

Imbalances in the Belarusian economy declined by the end of 2025, but its growth potential remained low

Current situation

Belarus' GDP increased by 0.3% in Q4-2025 compared with Q4-2024 after growing by 0.8% YoY in the previous quarter. As a result, the economy expanded by 1.3% YoY in 2025 – three times lower than in 2023 and 2024. Slower domestic demand and subdued business activity in Russia constrained Belarus' GDP dynamics. As a result, economic overheating declined significantly in the second half of last year and is estimated at around 1.2% of potential GDP in Q4-2025.

Investment activity “slowed” in Q4-2025. Fixed capital investment increased by more than 11% YoY in 2025, but its volume adjusted slightly downward in the final quarter. The level of investment relative to GDP remained slightly below the average level of 2019. Limited growth prospects for the economies of Belarus and Russia constrained investment demand even amid soft investment lending conditions and increased budget injections.

Consumer activity remained high in Q4-2025. Consumer spending remained overheated and exceeded the 2021 level by ≈30% in real terms. Overall, in 2025, consumer demand grew by about 6% YoY, slowing roughly twofold compared with 2024. Household income growth by 9.6% YoY supported demand, while weaker retail lending and lower consumer confidence had restraining effects.

Labor market conditions remained tight in Q4-2025, but the degree of tightness stopped intensifying. The unemployment rate declined by 0.1 p.p. to 2.4% of the labor force (seasonally adjusted). Labor shortages persisted but did not worsen. This is indicated by a decline in the number of vacancies and a slight increase in their ratio to the number of unemployed. Real wages continued to grow in Q4-2025 under these conditions, but more slowly than in 2023–2024. As a result, the extent to which average wages exceeded their balanced level remained significant, but did not increase in the second half of 2025.

The foreign trade deficit in goods and services is estimated at 1.9% of GDP in 2025. In Q4-2025, the negative balance narrowed due to a recovery in petroleum product exports and improved terms of trade for hydrocarbons. A trade deficit of around 2% of GDP can be financed without significant pressure on the Belarusian ruble exchange rate if the trend of household foreign currency sales persists. At the same time, international reserves at the beginning of 2026 covered potential risk-weighted foreign currency outflows by more than 120%.

Inflation slowed to ≈4.3% QoQ in Q4-2025 (annualized quarterly increase in prices, seasonally adjusted). Overall, in 2025, prices rose by 6.8% YoY (6.4% YoY in January 2026). The reduction in economic overheating and slower price growth in Russia contributed to easing inflationary pressure at the end of 2025 – beginning of 2026. Strict price controls continued to restrain price growth. Amid sharply rising labor costs in recent years, this maintained an inflationary overhang.

Fiscal policy was stimulative in 2025, and the National Bank focused on supporting investment demand. The consolidated budget was executed with a small deficit in 2025. At the same time, real non-interest budget expenditures increased by 7–9% YoY, supporting domestic demand. The National Bank sought to ensure low rates for business deposits and investment loans while restraining retail lending growth and maintaining elevated yields on household term deposits. As a result, interest rates on average were not restrictive for money supply growth, which exceeded real GDP growth by more than 16 p.p. in Q4-2025. The inflationary effects of excessive money supply growth were partially offset by an increase in the share of household savings in Belarusian rubles.

Belarus' GDP will grow by 0.5–1.5% in 2026 while inflation remains close to 6–7% YoY

Forecast

The consolidated budget is projected to post a small deficit of around 1% of GDP in 2026. Accumulated fiscal reserves will allow maintaining a high level of expenditure, but without a significant increase amid weakening economic growth prospects. As a result, fiscal policy will remain non-restrictive this year, but the scale of budgetary support to domestic demand will decline.

The National Bank will continue to maintain non-restrictive monetary conditions in 2026 with a focus on stimulating economic activity. The National Bank raised the inflation target from 5% to 7% for 2026 to expand room for maintaining accommodative monetary conditions amid slowing GDP growth. In the absence of strong external shocks, a reduction of 0.25–0.75 p.p. in the refinancing rate and the average rate on ruble loans is likely during the year. A significant increase in monetary stimulus appears unlikely due to persistent inflation risks and the need to maintain a high household saving rate to ensure foreign exchange market stability.

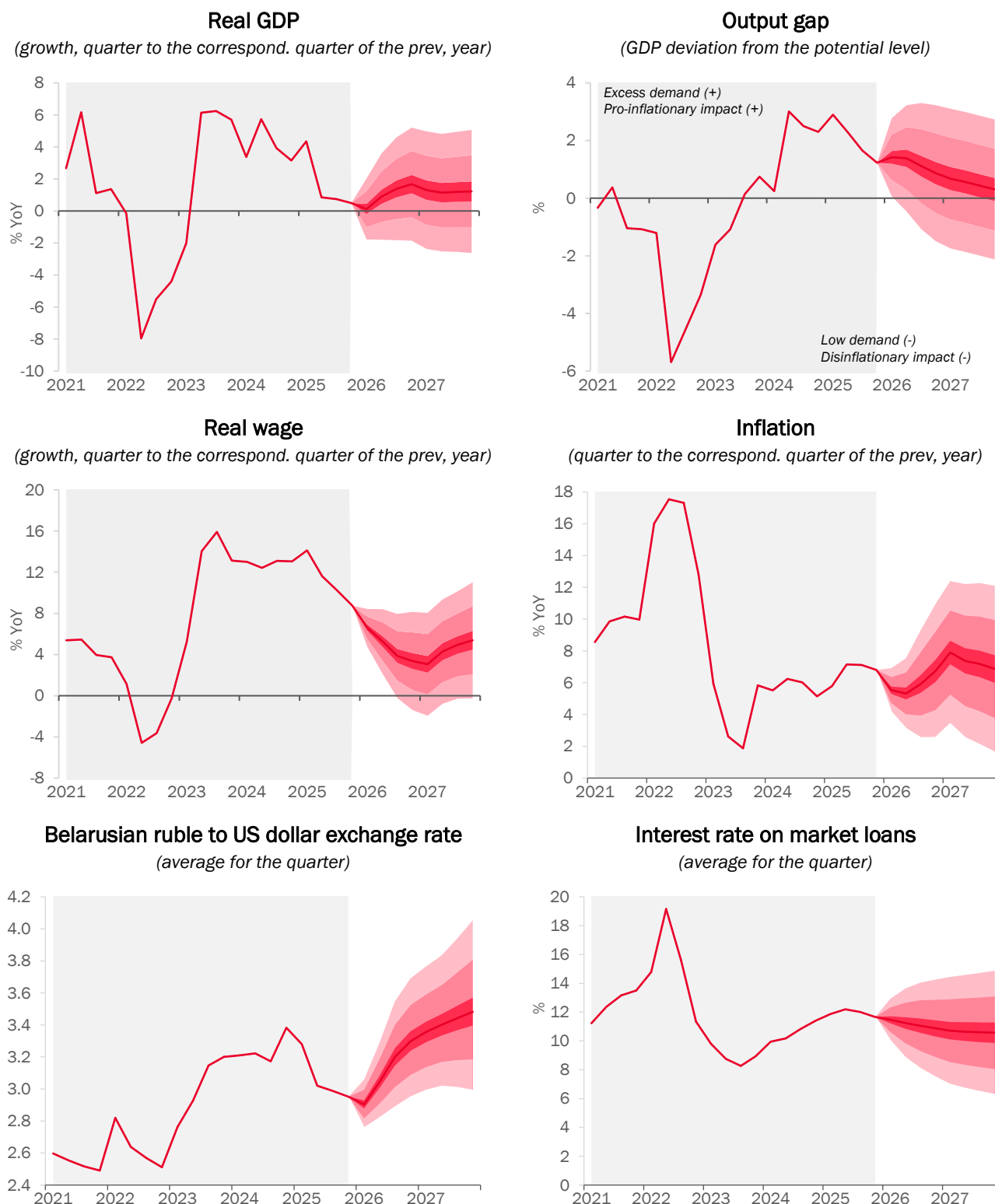
Economic activity will continue to grow at a moderate pace in 2026. A non-restrictive economic policy will support domestic demand. However, since stimulus will not be significantly intensified, its growth will slow after the strong overheating in 2023 – early 2025. Combined with subdued external demand due to the expected weak growth of the Russian economy, this will result in modest GDP growth in the range of 0.5–1.5% in 2026. Under these conditions, the severity of labor shortages is likely to decline and real wage growth to slow from 9% in 2025 to 3–5% in 2026.

The foreign trade position will remain in deficit at around 1–2% of GDP in 2026. Subdued demand in Russia and the reached limit of extensive expansion of Belarusian industrial output will constrain export growth prospects. A non-restrictive domestic economic policy will support demand for imports. As a result, imports of goods and services will continue to exceed exports, but the scale of the deficit will remain non-critical from a financing standpoint. A moderate weakening of the Belarusian ruble is projected – by 2–6% over 2026 in terms of the basket of foreign currencies. The continuing probability of higher-than-expected foreign currency sales by households may lead to a stronger ruble compared with the baseline forecast.

Inflation will temporarily slow below 6% YoY in the first half of the year but will return closer to 7% YoY by the end of 2026. The accumulated price overhang will hinder its sustained decline even amid the expected reduction in the contribution to price growth from aggregate demand and the labor market. Uncertainty surrounding estimates of the inflationary overhang and firms' ability to pass it through to prices amid slowing domestic demand creates risks of lower inflation this year.

Risks to the baseline forecast remain high, primarily due to uncertainty in the external environment. The threat of a significant intensification of sanctions pressure on Belarus and Russia remains on the agenda, as does the probability of easing restrictions. The latter could lead to a noticeable improvement in short-term output prospects. In the event of a downturn in Russia, there is a high probability of a stronger weakening of domestic demand in Belarus than projected in the baseline scenario. A tangible probability of active monetary easing in Belarus also poses risks to the forecast. If interest rates decline much faster than inflation and inflation expectations, output could temporarily exceed its balanced level by a significant margin. This would create risks of inflation accelerating above 7% YoY by the end of 2026, especially if households' propensity to save declines. There is a high probability that if inflation deviates from 7% YoY, price controls will be tightened.

Dynamics and Forecast of Economic Indicators of Belarus



Source: calculations are based on the Quarterly Projection Model for Belarus.

Note: figures show seasonally adjusted indicators. As new data are published, the indicator dynamics can be updated. The ranges in the figures correspond to the 15%, 50% and 75% confidence intervals.