Belarus Economy Monitor: trends, attitudes, and expectations

Express Analysis

Economic Activity and Inflation

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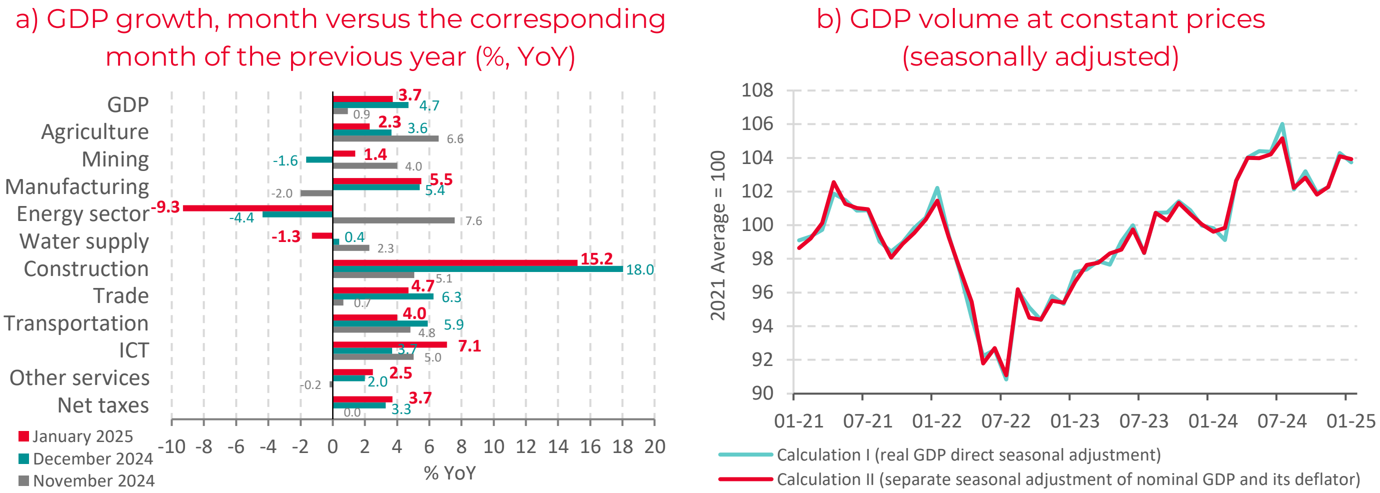
Economic activity in Belarus remained high at the beginning of the current year

Belarus's GDP grew by 3.7% YoY in January 2025 after increasing by 4.7% YoY in December 2024 (Fig. 1.a). The GDP volume (seasonally adjusted) in January 2025 declined by ≈0.2–0.5% compared to December 2024 but remained near peak levels (Fig. 1.b). A decline in energy generation due to record warm temperatures in January negatively impacted output. Consumer demand corrected downward after accelerated growth in November-December 2024. The manufacturing sector supported GDP at the beginning of the year, possibly receiving a temporary boost from significant budget injections in Russia in December 2024 – January 2025 as part of advance payments for government procurement.

As budget spending normalizes and demand growth in Russia weakens, Belarus's output dynamics will slow due to limited production capacity and a labor shortage. Consumer demand growth will also decelerate under the impact of expected increases in interest rates on loans and deposits and a slowdown in wage growth. At the same time, GDP volume and domestic demand will exceed balanced levels, since "cooling" after serious overheating will be a long process (in the absence of strong external shocks).. As a result, inflationary pressure will remain elevated.

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



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

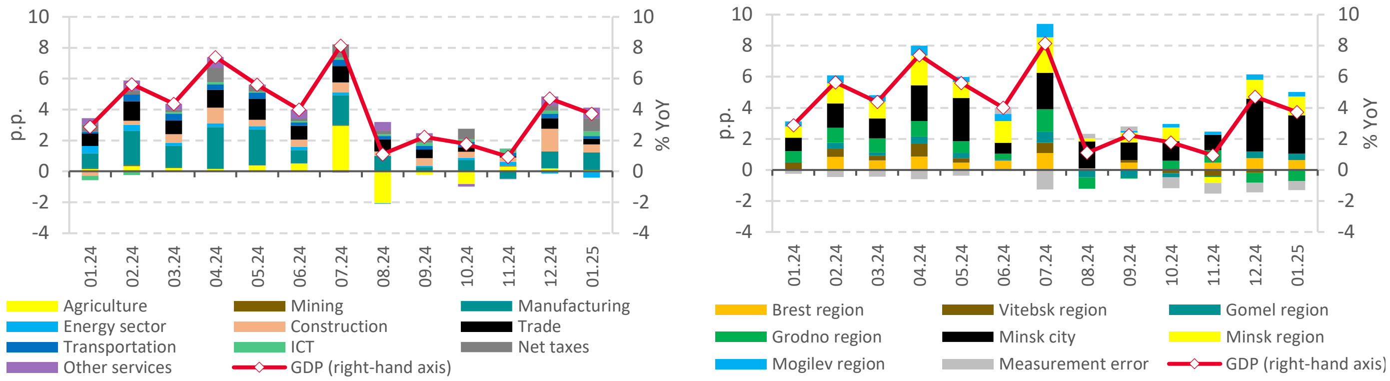
The industrial sector's value added grew by ≈2.8% YoY in January 2025 (≈3.9% YoY in December 2024)**, contributing about 0.7 p.p. to annual GDP growth** (Fig. 2.a)

Industrial output (seasonally adjusted) in January 2025 remained near the December 2024 level (Fig. 3.a). A more than 9% YoY decline in energy generation due to record warm temperatures in January constrained production dynamics. At the same time, the manufacturing sector expanded, with the main contributions to growth coming from Minsk, Minsk Region, and Gomel Region. It is possible that these regions saw increased output in mechanical engineering and metallurgy, which may have been supported by significant budget injections in Russia in December 2024 – January 2025 as part of advance payments for government procurement. An increase in oil refining and potash fertilizer production is also likely. In both cases, this could be accompanied by a significant increase in inventory levels (Fig. 3.b). In terms of potash fertilizers, one cannot rule out the impact on the short-term growth of their production and stocks of the six-month repairs announced in January at one of Belaruskali's mines.

As budget spending normalizes and demand growth in Russia weakens, Belarus's industrial production dynamics will slow due to limited production capacity and a labor shortage. In January-February 2025, accumulated industrial growth is expected to decelerate to 1% YoY or lower, partially due to the calendar effect (more days in February 2024 compared to February 2025).

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.

The growth of the manufacturing sector supported the dynamics of wholesale trade and freight turnover at the beginning of the year

Wholesale turnover showed near-zero growth compared to December 2024 (seasonally adjusted; Fig. 3.a). It cannot be ruled out that goods exports saw some corrective growth in January 2025 following weak performance at the end of the previous year (Fig. 5.a). At the same time, the partial storage of manufactured products in warehouses constrained the dynamics of wholesale trade turnover.

Freight turnover increased by approximately 0.9% compared to December 2024 (seasonally adjusted). However, this was not enough to offset the decline seen in October – December 2024, as the freight turnover volume remained almost 40% below the average level of 2021 (Fig. 3.a).

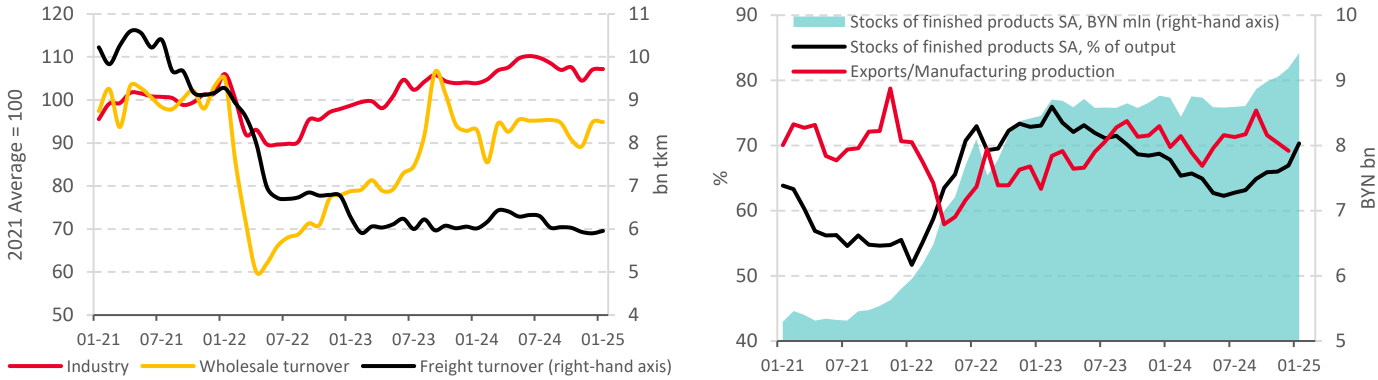
The ICT sector continued to recover at a restrained pace in early 2025

The value added in the information and communications sector increased by 7.1% YoY in January (Fig. 1.a), contributing approximately 0.3 p.p. to annual GDP growth. When adjusted for seasonal factors, the volume of services in the sector did not show significant changes in January 2025 compared to December 2024. The ICT sector still has significant room for recovery: its value added in January 2025 remained more than 12% below the level of January 2022.

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 remained high in January 2025 but declined slightly compared to the end of the previous year (seasonally adjusted)

The weakening of retail trade in January 2025 may be of a corrective nature following the accelerated growth seen in November-December 2024 (Fig. 4.a). The growth of household lending also slowed at the beginning of the year. It is possible that rising interest rates and tighter non-price lending conditions by banks are beginning to affect consumer demand and credit activity. However, it is too early to determine the sustainability of this "cooling" of consumer activity. Its level remained elevated, and in terms of goods consumption, it was nearly 25% higher than the average monthly level of 2021 in real terms (Fig. 4.a). In order to slow the growth of credit and consumption, the National Bank at the end of February raised the estimated values of standard risk (EVSR) for market loans to the population by 0.47 p.p., and to firms – by 0.37 p.p. Since excessive demand contributes to a persistent trade deficit and significant inflationary pressure, there is a high probability of a further increase in EVSR.

Investments grew in January 2025, but their dynamics in recent months have been highly volatile (Fig. 4.b)

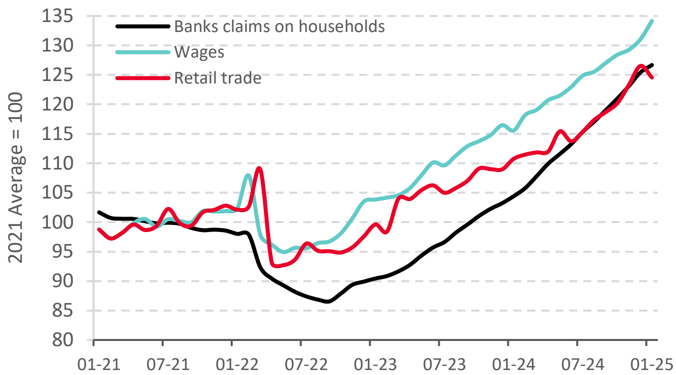
The sharp fluctuations in capital investments in recent months may reflect statistical accounting features, complicating the analysis of their trends. Setting aside this excessive volatility, investments have remained on a moderate growth trajectory. An increase in investments will contribute to the growth of Belarus's economic potential. However, the potential GDP growth rate is estimated at around 1.5–2% per year, and the scale of investment activity appears insufficient for its sustainable increase. For instance, investment in machinery, equipment, and transport vehicles relative to GDP has only now approached 2019 levels, when the potential GDP growth rate was 1–1.5% per year.

Investment growth in January 2025 was concentrated in organizations with predominantly private and foreign ownership. The share of the latter in the total investment volume rose to 7.9% in January 2025 (1.8% in January 2024 and 5.1% overall for 2024).

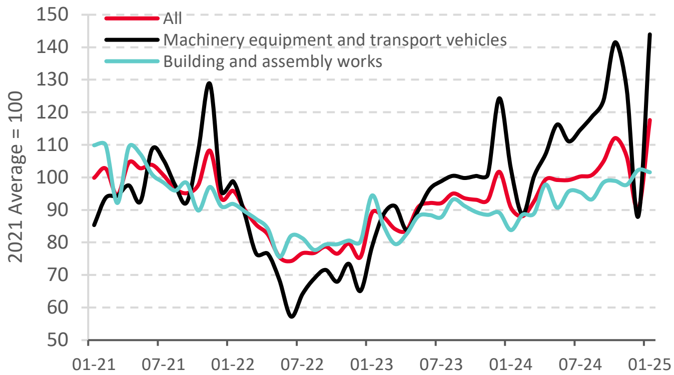
The volume of construction work within total investment declined slightly in January 2025 compared to December 2024, after adjusting for seasonal effects (Fig. 4.b). However, thanks to growth last year, the value added in construction in January 2025 was 15.2% higher than in January 2024 (Fig. 1.a), contributing 0.5 p.p. to annual GDP growth in January 2025 (Fig. 2.a).

Figure 4. Retail trade and investment dynamics

a) retail trade, wages and lending (seasonally adjusted, in real terms)



b) investment (seasonally adjusted, in real terms)



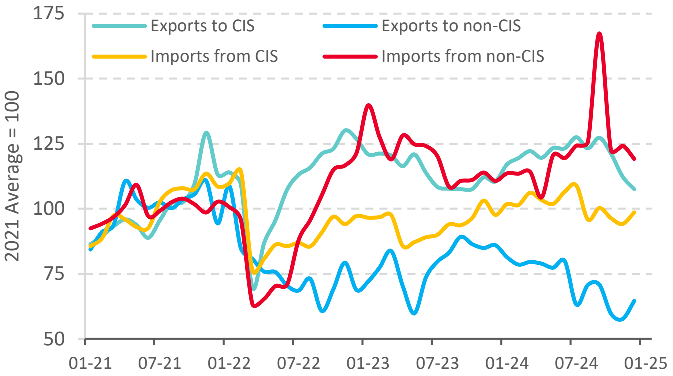
Note: Real retail trade volume is calculated by deflating nominal volume by the Consumer Price Index for goods. Real wage has been calculated by deflating the nominal wage by the Composite Consumer Price Index. Real investment indicators have been calculated by deflating nominal investment by construction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

Foreign trade in goods and services ended 2024 with a deficit for the first time since 2019 – $1.3 billion (or 1.7% of GDP)

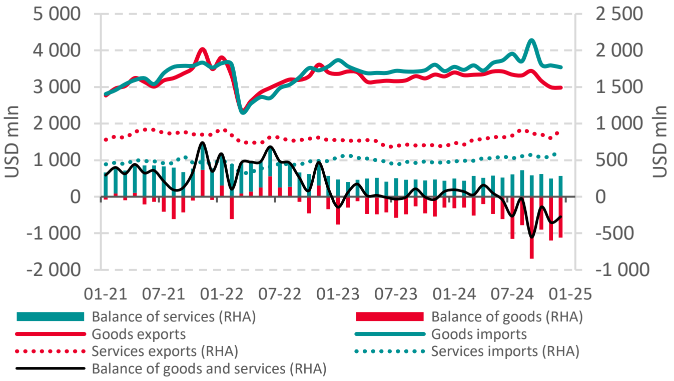
The foreign trade balance turned negative in the second half of the year, with the deficit estimated at around 4% of GDP in Q3 and Q4, including approximately 4.4% of GDP in December 2024 (seasonally adjusted; Fig. 5.b). For Belarus, a "normal" foreign trade balance ranges from a small deficit within 0.5% of GDP to a slight surplus of about 1% of GDP. The overheating of domestic demand, combined with a slowdown in exports due to limited production capacity and increased competition in Russia, created conditions for the shift from a surplus to a moderate trade deficit. However, the significant expansion of the negative balance resulted from a number of temporary negative factors, including reduced oil product exports in the second half of the year, a surge in imports ahead of the EU's June sanctions package taking effect in October, and an increase in vehicle recycling fee in Russia, which was also raised in Belarus at the beginning of this year (Fig. 5.a). In the current year, foreign trade will remain in deficit, within 2% of GDP, due to the anticipated persistence of excessive domestic demand.

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)



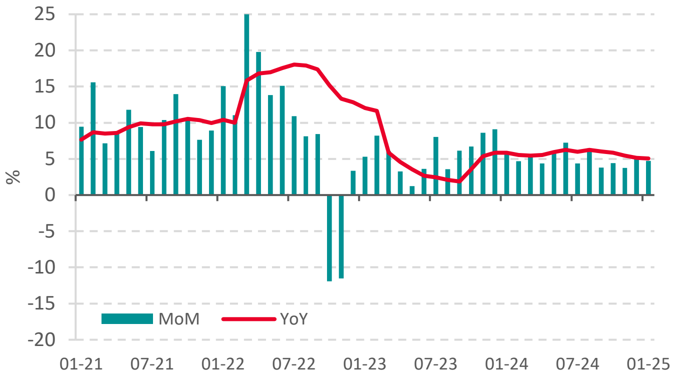
Note: The indicator dynamics updates once new data are published.

Inflation remained contained in January 2025: the annual rate stood at 5.15% YoY, while the annualized monthly price growth remained around 4.5–5% MoM (seasonally adjusted; hereinafter – MoM; Fig. 6.a)

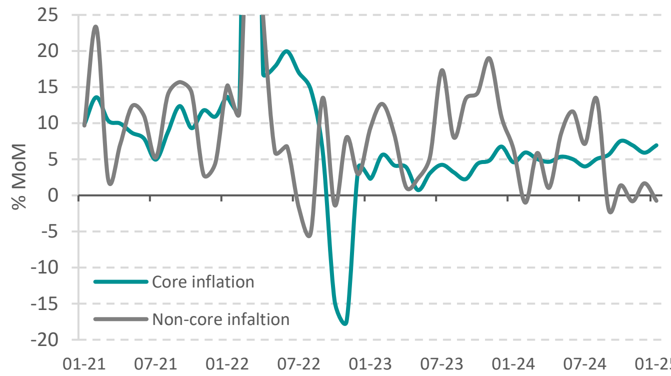
As in previous months, inflation was restricted by the weak dynamics of its non-core component (administratively regulated prices and tariffs, as well as prices for fruits and vegetables). Prices of non-core items in the consumer basket declined by ≈0.7% MoM in January 2025 (Fig. 6.b). Fruit and vegetable prices fell by more than 22% MoM in January due to strict price controls on this category of goods. Regulated prices increased by only 2.6% MoM in January, as authorities continued to adhere to a conservative approach to price adjustments.

Figure 6. Inflation dynamics in Belarus

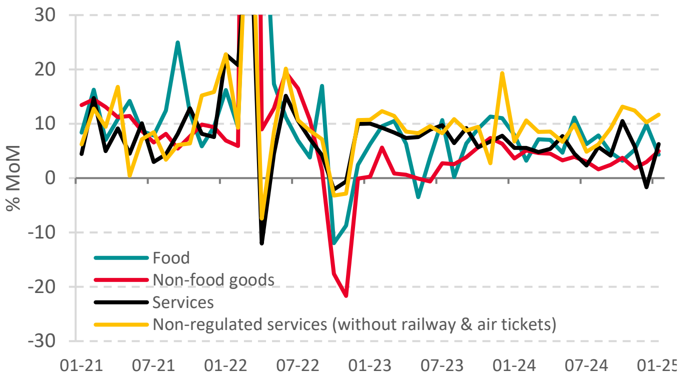
a) overall inflation



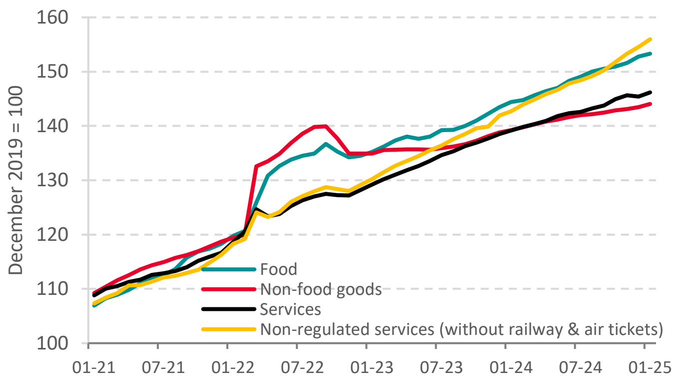
b) core and non-core inflation (SA)



c) inflation components (SA)



d) price levels of inflation components (SA)



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 rose to ≈6.9% MoM in January 2025 (Fig. 6.b)

The key driver of inflation in its core categories remained non-regulated services, with prices rising by nearly 12% MoM in January 2025 (excluding highly volatile international rail and air transportation; Fig. 6.c). The median price increase for this group of services is estimated at ≈12.5% MoM in January, while the most "heavy-weighted" category – household market services – rose by more than 15% MoM. Elevated inflation in non-regulated services reflects the imbalanced state of the Belarusian economy, characterized by overheated domestic demand and a tight labor market. Price growth for food and non-food goods remained moderate, not exceeding 5% MoM in January due to price controls (Fig. 6.c).

The price level for non-regulated services has already exceeded the price level for non-food goods by more than 8% (Fig. 6.d). This highlights distortions in the price dynamics of individual consumer basket components due to a combination of strict price controls in the goods sector and a loose domestic economic policy that fuels excessive demand. The accumulated inflationary overhang poses risks to macroeconomic stability.

Inflation will likely remain within 5.5% YoY in the coming months but could accelerate to 6–8% YoY during the year if authorities decide to ease price regulation

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