Belarus Economy Monitor: trends, attitudes and expectations

Co-funded by the European Union

FREE NETWORK

Sweden Sverige

Monetary Environment Review
Q2-2025

August 2025

Economic Research Center
Tyrimų centras, VšĮ

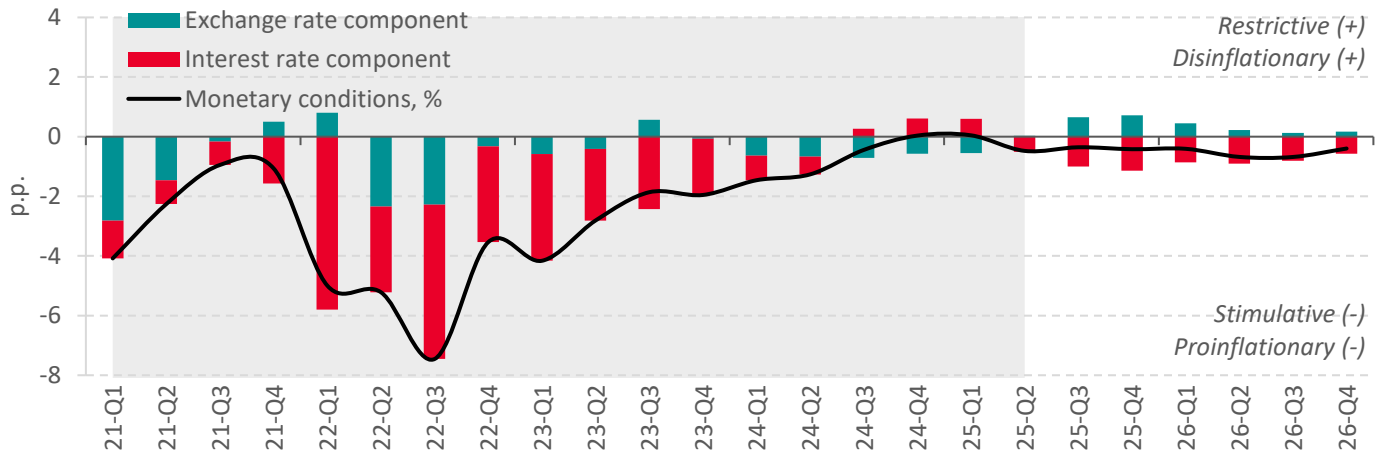
BEROC

Monetary conditions eased somewhat in Q2-2025

Interest rates on loans and deposits declined in real terms due to accelerating inflation. On average, rates fell slightly below neutral levels (Fig. 1). This contributed to maintaining overheated domestic demand and hindered its quick return to a balanced state. At the same time, the National Bank increasingly relied on directive influence over banks as part of its monetary regulation. This raises the risk of policy missteps and increases the economy's vulnerability to shocks. The Belarusian ruble in Q2-2025 is assessed to be near its equilibrium level (Fig. 1).

In the baseline scenario, monetary conditions are expected to remain non-restrictive for economic activity through the second half of 2025 and into 2026, primarily due to interest rates (Fig. 1). However, the predictability of the National Bank's actions has declined, and monetary policy is becoming more discretionary and exhibiting voluntarist tendencies. For economic outcomes in 2026, unpredictable monetary policy represents a significant source of uncertainty.

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.

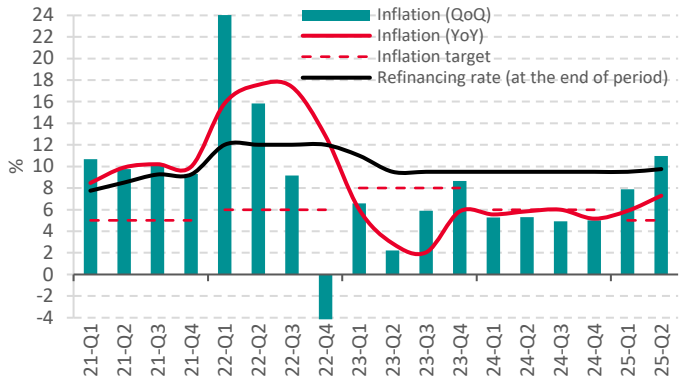
1 Monetary policy: measures, direction, nature

Monetary policy remained accommodative in Q2-2025

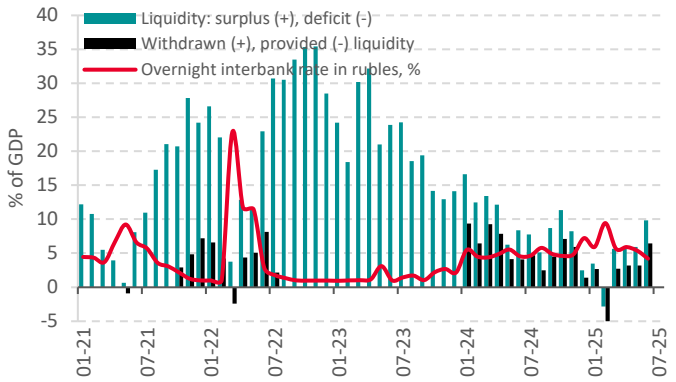
In June, the National Bank raised the refinancing rate by 0.25 p.p. to 9.75% (Fig. 2.a). Simultaneously, the regulator increased the estimated values of standard risk (EVSR) by up to 1 p.p. for market loans and term deposits for households, as well as for corporate loans with maturities up to three years. At the same time, EVSR for corporate loans with maturities over three years was reduced by 0.75 p.p. over Q2-2025. These mixed actions by the National Bank reflect its new, unconventional goal-setting approach: aiming to "cool" consumer demand and slow the growth of consumer imports while simultaneously stimulating investment activity. The significant acceleration of inflation – already exceeding the target by more than 2 p.p. in June (Fig. 2.a) – did not serve as a reason for the implemented measures. **Since the increases in the refinancing rate and EVSRs were far smaller in scale than the inflation surge, these interest rate indicators declined in real terms in Q2-2025.**

Figure 2. Dynamics of monetary policy indicators

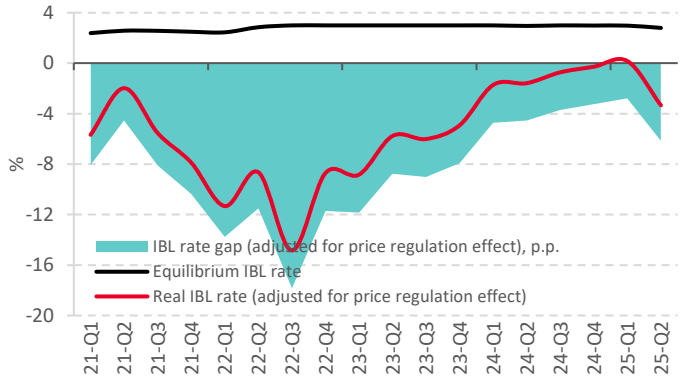
a) refinancing rate and inflation



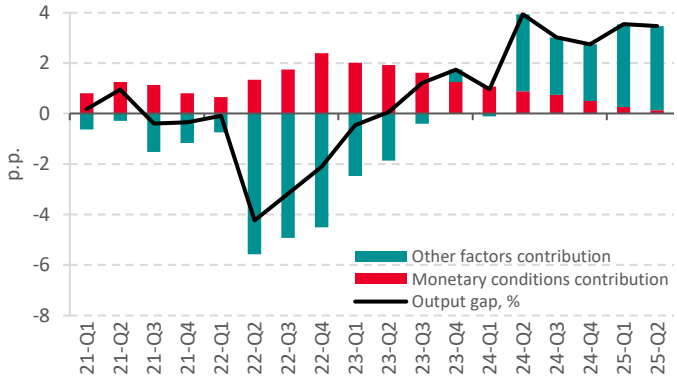
b) banking system liquidity (monthly average)



c) real and equilibrium interbank rate[i] (quarterly average; QPM-based)



d) contribution of monetary conditions to the output gap (QPM-based)



Source: calculations based on the data by Belstat, National Bank of Belarus, 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 banking system operated with excess liquidity in Q2-2025, resulting in a decline in the interbank lending rate (IBL) (Fig. 2.b)

The National Bank withdrew excess liquidity solely through standing facilities – overnight deposits. No liquidity was withdrawn via auctions. At the same time, the National Bank injected about 2 billion BYN into the system by purchasing foreign currency on the exchange in Q2-2025 and conducted liquidity support auctions for banks. In an environment of structural excess liquidity, the exclusive use of credit auctions highlights the National Bank's prioritization of "artificially" stimulating investment lending. Under these conditions, the IBL fell to an average of 5.2% in Q2-2025 (Fig. 4.a). **In real terms, the IBL deviated even further downward from its neutral level, indicating a loosening of monetary policy** (Fig. 2.c).

Interest rates on Belarusian ruble deposits declined in Q2-2025

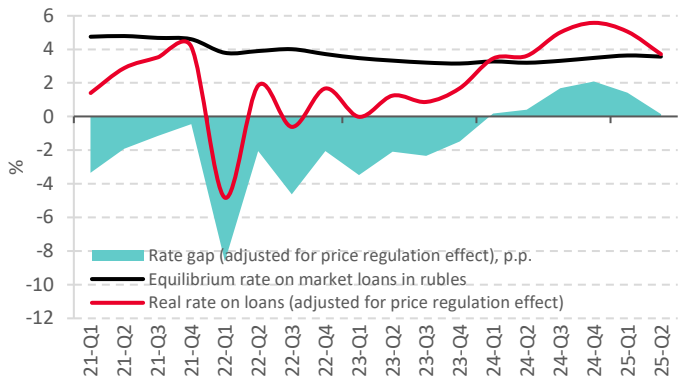
The average nominal rate on new term BYN deposits was 9.9% in Q2-2025, down 0.9 p.p. from the previous quarter (Fig. 4.a).[iii] The main reason for the decline in deposit yields, particularly for corporate deposits, was the surplus liquidity in the banking system. Entrenched expectations of a rate cut by the Bank of Russia may have also created favorable conditions for Belarusian banks to lower their rates, as the risk of capital outflows into Russian rubles became less relevant. In addition, deposit yield reductions (especially for short-term deposits) were influenced by directive instructions from the National Bank. This is indicated by a very sharp decrease in deposit rates in June (Fig. 4.a), although no significant changes in macroeconomic and financial conditions were noted this month.

Interest rates on market-based BYN loans rose slightly in Q2-2025

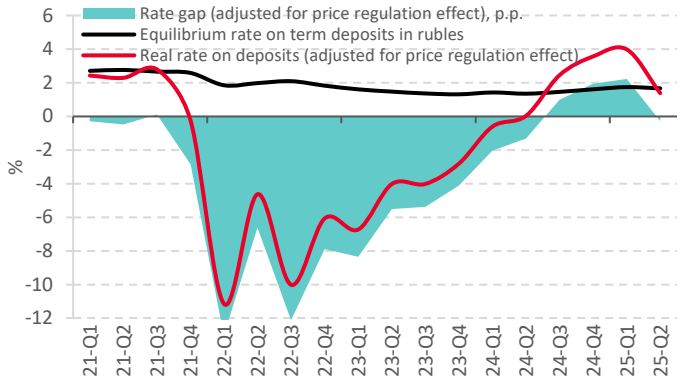
The average nominal rate on new market BYN loans increased by 0.3 p.p. to 12.2% in Q2-2025 (Fig. 4.a).[iv] The EVSRs hike in June did not have time to affect lending rates. Their movement was more likely influenced by informal guidance from the National Bank's leadership regarding acceptable rate levels for commercial banks. Directive instruments appear to be becoming the dominant tool used by the National Bank to influence the credit and deposit market. This reduces the effectiveness of the monetary policy transmission mechanism and increases the risk of policy missteps that could raise the economy's vulnerability to shocks.

Figure 3. The nature of real interest rates on Belarusian ruble loans and fixed-term deposits of banks

a) average rate on new market Belarusian ruble loans (quarterly average)



b) average rate on new fixed-term Belarusian ruble deposits (quarterly average)



Source: calculations are based on QPM.

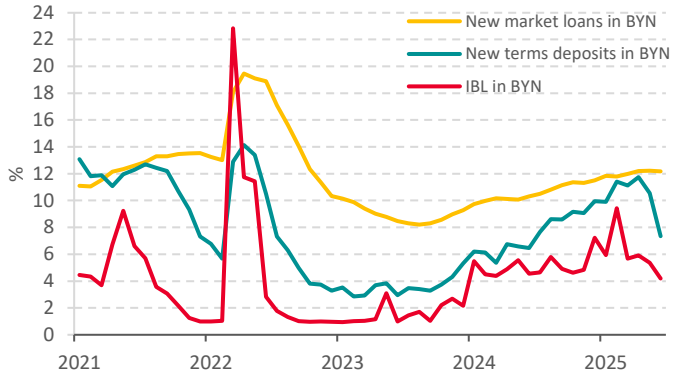
Note: real interest rates have been calculated based on average nominal interest rates for businesses and households (according to the National Bank data) and the expected annual inflation in the next quarter (QPM-based).

In real terms, interest rates on loans and deposits declined significantly in Q2-2025 amid rising inflation and inflation expectations

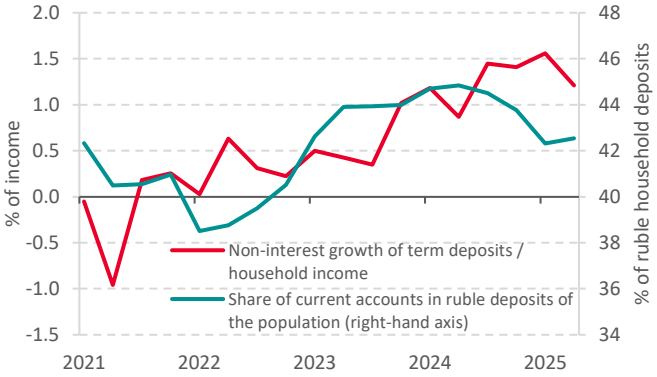
Real rates dropped to their neutral levels (Fig. 3). This indicates that, in Q2-2025, interest rates had neither a significant stimulating nor restraining effect on economic activity and inflation (Fig. 2.d) . In an environment of pronounced economic overheating and high inflation (well above the target), the neutral stance of interest rates is insufficient to mitigate risks to macroeconomic stability.

Figure 4. Dynamics of nominal interest rates, household deposits

a) average nominal interest rates (monthly average)



b) deposits in BYN and population income (per quarter; seasonally adjusted)



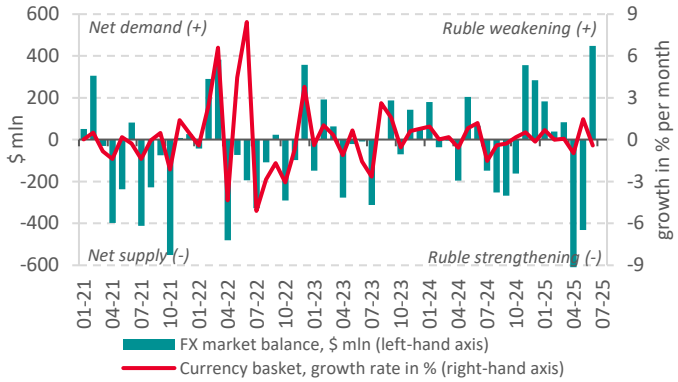
Source: calculations based on the data by Belstat, National Bank of Belarus.

2 Exchange rate policy: measures, direction, nature

The Belarusian ruble did not undergo significant changes in Q2-2025

Figure 5. Dynamics of the foreign currencies basket and of gold and foreign exchange reserves

a) forex market and foreign currencies basket



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

Source: calculations are based on the data by the National Bank of Belarus.
Note: figure 5.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.

On average, the value of the three-currency basket (Russian ruble, US dollar, and Chinese yuan) increased by 0.1% in Q2-2025 compared to Q1-2025 (Fig. 6.b). Fluctuations in exchange rates against individual foreign currencies were mainly determined by cross-currency dynamics in global markets: on average in Q2-2025, the Belarusian ruble weakened by 5.8% against the Russian ruble and strengthened by 8.2% and 7.4% against the US dollar and Chinese yuan, respectively.

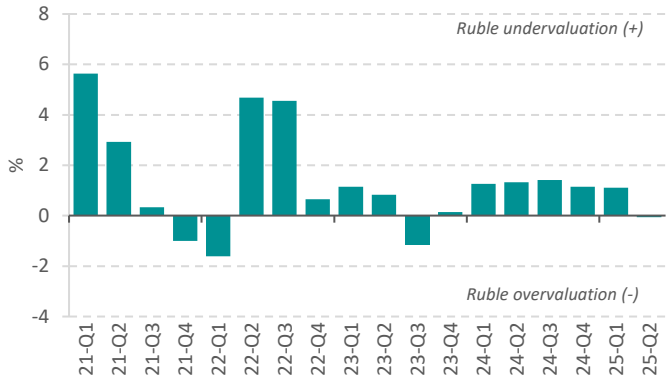
Amid accelerating inflation in Belarus and decelerating inflation in Russia, the Belarusian ruble's undervaluation was neutralized in Q2-2025 – **the national currency is assessed to be close to its equilibrium real effective exchange rate (REER) level** (Fig. 6.a).

The currency basket remained virtually unchanged in Q2-2025 despite massive net foreign currency supply on the domestic market

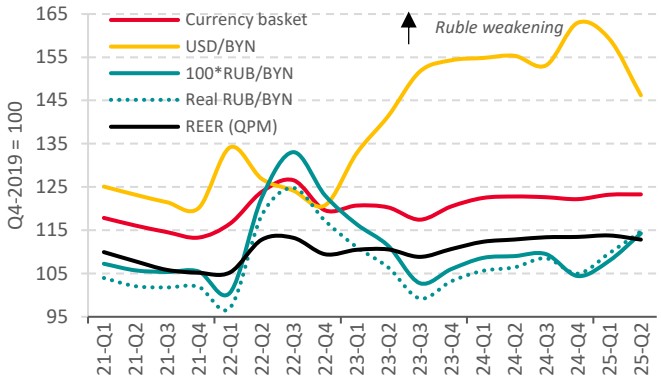
Market participants sold $0.6 billion more in foreign currency than they purchased in Q2-2025 (Fig. 7.a). The National Bank bought the corresponding amount, injecting around 2 billion BYN into the system. It is worth noting that the Belarusian ruble depreciated in May despite significant net FX supply, and appreciated in June amid substantial net demand (Fig. 5.a). This may suggest that the National Bank itself created excess demand for FX in May and excess supply in June. This points to a possible need for recalibrating the National Bank's exchange rate policy rules.

Figure 6. Effective Belarusian ruble exchange rates and deviations of REER from the equilibrium level

a) REER gap (QPM-based)



b) Belarusian ruble exchange rates



Source: calculations are based on the data of the National Bank of Belarus and QPM.
Note: 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.

Net foreign currency supply in Q2-2025 was roughly half driven by seasonal factors, while significant foreign currency sales by the population supported the FX market beyond seasonal patterns (Fig. 7.a)

Individuals sold (net of purchases) approximately $0.56 billion in April–June 2025 (seasonally adjusted). The increase in FX supply occurred amid a substantial slowdown in household lending and no acceleration in the non-interest-related growth of term ruble deposits (Fig. 4.b). This may indicate that individuals financed major purchases by drawing more heavily on unorganized foreign currency savings.

Firms continued to purchase more foreign currency than they sold, though the sharp increase in purchases in June may have been temporary

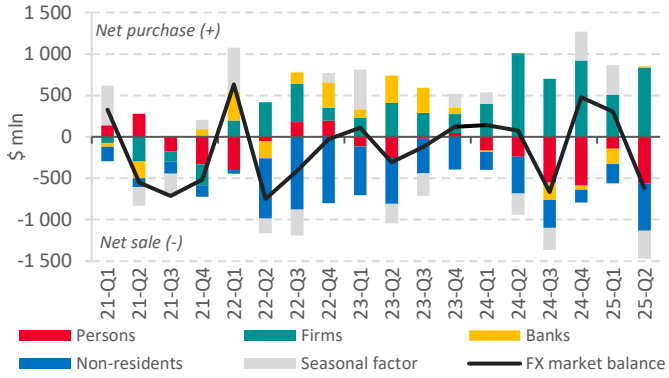
In Q2-2025, organizations bought $0.84 billion more in foreign currency than they sold (seasonally adjusted; Fig. 7.a). In April–May, firms' operations were nearly balanced – likely due to exporters temporarily selling higher volumes of FX revenues amid the strengthening of the Russian ruble against both the U.S. dollar and the Belarusian ruble. In June, firms recorded their highest net monthly FX purchases since December 2010. This spike in demand may have been temporary and related to the implementation of support schemes for large enterprises (Fig. 7.b).

Non-residents increased their net FX sales to $0.57 billion in Q2-2025

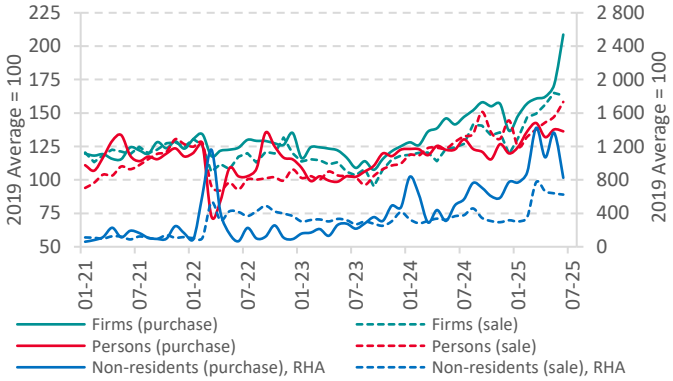
This could partly be attributed to exchange rate fluctuations and a larger share of revenues in Russian rubles being converted into Belarusian rubles. The increase in service exports in Q2-2025 may also have contributed to higher FX sales by non-resident firms. Banks' foreign exchange operations were close to balance in Q2-2025 (Fig. 7.a).

Figure 7. State of the domestic foreign exchange market

a) foreign exchange market balance (seasonally adjusted segments)



b) dynamics of the foreign exchange market indicators (seasonally adjusted)



Source: calculations are based on the data by the National Bank of Belarus.
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.

International reserve assets (IRA) increased by nearly $1.5 billion in Q2-2025, reaching a new historical high of $11.5 billion as of July 1, 2025

The increase in reserves during April–June 2025 was mainly due to a $1.1 billion rise in foreign currency assets. In April–May, this growth was driven by the National Bank's FX purchases on the exchange. However, in June, foreign currency assets rose by $0.34 billion even though the National Bank sold approximately $0.45 billion in FX. This likely indicates that, for some reason, the National Bank reclassified part of its foreign assets from non-reserve to reserve holdings in June. This is supported by a $0.68 billion drop in non-convertible currency assets that month and a $0.3 billion decline in total international assets (convertible and non-convertible currencies combined). As a result, while international reserves increased by $1.5 billion in Q2-2025, total reserve assets rose by $0.8 billion to $12.76 billion as of July 1, 2025.

As of July 1, 2025, international reserves covered about 2.7 months of imports of goods and services (Fig. 5.b). **Reserve adequacy relative to the comprehensive risk-based FX outflow indicator (ARA metric, adjusted for capital flow restrictions) is assessed above 100%.** This means the National Bank has a sufficient buffer to smooth out the effects of severe external shocks, should they occur.

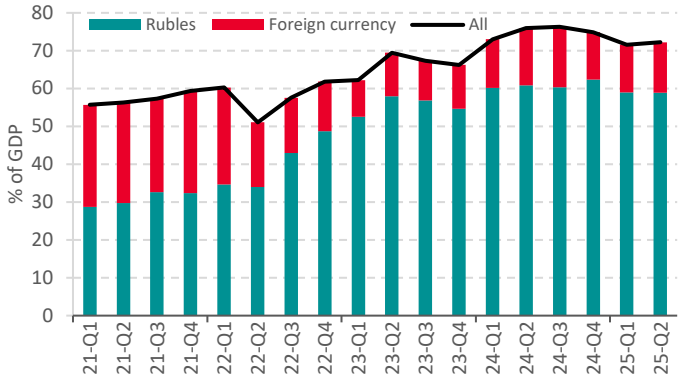
3 Impact of monetary conditions on the credit and deposit market

The volume of new lending remained significant in Q2-2025 amid accommodative monetary conditions, but showed no clear upward trend

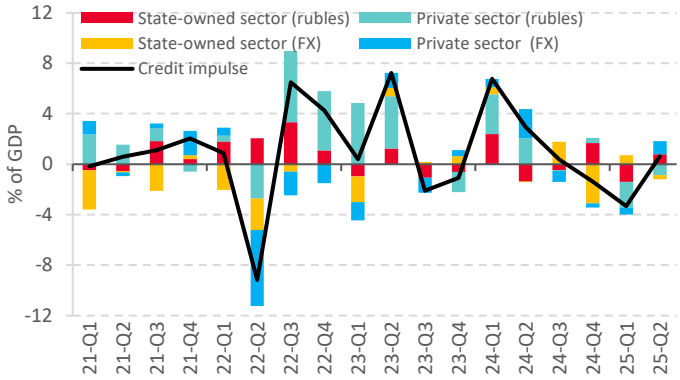
The volume of issued loans relative to GDP stayed close to the previous quarter's level – around 72% – which is significantly higher than pre-war levels, which averaged about 61% of GDP during 2017–2021 (Fig. 8.a). The credit impulse is assessed as close to neutral in Q2-2025 (Fig. 8.b).

Figure 8. Dynamics of new loans issued and credit impulse

a) volume of new loans issued (seasonally adjusted)



b) credit impulse (QoQ, seasonally adjusted)



Source: calculations are based on the data by the National Bank of Belarus, Belstat.

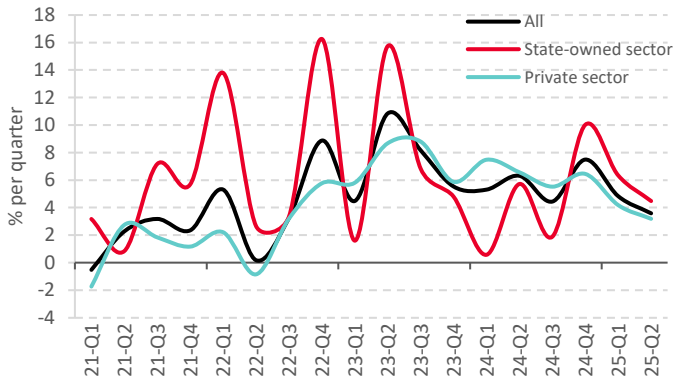
Note: the credit impulse has been calculated as follows: $ci_t = 100 * \left(\frac{cr_t}{ngdp_t} - \frac{cr_{t-1}}{ngdp_{t-1}}\right)$, where ci_t is the credit impulse during period t; cr_t is the seasonally adjusted scope of newly issued loans during period t; $ngdp_t$ is the seasonally adjusted volume of the nominal GDP during period t. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. The indicator dynamics updates once new data are published.

Growth in credit debt slowed in Q2-2025

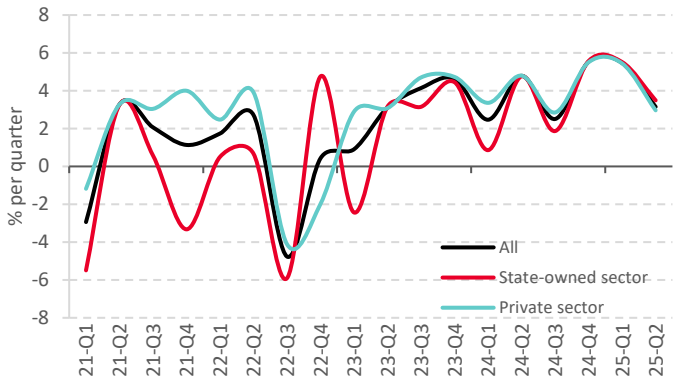
Lending dynamics weakened in both the public and private sectors (Fig. 9). Quarterly growth of household loan portfolios dropped sharply – to 0% in real terms. This was due to the National Bank's directive instructions to commercial banks aimed at limiting retail credit growth. Corporate lending dynamics may have slowed amid weakening domestic and external demand and heightened uncertainty about future economic conditions. At the same time, non-restrictive interest rates continued to support lending activity, slowing the economy's return from an overheated to a balanced state.

Figure 9. Dynamics of bank loans (quarterly growth, seasonality adjusted)

a) liabilities nominated in the Belarusian ruble



b) debt on all loans



Source: calculations are based on the data by the National Bank of Belarus.
Note: the indicator dynamics updates once new data are published.

Money supply growth slowed in Q2-2025 due to exchange rate revaluation effects on its foreign currency component

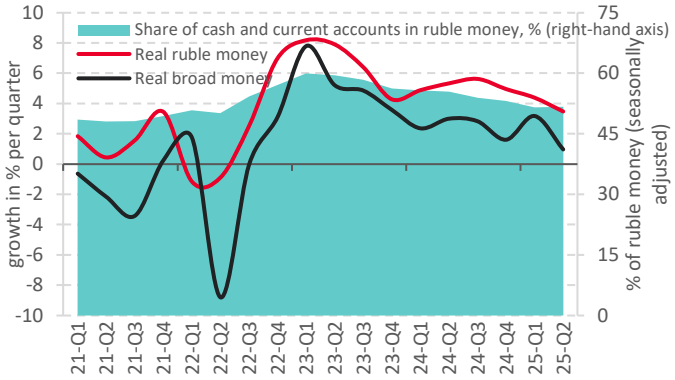
Broad money supply (hereinafter – M3) increased by ≈3.5% in Q2-2025 in nominal terms (average for Q2-2025 vs. average for Q1-2025) or by ≈1% in real terms (all indicators are seasonally adjusted; Fig. 10.a). The deceleration in nominal M3 growth was largely driven by revaluation of its FX component due to the appreciation of the Belarusian ruble against the US dollar (Fig. 10.b).

It is likely that the impact of weaker lending on the money supply was offset by higher government spending and increased foreign currency earnings by enterprises. Accelerating inflation also contributed to slower real M3 growth. Despite the slowdown in money supply growth, its volume remained above the inflation-neutral level – indicating that excess demand in the economy remained substantial.

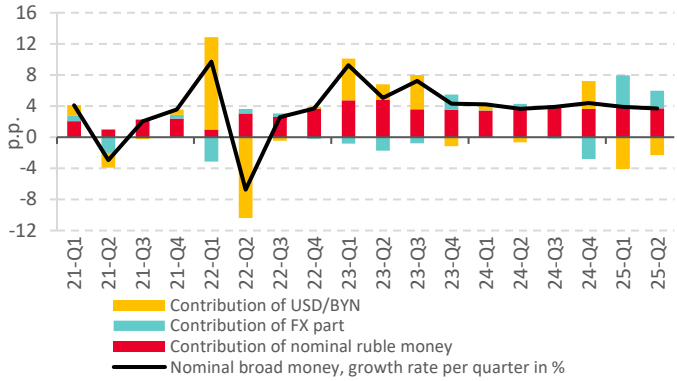
Broad money growth was driven by its Belarusian ruble component (Fig. 10.b). The ruble money supply (M2*) increased by ≈6.1% on average for Q2-2025 compared to the average for Q1-2025 in nominal terms or by ≈3.5% in real terms (all indicators are seasonally adjusted; Fig. 10.a). The nominal growth rate of M2* remained unchanged from the previous quarter (Fig. 10.b), while the real growth rate slowed due to rising inflation (Fig. 10.a).

Figure 10. Average money supply dynamics (seasonally adjusted)

a) average real money supply



b) decomposition of nominal M3 growth



Source: calculations are based on the data by the National Bank of Belarus, Belstat.

Note: M3 is a broad money supply. The indicator dynamics updates once new data are published. 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).

4 Monetary conditions short-term forecast

The National Bank's reluctance to implement moderately tight monetary policy means that monetary conditions will not contribute to the prompt neutralization of accumulated imbalances in the economy

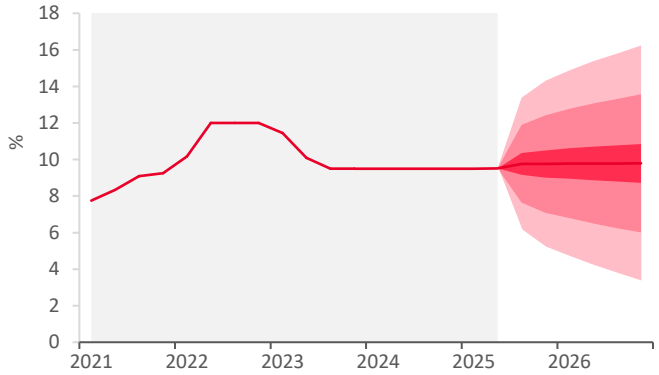
In the baseline scenario, monetary conditions are expected to remain non-restrictive for economic activity and inflation, primarily through interest rates (Fig. 1). The refinancing rate is projected to remain close to its current level in 2025–2026 (Fig. 11.a). A slight increase is possible amid rising inflation, but due to the institutional weakness of the National Bank, it is unlikely to be substantial. **If the National Bank does not restore the traditional mechanism for managing bank liquidity and the interbank lending rate, changes in the refinancing rate will have extremely limited influence on market monetary conditions.** The Belarusian economy, in the absence of major external shocks, will continue to operate in a state of overheated excessive domestic demand. This will be accompanied by high inflation, which may approach the upper bound of the 7–9% YoY range by the end of the current year. GDP growth will slow due to limited labor and capital resources, followed by a deceleration in wage growth.

The average interest rate on loans will remain around 12% in 2025 (Fig. 11.b), **while rates on new term deposits will be around 9–10%.** With projected inflation, such dynamics of nominal rates will mean a decline in real terms. As a result, the influence of interest rates on economic activity is expected to be mildly stimulative in the second half of the current year (Fig. 1).

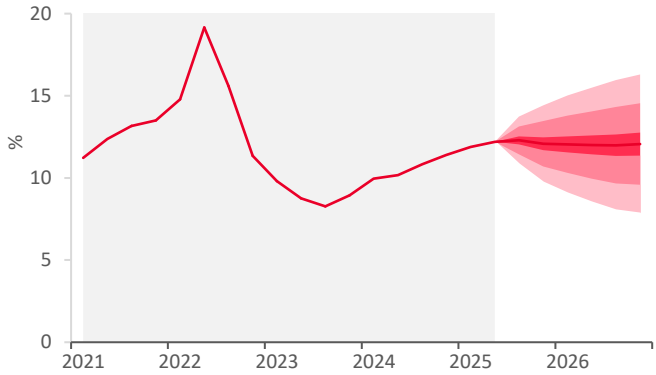
The growth of household lending will be constrained by National Bank directives on limiting portfolio expansion by banks. The dynamics of investment lending will be restrained by high uncertainty over demand prospects in Russia and the domestic market.

Figure 11. Interest rate forecast (QPM-based)

a) refinancing rate (quarterly average)



b) average interest rate on Belarusian ruble market loans (quarterly average)



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

The predictability of the National Bank's monetary policy actions has decreased

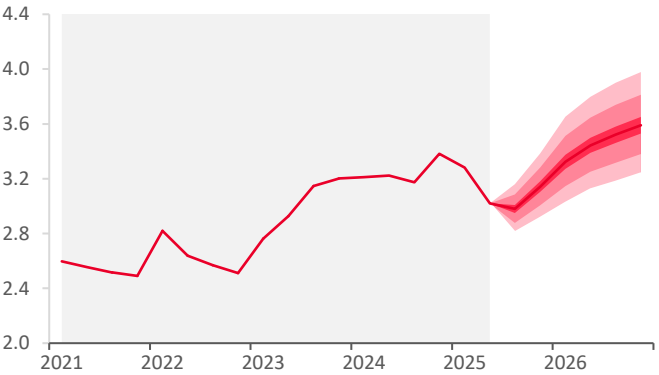
Monetary policy is becoming increasingly discretionary and taking on voluntaristic characteristics. Its stabilizing role has weakened, while the dependence of the National Bank on the executive branch has intensified. Since in Belarus the maximum effects of a monetary impulse on GDP and inflation are achieved within 9–12 months, it will be difficult to influence inflation in 2025 through monetary policy measures. However, for economic outcomes in 2026, the unpredictability of monetary policy is a significant factor of uncertainty.

The deficit in foreign trade in goods and services is projected to be around 2% of GDP in 2025, which will be accompanied by moderate pressure on the foreign exchange market

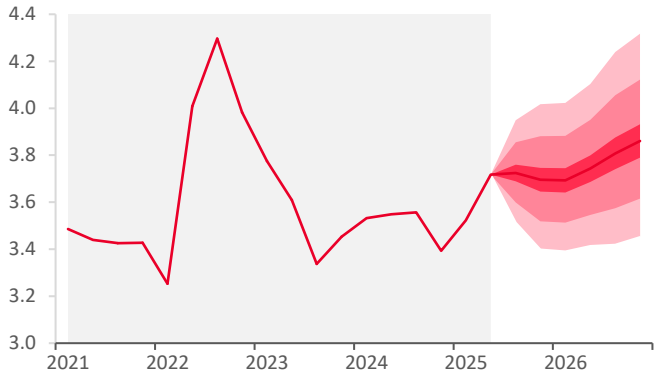
Overheated domestic demand – which will persist even amid a significant slowdown in its growth – and the weakening demand for Belarusian products in the Russian market create conditions for maintaining a moderate trade deficit. The increase in service exports will partially offset the negative goods balance, but the sustainability of such a compensatory mechanism is not predetermined.

Figure 12. Belarusian ruble exchange rate forecast (QPM-based)

a) USD/BYN (quarterly average)



b) 100*RUB/BYN (quarterly average)



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

Taking into account the stronger-than-expected Belarusian ruble in Q2-2025, the forecast for the weakening of the national currency over 2025 – in terms of the basket of foreign currencies – has been revised down to 1–3%. Assuming the USD/RUB exchange rate reaches 85–90 Russian rubles per dollar, the USD/BYN rate will amount to 3.1–3.2 Belarusian rubles per dollar by the end of 2025 (Fig. 12.a). In this case, the RUB/BYN rate is forecast to be around 3.5–3.7 Belarusian rubles per 100 Russian rubles in Q4-2025 (Fig. 12.b). At the same time, it is likely that some overvaluation of the Belarusian ruble will form in the second half of this year in the context of higher inflation in Belarus compared to Russia (Fig. 1).

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. Variables unobserved in the QPM (e.g., equilibrium (trendy) components of economic indicators) are estimated through the multivariate Kalman Filter. 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 (an annual inflation equivalent).

[iii] The nominal average rate on new term Belarusian ruble deposits decreased from 10.8% on average in Q1-2025 to 9.9% in Q2-2025, including interest rates on corporate deposits, which decreased from 10.7% to 9.6%, and interest rates on retail deposits, which increased from 12.2% to 12.6%.

[iv] The nominal average interest rate on new market bank loans in Belarusian rubles increased from 11.9% on average in Q1-2025 to 12.2% in Q2-2025; in particular, interest rates on business loans increased from 12.0% to 12.3%, and interest rates on retail loans – from 10.6% to 11.1%.