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Monetary Environment Review

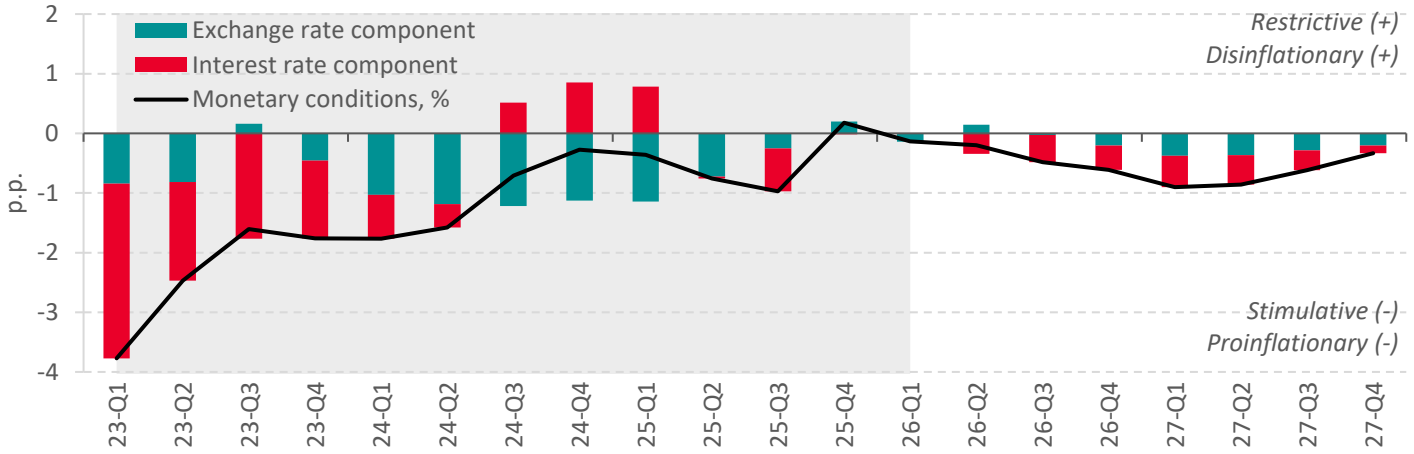
Q1 2026

Monetary conditions remained non-restrictive in Q1-2026 and are expected to be moderately accommodative in the second half of the year

The National Bank maintained its focus on stimulating economic activity at the beginning of the current year and relied on strict price controls by the government to contain inflation. Accommodative monetary policy was reflected in maintaining a negative real interbank market rate and yields on corporate deposits below their neutral level. The average interest rate on ruble-denominated loans declined in nominal terms in Q1-2026, but still slightly exceeded its equilibrium real value amid elevated uncertainty about economic prospects. As a result, the overall state of interest rates in the credit and deposit market was close to neutral in Q1-2026, while the Belarusian ruble exchange rate remained near equilibrium **(Fig. 1)**.

The non-restrictive nature of monetary conditions in an environment of high fiscal expenditure was accompanied by accelerated growth of the money supply and an increase in the money overhang in Q1-2026. A high share of ruble savings by households largely mitigated the inflationary consequences of unbalanced money supply growth. The expected inflation path of around 6–7% YoY this year and modest GDP growth of about 1% YoY leave the National Bank with room to ease monetary conditions **(Fig. 1)**. However, the need to maintain high household savings rate to ensure foreign exchange market stability limits the scope for interest rate cuts.

Figure 1. The nature of monetary conditions in the Belarusian economy



Source: calculations are based on the Quarterly Projection Model (QPM) for Belarus.
Note: monetary conditions are estimated as a combination of deviations of real interest rates on the Belarusian ruble assets and of the real effective Belarusian ruble exchange rate from their equilibrium levels. Positive monetary condition values indicate their restraining-economic-activity and disinflationary nature, and negative monetary condition values indicate their stimulating and pro-inflationary nature. We use one of the ways to assess monetary conditions, the results of which depend on the chosen type of the macroeconomic model (QPM) and its specification. We are aware of the limitations of the approach applied.

The Monetary Environment Review Bulletin presents an expert analysis of the monetary and foreign exchange rate policies and the resulting monetary conditions in the Belarusian economy. The bulletin reviews the actions under the monetary and exchange rate policies, their impact on the economy, the nature of monetary conditions, and provides their short-term forecast. The methodological basis for the analysis is the Quarterly Projection Model (QPM) for the Belarusian economy.

Monetary policy: measures, direction, nature

Monetary policy remained accommodative in Q1-2026

The refinancing rate was kept at 9.75% in January–April 2026 (Fig. 2.a). At the same time, the National Bank reduced the estimated values of standard risk (EVSR) several times for loans to businesses and households, as well as for term deposits of individuals – in total, EVSR declined by up to 1 p.p. since the beginning of the year. The National Bank continued not to withdraw excess liquidity from banks through auctions, which supported a low nominal interbank market loans (IBL) rate – "sticky" to the overnight deposit rate – averaging 4.2% in Q1-2026 (Fig. 2.b).

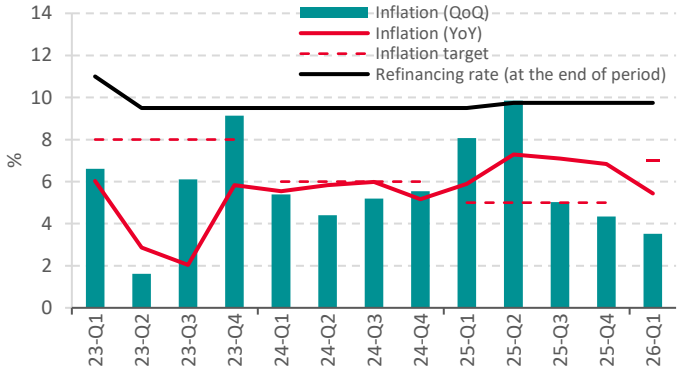
In real terms, the IBL rate remained negative – below its neutral level (Fig. 2.c). The National Bank maintained a non-standard approach to monetary regulation, aimed at supporting investment activity with a high tolerance for inflation. The decline in GDP and investment in Q1-2026, along with continued strict price controls by the government, allowed the National Bank to maintain an accommodative monetary policy stance despite unbalanced money supply growth and the presence of an inflationary overhang.

A significant excess of liquidity in the banking system supported a low level of the average interest rate on ruble deposits

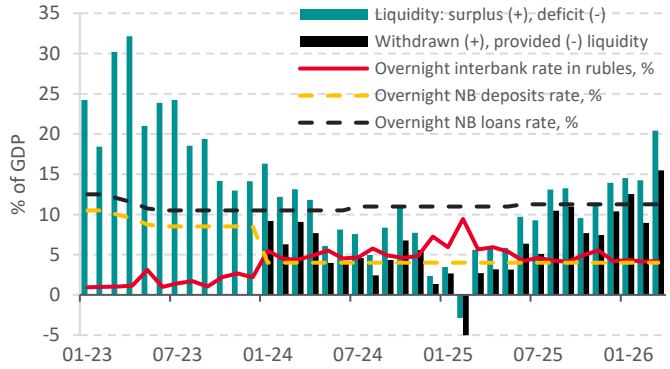
The average nominal rate on new term ruble deposits remained at 6.6% in Q1-2026 (Fig. 3.a).[iii] The yield on corporate deposits remained extremely low at 6.4%. The interest rate on household deposits declined by 1 p.p. to 11.6% in Q1-2026. It still significantly exceeded corporate deposit yields, partly due to administrative influence by the National Bank on banks. The high rate on household deposits supported a record level of ruble savings by households (Fig. 3.b), which "absorbed" the money overhang accumulated due to unbalanced money supply growth in recent years.

Figure 2. Dynamics of monetary policy indicators

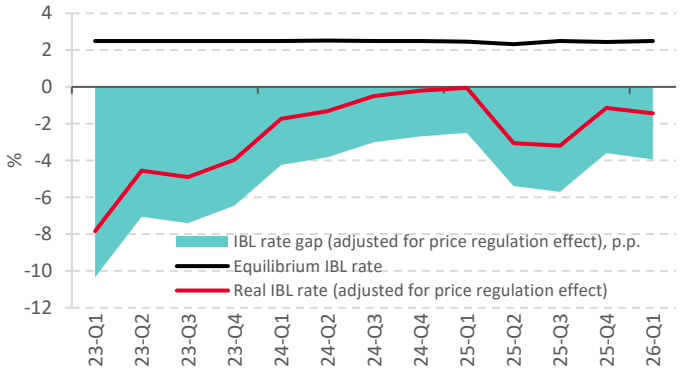
a) refinancing rate and inflation



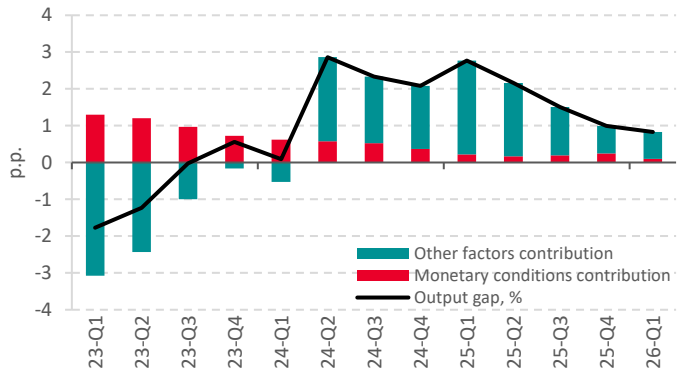
b) banking system liquidity



c) real and equilibrium interbank rate[i]



d) contribution of monetary conditions to the output gap



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.[ii]

The real average interest rate on term ruble deposits remained slightly below its neutral level in Q1-2026 (Fig. 3.d)

The accommodative stance of banks' deposit policy was concentrated in the corporate segment, while return on household deposits slightly exceeded its equilibrium level.

The transmission of accommodative monetary policy to lending rates remained weak

The average nominal interest rate on new market ruble-denominated loans decreased by 0.2 p.p. to 11.4% in Q1-2026 (Fig. 3.a).[iv] The spread between lending and deposit rates averaged 4.8 p.p. in Q1-2026, compared to an estimated equilibrium level of around 2 p.p. This divergence indicates that accommodative monetary policy had a limited effect on borrowing costs. Banks likely aimed to maintain elevated lending rates amid slowing economic growth and weaker prospects for expanding output and profits in the real sector.

The real average interest rate on market ruble-denominated loans slightly exceeded the neutral level in Q1-2026 (Fig. 3.c)

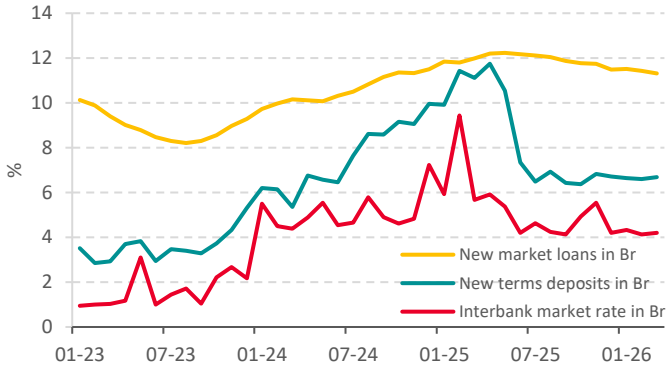
Due to the National Bank's differentiated approach to regulating the credit market, higher borrowing costs were typical for household loans (excluding installment-based lending) and, to some extent, for short-term corporate loans. At the same time, in the segment of long-term lending with maturities exceeding three years, interest rates were not restrictive.

As a result, the overall impact of credit and deposit market interest rates on economic activity and inflation was close to neutral in Q1-2026 (Fig. 2.d)

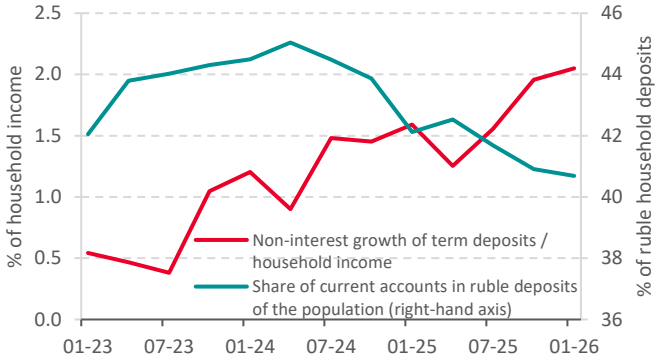
The neutral stance of interest rates implies that, on average, their level is consistent – under strict price controls and other equal conditions – with achieving the inflation target of 7% in 2026 and 6% in 2027. However, the National Bank's reliance on non-standard instruments for interest rate regulation creates imbalances in certain segments, reduces the predictability of the regulator's actions, and weakens confidence in long-term planning.

Figure 3. Interest rates on Belarusian ruble new market loans and fixed-term deposits

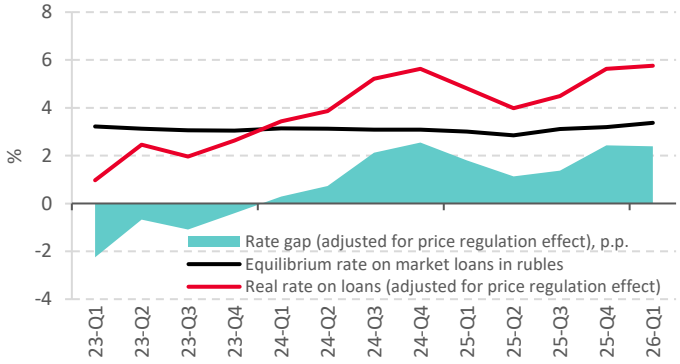
a) average nominal interest rates



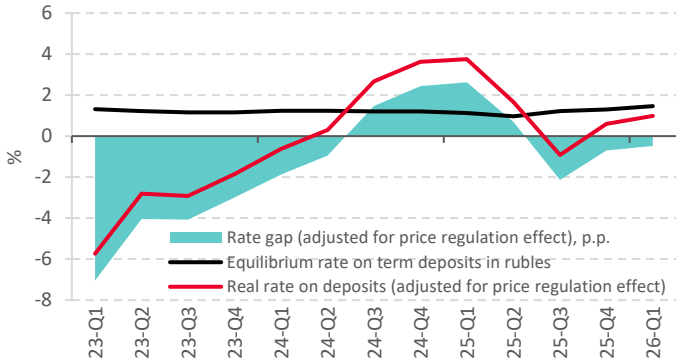
b) deposits in Br and household income



c) real interest rate on new market loans



d) real interest rate on new fixed-term deposits



Source: calculations based on the data from Belstat, the National Bank, QPM.
Note: real interest rates have been calculated based on average nominal interest rates for businesses and households (according to the National Bank data) and the expected annual inflation in the next quarter (QPM-based). Interest rates are averaged over the period. Income is seasonally adjusted.

Exchange rate policy: measures, direction, nature

The Belarusian ruble strengthened slightly against the currency basket in Q1-2026

On average in Q1-2026, the value of the basket of three foreign currencies (Russian ruble, US dollar, and Chinese yuan) decreased by 0.2% compared to Q4-2025 **(Fig. 4.a)**. Exchange rate fluctuations against individual foreign currencies were largely driven by movements in their cross-rates in external markets: on average in Q1-2026, the Belarusian ruble appreciated by 1.9% against the US dollar and depreciated by 0.4% and 0.9% against the Russian ruble and the yuan, respectively.

The ruble's appreciation was driven by net foreign currency supply of ≈$70 million in Q1-2026

The National Bank purchased the corresponding amount of foreign currency, issuing about Br0.2 billion. These purchases contributed to an increase in foreign exchange reserves (FX reserves), which grew by $0.8 billion in Q1-2026. However, the main driver of this increase was the rise in global gold prices: the value of monetary gold in the reserves increased by $0.5 billion in Q1-2026. As a result, FX reserves reached a new high of $15.2 billion at the beginning of Q2-2026, equivalent to about 3.3 months of imports of goods and services **(Fig. 4.b)**.

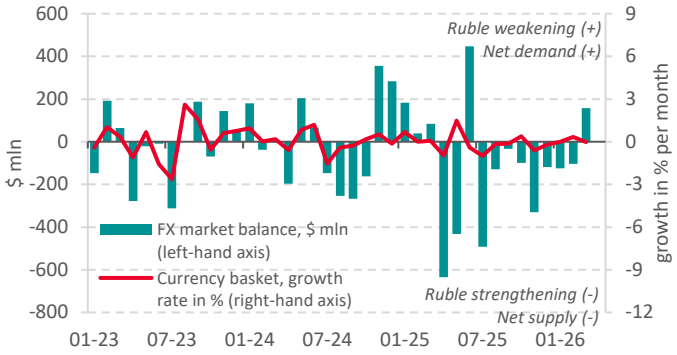
The adequacy of FX reserves relative to the composite indicator of foreign currency outflow risks (ARA metric with capital flow restrictions) is estimated at over 120% at the beginning of Q2-2026. A substantial buffer has been accumulated to smooth the effects of severe negative shocks to the foreign exchange market if they materialize.

In real effective terms, the ruble is estimated to be close to equilibrium in Q1-2026

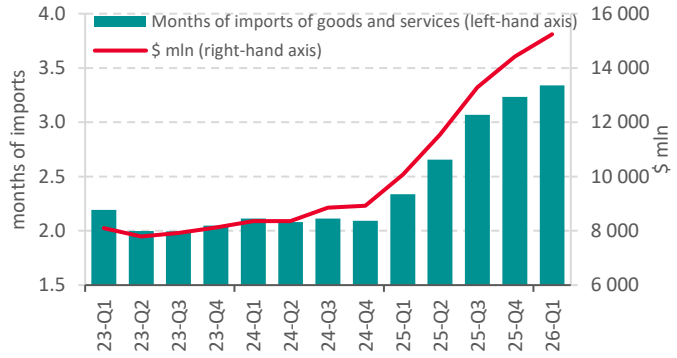
In real terms, the national currency slightly depreciated amid slowing inflation in Belarus and accelerating inflation in Russia in Q1-2026 **(Fig. 4.c)**. As a result, the ruble moved out of the area of slight overvaluation, and its real effective exchange rate formed close to the equilibrium level in Q1-2026 **(Fig. 4.d)**.

Figure 4. Indicators of the Belarusian currency market

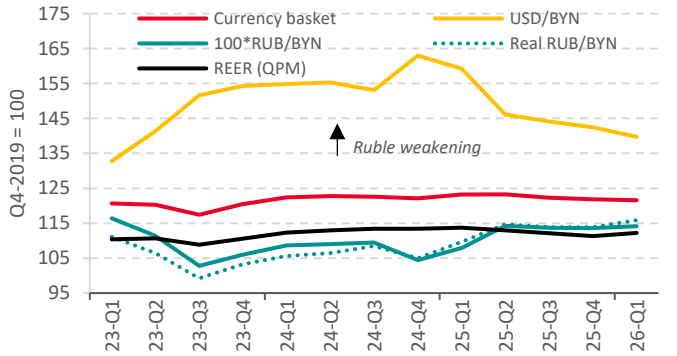
a) currency market and foreign currencies basket



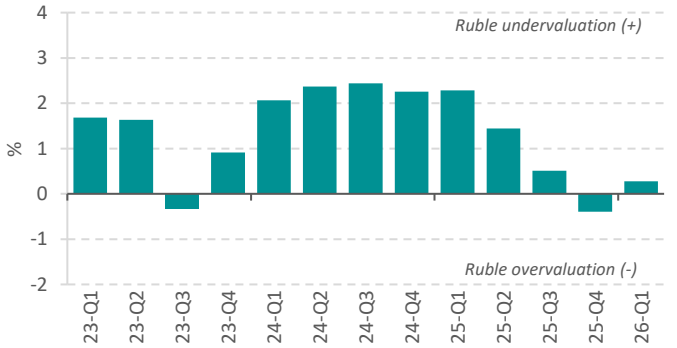
b) reserve assets (at the end of the period)



c) Belarusian ruble exchange rates



d) real effective exchange rate gap



Source: calculations based on the data from the National Bank, QPM.
Note: figure 4.a illustrates the basket of 3 currencies (US dollar, euro and Russian ruble) from January 2019 to June 2022, and the basket of 4 currencies (US dollar, euro, Russian ruble, and Chinese yuan) from July 2022 to December 2022, and the basket of 3 currencies (US dollar, Russian ruble, and Chinese yuan) from January 2023 onwards. REER is the real effective exchange rate. 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.

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.

Households remained the main suppliers of foreign currency in the domestic market

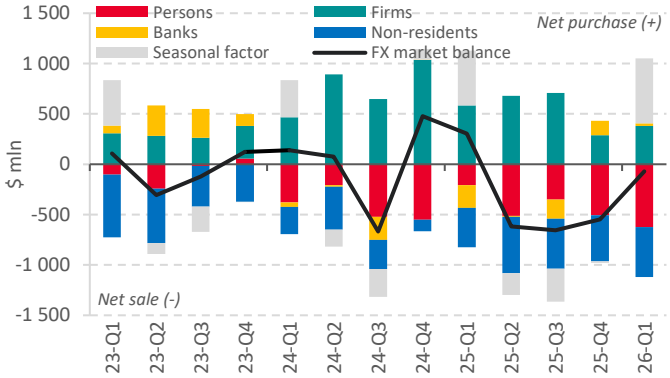
Individuals sold more than $0.6 billion on a net basis in Q1-2026 (seasonally adjusted; **Fig. 5.a**). This is a record quarterly volume since 2016. Household behavior in the foreign exchange market is explained by high yields on term ruble deposits and limited opportunities to accumulate savings in foreign currency in a sanction's environment. Thus, the non-interest increase in household ruble term deposits in Q1-2026 reached the highest level in more than ten years, even with a 1 p.p. decline in the average interest rate. The stability of the foreign exchange market will largely depend on whether the National Bank can maintain high interest rates on household deposits while pursuing accommodative monetary policy and low-cost investment lending.

Non-residents sold $0.5 billion on a net basis in Q1-2026 (Fig. 5.a), providing substantial support to the Belarusian ruble

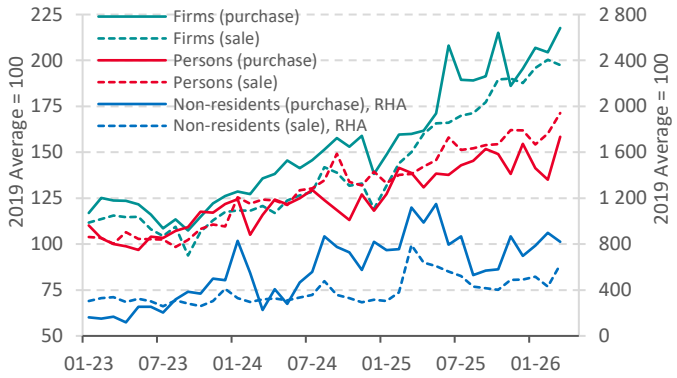
The dynamics of net foreign currency supply by non-residents correlate with developments in foreign trade in services, whose surplus increased significantly in the second half of 2025 – Q1-2026. At the same time, the lifting of US sanctions on the Ministry of Finance of Belarus may lead to increased foreign currency purchases by non-residents in Q2–Q4 2026, as they are likely to gain greater ability to convert and repatriate proceeds from Eurobonds.

Figure 5. State of the foreign exchange market

a) foreign exchange market balance (seasonally adjusted segments)



b) dynamics of buying and selling foreign currency (seasonally adjusted)



Source: calculations based on the data from the National Bank.
Note: the X13 procedure in the JDemetra+ app has been applied to make a seasonal adjustment. As new data are published, the dynamics of the indicators for the previous periods is updated.

Resident firms maintained net demand for foreign currency in Q1-2026

Firms purchased nearly $0.4 billion more foreign currency than they sold in Q1-2026 **(Fig. 5.a)**. The deficit in foreign trade in goods drove firms' net demand for foreign currency. However, since the overall balance of foreign trade in goods and services is estimated to be close to 0% of GDP in Q1-2026 (according to preliminary seasonally adjusted estimates), the scale of firms' net purchases of foreign currency did not pose a threat to the Belarusian ruble and was more than offset by foreign currency sales from households and non-residents.

Credit and deposit markets

Credit activity declined in Q1-2026, but remained at a high level

The volume of loans issued relative to GDP slightly decreased in Q1-2026 and stood at around 75% (Fig. 6.a). The credit impulse is estimated to be slightly negative in Q1-2026 (Fig. 6.b). Despite the slowdown in new lending dynamics, its volume remained high – in 2017–2021 it averaged 61% of GDP. Thus, bank lending continued to support an elevated level of domestic demand (relative to the balanced level; Fig. 2.d), but did not lead to an acceleration in its growth.

The decline in credit activity at the beginning of the year was observed in the public sector

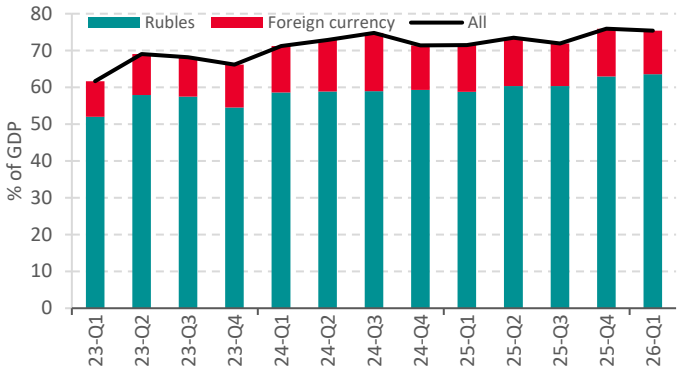
It may have been corrective in nature following a significant increase in lending to state-owned enterprises at the end of last year (Fig. 6.b). The influence of weaker investment and production activity in Q1-2026 and uncertain prospects for their recovery this year also cannot be ruled out. In the private sector, the volume of loans issued continued to grow for both households and businesses (Fig. 6.b). Overall, the non-restrictive nature of monetary conditions supported private sector business activity, including lending.

Growth in credit debt slowed in Q1-2026 after accelerating at the end of 2025

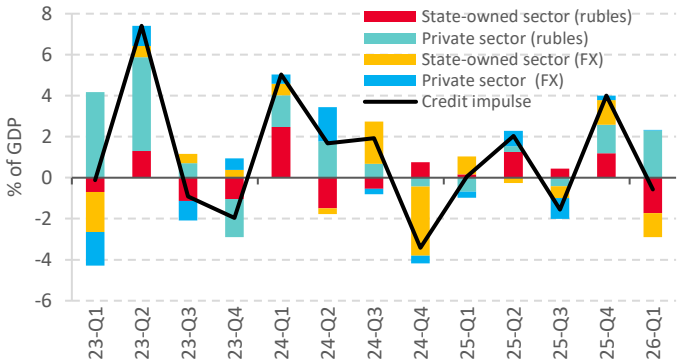
As with lending volumes, the slowdown in debt dynamics was observed in the public sector (Fig. 6.c; Fig. 6.d). The private sector's credit portfolio declined only in its foreign currency segment, while ruble-denominated debt continued to grow steadily (Fig. 6.c; Fig. 6.d). The growth rate remained more moderate compared to 2023–2024 levels, partly due to directive restrictions by the National Bank on expanding banks' retail loan portfolios.

Figure 6. Lending indicators

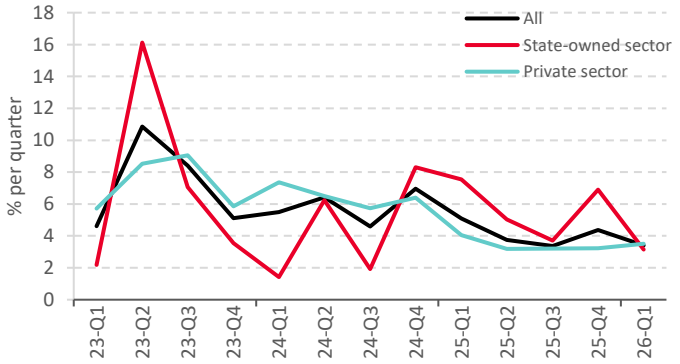
a) volume of new loans issued



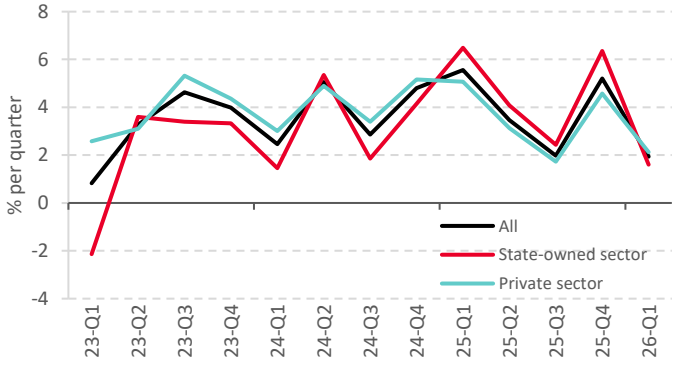
b) credit impulse



c) increase in debt on all loans



d) increase in debt on loans in Br



Source: calculations based on the data from Belstat, the National Bank.
Note: all indicators are seasonally adjusted; as new data are published, the dynamics of the indicators for the previous periods is updated. The credit impulse (ci_t) has been calculated as follows: $ci_t = 100 * \left(\frac{cr_t}{ngdp_t} - \frac{cr_{t-1}}{ngdp_{t-1}}\right)$, where cr_t is the seasonally adjusted scope of newly issued loans during period t; $ngdp_t$ is the seasonally adjusted volume of the nominal GDP during period t.

Money supply continued to grow at a high pace in Q1-2026

Broad money (M3) increased by ≈4.4% on average in Q1-2026 compared to the average of Q4-2025 in nominal terms, or by ≈3.5% in real terms (seasonally adjusted; **Fig. 7.b**). In annualized terms, these rates correspond to growth of 18.6% in nominal terms and 14.7% in real terms. These are extremely high values given the economy's growth potential of 1–2% per year.

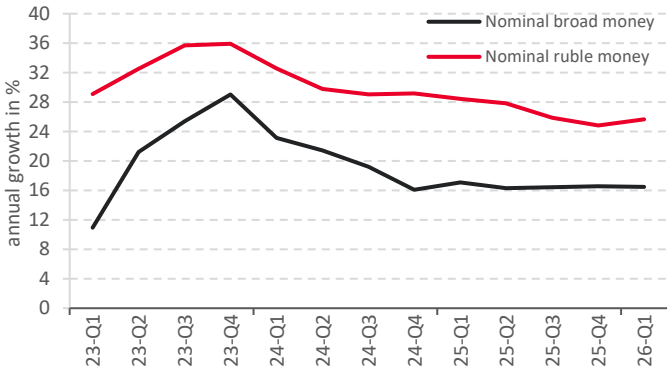
Compared to the previous period, M3 growth accelerated due to faster growth of its ruble component **(Fig. 7.c)**. Ruble money supply (M2*) increased by ≈6.4% on average in Q1-2026 compared to the average of Q4-2025 in nominal terms, or by ≈5.5% in real terms (seasonally adjusted; **Fig. 7.b**). Non-restrictive monetary conditions and high fiscal expenditures (which, in terms of the consolidated budget, exceeded 30% of GDP in 2025 and increased further in early 2026) stimulated the expansion of the money supply.

Money supply growth, significantly outpacing real GDP growth, led to an increase in the money overhang in Q1-2026

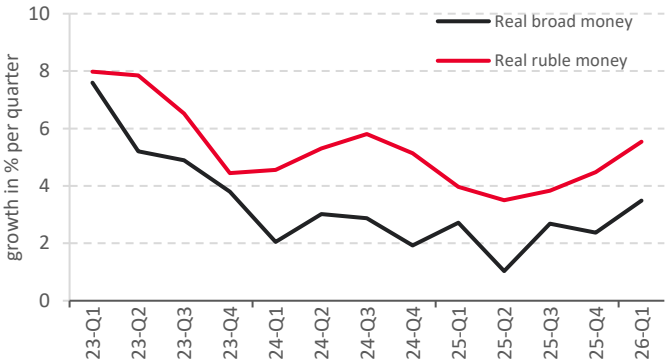
Average broad money in Q1-2026 exceeded its level a year earlier by 16.5% YoY **(Fig. 7.a)**, while real GDP declined by 0.4% YoY over the same period. Under these conditions, the GDP deflator (a broader measure of inflation compared to the consumer price index) amounted to 9.5% YoY in Q1-2026. Inflationary processes in the economy had a monetary nature, and money supply growth remained unbalanced. A high household savings rate largely mitigated its inflationary consequences. However, the money overhang in the economy continued to expand **(Fig. 7.d)**, which narrows the scope for monetary policy easing.

Figure 7. Average money supply dynamics

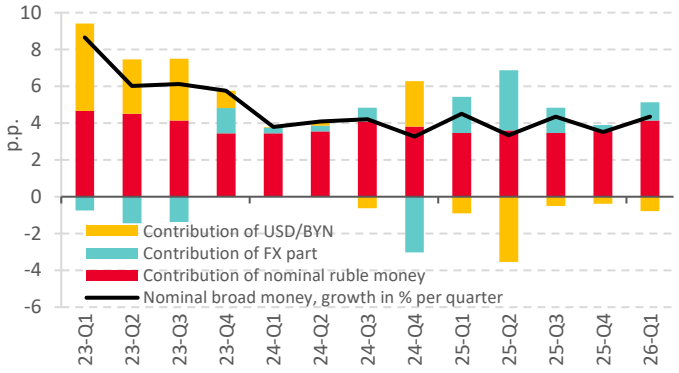
a) annual growth of the nominal money supply



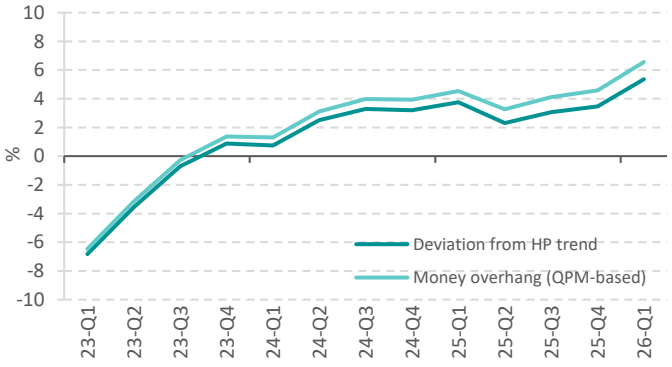
b) quarterly growth of the real money supply



c) decomposition of nominal broad money growth



d) money overhang (based on real broad money)



Source: calculations based on the data from Belstat, the National Bank, QPM.
Note: all indicators are seasonally adjusted; as new data are published, the dynamics of the indicators for the previous periods is updated. Real money supply growth is estimated by deflating nominal growth (quarterly average versus previous quarterly average) by the change in the average quarterly consumer price index (seasonality adjusted).

Short-term forecast

Monetary policy will remain accommodative in 2026

With continued price controls, consumer inflation will remain around 6–7% YoY this year. This trajectory is acceptable for the National Bank given its target of no more than 7% YoY. The expected low GDP growth of about 1% YoY in 2026, compared to the authorities' target of 2.8% YoY, along with the National Bank's focus on supporting economic activity, will push the regulator toward lowering interest rates. The scope for such a move is limited due to the need to maintain a high household savings rate to ensure foreign exchange market stability and to prevent a larger deviation of domestic demand from its balanced level. It can be expected that the National Bank will not return to withdrawing excess bank liquidity through auctions this year, and the interbank market rate will remain low – around 4–6%. There is a high probability of a slight reduction in estimated values of standard risk. The National Bank may also slightly reduce the refinancing rate – to 9.25–9.50% **(Fig. 8.a)**.

The average interest rate on new market loans is expected to be around 10.5–11% by the end of 2026, and on new term deposits – around 6.5–7%

Banks will maintain low returns on corporate deposits amid a low interbank lending rate. This will limit the average deposit rate even while maintaining attractive conditions for ruble savings for households.

Lending rates have room to decline. However, amid elevated uncertainty about economic prospects, this decline is expected to be modest **(Fig. 8.b)**.

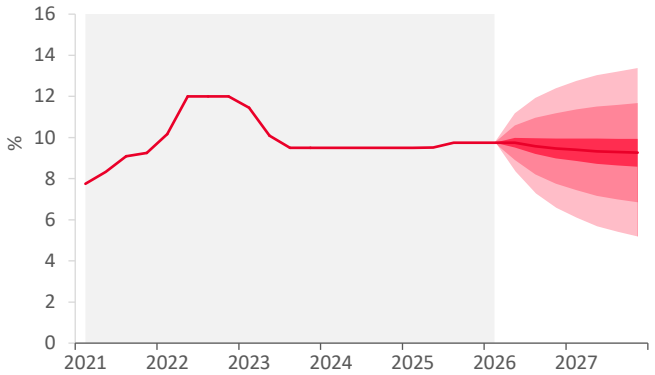
With inflation around 6–7% YoY, real average rates on new market loans and term ruble deposits are expected to be close to neutral levels. As a result, monetary conditions will remain broadly non-restrictive this year and will support domestic demand **(Fig. 1)**.

Looser monetary policy remains a risk to the forecast

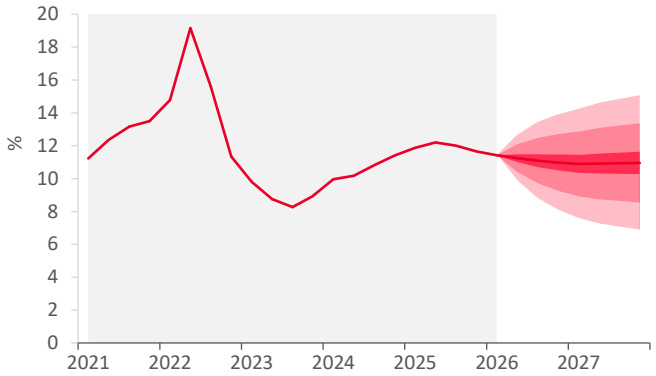
"Weak" economic growth may prompt the authorities to increase domestic demand stimulus through active use of government deposits, quasi-fiscal operations, and significant reductions in lending rates.

Figure 8. Monetary conditions forecast

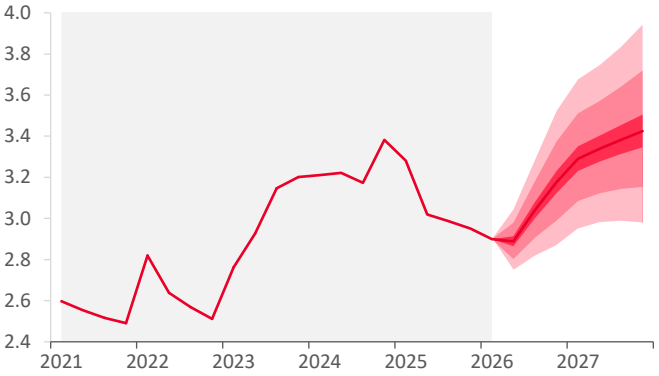
a) refinancing rate (quarterly average)



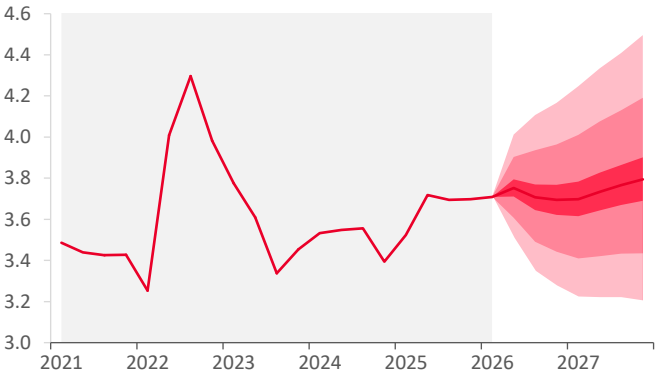
b) average rate on new loans in Br (quarterly average)



c) USD/BYN (quarterly average)



d) 100*RUB/BYN (quarterly average)



Source: calculations based on QPM.
Note: the ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

Such a scenario is also supported by the National Bank's reliance on the current (rather than expected) state of the economy when making monetary policy decisions. Significant monetary easing could temporarily boost GDP growth, but at the cost of stronger inflationary pressure and a wider foreign trade deficit. The authorities' ability to mitigate imbalances through price controls will be reduced if global inflation rises due to the consequences of the Middle East crisis.

The foreign trade position is projected to be in deficit within 1% of GDP in 2026 and will not exert significant pressure on the ruble exchange rate

High domestic demand and subdued demand in the Russian market create conditions for maintaining a trade deficit. Its size will be limited by increasing exports of services, near-record sales of potash fertilizers, and the expected growth in exports of nitrogen fertilizers. A trade deficit within 1% is not large and will not significantly pressure the Belarusian ruble, provided that net foreign currency sales by households continue.

The national currency exchange rate will remain close to equilibrium in REER terms, corresponding to a nominal depreciation of the ruble by 2–5% in terms of the currency basket in 2026

The USD/BYN exchange rate is expected to be around 3.0 Belarusian rubles per US dollar on average in 2026 (around 3.10 on average in the second half of the year), with a gradual movement of the USD/RUB rate toward 80–85 Russian rubles per US dollar **(Fig. 8.c)**. In this case, the RUB/BYN rate is projected to be around 3.7 Belarusian rubles per 100 Russian rubles on average in 2026 (about 3.7 on average in the second half of the year; **Fig. 8.d**).

Uncertainty in exchange rate dynamics remains high, primarily due to elevated volatility in external conditions

At the same time, the sufficient level of foreign exchange reserves held by the National Bank and the absence of significant overvaluation of the Belarusian ruble (as before the currency crisis of late 2014 – early 2015) support expectations of a manageable situation in the foreign exchange market even in the event of severe shocks. The possibility of stronger-than-expected foreign currency sales by households remains and could result in a stronger ruble compared to the baseline forecast.

Explainers

Quarterly Projection Model (QPM)

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

QPM indicators

Monetary conditions

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

Output gap

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

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.

Equilibrium (neutral) interest rate

This is the level of the real interest rate corresponding to the growth rate of the potential GDP and the equilibrium real effective exchange rate.

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.

Equilibrium Real Effective Exchange Rate

This is the level of the Real Effective Exchange Rate (REER) that makes neither an additional pro-inflationary impact nor a disinflationary impact.

Notes

[i] Real interest rates are calculated by adjusting nominal rates for the projected annual inflation in the coming quarter estimated through the Quarterly Projection Model (QPM). Expert opinions were introduced into QPM in Q4-2022 and in Q1-Q4-2023 to correctly assess the deviation of real interest rates from their equilibrium (neutral) levels. This is because the introduction of a new price control system led to ad-hoc price reductions in Q4-2022, which significantly reduced rational inflation expectations estimated in QPM directly. Since rational expectations are used in the model to calculate real interest rates, their sharp decline has sharply increased the real interest rate estimates. Nonetheless, nominal interest rates on Belarusian ruble loans and deposits in the period under review rewrote their historical lows several times: lending was growing rapidly, and the share of "fast" money in the money supply structure reached its maximum for the first time in more than twenty years. To eliminate the ad-hoc impact of price declines on the estimates of the monetary conditions, the impact of the core inflation shock on the change in rational inflationary expectations in the period under review was evaluated and the estimates of the deviation of real interest rates from their equilibrium (neutral) levels were adjusted for the scale of this impact.

[ii] 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. All quarterly inflation values in the Bulletin (unless indicated otherwise) are presented as annualized (annual equivalent).

[iii] The nominal average rate on new term Belarusian ruble deposits remained at 6.6% on average in Q1-2026; in particular, interest rates on corporate deposits increased from 6.2% in Q4-2025 to 6.4% in Q1-2026, and interest rates on retail deposits decreased from 12.6% to 11.6%.

[iv] The nominal average interest rate on new market bank loans in Belarusian rubles decreased from 11.7% on average in Q4-2025 to 11.4% in Q1-2026; in particular, interest rates on business loans decreased from 11.7% to 11.4%, and interest rates on retail loans increased from 11.1% to 11.4%.