Belarus Economy Monitor:
trends, attitudes and expectations

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Inflation Review
Q2-2025

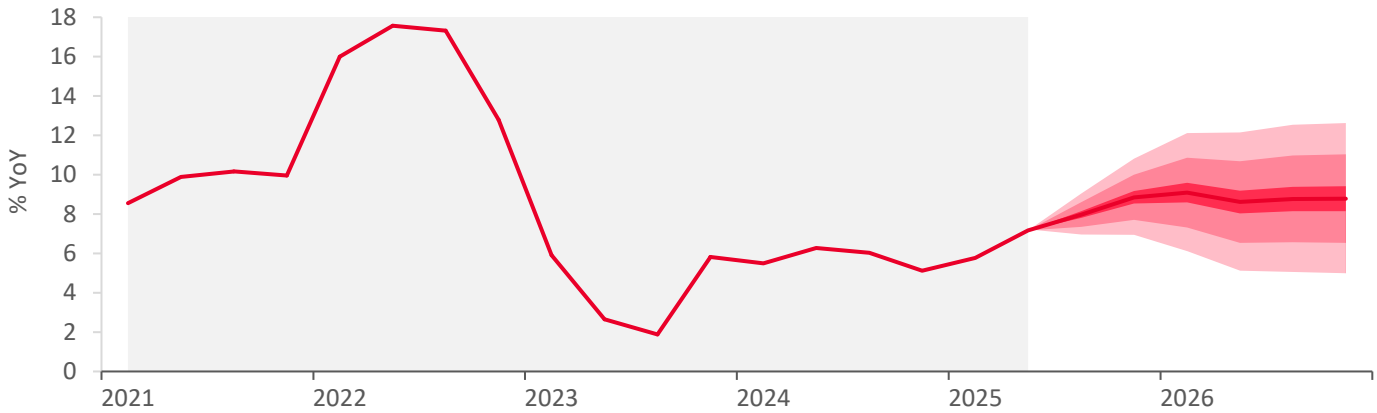
July 2025

Inflation in Belarus increased in Q2-2025 and is moving toward the upper bound of the 7–9% YoY forecast range for the end of 2025

Annual inflation stood at 7.3% YoY in June 2025 (Fig. 1). The annualized quarterly price growth rose to 11% QoQ in Q2-2025 (seasonally adjusted). The lag in price dynamics on the Belarusian market relative to Russia in previous periods has now shifted into accelerated food inflation in Belarus. Overheated domestic demand and the labor market continued to exert upward pressure on consumer prices, particularly in the segment of unregulated services. While price controls limited the pass-through of inflationary pressures, their restraining effect weakened in Q2-2025.

The baseline inflation forecast for the end of 2025 remains unchanged at 7–9% YoY (Fig. 1). However, the likelihood of inflation reaching the upper bound of this range has increased. As inflation begins to test the limits of the authorities' tolerance, there is a significant risk of tightening price controls if price growth approaches double-digit rates.

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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1 Dynamics of inflationary processes

Inflation in Belarus accelerated significantly in Q2-2025

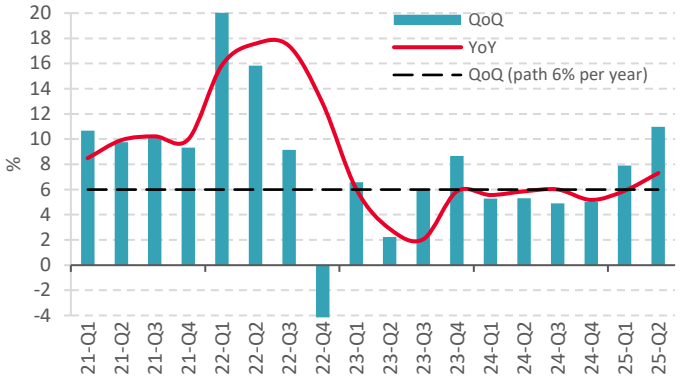
In Q2-2025, consumer prices rose by 11% in annualized terms (seasonally adjusted), up from 7.9% in Q1-2025 (hereinafter – % QoQ; Fig. 2.a).[i] Annual inflation (based on the Consumer Price Index; CPI) increased from 5.9% in March 2025 to 7.3% in June 2025 (hereinafter – % YoY; Fig. 2.a). The acceleration in price growth was driven by both core and non-core inflation (Fig. 2.b).

The actual YoY inflation in June 2025 exceeded the May 2025 forecast by 0.6 p.p.

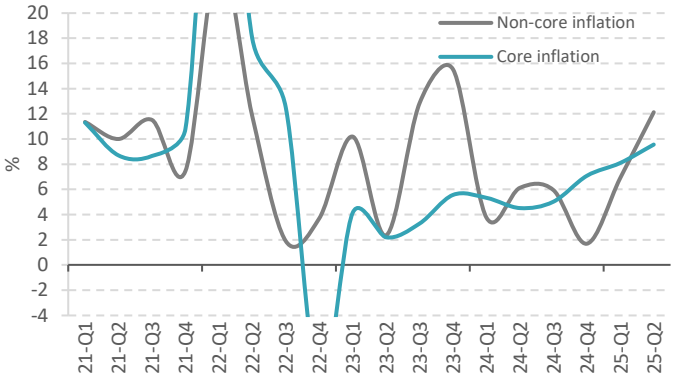
This upward deviation was largely due to a greater-than-expected increase in non-core inflation, primarily in fruit and vegetable prices (positive contribution of other shocks in Fig. 2.c), as well as a somewhat larger pass-through of costs to consumer prices following a partial easing of price controls since April 2025 (positive contribution of the core inflation shock in Fig. 2.c).

Figure 2. Dynamics of consumer inflation

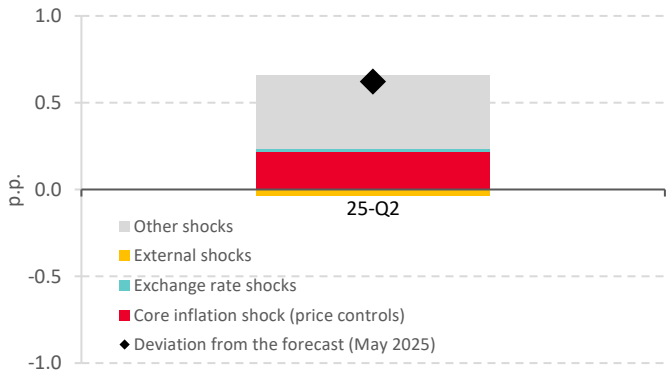
a) overall inflation



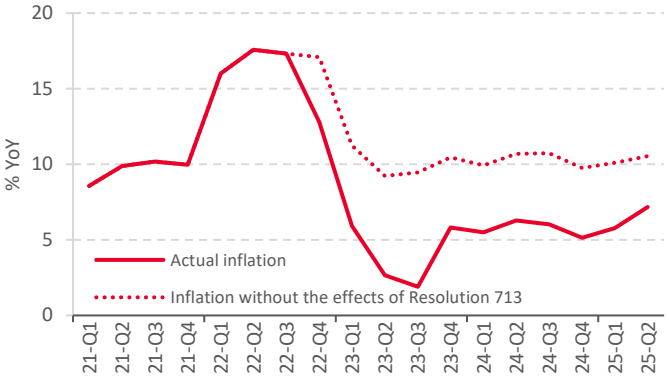
b) core and non-core inflation



c) factors of deviation of annual consolidated inflation from the May 2025 forecast



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



Source: 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.

Non-core inflation rose to 12.1% QoQ in Q2-2025 (Fig. 2.b)

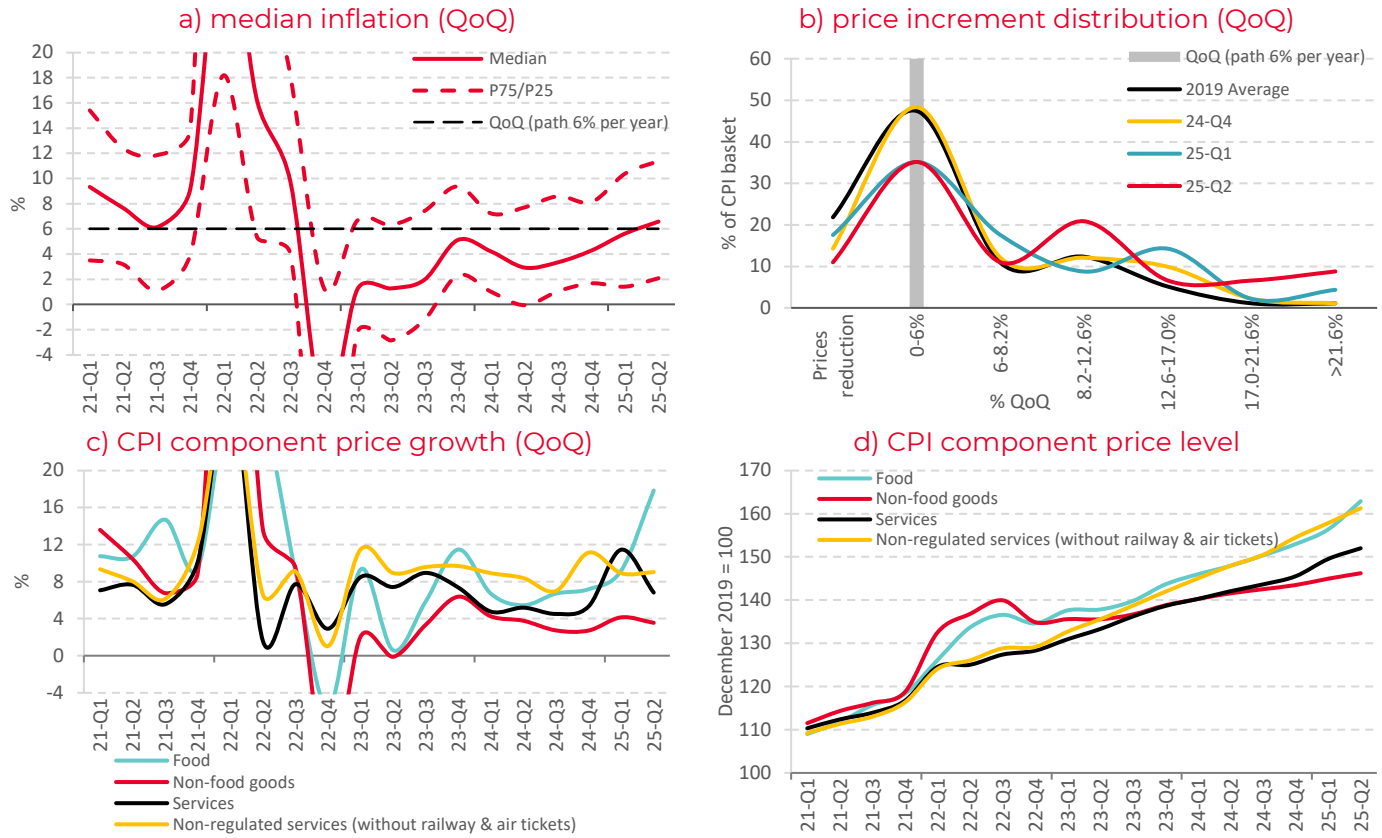
This increase was driven by a sharp rise in fruit and vegetable prices – from -2.2% QoQ in Q1 to approximately 50% QoQ in Q2-2025. The surge in prices was influenced by several factors: imbalances between supply and demand for specific vegetables (including due to a poor harvest last year), delays in harvesting certain crops due to weather conditions (e.g., cucumbers), and the threat of reduced fruit yields due to climatic factors (particularly apples and pears).

As a result of higher prices for potatoes and vegetables in Belarus, their price ratio relative to the Russian market returned to a historically "normal" level (Fig. 4.d). This suggests that the inflationary impact of the previous cross-country price disparity has been exhausted. Government-regulated prices and tariffs rose by approximately 7% QoQ in Q2-2025.

Core inflation accelerated from 8.1% QoQ in Q1-2025 to 9.6% QoQ in Q2-2025 (Fig. 2.b)**, while median inflation rose to 6.6% QoQ** (Fig. 3.a)

Both indicators reached their highest levels since Q3-2022. This dynamic reflects significant inflationary pressure within the Belarusian economy. One manifestation of this is the growing number of items in the consumer basket experiencing rapid price increases (Fig. 3.b).

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 (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).

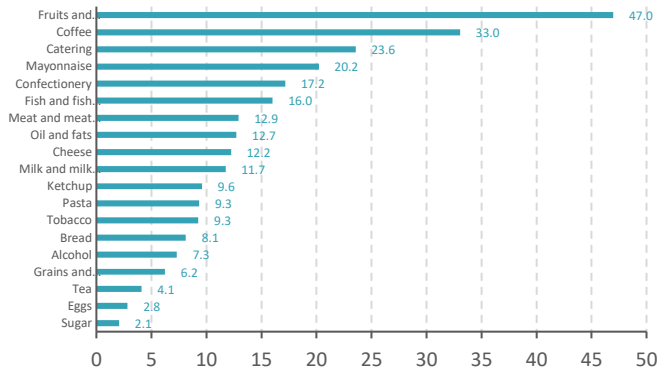
A significant increase in food prices was the main driver of core inflation in Q2-2025

Food inflation nearly doubled compared to the previous quarter, reaching an estimated 17.8% QoQ in Q2-2025 – the highest rate since Q2-2022 (Fig. 3.c). A major contributing factor was the sharp rise in prices for vegetables and fruits, which are not included in the core CPI. At the same time, elevated price growth was also observed across most other food categories – median food inflation is estimated slightly above 10% QoQ in Q2-2025 (Fig. 4.a).

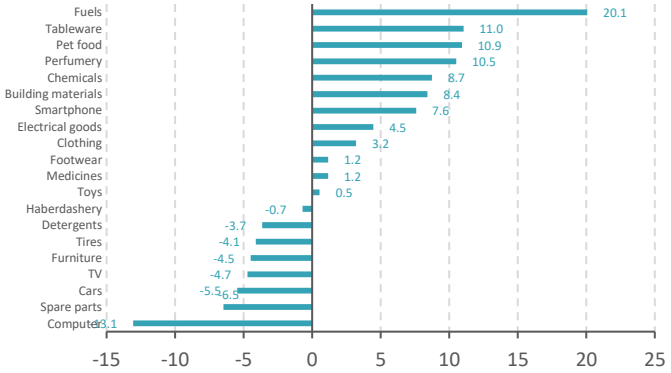
Inflationary pressure stemmed from strong domestic consumer demand, a significant price gap between the Russian and Belarusian markets (notably in milk, meat, and dairy/meat products; Fig. 4.d) amid the weakening of the Belarusian ruble against the Russian ruble, and rising costs among domestic agricultural producers (producer prices for livestock products increased on average by ≈12% QoQ in 2024 and by ≈8% QoQ in Q1-Q2-2025).

Figure 4. Price increase for individual items of the consumer basket for Q2-2025

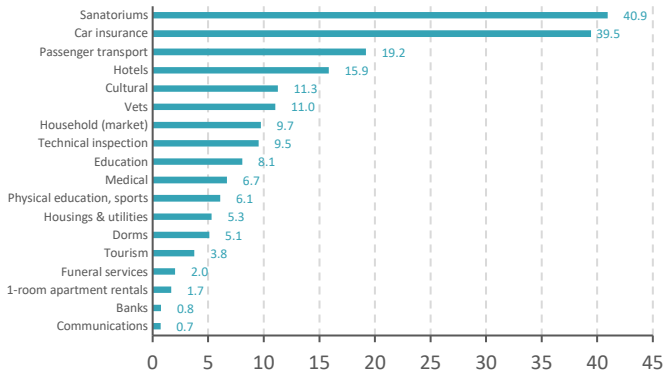
a) food (% QoQ)



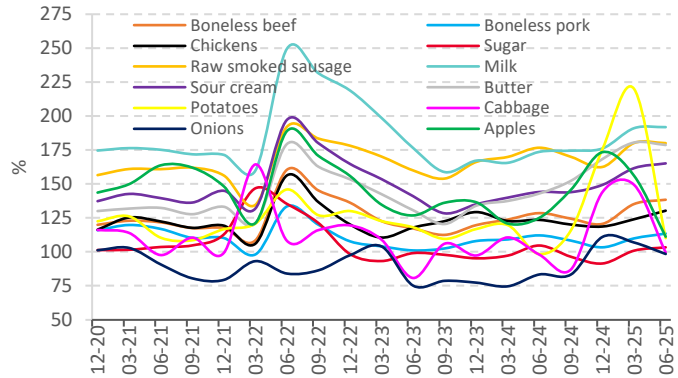
b) non-food goods (% QoQ)



c) services (% QoQ)



d) price ratio in Russia and Belarus



Source: calculations are based on the data by Belstat, the National Bank of Belarus, and Rosstat.
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. 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.

Inflation in the segment of unregulated services remained elevated

Unregulated services rose in price by approximately 9% QoQ in Q2-2025 (excluding volatile international rail and air transport; Fig. 3.c). Strong consumer demand and rising labor costs continued to exert upward pressure on service prices (Fig. 4.c). Price growth in regulated services slowed after an acceleration in the previous quarter. As a result, combined inflation in the market and non-market services segment is estimated at around 7% QoQ in Q2-2025 (Fig. 3.c).

Inflation in the non-food goods segment remained low

Prices for non-food goods increased by ≈3.6% QoQ in Q2-2025 (Fig. 3.c). Median inflation in this segment is estimated at around 4.5% QoQ for the quarter. The largest contributor to non-food price growth was the increase in fuel prices (about 2 p.p.), likely linked to the narrowing discount of Russian Urals crude relative to the global Brent benchmark, which negatively impacted the financial position of oil refineries.

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Among the goods that saw notable price increases in Q2-2025 were those where price controls had been loosened across many items: tableware, personal care and cosmetic products, household chemicals, and construction materials (Fig. 4.b). In contrast, price dynamics remained weak in goods where state regulation remained strict. Appreciation of the Belarusian ruble against the US dollar and the yuan also had a dampening effect on non-food inflation.

The inflationary overhang accumulated due to strict price controls introduced in October 2022 remained significant in Q2-2025

As of June 2025, the price level of unregulated services exceeded that of non-food goods by just over 10% (Fig. 3.d). Such a large gap in relative prices – unusual over long time horizons – indicates a substantial potential for accelerated price increases in non-food goods if price controls are removed or significantly relaxed.

2 Inflation drivers

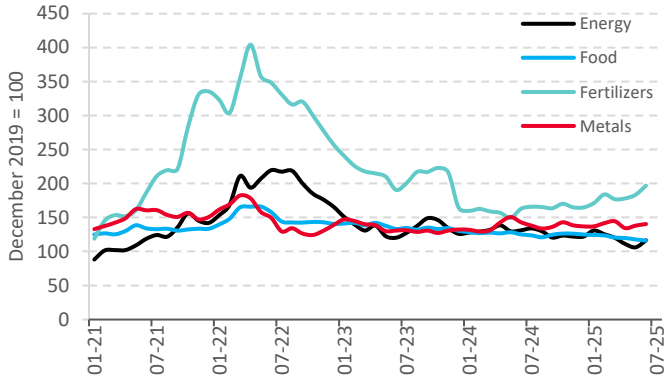
Global commodity price dynamics did not have a significant impact on inflation in the Belarusian market in Q2-2025

The World Bank Commodity Price Index (in USD) fell by 8.4% in Q2-2025 compared to Q1-2025. Energy prices declined by 11.3% over the quarter, while non-energy commodities fell by 3.4% (Fig. 5.a). Food prices decreased by 4% over the quarter, including average declines of 6% for coffee, 11% for cocoa, and 11.5% for palm oil. Taking into account the appreciation of the Belarusian ruble against the US dollar, global commodity price trends did not generate additional inflationary pressure on the Belarusian market in Q2-2025.

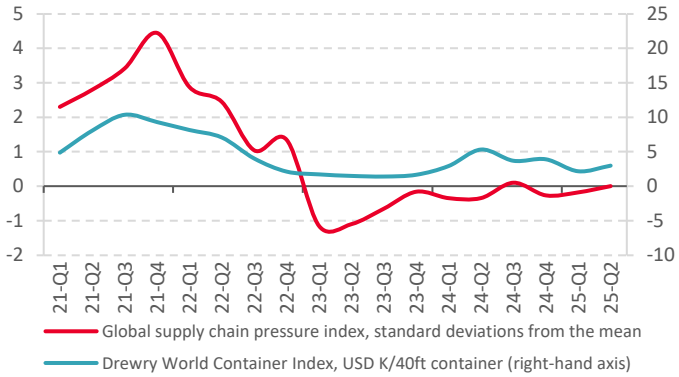
The cost of maritime shipping rose in Q2-2025 due to escalating tensions in the Middle East but remained well below the peaks of recent years. The global supply chain pressure index remained in neutral territory (Fig. 5.b).

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

a) commodity prices



b) supply chain pressure indices



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

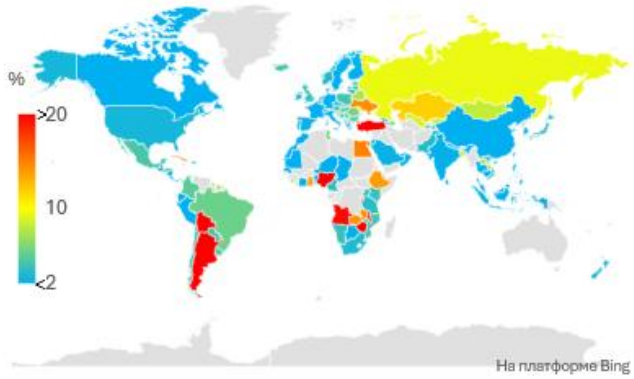
Inflationary pressure from the Russian market has weakened

Inflation in Russia in Q2-2025 is estimated at around 6% QoQ (Fig. 7.b). The appreciation of the Russian ruble and the weakening of domestic demand dynamics in Russia contributed to reduced price pressure. Slower price growth in the Russian market creates conditions for a diminished impact of this factor on inflation in Belarus in the second half of 2025.

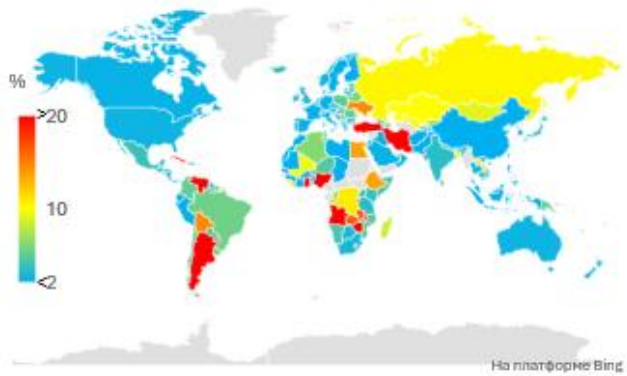
However, in Q2-2025, the inflationary effect remained significant due to the price disparity that had accumulated in previous periods between the two markets – particularly in dairy and fruit and vegetable products (Fig. 4.d). In the case of dairy, the price gap in June remained considerable, while for fruits and vegetables it returned to "normal" levels. In other countries that are major trading partners of Belarus, inflation remained subdued in Q2-2025 (Fig. 6).

Figure 6. Global inflation

a) June 2025 (YoY)



b) March 2025 (YoY)



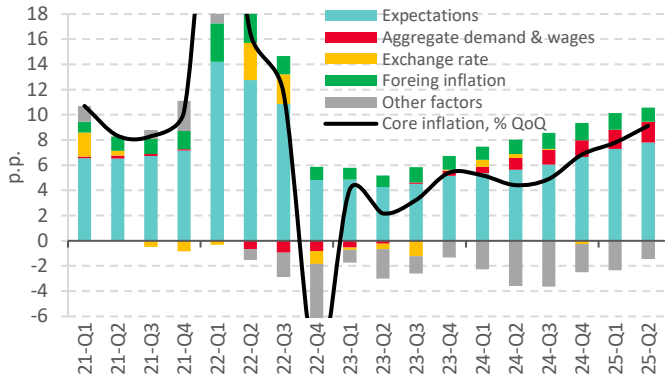
Source: Trading Economics, national statistical agencies.
Note: YoY is the growth rate in the last month of the quarter vs the last month of the same quarter of the prev. year.

The exchange rate had a near-neutral impact on inflation in Q2-2025

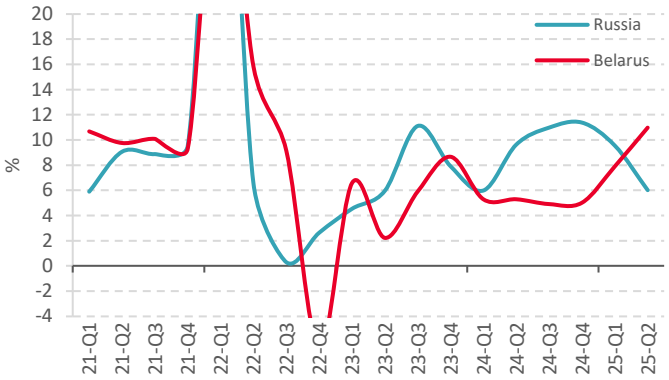
In Q2-2025, the Belarusian ruble weakened by 0.1% in nominal terms (measured against the currency basket) compared to the average value in Q1-2025 (Fig. 8.b). The depreciation of the national currency against the Russian ruble by 5.8% was offset by its appreciation against the US dollar by 8.2% and the Chinese yuan by 7.4%. As a result, the overall impact of the exchange rate on inflation is assessed as close to neutral in Q2-2025 (Fig. 7.a). On the one hand, depreciation against the Russian ruble had pro-inflationary effects in the food segment. On the other hand, appreciation against the dollar and yuan helped limit price pressures in the non-food goods segment.

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

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



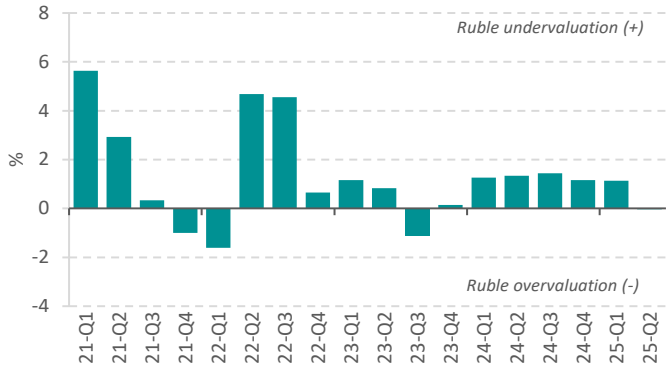
b) inflation in Belarus and Russia (QoQ)



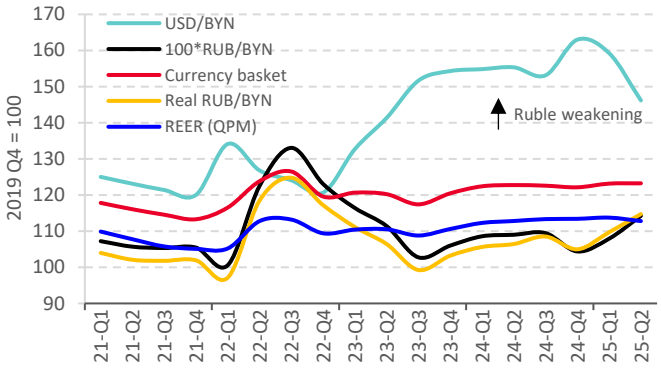
Source: calculations based on QPM, the data from Belstat and Rosstat.
Note: the contributions of the factors are calculated considering momentum; QoQ (quarter-on-quarter) is the annualized growth rate in the last month of the quarter vs the last month of the previous quarter, seasonally adjusted.

Figure 8. Belarusian ruble exchange rates and deviation of REER from the equilibrium level

a) REER gap (QPM-based)



b) Belarusian ruble foreign exchange rates



Source: calculations are based on the data by the National Bank of Belarus.
Note: 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 labor market continued to exert significant inflationary pressure in Q2-2025

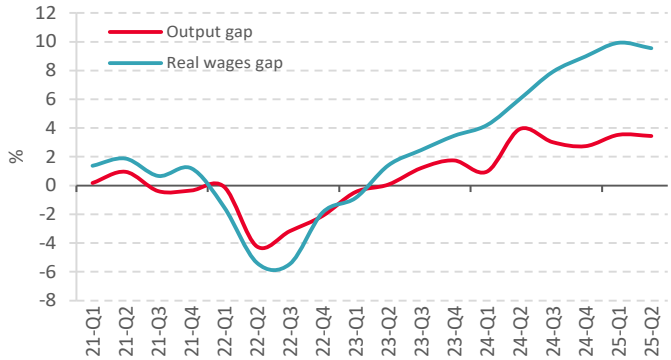
The labor shortage remained acute in Q2-2025. The number of unemployed continued to decline, while labor demand (vacancies) increased. The unemployment rate fell to a new historic low of 2.6% of the labor force in Q2-2025. The shortage of workers constrained the pace of productive capacity expansion and spurred wage growth. However, amid rising inflation, real wage growth (adjusted for consumer price changes) slowed in Q2-2025. As a result, the extent to which the average real wage exceeded its balanced level did not increase during the quarter (Fig. 9.a), though it remained near the highest level since mid-2014. Under these conditions, wage-driven inflationary pressure remained strong in Q2-2025 (Fig. 9.b).

Domestic demand remained inflationary in Q2-2025 (Fig. 9.b)

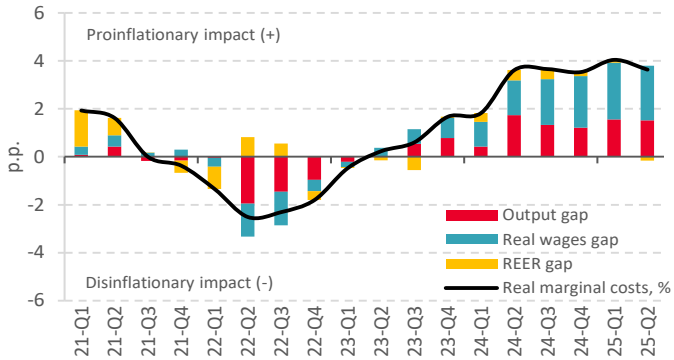
Belarus's GDP showed near-zero growth in Q2-2025 compared to Q1-2025 (seasonally adjusted). Despite the slowdown, output remained close to its historical peak and about 5% above the 2021 average. This excess was entirely driven by domestic demand, which, although it showed no significant growth in Q2-2025, remained approximately 19% above the 2021 average, including about ≈28% higher in the consumer segment (preliminary estimates). As a result, **the positive output gap remained substantial and is estimated at around ≈3.4% in Q2-2025** – indicating that GDP exceeded its equilibrium (or balanced) level by that amount (Fig. 9.a).

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: 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.

Inflation expectations in the Belarusian economy rose in Q2-2025 amid a notable increase in food and household service prices

This is indicated by the growing contribution of rational expectations to core inflation, as estimated within the QPM framework (Fig. 7.a). Overheated domestic demand created favorable conditions for producers and retailers to pass higher expectations into wholesale and consumer prices. This, coupled with a partial weakening of price controls, contributed to rising inflation.

The restraining effect of price controls on inflation weakened in Q2-2025

The negative contribution of unexplained factors (as captured by the QPM), which includes the influence of state price regulation, remained in Q2-2025, but its magnitude decreased (Fig. 7.a). This reflects the partial easing of price controls beginning in April 2025, when around 10% of the consumer basket was removed from direct regulation. Nonetheless, since the majority of the basket remained under government control, price regulation continued to have an overall dampening effect on inflation. Without the impact of price controls, annual inflation in June 2025 could have reached approximately 10.5% YoY instead of the actual 7.3% YoY (Fig. 2.d). **The inflation overhang – the potential for accelerated price growth in the future – remained significant in Q2-2025.**

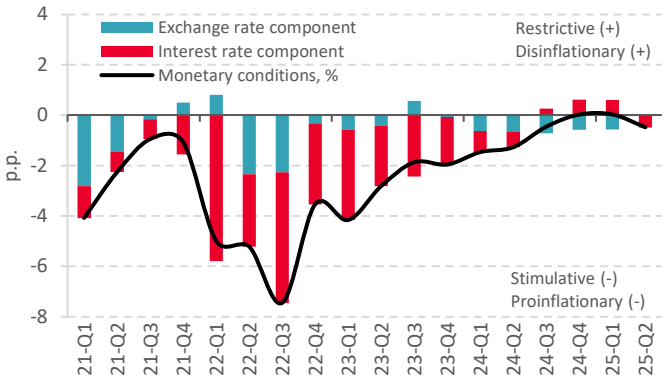
3 Monetary conditions

Monetary conditions eased in Q2-2025

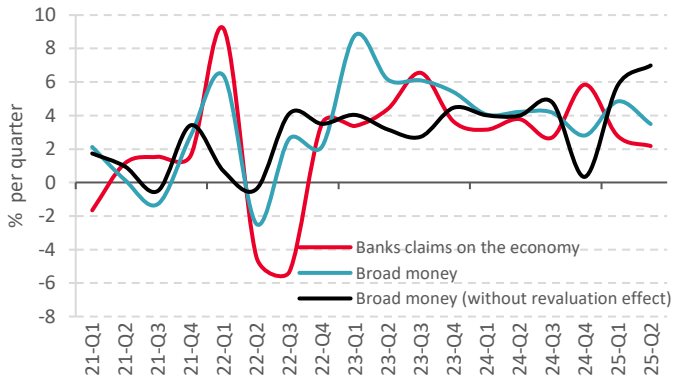
Real interest rates in the credit and deposit market declined in April – June due to rising inflation and inflation expectations. As a result, interest rates on average dropped slightly below their equilibrium levels (Fig. 10.a). The extent of this deviation corresponds to a near-neutral impact of interest rates on lending and economic activity. The National Bank's measures at the end of Q2-2025 – raising the refinancing rate by 0.25 p.p. and increasing the estimated values of standard risk by up to 1 p.p. – had not yet been reflected in credit and deposit market rates. However, given the small scale of these measures and the continued excess liquidity in the banking system, their effect on market interest rates is expected to be weak.

Figure 10. Monetary conditions

a) components of monetary conditions (QPM-based)



b) loans and broad money supply growth (seasonally adjusted)



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

Credit growth slowed in Q2-2025 despite the decline in real interest rates

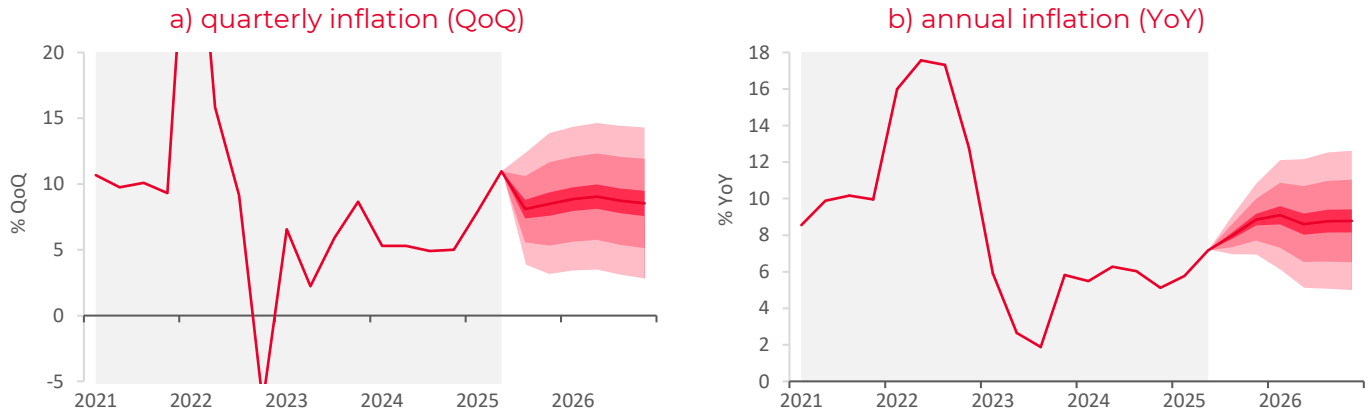
The slowdown in lending activity is partly explained by the impact of National Bank directives limiting banks' supply of consumer loans. The deceleration in corporate lending, despite the National Bank's efforts to promote investment through administrative influence on banks, may be linked to weakening economic activity. It is also likely that increased foreign currency revenues in Q2-2025 and higher government spending temporarily reduced firms' demand for borrowed funds. This is indicated by the acceleration in quarterly growth of broad money, excluding the effect of exchange rate revaluation on its foreign currency component (Fig. 10.b).

The Belarusian ruble was near equilibrium in terms of the real effective exchange rate in Q2-2025 (Fig. 8.a)

The exchange rate factor had an overall neutral impact on inflation and economic activity in Q2-2025 (Fig. 9.b).

4 Short-term forecast

Figure 11. Inflation forecast for Belarus



Source: 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.

No significant inflationary pressure from the external sector is expected in the second half of 2025

The baseline scenario assumes no escalation in tariff tensions and no disruptions in global supply chains. In Russia, price growth is developing below previous forecasts due to a stronger ruble and a more pronounced than expected cooling of domestic demand since May. Under the current baseline scenario, inflation in Russia is expected to be around 6.5% for the full year 2025.

Domestic conditions will remain inflationary in the second half of 2025

The baseline scenario assumes that price controls will neither be significantly relaxed nor tightened in the second half of the year. Loosening regulation could push annual inflation into double-digit territory, which is likely unacceptable to authorities. On the other hand, tightening price controls risks worsening the financial position of firms amid slowing domestic and external demand.

Domestic demand will remain elevated relative to its balanced level, even if its growth moderates. A return to economic equilibrium (in the absence of major shocks) will be protracted, as the output gap in Q2-2025 remained near its highest level since 2014. High government spending and accommodative monetary conditions will continue to support excess demand. The inflationary effects of wages will remain significant, though not expand further. Elevated output will be accompanied by a persistent labor shortage; however, with slower GDP growth, real wage dynamics are expected to decelerate. The exchange rate's impact on inflation is projected to remain neutral in the second half of the year.

As a result, **inflation is forecast to fall within the 7–9% YoY range by the end of 2025, with a higher probability of approaching the upper bound** (Fig. 11.b). Uncertainty surrounding changes in price controls, harvest prospects, and external sector developments creates elevated risks of deviation from the baseline scenario.

5 Forecasting risks

The tolerance threshold of Belarusian authorities for rising inflation is poorly predictable

Inflation is moving toward the upper bound of the forecast range of 7–9% YoY for the end of the current year. It is likely that these levels are close to the maximum the authorities are willing to tolerate without tightening domestic economic policy. However, if inflation approaches double-digit rates, it may trigger reactive measures to restore the stricter price control regime that existed before its partial easing in April 2025. As of the end of July 2025, the probability of such a development is subjectively assessed to be lower than the likelihood of the baseline scenario, which assumes no major changes to price regulation in the second half of the year. Still, if price controls are tightened, inflation would likely settle near the lower bound of the 7–9% YoY forecast range by the end of 2025, though the cost of such actions would be an increase in the inflation overhang and a probable weakening of economic activity.

The predictability of the National Bank's monetary policy actions has declined

Monetary policy is becoming increasingly discretionary and exhibits voluntarist features. Its stabilizing role has weakened, while the National Bank's dependence on the executive branch has grown. Given that the maximum effects of monetary impulses on GDP and inflation in Belarus are realized with a 9–12 month lag, it will be difficult to influence inflation in the current year through monetary policy. However, unpredictable monetary policy is a significant source of uncertainty for economic outcomes in the following year.

The outlook for the total harvest of grains, vegetables, and fruits this season remains uncertain

There is a notable risk of a low gross harvest, which could have pro-inflationary consequences. If this risk materializes, responding with monetary policy may prove counterproductive. A more appropriate response would be to simplify imports and temporarily restrict exports, in combination with subsidies to producers and targeted support for the most vulnerable segments of the population.

Escalation of global tariff conflicts would increase price pressures

The materialization of an adverse scenario would mean heightened inflationary pressure for Belarus due to rising prices for consumer and investment imports. The medium-term effects would depend on developments in global politics and economics, as well as the responses of monetary and fiscal policy in Belarus.

Inflation in Russia has a tangible chance of falling below 6.5% YoY in 2025, which would reduce price pressure on the Belarusian market

The likelihood of such a scenario increases if U.S. sanctions pressure on Russia does not intensify de facto and if Russia's GDP follows a growth path below 1% for the year.

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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 2023–2025.