

Belarus Economy Monitor: trends, attitudes, and expectations

Express Analysis

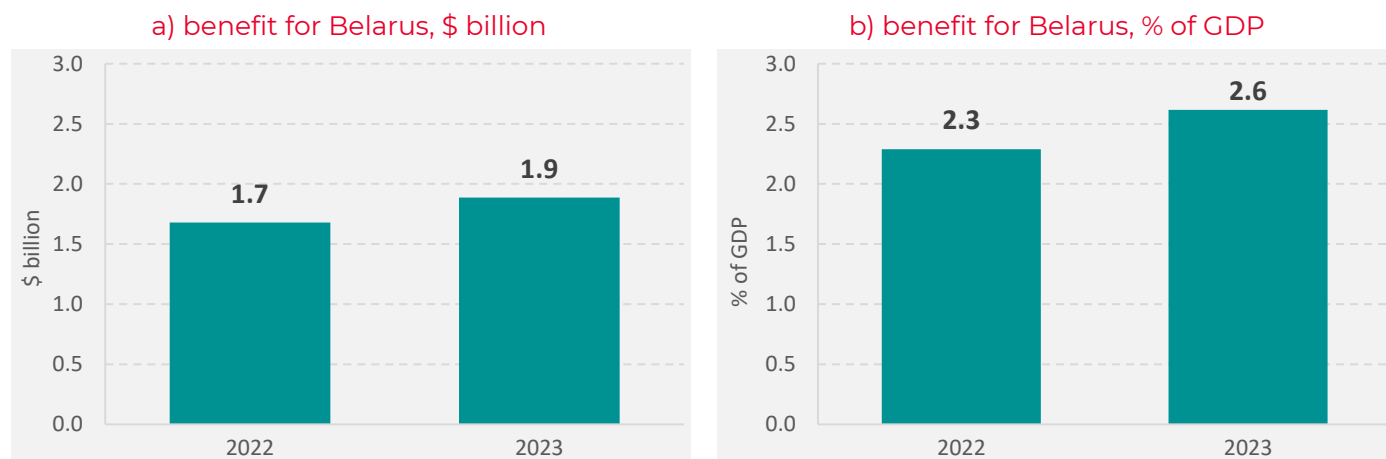
Oil rents are back. Part 2

March 2024

Belarus continued enjoying its expanded discount for the Urals oil versus the Brent oil, which was estimated at \approx \$1.9 billion in 2023 and \approx \$3.6 billion in 2022–2023 altogether

In 2023, Belarus will likely continue to buy Urals oil at a large discount versus the Brent oil price. The discount grew by ≈ 14 percentage points to more than 30% in 2022, and it remained significant — almost 27% — in 2023. The expanded discount is estimated to have saved about \$1.7 billion (or 2.3% of GDP) in oil imports to Belarus in 2022 and about \$1.9 billion (or 2.6% of GDP) in 2023 (Figure 1). Savings in oil imports could allow Belarus to compensate for the loss of the profitable Ukrainian market, restore the production of petroleum products to pre-war levels in 2023; this became another important factor for maintaining balanced foreign trade and economic growth in 2023. The benefit can fall by almost \$1 billion and become another challenge to macroeconomic stability in 2024.

Figure 1. Estimated Belarusian benefits due to the expansion of the Urals oil discount versus the Brent oil pricing



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

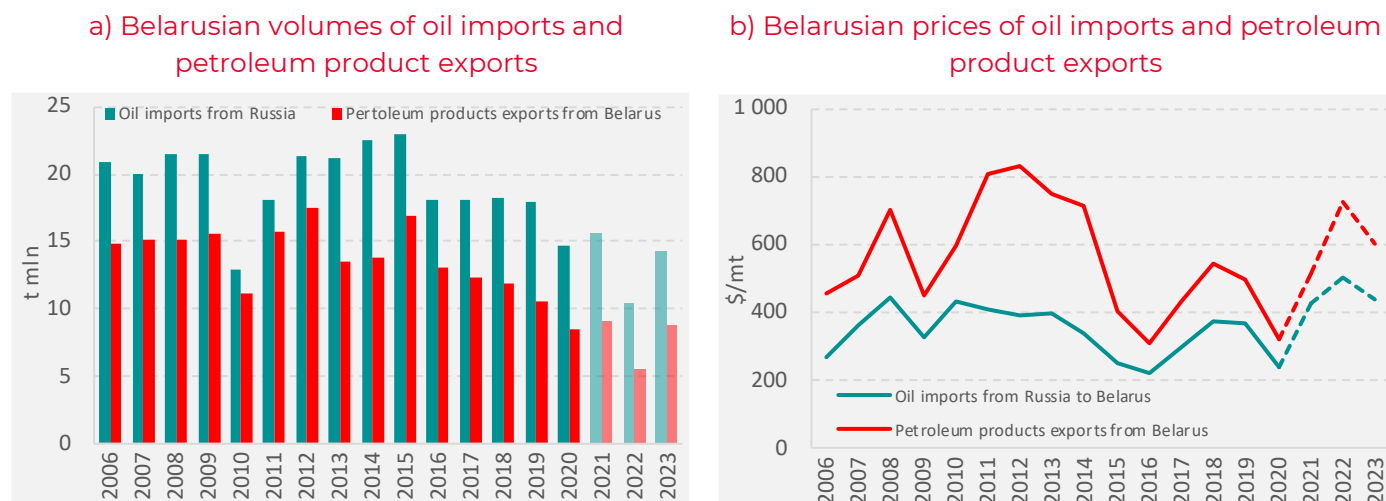
This Express Analysis is an operational analysis of the status of the most important macroeconomic indicators of Belarus.

In 2021, Belstat stopped disclosing actual data on oil imports by Belarus, as well as on exports and domestic production of 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.

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In 2023, Belarus restored its petroleum product exports to the 2020–2021 levels following their decline in 2022. According to the estimates based on indirect public data, Belarusian refineries processed about 16 million tons of oil in 2023 (of which over 14 million tons were imported from Russia) and exported 8.5–9 million tons of petroleum products (Figure 2.a). The restored output of the oil-refining industry could become one of the important factors contributing to Belarus' GDP growth by 3.9% in 2023 due to significant intersectoral effects generated by this sector.

Figure 2. Foreign trade of Belarus in oil and petroleum products



Source: calculations based on data from Belstat, the Russian Ministry of Finance, the World Bank, UN Comtrade, information in the media.

Note: In Figure 2, values after 2020 are the author's estimates.

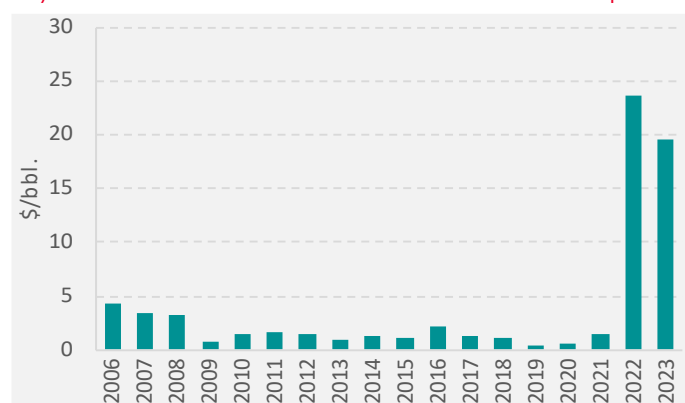
The price of Russian oil supplies to Belarus was estimated at about 440 \$/t or 60.5 \$/bbl in 2023 (Figure 2.b), which corresponded to its discount of ~27% versus the Brent oil price (Figure 3.b). The discount had gradually lowered until 2022 due to the tax maneuvers in the Russian oil industry. Belarus bought Russian oil for about 73% of its market price (i.e., a ~27% discount) in 2018; the Russian oil price increased to ~85% by 2021 (the discount dropped to ~15%). Since the Urals oil discount versus the Brent oil price was insignificant at that time, the Russian oil discount for Belarus versus the Brent oil price was very close to the values and dynamics described above (Figure 3.a).

In 2022, the estimated Russian oil price for Belarus was ~91% of the Urals oil market price; in 2023, it was estimated at ~96% of the Urals oil market price (Figure 3.a). If the price ratio between Urals and Brent had remained at pre-war levels, the price of Russian oil for Belarus versus the Brent oil price would also have grown comparably. However, mainly due to the widening spread between Urals and Brent, **the estimated actual price of Russian oil for Belarus versus the Brent oil price decreased to almost 69% in 2022; in 2023, it was estimated about 73%.** Accordingly, the discount increased by ~14 percentage points (compared to 2021), reaching over 30% in 2022, and it remained significant in 2023: it was about 27% (Figure 3.b).

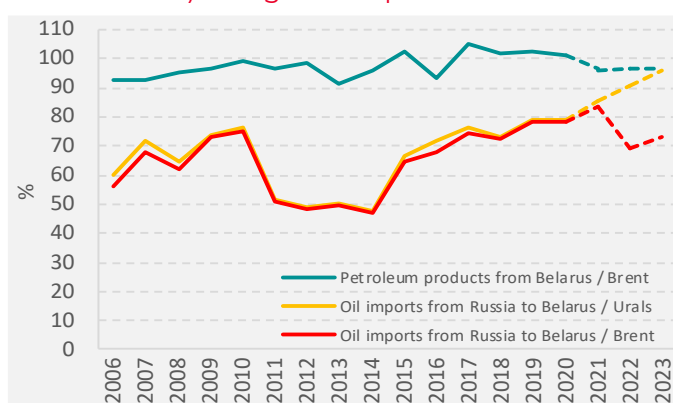
In 2022–2023, Belarusian petroleum products, most likely, were sold with a small discount versus the Brent oil price due to higher “toxicity”, but the change in this discount was relatively small (Figure 3.b). As a result, **the ratio of the petroleum product export price to the oil import price increased significantly in 2022–2023 (Figure 2.b).**

Figure 3. The Urals oil discount versus the Brent oil price, and Belarusian foreign trade prices of oil and petroleum products

a) the Urals oil discount versus the Brent oil price



b) foreign trade price ratio



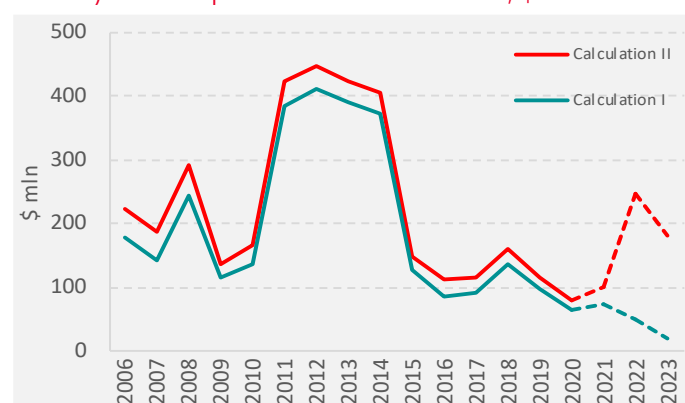
Source: calculations based on data from Belstat, the Russian Ministry of Finance, the World Bank, UN Comtrade, information in the media.

Note: In Figure 3.b, values after 2020 are the author's estimates.

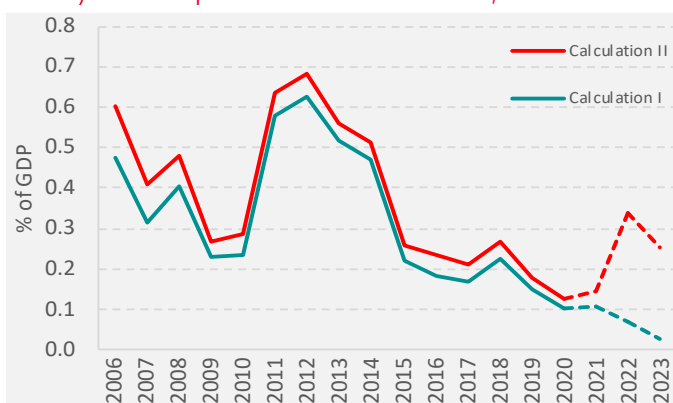
Belarus' savings on oil imports — mainly due to the Urals oil discount versus the Brent oil price — was estimated at ~\$1.9 billion (2.6% of GDP) in 2023 and ~\$3.6 billion in 2022–2023 altogether (Figure 1.a; Figure 1.b).¹ The oil rent, which became effective in 2022, remained significant in 2023 (Figure 4.a; Figure 4.b). The benefits from the expanded discount for the Russian Urals oil versus the Brent oil price compensated for the loss of the highly profitable Ukrainian market to Belarus and the costs associated with the extended transport and logistics leg for the Belarusian petroleum product exports, which largely restored oil refining to the pre-war levels. Without this benefit, a foreign trade deficit in goods would be larger in 2022–2023, pressures on the foreign exchange rate would increase, which would limit the authorities' capacity to administratively contain price increases.

Figure 4. The oil rent estimates for Belarus

a) oil rent per 1 million tons of oil, \$ million



b) oil rent per 1 million tons of oil, % of GDP



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

Note: Calculation I is the difference between the Urals oil price (according to the calculations of the Russian Ministry of Finance) and the price of the 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 of the oil imported by Belarus from Russia. Values after 2020 are the author's estimates.

¹ 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.

If the Urals oil discount versus the Brent oil price is \$10–15 on average in 2024, the Belarusian benefit resulting from purchasing cheap Russian oil will reduce by ≈\$0.5–1 billion compared to 2023. This will put pressure on the state of the country's foreign trade position and force Belarusian refineries to adapt to higher purchasing prices again. The impact of the reduced discount on foreign trade in energy commodities will significantly depend on the average oil price on the world market in 2024. Since part of the petroleum products produced from imported oil is consumed domestically at regulated prices, a scenario where the world oil price drops will be less painful for the Belarusian foreign trade in energy commodities (Table 1). However, it should be taken into consideration that lower oil prices will affect the Russian economy; this will affect the Belarusian economy significantly. Reverse excise tax revenues transferred from the Russian state budget will smooth out the negative consequences of the reduced Urals oil discount versus the Brent oil price for the Belarusian oil refineries; however, pressures on the refiners' costs and, accordingly, the likelihood of an increase in fuel prices on the domestic market should not be ruled out.

The described Belarusian benefits are not sustainable; this is not only due to the volatility of the ratio of oil prices of different grades, but also because their preservation of any scale fully depends on the position of Russia. Access to Russia's transport and logistics infrastructure is vital to ensuring the Belarusian petroleum product exports. Total dependence on Russia undermines the stability of export supply chains and increases the risk of their unexpected failures. Moreover, these schemes are not reliable because the ultimate buyers of the Belarusian petroleum products are unknown.

Table 1. Changes in the foreign trade balance of Belarusian oil and petroleum products in 2024

\$ billion

Urals oil discount versus Brent, \$	Average annual Brent oil price, \$/bbl								
	60	65	70	75	80	85	90	95	100
0	-1.4	-1.6	-1.8	-2.0	-2.2	-2.4	-2.6	-2.8	-3.0
5	-0.9	-1.1	-1.3	-1.5	-1.7	-1.9	-2.1	-2.3	-2.5
10	-0.3	-0.5	-0.7	-1.0	-1.2	-1.4	-1.6	-1.8	-2.0
15	0.2	0.0	-0.2	-0.4	-0.6	-0.8	-1.0	-1.2	-1.4
20	0.7	0.5	0.3	0.1	-0.1	-0.3	-0.5	-0.7	-0.9

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