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EU sanctions against the regime in Minsk

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1. Sanctions as an international law and international practice instrument

1.1 The nature and purposes of sanctions as an instrument of international law and international practice

Ekaterina Deikalo

Sanctions, by virtue of their nature, are one of the peaceful means of resolving disputes that the international community has adopted after the final and complete ban on the use of force as a legal means of resolving conflicts was enshrined at the level of international legal instruments (in the UN Charter). That is, sanctions are, in essence, a replacement of the instrument (military coercion) that is unacceptable due to the evolution of the community with the one that is new and more acceptable (non-military coercion)¹. Characteristics-wise, sanctions are retaliatory, coercive, restrictive measures².

If one were to analyze and generalize the positioning of sanctions by the entities that adopt them, and the reasons and stated goals for their adoption, one could identify **three main functions** (roles) of sanctions:

- Response to violation of international law. This function is performed primarily by "classical" sanctions — collective ones. These include, first of all, UN sanctions, but also individual (adopted by specific states) restrictive measures³.
- Ensuring and maintaining international legal order (including security). This function overlaps with the first one, but is broader. While the first case is all about reacting to a specific violation, the general function of maintaining international legal order acts as a rather preventive deterrent⁴. This function is proclaimed both at the collective and individual levels. For example, the EU declares that one of the functions of sanctions as a preventive measure is "safe-guarding the rule of law, human rights and the principles of international law; preserving peace; preventing conflicts and strengthening international security"⁵. The UK declares "complying with UN and other international obligations"⁶. Canada believes that sanctions are

¹The exceptions to the prohibition on the use of force are the use of force for self-defense (Article 51 of the UN Charter) and military sanctions pursuant to a UN Security Council decision (Article 42 of the Charter). The latter have never been applied in the entire history of the UN.

²Instead of the term "sanctions" the term "restrictive measures" is often used. But these are not always interchangeable, because sanctions are not the only type of restrictive measures in international law.

³For more information on the types of sanctions, see Section 1.2.

⁴The Netherlands, for example, formulates this as "to prevent other countries from taking an undesirable course."

⁵ https://www.eeas.europa.eu/eeas/european-union-sanctions_en#10702

⁶ <https://www.gov.uk/guidance/uk-sanctions#overview-of-uk-sanctions>

“key tool for the international community to support peace and security and enforce international norms and laws”⁷.

- Protection of national interests and national security, safeguarding and promotion of one’s values. In this capacity, sanctions are used as a foreign policy instrument. The EU and the US mostly pursue this function of sanctions. The US, generally, laconically state that the main goal of sanctions is to achieve foreign policy and national security goals⁸. The EU says that sanctions are measures that help “promptly respond to political challenges that run counter to the EU’s objectives and values.” They are one of the tools for promoting and implementing the EU’s Common Foreign and Security Policy, including the EU’s values, core interests and security⁹.

At the same time, the imposition of sanctions has **two basic goals**, achievement of which performs all the above functions:

- a) coercion to change behavior. As previously noted, sanctions are a non-violent method of coercion, that is, influencing the offender in such a way that they change unacceptable behavior. For this purpose, certain restrictions are imposed on the offender (on their legal entities and individuals). It is possible to distinguish between *coercion to stop unacceptable behavior* and *coercion to limit unacceptable behavior* (preventing escalation, for example). Based on the assessment of the effectiveness of UN sanctions regimes, the latter (limiting negative behavior) is the effect achieved in a greater number of cases¹⁰.
- b) reaction. It is important to understand that by imposing sanctions, the sanctioning entity pursues a separate goal — to “issue” a reaction to behavior that goes beyond what is accepted in the community or is unacceptable, somehow threatening, for a specific entity¹¹. This is especially important for the implementation of the sanctions function of ensuring law and order.

Most sanctions regimes (both collective and individual) combine all three functions and are imposed with the two stated goals in mind. Therefore, the effectiveness

⁷ https://www.international.gc.ca/world-monde/international_relations-relations_internationales/sanctions/legislation-lois.aspx?lang=eng

⁸ <https://ofac.treasury.gov/sanctions-programs-and-country-information>

⁹ <https://www.consilium.europa.eu/en/policies/sanctions/different-types/>

¹⁰With reference to the analysis of UN targeted sanctions from 1991 to 2013 in Targeted Sanctions, ed. Biersteker et. al., 2013, a recent review of UN sanctions regimes found that targeted sanctions were effective in forcing behavior change (i.e. stopping wrongful behavior) in 10% of cases, in curbing negative behavior in 28% of cases, and in signaling to the international regulatory framework (what this section calls a response) in 27% of cases: Subsidiary organs of the United Nations Security Council, 2023, p. 4.

¹¹The UK, for example, phrases it as “sending a political signal that such behaviour is intolerable”: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052217/The_Sanctions_Regulations_Report_on_Annual_Reviews.pdf

of sanctions cannot be reviewed by looking only at the implementation of one of the functions or the achievement of only one of the goals. Also, when assessing effectiveness that sanctions, it is important to consider the unexpected (unintended) effects that differ from those originally intended. Some researchers believe that such effects do not mean that the intended original goal has not been achieved — it is simply a side effect that can be both positive or negative¹².

Particularly noteworthy is that sanctions are not punitive. The EU, for example, makes this clear by emphasizing that sanctions are always part of a broader, comprehensive policy that includes political dialogue and additional efforts¹³. Sanctions do not work in a vacuum. They work better when they are part of a broader conflict management strategy¹⁴. Some researchers believe that it is a naive and simplistic view of sanctions to assume that the sanctioning party will change the behavior of the sanctioned party through the costs incurred by the latter. In fact, time and place should play a more significant role in assessing sanctions¹⁵.

1.2 Types of sanctions and their mechanics

Ekaterina Deikalo

Sanctions are classified by the adopting entity, the scale and purpose for adoption, and the restricted subject (sphere).

In terms of **the entities that adopt sanctions**, a distinction is made between collective and individual (or unilateral) sanctions. Collective sanctions are imposed by an international organization based on its charter and for violations committed by a member state. This is the most "classic" type of sanctions — what is most correctly referred to as "sanctions". This includes UN Security Council sanctions, as well as, for example, ILO sanctions (adopted on the basis of Article 33 of the Charter)¹⁶. EU sanctions are also considered collective, but due to the specifics of the organization and the fact that EU sanctions are part of the Common Foreign and Security Policy of the EU, they are imposed against non-members and not for violations of the organization's rules, since non-

¹² See: Katharina Luise Meissner, Patrick A. Mello. The Unintended Consequences of UN Sanctions: A Qualitative Comparative Analysis, 2022, p. 4, https://www.researchgate.net/publication/359501604_The_Unintended_Consequences_of_UN_Sanctions_A_Qualitative_Comparative_Analysis

¹³ https://www.eeas.europa.eu/eeas/european-union-sanctions_en#10703

¹⁴ Subsidiary organs of the United Nations Security Council, 2023, https://www.un.org/securitycouncil/sites/www.un.org.securitycouncil/files/subsidiary_organs_series_3apr23_final.pdf, p. 5.

¹⁵ Research Handbook on Economic Sanctions. Ed. by Peter AG van Bergeijk, 2021, <https://www.elgaronline.com/display/edcoll/9781839102714/9781839102714.xml>, p. 12.

¹⁶ At the same time, unlike the UN Security Council sanctions, the ILO does not introduce specific measures, but issues general framework recommendations to its members - states, employers and workers (trade unions) - to take specific restrictive measures. At the same time, it sets out clear requirements for ILO bodies to cease all technical cooperation and invite state representatives to participate in ILO events.

member states are not bound by them¹⁷. Individual sanctions are imposed by individual states based on international law and/or national legislation¹⁸.

In terms of **scale and purpose**, there are comprehensive sanctions, aimed at the country as a whole, and targeted (target, smart) sanctions, aimed at specific individuals, entities, groups, organizations, etc. Since about the late 1990s and early 2000s, the academia and practitioners have started advocating for targeted sanctions¹⁹. The case for opting towards this type has been to minimize the humanitarian consequences and to relieve the general public, who are inculpable, from bearing responsibility for the actions of their government²⁰. According to the UN, since 2004 all new sanctions regimes have been the targeted ones²¹. However, the lack of negative impact of targeted sanctions is also a matter of debate²². Generally speaking, currently the decision-makers on sanctions apply both targeted and comprehensive sanctions (both separately and together within a common sanctions regime).

In terms of **the subject (sphere)** in which restrictions are imposed, one can distinguish the following types: diplomatic (restrictions on diplomatic relations), economic and financial (restrictions on imports, exports, banking transactions, freezing of accounts), restrictions on movement (entry), restrictions on technical assistance, and a separate distinction is made for arms embargo and sanctions against aircraft and sea vessels, including deregistration or control of movement²³.

It is also possible to distinguish between “substantiative” (relating to a specific area for all countries)²⁴ and “country-based” (linked to a specific country) sanctions regimes.

¹⁷For more information on the grounds for imposing sanctions, see Section 1.3.

¹⁸For more information on the differences between individual sanctions, see Section 1.3.

¹⁹ See, for example: Daniel W. Drezner, *Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice*, 2011, <https://www.jstor.org/stable/23016144>

²⁰Research Handbook on Economic Sanctions. Ed. by Peter AG van Bergeijk, 2021, <https://www.elgaronline.com/display/edcoll/9781839102714/9781839102714.xml>, p.14.

²¹Subsidiary organs of the United Nations Security Council, 2023, https://www.un.org/securitycouncil/sites/www.un.org.securitycouncil/files/subsidiary_organ_series_3apr23_final.pdf, p. 5.

²² See, for example: Katharina Luise Meissner, Patrick A. Mello. *The Unintended Consequences of UN Sanctions: A Qualitative Comparative Analysis*, 2022, https://www.researchgate.net/publication/359501604_The_Unintended_Consequences_of_UN_Sanctions_A_Qualitative_Comparative_Analysis

²³For example, Great Britain.

²⁴For example, the sanctions regimes of the USA and Great Britain concerning cybersecurity and terrorism.

In the case of collective sanctions, decisions are taken within the framework of the organization's procedures by the relevant bodies²⁵, and all Member States are responsible for implementation²⁶.

1.3 Legal prerequisites and conditions for imposing sanctions

Ekaterina Deikalo

The legal prerequisites and conditions for imposing sanctions depend on the type of sanctions and sanctions regimes, as well as on the purposes of the sanctions declared in the regulations.

The UN Security Council sanctions are of a particular nature compared to others, as they are part of the universal system of collective security. The legal basis for their imposition is the qualification by the UN Security Council of the situation as one threatening peace and security. They are imposed as part of the algorithm of actions of the UN Security Council, described in Chapter VII of the UN Charter²⁷, and also in the event of failure to comply with the decision of the International Court of Justice. The legal prerequisite for the imposition of sanctions by the International Labour Organization (ILO), for example, is a systematic, gross and prolonged violation by the state of its obligations under ILO conventions and the government's refusal to respond to and implement the recommendations of the ILO Commission of Inquiry given in this regard, as well as failure to comply with the decisions of the International Court of Justice²⁸.

Other sanctioning entities (including the EU) generally have **three types of sanctions regimes**: implementation of UN Security Council sanctions (in this case, the legal basis is the corresponding UN Security Council resolution, which all UN members are obliged to implement; their internal law specifies the implementation)²⁹; a mixed regime — when, in addition to the UN Security Council sanctions, a state or the EU decides on additional sanctions for the same sanctioned entities (in this case, such “additional” sanctions are adopted on the basis of their domestic law, in the case of the EU — the EU law); and independent (autonomous) sanctions regimes (adopted on the basis of the domestic law, in the case of the EU — the EU law). It is important to note that in the case

²⁵The UN Security Council, the ILO Governing Body, and the EU Council (the European Commission is responsible for ensuring that sanctions are applied uniformly by EU members).

²⁶In the case of UN Security Council sanctions, there is a particular feature: since all other states (including EU member states) are members of the UN, then, along with their own, separate sanctions regimes, they all have obligations to implement the UN Security Council sanctions regimes.

²⁷In particular, Article 41, which allows the UN Security Council to take coercive measures not involving the use of armed force if the situation could not be resolved without them.

²⁸It was on this basis that the decision was made to “enable” Article 33 of the ILO Constitution in relation to Belarus: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_884900.pdf

²⁹In Canada, for example, the implementation of UN sanctions is regulated by a separate piece of legislation — United Nations Act : <https://laws-lois.justice.gc.ca/eng/acts/U-2/index.html>

of EU member states, there are also two regimes: all of them are bound by the obligation to implement the EU sanctions regimes, but can also impose their own “separate” sanctions.

It is also important to additionally mention the legal prerequisites for individual sanctions adopted by individual states. In international law, the term “sanctions” is not used in relation to coercive measures taken by one state against another, since it is believed that only a “collective” of states can “coerce” with the consent of the one being coerced (by virtue of *par in parem non habet imperium* — an equal has no power over an equal — and the principle of sovereign equality)³⁰. As an “individual” means of coercion, international law gives states the right to take countermeasures³¹. Non-injured states may take certain actions in the context of holding other states accountable (for example, file a lawsuit) if there is a violation of international norms that represent the “common interest”³². The question of whether a non-injured state can take unilateral coercive measures to protect a collective interest remains open. International law does not provide a clear answer to this question, although such a practice has existed (and specifically in the form of economic sanctions)³³.

The legality of individual coercive measures taken not as a legal mechanism to ensure the fulfillment of obligations, but as an instrument of foreign policy, can be based solely on sovereignty. It is contested at the UN level within the mandate of the Special Rapporteur on unilateral coercive measures, which focuses on their negative humanitarian impact³⁴. At the same time, the history of the creation of this mandate³⁵, and the reputation of those holding this position³⁶ do not allow for unambiguous reliance on the assessments made within its framework.

Thus, the legal basis for the “non-classical” sanctions policy – the policy of virtually all individual entities (states) and the EU – is a mixture of international legal grounds and

³⁰This is why, as stated above, only those sanctions that are adopted on the basis of the charter in relation to a member state are considered “classical”. Because by signing the charter and joining the organization, the state itself endorses such a mechanism.

³¹Coercive measures to suspend contractual obligations in relation to a counterparty for failure to fulfill its obligations. Only the injured state whose interests are affected has the right to take them.

³²*Erga's omnes* obligations, *jus cogens* norms. These include gross and massive violations of human rights, violation of the principle of non-use of force, territorial integrity, aggression and other norms of a similar nature.

³³In the corpus of law on international responsibility, such measures are called “measures taken by a State other than the injured State”: see for more details Art. 54 and the commentary thereto in the Articles on State Responsibility, 2001,

https://legal.un.org/ilc/texts/instruments/english/commentaries/9_6_2001.pdf

³⁴<https://www.ohchr.org/en/special-procedures/sr-unilateral-coercive-measures>

³⁵The mandate was proposed at the initiative of Iran on behalf of the Non-Aligned Movement (which includes Belarus). See the list of states that voted in favour of the establishment of the mandate in 2014: resolution A/HRC/RES/27/21, and in favour of its extension in 2020: resolution A/HRC/RES/45/5.

³⁶See for example <https://unwatch.org/un-rights-envoy-received-200000-from-china-while-acting-for-beijing/>

grounds arising purely from sovereignty³⁷ (the latter may sometimes clash with international legal provisions).

In terms of **the substantive legal grounds (that, for which sanctions are imposed)**, one can distinguish the following³⁸: mass violations of human rights; situations that threaten international stability and security (including the threat or use of force, annexation of foreign territories); deliberate destabilization of a sovereign state³⁹; obstacles to the provision of humanitarian aid; violations of international humanitarian law⁴⁰; violations of the arms embargo; support for terrorism; drug trafficking; cyber activities that pose a threat to security; corruption⁴¹.

It is important to emphasize that **the procedure for periodic review of sanctions, and/or removal from the list upon request, and/or challenging the decision on sanctions is** an integral mechanism of sanctions regimes in all cases. Since 2006, the UN has had a *Focal Point for De-listing* as a subsidiary body of the Security Council to receive corresponding submissions⁴². The EU has a similar procedure (plus annual review). In addition, the EU's decision on sanctions can be challenged in the European Court of Justice⁴³. The US, for example, also have a procedure for obtaining permission for general or special exemptions (temporary deferments) from the sanctions regime⁴⁴.

There are also **restrictions for sanctions regimes**: specific items and areas that should not be subject to sanctions in principle. The main idea is to minimize the negative impact of sanctions in the humanitarian sphere. As a general rule, sanctions cannot be imposed, for example, on humanitarian aid and the delivery of essential goods such as food and medicines.

However, it is obvious that negative humanitarian consequences cannot be avoided even in the case of targeted sanctions. For example, in the context of UN financial sanctions, there was a problem with the transfer and maintenance of funds and assets necessary for humanitarian activities and operations to meet basic human needs⁴⁵. In 2022, the UN Security Council adopted a resolution that enshrines a general exemption

³⁷In the case of the EU, that part of the sovereignty that the member entitle it to.

³⁸For all actors imposing sanctions, they mostly overlap, although there are some specifics (for example, the UN).

³⁹A ground specifically prescribed by the EU.

⁴⁰A ground characteristic of the UN.

⁴¹This ground is particularly highlighted by Canada, which formulates it as "material corruption (as well as complicity therein) committed by a foreign official or someone assisting him."

⁴² <https://www.un.org/securitycouncil/sanctions/delisting/delisting-requests>

⁴³ <https://www.consilium.europa.eu/en/policies/sanctions/adoption-review-procedure/>

⁴⁴That is, permission to perform actions that cannot be performed within the framework of the sanctions regime. For example, during the next expansion of US sanctions against Belarus (in August 2021), such a six-month deferment was made in relation to Belaruskali.

⁴⁵ See, for example: Emanuela-Chiara Gillard. Humanitarian exceptions: A turning point in UN sanctions, 2022. <https://www.chathamhouse.org/2022/12/humanitarian-exceptions-turning-point-un-sanctions>

from UN financial sanctions for such funds or assets (but this only applies to financial sanctions)⁴⁶. In 2023, the EU adopted a decision on similar exemptions, which applies to EU sanctions within the framework of the implementation of 14 UN sanctions regimes, as well as to autonomous EU sanctions regimes that complement UN sanctions⁴⁷.

In addition to humanitarian aid and essential goods, the following exemptions can be made: in the case of visa bans, exemptions can be the visas issued for humanitarian reasons, as well as visas issued to individuals for visits to international organizations; an exemption from a sectoral imports/exports ban to ensure that existing contracts are honored; a person or company included in the sanctions list may be granted a special dispensation to enable them to fulfil previously incurred obligations (for example, payment for goods supplied or compensation for damages); a partial lifting of the arms embargo to allow the import of non-lethal weapons for humanitarian use, defensive purposes, UN or EU crisis management operations or mine clearance operations; exemptions required by embassies and international organisations to make payments.

1.4 Key lessons from international experience

Rose Turabekova

Sanctions have been actively used in global politics since the end of the Cold War. They are a tool of pressure from the international community on governments to change criminal behavior. Sanctions are also actively used at the bilateral and regional levels by major players such as the US, EU, UK, Canada, Australia, Japan, etc. One of the most extensive sanctions databases is the Drexel University Global Sanctions Data Base (GSDB) project, which includes 1,100 cases from 1950 to 2019. According to this study, 21% of imposed sanctions were not lifted, and only 25% of 40 the underlying armed conflicts were resolved. Based on extensive empirical data, it has been proven that the longer sanctions are in place, the more difficult it is to lift them.

Conventionally, there are 5-6 types of sanctions: trade, financial, travel restrictions, arms trade, military support and others. Today, financial sanctions are recognized as the most widespread and effective ones. Their importance increases due to easier implementation and control procedures. Before the introduction of "military packages" of sanctions against Russia and Belarus, the most vivid example was Iran getting disconnected from SWIFT.

The most important element of studying sanctions in international practice is the analysis of their goals. Most sanctions are related to armed conflicts or the threat of their occurrence, their goal is to prevent war, terrorism, and to force peace. Such sanctions were adopted against the Taliban in 1998 and Lebanon in 2006. As a rule, these are the sanctions of the international community (UN). More "peaceful goals" can be set not only and not even so much at the UN level, but at the level of individual major players: respect

⁴⁶ <http://unscr.com/files/2022/02664.pdf>

⁴⁷ <https://www.consilium.europa.eu/en/press/press-releases/2023/03/31/humanitarian-action-eu-introduces-exemptions-to-sanctions-to-facilitate-the-delivery-of-assistance/>

for human rights (Belarus 2006), restoration of democracy, say, after a military coup. There may be such goals as stopping drug trafficking, fighting corruption, and releasing political prisoners.

Given the multifaceted nature of the Belarusian case, one can speak about a certain similarity with the experience of sanctions against Myanmar and Iran. For example, as far as Myanmar is concerned, sanctions against it were not adopted in connection with an armed conflict, but as a result of the brutal dispersal of the so-called "saffron revolution" in 2006. The sanctions imposed in 2007-2008 by the United States and its allies forced the military junta to begin the process of transferring power from the military to the civilian government in 2011. In 2012, they were significantly relaxed. In connection with the military coup in 2021, they were reintroduced. Iran can also serve as an illustrative example. In connection with the development of a nuclear program, the so-called "Iranian nuclear dossier" has been managed since 2003, which includes the collection of evidence and debates at the UN level regarding the military component of the program. In 2010, international sanctions were imposed on Iran, which forced the government to reach a deal in 2015.

Sanctions can be frozen or softened fairly quickly. History of practical application of sanctions indicates that "softening" does not mean complete cancellation, and re-introduction is quite possible. As a rule, the initiators of most sanctions are the United States. They continue to set the tone in this day and age.

2. Facts and documentary evidence of the sanctions environment

2.1 Brief overview of the previous "experience" of sanctions against the Lukashenko's regime from 1996 to 2020

Rose Turabekova

The history of sanctions pressure on the Lukashenko's regime begins in 1997, when the US and the EU started introducing personal sanctions and reducing the level of interaction with Minsk.

One of the most serious blows to Belarusian-European relations was dealt on September 15, 1997, when not only were their level lowered — below the ministerial grade — but also the procedure for ratifying the Partnership and Cooperation Agreement and the temporary trade agreement was suspended. Overall, it was from this moment that one could speak of a serious limitation of the possibilities for developing cooperation at all levels, including contacts between people. The only example of a quick resolution of the conflict is the "Drozdy embassies incident" (1998), when visa restrictions were introduced for Lukashenko and 130 Belarusian officials. It was resolved by early 1999.

Since 1998, the EU has been pursuing more of a list-based approach, meaning sanctions were imposed on the sanctioned individuals for "trips to the EU" and their

accounts in European banks were frozen. Unlike the EU, the US demonstrated a tougher approach, adding to the list of individuals a range of large companies that made a significant contribution to the country's budget and were directly managed by the regime.

The EU imposed sanctions in September 2004 and April 2006. All of them were "sanctions lists" that restricted travel and froze accounts of individuals. The list was constantly expanded. But in October 2008, the EU Council suspended the sanctions until 2011. In September 2008, some sanctions were also suspended by the US against two of the six sanctioned companies. During this period, an attempt was made to draw Lukashenko into rapprochement with the EU. The day before, in August 2008, Alexander Kozulin, a presidential candidate who participated in the 2006 campaign, was released. So, the formula "political prisoners in exchange for lifting sanctions" has worked. But, as aforesaid regarding undemocratic regimes, the threat of returning sanctions was quite real. Moreover, it was not about lifting sanctions, but only about easing or freezing them for a certain period. In the case of the US, it was for six months, in the case of the EU — for one year. In the case of positive trends, the freeze was extended until all the demands put forward were met, setting the framework for something of a "seesaw" in the political process within the country and in the foreign policy of Belarus.

As a result of the violent dispersal of protests in December 2010, the EU and the US adopted a new package of sanctions in 2011. In addition to the previous restrictions, new individuals were added to the list. In addition, the EU included agencies in the list and imposed an embargo on the supply of police equipment and dual-use equipment. Following some facilitation on part of Minsk to organize the platform for the resolution of the Russian-Ukrainian armed conflict, commencement of a dialogue with the EU became possible in 2014. The easing of sanctions became visible in October 2015, when the EU Council decided to temporarily suspend them. In 2016, for the first time since 1996, EU sanctions were partially lifted. A similar process, but in a more severe fashion, was taking place in Belarusian-American relations. In 2015, sanctions against nine major companies were frozen. This significantly expedited their operations, since due to the sanctions everything, including payments, was done through "shady" arrangements. The lifting or freezing of sanctions followed the release of political prisoners in the summer of 2015. The formula "sanctions in exchange for political prisoners" remained operational. But it stands to mention, that an important driver was the initiative of Lukashenko's Administration.

As far back as at the beginning of the tightening of sanctions in 2006 (this especially concerns American restrictions), the official position of the Belarusian government was that "the country does not succumb to pressure" and "economic sanctions are ineffective." But if one were to analyze not only the declarations, but also the actions of the Belarusian authorities and the timeline of developments, one would see that the sanctions are effective and Lukashenko is simply waiting for the right moment for negotiations.

However, the formula "political prisoners in exchange for sanctions" was accepted and internalized not only by the EU, the US and Lukashenko's Administration, but

primarily by the democratic opposition. This pattern set and defined the horizon of action. The main question remains: what to do and how to act if this formula stops working?

2.2 Sanctions map. What sanctions, by whom and with what justifications and purposes were imposed on Belarus since 2020

The staff of the People's Anti-Crisis Administration (NAA)

Following the events surrounding the 2020 presidential elections in Belarus, the European Union imposed a number of comprehensive sanctions packages on the Lukashenko's regime. The first three were adopted in connection with election fraud and repressions back in 2020, the next two — in 2021 (packages in connection with the hijacking of a civilian aircraft and the migration crisis), and finally, in 2022, following the Lukashenko's regime's complicity in Russian aggression against Ukraine, the EU adopted new restrictions, including transport and financial ones.

On 2 October 2020 — following the 2020 election fraud, as well as in connection with the violation of human rights before, during and after the elections — the EU, for the first time ever, imposed personal sanctions against 40 Lukashenko's officials (mainly against the leadership of the Ministry of Interior and members of the Central Election Commission). The sanctions provided for the freezing of the financial assets of individuals and agencies on the list, as well as a ban on issuing visas to EU countries to these individuals. On 6 November 2020, 15 more people were added to the sanctions list, including Alexander Lukashenko himself, his eldest son Viktor, Ivan Tertel, Igor Sergeyenko, Pyotr Miklashevich, Andrei Ravkov, and other heads of government agencies.

On December 17, 2020, the third sanctions package was adopted. In addition to adding 29 individuals to the personal list, restrictions were imposed, for the first time, on 7 companies, mainly military ones (MZKT, AGAT - Electromechanical Plant, 140 Repair Plant, Beltekexport). The list of sanctioned entities also included the Presidential Property Management Department, Synesis (IT-vendor), and Dana Holdings (the large private developer).

The aim of these measures was to put pressure on the Lukashenko's regime to prevent repression and further violence, to secure the release of political prisoners and others unjustly detained, and to initiate a national dialogue with the general public.

Following the illegal grounding of the Ryanair plane, the European Union adopted a fourth package of sanctions on June 25, 2021. In addition to the usual expansion of the personal list by 78 people — almost two-fold increase — the European Union introduced sectoral restrictions for the first time. The three previously adopted packages of sanctions were blocking in their nature, that is, they prohibited transactions with respect to specific

individuals and companies. Sectoral sanctions provided for prohibitive measures with respect to entire sectors of the economy.

The restrictions affected goods for the manufacture of tobacco products, certain commodity items for petroleum products, potassium, dual-use goods and technologies. Financial sanctions were also adopted. In particular, it was prohibited to directly or indirectly sell, buy, provide investment services or otherwise handle Belarusian securities and short-term capital market instruments with a maturity of more than 90 days issued by the Republic of Belarus, the government, its state agencies and organizations, as well as three banks (Belarusbank, Belagroprombank and Belinvestbank).

8 more companies were added to the sanctions list of legal entities (oil trader New Oil Company, state-owned major motor companies BELAZ and MAZ, logistics and trading outlets of the regime's "wallets" — Sokhra Group, Bremino Group, Logex, as well as Belaeronavigatsia, which was involved in the aircraft grounding case).

The EU has adopted new restrictive measures in response to the crackdown and escalation of human rights violations in Belarus, including the forced landing of the Ryanair flight and the detention of journalists Roman Protasevich and Sofia Sapega. The aim of these sanctions was to put pressure on the Lukashenko's regime to start a national dialogue with the general public and refrain from further repressions.

In fact, in sync with the EU, the US, Canada and the UK imposed sanctions against Lukashenko's regime in June 2021. The US sanctions list included the Main Directorate for Combating Organized Crime of the Ministry of Internal Affairs, the KGB, the Okrestina Detention Centre and the Internal troops of the Ministry of Interior. 16 individuals were subject to new US sanctions. Canada adopted restrictions on 17 individuals and 5 organizations, the UK — on 11 individuals and 2 legal entities. On August 9, 2023, the UK and Canada also announced the introduction of sectoral restrictions.

Following the instrumentalization of migration at the Belarus-EU border by the Lukashenko's regime, the European Union adopted the fifth package of sanctions on December 2, 2021. The list includes 11 legal entities and 17 individuals. In particular, the restrictions apply to representatives of the border troops command, judges, and staff of the Foreign Ministry, the Belavia air carrier, hotels and tour operators, as well as Belorusneft, Grodno Azot and Belshina.

On the same day, the US, Canada and the UK announced that they would support European measures against the Belarusian regime. In particular, the US sanctions, according to the US Treasury Department, concerned the Belarusian sovereign debt, 20 individuals and 12 legal entities, including Dmitry Lukashenko. The sanctions also included the Belarusian Potash Company, Slavkali, Beltechexport and Transaviaexport.

In 2022, another restrictive measure was related to Lithuania's decision to stop transit of potash fertilizers from Belarus through its territory from February 1. In turn, the EU adopted a regulatory decision (published on February 18, 2022), which was formalized as

a technical amendment to expand financial restrictions on Dabrabyt Bank and the Development Bank. Now they, as well as for the three state-owned banks previously included in the list, could no longer raise loans for a period exceeding 90 days or handle securities with longer maturities.

A new stage in the policy of restrictions against the Lukashenko's regime began on 24 February 2022 with full-scale Russian aggression against Ukraine. Just a few hours after the start of hostilities, the EU High Representative issued a declaration condemning "Belarus' involvement in the aggression against Ukraine". On 2 March 2022, the EU Council decided to impose targeted measures against 22 members of the Armed Forces of Belarus.

In addition, the EU Council decided to introduce additional trade restrictions for Belarus on mineral fuels, bituminous substances and gaseous hydrocarbons, potassium chloride, wood products, cement products, cast iron and steel, rubber products, goods used in the production or processing of tobacco products. In addition, restrictions were introduced on the export of dual-use goods and technologies, as well as those that could contribute to the military, technological development and the development of defense and security of Belarus, and restrictions on the provision of related services.

On March 9, 2022, the European Union approved new sanctions against the Belarusian financial sector. The agreed measures included: disconnecting Dabrabyt Bank, Belagroprombank, Development Bank, and their subsidiaries from SWIFT; banning transactions with the National Bank of Belarus; restricting the flow of financial resources from Belarus to the EU, including ban on deposits over 100 thousand Euros from Belarusian residents and citizens; as well as ban on import of Euro banknotes to Belarus.

In addition to the earlier restrictions, the European Union decided on April 8, 2022, to ban Belarusian freight carriers from operating on its territory (including transit). However, exceptions were made for certain groups of goods — medical, agricultural, mail, and humanitarian aid.

Finally, on June 2, 2022, the EU Council approved sanctions against Russia, which included measures against Belarus. In particular, it meant disconnecting Belinvestbank from SWIFT. The restrictions were expanded to include 12 more Belarusian citizens and 8 more companies, including the Naftan Oil Refinery, Belaruskali and its trader — the Belarusian Potash Company, Inter Tobacco and the Grodno Tobacco Factory, Belkommunmash and the logistics operator Beltamozhservice. Sanctions were also imposed on Belteleradiocompany.

Almost a year later, in August 2023, new European sanctions were adopted against the Lukashenko's regime. The EU Council banned the supply of certain goods and technologies that contribute to the military-technical development of Belarus. An additional ban was imposed on the supply of firearms and ammunition, products and technologies intended for use in the aviation and space industries. The EU also approved new restrictive measures against 38 security officials and propagandists, as well as three

Belarusian companies (BMZ - BMK Holding Management Company, Minsk Kozlov Electrotechnical Plant and Belneftekhim).

The purpose of the economic sanctions that were introduced after the start of full-scale Russian aggression in Ukraine was to impose severe restrictions on the Russian Federation and its ally, the Lukashenko's regime, for their actions, as well as to undermine their capacity to continue military operations. Personal sanctions targeted the individuals responsible for supporting, financing or carrying out actions that undermine the territorial integrity, sovereignty and independence of Ukraine, as well as those who benefited from these actions.

During 2020–2023, significant restrictions (sectoral, personal, financial) were also adopted by the United States. On December 23, 2020, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) added one person and four entities to the restricted list for their role in the presidential election fraud and the subsequent crackdown on the protests in Belarus. On February 19, 2021, the United States imposed sanctions on 43 more Belarusian officials, and on April 19, it banned any transactions with nine petrochemical companies (the sanctions came into effect on June 3, 2021).

Finally, on August 9, 2021, the United States imposed sanctions on 23 individuals and 21 companies from Belarus, including Belaruskali, the Grodno Tobacco Factory, and a number of other companies in the construction, energy, and transportation industries. The US President's executive order also expanded the scope for new restrictions in certain sectors of the economy, including security, defense, construction, transportation, energy, fertilizer production, and tobacco products.

Once the war in Ukraine began, OFAC announced sanctions against 24 Belarusian individuals and legal entities. US residents were prohibited from dealing with these organizations and their property. The new sanctions also affected large banks, military-industrial companies, a number of officials and businessmen. In particular, the sanctions list included Belinvestbank and Dabrabyt Bank, as well as companies owned by Belinvestbank. OFAC announced sanctions against a number of law enforcement agencies. The US also extended the strict export control measures imposed on Russia to apply to Belarus.

On April 1, 2022, the US Department of Commerce expanded the restrictions by adding another 120 companies from Belarus and Russia to the sanctions list. The new list included the internal troops of Belarus, as well as the KGB and its Alpha unit, MTZ and MZKT. On April 20, 2022, 17 more individuals were added to the US sanctions list, and on August 9 of the same year, visa restrictions were additionally extended to 100 officials from Belarus and affiliated persons. Finally, on December 5, 2023, another 11 Belarusian companies from the military-industrial complex, logistics, trade, and tobacco production were added to the US sanctions list, and sanctions also applied to 8 Belarusian citizens.

In addition to the EU and the US, sanctions were imposed by 18 other countries (Canada, Great Britain, Australia, New Zealand, Japan, the Republic of Korea, Ukraine,

Switzerland, Norway, Iceland, Liechtenstein, Albania, Serbia, Montenegro, North Macedonia, Kosovo, Taiwan, the Commonwealth of the Bahamas). Most of them began to actively join the restrictions after the grounding on the Ryanair flight and especially with the start of the war in Ukraine. Sanctions were imposed on virtually all key export sectors of the Belarusian economy (fertilizers, oil refining, wood processing, tobacco industry, military-industrial complex), the financial system, as well as more than 400 individuals.

In addition to states, international organizations have also imposed restrictions on Lukashenko's regime. On March 1, 2022, the European Bank for Reconstruction and Development permanently suspended Belarus' access to its finances. On March 2, 2022, the World Bank also terminated all its programs in Belarus. As part of the fourth package of EU sanctions, the European Investment Bank suspended all financing or payments under all existing agreements related to public sector projects and existing technical assistance agreements.

Thus, the sanctions of the EU, the US and other countries were pegged to certain events, that triggered the introduction of new restrictions. Individuals and entities were included in the sanctions lists for violations of international law, including human rights, which caused each to package to be adopted (migration crisis, hijacking of the civilian flight).

However, there is not always a direct link. For instance, the packages imposed after the grounding of the Ryanair flight, the migration crisis and Russian aggression in Ukraine, included persons responsible for repressions and election fraud, that is, for actions committed earlier and still being committed at the time of the adoption of restrictions. However, in general, these restrictions were simply countermeasures of the imposing party.

It should be noted that in addition to violations of international law, sanctions could be justified by the existence of a security threat (this wording became especially frequent with the beginning of a full-scale war in Ukraine). In these cases the purpose of sanctions was to deprive the aggressors of resources and punish them, which allows interpreting sanctions as a civilized measure of coercion and accountability.

Overall, then, sanctions have been a form of retaliation for ongoing violations of international law, as well as an instrument of enforcement. The effectiveness of sanctions should not be judged solely by their visible consequences. Sanctions also serve as a vital deterrent. We do not know what the world would be like if democracies did not use them to combat violations of international law.

2.3 Comparison of sanctions against Belarus and Russia since 2022

The staff of the People's Anti-Crisis Management (NAM)

Both Belarus and Russia have faced sanctions in their recent history. Sanctions against the Lukashenko's regime have been applied throughout its entire existence, starting with the constitutional coup of 1996. The first significant sanctions against the Russian Federation were introduced after the annexation of Crimea and the outbreak of hostilities in eastern Ukraine in 2014.

After a period of relative detente with the West in the second half of the 2010s, Lukashenko's regime faced a new round of sanctions after the rigged 2020 elections and the wave of repressions that followed. Moreover, the sanctions only intensified after the hijacking of a civilian plane and the migration crisis orchestrated by the Lukashenko's regime. At the same time, Russia, which formally, that is, openly, was not a party to these events, found itself outside the focus of Western sanctions pressure.

Thus, at this stage, the degree of sanctions pressure on the Lukashenko's regime exceeded the volume of those imposed on Russia, which allowed the latter to be a kind of an off-setting mechanism for the sanctions already imposed against the Lukashenko's regime. Later, after the start of full-scale Russian aggression against Ukraine in February 2022, the tables turned. Now Russia, as the main aggressor, has been subjected to unprecedented sanctions from the Western world.

In turn, Belarus, which, although it enabled the Russian troops to carry out the aggression from its territory, still did not partake in the hostilities with its own armed forces, found itself in a more advantaged position compared to Russia — that is, the total volume of sanctions imposed on Belarus, although it increased significantly with the start of the war due to the complicity of the Lukashenko's regime, was still smaller than those imposed on the Russian Federation.

Since the start of the war, sanctions against Russia have largely concerned imports to Russia, while sanctions against Lukashenko's regime in Belarus have mostly concerned Belarusian exports. This discrepancy has made it easy to circumvent sanctions (due to open border between the two countries), generate significant revenue for the budgets of both countries, and even enriched the smuggler logistics set-ups in both Russia and Belarus.

Goods sanctioned for Russia could be legally purchased by Belarusian intermediaries and re-exported to Russia with no hurdles. The same was true for the reverse direction as well. This legal smuggling primarily served as a delivery channel for the critical components for the military-industrial complex of both countries.

Many of the middlemen who circumvented the sanctions advertised their services as shipping banned goods from the EU to recipients in former Soviet Central Asian Republics via Belarus. But in reality, these shipments simply ended up in Belarus and Russia, as their destination was changed immediately after crossing the border at logistics hubs controlled by Lukashenko.

The same scheme was used for prohibited exports. Russia actively used it to circumvent the imposed sanctions. Thus, Belarus became a convenient logistics hub for Russia to circumvent the sanctions adopted by the Western countries. Basically, it was a matter of roles allocation in export-import operations within the Union State of Belarus and Russia.

Belarus also became a place for Russia and its citizens to bypass financial restrictions. In particular, most Russian banks disconnected from SWIFT had subsidiaries in Belarus. International transfers could be sent using the Bank of Russia's Financial Messaging System (SPFS) from Russian parent companies to their Belarusian subsidiaries, and then, by means of SWIFT, to Western makers or intermediaries.

Also, due to significant banking restrictions in relation to Russia and the absence of such restrictions for Belarus, a significant number of Russians were coming to Belarus to open bank accounts and get bank cards. The so-called "banking tourism" was widely advertised. Up to 20% of all cards issued in Belarus are issued to Russian citizens.

Unlike the Central Bank of Russia, whose assets were frozen by both the EU and the US, the assets of the National Bank of Belarus were frozen only by the EU. In addition, the export of dollar bills was prohibited only to Russia, but not to Belarus.

Thus, the difference in sanctions regimes allowed the dictatorial systems, both in Belarus and Russia, to profiteer, and also made the applied restrictive measures less effective.

2.4 Experience of sanctions policy from 2020 to 2022

2.4.1 Consequences at the macro level (effects in the economic, political field and international relations)

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The actual aftermath (see Box 1) that Belarus experiences in the economic sphere as a result of sanctions as of early 2024 is tangible and varied. The most important manifestations are as follows:

- 1. V-shaped recession and wealth loss**
- 2. "Reconfiguration" of the functioning of the economy (logistics, infrastructure, etc.) and its geographical reorientation**
- 3. Changes in the structure of the economy - by industry and type of ownership**
- 4. Significant perturbations in the labor market - labor shortage and transitive growth of wages**
- 5. Increased macroeconomic vulnerability and growing macroeconomic imbalances**
- 6. New standards and weakening of the quality of economic policy**

1. V-shaped recession and wealth loss

The sanctions became a trigger that caused a recession in the Belarusian economy between Q2 2021 and Q3 2022. During this period, output in the national economy decreased by 6.8%. This volume of output losses should be considered as the main integral indicator of the actual consequences of the sanctions.

At the same time, it is also appropriate to argue that the output losses associated with the sanctions were greater than the indicated 6.8% of GDP. A significant part of the sanctions losses was offset by positive shocks not directly related to the sanctions. For example, a positive shock largely independent of the sanctions was the improvement in the terms of trade (the ratio of export and import prices) in 2022–2023.

Kruk (2024)⁴⁸ shows that (based on the methodology of Kruk (2020)⁴⁹) the above 6.8% actual output loss can be decomposed into 12.0% output loss due to the direct effects of sanctions and a “gain” (compensation) of 5.2% of output due to other adjustment effects and positive shocks. Later in 2023, the direct losses from sanctions declined (mainly due to the successful mitigation of the scale of the initial shock through export protection mechanisms) to 6.6% of output. At the same time, other adjustments and positive shocks provided compensation of almost identical size, which allowed the output value to return to the level of mid-2021 at the end of 2023.

There is an ongoing debate regarding the interpretation of the actual output losses as the main integral consequence of the sanctions. Is this loss a lot? Is it not? Why and because of what did these losses not become permanent, were gradually compensated, and by the end of 2023 the economy returned to its previous output level (see Boxes 2–4)? Or, in other words, why did the recession (at least as of early 2024) turn out to be V-shaped?

The potential consequences of the sanctions (see Box 4) seemed quite significant at the first stages. For example, the upper limit of potential output losses was estimated at 20%. An important assumption in assessing the potential consequences was the permanent nature of the export shock. In addition, the degree of adaptability of the Belarusian economy seemed quite modest. However, the practice turned out to be different. Due to specific export protection mechanisms introduced by the economic authorities, as well as active adaptations by firms, the scale of the initial shock was significantly limited. The export shock became transitory, not permanent. Therefore, the degree of adaptability of the Belarusian economy turned out to be quite high. In addition, positive external shocks unrelated to the sanctions had an important compensating effect on the economy.

⁴⁸Kruk, D. (2024). Cognitive dissonance on Belarus: Recovery and adaptation or stalemate? (Policy Brief Series). FREE Network. <https://freepolicybriefs.org/2024/01/08/belarusian-economy-outlook/>

⁴⁹Kruk, D. (2020). Short-Term Prospects for the Development of the Belarusian Economy (92; BEROC Policy Paper Series, p. 17). Belarusian Economic Research and Outreach Center (BEROC). https://www.beroc.org/publications/policy_papers/kratkosrochnye-perspektivy-razvitiya-belorusskoy-ekonomiki/

Thus, the picture of actual output losses in the period 2021–2023 can be summarized as follows:

- The gradual and progressive introduction of sanctions (at least until 2022) has expanded the adaptability, including proactive adaptation.
- Belarus suffered the greatest losses associated with sanctions in 2022. The upper limit of the estimate (at the peak of 2022) is 12% of GDP.
- Thanks to export protection mechanisms, losses associated with sanctions have gradually decreased.
- The sanctions regime coincided in time with (and was partly associated with) the formation of a list of positive shocks for the national economy, as well as effects caused by adaptation reactions and economic policy. They compensated for a significant part of the output losses due to sanctions (at least 5.2 % in 2022).
- The Belarusian economy has demonstrated a high degree of adaptability to the sanctions regime.
- Positive effects and high adaptability ensured the V-shaped nature of the recession, and by the end of 2023, after the transitory losses incurred, output returned to the pre-sanction level.

2. “Reconfiguration” of logistics and economic infrastructure, their geographical reorientation

Based on the available evidence – industry and sectoral studies, firm surveys, available freight turnover statistics, as well as occasional official statements and press releases – the following phenomena are observable:

- Significant weakening of Belarus as a logistics hub, reduction in the volume of cargo transported through the country
- Geographical reorientation of logistics and export service
 - The importance of Russian logistics infrastructure, in particular Russian sea ports and Russian railways, has increased massively
 - The importance of the EAEU, CIS and other countries (Armenia, Uzbekistan, Kazakhstan, Georgia) as transit points has increased
- Geographical reorientation of logistics and import service
 - The importance of import deliveries through Russian logistics infrastructure has increased
 - Türkiye, China, Kazakhstan, Georgia, Armenia have become new systemically important transit and logistics intermediaries for Belarusian imports
- Reorientation of payments of Belarusian banks from the SWIFT system to the Russian financial messages system (SPFS)
- Reorientation to the Russian ruble as the main currency for settlements in foreign trade transactions, proportional reduction in the role of the dollar and euro

3. Changes in the structure of the economy — by industry and type of ownership

Sanctions directly, as well as in combination with the phenomenon of toxicity and adaptation effects, became a barrier to growth or a factor for the contraction of output in a number of industries. At the same time, in a few select industries, the sanctions environment, on the contrary, caused a hike in output. As a result, an important consequence of the sanctions was the change in the industrial structure of output. The main driving forces of this change were as follows.

- Decrease in the volume of output and share of gross added value of the IT industry (information and communications industry).

In 2022–2023, the physical output of the information and communications industry decreased by approximately 20%. The industry's share in gross value added over this period decreased from approximately 9% to approximately 7%. Thus, while for many years this industry had previously been a driver of growth, as well as a stronghold of technological advancement for the entire economy, the sanctions became a factor that reversed this trend.

- Decrease in output and share of gross value added in the transport sector.

The sanctions largely paralyzed the industry in 2022–2023. During this period, its output volume shrank by about 16%, and its share in output fell from 6% to 5%.

- Obstacles to growth and stagnation in the trade and construction industries.

In these industries, the negative trends were not as pronounced (as in the case of IT and transport), since they were mainly determined not by the direct impact of sanctions, but by reactive adaptation and macroeconomic conditions. In 2022, these industries experienced a noticeable decline. But in 2023, against the backdrop of the mitigation of the main effects of sanctions, the output of these industries began to grow and returned to the pre-sanction level or even went slightly over. Nevertheless, one can argue that due to secondary effects these industries are sensitive to changes in the sanctions environment.

- A jump in output and a sharp increase in the share of manufacturing in gross value added.

The biggest "winner" among industries in terms of output volume and share in gross value added was the manufacturing industry. Over the course of two quarters of 2022 (immediately after the introduction of sanctions), it experienced a decline. However, subsequently, the positive impact on output from expanded opportunities in the Russian market became a key factor. And the manufacturing industry began to demonstrate sustainable growth, and its output volume began to reach new historical highs. Accordingly, the share of the manufacturing industry in output increased from about 26% (before the sanctions) to about 27.5%. At the same time, by the end of 2023, signs of fading growth in the manufacturing industry became visible. That is, with a high probability, this growth will be transitory.

The trend accompanying the sectoral changes has also become an increase in the share of the public sector (budget and state enterprises) in the output. This trend, on the one hand, reflects the expanded opportunities of the state-owned companies (easier access to the Russian market, intensification of state support), and on the other hand, demotivation and more barriers for private business. The scale of the trend does not yet allow talking of total nationalization of economic activity. Still, at least, the pre-sanction trend of progressive growth in the share of the private sector has dried up.

4. Significant perturbations in the labor market: labor shortage and transitive growth of wages

The sanctions (due to adaptation in the form of corporate and individual migration) have become a trigger for the aggravation of the supply deficit in the labor market. The departure of at least 150 thousand people from the country has led to the fact that the chronic problems of the Belarusian labor market caused by demographic trends with a high degree of administrative regulation — a combination of low wages and high quality of human capital, low unemployment with low quality of employment — have begun to progress and give rise to new phenomena and contradictions.

The conflict between the quantity and quality of available jobs with low labor mobility became increasingly apparent, which led to a pronounced labor shortage. For example, the companies started considering the shortage of personnel (both skilled and unskilled) as their most pressing problem. The employment rate in the economy began to reach new historical lows, and firms radically reduced the number of new jobs, as they could not fully fill vacancies for existing ones.

Against the backdrop of a labor shortage in 2022–2023, there was a phenomenon of wage growth outpacing other macroeconomic indicators (GDP growth rate, labor productivity, etc.). This occurred because companies, especially in the private sector, were often forced to raise wages in the face of a labor shortage, even to the detriment of their financial position. Otherwise, they were running the risk of being forced to shut down. As a result, despite the fact that output stagnated in 2022–2023 (there was recovery growth after the recession), real wages increased by approximately 12.5% during this period.

5. Increased macroeconomic vulnerability and growing macroeconomic imbalances

In terms of key final macroeconomic indicators — GDP dynamics, inflation, unemployment — the situation in 2022-2023 looked relatively good, and significantly better than the prevailing expectations. However, along with this, there was an increase in the volatility of many macroeconomic indicators and an increase in a number of macroeconomic imbalances.

During the specified period, the volatility of the GDP growth rate increased significantly. There were noticeable jumps and rollbacks in the evolution of output, which reflects the unstable external environment and the increased importance of

administrative interventions. The physical volume of exports, a key element of demand in the current conditions, although demonstrating a gradual recovery after a large-scale decline in March-June 2022, nevertheless also grew in somewhat jolted way. This reflected the significantly increased role of administrative support in promoting exports against the background of their instability. Hikes and abnormal fluctuations also became characteristic of the exchange rate and prices. Trying to suppress these manifestations with economic policy instruments and administrative interventions, the authorities contributed to the formation of new macroeconomic imbalances. For example, in 2023, for the first time in many years, the problem of monetary overhang was prominent once again, and the accumulated imbalances in the financial sector, threatening financial destabilization, became increasingly obvious.

6. New standards and weakening of the quality of economic policy

In the new environment, the quality of economic policy has noticeably declined. By all formal and informal criteria, the economic policy – monetary, fiscal, macroprudential – has become more archaic. Moreover, the authorities have significantly increased the degree of administrative intervention in the economy – for example, by actively using direct price regulation, directed lending, administrative regulation of production and demand. Voluntarism and immediate political motivation got more prevalent in economic policy.

2.4.2 Consequences at the micro level (firms and households)

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Firms, finding themselves in a new operating environment, were forced to adapt to survive. Due to fairly significant successes in adaptation, the actual consequences at the micro level are not as pronounced as at the macro level. Nevertheless, the actual consequences of sanctions in the business environment are tangible. The most obvious of them are as follows.

- 1. Geographical reorientation of business models.**
- 2. Restructuring of logistics and payment infrastructure.**
- 3. Reduction of business activity and vacated industry niches.**
- 4. Reduced appetite to investment and risk.**
- 5. Focus on specific know-how as a competitive advantage.**
- 6. Increased labor costs, decreased/divergent profitability.**

1. Geographical reorientation of business models

In the new environment, Belarusian companies often could not continue working with their earlier counterparties, both buyers and suppliers. This was caused not by the sanctions alone, but also, to a comparable degree, by the increased toxicity, i.e. the voluntary refusal of counterparties to maintain business relations. It was this, along with financial sanctions, that caused difficulties with moving the produce not only among

state-owned enterprises targeted by the sanctions, but also among private businesses. Therefore, the search for new suppliers and buyers became a common adaptation reaction for both state and private companies. At the turn of 2022-2023, many of the companies went through this transformation. The limited stylized available facts suggest that this was the case regardless of the form of ownership. Russia became the key new sales market in place of the lost ones (the EU, Ukraine, etc.). Moreover, private sector companies, which had previously been more focused on other markets, began to more actively mention Russia as an important and promising sales market. This was also true, to a lesser extent, for China, Kazakhstan, and other CIS countries. Private companies were more active in developing new sales markets in Asia.

In terms of imports, the geography has shifted greatly to the Asian region. Counterparties from China and Turkey became the new important suppliers for Belarusian companies. Also, in a number of cases, counterparties from these countries, as well as Kazakhstan, Armenia, and Georgia, have begun to be used as intermediaries and links to attract supplies from other countries, including the European ones.

2. Restructuring of logistics and payment infrastructure

Similarly to the geographic readjustment in relation to final counterparties (suppliers and buyers), Belarusian companies were forced to adjust their relations with business intermediaries - logistics, service and financial companies. The result was the same geographic reorientation towards Russia, the CIS countries, and Asia. For example, Russian infrastructure - ports, railways and road transport - was getting used much more actively for the transit of goods. Moreover, its more intensive use is associated not only with the reorientation to the Russian market as the key destination. A significant part of Belarusian commodity flows was reoriented to transit through Russia, with the goal of delivery to third countries through Russian ports or by land. Kazakhstan and Turkey have also become important logistics hubs for Belarusian companies. Often, the new logistics implied the creation of a special legal entity in these countries, the main purpose of which is to organize transit.

In the area of payments and other financial services, Belarusian companies, directly or indirectly through Belarusian banks, have also been increasingly using the Russian SPFS and Russian rouble-based transactions. Adapting to the new conditions, Belarusian banks connected to the SPFS even before the introduction of the most sensitive package of sanctions and set up the infrastructure for such payments.

3. Decrease in business activity and vacated industry niches

Increased uncertainty and risks in some cases led to the relocation of businesses, limiting the scale of their activities and even their closure. This trend was most clearly manifested in the IT industry with mass relocation of entire businesses or staff abroad. Similar developments were likely happening in the transport and logistics industries.

4. Reduced appetite to investment and risk

During the sanctions period, business surveys indicate that a significantly larger share of companies than usual were aimed only at survival or maintaining the *status quo*. During the “good years”, some 70% of Belarusian businesses stated that their medium-term goals were to branch out to new market segments, release new types of products, strengthen their competitiveness, expand their business, etc. This sentiment weakened during the sanctions period, especially in 2022, and a significant number of businesses quoted shrinking or suspending investments as an adaptation response. Statistics paint an even more telling picture: in 2022, investments in fixed assets decreased in real terms by 19% compared to 2021 (and by about 40% compared to the historical peak of 2014). In 2023, fixed capital investment – thanks to targeted policy and incentive measures from the authorities – showed significant growth (around 15%). However, even this rebound did not change the “big picture” much. The level of fixed capital investment is still close to historical lows, and business investment activity remains weak.

5. Focus on specific know-how as a competitive advantage

A number of stylized facts suggest that the sanctions environment has generated cases of market share redistribution due to the formation of very specific competitive advantages. For example, companies that adapted better to the quirks and challenges with logistics and payments and established new required chains better than competitors strengthened their competitive positions in their respective segments. Similarly, there are cases when setting up of parallel import schemes, etc. became a new competitive advantage for the company.

6. Increased labor costs, decreased/divergent profitability

Following the resulting shortage in the labor market, many companies — both private (to a slightly greater extent) and state-owned — faced the problem of staff shortage. The reaction to this was an outpacing (relative to productivity) growth in wages in almost all areas (sectors and forms of ownership) of the economy. Therefore, labor costs (and social insurance charges) became a rapidly growing cost item. Their growth outpaced all other cost items, and even the revenue growth in many cases, especially in 2023. This trend has negatively affected the financial position of the real sector. In 2022, rising labor costs did not undermine the financial position uniformly. In a number of industries, this trend did not have time to gain momentum, and in a number of others, which experienced a sharp increase in revenue due to increased shipments to Russia, it leveled out. Therefore, in 2022, the spread in the financial performance increased significantly across the companies. In 2023, the outpacing growth of labor costs became quite common, leading to a deterioration in the financial position (still with substantial spread of its absolute values across individual industries) for most industries and companies.

The main consequences of the sanctions environment for the households were as follows:

- 1. Increased volatility of consumption and investment in housing.**
- 2. Narrowing of the range of goods and services, higher share of domestic goods in consumption.**
- 3. V-shaped shock in the volume of bank deposits and a decrease in the share of foreign currency deposits.**
- 4. Migration, population and labor force decline.**

1. Increased volatility of consumption and investment in housing

Household consumption is traditionally the least volatile element of aggregate demand. However, under the sanctions, this pattern began to be disrupted. Immediately after the introduction of the "heavy 2022 package," there was a sharp decline in consumption (more significant than the decline in output). But already in the second half of 2022, consumption began to grow at an outpacing rate (relative to other elements of demand and overall output). As a result, the share of household consumption in GDP reached a historical maximum (about 60%). Similar developments were observed in households' investment in housing — a sharp decline, quickly replaced by dynamic growth.

Technically, the unusual dynamics of consumption and investment during the sanctions period are due to: (i) the outpacing wage growth, (ii) the sharp relaxing of monetary policy, (iii) unstable expectations and perceptions of the current situation on the part of households. Altogether, this probably reflects the fragility of consumer confidence and assurance, which implies the desire of households to make most of any chance to increase consumption.

2. Narrowing of the range of goods and services, higher share of domestic goods in consumption

The logical result of the toxicity of Belarusian business, logistics and payment barriers, and weakening business activity was the shrinking product range and an outstripping growth in prices for imported goods. A logical result of these trends was an increase in the share of domestic goods in consumption in 2022. It occurred both naturally, as a result of consumer adaptation to changes in relative prices, and due to targeted assistance from the authorities through administrative methods. In 2023, against the backdrop of improved logistics and growth in real incomes, there was a slight rebound. The share of consumed imported goods increased slightly. Nevertheless, compared to the pre-sanction period, the product range remains reduced/changed, and the share of domestic consumer goods has grown.

3. V-shaped shock in the volume of bank deposits and a decline in the share of foreign currency deposits

The sanctions environment has become a new trigger for a deposit shock in the banking system. At first glance, this shock was not too big. Moreover, the nominal volume of deposits (in dollar equivalent) recovered quite quickly, then stagnating. But it is

important to account for fact that the shock in the volume of deposits occurred after a large-scale and long-term decline, which started in 2020. Before this shock, it was widely believed that almost all household deposits had already been withdrawn from the banking system out of mistrust, while the remaining ones reflected a conscious acceptance of risks. However, the shock of 2022 bust this myth. Moreover, it became a trigger for a further steady outflow of the key type of retail deposits — term foreign currency deposits. In 2022-2023, almost USD 1 billion of such deposits were withdrawn from the banking system (in addition to approximately USD 2.2 billion withdrawn in 2020-2021). A certain compensation for the total volume of the deposit base was a certain influx in 2023 of "hotter" convertible currency deposits and term rouble deposits. But even with this, one can argue that the sanctions environment has become a factor that has finally undermined households' confidence in the banking system. They have stopped regarding Belarusian banks as a reliable place to keep their savings, seeing them only as hubs for settlements (funds in current accounts) and risky short-term savings (term rouble deposits).

4. Migration, population and labor force decline

Migration has become one of the most noticeable consequences of the sanctions environment, generating, in turn, a whole range of additional consequences in the labor, goods and services, financial and other markets. According to conservative estimates, about 150-200 thousand people left Belarus in 2021-2022, and at least 60 thousand people in 2023.

Mass migration has become one of the main factors in the rapid decline in the number of people employed in the economy in 2021–2023: during this period, the number of those employed decreased by at least 135 thousand people.

3. Political economy of the sanctions against Belarus

3.1 Actors of the sanctions policy and their interests (Western countries, Belarusian democratic forces)

The staff of the People's Anti-Crisis Management (NAM)

The sanctions were a natural reaction of democratic states to the violations of international law by the Lukashenko's regime. This applies primarily to the United States and European countries. In August-September 2020, individual EU states (Latvia, Lithuania, Estonia), as well as Great Britain and Canada, were among the first to adopt sanctions against the Lukashenko's regime. Despite the statement by the Foreign Ministries of the member states on the need to impose sanctions on August 14, 2020, the European Union adopted the first package only in October 2020 due to the blocking position of Cyprus.

Individual European countries have consistently got onboard the sanctions imposed by the European Union (for example, Switzerland). Thus, North Macedonia, Montenegro, Serbia (with exceptions), Albania, Iceland, Liechtenstein and Norway have already joined the fourth and fifth packages of EU sanctions. Countries in Asia and Oceania (Japan, Korea, Australia, New Zealand) began actively applying sanctions after the start of Russia's full-scale invasion of Ukraine in February 2022.

Following the Lukashenko's regime's complicity in the war, sanctions began to be imposed by Ukraine itself, which had previously largely refrained from significant restrictions on its northern neighbor. In addition to EU sanctions, individual EU member states could also apply their own internal national sanctions (as Poland or Lithuania did). Thus, from 2020 to 2023, the number of states applying sanctions against the Lukashenko's regime has been growing, as has been the scale of the restrictions.

In addition to the fact that the purpose of sanctions imposed by democratic states was to force the Lukashenko's regime to reconsider its policy, the more important tasks probably were as follows: firstly, to undermine the regime's capacity to pursue this policy further, and secondly, to demonstrate to him, as a violator of international law, the unacceptability of this course of action. The importance of the latter increased especially after the regime started playing part in the destabilization of the international security system (first through hybrid means, and then by simply making its territory available for military aggression).

It was in the interests of Western countries to limit the threat from Lukashenko's regime in order to protect their national security and maintain regional stability. This largely explains the growing pressure of sanctions. In the early stages, when sanctions were imposed in connection with election fraud and domestic repression, the EU, the US and other actors mostly limited themselves to personal sanctions. With the escalation of Lukashenko's violations to a new, this time international level (as a result of the illegal grounding of civilian aircraft and hybrid aggression by herding illegal migrants to the EU borders) the new significant blocking restrictions (targeting companies) and large-scale sectoral sanctions were added to personal lists.

From the first days of the political crisis in Belarus, Belarusian democratic forces viewed sanctions as a means of applying pressure on the Lukashenko's regime to force it to make concessions and start a dialogue with the society. In addition, sanctions, in the absence of other real way to influence the illegitimate authorities, were an instrument of punishing those responsible for the ongoing crackdown. The majority of Belarusian democratic forces consistently advocated for strengthening and ramping up the sanctions pressure on the Lukashenko's regime.

Thus, when Western countries limited themselves to personal sanctions, democratic forces demanded increased economic pressure on the regime. In particular, on November 14, 2020, Svetlana Tikhanovskaya stated that "individual sanctions... became an important first step for the EU. This list should be expanded and imposing sanctions against businesses supporting the regime should be considered." At the same

time, Pavel Latushko noted that “it is important to consider other sanctions mechanisms against the Lukashenko’s regime.” Two days later, when meeting with EU ambassadors, Tikhanovskaya announced that “the time has come for economic sanctions.” These measures were supposed to be a response to the clear escalation of violence by the regime.

"Sanctions are causing tangible damage. And that means we have to use them," Svetlana Tikhanovskaya said in an interview with *The New Yorker* in December 2020. On December 15, 2020, during a press conference of the democratic forces, Pavel Latushko and Ales Alekhnovich presented the program of economic pressure on the Lukashenko’s regime. The proposed areas of pressure included: freezing international financial cooperation with the regime, restricting exports of key state-owned enterprises whose employees were being persecuted, and blocking investments. And should this fail to have the intended effect — disconnecting Belarusian banks from SWIFT. Going forward, demands to expand sanctions were consistently voiced by the democratic forces.

At the same time, it should be noted that democratic forces could only propose, request and justify the adoption of certain sanctions measures, but it was always the Western partners who had real leverage. In this sense, the role of democratic forces as an actor in the sanctions policy was very limited and never decisive when the democratic states were choosing the instruments to apply pressure on the Lukashenko’s regime. Nevertheless, Western countries heard the opinion of democratic forces and took into account their proposals when adopting sanctions measures.

Thus, when in July 2021 Svetlana Tikhanovskaya called on the United States to strengthen sanctions against a number of sectors of the Belarusian economy, the European Union, the United States and a number of other countries adopted some of the first tough sanctions packages, including measures of economic influence on the regime. Tikhanovskaya then said: "I believe that it is time for democratic countries to unite and show their teeth." According to Pavel Latushko, sanctions are not an end in themselves, but "a tool to force the regime to stop repressing Belarusians."

When mass street protests in Belarusian cities waned, and Lukashenko's regime kept ramping up the repressions, it finally became clear that the latter was not ready for dialogue, and attempts to force Lukashenko to the negotiating table were replaced by attempts to make Lukashenko to change his behavior and release political prisoners. Also, after the introduction of sectoral restrictions, democratic forces started seeking to eliminate loopholes in the sanctions, and also sought to prevent any relaxation of the sanctions regime.

3.2 Belarusian authorities and their patterns of behavior under sanctions (compensation of sanctions costs)

The staff of the People's Anti-Crisis Management (NAM)

The official position of the Lukashenko's regime is that the sanctions applied to him are unfair and generally do not correspond to the principles and norms of international law, even though, according to some officials and regime's propagandists, they were making the economy stronger. At the same time, the regime itself has not been shy about actively using them as a foreign policy instrument.

To counter sanctions, Lukashenko's regime traditionally used the following avenues. The first was aimed at taking measures against the EU and other states, who had imposed sanctions (counter-sanctions). The second direction was to build compensatory mechanisms to overcome the aftermath of the sanctions. And the main actor in this process was Russia, at whose expense the illegitimate authorities of Belarus compensated for the costs borne due to economic restrictions.

It should be noted that Lukashenko's regime also fought the threat of sanctions domestically. Any approval of sanctions, not to mention calls for them, yielded real prison terms for Belarusians. Back in late 2021, amendments were made to the Criminal Code of the Republic of Belarus introducing liability for calls to sanctions against the Republic of Belarus, its citizens and organizations. The penal measure for such actions is six to twelve years in prison.

Immediately after the introduction of the first package of EU sanctions, Lukashenko's regime announced retaliatory personal sanctions against EU officials (without publishing the list). The Belarusian Foreign Ministry also recalled its ambassadors from Lithuania and Poland for consultations, inviting these countries to do the same, and demanded that they reduce the number of diplomatic staff in Belarus. Thus, at the beginning of the escalation, Lukashenko's regime tried to use diplomatic restrictions rather than economic ones, which would have hurt him too.

Following the second package of EU sanctions on November 17, 2022, Lukashenko's regime declared new countermeasures in the form of its own sanctions list for each EU country, with the entry ban to the Union State of Belarus and Russia for those on the list. The illegitimate authorities also lowered the level of their participation in the Eastern Partnership. In response to the third package, the regime announced the expansion of the list of *personae non gratae* from the EU. They also decided to limit the activities of a number of foundations, as well as to curtail the implementation of humanitarian, educational, and cultural programs managed by the civil society.

When the West moved on to economic sanctions, on June 28, 2021, Belarus' participation in the Eastern Partnership was suspended, the procedure for suspending the readmission agreement with the EU was launched, and the Permanent Representative of Belarus to the EU was recalled for consultations. Thus, the illegitimate Belarusian authorities continued to drift further away from the West. In addition, Lukashenko banned the representatives of EU structures and member states that contributed to the introduction of sanctions from entering Belarus.

Finally, on December 6, 2021, the regime announced for the first time its own package of economic measures against all EU member states and nine other countries. It imposed a ban on the import of a number of food products and mirror restrictions for air carriers, and expanded the list those who were undesirable to enter Belarus and the entire Union State. In addition, the regime decided to show that it has a replacement for the Western vector of cooperation. In this regard, the Belarusian Foreign Ministry stated that integration processes within the Union State, the EAEU, and cooperation with the countries of the "far arc" will be accelerated.

After the war began, the regime's response was formulated in early April. Resolution of the Council of Ministers of April 6, 2022 No. 209 defined a list of "unfriendly countries". As a result, restrictions stipulated by Lukashenko's decree of March 14, 2022 No. 93 began to apply to these countries and their residents. Also on April 6, 2022, Resolution of the Council of Ministers of the Republic of Belarus and the National Bank of the Republic of Belarus No. 212/10 was adopted, which prescribed the repayment of the principal debt and interest on external loans attracted from "unfriendly countries" in Belarusian rubles.

Since April 16, 2022, a ban was introduced on the movement of trucks and tractors registered in the EU across the customs border of the EAEU to Belarus. At the same time, carriers from the EU were allowed to go through specially designated checkpoints on the territory of Belarus for re-coupling. Since May 5, 2022, the Lukashenko government additionally introduced a ban on carriers from the EU on the movement of oversized cargo. In addition, they expanded the list of established places for reloading and re-coupling was expanded, and listed the select gas stations for refueling trucks with European license plates.

As for the search for compensatory mechanisms, their main source is cooperation with Russia, which helps Lukashenko's regime survive the sanctions pressure. Russia continued its policy of subsidies towards the Belarusian economy. In particular, in April 2022, Belarus received a deferment from Russia on the payment of more than one billion US dollars in loan obligations for a period of about a year. Towards the end of 2022, Russia allocated another loan to Belarus in the amount of 1.5 billion dollars for import substitution purposes.

In addition, Russia helps Belarus in other ways: it provides discounts on gas and supplies duty-free oil (duties are not applied to oil exports to Belarus, and only the mineral extraction tax is included in its price). In particular, Belarus buys Russian gas at a fixed (i.e. contractual) price, while European countries buy it at a market price linked to world oil prices. However, this approach is double-edged. When oil prices are high, this formula gives Belarus an advantage, but on the other hand, when they fall, the Belarusian party may even find itself in unfavorable conditions. However, subsidies mostly cover the losses.

Belarusian sanctioned goods are also transshipped to other countries of the world via Russia. In particular, after the introduction of sanctions against potash fertilizers from

Belarus, the Lukashenko's regime began to actively work on the issue of expanding the capacity of Russian ports for their transportation. For example, the Belarusian side took on a project to expand the cargo capacity of the Bronka port in St. Petersburg.

Assistance in circumventing sanctions with Russia's participation works in reverse too. After the start of a full-scale war in Ukraine, Belarus became somewhat of a hub for the production, movement and supply of goods for the needs of the Russian army and the military-industrial complex of the Russian Federation. Russian state orders, in turn, are propping up the Belarusian economy after it was hit by the sanctions.

Also, to compensate for the losses from the imposed sanctions, the regime is trying to find markets in China, Central Asian countries and the Middle East. In particular, significant commodity flows were reoriented to China, including a significant increase in the export of potash to this country. Businesses from Asian countries and some Middle Eastern countries even began to play roles in the chains to circumvent sanctions. In particular, sanctioned products of the woodworking industry of Belarus entered the European market through shell companies in Kyrgyzstan and Kazakhstan.

In general, the attitude of the illegitimate authorities of Belarus to sanctions has always been twofold. On the one hand, officials and propagandists were saying that sanctions are not a threat to the Belarusian economy and the regime in any way; on the other hand, at the same time, they would always claim that sanctions are a destructive force and a weapon that is being applied unfairly to the authorities of Belarus.

3.3 Belarusian companies under sanctions and their behavior patterns in the sanctions environment (methods of circumventing sanctions)

The staff of the Belarusian Research Center (BRC)

Due to the introduction of sanctions, businessmen associated with the Belarusian regime have re-registered their business in the name of their family members, employees and business partners. This may allow them to do business with EU countries.

This is what Alexander Zaitsev, Alexey Oleksin and Nikolay Vorobey did, for example. They are not only under EU sanctions themselves, but also own the sanctioned Bremino Group, one of the leading logistics operators in Belarus. A journalistic investigation revealed that part of the property that previously belonged to Bremino Group is now owned by the ALIS MA — a company, whose owner is listed as a Catholic priest associated with Alexander Zaitsev.

By rewriting assets in the name of their close associates, Zaitsev, Oleksin and Vorobey protected their other assets from sanctions: Ruzekspeditsiya and Vlate Logistic companies, as well as Absolutbank and MTBank.

Four days after being placed under EU sanctions, Nikolai Vorobei transferred his main asset, the Krasny Bor company, to top management. His other assets in the banking and oil trading sectors are tied to it: the largest private Belarusian oil trader, Interservice,

as well as Absolutbank and the special oil products exporter, Novaya Neftyanaya Kompaniya (which was also subsequently placed under sanctions). In addition, Vorobei controls the BelKazTrans company, which supplied oil products to the EU; it is not under sanctions. Shortly before being placed on the sanctions list, Vorobei transferred it to a former employee of the Interservice company, which he controlled. At the same time, having avoided EU sanctions, all of Vorobei's aforementioned companies are under US sanctions.

A few months before being subjected to EU sanctions, Alexey Oleksin transferred his key assets to his sons (who, incidentally, were also subjected to EU sanctions a year later). He is also no longer among the owners of Energo-Oil and Belneftegaz, which he previously controlled jointly with his wife. This may allow the companies to operate in the EU. As in Vorobyov's case, all of Oleksin's aforementioned companies that avoided EU sanctions were subjected to US sanctions. Also, key employees of the companies controlled by Oleksin are the owners of Neonafta, which he previously owned.

Businessman Mikhail Gutseriev, who is close to Lukashenko, used a similar scheme to circumvent sanctions after he was hit by them: he transferred the British company GCM Global Energy PL, which manages the construction of the Nezhin Mining and Processing Plant in Belarus, to his brother.

Most of the Dana Holdings companies operating in Belarus have avoided sanctions by re-registering their ownership to Enterprise Developments Holding Limited in the UAE. Until September 2023, it was owned by a person with a name similar to that of the CEO of Dana Holdings.

Thus, due to the impossibility of imposing sanctions on individuals associated with individuals benefiting from or supporting Lukashenko's regime, sanctioned individuals and legal entities, as well as the Belarusian public sector, can conduct business with the EU by transferring assets to people from their immediate circle or to new intermediary firms controlled by these very same individuals. Sanctioned businessmen use this tactic even after being included in the sanctions lists: the EU does not yet have a mechanism to promptly combat such circumvention of the already imposed restrictive measures.

3.4 The Belarusian public sector and its behavior patterns in the sanctions environment

The staff of the Belarusian Research Center (BRC)

The EU sanctions against Belarus have complicated the activities of some state-owned companies, as well as entire sectors of the Belarusian economy dominated by the state sector. However, the case of the state-owned companies in the nitrogen fertilizer and timber processing sectors show that the state-owned economy has found ways to circumvent the restrictions.

Grodno Azot, the largest Belarusian exporter of nitrogen fertilizers, was subject to EU sanctions in December 2021. Despite the sanctions, Grodno Azot products were imported to the EU via Lithuania. Investigative journalists learned about two companies acting as intermediaries. The first company is Grikom, an enterprise owned by the local executive authorities of the city of Grodno. Its director is a long-time employee of Grodno Azot. It was Grikom that occupied the vacant niche of nitrogen fertilizer supplies to EU countries after Grodno Azot was included in the sanctions lists. The analysis of the documents accompanying the delivery showed that Grodno Azot remains the manufacturer of the fertilizer. The second company, Technospetstreiding, supplies fertilizers to Dubai to a buyer affiliated with the government of the Emirate of Dubai. An analysis of Technospetstreiding's documentation showed that the fertilizers supplied by this company meet the standard of the product produced in Belarus only by Grodno Azot. The lack of data on the production of fertilizers by Technospetstreiding (the company positions itself, among other things, as a manufacturer) in conjunction with reports of an increase in production volumes at Grodno Azot also indicates that the company simply acts as an intermediary.

In March 2022, the EU introduced sectoral sanctions, prohibiting, among other things, the export of wood products under code 44. Journalists found that as of December 2022, the export of such products from Kazakhstan and Kyrgyzstan to the EU increased by 74 times and 18 thousand times, respectively. It was also discovered that Kyrgyz companies affiliated with Belarus supply sanctioned Belarusian products to the EU using false documents. Journalists found three such companies - Agro KC, SK Grand and Admit. For example, Admit, which does not even have its own production at the registered address in Kyrgyzstan, supplies Belarusian products to the EU as its own, issuing Kyrgyz certificates for them, which allows passing the EU customs. A typical example is the private Polish company BLK Trading, which trades exclusively in sanctioned code-44 products. Despite the sanctions, BLK Trading continued to make cash transfers to its parent company, the Belarusian state-owned wood processing company Mostovdrev. The amount of such transfers for 2022 was only half of that for 2021. At the same time, a company representative claimed that the company is now working with new suppliers from Ukraine and Kazakhstan.

Thus, the Belarusian public sector successfully circumvents EU sanctions by registering new intermediary firms to conduct transactions on their behalf. Such firms are registered both in Belarus (when sanctions apply to listed legal entities) and in third countries (to circumvent sector-specific sanctions).

3.5 Belarusian private business and its behavior patterns under sanctions

BEROC Research Center

Belarusian private business started quickly and actively seeking ways to adapt to the new environment. A number of adaptation reactions became templates that would apply for the vast majority of companies.

Geographical reorientation of supply sources

The vast majority of private companies are importers. So, toxicity, as well as logistical and payment barriers, became a challenge for them, which often led to the need to change suppliers. Based on individual stylized facts, one can assume that new suppliers in place of the old ones (from the EU and other Western countries) were mainly from Turkey, China, Russia. A separate pattern of behavior, probably somewhat less common, was the establishment of so-called parallel import schemes, which were legalized in early 2023.

Geographical reorientation of sales markets

Similarly, the sanctions environment limited export opportunities for companies operating in foreign markets. The key adaptation strategy in this case was similar — the search for new sales markets. Available facts and figures indicate that Russia became the geographically key market. It was by directing (expanding) shipments to this country that most exporters compensated for the "dwindling" of exports to other countries. Less common and more individualized (depending on the industry, type of product) were the attempts to enter new markets in China, Kazakhstan, other Asian countries, as well as African countries.

Reconfiguring supply chains

Most companies adapted to the emerging logistics problems by creating new routes and logistics mechanisms (by type of transport, their combination, etc.). In logistics, intermediaries or intermediate links from the EAEU countries — Russia, Kazakhstan, Armenia, as well as Uzbekistan, Kyrgyzstan, Georgia, Turkey — were used much more actively as intermediaries. Many companies established new complex shipment routes (export/import). In the overwhelming majority of cases, Russia (its road and rail network, sea ports) became an important part of these routes, which significantly increased the role of Russian infrastructure for Belarus's foreign trade.

The new routes in their overwhelming majority became longer, more complex, and therefore led to additional costs. In the case of imports, this caused additional pressure on prices. In the case of exports, it limited profitability. At the same time, the available stylized facts indicate that many companies believe this new logistical setup to be vulnerable and unreliable. To this end, they come up with backup logistics routes, which are even more expensive, but reduce the risks of another large-scale logistics failure.

Reconfiguration of payment mechanisms

The inclusion of a number of large Belarusian banks in the EU sanctions list, the US SDN list, as well as disconnection from the SWIFT system, led to the dissociation of the Belarusian banking system from the global one. For banks that were included in any of the above lists, international settlements either became all but impossible or were

associated with great difficulties and risks. Other Belarusian banks also experienced a secondary effect of financial sanctions: many European and other Western banks began to refuse to handle payments from any Belarusian banks, as well as to them. For example, in September 2022, Lithuanian banks officially refused to make any transactions with Belarus. Banks in other countries often followed suit, not necessarily publicizing these decisions. Ultimately, only a small number of Belarusian banks retained direct correspondent accounts with banks in the EU and other Western countries and could continue to make settlements with residents of these countries.

Belarusian companies were forced to adapt to these realities, generating new and sometimes dubious payment chains. In the case of trade transactions with residents of Russia, other EAEU and CIS countries, the most common solution was to switch to Russian rubles in settlements and handle payments via the SPFS infrastructure. The use of SPFS also made it possible to make settlements with other banks in the EAEU and CIS countries, as well as China. In the latter case, the prevailing currency for settlements was the Chinese yuan.

In cases where payments still needed to be made with counterparties from European and other Western countries, the few remaining “windows” for settlements through Belarusian banks were usually used. But in this case, as a rule, the chain of payments got longer: correspondent accounts with Belarusian banks remained only with Polish and Austrian banks, whose mediation was now required to make payments. In addition, companies began to more actively resort to various offsetting arrangements, assignment of claim agreements, etc. All this slowed down the settlements, making payments more expensive with a high risk of failures.

Circumventing sanctions through a combination of innovations in infrastructure and service

In a number of cases, “new know-hows” and their individual elements in the areas of geographic reorientation, logistics and payment chains were jointly used to circumvent sanctions. That is, *de facto*, the same goods were supplied to the same customers, but via new routes and logistics schemes, with the involvement of formal non-resident intermediaries and with new payment mechanisms. A number of such cases were publicized in the media. But the available facts and evidence, given the lack of transparency of such schemes, are insufficient to assess the scale of this phenomenon.

Launch of new products and services to the market

According to surveys, businesses report this pattern of adaptation to new realities as most common. This pattern is probably most relevant for maintaining competitiveness and market share in an unstable domestic market. If this hypothesis is true, then the role of this pattern of behavior should probably not be overestimated. Usually, new products and services on the domestic market are very close in content and quality to those already in the market, and are being launched to differentiate and strengthen the competitive position. Therefore, this is most likely a fairly standard mechanism of competition, the

use of which has somewhat intensified in the conditions of increased uncertainty and risks.

Increased utilization of information technologies

At first glance, this pattern looks quite unexpected as a reaction to the deterioration of the business environment. Most likely, the main incentive is the expectation of a quick effect in the form of cost reduction. For example, this can happen in the case of automation of a number of production processes. In addition, the greater need for information technology was probably associated with increased labor costs for managing more complex logistics and payment chains, as well as for financial management due to more complex business rules (against the background of the active use of various directive regulation instruments by the authorities).

Greater focus on internal business processes to limit costs

The desire to improve the efficiency of business processes has been one of the most popular ways for private business to adapt to the new environment, as indicated in surveys over the past eighteen months. Moreover, its popularity has been steadily increasing: from approximately 15% immediately after the introduction of comprehensive sanctions in 2022 to approximately 25% in the second half of 2023. This may indicate that this adaptation response is becoming increasingly important as the perception of the sanctions environment transforms from that of a short-term shock to that of a "new normalcy". At the same time, such adaptation response is unlikely to produce quick and tangible effects in the business environment.

Increased use of non-standard and questionable business schemes

Since the adoption of the "heavy sanctions of 2022", individual stylized facts indicate that businesses have become more active in using "non-standard" tools and mechanisms in response to new challenges. Examples of such behavior may include opening subsidiaries or affiliated structures as intermediate links in business chains and/or to accumulate revenue/costs, using multilateral and non-transparent instruments in settlements, and using counterfeit goods. Another impetus for such behavior were the "innovations" in Belarusian legislation related to the impact of sanctions: the introduction of large-scale price regulation, as well as the legalization of parallel imports. The latter *de facto* opened the floodgates to import goods in a non-transparent way and violate generally recognized standards in the field of intellectual property rights.

Increased focus on the short term, decreased appetite to investment

In surveys of Belarusian businesses conducted in 2015–2020, traditionally 60–70% of Belarusian businesses stated that their medium-term goals were to branch out to new market segments, release new types of products, strengthen their competitiveness, expand their business, etc. This focus on development has clearly begun to weaken since 2020. Subsequent business surveys indicate that during the sanctions period, the vast

majority of companies abandon long-term plans, switching to the logic of exclusively short-term planning or even survival. Such sentiments correspond to the weakening of investment activity in private business, which is documented by statistics in 2022–2023.

Full or partial migration

Business migration has become a widespread trend as a response to the sanctions environment. The most massive exodus was among companies from industries with low capital intensity or high capital mobility, as well as those focused on providing goods and services to foreign markets. These characteristics made migration an important prerequisite for preserving the business (given the increased toxicity of working with Belarusian residents), and also ensured its relative simplicity and cheapness. Another motive for migration was the preservation of human capital. That is, the drivers of migration were the employees who decided to leave Belarus (not only for economic but also for political reasons), and the companies were left to respond to this development. Due to such patterns, migration at the company level mainly affected the IT, freight transportation, and logistics industries. There are also cases of migration of manufacturing businesses: they are not so many in sheer numbers, but are significant in terms of output volume and especially the quality and science intensity of the products. Also, migrants often started new or revived their old businesses abroad. This led to a significant number of new Belarusian companies, first of all, in the sphere of household services.

Geographically, Poland has become the primary destination for business migration. During the period of 2021 - 1H 2023, 3,621 companies with Belarusian capital were registered in Poland, and as of September 2023, there were 5,988 companies with Belarusian capital operating in Poland. Lithuania (to a greater extent) and Latvia (to a lesser extent) have also become significant locations for business migration.

This scale of migration has had a systemic impact on the Belarusian economy as a whole. For example, the real-terms decline in the output of the Belarusian IT industry in 2023 by almost 20% compared to 2021 was largely due to business migration.

3.6 Belarusian households and their behavior patterns in the sanctions environment

BEROC Research Center

Households traditionally have a lot of inertia in their consumer behavior: they generally tend to avoid sharp changes in consumption levels. The structure of consumption—goods and services by category and type, by country of origin, etc.—may change, but only gradually and in a step-wise manner. Savings behavior patterns also tend to change in a similar way. For rapid and significant shifts in consumer and savings behavior to occur, household perceptions must change quite significantly. Immersion in the sanctions environment was exactly this sort of shock for household perceptions,

shaking their economic trust and consumer confidence, and then forcing them to reconsider (at least temporarily) behavior patterns that seemed sustainable.

Consumer behavior: increased volatility, significant shifts in consumption patterns, reorientation to short-term planning

The initial period after the introduction of “severe sanctions” in 2022 was associated with a very significant decline in consumption. In the second quarter of 2022, consumption fell by 5.5% compared to the first quarter of 2022, which is about 20% in annual terms. There were only two historic cases of the similar magnitude of the drop in consumption: one at the peak of the currency crisis in the third quarter of 2011 and another during the pandemic in the second quarter of 2020. This adaptation response indicates that in 2022 households perceived the new environment as an unfavorable and threatening long-term reality. The same perception was indicated by a significant deterioration in the consumer confidence index of Belarusian households.

Along with the overall reduction in consumption, other important adaptation reactions were: saving on leisure, postponing major purchases, increasing the share of domestically produced goods in consumption. Such patterns seem quite logical and were to be expected. The reduction in consumption occurred primarily due to the restriction of needs that were deemed less important. In addition, there was a switch to goods of a lower price segment, which implies a greater preference for domestically produced goods.

However, already in the second half of 2022, the reverse was observable in consumer sentiment. The previous stage of a sharp decline was replaced by a stage of sharp growth: first to a pre-“heavy sanctions” level, and in 2023 — further noticeable growth almost to the level that can be called consumer optimism. Such dynamics of consumer trust and confidence resembles “switching from one extreme to another” and seems quite paradoxical. Probably, its key explanation may be the following: initially the main assumptions were of sharp, large-scale and sustainable negative changes in all spheres of economic life. Since these expectations did not materialize — the decline did not reach outrageous proportions, signs of stabilization were soon evident, and subsequently there was recovery growth —the situation was quickly perceived as relatively favorable. This indicates significant emotionality and unstable perception of the economic situation on the part of households, as well as the erosion of the foundation of consumer confidence.

Since 2023, volatility in consumer confidence has become a factor contributing to the growth of consumption and the gradual return of its structure to pre-sanction standards. However, the sanctions environment and the eroded foundation of consumer confidence still left their mark. Major consumer purchases, as well as investments in housing and housing construction by households, have become increasingly dependent on access to loans and their terms. This indicates that such purchases have come to be seen as riskier, which in turn forms a new behavioral pattern: since the uncertainty about the ability to make major purchases in the future is very high, it seems prudent to make

best of any chance to do so today. This pattern can also be interpreted as a reorientation to a relatively short horizon in consumer behavior and an increase in the value of today's consumption against the future consumption.

Savings behavior: lower appetite to saving, lower attractiveness of bank deposits and foreign currency, and search for new savings instruments

The period since at least 2020 saw the collapse of the savings behavior stereotype that has been typical of Belarusian households for the previous 20 years: a term deposit in foreign currency in a Belarusian bank being the most reliable (of all available) savings instrument. In 2020–2021, all deposits of individuals (in US dollar equivalent) in Belarusian banks decreased by approximately USD 2.9 billion (or 25%), of which about USD 2.3 billion were term foreign currency deposits.

The sanctions of 2020–2021 have contributed to the further destruction of this stereotype. By the beginning of 2022, it was widely believed that everyone had withdrawn their funds from Belarusian banks. However, the “heavy sanctions of 2022” launched a new deposit run: about USD 1 billion more in term currency deposits held by households were withdrawn from the banking system in 2022–2023. The volume of such deposits remaining in the banking system plummeted to the level of 2009. In part, this indicates a complete collapse of the stereotype about the reliability of savings in deposits in Belarusian banks. But, in addition, it also indicates that under the sanctions, the commitment of Belarusian households to foreign currency as the currency for keeping their savings has decreased. This is probably due to shrinking space for currency transactions for the Belarusian households: the sanctions environment severely limits international and domestic transfers and other transactions in foreign currency, as well as card payments in foreign currency.

Against this backdrop of fundamental environmental change, households demonstrated two more new behavior patterns. First, they reduced their appetite to saving. Second, they began actively searching for new saving forms and instruments. One of the new instruments of savings was probably real estate. In addition, a small share of households replaced foreign currency deposits with term rouble deposits. Finally, individual stylized facts indicate an increase in the volume of savings in cash (both in national and foreign currencies), precious metals, foreign accounts, and other less common instruments.

Increased drive to migrate

The sanctions environment has become a powerful additional trigger for increased migration from Belarus. As noted above, conservative estimates suggest some 210,000–260,000 people left the country in 2021–2023. Household surveys indicate that this trend may be sustainable for a long time: at the beginning of 2023, 2.2% of respondents intended to leave the country within a year, and another 9.3% of respondents planned to migrate in the foreseeable future, but with less certainty. Thus,

the increased drive to migrate has likely become a new sustainable pattern of behavior among Belarusians in the sanctions environment.

4. Current and future effects of sanctions policy in various areas

4.1 Sanctions and Domestic Political Effects. Public Opinion on Sanctions, Their Reasons, Purposes and Impact

The team of the Belarusian Analytical Workshop (BAM)

Research into the attitude of Belarusian society towards sanctions shows a certain split in public opinion on this issue. However, this split reveals a fairly clearly expressed tendency, a shift towards a negative standing on sanctions. This is informed by the analysis of indicators obtained in a telephone survey conducted in November 2021 with a nationally representative sample of approximately 1,000 respondents.

Table 1. Perceptions of how people around you feel about sanctions

Do people in Belarus agree with the statement: "Sanctions are painful for ordinary people, but they are necessary"?	Agree	36.0%
	Disagree	45.5%
	Hard to say	14.8%
	Refuse to answer	3.7%

Table 2

How do you think people around you feel about the economic sanctions imposed by Western countries against Belarus?	Everyone supports	2.8%
	Most people support	27.6%
	Most people do not support	23.3%
	Nobody supports	26.7%
	Hard to say	17.0%
	Refuse to answer	2.5%

It is also worth emphasizing the trends identified during qualitative research conducted during in-depth interviews. When talking about sanctions, people most often express three main positions.

The first thing that respondents recall in connection with the sanctions is the perceived ban on issuing visas or difficulties in obtaining them. Respondents see this as a situation where Russia welcomes the Belarusians, and the European Union is saying "no" to them. This has a strong impact on the pro-European geopolitical orientations of the Belarusians. The vector of labor migration, which at one time turned towards Western Europe (as revealed by the results of public opinion poll in Belarus in 2018), has once again reversed towards Russia.

The second things is that the sanctions have no target group, or that the target group is incorrect, inadequate, and does not correspond to the political goal. Respondents made this conclusion based on their analysis of the situation when

sanctions were imposed on access, for example, to certain gaming servers, where the audience is mainly teenagers. This target audience, according to respondents, has no direct connection with the main goal of sanctions, which is to change the political situation in the country. Sanctions, as understood by certain groups, should be something much more sophisticated and complex than simple bans.

And the third perception is that Belarusian society is under “crossfire”, when, on the one hand, it is subject to pressure from the state – and at the same time, on the other hand, it is subject to strict restrictions imposed by foreign countries. Thus, it all suggests that the public opinion of Belarusians reflects the discrepancy between the goals and methods of sanctions imposed on the regime in Minsk.

4.2 Economic effects of sanctions at the macro level

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At the initial stages of the introduction of sanctions, the general assumption was that most dangerous and significant were the short-term effects associated with demand and financial shocks. They could very likely lead to a rapid plunge into a deep recession and financial destabilization, which would be extremely difficult to get out of (see Box 4). However, the economy was not drawn into this vicious circle. The recession turned out to be not so deep and quite short-term. The main reasons for this were as follows: (i) large-scale and diverse support for the Belarusian regime from Russia, (ii) a high degree of adaptation of the private sector of the economy, (iii) the presence of external positive effects.

However, this triad, having ensured a high degree of adaptability of the economy to demand and financial shocks, is not an equally effective protection against a supply shock. The impact of a supply shock as a result of sanctions is permanent and cumulative, and the adaptive reactions of economic agents (see Sections 3.5–3.6) only intensify this shock. Thus, the focus should be rather on long-term effects of the sanctions. Or, figuratively speaking, the effects of the sanctions environment are becoming increasingly significant as a “marathon” rather than a “sprint”.

Weakening of economic potential

The changes taking place in the national economy under the influence of sanctions become akin to destruction of the institutional and business environment. Trust in the institutional and regulatory environment is noticeably shrinking. Such practices as broad directive regulation of prices, parallel imports and violation of intellectual property standards, the use of politically or financially motivated repressions against private business put a black mark on Belarus as an economic activity site. Business practices and processes are getting simplified, the business is getting increasingly focused on survival and only short-term planning. This shift is a prerequisite for weakening the potential for productivity growth.

International isolation makes foreign markets (financial, commodity, etc.) increasingly inaccessible to Belarusian companies. This leads to technological limitations. The technologies used by Belarusian companies are increasingly suggestive of further lagging behind the cutting edge. Already today, one can speak of the deteriorating quality of the basket of goods produced by Belarusian companies. Belarus started focusing on simpler goods. This is one of the important indicators of technological slowdown and, accordingly, of lagging behind the developed world.

To an even greater extent, the prospects for replenishing fixed capital – both in quantitative and qualitative terms – are constrained by the shortage of investment resources. The households appetite to saving is diminishing. In addition, a significant portion of savings does not enter the national financial system and therefore cannot be transformed into investments through financial intermediation. Both households and firms are increasingly inclined to export (transfer abroad) their existing savings and investment resources.

At the same time, mass migration and shrinking educational opportunities are leading to the erosion of human capital and a shrinking labor force.

All of the above directly undermines the growth potential of the Belarusian economy. The most optimistic estimates of the growth potential today are limited to 1% per year. For "acceptable" development of Belarus, average growth should be at least 4% per year, while the most ambitious plans warrant about 7-8% of growth per year. That is, the growth potential that exists today is significantly lower than what Belarus can and should have. Growth in the range of 0-1% will mean stagnation and further falling behind the neighboring and developed countries in terms of income.

Permanent risks of recessions, inflationary outbreaks and financial destabilization

Even systematic stagnation is by no means guaranteed for the Belarusian economy in the sanctions environment. Firstly, the economy's demonstrated high adaptability to new conditions and ability to compensate for (replace) the demand are not sustainable. Moreover, the past two years suggest that demand — primarily external, and secondarily internal — has lost its sustainability. The country managed to avoid excessive demand contraction in 2022, and even achieve recovery in 2023, despite the loss of sustainability. Sanction restrictions, which remain permanent, can again lead to a collapse in demand at any moment.

For example, strategic export items — oil products, potash fertilizers — are currently exported through complex and non-transparent schemes and logistics chains, which are governed primarily by agreements of non-economic logic. Any changes in the preferences of the agents involved in these schemes and chains may lead to instant disruption. For example, the export of Belarusian oil products in the current conditions is sensitive to the following factors: (i) the readiness of the Russian party to provide logistics, (ii) the willingness of end buyers to bear the reputational costs and risks

associated with the purchase of Belarusian goods, (iii) the willingness of the Russian authorities and other stakeholders in the oil business to continue trading with Belarus with a high level of price subsidies, (iv) the state of the sanctions environment with respect to the Russian oil production and refining sector, (v) the state of the sanctions environment with respect to Belarus, (vi) the intensity of hostilities in Ukraine. The export of many other sanctioned goods largely depends on: (i) the willingness of the Russian authorities to facilitate the use of Russian logistics infrastructure (sea ports, railways), (ii) the global pricing environment, (iii) the willingness of third-country counterparties to maintain business relations with Belarusian companies and banks, (iv) the actual regime of sanctions implementation against Belarus.

Domestic demand largely depends on the state of external demand. In 2022–2023, the country managed to stabilize and then grow it, primarily against the background of and due to export stabilization. Therefore, the instability of external demand is directly transformed into instability of domestic demand. In addition, domestic demand is highly sensitive to domestic shocks. For example, in the future, there is a high probability of swings in consumer confidence and trust, which, as the last few years suggest, can lead to a collapse in consumer demand. The state of investment demand also looks precarious. A new shock in business sentiment, abandonment or weakening of incentives from economic authorities are fraught with significant adjustments in the amount of investment in fixed assets.

Secondly, numerous macroeconomic imbalances have already accumulated and continue to pile up in the economy. For example, 2023 saw the buildup of a significant inflationary overhang, which puts pressure on prices and may subsequently lead to their sudden hike. Numerous imbalances have accumulated in the financial industry, many of which were “swept under the carpet”. But sooner or later, they may lead to financial destabilization, especially in light of the growing trend of deterioration of the financial position of the non-financial sector. Also 2023 saw the emergence of a clear trend of deterioration in the foreign trade balance. In 2021-2022, Belarus was demonstrating unusually positive dynamics in this area. However, now the main pillars of this resilience are gradually eroding. Subsequently, against the background of artificial support for domestic demand, this may lead to the return of persistent deficit in foreign trade balance and pressure on the foreign exchange market. Thus, the existing imbalances put pressure on the economy, contributing to macroeconomic destabilization. Their expansion and/or strengthening of their interaction may well at some point lead to a sharp macroeconomic adjustment, giving rise to recession, outbreaks of inflation, devaluation, and financial turbulence.

Thirdly, doubts about the ability to ensure macroeconomic stability are exacerbated by a sharp weakening of the quality of economic policy. The following are the main characteristics of current economic policy: (i) voluntarism and the dominance of politically motivated goals in economic policy, (ii) weak information basis: ignoring negative signals and existing imbalances, (iii) dominance of a discretionary approach, (iv) weak degree of interaction between different spheres of economic policy, (v) no room for maneuver and reduced effectiveness of a number of economic policy instruments.

Fourthly, a permanent threat to macroeconomic stability is the excessively close (and growing) connection with the Russian economy, again the backdrop of major and multifaceted the macroeconomic risks the latter is facing. Therefore, materialization of any of the risks for the Russian economy will almost automatically mean a macroeconomic shock for Belarus. In other words, Russia is becoming a permanent center of macroeconomic and financial infections for Belarus. It is practically impossible to prevent Belarus from catching Russian infections, and if infected, the possibilities for “treatment” will also be limited.

Gradual and phased loss of sovereignty

The trend of the highest order, at least partially generated by the sanctions environment, is the erosion of Belarus's sovereignty. As shown above, the systemic response of the Belarusian regime to the conditions of the sanctions environment is the desire to compensate for losses at the expense of Russia. In 2022–2023, the regime largely succeeded in this. By reorienting a significant part of the lost exports to Russia, actively using Russian infrastructure (transport and logistics, financial and payment, etc.), increasing energy subsidies, and direct financial injections, this task was largely solved.

In the meantime, Russian was consistently pursuing the strategic aim of drawing Belarus into Russia's orbit of influence in all wakes of life. With this in mind, Russia is ready to provide Belarus with most of the requested forms of support. Given the incomparability of the scale of the economies, the support that is critical for Belarus is not as significant in terms of volume for Russia.

This trend in relations between Belarus and Russia has gradually become a clear exchange of short-term economic benefits for elements of sovereignty. It was formally consolidated with transitioning to the track of "deep integration" imposed by Russia. In 2022-2023, in accordance with this plan, the parties implemented 28 "union programs", which provided for the implementation of Russian institutional norms and standards in Belarusian legislation and infrastructure, which affects the overwhelming majority of socio-economic spheres. Among the "union programs" of 2022-2023, the most important ones are the ones that seek to achieve "creation of a unified gas market", "creation of a unified oil market" and "harmonization of tax and customs legislation". These programs were closely interconnected and *de facto* implied a simple exchange: Belarus would gain access to Russian gas and oil subsidies in exchange for adopting Russian tax principles and standards, deploying Russian tax software, and transferring some tax powers to the supranational level. This exchange was implemented through the signing of the corresponding agreement in early 2023.

In early 2024, the parties agreed on a plan for further “deeper integration” for 2024–2026. It declares a transition to the implementation of a “coordinated structural macroeconomic policy,” creation of a common financial market, implementation of a “coordinated” tax and customs policy, unified industrial policy, provision of full mutual access to the market, unification of agricultural policy, functioning of “common” energy

markets, transport system and information space, etc. Movement along this track means further progressive and gradual surrender of sovereignty across a number of socio-economic spheres to Russia.

4.3 Economic effects of sanctions at the micro level

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Similarly to the macro level, many effects at the micro level grow gradually and are cumulative in nature. Therefore, they will be felt to an ever greater extent over time. For firms and the business environment, the following seem to be the most important such effects.

Weakening of global and regional competitiveness of Belarusian firms, their dependence on the Russian market

Many Belarusian companies are increasingly feeling the limited access to advanced technologies. They are trying to offset this by importing technologies (including those in fixed assets) from Asian countries, primarily from China. However, this can only be a partial solution, at best. Firstly, it is not applicable to all industries and spheres. In many spheres, the gap between Western and other technologies remains quite noticeable. Secondly, even if this difference is not that pronounced at this point in time, over a long period its consequences will become more noticeable. It is more difficult for companies operating older technologies to adapt to new market needs and reorient themselves to the production of corresponding goods and services.

No access to the cutting edge of technology is in many cases exacerbated by a shortage of sources to finance investment or by investment skepticism of businesses in an excessively risky environment. That is, some firms, by consciously avoiding excessive investment risks, will increasingly find themselves among the technological outsiders simply due to the physical and moral obsolescence of their fixed assets.

Already today, a clear problem for many companies is the shortage of labor and human capital. In the short term, this leads either to increased costs or to a reduction in production volumes. In the long term, the low quality of human capital and labor will increasingly manifest itself in the form of productivity weakening (growth deficit).

Being tied to the Russian market as the dominant one means, in the long term, increased adaptation of production to the demands and needs of this market. Even in the pre-sanctions environment, Russia was not a world leader in terms of quality of consumption, investment, or innovation. In the sanctions environment, its position will most likely deteriorate further. Moreover, even the size of the Russian economy and its markets will most likely demonstrate stagnation. For Belarus, this will mean greater focus on production of less advanced and high-quality goods and services. At the same time, Belarusian companies will have ever fewer opportunities and chances to master the

production of goods and services that are more advanced by global standards – those more science-intensive and with greater added value.

All of the above effects will add pieces to the “bigger puzzle” of weakening productivity and competitiveness in the long run. Belarusian companies will increasingly be moving away from advanced production standards. If the sanctions environment remains for a long period, then even after the sanctions are lifted, the situation will not change quickly. Belarusian companies will subsequently need a lot of time to “catch up” with the world that has been moving ahead in the meantime.

Deterioration of the quality of the entrepreneurial pool and entrepreneurial activity, archaization of the business environment

The overwhelming majority of Belarusian companies believe the risks of the existing business environment and uncertainty to be very high. The effects generated by such perception are already noticeable. Businesses are less active in investing, set short-term goals and objectives, and are focused rather on survival than on development.

In the longer term, these effects will likely translate into deterioration of the entrepreneurial pool and entrepreneurial activity. The surviving businesses will seek to limit risks and uncertainty. Such motivation will weaken the desire to develop and implement innovations. Businesses will increasingly focus on finding immediate solutions, including increasingly resorting to makeshift and dubious practices (parallel imports, setting up complex and opaque payment chains, etc.). At the same time, the new conditions will simultaneously drive the existing companies out of business and limit the creation of new ones. This will automatically reduce the scale of entrepreneurial activity and the intensity of competition. But, more importantly, the drying up of the stream of new businesses will block the main channel for growth in productivity and the quality of the entrepreneurial pool. Against this background, the business environment will become increasingly archaic and detached from the “state-of-the-art”. If active government interventions in the functioning of the private sector and archaic regulatory practices continue, the quality of the business environment will degrade to an even greater extent.

Weakening of the role of the private sector in the economy, increasing dependence of the private sector on the state and the state-owned enterprises

Another long-term effect that will increasingly become visible over the long term is likely to be the weakening of the private sector. In quantitative terms – in terms of share in output, employment, exports, etc. – this trend has already manifested. But it will likely gain momentum further.

The business models of a significant share of existing private companies in Belarus are aimed at Western markets. If these markets are seen as permanently (rather than temporarily) inaccessible, these businesses will be increasingly inclined to exit (shut down, or relocate, fully or partially). The possibilities of geographic reorientation, especially towards Russia, are often limited for such businesses. Such reorientation

would contradict the basic foundations of their business model, and such businesses often have limited competencies to work in the rather specific Russian market. Lower business activity of private business will automatically mean the increasing role of the state-owned enterprises in the economy.

No less important is the trend of growing proximity of the private sector to the state and the state-owned enterprises. The archaic regulatory environment makes more and more businesses dependent in one way or another on the state and its "favors." For example, the obvious problematic nature of meeting all price regulation standards makes companies vulnerable, forcing them to increasingly seek to be "in good graces" of the authorities. The relative advantages that state-owned companies receive in the new environment (access to the Russian market, access to special benefits) make cooperation with them increasingly attractive for private businesses. This situation may lead to many private companies gradually turning into satellites for large state-owned companies.

For the households, the sanctions environment is likely to lead to increasing losses in relative well-being.

Further decline in relative well-being and degradation of human capital

The sanctions environment leaves Belarus with virtually no chance of breaking out of long-term stagnation. For households, stagnation is expressed in a decline in well-being compared to faster-growing countries. Today, the average well-being in Belarus is almost two times lower than the average in neighboring EU countries (Poland, Lithuania, Latvia). If the sanctions environment persists for a long period of time — for example, 10 years — and causes further stagnation, this may lead to a further 2.3-2.5-fold gap. This means that, compared to neighboring EU countries, the Belarusians will be worse off in all subsequent years than ever before (during the period of independence), and this deterioration will only progress.

The decline in relative well-being is a trend that often becomes a trigger for many other unfavorable trends. It will most likely lead to increased migration, to the primitivization and archaization of the business and social environment. In these conditions, households will have fewer opportunities to build up human capital: education and health care will degrade, at least because of being underfunded compared to neighboring countries. This will create a vicious circle, further contributing to the relative decline in the quality of life. The latter, in turn, will worsen the image and reputation of the Belarusians, who themselves suffer from sanctions, also directly. The Belarusians will increasingly become poor outcasts in the developed world.

4.4 Impact of sanctions on the military potential and military sphere of Belarus

The military sphere of Belarus is primarily affected by the sanctions imposed against enterprises of the military-industrial complex. And while after the events of 2020 there were some military-industrial complex companies in Belarus that were not included

in the sanctions lists by the Western countries, following the Russian invasion of Ukraine all such companies were sanctioned by the end of 2023.

It should be noted that previously Lukashenko's regime successfully managed to circumvent sanctions on the purchase of weapons, as well as various dual-use goods through intermediaries, especially the UAE, where Lukashenko personally had good connections and regularly used them for shady schemes. Thus, the special forces of the Armed Forces, the KGB and the Ministry of Internal Affairs of Belarus, routinely allowed their personnel freedom of choice of their short-barreled weapons. The photographs and video recordings of these militants hardly feature any short-barreled weapons from former Soviet republics — they are favor Western models. This includes pistols and submachine guns. According to military experts, these weapons could have been shipped to Belarus through the UAE.

After the introduction of sanctions against the Russian Federation in connection with the start of a full-scale war against Ukraine, a number of Belarusian companies associated with the military-industrial complex and controlled directly by the Lukashenko's regime started making money by supplying the sanctioned military and dual-use goods to Russia. This was also done through third countries — with the involvement of Belarusian companies in Kazakhstan. However, the true volumes of these shipments is not yet clear.

On the other hand, the demand for products of the military-industrial complex of the Republic of Belarus in the Russian Federation has grown significantly, also because of to sanctions imposed by a number of countries against Russia. This made it possible to increase production volumes. Thus, the Chairman of the State Military-Industrial Committee Dmitry Pantus, when summing up the performance at the board of the State Military Industrial Committee in 2023, noted that "last year the State Military Industrial Committee imported products worth more than \$38 million." At the same time, according to Pantus, "the development of measures to mitigate and minimize the consequences of sanctions pressure on our group of companies will remain a priority for the central office of the State Military Industrial Committee." Although one year earlier, when summarizing the performance at the State Military Industrial Committee board, Pantus stated: "In 2022, the exports, in terms of the number of countries, decreased by only 11 states. We shipped our products to 57 countries of the world. We were able to do everything possible for our companies to keep up their work. Many logistics flows were reoriented. We are stable and do not see any major issues facing us." That is, the management of the State Military Industrial Committee, firstly, openly admits the negative impact of sanctions on the military-industrial complex of Belarus, and secondly, was unable to cope with the sanctions pressure. It is worth noting that one should take the official data with a grain of salt, since the Belarusian military industry has never published open statistics on its activities, and even the basic financial performance indicators of the State Military Industrial Committee have been removed from public domain since 2022.

An important example is the case of MAZ. This motor company, whose products were recently seen with the Russian troops in Ukraine, had to abandon the use of German

Mercedes-Benz power units in favor of Chinese Weichai as a result of engines shipments being sanctioned. According to sources inside Belarus, this transition had a significant negative impact on the final quality of the MAZ produce. Given the decisive influence of logistics on the conduct of military operations, a drop in the quality of trucks and their more frequent failures could become a serious problem for the Armed Forces of the Republic of Belarus and the Armed Forces of the Russian Federation. Sanctions also created problems with the import of components from Europe for the production of optical instruments by Belarusian companies, including those installed on armored vehicles manufactured and upgraded in Belarus. It is almost impossible to replace these elements over a short time, and the available substitutes fail to deliver. As a result, sanctions had a negative impact on the competitiveness of the products of the Belarusian military-industrial complex even in the Russian market.

4.5 Sanctions and the international relations environment for Belarus

Rose Turabekova

In August 2020, the focus of European politics on the Belarusian political crisis was mainly expressed in the media. The sanctions adopted in August and October 2020 were “targeted”. The list of officials included mere dozens of people. Compared to 2010–2011, when the list consisted of hundreds of officials involved in brutal crackdowns, this could be considered a symbolic reaction. Attempts to “renew dialogue” with Lukashenko were unsuccessful, but, in all likelihood, the inertia of the “dialogue” period was still at play.

Moreover, contrary to previous sanctions cycles, the US failed to “set the tone” because the Donald Trump administration was not inclined to support democratic movements. Moreover, Trump’s relations with Putin, who supported Lukashenko, effectively neutralized the US administration’s response to the protests in Belarus. The EU was not entirely clear about the the US presidential elections and, accordingly, what course Washington would take with respect to democratic movements.

Since November 2020, after the US had a clear winner, the EU's position has begun to harden. This was also dictated by the increasingly violent dispersal of protests in Belarusian cities. In particular, the list of sanctioned persons included Lukashenko and his inner circle, as well as their finance structures.

The fall of 2020 saw the second wave of the COVID-19 pandemic. Global resources were mainly focused on lockdowns and expanding hospital capacities. Only in December the vaccine was announced and put into production. Meanwhile, the Belarusian protests were suppressed, and repression against independent media and the civil sector began in the first half of 2021. From November 2020 to June 2021, despite the arrests and shutdown of a significant number of independent media and non-governmental organizations in Belarus, no new sanctions were imposed.

On June 4, 2021, a new round of sanctions began in connection with the forced grounding of the Ryanair aircraft. It primarily concerned the entities involved in this

hijacking. The incident was classified as a security threat, and accordingly, the list of sanctions was expanded on June 24. This package is considered to be "sectoral" in its nature. In December 2021, in response to the orchestrated migration crisis, the EU adopted the "fifth package", which, in addition to parties responsible, included the largest national companies: Grodno Azot, Belorusneft, Belshina, Belavia.

At the regional level, it was Poland, Lithuania and Latvia, which suffered directly from the migration crisis, who mostly lobbied for tougher sanctions. At the global level, in addition to the US, Canada and the UK also joined the sanctions. In general, the threat of the migration crisis brought the Belarusian agenda to the European level as a cross-border problem. Accordingly, sanctions were increasingly adopted and toughened at the regional level.

Belarus' complicity in Russia's war against Ukraine and the adoption of the "sixth package" (February-March 2022) of EU sanctions against the Lukashenko's regime have qualitatively changed the situation. The Belarusian issue has become a global one. An extensive package of sanctions was adopted not only by the US and the EU, but also by Canada, Great Britain, Australia, Japan, Switzerland, South Korea, etc. The sanctions included many sectors (potash, woodworking, oil refining industries), but financial sanctions turned out to be the most effective. After the failure of the Russian offensive through Belarus and the gradual withdrawal of troops, sanctions against Minsk were not imposed for over a year. Between autumn 2022 and spring 2023, Lukashenko made a number of visits to Asian and African countries, which partly strengthened his position in international politics and trade. The situation deteriorated sharply following the deployment of tactical nuclear weapons and the Wagner PMC into the country. Belarus has again come to be perceived as a direct threat to military security.

Box 1. Terminology used in characterizing the consequences and effects of sanctions

The impact of sanctions on the economy is non-linear and not instantaneous. For example, some of the shocks generated by sanctions may fade, while others, on the contrary, may be permanent and generate consequences that grow over time. In addition, it is important to consider that the impact of sanctions does not form in a vacuum: in response to it (as to any other shock), adaptations of economic agents and reactions of economic policy will follow. All this determines the multidimensionality of the impact of sanctions. In addition, the results of the impact of sanctions will change over time.

Since the impact of sanctions, its effects and consequences is a rather specific and atypical topic for research, there is no uniform terminology in the literature to take into account all of its characteristics.

In order to take into account the various characteristics of the impact of sanctions and to operate with them clearly and correctly, we use the following terminology in this paper.

Adaptation reactions of economic agents — patterns of behavior and actions of economic agents aimed at adapting to the sanctions shock and minimizing the consequences.

Sanctions effects are tendencies and trends in the economy and other areas of the sanctioned country, which are formed as a result of the interaction of sanctions, adaptation reactions of economic agents and the reaction of economic policy. Sanctions effects determine (future) actual consequences. Sanctions effects can be graded by levels, depending on the level of generalization, micro- and macro-perspectives, and time horizon.

Actual consequences of sanctions — tangible and measurable changes in indicators of the state of the economy and other areas of the sanctioned country. Actual consequences may vary over time.

Potential consequences of sanctions are estimates of future changes in indicators of the state of the economy and other areas of the sanctioned country caused by the sanctions. They are generated based on a set of assumptions and the use of a particular methodology. Depending on the given set of assumptions, they can estimate, for example, the upper (the greatest potential damage) or lower (the least potential damage) threshold for the actual consequences of sanctions.

Since the actual consequences of sanctions are largely determined by unobservable variables that are difficult to measure (especially ex ante), it is extremely difficult to directly assess them. A benchmark (potential consequences) can be provided by simulations within macroeconomic models, where the shock associated with the impact of sanctions can be generated through the variables available in the model. However, this approach, while remaining the best option, has a number of significant limitations. Firstly, part of the information content is lost due to only an approximate recreation of the shock in the model. The model cannot fully reflect the reality of the impact of sanctions (recreate the sanctions environment in the model environment), since most macroeconomic models operate with a limited number of variables and parameters. Secondly, macroeconomic models, as a rule, do not contain adaptation mechanisms at the micro level (for example, in logistics, payments, etc.) and some specific ones at the macro level. That is, the model demonstrates the ability of the economy to mitigate the effects of the shock, but does not reflect its ability to limit the scale of the shock itself. Accordingly, the degree of adaptability of the economy is

largely ignored in this approach and can only be artificially reflected through assumptions and prerequisites (for example, regarding the duration of the shock: permanent or transitive).

This paper uses the methodology and logic of simulations presented in Kruk, D. (2020)⁵⁰ to assess the potential impact of sanctions, as well as to visualize their actual impact in isolation from other factors and shocks that affected the economy.

⁵⁰Kruk, D. (2020). Short-Term Prospects for the Development of the Belarusian Economy (92; BEROC Policy Paper Series, p. 17). Belarusian Economic Research and Outreach Center (BEROC). https://www.beroc.org/publications/policy_papers/kratkosrochnye-perspektivy-razvitiya-belorusskoy-ekonomiki/

Box 2. What determines the actual consequences of sanctions

1. Type(s) of sanctions

In the case of sanctions imposed by Western countries, the most appropriate classification would be to distinguish the following types of sanctions⁵¹.

- Individual

The subject of sanctions is an explicitly specified individual legal entity or individual. A list of restrictive measures is introduced in relation to the subject of sanctions in the territory of the jurisdiction introducing sanctions, such as: freezing of assets, prohibition of activities and transactions (in the territory and with residents of the relevant jurisdiction), entry ban, etc.

These sanctions primarily involve freezing the assets of an individual or company in the jurisdictions in which the sanctions were imposed. Only indirectly – mainly through financial mechanisms, but also through toxicity side effects – can individual sanctions generate negative effects for sanctioned entities outside the relevant jurisdictions.

- Imported

A ban on the supply of certain goods and services to the sanctioned jurisdiction, as well as any transactions or actions that would serve or facilitate such supplies.

- Export

A ban on the acquisition of goods and services that originate from or are in any way related to the sanctioned jurisdiction, as well as on any transactions or actions that would serve or facilitate such acquisition.

- Financial

Prohibition and/or restrictions on financial transactions (lending, insurance, securities transactions, etc.) with residents (all or selectively) of the sanctioned jurisdiction.

- Transport

Prohibition and/or restrictions on the possibility of visiting, staying, transit by vehicles originating from the sanctioned jurisdiction on the territory of the jurisdiction imposing sanctions.

Individual sanctions, as a rule, cannot cause a significant effect on a macro scale⁵² and are not aimed at generating one. These sanctions by definition have a clear addressee on the micro level⁵³. Therefore, a macro effect is unlikely. Potentially, it is possible only if they are introduced on a mass scale with respect to systemically important (non-financial and financial) companies of the sanctioned country and/or individuals who *de facto* control such companies.

⁵¹This classification is based on European Commission. (2018). Guidelines On Implementation and Evaluation of Restrictive Measures (Sanctions) in the Framework of the EU Common Foreign and Security Policy. Transport sanctions are not directly identified as a separate type of sanctions in these guidelines. However, such sanctions can be identified as a separate type based on the practice of introducing restrictions on the possibility of stay and transit of certain types of transport (e.g. aircraft, trucks) of a sanctioned entity through the territory controlled by the jurisdiction imposing the sanctions.

⁵²The macro-scale effect means a significant impact on key macroeconomic indicators: GDP, exports, imports, real income, inflation, exchange rate, etc.

⁵³This also implies the possibility of escaping sanctions, for example, through (formal) re-affiliation of a sanctioned company's business with a non-sanctioned one.

More “advanced” types are import, export, financial, and transport sanctions. Potentially, depending on other characteristics of the sanctions environment, these sanctions can lead to significant effects on a macro scale: tangible losses in output, fiscal losses, inflationary surges, financial destabilization, etc.

2. Breadth of coverage and intensity of sanctions impact

This characteristic determines the magnitude of the sanctions shock. There is no universally accepted way to quantitatively measure the scope and intensity of the sanctions impact. However, the order of such impact can be estimated through a set of proxy variables. For example, the impact on output can be associated with the share of exports/imports subject to sanctions (and their impact on output). Similarly, through various specific proxies that reflect the specifics of the sanctioned economy and its relationship with the jurisdiction imposing sanctions, it is possible to estimate the scale of sanctions for other macroeconomic indicators.

3. The order, sequence, chronology of the introduction and implementation of sanctions

This characteristic determines the degree of magnitude and speed of the actual sanction impact relative to the magnitude (scope and intensity) of the sanction shock. For example, with the same magnitude of the sanction impact (scope and intensity), a gradual or instantaneous increase to this level will have different actual consequences. If sanctions are introduced gradually, then, firstly, the economic shock will also form progressively. This simplifies its mitigation by economic policy measures. Secondly, in this case, the sanctioned jurisdiction has an additional time reserve for preventive preparation for mitigating and neutralizing the sanction shock, as well as increasing the degree of its adaptability.

4. The degree of adaptability of the sanctioned jurisdiction

This characteristic primarily assesses the degree of stability of the sanctioned economy to external influences. From this position, it is not incontestable to consider it in the same row with the characteristics of the sanction impact⁵⁴. However, if the subject of the analysis is the actual consequences of the sanction impact, then taking this characteristic into account seems mandatory, since the actual consequences are the result of the interaction of the sanction impact and the adaptation reaction (counteraction).

The degree of adaptability to shocks (sanctions) is a qualitative characteristic. Its direct measurement is difficult and unreliable *ex ante*, and reliable estimates can probably only be expected *ex post*.

The degree of adaptability can be indirectly measured through a set of “input” indicators, i.e. through indicators and characteristics at both the micro and macro levels that describe the ability of individual firms and the economy as a whole to adapt to shocks⁵⁵. A reliable and trustworthy assessment through “input” indicators probably requires the analysis of a wide range of indicators, including those obtained through qualitative and quantitative surveys of firms. This means that it is difficult to assess the degree of adaptability of the economy to shocks (sanctions) *ex ante*. Moreover, *ex ante* estimates obtained through qualitative surveys are highly likely to differ significantly from *ex post* estimates. After all, the idea of a shock and the possibilities of adapting to it before its implementation may contrast with the actually identified adaptation possibilities *ex post*. Measuring the degree of adaptability through “output” indicators seems to be a less labor-intensive and more reliable approach. However, this also means that the consequences of the sanctions shock *ex ante* are difficult to assess due to the availability of a reliable estimate of the degree of adaptability only *ex post*.

⁵⁴Because it characterizes not the sanctions regime itself, but the object of its impact.

⁵⁵At the macro level, this characteristic will closely correlate with assessments of the quality of the system for ensuring macroeconomic stability (see, for example: Kruk, D. (2023). What is needed to strengthen macroeconomic stability in Belarus? (85; BERO Working Paper Series, p. 52). Belarusian Economic Research and Outreach Center (BEROC)).

In their sanctions policy, Western countries aim primarily at changing the behavior of the sanctioned party. Such a target setting is postulated in the case of the European Union *de jure*⁵⁶ and in most cases operates *de facto*. In practice, it predetermines the dominance of the principles of progressiveness and gradualism in the introduction of sanctions. From the point of view of the typology of sanctions, these principles determine the reliance on individual sanctions against individuals and legal entities⁵⁷.

“Heavier” sanctions — import, export and financial — are also introduced gradually and in advance in most cases. This means that the subject of sanctions has a grace period between the decision to introduce sanctions, their implementation and bringing them to “full speed”. Therefore, if the subject of sanctions has room to maneuver when adapting to the sanctions regime — for example, the possibility of geographical reorientation of its activities — such a subject will be able to limit the scale and duration of the sanctions shock. The less the subject of sanctions adapts to sanctions, the less time lag between the introduction of sanctions and their full-scale implementation, the larger and more prolonged (up to permanent) the shock will be, and vice versa.

⁵⁶ Cm. for example: European Commission. (2018). Guidelines on Implementation and Evaluation of Restrictive Measures (Sanctions) in the Framework of the EU Common Foreign and Security Policy.

⁵⁷In the case of the United States, the corresponding mechanics of individual sanctions through the inclusion of individuals and legal entities in the SDN list is certainly the predominant sanctions regime.

Box 3. Sanctions and the mechanics of their impact on the national economy

In the context of economic terminology, it is appropriate to consider the impact of sanctions on the national economy as the generation of certain shocks. The most traditional approach in macroeconomics is to divide all possible shocks into three broad groups: demand shocks, supply shocks, and financial shocks. This taxonomy is due to the fact that shocks within each of these groups have their own particular impact on the economy.

Demand shocks. A demand shock is any event that changes aggregate demand in the economy (in addition to "natural" mechanisms). Based on the definition of aggregate demand, the corresponding group will include events that directly change the values of: consumption expenditure of households or government agencies, gross fixed capital formation, inventories of working capital, (net) exports.

Demand shocks typically **result in rapid but transitory losses of output.**

The state of demand is the key factor in determining the amount of output at a particular point in time (in the short run). Therefore, if the economy experiences a contraction in demand, this will translate into output losses quite quickly.

At the same time, economic authorities can influence the components of aggregate demand. Indirectly, through the instruments of economic policy, economic authorities can influence all elements of aggregate demand. In addition, economic authorities can directly influence individual elements (for example, the expenditures of state organizations). Therefore, even if an individual demand shock is permanent (i.e., the amount of demand has changed momentarily and by default there will be no gradual return to the pre-shock level), economic authorities, using their instruments, can, including at the expense of other elements of demand, ensure the return of aggregate demand to its original state.

Among the types of sanctions, demand shocks (export shocks) are generated primarily by export sanctions. Accordingly, the default expected effect of export sanctions is a rapid and tangible loss of output proportional to the scale of the export shock. To some extent, demand shocks can also be generated by transport, financial, and individual sanctions.

Supply shocks. A supply shock is any event that changes the aggregate supply in the economy (beyond "natural" mechanisms). The corresponding group will include events that affect the technological and qualitative characteristics of production, the quantity and quality of labor (including human capital), the quantity and quality of fixed assets (capital) in the national economy.

Supply shocks tend **to result in to slow and gradual, but permanent losses of output.** In dynamics, output losses will usually be associated not with direct and tangible losses, but with lost profits (weakening of growth potential). For example, if before the supply shock the economy had a growth potential of 1% per year, then a supply shock equivalent to 1% of output will undermine this growth potential and, over time, having fully materialized, will lead to the loss of the economy's ability to generate growth.

The permanent nature of output losses as a result of supply shocks is due to the fact that the supply side is only slightly influenced by economic policy. For example, it is difficult for economic authorities to counteract such trends as a decline in labor supply, quality of human capital, demotivation to entrepreneurial risk and investment. The motives that determine such trends are usually deeper than the level of motivation affected by economic policy instruments. Moreover, such motives, as a rule, have a high degree of inertia. Therefore, even if economic authorities find opportunities to partially counteract supply shocks, the effect of their use will also be slow and gradual.

Among the types of sanctions, import sanctions are likely to be transformed into a supply shock. They will be converted into a supply shock if they lead to a deterioration (loss of the ability to improve) of the technical and technological characteristics of the production of the sanctioned country. Financial, transport and individual sanctions may also be partially transformed into a supply shock (technological). A supply shock may also be generated as a result of the interaction of various sanction restrictions, which result, for example, in the outflow of labor and human capital from the sanctioned jurisdiction and/or the inability to ensure the development of existing human capital.

Financial shocks. Financial shocks are usually understood as events that disrupt the standard mechanisms of the functioning of the financial industry and the country's money circulation. Directly, financial shocks **will lead to changes in the values of nominal variables, such as inflation, the exchange rate, and financial stability indicators.** Such effects **are usually rapid, but are transitive.** In addition, depending on the depth and duration of financial stress, they can also lead to output losses. **Output losses in this case will be visualized gradually, but are also predominantly transitive.**

The predominantly transitive effects of financial shocks are mainly due to the fact that economic policy can influence the relevant areas and indicators. However, the effectiveness of such influence is often lower, and it takes more time to achieve the effect than, for example, in the case of demand shocks. This is due to the high degree of inertia of behavior and the important role of expectations in the behavior of economic agents in financial markets. Accordingly, high inertia also becomes inherent in the relevant nominal variables.

Among the types of sanctions, financial sanctions will almost invariably transform into financial shocks. But the magnitude and nature (transitive or permanent) of these shocks are not universal, but fully depend on the breadth of the coverage of the sanctions impact and the degree of adaptability of the subject of sanctions (jurisdiction).

Combination of shocks. The most problematic situation for the economy is traditionally recognized as the simultaneous impact of several types of shocks. For example, simultaneously from the demand and supply side. This **will most likely lead to rapid, large-scale and largely permanent output losses.** If financial shocks are also involved in this combination, then **in addition to output losses, financial destabilization also becomes highly probable.**

This generalized expected diagnostic⁵⁸ is due to the fact that different types of shocks “interact” with each other, amplifying each other and encouraging infection of the economy from different sides. In addition, the presence of combined shocks often reduces the room for maneuver in economic policy: the side effects from the use of its instruments expand, and economic policy as a whole becomes increasingly disoriented.

⁵⁸Generalized diagnostics provide only an approximate picture of the sanctions environment. In each specific case, the situation may differ depending on the set of shocks, their magnitude, and other factors (see Box 2).

Box 4. Sanctions against Belarus by Western countries: assessments of potential consequences and implementation features

Before Belarus' complicity in the Russian invasion of Ukraine, the logic and mechanics of imposing sanctions on Belarus were fully consistent with the phased and gradual approach characteristic of Western countries. Until 2021, before the Ryanair incident, Western countries only used the mechanism of individual sanctions against Belarus. These sanctions generated insignificant shocks on the macro scale. Accordingly, there were no grounds for any significant macroeconomic consequences of these sanctions.

Selective Export and Financial Sanctions: June 2021 – March 2022

The EU⁵⁹ for the first time applied more severe export sanctions and significantly expanded the scope of import sanctions (later, *de facto*, almost identical sanctions were introduced by the UK and Switzerland) after the grounding of the Ryanair plane in Minsk in May 2021. The greatest threat was posed by export sanctions, which could generate a significant export shock. The financial shock generated by the corresponding sanctions was obviously considered to be less significant in the short term, and only in the long term could its effect become significant with some conversion into a supply shock. A major supply shock was not in the picture at this stage.

The introduced export sanctions covered up to 13.5% of Belarusian exports⁶⁰. The upper limit of potential losses⁶¹ was estimated at 6% of GDP (relative to the volume of output at the time of their implementation) over a horizon of up to two years, with a potential increase to 10% over a longer horizon. Given that the upper limit is based on extremely conservative assumptions regarding the adaptation possibilities, and also due to the availability of time for adaptation, **a more realistic assessment in terms of output was seen as a range of 2–3 % of GDP.** Moreover, based on the typology of current shocks and the schedule of the introduction of sanctions, **there were grounds to expect a gradual materialization of the corresponding losses with preservation of their transitive nature.**

The EU financial sanctions of 2021 mainly implied long-term threats and risks with very limited direct financial losses. At the time of the sanctions, the funds of EU residents in state-owned banks amounted to about USD 0.5 - 0.7 billion. In the resource base of these state-owned banks and all borrowed funds, this amount was, respectively, 2.8% and 3.2%. Firstly, these are quite small amounts. Secondly, the sanctions implied a gradual outflow of these funds (as current contracts would expire), and state-owned banks had time to replace these resources and adapt to the shock.

“Deep” sanctions with broad coverage: March 2022 – present

The sanctions imposed by the EU in March and April 2022 (with the subsequent *de facto* accession of the UK, Switzerland and other countries) in response to Belarus's complicity in the Russian invasion of Ukraine have broadened and deepened the sanctions' impact many times over⁶².

⁵⁹Council Regulation (EU) 2021/1030 of 24 June 2021 amending Regulation (EC) No 765/2006 concerning restrictive measures in respect of Belarus, 2241 OJ L (2021). <http://data.europa.eu/eli/reg/2021/1030/oj/eng>.

⁶⁰This estimate was obtained by comparing the sanctioned export positions, taking into account the sanctions of the EU, UK, Switzerland, with the actual distribution of exports by goods and geographic destinations in 2019. However, in 2021, due to changes in the market situation, a significant part of export supplies, for example, petroleum products, was reoriented to Ukraine even before the introduction of sanctions. Accordingly, this estimate is appropriate to consider as the upper threshold of the scope of coverage by export sanctions. A more realistic range at that time seems to be 8 - 10% of Belarusian exports.

⁶¹The upper threshold estimate implies that a) the scale of the shock itself is determined by the upper bound of the corresponding estimate, b) the shock is constructed in the model simulations as permanent (not decaying, or in economic terminology - a level shift). The methodology of such simulations is similar to that described in more detail in Kruk, D. (2020). Short-Term Prospects for the Development of the Belarusian Economy (92; BERO Policy Paper Series, p. 17). Belarusian Economic Research and Outreach Center (BEROC).

⁶²1. Council Regulation (EU) 2022/355 of 2 March 2022 amending Regulation (EC) No 765/2006 concerning restrictive measures in view of the situation in Belarus, 067 OJ L (2022). <http://data.europa.eu/eli/reg/2022/355/oj/eng>.

The list of sanctions introduced (by type), their depth and scope began to generate a simultaneous and wide range of shocks. The sanctions generated large-scale and converging demand, supply and financial shocks for the Belarusian economy. These shocks combined and resonated with each other, as well as with other negative shocks caused by the new external environment (and only partially related to the sanctions). For example, such was the export shock caused by the almost complete and instantaneous loss of the Ukrainian market. Also, the aggregate export shock was amplified by the emerging and rapidly spreading toxicity effect - the voluntary refusal of counterparties to do business with Belarusian entities.

The imposed export sanctions covered up to 20% of all Belarusian exports⁶³. Taking into account the inaccessible exports to Ukraine, the affected share was as high as 33%, and taking into account the effects of toxicity, logistics and payment barriers — up to 40% of all Belarusian exports. The upper limit of potential losses⁶⁴ was estimated at 20% of GDP (relative to the volume of output at the time of their implementation) over a horizon of up to two years, with a potential increase of up to 25% over a longer horizon. Due to the fact that the upper limit is based on extremely conservative assumptions regarding the possibilities of adaptation, and also due to the availability of time for adaptation, **more realistic estimates in terms of output were seen in the range of 10-15 % of GDP (over a horizon of 1-2 years).**

The EU financial sanctions of 2022 had direct economic-wide effects. First, they blocked payments, in some cases also blocking the corresponding foreign trade transactions (included in the assessment of potential output losses above). Second, they significantly increased the likelihood of financial destabilization in addition to a large-scale decline in output.

Special aspects of the implementation of Western sanctions against Belarus and the corresponding lessons learned

- In determining the content, intensity and pace of introducing sanctions, Western countries (quite expectedly and naturally) are guided primarily by their own agenda. The more the regime's actions directly affect their interests and the global agenda, the more extensive and intensive the reaction.
- Western countries prefer to view sanctions as a preventive tool of influence, trying to prevent behavior that is undesirable to them. If such undesirable actions are nevertheless committed, then sanctions are introduced primarily as a punishment, and not as a mechanism to steer the behavior.
- At the stage of attempting preventive action, sanctions were dosed in such a way as not to cause an excessively significant (on the macro scale) effect for Belarus. The shift of sanctions to the “punishment” mode occurred only after the actions of the Belarusian regime crossed national borders and became an element of the global agenda.
- Western countries are more lenient towards the progressive logic of introducing sanctions: the available instruments of influence are used one by one and gradually. “Strong” sanctions

2. Council Regulation (EU) 2022/398 of 9 March 2022 amending Regulation (EC) No 765/2006 concerning restrictive measures in view of the situation in Belarus and the involvement of Belarus in the Russian aggression against Ukraine, 082 OJ L (2022). <http://data.europa.eu/eli/reg/2022/398/oj/eng>.

3. Council Regulation (EU) 2022/577 of 8 April 2022 amending Regulation (EC) No 765/2006 concerning restrictive measures in view of the situation in Belarus and the involvement of Belarus in the Russian aggression against Ukraine, 111 OJ L (2022). <http://data.europa.eu/eli/reg/2022/577/oj/eng>.

⁶³This was estimated by comparing sanctioned export positions, taking into account the sanctions of the EU, UK, and Switzerland, with the actual distribution of exports by goods and geographic destinations in 2019.

⁶⁴The upper threshold estimate implies that a) the scale of the shock itself is determined by the upper bound of the corresponding estimate, b) the shock is constructed in the model simulations as permanent (not decaying, or in economic terminology - a level shift). The methodology of such simulations is similar to that described in more detail in Kruk, D. (2020). Short-Term Prospects for the Development of the Belarusian Economy (92; BEROC Policy Paper Series, p. 17). Belarusian Economic Research and Outreach Center (BEROC).

require causes that would directly affect the areas seen by Western countries as falling within the scope of their own priorities.

- Belarusian democratic forces are not independent actors within the framework of sanctions policy. They can only to some extent influence the decisions of Western countries through standard lobbying mechanisms. It is important for Belarusian democratic forces to understand this.

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