

Inflation Review

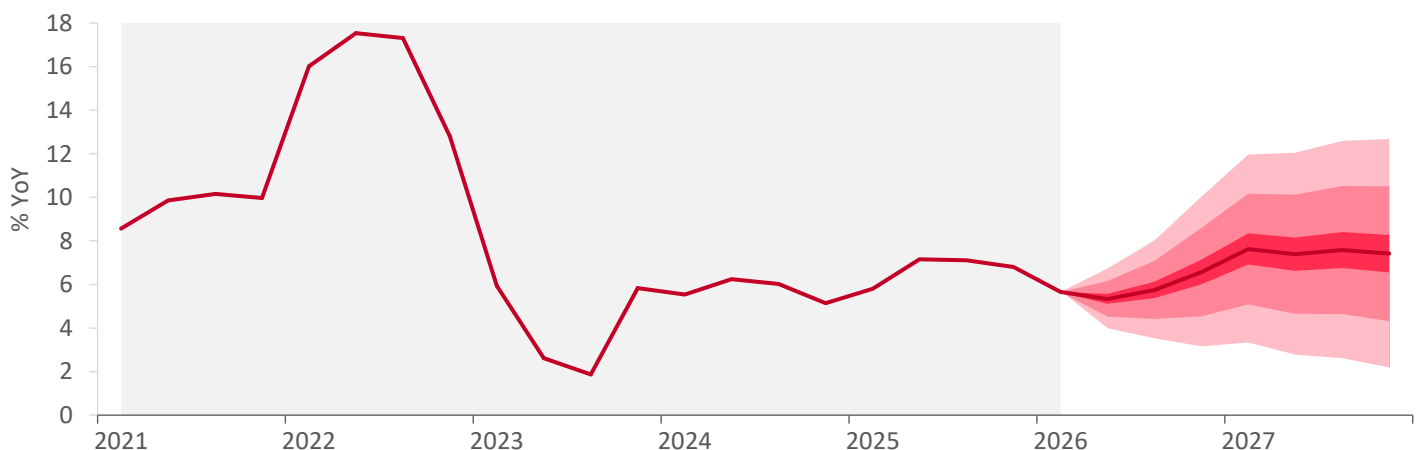
Q1 2026

Inflation in Belarus decreased in Q1-2026 and is projected to be around 6–7% YoY by the end of 2026

Annual inflation slowed from 6.8% YoY in December 2025 to 5.4% YoY in March 2026 (Fig. 1), while the annualized quarterly price growth declined to 3.5% QoQ in Q1-2026 (seasonally adjusted). The postponement of utility tariff increases was the main reason for the decline in inflation. Aggregate demand and the labor market remained pro-inflationary at the beginning of the current year, supporting high growth rates in prices for non-regulated services. At the same time, the contribution of domestic factors to consumer price growth did not expand in Q1-2026 and is estimated to be lower compared to the local peak in the first half of 2025. Under strict price controls, the persistence of pro-inflationary effects from demand and wages (even without intensification) was sufficient to maintain a significant inflationary overhang in the economy.

In the baseline scenario, inflation is projected to recover to 6–7% YoY by the end of 2026 amid the maintenance of non-restrictive monetary conditions and high budget expenditures (Fig. 1). From the external sector, moderate pro-inflationary effects are expected due to rising global commodity prices and logistics costs. Uncertainty regarding the magnitude and duration of these effects remains high due to the difficulty of assessing the development of the military conflict in the Middle East. Belarus's focus on Russia and China could limit the impact of the external shock, as these countries are potentially less susceptible to increasing inflation due to rising commodity prices compared to the EU.

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



Source: 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.

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Dynamics of inflationary processes

Inflation in Belarus decreased in Q1-2026

In Q1-2026, consumer prices increased by 3.5% in annualized terms, seasonally adjusted (hereinafter – % QoQ; Fig. 2.a).ⁱ Annual inflation (based on the consumer price index; CPI) declined from 6.8% in December 2025 to 5.4% in March 2026 (hereinafter – % YoY; Fig. 2.a).

The main factor behind the slowdown in CPI was the postponement of utility tariff increases from January to March 2026 (to be reflected in the CPI for April). Without this shift, quarterly inflation would have been around 6% QoQ, and annual inflation – about 6.2% YoY.

Compared to the January 2026 forecast, annual inflation in March deviated downward by 1 p.p. Around 0.8 p.p. of this deviation is explained by the shift in the timing of utility tariff increases (reflected in the negative contribution of other shocks in Fig. 2.d). At the same time, domestic inflationary pressure from demand and wages was close to the January 2026 forecast (Fig. 2.d).

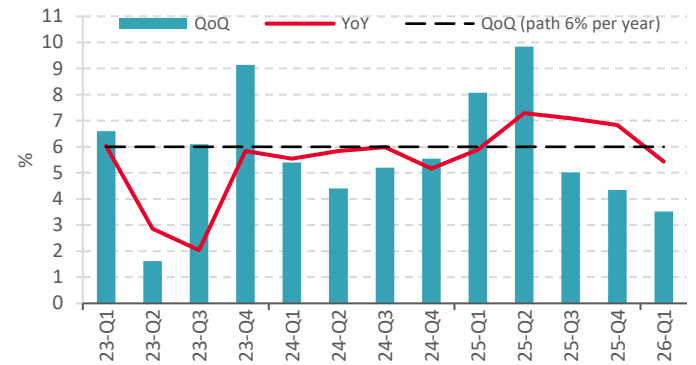
Non-core inflation was around 0% QoQ in Q1-2026 (Fig. 2.c)

Both regulated prices and prices for fruit and vegetable products showed near-zero growth. Regarding regulated prices, the shift in utility tariff increases offset the significant rise in prices for passenger transport services, dormitories, insurance, vehicle inspections, funeral services, as well as fuel (Fig. 4.b; Fig. 4.c).

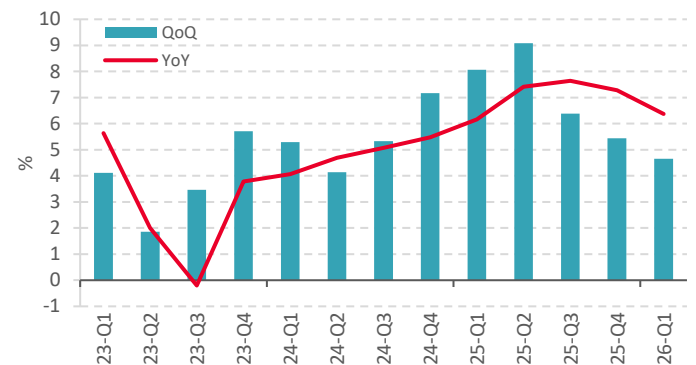
The weak dynamics of fruit and vegetable prices may largely be driven by strict price controls and the appreciation of the ruble against the dollar and euro. Due to regulatory restrictions on price increases for vegetables and fruits, the price disparity between the Russian and Belarusian markets has widened again (Fig. 4.d). This situation creates risks of accelerated growth in fruit and vegetable prices in Belarus in Q2-2026, including due to the low aggregate harvest (across all categories of farms) of vegetables, fruits and berries, as well as potatoes in 2025.

Figure 2. Dynamics of consumer inflation

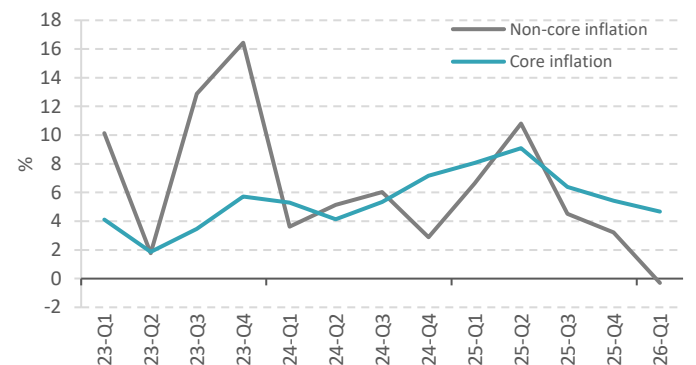
a) overall inflation



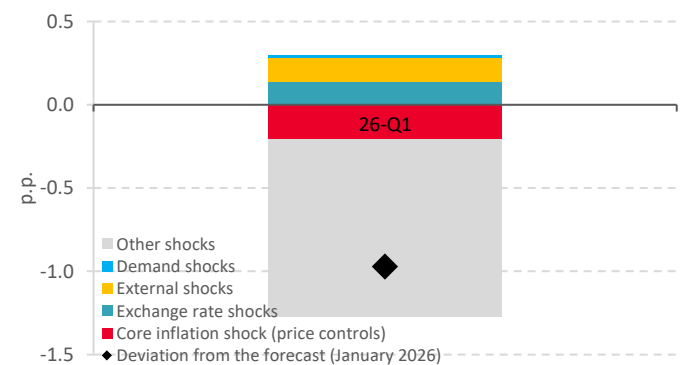
b) core inflation



c) core and non-core inflation (% QoQ)



d) factors of deviation of annual overall inflation from the January 2026 forecast



Source: calculations based on the data from Belstat, the National Bank, 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 slowed to 4.7% QoQ in Q1-2026 (Fig. 2.b), while median inflation increased to 5.3% QoQ (Fig. 3.a)

Inflationary pressure remained moderate, but the divergent dynamics of core and median inflation indicators do not allow for a clear conclusion about its significant decline. The distribution of price increases across items in the consumer basket remained close to the 2019 pattern, but somewhat shifted toward higher rates (Fig. 3.a).

Food prices rose at a restrained pace in Q1-2026

Food prices increased by 5.3% QoQ in Q1-2026 (Fig. 3.c), and excluding vegetables and fruits, alcohol and tobacco products (which are not included in core CPI) – by ≈5.6% QoQ. The slowdown in demand for food and the decline in public catering turnover at the beginning of the year restrained food price growth. In addition, strict price controls by the authorities remained a significant constraint on food inflation.

The ratio of prices for dairy and meat products in Russia and Belarus under these conditions remained elevated relative to the “normal” level (Fig. 4.d). In this regard, the risks of accelerating food price growth in Belarus persist and are reinforced by the likely increase in global food inflation due to the consequences of military actions in the Middle East.

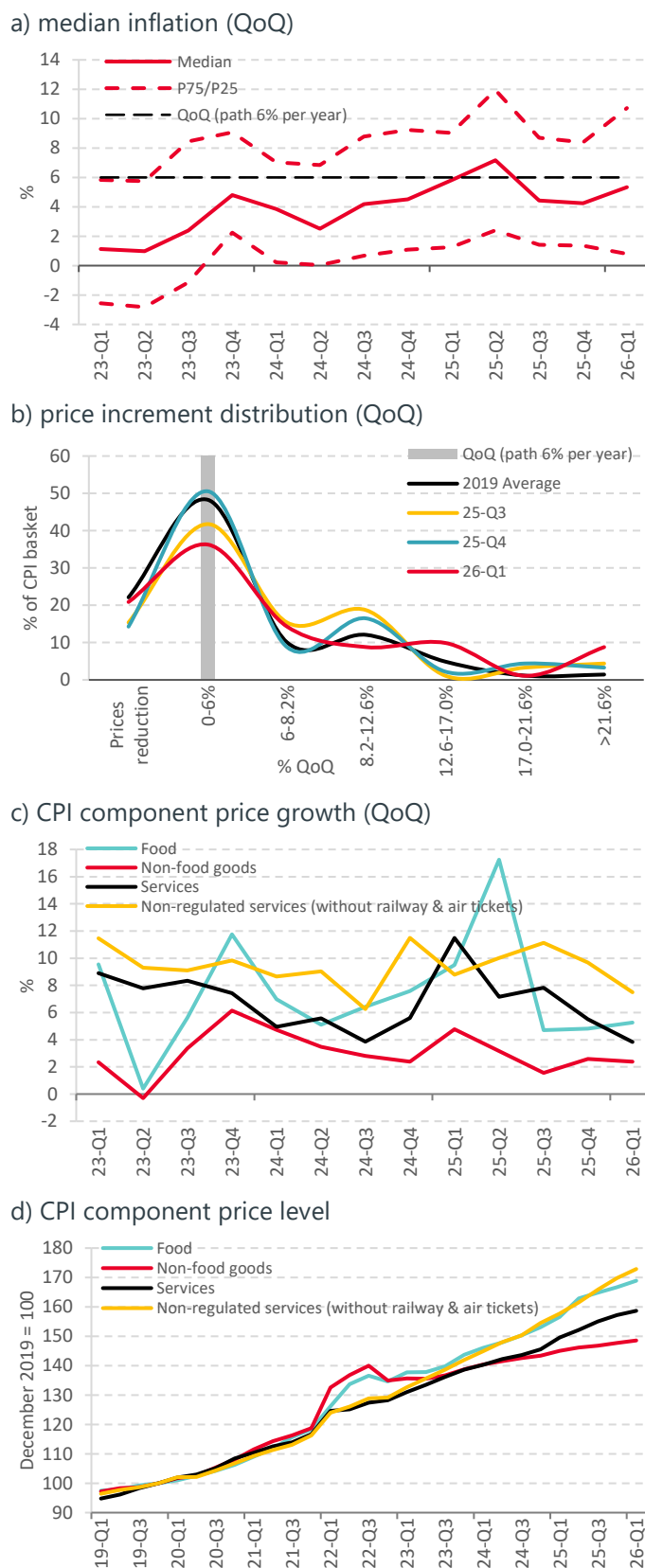
Prices for non-food goods increased by 2.4% QoQ in Q1-2026 (Fig. 3.c)

Weak dynamics were observed for most items – the median price increase in this segment is estimated at around 3% QoQ (Fig. 4.b). Price controls and a strong ruble maintained disinflationary effects. At the same time, about 0.6 p.p. out of the 2.4% QoQ increase in non-food prices was driven by higher fuel prices, caused by rising costs of Russian oil, the expected narrowing of its discount to Brent, and relatively low export supplies of Belarusian petroleum products not derived from tolling feedstock.

Prices for non-regulated services slowed in Q1-2026, but their growth rates remained high

Non-regulated services rose by approximately 8.5% QoQ in Q1-2026 after about 8.9% QoQ in the previous period, and excluding volatile international rail and air transportation – by 7.5% QoQ after 9.7% QoQ, respectively (Fig. 3.c).

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



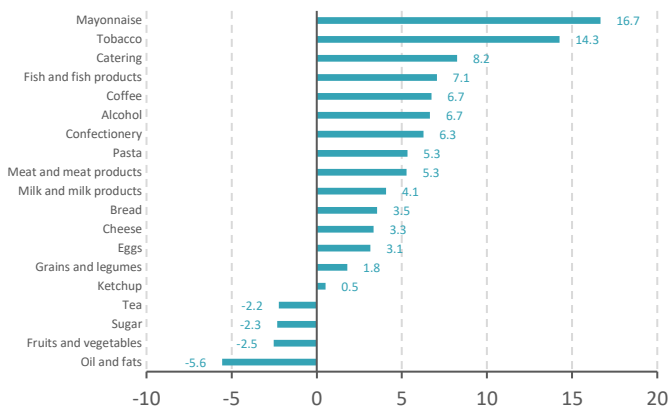
Source: calculations based on the Belstat data.
 Note: QoQ (quarter-on-quarter) is the annualized growth rate in the last month of the quarter vs the last month of the previous quarter, seasonally adjusted. Median inflation and price increment distribution are calculated using data from aggregated commodities in the CPI basket. P75 and P25 are the 75th and 25th percentiles, respectively.

The main contribution to the slowdown of inflation in this segment came from the deceleration in the growth of market household services prices from about 18.7% QoQ in Q4-2025 to around 8.7% QoQ in Q1-2026 (Fig. 4.c). This may signal a weakening of consumer demand for services. Nevertheless, price growth rates in the services segment, including household services, remained elevated relative to the dynamics of goods prices (Fig. 3.c).

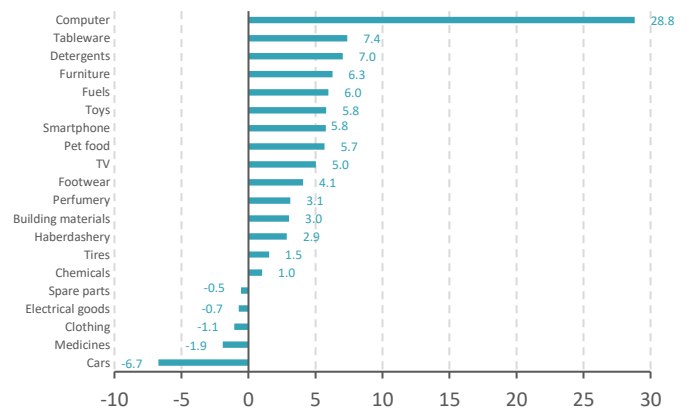
This is due to the fact that significantly increased labor costs in previous years continued to exert pro-inflationary pressure, which manifested itself in non-regulated services to a much greater extent compared to goods due to strict price controls. As a result, the disparity in relative prices continued to widen in Q1-2026 (Fig. 3.d). This highlights the presence of a significant inflationary overhang in the Belarusian economy.

Figure 4. Price increase for individual items of the consumer basket for Q1-2026

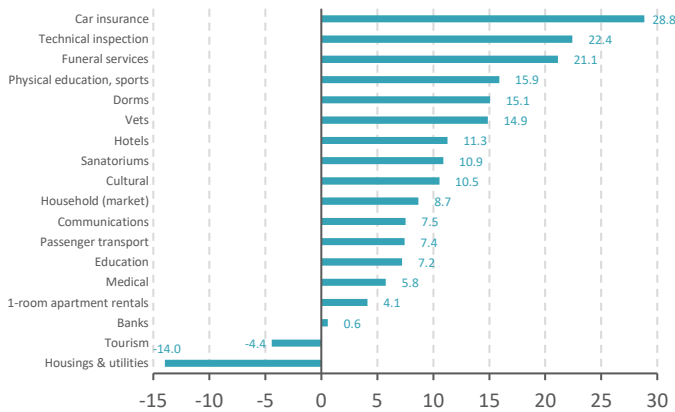
a) food (QoQ)



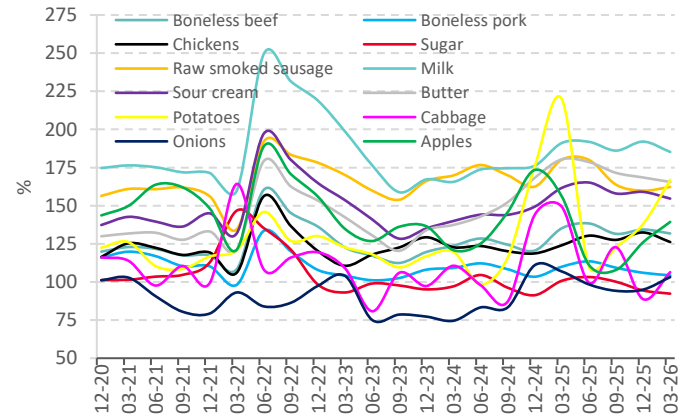
b) non-food goods (QoQ)



c) services (QoQ)



d) price ratio in Russia and Belarus



Source: compiled on the basis of data by Belstat, the National, and Rosstat.

Note: QoQ is the annualized growth rate in the last month of the quarter vs the last month of the previous quarter, seasonally adjusted. The ratio of prices 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.

Inflation drivers

Commodity markets and global supply chains did not have pronounced effects on inflation in Belarus in Q1-2026

The World Bank dollar commodity price index increased by 17% in Q1-2026 compared to Q4-2025, driven by a 25.9% rise in energy prices (Fig. 5.a). This was a result of disruptions to shipping in the Strait of Hormuz. The direct effects of higher oil prices on the Belarusian market were limited in Q1-2026, as the bulk of raw material supplies was purchased at the low prices of January-February.

Prices of non-energy commodities increased by 4.1% in Q1-2026. Fertilizers saw a significant price increase (Fig. 5.a). This may have moderate pro-inflationary consequences for Belarus due to the likely rise in global food prices. At the same time, export revenues from fertilizers may increase, partially offsetting these effects through higher foreign currency inflows.

The impact of global supply chains on inflationary processes in Belarus remained close to neutral in Q1-2026 (Fig. 5.b). However, risks of its intensification increased amid record delays in deliveries and growth rates of costs in global manufacturing since 2022, as reported by S&P Global.

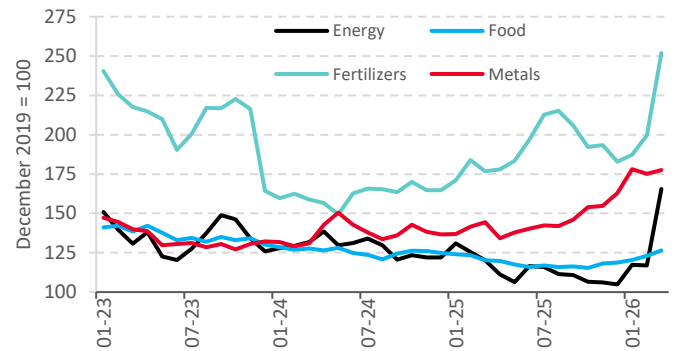
Inflationary pressure from the Russian market increased in Q1-2026

Inflation in Russia in Q1-2026 is estimated at around 10.7% QoQ (Fig. 5.d). The acceleration in price growth is mainly associated with the increase in the VAT rate. The pass-through of higher Russian inflation to prices in Belarus was limited under price controls. However, state regulation maintained an elevated price gap between the two markets, primarily in meat and dairy products and certain vegetables (Fig. 4.d). This factor will have moderate inflationary consequences for the Belarusian market.

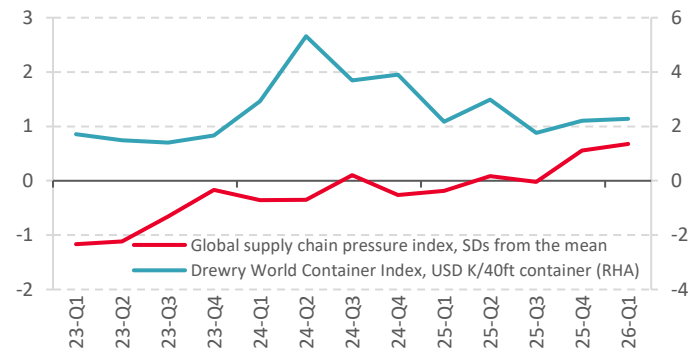
In other countries – key trading partners of Belarus – inflation remained subdued in Q1-2026 (Fig. 5.c). However, the probability of its significant acceleration has increased due to the rise in prices for energy and fertilizers.

Figure 5. Indicators of external price pressure

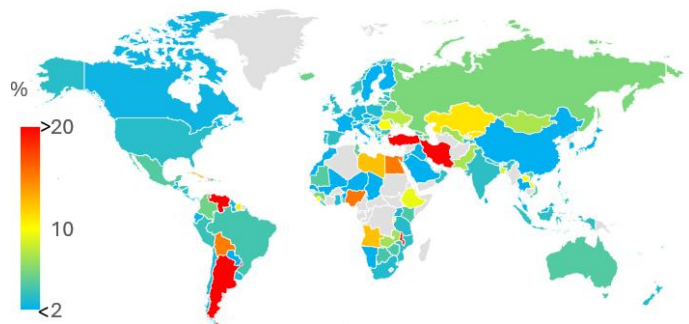
a) world commodity prices



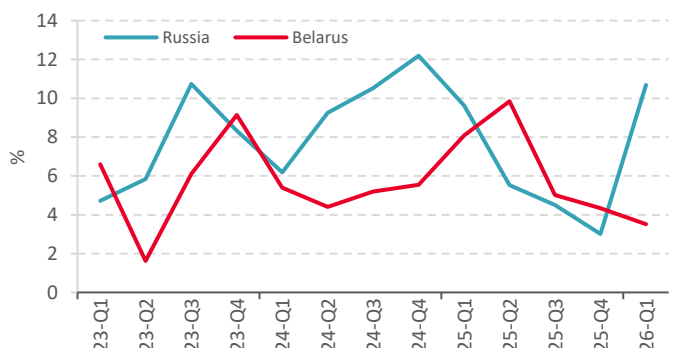
b) supply chain pressure indices



c) global inflation (YoY; March 2026)



d) inflation in Belarus and Russia (QoQ)



Source: compiled on the basis of data by World Bank, FRBNY, Drewry World Container Index and Supply Chain Advisors, Trading Economics, national statistical agencies, Belstat, Rosstat.

Note: World Container Index is for the last week of the month; 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 vs the last month of the previous quarter, seasonally adjusted.

The exchange rate maintained disinflationary effects in Q1-2026

In Q1-2026, the Belarusian ruble in nominal terms (measured against a currency basket) appreciated by 0.2% compared to the average of Q4-2025. In real terms, the ruble slightly weakened amid a slow-down in inflation in Belarus and its acceleration in Russia. As a result, relative to the equilibrium level of the real effective exchange rate, the ruble is estimated to be close to equilibrium in Q1-2026 (Fig. 6.b). At the same time, against the US dollar, the euro, and the yuan, the national currency remained overvalued, while against the Russian ruble it was somewhat undervalued.

It should be noted that the real depreciation of the national currency largely resulted from the postponement of utility tariff increases, which represent non-tradable services. When accounting for this factor, the ruble was somewhat overvalued (Fig. 6.d). As a result, taking into account the lags in exchange rate pass-through to prices, the overall contribution of the exchange rate to inflation remained negative in Q1-2026 (Fig. 6.a).

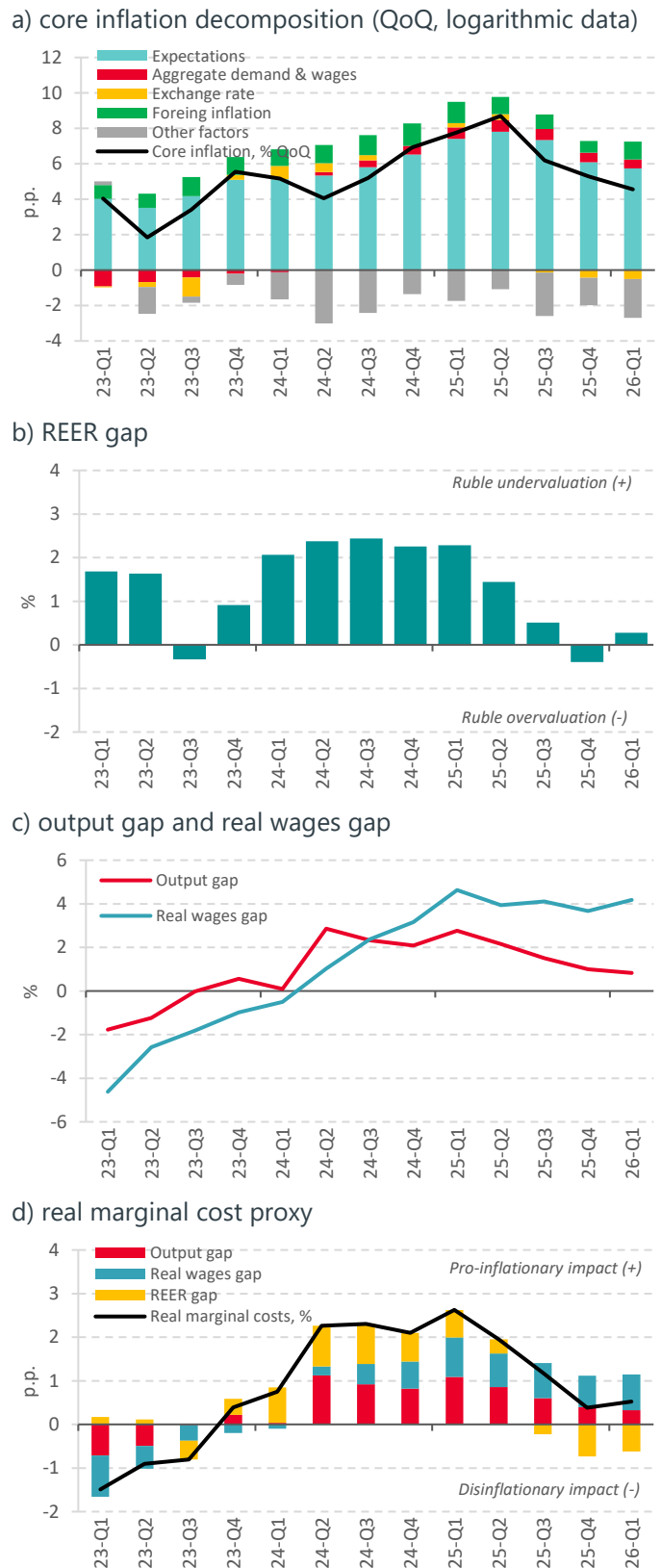
Price controls continued to limit inflation in Q1-2026

The negative contribution of unexplained factors within the QPM framework (which reflects the impact of state price regulation) on core inflation remained significant in Q1-2026 (Fig. 6.a). QPM-based calculations indicate that the state of aggregate demand, the labor market, the exchange rate, and foreign inflation would correspond to annual inflation close to 8% YoY in March 2026 (taking into account the postponement of utility tariff increases), rather than the actual 5.4% YoY. The inflationary overhang – the potential for faster price growth – remained substantial in Q1-2026.

Inflation expectations did not trigger faster price growth in Q1-2026

The quarterly increase in household term deposits reached the highest level in more than ten years, even with a 1 p.p. decline in the average interest rate, while net foreign currency sales by households reached a record level since 2016. This indicates subdued inflation expectations at the beginning of the current year.

Figure 6. Factors of core inflation in Belarus



Source: calculations based on the data from Belstat, the National Bank, QPM. Note: the contributions of the factors are calculated considering persistence; QoQ is the annualized growth rate in the last month of the quarter vs the last month of the previous quarter, seasonally adjusted; REER is the real effective exchange rate of the Belarusian ruble; within the QPM, the weights of individual currencies in the REER are: Russian ruble – 0.60; US dollar – 0.20; euro – 0.10; Chinese yuan – 0.10; the REER gap is adjusted for the deviation of relative prices (the ratio of the core CPI to the composite CPI) from the trend.

The state of the labor market remained pro-inflationary in Q1-2026

The unemployment rate in Q1-2026 decreased by 0.1 p.p. to a new historical minimum of 2.3% of the labor force (seasonally adjusted). The ratio of unemployed to vacancies remained low (approximately three times lower than the 2019–2021 average), but increased slightly compared to the 2025 lows due to a decline in the number of vacancies. Labor market indicators signal a continued labor shortage in Q1-2026, although the scale of the imbalance did not further increase. As a result, wage and income growth became more moderate. The deviation of real wages from the equilibrium level in Q1-2026 remained close to the previous period's value, which is approximately 0.5 p.p. lower than the peak in early 2025 (Fig. 6.c). Pro-inflationary pressure from labor costs did not increase (Fig. 6.d).

Monetary conditions

The monetary policy of the National Bank remained accommodative, but its transmission to loan rates was weak

The National Bank did not withdraw excess liquidity from banks through auctions, which was reflected in a low nominal interbank market (IBL) rate of around 4% and its negative real value at the beginning of the year (Fig. 7.d).

The average interest rate on bank deposits in rubles under such conditions remained below its neutral level. The yield on corporate deposits remained low, while household deposit rates are estimated to be slightly above the equilibrium level, partly due to administrative influence by the National Bank on banks.

The transmission of accommodative monetary policy to lending rates remained weak: the average cost of credit slightly exceeded its equilibrium level. As a result, the overall impact of credit and deposit market rates on economic activity and inflation was close to neutral in Q1-2026 (Fig. 7.a).

Overheating of the Belarusian economy and the resulting pro-inflationary pressure decreased somewhat in Q1-2026

Belarusian GDP in Q1-2026 showed near-zero growth compared to the previous period (seasonally adjusted) after three quarters of slight contraction. The decline in investment demand in Russia, weaker investment dynamics in Belarus, and domestic resource constraints (primarily labor shortages) led to a "cooling" of economic activity even under non-restrictive monetary conditions and high fiscal expenditures. As a result, the positive output gap – the extent to which actual GDP exceeds its potential level – narrowed to approximately 0.8% in Q1-2026 (Fig. 6.c). This degree of excess demand was not significant – it corresponded to moderate pro-inflationary effects, substantially lower than in the second half of 2024 and the first half of 2025 (Fig. 6.d).

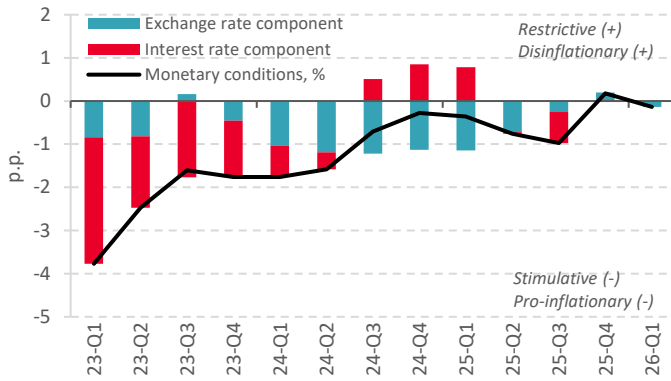
In an environment of non-restrictive monetary conditions and high fiscal expenditures (consolidated budget expenditures exceeded 30% of GDP in 2025 – the highest level since 2011), the money supply continued to grow at high rates – more than 18% per quarter in annualized nominal terms (Fig. 7.b). Money supply growth, significantly outpacing real GDP growth, led to an increase in money overhang in the economy. A high household savings rate largely mitigated its potential inflationary consequences. However, the unbalanced growth of the money supply significantly limits the room for monetary policy easing.

The Belarusian ruble exchange rate (in REER terms) was close to equilibrium in Q1-2026

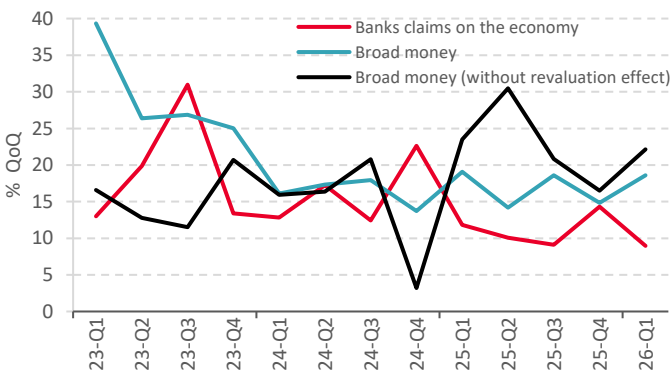
Net foreign currency sales by households offset net purchases by firms, contributing to the stability of the national currency exchange rate at the beginning of the year (Fig. 7.c). It should be noted that the real ruble exchange rate was impacted by the shift in non-tradable tariff increases for housing and utilities. For tradable goods, the impact of the REER on business activity and inflation is estimated to be somewhat restraining in Q1-2026 (Fig. 6.d).

Figure 7. Monetary conditions

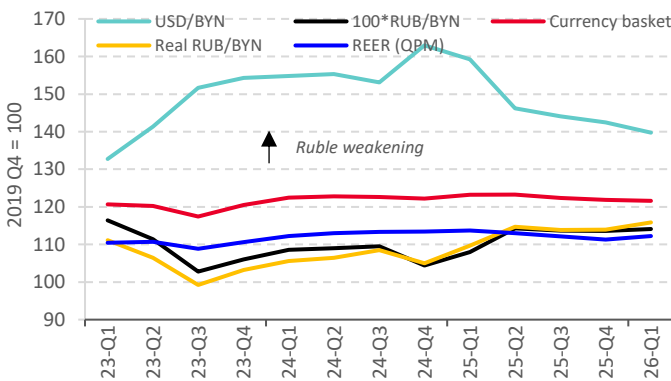
a) components of monetary conditions



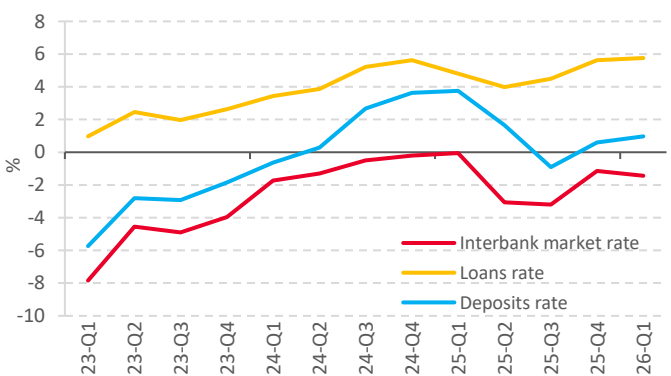
b) loans and broad money growth (seasonally adjusted)



c) Belarusian ruble foreign exchange rates



d) real interest rates on assets in Br



Source: calculations based on the data from Belstat, the National Bank, QPM. Note: REER is the real effective exchange rate of the Belarusian ruble; real rates are calculated based on average nominal rates between organizations and households (according to the National Bank) and expected YoY inflation in the next quarter.

Short-term forecast

A moderate pro-inflationary external sector impact is expected in 2026

As a result of the crisis in the Strait of Hormuz and military actions in the region, commodity prices will be higher than expected at the beginning of the year. The duration and scale of these effects remain uncertain. In the baseline scenario, the inflation estimate in the euro area for the end of 2026 has been raised by 2.6 p.p. compared to the January forecast – to 4.5% YoY. Inflation in Russia is expected to remain above the 4% target – around 5.5–6% YoY in 2026 – due to persistently high inflation expectations, labor market shortages, and elevated fiscal spending. Pro-inflationary effects from the external sector for the Belarusian market will be limited by the fact that Belarus purchases gas at a preferential price, is a supplier of fertilizers to the global market, and is a net exporter of food products.

The disinflationary effect of the exchange rate will be neutralized in the second half of 2026

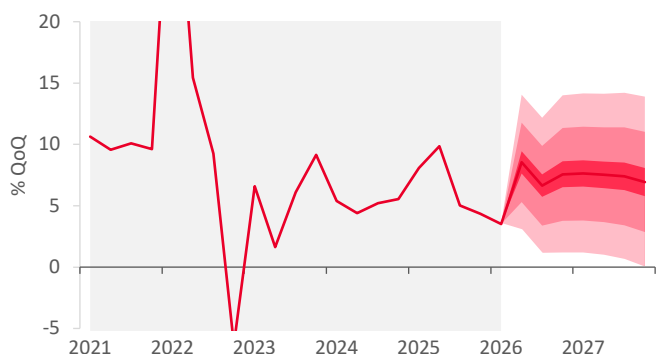
The projected goods and services trade deficit within 1% of GDP will not exert significant pressure on the Belarusian ruble, provided that net foreign currency sales by households are maintained. As a result, the national currency exchange rate is expected to remain close to equilibrium this year, corresponding to neutral effects on inflation. It should be noted that exchange rate neutrality does not imply a zero contribution to price growth. Within the QPM framework, it means that this contribution will be consistent with achieving 6% inflation in the medium term (all other things being equal).

Domestic demand will maintain a moderate pro-inflationary stance this year

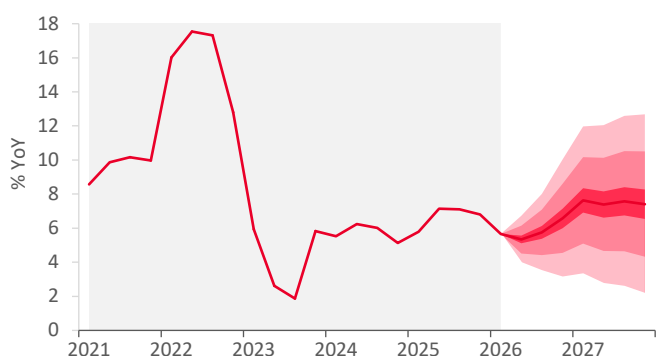
The expected slight easing of monetary conditions and continued high fiscal expenditures will support domestic demand. However, its growth will be more moderate compared to previous periods amid high uncertainty regarding economic prospects, the effects of price controls, declining sales of non-energy goods in the Russian market, and slower growth in household incomes.

Figure 8. Inflation forecast for Belarus

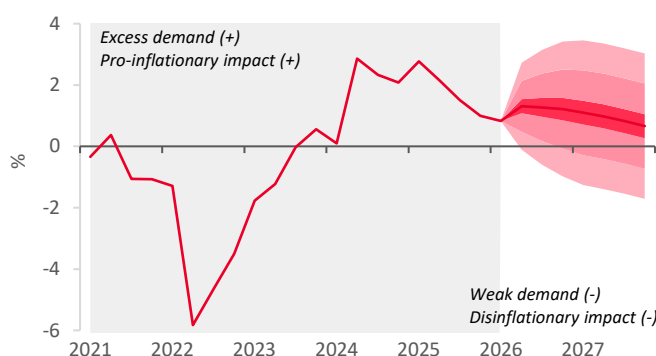
a) quarterly inflation (QoQ)



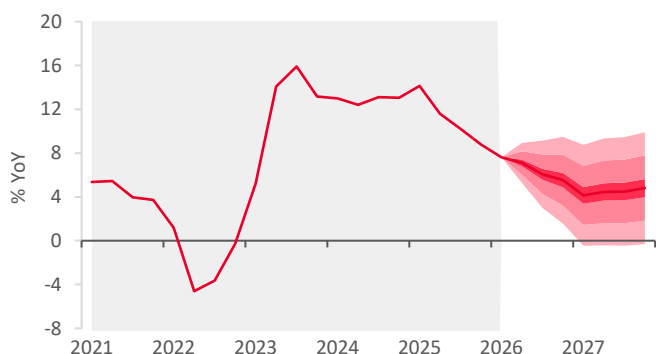
b) yearly inflation (YoY)



c) output gap (% of potential GDP)



d) real average wage (YoY)



Source: calculations based on QPM.

Note: 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; the Figure shows seasonally adjusted indicators; the ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

As a result, in the baseline scenario, a recovery of Belarusian economic growth is projected from minus 0.4% YoY in Q1-2026 to around 1% YoY by the end of 2026. This corresponds to a slightly positive output gap with moderate pro-inflationary effects (Fig. 8.c), concentrated on non-regulated services.

The labor market will remain pro-inflationary, but to a lesser extent compared to 2025

The labor shortage problem will ease due to slower economic growth but will not disappear completely because of demographic trends. As a result, growth in average real wages will slow from 9% YoY in 2025 to around 5–6% YoY in 2026 (Fig. 8.d), while their deviation from the equilibrium level will decline to around 2% by the end of the year.

Price controls will continue to limit inflation in the medium term

The baseline scenario assumes the continuation of strict price controls in 2026. Minor relaxations are possible for certain goods to prevent export sales at the expense of domestic supply.

As a result, in the baseline scenario, inflation in Belarus is projected in the range of 6–7% YoY by the end of 2026

Quarterly price growth will accelerate noticeably in Q2-2026, as April inflation will include the utility tariff increases postponed to March (Fig. 8.a). Subsequently, it will become more moderate amid moderate inflationary pressure and price controls (Fig. 8.a), while annual inflation will return to 6–7% YoY by the end of the year (Fig. 8.b).

The projected inflation path leaves room for a slight easing of monetary policy

Inflation around 6% YoY is acceptable for the National Bank, given its target of no more than 7% YoY for 2026. Low GDP growth will push the regulator toward lower interest rates. However, the reduction will not be significant due to the need to maintain a high household savings rate to ensure foreign exchange market stability.

Forecasting risks

The probability of a strong global acceleration of inflation, accompanied by a global recession, remains relatively high due to the conflict in the Middle East

A prolonged blockade of navigation in the Strait of Hormuz could drive commodity prices to record levels. Due to damage to extraction, processing, and transportation infrastructure for energy and other products in the Gulf countries, high commodity prices may persist into the next year. This would represent a major negative supply shock to the global economy, accompanied by elevated, likely double-digit global inflation and weaker economic activity. Under such a scenario, price pressures in Belarus would increase, especially for tradable food products, electronics, and likely construction materials. Belarus's focus on Russia and China could limit the impact of the external shock, as these countries are potentially less susceptible to increasing inflation due to rising commodity prices compared to the EU.

The likelihood of a stronger-than-in-late-March-to-early-April increase in fuel prices in Belarus will rise if the Middle East conflict drags on

Pressure on the financial performance of Belarusian oil refineries will intensify in Q2-2026 amid persistently high oil prices. With a narrowing discount of Russian Urals to North Sea Brent and relatively low exports of petroleum products (not produced from tolling feedstock), it will become more difficult to offset rising input costs through external sales revenues.

Looser monetary policy and stronger fiscal stimulus remain risks to the forecast

Weak economic growth may prompt Belarusian authorities to increase domestic demand stimulus through active use of government deposits, quasi-fiscal operations, and significant reductions in lending rates. This could temporarily boost GDP growth, but at the cost of stronger inflationary pressure and a widening external trade deficit. The authorities' ability to mitigate imbalances through price controls will be reduced if global inflation increases.

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.

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.

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.

The annualized price increase is calculated as a seasonally adjusted price increase per quarter raised to the fourth power. All quarterly inflation values in the Bulletin (unless indicated otherwise) are presented as annualized (annual equivalent).