Belarus Economy Monitor:
trends, attitudes and expectations

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Inflation Review
Q4-2024

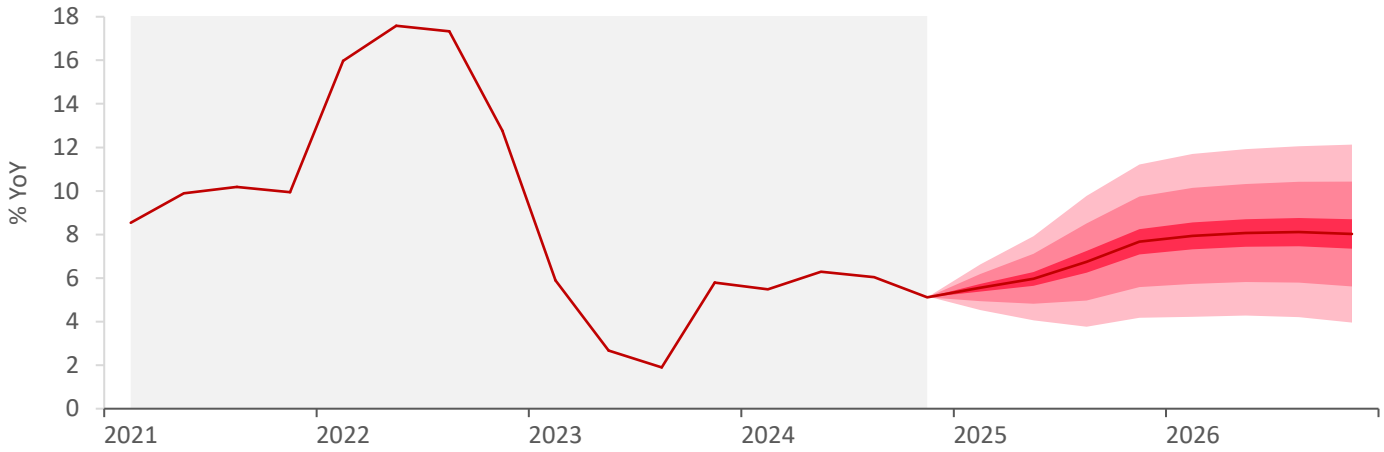
February 2025

Inflation in Belarus slowed in Q4-2024 under the influence of government administrative measures

Annual inflation reached 5.2% YoY in December 2024 (Fig. 1). The annualized quarterly price growth (seasonally adjusted) declined to 4.4% QoQ in Q4-2024. Authorities made minimal increases to regulated prices from October to December and tightened price controls, particularly in the vegetable and fruit segments, to ensure inflation targets for 2024 were met. At the same time, inflationary pressure from excess demand and an overheated labor market remained significant, with its effects evident in the elevated price growth of non-regulated services.

The inflationary overhang accumulated by early 2025 increases risks to price stability and the financial health of enterprises. If the government proceeds with transforming the price regulation system toward relaxing state controls, inflation could accelerate to 6–8% in 2025 (Fig. 1). The government's 2025 targets of 4.1% GDP growth and inflation not exceeding 5% appear inconsistent. Attempting to achieve both simultaneously could exacerbate economic imbalances.

Figure 1. Dynamics and forecast of consumer inflation in Belarus, % YoY



Source: The calculations are based on the Quarterly Projection Model (QPM) for Belarus.
Note: The figure shows a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. As new data are published, the indicator dynamics can be updated. The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

The Inflation Review Bulletin is an expert analysis of inflationary processes in the consumer market. The bulletin depicts the dynamics of price indices, analyzes the drivers of inflationary processes, assesses the nature of monetary conditions, and provides a short-term inflation forecast. The methodological basis for the analysis is the Quarterly Projection Model (QPM) for Belarus.

1 Dynamics of inflationary processes

Inflation in Belarus slowed in Q4-2024

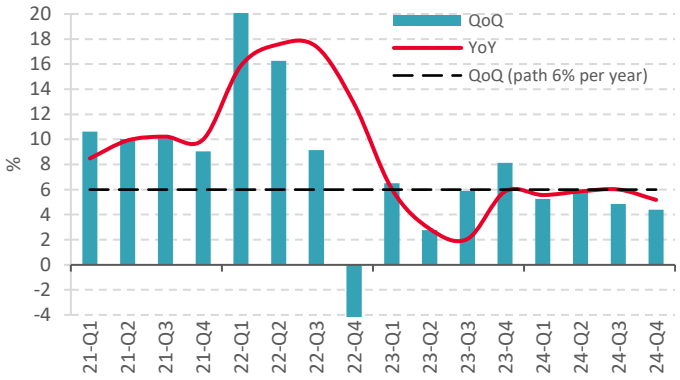
In Q4-2024, consumer prices increased by 4.4% in annualized terms, seasonally adjusted, compared to 4.9% in Q3-2024 (hereinafter, "% QoQ"; Fig. 2.b).[i] Annual inflation, measured by the Consumer Price Index (CPI), decreased from 6.0% in September to 5.2% in December 2024 (hereinafter, "% YoY"; Fig. 2.b).

The slowdown in price growth was driven by a reduction in non-core inflation to 1% QoQ in Q4-2024 (Fig. 2.b). Regulated prices saw almost no increase from October to December, rising by just 2.4% QoQ during the quarter. For the year as a whole, regulated prices grew by 4.4% YoY – marking the lowest annual increase in the 21st century. The cost of fruits and vegetables fell by nearly 8% QoQ in Q4-2024, following regulatory actions by the government. These measures, implemented amid elevated demand and significant cost increases across the economy – particularly in labor costs – suggest that the government's primary motivation was ensuring the inflation target for 2024 was met.

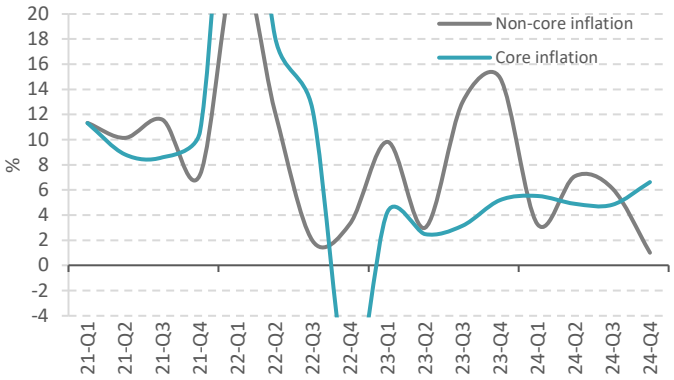
The actual annual inflation rate of 5.2% in December was 0.5 p. p. below the October 2024 forecast. This deviation can be attributed to stricter price controls in the fruit and vegetable segment and a smaller-than-expected increase in regulated prices and tariffs, fully accounting for the negative contribution of other shocks in Fig. 2.c.

Figure 2. Dynamics of consumer inflation

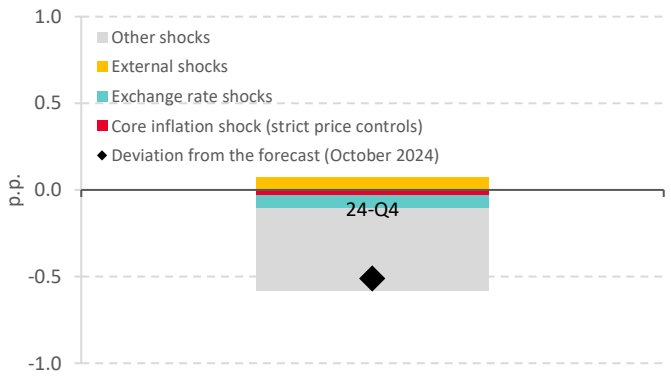
a) overall inflation



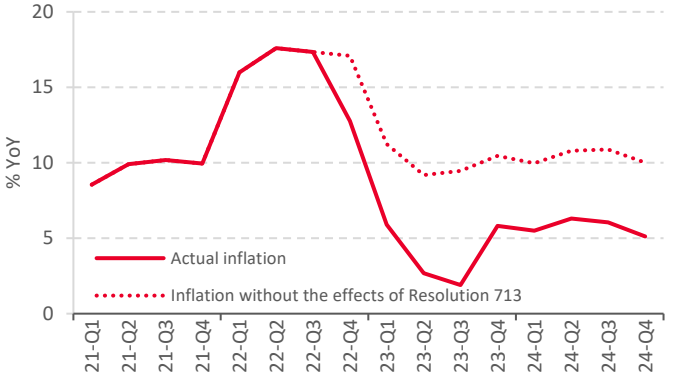
b) core and non-core inflation



c) factors of deviation of annual consolidated inflation from the October 2024 forecast



d) impact of the updated (in October 2022) price control system on inflation[ii]



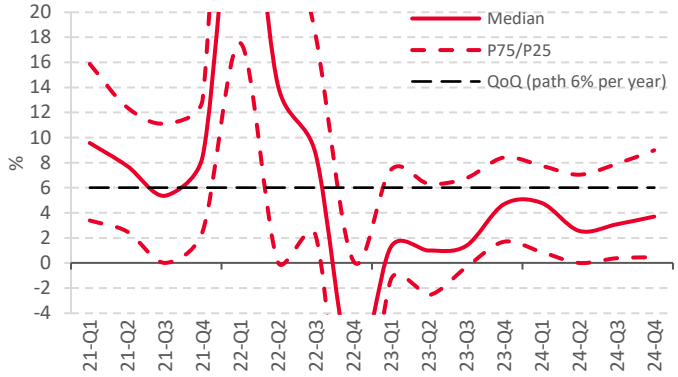
Source: The calculations based on the data from Belstat, the National Bank of Belarus, QPM.
Note: Hereinafter, YoY is the growth rate in the last month of the quarter versus the last month of the corresponding quarter of the previous year; QoQ is the annualized growth rate in the last month of the quarter versus the last month of the previous quarter, seasonally adjusted.

Core inflation accelerated from 4.8% QoQ in Q3-2024 to 6.6% QoQ in Q4-2024 (Fig. 2.b)**, while median inflation rose from 3.1% to 3.7% QoQ** (Fig. 3.a)

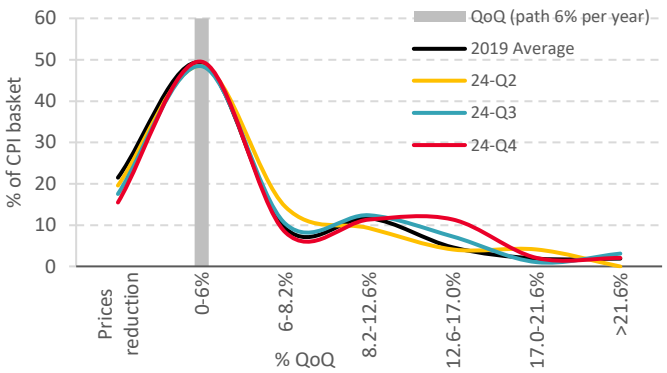
The widened deviation between core and median inflation reflects an increase in the number of consumer basket components experiencing significant price growth (Fig. 3.b). However, the vast majority of CPI components continued to rise at restrained rates. The price change distribution in Q4-2024 remained similar to the 2019 pattern (Fig. 3.b), as price controls limited price increases to levels below the inflationary pressures from demand and costs that had developed in 2024.

Figure 3. Dynamics of median inflation and prices of aggregated CPI components (seasonally adjusted)

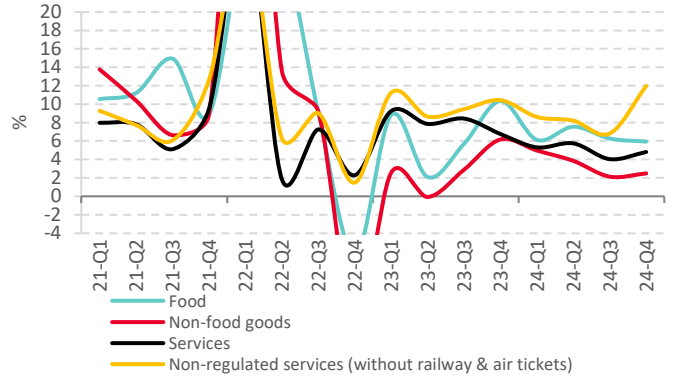
a) median inflation (QoQ)



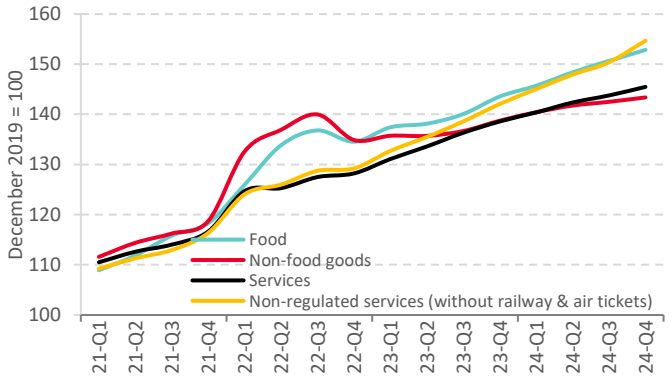
b) price increment distribution (QoQ)



c) CPI component price growth (QoQ)



d) CPI component price level



Source: The calculations based on the Belstat data.

Note: QoQ (quarter-on-quarter) is the annualized growth rate in the last month of the quarter vs the last month of the previous quarter, seasonally adjusted. Median inflation and price increment distribution are calculated using data from aggregated commodities in the CPI basket. P75 and P25 are the 75th and 25th percentiles, respectively (prices for 25% of goods rise faster than the inflation of the 75th percentile, and prices for another 25% of goods rise slower than the inflation of the 25th percentile).

Acceleration of price growth for non-regulated services to ≈12% QoQ in Q4-2024 boosted core inflation (Fig. 3.c)

The nearly 50% QoQ increase in taxi prices following the implementation of regulatory measures in Q4-2024 significantly contributed to the rise in market service inflation. However, even without this factor, price growth for non-regulated services would have exceeded 10% QoQ in Q4-2024. Amid overheated consumer demand and a tight labor market, numerous non-regulated services experienced double-digit price increases: market household services (over 16% QoQ), cultural services, sanatoriums, tourism, banking services, training courses, international rail transport, veterinary services, and market utility services.

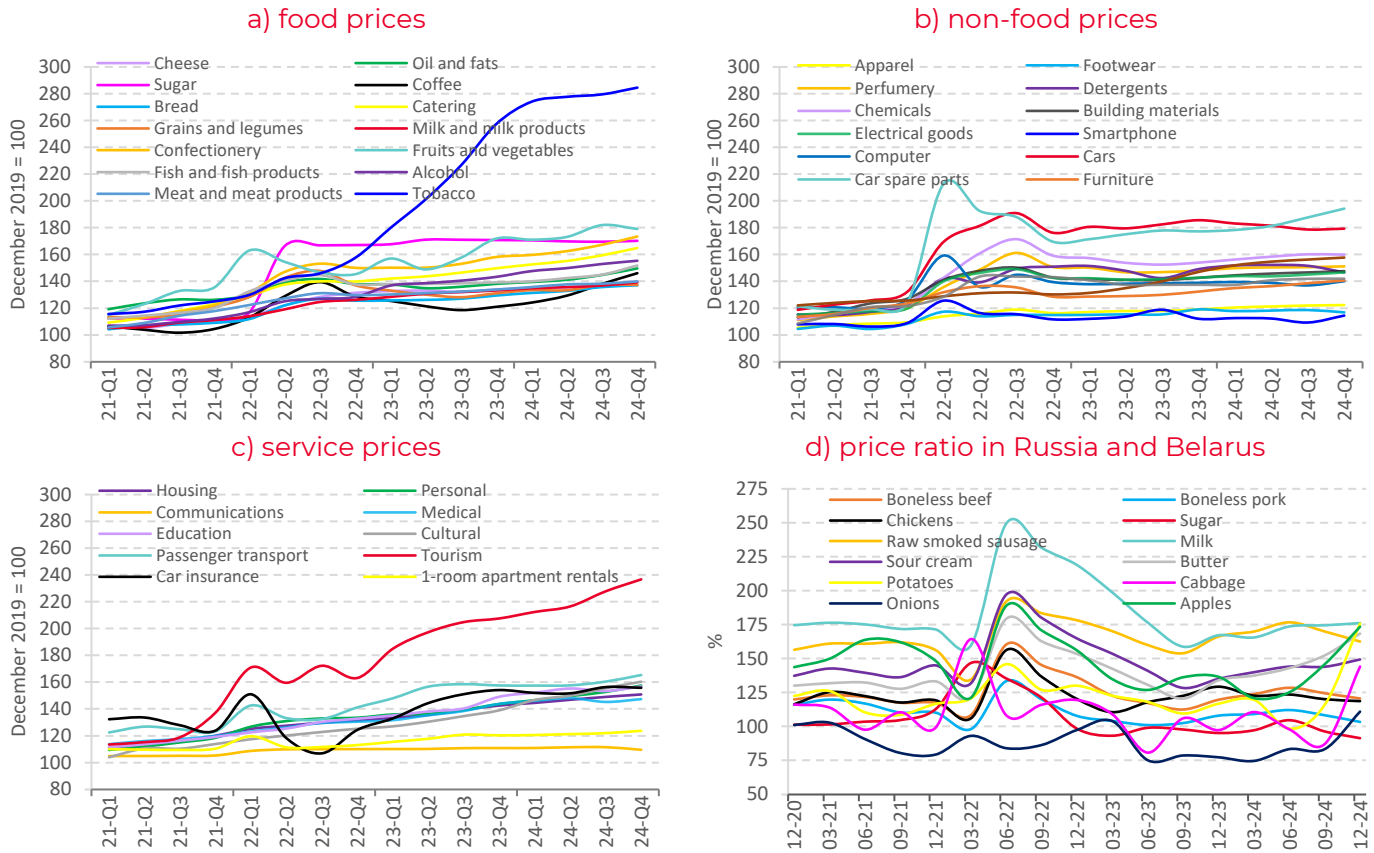
Conversely, regulated services experienced very restrained price growth in October–December 2024, with communication tariffs decreasing by almost 7% QoQ (Fig. 4.c). Due to the conservative stance of authorities on adjusting regulated tariffs, the overall growth in prices for both market and non-market services remained low, estimated at around 4.8% QoQ in Q4-2024 (Fig. 3.c).

Inflation in non-food goods remained subdued

Price growth for non-food goods was 2.5% QoQ in Q4-2024 (Fig. 3.c). Significant price increases were observed in computers, smartphones, tablets, home electronics, and automotive spare parts, driven by the depreciation of the Belarusian ruble against the US dollar, euro, and Chinese yuan (Fig. 4.b). Jewelry prices also rose sharply, reflecting higher global prices for precious metals in 2024. Meanwhile, the strengthening of the Belarusian ruble against the Russian currency contributed to the decline (adjusted for seasonality) in prices for household chemicals, cleaning products, and footwear (Fig. 4.b). Overall, price dynamics for most non-food items remained weak in Q4-2024, with median inflation in this segment estimated at 2.0% QoQ.

Amid extremely high growth in real consumption of non-food goods and real wages (respectively +32.2 and +25.7% in Q4-2024 compared to Q4-2021), such low price growth for non-food goods was achieved through strict price controls. **This has resulted in the accumulation of an inflationary overhang, evidenced by the nearly 8% gap in December 2024 between the price levels of non-regulated services and non-food goods** (Fig. 3.d).

Figure 4. Price dynamics for individual consumer basket items (seasonally adjusted)



Source: The calculations are based on the data by Belstat, the National Bank of Belarus, and Rosstat.
Note: The ratio of prices in Russia and Belarus has been calculated as the ratio of the average price in Russia — recalculated at the average official foreign exchange rate of the Belarusian ruble to the Russian ruble — to the average price of goods in Belarus, multiplied by 100.

Food price growth slowed from ≈6.3% QoQ in Q3-2024 to ≈5.9% QoQ in Q4-2024

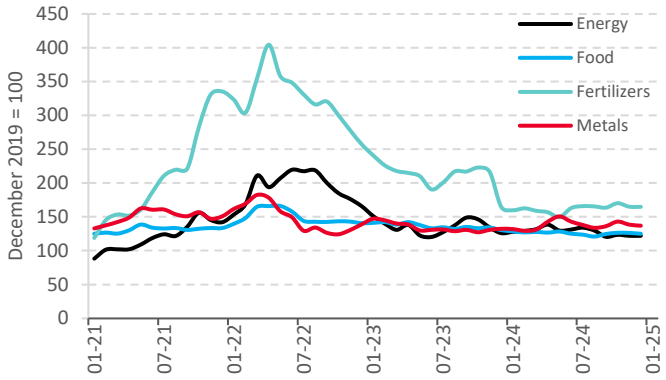
Median inflation in the food segment stood at 5.3% QoQ in Q4-2024. Most food products continued to rise at moderate rates due to price controls (Fig. 4.a), despite agricultural producer prices increasing by approximately 14.5% QoQ in Q4-2024. Fruit and vegetable prices decreased by almost 8% QoQ in Q4-2024 following the government's imposition of maximum wholesale and retail price caps for several vegetables and apples during the off-season period. Given the low harvest and the nearly 24% QoQ increase in producer prices for crop products in Q4-2024, such regulatory measures reduce incentives for developing crop farming and expanding the domestic supply of Belarusian fruits and vegetables. Price increases remained elevated in Q4-2024 for coffee and confectionery products, due to rising global prices (the latter primarily due to higher cocoa costs); for fish and seafood, driven by the depreciation of the Belarusian ruble against the US dollar and euro; for oils and dairy products, reflecting their sharp price increases in Russia (Fig. 4.d) and higher production costs (producer prices for livestock products rose by ≈11% QoQ in Q4-2024); for catering, as strong consumer demand continued to support price growth in the sector (Fig. 4.a).

2 Inflation drivers

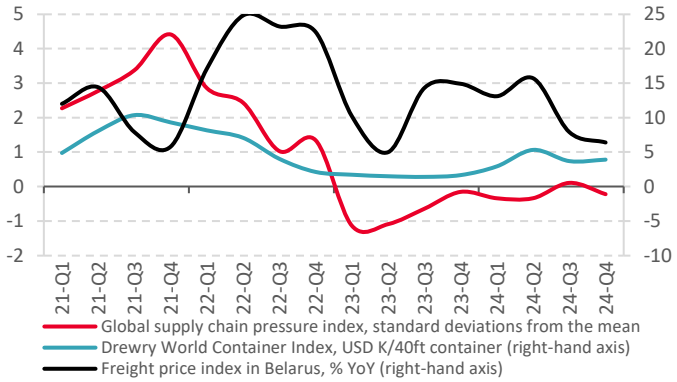
The dynamics of raw material prices on the global market had a moderate inflationary impact on the Belarusian market in Q4-2024

Figure 5. Global commodity prices and price pressures in supply chains

a) commodity prices



b) supply chain pressure indices



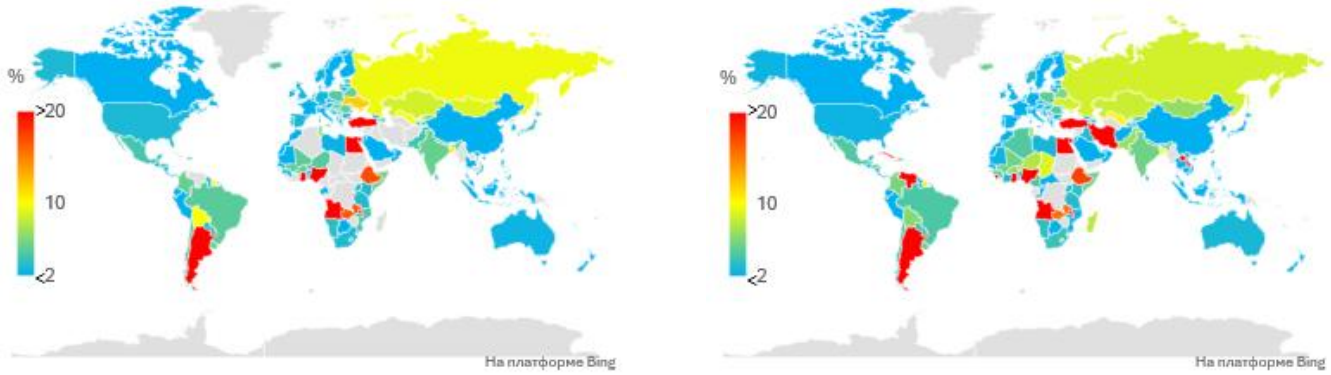
Source: Belstat, World Bank, FRBNY, Drewry World Container Index and Supply Chain Advisors.
Note: The World Container Index is for the last week of the month.

The World Bank Commodity Price Index (in USD) decreased by 1.6% in Q4 compared to Q3-2024 due to a 4.4% decline in energy prices (Fig. 5.a). For Belarus, the drop in global oil prices combined with the reduction in the discount on Russian Urals oil in 2024 poses inflationary risks: costs for Belarusian oil refineries are rising, and the profitability of sales in Novopolotsk and Mozyr became negative in 2024. The price of non-energy commodities increased by 3.4% in Q4-2024 compared to Q3-2024, driven by significant price growth for coffee, cocoa, and oils, which put pressure on the prices of these goods in the Belarusian market.

The situation in global supply chains remained stable. The cost of maritime freight followed a sideways trajectory, and the global supply chain pressure index remained in the neutral zone in Q4-2024 (Fig. 5.b).

Figure 6. Global inflation

a) December 2024 (YoY) b) September 2024 (YoY)



Source: Trading Economics, national statistical agencies.
Note: YoY is the growth rate in the last month of the quarter vs the last month of the same quarter of the prev. year.

Inflationary pressure from the Russian market increased in Q4-2024

Inflation in Russia accelerated in Q4-2024 and is estimated at ≈11.3% QoQ (Fig. 7.b). Amid the significant overheating of the Russian economy, food products and services became significantly more expensive at high rates. Food products play a critical role in Belarus' external trade with Russia. Consequently, the sharp price increases for food on the Russian market pose risks to price dynamics in Belarus. Due to price controls in Belarus, there are strong incentives to prioritize exports over satisfying domestic demand. As a result, Belarusian authorities are forced to intensify administrative interventions in the economy by imposing export restrictions on several food products.[iii]

Exchange rate dynamics continued to limit the inflationary impact of rising prices in Russia on the Belarusian market in Q4-2024

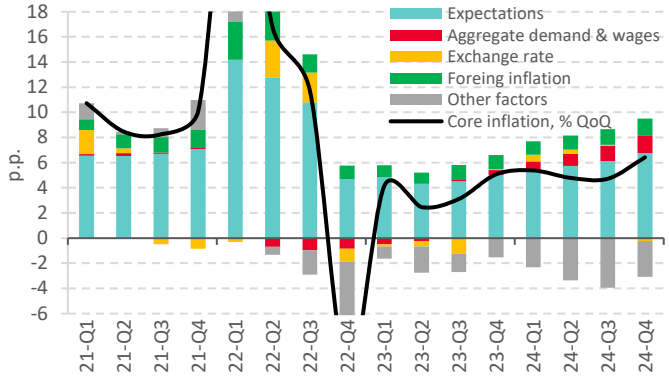
In Q4-2024, the Belarusian ruble appreciated by 0.4% in nominal terms (measured through the currency basket) compared to the average value in Q3-2024 (Fig. 8.b). The substantial weakening of the Belarusian ruble against the US dollar, euro, and Chinese yuan in Q4-2024 had a limited inflationary effect on certain items in the consumer basket. However, this was largely offset by the disinflationary effect of the national currency's strengthening against the Russian ruble. The Belarusian ruble appreciated by 4.6% relative to the Russian ruble in Q4-2024. This strengthening significantly mitigated the impact of the rapid price growth in Russia on inflation in Belarus (Fig. 7.a). Exceptions included fruit and vegetable products and dairy products, whose price increases in Russia were strong and accompanied by an expanding price disparity compared to Belarus (Fig. 4.d).

Inflation expectations of households remained subdued at the end of 2024

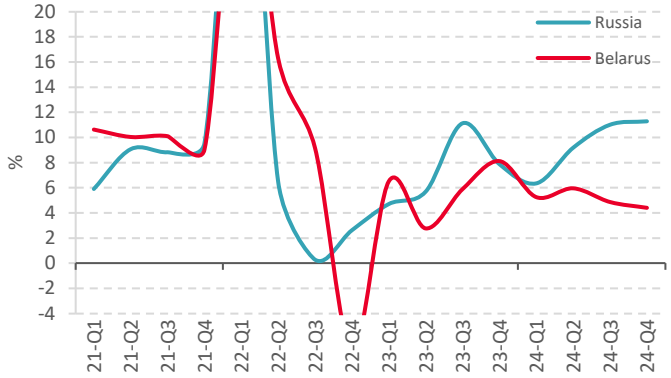
The population's expected annual price increase rose from 10% in September to 11.1% in December 2024 (Fig. 8.a). This may be attributed to exchange rate volatility in Q4-2024. The increase in expectations contributed to the growth of core inflation in October–December 2024 (Fig. 7.a). However, the expected price growth by the population at the end of last year remained below the levels of 2018–2019 (almost 12%), when inflation was near the National Bank's target of 5%. This indicates that inflation expectations remained restrained and did not provoke a rapid acceleration in price growth.

Figure 7. Decomposition of core inflation in Belarus and inflation in Russia

a) core inflation decomposition, QPM-based (QoQ, logarithmic data)



b) inflation in Belarus and Russia (QoQ)



Source: The calculations based on QPM, the data from Belstat and Rosstat.

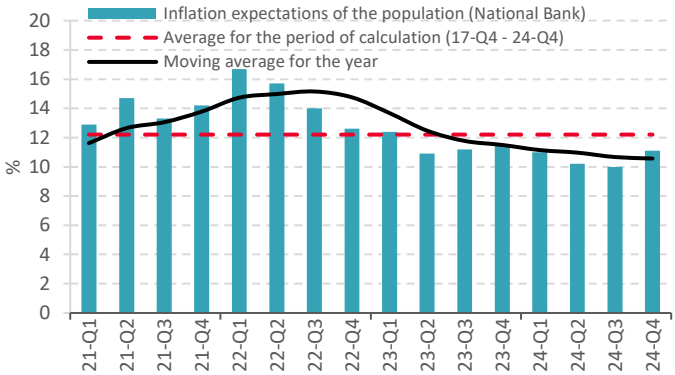
Note: The contributions of the factors are calculated considering momentum; QoQ (quarter-on-quarter) is the annualized growth rate in the last month of the quarter vs the last month of the previous quarter, seasonally adjusted.

Labor shortage – a key inflationary factor in 2024

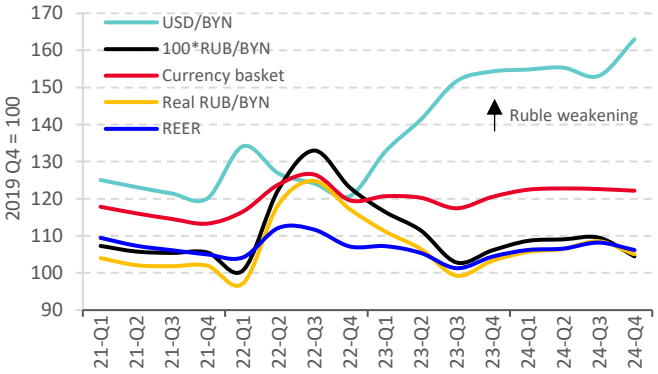
The unemployment rate slightly declined in Q4-2024 compared to Q3-2024, estimated at ≈2.95% of the labor force (seasonally adjusted) – a historical low. There were fewer than 0.9 unemployed per vacancy (seasonally adjusted). The labor shortage remained acute in Q4-2024 amidst increased demand for workers and a decline in employment due to negative demographic trends. The lack of labor constrained the pace of Belarus' potential output growth and pushed employers to raise wages. As a result, real wages in Q4-2024 continued to grow, increasing by almost 30% compared to the 2021 average, and exceeding the balanced level (Fig. 9.a). Wage pressures on costs, producer and consumer prices intensified in Q4-2024 (Fig. 9.b).

Figure 8. Household inflation expectations and dynamics of the Belarusian ruble exchange rates

a) annual inflation expected by households



b) Belarusian ruble foreign exchange rates



Source: The calculations are based on the data by the National Bank of Belarus.

Note: REER is the Real Effective Exchange Rate of the Belarusian ruble.

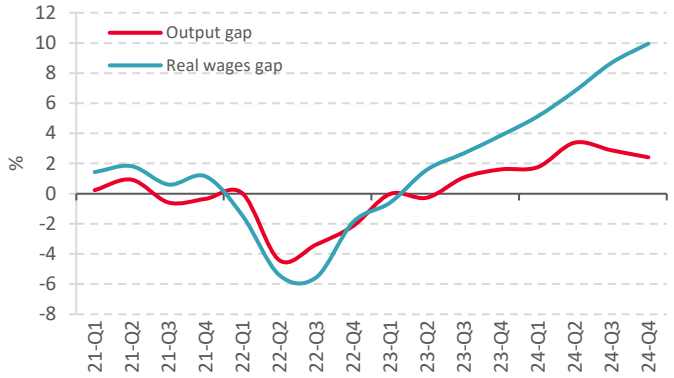
Overheated demand maintained inflationary pressure in Q4-2024

Belarus' GDP exceeded its balanced level by ≈2.4% in Q4-2024 (Fig. 9.a). The economy remained overheated, primarily due to elevated consumer demand driven by increased household incomes, confidence, and high credit availability. Consumer spending surged rapidly in Q4-2024, with real expenditures estimated to have exceeded the 2021 average by more than 23% (preliminary estimate). In these conditions, imports stayed elevated, while domestic producers of goods and services operated at multi-year capacity utilization highs to meet demand.[iv] Consequently, excess demand exerted inflationary pressure in Q4-2024 (Fig. 9.b).

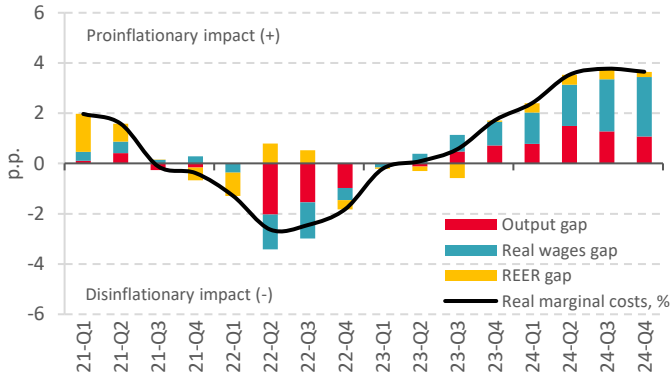
The GDP's deviation above its balanced level (output gap) narrowed in the second half of 2024 (Fig. 9.a). This was due to slowing exports and the gradual increase in economic potential amid moderate investment growth. However, the loss of exports as the "driver" of GDP growth and excessive stimulation of consumer demand offset the surplus in external trade in goods and services, posing risks of widening trade deficits and exacerbating macroeconomic imbalances.

Figure 9. Dynamics of indicators of internal inflationary pressure

a) output gap and real wage gap (QPM-based)



b) real marginal cost proxy (QPM-based)



Source: The calculations are based on QPM.

Note: The gaps are re-evaluated once data are available. The real effective exchange rate gap (REER gap) is adjusted for the deviation of relative prices (the ratio of the core CPI to the composite CPI) from the trend.

Price controls continued to limit the transmission of inflationary pressure from overheated demand and labor market to actual price growth in Q4-2024

The negative contribution of factors unexplained by the model (which account for government price regulation) to core inflation persisted in Q4-2024 (Fig. 7.a). Without the influence of strict price controls, annual inflation in December 2024 would have been around 10% YoY instead of the actual 5.2% YoY (Fig. 2.d). The inflationary overhang – the potential for accelerated price increases in the future – remained significant in Q4-2024.

3 Monetary conditions

Monetary conditions were neutral in Q4-2024

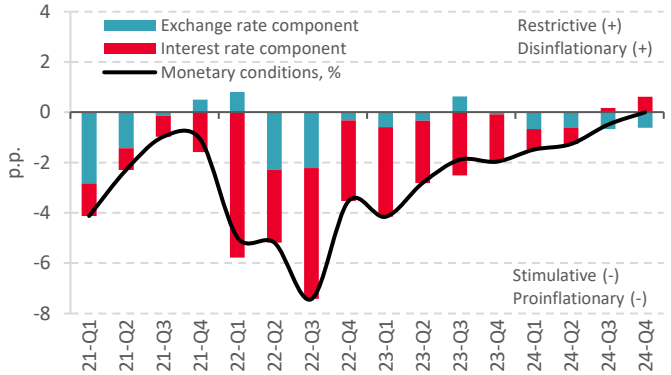
Interest rates on loans and deposits in Belarusian rubles increased in Q4-2024, both in nominal and real terms (adjusted for expected inflation). This was driven by rising interest rates in Russia and a reduction in excess liquidity in the banking system at the end of the year due to the National Bank's sale of foreign currency amid seasonal growth in demand. As a result, the ruble credit-deposit market interest rates in Q4-2024 exceeded neutral levels on average, but the scale of this excess is not estimated to be large (Fig. 10.a). **The rise in interest rates had no significant restrictive effect on credit availability, especially in the household segment, where installment plans lowered the average rate.** Credit demand remained high, with households increasing borrowing amid high consumer confidence and improved creditworthiness due to rising incomes. Firms also expanded their borrowing to sustain high production volumes in an environment of excessive domestic and external demand. The ratio of new loans to GDP averaged 78% in Q4-2024 (Fig. 10.b), and money supply growth again outpaced GDP growth, significantly exceeding the National Bank's target for the year. Monetary policy did not align with the declared regime of monetary targeting or the scale of existing inflationary pressure.

The Belarusian ruble was near the equilibrium level of real effective exchange rate in Q4-2024 (Fig. 10.a)

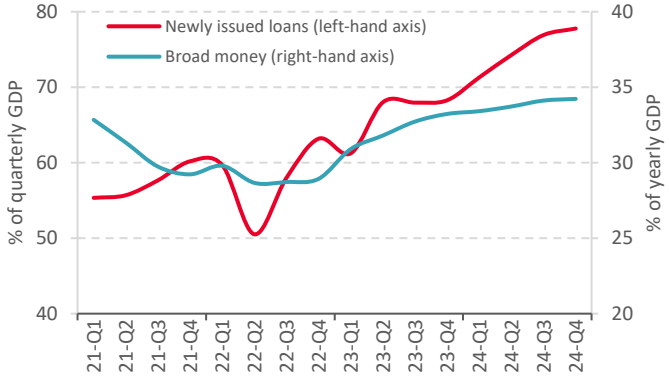
The undervaluation of the national currency, at approximately 1.2%, was minimal, indicating a near-neutral effect of the ruble's exchange rate on the price competitiveness of Belarusian producers and inflation (Fig. 9.b). The domestic foreign exchange market in Q4-2024 recorded seasonal net demand for foreign currency amounting to $478 million (≈$116 million adjusted for seasonality), which was met by the National Bank's corresponding foreign currency sales.

Figure 10. Monetary conditions

a) components of monetary conditions (QPM-based)



b) newly issued loans and broad money supply (seasonally adjusted)



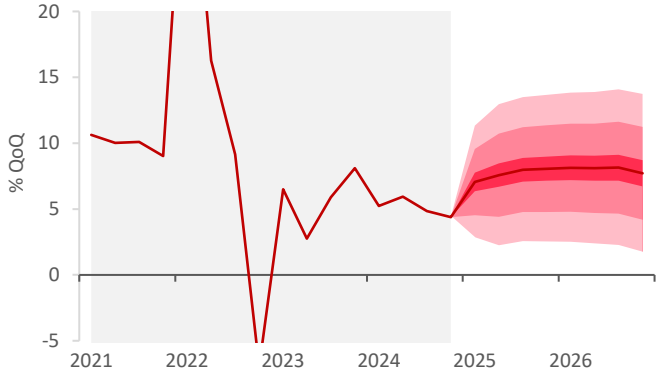
Source: The calculations based on QPM, data from the National Bank of Belarus.
Note: The dynamics of monetary conditions may change once new data are available.

4 Short-term forecast

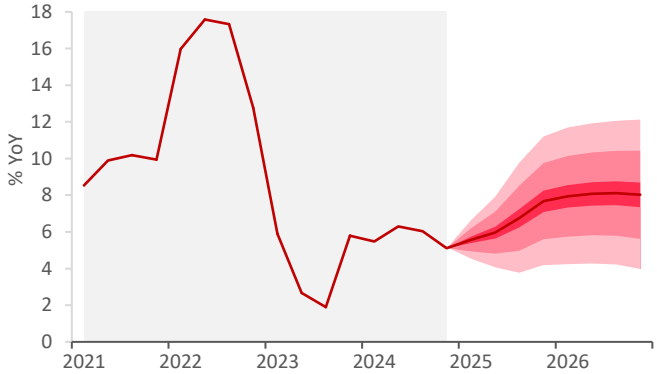
Inflation is projected to range between 6–8% YoY by the end of 2025

Figure 11. Inflation forecast for Belarus

a) quarterly inflation (QoQ)



b) annual inflation (YoY)



Source: The calculations are based on QPM.
Note: YoY (year-on-year) is the growth rate in the last month of the quarter versus the last month of the corresponding quarter of the previous year; QoQ (quarter-on-quarter) is the annualized growth rate in the last month of the quarter versus the last month of the previous quarter, seasonally adjusted. The Figure shows seasonally adjusted indicators. The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

Pro-inflationary factors will dominate this year. The economy will continue to operate under conditions of excess demand if fiscal policy remains stimulative and monetary conditions are not tightened to a moderate degree. The labor shortage is expected to persist under these conditions, leading to further increases in labor costs. Inflationary pressure is anticipated from the Russian market, where price growth is expected to exceed the Bank of Russia's 4% target.

The Belarusian ruble, barring major shocks, will remain slightly undervalued in 2025, which will neither create significant additional inflationary pressure nor exert a disinflationary effect. The inflationary overhang accumulated by the beginning of 2025 increases risks to price stability and the financial health of enterprises. **If the authorities proceed with a transformation of the price control system by relaxing government regulation, inflation will accelerate from 5.2% in 2024 to 6–8% in 2025** (Fig. 11.b). In the baseline scenario, price growth is forecast to be closer to the upper bound of this range. However, uncertainty regarding the extent of easing in price controls and developments in the external sector creates significant risks of deviation from the baseline scenario.

5 Forecasting risks

The authorities' targets for 2025 GDP growth of 4.1% and inflation within 5% appear misaligned, and attempting to achieve both will exacerbate economic imbalances

The Belarusian economy entered 2025 in an overheated state, while potential GDP growth is estimated at approximately 1.5–2% annually, given existing resource, technological, and institutional constraints. If the Russian economy slows to a growth rate of 0.5–1.5% in 2025, the only way to achieve GDP growth of 4.1% in Belarus would be through stimulating domestic demand via excessively loose fiscal and monetary policy. This would increase the positive output gap to around 4–5%, with excess demand rising significantly, creating greater inflationary pressure than in the baseline scenario. If the authorities opt to significantly ease price controls to achieve the GDP target, inflation could accelerate to 10% or slightly higher in 2025. Conversely, if price controls remain strict alongside excessively loose economic policy, the risk of payment defaults and a wave of bankruptcies will rise sharply, potentially plunging the economy into a recession in the medium term.

Uncertainty surrounding the effects of price control reforms creates a wide range of potential deviations from the inflation baseline forecast

Even if the Belarusian authorities do not pursue the GDP growth target of 4.1% at all costs this year, inflation could deviate either upward or downward from the baseline forecast. Should price regulation reforms grant producers, importers, and retailers greater pricing flexibility, inflation could exceed the upper bound of the 6–8% forecast range due to the accumulated inflationary overhang. Additionally, if controls are relaxed, secondary effects tied to heightened inflation expectations could further amplify inflationary pressures. Conversely, if government regulation is not relaxed and GDP growth slows to 1.5–2% as forecast, inflation could align within 5% in 2025.

Persistent elevated inflation in Russia is a serious risk to price stability in Belarus

Inflation in Russia has become less sensitive to interest rate hikes in the context of increased military spending. It is plausible that price growth in Russia will remain around 10% in 2025 rather than decrease to 7% as the baseline scenario predicts. In such a case, inflationary pressure from Russia on the Belarusian market would be significantly stronger than anticipated. **Price controls in Belarus have already led to a marked desynchronization of inflation between the two countries, while the compensatory mechanism of strengthening the national currency appears risky and unsustainable.** Given Belarus's high import dependency and the substantial rise in labor costs, a prolonged and significant nominal appreciation of the Belarusian ruble against the Russian ruble – even with an unchanged real exchange rate – could negatively impact the competitiveness of Belarusian producers.

A sharp decline in aggregate demand due to a hard landing in the Russian economy could lead to lower inflation than forecast in the baseline scenario

If demand in the Russian market not only slows but contracts under tight monetary conditions, Belarus's export revenues would decline. This would severely limit firms' ability to raise wages and expand investments, potentially resulting in a greater reduction in domestic demand than anticipated in the baseline forecast. In such a scenario, inflationary pressure from wages and demand would be weaker than baseline projections.

The realization of a hard landing in the Belarusian economy, which has become "fragile" to major shocks due to severe overheating, may have disinflationary effects in the medium term

An economic downturn similar to 2015–2016 would likely be accompanied by a significant initial inflationary impulse due to eased price controls and pressure on the Belarusian ruble caused by temporary increased demand for foreign currency. In the medium term, this impulse would subside, and disinflationary pressure would arise from reduced domestic demand, increased unemployment, and the alleviation of labor shortages. A significant threat in this scenario lies in the risk of the economic downturn escalating into a full-fledged financial crisis if the financial positions of firms and banks prove insufficiently resilient.

A substantial escalation of sanctions against Belarus and Russia could have pronounced inflationary consequences

Disruptions in the supply chains for imported goods, coupled with continued stimulative economic policies, would exacerbate imbalances between supply and demand in the economy, thereby intensifying inflationary pressures. If export deliveries are disrupted, it is likely that price controls will have to be lifted or significantly relaxed to prevent a critical deterioration in firms' financial positions and to counter a large-scale output decline. As a result, inflationary pressure may remain elevated even amid a reduction in excess demand in the economy.

A surge in investments to expand production capacity and improve labor productivity could accelerate supply-side adjustment to high demand

Such a development would mitigate price pressures and result in lower inflation in 2025 compared to the baseline forecast.

Explainers

Quarterly Projection Model (QPM)

This is a semi-structural macroeconomic model based on the principles of new Keynesianism; it belongs to the class of dynamic stochastic general equilibrium models. The QPM has been widely used for macroeconomic analysis, forecasting and monetary policy designs in central banks, including the National Bank of the Republic of Belarus.

QPM indicators

Monetary conditions

This is an indicator of the state of monetary conditions. It is a combination of gaps between the real effective exchange rate (with the opposite sign) and real interest rates. Positive values of monetary conditions indicate their constraining nature for economic activity, and their negative values indicate their stimulating nature for economic activity.

Output gap

This is a deviation of a real GDP from its potential value. A potential GDP is such a GDP value that leads neither to additional inflationary nor disinflationary pressures. A positive output gap indicates excess demand in the economy, and it is an indicator of inflationary pressure. The opposite is true for a negative output gap.

Wage gap

This is deviation of real wages from their equilibrium level. A positive gap indicates that wages are above the level corresponding to the potential GDP, and it is an indicator of inflationary pressure. The opposite is true for a negative gap.

Interest rate gap

This is a deviation of the real interest rate from its neutral level. A positive gap in the interest rate indicates that the nature of the interest rate policy is restraining to economic activity, while a negative gap in the interest rate indicates that the nature of the interest rate policy is stimulating to economic activity.

Real effective exchange rate gap (REER gap)

This is a deviation of the real effective exchange rate of the Belarusian ruble from its equilibrium level. A positive real effective exchange rate gap indicates an undervaluation of the Belarusian ruble, while a negative real effective exchange rate gap indicates an overvaluation of the Belarusian ruble.

Real marginal costs

This is approximation of the incremental costs of producing an additional unit of output. Real marginal costs are a combination of output, wages, and real effective exchange rate gaps. Output and wage gaps approximate the costs of domestic producers, while the real effective exchange rate gap approximates the costs of importers. Positive values indicate a pro-inflationary pressure, and negative values indicate a disinflationary pressure.

Notes

[i] The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. As new data are published, the indicator dynamics in previous periods can be updated. The annualized price increase is calculated as a seasonally adjusted price increase per quarter raised to the fourth power (an annual inflation equivalent). All quarterly inflation values in the Bulletin (unless indicated otherwise) are presented as annualized (annual equivalent).

[ii] The Quarterly Projection Model (QPM) was used to estimate (updated in October 2022) the impact of the price regulation system on inflation. A historical decomposition of inflation was based on the model: the dynamics of the indicator were decomposed into the contributions of shocks. The values of actual and synthetic annual inflation were compared. In the latter case, the indicator was calculated by subtracting – starting from Q4-2022 – the contribution of the core inflation shock (which approximated the impact of tightening price regulation) from the actual inflation value. It is noteworthy that the core inflation shock includes not only the impact of price controls, but also other factors not considered in the model directly. However, the magnitude of the core inflation shock is usually small (except the periods of strong shocks), while a large negative shock was identified in Q4-2022, which continued throughout 2023 and 2024.

[iii] In October 2024, licensing of the export of onions, cabbage and apples outside Belarus was introduced (see.: https://pravo.by/document/?guid=12551&p0=C22400745), and in December 2024 – of potatoes (see.: https://pravo.by/document/?guid=12551&p0=C22400949).

[iv] According to the Ministry of Economy of Belarus, production capacity utilization in the industrial production sector in September 2023 reached its highest level since 2013 – 70% – and remained close to this level in 2024. The ratio of the number of unemployed (according to Belstat) to the number of vacancies (according to the Ministry of Labor and Social Protection) was lower than 0.9 unemployed per vacancy (seasonality adjusted) in Q4-2024. Until 2022, the indicator sustainably exceeded 2.0 unemployed persons per vacancy.