

Summary

● IMPACT ASSESSMENT OF TWO YEAR-LONG WESTERN SANCTIONS

The impact of the sanctions has turned out to be quite serious, although their impact on output has been less than expected when they were imposed. The Belarusian economy has demonstrated unexpected flexibility and adaptability, which has reduced visible economic losses. However, this situation can hardly be called sustainable. In addition, the side effects of the mechanisms leveraged to mitigate the impact of Western restrictions are large.

● ECONOMIC REALITY REFLECTED IN CONSUMER CONFIDENCE

Concerns about economic development that have not fully materialized in the context of sanctions pressure and opportunities that have closed for Belarus are reflected in the financial assessments of the population. Despite the fact that almost a third of respondents report their worsening financial situation, the Consumer Confidence Index is rising in general. This is largely influenced by the active growth of wages, the availability of credit resources, and the containment of inflation. However, adjustments of households to the new normal have also played their role. Nevertheless, there is also a feeling of uncertainty about the future.

● GROWTH PHENOMENON: WHAT HAPPENS IN THE RESIDENTIAL REAL ESTATE MARKET

The real estate market has been experiencing a surge in demand primarily caused by the active growth of household incomes. This is partially due to the loose monetary policy and containment of inflation: these factors together have had a calming effect on expectations. In this situation, the assessment of the severity of risks has decreased: households have actively taken advantage of the opportunity to solve their housing issues, including by taking loans. Given the government's economic plans, one can expect elevated demand in the real estate market to continue.

The Expert Opinion Bulletin ("Belarus Economy Monitor: Trends, Attitudes, Expectations") presents a subjective expert review of the key short-term trends in the Belarusian economy. Each bulletin issue selects three key trends based on a survey of three experts: the BEROC staff members and third party experts. The summary captures these trends, as well as the expectations of the three experts interviewed for future economic dynamics. The body of the bulletin provides individual expert opinions on one of the challenges, their expectations and situation development scenarios.

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EVALUATING TWO YEARS OF WESTERN SANCTIONS

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Are sanctions effective? There are several answers to this question

The effectiveness and efficiency of the sanctions imposed on Belarus should be evaluated by the progress in achieving the goals of the sanctions. In this regard, there are multiple contradictions based on initially different visions of the sanctions' outcome. There are three potential consequences expected from the restrictions imposed on the Belarusian regime.

The first is **to exert economic impact** on the sanctioned entity (i.e. the Belarusian regime and, accordingly, the Belarusian economy). In this regard, the imposed sanctions seem to be very effective because they have a significant impact. Their impact (conditional gross effect) in 2022 can be estimated at approximately 12% of the 2021 GDP. In 2023, the negative gross effect largely stopped, but it still amounted to about 6% of output.

The second potential outcome is **the transformation of negative impacts into tangible economic losses**. In other words, this is the effect of the imposed restrictions in the form of actual losses or net effect. In this regard, we can see that the economy turned out to be able to largely digest this impact: so to speak, it has found an "antidote" and adapted. Compensation for losses from the impact of sanctions occurred through various mechanisms, which were mainly associated with Russia, and this ultimately made it possible to significantly reduce the net effect. Therefore, tangible output losses were significantly less than the gross effect.

However, it depends on what we compare it with. If the estimate is based on the actual output in 2021, then the output loss was 4.7% in 2022 and ca. 1% in 2023. The picture is different if we compare actual output not with yesterday, but with the so-called counterfactual scenario: i.e., the hypothetical output level that would have developed today in the absence of sanctions. In this scenario, the economy would continue to grow at about 1% annually since 2021. If we compare it with this benchmark, then the actual sanctions losses were 7.2% in 2022 and 4.6% in 2023. The cumulative total was almost 12% of the total output lost.

The third implied outcome of sanctions restrictions is spelled out directly in the regulations of the countries imposing sanctions: this is **the impact on the political behavior of the regime**. That is, the desire to force the regime to change its political plane. This is a prism that is frequently used to measure the effectiveness of sanctions. However, it is important to be aware that the transformation of economic impact into political behavior (especially in case of such a personalist regime as Lukashenko's regime) is very indirect. This means that

initially there is not much reason to expect that economic losses will immediately translate into political behavior changes. Therefore, it is important for those viewing sanctions through this lens to evaluate the sanctions outcome as a marathon rather than a sprint. The fact that there is no political effect today does not mean that it cannot appear in the future (and there is no guarantee that it will appear at all).

Why the effect of sanctions has not fully transformed into actual output losses

As we can see, the net effect of sanctions restrictions has turned out to be lower than it was estimated when they were imposed. This is because the degree of adaptation of the economy to new conditions has turned out to be significantly higher than it could be expected. It is important to make two caveats here. Firstly, this adaptation is fragile and unstable; so, there is no confidence that it will unshakably compensate for the negative effects of sanctions in the future. Secondly, it has many serious side effects. This will be discussed later.

The first key element of the Belarusian economy's adaptation to restrictions is that the public sector, with the support of the authorities through "export protection mechanisms," was able to redirect a significant share of trade to the Russian market or to set up infrastructure and logistics for supplies through Russian territory. Success in supplies to the Russian market has been greatly facilitated by external conditions: weak competition in the Russian market at the time of reorientation of Belarusian exports and the price conditions. New logistics schemes have largely restored exports relatively quickly, primarily exports of the key strategic commodities: potash fertilizers and petroleum products, which are the lion's share of the sanctioned exports. However, these schemes have also turned out to be important for the exports of wood, ferrous metals, rubber products, etc.

The second most important adaptation mechanism is largely related to the private sector. Namely, this is the fact that it could quite quickly rebuild logistics, payment schemes and resolve other issues related to supporting export-import transactions. In this regard, the possibilities of adaptation have also turned out to be very underestimated. Today, a significant share of foreign trade in non-sanctioned goods channels through Armenia, Georgia, and Kazakhstan. At the beginning of the introduction of sanctions, it was expected that such a large-scale logistics restructuring would take several years, and the degree of adaptability of the private sector in today's conditions has exceeded expectations. As a business representative noted in one of the in-depth interviews conducted by BEROc: "There had only been plan A for the logistics route before 2020; then COVID-19 made us think about plan B, and the war and sanctions forced us to create plans C, D, E and F." This means that businesses have options if the current transport, logistics and payment schemes are disrupted.

The third most important mechanism that has suppressed the negative impact of restrictions is direct and other easily monetized goodies from Russia. This includes energy (oil and gas) subsidies that have returned to their historical highs both in monetary terms and as a share of GDP. In particular, this is maintaining the gas price at the 2021 level (\$128.52 per thousand cubic meters), taking into account the fact that the market price for natural gas in Europe jumped in 2022, and today, although lower than those peaks, it remains high. The price delta between the market gas prices and the price at which Belarus gets it is a serious support mechanism in the current situation. The second dimension is the benefits in oil trading partly obtained through the spread in the price of the Urals oil to the Brent oil and partly due to the reverse excise tax mechanism, which plays an important stabilizing role. This also includes other benefits received from Russia: financing of import substitution projects and debt restructuring.

Top 4 is the direct circumvention of sanctions. However, it is important not to confuse this with adaptation to the sanctions regime. The promotion of potassium through the Russian infrastructure to China is a case of adaptation to current conditions, which in a legal sense is not associated with a violation of the sanctions regime. An example of evading sanctions is the supplies of Belarusian timber to EU countries under the guise of Kazakh or Uzbek timber, as well as the supplies of sanctioned goods under the label of those that are not subject to restrictions. It can be assumed that in addition to timber trade, such schemes are used for the sale of ferrous metals, rubber products and, possibly, cement. However, even taking this into account, the scale of such schemes in the context of overall Belarusian exports appears to be relatively small based on the available evidence. Potassium and petroleum products account for at least 70% of all exports subject to European sanctions. Consequently, even if we assume that up to a quarter of all other goods are promoted to foreign markets by circumventing sanctions, it turns out that such schemes cover up to 5-7% of all sanctioned exports. Accordingly, in the economic context for Belarus, this storyline does not have a decisive impact on the key story.

Current position is unstable

High degree of adaptability discussed earlier has made it possible to soften the blow of the sanctions; however, the achieved position cannot be called stable. Therefore, there is no guarantee that the applicable mechanisms can be used in future years.

In particular, reorienting exports, primarily to the Russian market, and putting logistics on Russian rail tracks makes it extremely vulnerable in many respects. Belarusian companies have no guaranteed access to Russian infrastructure. Already today, the limited availability of transport and logistics capacities leads to the fact

that the demands of Belarusian companies are not fully met.

In addition, exports become very sensitive to political and economic influence from Russia. In essence, having no competitors, Russia becomes a monopoly decision-maker about Belarusian exports. Moreover, such changes are possible both for financial reasons and as a political pressure. Consequently, Russia can easily block part of Belarusian exports at some point, and this is especially easy to do in the case of strategic commodities (potash fertilizers and petroleum products). In addition, the Belarusian side is dependent on the tariff policy in Russia as far as the use of the railway infrastructure and port services are concerned.

The situation is somewhat unstable for the private sector, too. Indeed, the private sector has adapted and has multiple escape routes. However, the private sector has done this while standing on very thin ice, especially if the European-American side tightens the enforcement of the sanctions regime and increases its political impact on the countries that are used to adapt to new circumstances. In addition, numerous vulnerabilities and a precarious position reduce the bargaining power of Belarusian firms on all fronts and often force them to agree to absolutely unfavorable conditions for them.

An additional factor preventing to consider the results achieved in reversing the effects of the imposed restrictions as durable and sustainable is the risk of introducing new sanctions. Therefore, there remains a fairly high probability of both tightening control mechanisms over existing restrictions and introducing new ones. This could also shake up the current situation. We can already see that some European politicians lobby to align sanctions against Belarus and Russia. If this scenario materializes, this will be painful to the Belarusian economy.

Side effects of the adaptations pathway are associated with growing dependence on Russia

The pathway that has prevented the negative effect of sanctions has a large side effect of being fully tied to Russia. It can be said that foreign trade has been transitioning to total dependence: up to 70% of exports go directly to the Russian market and another 20% of exports go through the territory of this country. This means that Russia has the strings to control up to 90% of Belarusian exports. Since Belarus is essentially locked into one market, all possible problems of the Russian economy automatically become Belarusian problems.

The second element of the key side effect identified is the dramatically increased dependence on energy subsidy schemes. This means that if for some reason the gas or oil support channel is no longer available, the existing economic architecture will quickly become untenable.

An important role in a number of side effects is played by such a new phenomenon as the transport and logistics dependence of Belarus on Russia, which has never existed.

Fiscal dependence can be mentioned separately: today's relative fiscal stability largely depends on Russia. Up to 10% of the national government budget revenues are linked to Russian subsidies through the reverse excise tax mechanism. Taking other revenues into account, which are in one way or another connected with Russia, we can talk about a 20% linkage.

Thus, since almost all adaptation mechanisms in one way or another are embedded in Russia or are somehow connected with it, the "payment" for using them is the transfer of part of the economic bargaining power and political influence to the Russian Federation.

ECONOMIC REALITY REFLECTS IN CONSUMER CONFIDENCE

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The Consumer Confidence Index has been rising

The Composite Consumer Confidence Index (CCI), which measures people's sentiments, has been recovering over the last two years. For example, Belarus started 2023 with an index value of -17%, and the February 2024 survey indicated it was -4%. It is noticeable that CCI increased in all studied populations. This means that, on average, representatives of different age groups feel that their lives are better (or no worse at least). In addition, these results correlate with statistics on the average median salary, which has increased uniformly across all populations.

In general, one can note a reduction in negative assessments regarding both one's financial situation and the economy as a whole.

Broken down by area of activity, the share of pessimists has been the same since 2021. These are IT workers. From survey to survey, they consistently have a low current personal financial standing index and a low sub-index of the country's future, i.e. what they expect from the economy. However, even in this case, the index, although it remains in low ranges, has been steadily growing. Meanwhile, the index of people who work in the fields of education and utilities jumped quite unexpectedly.

If you look at the division between the private and public sectors, the latter consistently assesses the state of the economy much better, and people employed in the public sector have better expectations for the future. This has a lot to do with the sources they get their information from. The fact is that these two groups largely coincide with the breakdown of the audiences of independent and state-run media. The first group is usually more pessimistic and cautious in its assessments, while the second group to some extent reflects in surveys what state-run TV says.

What caused this growth?

All components that make up the Consumer Confidence Index have changed fairly evenly. In particular, people have begun to higher evaluate such a component as the financial standing of their family. It is worth noting that, in a sense, this happened due to a shift in neutral evaluations, namely: those who see the financial situation of their family as neutral (not changed) have increased their assessment by 8 p.p. However, in general, this optimism is not large, because 22% of respondents say that the financial situation of their family has improved, but at the same time, 32% of respondents report that it has worsened. Therefore, we cannot say definitely that everyone's financial situation is good.

31% of respondents (+7 p.p. versus the survey conducted in the spring of 2023) believe the prospects of their families will improve; 17% of respondents (-9 p.p.) expect that the prospects of their families will deteriorate; and 36% of respondents believe that the situation will remain about the same as today.

One of the main reasons for declining household incomes is rising prices again (32% of responses). However, this reason used to be followed by such a reason as the depreciation of the Belarusian ruble against major foreign currencies; and this year, the main reason is followed by a reduction in orders and clients in the entrepreneurial community. This also fits into the overall picture: entrepreneurs more often report a decrease in their income; therefore, this is because of the shrinking number of orders. It can be assumed that the fact that the Belarusian ruble exchange rate is no longer the Top 3 reason is associated with the situation in the IT sector, where salaries are predominantly denominated in foreign currency. And today, firstly, more and more salaries in the sector are in Belarusian rubles. Secondly, many companies of the sector have relocated to other jurisdictions.

32% of respondents reported a deteriorating financial situation of their families in Q1-2024. The same share of respondents reported their decreased personal income. This share is smaller than it has been over the past two years. The residents of Minsk, entrepreneurs and IT workers, most often reported this. Generally, this is also illustrated by statistical data portraying a crisis in the IT sector and worsening conditions for doing business. As for the residents of Minsk, this is, firstly, a fairly large group; and secondly, those traditionally living in the capital city have higher incomes. If, as we see, they report decreasing incomes, then it is possible to conclude that the number of people who earn more has been decreasing.

As the assessments of the country's economy are concerned, we can see not so much a growing optimism, but a decreasing pessimism. In March 2023, 56% of respondents assessed the economic situation as worse than a year earlier; and today, the share of such

answers is only 32%. It turns out that improvement in this component is associated with decreasing negative assessments. At the same time, optimism about the country's future has somewhat increased: 25% of respondents believe that the economic situation will improve; while in March 2023, 21% of respondents believed that the economic situation would improve; and in November 2022, there were only 17% of such respondents.

Reasons for improving the sentiment of the population

Households assess their financial standing and the country's economic situation subjectively. As we can see, wages were actively growing, consumer lending was expanding, and overall demand was quite overheated in 2023 (and it continues to be so). This is what influenced the improvement in assessments of their financial situation, as well as the growth of their optimism about the future. Since wages have been rising for some time, assessments of the economic situation have also been improving. Usually, respondents saw the state of the economy as worse than their financial situation. Today we can see that 48% of respondents (i.e. almost half of respondents) assess the situation in the economy as moderate, in other words, unchanged. This is better than it was two years ago (see Figure 1).



It is worth paying attention to a somewhat abstract factor that tells us that households get used to the new normal. There is a growing interest in real estate. As we remember, there was a boom in this market in 2023: Belarusians began to buy housing, including through loans. When people can make such long-term purchases, this indicates that the population is getting used to the situation and has some confidence in the future.

At the same time, we still see an element of uncertainty in the population's sentiment: only a quarter of respondents believe that the economic situation in the country will improve. The same share of respondents finds it difficult to answer the question. This is also a stable indicator for Belarus: people are not confident in their assessments of the economic situation, not so much because they are (conditionally) not experts in it,

but because it is difficult to assess the current situation, which complicates forecasting. This is a contradictory situation where some respondents are not confident in the country's economic future, while others are getting more confident in the future, and this closely correlates with the interest in real estate. The number of real estate buyers is small relative to the total number of respondents. However, this share grows proportionately to the decreasing people's uncertainty about the future.

Sentiment of the population reflects the picture of the economy

On the one hand, the process of improving sentiment regarding one's financial situation and assessments of the economic situation is not unique to Belarus: CCI has been recovering throughout the Eurozone for a year. The difference is that this has happened much faster in Belarus.

On the other hand, the way the economy developed over the past year has given the Belarusian population some confidence. Real average wages continue to grow (in March they increased by 12.8% in annual terms), the government continues to curb price increases, and loan interest rates are still quite low.

Consequently, there is no discrepancy between the sentiment of the population recorded in surveys and the statistical data on wage growth, lending and high consumer demand. However, one thing can be highlighted: when we ask a specific question "Has your salary increased?", only a third of respondents give an affirmative answer. At the same time, from survey wave to survey wave, we see a slight increase in the number of responses about improved financial situation in the household. Generally, this also illustrates the situation in the economy, but with minor reservations regarding the Belarusian desire to be careful in assessments.

Another fact is noteworthy. Judging by the responses of those surveyed, active income growth increases demand; i.e., the share of those who have expanded spending has enlarged. At the same time, wage growth has not changed the savings trend: 30% of respondents continue saving less than before. The same share of respondents has either maintained their savings levels or increased them. 40% of respondents do not do this at all. This is also well described by the simple mechanism of overheated demand in the Belarusian economy: while there is an opportunity, people buy rather than save. This is probably due to the state of uncertainty, as well as the fact that they are not confident in the national currency.

We can see reducing pessimistic assessments of the country's economic situation. Overall, this reflects economic reality. However, it is difficult to conclude from the above that this trend will be long-lasting. Usually, fluctuations in perception quickly respond to economic

fluctuations against the backdrop of internal and external challenges. However, at the same time, this indicates a certain level of adaptation to the situation and some confidence in the future among some populations.

GROWTH PHENOMENON: WHAT HAPPENS IN THE RESIDENTIAL REAL ESTATE MARKET

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The residential real estate market has recovered and continues to grow rapidly

A distinctive feature of the residential real estate market in Belarus is its extreme flexibility. In retrospect, it has experienced active periods of growth and decline associated with the general economic situation over the past 20-30 years. The housing market has been developing for two years in a row in an environment of an elevated demand and a rising price per square meter estimated at \$1,400-1,500 per m² in Minsk. This is far from the highest price: it reached \$1,900-2,000 per m² in 2007-2008. What is behind this picture?

2022 was marked by a recession in the economy, its restructuring and adaptation to sanctions. At the same time, household incomes were declining: the situation in the sector was the same. However, the overall economic picture changed last year, and we saw corresponding changes in the housing market.

Partially good indicators in this sector can be explained by the market recovery following its decline associated with COVID-19 and the introduction of sanctions. There were other facilitating factors: the resumption of lending programs by banks and the fact that people began to spend the money they had saved during that period to buy real estate, i.e., pent-up demand materialized. The recovery processes associated with this became more visible in 2023. Now we are talking more about activation and continued growth. The acceleration of such trends suggests that people start medium-term planning again.

There is also such a factor as buying housing as an investment, but one can hardly say the factor is strengthening: it has always existed. Those Belarusians who have sufficient funds to purchase real estate have been constantly challenged by choosing what to invest into. There are investment options like deposits, bonds, including corporate bonds and tokenized securities. At the same time, the stock market has always been more dead than alive in Belarus. Therefore, investment opportunities are still limited.

In this context, real estate is considered the most effective long-term investment in Belarus. However, the question arises: how successful will it be, because the return on such investments is usually very long-term. It is also associated with risks, since the price per square meter can either rise or fall over time.

An important factor in the revival of the real estate market is actively growing incomes and affordable loans

An important factor changing the vector in the real estate market was the increasing demand dictated primarily by the active growth of household incomes (a double-digit increase in real wages was observed in Belarus from May 2023 to March 2024). This is confirmed by the indicators for the share of purchases of new apartments using own funds of households: it increased from 62.3% in Q1-2023 to 64.1% in Q1-2024. The explanation is simple: when people have more money and start feeling more confident, and when they can take out a loan for the missing amount, this can influence their decision to buy housing.

Strong demand in the housing market has also been fueled by loose monetary policy, which has kept long-term loan interest rates quite low. Consequently, such forms of loans become interesting for citizens who want to solve their housing issue. There are also partnership programs from banks and real estate developers who can offer even more attractive lending conditions.

As indicated above, the official statistics on commissioning new housing show that the financing sources of housing construction were often the own funds of households. However, the number of square meters of new housing commissioned at the expense of the population decreased by 7.6% in Q1-2024 versus Q1-2023. The government budget financed 12.3% of new housing (most likely rental housing). Organizations financed 6.5% of new housing. The share of new housing construction financed by bank loans has generally decreased: it was 22.9% in Q1-2023 and 15.7% in Q1-2024. However, this decrease is due to the fact that banks have been issuing fewer preferential loans (more details provided below): 9.7% of new housing financed by such loans was commissioned in 2023 and only 2.8% in 2024. At the same time, the number of square meters of new housing introduced through market lending has increased.

Given growing wages, the availability of loans, as well as statements by the authorities about economic achievements, people have a sense of financial stability, and their expectation of risks is dulled. As a result, citizens are more risk-prone than a year or two ago, and they enter into long-term loan agreements. To some extent, this is also influenced by strict price regulations, which is one of the factors for emotional calming in terms of expectations. It cannot be said that people are completely unaware of economic risks, but their assessment of risk severity has probably lowered because of growth that has lasted for more than a year. At the same time, firstly, the authorities do not say that this growth will be impossible to maintain in the long term, and secondly, not everyone is interested in economic news, especially in long-term forecasts, in order to make longer-term assessments.

The construction sector cannot keep up with demand

Meanwhile, statistical data demonstrate that the growth in demand from citizens is not supported by increased dynamics in new housing construction. During the period of dynamic growth in household incomes and lending in Q1-2024, the volume of funds invested in housing construction was 89.8% of the volume of funds invested in housing construction in Q1-2023. We can see a similar indicator for the commissioning of square meters of housing: housing commissioned in January 2024 was 63.7% of housing commissioned in January 2023, and housing commissioned in February 2024 was 79.1% of housing commissioned in February 2023. However, there was an acceleration already in March (it was associated with growth against the background of last year's low base), and this indicator was 128.2% (YoY). In general, the volume of new housing construction has not recovered even to the 2022 volume.

While taking a more detailed look at the situation with new housing, it is noteworthy that the number of multi-apartment energy-efficient residential buildings commissioned in Q1-2024 was 96.9% of the number of such buildings commissioned in Q1-2023. However, this indicator was 68.4% in Q1-2023 versus Q1-2022.

New housing construction behaves differently in different regions of the country. In general, this indicator grew in Vitebsk, Gomel, Mogilev regions and Minsk in Q1-2024 compared to the situation a year ago. At the same time, there is a noticeable reduction in the construction of housing with state support in all regions except the Vitebsk region. There, on the contrary, it increased twofold. This could be explained not only by the low performance a year earlier, but also by the completion of major construction projects.

Construction volumes of housing for those in need of improving housing conditions shrink

It was precisely the commissioning of housing for the citizens registered as needing improved housing conditions that decreased. These are houses that are often built with government support in the form of soft loans or government subsidies for commercial loans. This indicator decreased by 17% in Q1-2023 versus Q1-2022, and it decreased by 30.4% in Q1-2024 versus Q1-2023.

This is also seen in the percentage of such housing in the total housing stock. The share of commissioned housing for citizens registered as needing improved housing conditions was 42.6% of all newly commissioned housing stock last year; this year, the share is 33%. This is associated with a number of factors. One of the most important factors is that the basic cost of building such houses is usually strictly regulated by the state, and, accordingly, this is much lower than the market price. According to the latest data, it is about \$700 per square meter, while the market price, as said above, has been \$1,400-1,500 per square meter. If we consider a serious increase in construction costs after

the introduction of sanctions, we can safely say that it is simply unprofitable for companies to build such houses.

The construction of rental housing has been developing more actively as means of compensation. Its share in the total housing stock continues to be small: 10%. However, the growth rate is impressive: rental housing grew 2.7 times in Q1-2024 versus Q1-2023. The same annual growth was in Q1-2023. Therefore, on the one hand, construction of housing for those in need of owned housing has decreased; on the other hand, the state has been exercising an alternative policy of expanding the rental housing stock.

What is the reason for the high interest in lending?

The long-term loan debt of households was 4.4% in Q1-2024, while it was 2.2% in Q1-2023. In particular, long-term lending continues to accelerate this year. In general, the population's debt on long-term loans (including mortgages) increased by 26.4% from the beginning of 2023 to March 2024. As noted above, this is partly due to the relevant lending programs launched 2-3 years ago.

The second important point influencing interest in lending is the reducing cost of loans compared to 2022. In January 2024, interest rates increased because the National Bank raised the estimates of standard risk values. However, this growth is quite weak (ca. 1%), which has not faded the interest of households in loans, including mortgages.

The third factor relates precisely to income growth. After all, income size is evaluated by banks when they assess the borrower's maximum creditworthiness. If income grows, the maximum loan amount that a client can borrow out also increases.

Prospects will depend on government actions and the overall economic situation

The situation on the residential real estate market may change from month to month. However, we can see quite active demand so far. Conditions for maintaining elevated demand in the real estate market are likely to remain for a year.

Staff shortages will remain relevant this year. Accordingly, the struggle for personnel will push up wage growth. However, we can expect the pace of this process to slow down to some extent.

Most likely, unless the growth in lending costs accelerates and factors emerge that can seriously slow down the growth of salaries, households will continue to take advantage of opportunities to obtain long-term loans and invest in construction.

If the authorities continue the current economic course, and if loose monetary policy continues alongside some steps towards its tightening, the elevated demand will also remain (as well as the trend for prices per square meter of housing to rise).

However, the situation may get worse. As we see, strict price regulations and high wages deteriorate the financial standing of enterprises as well as the ability to continue wage growth. The government may relax price regulations in order to help organizations. This will lead to inflation acceleration and wage growth slowdown. In this case, the financial situation of people will no longer improve at the same pace as before. This, in turn, will affect the real estate market.

There is also the option of switching to a tight monetary policy with an active interest rate hike, which could also cool the real estate market. However, I do not think this is the most likely scenario, since the government is also interested in the construction industry to grow. In the meantime, we see negative indicators in housing construction. Thus, it is more likely that the authorities will also continue to strive to revive the market, including through credit activity.