Belarus's economy accelerated in Q2-2026

Current situation

Belarus's GDP grew by 3% in Q2-2026 relative to Q2-2025, while for the half-year as a whole the economy grew by 1.5% YoY (+2.1% YoY over seven months). Compared to Q1-2026, output increased by more than 1% (seasonally adjusted). GDP growth accelerated thanks to strengthening domestic demand and the action of idiosyncratic factors, primarily tolling oil processing and favorable price terms of trade. Domestic demand growth again significantly outpaced the potential for sustainable output growth, leading to an increase in economic overheating to 2–2.5% in Q2-2026.

Consumer demand maintained high growth rates in Q2-2026. Household consumption gained more than 2% relative to Q1-2026 (seasonally adjusted). High wage growth and accelerating lending (the volume of loans extended to individuals increased by 29% YoY in Q2-2026) supported private consumption. It should be noted that the acceleration in credit activity and retail sales is almost entirely associated with explosive growth in passenger car purchases (+125% YoY in Q2-2026). This limited the inflationary consequences of high consumer demand, but led to import growth.

Investment increased substantially in Q2-2026 thanks to state stimulation. Capital investment grew by approximately 9% relative to Q1-2026 (seasonally adjusted), and for the half-year as a whole gained 4.2% relative to H1-2025. Of this growth, 2.3 p.p. was financed from the budget and 2.2 p.p. from preferential loans. Market loans provided only 0.5 p.p. of investment growth for the half-year, while investment from firms' own funds declined and made a negative contribution of around 0.7 p.p. This points to subdued business investment activity and the likely crowding out of private investment by public investment.

Labor market conditions remained pro-inflationary in Q2-2026. The unemployment rate declined by 0.15 p.p. – to 2.1% of the labor force (seasonally adjusted). At the same time, the number of vacancies fell by 18% over the quarter and dropped to mid-2023 levels, which may indicate a weakening of demand for workers. As a result, the labor market continued to function under conditions of a labor shortage, but the imbalance did not progress. The real wage grew at a high pace (more than 2% per quarter), and its level continued to exceed the inflation-neutral level.

Foreign trade in goods and services is estimated at a deficit of around 1% of GDP in Q2-2026 (seasonally adjusted). The increase in imports amid the authorities' stimulation of overheated domestic demand outweighed the positive effects of idiosyncratic factors on exports. The latter received support from expanded deliveries of petroleum products from tolling feedstock, higher potash fertilizer prices, and consumer demand growth in the Russian market. Weakened investment demand in Russia constrained export growth. Overall, the external trade imbalance remained small, and the Belarusian ruble exchange rate stayed close to equilibrium.

Inflation stood at 4.4% YoY in July – noticeably below the target of no more than 7% YoY. State regulation constrained goods price growth. At the same time, non-regulated services rose in price at high rates of close to 9–10% YoY amid pro-inflationary labor market and domestic demand conditions.

Fiscal policy and monetary conditions supported domestic demand in Q2-2026. Government expenditures remained high, but growth in tax revenues amid strengthening domestic demand allowed them to be financed. The state of the budget and public debt remained sustainable. The National Bank cut key rates by 0.5 p.p. in Q2-2026 to stimulate domestic demand. Economy-wide lending accelerated, supported by growth in issuances under special programs. As a result, money supply growth accelerated to 17.4% YoY in Q2 and 19.5% YoY in July 2026. The inflationary consequences of unbalanced money supply growth manifested in an acceleration of the GDP deflator to 13.6% YoY in Q2-2026, but were contained for consumer inflation by price controls and strengthening competition in goods markets.

Belarus's economy will grow by 1.5–2.5% in 2026–2027

Forecast

An increase in receipts from the Russian budget through the damper mechanism will help ensure a balanced consolidated budget for Belarus in 2026. The baseline scenario expects that the additional revenues will allow for an increase in government expenditure volumes and a strengthening of the fiscal impulse in H2-2026. In 2027, the volume of budget expenditures will remain high, but the impulse will weaken amid the expected reduction in transfer receipts from Russia. Under this scenario, the consolidated budget deficit will not exceed 1% of GDP in 2027, and public debt will remain close to 25% of GDP.

Monetary policy will maintain a stimulative stance to support the government's efforts to approach the target GDP growth of 2.8% for 2026 as a whole. The refinancing rate will in all likelihood be reduced from 9.25% to 8.75–9% by the end of the current year, and the rate on new market loans will decline toward 10%. In 2027, monetary conditions may ease further: the forecast increase in inflation following the easing of price controls will lead to a decline in real interest rates even with no change in nominal terms.

GDP growth will come in close to 2–2.5% in 2026, and its dollar volume will exceed $100 bn. Fiscal and monetary stimulus will support domestic demand, which will remain the driver of output expansion. The economic growth forecast has been revised up by 1 p.p. compared to the May estimate due to more accommodative domestic economic policy and expanded petroleum product deliveries from tolling feedstock. However, these factors are leading to an increase in aggregate demand above productive potential, which is limited by a labor shortage, business environment uncertainty, sanctions pressure, and institutional constraints. If tolling oil processing volumes decline as domestic fuel production in Russia recovers, and the fiscal stimulus weakens against this backdrop, GDP growth will slow toward the potential rate of around 1.5% in 2027. The real wage will grow by 6–8% in 2026 and 3–6% in 2027.

The foreign trade deficit is forecast at around 1% of GDP in 2026–2027, which will not exert significant pressure on the ruble exchange rate. High domestic demand under production constraints and weakened investment activity in Russia will be accompanied by the persistence of a significant goods trade deficit. However, expansion of the services surplus will allow the total external trade imbalance to remain small. As a result, the Belarusian ruble exchange rate will move close to its equilibrium trajectory, implying a weakening of the national currency by 1–3% over 2026 and 2–4% over 2027 in basket-of-currencies terms.

Inflation is expected at around 5–6% YoY by end-2026 and 6–7% in 2027. The forecast stance of domestic demand, the labor market, and inflation in Russia corresponds to moderate pro-inflationary effects for Belarus. Price controls will continue to constrain price growth, but their restraining effect will weaken: in July 2026, the government removed almost all non-food goods from regulation, as a result of which the share of items regulated under Resolution No. 713 in the consumer basket decreased from approximately 45% to around 28%.

Risks of deviations from the baseline forecast remain high and two-sided. Uncertainty surrounding the estimate of the inflationary overhang and its pass-through into prices following the easing of controls is significant. A greater stimulus for domestic demand from the authorities' economic policy also cannot be ruled out, which would temporarily raise GDP growth but at the cost of greater volatility in the future. The action of the idiosyncratic factors that drove the upward revision of the 2026 economic growth forecast is difficult to predict. The continuation of high tolling oil processing volumes in 2027 would lead to somewhat higher GDP growth and a stronger ruble compared to the baseline forecast. The probability of a recession in Russia in the event of prolonged and substantial impact of destructive non-economic factors on the economy represents the key downside risk for the Belarusian economy.

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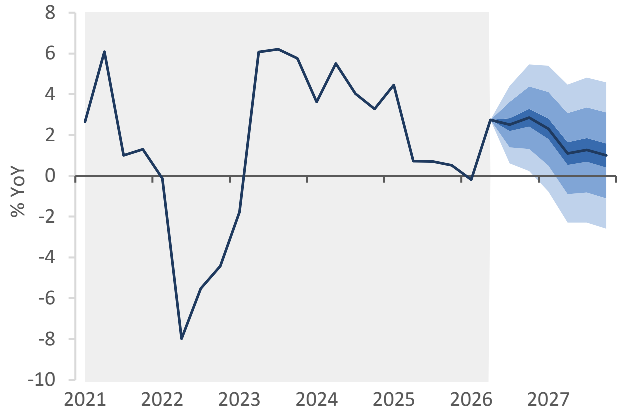
Dynamics and forecast of economic indicators of Belarus

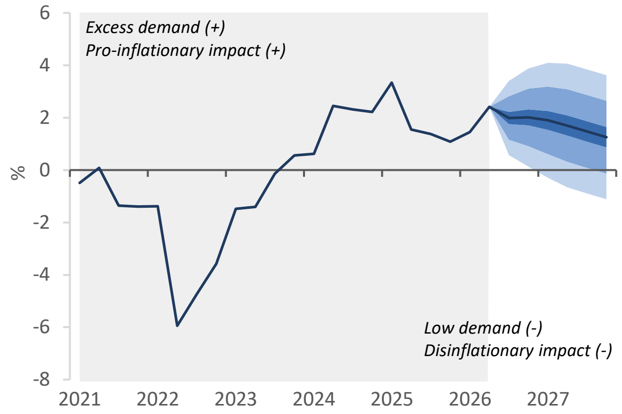
Real GDP growth

(quarter versus the corresponding quarter of the previous year)



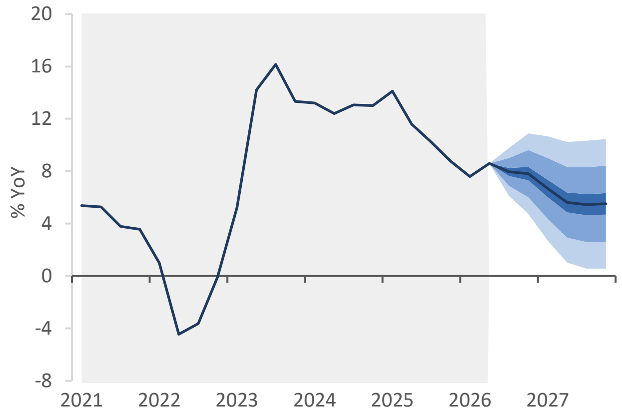
Output gap

(GDP deviation from the potential level)



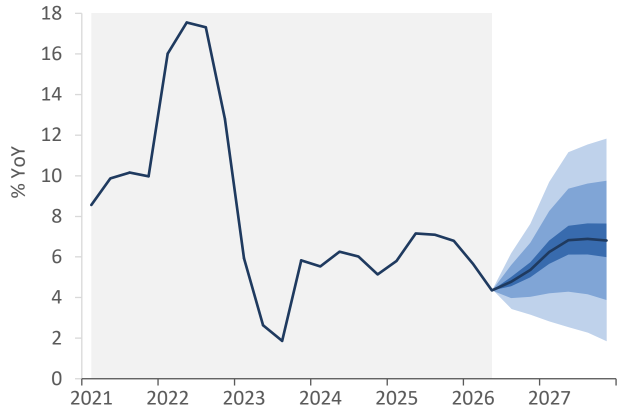
Real wage growth

(quarter versus the corresponding quarter of the previous year)



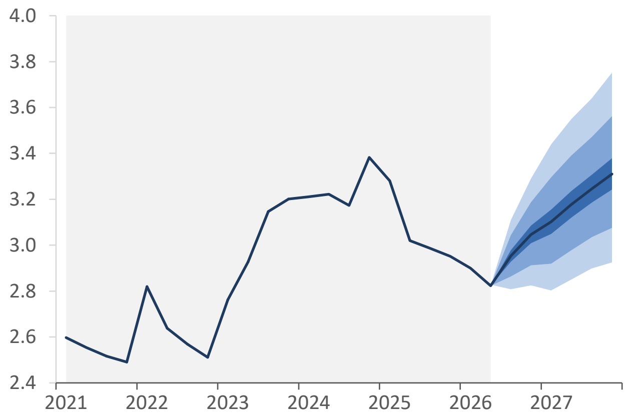
Inflation

(quarter versus the corresponding quarter of the previous year)



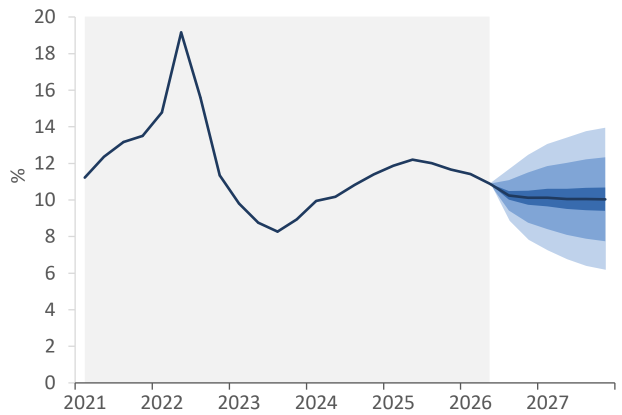
Belarusian ruble to US dollar exchange rate

(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.

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