Belarus Economy Monitor:
trends, attitudes, and expectations

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Express Analysis

Economic Activity and Inflation

Economic Research Center
Tyrimų centras, VšĮ BEROC

https://beroc.org
beroc@beroc.org

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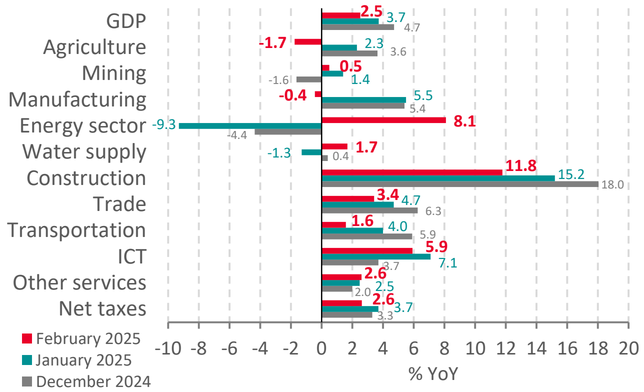
The Belarusian economy grew at a high pace in February 2025

Over the first two months of 2025, GDP grew by 3.1% YoY, while separately in February – by ≈2.5% YoY after +3.7% YoY in January (Fig. 1.a). The slowdown in annual growth was due to the calendar factor. Adjusted for seasonality, GDP volume in February increased significantly compared to January 2025, testing a new peak (Fig. 1.b). February's output growth was supported by a substantial increase in energy generation (following a comparable decline the previous month) due to the climatic conditions of the 2025 winter, as well as a rise in construction activity, which tends to be volatile. Consumer demand remained significantly overheated in February but did not increase further. Demand for Belarusian products in the Russian market showed signs of weakening. Under these conditions, maintaining a high level of output in the manufacturing sector (albeit without growth compared to January) was accompanied by a significant accumulation of inventories (Fig. 3.a).

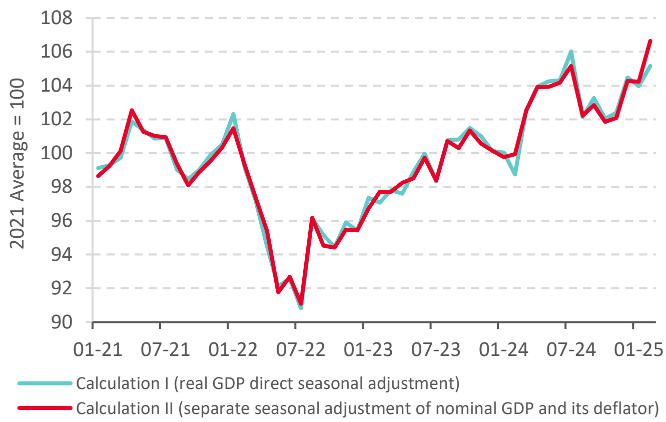
A large trade deficit and heightened inflationary pressure, constrained by price controls, indicate serious imbalances accumulating in the Belarusian economy. A significant shift in external conditions could lead to substantial fluctuations in economic activity. The change in the head of the National Bank has increased the likelihood of weakening the stabilization institutions in the areas of monetary and macroprudential policies that are extremely important during this period of heightened uncertainty

Figure 1. Dynamics of GDP and value added in Belarusian sectors

a) GDP growth, month versus the corresponding month of the previous year (%, YoY)



b) GDP volume at constant prices (seasonally adjusted)



Note: The estimates update once the data are verified. Monthly GDP data are estimates.

The industrial sector's value added grew by ≈1% YoY in February 2025 (≈2.8% YoY in January 2025)**, contributing about 0.3 p.p. to annual GDP growth** (Fig. 2.a)

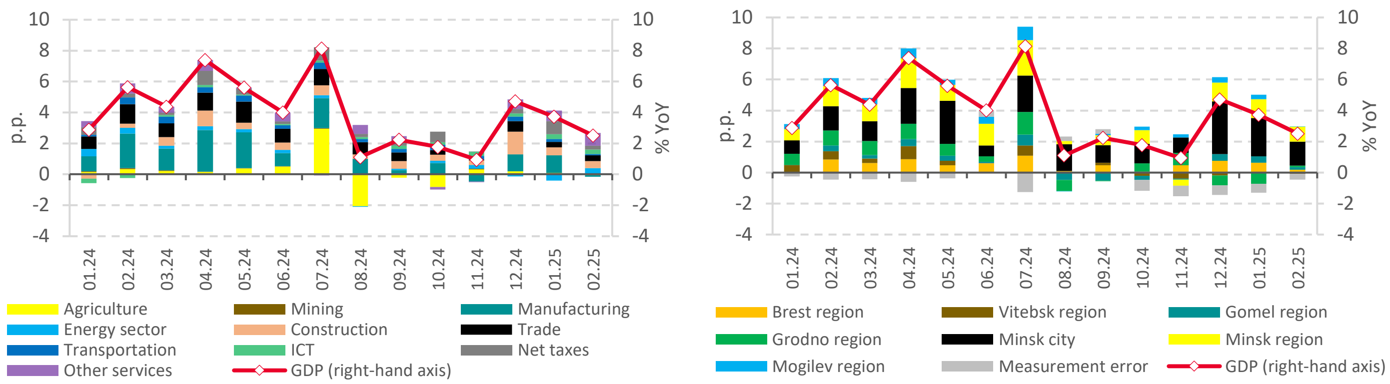
Industrial output (seasonally adjusted) in February grew by more than 2% compared to January 2025 (Fig. 3.a). This growth was driven by an increase in energy generation after a sharp decline the previous month: February 2025 turned out to be the coldest since 2021, following the warmest January in the entire period of meteorological observations.

Manufacturing output in February remained close to the January level, which is a high point, near record levels in many industries. The continued high production volume occurred against the backdrop of weakening retail and wholesale trade (Fig. 3.a), indicating no significant growth in consumer or external demand. At the same time, inventories increased significantly (Fig. 3.b). The inventory-to-output ratio returned to the high levels of June 2022 – August 2023, while the share of goods exports in total manufacturing output fell to the lowest levels of the same period (Fig. 3.b). Civilian mechanical engineering faced difficulties in sales due to high competition and slowing demand growth in the Russian market. Oil refining likely continued to recover (though inventory levels remained high), while potash production adjusted downward as expected. The food industry was likely increasing output, as indicated by a noticeable seasonally adjusted growth in livestock production in January-February.

Emerging conditions in the domestic and Russian markets – potentially signaling the start of a correction after overheating – suggest a slowdown in industrial growth. However, **if enterprises continue to build up inventories to meet gross output targets, this could sustain a significant trade deficit and worsen the financial position of organizations.**

Figure 2. Structure of YoY GDP growth in Belarus

a) sectoral b) regional



Note: The estimates update once the data are verified. The energy sector includes the water supply subsector.

Wholesale trade declined by ≈2.5% in February compared to January, while freight transportation showed a corrective increase (seasonally adjusted)

The restrained dynamics of wholesale turnover at the beginning of this year reflect a weakening of goods exports (Fig. 5.a). Freight turnover in February 2025 increased by almost 3% compared to January 2025 (seasonally adjusted). The growth in freight transportation at the beginning of the year was of a recovery nature after a downturn at the end of 2024 and may have been supported by increased industrial output. However, in the context of the decline seen in 2022–2023, this growth in freight turnover remains insignificant (Fig. 3.a).

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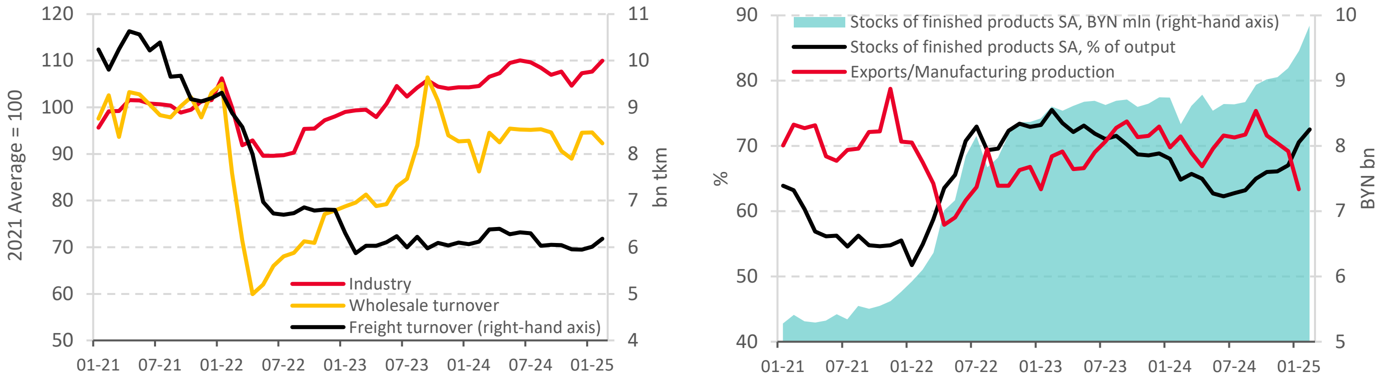
Recovery processes in the ICT sector are progressing at a slow pace

The value added in the information and communications sector grew by ≈5.9% YoY in February (Fig. 1.a), contributing ≈0.3 p.p. to annual GDP growth. After adjusting for seasonal factors, the volume of services in the sector did not show significant growth in January-February. The ICT sector still has substantial room for recovery: its value added in February 2025 remained more than 13% below the February 2022 level. However, realizing this potential is difficult without changes in interaction conditions with the U.S. and the EU.

Figure 3. Dynamics of industrial output, wholesale trade and transport freight turnover

a) real output in industry (SA), real wholesale trade (SA) and freight turnover (SA)

b) industrial stockpiles, and the ratio of goods exports to output



Note: SA is a seasonally adjusted indicator. The real volume of wholesale trade has been calculated by deflating the nominal volume by the wholesale trade price index. The real industrial output volume has been calculated based on the Belstat's Industrial Output Index in 2015 prices. The dynamics updates once new data are published.

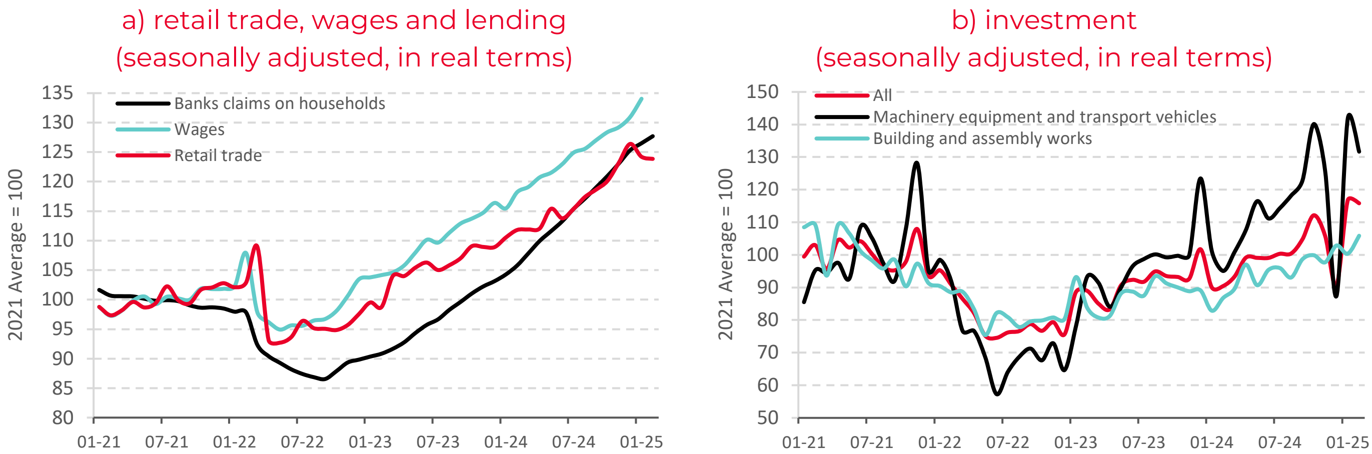
Consumer demand did not show growth in January-February 2025

Retail trade and catering turnover slightly weakened at the beginning of this year after a rapid surge at the end of last year (Fig. 4.a). The increase in interest rates contributed to high savings activity and a slowdown in lending to the population (Fig. 4.a). Additionally, the appreciation of the Belarusian ruble against the US dollar may have led to an increase in purchases of foreign currency by the population and a rise in foreign currency deposits by $258 million over two months. Despite the restrained dynamics at the beginning of the year, consumer demand remained extremely high: retail turnover was ≈24% above the 2021 average, and in the non-food segment, it was ≈38% higher. Given the high growth in wages and insufficiently tight lending conditions, the "cooling" of consumer demand will be a prolonged process, posing risks to external and domestic economic balance.

Investments adjusted downward in February after a January surge (Fig. 4.b)

Investments in machinery, equipment, and transportation declined in February, while construction activity showed a noticeable increase compared to January (Fig. 4.b). Compared to February 2024, the value added in construction increased by ≈11.8% YoY (Fig. 1.a), contributing ≈0.5 p.p. to annual GDP growth in February 2025 (Fig. 2.a). The level of investment relative to GDP remained close to the 2019 average. To maintain positions in domestic and foreign markets amid increasing competition, investment volumes need to rise, and their efficiency must be ensured. Without institutional reforms, the latter seems unlikely.

Figure 4. Retail trade and investment dynamics



Note: Real retail trade volume is calculated by deflating nominal volume by the Consumer Price Index for goods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. Real investment indicators have been calculated by deflating nominal investment by construction price indices. The indicator dynamics updates once new data are published.

Foreign trade in goods and services remained in deficit in January 2025 – slightly over $0.3 billion or 5% of GDP (seasonally adjusted)

The negative balance of trade in goods, after eliminating seasonal factors, remained close to the December level and is estimated at around $0.57 billion or 9% of GDP in January 2025 (Fig. 5.b). The value volume of goods exports remained almost unchanged compared to December, both in terms of deliveries to CIS countries (mainly to Russia) and other markets (Fig. 5.a). The depreciation of the Russian ruble against the US dollar at the end of last year negatively impacted the dollar value of Belarusian product sales in Russia. The physical volumes of exports to Russia likely remained close to peak levels but did not show growth or significant decline since mid-2024. The dynamics of shipments varied across different product categories. Exports of civil engineering machinery may have declined due to high competition in the Russian market and adjustments to investment plans by Russian businesses amid higher interest rates. Deliveries of machinery products related to the defense sector likely remained substantial, supported by the advance financing of government orders in Russia at the beginning of the year. The export of food products to the Russian market also likely remained high, as there is no total price control, and consumer demand has not declined. Exports to non-CIS countries stagnated at low levels in January (Fig. 5.a), reflecting the incomplete recovery of oil product shipments and a likely decline in prices for these products.

Imports of goods to Belarus remained elevated in January of this year (Fig. 5.b). Excess domestic demand continued to support a significant volume of imports. Moderating factors for imports from Russia included lower volumes of oil supplies combined with declining prices for Russian oil, as well as a likely reduction in the cost of natural gas due to the depreciation of the Russian ruble against the US dollar at the end of last year.

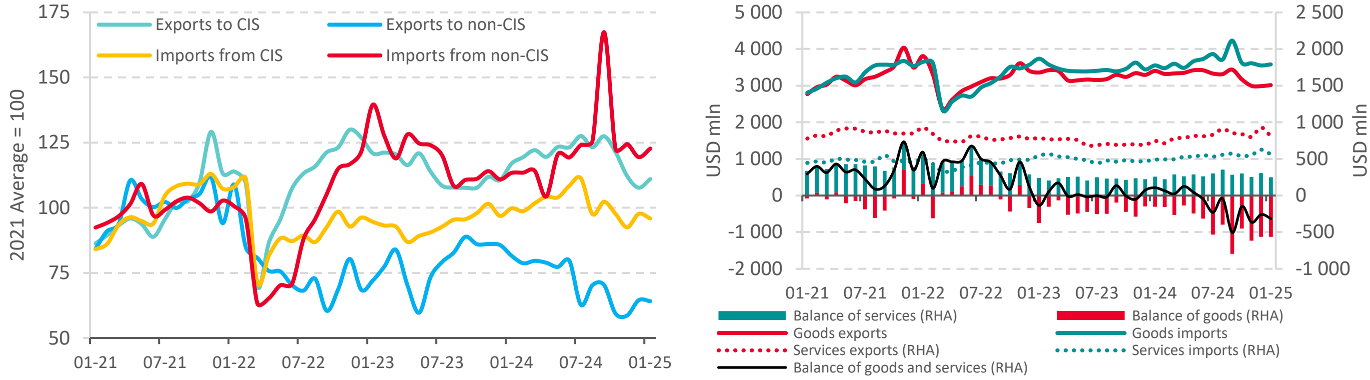
The trade surplus in services offset only 4 of the 9% of GDP trade deficit in goods in January 2025 (Fig. 5.b). As a result, the overall negative trade balance in goods and services of 5% of GDP remained significantly below the "norm" for Belarus, exerting pressure on the foreign exchange market. This pressure eased in February: after adjusting for seasonal factors, the market saw net foreign currency sales of around $64 million following a significant net purchase in January.

This change was driven by a reduction in firms' net demand for foreign currency from about $250 million in January to around $150 million in February, as well as net foreign currency sales by banks. This may indicate a slight reduction in the trade deficit in February, at least due to the positive impact of the strengthening Russian ruble against the US dollar in February on the dollar-denominated revenue of Belarusian exporters. Nonetheless, **with overheated demand in the Belarusian market and weakening dynamics in Russia, foreign trade is expected to remain in deficit throughout the year, sustaining moderate pressure on the foreign exchange market and the Belarusian ruble exchange rate.**

Figure 5. Dynamics of foreign trade indicators

a) value volumes of goods exports and imports (seasonally adjusted)

b) value volumes of foreign trade (seasonally adjusted)



Note: The indicator dynamics updates once new data are published.

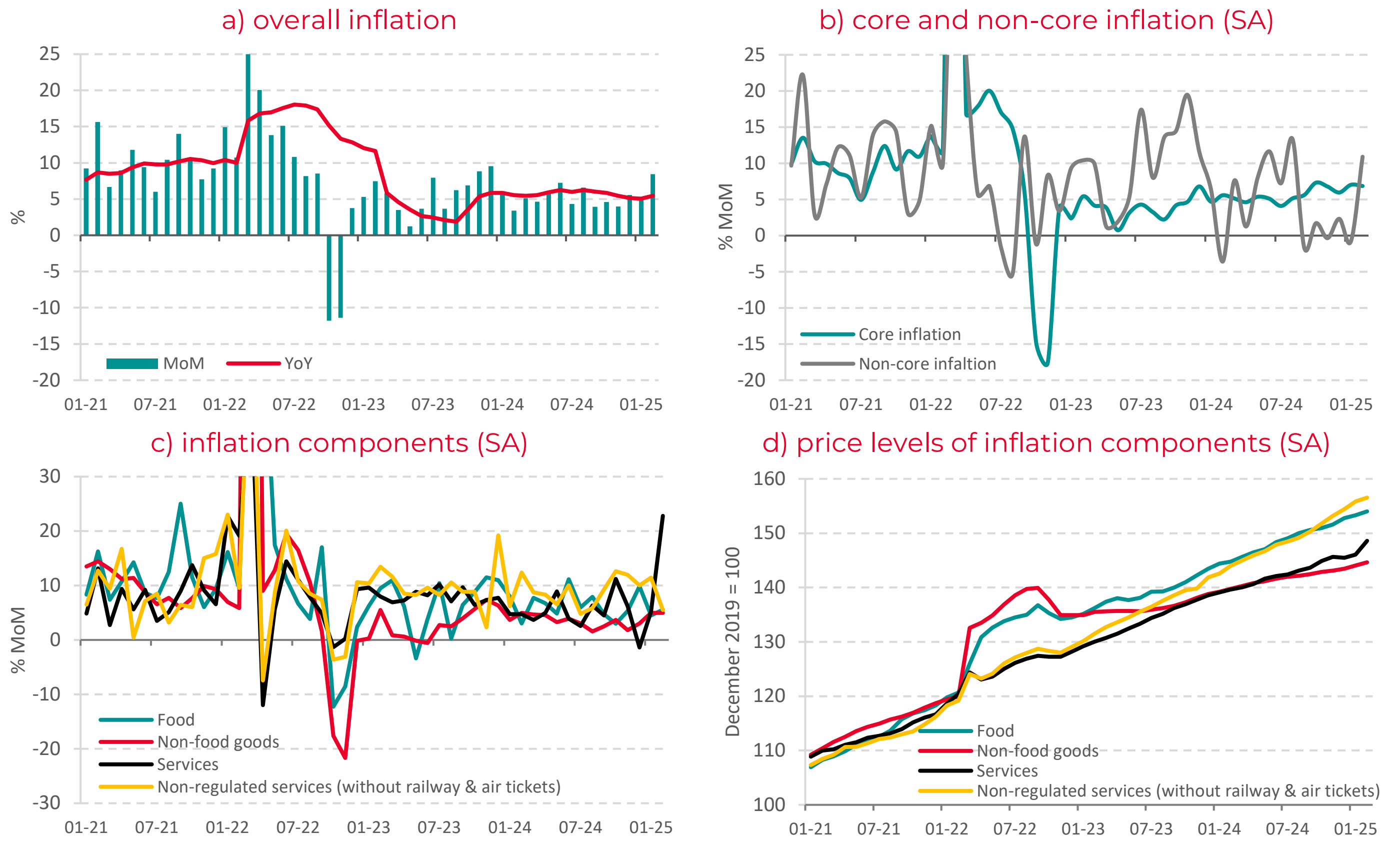
Inflation increased in February 2025 due to a significant acceleration in the growth of administratively regulated prices

Annual inflation rose from 5.15% YoY in January to 5.6% YoY in February, while the annualized monthly price growth is estimated at ≈8–9% (seasonally adjusted; hereinafter – MoM; Fig. 6.a).

The increase in inflation is attributed to a sharp rise in its non-core component – from nearly -1% MoM in January to ≈11% MoM in February (Fig. 6.b). This surge is entirely explained by a rise in administratively regulated prices and tariffs, which grew by ≈14% MoM in February following five months of extremely restrained dynamics. The tariffs for housing and utility services, as well as communications, increased significantly more than the typical February adjustment, leading to a surge in service price growth to ≈23% MoM in February (Fig. 6.c). Likely, the authorities aimed to partially compensate for the extremely weak growth in regulated service prices since September last year amid rising costs in the economy.

The second component of non-core inflation – prices for fruits and vegetables – declined by more than 10% MoM in February under strict price controls for this category. Additionally, the cost of imported natural gas from Russia may have significantly decreased following the weakening of the Russian ruble against the US dollar at the end of last year. This could have reduced production costs for greenhouse vegetables, as indirectly indicated by a significant slowdown in monthly price growth for crop production in January–February (seasonally adjusted), while the dynamics remained elevated in livestock farming (over 10% MoM).

Figure 6. Inflation dynamics in Belarus



Note: YoY (year-on-year) is a monthly growth rate versus the corresponding month of the previous year; MoM (month-on-month) is an annualized monthly growth rate (seasonally adjusted) versus the previous month. SA is a seasonally adjusted indicator. The dynamics updates once new data are published.

Core inflation remained close to ≈7% MoM in February 2025 (Fig. 6.b)

Some acceleration in food prices growth offset the slowdown in inflation for non-regulated services (Fig. 6.c). Regarding food products, price growth for meat and dairy products increased, likely reflecting the impact of the weakening Belarusian ruble against the Russian ruble amid high inflation in Russia. Coffee and confectionery continued to rise at double-digit rates due to increasing global prices. Additionally, catering prices have been steadily rising by more than 12% MoM due to high consumer demand. Prices for non-food products have increased by nearly 5% MoM over the past two months (Fig. 6.c). This is a relatively low pace given the overheated economy and significantly increased labor costs, largely due to price controls.

Inflation in non-regulated services slowed to ≈5.5% MoM in February (excluding highly volatile international rail and air transportation; Fig. 6.c). The strengthening of the Belarusian ruble against the US dollar and the euro resulted in lower ruble prices for apartment rentals (-12% MoM in February), digital television (-4.1% MoM), and tourism services (-22.3% MoM). Categories reflecting consumer demand and labor cost pressures continued to see significant price increases in February: market-based household services (over 12.5% MoM), cultural and sanatorium services (27.9% MoM and 12.7% MoM, respectively), fitness and sports (8.8% MoM), medical and veterinary services (8.7% MoM and 26.6% MoM), and taxi fares (16.2% MoM). The price level for non-regulated services continued to deviate upward from non-food products prices – indicating that the inflationary overhang did not decrease in February (Fig. 6.d).

Annual inflation is expected to remain close to February levels in the coming months, likely rising slightly due to increased cost pressures and high price growth in Russia, combined with the weakening of the Belarusian ruble against the Russian ruble since the beginning of the year.

Amid high inflationary risks and an overheated economy, market-based monetary policy stimuli have been continuously narrowing since late 2023, albeit with delays and on an insufficient scale. However, the change of the head of the National Bank in March 2025 has increased uncertainty regarding the regulator's future steps in monetary policy

The likelihood of further restrictions on the National Bank's autonomy and a shift toward a pro-cyclical monetary policy has risen, including through an expansion of directed lending and increased resistance of the National Bank to monetary tightening. Such developments would weaken stabilization institutions, increasing the risks of heightened volatility in economic activity and household incomes in response to external shocks. Signs of this shift would include halting the increase in estimated values of standard risk, a growing gap between the average interest rate on new market loans and the average rate on all new loans, a reduction in publicly available statistical data and analytical information, and a shift in focus from inflation to credit support for the economy in the National Bank's policy explanations. If these signals do not emerge in the coming months, it will be possible to speak with greater confidence about the continuity of the current monetary policy approach.

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