

**Breaking the Lock:
Decoupling Belarus from
Russia under EU Integration.
Economic Dependencies,
Risks, and Policy Options**

Dzmitry Kruk, Yauhen Makarchuk

Abstract

This paper examines Belarus’s potential European integration through the lens of decoupling from Russia and Russia-centered integration frameworks. While existing studies establish that the long-term benefits of EU integration outweigh transitional costs (Kruk & Karaitis, 2026) and outline corresponding policy strategies (Kruk & Makarchuk, 2026), this paper addresses a critical gap: how such a transition can be operationalized under conditions of deep structural and institutional dependence on a dominant partner. The analysis combines substantive (economic) and legal perspectives to assess Belarus’s dependence on Russia across production linkages, energy, trade, and finance, as well as its institutional commitments within the EAEU and the Union State. It shows that while legal constraints define the formal parameters of exit, the primary challenges arise from entrenched economic interdependencies. A scenario-based framework is used to evaluate the implications of different possible responses by Russia. The findings suggest that, under realistic assumptions, a strategy of relatively rapid disengagement may be more consistent with achieving long-term convergence, despite higher short-term adjustment costs. At the same time, the transition path cannot be fully predefined, and a range of sector-specific challenges, particularly in debt relations, value chains, financial exposure, and institutional continuity, require flexible policy responses. The paper identifies the energy sector as the most sensitive domain of adjustment. Rising energy prices following decoupling are likely to translate into significant increases in domestic tariffs, necessitating targeted support mechanisms and price-smoothing instruments. Overall, the results indicate that, despite substantial uncertainty and transitional costs, Belarus’s integration into the European Union remains both feasible and economically justified, provided that policy strategies are adaptive and responsive to evolving external conditions.

JEL codes: F15, O52, P21, P27, P29

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1. Introduction

The prospect of Belarus's integration into the European Union raises a set of fundamental economic and policy questions. Existing research provides important insights into both the economic benefits and the policy challenges associated with such a transition. In particular, Kruk & Karaitis (2026) assess whether the long-term gains from EU integration outweigh the transitional costs for Belarus, demonstrating that, even under conservative assumptions, the benefits of convergence substantially exceed short- and medium-term losses. Complementing this, Kruk & Makarchuk (2026) focus on the policy dimension, outlining how a strategy of European integration could be designed to accelerate Belarus's shift toward a higher-growth trajectory.

At the same time, these studies highlight that the Belarusian case differs fundamentally from that of other countries in Central and Eastern Europe. The key distinguishing factor is the depth of Belarus's economic integration with Russia, as well as its participation in Russia-centered institutional frameworks, including the Eurasian Economic Union (EAEU) and the Union State (US). This dual layer of dependence, structural and institutional, creates a configuration in which the process of European integration cannot be analyzed independently of the problem of disengagement from existing economic and legal ties with Russia.

Importantly, while this dependence represents a significant barrier to European integration, it is not insurmountable. The estimates presented in Kruk & Karaitis (2026) already incorporate many of the economic costs associated with weakening or severing ties with Russia, including disruptions in trade, production linkages, and energy supply. Even under these conditions, the analysis demonstrates that EU integration offers a markedly superior long-term development path for Belarus. This suggests that the central challenge lies not in the economic feasibility of integration per se, but in the policy domain, namely, how to operationalize a transition toward the European trajectory under conditions of deep existing interdependence.

This challenge can be framed as a problem of decoupling. In this paper, decoupling is understood as the process of dismantling or reconfiguring existing economic, institutional, and legal linkages with a dominant partner, in this case Russia, in order to enable integration into an alternative economic and regulatory system. While the benefits of European integration and the general contours of transition strategies have been explored in the literature, the specific problem of decoupling from a dominant partner embedded in formal integration arrangements remains insufficiently addressed.

The Belarusian case is particularly complex in this regard. Unlike most transition economies in the region, Belarus is not only economically dependent on Russia through trade, energy, and production linkages, but is also formally integrated into institutional frameworks that constrain its policy autonomy. As shown in Kruk & Makarchuk (2026), membership in the EAEU and the Union State (and, crucially, the process of exiting these arrangements) constitutes one of the most significant obstacles on the path toward EU accession. These constraints operate not only through formal legal mechanisms, but also through deeply embedded economic relationships that cannot be easily or rapidly unwound.

The objective of this paper is to develop a conceptual and analytical foundation for a strategy of decoupling from Russia and Russia-centered integration frameworks in the context of Belarus's potential European integration. To this end, the paper analyzes Belarus's dependence on Russia from two complementary perspectives: a substantive (economic) dimension and a legal-institutional dimension. The analysis demonstrates that while legal constraints are non-trivial, the more significant challenge lies in the underlying economic linkages, which create structural inertia and amplify transition costs. In this sense, the legal dimension should be viewed as a starting point that defines the formal parameters of exit, rather than as a determinant that fully specifies the trajectory of decoupling.

Building on this dual perspective, the paper develops a scenario-based framework that incorporates different possible responses by Russia, ranging from limited intervention to openly hostile actions. By combining legal constraints, structural dependencies, and scenario analysis, the paper formulates a set of baseline assumptions for the design of a decoupling strategy. The analysis suggests that, under realistic conditions, a strategy oriented toward relatively rapid disengagement from Russia-centered integration frameworks may offer a more consistent pathway to long-term convergence, despite the risk of higher short-term adjustment costs.

At the same time, the paper emphasizes that the precise configuration of decoupling cannot be fully predefined *ex ante*. Depending on the trajectory of bilateral relations and external conditions, a range of sector-specific challenges is likely to emerge. Given the high degree of uncertainty, the paper does not aim to provide a single optimal set of policy prescriptions. Instead, it identifies key domains in which policy choices will be required and outlines a range of feasible options for addressing them.

One of the central findings is that Belarus's vulnerability to decoupling is particularly acute in the energy sector. The country's high dependence on imported energy resources, primarily from Russia, makes the adjustment in this domain both unavoidable and potentially destabilizing. For this reason, the paper pays particular attention to the energy dimension, focusing on the implications of changing supply conditions and pricing structures for domestic tariffs and the design of mechanisms to mitigate their impact on households and firms.

More broadly, the Belarusian case has relevance beyond its immediate context. It represents an example of a small open economy characterized by deep economic dependence on a dominant partner and embedded in institutional arrangements that limit policy autonomy. As such, the analysis contributes to a broader understanding of how decoupling processes may unfold under conditions of asymmetric interdependence.

The remainder of the paper is structured as follows. Section 2 examines the main domains of Belarus's economic dependence on Russia, distinguishing between institutional, structural, and macro-financial dimensions. Section 3 develops a framework for decoupling, including legal constraints, ideal and realistic scenarios, and key areas of policy uncertainty. Section 4 focuses on the energy sector, analyzing the implications of higher energy prices for domestic tariffs and the design of compensatory policy mechanisms. The final section concludes.

2. Economic Dependency of the Belarusian Economy on Russia

2.1. Institutional and Regulatory Foundations of Dependency

The institutional layer of dependency refers to linkages embedded in regulatory frameworks, administrative systems, and economic governance infrastructure that align Belarus with Russian rules, standards, and operational mechanisms, thereby constraining autonomous policymaking and external reorientation.

The logic underpinning this institutional dependence predates the recent wave of integration and can be traced back to the mid-1990s. Already in 1995–1996, the foundational model of Belarus–Russia relations was established as an exchange of economic preferences (provided by Russia to Belarus) for military and strategic commitments (by the Belarusian side). A package of agreements signed during that period combined security arrangements, such as joint military infrastructure and unified air defense, with economic concessions, including preferential energy supplies, debt relief, and trade arrangements. This created a durable template of asymmetric interdependence, where economic benefits were conditional upon Belarus’s strategic alignment with Russia.

This model was subsequently institutionalized in the late 1990s through the creation of the Union State framework, which formalized ambitions of coordinated policies, legislative convergence, and a common economic space. Although many of these provisions remained only partially implemented, they established the long-term logic and model of integration: not as a neutral economic process, but as a politically conditioned exchange embedded in broader strategic relations. The underlying principle of integration – economic incentives in return for geopolitical and military alignment – remained stable even as institutional formats evolved. An important conclusion even at this stage is that Russia's demand for greater geopolitical and military loyalty is the de facto fuel of this model of integration. Unless such demand is present and Russia is willing to compensate it through economic preferences, integration tends to stall. This logic largely prevailed during the early 2000s, reflecting asymmetric expectations between the parties and resulting in a low pace of de facto progress despite ambitious announcements.

In the 2000s and early 2010s, the mechanisms of institutional dependence on Russia, which had previously been mainly bilateral, were partially reframed through multilateral integration initiatives, most notably the Eurasian Economic Union (EAEU). However, the transition to the EAEU framework was again largely driven by Russia’s strategic considerations. The EAEU functioned as an attempt to reconcile geopolitical ambitions with economic mechanisms, positioning integration as a tool for sustaining influence in the post-Soviet space while

formally adhering to principles of economic cooperation. For Belarus, participation in the EAEU was again motivated by primarily pragmatic considerations. Particularly from the early 2010s, the country faced weakening long-term growth due to declining productivity drivers. Joining the EAEU and securing more stable access to preferential energy pricing was considered by the Belarusian regime a strategic solution for reinvigorating long-term growth.

This divergence in motivations produced a structurally asymmetric integration dynamic. While Belarus (and other EAEU members except Russia) approached integration primarily as an economic necessity, Russia viewed it as part of a broader geopolitical strategy, including elements of restoring regional influence and responding to domestic and international political pressures. As a result, the institutional design of the EAEU reflected Russia's priorities. Sensitive sectors – most notably energy – remained subject to exemptions and were excluded from full market liberalization. At the same time, the integration framework emphasized industrial coordination and policy alignment rather than competition, reinforcing existing economic structures based on subsidized energy inputs.

Under the EAEU Treaty, a significant set of economic rules is harmonized or coordinated at the supranational level, particularly in areas directly affecting the functioning of the common market. This includes a common customs tariff and a unified customs code, with external trade policy instruments (tariffs, trade remedies, non-tariff measures) largely centralized. Technical regulation is based on EAEU-wide technical regulations that replace national standards in covered sectors, defining product safety and conformity assessment procedures. Competition policy has a supranational dimension for cross-border markets, with rules on anticompetitive practices and general principles governing state and municipal preferences applied in cases affecting the Union market. At the same time, unlike the EU model, which prioritizes competition neutrality and strict state aid control, the EAEU framework places greater emphasis on the coordination of industrial policies and allows a more active role for state support in sustaining existing economic structures. Sanitary, phytosanitary, and veterinary measures are also harmonized through common rules and shared information systems, reducing national discretion in these domains. In addition, common rules govern the movement of goods, services, capital, and labor, including mutual recognition mechanisms and common rules facilitating labor mobility. Financial markets are subject primarily to gradual harmonization and coordinated regulation, including payment systems interoperability and converging approaches to financial market supervision, although full integration remains incomplete. At the same time, some core areas – most notably energy pricing and the full liberalization of energy markets (despite repeated declarations, with numerous delays) – remain outside comprehensive supranational control, reflecting the political sensitivity of rent distribution. As a result, the EAEU framework both constrains national regulatory autonomy in key market areas and leaves strategically important sectors partially exempt, creating an uneven but consequential limitation and partial pooling of national regulatory authority at the supranational level.

The embedded contradictions of the EAEU multilateral framework – cheap energy as the main incentive for non-Russian participants, while the sector remains regulated by Russia outside the multilateral framework – became particularly evident from 2019 onwards. From that year, the consequences of Russia's tax maneuver in the oil sector affected the price of oil imports for Belarus. Moreover, Russia's geopolitical priorities shifted, increasing demands for deeper alignment. At the same time, Belarusian authorities expected to be shielded

from such deterioration by the EAEU framework. This mismatch resulted in economic pressure on Belarus, accompanied by explicit political conditionality: compensation for losses was linked to deeper integration within the Union State framework. This marked a shift back toward bilateral mechanisms of control. From Belarus's perspective, this was perceived as a breach of the implicit contract underlying earlier integration. Having ratified the EAEU agreement with the expectation that energy conditions would not deteriorate, the Belarusian leadership viewed the push for deeper integration after 2020 as an imposed adjustment rather than a mutually beneficial evolution.

Thus, by 2020 the institutional foundations of dependence had already been shaped by decades of asymmetrical integration. The post-2020 period is characterized by significantly intensified and formalized institutional arrangements, transforming previously fragmented ones into a more coherent and enforceable system of institutional linkages. A key turning point in this process was the adoption of the 28 Union State programs in 2021, which transformed bilateral cooperation from a declarative and largely symbolic framework into a structured, sector-specific integration agenda. These programs covered a wide range of domains, including taxation, customs, industrial policy, financial markets, transport, and technical regulation. In particular, they envisaged the harmonization of macroeconomic and monetary policies, the integration of payment systems and financial supervision, and the creation of a common financial market. A substantial part of the agenda focused on the unification of tax and customs administration, including the development of integrated information systems and joint control mechanisms. The programs also envisaged the formation of common markets in energy (gas, oil, electricity), the creation of a unified transport market, and the alignment of industrial and agricultural policies. In addition, they promoted regulatory convergence in areas such as public procurement, consumer protection, and digital infrastructure, including communication and data systems. A further layer of integration concerned the synchronization of social, labor, and elements of civil legislation, pointing to a broad attempt to align not only economic rules but the wider governance architecture of the two states.

Empirically, the execution of the 2021 package was substantial: by 2023 a substantial share of measures had been implemented, with visible effects in industrial cooperation, logistics, and administrative convergence. However, progress affected energy markets only marginally (a chronic feature of this integration) as the creation of common energy markets was once again postponed, with timelines for oil and gas now shifted to 2027. A concrete illustration of this logic can be found in the bilateral agreement on joint principles of indirect taxation. This agreement effectively formalized a trade-off at the core of the integration model: Belarus's acceptance of reduced autonomy in tax policy in exchange for preferential energy supply mechanisms provided by Russia. In practical terms, this included compensation for Belarus's losses from Russia's oil tax maneuver through the mechanism of a reverse excise, as well as the stabilization of gas prices at a relatively low level. Furthermore, the agreement introduced a shared infrastructure of tax administration. The implementation of integrated digital systems has provided the Russian side with access to detailed information on Belarusian fiscal operations. This development goes beyond standard coordination: it effectively embeds Belarus's fiscal governance within a shared informational and administrative framework, thereby creating a powerful channel of influence.

In general, the 2021 package and its implementation indicate that from this period the programs began to function not only as declarative commitments but as effective instruments of institutional deepening. As a result, energy preferences continued to function not as market-based outcomes but as politically conditioned trans-

fers. This reinforces the broader pattern of institutional dependence, where access to economic benefits is contingent upon regulatory alignment and policy concessions, rather than secured through stable, rules-based integration mechanisms.

The implementation of the 28 programs during 2022–2023 coincided with the imposition of Western sanctions, which significantly increased their practical relevance. Hence, for the Belarusian authorities, bilateral integration also began to be treated as a tool for short-term economic stabilization and adaptation. Moreover, while macroeconomic performance during 2023–2024 appeared relatively strong, the authorities tended to interpret this momentum as evidence that further integration could serve as a systemic response for sustaining growth in a new environment shaped by sanctions and isolation from developed markets.

By 2024–2025, the Union State framework entered a new phase characterized by institutional consolidation and operationalization. Rather than launching new large-scale integration packages, the focus shifted toward implementing previously agreed measures, establishing permanent administrative mechanisms, and embedding integration into routine governance processes. This transition marks a qualitative shift: integration is no longer driven primarily by political agreements but by functioning institutional arrangements.

At the same time, Belarus is embedded in two parallel tracks of economic integration with Russia: the multi-lateral framework of the EAEU and the bilateral framework of the Union State. This dual structure reflects the political logic behind the evolution of both formats. More neutral and formally economic mechanisms, such as trade standards, technical regulations, sanitary and phytosanitary measures, as well as rules governing the common market and the movement of factors of production, are largely regulated within the EAEU framework. In this dimension, integration is at least formally aligned with internationally recognized models of economic unions, although political drivers remain significant. This layer is complemented by bilateral integration within the Union State, through which Russia advances deeper institutional penetration into the Belarusian economy. Within this track, political, strategic, and situational considerations are more directly translated into concrete areas of regulatory alignment and dependence on Russian standards.

This institutional embedding has given rise to regulatory convergence. Across a broad range of sectors, Belarus has been aligning its legal and administrative frameworks with Russian standards. This includes selected areas such as public procurement, consumer protection, sanitary norms, digital and data-related rules, and sector-specific provisions in industry, agriculture, and trade. It should be emphasized that this supplements another broad range of institutional standards aligned under the EAEU framework. While such convergence formally facilitates economic interaction, it also reduces Belarus's regulatory autonomy and limits its capacity to pursue alternative integration paths. In practical terms, regulatory alignment creates compatibility with the Russian system while increasing divergence from EU norms.

Financial and payment infrastructure constitutes another critical layer of institutional dependence. The progressive shift toward settlements in national currencies, reaching around more than 90% of bilateral transactions, combined with the increasing use of Russian financial messaging systems, has reoriented Belarus's financial architecture toward Russia. In the context of restricted access to global financial markets, Russian channels have become the primary mechanism for conducting Russia-linked and sanctions-constrained cross-border

transactions. As a result, financial intermediation, liquidity provision, and payment processing are increasingly tied to Russian systems, reinforcing dependence at the level of economic coordination while reducing exposure to external financial infrastructures.

Digital and technological integration further deepens this institutional lock-in. The integration agenda includes recognition of electronic signatures, interoperability of digital systems, and the gradual linkage of public service platforms, alongside broader cooperation in ICT and high-tech sectors. This trend is driven both by market dynamics and by restricted access to Western technologies. Over time, such alignment creates path dependency: switching to alternative systems becomes progressively more costly, both financially and organizationally. In addition, digital integration extends beyond economic functions to include data governance, public services, and elements of cybersecurity cooperation, thereby expanding the scope of institutional dependence without necessarily implying complete technological substitution.

An important feature of the current stage is the emergence of sector-specific integration with high levels of depth but limited breadth. Rather than creating a fully unified economic space, integration advances selectively in areas that are politically feasible and economically beneficial in the short term. These include industrial cooperation, logistics coordination, digital interaction, and financial infrastructure. At the same time, more sensitive domains, such as the formation of fully integrated energy markets, remain only partially implemented. This asymmetry reflects the underlying logic of integration: progress occurs where it reduces adjustment costs and stalls where it affects the distribution of economic rents.

Another notable development is the resurgence of overlap between economic and military dimensions of integration. The agreement on security guarantees in late 2024 expanded cooperation beyond economic governance to include elements of security coordination and mutual guarantees. This shift reinforces institutional dependence by linking economic arrangements with broader political and strategic commitments. As a result, disentangling economic relations becomes more complex, as it increasingly intersects with security considerations.

Taken together, these developments indicate that Belarus's dependence on Russia has evolved into a form of institutional lock-in. The economy operates within a framework of rules, standards, and infrastructures that are either directly shared with or closely aligned with those of Russia. This does not necessarily imply full integration or the existence of supranational governance structures. However, it does mean that the space for independent policymaking and external reorientation has narrowed significantly. Importantly, this lock-in is not only the result of technical alignment, but also of embedded channels of leverage, where access to key economic benefits – energy pricing, market access, and financial support – remains conditional on continued alignment. As a result, institutional dependence translates into a mechanism of influence, constraining not only policy options but also the sequencing and feasibility of any external reorientation.

From the perspective of potential EU integration, this institutional configuration represents a fundamental constraint. Decoupling from Russia would not only require the reorientation of trade flows or energy supplies but also the dismantling and replacement of existing institutional arrangements. This includes regulatory frame-

works, administrative systems, financial infrastructure, and digital platforms. Such a process is inherently complex, time-consuming, and politically sensitive.

In this sense, institutional dependence defines the long-term dimension of the decoupling challenge. While structural dependencies generate immediate economic shocks, institutional linkages determine the feasibility and sequencing of reforms. They shape the depth of adjustment required and the capacity of the state to implement it. Therefore, understanding the institutional foundations of Belarus's dependence on Russia is essential for assessing both the costs and the trajectory of any future integration with the European Union.

2.2. Structural Domains of Dependency on Russia

While institutional linkages define the rules and constraints of Belarus's economic alignment with Russia, structural dependencies reflect the material basis of this relationship. In practical terms, these dependencies determine the immediacy and scale of adjustment costs: they translate external shocks into direct output effects, limit short-term substitutability, and constrain the sequencing of any decoupling strategy. These dependencies are embedded in production systems, energy supply, and physical infrastructure, and therefore constitute the most immediate and economically disruptive dimension of potential decoupling. Unlike institutional arrangements, which can be gradually reformed, structural dependencies are characterized by high switching costs, long adjustment periods, and direct output effects.

2.2.1 Production and Value Chain Linkages

The sectoral structure of the Belarusian economy was historically shaped within the Soviet system with a deliberately high degree of dependence on intermediate inputs supplied from Russia. As a result, the product profile and technological cycles of a large share of manufacturing sectors presuppose the use of raw materials, components, and energy resources that are not produced domestically. For logistical, technological, and financial reasons, such inputs are, in many cases, only realistically available from Russian suppliers.

This pattern is particularly evident across a range of key sectors, including energy production (Belenergo), oil refining (Mozyr and Novopolotsk refineries), metallurgy (BMZ), the chemical industry (Himvolokno, Grodnoazot), woodworking (Bellesbumprom), agricultural machinery and trucks production (Gomselmash, MAZ), and rubber and plastics manufacturing (Belshina). In these sectors, intermediate consumption accounts for approximately 50–70% of gross output, while imports represent 50–80% of intermediate inputs, of which around 60–70% originate from Russia. At the same time, a substantial share of output in these industries is exported back to the Russian market.

Taken together, these characteristics imply that a significant portion of Belarusian industrial production is effectively embedded in closed production loops with Russia, where both input supply and output realization

depend on continued interaction with the Russian economy. In this sense, production is not merely oriented toward Russia but structurally contingent on it. Estimates suggest that such production configurations, taking into account inter-sectoral linkages, account for up to 40% of Belarus's GDP. This form of dependence constitutes the deepest structural layer of Belarus–Russia economic interconnection, from which other forms of dependence – trade, financial, and institutional – partially derive. Unlike more flexible forms of integration, production linkages are characterized by high sunk costs and low short-term substitutability. Reconfiguring them would require not only changes in trade partners but a fundamental restructuring of technological processes, supplier networks, and product standards.

From a political economy perspective, the persistence of this structure is not accidental. The Belarusian development model has consistently prioritized the preservation of large-scale, predominantly state-owned industrial enterprises and has avoided disruptive structural reforms. As a result, the basic configuration of production dependence has remained largely unchanged over the past two decades. While there was some limited reduction in dependence prior to 2020 (driven by the relative expansion of the private sector and incremental improvements in energy and material efficiency) these shifts were gradual and did not alter the core structure. After 2020, the trajectory reversed. The combination of sanctions, loss of access to Western markets, and the need to stabilize output led the Belarusian authorities to actively reinforce production linkages with Russia. In the short term, this strategy allowed for the rapid reallocation of exports to the Russian market, where newly opened niches emerged following the withdrawal of Western suppliers. In the medium term, however, it resulted in a further tightening of production dependence. Moreover, it has grounds to strengthen due to institutional underpinnings, i.e. the Union State programs for 2021–2023, and especially 2024–2026 (see Section 2.1).

From an analytical standpoint, these developments can be interpreted through the lens of input-output interdependence. As shown by Kruk & Panasevich (2023), Belarusian industries are tightly integrated with Russian production chains, both as suppliers of intermediate goods and as consumers of Russian inputs. This creates a system in which shocks are transmitted across sectors through production linkages, amplifying their overall economic impact. The result is a form of systemic vulnerability: disruptions in trade or supply relations do not remain localized but propagate throughout the economy.

Overall, production and value chain linkages represent the most deeply rooted and least flexible dimension of Belarus's economic dependence on Russia. They anchor this dependence in the material organization of the economy and significantly constrain the feasibility of rapid decoupling. Any attempt to reduce such dependence would require not only market diversification but a comprehensive restructuring of industrial capacities, supply chains, and technological standards, implying substantial economic costs in the short to medium term.

2.2.2 Energy Dependence

Energy dependence constitutes the most structurally binding and economically sensitive dimension of Belarus's reliance on Russia. Unlike other domains, where substitution may be theoretically possible through market diversification or institutional change, energy dependence combines physical supply constraints, pricing asymmetries, and technological lock-in, making it particularly resistant to rapid adjustment.

According to available estimates, total energy resource production and imports in Belarus amount to approximately 47 million tons of oil equivalent. Of this volume, around 40.8 million toe, i.e. approximately 87%, is supplied from Russia, including oil, natural gas, and nuclear fuel (Makarchuk, 2026). This figure captures not only the scale of dependence but also its systemic nature: Russian energy resources underpin industrial production, export capacity, and household consumption simultaneously. The remaining share is covered by domestic production and minor non-Russian sources, but they are insufficient to alter the basic structure of dependence. In practical terms, Russia remains the dominant external supplier of energy to Belarus and, through this position, has substantial leverage over both the production system and energy security for households (heat and electricity). Any restriction of access to Russian energy resources would risk a simultaneous contraction of industrial output and shortages for end-users.

In economic terms, Russian energy supplies have also functioned as a source of implicit subsidies and soft budget constraints for enterprises. Historically, energy has been supplied at below-market prices, generating a wide range of effects: from sustaining industrial competitiveness to providing quasi-fiscal revenues via improved external balances and budgetary inflows. Ensuring preferential pricing for energy carriers has therefore been critical for the functioning of the Belarusian economic model. Periods of reduced energy subsidies (notably 2010–2011, 2016, and 2020) were associated with pronounced macroeconomic turbulence. A key feature of this dependence is its heterogeneity across energy types, implying that different segments of the energy system exhibit distinct forms of vulnerability and adjustment constraints.

In the oil sector, dependence is shaped by pricing distortions and by infrastructure and supply chain rigidity. Belarusian refineries historically processed approximately 15–16 million tons of oil annually, with only a small fraction (around 1.7–2 million tons) produced domestically (Makarchuk, 2026). Processing volumes have fluctuated since 2020, largely reflecting external constraints, particularly export market access, rather than domestic capacity limitations.

At first glance, Russian oil prices for Belarus have generally remained close to global benchmarks, with deviations not exceeding roughly 10%. This might imply that direct price shocks from switching to global pricing would be relatively moderate, potentially increasing petroleum product prices by only 3–7%. From a purely pricing perspective, this suggests that oil dependence is less critical than gas dependence.

However, this interpretation is misleading if detached from macroeconomic and logistical realities. **First**, the specific importance of oil refining follows from its exceptionally strong inter-sectoral linkages. Kruk & Panasevich (2023) classify the production of coke and refined petroleum products as one of Belarus's core sectors, despite its relatively modest direct share in value added. The reason is its unusually high index of vertical integration: according to estimates by Kruk & Panasevich (2023), each BYN 1 of value added generated directly in oil refining is associated with BYN 9.87 of value added generated outside the sector. Taking the sector's scale into account, this implies that oil refining is "responsible" for roughly 11% of Belarusian GDP through direct and indirect linkages. This is why disruptions in oil refining generate losses far beyond the sector itself, affecting transport, energy, chemicals, manufacturing, and related services. Therefore, the economic role of oil dependence cannot be assessed only through the price of crude oil; it must be evaluated through the systemic effects of oil refining on the wider production structure (Kruk & Panasevich, 2023).

Second, although the price of Russian oil does not deviate significantly from market benchmarks, Belarus still enjoys preferential conditions, and the oil sector acts as a source of implicit subsidies for the economy. Before 2020, when Russia's tax maneuver changed the mechanism, the price discount generated subsidies equivalent to 3–6% of GDP annually. In the 2020s, the mechanism changed, but the oil subsidy has been maintained. First, it arises from the discount of Urals relative to Brent. When such a discount becomes sensible, for instance as it was in 2022–2023 amid sanctions environment, it allows Belarus to import crude oil substantially cheaper than global benchmarks. In 2022, this generated estimated savings of about \$1.7 billion (around 2.3% of GDP) (MACROBY, 2023). In 2023, this effect persisted, with the discount remaining elevated at around 27%, resulting in additional savings of roughly \$1.9 billion (2.6% of GDP) and cumulative gains of about \$3.6 billion over 2022–2023 (MACROBY, 2024). These windfall gains played a critical role in stabilizing the refining sector: processing volumes recovered to around 16 million tons, and exports of petroleum products rebounded to approximately 8.5–9 million tons (MACROBY, 2024). At the same time, the sustainability of this mechanism is inherently fragile. The magnitude of the rent depends on external price dynamics and Russian pricing policy, while access to export routes remains contingent on Russian-controlled logistics infrastructure. Second, based on the agreement on joint principles of indirect taxation, from 2023 Belarus receives 1.5–2.0% of GDP as a direct budgetary transfer from Russia in the form of a reverse excise. The size of this inflow depends on the volume of Russian oil processed by Belarusian refineries.

Third, the primary logistical constraint lies in the lack of viable alternative supply routes at scale. Several diversification options exist in principle, but each is associated with substantial technical and infrastructural limitations: supplies via Lithuania by rail are technically possible but difficult to scale to required volumes; reverse flows through the Odesa–Brody pipeline depend on Ukrainian infrastructure availability and tariff conditions; deliveries via the Polish port of Gdansk and onward through Plock are constrained by capacity saturation, as existing infrastructure is already utilized for supplying other European refineries (Makarchuk, 2026).

Gas dependence represents the most economically consequential dimension of energy reliance. Belarus consumes approximately 17–20 billion cubic meters of natural gas annually, making it the dominant energy input for both industrial production and household heating (Makarchuk, 2026). The central issue here is pricing asymmetry. Russian gas is supplied at significantly discounted rates (around \$129 per thousand cubic meters in 2025) whereas alternative supplies from European markets would cost at least \$350–430 per thousand cubic meters (Makarchuk, 2026). This implies a potential 3.3-fold increase in gas prices in the event of diversification. The macroeconomic implications of such a shift are substantial and multidimensional: the cost of heat would increase by approximately 2.7 times; electricity prices would rise by 33–35%; and given that thermal energy is currently subsidized at roughly 80%, maintaining existing tariff structures would become fiscally unsustainable (Makarchuk, 2026). Under these conditions, the removal of subsidies would likely require a dramatic increase in household tariffs – potentially up to tenfold – creating both economic and social adjustment challenges. Alternatively, maintaining subsidies would impose a severe burden on the state budget, necessitating either external financial support or major fiscal restructuring.

Even where physical alternatives exist, they do not eliminate dependence. Gas imports could theoretically be organized via reverse flows through the Yamal–Europe pipeline and connections to German and Polish

networks. However, these options are constrained by ownership and control structures, as key pipelines and storage facilities are owned by Gazprom, effectively preserving Russian control over supply infrastructure (Makarchuk, 2026).

Thus, gas dependence combines price dependence, infrastructure dependence, and institutional control, making it the most binding constraint in the energy system.

Nuclear energy introduces a qualitatively different form of dependence, characterized by long-term technological lock-in rather than short-term supply constraints. The Belarusian nuclear power plant operates using Russian-designed technology and fuel, and its fuel supply is contractually tied to the original construction agreement (Makarchuk, 2026). This creates a situation in which substitution is not immediately feasible, even if alternative suppliers exist globally. While countries such as Ukraine have successfully transitioned to alternative nuclear fuel suppliers (e.g., Westinghouse), these transitions were implemented for older Soviet-designed reactors. In the Belarusian case, the plant represents a newer design, implying that any transition would require development of compatible fuel by alternative suppliers, regulatory approval and safety certification, and significant time and financial investment.

Moreover, nuclear energy interacts with gas dependence. In the event of disruptions in nuclear fuel supply or plant shutdown, electricity generation would need to be substituted with gas-based production, thereby increasing gas consumption and reinforcing dependence. At the same time, the operational structure of the plant introduces a limited buffer: refueling occurs once per year, providing a short adjustment window in case of disruptions. However, this does not fundamentally alter the long-term lock-in.

Taken together, these dimensions illustrate that energy dependence operates as both a stabilizing mechanism and a source of systemic vulnerability. In analytical terms, energy-related transfers function as a quasi-fiscal mechanism, shaping budget revenues, enterprise performance, and external balances (Dobrinsky et al., 2016). On the one hand, preferential access to Russian energy resources, particularly discounted gas, has historically supported industrial competitiveness, export-oriented refining activity, and household affordability and social stability. On the other hand, this model embeds a high degree of exposure to external shocks and policy decisions originating in Russia.

In the broader framework of Belarus–Russia economic relations, energy subsidies and related mechanisms have functioned as key tools for mitigating output losses and sustaining economic performance in recent years (Kruk, 2026). At the same time, the concentration of supply, combined with infrastructural and technological constraints, implies that any rapid disruption of energy relations would generate immediate and large-scale economic effects. Although technical analyses suggest that alternative supply arrangements can be organized in the long term, the transition would be associated with significant cost increases and adjustment pressures (Makarchuk, 2026). In this sense, energy dependence defines a core trade-off within the Belarusian economic model: it provides short-term stability and cost advantages, but at the expense of long-term flexibility and resilience.

2.2.3 Transport and Logistics

The systemic transport and logistics dependency on Russia is a relatively new but rapidly entrenched phenomenon that emerged from 2022. Prior to the war and sanctions, Belarus exported key strategic goods, most notably potash fertilizers and oil products, and handled a significant share of imports through EU-based transport and logistics infrastructure. The most efficient routes relied on short rail links to Baltic ports (primarily Klaipėda and Ventspils), with Belarusian railways and trucking companies integrated into these corridors. Sanctions effectively closed these routes: fully for strategic exports and to a large extent for imports. As a result, shipments of potash and oil products were redirected almost exclusively through Russian seaports. This reorientation shifted a substantial portion of the transport leg onto Russian territory and services, with rail segments predominantly operated by Russian companies.

The first binding constraint on the new routes is capacity, especially port throughput, and to a lesser extent rail capacity. In 2022, insufficient capacity became an insurmountable barrier for potash exports, which fell by roughly 60% year-on-year. Oil product exports also declined, due both to capacity limits and financial frictions. In 2023, Belarus secured higher transshipment volumes—around 14 million tons (about 96% comprising potash and oil products), but this still fell short of desired levels (approximately 17–18 million tons). Developments in 2024 suggest a partial operational stabilization of these routes without eliminating structural constraints. Freight volumes on the Belarusian railway recovered compared to 2023, with a further shift in geography toward eastern corridors. The share of shipments routed via Russia increased, and the composition of rail cargo reflected a higher weight of bulk commodities and export-oriented flows tied to Russian ports (BELZHD_Live, 2025). At the same time, capacity utilization on key corridors remained high, indicating that the system operates close to its limits and remains sensitive to congestion and scheduling constraints.

The second constraint is cost. The main ports used by Belarus – St. Petersburg, Bronka, and Ust-Luga (handling over 80% of cargo) – imply a longer transport leg and thus higher rail costs. Given the de facto monopolistic position of Russian railways for these routes, tariffs can be adjusted in ways that directly affect Belarusian exporters. Port fees add an additional layer of pricing pressure. Evidence from 2023–2024 suggests that elevated logistics costs materially weakened the financial positions of Belaruskali and oil refining companies, even amid otherwise favorable external conditions (high potash prices and strong energy-related advantages in oil products).

As these favorable conditions normalize, the capacity of exporters to absorb elevated logistics costs becomes increasingly uncertain. The same constraints extend beyond strategic exports to other export categories and to imports, where routing via Russia has become, in practice, the dominant option. This results in structurally higher trade costs across the board.

In aggregate, logistics dependence amplifies external trade dependence by constraining not just market choice but market access itself. Accounting for direct trade with Russia and the effective control over transport corridors, Russia exerts de facto influence over roughly 85–90% of Belarusian exports and about 75–80% of imports. This configuration embeds a persistent cost pressure on firms and introduces an additional channel of leverage through control over transit conditions.

Overall, transport and logistics have evolved from a neutral service layer into a critical control point within Belarus's external economic relations. This form of dependence is particularly binding, as it limits the feasibility of diversification even when alternative markets exist, and ties trade performance to infrastructure and pricing decisions largely outside Belarus's control.

2.2.4 Foreign Trade

Production dependence on Russia translates into a high degree of reliance on imports from this country. As shown in Table 1a, even before the war and sanctions, Russia consistently accounted for more than half of Belarus's total imports, with a strong dominance of intermediate goods. Energy imports play a particularly critical role within this structure, effectively anchoring the entire system of industrial production. Consumer imports from Russia are also non-negligible, further reinforcing the breadth of this dependence.

Table 1. The role and structure of exports/imports to/from Russia for Belarus before war and sanctions shocks

Table 1a. Imports

	% of imports from Russia in total imports of the group	% of imports from Russia
Total	56.8	100.0
Intermediary goods	67.6	78.3
Incl. energy goods	98.8	45.3
Consumer goods	39.7	16.5
Capital goods	27.6	5.2

Table 1b. Exports

	% of imports from Russia in total imports of the group	% of imports from Russia
Total	42.9	100.0
Intermediary goods	26.2	38.9
Incl. energy goods	0.8	0.4
Consumer goods	76.3	44.4
Capital goods	64.8	16.6

Note: The data in Table 1a and 1b are simple averages of corresponding indicators in 2019 and 2021, i.e. two last 'normal' years, for which the detailed statistics is available. 2020 was an 'abnormal' year because of COVID. The data since 2022 has been classified.

Source: Own computations based on Belstat data.

Despite fluctuations in production and exports in 2022–2025, the overall share of Russian imports has remained broadly stable. This stability underscores the rigidity of input structures described in Section 2.2.1: import dependence is not cyclical but structural. On the export side, the Russian market has historically been the primary destination for Belarusian goods. As illustrated in Table 1b, dependence is especially pronounced for consumer and capital goods, where a dominant share of exports is directed to Russia. This reflects both historical specialization and preferential market access conditions. Since 2022, this structure has shifted toward even greater concentration. The dynamics are clearly visible in Figure 1, which shows the evolution of export destinations over time. Following the loss of access to traditional Western markets and the disruption of potash exports, Belarusian exports were rapidly redirected toward Russia. This reorientation was driven by a combination of factors: the opening of market niches in Russia after the withdrawal of Western suppliers, temporary gains in price competitiveness, and improved access conditions to the Russian market. As a result, the share of exports to Russia increased sharply and has since stabilized at an elevated level. While the initial shock-driven expansion has moderated, the data suggest the emergence of a new equilibrium characterized by significantly higher dependence on the Russian market compared to the pre-2022 period.

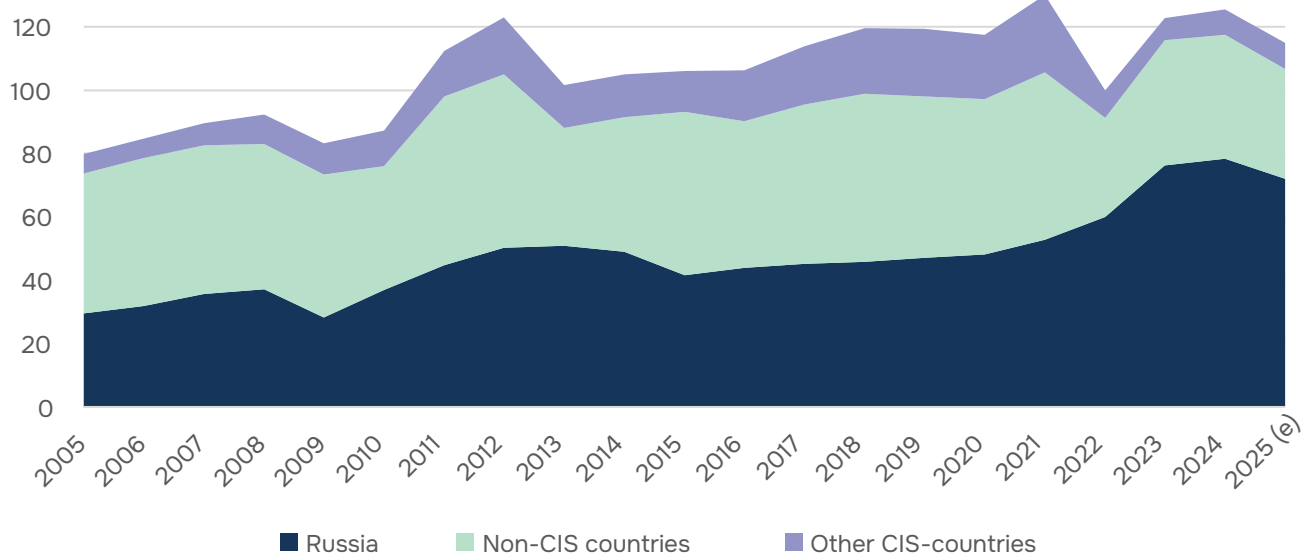


Figure 1. The Dynamics of Physical Volume of Belarusian Exports by Geographical Destinations, total exports 2022=100

Source: Own computations and estimations based on data by Belstat and the National Bank of Belarus.

The bilateral trade balance with Russia has traditionally been negative, largely reflecting energy imports. However, this imbalance is partly offset by surpluses in trade with third countries in products derived from these inputs (notably refined petroleum products). Therefore, the geographical trade balance alone does not fully capture the economic role of these flows. In combination with the logistics constraints outlined in Section 2.2.3, trade dependence acquires an additional dimension. With routing of exports and imports increasingly mediated through Russian infrastructure, Russia influences not only trade volumes and composition but also the conditions under which trade is executed. This effectively increases the share of trade flows subject to Russian control beyond direct bilateral exchanges.

However, this shift should not be interpreted solely as a quantitative reorientation of trade flows. A growing body of evidence suggests that the increasing concentration of exports on the Russian market has important qualitative implications for the structure of Belarusian exports. In particular, it is associated with a gradual deterioration in the complexity and technological content of the export basket (BEROC, 2023). Over the past two decades, Belarus has experienced a decline in the share of more complex products in its exports, alongside a reduction in the average complexity of goods with revealed comparative advantages. At the same time, newly emerging export positions tend to be concentrated in products with relatively low levels of technological sophistication.

This pattern reflects not only internal structural constraints but also the nature of market integration with Russia. Preferential access and the opening of market niches, especially after 2022, facilitate short-term export expansion, but do not necessarily incentivize upgrading toward more complex or competitive products. In some cases, the emergence of new export specializations appears to be driven less by underlying competitiveness than by exogenous factors such as sanctions-induced market distortions or privileged access conditions (BEROC, 2023). As a result, the apparent diversification of exports may, in part, reflect a statistical or short-term adjustment effect rather than a genuine structural transformation.

In this context, a self-reinforcing dynamic emerges. In order to stabilize output and maintain external balance in the short term, Belarus increasingly deepens its integration into the orbit of Russian trade. However, this very process reduces incentives and opportunities for upgrading the export basket, limiting the potential for diversification into more complex and higher value-added products. Over time, this contributes to a weakening of long-term growth prospects and increases structural dependence on a single market. Thus, trade dependence is not only a matter of concentration or exposure but also a mechanism that shapes the trajectory of economic development, potentially locking the economy into a low-upgrading equilibrium.

Overall, external trade dependence both reflects and reinforces deeper structural linkages, but it also shapes their qualitative trajectory. It operates through three channels: (i) concentration of demand (exports) and supply (imports); (ii) the embedding of these flows within logistics and institutional arrangements dominated by Russia; and (iii) the gradual degradation of export complexity associated with this reorientation. Together, these channels not only amplify the costs and complexity of any prospective decoupling, but also weaken the economy's capacity for diversification and upgrading, making future adjustment more difficult even if alternative markets become available.

Taken together, these structural domains define a mutually reinforcing system of dependence. Production linkages create rigid supply and output structures; energy dependence provides both a cost advantage and a channel of macroeconomic stabilization; logistics dependence constrains physical access to alternative markets; and trade dependence amplifies these effects through concentration of flows. Combined with institutional embedding discussed in Section 2.1, this configuration significantly limits the reversibility of dependence in the short to medium term.

2.3. Macro-financial Domains of Dependency on Russia

2.3.1 Fiscal Dependence

In the period 2011–2019, Belarus appeared fiscally robust at first glance, consistently recording surpluses of the consolidated budget. This outcome was driven by three factors. First, a substantial share of government interventions was shifted into the quasi-fiscal sphere, meaning that expenditure figures did not fully reflect centralized financial redistribution (Dobrinsky et al., 2016). Second, energy-related preferences from Russia (see Section 2.2.2) generated significant financial gains—often not fully recorded as budget revenues but partially reflected in foreign-trade-related income—thus supporting the fiscal balance. Third, following accession to the EAEU, Belarus benefited from the internal distribution of customs duties, providing a stable inflow of approximately 0.5–1.0% of GDP annually.

The fiscal position of Belarus began to deteriorate visibly from 2019. Central government tax revenues declined from a level of roughly 14–15% of GDP toward a new, lower plateau of about 12–13% of GDP. The primary driver of this shift was the Russian tax maneuver in the oil sector, which eliminated Belarus’s ability to collect export duties on crude oil and petroleum products and reduced foreign-trade-related fiscal revenues by around 2% of GDP. At the same time, several domestic revenue sources weakened, reflecting slower growth, declining profitability in key state-owned sectors, and broader structural rigidities of the economy.

This created a strategic policy dilemma. The authorities faced three options: identify new revenue sources (which appeared limited given weak private sector expansion), cut expenditures (politically sensitive, especially in the social sphere), or accept persistent budget deficits (risking macroeconomic instability). In 2020, the Ministry of Finance outlined a medium-term strategy implying a temporary move into a deficit zone of around 1.5–2% of GDP. This was explicitly framed as an interim solution, with no clear long-term adjustment mechanism identified. In both 2020 and 2021, fiscal outcomes broadly followed this trajectory.

A notable reversal occurred in 2022–2023. Despite plans for deficits, the budget was executed with a surplus in 2022 and remained strong in 2023 without major expenditure compression. According to available fiscal assessments, this shift cannot be explained by structural improvements in revenue collection or expenditure discipline. Rather, it reflects a temporary strengthening of revenue inflows associated with external conditions and, critically, an expansion of Russia-related fiscal revenues (BEROC, 2024).

These revenues include a combination of direct and indirect channels. The most visible component is the reverse excise mechanism linked to oil refining, formalized within the framework of agreements on indirect taxation. In addition, budget plans for 2023–2024 include a substantial increase in gratuitous revenues, a prevailing portion of which is explicitly linked to transfers from Russia. Beyond formally recorded items, a significant share of these resources is embedded in less transparent channels, including the monetization of energy-related preferences and integration-related arrangements. Customs duties redistributed within the Eurasian Economic Union framework—largely originating from Russia—also contribute to this category.

Taken together, Russia-related fiscal revenues reached approximately 2–4% of GDP in recent years, accounting for up to 15–20% of total central government revenues. Importantly, this is not a marginal supplement but a systemic component of the fiscal framework. Moreover, the structure of revenues has shifted accordingly: the role of non-tax revenues has increased, partly reflecting these external inflows (BEROC, 2026). This indicates that fiscal dependence is embedded not only in headline transfers but also in the composition of public revenues.

At the same time, this configuration has not eliminated underlying vulnerabilities. More recent fiscal projections suggest a return to moderate deficits—on the order of 1–1.5% of GDP—as the temporary boost from favorable external conditions fades and expenditure pressures remain elevated (BEROC, 2026). Public spending has increased to historically high levels relative to GDP, while revenue growth remains constrained. This implies a structural gap that cannot be closed through domestic sources alone.

As a result, fiscal stability in Belarus should be interpreted as conditional. It is sustained not by structural improvements in the domestic fiscal base, but by continued access to Russia-related revenues. Absent these inflows, the budget would likely revert to deficit, or require politically costly expenditure reductions, including in the social sphere. The system therefore operates in a regime where external support compensates for structural weaknesses.

In this sense, fiscal dependence constitutes a systemic constraint. It reduces the autonomy of fiscal policy, limits the scope for independent macroeconomic adjustment, and reinforces the broader pattern of economic dependence. Any reduction or disruption of Russia-related fiscal revenues would have immediate and significant consequences for budgetary stability, highlighting the central role of this channel within the overall architecture of dependence.

2.3.2 Debt and Russia as lender of last resort

Prior to 2020, public debt functioned primarily as a stabilization instrument, albeit with the gradual accumulation of vulnerabilities. At the early stages, external public debt clearly dominated the overall debt structure, accounting for the bulk of total government obligations. Official data (last fully disclosed before sanctions) show total public debt increasing from roughly USD 3.1–3.2bn in 2007 to about USD 16.7bn in 2014 and further to USD 20.6–21.3bn by 2019–early 2020 (around 21–33% of GDP). Over the same period, external debt constituted the dominant component, rising from about USD 0.8–0.9bn in 2007 to USD 12.6bn in 2014 and further to USD 16.6–17.1bn by 2019–early 2020. In early 2020, bilateral loans were the key part of the external public debt (around USD 7.8bn in 2014 increasing to about USD 11.6bn in 2019), and Russia was already the largest single creditor (the growth from roughly USD 5.2 bn up to USD 7.9–8.1 bn over the same period), complemented by additional exposure through the EFSD (around USD 2.2–2.4bn), exceeding any other bilateral lender by a wide margin.

In quantitative terms, the scale of indebtedness in terms of % of GDP increased markedly over time. Total public debt (in the extended definition, i.e. including guarantees, and other domestic instruments, as authorities from

around 2015 began to more actively rely on domestic instruments, partly as a way to contain or obscure the expansion of external debt) rose from around 20–25% of GDP in the early 2010s to over 50% of GDP at its peak in 2016–2017, before gradually declining toward 40–45% of GDP by 2019–2020. Throughout most of this period, external debt remained the dominant component, typically accounting for around 60–70% of total public debt, which underscores the central role of foreign borrowing in the Belarusian macro-financial model.

External borrowing was used to smooth balance-of-payments pressures, support the exchange rate, and recapitalize the financial sector and state-owned enterprises. This strategy helped contain short-term shocks but entrenched a dependence on continuous refinancing and favorable borrowing conditions. The structure of debt further amplified risks: a dominant share was denominated in foreign currency, making debt sustainability highly sensitive to exchange rate movements and external liquidity conditions. By the late 2010s, a self-reinforcing dynamic had emerged in which new borrowing was required not only to finance deficits but also to service existing obligations, while the domestic foreign-currency cash flow of the budget remained insufficient to cover scheduled repayments. In this context, access to external financing, and the terms on which it could be obtained, became a central determinant of overall financial stability.

By 2021, this model had evolved into a self-sustaining debt dynamic. The burden of external debt servicing – both interest and principal repayments – reached levels that could not be covered by the government’s own foreign-currency revenues. As a result, the fiscal system developed a structural “cash gap” in foreign currency, where scheduled external payments systematically exceeded available inflows. This made continuous refinancing a necessity rather than a policy choice. In this context, debt sustainability became tightly linked to the availability of new external financing and the level of international reserves. Borrowing was increasingly used not only to finance current needs, but also to roll over existing obligations and maintain reserve adequacy. This created a fragile equilibrium: any disruption in access to external financing or deterioration in reserve buffers could immediately translate into liquidity stress. As a result, by the eve of 2022, Belarus’s debt position was formally manageable, but highly vulnerable to shocks in external financing conditions and political constraints affecting access to international capital markets.

After 2022, the standard mechanism of rolling over debt through market-based refinancing was no longer viable, as sanctions cut off access to international capital markets and alternative bilateral sources had already been declining. In this environment, the logic of debt management shifted fundamentally: the priority became minimizing immediate foreign-currency outflows. This was achieved mainly through deferrals on obligations to Russia and selective modification or suspension of payments to other creditors.

This shift is reflected in the divergence between planned and actual debt service payments, indicating a systematic compression of debt service through administrative and political mechanisms rather than an improvement in underlying debt sustainability. Budget data reveal a persistent and sizable gap between projected and executed debt servicing flows. For example, in 2023 the financing plan envisaged external repayments of roughly USD 3.3 billion, while the actual outflow was closer to USD 0.3–0.4 billion. A similar pattern is observed in 2024: external financing needs exceeded USD 1.2 billion, whereas actual net outflows remained limited, reflecting the combined effect of deferrals, restructuring, and selective non-payment. On accumulated basis in 2022–2025, the difference between planned and realized external payments reaches several billion USD.

These measures have provided short-term financial relief by reducing immediate external payments and easing pressure on reserves and the fiscal balance. However, this has come at the cost of reduced transparency and undermined Belarus's credibility as a sovereign borrower, while shifting repayment burdens into uncertain future. As a result, conventional indicators of debt sustainability have become less informative. The relevant question is whether Belarus retains access to channels, primarily through Russia, that enable it to defer and manage obligations. This reflects a shift from fundamentals-based sustainability to politically conditioned support and entrenches dependence on Russia. Russia has become not only the dominant creditor of Belarus, but effectively its lender of last resort. As of early 2024, Belarus's external public debt amounted to approximately USD 17 billion, of which around USD 8.2 billion was owed directly to Russia and an additional USD 2.3 billion to the EFSD (an institution whose resources are largely controlled by Russia). Taken together, this implies that roughly two-thirds of Belarus's external debt is directly or indirectly held by Russia. This share has been increasing over time, as Belarus continues to repay obligations to other creditors (including China) without securing new financing from them, while benefiting from repayment deferrals from Russia.

Taken together, Belarus's debt sustainability is no longer anchored in market-based metrics but in politically mediated support, i.e., it is constructed rather than achieved. Headline indicators reflect compressed payments and deferred obligations rather than durable improvements in fundamentals. This creates a conditional and fragile equilibrium: as long as Russia provides deferrals and refinancing, stability can be maintained; any tightening would quickly translate into liquidity stress. In this sense, Russia not only dominates the creditor structure but effectively determines the timing and feasibility of debt servicing, acting as the de facto lender and gatekeeper of last resort.

2.3.3 Monetary and exchange rate alignment, financial industry dependence

Belarus's monetary and exchange rate dynamics are deeply shaped by its economic integration with Russia, resulting in convergence of monetary conditions rather than independent policy determination. This dependence operates through several reinforcing channels, including trade integration, currency usage, and financial sector linkages.

First, the high degree of trade integration between Belarus and Russia creates a strong transmission mechanism for inflation and price dynamics. Given the scale of bilateral trade, changes in Russian inflation, whether driven by domestic policy or external shocks, are transmitted to Belarus through import prices and competitive pressures. As a result, inflation trajectories in Belarus tend to converge toward those in Russia, with only temporary deviations, limiting the scope for independent monetary policy. This external constraint is reinforced by domestic institutional factors. In practice, the National Bank operates in a subordinate position relative to the executive branch, with limited capacity to counteract fiscal-driven monetary expansion. Its use of key policy instruments, such as refinancing rates and liquidity sterilization operations, is constrained, and policy responses to inflationary risks tend to be delayed and inertial (MACROBY, 2025). Taken together, external transmission from Russia and internal institutional constraints interact to structurally weaken the conduct of monetary policy.

Second, exchange rate alignment is primarily driven by the need to maintain price competitiveness on the Russian market, which dominates Belarusian external trade. Given this structure, significant deviations of the Belarusian ruble from the Russian ruble would quickly either undermine export positions or lead to corrective price adjustments. This has effectively created a quasi-peg of the Belarusian ruble to the Russian ruble: while the exchange rate is formally flexible, in practice it closely mirrors RUB dynamics against major global currencies, allowing only short-lived deviations. This structural alignment is reflected in the composition of the real effective exchange rate, where the Russian ruble accounts for the dominant share, mechanically transmitting its fluctuations into Belarusian exchange rate dynamics (MACROBY, 2026).

This quasi-peg generates important policy constraints. Exchange rate adjustments have limited and short-lived effects on competitiveness, as any nominal depreciation quickly feeds into domestic prices and erodes gains. Conversely, appreciation is similarly constrained by external price dynamics. In this environment, the Belarusian National Bank has limited capacity to influence real exchange rate conditions and is effectively forced to accommodate monetary impulses originating in Russia. Independent monetary cycles are difficult to sustain, and policy choices are largely restricted to managing short-term deviations or accepting periods of inflationary pressure. This alignment also extends to interest rate formation: in recent years, changes in lending and deposit rates in Belarus have been largely driven by shifts in monetary conditions in Russia rather than autonomous policy decisions. Increases in Russian interest rates have been transmitted into the Belarusian financial system, forcing domestic adjustment to maintain the attractiveness of ruble-denominated instruments (MACROBY, 2025).

The loss of access to global financial markets and the reorientation of trade toward Russia have increased the role of the Russian ruble in both external and domestic transactions. This has reinforced tendencies toward currency substitution, as economic agents increasingly view the Russian ruble as a more liquid and, in some respects, less risky instrument. While the use of other foreign currencies has declined, this reflects less genuine de-dollarization than a reorientation toward the Russian ruble as an alternative anchor (MACROBY, 2025). As a result, the Belarusian monetary space has become more closely integrated with, and dependent on the Russian one.

Dependence is further amplified through the financial sector. Banks with Russian capital account for approximately 25% of the Belarusian banking system by assets and regulatory capital. While this share has remained relatively stable, their functional role within the sector has expanded. In particular, these institutions have become key intermediaries for settlements in Russian rubles, major providers of RUB liquidity, and important channels for financial flows between the two economies.

Amid the isolation of the Belarusian financial system from global markets, Russian banks increasingly set operational standards, technological benchmarks, and business practices within the sector. Their systemic importance is further reinforced by their functional role in liquidity provision: they act as key intermediaries for RUB transactions and as primary providers of ruble liquidity, giving them disproportionate influence over short-term financial conditions (MACROBY, 2026). This reflects not only ownership structures but also the broader shift in financial connectivity: as links to Western financial systems weaken, Russian institutions and infrastructures

effectively substitute for them.

Taken together, monetary and financial dependencies form an integrated system. Exchange rate alignment, inflation transmission, and financial sector linkages reinforce each other, limiting policy autonomy and embedding Belarus within the Russian monetary and financial orbit. An additional dimension of dependence, further reinforcing monetary constraints, arises through the interaction between fiscal and monetary policy. In recent years, broad money growth has significantly outpaced real economic dynamics, reflecting expansionary fiscal policy and limited monetary restraint. This has resulted in a growing monetary overhang, with inflationary pressures accumulating beneath administratively controlled price dynamics. In this context, the National Bank has partially accommodated fiscal expansion, including through indirect financing channels such as purchases of government securities, further blurring the boundary between monetary and fiscal policy (MACROBY, 2025; 2026).

This configuration complements fiscal and debt-related dependencies described above, creating a multi-layered structure in which macroeconomic stability is increasingly conditioned by developments in Russia. In such a setting, Belarus's ability to conduct independent monetary policy and manage financial risks is structurally constrained, and any decoupling would require not only policy adjustments but also a fundamental reconfiguration of trade, currency, and financial linkages.

3. Decoupling Scenarios and Constraints

3.1. Necessity of Withdrawal from Russia-led Integration Frameworks for EU Accession

Belarus's potential accession to the European Union is functionally incompatible with continued membership in Russia-led integration frameworks, in particular the Eurasian Economic Union (EAEU) and the Union State (US). This incompatibility arises not from political considerations, but from the structural features of economic integration regimes and the legal requirements of EU membership. While, in theory, transitional arrangements or partial coexistence could be imagined, in practice they are not sustainable given the logic of a customs union and a single market.

From a legal perspective, EU accession requires full alignment with the *acquis communautaire*, including the transfer of competences in key areas such as trade policy, customs regulation, and competition policy to supranational EU institutions (Kruk & Makarchuk, 2026). In particular, the EU's Common Commercial Policy establishes exclusive competence over external trade, implying that a member state cannot maintain independent tariff schedules or external trade agreements. This directly conflicts with the obligations embedded in the EAEU, which is itself a customs union with a common external tariff and coordinated trade policy. Simultaneous participation in two such frameworks would create incompatible legal obligations, particularly in the areas of tariff-setting, external trade negotiations, and technical regulation. While the Union State is formally distinct from the EAEU, it reinforces similar constraints by deepening bilateral institutional integration with Russia in areas that overlap with EU competences.

However, legal incompatibility is only one dimension of the problem. Even abstracting from formal obligations, the underlying economic logic of integration makes dual participation infeasible. Both the EU and the EAEU are based on the creation of a unified economic space characterized by the free movement of goods, services, capital, and labor within a common customs territory. Membership in such a framework requires the elimination of internal barriers and the establishment of a common external border. Participation in two different customs unions would generate systemic inconsistencies: goods imported through one external tariff regime could be re-exported into the other, creating opportunities for trade deflection and regulatory arbitrage. A similar issue may arise for certain factors of production, particularly capital, through financial and regulatory arbitrage channels. In effect, the two systems would become "communicating vessels," undermining the integrity of both. This is not merely a legal inconsistency but a fundamental contradiction in the economic architecture of integration.

Moreover, the incompatibility is reinforced by substantive differences in the underlying principles of integration. The EU's economic model is built around competition, strict state aid control, and the primacy of suprana-

tional rules with direct effect. In contrast, the EAEU places greater emphasis on coordinated industrial policy, energy arrangements, and the preservation of national policy space, with competition policy playing a more limited role. In areas such as state aid, Belarus's current model—characterized by extensive support for state-owned enterprises and widespread quasi-fiscal mechanisms—has no direct analogue within the EU framework. Similarly, the energy dimension plays a fundamentally different role: while EU integration presupposes market-based pricing and competitive energy markets, the EAEU framework relies heavily on preferential pricing arrangements and politically mediated access to resources (Kruk & Makarchuk, 2026). These divergences imply that even if dual membership were legally conceivable, it would remain economically and institutionally incoherent.

Beyond its supportive role vis-à-vis the EAEU, the Union State entails commitments that are likewise incompatible with EU membership. As discussed in Section 2.1, Union State arrangements underpin preferential energy pricing and coordinated policy frameworks, and envisage harmonisation across areas such as taxation, customs administration, financial regulation, and industrial policy. These mechanisms imply a degree of bilateral policy coordination and de facto transfer of decision-making to joint structures with Russia that would conflict with EU exclusive competences and the primacy of the *acquis*. In particular, Union State-based energy pricing and fiscal arrangements would be incompatible with EU state aid and energy market rules, while regulatory alignment with Russia would contradict the requirement of full alignment with EU technical, competition, and governance frameworks. Consequently, continued participation in the Union State would constrain policy autonomy in domains that must be transferred to EU institutions upon accession.

Taken together, these considerations imply that the question of whether Belarus should withdraw from the EAEU and the Union State in the context of EU accession is largely settled: such withdrawal is a necessary precondition rather than a policy choice. The relevant policy question, therefore, is not whether to exit, but how and at what pace this exit should be implemented. Different exit trajectories imply different distributions of costs and benefits over time. A rapid withdrawal may accelerate access to EU integration benefits but entail significant short-term economic disruption, while a more gradual approach may smooth adjustment but prolong exposure to existing dependencies and delay the realization of productivity gains associated with EU integration.

At the same time, the feasibility and sequencing of withdrawal cannot be assessed purely in legal or economic terms, as these frameworks are highly politicized and subject to external constraints. For Russia, Belarus's potential reorientation toward the EU is likely to be perceived as a fundamental geopolitical challenge that it would seek to prevent or constrain. The intensity of this response may vary depending on broader political and economic conditions and Russia's relative strength. For Belarus, therefore, the question is not whether Russia will attempt to impede EU integration, but to what extent it will be able to do so and how Belarus can pursue its policy choice despite such opposition. As a result, the process of withdrawal cannot be reduced to a mechanical application of legal procedures; it is inherently contingent and uncertain, requiring a scenario-based approach.

In the following subsections, we therefore move beyond formal legal considerations and analyze possible pathways of withdrawal under different behavioral scenarios of Russia. While legal provisions provide a reference

framework, they may become secondary in situations of rapid political change. Importantly, such scenarios are not limited to varying degrees of Russian resistance. Under conditions of weakening or internal destabilization in Russia, it is plausible that Russia-centered integration frameworks themselves may begin to erode or collapse, reducing the relevance of formal exit procedures altogether. Historical precedents—most notably the rapid disintegration of organizations such as the Council for Mutual Economic Assistance (CMEA) following the collapse of the Soviet bloc—suggest that integration arrangements can unravel quickly and non-linearly when their political foundation weakens. This possibility further reinforces the need to consider a range of scenarios rather than a single deterministic pathway.

3.2. Legal procedure for withdrawal from the EAEU and the Union State

The legal procedure for withdrawal from the Eurasian Economic Union (EAEU) is defined by Article 118 of the Treaty on the EAEU and further specified in the Decision of the Supreme Eurasian Economic Council No. 25 (2015), which establishes the “Procedure for accession to the Union and termination of membership.” The combined reading of these instruments suggests that the exit mechanism is formally clear, time-bound, and largely unilateral in its initiation, but involves a number of institutional steps during the transition period.

First, withdrawal is initiated by a sovereign decision of the member state, which is formalized through a written notification submitted to the Eurasian Economic Commission via diplomatic channels. From the moment of notification, the process becomes institutionalized: the Commission is required to inform all member states, as well as relevant international partners of the Union, within a short procedural timeframe.

Second, the notification triggers a transition period of 12 months, after which membership is formally terminated. This fixed time horizon is a key feature of the EAEU framework: it provides predictability and avoids indefinite negotiations over exit conditions. At the same time, the exiting state retains a limited and evolving role in the Union’s decision-making during this period. In particular, it may be excluded from decisions affecting the post-exit functioning of the Union, while retaining participation rights in decisions directly concerning its own withdrawal. The precise format of such participation is determined by the Supreme Council.

Third, the procedure establishes mechanisms to manage institutional and legal disentanglement. From the moment of notification, specific adjustments occur in representation within Union bodies: mandates of officials from the exiting state in the Commission and the Court of the EAEU are subject to termination or early recall. In parallel, the Union initiates a process of settling financial obligations arising from membership. Importantly, such obligations remain binding even after exit until they are fully discharged, implying that withdrawal does not eliminate previously accumulated fiscal commitments.

Fourth, the legal consequences of withdrawal are comprehensive. Upon completion of the 12-month period, membership in the EAEU is terminated automatically, and this entails simultaneous withdrawal from all international treaties concluded within the framework of the Union. This “bundled exit” significantly amplifies the scope of legal disengagement, as it affects not only the founding treaty but also the broader body of Union law and agreements.

Finally, the procedure allows for a limited degree of reversibility: the notifying state may withdraw its notification before the expiration of the transition period. However, beyond this point, the exit becomes definitive.

Overall, the EAEU legal framework provides a relatively streamlined and formalized exit mechanism. It is characterized by a unilateral trigger, a fixed transition period, and automatic legal consequences. At the same time, it leaves open important practical questions related to the management of economic, financial, and regulatory adjustments, which are not fully specified in the legal texts and therefore depend on political negotiation and implementation practice.

The procedure for withdrawal from the Union State differs substantially from the EAEU mechanism. The key provision is Article 67 of the Treaty on the Creation of the Union State. It establishes that a participating state may decide to withdraw from the US in accordance with its constitutional procedures and on the basis of a nationwide referendum. This is a materially important difference from the EAEU: withdrawal from the US is not framed merely as an executive decision followed by diplomatic notification, but as a domestically constitutionalized act requiring direct popular authorization.

Once such a decision is taken, the state wishing to withdraw must notify three addressees in writing: the Supreme State Council, the Parliament of the Union State, and the other participating state. The treaty then provides a fixed exit horizon: it ceases to apply to the withdrawing state after 18 months from the date of the referendum. Therefore, unlike in the EAEU, the relevant starting point for the transition period is not the receipt of notification by an institutional body, but the domestic referendum itself. This makes the legal sequence somewhat less institutionally managed at the Union State level and more dependent on the prior completion of domestic constitutional procedures.

Article 67 also contains a savings clause: withdrawal does not affect the fulfilment of obligations already undertaken by the participating states under the treaty where their implementation was linked to a specified time period. This means that the end of participation in the US does not automatically extinguish all obligations arising under the treaty. Some obligations may continue to operate after formal withdrawal if they were designed to be implemented over a defined period. At the same time, the Treaty of the US does not establish a detailed procedure for identifying, classifying, or settling such obligations. Overall, the US framework is both more demanding domestically and less operationally codified at the international level.

This distinction is particularly important because the Union State is not limited to the founding treaty alone. As discussed in Section 2.1, a significant share of integration has been developed through subsequent agreements, sectoral programs, and regulatory arrangements, including energy pricing mechanisms, fiscal and cus-

toms coordination, financial regulation, and industrial policy. Formal withdrawal under Article 67 would terminate the treaty's application to Belarus after the 18-month period, but it would not necessarily resolve the entire network of related bilateral commitments. Many of these would need to be reviewed separately, terminated, renegotiated, or replaced by transitional arrangements.

This asymmetry between withdrawal from the EAEU and the US is critical for understanding the sequencing and complexity of a broader decoupling strategy.

Beyond the specific provisions of the EAEU Treaty and the Union State Treaty, the general principles of international treaty law—as codified in the Vienna Convention on the Law of Treaties—provide an additional legal framework for interpreting and, in certain circumstances, supplementing withdrawal procedures. As a rule, the *lex specialis* established in the founding treaties prevails, meaning that Article 118 of the EAEU Treaty and Article 67 of the Union State Treaty define the primary legal pathways for exit. However, where these provisions are incomplete, ambiguous, or difficult to operationalize in practice, the Vienna Convention offers a set of fallback principles governing notification, termination, and the legal consequences of withdrawal.

In particular, the Convention is relevant for clarifying the treatment of obligations that extend beyond the moment of formal withdrawal. The termination of participation in a treaty does not automatically extinguish all rights and obligations arising from it, especially where such obligations are linked to specific time horizons or financial commitments. This reinforces the conclusion that both in the EAEU and, even more so, in the Union State, legal exit does not coincide with full economic and institutional disengagement.

More importantly, the Vienna Convention becomes particularly relevant in non-standard scenarios, including accelerated withdrawal, disputes over the interpretation of exit provisions, or situations of systemic political disruption. In such cases, principles such as fundamental change of circumstances or material breach may be invoked to justify modification or termination of treaty obligations. While these doctrines are applied restrictively in international law, their relevance increases in contexts where the underlying political and economic foundations of integration arrangements weaken or collapse. This further supports the need to complement formal legal analysis with a scenario-based approach in assessing the feasibility and pathways of withdrawal.

Based on the formal provisions of the EAEU Treaty and the Union State Treaty, a baseline legal scenario suggests that withdrawal from these frameworks would require approximately 1–2 years from the initiation of the relevant procedures. This timeframe reflects the combination of notification requirements, fixed transition periods (12 months in the EAEU and 18 months in the Union State), and the need to complete core procedural steps.

At the same time, this legalistic baseline should be interpreted as a reference point rather than a binding constraint. On the one hand, international treaty law allows for the possibility of accelerated withdrawal under conditions of a fundamental change of circumstances or systemic disruption. In such scenarios, the timeline could be compressed to within a year, particularly if exit is accompanied by a broader breakdown of the underlying integration framework or a unilateral suspension of key obligations.

On the other hand, the formal legal timelines capture only the initial phase of withdrawal. The actual process of disentanglement—especially in the case of the Union State and, to a lesser extent, the EAEU—extends beyond

treaty termination and involves the unwinding of secondary agreements, sectoral arrangements, and embedded regulatory practices. These elements are not fully governed by the founding treaties and may significantly prolong the effective exit horizon. As a result, while the legal framework defines the starting conditions and minimum timelines, the overall duration of exit is likely to be shaped by the complexity of underlying economic linkages and the political context in which withdrawal takes place.

3.3. Decoupling Strategy from the Belarusian Perspective

A useful starting point for assessing feasible exit strategies is to outline the set of key economic, institutional, and coordination challenges associated with withdrawal from the EAEU and the Union State. From an economic perspective, the central issues include the conditions of access to the Russian market during the transition period, the redesign of tariff policy and customs administration, the restructuring of energy contracts and pricing regimes, and the management of short-term price and inflation shocks. At the institutional level, withdrawal implies the restoration of autonomy in trade and regulatory policy, the establishment of national regulatory bodies in areas previously governed by supranational arrangements, and the prevention of legal and administrative vacuums during the transition. Finally, the process requires careful external coordination, including synchronization with CEPA and Association Agreement (AA) preparation, the mobilization of technical and financial support from the EU, and clear communication with economic agents and markets.

Taken together, these dimensions highlight that withdrawal is not a single legal act but a multidimensional transition process that requires coordination across economic adjustment, institutional rebuilding, and external integration. The central policy challenge lies in coordinating economic adjustment, institutional rebuilding, and external integration in a way that minimizes disruption while enabling a rapid shift toward a new development model anchored in EU integration.

Against this background, an “ideal” decoupling scenario can be defined as a first-best benchmark under conditions of full coordination between Belarus, the EU, and (implicitly) Russia. In such a scenario, the process of withdrawal from the EAEU and the Union State would be closely synchronized with the launch and sequencing of EU integration instruments, in particular CEPA and the AA, such that the gradual dismantling of existing obligations and benefits within Russia-led frameworks would be immediately offset by the emergence of new opportunities within the EU integration process (Kruk & Karaitis, 2026; Kruk & Makarchuk, 2026). Crucially, this would imply the absence of institutional or regulatory gaps: tariff regimes, technical standards, and key regulatory frameworks would be transitioned in a coordinated manner, ensuring continuity for economic agents.

At the same time, the ideal scenario would entail smoothing short-term economic shocks, particularly in energy and trade. This would require either the temporary preservation of certain preferential arrangements or their functional replacement through external support mechanisms, allowing Belarus to avoid abrupt price adjustments and supply disruptions. In parallel, access to the Russian market during the transition period would be maintained under stable and predictable conditions, reducing the risk of trade dislocation. In essence, the ideal

scenario combines rapid progress toward EU integration with a gradual adjustment of the most sensitive economic linkages.

However, such a configuration is unlikely to be realized in practice due to a combination of structural and political constraints. First, it is fundamentally inconsistent with Russia's incentives. From the perspective of Russia, facilitating a smooth and low-cost exit for Belarus would reduce the barriers to geopolitical and economic re-orientation, thereby weakening Russia's influence. As a result, rather than mitigating adjustment costs, Russia is more likely to use its leverage in trade, energy, and regulatory domains to increase the costs of exit.

Second, even abstracting from geopolitical considerations, the institutional logics of the two processes are difficult to reconcile. Withdrawal from the EAEU and the Union State is, to a significant extent, a politically driven and discretionary process, while EU integration is rule-based, sequential, and conditional on the fulfilment of detailed *acquis* requirements. This asymmetry implies that a perfect synchronization of exit procedures with EU integration milestones is structurally unlikely, even under favorable political conditions.

Given these constraints, the ideal scenario should be treated as an analytical benchmark (first-best under full coordination), rather than a realistic policy pathway. In practice, Belarus is more likely to face a trade-off between the speed of exit and the magnitude of short-term economic disruption. This trade-off can be framed as an intertemporal choice between minimizing transitional losses and accelerating the realization of long-term convergence gains associated with EU integration (Kruk & Karaitis, 2026).

A gradual exit strategy would aim to smooth adjustment by preserving selected elements of existing economic linkages for a longer period. This approach could mitigate immediate shocks in trade and energy, reduce inflationary pressures, and allow more time for institutional adaptation. However, gradualism entails significant costs: it delays the full implementation of EU-compatible institutions and policies, postpones the onset of convergence dynamics, preserves structural dependencies, and increases the likelihood of policy reversals or external interference, particularly in a context where the process of EU integration remains politically contested (Kruk & Makarchuk, 2026).

An accelerated exit strategy would involve the rapid dismantling of key obligations within the EAEU and the Union State and a swift transition to autonomous trade and regulatory policies aligned with EU requirements. Such an approach is likely to generate a deeper short-term contraction, reflecting disruptions in energy supply, trade flows, and production linkages. Estimates in Kruk & Karaitis (2026) suggest that this transitional recession could be substantial, while other studies (e.g., Hartwell et al., 2022) indicate that downside risks may be even larger under adverse conditions.

Despite these costs, an accelerated exit strategy may be preferable from a medium- to long-term perspective. First, the mechanisms of convergence associated with EU integration—through productivity gains, institutional improvements, and access to larger markets—are likely to compensate for initial losses within a relatively short timeframe (Kruk & Karaitis, 2026). Second, delaying exit effectively postpones these gains, implying a cumulative cost over time. Third, and most importantly, a prolonged transition increases the risk of dynamic inconsistency: the longer the process remains incomplete, the higher the probability of policy reversal, insti-

tutional stagnation, or external disruption, potentially undermining the entire trajectory of integration (Kruk & Makarchuk, 2026).

Therefore, while the ideal scenario of fully coordinated and shock-free decoupling is unlikely to materialize, the analysis suggests that, if faced with a choice between gradualism and accelerated exit, priority should be given to the latter. This conclusion follows not from a preference for rapid adjustment per se, but from the asymmetric structure of costs and benefits over time: while the short-term losses of accelerated exit are significant but temporary, the costs of delay—through forgone convergence, persistent dependencies, and increased reversibility risks—are cumulative and potentially more damaging for long-term economic development.

The specific trajectory of withdrawal cannot be fully predefined ex ante. The actual pathway will depend on a wide range of interrelated economic, institutional, and political factors, many of which are inherently uncertain. Among these, the most critical determinant is the reaction of Russia and the scope of instruments it is willing and able to deploy to influence the process. The degree of resistance, the use of trade and energy levers, and the broader geopolitical context will play a decisive role in shaping both the timing and the costs of exit.

Accordingly, the framework outlines boundary scenarios rather than a single predictable path. While a first-best, fully coordinated exit remains theoretically desirable, it is unlikely to materialize under realistic conditions. Therefore, if such a scenario is not attainable, the strategic priority should shift toward minimizing long-term costs rather than short-term disruption. In this context, the case for a more rapid and decisive withdrawal from the EAEU and the Union State becomes stronger, even at the expense of a deeper transitional adjustment.

3.4. Russia's Behavioral Scenarios and Implications for Decoupling

The trajectory and costs of Belarus's exit from the EAEU and the Union State depend critically on Russia's response. Russia's behavior should be treated as a central parameter shaping both the magnitude of transition shocks and the feasibility of different sequencing options (Kruk & Makarchuk, 2026). For analytical clarity, three stylized scenarios can be distinguished.

Neutral (low-intervention) scenario. Russia is constrained—politically or economically—and applies limited active pressure. Adjustment proceeds largely through market mechanisms, with no deliberate disruption of trade or energy flows. From today's perspective, it might be interpreted as a lower-probability benchmark rather than a baseline. Under this scenario, transition costs are driven primarily by internal rigidities and the speed of institutional reconfiguration.

Restrictive (market-compatible pressure) scenario. Russia resists decoupling within economically bounded instruments: energy prices move toward (or above) market levels; access to the Russian market tightens via

tariffs and non-tariff measures; contractual terms are revised. This resembles earlier Russia–Belarus energy disputes, where pressure was exerted through pricing and conditions rather than outright supply interruption. The key feature is that pressure remains broadly compatible with market/logistical continuity. This type of pressure is already embedded in baseline estimates in Kruk & Karaitis (2026).

Openly hostile (non-market disruption) scenario. Russia deploys the full set of coercive tools, including physical interruption of energy supplies, closure of market access, and disruption of logistics. Analogues include Russia–Ukraine relations post-2014/2022. Here, shocks are driven not only by structural adjustment but by deliberate supply disruption.

These scenarios map directly into the dispersion of estimated transition costs. Differences between Hartwell et al. (2022) and Kruk & Karaitis (2026) largely reflect implicit assumptions about Russia’s response. The latter, using more recent data and refined modeling, provides more reliable estimates under baseline (neutral/restrictive) conditions. However, under an openly hostile scenario, the upper-bound losses—and the corresponding need for financial support—reported in Hartwell et al. (2022) remain relevant, with estimated financial support requirements of around EUR 8 billion annually for three years.

A critical implication is preparedness for extreme contingencies, particularly a physical interruption of energy supplies. Evidence summarized in iSANS (2025) indicates that a complete cut-off does not imply systemic collapse, but entails a sharp short-term imbalance (roughly 10–14 days) before alternative supply chains stabilize. Continuity can be supported by reserves and fuel substitution, followed by EU-linked inflows and reoriented oil imports. The trade-off is a substantial increase in costs – gas prices may rise multiple times, feeding into electricity and heat tariffs – and reduced refinery export capacity.

In adverse scenarios, the role of the EU becomes decisive. Beyond political and bureaucratic support, financial assistance is required to absorb transition losses and maintain reform credibility. Under openly hostile conditions, required support may approach upper-bound estimates (Hartwell et al., 2022), complemented by medium-term investment in energy, logistics, and industrial restructuring.

Overall, Russia’s response introduces substantial uncertainty. Belarus must therefore adopt a flexible, contingency-based policy framework that is robust across scenarios. At the same time, even under the most adverse conditions, the strategic case for EU integration remains intact: while short-term losses may increase, the alternative—prolonged dependence—carries cumulative costs, higher reversibility risks, and weaker long-term growth prospects (Kruk & Makarchuk, 2026).

3.5. Selected Domains and Residual Risks of Decoupling

While the macroeconomic adjustment associated with Belarus's exit from the EAEU and the Union State is broadly captured in model-based estimates (Kruk & Karaitis, 2026), a number of sectoral, institutional, and financial issues remain outside this analytical framework. These domains are less amenable to formal modelling but may play a critical role in shaping the depth, distribution, and persistence of transition costs. Their evolution will depend heavily on the specific exit scenario (see Section 3.4).

At the same time, it is important to emphasize that the most significant systemic shock—energy—requires separate consideration and is addressed in detail in Section 4. The present subsection focuses on other domains where risks are more granular, less predictable, and not fully internalized in baseline quantitative estimates.

A first critical area concerns debt relations with Russia. As discussed in Section 2.3.2, Belarus's external public debt is highly concentrated vis-à-vis Russian creditors. In this context, the management of debt obligations becomes not only a financial, but also a strategic and political issue. A minimum approach would involve full compliance with existing repayment schedules, ensuring financial continuity but limiting fiscal space. A more expansive approach could include negotiated deferrals, restructuring, or partial write-offs, potentially linked to broader economic or political settlements. In addition, the possibility of international legal recourse—through arbitration or litigation—may serve as a negotiation tool, although its effectiveness would depend on the broader geopolitical environment. Precedents from Ukraine's disputes with Russia indicate that sovereign debt claims can be contested on grounds of duress and framed as politically motivated (often discussed under the “odious debt” doctrine), with courts allowing such defenses to be examined. While these cases do not establish a general doctrine, they expand the feasible set of legal and negotiating strategies. Importantly, no single approach can be predefined *ex ante*, as outcomes will depend on bargaining dynamics and the willingness of Russia to engage in cooperative or confrontational strategies.

A second domain relates to value chains and production linkages tied to Russia. As shown in Section 2.2.1, Belarusian industry is deeply embedded in cross-border production networks, particularly in sectors such as machinery, chemicals, and refining. EU integration will inevitably weaken or disrupt these linkages, leading to output losses, increased production costs, and the reconfiguration of supply chains. These effects are captured in aggregate estimates of transitional recession (Kruk & Karaitis, 2026), but their sectoral and regional distribution remains highly uncertain. A key policy challenge lies in balancing the speed of decoupling with the capacity of firms and sectors to reorient toward alternative markets and suppliers. In practice, this may require a differentiated, sector-specific approach rather than a uniform strategy.

A third area concerns the presence of Russian capital and financial exposure. Russian-owned or affiliated entities play a significant role in the Belarusian banking sector and in selected industries. Decoupling may therefore trigger a range of financial and ownership-related adjustments, including capital withdrawal, restructuring of liabilities, or changes in corporate control. These processes may affect financial stability, access to liquidity, and the functioning of payment systems. Possible policy responses range from negotiated restructuring to

more interventionist measures, including temporary controls or ownership changes. However, the feasibility and desirability of such measures depend on the broader scenario and cannot be determined in advance.

A fourth domain involves institutional and regulatory continuity. Withdrawal from EAEU and Union State frameworks implies the restoration of national competences in areas such as trade policy, technical regulation, and competition policy. This creates a risk of transitional legal and administrative gaps, particularly where domestic institutions have been partially supplanted by supranational mechanisms. Ensuring continuity requires the rapid establishment or reinforcement of national regulatory bodies, as well as the timely adoption of interim rules compatible with future EU alignment. Failure to manage this transition effectively may result in regulatory uncertainty, increased transaction costs, and disruptions for economic agents.

A fifth area relates to the coordination of exit with EU integration instruments, in particular CEPA and the Association Agreement. As emphasized in Kruk & Makarchuk (2026), the effectiveness of the transition critically depends on the sequencing between disengagement from Russia-oriented frameworks and the gradual adoption of EU-compatible rules and institutions. Ideally, the dismantling of existing arrangements should be synchronized with the emergence of new regulatory, trade, and financial linkages with the EU. In practice, however, such synchronization is difficult to achieve due to the fundamentally different logics of the two processes: exit is politically contingent and potentially abrupt, while EU integration is rule-based, sequential, and conditional. This asymmetry implies that temporary mismatches are likely, reinforcing the importance of external support—both technical and financial—in bridging transitional gaps.

Taken together, these domains illustrate that, beyond macroeconomic adjustment, decoupling involves a set of interrelated and highly contingent challenges that cannot be fully specified *ex ante*. Their resolution will depend on the interaction between domestic policy choices, external support, and the behavior of Russia. This reinforces the broader conclusion of the section: rather than relying on a predetermined blueprint, Belarus must adopt a flexible and adaptive approach to managing the transition, with a focus on preparedness across a range of possible scenarios.

4. Energy Tariff Adjustment and Support Mechanisms under Decoupling

The disruption of Belarus’s energy relations with Russia can be analyzed along two interrelated dimensions. First, it entails the physical replacement of energy supplies and the restructuring of logistics chains. As shown in iSANS (2025), even a complete cutoff of Russian supplies would not lead to systemic collapse but rather to a short-term imbalance lasting approximately 10–14 days, after which alternative supply routes could be stabilized. Short-term continuity could be ensured through existing reserves and fuel substitution (e.g., increased use of mazut in power generation), while medium-term stabilization would rely on rerouting oil imports via sea-borne and rail channels and accessing EU-linked gas supplies, including LNG. However, such a transition would come at the cost of significantly higher import prices and reduced export capacity in refining. Second, beyond the physical dimension, it is crucial to assess how changes in supply conditions and pricing structures would translate into tariffs for final consumers, and to what extent these effects can be mitigated through policy support. This section focuses on this second dimension.

4.1. Starting Terms and Conditions of Energy Supply to Belarus

Gas supplies to Belarus up to 2026 have been priced at \$128.5 per thousand cubic meters. While prices for 2026 have not been officially disclosed, they are unlikely to differ significantly. For the purposes of this analysis, we rely on 2025 price data. However, gas prices on the global market are substantially higher. Figure 2 illustrates the dynamics of gas prices at the European TTF hub.

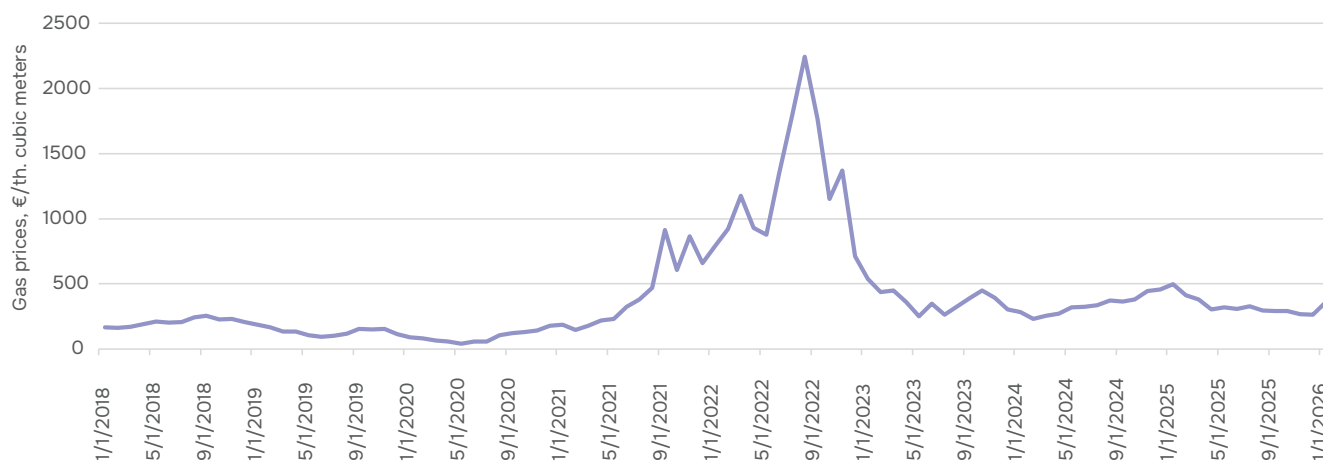


Figure 2. Gas prices at the European TTF hub

Source: Own computations and estimations based on data by investing.com.

During the 2022–2023 crisis, gas prices in Europe exceeded €2,000 per thousand cubic meters. However, under normal conditions, European gas prices are significantly lower. Figure 3 illustrates the distribution of monthly gas price levels in Europe over the period 2018–2025.

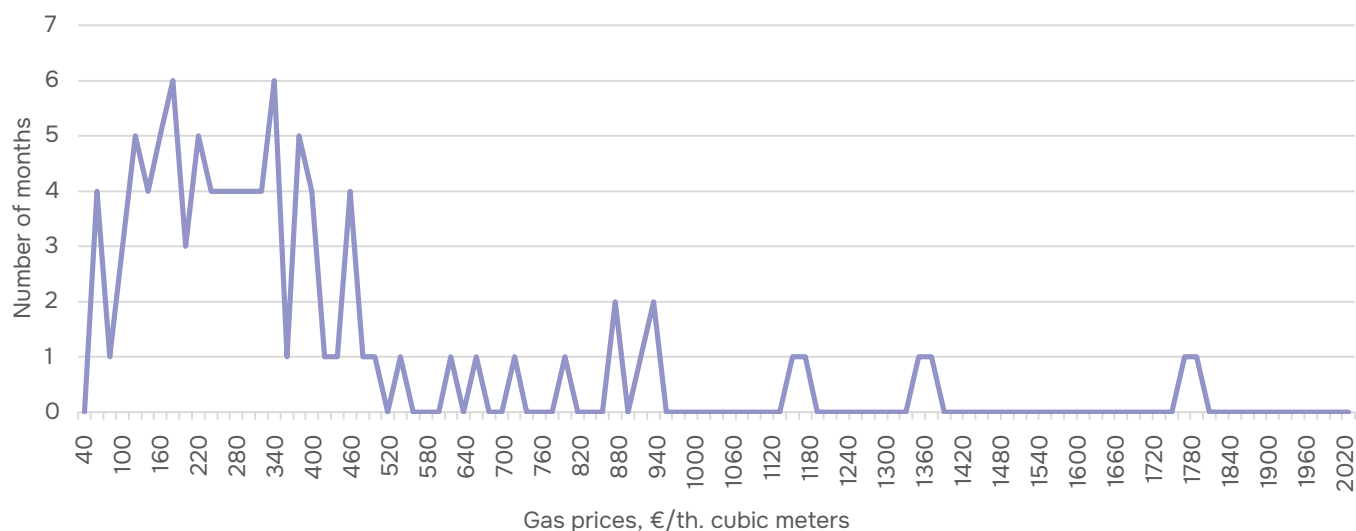


Figure 3. Distribution of Gas Prices

Source: Own computations and estimations based on data by investing.com.

Figure 3 indicates that the most likely price range lies between €120 and €320 per thousand cubic meters. It is important to note that the lower bound of this range is close to current gas prices in Belarus. This may suggest the existence of mechanisms for a relatively smooth transition from Russian to European gas pricing. In fact, Europe appears to have undergone such a transition between 2020 and 2022, after which prices increased further. However, these figures do not include the cost of transporting gas to Belarus. According to estimates, transportation costs could add up to €87 per thousand cubic meters. Thus, the upper bound of gas prices for Belarus can be estimated at approximately €400 per thousand cubic meters.

It should be noted that the €87 estimate reflects transportation via Poland and Germany. This is due to the high utilization of the LNG terminal in Świnoujście, which constrains the capacity to route all gas supplies through it. A similar constraint applies to the terminal in Klaipėda. The development of a new LNG terminal in the Baltic region (in Poland or Lithuania), or the expansion of existing facilities, could reduce transportation costs to Belarus by approximately €65–70 per thousand cubic meters. For reference, the Świnoujście LNG terminal cost around €1 billion and has a capacity of approximately 5 bcm. Excluding operating costs (which are already reflected in European hub prices), such an investment could pay for itself within approximately three years.

The price of oil for Belarus may differ slightly from global benchmarks. During the 2020 negotiations, Belarus sought supply conditions no less favorable than those offered to other countries. As Russian Deputy Prime Minister Dmitry Kozak stated at the time, “oil supplies to Belarus will continue on commercial terms; discounts will not be provided.”

According to MACROBY (2024), the oil price in 2023 was approximately \$60.5 per barrel, while average spot

market quotations were around \$64 per barrel. The small difference between Urals and Brent suggests that no additional Belarus-specific discount was applied. Thus, the estimates by MACROBY (2024) and OPEC are broadly consistent and indicate that Belarus effectively pays the Urals spot price, with a modest discount of around \$5 per barrel associated with long-term contracts. By late 2025, this corresponded to approximately \$55 per barrel, or around \$400 per ton.

This suggests that Belarus purchases oil at near-global market prices but benefits from lower transportation costs. A shift to alternative suppliers would likely increase transportation costs by \$20–25 per ton, raising the total cost to approximately \$425 per ton.

Relatively low import prices translate into comparatively low domestic energy tariffs. At the same time, these tariffs are characterized by a low cost-recovery ratio (see Table 2).

Table 2. Actual Domestic Tariffs and Cost-Recovery Rates

		Population	Industry	Services	Budgetary Organizations	Transport	Cost (Cost-Recovery Level)
Electricity	Tariffs	0.24	0.36	0.46	0.41	0.36	0.30
	Cost recovery	81%	123%	154%	138%	123%	100%
Heat Energy	Tariffs	27.23	199.38	199.38	189.88	148.34	134.94
	Cost recovery	20%	148%	148%	141%	110%	100%
Natural Gas	Tariffs	212.50	484.73	707.64	655.30		491.50
	Cost recovery	43%	99%	144%	133%		100%

Source: Own computations based on MinEnergo.

4.2. The Impact of New Price Conditions on Domestic Energy Tariffs

The main types of fuel in Belarus are electricity and heat, as well as natural gas. Among petroleum products, the primary fuels are diesel and gasoline. According to estimates by iSANS (2025), a transition to global gas prices

would increase the cost of gas for consumers by 3.29 times. The cost of producing petroleum products would rise by 2.5%, electricity by 33%, and heat by 2.7 times.

Prices for petroleum products would not change significantly, and adapting to global prices would not require additional mechanisms. Although the increase in electricity prices would be substantial, it could potentially be managed through gradual tariff adjustments, especially if spread over several years. Therefore, gas and heat tariffs should be considered as directly derived from gas prices.

Based on the estimates in Table 2, the most sensitive changes would affect tariffs for heat and natural gas. Moreover, the transition to global prices would be compounded by the very low cost-recovery rate for heat energy. Households currently pay only 20% of the actual cost of heat production. Furthermore, heat is the primary form of energy consumed by households. The expected tariff changes are reported in Table 3.

Table 3. Domestic Tariffs and Cost-Recovery Rates

	Population	Industry	Services	Budgetary Organizations	Transport	Cost (Cost-Recovery Level)	Increase
Electricity	0.24	0.36	0.46	0.41	0.36	0.30	133%
	0.32	0.48	0.61	0.54	0.48	0.39	
Heat Energy	27.23	199.38	199.38	189.88	148.34	134.94	270%
	73.53	538.32	538.32	512.68	400.50	364.34	
Natural Gas	212.50	484.73	707.64	655.30		491.50	329%
	699.13	1594.76	2328.14	2155.94	0.00	1617.04	

Note: 1 – indicates the actual tariff (i.e., before the price increase; see Table 2); 2 – indicates the estimated tariff after the price increase.

Source: Own computations based on MinEnergO.

In other words, tariffs might rise significantly, particularly for natural gas and heat energy, a large portion of whose cost structure is directly tied to the price of gas as a commodity. At the same time, maintaining the current level of subsidies would substantially increase the burden on the state budget. The budget is unlikely to have such capacity, meaning that tariff increases would result not only from higher energy prices but also from a reduction in subsidy levels. This would constitute a double shock to the existing support and tariff-setting system.

For example, with household heat consumption at around 23 million Gcal (2020 data), the volume of subsidies amounted to approximately 2.4 billion rubles. If the current subsidy structure were maintained (around 80% of

the cost subsidized), the required support would increase to 6.7 billion rubles per year. If the level of support remained unchanged at 2.4 billion rubles, the household tariff would reach 260 rubles per Gcal—almost a ten-fold increase.

4.3. Foreign Experience in Overcoming Tariff Shocks

From the perspective of mechanisms for overcoming a price shock, the situation is similar to the removal of tariff subsidies. In both cases, the core problem is a sharp increase in energy costs for households and organizations. This leads to a rapid deterioration in the economic situation of households and a qualitative change in the structure of their expenditures. A different situation may arise when tariff subsidies are removed by government decision: in that case, the reduction of subsidies can be planned and spread over time, which makes the process easier to manage. IMF (2013) provides data on the scale of subsidies for various energy resources across countries. Some fossil fuel subsidies exist in almost every country. At the same time, many countries, including those in our region, have implemented reforms to eliminate tariff subsidies.

The global consensus on energy subsidy reform is based on the principle: “support people, not energy.” In practice, this approach is implemented through support for specific individuals or families for whom tariff increases would significantly worsen their financial situation. Under such a system, energy tariffs are set at cost-recovery levels, ensuring that all expenses of the energy supplier are covered. If these tariffs create financial hardship for certain segments of the population, support is provided directly to those people. This form of support is known as targeted or means-tested subsidies.

One of the closest examples is Ukraine. In 2016, the Ukrainian government decided to raise natural gas tariffs to a cost-recovery level. This led to a substantial reduction in fossil fuel subsidies in the country and contributed to reducing the state budget deficit. At the same time, part of the savings was redirected to targeted subsidies for low-income households and to energy-efficiency programs in the residential sector .

At the time tariff increases began in Ukraine, a system of targeted support was already in place. Based on data on household income and utility expenditures, as well as citizens’ applications, this system allowed for direct assistance to specific families or individuals, either through transfers to personal accounts or by directly covering their utility bills. Targeted subsidies were used to support households, and their volume increased significantly in 2016. However, this increase was offset by a reduction in tariff subsidy expenditures.

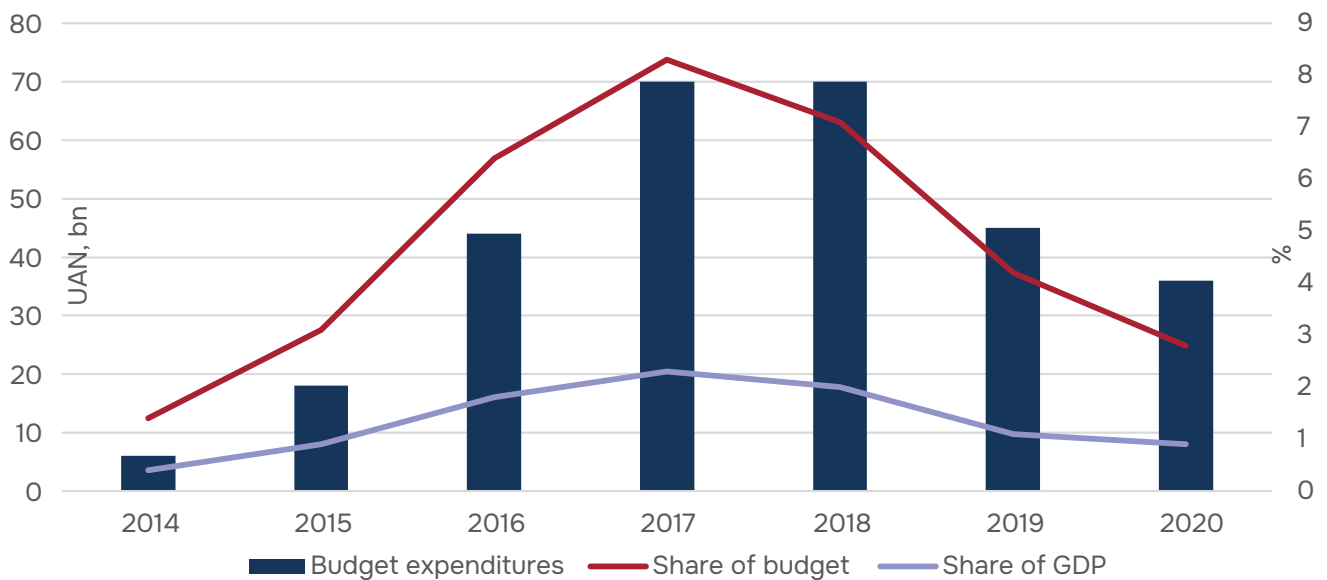


Figure 4. Volume of Payments Under the Targeted Subsidy Program in Ukraine

Source: Own computations and estimations based on data by Ukrstat, and Ministry of Social Policy of Ukraine.

Figure 4 shows the volume of payments under the targeted subsidy program. It is evident that after the peak levels of the first years, payments began to decline. This indicates that household welfare improved and fewer people fell into categories requiring support. This may serve as indirect evidence that moving away from tariff subsidies can contribute to economic growth and rising incomes.

A similar system operates in the Czech Republic, where citizens can receive a subsidy if their housing and utility costs (including rent) exceed 30% of household income (Need, n.d.). An additional condition is that household income must not exceed a certain baseline expenditure level. This requirement prevents situations where above-average-income households rent expensive housing and then receive budget-funded rent subsidies.

In general, targeted subsidies are a fairly widespread form of support for low-income populations. Among OECD countries, 29 have such support mechanisms. They are also used in highly developed countries; for example, the largest shares of budget expenditures on such support are observed in the United Kingdom, Finland, and Germany. In many countries, the acceptable energy expenditure threshold is set at 10–20% of household income. For example, in the United Kingdom, individuals receiving other forms of social support (low-income, unemployed, etc.) may receive £150 for heating (Features, 2025). A household is considered energy-poor if fuel expenditures exceed 10% of total income. The European Union also defines energy poverty as spending more than 10% of income on energy, and spending over 20% is considered “severe energy poverty.” (OECD, 2018).

However, implementing such a system requires the development of an appropriate legal framework, administrative procedures, and a system for collecting data on household incomes and expenditures. In Belarus, there is no system for direct cash transfers to households apart from social benefits, pensions, and similar payments. Any support is structured around compensating losses of energy-supplying companies rather than transfer-

ring funds directly to households. Therefore, such a social support system must be established before raising tariffs for the population.

The situation in Belarus is further complicated by the fact that the government is not preparing any mechanisms to smooth energy price shocks and openly takes pride in the current level of support. Interestingly, one of the main mechanisms for mitigating the effects of a price shock is tariff subsidies. This mechanism was used by the European Union during the 2021–2023 crisis (see Figure 5).

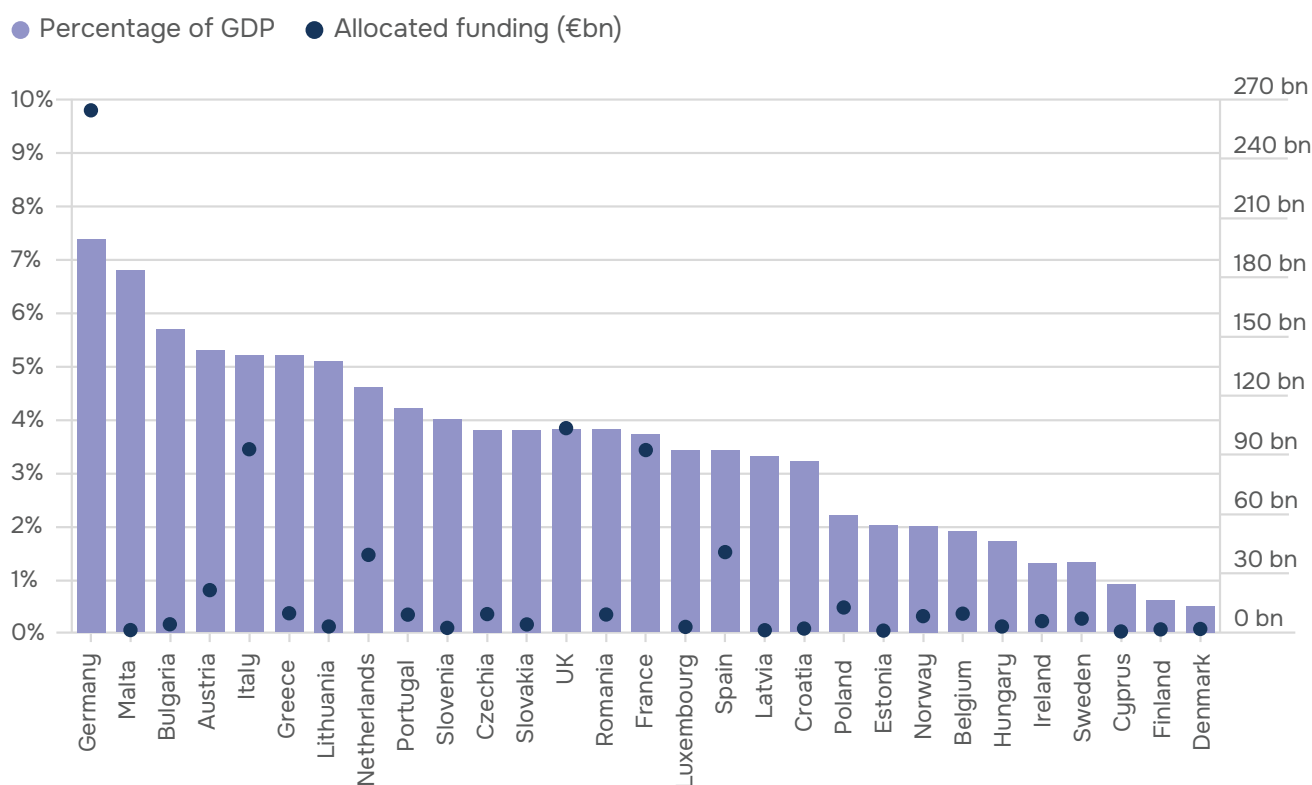


Figure 5. Level of Support through Energy Subsidies in the European Union in 2022–2023

Source: https://www.researchgate.net/publication/379494538_Spending_response_to_cash_transfers_to_shield_households_from_inflation_Evidence_from_bank_accounts.

A second measure involves various types of compensation through tax policy. Governments may introduce tax relief for certain goods or services, or for specific companies supplying energy to consumers. On the other hand, countries may impose windfall profit taxes, allowing part of the excess profits of private energy companies to be redirected to support households. .

Summarizing, during the 2021–2023 crisis, different countries introduced the following measures:

- Reduction of energy taxes/VAT
- Regulation of retail prices
- Regulation of wholesale prices
- Transfers to vulnerable population groups

- Obligations imposed on state-owned enterprises
- Windfall profit taxes
- Business support measures

For Belarus, many of these options may be unattainable, since customs and tax regulation there is a routine practice rather than an anti-crisis instrument.

4.4. Household Tariffs and Support Measures

In terms of expenditure structure, housing and utility services account for 7.6% nationwide and nearly the same share for urban residents. The share is slightly higher for rural residents at 7.9%. For low-income households, this indicator reaches 12%.

With a transition to cost-recovery tariffs (covering all production costs), the share of housing and utility expenditures would increase to 11% on average nationwide and to 21% for low-income households (see Table 4).

Table 4. Domestic Tariffs and Cost-Recovery Rates

		Current Gas Prices		Global Gas Prices	
Parameter	Unit	Average	Low-Income	Average	Low-Income
Heating payment	rubles	24	17	64,8	45,9
Hot water supply	rubles	14	14	37,8	37,8
Total housing & utilities payment	rubles	89	54	153,6	106,7
Share of total expenditures	%	11%	21%	19%	30,50%

Source: Own computations and estimations based on data by MinEnergо and Belstat.

Under current gas prices, the total payment amounts to 54 rubles for low-income households and 89 rubles per person on average nationwide. Eliminating tariff subsidies while simultaneously transitioning to global gas prices would further increase utility payments. Heating and hot water payments would rise by 2.7 times. The total housing and utility payment would reach approximately 153.6 rubles on average and more than 106.7 rubles for low-income households. As a result, housing and utility expenditures would rise to 30.5% of total income for low-income households and exceed 19% on average nationwide.

A negative feature of subsidized tariffs is that households with higher incomes receive more support, since they consume larger volumes of housing and communal services. Targeted support primarily focuses not on energy prices but on the level of household expenses on utilities. Therefore, for the question of forming a mechanism of targeted subsidies, it is important to use the distribution of income among different groups of people. Based on this data, we estimate payments for utilities for all income levels and tariffs under various scenarios. Under the existing (subsidized) tariffs, payments for the entire population remain below 15%. As tariffs increase, the share of the population whose utility expenses exceed this threshold will begin to rise. Under real tariffs, about 52% of the population will spend more than 15% of their income on utilities and will start receiving compensation. With the simultaneous transition to real tariffs and world market prices, practically the entire population will receive support. The payments to be made to different income groups are reported in Figure 6.

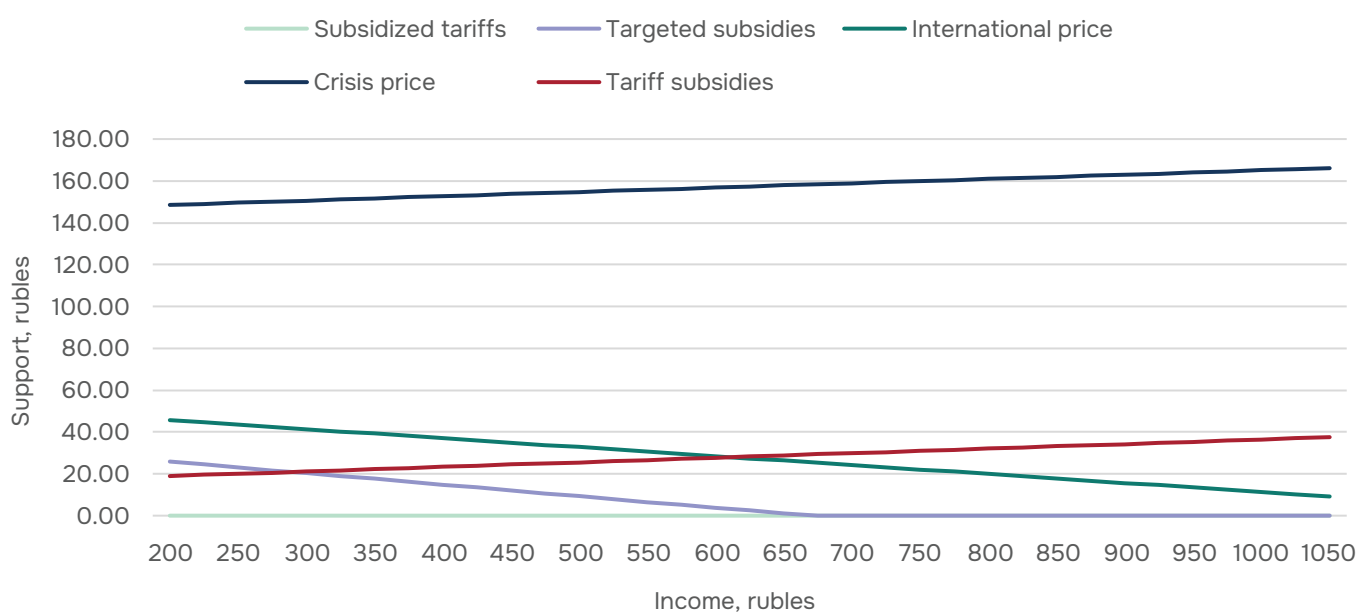


Figure 6. The Level of Subsidies to Households in Belarus Under Different Scenarios

Source: Own computations and estimations based on data by Belstat.

The current situation (subsidized tariffs) shows that additional support is not required for any income level. Under the transition to real tariffs (blue line), all citizens with incomes below 550 rubles per person (in 2020 prices) will receive support. With the simultaneous transition to real tariffs and world market prices, support will be extended to practically all citizens. However, payments to low-income households will be significantly higher than payments to the wealthiest part of the population.

At the same time, during crisis price periods (2022–2023, gas prices around \$1500 per 1,000 m³) and using the mechanism of targeted support, payments to wealthier households increase. This is because heating payments significantly exceed the threshold value (15% of income) for the entire population. This is another qualitative difference in the crisis price regime and confirms that using only the targeted subsidy mechanism is insufficient for regulation across all price ranges. Between normal international prices and crisis prices, tariff subsidies must still be maintained.

The current support levels are also shown on this graph. Although the population does not receive direct cash transfers from the budget for heating, the subsidized tariffs themselves are a form of hidden support. The orange line (tariff subsidies) shows the support currently received by the population. It can be seen that under the transition to targeted subsidies, the support for the poorest families almost does not change, meaning their financial situation will not worsen. As incomes rise under targeted support, payments decrease, unlike with tariff subsidies, where support increases with income growth. The total volume of support that will be provided to household is reported in Figure 7.

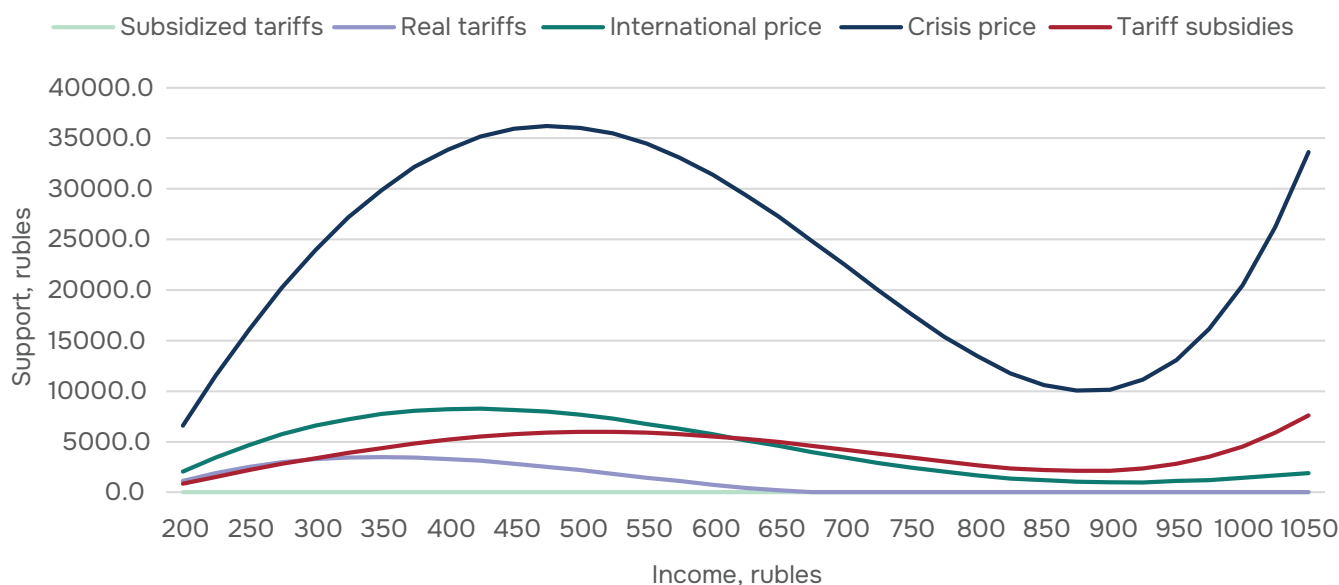


Figure 7. The Aggregate Level of Subsidies in Belarus Under Different Scenarios

Source: Own computations and estimations based on data by Belstat.

As can be seen, under the current situation, no payments are made. The transition to targeted subsidies and real tariffs will require payments to low-income households with incomes up to 550 rubles per person. This form of support will require 300 million rubles annually from the budget.

The abandonment of tariff subsidies simultaneously with the transition to world market prices will result in support being provided to practically all income groups. However, a significant share of the support will go to low-income households.

This graph clearly shows the difference between the proposed system and the existing tariff subsidies (orange curve). The proposed system allows support to be focused more on low-income households (on the left, the green curve is higher than the orange curve), while the existing system provides more support to wealthier households (on the right, the orange curve is higher than the green). The total volume of payments under the proposed system, even with the transition to world market prices, will amount to 1.8 billion rubles per year, whereas the current system requires 1.45 billion rubles per year already today at low gas prices.

Supporting household utility payments not exceeding 15% of income for all households during crisis prices would require more than \$4 billion per year.

The upward bend of the curve on the right indicates that a significant portion of the population is in these income groups. In reality, due to the last income category in Belstat “over 1000 rubles,” a substantial number of people fall into this category. As early as 2020, the scale should have been extended to at least 1500 rubles. At the same time, payments to each individual high-income household remain very low.

4.5. Price Smoothing Mechanism

Energy prices on the global market are quite volatile and prone to sudden changes. Directly passing these prices onto consumer tariffs, especially for households, would be inappropriate. There are several reasons for this. In a free natural gas market, businesses can purchase gas under various types of contracts. They can also easily choose different suppliers and use mechanisms to hedge future gas price risks, such as futures or options. Furthermore, in the event of a sharp increase in gas prices, the impact on business is primarily economic, which can be mitigated by reducing production, using reserve funds, etc. Overall, businesses can hedge the risks of rising energy prices, and their survival depends on how effectively they do so.

Households, however, do not have this option. The cost of hedging risks at the household level is too high relative to their consumption and available resources. People generally do not diversify suppliers. Moreover, the costs associated with rising prices are not only economic. Increased tariffs lead to social consequences. In addition to social dissatisfaction, the worsening financial situation of households during significant tariff hikes can result in attempts to save heating energy by lowering indoor temperatures, which increases the risk of illness. Higher heating tariffs also reduce household spending on other items, including food and services. Therefore, supplier diversification, contract type management, and risk hedging for households should be managed by the state.

As described above, for normal prices, the optimal approach is to use real tariffs combined with targeted subsidies. In the event of crisis situations and a sharp rise in resource prices, tariff regulation must be applied. To determine the threshold for this transition, price smoothing mechanisms are used. This mechanism reduces tariff volatility and prevents sudden short-term market price changes from significantly affecting tariffs. The price smoothing mechanism involves setting a tariff for a specific period based on the average resource prices over the previous period, with a limitation on tariff changes for the next period.

Example: If the gas price, including all delivery costs to consumers, remained at \$200/1,000 m³ in January, this price becomes the tariff for February. If the actual gas price in February rises to \$300/1,000 m³, the March tariff should be set at \$300/1,000 m³. However, if a restriction on tariff changes is imposed—for example, no more than 10%—then the March tariff will be \$220/1,000 m³. If the gas price remains at \$300/1,000 m³ in March, the April tariff will be \$242/1,000 m³ (+10% again).

In this system, the key parameters are the duration of the period and the maximum allowable change in the tariff.

Figure 8 shows actual gas price fluctuations at the European TTF hub and different tariff smoothing regimes. The period analyzed was deliberately chosen to exclude the second half of 2021 as well as 2022–2023, avoiding the effects of abnormally high gas prices on financial indicators and tariffs.

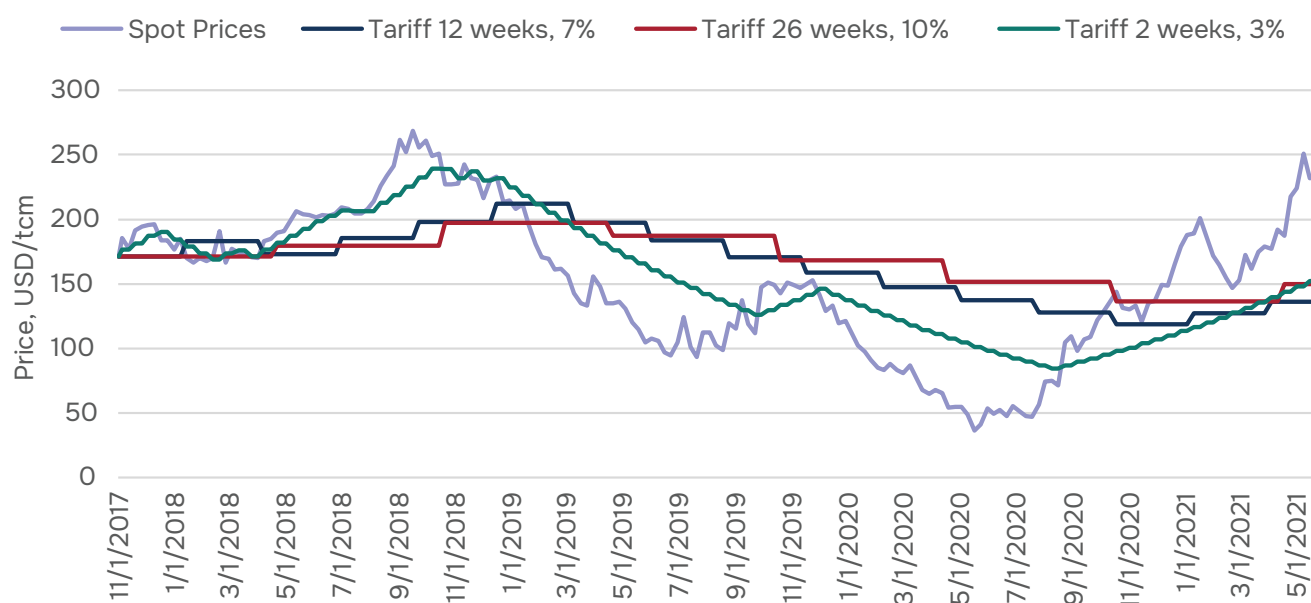


Figure 8. Different Price Smoothing Regimes in the EU in 2017-2021

Source: Own computations and estimations based on data by Investing.com.

The green line shows how tariffs would change if reviewed every two weeks with a maximum change of 3%. This regime preserves excessive volatility and frequent changes (twice a month), which is inconvenient for users. Under this regime, over almost four years, tariffs fluctuated between \$85 and \$240/1,000 m³. The blue line represents quarterly price changes limited to 7%, which significantly reduces volatility. Tariffs under this regime range from \$118 to \$219/1,000 m³, smoothing price spikes without harming consumers. The yellow line shows price adjustments every six months, with a maximum change of 10%. This regime smooths prices even further, reducing the fluctuation range to \$136.4–\$202/1,000 m³. However, a 10% change becomes noticeable for households. Additionally, when tariffs deviate from market prices, a compensation mechanism is required. A separate stabilization fund must be established, which is spent if the market price exceeds the tariff and accumulates if the market price is lower.

For the analyzed period, the two-week/3% regime allows the fund to accumulate around \$123 million, as prices were mostly below the smoothed curve. In other periods, the fund could also lose equivalent amounts. For the 12-week/7% regime, fund accumulation reaches \$450 million. Therefore, as smoothing increases, the size of reserves for compensation should also increase. For the 29-week/10% regime, fund accumulation reaches nearly \$670 million. Operation of the price smoothing system during crisis periods shows that under maximum smoothing, the tariff does not exceed \$219.7. However, the size of the stabilization fund required to compensate the difference between price and tariff would reach \$13.5 billion. Similar costs would occur with quarterly

adjustments, while tariffs would remain almost the same. With semi-monthly adjustments, fund requirements would be \$10.5 billion, but tariffs could reach \$560/1,000 m³, causing issues even with targeted subsidies.

Thus, the price smoothing mechanism should be implemented with sufficiently long review periods while also creating substantial reserves for energy crisis compensation. This mechanism also depoliticizes energy tariffs. If established by law, tariff changes become a technical procedure rather than a political decision, which political forces might otherwise use for their purposes. In Belarus, this mechanism could likely serve two objectives simultaneously: moving to real tariffs and implementing a mechanism to smooth world price volatility. When abandoning tariff subsidies, it is necessary to implement new methods of supporting the population, focused on households in difficult financial situations—low-income households. The best approach is the use of targeted subsidies, which provide support only to those households that are in a vulnerable economic position.

The main task in developing targeted subsidies is to identify the households that need support. This requires knowledge of household incomes. Tools for this already exist; in particular, it has been reported that Belarus has created a tax “super-database”. According to the developers, this database allows tracking all income of the population. On the other hand, data on payments for housing and communal services are collected by utility organizations, which makes it possible to determine each family’s expenses for utilities. If heat is supplied from an industrial boiler house, this information is also provided to the enterprise for reimbursement of losses from providing heat at subsidized tariffs. Thus, it can be concluded that calculating targeted subsidies is a fully feasible task.

Moreover, the targeted subsidy system already exists in Belarus. By Decree No. 322 “On the Provision of Cashless Housing Subsidies,” a system of cashless targeted assistance was introduced. The state compensates household expenses for utilities that exceed 20% of the total family income (or individual income) in cities and 15% in rural areas. This system is fully operational and includes the ability to automatically identify citizens in need of support if they receive only social payments. Individuals can also submit an application and receive a subsidy.

However, an analysis of this system’s performance is necessary. The Ministry of Housing and Utilities calculated that about 400,000 households would qualify for this type of state support. Yet, in 2021, only 30,000 families in Belarus actually received such subsidies for utilities. That is, the effectiveness of this tool is ten times lower than expected. Problems must be identified, and the program needs to be relaunched.

It is also necessary to provide for the creation of a protected tariff stabilization fund. During the transition to real tariffs, this fund will be spent, so sources for replenishing it must be foreseen. After the transition to real tariffs, it is expected that the fund will be replenished during periods of falling resource prices and spent during periods of price increases, thereby stabilizing utility costs for the population.

5. Conclusions

This paper examines the problem of Belarus's potential European integration through the lens of decoupling from Russia and Russia-centered integration frameworks. Building on existing work that establishes the economic rationale for EU integration (Kruk & Karaitis, 2026) and outlines its policy contours (Kruk & Makarchuk, 2026), the analysis focuses on a critical and underexplored dimension: how such a transition can be operationalized under conditions of deep structural and institutional dependence on a dominant partner. The findings suggest that while Belarus's economic ties with Russia – spanning production linkages, energy, trade, and finance – constitute a significant barrier, they do not undermine the fundamental case for European integration. On the contrary, even when accounting for substantial transitional costs, the long-term benefits of convergence with the EU remain decisive. However, the main challenge lies in the policy domain, particularly in managing the process of disengagement from the EAEU and the Union State, where legal constraints intersect with entrenched economic interdependencies.

A key contribution of the paper is the integration of substantive and legal perspectives into a unified analytical framework. This allows for a more realistic assessment of decoupling, emphasizing that legal exit procedures define the formal parameters of transition, but do not determine its economic trajectory. Instead, outcomes depend on the interaction between domestic policy choices, structural constraints, and external factors⁶ most importantly, Russia's response.

The scenario-based analysis highlights that Russia's behavior is a central source of uncertainty, shaping both the scale and the distribution of transition costs. Under plausible assumptions, a strategy of relatively rapid disengagement appears more consistent with achieving long-term convergence, despite higher short-term adjustment costs. At the same time, the paper underscores that decoupling cannot be fully pre-specified: sector-specific challenges, ranging from debt relations and value chains to financial exposure and institutional continuity, require flexible and adaptive policy responses.

Among these challenges, the energy sector stands out as the most sensitive domain. The transition to alternative energy sources and pricing structures implies significant increases in domestic tariffs and creates substantial social and fiscal pressures. Addressing these effects requires a combination of targeted support mechanisms and price-smoothing instruments, as well as broader institutional capacity to manage volatility and protect vulnerable groups.

Overall, the analysis demonstrates that while the path toward European integration for Belarus is complex and uncertain, it remains both feasible and economically justified. The central policy implication is the need for preparedness: rather than relying on a single predefined pathway, Belarus must develop a strategy capable of adapting to a range of external scenarios while maintaining a consistent orientation toward long-term convergence with the European Union.

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