**Belarus Economy Monitor:
trends, attitudes, and expectations**

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Express Analysis

Economic Activity and Inflation

April 2025

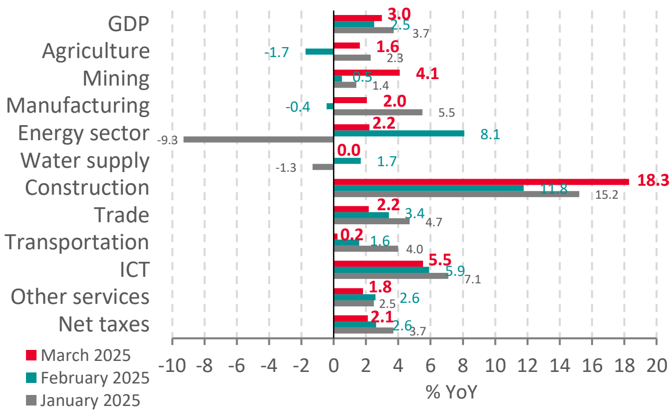
The scale of economic overheating in Belarus increased in Q1-2025, while the risk of severe turbulence in the event of a sharp deterioration in the situation in the global or Russian economy has risen markedly

In Q1-2025, GDP grew by 3.1% YoY, with March alone showing an ≈3% YoY increase (Fig. 1.a). The GDP volume (seasonally adjusted) in March remained close to that of February, and in Q1-2025 overall it increased by ≈1.7–1.8% compared to Q4-2024 (Fig. 1.b). The driver of growth remained domestic demand, supported by loose economic policy and rising wages amid a persistent labor shortage. Demand for Belarusian products on external markets, particularly in Russia, weakened. Under these conditions, maintaining an elevated level of output was accompanied by a surge in inventories to the peak levels of recent years (Fig. 3.b).

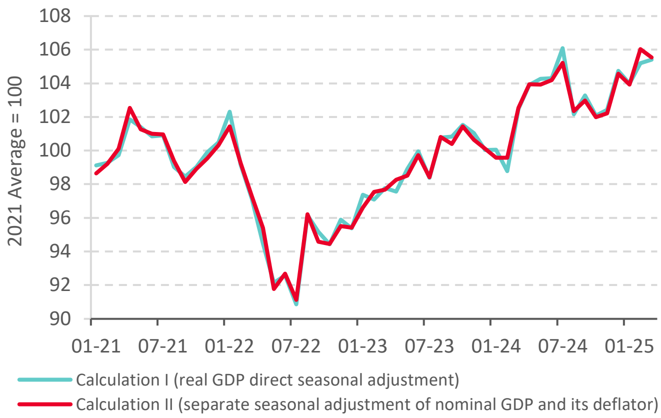
GDP growth in Q1-2025 significantly exceeded the balanced rate, estimated at ≈1.5–2% per year. As a result, the deviation of GDP from its equilibrium level (preliminary estimates) reached ≈4%, marking the largest scale of overheating since 2014. Inflationary pressure increased, and the foreign trade deficit significantly exceeded the norm for Belarus. A shift in the National Bank's priorities toward credit support for the economy and greater tolerance of inflationary risks may result in higher temporary GDP growth in 2025 than previously expected. However, due to the weakening of economic stabilization institutions, the risk of a severe downturn in the event of a sharp deterioration in external conditions has increased significantly.

Figure 1. Dynamics of GDP and value added in Belarusian sectors

a) GDP growth, month versus the corresponding month of the previous year (%, YoY)



b) GDP volume at constant prices (seasonally adjusted)



Note: The estimates update once the data are verified. Monthly GDP data are estimates.

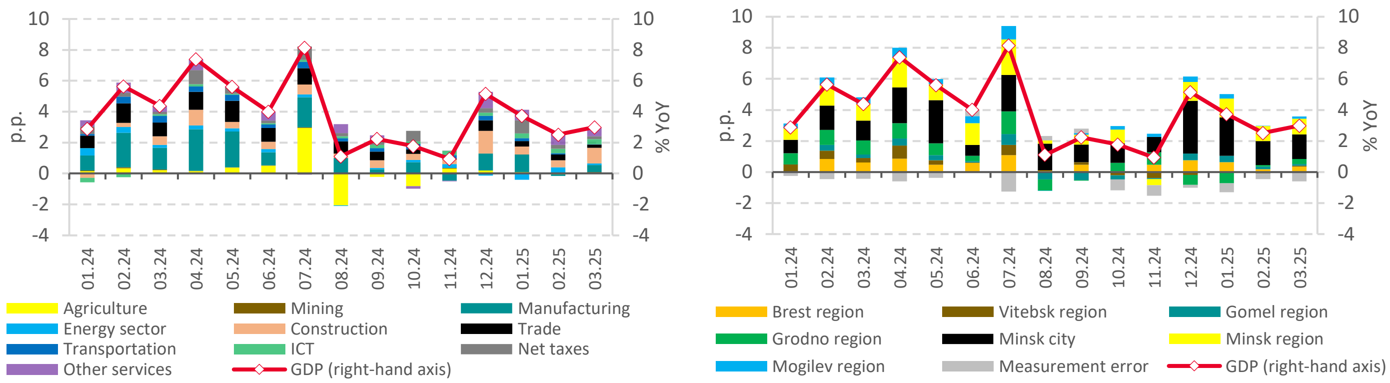
The industrial sector's value added grew by ≈2.1% YoY in March 2025 (≈1% YoY in February 2025)**, contributing ≈0.6 p.p. to annual GDP growth** (Fig. 2.a)

The rise in annual growth is associated with the "normalization" of its dynamics in March following the calendar effect in February (a result of the leap year in 2024). On a seasonally adjusted basis, output slightly declined in March relative to February (Fig. 3.a), primarily reflecting fluctuations in the energy sector due to climate conditions in the early months of the year. Output in manufacturing sectors remained broadly flat in February–March, staying close to the high level recorded in January 2025.

Overall, **in Q1-2025, industrial value added increased by ≈2.3% compared to Q4-2024** (seasonally adjusted)**, including a ≈2.5% increase in manufacturing.** As a result, quarterly output reached a historical maximum, exceeding the 2021 average by almost 9%, including a ≈9.6% increase in manufacturing. Simultaneously, there was a rapid buildup of inventories, with stock levels relative to production returning to the peak of recent years (Fig. 3.b). Considering the decline in wholesale trade turnover in recent months (Fig. 3.a) and the subdued dynamics of exports (Fig. 5.a), this points to weakening demand for Belarusian products in foreign markets. This is likely a consequence of heightened competition and slowing growth in the Russian market. As a result, maintaining high industrial output in Q1-2025 has been largely driven by over-optimal capacity utilization, which led to overstocking and an increase in the degree of overheating of the economy.

Figure 2. Structure of YoY GDP growth in Belarus

a) sectoral b) regional



Note: The estimates update once the data are verified. The energy sector includes the water supply subsector.

Freight turnover in March remained at the February level (seasonally adjusted)

Freight transportation demonstrated a modest recovery overall in Q1-2025, but due to the loss of a significant volume of transit, it lagged behind the 2021 average by nearly 38% in March 2025 (Fig. 3.a). The increase in passenger transportation contributed to a rise in the value added of the entire transport sector by ≈1.5% in Q1-2025 compared to Q4-2024 (seasonally adjusted).

The value added in the information and communications sector increased by ≈5.5% YoY in March (Fig. 1.a)**, contributing ≈0.3 p.p. to annual GDP growth** (Fig. 2.a)

Overall, in Q1-2025, the seasonally adjusted value added in the ICT sector rose by ≈2.1% compared to Q4-2024. The pace of recovery remained consistent with the previous period, and the gap relative to the 2021 average narrowed to ≈9.6% in Q1-2025.

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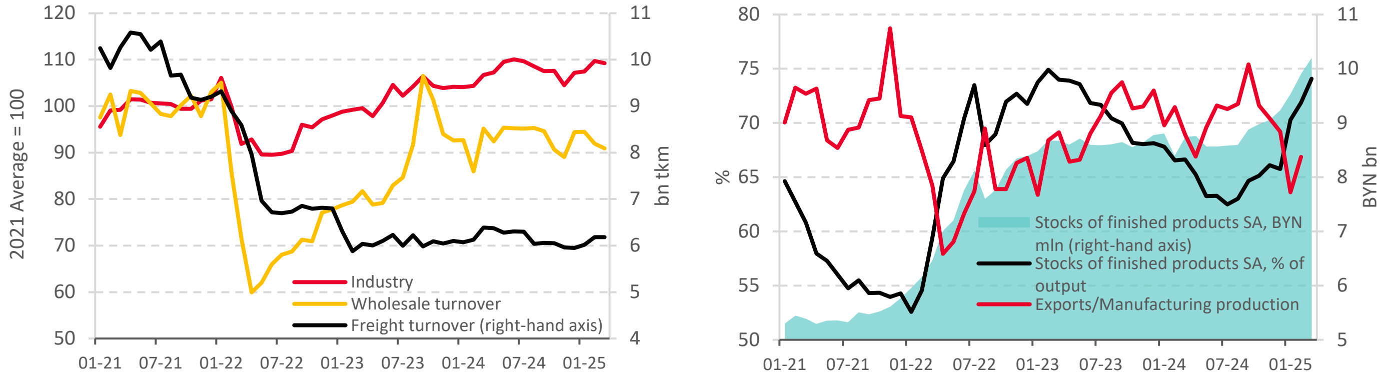
Figure 3. Dynamics of industrial output, wholesale trade and transport freight turnover

a) real output in industry (SA), real wholesale trade (SA) and freight turnover (SA) b) industrial stockpiles, and the ratio of goods exports to output



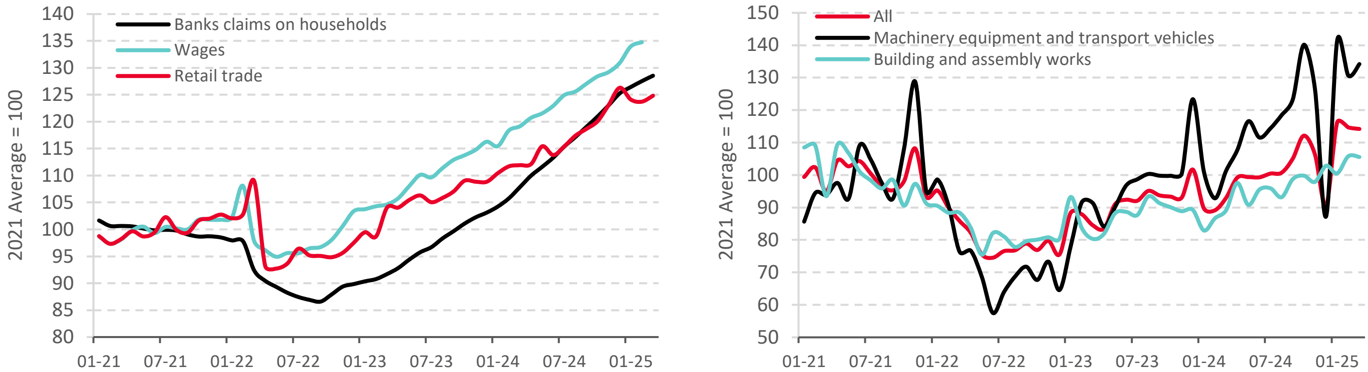
Note: SA is a seasonally adjusted indicator. The real volume of wholesale trade has been calculated by deflating the nominal volume by the wholesale trade price index. The real industrial output volume has been calculated based on the Belstat's Industrial Output Index in 2015 prices. The dynamics updates once new data are published.

Consumer demand increased in March, and overall in Q1-2025 its level may have exceeded the volume of the previous quarter by ≈3% (seasonally adjusted)

The nearly 1% increase in retail trade in March compared to February (seasonally adjusted) was of a corrective nature following subdued dynamics in the preceding months. After reaching a historic peak in December 2024, household consumption of goods remained extremely high, supported by wage growth amid labor shortages and fiscal stimulus, as well as elevated credit activity (Fig. 4.a). By the end of Q1-2025, total consumer expenditures of households on goods and services may have exceeded the 2021 average by more than 30% in real terms, while GDP exceeded it by ≈5.4%. The overheating of consumer demand did not subside and remained extremely severe. The National Bank's intention to curb the growth of household lending may slightly slow consumption. However, the effectiveness of this measure is debatable. Simultaneous expansion of investment lending will lead to income redistribution through wages, profits, and taxes. Combined with the persistent labor shortage, which drives wage growth, this will continue to sustain excess demand.

Figure 4. Retail trade and investment dynamics

a) retail trade, wages and lending (seasonally adjusted, in real terms) b) investment (seasonally adjusted, in real terms)



Note: Real retail trade volume is calculated by deflating nominal volume by the Consumer Price Index for goods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. Real investment indicators have been calculated by deflating nominal investment by construction price indices. The indicator dynamics updates once new data are published.

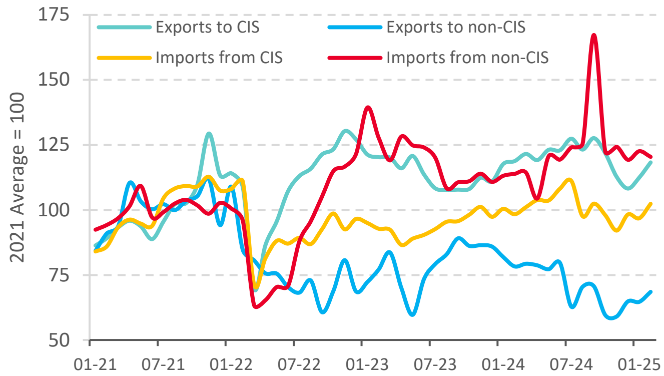
Investment remained close to February levels in March (seasonally adjusted)

Overall, investment increased significantly in Q1-2025 (Fig. 4.b). According to preliminary estimates, the volume of gross fixed capital formation grew by more than 5% in Q1-2025 compared to Q4-2024 (seasonally adjusted). This was supported by a ≈2% increase in value added in the construction sector during this period, as well as higher investment in the active component of fixed assets (Fig. 4.b). Maintaining high levels of output requires investment in the expansion of production capacity and improvements in labor productivity. Non-restrictive monetary conditions, increased government expenditures, and directive-based stimulation created a conducive environment for this process.

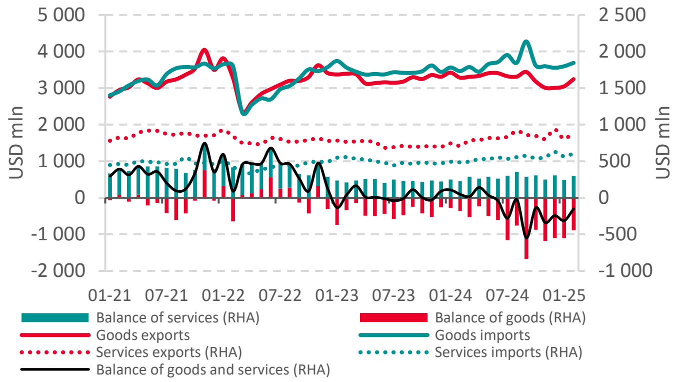
The effectiveness of investment remains in question. Despite a cumulative recovery in investment of 26% in 2023–2024, the share of profits in gross domestic product fell to a historical minimum of 35.3% in 2024 – equal to the level recorded in 2006. The National Bank's prioritization of investment credit stimulation may temporarily support investment growth, but at the cost of exacerbating economic overheating. While credit availability may help unlock the realization of investment potential, it cannot influence the potential itself, which is determined by political and economic institutions. The National Bank can, however, promote "healthy" investment growth and improvement in living standards by ensuring low and predictable inflation.

Figure 5. Dynamics of foreign trade indicators

a) value volumes of goods exports and imports (seasonally adjusted)



b) value volumes of foreign trade (seasonally adjusted)



Note: The indicator dynamics updates once new data are published.

The deficit in the foreign trade of goods and services (seasonally adjusted) narrowed from ≈$0.3 billion (≈5% of GDP) in January to ≈$0.15 billion (≈2.3% of GDP) in February 2025

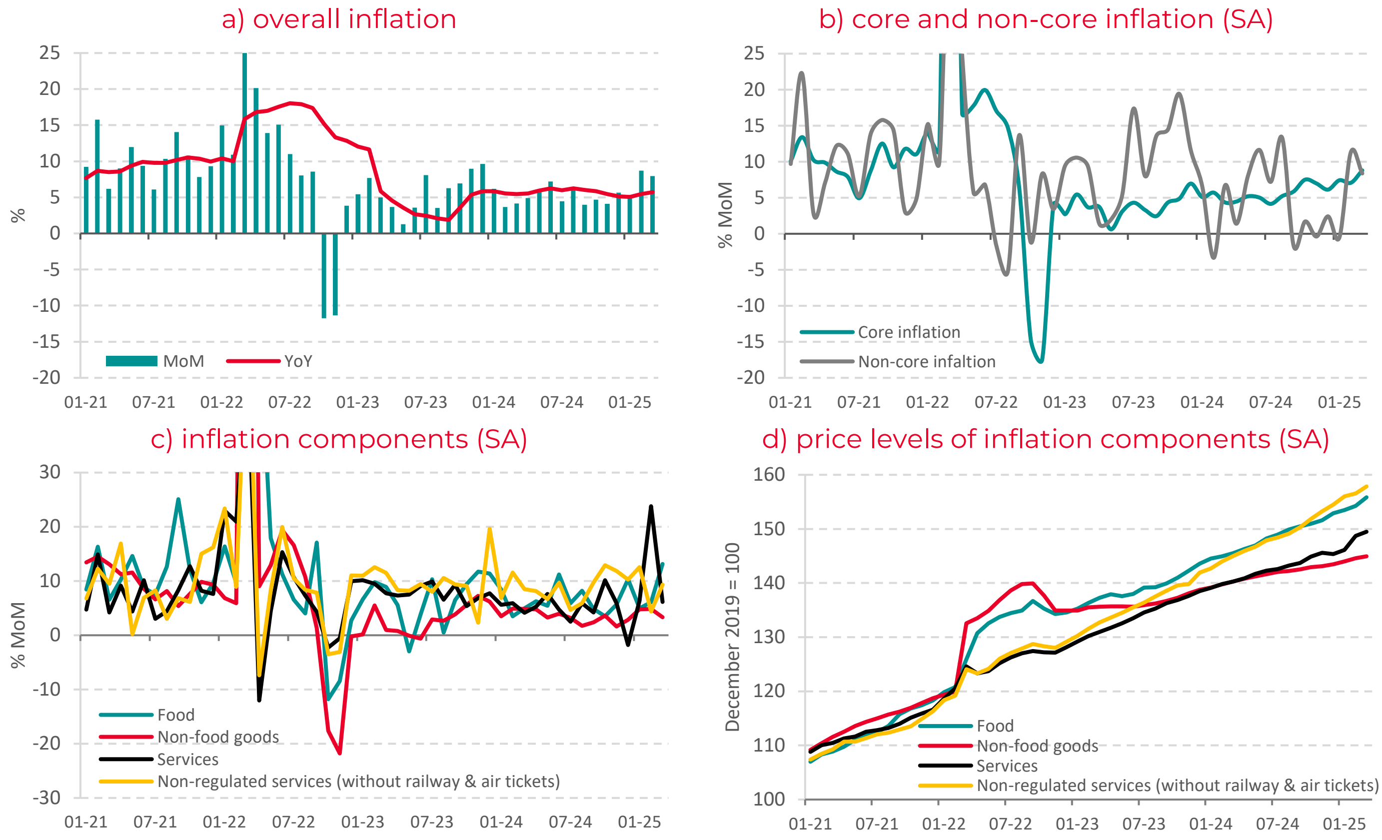
The trade deficit in goods (seasonally adjusted) decreased by ≈$0.1 billion, reaching ≈$0.45 billion (≈6.8% of GDP) in February 2025 (Fig. 5.b). This was driven by a faster growth in the nominal value of exports compared to imports. The increase in the dollar value of exports of goods was attributable to a partial recovery in petroleum product supplies, as well as to exchange rate revaluation effects due to the appreciation of the Russian ruble against the US dollar. However, the recovery in the value of exports to Russia and to countries outside the CIS remained incomplete (Fig. 5.a): petroleum product deliveries were still reduced, and the volume of goods sold in the Russian market in physical terms stagnated at lower levels compared to last year. The volume of goods imports remained elevated amid excessive domestic demand. Trade in services resulted in a surplus of ≈$0.3 billion (≈4.5% of GDP), which partially offset the trade deficit in goods (Fig. 5.b).

Overall, in Q1-2025, the deficit in the foreign trade of goods and services is expected to fall within 2–3% of GDP, which is significantly higher than the "normal" level for Belarus

The imbalance in foreign trade remained substantial in Q1-2025. This resulted in a net demand for foreign currency in the domestic market amounting to ≈$0.12 billion (seasonally adjusted), which was generated by transactions of resident firms that purchased foreign currencies on a net basis in the amount of ≈$0.55 billion (seasonally adjusted). Overheated domestic demand and weakening growth in demand from Russia create the conditions for a continued external trade deficit in the current year. The shift in the orientation of the National Bank toward an unconventional pro-cyclical monetary policy increases the risk that the negative trade balance may exceed earlier projections and end the year closer to 2% of GDP, or slightly higher. This is due to the fact that the import intensity of investments (which the National Bank seeks to stimulate through credit expansion) is broadly comparable to the import intensity of household consumption.

Inflation in March 2025 remained elevated relative to the 5% target: the annual indicator rose from 5.6% YoY in February to 5.9% YoY in March, while the annualized monthly price growth reached ≈8% MoM (seasonally adjusted; hereinafter – MoM; Fig. 6.a)

Figure 6. Inflation dynamics in Belarus



Note: YoY (year-on-year) is a monthly growth rate versus the corresponding month of the previous year; MoM (month-on-month) is an annualized monthly growth rate (seasonally adjusted) versus the previous month. SA is a seasonally adjusted indicator. The dynamics updates once new data are published.

Core inflation rose to nearly 9% MoM in March 2025 (Fig. 6.b)

The monthly increase in food prices more than doubled in March 2025, reaching ≈13% MoM (Fig. 6.c). This dynamic was driven by a spike in inflation within the dairy segment: prices for milk and dairy products increased by ≈41% MoM (a record rise in more than a decade), cheese by ≈12% MoM, and butter and fats by ≈17% MoM.

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It is likely that the authorities allowed producers and retail chains to sharply raise prices due to a significant disparity with prices in Russia, which had accumulated under strict price controls in Belarus. The substantially higher cost of dairy products in Russia encouraged Belarusian producers to prioritize exports. Prices for coffee, tea, confectionery, and fish also continued to increase at a significant pace in March, influenced by international market conditions.

Inflation in non-regulated services remained elevated, estimated at ≈9.3% MoM in March 2025 (excluding highly volatile international rail and air transportation; Fig. 6.c). The most "burdensome" market-based household services continued to rise at double-digit rates – ≈12% MoM in March. Excessive consumer demand and labor shortages remained key drivers of rising costs and prices in the services segment. Inflation in non-food goods remained subdued at ≈3.3% MoM in March. Price controls continued to limit the growth of non-food product prices, which led to the accumulation of inflationary overhang (Fig. 6.d).

Non-core inflation is estimated at ≈8.4% MoM in March 2025 (Fig. 6.b)

The dynamics of non-core inflation slowed compared to February, when utility tariffs had increased more sharply than usual. Despite the deceleration, inflation in the non-core segment remained high due to rising prices for fuel and urban transport services. March also saw a corrective increase in fruit and vegetable prices after two months of decline.

The government adjusted its price regulation policy toward limited easing in April

Just over one-third of the regulated product positions were deregulated, accounting for ≈10% of the consumer basket. Producers were granted the right to raise selling prices without prior approval from the authorities, provided the profitability of the product does not exceed its maximum level recorded between 2021 and 2024. The mechanisms for calculating trade markups on imported goods were also revised. These changes to the price regulation framework will contribute to more flexible pricing. However, their overall impact on inflation dynamics is expected to be limited. This is because only a small portion of the consumer basket was deregulated, while the ability of producers to raise prices remains constrained by directive trade markups. Further gradual easing of price regulation is likely.

The chances of inflation approaching the upper limit of the forecast range of 6–8% YoY or slightly higher by the end of the current year have increased due to the weakening position of the National Bank

Monetary conditions are expected to be looser compared to the previous forecast due to the National Bank's new priority of expanding credit for investment projects through credit rationing and restrictions on long-term lending rates for firms. As a result, excess demand in the economy is expected to be higher this year compared to earlier projections, pushing annual inflation toward the upper bound of the forecast range of 6–8% YoY with a significant probability of exceeding it.

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