

CASE STUDY

Belarusian economy in the face of Western sanctionsKatarzyna Kosowska¹, Piotr Kosowski²¹Faculty of International and Political Studies, Jagiellonian University in Kraków, Kraków, Poland²Department of Petroleum Engineering, AGH University in Krakow, Kraków, Poland**Abstract**

In recent years, Belarus has been developing in conditions of extreme turbulence and uncertainty of socio-economic development due to the intensification of external and internal threats, undermining the possibilities of sustainable and balanced economic growth. Among the key external threats, we should mention: the rapid increase in geopolitical tensions after the rigged presidential elections in Belarus in August 2020 and the unprecedented pressure of sanctions from Western countries on the economy of Belarus, the migrations crisis, and Russia after the Russian invasion of Ukraine in February 2022. The broken dialogue with the West deprived President Lukashenko of the possibility of balancing between the EU and Russia, especially in the economic field. This article analyzes the condition of the Belarusian economy against the background of Western sanctions imposed on the country in 2020 and 2022.

Keywords

Belarus, Russia, economy, sanctions

Corresponding author: Katarzyna Kosowska (katarzyna.l.kosowska@uj.edu.pl)**Author roles:** **Kosowska K:** Conceptualization, Investigation, Methodology, Supervision, Writing – Original Draft Preparation, Writing – Review & Editing; **Kosowski P:** Data Curation, Software, Visualization**Competing interests:** No competing interests were disclosed.**Grant information:** The author(s) declared that no grants were involved in supporting this work.**Copyright:** © 2024 Kosowska K and Kosowski P. This is an open access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.**How to cite this article:****For printed version:** Kosowska Katarzyna and Kosowski Piotr. "Belarusian economy in the face of Western sanctions". *Stosunki Międzynarodowe – International Relations* 60, (2024): 235–257. Printed 2024. <https://doi.org/10.12688/stomiedintrelat.17740.2>.**For online version:** Kosowska K and Kosowski P. **Belarusian economy in the face of Western sanctions**. *Stosunki Międzynarodowe – International Relations* 2024, 4:2 <https://doi.org/10.12688/stomiedintrelat.17740.2>

Introduction

Following the dissolution of the USSR in December 1991, Belarus, like other post-Soviet states, had to choose its own path of development. From 1994, the political and economic development of the country has been shaped by President Alexander Lukashenko. Since gaining independence, Belarus has balanced between Russia and the West, becoming a member of the CIS, EAEU, CSTO, OSCE, and striving to maintain correct relations with the EU within the frameworks of the Eastern Partnership and the Baku Initiative. Thanks to its location in Eastern Europe, Belarus naturally bridges the European Union and the Commonwealth of Independent States.

The third decade of the 21st century sees Belarus facing numerous challenges – an unstable socio-political situation, the breakdown of international dialogue, and Western sanctions. At the same time, the Belarusian economy over the last decade has signaled a number of basic structural and institutional development contradictions that limit the possibilities of economic growth¹ and together with external limitations are an additional factor in the destabilization of the economy. All these factors have caused significant turmoil in the Belarusian economy. This article provides an analysis of the condition of the Belarusian economy against the backdrop of the political and economic crisis resulting from the rigged presidential elections in Belarus in August 2020, the migration crisis, and the sanctions imposed on the country following Russia's aggression against Ukraine.

Methods

The purpose of this article is to attempt to determine the influence of Western sanctions on the condition of the Belarusian economy. In this article, a hypothesis is posited, according to which the condition of the Belarusian economy has been weakened as a result of the implementation of Western sanctions. The article employs a case study methodology. In the economic analysis, the case study method was used to analyze documents, which involved using information gathered previously for social and economic policy purposes (reports, studies) and by institutions specializing in their collection and production for scientific purposes – reports, studies, analyses. The authors paid attention to whether the collected documents were reliable from a scientific point of view, whether the information contained therein was up-to-date, and whether it was complete. The documents used were from the Belarusian statistical office (Belstat), numerous reports from the World Bank, the International Monetary Fund, and rating agencies. In writing the article, studies from several research centers were also used: BEROС Research Center, Belarus Change Tracker, and the German Economic Team.

¹ В. Пинигин, “Системные противоречия экономического развития Беларуси и их преодоление,” *Экономический бюллетень НИЭИ Министерства экономики Республики Беларусь* (Минск, 2018), [V. Pinigin, *Sistemnye protivorechija jekonomicheskogo razvitija Belarusi i ih preodolenie, Jekonomicheskiĭ bjulleten' NIIEI Ministerstva jekonomiki Respubliki Belarus'* (Minsk, 2018)], no. 8, 73–77.

The condition of the Belarusian economy in the second decade of the 21st century

An analysis of the condition of the Belarusian economy in the years 2010–2021 showed an increase in its separation both from the dynamics of global economic development and from countries with a comparable GDP per capita (Russia, Kazakhstan). If in 2000 the average annual growth rate of Belarus' GDP was 7.4%, then in the next period—2010–2021—it was just over 1% (Figure 1). Compared to the 3% growth rate of the global economy, this indicates a sharp reduction in the potential for economic development in Belarus.²

The slowdown in Belarus's macroeconomic dynamics is the result of two main features of the Belarusian economy: the archaic model of the economy with a large state share and central control, and the dependence of the Belarusian economy on the dynamics of the Russian economy.

Risk associated with deformation of the economy. The Belarusian economic model since the 1990s has been based on the following pillars: maintaining a large state share in all major sectors of the economy, centralization of economic management, maintaining high employment through government procurement and a complete ban on layoffs, subsidizing unprofitable state-owned enterprises by the state, and hindering the privatization process.³ Currently, about 60–70% of industrial production in Belarus is produced by the state sector, which requires restructuring. State-owned enterprises or those controlled by them account for about half of total employment.⁴ In 2021, a total of 16.3% of state-owned companies in the Belarusian economy were unprofitable.⁵ Extensive state ownership and government control, especially in agriculture and industry, seriously limit investment and financial activity. Today, there is no debt-free sector of the economy in the country.

In the first decade of the 21st century, the economic model of Belarus was enriched by the dynamically developing IT industry, a priority sector that in recent years could count on numerous tax breaks and privileges thanks to the support of President Lukashenko. Thanks to a special tax regime (High Technology Park, HTP) and salaries up to four times higher than the national average, the IT sector has attracted highly qualified employees. In 2022, the IT sector generated 7.5% of GDP,

² International Monetary Fund, "World Economic Outlook Database," accessed May 1, 2023, <https://www.imf.org/en/Publications/WEO/weo-database/2022/April>.

³ K. Kosowska, "Bezpieczeństwo ekonomiczne Republiki Białoruś w dobie kryzysu polityczno-gospodarczego lat 2020-połowa 2021," *Roczniki Nauk Społecznych* Tom 13, no. 49 (2021): 44.

⁴ "Республика Беларусь. Доклад персонала для консультаций 2018 года в соответствии со статьей IV," *Международный валютный фонд*, 2018, 4, [Respublika Belarus'. Doklad personala dlja konsul'tacij 2018 goda v sootvetstvii so stat'ej IV, *Mezhdunarodnyj valjutnyj fond*, 2018], accessed May 1, 2023, <https://www.imf.org/~media/Files/Publications/CR/2019/Russian/cr1909r.ashx>.

⁵ "Финансовые результаты работы организаций, База статистических данных," [Finansovye rezultaty raboty organizacii, Baza statisticheskikh dannyh] (Bielstat, 2021), accessed May 1, 2023, https://www.belstat.gov.by/upload-belstat/upload-belstat-pdf/oficial_statistika/2021/finance_result-2021.pdf.



Figure 1. GDP change in Belarus between 2010 and 2023. Source: “World Economic Outlook Database”, International Monetary Fund, accessed May 1, 2023, <https://www.imf.org/en/Publications/WEO/weo-database/2022/April>.

equivalent to the contributions of agriculture or transport. The Belarusian IT industry was strongly export-oriented. In 2021, Belarus exported ICT goods and services worth 3.8 billion USD, which accounted for 7.5% of Belarus’s total.⁶ Analysts anticipated further growth of IT in the Belarusian economy to 10% of GDP in 2023.⁷

Risk associated with a high degree of dependence of the Belarusian economy on the dynamics of the global economy, including the Russian market. A feature of Belarus as a small economy is its focus on exports: exports account for 60–70% of GDP and about 65% of industrial production. In these conditions, the possibilities of development of the Belarusian economy are largely determined by the dynamics of the external economic environment, which is characterized by instability, variability, and sensitivity of the economy to external shocks. According to data for 2021, five countries accounted for 76.9% of Belarus’s imports and 69.3% of exports, while Russia’s share was 56.6% and 40.9%, respectively (Figure 2, Figure 3). Weak diversification of export markets indicates a lack of competitiveness of the

⁶ A. Alachnović, “The Rise and Fall of the IT industry in Belarus,” German Economic Team, no. 80, January–February, 2023, https://www.german-economic-team.com/wp-content/uploads/2023/02/GET_BLR_NL_80_2023_EN.pdf.

⁷ K. Kłysiński, “A crisis rather than a disaster. The Belarusian economy a year into Russia’s war against Ukraine,” OSW COMMENTARY, 2023, accessed May 1, 2023, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2023-03-22/a-crisis-rather-a-disaster-belarusian-economy-a-year-russias>.

Belarus import structure by country
2021 (%)

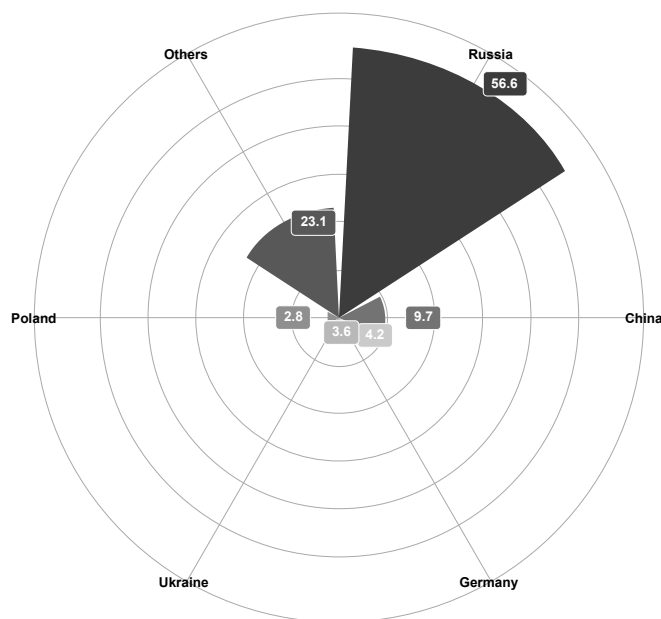


Figure 2. Belarus's import structure by country in 2021 (%). Source: "Распределение импорта товаров и услуг по странам ь основным торговым партнерам в 2021 году", Национальный статистический комитет Республики Беларусь, Внешняя торговля, ["Распределение импорта товаров i uslug po stranam' osnovnym trgovym partneram v 2021 godu", Nacional'nyj statisticheskij komitet Respubliki Belarus', Vneshnjaja trgovlja] accessed April 4, 2023, <https://www.belstat.gov.by/ofitsialnaya-statistika/realny-sector-ekonomiki/vneshnyaya-torgovlya/vneshnyaya-torgovlya-tovarami/graficheskij-material-grafiki-diagrammy/raspredelenie-importa-tovarov-po-stranam-osnovnym-torgovym-partneram-v-2020-godu/>.

products produced and threats associated with instability of foreign exchange earnings from exports due to fluctuations in the external economic environment.⁸

The concentration of Belarus's foreign trade and its dependence on the Russian market create a high risk of dependence of economic dynamics on a limited number of suppliers and recipients of produced products, exposing the Belarusian economy

⁸ "Распределение импорта товаров и услуг по странам ь основным торговым партнерам в 2021 году," Национальный статистический комитет Республики Беларусь, Внешняя торговля, [Распределение импорта товаров i uslug po stranam 'osnovnym trgovym partneram v 2021 godu, Nacional'nyj statisticheskij komitet Respubliki Belarus', Vneshnjaja trgovlja], accessed April 4, 2023, <https://www.belstat.gov.by/ofitsialnaya-statistika/realny-sector-ekonomiki/vneshnyaya-torgovlya/vneshnyaya-torgovlya-tovarami/graficheskij-material-grafiki-diagrammy/raspredelenie-importa-tovarov-po-stranam-osnovnym-torgovym-partneram-v-2020-godu/>.

Belarus export structure by country

2021 (%)

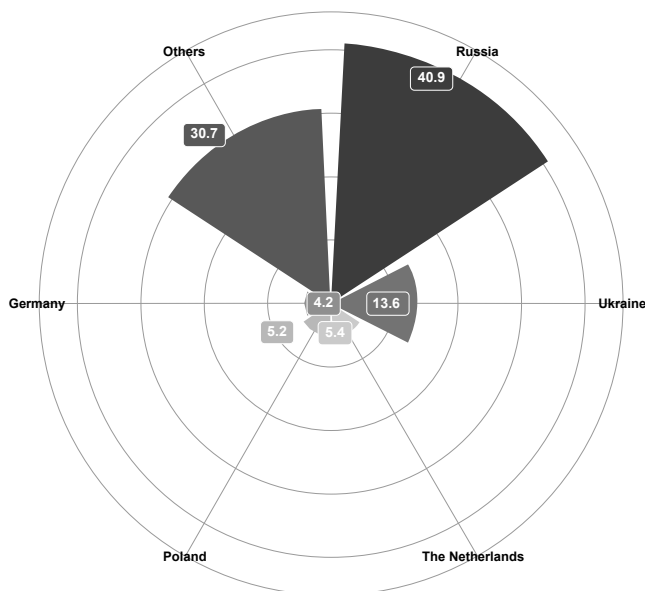


Figure 3. Belarus's export structure by country in 2021 (%). Source: *Распределение экспорта товаров и услуг по странам в основным торговым партнерам в 2021 году*, Национальный статистический комитет Республики Беларусь, Внешняя торговля, [Распределение экспорта товаров и услуг по странам основным торговым партнерам в 2021 году, Nacional'nyj statisticheskiy komitet Respubliki Belarus', Vneshnjaja trgovlja] accessed April 4, 2023, <https://www.belstat.gov.by/ofitsialnaya-statistika/realny-sector-ekonomiki/vneshnyaya-torgovlya/vneshnyaya-torgovlya-tovarami/graficheskij-material-grafiki-diagrammy/raspredelenie-eksporta-tovarov-po-stranam-osnovnym-torgovym-partneram-v-2020-godu/>.

to shocks associated with sudden changes in the economic situation in Russia. In addition, the Belarusian economy is dependent on huge support from Russia, which has three dimensions: energy (cheap energy resources), investment, and credit.⁹ At the current stage, Russian support provides lower prices for energy resources, which increases the competitiveness of production. Among other bonuses from Russia, deferment of repayment of Russian loans, Belarus's national debt is worth noting. In addition, it was agreed that Russia would allocate about USD 1.5 billion for import substitution programs.¹⁰

⁹ Kosowska, "Bezpieczeństwo ekonomiczne," 46–48.

¹⁰ Е. Дако, "Что произошло с экономикой Беларуси за 8 месяцев войны?," [E. Dako, Chto proizoshlo s jekonomikoj Belarusi za 8 mesjacev vojny], accessed April 4, 2023, <https://www.delfi.lt/ru/news/economy/chto-proizoshlo-s-ekonomikoj-belarusi-za-8-mesyacev-vojny.d?id=91632863>.

The condition of the Belarusian economy after the Russian invasion of Ukraine

The application of EU sanctions policy towards Belarus dates back to the first decade of the 21st century, yet its effectiveness remains low to this day. Each political campaign in Belarus has been associated with an intensification of political repression, and the Lukashenka regime has successfully adapted to the periodic introduction of sanctions. Sanctions were introduced, among other instances, after the presidential elections in 2006 and 2011. At that time, the number of individuals and organizations subject to EU sanctions exceeded 200.¹¹

The application of EU sanctions policy towards the Lukashenka regime can be divided into two stages: the first stage, rhetorical sanctions (“expressing disapproval of human rights violations in Belarus”), were introduced to address internal political problems and were largely symbolic in nature; the second stage, large-scale sanctions, were introduced as punishment for the Lukashenka regime for creating security threats to the EU – an act of air terrorism, a migration crisis, and the regime’s support for Russian military aggression against Ukraine.¹²

After the rigged presidential elections in 2020, the instrumentalization of people to provoke a migration crisis at the EU border, and the complicity of the Lukashenka regime in Russian military aggression against Ukraine, Western countries decided to impose sectoral and personal sanctions on Belarus. From an economic point of view, the most important role is played by sectoral sanctions.

The deterioration of relations between Belarusian authorities and European countries occurred after the rigged elections of 2020. As a result, the EU decided to impose personal sanctions on individuals close to Alexander Lukashenko responsible for violence against peaceful protesters and election fraud in Belarus. Citizens subject to these restrictions were banned from entering the EU territory and accessing the European Union’s banking system. European companies were prohibited from cooperating with any legal entities on the list.

A new stage of the conflict occurred in May 2021, after the official authorities of the republic forcibly landed a Ryanair plane in Minsk and arrested the opposition figure Roman Protasevich who was on board. On May 24, 2021, leaders of the European Union decided to ban Belarusian airlines from flying to EU airports and over its territory. More than 20 countries closed their airspace to the Belarusian airline “Belavia”. On June 21, 2021, the European Union introduced the fourth

¹¹ О. Мазоль и А. Мкртчян, “Влияние санкционной политики ЕС на внешнюю торговлю подсанкционными товарами Беларуси,” [O. Mazol and A. Mkrtchjan, Vlijanie sankcionnoj politiki ES na vneshnjuju trgovlju podsankcionnymi tovarami Belarusi], BERO Policy Paper Series, no. 117, <https://beroc.org/upload/medialibrary/e26/e26bbd7a75a918a5c762f1a2cf05a401.pdf>.

¹² Мазоль и Мкртчян, “Влияние санкционной.”

package of sanctions against Belarus, which included eight companies, including MAZ, “Belaz”, JSC “Novaya Neftyanaya Kompaniya”, and 78 individuals.¹³

On June 25, 2021, the EU for the first time in history imposed economic sectoral sanctions against Belarus. The restrictive measures included a ban on the export to the EU of potassium chloride, which is primarily used in fertilizers, and petroleum products, except for gasoline and diesel. Belarus was prohibited from importing ingredients for the tobacco industry, technologies, and software for internet control, dual-use equipment with military or police applications. European investors were prohibited from providing long-term loans exceeding three months to Belarusian state structures, companies, and banks where the state’s participation exceeds 50%. As a consequence of the migration crisis, personal sanctions were imposed on December 2, 2021, against 17 individuals and 11 Belarusian entities.¹⁴

Further sectoral sanctions were imposed on Belarus for its complicity in the Russian military aggression against Ukraine. Economic and financial sanctions were first introduced in relation to the defense sector, and subsequently extended to the main branches of the Belarusian economy – the timber, cement, metallurgical, rubber, and machinery industries.

Subsequently, the sanctions were extended to the financial sector – freezing the assets of the National Bank of Belarus, banning the provision of trade financing for state organizations, banning deposit services, banning the sale of securities in euros and euro banknotes, and disconnecting from the financial messaging system for a number of state banks and state-owned companies. The latest sectoral measure introduced was a restriction in the freight transport sector – a ban on the transit of goods through the EU territory for carriers from Belarus.

The Western sanctions imposed on Belarus in several stages have a personal and sectoral character. From an economic point of view, the most important role is played by sectoral sanctions (Table 1).

All these factors have caused many upheavals in the Belarusian economy and have a decisive impact on the current level of the Belarusian economy’s condition. Pressure for integration from Russia has significantly reduced the profitability of Belarus’s key—energy—industries, as maintaining low energy prices was correlated with the need for deeper integration within the Union State. In turn, sanctions imposed on the Lukashenko regime after the rigged presidential elections made political and economic dialogue between Belarus and the West impossible and undermined the country’s credibility on international markets. Contrary to the sanctions imposed by the USA and the EU in 2020 and the migration crisis, the

¹³ Санкции в отношении Беларуси, “Представительство немецкой экономики в Республике Беларусь,” [Sankcii v otnoshenii Belarusi, Predstavitel’sstvo nemeckoj jekonomiki v Respublike Belarus’], <https://belarus.ahk.de/ru/infoteka/sankcii-v-otnoshenii-belarusi>.

¹⁴ Санкции в отношении Беларуси, “Представительство немецкой.”

Table 1. Sanctions imposed on Belarus in 2020–2022.

Reason for sanctions	Date of imposition of sanctions	Type of sanctions	Scope of sanctions
Falsified presidential elections 2020, repressions against oppositionists	October 2, 2020	Targeted (personal) sanctions	40 individuals (1 st package)
	November 16, 2020	Targeted (personal) sanctions	15 individuals including Aleksandr Lukashenko (2 nd package)
	December 17, 2020	Targeted sanctions	29 individuals and 7 entities (3 rd package)
Enduring repressions and forced landing of a Ryanair flight on May 23, 2021.	June 4, 2021	Transport sanctions	EU banned Belarusian carriers of all kinds from flying over EU airspace and accessing EU airports
		Targeted sanctions	78 individuals and 8 entities (4 th package)
	June 24, 2021	Sectoral sanctions	petroleum products, potash chloride goods used in the production of tobacco products
		Financial sanctions	Restrictions on access to EU capital markets for three Belarusian banks
		Export sanctions	1) Equipment, technology, or software for monitoring/capturing internet/phone communications. 2) Dual-use equipment for military purposes in Belarus.
Migration crisis	December 2, 2021	Targeted sanctions	17 individuals and 11 entities (5 th package)
Involvement of Belarus in the Russian-Ukrainian war 2022	March 2, 2022	Targeted sanctions	22 individuals
		Sectoral sanctions	Target sectors: wood, cement, steel, rubber, tobacco products, mineral fuels, potash.
		Export sanctions	Further restrictions on the export of goods and technology for dual use
	March 9, 2022	Financial sanctions	SWIFT ban on Belarusian banks
			Prohibit transactions with the Central Bank of Belarus
			Limit the financial inflows from Belarus to the EU Prohibit the provision of euro-denominated banknotes to Belarus

Reason for sanctions	Date of imposition of sanctions	Type of sanctions	Scope of sanctions
	April, 9, 2022	Transport sanctions	Ban on road transport towards Belarus.
	June 3, 2022	Targeted sanctions	12 individuals and 8 entities

Sectoral and trade sanctions imposed on Belarus in 2021–2022. Source: *Timeline – EU restrictive measures against Belarus*, Council of the European Union, [online], [access: 13 III 2023]: <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-belarus/belarus-timeline/>; Victoria Leukavets, *EU Sanctions Against Belarus in 2020–2022: Time for a Reappraisal*, SCEEUS Report No. 7, 2022; <https://sceus.se/en/publications/eu-sanctions-against-belarus-in-2020-2022-time-for-a-reappraisal/>.

Belarusian economy grew by 2.3% to USD 68.2 billion in 2021.¹⁵ This growth is most likely the result of an increase in the export of goods and services during the economic recovery period after the end of the Covid-19 pandemic. During this time, Belarusian exports of goods and services returned to pre-pandemic levels. The lack of statistical data on Belarusian exports since mid-2021 makes it difficult to explain in detail the reasons for the export miracle.¹⁶ It is also worth noting that the scope of Western sanctions imposed on Belarus after the rigged presidential elections in 2020 was limited. The expanded packages of sanctions from 2022 hit the republic with much greater force. The effects of sanctions can be divided into two groups: direct and indirect. The direct effects of sanctions include issues in the export and financial sectors, as well as the deteriorating condition of small and medium enterprises in Belarus. Among the indirect effects of sanctions are: a decline in foreign investment, an outflow of young, skilled labor, and a decrease in the standard of living of Belarusians.

Direct effects of the impact of sanctions

Problems with export after February 2022

Even before the outbreak of the Russo-Ukrainian War in 2022, based on the sanctions implemented in 2021, Lithuania refused to transport Belarusian potash fertilizers through the port in Klaipėda. This was the first significant blow to the Belarusian economy, given the fact that Belarus produces 11–12 million tons of potash fertilizers annually, of which at least six million are exported abroad. In 2020, the

¹⁵ World Bank, “GDP growth (annual % - Belarus),” accessed May 3, 2023, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2021&locations=BY&start=1990&view=chart>.

¹⁶ “Cios w główne branże eksportowe: wpływ antywojennych sankcji na gospodarkę Białorusi,” by-ua-studium, accessed May 3, 2023, <https://by-ua-studium.pl/cios-w-glowne-branze-eksportowe-wplyw-antywojennych-sankcji-na-gospodarke-bialorusi/>.

value of the export of this product amounted to USD 2.4 billion, constituting 9% of the total exports. Belarus's share in the global potash market is 20–25%.¹⁷ The transit of potash fertilizers through Lithuania generated revenues accounting for approximately 5% of Belarus's GDP.¹⁸

Faced with this situation, the Belarusian regime sought assistance from Russia, negotiating with the Kremlin the possibility of exporting fertilizers through Russian ports. Transit through Russia, however, is associated with the issue of increased transportation costs (greater distance to ports in St. Petersburg and Murmansk) and limited capabilities of the transshipment infrastructure for six million tons of fertilizers. Nevertheless, Russian support enabled Belarus to increase its export of potash fertilizers to China (revenues for the period of January–February 2023 amounted to USD 895.36 million, compared to USD 569.83 million the previous year). Yet, to sell its fertilizers under the existing sanctions, Belarus is compelled to offer substantial discounts, reaching up to 50%.¹⁹ Restrictions on exports forced the main Belarusian producer of potash fertilizers—Belaruskali—to cease extraction at all five mines (as of 2021). Belaruskali, one of the pillars of Belarusian exports, justifies this decision by the need for maintenance work. The discontinuation of the publication of economic activity reports by Belaruskali hinders access to data concerning the company's extraction and export.²⁰

Trade sanctions imposed on Belarus by the EU after February 2022 (prohibiting the import from Belarus of mineral products [oil and gas derivatives], mineral fertilizers, cement, tobacco products, wood products, iron and steel products, rubber products, and machinery²¹) have led to further turbulence in the Belarusian economy. In total, the EU has sanctioned 70% of Belarusian exports.²²

Before the Russian invasion of Ukraine in 2021, Belarus's largest trading partner was Russia, which accounted for 40.9% of Belarusian exports. Ukraine was in

¹⁷ K. Kłyśński, "The end of prosperity? The West blocks the export of Belarusian potash fertilisers," Warszawa OSW, 2022, accessed May 3, 2023, <https://www.osw.waw.pl/en/publikacje/analyses/2022-02-07/end-prosperity-west-blocks-export-belarusian-potash-fertilisers>.

¹⁸ J. Baffes and W.C. Koh, "Fertilizer prices ease but affordability and availability issues linger," World Bank Blogs, accessed May 3, 2023, <https://blogs.worldbank.org/opendata/fertilizer-prices-ease-affordability-and-availability-issues-linger>.

¹⁹ "Ведут ли санкции на белорусский калий к мировому голоду – расследование БРЦ," Reformatory, [Vedut li sankcii na belarusskij kalij k mirovomu golodu – rassledovanie BRC], accessed May 3, 2023, <https://reform.by/vedut-li-sankcii-na-belarusskij-kalij-k-mirovomu-golodu-rassledovanie-brc>.

²⁰ "Шахтеры превратились в грузчиков: что происходит на «Беларуськалии»," [Shahtery prevratilis' v gruzchikov: chto proishodit na «Belarus'kalii»], Charter 97, accessed May 3, 2023, <https://charter97.org/ru/news/2023/2/8/535506/>.

²¹ "Sankeje Unii Europejskiej oraz Polski nałożone na Białoruś w związku z konfliktem zbrojnym na Ukrainie," Biznes.gov.pl, accessed May 3, 2023, <https://www.biznes.gov.pl/pl/portal/001587#9>.

²² F. Guarascio, "EU bans 70% of Belarus exports to bloc with new sanctions over Ukraine invasion," *Reuters*, accessed May 3, 2023, <https://www.reuters.com/world/europe/eu-approves-new-sanctions-against-belarus-over-ukraine-invasion-source-2022-03-02/>.

second place with a 13.6% share of total exports, followed by the EU, whose share was around 16% (see Figure 2). Prior to the outbreak of the war, Ukraine was one of the most important importers of Belarus's petrochemical and chemical production. Additionally, transit of Belarusian goods and services was carried out through Ukraine. According to data from the Ministry of Economy of the Republic of Belarus, the export of goods and services in 2022 recorded a decrease of 5.5% compared to the previous year. As a result of Western sanctions, exports to the Ukrainian market and to EU countries fell by almost 50%. Meanwhile, exports to the Eurasian Economic Union countries (with Russia at the forefront) reached 63.1%.²³ Thus, to compensate for the losses incurred from the loss of the European market, Belarus primarily relied on Russia, including through increased trade.²⁴ Moreover, Russian media reports suggest a willingness to open the Russian market for Belarusian oil products,²⁵ implying the inclusion of Belarusian refineries in the Russian budget subsidy program. If Belarusian oil products are maximally redirected to the Russian market, the size of such a subsidy could reach approximately USD one billion.

The loss of established sales markets and reorientation towards new directions resulted in a 48% increase in warehouse stocks by the end of 2022. This means that approximately 72% of finished products were stored in warehouses by the end of the year, marking the highest rate in seven years. Experts note that an increase in inventories is observed across all regions of the country in various economic sectors. Concurrently, Belarus's industrial production declined by over 5%.²⁶

In the long-term perspective, it is evident that the Russian economy is doomed to backwardness and degradation. Along with it, the Belarusian economy will also degrade. Moreover, the potential for expanding Belarusian exports to the Russian market is exhausted. Russia cannot compensate for all losses and replace the rich markets of the European Union and Ukraine. In the foreseeable future, there will come a time when Belarusian exports will have nowhere to expand. Furthermore, it is irrational to bind oneself to an unstable market prone to

²³ "Внешняя торговля товарами и услугами," Министерство экономики Республики Беларусь [Vneshnjaja trgovlja tovarami i uslugami, Ministerstwo jekonomiki Respubliki Belarus'], accessed May 3, 2023, <https://economy.gov.by/uploads/files/VED/Itogi-vneshnej-torgovli-2022-g..pdf>.

²⁴ World Bank, "Europe and Central Asia Economic Update, Fall 2022: Social Protection for Recovery," 2022, 25, accessed May 3, 2023, <https://elibrary.worldbank.org/doi/abs/10.1596/978-1-4648-1928-5>.

²⁵ Д. Козлов и Т. Дятел, "Минские подношения. Россия может поддержать Белоруссию закупками топлива," *Коммерсантъ*, September 9, 2022, [D. Kozlov and T. Djatel, Minskie podnoshenija. Rossiya mozhет podderzhat' Belorussiju zakupkami topliva, *Kommersant*], <https://www.kommersant.ru/doc/5549494>.

²⁶ Н. Катков, "Товаров на 8 млрд рублей. Разбираемся, почему резко выросли складские запасы," *Belstat*, [N. Katkov, Tovarov na 8 mlrd rublej. Razbiraemsja, pochemu rezko vyrosli skladskie zapasy], accessed May 3, 2023, <https://belsat.eu/ru/news/23-12-2022-tovarov-na-8-mlrd-rublej-razbiraemsya-pochemu-rezko-vyrosli-skladskie-zapasy>.

protectionism like Russia's. Not to mention the political risks of losing Belarusian independence.²⁷ Further geographical diversification of Belarusian exports is necessary, especially in the face of increasing competition on the Russian market, primarily from China.

Issues in the financial sector

The USA, Canada, the European Union, the United Kingdom, and Japan introduced sanctions against Belarusian banks in several stages. Some financial institutions faced restrictions in 2021, and another group a year later. Altogether, these restrictions affected nearly half of the Belarusian banks. For the first time, Belarusian banks faced sanctions in 2021, when European sectoral sanctions affected "Belarusbank," "Belinvestbank," and "Belagroprombank." Later, American restrictions covered "Absolutbank," and directly before the war, EU and USA sanctions impacted "Dabrabyt Bank" and "Development Bank." With the onset of the war in Ukraine, the pressure from sanctions intensified further. Problems arose in five Belarusian banks tied to Russian capital, and three more banks - "Belagroprombank," "Dabrabyt," and "Development Bank" - were disconnected from SWIFT. Concurrently, problems with currency transfers began, and panicked Belarusians started withdrawing their deposits and currency from accounts. In this situation, businesses struggled to service their loans.²⁸

Almost immediately, Belarusian banks introduced limits on withdrawals of foreign currency cash, restricted the amounts of cash withdrawals from cards, imposed additional fees for withdrawals from foreign cards, and lowered interest rates on deposits. By the end of March 2022, some banks completely stopped lending to the population, while others significantly reduced it. In May 2022, some banks resumed lending, but the interest rates were high.²⁹

In this situation, businesses had to adapt to new conditions. In 2021, all banks in Belarus were connected to the Russian Financial Messaging System (SPFS). This SWIFT equivalent was created in Russia in 2014 to allow sanctioned banks to conduct payments within the country. Later, Belarus began to cooperate more actively with China through the correspondent accounts of banks from both countries. Businesses also opened accounts in banks in Kazakhstan, Armenia, Kyrgyzstan, Uzbekistan, and the United Arab Emirates to conduct settlements with foreign

²⁷ Д. Рабчук и Г. Забаронак, "Беларусь – ЕС: торговля и перспективы интеграции," [D. Rabchuk and G. Zabaronak, Belarus' – ES: torgovlja i perspektivy integracii], BEROC, 2023, <https://beroc.org/upload/medialibrary/2dd/2ddf26650c1e9d3264ae1f53f8ce36a6.pdf>.

²⁸ А. Богуславская, "Грядет мощный кризис". Что происходит с банками в Беларуси?, [A. Boguslavskaja, Grjadet moshhnyj krizis». Chto proishodit s bankami v Belarusi?], DW, <https://www.dw.com/ru/grjadet-moshhnejshij-krizis-chto-proishodit-s-bankovskoj-sistemoj-belarusi/a-61829185>.

²⁹ Богуславская, "Грядет мощный кризис".

partners and then transfer money to Belarus. Another solution was to open accounts in European banks that are loyal to Belarusian business. This is particularly important for those who trade with the EU. To reduce the risk associated with payment flows, businesses changed the currency of settlement: over 70% of international payments were made in Russian rubles and yuan.³⁰

Rating agencies have negatively evaluated Belarus's decision to change the currency of repayments from dollars to rubles, and have determined that Belarus is not fulfilling its obligations. Consequently, on March 10, 2022, Moody's lowered Belarus's credit rating by four notches to "Ca" with a negative outlook.³¹ On October 28, Fitch downgraded Belarus's rating to RD, signifying a partial default. The agency anticipates further contraction of the economy, stating "Investment prospects appear weak, structural reforms have been halted, skilled workers have left the country, and policy poses a risk to macro-financial conditions."³² Similarly, S&P lowered Belarus's credit rating on August 3 to SD – "selective default."³³ In June, the EBRD decided to end support for the Belarusian authorities, and in October, the World Bank announced that it was adding Belarus to the list of countries that are not servicing their debts.³⁴ In 2023, Belarus plans substantial repayments of public debt (both external and internal), totaling USD 5.8 billion.³⁵ The problem of securing loans on international markets is crucial due to the immense external debt of Belarus, while sanctions against the financial sector deprive Belarusian banks of the ability to borrow from abroad. According to data from the Ministry of Finance, Belarus's external debt as of June 1, 2022, amounted to USD 18.4 billion, and it currently represents 26% of Belarus's GDP.³⁶

In the challenging context of Western sanctions, external financing for Belarus may be facilitated through loans from Russia or subordinate Russian financial

³⁰ "Как в Беларуси решают вопросы с платежами, чтобы деньги «не зависали»," [Kak v Belarusi reshajut voprosy s platěžami, chtoby den'gi «ne zavisali»], <https://ilex.by/kak-v-belarusi-reshajut-voprosy-s-platěžami-chtoby-dengi-ne-zavisali/>.

³¹ Moody's, "Moody's – Belarus," accessed May 3, 2023, <https://www.moody.com/credit-ratings/Belarus-Government-of-credit-rating-806356891?lang=es-ar&cy=arg>.

³² FitchRatings, "Fitch Affirms Belarus at 'RD'," accessed May 3, 2023, <https://www.fitchratings.com/research/sovereigns/fitch-affirms-belarus-at-rd-28-10-2022>.

³³ Trading Economics, "Belarus – Credit Rating," accessed May 3, 2023, <https://tradingeconomics.com/belarus/rating>.

³⁴ World Bank, "World Bank Places Loans to the Republic of Belarus in Non-performing Status," accessed May 3, 2023, <https://www.worldbank.org/en/news/press-release/2022/10/17/world-bank-places-loans-to-the-republic-of-belarus-in-non-performing-status>.

³⁵ "Бюджет Республики Беларусь для граждан на 2023 год," Министерство Финансов Республики Беларусь, Минск, 2023, 43, [Bjudzhet Respubliki Belarus' dlja grazhdan na 2023 god, Ministerstvo Finansov Respubliki Belarus', Minsk, 2023, 43], accessed May 3, 2023, <https://www.minfin.gov.by/upload/bp/budjet/budjet2023.pdf>.

³⁶ "Состояние государственного долга Республики Беларусь," Министерство финансов Республики [Sostojanie gosudarstvennogo dolga Respubliki Belarus', Ministerstvo finansov Respubliki Belarus', Беларусь], accessed May 3, 2023, https://www.minfin.gov.by/ru/public_debt/condition/.

institutions. Moscow has pledged to grant Minsk a loan of USD 1.5 billion for the implementation of joint import substitution projects.³⁷ It is noteworthy that in recent years, Belarus has been the largest beneficiary of Russian loans – by the end of 2019, its indebtedness to Russia amounted to USD 8.1 billion.³⁸ Today, the Russian Federation accounts for over 60% of Belarus's total external public debt.

Condition of small and medium-sized enterprises

Although active state interventions in the economy, uneven competition, and changes in legislation for many years hindered the development of the private sector, nevertheless, objective market changes in some way contributed to its growth in the second decade of this century. The liberalization of business conditions has enabled the development of entrepreneurship and contributed to the flow of workers into the private sector from the public sector. Additionally, the private sector has occupied technological niches such as IT and electronics.

Participation in the aggression against Ukraine has led to a significant tightening of sanctions — and although they are primarily directed against the public sector, the private small and medium-sized enterprise sector has significantly suffered from their consequences and reputational damage. Entrepreneurs identified the most significant factors limiting business operations as macroeconomic instability, disruptions in supply chains, lack of access to raw materials and components, high economic environment uncertainty, and low demand. The share of companies that stated obtaining credit or other external financing is very difficult for them significantly increased in March–April 2022 (35.2%) compared to November–December 2021 (18.6%). To minimize the effects of risk and uncertainty associated with Western sanctions, companies took steps related to exploring new business formats (26.9%), launching new products/services (24%), and entering new export markets (17.6%).³⁹ During the period January–May 2022, the total number of SME entities decreased by more than 7.5 thousand units, or 2%. The highest rate of decline in the number of operating SME entities was observed in Minsk – 3.1%. Nevertheless, despite many difficulties, this sector of the economy still plays an important role in funding the budget.⁴⁰

³⁷ “Россия предоставит Беларуси кредит в 1,5 млрд USD,” *Экономическая газета*, [Rossija predostavit Belarusi kredit v 1,5 mlrd USD, *Jekonomicheskaja gazeta*], accessed May 3, 2023, <https://neg.by/novosti/otkrytj/rossiya-predostavit-belarusi-kredit-v-1-5-mlrd-usd/>.

³⁸ “Всемирный банк раскрыл долги других стран перед Россией,” *Ведомости*, [Vsemirnyj bank raskryl dolgi drugih stran pered Rossiej, *Vedomosti*], March 31, 2021, <https://www.vedomosti.ru/economics/news/2021/03/31/863898-vsemirni-bank-raskril-dolgi-drugih-stran-pered-rossiei>.

³⁹ “Мониторинг экономики Беларуси: тенденции, настроения и ожидания,” *Малый и средний бизнес*, [Monitoring jekonomiki Belarusi: tendencii, nastroenija i ozhidaniya, *Malyj i srednij biznes*], BEROC, 2022, <https://beroc.org/upload/medialibrary/e7f/e7fa1a129456913c83c646b8e00dc429.pdf>.

⁴⁰ “О деятельности субъектов МСП: итоги четырех месяцев 2022 г.,” *Совет по развитию предпринимательства* [O dejatel'nosti subektov MSP: itogi chetyreh mesjacev 2022 g., *Sovet po razvitiyu predprinimatel'stva*], 2022, <http://ced.by/ru/publication/~shownews/2022-05-31-o-dejtelnosti-subektov-MSP>.

In 2023, in the trade turnover of all commercial organizations, only 26.6% was accounted for by small and medium-sized organizations, while 74% was controlled by major players. The representation of small business in trade fell to the lowest level in history. An analysis of Belstat data shows that the displacement of small businesses from the retail market has accelerated in recent years: in 2020, the share of small and medium-sized enterprises (SMEs) was still 33%.⁴¹

After two years of conducting business in unfavorable conditions, the main issues troubling small and medium-sized businesses include instability related to the actions of the authorities in the economic sphere. Another major problem is human resources. The departure of people abroad and the outflow of workers leads to the loss of human capital. This effect is already being felt. Businessmen argue that sometimes, even at a loss to themselves, they maintain high wages to not risk their business and to preserve human capital in Belarus.⁴² The number of people employed in the economy continues to decline in Belarus. According to data from the National Statistical Committee, from January 2020 to July 2023, it has decreased by 183,000 people, to 4.147 million.⁴³ The shortage of staff has proven to be the most significant barrier to business development across all sectors, and administrative price regulations have been identified as a major issue in industry, construction, and trade. State price regulation does not allow for raising selling prices to a level that would fully compensate for the increase in costs.⁴⁴ Individual entrepreneurs are facing an increasing number of problems, with registrations in Minsk having been suspended since 2021 “for technical reasons.” Since 2022, changes have been made to the taxation system: initially, the rate was increased, and then the simplified tax system was completely abolished. The rates of the uniform tax for individual entrepreneurs have significantly increased, and the number of types of activities that can apply it has been reduced.⁴⁵

The Belarusian Ministry of Economy has developed a support map for the SME sector, highlighting 117 institutions that support small and medium-sized enterprises, including 24 in Minsk. These institutions include technology parks, business incubators, consulting firms, and professional development centers. However, many areas and larger cities, especially in the north of the country, are not covered by this

⁴¹ С. Малюта, “Как в Беларуси малый бизнес вытесняют из торговли,” *Белорусы и рынок* [S. Maljuta, *Kak v Belarusi malyj biznes vytesnjajut iz trgovli, Belorusy i rynek*], 2024, <https://belmarket.by/news/news-57279.html>.

⁴² “Подделки, 90-е и никаких технологий: как санкции влияют на белорусский бизнес,” ЕВРОРАДИО, [Poddelki, 90-e i nikakih tehnologij: kak sankcii vlijajut na belorusskij biznes, EVRORADIO], 2023, <https://euro-radio.fm/ru/poddelki-90-e-i-nikakikh-tehnologiy-kak-sankcii-vliayut-na-belorusskiy-biznes>.

⁴³ “Индикаторы достойного труда, Национальный статистический комитет Республики Беларусь,” [Indikatory dostojnogo truda, Nacional’nyj statisticheskij komitet Respubliki Belarus’], 2023, <https://www.belstat.gov.by/ofitsialnaya-statistika/indikatory-dostojnogo-truda/>.

⁴⁴ “Мониторинг экономики Беларуси.”

⁴⁵ “Подделки, 90-е и никаких технологий.”

support. The website does not provide information on the availability of grants for business projects, limiting itself to preferential loans, loan guarantees, and asset leasing. The Ministry provides financial assistance for real estate investments, equipment and vehicle purchases, and the purchase of raw materials and components, but imposes numerous restrictions. Support is intended for companies employing up to 100 people, with unspecified turnover, state participation below 49%, and no financial obligations. The priority is the creation of new jobs. Companies that do not plan to increase employment will not receive credit support, although the country continues to struggle with the outflow of workers.⁴⁶

According to some researchers, the reason for the deterioration of business conditions for small and medium enterprises in Belarus was not so much Western sanctions as the presidential elections of 2020. Among the competitors for the presidency against Alexander Lukashenko were two business representatives: Viktor Babariko and Viktor Tsepkalo, who received support from the “new middle class”: representatives of small and medium businesses, employees of the private sector, staff of foreign company branches, and IT specialists. Business groups supported subsequent protests calling for strikes among employees of private and state enterprises. After the elections, companies and businessmen who supported the opposition found themselves under economic pressure. Soon, economic pressure encompassed the entire sector of small and medium enterprises, regardless of the business’s involvement in politics. In addition, many companies had to face financial difficulties, including the inability to raise capital on international markets.⁴⁷

Indirect effects of sanctions

Decline in foreign investments

The escalating political and economic uncertainty in Belarus, along with the threat of sanctions from the West, have contributed to a decline in confidence among foreign investors. Since the presidential elections in mid-2020, there has been a noticeable increase in the withdrawal of foreign capital from the Belarusian market. Data from Belstat confirms the trend of foreign investment outflow from Belarus. In 2022, foreign investments amounted to USD 6.9 billion, constituting a 21% decrease compared to the previous year. Direct foreign investments (DFI) reached

⁴⁶ “Финансовая поддержка, Карта инфраструктуры поддержки предпринимательства,” [Finansovaja podderzhka, Karta infrastruktury podderzhki predprinimatel'stva], https://мсп.бел/sections/finansovaya_podderzhka/.

⁴⁷ “Беларуская бизнес-миграция. Исследование причин и последствий миграции белорусского бизнеса с 2020 года,” [Belarusskaja biznes-migracija. Issledovanie prichin i posledstvij migracii belarusskogo biznesa s 2020 goda], ZPP Belarus Business Center, Konrad Adenauer Foundation, https://belarus.zpp.net.pl/wp-content/uploads/2023/11/be1_final_20_11.pdf.

USD 5.9 billion, marking the lowest level of investment recorded since 2016.⁴⁸ The Russian Federation has maintained its status as the primary investor.

It is worth noting here that the “Socio-Economic Development Plan of the Republic of Belarus for 2021–2025” omits direct foreign investments (DFI) of Western capital, focusing mainly on Chinese foreign investments.⁴⁹ It seems rather unlikely that Belarus will be able to attract significant investments from China, as the Chinese side is primarily interested in exporting its goods to Belarus. The current cooperation between China and Belarus revolves around the Belt and Road Initiative (BRI) and involves providing Belarus with financial and technological support for the development of the country’s infrastructural projects. In previous years, Belarus unsuccessfully sought to expand cooperation with China in terms of exports and attracting more substantial Chinese foreign direct investment (FDI). Currently, China effectively dominates the terms of cooperation, focusing mainly on long-term developmental financing (DF), which is less favorable for Belarus.⁵⁰

Some Western companies did sell their assets and leave the Belarusian market. Russians are trying to fill the gap left by Western investors. According to experts, Russians have taken part in at least 70 percent of those deals, including the acquisition of the local assets of French energy management firm Schneider Electric, British American Tobacco, and fashion retailer Global Fashion Group.⁵¹ On the other hand, it is difficult to expect that Russia, mired in its own economic problems, would be able to fill the investment gap created by the withdrawal of Western investment capital from Belarus.

The exodus of foreign companies from Belarus continues: in the first six months of 2023, the offices of 34 foreign-capital firms were closed in Minsk. Jysk began liquidating its management company in Belarus, while Stadler rejected an order from the Minsk Metro for new underground trains, citing sanctions.⁵²

⁴⁸ “Иностранные инвестиции, поступившие в реальный сектор экономики,” Национальный статистический комитет Республики Беларусь, [Inostrannye investicii, postupivshie v real’nyj sektor jekonomiki, Nacional’nyj statisticheskij komitet Respubliki Belarus’], accessed May 3, 2023, <http://dataportal.belstat.gov.by/Indicators/Preview?key=146261>.

⁴⁹ “Основные положения проекта программы социально-экономического развития Республики Беларусь на 2021–2025 годы,” *economy.gov*, [Osnovnye polozhenija proekta programmy social’no-jekonomicheskogo razvitija Respubliki Belarus’ na 2021–2025 gody], accessed May 3, 2023, <http://economy.gov.by/uploads/files/macro-prognoz/Osnovnye-polozhenija-proekta-PSER-na-2021-2025.pdf>.

⁵⁰ J. Budginaite-Froehly and R. Kirchner, “The unequal “iron brotherhood” between Belarus and China,” German Economic Team, no. 81, March–April, 2023, https://www.german-economic-team.com/wp-content/uploads/2023/04/GET_BLR_NL_81_2023_EN-1.pdf.

⁵¹ O. Loyko, “Belarus Is Reluctant to Share Fleeing Western Firms’ Assets With Russia,” CARNEGIE POLITKA, <https://carnegieendowment.org/russia-eurasia/politika/2023/11/belarus-is-reluctant-to-share-fleeing-western-firms-assets-with-russia?lang=en>.

⁵² P. Slunkin *et al.*, “Belarus Change Tracker,” June–August, 2023, https://bct.expert/dist/issues/August_2023_EN.a214dc63.pdf.

In this context, attention should also be drawn to the Index of Economic Freedom for Belarus in 2023. The level of economic freedom was rated at 51.0 points, a decrease of two points from the previous year. Belarus ranked 44th out of 44 countries in the European region, and its overall score falls below both the regional and global averages. Poor performance in areas such as property rights and corruption reflect a weak foundation for economic freedom. State involvement in the economy is pervasive. Belarus's score of 51.0 points places the republic in the group of "mostly unfree" countries in economic terms.⁵³

The standard of living of Belarusians

Western sanctions have begun to have a negative impact on the real wages of Belarusians, which are decreasing due to the rapid rise in prices (a decline of 3.6% in 2022).⁵⁴ The same is true for pensions and benefits - on the one hand, they are regularly paid out, but on the other hand, they do not keep up with inflation, which has remained high at 18.1% since July 2022. For the average Belarusian, this means that they are becoming poorer, they can afford less food, goods, and services compared to what they could buy earlier. Wage cuts are particularly evident in those industries that are suffering from sanctions: in wood processing - 13%, in the oil refining industry - 8% and in the chemical industry - 15%.⁵⁵ In the case of the Minsk Region, due to the complex situation surrounding the Belaruskalij company in April 2022, the decline in wages in the chemical industry was 40%.⁵⁶ In December 2021, 40% of surveyed Belarusians indicated a deterioration in their material situation, and in April 2022, this indicator increased to 52% of those surveyed. Pessimism about economic development has not increased, as citizens have very low expectations in this regard.⁵⁷ In response to the continuing rise in inflation in October, Lukashenko demanded an immediate halt to further price increases. As a result, a complicated system of price regulation was introduced in retail trade, under which central and local authorities decide on the validity of a given price increase. The list of goods subject to restrictions includes as many as 370 items, including most food

⁵³ The Heritage Foundation, "Index of Economic Freedom," accessed May 3, 2023, https://www.heritage.org/index/pdf/2023/countries/2023_IndexofEconomicFreedom-Belarus.pdf.

⁵⁴ "Об уровне денежных доходов населения в 2022 году," Национальный статистический комитет Республики Беларусь, [Ob urovne denezhnyh dohodov naselenija v 2022 godu, Nacional'nyj statisticheskij komitet Respubliki Belarus], accessed May 3, 2023, https://www.belstat.gov.by/o-belstate_2/novosti-i-meropriyatiya/novosti/ob-urovne-denezhnykh-dokhodov-naseleniya_v_yanvare-fevrale_2023_g/.

⁵⁵ А. Богуславская, "Дальше будет хуже. Что с белорусской нефтепереработкой?," [A. Boguslavskaja, Dal'she budet huzhe. Chto s belorusskoj neftepererabotkoj?], DW, accessed May 3, 2023, <https://www.dw.com/ru/dalshe-budet-huzhe-cto-s-belorusskoj-neftepererabotkoj/a-62461185>.

⁵⁶ А. Богуславская, "Война в Украине и санкции душат экспорт удобрений из РБ," [A. Boguslavskaja, Vojna v Ukraine i sankcii dushat jeksport udobrenij iz RB], DW, accessed May 3, 2023, <https://www.dw.com/ru/vojna-v-ukraine-i-sankcii-dushat-jeksport-kalijnyh-udobrenij-iz-belarusi/a-61317022>.

⁵⁷ А. Богуславская, "“Все равны в бедности”. Что происходит с доходами белорусов," [A. Boguslavskaja, "Vse ravny v bednosti". Chto proishodit s dohodami belorusov], DW, accessed May 3, 2023, <https://www.dw.com/ru/vse-ravny-v-svoej-bednosti-cto-proishodit-s-dohodami-belorusov/a-62612565>.

products, household chemicals, clothing, and footwear.⁵⁸ In total, strict price regulation covered about 85% of items in the consumer basket: producers were required to coordinate wholesale prices with state authorities, and maximum margins were set for importers and trading organizations, regardless of the number of intermediaries, etc.⁵⁹

State control of prices and stabilization of the exchange rate have curbed inflation (12% in 2022, 5.8% in 2023). At the same time, price controls have weakened margins for retailers and facilitated the entry of Russian chains into the market. Western goods, which are no longer available, have been replaced by cheaper Russian substitutes.⁶⁰

Outflow of young skilled Belarusians

In the last decade, the IT industry was the best-developing sector of the Belarusian economy. The High Technology Park (HTP), established in 2005, and the “Decree on the Development of the Digital Economy” from 2017 allowed the sector to develop at a dynamic pace. The decree introduced a special legal regime, including a 0% VAT and corporate income tax rate, along with many other benefits. The first shock to the sector came with internet blackouts during the 2020 protests. Economic losses due to the shutdown were estimated at \$56 million per day. Following the Russian invasion of Ukraine in 2022, foreign partners began to refuse cooperation with companies registered in Belarus. Under the pressure of war, sanctions, and repression, companies increasingly decided to relocate.

Business relocation is inseparably linked with the relocation of Belarusians in general. People are leaving the country for both economic and political reasons. In 2022, the main direction of labor migration was Poland, which for the first time in the last decade has surpassed Russia in popularity.⁶¹ In addition to standard tools for issuing residence permits, Poland uses the Polish Business Harbour program, which facilitates the migration of IT sector specialists and offers special humanitarian visas.

⁵⁸ “В Беларуси ввели новую систему регулирования цен на потребительские товары – что в документе,” MYFIN, [V Belarusi vvveli novuju sistemu regulirovanija cen na potrebitel'skie tovary – chto v dokumente], accessed May 3, 2023, <https://myfin.by/stati/view/v-belarusi-vveli-novuu-sistemu-regulirovania-cen-na-potrebitelskie-tovary>.

⁵⁹ А. Хариточник, “Монетарная политика в Беларуси с начала 1990-х до 2023 года: ретроспективный обзор,” [A. Haritochnik, Monetarnaja politika v Belarusi s nachala 1990-h do 2023 goda: retrospektivnyj obzor], BEROC, 2023, <https://beroc.org/upload/medialibrary/bd5/bd5a8e07950571a2106119c1061700d4.pdf>.

⁶⁰ German Economic Team, “Economic Monitor Belarus,” no. 19, May, 2024, https://www.german-economic-team.com/wp-content/uploads/2024/05/GET_BLR_WA_en-1.pdf.

⁶¹ А. Гордзялковский, “Куда и сколько белорусов уехало на работу за границу в 2022 году,” [A. Gordzjalkovskij, Kuda i skol'ko belorusov uehalo na rabotu za granicu v 2022 godu], Office Life, accessed May 3, 2023, <https://officelife.media/article/people/40316-kuda-i-skolko-belorusov-uekhalo-na-rabotu-za-granitsu-v-2022-godu/>.

According to the data of the Polish Office for Foreigners, Belarusians are now the second most numerous groups of foreigners in Poland. The rapid increase in the scale of migration has been noticeable since August 2020. The number of Belarusian citizens with residence permits increased from 40,000 in January 2022 to over 50,000 in mid-2022.⁶² According to official statistics, the reduction in the number of employees in the Belarusian IT sector (the driving force of the economy) since the beginning of the year has exceeded 12,000 people, with a total of about 80,000 employees.⁶³ The political crisis of 2020 led to a gradual flight of IT specialists from Belarus, and the Russian-Ukrainian war exacerbated this process. After February 2022, more mass relocations of IT companies can be observed than in 2020, as a number of clients refuse to cooperate with IT companies based in Belarus.⁶⁴ In the last three years alone, emigration from Belarus is estimated at a minimum of 170,000 to 200,000 people. As of September 2023, there were 5,988 companies with Belarusian capital operating in Poland, 98% of which were limited liability companies.⁶⁵

Two years after the Russian aggression against Ukraine and the introduction of Western sanctions against Belarus, certain trends can be observed in the Belarusian IT industry: Firstly, its share of GDP, which once grew rapidly, is now shrinking, returning to the level of 2017. Secondly, after a massive outflow of IT professionals from Belarus, which peaked in May 2022, emigration numbers seem to have stabilized over the last few months. IT companies, offering relatively high salaries, remain attractive employers for those who stay in the country.⁶⁶

In addition to IT professionals, Belarus is losing highly skilled specialists such as doctors, engineers, and other workers in the construction sector. The migration of Belarusians, along with factors such as mortality due to COVID and the worsening demographic situation, has contributed to the reduction in the number of employed individuals.⁶⁷ The significance of this trend lies not merely in the number

⁶² “Obywatele Białorusi w Polsce – raport,” Urząd do Spraw Cudzoziemców, accessed May 3, 2023, <https://www.gov.pl/web/udsc/obywatele-bialorusi-w-polsce--raport2>.

⁶³ “Мониторинг положения.”

⁶⁴ Dzierżak, “To był filar.”

⁶⁵ “Беларуская бизнес-миграция. Исследование причин и последствий миграции белорусского бизнеса с 2020 года,” [Belarusskaja biznes-migracija. Issledovanie prichin i posledstvij migracii belarusskogo biznesa s 2020 goda], ZPP Belarus Business Center, Konrad Adenauer Foundation, https://belarus.zpp.net.pl/wp-content/uploads/2023/11/bel_final_20_11.pdf.

⁶⁶ A. Alachnović and J. Budginaite-Froehly, “To the stars (and back): the Belarusian IT industry,” German Economic Team, no. 88, May–June, 2024, https://www.german-economic-team.com/wp-content/uploads/2024/06/GET_NL_BLR_88_2024_EN-1.pdf.

⁶⁷ A. Лузгина и В. Корейво, “Анализ потока мигрантов из Беларуси в Польшу, Литву и другие страны Европейского Союза в 2021-2022 гг.,” [A. Luzgina and V. Korejvo, Analiz potoka migrantov iz Belarusi v Pol'shu, Litvu i drugie strany Evropejskogo Sojuza v 2021-2022 gg], BEROC, 2023, <https://beroc.org/upload/medialibrary/39e/39e10070c02bd21e582e4858465018a4.pdf>.

of economic emigrants, but in the level of losses in human, social, and organizational capital, both present and future.⁶⁸

In response to the outflow of workers from the market, the Belarusian authorities have introduced restrictions on leaving the country for permanent residence abroad. According to Decree No. 798, from the end of November 2023, Belarusians must apply to the Department of Citizenship and Migration to leave the country. There, it will be checked whether the citizen has any debts to the state and, in the case of those subject to military service, whether there are any issues with the military recruitment office. The new restrictions aim to combat the migration of skilled workers. On one hand, the authorities' actions aim to stop the outflow of skilled personnel. On the other hand, they also want to control those moving within the country and beyond its borders. This primarily concerns public sector workers who have the opportunity to pass on important information and participate in the democratic movement while abroad. Remaining in the country, they are cautious, do not reveal their views, while abroad they may become, according to Lukashenko, enemies of the nation.⁶⁹

Conclusion

In this article, the research hypothesis that Western economic sanctions aimed at Belarus have contributed to the weakening of its economic condition has been verified. As a result of the sanctions in 2022, Belarus lost a significant portion of the European export market, including the priority Ukrainian market. This led to a decline in export value, the necessity to redirect part of it eastwards, selling goods at reduced prices, and an increase in warehouse stocks. Another consequence of the sanctions was a reduction in Belarus's credit and investment credibility, which resulted in the blocking of opportunities to raise loans on international financial markets and a reliance on financial assistance from Russia. The consequence of the decline in trust among foreign investors was a marked drop in the index of economic freedom and the outflow of foreign investments from Belarus in 2022. Against the backdrop of the deteriorating condition of the Belarusian economy, the standard of living for Belarusians has worsened. The authorities' manipulations, such as maintaining inflated industrial production (resulting in more goods going to warehouses) or administratively blocking price increases, can limit the scale of the economic crisis. Assistance also comes from Russia, solving some of Belarus's economic problems

⁶⁸ ««Беларусь покидают не только люди, но целые организации и структуры». Социолог Коршунов — про миграцию беларусов», MOST, [«Belarus' pokidajut ne tol'ko ljudi, no celye organizacii i struktury». Sociolog Korshunov — pro migraciju belarusov.], accessed May 3, 2023, <https://mostmedia.io/2023/01/18/belarus-pokidajut/>.

⁶⁹ Р. Васюкович, ««Беларусь все больше напоминает сталинскую эпоху». Для чего Минск ввел ограничения на выезд из страны для постоянного проживания», Настоящее время, [R. Vasjukovich, «Belarus' vse bol'she napominaet stalinskuju jepohu». Dlja chego Minsk vvel ogranichenija na vyezd iz strany dlja postojannogo prozhivanija, Nastojashhee vremja], 2023, <https://www.currenttime.tv/a/belarus-migrants/32724961.html>.

in terms of trade, preferential access to energy resources, or external financing. The Belarusian economy is undergoing qualitative changes: the service sector, including IT, has been severely impacted by the current sanctions regime, while state-dominated sectors, including those directly affected by the sanctions, are receiving government support. Moreover, attacks on private business are escalating.

In 2022, Belarus's GDP recorded a decrease of 4.7% compared to the previous year, to 191.4 billion rubles.⁷⁰ It was the worst economic recession in over 25 years. The macroeconomic trends of 2022 persisted into early 2023. In the first quarter of 2023, the authorities continued to cover the budget deficit by increasing fees and taxes. Comprehensive manual intervention in the Belarusian economy also continued.⁷¹ Since 2023, the Belarusian economy has shown signs of recovery. However, this positive development should not be overestimated as it is primarily based on short-term solutions such as price controls or special arrangements in oil processing. As the base effects fade, the degradation of innovative components of the economy, and the increasing focus solely on the Russian export market, the recovery of the Belarusian economy remains very fragile and is likely to transform into stagnation in the coming years.

This article serves as a supplement to existing knowledge about the economic situation in Belarus, particularly during the period of Western sanctions in 2020 and 2022. It also provides a starting point for further research into the economic issues of Belarus, the functioning of its economy under isolation from the West, and its deepening political and economic dependence on Russia. The open question remains whether an economically weakening Belarus will be able to function as a separate sovereign entity, or whether it will be subordinated to Russia within the Union State of Russia and Belarus. Will a Russia weakened by the effects of the war be able to utilize economic tools for the annexation of Belarus?

Data availability

No data are associated with this article.

⁷⁰ “Первая оценка: экономика Беларуси просела в 2022 году на 4,7%,” Office Life, [Pervaja otsenka: jekonomika Belarusi prosela v 2022 godu na 4,7%], accessed May 3, 2023, <https://officelife.media/news/39974-pervaya-otsenka-ekonomika-belarusi-prosela-v-2022-godu-na-4-7/>.

⁷¹ P. Slunkin *et al.*, “Belarus Change Tracker,” December–February, 2023, <https://bct.expert/en/issue/february-2023>.