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Belarus's Progressing Dependence on Russia and Its Implications

This policy brief examines the complexities surrounding Belarus's economy as it deepens its economic coupling with Russia. Recent growth, driven by increased domestic demand and a resurgence in exports to Russia, has surpassed expectations. This trajectory is largely due to Belarus's mounting dependence on Russia across trade, energy, finance, logistics, and other domains, a dependency that poses significant long-term risks and uncertainties. The Belarusian regime has begun to see this relationship not only as a lifeline but also as a potential source of economic enhancement. However, this approach may blur the lines between sustainable growth and short-term gains, fostering uncertainties about the true nature of this economic uptick. Hence, questions on whether this growth is viable or merely cyclical persist. The uncertainty and progressing dependence on Russia, in turn, imply numerous challenges for the political domain.

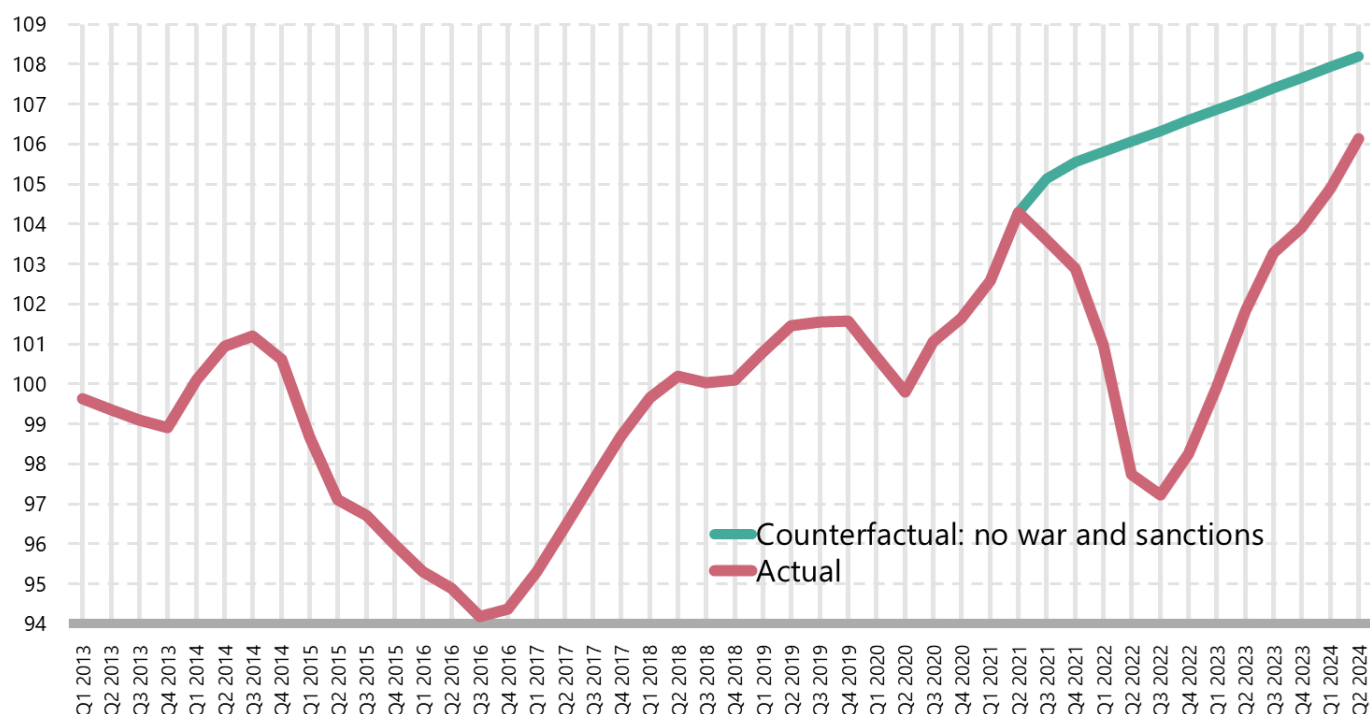
New Issues on the Belarusian Economic Agenda

The Belarusian economy continues to surprise, displaying output growth substantially higher than previous forecasts (see e.g. BEROC, 2024). In 2024, the economy is projected to grow by around 4.0 percent. The growth is being driven by domestic demand, fueled by rising real wages and labor shortages. However, an underlying factor is the recent resurgence of exports to Russia. The

unexpectedly high growth has allowed for the Belarusian economy to surpass pre-war output levels, at the moment defying earlier predictions of stagnation or decline.

Although the growth period has now extended beyond what could be considered a mere “recovery”, the overall picture – as suggested in Kruk (2024) – still appears relevant. Despite the upturn, the economy remains significantly behind the counterfactual 'no sanctions, no war' scenario (see Figure 1).

Figure 1. The Dynamics of Output (seasonally adjusted, index, 2018=100): Actual vs. Counterfactual



Source: Own estimations based on Belstat data. Note: The counterfactual scenario assumes that the Belarusian economy continued to grow uniformly from Q2 2021 to the present, at a sluggish growth rate of 1 percent per annum (a conservative estimate of the potential growth rate before the sanctions were implemented (Kruk & Lvovskiy, 2022)).

Moreover, all the risks to long-term growth associated with total dependence on Russia, potential contagion effects from Russia, etc. are still relevant (KAS, 2024; Bornukova, 2023).

At the same time, a prolonged period of growth gives grounds to think about recent trends also from the perspective of ongoing structural changes in the Belarusian economy. Can these changes, besides implying numerous risks, enhance Belarus’s growth potential and degree of

sustainability? If so, to what extent, for how long, and under which conditions? With these questions in mind, it is important to gain a better understanding of what aspects of the Belarusian economy are being transformed due to the increased coupling with Russia and which effects, besides increased dependency and corresponding risks, this coupling generates. Are there any growth-enhancing effects? If so, how sustainable are they?



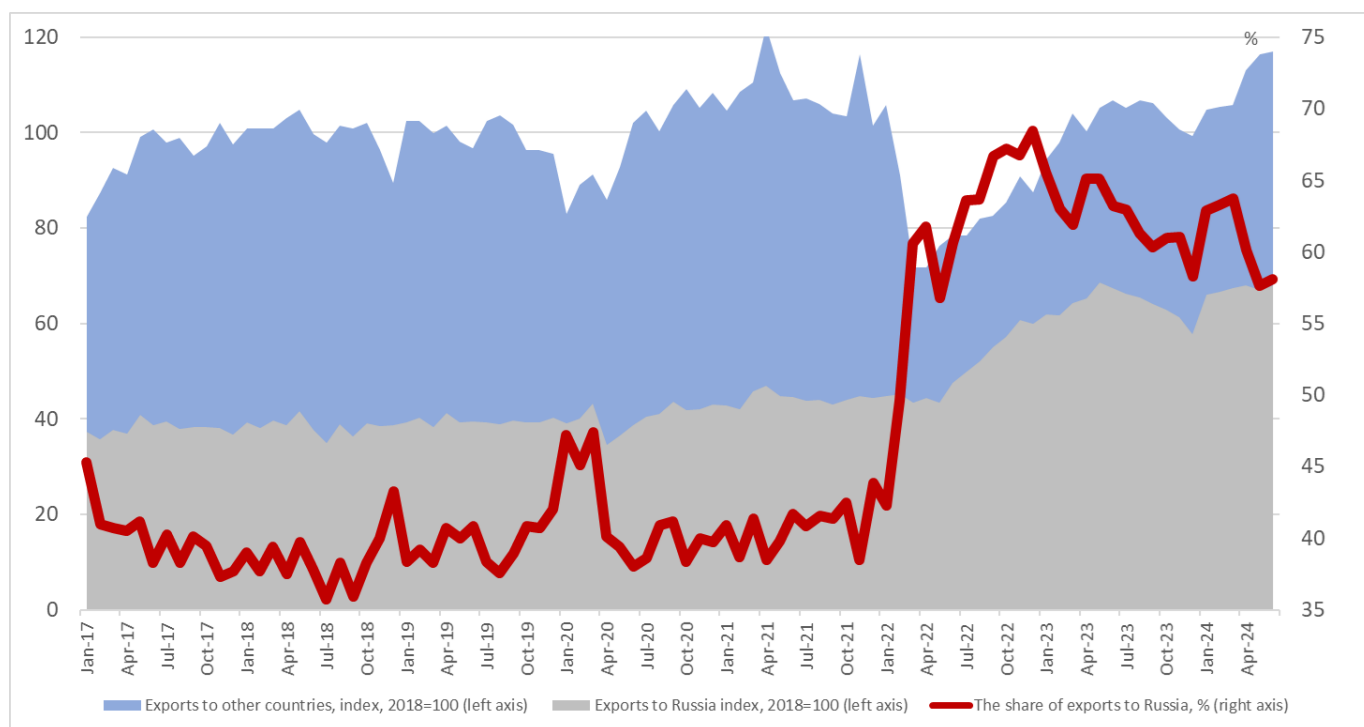
Belarus's Growing Dependence on Russia

Belarus's economic dependence on Russia is reaching unprecedented levels, spanning various critical sectors, with new dimensions of reliance emerging in recent years. This dependence is deeply embedded in the trade, energy, financial, and technological sectors of the Belarusian economy, and recent geopolitical shifts have further intensified these connections.

One of the most evident signs of Belarus's economic reliance on Russia is reflected in its foreign trade. Russian imports make up around 55-60 percent of all imports to Belarus, with a

staggering 80 percent consisting of intermediate goods crucial for industrial production. Energy products, including crude oil and natural gas, form the largest part of these imports, with almost all of Belarus's energy needs being met by Russia. Exports have also become increasingly concentrated to the Russian market. In 2022-2023 there were several periods when about 70 percent of Belarusian exports were directed to Russia, an increase from about 35-40 percent prior to 2022. This surge was driven by new opportunities for Belarusian firms on the Russian market following Western companies withdrawals. Although competition in the Russian market has since intensified, Russia still accounts for around 60-65 percent of Belarus's total exports (see Figure 2).

Figure 2. The Evolution of Physical Volume of Exports (2018=100) and the Share of Exports to Russia (in percent)



Source: Own estimations based on data from the National Bank of Belarus.

A major new development since 2022 is Belarus's reliance on Russia for transportation and logistics. Sanctions and the war in Ukraine have forced Belarus to abandon its traditional export routes through European ports, leaving Russian seaports as the only viable option for further exports. In 2023, Belarus secured around 14 million tons of

port capacity in Russia, primarily for potash fertilizers and oil products exports. Although it is still below the needed volumes, this logistics dependency significantly exacerbates Belarus's external trade dependency. Taking into account direct exports and imports to and from Russia, as well as mechanisms of logistics and transport



control, Russia essentially “controls” up to 90 percent of Belarusian exports and about 80 percent of its imports.

Energy dependency is another critical factor to consider. Belarus imports over 80 percent of its energy resources from Russia, making it vulnerable to any shifts in Russian energy policy. In fact, Russian energy subsidies have played a crucial role in keeping Belarusian industries competitive. In 2022, when global energy prices spiked, the low and fixed price that Belarus paid for Russian gas and the steep discount on oil supplies translated into record-high energy subsidies. These amounted to billions of US dollars, and shielded Belarus from the economic fallout other countries experienced due to rising energy prices. Although the value of these subsidies has somewhat decreased in 2023-2024, they remain significant and vital for Belarus.

Belarus’s fiscal situation has also become increasingly tied to Russia. After years of running budget deficits, Belarus achieved a budget surplus in 2023, largely due to Russian financial assistance. For instance, the budgetary item ‘gratuitous revenues’, which mainly includes reverse excise tax and other transfers from Russia, reached a historical high in 2023, securing revenues of around 3.0 percent of GDP. Without this external support, Belarus would likely face a severe fiscal deficit, forcing cuts in social spending and other areas. The scale of Russian financial aid has become a key factor in maintaining budgetary stability, imposing a serious risk for Belarus. Were Russia to restrict such financing, Belarus would almost instantly lose its fiscal stability.

In the monetary sphere, Belarus’s dependence on Russia manifests through the informal peg of the Belarusian ruble to the Russian ruble. Given the deep trade ties and shared currency use in bilateral transactions, Belarusian monetary policy is effectively constrained by Russian economic conditions. The Belarusian National Bank has little room for maneuver, as any nominal devaluation or appreciation of the ruble tends to self-correct through inflation or price adjustments tied to

Russian trade. This linkage limits Belarus’s monetary sovereignty and aligns its inflation trajectory closely with Russia’s.

Belarus’s debt structure underscores this dependency further. Of the country’s roughly 17.0 billion US dollar in external debt, about 65 percent is owed directly to Russia or Russia-controlled entities like the Eurasian Fund for Stabilization and Development. In 2022-2023, Russia granted Belarus a six-year deferment on debt repayments, providing crucial breathing room for the regime. This deferment, along with Belarus’s limited access to other international financial sources due to sanctions, has cemented Russia’s role as the primary creditor and financial lifeline for Belarus.

New dimensions of dependence have also emerged within infrastructure, technology, and cyberspace. As Belarus is cut off from Western technologies and financial systems, it increasingly relies on Russian alternatives. Belarus has adopted Russian software for critical functions such as tax administration, giving Moscow access to sensitive financial data. Similarly, with several Belarusian banks disconnected from SWIFT, the country has integrated into Russia’s financial messaging system, further entrenching its reliance on Russian infrastructure. Belarusian companies, particularly in sectors like accounting and logistics, have also shifted to using Russian business software, while consumers increasingly rely on Russian digital platforms for social networks, payments, and entertainment.

An Attempt to Spur Growth Through Coupling with Russia

From the perspective of macroeconomic stability and the traditional view on strengthening growth potential, Belarus’s progressing dependence on Russia is obviously an evil (Kruk, 2023; Kruk, 2024). However, the Belarusian regime sees it as a necessary trade-off, or a “lesser evil”. In 2021-2023, the coupling was done in exchange for economic survival. Firstly, production coupling allowed to counterweight the losses in output associated with sanctions (as niches were freed up in the Russian



market) (Kruk & Lvovskiy, 2022). Secondly, the coupling was driven by pressure from Russia and a desire from Belarusian authorities to rapidly obtain some compensations if accepting Russia's demands. For example, in 2022-2023, Belarusian enterprises were granted a credit line of 105 billion rubles within so called import-substitution projects.

However, in 2024, coupling with Russia is beginning to look more like a purposeful strategy by the Belarusian economic authorities rather than just a survival strategy. The regime seems willing to sacrifice sustainability considerations in favor of strengthening the growth potential by 'directive production coupling', i.e. artificially shaping value-added chains between producers in Belarus (mainly state-owned enterprises) and Russia. For instance, the regime accepted the co-called Union programs for 2024-2026 (Turarbekova, 2024), which encompass numerous activities by the governments of Belarus and Russia aimed at securing 'production coupling' in sectors such as machine building, agricultural and automotive engineering, aviation industry, and elevator manufacturing. In some cases, the Belarusian party solely initiates such kind of sectoral activities. It seems that the authorities either accepted the dependency due to the lack of outside options, or they became more optimistic regarding the possibility to spur economic growth through coupling with Russia based on the experiences from the last couple of years. And to some extent this logic might hold true.

As in the previous two years, the coupling with Russia may, in the short to medium term, more than compensate for certain institutional weaknesses and vulnerabilities in the Belarusian economy. The positive effects may even extend beyond mere cyclical impacts and, under certain conditions, contribute to a semblance of stability for a period of time. For example, economic growth in Belarus could reach some degree of stability under the following conditions: (a) if the war in Ukraine becomes protracted and military demand from Russia remains steady; (b) if the

Russian economy continues to grow (albeit modestly) in an environment with limited competition in Russian commodity markets; (c) if specific tools and forms of support for the Belarusian economy remain in place.

Growth driven by a combination of these preconditions could be sufficiently stable as long as they persist. However, the existence of such a status quo is not inherently sustainable and could vanish at any moment. Each of these preconditions is highly unreliable and comes with its own set of determining factors. Thus, one cannot count on the preservation of the entire "package" of preconditions in the long term.

Conclusions

Belarus and its economic prospects are currently in a highly complex situation. The Belarusian economy has been steadily increasing its degree of coupling with Russia, with the ties strengthening both in the range of economic sectors involved and the depth of their integration.

From a long-term growth perspective, the unprecedented level of dependence on Russia is undoubtedly detrimental. In this regard, Kruk's (2024) conclusion about the economic and political deadlocks remains entirely relevant.

However, as the past two years have shown, this situation can achieve a certain semblance of stability in the medium term. The Belarusian regime is increasingly viewing its coupling with Russia not only as a mechanism for economic survival but also as a means to enhance economic potential. In this way, the growing dependence on Russia, which brings substantial macroeconomic risks, is seen as an unavoidable cost entailed to the only available mechanism to sustain economic growth in Belarus.

How then, should we interpret the related fluctuations in Belarus's economy? As an increase in economic potential (equilibrium growth rate) or as cyclical acceleration? Traditional economic logic encounters a contradiction here, as the line



between equilibrium growth and cyclical fluctuations becomes blurred. An increase in economic potential should inherently be sustainable, whereas cyclical acceleration is inherently transient. Yet, how should we treat a mechanism that might be somewhat sustainable under certain conditions?

This contradiction creates numerous uncertainties, both strictly within the economic domain and beyond it. Economically, it diminishes the effectiveness of conventional macro forecasting tools, making them more dependent on ad-hoc assumptions. For example, if there is indeed an increase in potential, then macroeconomic projections generated without accounting for this channel (e.g. BEROC, 2024) would likely underestimate output growth while overestimating the risks of overheating and destabilization. Conversely, if the model assumes higher equilibrium growth but it proves unsustainable, the forecast could significantly overestimate growth while underestimating macroeconomic imbalances. In other words, the seemingly favorable situation could ultimately be a harbinger of a macroeconomic storm.

These uncertainties are even more pronounced in the political domain. Up to what threshold can an increasing economic dependency on Russia yield macroeconomic gains for the regime? What political consequences can arise if the strategy of coupling with Russia for growth enhancement fails? Can the progressing dependency on Russia undermine the regime politically? If political barriers for democratization are eliminated, what should and can be done to get rid of the dependence on Russia? Are the estimations and prescriptions in Hartwell et al. (2022) – which considers the perspectives of economic reconstruction for a democratic Belarus and the costs of eliminating the dependency on Russia in pre-war reality – still relevant today?

Answering such questions meaningfully using formal research tools ex ante is nearly impossible. The dependence of macroeconomic sustainability on non-economic factors and motivations leaves

little room for an accurate ex ante diagnosis of the current state of affairs. Only ex post will we likely be able to reliably assess which diagnosis is closer to the truth. This, in turn, means that we must accept an additional degree of uncertainty in today's forecasts and projections. Similar challenges are faced by decision-makers in Belarus. As a result, the likelihood of incorrect economic and political decisions due to misdiagnosing the current situation is relatively high, even in the (more optimistic) scenario where the authorities recognize and account for these uncertainties. Such decisions, if made, could not only be costly but might even trigger rapid and drastic economic and political changes.

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