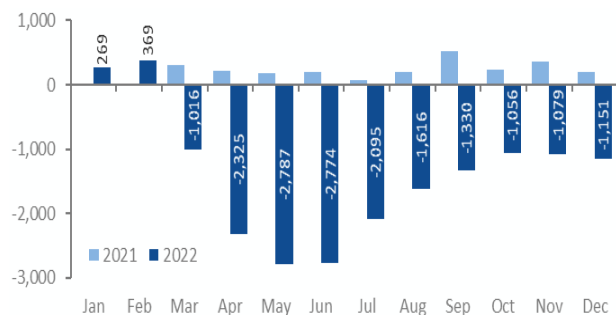
Source: Belstat

Alarming statistics on IT employees’ outflow

The persisting upward growth trends that prevailed in the Belarusian IT industry in the last several years indicated the vast future potential of this economic sector. However, the recent internal and external political developments including the rigged presidential elections in August 2020 and the outbreak of the war against Ukraine by Russia changed this picture dramatically.

Between March-December 2022 small, medium and large IT companies (i.e. without micro businesses employing up to 15 employees and individual entrepreneurs) lost 17.2 thsd. employees, i.e. almost 20% of the total number of employees in the IT industry. Although the outflow of specialists in the IT industry slowed down in recent months, December 2022 was the 10th month in a row when the number of employees in the IT industry decreased (by over 1 thsd. specialists).

Net inflow/outflow of employees in IT (persons)*



Source: Belstat. *For companies employing 16+ employees

The current outflow of IT specialists (after 24 February 2022) is greater than the outflow of IT specialists after August 2020. Hence, this is the most serious blow to the IT industry in Belarus in its entire history.

Outlook

For the first time the IC section shrank by 2.2% in 2022 (compared to +9.2% in 2021). The relocation of IT specialists from Belarus accelerated after the outbreak of the war. Belarusian IT specialists move both to EU countries (mainly to Poland and Lithuania) and to the East (Georgia and Uzbekistan). Relocation affects mainly middle- and senior-specialists. Some of the largest IT companies closed their businesses in Belarus (Wargaming, PandaDoc, Flo, Wannaby, OneSoil, WorkFusion, EIS Group, Vochi, Playrix, and others).

Until the Belarusian regime stops supporting Russia in its war against Ukraine and the internal political crisis is solved, the IT industry will hardly regain its leading position in the Belarusian economy. As under current circumstances the relocation of the most successful IT specialists and companies is going to continue, the Belarusian IT industry will stagnate or even shrink in the medium-term, reversing a decade-long success story.

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This text reflects the opinion of the author and does not necessarily represent the views of the German Economic Team.

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Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy. *Advisory activities in Belarus are currently suspended.