

## A crisis rather than a disaster. The Belarusian economy a year into Russia's war against Ukraine

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The stability of the Belarusian economy has come under threat from the new Western sanctions, imposed on the country in 2022 for its complicity in the Russian invasion of Ukraine, and the loss of the Ukrainian market. According to the most pessimistic forecasts, the country will probably face a deep economic recession, involving a decline in its GDP of more than 10%, and a slump in its most profitable exports. However, official statistics for 2022 indicate that Belarus was hit by a moderate crisis during which its GDP shrank by a mere 4.7%, its industrial production by 5.4% and its total foreign trade by just 6%. Belarus has adapted to the new situation, and has been partly able to make up for these losses. The main factor that helped Minsk to ease the severity of the restrictions involved support from Russia. In exchange for Alyaksandr Lukashenka's loyalty, Russia has made its transport and port infrastructure available for the transit of Belarusian goods and introduced preferential conditions for Belarusian exports onto its market. In addition, the magnitude of the economic crisis is being limited by certain 'manual steering' strategies applied by the Belarusian authorities, such as keeping industrial production at a high level (which has led to more and more goods being stored in warehouses), introducing administrative measures to block price increases, and attempting to circumvent the EU's embargo on road freight from Belarus. However, neither the assistance from Moscow (which is also subject to sanctions) nor the 'manual control' of the economy are sufficient to guarantee the country's economic stability. Moreover, with Poland and Lithuania closing more and more of their border crossing points as of February 2023, an aggravation of the crisis should be expected in the short term.

### Better than expected. Macroeconomic data for 2022

The decline in GDP recorded in 2022 indicates that Belarus has once again been hit by recession. For comparison, in 2021 its growth rate was 2.3%. The main reason for the recession has been the consecutive sanction packages implemented by the EU and the US in response to instances of human rights violation in Belarus following the rigged 2020 presidential election, Belarus's hostile actions targeting the West (including the triggering of a migration crisis on the EU's eastern border in 2021) and its complicity in Russia's aggression against Ukraine.<sup>1</sup> However, the decline in GDP has proved

<sup>1</sup> K. Kłysiński, P. Żochowski, 'Belarus: further Western sanctions', OSW, 3 December 2021, [osw.waw.pl](http://osw.waw.pl); K. Kłysiński, 'Belarus: new EU sanctions for its participation in the war against Ukraine', OSW, 4 March 2022, [osw.waw.pl](http://osw.waw.pl).



smaller than that expected by independent economists, the World Bank and the International Monetary Fund, all of which had forecast a recession of between 6.4% and up to 10%.<sup>2</sup>

The decline in industrial production was relatively insignificant as well, considering the unprecedented scope of Western sanctions. Some sectors of the economy (such as the food industry and agriculture) maintained stable growth rates

” **The main reasons for the renewed recession include the sanctions imposed in response to human rights violations in Belarus following the rigged 2020 presidential election, Belarus’s hostile actions targeting the West, and its complicity in Russia’s aggression against Ukraine.**

Minsk sees this as the main factor enabling Belarus to keep the crisis to manageable levels.<sup>3</sup> While the statistically insignificant drop in industrial production likely decreased the recession dynamic, a major portion of the goods manufactured in Belarus remains unsold. According to the available information, at the end of 2022 almost 72% of Belarus’s monthly industrial output was dispatched to warehouses. This was the biggest such proportion in the last seven years;<sup>4</sup> it is almost 20% bigger in terms of volume and 48% bigger in terms of value than in the corresponding period in 2021. This indicates that Belarus has managed to artificially curb the decline in its GDP, despite the less favourable economic situation. Alongside this, the storage of the unsold goods has enabled the government to claim that the situation of Belarusian companies remains stable. The statistics compiled by the National Bank of the Republic of Belarus for the period between January and September 2022 indicate that the share of unprofitable companies in the total number of companies has not changed significantly since 2021, and continues to be around 13%. However, the proportion of companies which report low profitability (that is, of less than 5%) remains high (almost 40%).<sup>5</sup>

## The surprisingly stable foreign trade figures

The EU trade embargoes introduced in 2021–2 covered Belarus’s most profitable exports such as petroleum products, fertilisers, wood and wooden products, metal and steel products. Back in 2021, their total value was around \$6 billion, which accounted for between 50% and 70% of Belarus’s then exports to the EU.<sup>6</sup> In addition, Belarus has lost access to the important Ukrainian market: in 2021 the value of Belarus’s exports to Ukraine (mainly fuels and potassium fertilisers) exceeded \$5 billion. Another major blow to Belarus’s foreign trade involved the closing on 1 February 2021 of the Lithuanian port in Klaipėda for the export of potassium fertilisers, which in previous years had generated more than \$2 billion in profits for Belarus annually. The magnitude of the restrictions imposed thus far is evident in the statistics compiled by Eurostat (see Appendix) which indicate that Belarus’s exports to the EU have fallen from €5.6 billion in 2021 to €3.2 billion in 2022 (down around 45%). Over that period, Belarus’s imports amounted to €6.5 billion, a drop of just around €300 million (down around 8%); the fall mainly resulted from the fact that the main target of the Western sanction regimes was to block Belarusian exporters.

The EU entry ban imposed on Belarusian road cargo carriers in April 2022, combined with Minsk’s response, was intended to further disrupt Belarus’s trade exchange with the EU. To maintain at least a portion of the cargo traffic, at specially arranged sites near the border the government introduced

<sup>2</sup> See Д. Тараторин, ‘МВФ предрекает белорусской экономике серьезное падение’, Независимая Газета, 24 April 2022, [ng.ru](http://ng.ru); ‘Всемирный банк прогнозирует спад ВВП Беларуси на 6,5 процентов’, Thinktanks.by, 14 June 2022.

<sup>3</sup> ‘Как белорусская экономика сжалась на 4,7% в 2022 году и что будет дальше’, Ilex Новости, 20 January 2023, [ilex.by](http://ilex.by).

<sup>4</sup> ‘Товаров на 8 млрд рублей. Разбираемся, почему резко выросли складские запасы’, Белсат TV, 23 December 2022, [belsat.eu](http://belsat.eu).

<sup>5</sup> ‘Выручка, прибыль, рентабельность: в каком состоянии белорусские предприятия’, Office Life, 27 December 2022, [officelife.media](http://officelife.media).

<sup>6</sup> К. Kłysiński, ‘Belarus: new EU sanctions for its participation in the war against Ukraine’, *op. cit.*

a system of transshipment (Russian: *перцепка*) of semi-trailers carrying cargo onto vehicles registered in Belarus or Russia (this is done for the eastward shipment of goods) or in an EU member state (for westward shipment). Although this practice has contributed to ever-longer border queues, it has helped to curb the decrease in Belarus's imports from the EU.<sup>7</sup>

The restrictions introduced by Poland in response to the sentencing on 8 February 2023 of Andrzej Poczobut, vice-president of the Union of Poles in Belarus, to eight years' imprisonment on the basis of fab-

**” The consequences of Western trade restrictions have mainly been alleviated by Belarus's dynamically developing trade with Russia. According to statements by the Belarusian government, it rose by \$11 billion compared to 2021.**

ricated evidence, will likely deal another serious blow to the Belarusian economy. On the day after the sentence was announced, Warsaw closed the border crossing point in Bobrowniki, and on 21 February it banned Belarusian cargo carriers from using the Kukuryki–Kozlovichi border crossing point, which *de facto* made the Terespol–Brest station the only fully operational border crossing point. A week later, the Lithuanian government decided to close one of the country's two rail border crossings with Belarus, the Stasylos–Byenyakoni point, citing increasing incidence of smuggling (mainly involving tobacco products) as the official reason behind this move.<sup>8</sup> As a consequence, the available options for transporting goods to and from the EU were significantly reduced. In 2022, the value of such goods transported via Poland alone stood at around \$1 billion. This indicates that even without closing the remaining border crossing points (such as the already mentioned Terespol–Brest road and rail border crossing point) the losses Belarus will likely incur over the course of this year may amount to several hundred million dollars, and the consequences of these problems will affect all carriers including those from third countries such as China and Kazakhstan.

At the same time, though, it seems that this considerable slump in trade exchange between Belarus and the EU had only an insignificant effect on Minsk's total foreign trade figures. Incomplete data published by the National Statistical Committee of the Republic of Belarus suggests that in 2022 the total value of foreign trade stood at almost \$77 billion, down 6% compared to 2021. The decreases recorded in Belarus's export and import statistics were 4.2% and 7.2% respectively. It should be noted that due to the fact that the decrease in Belarus's imports was almost twice that recorded for its exports, in 2022 the country's negative trade balance fell to a mere \$300 million for the first time since 2012 (for comparison, in 2021 Belarus's foreign trade deficit reached almost \$1.8 billion).<sup>9</sup> The effects of the Western restrictions were mainly alleviated by Belarus's dynamically developing trade exchange with Russia. According to statements from the Belarusian government (no detailed statistics are available), it rose by \$11 billion compared to 2021, up to \$50 billion. It is also believed that the value of Belarus's exports, which Minsk estimates at around \$23 billion (up \$7 billion compared to 2021) was the highest in the history of trade between independent Belarus and Russia.<sup>10</sup> As a consequence, assuming that these figures are true,<sup>11</sup> Russia's share in Belarusian foreign trade has increased to

<sup>7</sup> А. Петрович, 'Что происходит на грузовых авто переходах на границах РБ и ЕС', Deutsche Welle, 30 November 2022, [dw.com](https://www.dw.com).

<sup>8</sup> 'Таможня Литвы подтвердила закрытие погранпункта «Стасилос» для поездов из Беларуси. Откроют не раньше конца 2024-го', Зеркало, 15 February 2023, [news.zerkalo.io](https://www.zerkalo.io).

<sup>9</sup> 'Падение в деньгах: как изменилась внешняя торговля Беларуси в 2022 году', Точка, 31 January 2023, [tochka.by](https://tochka.by).

<sup>10</sup> 'Головченко: по итогам года экспорт в Россию может составить рекордные \$22–23 млрд', Белта, 24 December 2022, [belta.by](https://belta.by).

<sup>11</sup> Since 2021, when the West began to gradually tighten its trade restrictions against Belarus, ever more information has been removed from the publicly available Belarusian statistics relating to issues such as the import/export of specific categories of goods and their countries of origin or destination. The practice of classifying a major portion of these data prompts the conclusion that those statistics which are still available may have been manipulated and as such may not be reliable, perhaps proving Belarus is attempting to circumvent the sanction regimes.

an unprecedented 70%, while in the industrial production sector it has reached 75%.<sup>12</sup> This situation undoubtedly resulted from Belarusian exporters carving out new niches for themselves on the Russian market once a portion of Western companies had left it. The dynamic of the process of Belarusian companies replacing European ones is evident; for example, in selected statistics compiled for April 2022, Belarus recorded a 100% increase in its exports to Russia (up to a total value of \$1.5 billion) and outstripped German exporters for the first time in history (meanwhile Germany's share in Russia's imports has fallen to \$800 million).<sup>13</sup> Another fact worth noting is that Belarus's exports to China have almost doubled, to \$1.6 billion.<sup>14</sup>

## Russia as shock absorber

Russia's role in alleviating the impact of Western sanctions goes beyond making its market available to Belarusian exporters. On the basis of an agreement signed in February 2021 and expanded in June 2022, Belarusian exporters have been granted unlimited access to all sea ports in the Russian Federation. Moreover, depending on the availability of railway lines and cargo warehouses, the Russian government has authorised them to use the Russian railway infrastructure. As a consequence, when the port in Klaipėda was closed, Belarus managed to partly restore its export of potassium fertilisers to China by road via Russia and to Brazil by sea. In addition, although the volume of fertilisers sold to foreign partners has decreased by 60% compared to 2021, favourable price trends have enabled Belarus to mitigate the losses resulting from the halt of its exports via Klaipėda.<sup>15</sup>

In 2022, Belarus shipped 3.5 million tonnes of petroleum products via Russian ports. In the years preceding the EU embargo in 2021, this accounted for around a third

” **Russia has enabled Belarusian exporters to use its rail infrastructure, which has helped Belarus to partly restore its export of potassium fertilisers to China and Brazil.**

of Belarusian exports in this category. The Kremlin has officially admitted that it has been assisting Belarus in shipping other categories of goods which are subject to sanctions, such as wood and wooden products.<sup>16</sup> It plans to allow Belarus to use the Bronka transshipment terminal in Leningrad oblast, which has a capacity of around 3.2 million tonnes annually (it can be expanded to more than 7 million tonnes) and is mainly intended for container shipments.<sup>17</sup> Moreover, in March 2022 Moscow agreed to defer the payment of loan instalments worth \$1.4 billion due from Minsk in 2022–3. This decision has had a positive impact on Belarusian currency reserves, which increased from \$7.4 billion in September 2022 to more than \$8 billion at the end of January 2023. In February 2023 the currency reserves decreased by \$370 million; this was not so much due to increased pressure from the country's creditors as from increased demand for foreign currencies by Belarusian citizens. It is unclear whether this trend will last.<sup>18</sup> In addition, Belarus and Russia reached an agreement in spring 2022 to start a so-called anti-import programme, which effectively means Russia offering preferential credit lines to selected segments of the Belarusian industrial sector (including the machine-building and the microelectronic sectors) worth a total of \$1.5 billion. Apart from that, Minsk continues to enjoy

<sup>12</sup> 'Беларусь экспортирует в Россию 75 проц. промышленной продукции', Office Life, 13 January 2023, officelife.media.

<sup>13</sup> 'Bloomberg: Беларусь впервые обогнала Германию по поставкам товаров в Россию', Meduza, 8 June 2022, meduza.io.

<sup>14</sup> 'Белоруссия практически удвоила экспорт в Китай в 2022 году', Прайм, 17 February 2023, 1prime.ru.

<sup>15</sup> 'Почему белорусский экспорт просел в объемах, но удержался в долларах', ilex Новости, 12 January 2023, ilex.by.

<sup>16</sup> 'Экспорт белорусских нефтепродуктов в третьи страны через РФ в 2022 году составил более 3 млн тонн', Белта, 19 December 2022, belta.by.

<sup>17</sup> М. Добрунов, 'Россия проработает передачу петербургского порта Белорусии', РБК, 10 February 2023, rbc.ru.

<sup>18</sup> 'Золотовалютные резервы Беларуси превысили 8,14 млрд долларов', Минск-Новости, 7 February 2023, minsknews.by; Д. Наривончик, 'Золотовалютные резервы в феврале резко уменьшились на 373 млн USD', Экономическая Газета, 7 March 2023, neg.by.

low prices of the gas it imports from Russia.<sup>19</sup> For several years now, regardless of price fluctuation on global markets, Minsk has been paying around \$128 per 1 tcm.

## The (post-)Soviet management style

2022 saw the state stepping up its control of the economy and restoring elements of the Soviet-era centrally planned economic model. In response to the rising inflation rates recorded in the summer months (the highest rate, 18.1%, was recorded in July 2022), in October 2022 Lukashenka ordered the government to immediately block all price increases, which in his opinion were “artificially fuelled” by dishonest middlemen.<sup>20</sup> As a consequence, a complicated system for regulating retail trade prices was introduced, under which the central and the local level government decides whether a specific price increase is justified. The list of goods subject to these restrictions includes up to 370 items, such as most foodstuffs, household chemicals, clothes and shoes.<sup>21</sup> This intervention has resulted in shortages of numerous goods in many shops. On the one hand, this has convinced the government to slightly ease the restrictions, but on the other, it has requested high-ranking officials, including the Speaker of the Council of the Republic (upper house of parliament) Natalia Kachanova, to carry out inspections at retail outlets.<sup>22</sup> This was done in response to a personal request by Lukashenka. The imposed restrictions have enabled the government to temporarily curb inflation. Despite this, in 2022 Belarus’s annual rate of inflation was 12.8%, twice as high as the budget had planned for (6%).<sup>23</sup>

## Foreign investors and domestic businesses under pressure

The regime’s evolution towards a fully authoritarian model of government, which has been ongoing since 2020, has resulted in a wave of repression affecting private business owners. The government has targeted foreign investors in response to Western sanctions. In July 2022, it banned them from selling their stakes in companies and from closing down businesses with head offices in ‘unfriendly states’. Initially, the list of businesses subject to these restrictions included 190 companies, mainly from the EU (including Poland). On 23 January 2023, the list was expanded to 1849 companies; this represents a third of all the companies with foreign capital incorporated in Belarus.<sup>24</sup> In the same period, a law on the confiscation of property was published; it enables the government to strip Belarusian citizens and foreigners residing in Belarus of their property, including in connection with their involvement in ‘activities which are hostile to Belarus’. A regulation was also issued specifying the rules whereby the state can seize control (for up to 18 months) of foreign companies operating in Belarus. Reasons justifying such a move include “activities carried out by the company owner or co-owner leading to financial losses, insolvency or suspension of the company’s operation”.<sup>25</sup> The wording of these provisions is very general, which enables the authorities to apply them at their discretion and to target any company incorporated in Belarus. These moves allow the authorities to take full control of the foreign capital in the country. In extreme scenarios, the nationalisation of selected businesses is a possibility.

The pressure on domestic business has also increased. From Lukashenka’s point of view, the participation in 2020 of numerous representatives of the business sector, in particular employees in the IT sector,

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<sup>19</sup> See K. Kłysiński, I. Wiśniewska, ‘Belarus receives limited economic support from Russia’, OSW, 15 June 2022, [osw.waw.pl](https://osw.waw.pl).

<sup>20</sup> М. Светлов, ‘Лукашенко: снизить инфляцию вдвое, бороться со спекулянтами и регулировать курс рубля’, *Майфин*, 6 October 2022, [myfin.by](https://myfin.by).

<sup>21</sup> *Idem*, ‘В Беларуси ввели новую систему регулирования цен на потребительские товары – что в документе’, *Майфин*, 20 October 2020, [myfin.by](https://myfin.by).

<sup>22</sup> ‘«Потуги абсолютно никчемные». Кочанова заявила, что дефицит в магазинах — это лишь информационная война’, *Зеркало*, 21 November 2022, [news.zerkalo.io](https://news.zerkalo.io).

<sup>23</sup> ‘Инфляция в Беларуси в 2022 году в два раза превысила прогноз чиновников’, *Зеркало*, 11 January 2023, [news.zerkalo.io](https://news.zerkalo.io).

<sup>24</sup> ‘В Беларуси стало в 10 раз больше компаний с иностранным капиталом, которые нельзя продать’, *Office Life*, 28 January 2023, [officelife.media](https://officelife.media).

<sup>25</sup> ‘Правительство решило передавать под внешнее управление иностранные компании. Похоже, чиновники смогут «отжать» любой бизнес’, *Зеркало*, 27 January 2023, [news.zerkalo.io](https://news.zerkalo.io).

in anti-government demonstrations was a manifestation of 'betrayal' and ingratitude to the government which had built a 'paradise' for private business undertakings. As a consequence the authorities started to target business owners; one way in which this manifested itself involved increasingly frequent inspections of companies owned by businessmen suspected of anti-regime views, resulting in these companies being fined

or closed down. This means that the private sector's best hope of survival involves being apolitical, that is, displaying unconditional loyalty to the regime. Another purpose of the attacks on the business

**” The regime's evolution towards a totalitarian model of government has resulted in repression against private business owners. In response to Western sanctions, the Belarusian authorities have also targeted foreign investors.**

sector was to introduce *de facto* 'manual control' over specific segments of the economy. This view is corroborated, for example, by the wave of audits carried out by the State Control Committee of the Republic of Belarus in companies operating in the health care sector, as well as the ministry of health's unexpected decision in May 2022 to revoke the licences of private hospital chains which had operated in Belarus for many years.<sup>26</sup> Some health care sector specialists decided to emigrate, and many companies relocated to other countries: this was particularly evident in the IT sector (under the Poland Business Harbour programme alone, 50 Belarusian companies were relocated and 44,000 visas were issued in 2022, and the number of business visas issued since 2020 amounts to around 65,000<sup>27</sup>). Since February 2022, Western business partners have viewed this sector as 'toxic' due to Belarus's complicity in Russia's aggression against Ukraine. According to cautious estimates (no detailed statistics are available), more than 100,000 citizens have left Belarus since 2020, including numerous high-level specialists. Their departure has resulted in a crisis in selected sectors of the economy, mainly in the IT sector; its share in Belarus's GDP decreased for the first time in twelve years, from 7.5% in 2021 to 5% in 2022. Taking the economy as a whole into account, the present scale of emigration has translated into Belarus losing 1% of its GDP.<sup>28</sup>

### **Pessimistic prospects for the Belarusian economy**

According to the Belarusian government, the fact that the consequences of the sanctions have been alleviated is a success, and proves that the state is resilient to pressure from the West. However, the price Belarus has paid for reducing the magnitude of its recession has been the country's increasing dependence on the Russian market and on the subsidies Moscow offers. This indicates that Belarus's economic stability is directly linked to Russia's macroeconomic standing; this is all the more important because Russia is waging a costly war against Ukraine, and is also subject to heavy restrictions.

At the same time, the totalitarian trends in domestic policy have translated into a consolidation of the Soviet-era model of economic governance, based on the state having full control of both state-owned and private companies, central planning and price regulation. Moreover, the mounting pressure on foreign investors and domestic entrepreneurs ultimately undermines Belarus's investment credibility, and reduces the potential of the most innovative and dynamic sectors of its economy. It is unlikely that this trend will be halted by Minsk's attempts to develop cooperation with distant non-European countries such as China, Zimbabwe and Iran, which have insignificant economic ties with Belarus and have reported only nugatory demand for Belarusian-made goods. As a consequence, the Belarusian economy will probably not return to the growth path any time soon, while its stability will face numerous challenges in the medium term.

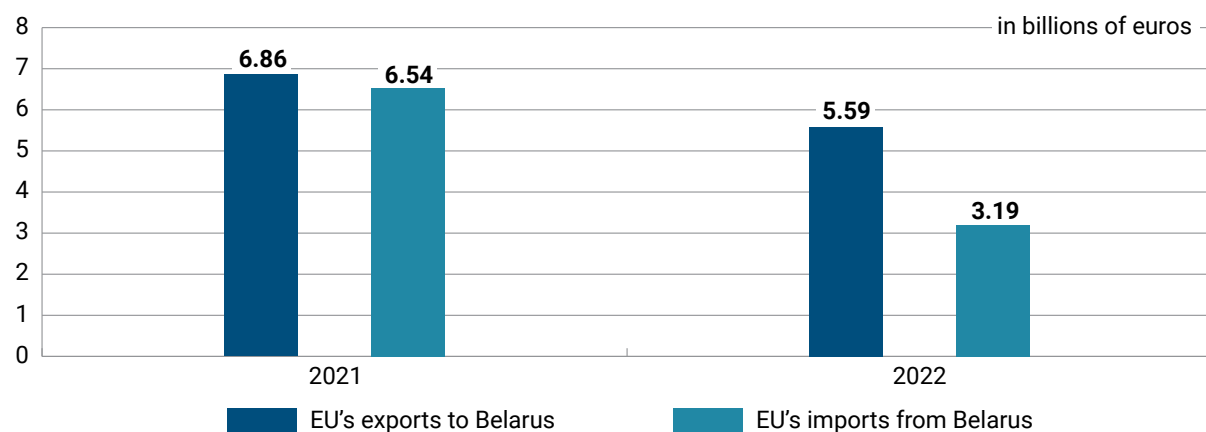
<sup>26</sup> See K. Kłysiński, P. Żochowski, 'Orientacja na przetrwanie. Białoruskie elity polityczne i biznesowe po roku 2020', OSW, Warszawa 2023, [osw.waw.pl](https://osw.waw.pl).

<sup>27</sup> 'Kolejny rekordowy rok dla PAIH', Polska Agencja Inwestycji i Handlu, 17 January 2023, [paih.gov.pl](https://paih.gov.pl).

<sup>28</sup> «Подрывается потенциал экономики». Сколько белорусов могло выехать из страны после выборов 2020 года и чем это грозит нашей стране', Зеркало, 2 February 2023, [news.zerkalo.io](https://news.zerkalo.io).

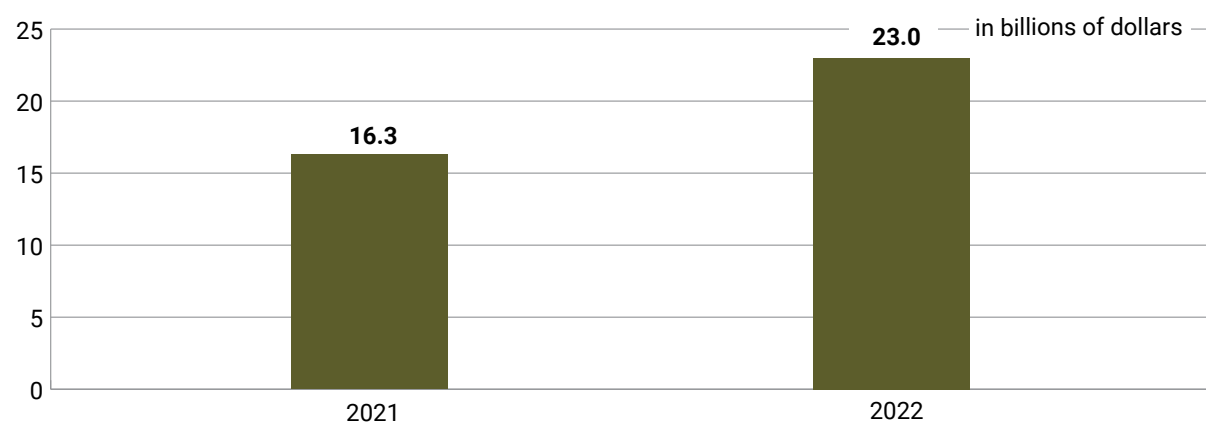
# APPENDIX

### Chart 1. Belarus's trade exchange with the EU in 2021 and 2022



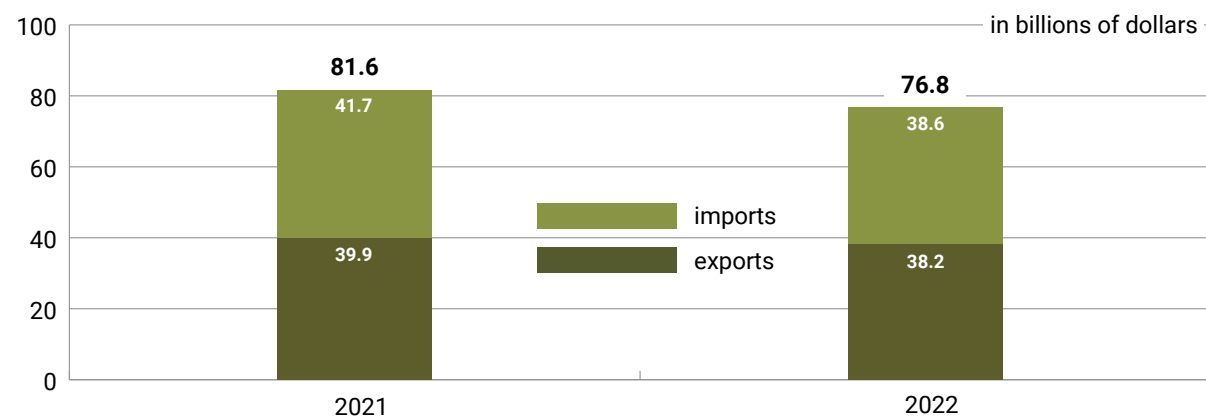
Source: Eurostat.

### Chart 2. Belarus's exports to Russia in 2021 and 2022



Source: National Statistical Committee of the Republic of Belarus (2021) and media statements by representatives of the authorities of Russia and Belarus (2022).

### Chart 3. Belarus's foreign trade in 2021 and 2022



Source: National Statistical Committee of the Republic of Belarus.