

## Belarus' economy accelerated in Q1-2025 due to stronger domestic demand

### Current situation

Belarus' GDP grew by 3.1% in Q1-2025 compared to Q1-2024, following an increase of 2.5% YoY in Q4-2024. After adjusting for seasonal factors, quarterly GDP growth is estimated at  $\approx 1.7 - 1.8\%$  QoQ in Q1-2025. This is significantly above the growth rate of potential GDP. As a result, the scale of economic overheating reached its highest level since mid-2014.

**Domestic demand remained the key driver of GDP growth at the start of the year, including due to an increase in the contribution of investments.** Preliminary estimates indicate that household consumption rose by  $\approx 3\%$  in Q1-2025 compared to Q4-2024, while investment increased by more than 5% QoQ (*seasonally adjusted*). Consumer demand was supported by rising wages and credit availability, along with high consumer confidence. Investment activity was stimulated by the need to expand production capacity and increase labor productivity to maintain high output levels amid intensified competition in the Russian and Belarusian markets.

**Domestic demand growth significantly exceeded potential for production growth in Q1-2025, resulting in a sustained foreign trade deficit.** The negative trade balance in goods and services is preliminarily estimated at around 2.5% of GDP for January – March 2025 (*seasonally adjusted*). In addition to excessive domestic demand, the trade deficit was exacerbated by a decline in exports due to weaker demand for Belarusian products in the Russian market. Despite the large foreign trade deficit, international reserve assets have grown to a historical maximum due to the rise in gold prices and the weakening of the dollar against the euro. The sufficiency of reserves relative to the risk factor indicator of currency outflow exceeded 100% by the beginning of May – an unprecedentedly high level for Belarus.

**Labor shortages remained a serious issue in Q1-2025.** The unemployment rate fell to  $\approx 2.7\%$  of the labor force (*seasonally adjusted*), and the ratio of unemployed individuals to job vacancies declined. The workforce shortage continued to constrain potential output growth and pushed firms to raise wages. In Q1-2025, real wages rose significantly, exceeding the 2021 average level by approximately 35%.

**Inflation accelerated due to excess demand pressure and rising labor costs.** Inflation rose to around 7.3% in Q1-2025 (*annualized quarterly price growth, seasonally adjusted*). In April, the authorities implemented limited price deregulation due to increasingly distortive effect of price controls on the economy. About 10% of the consumer basket was exempted from controls, and producers were allowed to raise prices without approval, provided that profitability did not exceed the maximum levels seen between 2021 and 2024.

**Domestic economic policy remained expansionary in Q1-2025.** Government spending grew rapidly, and the budget surplus resulted from higher revenues in an overheated economy. Interest rates on loans and deposits remained above neutral levels, but the margin was small. Considering the lingering effects of low interest rates in 2023 – H1-2024, monetary conditions continued to support excessive demand. In this environment, the new leadership of the National Bank prioritizing credit support over macroeconomic stability heightens the risk of economic volatility if global or Russian economic conditions deteriorate sharply.

## Monetary policy easing will support higher GDP growth in 2025, but at the cost of rising inflation and economic volatility

### Forecast

**Monetary conditions in 2025 will be more accommodative than previously forecast due to the National Bank's growing resistance to tightening policy.** While the earlier forecast assumed real credit and deposit rates would stay near neutral levels, the current baseline scenario anticipates that real interest rates will fall slightly below neutral in the second half of 2025. The National Bank's credit growth targets for commercial banks – set at 11–14% for 2025 – will further ease monetary conditions. There remains uncertainty about the fiscal impulse. In the baseline scenario, fiscal policy is expected to remain accommodative, but its impulse will weaken.

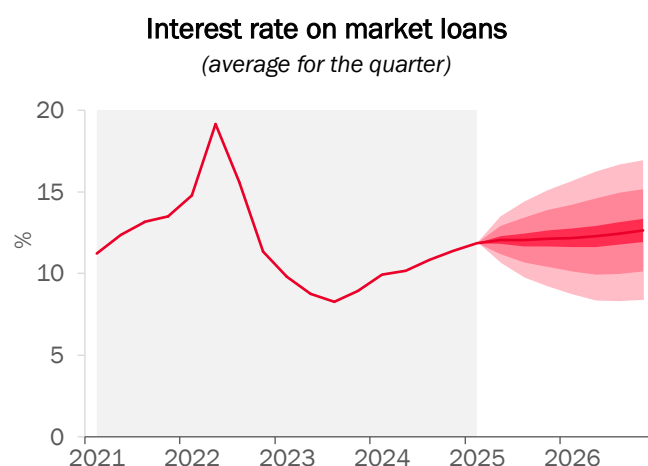
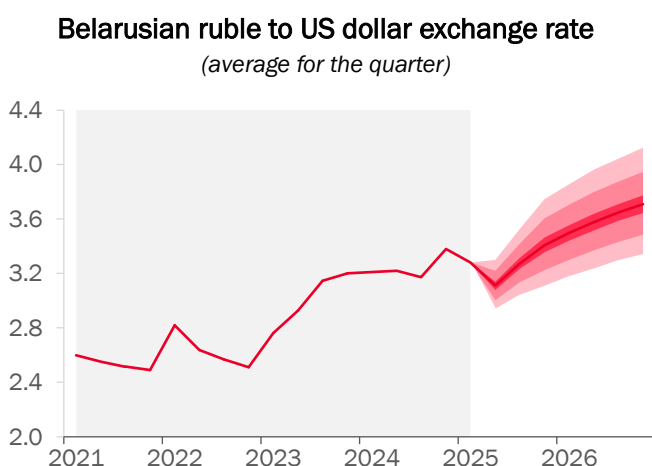
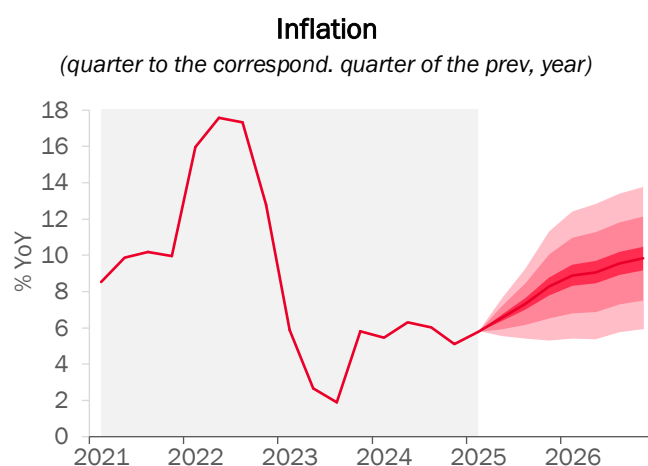
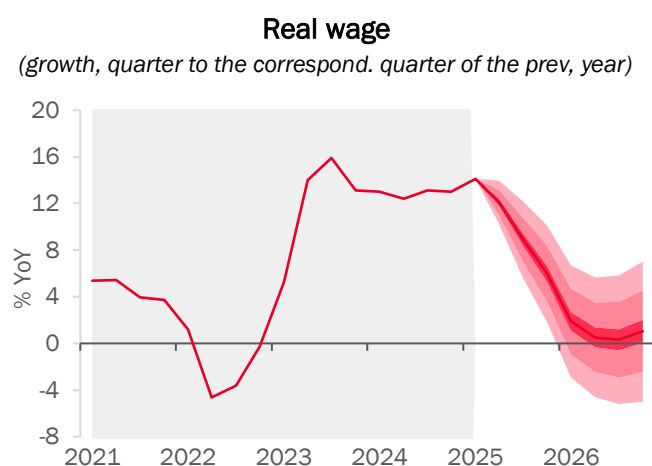
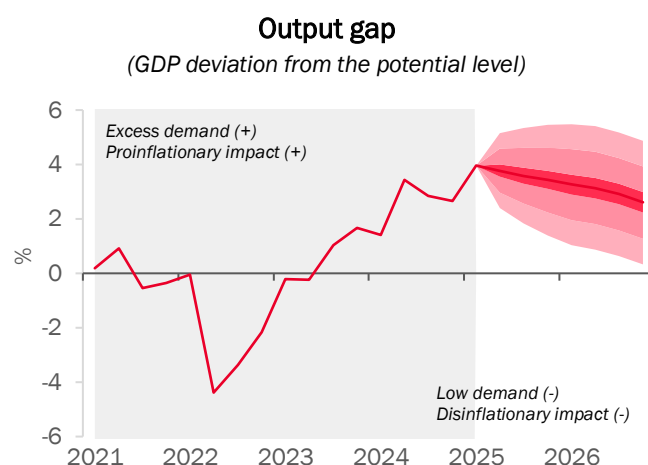
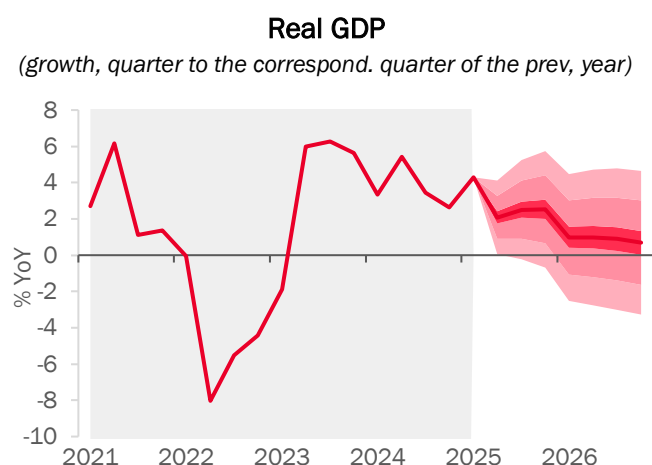
**GDP growth in 2025 is expected to exceed earlier projections due to looser monetary policy.** The economy is projected to expand by 2–3% this year, following 4% growth in 2024. Domestic demand will continue to rise in both consumer and investment segments. However, exports will slow significantly due to stronger competition and declining demand in the Russian market. In sectors where external demand remains high, output and exports growth will be constrained by limited production capacity in an environment of full capacity utilization. Stimulated domestic demand, in a constrained supply environment, will maintain significant economic overheating, with a positive output gap estimated at 3–4% on average in 2025. In 2026, GDP growth is expected to slow to 0.5–1.5% as the specific growth drivers fade, particularly the weakening of Russian demand and closure of niches opened up in the Russian market since 2022.

**The large excess demand combined with falling exports will sustain a trade deficit, expected to hover around 2% of GDP in the medium term.** In such conditions, the Belarusian ruble may lose about 4-6% of its value in terms of a basket of foreign currencies in 2025 and about 6-8% in 2026. The continuing likelihood of a more significant than expected sale of currency by the population may lead to a stronger ruble compared to this forecast.

**Inflation is projected to accelerate to 7–9% by the end of 2025 and 9–11% in 2026.** The 2025 inflation forecast has been revised up by 1 p.p. due to stronger-than-expected excess demand and more pronounced external inflation, driven by rising global trade tariffs. With gradual relaxation of price controls, the accumulated cost pressures will be increasingly reflected in actual prices.

**Uncertainty has increased due to external risks and the National Bank's shift toward pro-cyclical monetary policy.** Accumulated imbalances in the economy have a high chance of causing turbulence. Current reserves are sufficient to mask these imbalances for a while, but this camouflage depends on favorable external conditions. A sharp downturn in global or Russian economic conditions would significantly raise the risk of output contraction in Belarus, especially given the abandonment of stabilization policy by the National Bank. In a negative scenario, GDP growth in 2025 could be minimal, and in 2026 economic activity and household incomes may decline. Inflation could exceed 10% YoY in 2025–2026 due to accumulated pressures, and the pace of ruble depreciation could accelerate. Belarus is approaching a tipping point where resolving imbalances may only be possible through a sharp downturn and inflationary shock.

# Dynamics and Forecast of Economic Indicators of Belarus



**Source:** calculations are based on the Quarterly Projection Model for Belarus.

**Note:** figures show seasonally adjusted indicators. As new data are published, the indicator dynamics can be updated. The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.