

Belarus Economy Monitor: trends, attitudes and expectations

Express Analysis

Oil rents are back

March 2023

In 2022, Belarus must have earned ≈\$1.7 bn due to the Urals discount vs the Brent pricing; and the benefit of Belarus can rise to ≈\$2.7 bn this year

In 2022, a significant price decline for the Russian Urals oil versus the Brent oil pricing has likely brought and is bringing unexpectedly large benefits for Belarus. In 2022, Belarus purchased oil from Russia at an average price of presumably ≈\$69/bbl, while the Brent quotes on the world market were around \$100/bbl. As a result, the oil price discount for the Belarusian oil imports versus the Brent pricing could exceed 30%, which was about 9 and 14 percentage points more compared to 2020 and 2021, respectively, and it was close to the average values in 2007-2010 and in 2015–2018. The expanded discount is estimated to have saved Belarus about \$1.7 billion (or 2.3% of GDP) on oil imports in 2022. Belarusian petroleum product export schemes launched through Russia in the second half of 2022 could result in import savings thus allowing Belarus to more than compensate for the loss in the physical volumes of petroleum product exports. Under favorable circumstances, the benefit for Belarus from the Urals discount versus the Brent pricing can reach \$2.7 billion in 2023 (Figure 5).

This Express Analysis is an operational analysis of the status of the key macroeconomic indicators of Belarus.

In 2021, Belstat stopped public disclosure of actual data on oil imports by Belarus, as well as on exports and domestic production of Belarusian petroleum products. Therefore, the analytics in this bulletin is mainly based on the statements made by Belarusian and Russian officials and on the mirror foreign trade statistics. The data provided in this material are estimates, and the authors of this material cannot guarantee data accuracy.

The 2023 estimates in this material are based on the assumption that Belarus will retain its sales markets and petroleum product supply routes shaped in the second half of 2022. At the same time, other options are quite possible: the availability of sales markets may turn out to be unstable; costs to transit petroleum products through Russia may increase if Russia raises its tariffs for their transportation/transshipment; there can be other options, too.

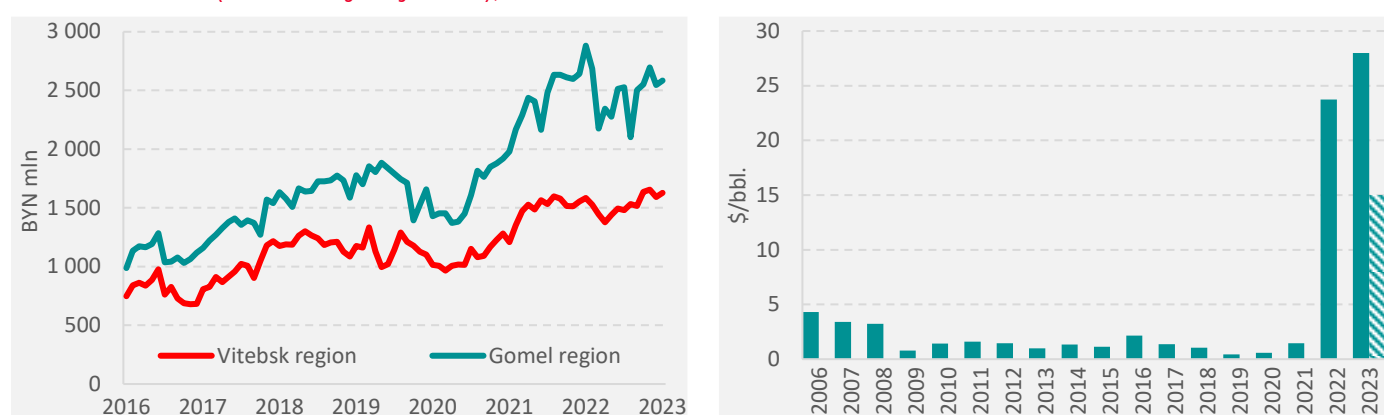
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Belarus managed to launch exports of its petroleum products in the second half of 2022,¹ which was indirectly evidenced by industrial production recovery in the Vitebsk and Gomel regions (Figure 1.a). According to Belarusian officials, oil refineries restored the volume of their oil refining in the second half of 2022,² and Belarus intensified its petroleum product supplies through Russia.³ According to the estimates based on indirect public data, Belarusian refineries processed about 12 million tons of oil in 2022 and exported about 5.5–5.6 million tons of petroleum products (Figure 2.b). Eventually, the Naftan Oil Refinery has broken even;⁴ the Mozyr Oil Refinery plans to reach full capacity in Q1-2023 and to refine 2.5 million tons of oil,⁵ and domestic market fuel prices have stopped rising and have been decreasing even since March 7, 2023. Calculations based on the open data show that the benefits from the expanded discount for the Russian Urals oil versus the Brent oil pricing could more than compensate for the loss of the high-margin market of Ukraine to Belarus and the costs associated with the extended transport and logistics leg of the Belarusian petroleum product exports (Figure 1.b).

Figure 1. Industrial production in Belarus, and the Urals oil discount versus the Brent pricing

a) nominal output of the manufacturing industry (seasonally adjusted);

b) the Urals oil discount versus the Brent pricing.



Source: Author's estimates based on the data from Belstat, the Russian Ministry of Finance, and the World Bank.

Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. The indicator dynamics updates once new data are published. In Figure 1.b on Y2023, the solid-filled column is the forecast under a conditionally optimistic scenario, and the pattern-filled column is the forecast under a conditionally pessimistic scenario. The conditionally optimistic scenario is based on the Urals oil price forecast by the Bank of Russia⁶ \$55/bbl. The Urals oil discount versus the Brent pricing under the conditionally optimistic scenario is set at \$28/bbl (based on the legal restrictions effective in Russia). The resulting Brent oil price estimate of \$83/bbl is in line with the data by the U.S. Energy Information Administration (EIA).⁷ The discount under the conditionally pessimistic scenario is set at \$15/bbl, which is in line with the Bank of Russia's⁶ estimate of the Urals oil discount versus the Brent oil pricing in Indian ports (the Urals quotes may vary depending on the delivery basis, which has become very evident after imposing the EU embargo). Accordingly, the Urals price under the conditionally pessimistic scenario is \$68/bbl.

¹ In 2021, Belstat stopped publishing data on the production of petroleum products and foreign trade in oil and petroleum products. Therefore, the analytics in this domain is based on proxy indicators, statements by officials, and mirror foreign trade statistics.

² See: <http://gazeta.naftan.by/novosti-otrasli-sxemy-eksporta-nefteproduktov-obemy-pererabotki>.

³ See: <https://www.belta.by/economics/view/eksport-belorusskih-nefteproduktov-v-tretji-strany-cherez-rf-v-2023-godu-sostavil-bolee-3-mln-t-540800-2022/>.

⁴ See: <http://gazeta.naftan.by/andrey-sojko-my-smozhem-do-konca-goda-prodolzhat-rabotat-pribylno>.

⁵ See: https://t.me/gomel_region_gov/9418.

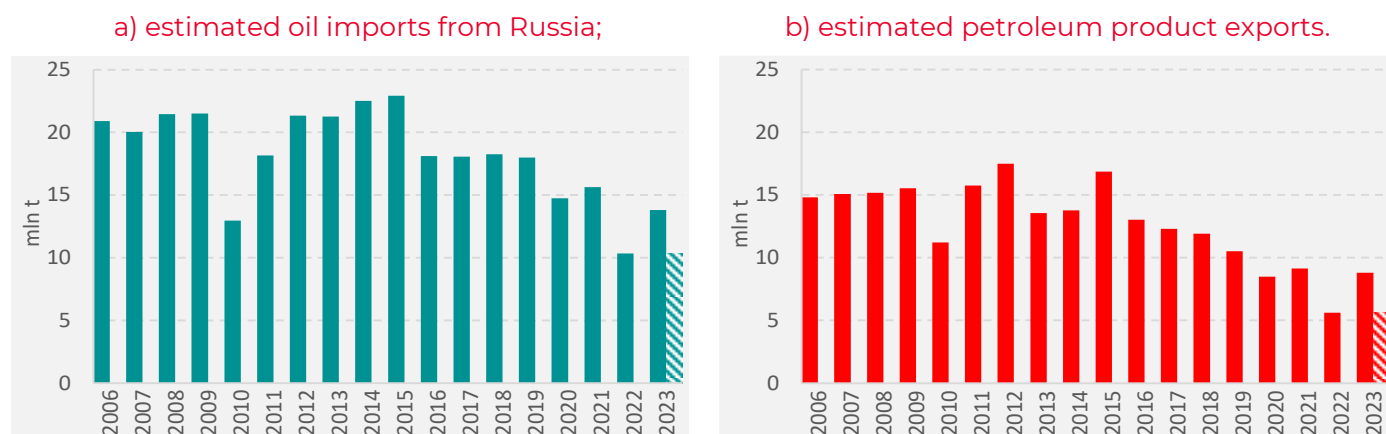
⁶ See: http://cbr.ru/Collection/Collection/File/43774/2023_01_ddcp.pdf.

⁷ See: https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf.

Based on the data from open sources, oil imports by Belarus from Russia could be estimated at about 10.3 million tons⁸ in 2022 (Figure 2.a), and the price was about \$504/t or \$69.2/bbl⁹ (Figure 3.a). Based on the logic of the Russian tax maneuver, the actual price of the Russian Urals oil supplies to Belarus has been increasing progressively versus the corresponding Urals oil market price. In 2018, Belarus was buying Russian oil for about 73% of its market price (i.e. at a ca. 27% discount). By 2021, the supply price increased to ca. 85% of its market price (i.e., the discount decreased to $\approx 15\%$).¹⁰ Since the Urals oil discount versus the Brent pricing was insignificant in that period and it did not change practically (the discount was \$0.9/bbl on average in 2018–2021), the discount in the price of the Russian oil supplies to Belarus versus the Brent market price was very close to the absolute values and to the dynamics described above.

In 2022, the price of Russian oil supplies to Belarus was estimated at $\approx 91\%$ of its market price (i.e., the discount decreased to $\approx 9\%$). If the ratio between the Urals pricing and the Brent pricing had remained at the level of previous years, the price of actual supplies versus the Brent pricing would also have grown comparably (the discount would have decreased). However, mainly due to the widening spread between Urals and Brent, **according to estimates, the actual price of oil supplies to Belarus versus the Brent pricing decreased to almost 69% in 2022**, and, accordingly, the discount increased immediately by ≈ 14 p.p. compared to 2021: from $\approx 16\%$ to $\approx 30\%$ (Figure 3.b).

Figure 2. Volume of oil imports from Russia to Belarus and exports of petroleum products by Belarus



Source: Author's estimates based on the data from Belstat, UN Comtrade, and mass media.

Note: In 2023, the solid-filled figures are the forecast under a conditionally optimistic scenario, while the dashed figures are the forecast under a conditionally pessimistic scenario. The conditionally optimistic scenario assumes oil imports of ≈ 13.8 million tons in 2023. This assumes refining ≈ 3.9 million tons per quarter (including oil extracted in Belarus), which is in line with the Q4-2022 oil refining plans.² The conditionally pessimistic scenario assumes the volume of oil imports in 2023 to be in the volume estimated earlier in 2022: 10.3 million tons. The volume of exports of petroleum products in 2022–2023 has been calculated based on the volume of oil refining and the assumption of domestic consumption of 5.7 million tons of petroleum products.

⁸ The calculation of the import volume is based on the assumption that its value in January-February will remain at the average monthly level of 2021 (the 2021 data has been taken from the UN Comtrade mirror statistics), that the oil refining volumes will shrink by half in March-June (according to the statements by Belarusian officials, see: <https://www.belta.by/economics/view/v-pravitelstve-rasskazali-o-rabote-belorusskih-npz-v-uslovijah-sanktsij-494739-2022/> and <http://gazeta.naftan.by/andrey-sojko-my-smozhem-dokonca-goda-prodolzhat-rabotat-pribylno>), and that 2.5 and 3.9 million tons of oil will be refined in Q3 and Q4, respectively (see: <http://gazeta.naftan.by/novosti-otrasli-sxemy-eksporta-nefteproduktov-obemy-pererabotki>). It is also assumed that the oil extracted in Belarus in the volume of 1.81 million tons (see: <https://www.belta.by/society/view/v-belarusi-v-2022-godu-dobyli-181-mln-tonn-nefti-548892-2023/>) was refined domestically.

⁹ The import price has been calculated based on the assumption of formula pricing (see: <https://www.belta.by/economics/view/parhomchik-novye-shemy-eksporta-nefteproduktov-pozvolili-ne-ostanovit-ih-eksport-536316-2022/>) as the difference between the Urals oil price (\$76.1/bbl or ≈ 554 \$/t) and the customs duty on oil (≈ 49.9 \$/t on average in 2022, according to the data from the Russian Ministry of Finance).

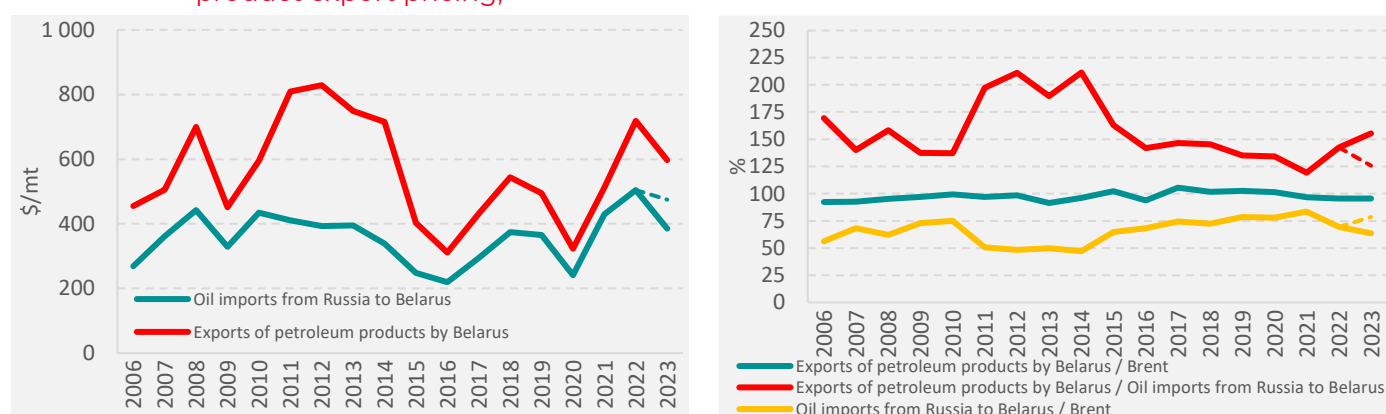
¹⁰ The price of oil imports by Belarus from Russia in 2021 has been calculated based on the UN Comtrade mirror statistics.

The export price of Belarusian petroleum products could be about \$718/ton in 2022 (Figure 3.a). This estimate is based on the volume of exports of goods by the Vitebsk region, on the statements by officials¹¹ about the expansion of trade between the Vitebsk region and the UAE by 97 times to \$2.4 billion due to the exports of petroleum products and an increase in the share of UAE in the exports of the Vitebsk region to 49% in 2022, as well as on the public statements by officials about the supplies of over 3 million tons of Belarusian petroleum products through Russia.³ As a result, Belarusian petroleum products, most likely, were sold with a small discount versus the Brent oil pricing on average for the year due to increased “toxicity”, but the change in this discount was relatively small (Figure 3.b). As a result, the ratio of the petroleum product export price to the oil import price increased significantly in 2022.

Figure 3. Prices of oil imports from Russia to Belarus and exports of petroleum products by Belarus

a) estimates of oil import pricing and petroleum product export pricing;

b) price ratio.



Source: Author's estimates based on the data from Belstat, the Russian Ministry of Finance, UN Comtrade, the World Bank, and mass media.

Note: In 2023, the solid-filled figures are the forecast under a conditionally optimistic scenario, while the dashed figures are the forecast under a conditionally pessimistic scenario. The price of oil imports has been calculated as the difference between the Urals quote in the scenario and the estimated customs duty. The export price for petroleum products has been calculated based on the Brent quote of \$83/bbl and the spread estimated in 2022.

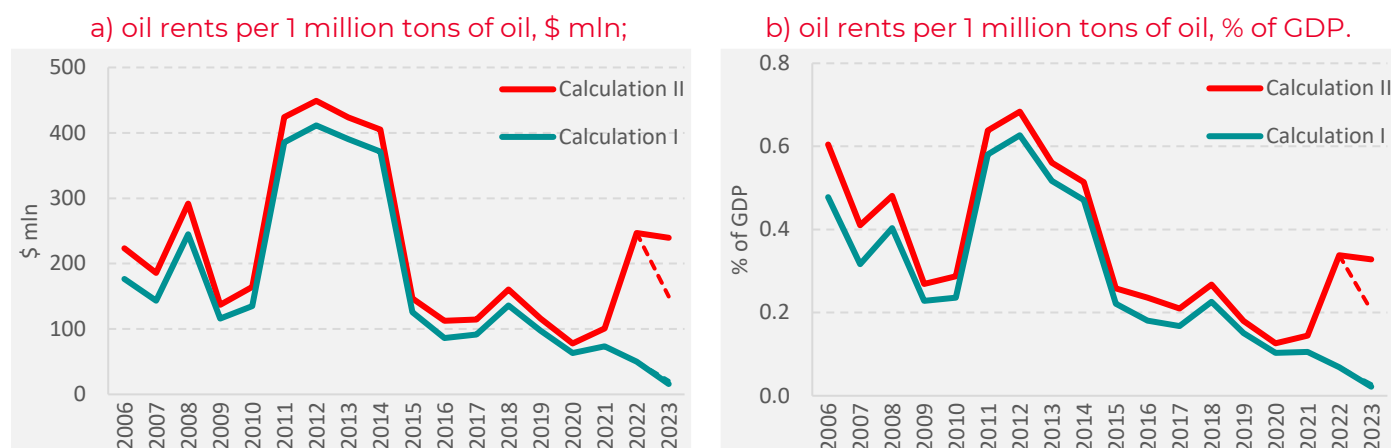
In 2022, the expansion of the Urals oil discount versus the Brent pricing led to the return of the oil rents of Belarus per 1 million ton of crude oil to the levels of the second half of 2000's (Figure 4.a; Figure 4.b). Again, Belarus bought oil much cheaper than world prices and sold its refined products at approximately the same relative prices as in 2021 in general.

Belarus' savings on oil imports — mainly due to the Urals oil discount versus the Brent pricing — was estimated at ~\$1.7 billion (2.3% of GDP) in 2022; and in 2023, it may reach \$2.7 billion (3.6 % of GDP) under favorable conditions (Figure 5.a; Figure 5.b).¹² These benefits are likely not only to compensate for the decline in the physical volumes of exports of petroleum products, but also for a significant share of the lost supply of other sanctioned goods.

¹¹ See: <https://www.belta.by/amp/regions/view/eksportnyj-potentsial-logistika-vysokie-tehnologii-vitebskaja-oblast-i-oae-budut-rasshirjat-552874-2023>.

¹² The reverse excise tax applied to Belarusian refineries has not been taken into account directly when calculating the benefits for Belarus. Given the reverse excise tax, the total amount of benefits may be larger than the estimates presented in the bulletin.

Figure 4. Oil rents estimates for Belarus

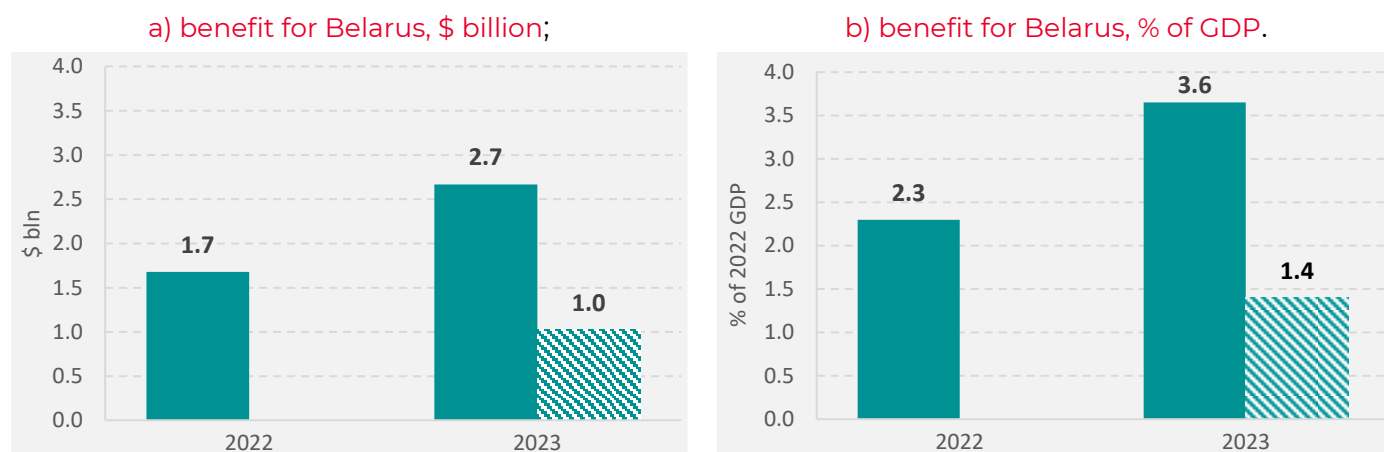


Source: Author's estimates based on the data from Belstat, the Russian Ministry of Finance, UN Comtrade, the World Bank, and mass media.

Note: Calculation I is the difference between the mean Urals oil price (according to the calculations of the Russian Ministry of Finance) and the price for oil imported by Belarus from Russia. Calculation II is the difference between the Brent oil price (according to the World Bank calculations) and the price for oil imported by Belarus from Russia. In 2023, the solid-filled figures are the forecast under a conditionally optimistic scenario, while the dashed figures are the forecast under a conditionally pessimistic scenario.

In general, **Belarus has benefited — in the short term — from the sanctions imposed on the Russian oil industry.** However, it should be noted that long-term consequences are not reviewed in this material. Their effects are more uncertain, and they are likely to be negative for the Belarusian economy.

Figure 5. Estimated benefits for Belarus from the expansion of the Urals oil discount versus the Brent pricing



Source: Author's estimates based on the data from Belstat, the Russian Ministry of Finance, UN Comtrade, the World Bank, and mass media.

Note: In 2023, the solid-filled figures are the forecast under a conditionally optimistic scenario, while the dashed figures are the forecast under a conditionally pessimistic scenario. The benefit for Belarus has been calculated as the product of the volume of oil imports from Russia and the difference between the estimated price of oil imported by Belarus and the price of oil imported by Belarus that would have developed if the Urals oil discount versus the Brent pricing remained at the level of 2021. The reverse excise tax applied to Belarusian refineries has not been taken into account directly when calculating the benefits for Belarus. Given the reverse excise tax, the total amount of benefits may be larger than the estimates presented in the bulletin.