BSR Policy Briefing series 5/2025

Kaliningrad's Economy: Vulnerabilities and Performance

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CENTRUM BALTICUM

ISSN: 2342-3153

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Abstract

Kaliningrad is Russia's semi-exclave region in the Baltic Sea region and is surrounded by two EU and NATO members: Poland and Lithuania. This location implies several vulnerabilities for Kaliningrad's economy mainly related to the transit issues. After the start of the full-scale Russo-Ukrainian war and the subsequent economic sanctions imposed on Russia Kaliningrad's vulnerabilities turned into serious economic problems. Initially their impact on the economy was significant. However, the federal government was ready to spend money to support the region and Kaliningrad was able to avoid the worst. As a result, the productive side of the economy suffered a decline in 2022-2023 as measured by GRP while personal income grew strongly. Overall Kaliningrad's economy tends to follow general Russian economic trends.

Key words: Kaliningrad, economy of Kaliningrad, transit, sanctions on Russia

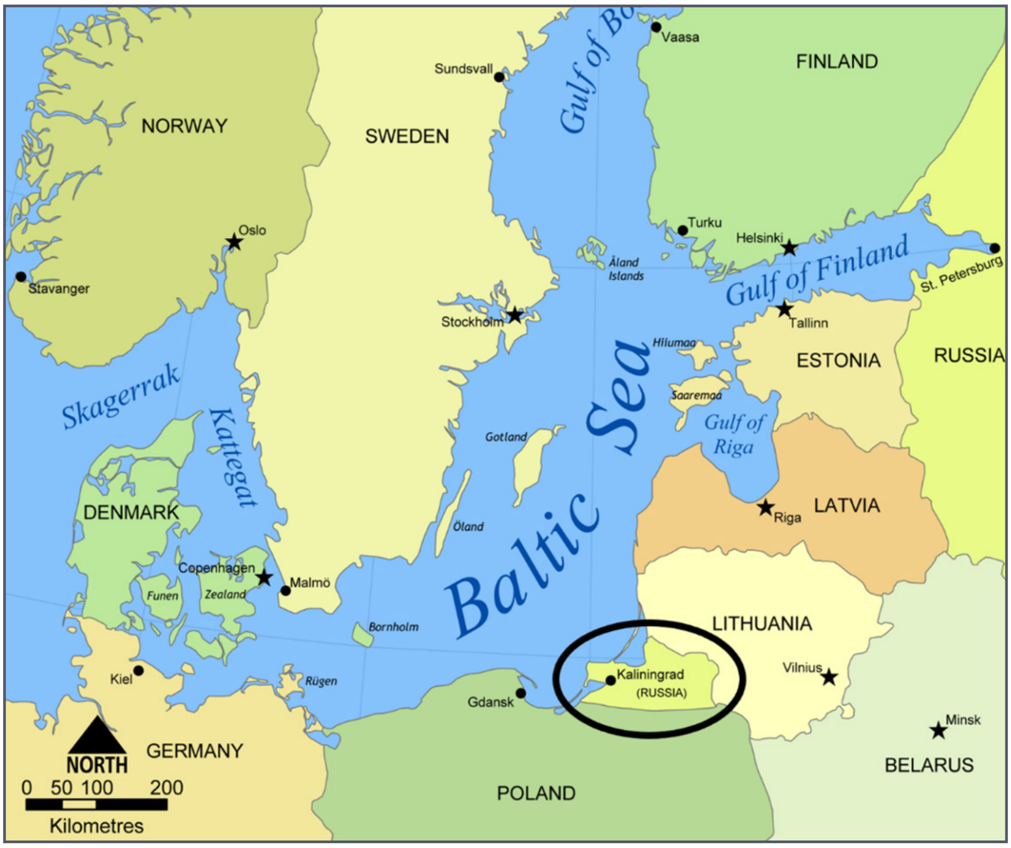
Table of contents

1. Introduction

After Russia started a full-scale war on Ukraine in February 2022, the European Union, United States, UK and several other states have imposed multiple rounds of severe economic sanctions on Russia. At the time of writing (May 2025), the EU alone adopted unprecedented 17 packages of sanctions and seems ready to introduce further restrictive measures to "suffocate Russia's economy" (Reuters, 2025).

When economic relations between Russia and the European Union can be described as economic warfare, even a cursory look at the Baltic Sea region map suggests that Kaliningrad Oblast, a semi-exclave territory of the Russian Federation, is in a particularly vulnerable position, being surrounded by two EU (and NATO) members: Poland to the south and Lithuania to the north and east (see figure 1).

Figure 1. Structure of Russian fuel and basic materials exports to China in 2021 (USD billion and share in Russian export)



Source: Wikipedia

In this paper I explain different aspects of Kaliningrad's vulnerability, describe how they have played out in recent years and actions that have been taken to address them. I also describe performance of Kaliningrad's economy in recent years.

2. Vulnerabilities

Vulnerability generally refers to the state of being exposed to the possibility of being attacked or harmed (Oxford English Dictionary, n.d.). In 2022 many of Kaliningrad's vulnerabilities indeed became serious economic problems requiring urgent attention. I focus mainly on the issues that are largely unique for Kaliningrad rather than the ones general for Russia as a whole. Such issues are mostly related to Kaliningrad's exclave location.

Land transit

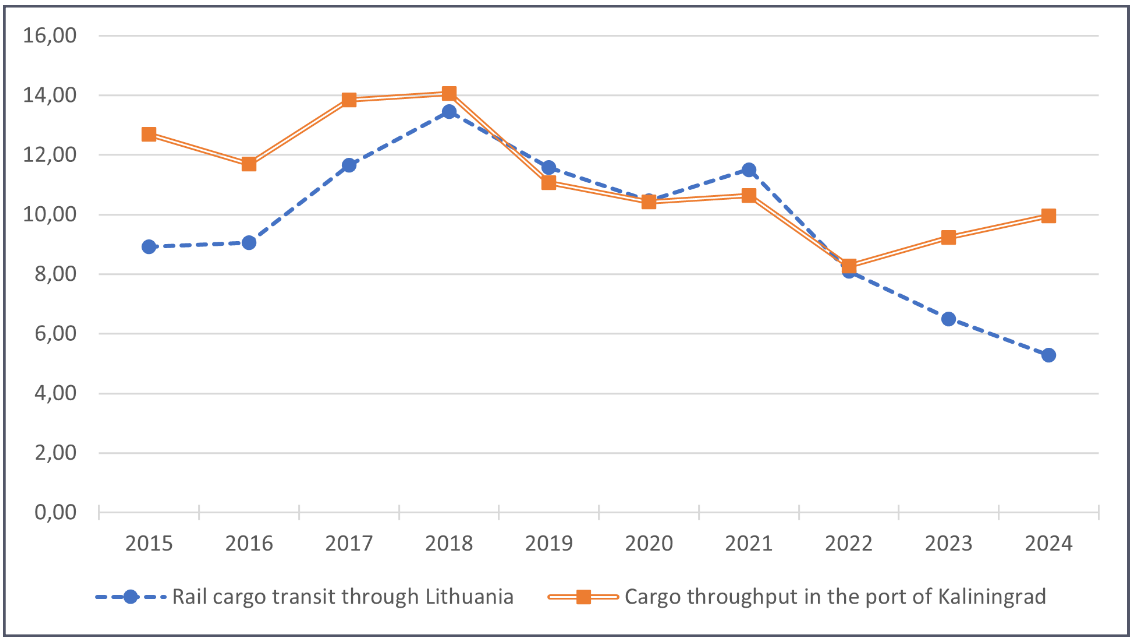
The most obvious vulnerability for Kaliningrad is transit of goods. Before the war most goods between Kaliningrad and mainland Russia travelled by road and rail via Lithuania.

On June 18, 2022, four months after the start of the war, Lithuania imposed severe restrictions on transit of goods to/from Kaliningrad. It banned transit of coal, metals, wood, cement and other building materials, cars, fertilizers, and many other goods for which the EU earlier introduced a ban on imports from Russia. According to initial official estimate these transit restrictions affected 40-50% of cargo transported between the region and the rest of Russia (Wikipedia, n.d.). Lithuania claimed that it was done to comply with sanctions imposed on Russia by the EU. Russian officials strongly protested and threatened retaliatory measures. After a few tense weeks the European Commission issued a guidance on July 13, 2022, in which it made clear that the transit ban affected only road, but not rail transit (European Commission, 2022). Soon after, Lithuania has again allowed rail transport of sanctioned goods between Kaliningrad and mainland Russia (BBC, 2022).

However, at the same time, the volume of sanctioned goods that can transit Lithuania was limited by their average volumes for the last three years. For 2022 this ceiling amounted to 3.1 million tonnes and for 2023 to 2.9 million tonnes. Actual transit volumes proved to be smaller than the ceiling (Interfax 2023). Consequently, the transit limit was regularly cut in the following years – by 20% for 2024 and by 30% for 2025 (TASS. 2025). Overall volume of rail transit via Lithuania, including non-sanctioned goods, more than halved between 2021 and 2024 (see Figure 2).

The rail and road transit restriction forced Russia to focus on the alternative way to supply the region – by sea. It should be noted that before 2022 transportation by sea between the region and other Russian ports on the Baltic Sea was relatively undeveloped – there were only two ferries operating between Kaliningrad and the port of Ust-Luga (near St. Petersburg). This sea route was more expensive and less convenient for most shippers.

Figure 2. Kaliningrad's cargo flows, million tonnes



Sources: For rail transit: Statistics Lithuania, https://osp.stat.gov.lt/statistiniu-rodikliu-analize?indicator=S5R048#/.
For port cargo throughput: Baltic Sea Ports Administration, https://www.pasp.ru/port_kaliningrad

In 2022 after the transit confrontation with the Lithuania and the EU it became clear to Russian authorities that the sea connection to Kaliningrad should be strengthened. Russian government tasked the Ministry of Defense's logistics company, *Oboronlogistics*, to increase the capacity of the ferry line to Kaliningrad. By adding new ships to the line, the company more than doubled cargo traffic on this line in 2023 compared to 2022: from 0.96 to 2.29 million tonnes. Private companies also joined the effort: in the first half of 2025 there were approximately 28-30 vessels operating on this route. Federal government also partially subsidies the cost of shipping between Kaliningrad and mainland Russia (TASS, 2025).

Overall, the problem with cargo transit can be considered as largely resolved: transportation of goods between Kaliningrad and Russia's mainland became more costly and time-consuming but it works and Kaliningrad's economy is supplied with necessary goods.

Energy

The next significant vulnerability for Kaliningrad concerns the energy sector. Over the last few years Russia has taken several actions to address it but to some extent the vulnerability still remains.

The main feature of Kaliningrad's energy sector is that it practically 100% dependent on supplies of energy resources from the mainland Russia. In many respects the energy vulnerability is also related to the transit problem but there are important details specific for the sector, which I describe below.

Primary production of energy in Kaliningrad is mostly crude oil extraction but its production volumes are small and declining. Produced crude oil is shipped elsewhere because the region does not have an oil refinery while refined oil products have to be transported to Kaliningrad. The same applies to other primary sources of energy – natural gas and coal. Kaliningrad's local sources of primary energy also include small-scale wind and hydro power generation but together they account for less than 0.5% of Kaliningrad's power generation.

Up to 2005 Kaliningrad did not even have substantial power generating capacity – its electricity generation was less than 10% of its own consumption. The remaining 90+ % of electricity was supplied through Belarus and Lithuania. Even at that time when the relations between Russia and the EU were increasingly cooperative this seemed as too much of vulnerability to the Russian government, and it decided to build a large combined heat and power plant at the outskirt of the city of Kaliningrad. The first unit of the plant went online in 2005 and the second one – in 2010. The total installed capacity of both units is 875 MW(e). The plant made Kaliningrad self-sufficient in electricity generation and it was able to export excess electricity to Lithuania (Usanov, Kharin 2014).

However, Baltic countries (Lithuania, Latvia and Estonia), which were previously linked to the same power system as Russia and Belarus via the BRELL ring, decided to leave it and to join the European ENTSO-E grid instead. Lithuanian parliament adopted the bill in this regard back in 2012 but it finally happened only in February 2025 (bne IntelliNews, 2025). This made Kaliningrad's power grid isolated – an energy island.

Russia was preparing for this outcome for more than a decade. It has taken several steps involving massive investment to improve Kaliningrad's energy security and lessen its vulnerability. These steps included:

1. Building four new power stations in Kaliningrad with the total generating capacity of 979 MW, which more than doubled generating capacity in the oblast. Currently Kaliningrad's power generation capacity is 2.4 times higher than its peak power consumption. However, to generate electricity these power plants need fuel and for roughly 90% of the capacity this fuel is natural gas. Consequently, next steps were aimed at improving the reliability of natural gas supply.

2. The capacity of the natural gas pipeline Minsk-Vilnius-Kaunas-Kaliningrad was expanded and branches to new power stations were built.

3. Gazprom has built an underground gas storage in the oblast, and continues to expand it. Its current capacity is 174 million cubic meters (mcm) of gas and it is planned to be increased to 800 mcm (Gazprom, n.d., a).

4. Gazprom also built an offshore gas receiving terminal and procured a floating storage and regasification unit (FSRU) in Korea called Marshal Vasilevskiy, which can transport liquified natural gas (LNG) and feed it directly into Kaliningrad's gas distribution system (Gazprom, n.d., b).[1]

These investments have significantly fortified Kaliningrad's energy island. Yet the transit of natural gas via the pipeline through Lithuania remains a soft spot in the fortification and this fact is not unnoticed in Lithuania (bne IntelliNews, 2025). Theoretically Kaliningrad can be fully supplied with LNG using the newly built infrastructure even in the case when the pipeline is completely shut down. The main problem in this scenario is the cost: LNG supplies would be much more expensive than pipeline gas.

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1 *Interestingly, the goal for this FSRU - to achieve energy independence from Lithuania, is a mirror goal of another FSRU, Independence, chartered in 2014 by Lithuania, which, as its name implies, was used to achieve energy independence from Russia. What makes this even more interesting is the fact that both FSRUs were built by same company - Hyundai Heavy Industries – and by the same design (or least their main characteristics are the same and they look very similar). In addition, their terminals are barely 100 km away from each other.*

Avtotor

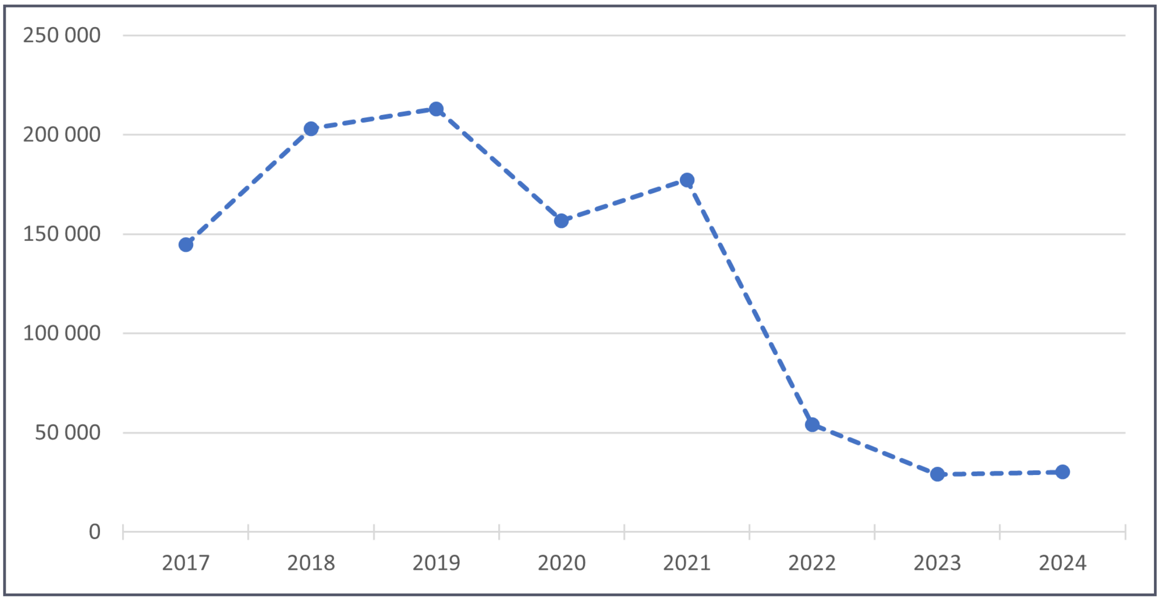
Another Kaliningrad's vulnerability concerns a company called Avtotor, which is a contract manufacturer of cars and commercial vehicles. I consider it a vulnerability because of its large size relative to Kaliningrad's economy and its near complete reliance on foreign suppliers.

In 2021, Avtotor was the largest company in Kaliningrad: it produced 177 thousand cars under such brands as KIA, Hyundai and BMW, accounting for 11% of the total Russian car market. Its sales were above US$ 5 billion. Avtotor paid 53% of all taxes collected in Kaliningrad. It was responsible for 42% of Kaliningrad's rail cargo traffic (measured by the number of carriages) and even greater percentages of container traffic at Kaliningrad's ports (Avtotor, 2022).

Soon after the beginning of the war, foreign companies working with Avtotor stopped supplying components and pulled out from Russia. This led to huge problems at Avtotor – the company had to stop its assembly operations. As a result, Avtotor's car production declined by 70% in 2022 and by another 46% in 2023 (see figure 3).

This situation was not unique for Kaliningrad – other car manufacturers in Russia found themselves in a similar situation. Russia's automotive manufacturing sector was the most affected by the war and the following sanctions – its production declined by 51% in 2022. What was unique in Kaliningrad is the role that Avtotor played in Kaliningrad's economy. It was largely because of Avtotor's problems manufacturing output in Kaliningrad declined by 24% in 2022 (second worst decline among Russian regions).

Figure 3. Number of cars produced by Avtotor



Source: Avtotor's annual reports for 2021-2023, for 2024 -author's estimate based on Kaliningradstat data

The impact of Avtotor's problems on Kaliningrad's economy could be even worse but company's employment numbers and local procurement were more modest than gross output numbers might suggested. Still the company had to cut its labor force by a quarter in 2022: from 3.5 to 2.6 thousand and to reduce wages for the remaining workers. Its purchases from Kaliningrad's companies declined from 1.6 to 0.56 billion rubles between 2021 and 2022. (Avtotor, 2023).

To survive Avtotor had to seek for new industrial partners. There were not that many alternatives available – the most promising partners were Chinese auto manufacturers, who were interested in the Russian market. Avtotor managed to negotiate contracts and prepare production lines for new models quite quickly, and started assembly of cars for Chinese brands Kaiyi, BAIC and SWM in 2023. It was probably helpful that Avtotor had already had experience of cooperation with Chinese companies: in 2006-2008 it assembled cars for Chery Automobile.[2] Avtotor also started to manufacture its first electric vehicle under its own brand, AmberAvto, which is an adopted version of JMEV Yi. Still Avtotor's production volumes and employment numbers remain low.

2 Irony of the situation is that Avtotor shut down the assembly of Chery cars under pressure from the Russian authorities who apparently did not want Chinese cars to flood the Russian market at that time. Now Chinese cars became saviors for the Russian consumers and some car makers.

Cross-border trade and travel

Unsurprisingly for an exclave region foreign trade played an important role in Kaliningrad's economy. Unfortunately, any analysis of changes in Kaliningrad's foreign trade and their impact on the economy is impossible because Russian authorities stopped publishing data on foreign trade since 2022. For Russia as a whole such data can be assembled from foreign trade statistics collected by Russia's trade partners but this approach is not possible for an individual Russian region. However, it is clear that the overall volume of Kaliningrad's foreign trade declined as suggested by data on cargo throughput at Kaliningrad's port and problems at Avtotor.

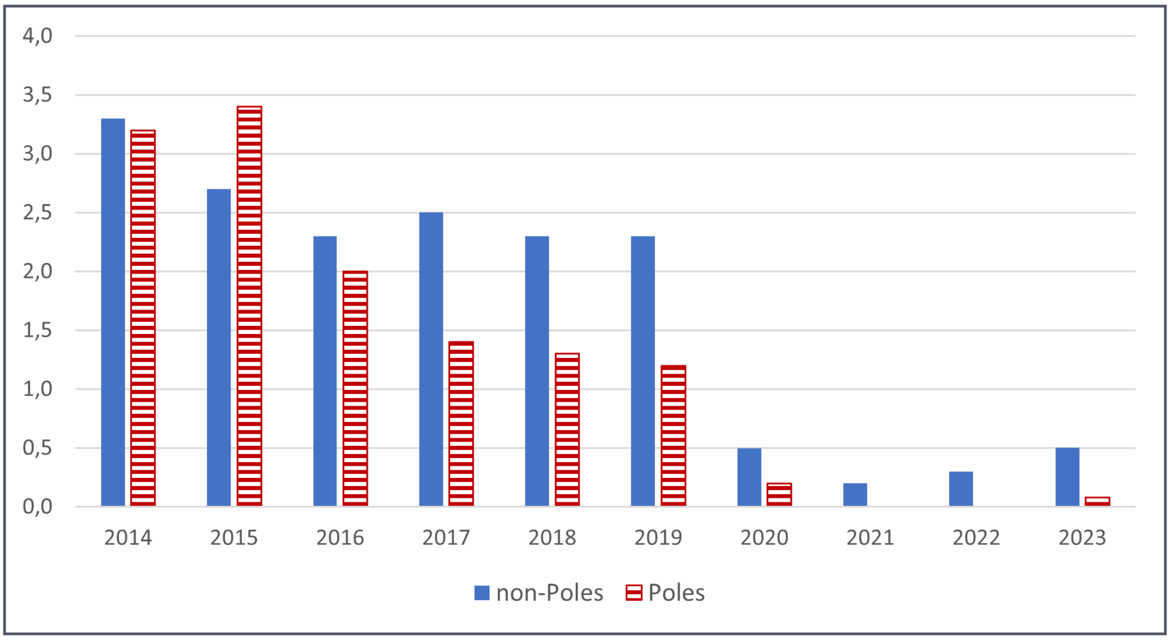
Here I focus on trade and travel between Kaliningrad and its immediate neighbors – Poland and Lithuania. Trade with both countries judged by its gross values was important but not critical for Kaliningrad. Together Poland and Lithuania accounted on average for 9.8% in Kaliningrad's exports and 6.5% in its imports over 2016-2020 (last 5 years for which data was reported). Both countries had generally positive balance in their trade with Kaliningrad with the average trade surplus amounting to US$310 million over the same period.

This trade became severely restricted due to the EU sanctions on Russia. For example, since 2022 trucks registered in Russia cannot enter the EU member states. In addition, both countries adopted some of the toughest restrictions on entry for Russians: they both issue visas almost exclusively for humanitarian reasons. The travel restrictions became an additional factor contributing to a reduction in trade.

It should be noted that Kaliningrad's border with Poland and Lithuania was very busy before 2020. For example, the number of border crossing of the Polish-Russian border in Kaliningrad was 3.5 million in 2019 (before covid-19) and exceeded 6 million in 2015 (see Figure 4).

What helped to soften the blow of the latest travel restrictions was the fact that the borders were largely closed since 2020 due to the covid-19 pandemics. Nevertheless, for many ordinary residents of Kaliningrad the inability to travel to neighboring countries is one of the most significant nuisances of the recent years.

Figure 4. Number of Poland-Russia border crossings in Kaliningrad, in millions



Source: Statistics Poland. Border traffic and expenses made by foreigners in Poland and Poles abroad in 2023, https://stat.gov.pl/en/topics/prices-trade/trade/border-traffic-and-expenses-made-by-foreigners-in-poland-and-poles-abroad-in-2023,10,10.html

Interestingly, the chart above shows an increasing number of Poland-Russia border crossings by non-Poles since 2021 that seems to contradict to the restrictions imposed by Poland on travel by Russian citizens. While I am not aware of publicly available statistics in this respect, anecdotical evidence suggests that this increase is largely due to the EU residents visiting Russia. Large waiting lines on the border during

Easter and Christmas holidays (at Western European dates), large number of cars with EU registration plates in Kaliningrad and publications in the local media regarding this issue all support this hypothesis. Most of them seems to be ethnic Russians living in the EU and visiting Kaliningrad or using it as a transit point for flights elsewhere in Russia.

3. Economic performance

GRP: decline and weak recovery

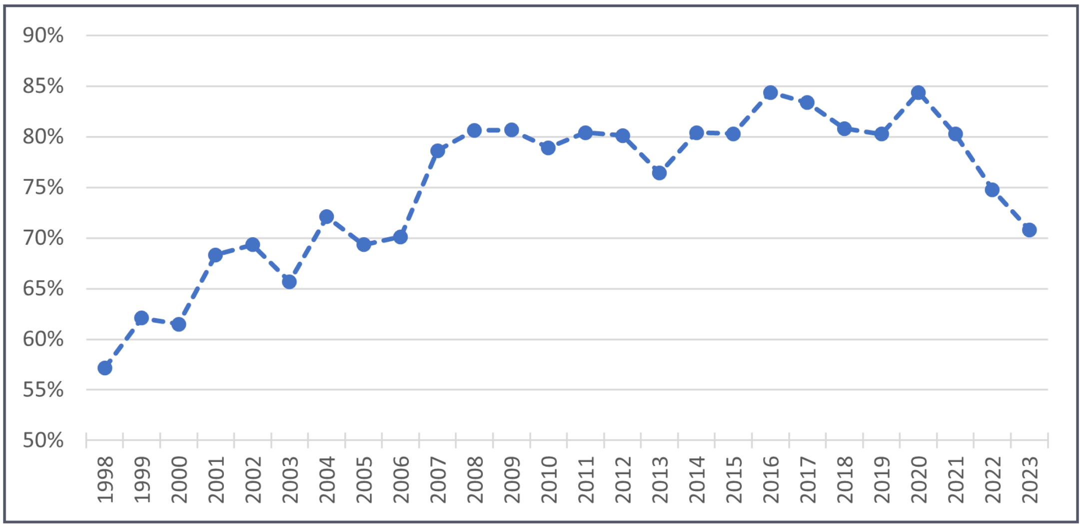
Since 2022 defining features of the Russia's economic life have been the economic sanctions imposed on Russia and militarization of its economy. Their joint effect on the performance of the Russian economy has been discussed in many publications but it would be fair to say that Russia's economy outperformed most forecasts.

The relative economic performance of Russia's regions is also a result of these two factors. In this respect Kaliningrad was not very lucky: the impact of the sanctions coupled with the vulnerabilities described earlier took a significant toll on its economy. General measure of regional output, gross regional product (GRP), declined in Kaliningrad by 2.2% over the period of 2022-23 (a decrease by 4.5% in 2002 followed by an increase by 2.4% in 2023). To put this number in perspective, average GRP for the Russian regions (i.e. the sum of regional GRPs) increased by 5% over the same period.

Kaliningrad's output numbers are bad but not exceptional: St. Petersburg's economy declined even more – by 4.3% over the same period. More generally, the North-West Federal District, which includes both Kaliningrad Oblast and city of St. Petersburg together with several other Russia's regions, was the biggest economic loser among Russia's federal districts: its economy contracted by 3.0% in 2022-23. All other federal districts showed growth. It seems that closer integration of the north-west Russian regions with European economies became their downside in the new geopolitical reality.

This weakness Kaliningrad's economy becomes particularly apparent when it is viewed as the ratio of Kaliningrad's GRP per capita to the average Russia's level (see figure 5). This ratio fluctuated around 80% for a long period between 2007 and 2021. The weak performance of the economy in 2022-23 pushed this number down to 70%, which corresponds to the level where it was in 2006.

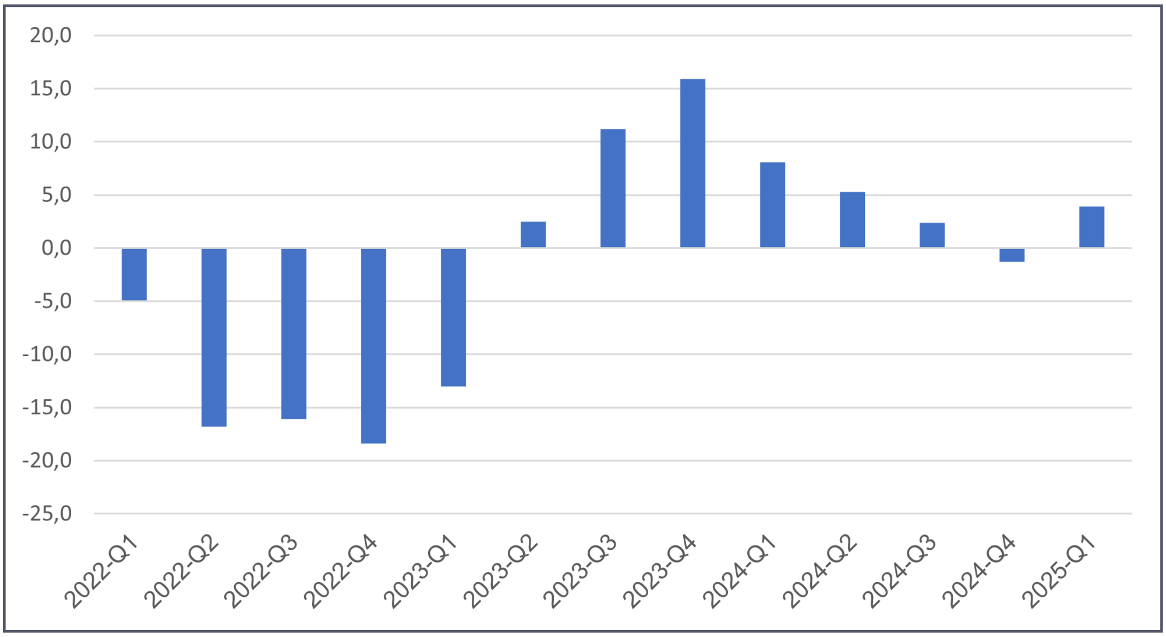
Figure 5. Ratio of Kaliningrad's GRP per capita to Russia's average



Source: Rosstat, author's calculations

To get more up-to-date picture of the economy we can use a higher frequency economic indicator based on the aggregate output of major economic sectors, which include agriculture, industry, construction, wholesale and retail trade, and transportation. It shows a strong initial shock for the economy in 2022 with the output decline exceeding 15% in Q2 (relative to the same period of 2021) and in the remaining quarters of the year (see figure 6). Recovery slowly took hold starting in Q2 of 2023 but its rate was steadily declining in 2024. Even in 2025 this indicator was still lower than at the start of 2022.

Figure 6. Quarterly change in output of major economic sectors in Kalininingrad, y-o-y, %



Source: Kaliningradstat, https://39.rosstat.gov.ru/vrp_vrp

Fast growth in personal income

One effect of militarization of the economy and the corresponding increase in public spending was high demand for labor. As a result, the labor market became very tight: unemployment rate in Kaliningrad declined to 2.2% in the first quarter of 2025 (in Russia – 2.3%), the lowest level in the post-Soviet history. Real salaries and wages in Kaliningrad have increased by 11% in 2024. Such growth was last seen only during the economic boom before the global crisis of 2008. Complaints about finding workers became a common topic among employers. Judging by the overall Russia's data this growth has been broadly based: wages below the median have been increasing at slightly higher rates than the average rate. Rapid growth in wages is undoubtedly linked to large payments offered to potential recruits to join the military. At the same time, old age pensions grew at much slower rates barely covering inflation.

Overall real monetary income of the population in Kaliningrad grew in 2022-2024 at annual compounded rate of 7.2%, even higher than in Russia as a whole. This apparently contradicts to the weak GRP performance described above. This contradiction is largely related to the fact that GRP is measured by the production method and does not include non-market collective services such as defense and some other services financed by the federal government, which obviously increased in importance since 2022. Besides, payments to employees have accounted for just 32-25% of Kaliningrad's GRP in recent years.

Higher incomes were also reflected in increasing retail sales, which have been growing in real terms at similar rates to incomes with particular rapid growth in non-food sales.

High inflation

The economic shock of 2022 caused a large jump in prices: in April 2022 Russia's consumer price index (CPI) increased by 17.8% over the previous year. Then price growth slowed down and inflation seemingly ceased to be a problem. However, large government spending and the tight labor market pushed prices up again. In April 2025 annual consumer price inflation reached 10.2% – well above the Central Bank's target of 4%. The Central Bank reacted with several increases of its key interest rate, which is now at 21% (i.e. more than 10% in real terms). This super tight monetary policy has led to a slowdown in the economic growth in recent months.

Consumer price inflation in Kaliningrad moved in line with the overall CPI in Russia but a higher rate: if in Russia the average annual increase in CPI in 2022-24 was 9.6% then in Kaliningrad it was 10.5%. The additional costs of transportation due to the transit restrictions have undoubtedly contributed to more rapid price increases in Kaliningrad.

Volatile investment

Investment in fixed assets in Kaliningrad has been very volatile and correlated little with the overall dynamics of investment in Russia (see table 1). In 2016-2018 when four power plants were being built in the region investment was increasing at the average rates exceeding 23%. This boom was followed by a slump in 2019 when their construction was largely finished. A similar pattern has been observed more recently although it is more difficult to attribute recent swings to a single factor.

Table 1. Investment in fixed assets, % change in constant prices, y-o-y

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Russia	-0.2	4.8	5.4	2.1	-0.1	8.6	6.7	9.8	7.4
Kaliningrad	15.5	37.6	17.7	-38.4	4.1	-13.7	4.7	35.1	-10.7

Source: https://www.fedstat.ru/indicator/34129

The sectoral structure of investment also does not show a clear pattern. The only major economic sectors demonstrating an increase in investment in both 2023 and 2024 were transportation and construction.

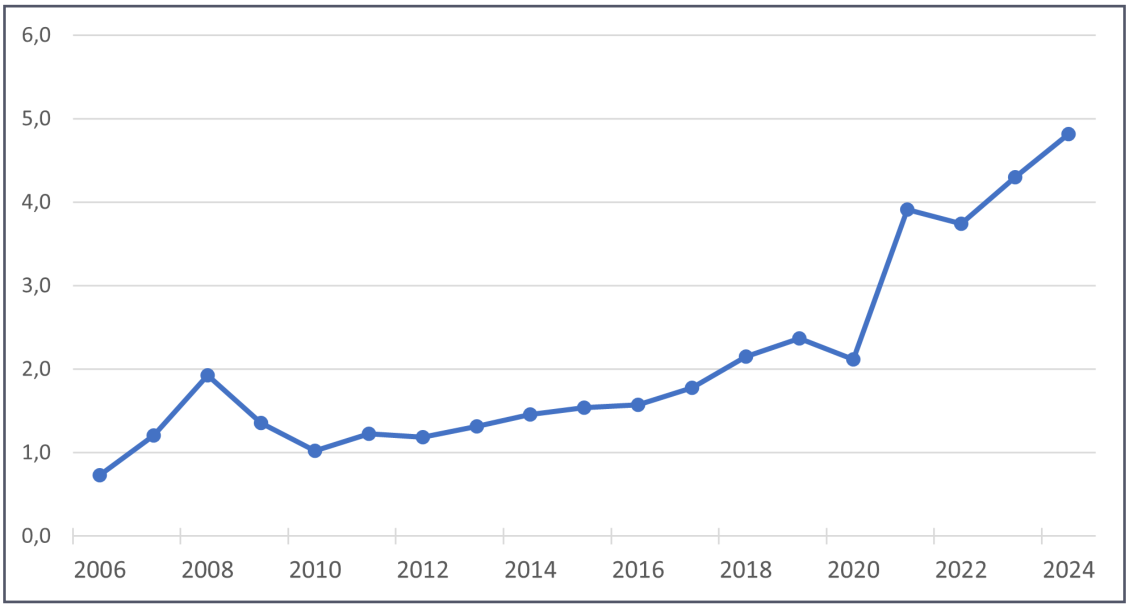
Interestingly, some of the largest recent investment projects in Kaliningrad were related to green energy. Encore Group invested 30 billion rubles in a factory that started production of silicon wafers and photovoltaic cells in 2024 (Encore, n.d.). Rosatom subsidiary, RANERA, is building a factory to produce lithium-ion batteries with a capacity of 4 GWh, which is expected to start operations this year (RENERA, n.d.).

Tourism boom

One bright spot for Kaliningrad's economy in the last few years has been tourism: Kaliningrad has experienced a large increase in the number of tourists visiting region. First, border closures during to the covid-19 pandemics, and then visa restrictions coupled with the absence of direct flights to the EU forced Russian tourists to look for new places to visit. As a result, they started to rediscover their own country as a tourist destination and Kaliningrad has become of the main beneficiaries of this trend.

The current popularity of Kaliningrad is probably best reflected in the passenger traffic at Kaliningrad airport, Khrabrovo: its traffic has doubled since 2019 (see Figure 7). In 2017 Khrabrovo was only 20th among Russia's airports by the passenger traffic but by 2024 it moved to the 10th place. This is even more remarkable given that only international flights from the airport in 2025 are to Egypt and Belarus and flights to Moscow take approximately 40% more time than before in order to avoid the EU airspace, which is closed to Russian aircraft.

Figure 7. Annual Passenger Traffic at Kaliningrad Airport, in millions



Source: Wikipedia, https://en.wikipedia.org/wiki/Khrabrovo_Airport

Similar growth has been reported for the number of stays at the local hotels and guest houses. Rosstat (official statistical agency) reported the share of the tourism industry in Kaliningrad's GRP grew to 4.4% in 2023. This could be an underestimation since many tourists prefer to stay at private apartments and this activity is more difficult to measure. In any case growing tourist numbers have a substantial and positive impact on the hospitality sector in Kaliningrad both on the number of establishments and as well as on the quality of their service.

4. Conclusions

So far despite most forecasts Russia's economy has withstood the sanctions and the exit of many foreign investors and suppliers rather well. Unsurprisingly, economic problems in Kaliningrad have been more significant than in a more typical Russian region. Output in major sectors of Kaliningrad's economy have yet to recover the decline of 2022-23. However, public spending bonanza related to the militarization of Russia's economy increased real income of the population despite high inflation.

What the future hold today is even more uncertain now than usual. Geopolitical confrontation between Russia and the EU fuels growing tensions in the Baltic Sea: expositions at the Nord Stream gas pipelines in 2022, submarine cable disruptions in 2023-2024, concerns about operations of 'shadow' tanker fleet are just some examples. These tensions can easily escalate into military conflict that neither side wants.

For Kaliningrad's economy it means not just more risks for its development. Kaliningrad's strategic importance ensures that the federal government in Moscow will take actions and spend money to keep it afloat. However, with severely restricted trade and investment opportunities in the Baltic Sea region its economy will be more and more dependent on direct and indirect subsidies from the federal budget rather on the market opportunities and incentives.

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