

## Economic growth in Belarus slowed in Q2-2025 amid intensification of inflationary processes

### Current situation

**Belarus' GDP grew by 1.1% in Q2-2025 YoY after an increase of 3.2% YoY in the previous quarter.** When eliminating the seasonal factor, GDP growth for Q2-2025 is estimated to be near zero. As a result, output volume remained at a historical peak and significantly exceeded its balanced level.

**Consumer demand slowed in Q2-2025.** It was constrained by the weakening of household lending under the influence of the National Bank's directive restrictions for banks, as well as a decline in consumer confidence. Wage growth supported household spending, but its pace slowed in real terms. Thanks to strong growth in 2023–2024, the level of consumer demand remained elevated –  $\approx 28\%$  higher than the 2021 average in real terms.

**Investment slowed in Q2-2025, likely amid high uncertainty about demand prospects in the Belarusian and Russian markets.** The size of investment relative to GDP remained close to the 2019 level, when the potential GDP growth rate was estimated at about 1.5–2% per year. Therefore, all else equal, the scale of investment activity is insufficient for sustainable economic growth above 2% per year in the long term.

**The deficit in foreign trade in goods and services remained significant, but its size narrowed thanks to positive exchange rate effects and increased exports of services.** The deficit is preliminarily estimated at around 1.4% of GDP in Q2-2025 after 2.4% of GDP in the previous quarter (*seasonally adjusted*). The reduction in the negative foreign trade balance, combined with increased foreign currency sales by the population, led to the formation of a net supply of foreign currency in the domestic market. As a result, the Belarusian ruble exchange rate was close to its equilibrium level, and gold and foreign exchange reserves fully covered the potential risky volume of currency outflow.

**The severity of the labor shortage problem did not ease in Q2-2025.** The unemployment rate fell to a new historical low of 2.6% of the labor force in Q2-2025. The lack of workers limited the pace of expansion of the economy's potential and stimulated wage growth. Amid increased inflation, wage growth in real terms slowed. As a result, the extent to which real wages exceeded their balanced level did not increase in Q2-2025, while remaining close to the maximum level since mid-2014.

**Overheated domestic demand and labor market exerted upward pressure on prices.** Inflation rose to  $\approx 10\text{--}11\%$  QoQ in Q2-2025 (*annualized quarterly price growth, seasonally adjusted*). Price controls limited the pass-through of pro-inflationary factors into prices, but their restraining effect diminished in Q2-2025.

**Economic policy did not demonstrate a clear focus on combating economic overheating and high inflation.** The consolidated budget was close to balance at the end of the half-year. The high level of revenues amid an overheated economy made it possible to finance an increased volume of expenditures. Interest rates on loans and deposits declined in real terms due to higher inflation and inflation expectations. The lowering of rates supported credit activity. At the same time, the slowdown in credit portfolio growth was largely the result of the National Bank's directive instructions to banks to limit retail lending growth.

## GDP growth is forecast to be near 2% in 2025, followed by a slowdown to 0–1.5% in 2026

### Forecast

**The impact of interest rates on economic activity is expected to be moderately stimulative in H2-2025 – 2026.** Lending growth will be constrained by the National Bank's directive limits on the expansion of retail loan portfolios by banks, as well as high uncertainty over demand growth prospects in Russia and in the domestic market.

**Fiscal policy will cease to be stimulative for economic activity.** The room for increasing already high expenditures is being exhausted, as with slowing economic growth, an increase in budget revenues becomes less likely and requires more active borrowing.

**The economy will “cool down” slowly in the medium term in the absence of strong external shocks.** The return to equilibrium is expected to be prolonged, as the degree of overheating in Q2-2025 remained close to record levels since 2014, and overall not a tough economic policy will continue to support a high level of domestic demand. Nevertheless, economic activity growth will weaken, as there are insufficient resources for a significant increase in stimulus, and demand in Russia has completed its active growth phase and entered a corrective “cooling” phase. The limited availability of labor and capital resources will also constrain the pace of potential output growth. As a result, GDP growth is forecast to be near 2% in 2025, followed by a slowdown to 0–1.5% in 2026. At the same time, output dynamics in the second half of 2025 will be highly volatile due to shifts in agricultural work. Wages will continue to grow in 2025–2026, but at a slower pace compared to 2023–2024.

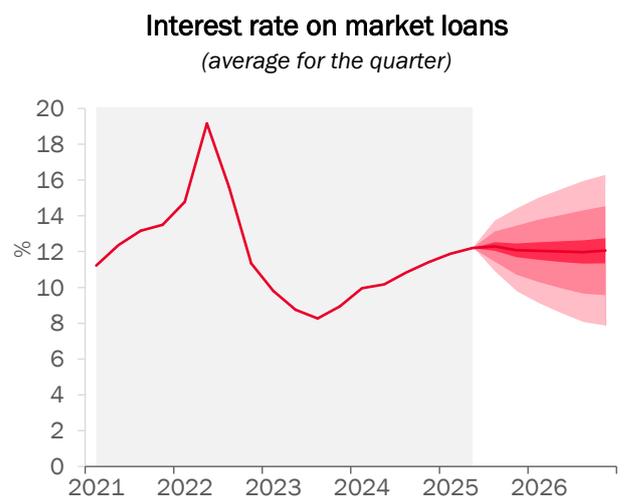
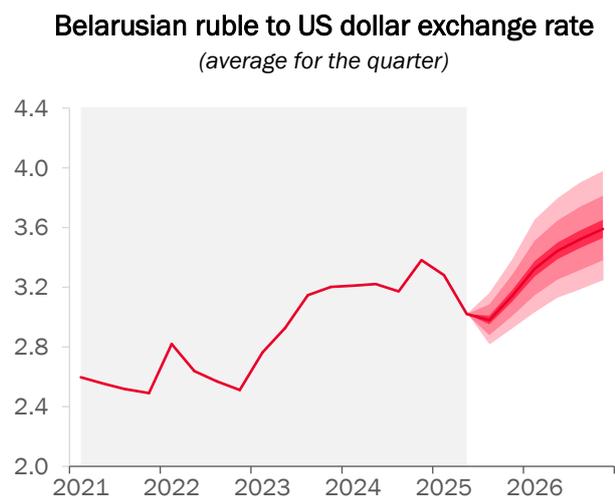
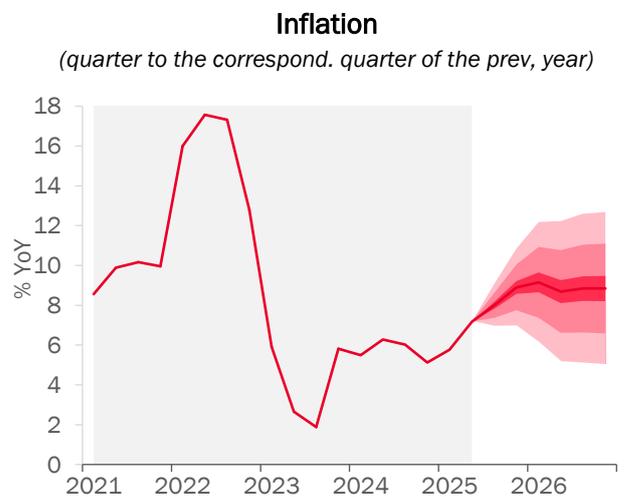
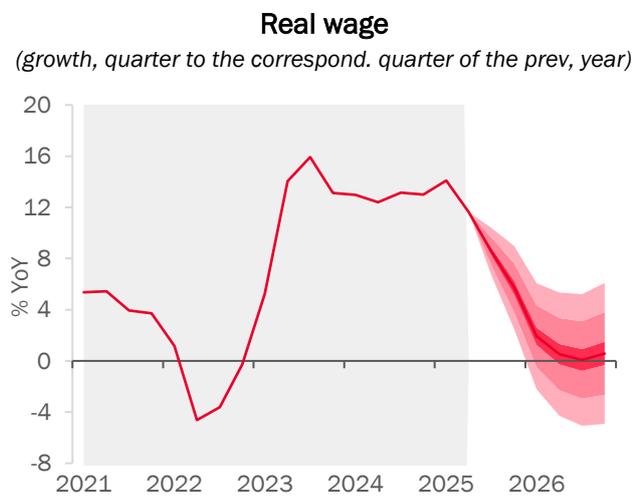
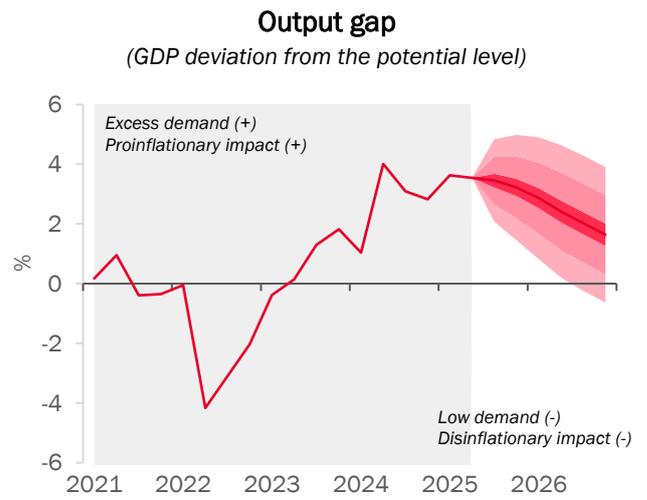
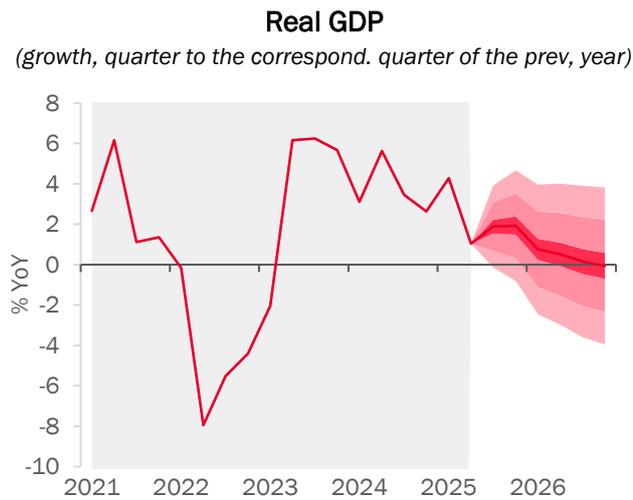
**Inflation is moving toward the upper bound of the 7–9% YoY forecast for the end of 2025.** Price pressures will remain high in the second half of this year amid excessive domestic demand, increased labor costs, and accumulated inflationary overhang. No pro-inflationary impact from the external sector is expected. Since the baseline scenario assumes that the scale of pro-inflationary pressure will not increase, inflation in 2026 is expected to remain within the same range of 7–9% YoY.

**The tolerance threshold of the Belarusian authorities for rising inflation is not sufficiently predictable.** The approach of price growth to double-digit rates and growing public concern over it may lead to restoring the priority status of inflation containment in economic policy. In this regard, tightening of price controls cannot be ruled out, although it is not assumed in the baseline scenario. There is also the possibility of tightening monetary conditions, especially amid reduced predictability of the National Bank's actions. Unpredictable monetary policy is a significant factor of uncertainty for next year's economic performance.

**Overheated domestic demand and slowing growth in demand for Belarusian products in the Russian market create conditions for maintaining a moderate foreign trade deficit in goods and services at around 2% of GDP in the medium term.** In such conditions, the Belarusian ruble may lose about 1–2% of its value in terms of the foreign currency basket by the end of 2025 and around 6–8% in 2026. The still-present possibility of higher-than-expected foreign currency sales by the population may lead to a stronger ruble compared to the baseline forecast.

**Risks to the baseline scenario remain high not only from domestic economic policy but also from external conditions.** The U.S. sanctions policy toward Russia and Belarus, and especially its impact on the economies, is highly uncertain. There is a tangible probability not only of tightening sanctions but also of easing them, which would support higher “healthy” economic growth in Belarus in 2026 compared to the baseline forecast.

# 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.