The momentum of high economic growth in Belarus has been exhausted

Current situation

Belarus's GDP grew by 0.8% in Q3-2025 compared to Q3-2024, following a 1.0% YoY increase in the previous quarter. After seasonal adjustment, quarterly GDP growth in Q3-2025 remained close to zero. A decline in exports amid weakening demand in the Russian market was the key factor behind the slowdown in output dynamics. Domestic demand continued to expand under an accommodative economic policy but at a slower pace than last year. As a result, the economy remained overheated in Q3-2025, although the size of the overheating decreased to about 2.2% of potential GDP due to weaker external demand.

The foreign trade deficit in goods and services is preliminarily estimated at around 2% of GDP in Q3-2025 *(seasonally adjusted)*. High imports and lower export volumes supported the negative trade balance. A deficit of around 2% of GDP is not critically large and can be financed without significant pressure on the Belarusian ruble, assuming households continue to sell foreign currency. Meanwhile, gold and foreign exchange reserves covered the potential risk volume of currency outflow by more than 100%.

Investment remained a key driver of domestic demand in Q3-2025. The National Bank's shift toward promoting investment lending and increased quasi-fiscal support for the public sector stimulated capital formation. However, the efficiency of these investments remains questionable: returns on capital stayed low, and the share of investment in GDP was still below the 2019 level.

Consumer activity remained high in Q3-2025, but its momentum weakened compared to 2023–2024. Wage growth supported demand, while the National Bank's directive limits on banks retail loan portfolio expansion had a constraining effect. With GDP and industrial output up by about 5% since 2021, household spending has grown by approximately 30% over the same period — highlighting persistent overheating of consumer demand.

Labor market conditions remained tight in Q3-2025 but began showing early signs of easing labor shortages. The unemployment rate fell by 0.1 p.p. to 2.5% of the labor force *(seasonally adjusted)*. Real wages continued to grow and were almost 40% above the 2021 average. However, the number of job vacancies declined for three consecutive months, possibly signaling a turning point in the trend of tightening labor market conditions amid weaker output dynamics. If this trend continues through year-end, wage growth and the inflationary pressure it generates are likely to moderate.

Inflation slowed by more than half to around 5.1% QoQ in Q3-2025 (*annualized quarterly price growth, seasonally adjusted*). Contributing factors included lower prices for fruit and vegetables, weaker inflationary spillovers from Russia, an overvalued Belarusian ruble, and stricter price controls on selected consumer goods. Nonetheless, persistently high price growth in non-regulated services – exceeding 10% QoQ – indicates ongoing inflationary pressure driven by overheated domestic demand and tight labor market conditions.

The government increased budget spending in Q3-2025, relying on monetary emission schemes for financing. Unsterilized money issuance through the National Bank's secondary market purchases of government bonds and foreign currency contributed to monetary easing. The sharp divergence between money supply growth (16.5% YoY) and real GDP growth (0.8% YoY) in Q3-2025 points to a monetary nature of inflationary processes, with the GDP deflator running at around 13% YoY in Q2–Q3-2025.

GDP growth is forecast to be near 1.5–1.8% in 2025, followed by a slowdown to 0.5–1.5% in 2026

Forecast

Fiscal policy will cease to be a stimulus for economic activity. The consolidated budget is moving toward a small deficit by the end of 2025, while the most likely scenario for 2026 is the maintenance of high public spending without significant expansion. The room for such maneuvering is extremely limited amid the weakening growth outlook for both the Belarusian and Russian economies.

Monetary policy will remain tolerant of elevated inflation at around 7–8% YoY and subordinated to the goal of stimulating GDP growth. Monetary conditions will not become tight, as that would contradict the government's target of 2.8% GDP growth in 2026. The National Bank will continue prioritizing investment support over inflation reduction, which will be reflected in maintaining non-restrictive interest rates stance in the economy. At the same time, there is also no room for significant monetary easing due to the risk of inflation rising above 7–8% YoY.

Economic overheating is expected to ease in the medium term as GDP growth slows from 1.5–1.8% in 2025 to 0.5–1.5% in 2026. The expected modest growth of the Russian economy – around 1% in 2026 – and the lack of scope for substantial fiscal and monetary stimulus will constrain aggregate demand expansion. The exhaustion of available labor resources and low investment efficiency will continue to limit growth from the supply side. The demand for labor is likely to weaken amid slower output dynamics, leading to a deceleration in real wage growth from over 10% in 2025 to 1–3% in 2026.

Inflation is expected to remain within the 7–8% YoY range throughout Q4-2025 – 2026. Domestic demand and increased labor costs will continue to exert inflationary pressure next year; however, their contribution to price growth will gradually decline as the economy cools. The external sector is projected to have a mild disinflationary impact, provided that price growth in Russia slows. If price controls are relaxed or regulated prices increase at a faster pace amid weaker market inflationary pressure, the reduced impact of market factors may be offset by the partial realization of accumulated inflationary overhang.

The foreign trade deficit in goods and services is projected to hover around 2% of GDP in 2025–2026. Export prospects remain subdued due to slower demand growth in Russia, which accounts for over 60% of Belarus' merchandise exports. Imports will remain high but are not expected to rise significantly as domestic demand overheating decreases. A trade deficit of about 2% of GDP corresponds to a moderate weakening of the Belarusian ruble, which may lose 4–8% of its value against the basket of foreign currencies in 2026. However, the still-likely higher-than-expected foreign currency sales by households could lead to a stronger ruble compared to the baseline forecast.

Risks to the baseline scenario remain elevated, both from domestic economic policy and external conditions. The threat of stronger sanctions pressure remains relevant, as does the possibility of easing restrictions. There is a significant risk that domestic demand in Belarus could weaken more sharply than assumed in the baseline scenario in the event of a downturn in Russia and declining budget revenues. A discretionary, non–rule-based monetary policy also remains a key source of uncertainty. It cannot be ruled out that if inflation slows below 7% YoY, the National Bank may again strengthen monetary stimulus to support GDP growth in 2026. At the same time, there is a possibility that, instead of easing monetary policy and price controls amid reduced inflationary pressure, the authorities may opt for a more active increase in administratively regulated prices and tariffs.

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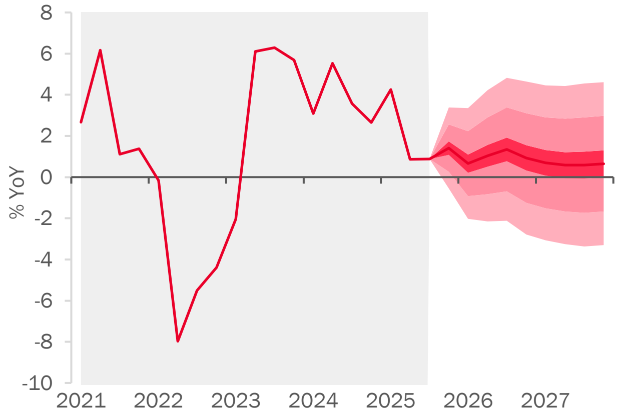
Dynamics and Forecast of Economic Indicators of Belarus

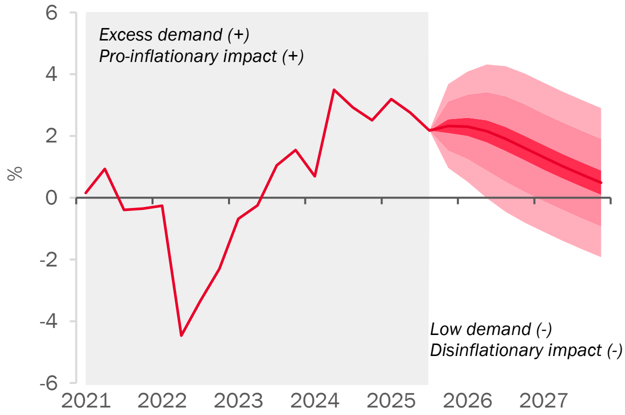
Real GDP

(growth, quarter to the correspond. quarter of the prev, year)



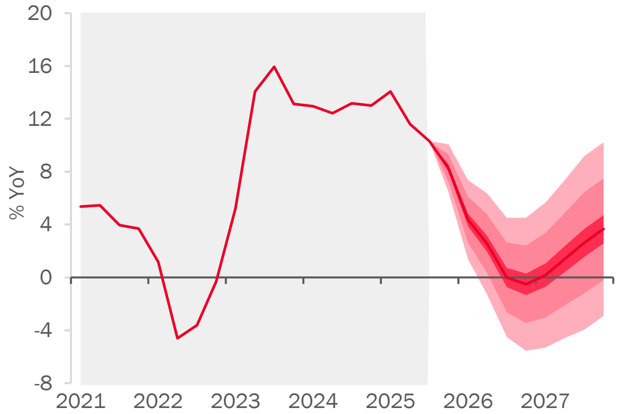
Output gap

(GDP deviation from the potential level)



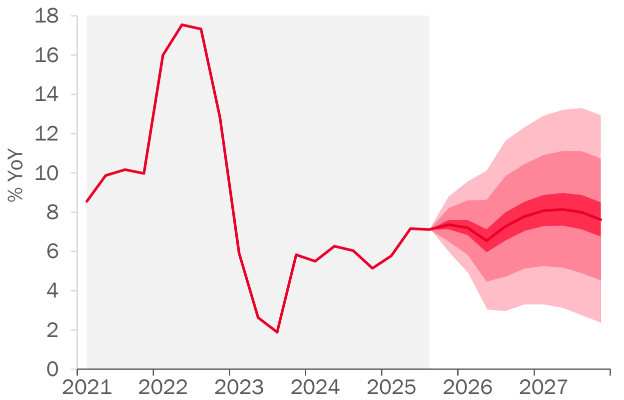
Real wage

(growth, quarter to the correspond. quarter of the prev, year)



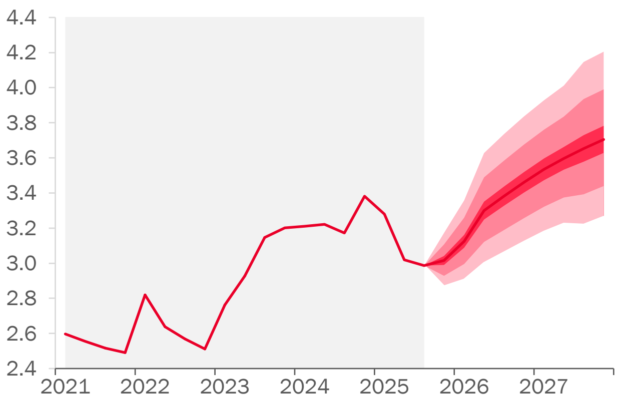
Inflation

(quarter to the correspond. quarter of the prev, year)



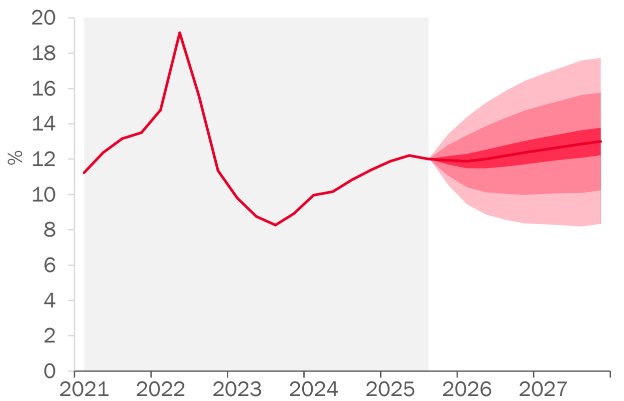
Belarusian ruble to US dollar exchange rate

(average for the quarter)



Interest rate on market loans

(average for the quarter)



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.

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