## Express Analysis

Economic Activity and Inflation

June 2025

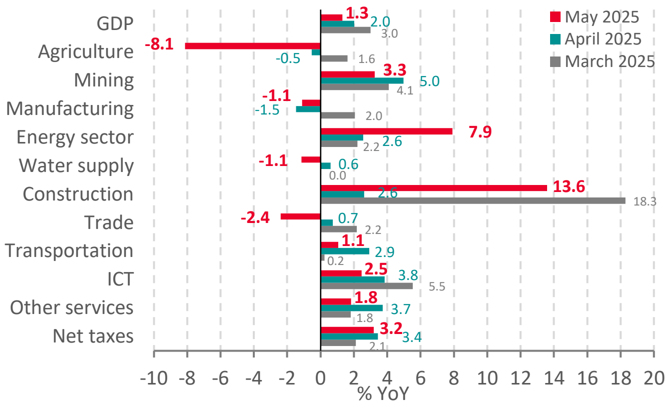
# Economic activity in Belarus remained near its historical peak in May 2025, significantly exceeding its balanced level

*Over the five months of 2025, GDP grew by 2.5% YoY, and in May separately – by ≈1.3% YoY (Fig. 1.a). The volume of GDP (seasonally adjusted) remained close to the level of April 2025 (Fig. 1.b). Strong consumer demand and increased investment activity supported output. A decline in exports and the high import intensity of domestic demand limited GDP growth. Difficulties in sales on foreign markets are indicated by a reduction in wholesale trade and an increase in industrial inventories. Their volume relative to production reached the peaks of the pandemic year 2020 (Fig. 3.b).*

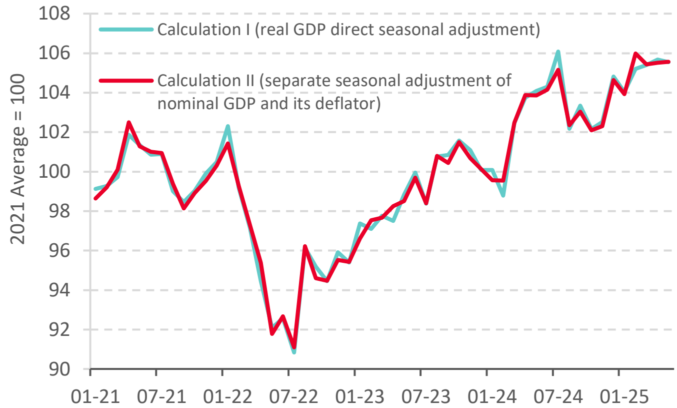
*Despite a slowdown in output dynamics during the spring months, its volume reached a new peak – the scale of economic overheating remained significant. Excess demand was reflected in increased inflationary pressure and a significant trade deficit in goods and services. Non-restrictive monetary policy and a substantial volume of budget expenditures continued to stimulate domestic demand, while the pace of output expansion was constrained by a shortage of labor and production capacity. In the summer months, the accumulated GDP growth will be in the range of 2–2.5% YoY.*

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)



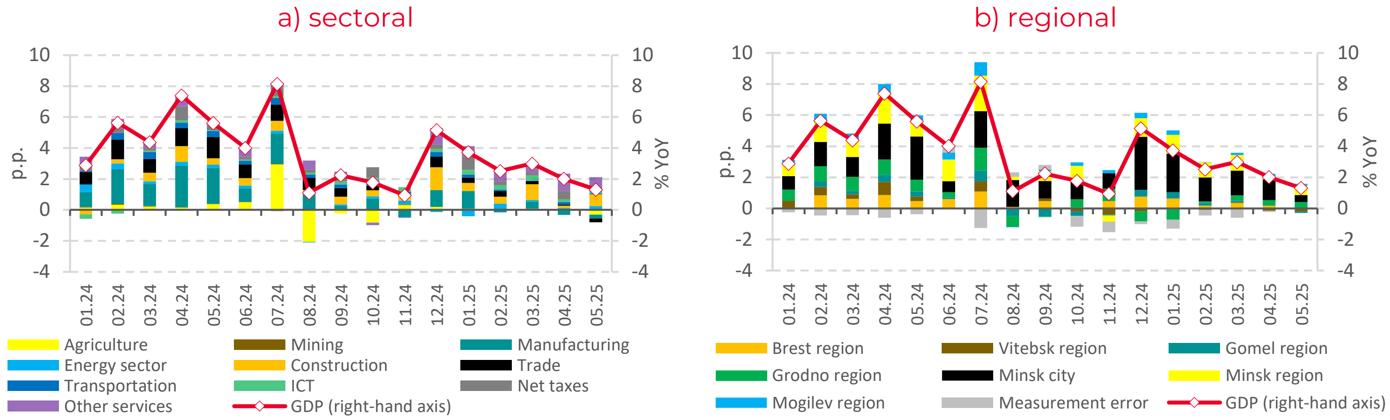

**Note:** The estimates update once the data are verified. Monthly GDP data are estimates.

**The industrial value added showed near-zero growth in May 2025 compared to May 2024: a decline in manufacturing sector by ≈1.1% YoY was offset by an increase in the energy sector by ≈7.9% YoY** (Fig. 1.a)

Industrial production volume (seasonally adjusted) grew by ≈1.4% in May compared to April 2025 (Fig. 3.a). This was due to increased energy generation under the cooler-than-usual temperature conditions of May 2025. **Seasonally adjusted output in the manufacturing sectors showed no growth in May 2025.** Regional dynamics indicate a sustained high volume of food production, partly stimulated by the depreciation of the Belarusian ruble against the Russian ruble, as well as production of potash fertilizers. The output of machinery and equipment likely weakened due to slowing demand growth in Russia, while oil refining remained low compared to the first half of 2024.

**Overall, since summer 2024, industry has followed a sideways trajectory** (Fig. 3.a). Output dynamics were volatile, but consistently surpassing the record production volume reached by mid-last year has not been achieved so far. Moreover, due to weakening demand for Belarusian products in the Russian market, even maintaining the current output level has been accompanied by inventory accumulation. Their volume in May 2025 reached the peaks of the pandemic year 2020 (Fig. 3.b). In an environment of labor shortages and no room for further capacity utilization, achieving industrial growth above 2–2.5% annually requires a strong increase in labor productivity. This cannot be sustainably achieved through loose monetary conditions. In the summer months, the accumulated industrial production growth will be close to 1% YoY.

Figure 2. Structure of YoY GDP growth in Belarus




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

**The value added in agriculture declined by ≈8.1% YoY in May 2025, which subtracted ≈0.3 p.p. from the annual GDP growth** (Fig. 2.a)

The sharp decline in agricultural production is associated with the negative impact of May's climatic conditions on the crop production sector. As of June 1, 2025, agricultural organizations had harvested ≈68% less feed than on June 1, 2024, and nearly 40% less than on June 1, 2023. In June, output in the sector will likely remain significantly below last year's level due to the early grain harvest in 2024. In the following months, the lag may begin to narrow, but uncertainty about the harvest size due to unstable weather conditions remains high.

**Wholesale trade and freight transportation declined in May 2025**

Wholesale turnover fell by ≈1.4% compared to April 2025 (seasonally adjusted), and by 9.4% YoY compared to May 2024 (Fig. 3.a). The significant shortfall relative to last year's volumes points to weakness in oil refining and restrained physical export volumes to Russia.

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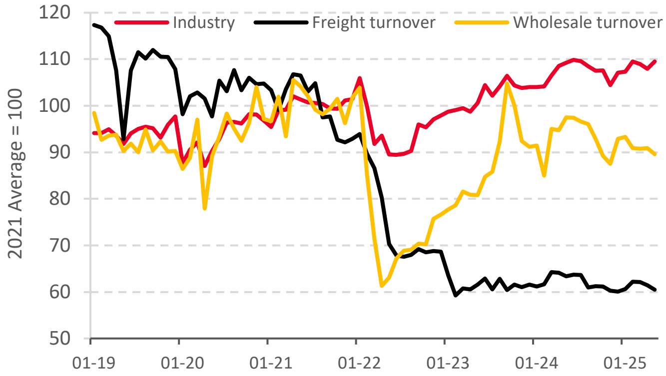
Freight turnover in May decreased by ≈1.6% compared to April 2025 (seasonally adjusted) and remained near multi-year lows (Fig. 3.a). At the same time, thanks to growth in passenger transportation, the value added in the transport sector as a whole increased by ≈1.1% YoY in May 2025 (Fig. 1.a).

**Growth in the value added of the information and communication sector slowed from ≈3.8% YoY in April to ≈2.5% YoY in May 2025** (Fig. 1.a)

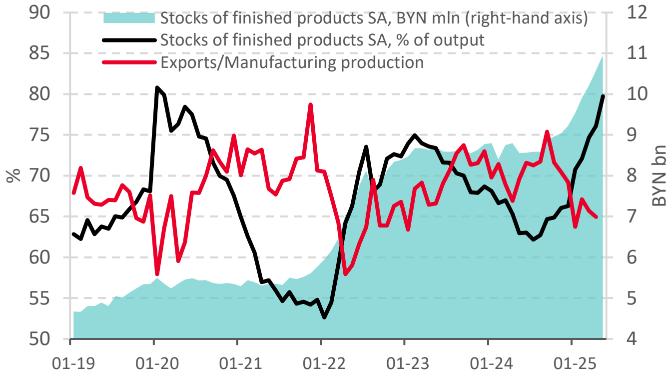
The sector's contribution to annual GDP growth declined to ≈0.1 p.p. in May 2025 (Fig. 2.a). The moderate recovery in the ICT sphere somewhat stalled in Q2-2025.

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 remained elevated in May**

Retail turnover remained close to the high level of April 2025 (seasonally adjusted). Overall, in the first half of the current year, goods consumption fluctuated near the peak reached at the end of 2024 (Fig. 4.a). Demand dynamics for goods weakened amid a slowdown in household lending, but the level remained high – more than 24% above the 2021 average in real terms (Fig. 4.a). Net foreign currency sales by the population, the absence of accelerated inflows into term ruble deposits, and elevated inflation in the segment of unregulated services amid notable wage growth may indicate increased consumption of services. As a result, consumer demand remained excessive relative to production capacity, stimulating import growth and accelerating price increases in the domestic market.

**Investments continued to grow in May in both construction work and purchases of machinery and equipment** (Fig. 4.b)

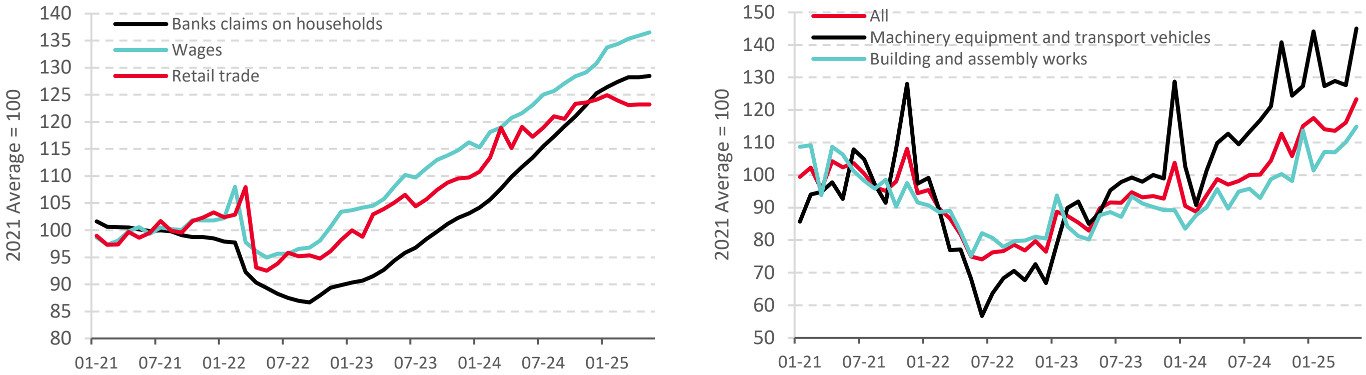
High budget spending and eased price conditions for lending supported investment activity. However, the efficiency of investments remains questionable: their rapid growth in 2024 and the first five months of 2025 was accompanied by a much smaller increase in GDP. It is likely that in the context of increased competition in the Belarusian and Russian markets, the current level of capital investment – which, relative to GDP, is roughly equal to the 2019 level – will help maintain the current high output volume. However, to ensure economic growth above 2% annually amid a labor shortage, further intensification of investment activity and increased labor productivity based on that is required.

Improving investment effectiveness requires not monetary policy easing, but institutional reforms. In an inflationary environment, current interest rates on long-term ruble loans to firms – around 11–12% – do not constrain investments in efficient business projects, and rather become somewhat stimulative due to their decline in real terms.

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.

## The trade deficit in goods narrowed in April 2025

The negative trade balance (seasonally adjusted; based on Belstat data) decreased by ≈$80 million compared to March, reaching ≈$420 million (≈5.9% of GDP) in April 2025 (Fig. 5.b). The value of goods imports declined more significantly than exports – by ≈$120 million and ≈$40 million respectively (seasonally adjusted). Deliveries of products from the CIS decreased by ≈$140 million in April compared to March, likely due to a drop in prices and volumes for oil imported from Russia (Fig. 5.a). Imports of goods from non-CIS countries slightly increased in April amid excessive domestic demand in Belarus. Compared to April of the previous year, the value of both consumer (by ≈35% YoY) and investment (by ≈11% YoY) imports rose significantly.

Exports of goods to non-CIS countries, largely determined by shipments of petroleum products produced from Russian oil, also declined – but to a lesser extent than imports from the CIS – by ≈$65 million in April compared to March (Fig. 5.a). Possibly, increased potassium deliveries partially offset the drop in petroleum product exports. The dollar value of exports to the CIS slightly increased in April, likely reflecting a revaluation effect due to the strengthening of the Russian ruble against the dollar.

## The trade deficit in goods and services, despite narrowing in recent months, remained above the near-zero “norm” and has a high likelihood of settling around 2% of GDP if expansionary economic policies persist and the Russian economy continues to slow

The imbalance in the external trade position poses risks of the foreign exchange market balance shifting toward moderate net demand for foreign currency. In April–May, this factor was temporarily offset by increased volumes of foreign currency revenue sales by enterprises, likely due to the weakening of the Belarusian ruble against the Russian ruble. A more stable compensatory mechanism is the net supply of foreign currency by households.

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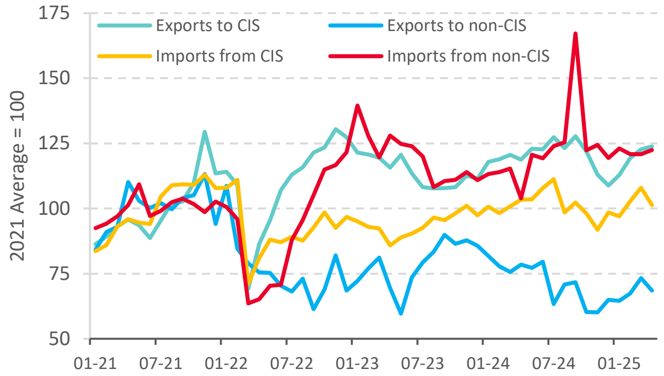
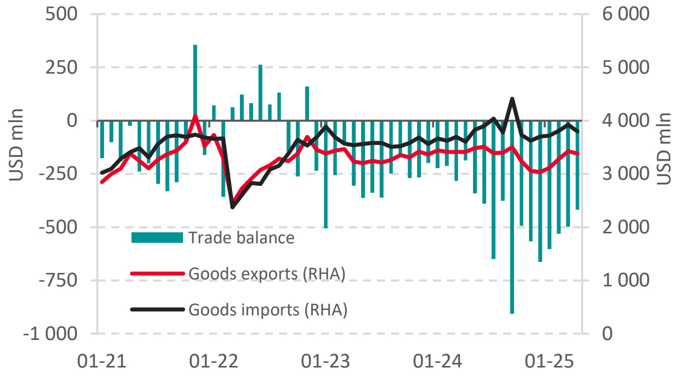
If the Russian ruble does not continue strengthening against the US dollar, a gradual decrease in net household foreign currency supply is likely, potentially transitioning to moderate net demand, which would correspond to a depreciation of the Belarusian ruble against the currency basket by 4–6% over the year. The historically high volume of gold and foreign exchange reserves provides a buffer to smooth out potential fluctuations in the FX market should extraordinary negative shocks materialize.

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.

**Inflation continued to rise in May: the annual rate rose from 6.5% YoY in April to 7.1% YoY in May, while the annualized monthly price growth reached ≈11–12% MoM** (seasonally adjusted; hereafter – MoM; Fig. 6.a)

**Core inflation became double-digit for the first time since August 2022 – ≈10.5% MoM in May 2025** (Fig. 6.b). Food prices surged sharply by ≈18.8% MoM in May (Fig. 6.c). The acceleration in food inflation is partly due to a significant increase in fruit and vegetable prices, which are not included in the core consumer price index. However, other food products also saw rapid price growth, including meat and meat products, fish and seafood, milk, dairy products and cheeses, butter, cereals, confectionery, coffee, and catering. Elevated domestic demand, the weakening of the Belarusian ruble against the Russian ruble, and the sharp rise in food prices in Russia are all pro-inflationary factors.

**Inflation in unregulated services is estimated at nearly 12% MoM in May 2025** (excluding highly volatile international rail and air transportation; Fig. 6.c). Excess demand in the Belarusian economy and significantly increased labor costs continued to push market service prices upward. In contrast, inflation in non-food goods remained low – around 3% MoM in May, where price controls remain effective. Additionally, the strengthening of the Belarusian ruble against the US dollar and the yuan may have restrained the price growth of imported non-food goods. The accumulated price gap between unregulated services and non-food goods reached nearly 10% in May (Fig. 6.d).

**Non-core inflation rose to ≈13.6% MoM in May 2025** (Fig. 6.b)

The increase in non-core inflation is linked to the acceleration of price growth for fruits and vegetables, estimated at over 50% MoM in May 2025. In certain items, a demand-supply imbalance is evident, meaning price pressures may persist until the arrival of the new harvest (assuming it is sufficient). Government-regulated prices increased by ≈8% MoM in May.

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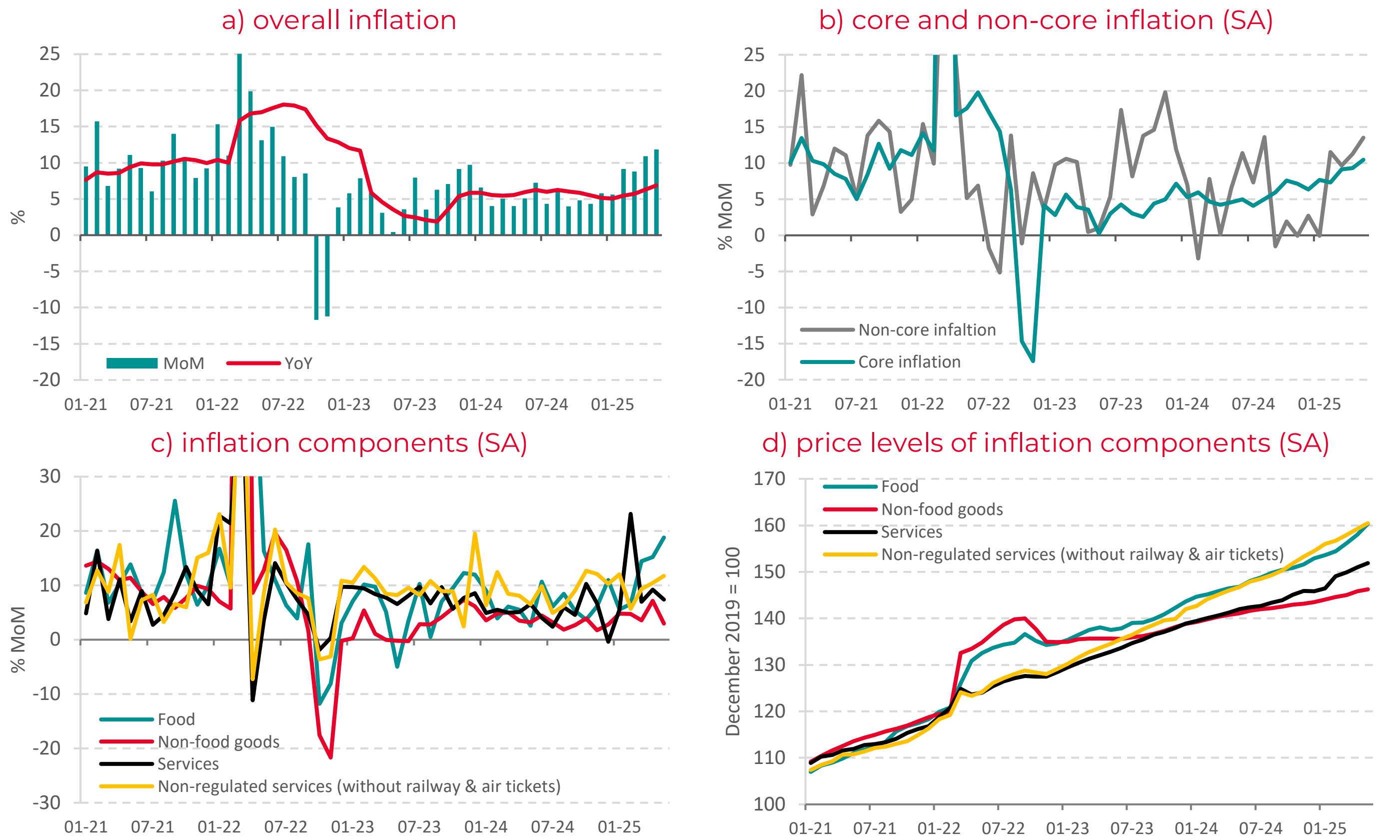
Figure 6. Inflation dynamics in Belarus




**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.

**In the summer months, the annual growth in consumer prices will remain within the 7–8% YoY range. Inflation is following a trajectory toward the upper bound of the baseline forecast of 7–9% YoY by the end of 2025**

Inflation is likely testing the upper limits that the authorities are willing to tolerate in the short term to stimulate GDP growth through loose economic policy. For instance, price controls on meat, dairy, and confectionery products were tightened again as of June 20, and on June 23 the National Bank decided to raise the refinancing rate by 0.25 p.p. to 9.75%. The rate hike occurred despite recent statements by the National Bank's governor deeming the current deviation of inflation from the 5% target acceptable, and by the first deputy governor about the expected decline in short-term deposit rates and the acceptable level of long-term deposit rates.

**The direction of the National Bank's decision – raising the refinancing rate – corresponds to the current state of the economy, which is characterized by overheating and strong inflationary pressure.** However, this decision came too late and, in terms of scale, is more "symbolic" – due to accelerating inflation, the rate declined in real terms. Since the National Bank did not raise the overnight deposit rate, and continues the current practice of exclusively conducting liquidity support auctions for banks (even amid a significant surplus of liquidity in the banking system), the interbank market rate will remain low (around 4–6%), and the transmission of the refinancing rate increase into lending and deposit rates will be weak.

**At the same time, the National Bank raised the estimated values of standard risk by 0.92 p.p. for household loans, by 0.35 p.p. for term irrevocable deposits of individuals, and by 0.37 p.p. for loans to firms with a maturity of up to 3 years. For loans to firms with a maturity of more than 3 years, it reduced the estimated value of standard risk by 0.17 p.p.** This divergent adjustment of risk values confirms the National Bank's focus on stimulating investment while aiming to "cool" consumer demand. However, a potential decrease in rates for long-term corporate loans, alongside a likely small increase (or stability) in rates for deposits, consumer loans, and short-term corporate loans, may discourage banks from increasing supply of loans with maturities over 3 years. Since these account for only about 5% of corporate loan issuance, and loans overall finance just over 10% of capital investment, the cumulative effect of the National Bank's measures on investment demand is expected to be neutral or slightly restraining. Unpredictable and contradictory monetary policy may lead to higher and more persistent inflation expectations, complicating investment planning and forecasting, and creating risks of reduced monetary policy effectiveness.