

NEWSLETTER

BELARUS

Aleš Alachnovič, Sierž Naŭrodski, Leoluca Villa, Alessio Fotia

Belarus' increasing economic dependence on Russia

After Russia's invasion of Ukraine in February 2022, Belarus has become even more dependent on Russia than at any point since independence. The country relies heavily on economic and financial support from Moscow, which is provided in exchange for a commitment to further economic integration with Russia. The main areas of dependence include (subsidised) energy imports, other bilateral trade and transit for Belarusian exports as well as capital inflows, which often come at preferential terms.

Traditionally high oil and gas subsidies from Russia were on a downward trend since 2007, however, after the rigged elections of 2020, Belarus faced numerous sanctions from Western countries, and Russia remained the only partner in the region. This increased the bargaining power of the Kremlin and reduced Belarus' capability to resist a deeper integration. The support provided for Russia's war in Ukraine since 2022 further increased Belarus' economic and financial dependence, as it lost its second-largest export market (Ukraine) and faced additional sanctions from Western countries. Moscow increased its energy subsidies again and offered Belarus the opportunity to benefit from access to a vast market now left open by former international trading partners, further eroding the country's remaining economic independence. In addition, trade with non-Russian partners is increasingly conducted via Russian logistical infrastructure and banking system, further increasing the dependence on Russia.

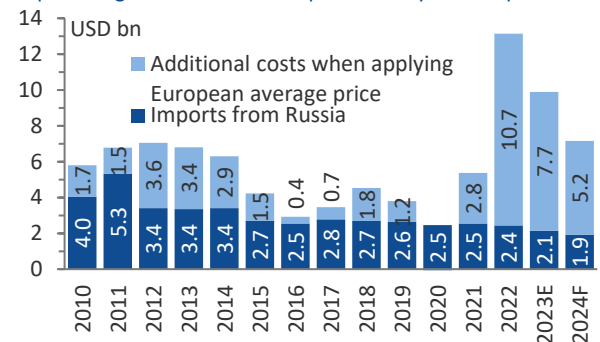
Energy dependence from Russia

Belarus has traditionally imported subsidized oil and gas exclusively from Russia. Russian energy subsidies played a significant role in Belarus's economic growth in the early 21st century, allowing the country to save about USD 5 bn per year, or 15% of GDP, on energy imports on average between 2000 and 2008. Gas imports are crucial, as Belarus used to produce 90% of its electricity and heat from gas. Each increase in gas prices has significantly affected the competitiveness of Belarusian state-owned enterprises, highlighting the country's heavy dependence. Moreover, since 2011, Russia has controlled Belarus' entire gas infrastructure through Gazprom, which also owns the gas storage facilities. Since 2007, energy subsidies have declined, directly affecting the economy, which began to slow down. Eventually, in 2020, Belarus was paying more for gas than the average European buyer, although oil remained 15% below market value. In 2021, the country's domestic oil production accounted for only 10% of its consumption,

with the remaining 90% imported from Russia. Occasionally, during periods of political tension with Moscow, Belarus has imported oil from other countries at much higher prices.

After the Russian invasion of Ukraine, the price difference between Gazprom's average export prices in Europe and in Belarus surged to record highs, resulting in unprecedented savings of over USD 10 bn in 2022 (14.7% of GDP) and almost USD 8 billion (11.2% of GDP) in 2023.

Imports of gas from RUS and implicit subsidy vs. Europe



Source: Belstat, CB of RUS (until 2021); RUS media (from 2022)

Belarus also benefited from a 30% discount on Russian oil compared to market prices, saving up to USD 2.4 bn (3.4% of GDP) in 2022 and USD 1.5 bn (2.1% of GDP) in 2023. Since April 2023, Russia has compensated Belarus USD 430 m (0.6% of GDP) under a tax manoeuvre agreement, with an expected increase to USD 640 m (1.0% of GDP) in 2024. Despite these savings, still lower Russian domestic prices (for Russian companies) create unequal conditions for Belarusian companies in the common market. With Russian support, Belarus is diversifying its energy mix and has built a nuclear power plant, borrowing \$5.4 billion from a \$10 billion intergovernmental credit line. The first reactor has been connected to the grid in Nov-20, the second one on May-23. The two reactors are expected to generate 18 billion kWh annually, covering 40% of Belarus' electricity needs and saving about 4.5 bn cubic meters of natural gas per year. However, the country remains dependent on Moscow, as it uses Russian technology, the fuel is supplied by Russia and the annual cost of servicing the debt is estimated at USD 535 m.

Increasing trade ties between Russia and Belarus

Belarus has historically relied heavily on Russia for both exports and imports, with over 40% of its total exports and 55% of imports linked to Russia until 2022. This dependence intensified after the outbreak of the war, with Belarusian exports to Russia soaring to over 60% by 2023, facilitated by Western sanctions against Russia and the loss of the Ukrainian market. This record level of trade was partly due to the fact that Belarusian companies benefited from

filling open niches in the Russian market. Despite high capacity utilization rates, Belarusian companies are now facing growing competition from other foreign (including Chinese and Turkish) producers on the Russian market, which is affecting sales of goods such as household appliances, machinery, and transport vehicles.

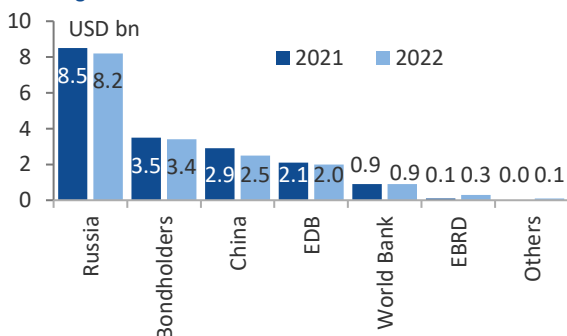
Increased dependence on Russian trade logistics

Sanctions have also forced Belarus to rely more heavily on Russian logistics, having lost access to EU and Ukrainian ports. This has increased costs, with most non-Russian exports being now dependent on Russian railways, ports, and banks. Fertilizers and oil products are especially affected, facing significant logistical challenges, reduced export volumes and profits. In 2023, Belarus used 20 Russian ports, doubling its reliance on Russia for transit, and saw a 130% yoy growth in exports through these ports. Escalating tensions with the EU have further disrupted Belarus' role as a transit route. Consequently, freight turnover in Belarus has declined by 48% since its peak in 2018.

Foreign borrowing at preferential terms

Since August 2020, Belarus has lost access to international capital markets and major financial institutions, leaving Russia as its primary creditor. By the end of 2022, the government of Belarus owed USD 10.2 bn to the Russian government, Russian bondholders from the Moscow stock exchange, and the Eurasian Development Bank (EDB) controlled by the Russian authorities, comprising nearly 60% of its total government debt.

Belarus' government debt



Source: World Bank, International Debt Statistics

Many Belarusian state-owned enterprises borrow from Russian banks and obtain trade loans from Russian enterprises, so that the total debt owed to Russia is well over USD 11 bn. Additionally, the country has about USD 4 bn in domestic public debt, partially owned by Belarusian banks but ultimately controlled by Russian (state-owned) capital (20% of the country's banking sector assets).

Despite plans to secure funding from China and other sources, Belarus has not received significant new financial resources, while Russian financial assistance has focused primarily on refinancing existing debt repayments rather than providing new loans, leading to a decline in government debt by USD 0.7 bn in 2022 (from 18.1 bn to USD 17.4 bn).

Belarus' dependence on Russian FDI

As of January 1, 2018, 55% of all foreign direct investment (FDI) in Belarus came from Russian investors, who have significant holdings in the energy, telecommunications, and banking sectors. The investments included major stakes in companies such as Gazprom Transgaz Belarus, the Mazyr Refinery, telecom operator MTS, as well as several banks. In 2019, a change in statistical reporting by the National Bank of Belarus lowered the reported Russian FDI figures drastically from USD 11 bn to USD 4 bn, thereby reducing Russia's share to 31%. Despite this adjustment, Russia remains the largest foreign investor, especially as Western investors are held back by the sanctions and political risks. Russia's influence has grown particularly in the retail sector, with an increase in Russian-owned discount stores and in real estate. While Belarusian authorities attempt to control this economic expansion, over 60% of FDI inflows to Belarus in 2023 came from Russia, highlighting a deepening economic dependence.

Outlook

Belarus' ever growing economic dependence on Russia is expected to deepen further if the war continues, due to continued sanctions and limited access to alternative markets and financial resources. This growing dependence poses serious risks to Belarus' sovereignty and economic stability, making it even more vulnerable to any political and economic changes in Russia.

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.