

EXPERT OPINION

September 2023

Summary

- **INFLATION RISK TOLERANT MONETARY POLICY TESTS ITS LIMITS**

The policy of the National Bank has ceased to be a “fuse” against the negative consequences of mistakes made by the government in its economic actions. The regulator lost its operational independence in mid-2020; and it began a large-scale easing of monetary policy in 2022 despite persisting elevated inflation. This leads to economy overheating and intensification of inflation risks. In the context of the overheated domestic demand and the labor market, delaying the exit from strict price controls exercised by the government will be associated with ever-greater potential costs in the form of an inflationary surge and a sharp tightening of the monetary policy in the future. Moreover, if loose monetary policy continues, inflation will gradually accelerate even if current approaches to price controls are maintained.

- **SUPPORT CHANNELS FROM RUSSIA FOR THE BELARUSIAN ECONOMY**

Belarus continues to actively enjoy Russian support for its economy. However, the channels are transformed depending on the economic and geopolitical situation in both countries and in the region. However, the benefits currently enjoyed by the Belarusian economy are likely to decline soon. At the same time, Belarus's dependence on the Russian market and the decisions of the Russian government has been increasing: this is a vulnerability factor. Despite the high quality of human capital and availability of a number of highly competitive sectors, it will be challenging to mitigate emerging risks in the current context.

- **IT SECTOR: STATUS AND PROSPECTS**

The Belarusian IT sector has suffered heavy losses due to the outflow of professionals and companies; the sector continues to shrink, and it has been transforming from a driver to a brake for the economy since last year. The authorities hardly wanted to bring the sector to this status, but the conditions, including those provoked by the actions of the authorities, contributed to this. However, the IT sector will not die out in Belarus. Considering that almost all IT professionals and IT firms who wanted to relocate from Belarus did this, one can expect that the remaining representatives of the sector will more actively adapt to the new context, and they will look for projects in new markets. This will boost the sector from this year's low baseline. However, larger-scale changes are needed for sustainable recovery and development of the IT sector.

INFLATION RISK TOLERANT MONETARY POLICY TESTS ITS LIMITS

The operational approach and institutional environment of monetary policy have degraded

The most important “fuse” against the negative consequences of the government economic policy mistakes is an independent monetary policy aimed at maintaining inflation near a pre-announced target and smoothing out short-term fluctuations in economic activity.

The Belarusian National Bank lost its operational independence de facto in mid-2020. Since then (especially since mid-2022), monetary policy has focused on stimulating economic activity. The National Bank has been very tolerant to the inflationary consequences of such a policy. Inflation was 7.4% in 2020, and 10% in 2021. The declared 2020-2021 inflation target was 5%.

In 2022, the operating conditions of the Belarusian economy changed dramatically: inflation accelerated, and the declared inflation target of 6% for late 2022 lost its relevance. Since July 2022, the National Bank has embarked on a large-scale easing of monetary policy despite persisting elevated inflation: the annualized consumer price increase (seasonally adjusted) amounted to $\approx 9\%$ per month on average in July–September 2022. Since October 2022, the only inflation regulator has been blanket price controls exercised by the government and formalized by Resolution 713.

In addition to the loss of operational independence, the institutional environment for implementing monetary policy has noticeably degraded in recent years. Intentions to increase transparency and accountability of the National Bank to society are history (temporarily perhaps). The frequency and content of the regulator’s communications and the data and analytical materials it published decreased significantly last year. There are no longer any central bank briefings on the outcomes of its board meetings; there are neither clear explanations of decisions made nor meetings with the expert community. Even in Ukraine and Russia, which are in direct military confrontation, communication of their central banks remains much more informative.

The National Bank introduces uncertainty and undermines confidence in its policies with its strange approach to setting and announcing the inflation target. The increase in the inflation target at the end of last year to 7-8% for 2023 was poorly justified, and the National Bank has not declared clear inflation targets for 2024 and the medium term inflation target for businesses and households.

In general, the Belarusian economy approached September 2023 with a number of accumulated imbalances. They have largely shaped under the influence of implementing loose monetary policy, and they risk translating into a significant inflation acceleration and

the need for a sharp tightening of monetary conditions in 2024.

Monetary policy of the National Bank has been excessively loose since the middle of last year

The expansionist approach to monetary policy is manifested not so much in lowering the refinancing rate — it dropped from 12% at the beginning of this year to 9.5% to date, — but in the National Bank’s extravagant approach to regulating liquidity in the banking system.

De facto, the National Bank has not been regulating the liquidity of banks by using market instruments since July 2022. At the same time, it injected at least 1.7 billion Belarusian rubles into the financial system last year through increasing requirements for non-depository financial institutions (the Development Bank and, probably, the Asset Management Agency) and 1.9 billion Belarusian rubles through purchasing government bonds on the secondary market (investments of the National Bank into government securities increased by 4.2 billion Belarusian rubles in 2022, but 2.26 billion Belarusian rubles of this amount were spent by banks to repay their liabilities to the National Bank).

This year, the main channel for issuing Belarusian rubles is purchasing foreign currency by the National Bank on the domestic market: together with the Ministry of Finance, it has bought a little more than \$0.5 billion in the first seven months of 2023. As a result, the banking system has been operating in the context of large non-withdrawable excess liquidity since the middle of last year: 32.5% of GDP per month on average in the second half of 2022, and 25.1% of GDP in January–July 2023.

This is the environment where the interest rate of the Belarusian ruble interbank loan is maintained extremely low: close to 1% in nominal terms, and it is deeply negative in real terms. Estimates based on the Quarterly Prediction Model (QPM) for Belarus indicate that the interbank loan rate is much below the neutral level this year, i.e. it generates neither additional pro-inflationary nor additional disinflationary pressure. This signals an overly loose monetary policy of the National Bank, which is becoming pro-cyclical.

Interest rates on loans and deposits have dropped to historical lows

Amid a colossal and stable liquidity surplus, which cannot be “packed” by the National Bank, commercial banks have no incentive to attract new deposits. As a result, the average interest rate on new term deposits in Belarusian rubles has fluctuated in the range of 2-4% since October 2022. This level of return on deposits is historically minimal for Belarus. The QPM-based estimates show that real interest rates on Belarusian ruble deposits fell significantly short of neutral levels in 2022 and in the first half of 2023. In addition, banks maintain interest rates on institutional deposits at an extremely low level: about 2.2% on average in January–

July 2023. Unlike households, firms are forced to deposit their cash in banks; and the need to maintain working capital and complicated disinvestment from the country can reduce their response sensitivity to changes in interest rates and exchange rates unlike households. However, an average interest rate on new term deposits of households also decreased to 8.5% by July 2023, from 15.6% in July 2022 and from 9.9% in December 2022.

A large amount of excess liquidity pushes banks to reduce the cost of credit resources. The average interest rate on new market loans in Belarusian rubles this year has been consistently rewriting its historical lows, dropping to 8.3% at the end of July. As in the case of inter-bank lending and deposit rates, the real lending rate is estimated below its neutral level (based on QPM). The easing of lending conditions has been confirmed by the surveys of banks conducted by the National Bank. At the same time, conditions get softer not only in terms of interest rates, but also in terms of non-price factors: the credit product range expands; loan terms extend; requirements for collateral and the financial standing of borrowers get softer. All this is a direct consequence of the expansionist monetary policy of the National Bank; although the adaptation of businesses and households to new realities also has a certain impact.

Lending activity increased, and the money supply exceeded the inflation-neutral level

Interest rates on the credit and deposit market shape monetary conditions. They are reflected — with some time lag — in the dynamics of credit activity and money supply.

There has been a significant increase in credit impulse since Q3-2022: the volume of new bank credit in the economy has been growing faster than nominal GDP growth. Total credit impulse (both in Belarusian rubles and foreign currency) was estimated at about 4.4% of GDP per quarter on average in Q3-2022 through to Q2-2023. Undoubtedly, the adaptation of the banking system, businesses and households to operating in the changed environment played a significant role in lending expansion. Nonetheless, the scale of the credit impulse was significant: the credit impulse was estimated at about 1.5% of GDP per quarter on average in 2017 through to 2018 (it was 3.4% of GDP in 2017), which was also a recovery period following deep recession in 2015-2016.

Money supply has been expanding rapidly amid higher credit activity. In real terms, broad money supply has been growing by about 4.5% per quarter on average (seasonally adjusted) for the last four quarters, and its Belarusian ruble component has been growing by 7.1% per quarter on average. By contrast, in 2017, growth was 2.5% and 4.2%, respectively, and it slowed down in 2018. Recent money supply growth has been exceeding inflation-neutral levels (which correspond to changes in potential GDP and the equilibrium velocity

of money). As a result, real money supply was estimated to be more than 6% higher than the inflation-neutral level at the end of Q2-2023. This indicates that an inflationary overhang is shaping under the influence of an overly loose monetary policy.

Another important consequence of expansionary monetary policy (and, probably, the expansion of gray supply schemes) was a change in the money supply structure in favor of “hot” money. The share of cash and funds in current accounts in the Belarusian ruble money supply in June 2023 exceeded 60% (seasonally adjusted), increasing over the year by almost 10 percentage points. This is a record-breaking figure for more than 20 years, namely since January 2003. The structure of the money supply is becoming “fragile”. This may amplify the negative effects of shocks when they occur.

Loose monetary policy leads to economy overheating and intensification of inflation risks

Expansionary monetary policy has become one of the key drivers of the rapid recovery of economic activity in the second half of 2022 and in the first half of 2023. At the end of Q2-2023, GDP exceeded its equilibrium (or inflation-neutral) level by ca. 0.7%, resulting in a positive output gap.

A positive output gap indicates that the economy is entering an overheating phase. Its scale is still small, but it has been generating price pressure and pro-inflationary risks already. Loose monetary policy fuels demand in the economy. In the consumer segment, it significantly exceeded the pre-war level, and in the investment segment, it began to grow rapidly this year (most likely, in the latter case, there is also a non-market impact). The ability to adjust supply to increased demand is limited under sanctions and labor shortages. The mismatch between supply and demand will push prices higher. At the same time, the tense situation in the labor market not only limits the ability of producers of goods and, perhaps, services to a greater extent, to adapt to the expanded demand, but also provokes a rapid wage growth. According to the QPM-based estimates, the average salary in real terms was almost 4% higher than the inflation-neutral level in Q2-2023.

So far, the impact of excess demand and labor shortages on inflation is suppressed by the government price controls. Its combination with an overly loose monetary policy leads to the accumulation of an inflationary overhang. Indirectly, the National Bank recognized an inflationary overhang: it showed that without the effect of Resolution 713, quarterly inflation would have been significantly higher than actual inflation not only in Q4-2022, but also in Q1-2023 and in Q2-2023. The point is that if we accept as true the government's explanation of exorbitant prices as of October 2022 (due to “unreasonable” expectations or “greed” of retailers) and bringing them to “equilibrium” through tightening price controls, then the effect of this Resolution should have impacted quarterly inflation only in

Q4-2022. Subsequently, quarterly inflation should no longer contain such an effect (if Resolution 713 had not artificially restrained price increases). Calculations based on QPM are generally close to the National Bank's estimates and show that the unrealized price growth potential due to Resolution 713 by mid-2023 is up to 5.6%.

Normalizing monetary policy and ensuring the independence of the National Bank are the only way to neutralize threats

In the context of the overheated domestic demand and the labor market, delaying the exit from strict price controls exercised by the government will be associated with ever-greater potential costs in the form of an inflationary surge and a sharp tightening of the monetary policy in the future. If loose monetary policy continues, inflation will gradually accelerate even if current approaches of the government to price controls are preserved. This is because "inflating" demand through monetary stimulus will lead to an increasingly positive output gap in the context of limited supply-side adjustment options. As a result, to meet growing demand, producers of goods and services will have to leverage production factors (labor and capital) above their optimal levels, which will lead to higher costs, and this will translate — albeit with a time lag — into selling prices.

Tightening monetary policy from the end of 2023 to the beginning of 2024 and reaching a neutral state during 2024 (which is the base scenario still) will limit the increase in consumer prices to 7-10% by the end of 2024. If the 2024 inflation target of the National Bank (which has not been announced) is close to 5-6%, then monetary policy should be tightened as early as Q3-2023. This is because the time lag between the adoption of monetary policy decisions and their significant effects on economic activity and inflation is several quarters to a year. Delayed decision-making will increase the scale of the sharp adjustment to be required in 2024.

It is important to get back at least to some semblance of applying rules in monetary policy. The National Bank complains about structural challenges impeding investment. However, at the same time, it does not provide any clear inflation targets, not only for the medium term, but also for 2024. At that, potential responses of the National Bank to possible shocks are not obvious. In this context, investment planning and forecasting become even more challenging, and trust in the monetary authorities will have to be won again with great effort in the future.

To restore confidence in the monetary policy of the National Bank, it is extremely important to get back to communications with the public and to publishing analytical and statistical reports at least on the scale of early 2021. By contrast, both Ukraine and Russia hold briefings and press conferences on the outcomes of their monetary policy meetings; their central banks publish forecasts and explain in detail the reasons for their actions. The National Bank has been keeping a

wide range of information materials undisclosed to the public since March 2022. It is difficult to reasonably justify this informational secrecy of the National Bank. Potential explanations include a loss of not only operational but also institutional independence, or an attempt by the regulator to evade any responsibility for the consequences of its actions.

SUPPORT CHANNELS FROM RUSSIA FOR THE BELARUSIAN ECONOMY

The main support channel — oil and gas — remains

Belarus continues to actively enjoy Russian support for its economy. The channels through which this support is provided have been operating for decades. The role of each of them transforms depending on the economic and geopolitical situation in both countries and in the region.

There are several channels for providing tangible support. The main one is oil and gas, namely subsidized prices for natural gas and crude oil. Belarus has always bought these energy commodities from its eastern supplier at non-market prices, which has provided significant benefits to the Belarusian economy. In 2000-2010, oil and gas support through such subsidies amounted to 10% of GDP sometimes. According to the IMF, it reached 15% of the Belarusian GDP in the first half of 2010s. After this, these subsidies began to shrink, and the oil price for Belarusian refineries gradually began to approach the market price, especially after Russia started its “tax maneuver” (reducing customs duties and simultaneously increasing the oil extraction tax).

The trend reversed in 2022. This was when the Urals oil was strongly discounted versus the Brent oil price. Minsk could buy oil at a relatively low price (i.e. Urals) and export its refined petroleum products at a higher Brent price.

The financial support channel transforms

The scope of the remaining support channels is less significant than before, but they can also be considered important for the Belarusian economy.

Among them, it is worth highlighting the financial channel. Within the financial channel, direct state budgetary support has always played an important role. In the structure of the public debt of Belarus, there is a fairly large share of interstate loans from the Russian Federation and loans from the Eurasian Fund for Stabilization and Development (the Russian Federation is a key shareholder of the Fund that can influence decision-making). Opportunities of refinancing old debts to Russia were used in addition to the very fact of allocating a fairly large volume of loans. As the maturity date approached, Minsk would often get a new loan to refinance the old one. In recent years, the option of deferring repayment terms has added to traditional debt refinancing.

The amount of Russian financial support provided to Belarus had been gradually declining before the 2020 presidential election in Belarus, and especially before geopolitical turbulences and the war in Ukraine. However, it began to grow again in 2021-2022. New formats have emerged, e.g. loans for import substitution projects.

An important part of the financial support channel is direct investment. Over 30% of the accumulated foreign direct investment is associated with Russia. This is a kind of indirect channel of state support, especially if we are talking about investments of Russian state-owned companies in Belarus.

Here we can also recall operations of the branches of Russian state-owned banks in Belarus, which are supported by their parent institutions. This channel remained its importance even after sanctions were imposed on Russian banks. Due to it, potential risks for the Belarusian treasury are mitigated in terms of possible support and additional capitalization of the banking sector.

The fourth part of the financial channel is access of Belarusian companies and the government to the Russian capital market. This applies to the placement of government bonds by the Ministry of Finance of Belarus, as well as securities of other counterparties in the future. As the two parts mentioned above, it can be classified as an indirect support channel, since it provides opportunities to attract borrowed capital in the context of limited access to Western capital markets.

In recent years, there have been significantly fewer statements about the use of traditional channels of state budget support for Minsk from Moscow compared to the past. Previously, new loan agreements directly resulted from the meetings between Alexander Lukashenko and Vladimir Putin; it seems that the focus of their negotiations has shifted recently.

It is important to understand that in the past, direct and credit support from Russia was relevant due to reducing oil and gas subsidies, and primarily due to the ongoing tax maneuver. This support partially compensated the losses of the Belarusian state budget. Since the oil and gas subsidy has increased significantly since last year, the need for financial support has decreased.

Support for Belarusian exporters

The third channel is logistics support for the Belarusian economy. It has been actively used since 2022 to support Belarusian exporters who need to build new logistics and transport chains. First of all, this concerns exports of potash fertilizers and oil refining products. This is direct administrative support from Russia. It does not result in high financial costs, but helps exporters not reduce their production. In addition to price factors, due to the above, Russia's share in Belarus' exports increased from 40% to over 60% last year.

Simplified access for Belarusian exporters to the Russian market can be perceived as a kind of support. However, if we talk about the growth of Russia's share in the volume of foreign trade of Belarus, especially in terms of Belarusian exports, then this, on the one hand, is a side effect of the restrictions that both countries fell under. In such conditions, Belarusian enterprises

have no choice but to increase exports to Russia for its sale on this market or for re-exporting.

On the other hand, this growth is a consequence of integration processes within the Eurasian Economic Union. This happens, inter alia, through a significant expansion of opportunities for Belarusian enterprises to participate in government procurement in Russia. The Russian Federation has adopted many legislative acts that have influenced this in recent years. Considering a large share of the public sector in Russia, this is a significant supporting factor. In my opinion, the Russian side has been making efforts to ensure equal access for Russian and Belarusian producers to the Russian market.

Dependence of the Belarusian economy on Russia increases

As S&P Global Ratings notes in its reports, Belarus' dependence on the Russian market and on the decisions of the Russian government is a vulnerability factor.

Before the 2020 presidential election, the Belarusian government had been making efforts to diversify exports, financial flows, etc. To ensure this, exports to alternative markets had been increased, and geographical penetration of trade relations had expanded. However, the trend has sharply reversed recently. In this sense, the vulnerability of the Belarusian economy has increased.

Belarus has benefited significantly from increased price competitiveness on the Russian market, especially in the past year. This was largely due to the significant strengthening of the Russian ruble. However, the situation has leveled off recently; and Belarus will increasingly feel the restrictions associated with the low growth rates of the Russian economy. According to the forecasts of the Central Bank of the Russian Federation, the growth rate of the Russian economy will be 1-2% in the medium term.

The second important point is the dependence of oil and gas issues on the decisions of the Russian government. If for some reason its priorities in terms of providing support change, this will increase the vulnerability of Belarus. This used to happen in relations between the two countries (the last time was in early 2020), when decisions regarding prices and supplies of energy commodities were associated with some kind of concessions, political agreements, and Minsk was not supported until these agreements were reached. The Belarusian side had tried to avoid this vulnerability precisely before 2020.

Despite the high quality of human capital and availability of a number of highly competitive sectors, it is challenging to mitigate emerging risks in the current context. Now, geopolitical factors and risks are key in shaping economic prospects.

IT SECTOR: STATUS AND PROSPECTS

Anastasia Luzgina, Senior Research Fellow

What is the situation in the IT sector?

The Belarusian IT sector had been an economic growth driver until 2022. However, the situation has been changing since the beginning of the war. Now, on the contrary, it slows down economic growth. The negative contribution of this sector to GDP growth was minus 1.2% for the first seven months of 2023. This has been happening because the IT sector has been shrinking.

First, the contraction of the sector is associated with the relocation of companies, including its largest players. Some of them do not exit completely, but keep their truncated offices in Belarus.

In general, companies in this sector fire more people than hire. According to statistics, the Information and Communications sector hired 919 people and fired 1,510 in June 2022. That is, the difference between those hired and fired was 60.9%. This suggests that the sector is not growing, but shrinking. In general, 22.3 thousand more professionals were fired than hired over the course of a year and seven months.

Salaries in the IT sector are still higher than in many other sectors, but they do not grow as usually. The average real salary only in the “Information technology and activities in the field of information services” sector in January-July 2023 amounted to 92.8% of the average salary in January-July 2022. If we compare the average real salary in July 2023 to July 2022, its growth is 7.2%, which is noticeably lower than in other sectors. For example, in July, real wages in the manufacturing industry increased by 16.7%; real wages in the construction sector increased by 23.8%; real wages in the air transport subsector increased by 27.7%; and real wages in the education sector increased by 12%. This is most likely due to shrinking profitability and the number of projects, as well as because highly qualified workers with higher salaries keep relocating to other countries, which is why the structure of the sector has been changing: more young and less experienced specialists stay in Belarus, and therefore, their salaries are lower.

Belstat does not provide a breakdown of services in foreign trade, but based on data from previous years, we can assume that the contraction of the sector has also affected the results of foreign trade in services. The positive balance of foreign trade in services amounted to \$1.4 billion in the first half of the year. It reached \$2.2 billion during the same period last year. The decline was influenced by deterioration in the transport and IT sectors. Since the latter played a serious role in the export of services and brought in several billion US dollars annually, we can argue that the situation in this sector has affected the results of foreign trade in services.

Why Belarus loses IT companies?

Massive relocation of professionals in this sector is primarily associated with the employers' encouragement to relocate. Today, it is challenging for such companies to operate in Belarus. Why? It so happened that the Belarusian IT sector was mainly aimed at working with European and American customers. After the war in Ukraine started, the reputation of Belarus on the world stage has been greatly shaken due to the position taken by the Belarusian authorities. This has also affected businesses: American and European customers have been refusing to cooperate with companies located in Belarus. This is mainly due to two reasons: high reputational risks and the introduction of sanctions against our country. In this context, Belarusian companies have faced a drop in cash flows and reduced opportunities for further development. This sector is quite mobile (unlike manufacturing industry), since companies only need to relocate people to another country where there are no risks for operations or where such risks are significantly lower. This is exactly what has happened.

The second point that influenced the outflow of professionals from this sector is the relocation of IT professionals for political and economic reasons. You should realize that IT professionals are well-educated people, and most of them speak English. The Belarusian IT sector has always adhered to contemporary European and international standards. Therefore, an IT professional from Belarus, in principle, does not care where to work: even if s/he relocated to, say, Poland, the conditions, corporate rules and standards will be clear to her/him. In addition, many countries have been creating a more enabling environment to attract IT talents. Consequently, their legalization is simplified in a new country, which significantly mitigates relocation distress.

It turns out that the decision to relocate has been taken by both IT companies and IT professionals. It is clear that the state was not initially interested in squeezing the IT sector out of the country. Probably no one wanted this outcome. Conditions were simply created — including those provoked by the actions of the authorities — that pushed IT professionals to relocate to other countries.

What future awaits the Belarusian IT sector?

The IT sector will not disappear. However, we can evidently say that it will shrink: this has been happening already. Businesses and the economy as a whole know how to adapt to changing context. Companies that have stayed in Belarus look for new customers; the Russian market will be worked on more actively, because there is a shortage of IT professionals. The question remains open: to what extent salaries — when working in Russian projects — will correspond to the salaries that Belarusian IT professionals got used to.

The second remaining operations domain for them is the domestic Belarusian market, which, like the Rus-

sian one, has been experiencing challenges in obtaining new technologies. However, one cannot expect high incomes even here. Precisely because of low profitability, not all of our IT companies wanted to work in Belarusian projects previously.

Perhaps companies will enter the markets of the countries that are more loyal to Belarus, and they will look for projects in the East and in Latin American countries. However, at the same time, they will face competition, because other states have also been developing their own IT sectors, creating attractive operating conditions. We should not forget that our IT sector has seriously lost its competitiveness after the most powerful companies and representatives of the sector exited the country.

Another feature that the Belarusian economy will live with in the near future is the minimization of financial in-flows to Belarusian IT offices. We can see already that most of the companies' funds stay abroad. Consequently, their Belarusian offices may not have large revenues and may not bring the same amounts of foreign currency into the country as they did before. Therefore, one should not expect that even in the event of some recovery growth, the IT sector will bring benefits to the economy as before.

The relocation of high-quality sector professionals and large companies that used to invest in education will affect the skills of the new generation of professionals and lower the quality of IT education. Companies used to collaborate with universities: IT professionals would read lectures, organize open seminars, senior students would be hired en masse to work for IT companies, which would give them the opportunity for career growth and guaranteed good earnings for several years. Such initiatives may not have disappeared completely, but they have become fewer.

In addition, falling hiring and a decline in the number of actively expanding companies narrow the prospects for

young professionals targeting this market. It is more challenging for them to get a well-paid job at least because demand in this market has fallen. The industry is still seen as a good career choice: both because of its demand in the world at large, and due to its fairly good pay. However, there are fewer opportunities to find opportunities on the Belarusian market. Most likely, some schoolchildren will focus on enrolling in foreign universities immediately, and some graduates of technical universities will look for opportunities to get a job in companies located in other countries.

The government wants to "reverse the current negative trend and ensure growth" of the IT sector in 2024. It should be taken into account that they want to do this against the backdrop of a low baseline of the current year. Many companies that wanted to exit the Belarusian market have already done so; therefore, we can count on the situation in the sector to have stabilized by the end of the year. Given that the government has high hopes for cooperation with Russia, the authorities may believe that partnership programs and new projects will contribute to the development of the IT sector. In this case, we can expect some growth versus the low 2023 baseline.

However, even if one relies purely on market conditions, some recovery in the IT sector dynamics may be because companies that have decided to continue operating in Belarus will adapt to new realities and find projects in Belarus-friendly markets.

It will be possible to talk about a sustainable recovery and continued active development of the sector if there are positive political changes. This will entail economic improvements: sanctions will be lifted; an influx of foreign investment will be ensured; and the country's image will improve. Considering the accumulated capacity in the IT sector, which has not been lost completely, it may recover quickly. However, the later these changes occur, the more difficult it will be to do all this.