

Economic activity in Belarus showed restrained dynamics in Q1-2026

Current situation

Belarus's GDP declined by 0.4% in Q1-2026 compared to Q1-2025 after growing by 0.3% YoY in the previous quarter. Compared to Q4-2025, output increased by $\approx 0.2\%$ (seasonally adjusted). Strong consumer spending supported GDP. At the same time, its dynamics were constrained by weakening investment demand in Belarus and Russia, as well as resource constraints (primarily labor shortages). As a result, economic overheating decreased to $\approx 0.8\%$ of potential GDP in Q1-2026.

Consumer demand continued to grow in Q1-2026. Household consumption increased by $\approx 2.5\%$ compared to Q4-2025 (seasonally adjusted). Wage growth and moderate household lending activity supported private consumption. A surge in purchases of used cars by 90.8% YoY ahead of the expected changes in the recycling fee calculation mechanism in Russia led to a temporary "spike" in retail trade at the end of Q1-2026. Overall, household spending remained high: consumption exceeded the average level of 2021 by more than 30%, while GDP exceeded it by $\approx 4.8\%$.

Investment declined in Q1-2026, and its level relative to GDP remained below the average for 2018–2019. Capital investment decreased by approximately 1.5% compared to Q4-2025 (seasonally adjusted). Difficult weather conditions in January–February negatively affected construction. The impact of systemic constraints also persisted, namely business environment uncertainty, labor shortages, and strict price controls. Easing conditions for investment lending are insufficient to overcome these factors limiting business activity.

Labor market conditions remained inflationary in Q1-2026. The unemployment rate decreased by 0.1 p.p. to 2.3% of the labor force (seasonally adjusted). The ratio of unemployed to vacancies remained low but increased slightly relative to the lows of 2025 due to a reduction in vacancies. Thus, the labor shortage persisted but did not intensify in Q1-2026. Real wages under these conditions grew at a high pace, but the extent of their deviation from the equilibrium level did not increase significantly in Q1-2026 and remained below the peak of early 2025.

Foreign trade in goods and services is preliminarily estimated to be close to balance in Q1-2026 (seasonally adjusted). Imports remained elevated amid still overheated domestic demand. Exports of the machinery sector showed weak dynamics against the backdrop of weakening demand in Russia. Improved terms of trade, increased fertilizer sales, and growth in service exports, including processing of tolling oil, made it possible to balance the external trade position. As a result, the ruble exchange rate was close to its equilibrium level, and foreign exchange reserves more than covered the potential risk volume of capital outflows.

Inflation slowed to $\approx 3.5\%$ QoQ in Q1-2026 (annualized quarterly price growth, seasonally adjusted). The postponement of utility tariff increases from January to March was the main reason for the decline in inflation (to be reflected in the CPI for April). Aggregate demand and labor market conditions remained inflationary in Q1-2026, but their contribution to consumer price growth did not expand.

Fiscal policy and monetary conditions supported domestic demand in Q1-2026. Government spending remained high, but budget revenues and accumulated resources were sufficient to finance it. The fiscal and public debt position is assessed as sustainable. The National Bank maintained its focus on stimulating economic activity and relied on strict government price controls to contain inflation. Accommodative monetary conditions in an environment of high fiscal spending led to accelerated money supply growth and an increase in the money overhang in Q1-2026. A high share of household savings in rubles largely mitigated the inflationary consequences of unbalanced money supply growth.

Belarus's GDP growth is expected to be around 1% in 2026, with inflation remaining at about 6–7% YoY

Forecast

The consolidated budget is projected to have a small deficit of around 1% of GDP in 2026. The authorities will maintain a high level of government spending to ensure at least modest economic growth. Accumulated fiscal reserves create favorable conditions for maintaining a stimulative policy even amid weaker prospects for expanding budget revenue. With continued financial support from Russia, debt sustainability will be ensured in the medium term.

The National Bank will continue to maintain accommodative monetary conditions in 2026, prioritizing economic activity stimulation. Moderate inflation, low GDP growth, and the National Bank's reliance on the current (rather than expected) state of the economy leave room for interest rate cuts. However, unbalanced money supply growth and the need to maintain a high household savings rate narrow the room for maneuver. In the baseline scenario, the refinancing rate is projected to decrease by 0.25–0.50 p.p. in 2026, and the average rate on ruble loans will decline from 11.4% on average in Q1-2026 to about 10.5–11% in Q4-2026.

Economic activity will maintain moderate growth rates in 2026. Slight easing of monetary conditions and continued high government spending will support domestic demand. Export-oriented sectors will show restrained output dynamics this year due to slowing business activity in the key Russian market. As a result, Belarus's GDP growth is projected to be around 1% YoY by the end of 2026, while real wages will increase by 5–6% YoY after growing by 9% YoY in 2025. Exhausted unused production resources, primarily labor, insufficient returns on implemented investments, and the “bumpy” business environment will continue to constrain the economy's growth potential.

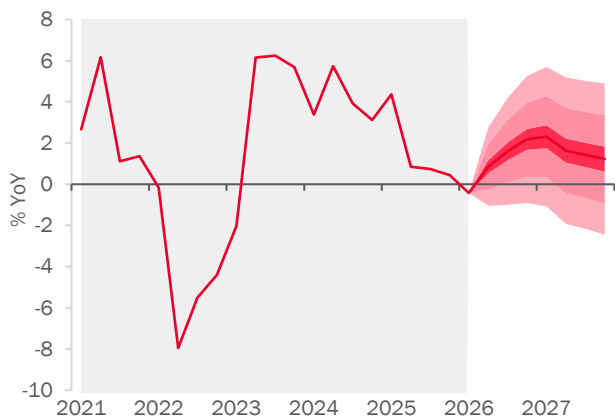
The external trade position is projected to be in deficit within 1% of GDP in 2026, which will not exert significant pressure on the ruble exchange rate. Strong domestic demand and subdued demand in the Russian market create conditions for maintaining the foreign trade deficit. Its size will be limited by increased service exports and near-record fertilizer sales. The projected foreign trade deficit corresponds to a nominal depreciation of the ruble by 2–5% in terms of the currency basket in 2026. Such exchange rate dynamics are consistent with its equilibrium trajectory.

Inflation will return to 6–7% YoY by the end of 2026. Domestic demand and the labor market will maintain moderate inflationary effects, which will be concentrated on unregulated services. From the external sector, a restrained pro-inflationary impact is expected due to rising global commodity prices and logistics costs. The uncertainty regarding the scale and duration of these effects remains high.

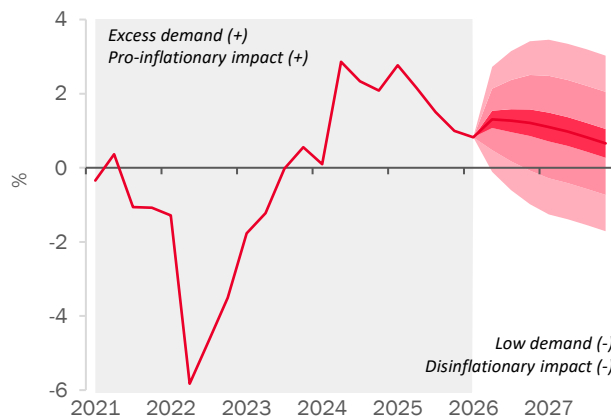
Risks to the forecast remain elevated, primarily due to uncertainty in the external environment. The duration and scale of the negative effects of the crisis in the Middle East are difficult to predict. In the event of a negative scenario, price pressures in Belarus will increase. At the same time, Belarus's orientation toward Russia and China may limit the impact of the external shock, as these countries are potentially less exposed to inflation increases due to rising commodity prices compared to the EU. Uncertainty regarding changes in US and EU sanctions policy toward Belarus and Russia also remains a risk factor for the forecast. A more accommodative domestic economic policy than assumed in the baseline scenario cannot be ruled out. Modest GDP growth may prompt the authorities to strengthen demand stimulus through active use of government deposits, “quasi-fiscal” operations, and a significant reduction in lending rates. This would temporarily boost GDP growth, but at the cost of increased inflationary pressure and a higher foreign trade deficit.

Dynamics and forecast of economic indicators of Belarus

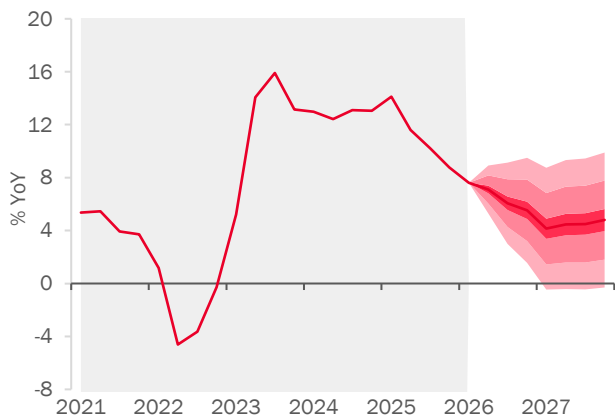
Real GDP
(growth, quarter to the correspond. quarter of the prev. year)



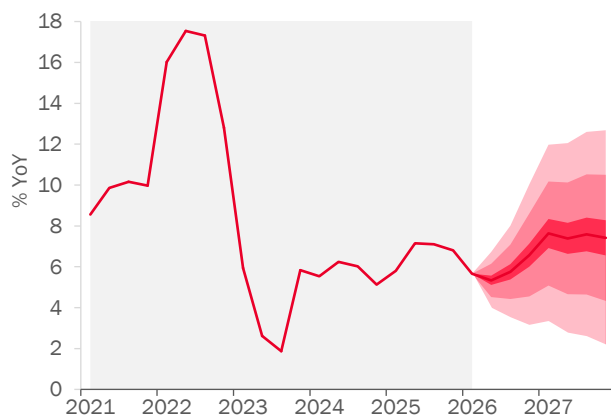
Output gap
(GDP deviation from the potential level)



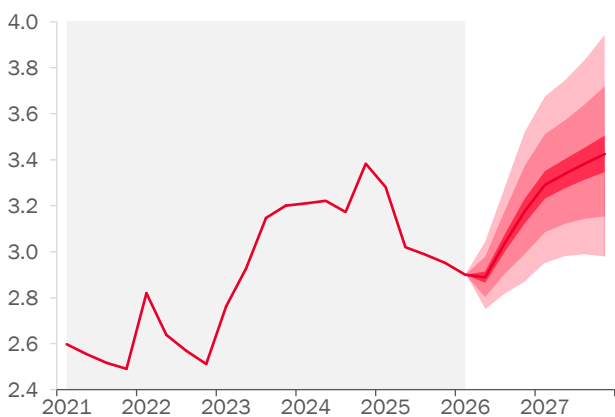
Real wage
(growth, quarter to the correspond. quarter of the prev. year)



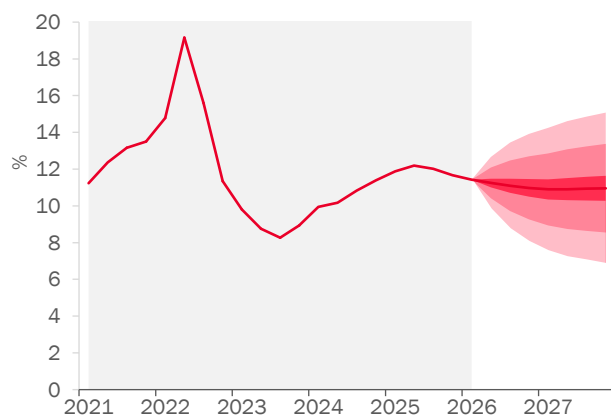
Inflation
(quarter to the correspond. quarter of the prev. year)



Belarusian ruble to US dollar exchange rate
(average for the quarter)



Interest rate on market loans
(average for the quarter)



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.