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The Belarusian economy slowed down in Q4-2024, but GDP remained high amid a loose domestic economic policy

Current situation

Belarusian GDP grew by 4% in 2024, with an increase of 2.4–2.5% YoY in Q4-2024, following a 3.8% YoY increase in the previous quarter. GDP remained near its historical peak, exceeding the balanced level by ≈2.4%. Economic overheating remained significant, though its scale decreased in the second half of the year. This was driven by weakening exports and a slow increase in production potential due to moderate investment growth.

A labor shortage remained the most significant constraint on economic growth. The unemployment rate was below 3% of the labor force in Q4-2024, with fewer than 0.9 unemployed persons per job vacancy. The labor deficit limited the rate of production capacity expansion and pushed employers to raise wages: in Q4-2024, wages remained on a rapid growth trajectory, exceeding the 2021 average level by nearly 30% in real terms.

Consumer demand grew at a high pace amid a substantial increase in household incomes. Real household expenditures in Q4-2024 were more than 23% above the 2021 average. The expansion of lending and household optimism served as additional drivers of consumption. The Consumer Confidence Index *(calculated using Eurostat methodology)* reached a new peak of 3% in February 2025 (0.4% in November 2024).

Foreign trade in goods and services turned into a deficit due to weakened export dynamics and excessive domestic demand. The deficit reached 1.7% of GDP in 2024, exceeding Belarus's "norm". The shift to a trade deficit put pressure on the currency market, which intensified by late 2024, but was partially offset by the largest net foreign currency sales by households since 2017. As a result, the Belarusian ruble remained near its equilibrium level in terms of the real effective exchange rate.

Demand-driven and labor market inflationary pressures remained significant, but price growth was constrained by administrative measures. Inflation fluctuated around 4–5% MoM *(annualized monthly price growth, seasonally adjusted)* from September 2024 to January 2025. Inflation suppression through non-market measures was evident in record-low growth in regulated prices and weak price dynamics in the goods sector. However, unregulated services continued to rise sharply in price, reflecting the imbalanced state of the economy – overheated domestic demand and a tight labor market.

The National Bank did not take active monetary policy measures in Q4-2024 and relied on price controls to meet the inflation target. Despite the National Bank's passive stance, interest rates on ruble loans and deposits rose toward the end of the year due to external factors, primarily high rates in Russia. Although interest rates exceeded neutral levels, they did not significantly restrict credit accessibility. Lending and money supply continued to expand actively, with their growth in 2024 significantly exceeding the National Bank's target ranges.

Fiscal policy did not demonstrate a focus on actively addressing accumulated imbalances. According to our estimates, government expenditures grew by 5–6% in real terms last year, exceeding GDP growth, indicating a stimulative fiscal policy. However, due to a strong increase in budget revenues amid economic overheating and grants from Russia, the consolidated budget of Belarus was likely executed with a small surplus in 2024.

Economic growth in Belarus to slow from 4% in 2024 to 1.5–2% in 2025, with elevated inflationary pressure and foreign trade deficit

Forecast

Economic policy will remain moderately loose in 2025. Fiscal stimulus will continue in 2025, though at a smaller scale than in 2023–2024, according to government plans. The National Bank will strive to prevent the easing of monetary conditions, but will continue to be late in responding to inflation risks. An increase in the refinancing rate and a return to auction operations to regulate the liquidity of the banking system cannot be ruled out, but the use of auxiliary instruments (estimated values of standard risk, reserve requirements, other prudential measures) seems more likely. Interest rates on loans and deposits will rise moderately and remain slightly above neutral levels, including due to the impact of high rates on the financial market in Russia. However, monetary conditions will not impose significant restrictions on domestic demand, and the Belarusian economy will continue to operate in a state of excessive demand.

GDP growth will slow from 4% in 2024 to 1.5–2% in 2025. With a labor shortage, fully utilized production capacity, insufficient investment for their rapid expansion and sustainable increase in labor productivity, monetary stimuli will yield diminishing returns in terms of output growth. Instead, they will primarily fuel consumer demand and sustain high imports. Increased competition in the Russian market and the expected slowdown in the growth of the Russian economy will further restrain output and exports of Belarusian goods. As a result, foreign trade will remain in deficit in 2025, in the baseline scenario – within 2% of GDP. This will exert pressure on the Belarusian ruble, which may depreciate by 4–6% against the currency basket over the year.

Inflationary pressures will remain dominant this year. The accumulated inflationary overhang, combined with excessive demand, high labor costs, and rising prices in Russia, will sustain strong inflationary pressure in Belarus. If authorities choose to ease price regulation, inflation will accelerate from 5.2% in 2024 to 6–8% in 2025.

Forecast uncertainty remains high, with significant risks of deviations from the baseline scenario. The economy faces substantial risks from potential new sanctions, reduction (and not a slowdown in growth to 1–2%) of Russia's GDP, and a marked weakening of global trade and the global economy. On the other hand, if Russian GDP growth remains above 2.5% in 2025, it could create more favorable conditions for increased investment in productivity growth in Belarus and may temporarily sustain GDP growth above 3%.

Domestic economic policy remains a source of risks to macroeconomic stability. The government's targets for 4.1% GDP growth and inflation within 5% in 2025 appear contradictory. Belarus entered 2025 with an overheated economy, while the sustainable GDP growth rate under current resource, technological, and institutional constraints is estimated at around 1.5–2% per year. If the Russian economy slows to 1–2% growth in 2025, the only way to achieve Belarus's 4.1% GDP growth target would be through aggressive fiscal and monetary stimulus. This would increase excess demand, drive inflation higher, and intensify pressures on external trade, the currency market, and the ruble exchange rate beyond the baseline scenario. If the authorities significantly relax price controls to meet the GDP growth target, inflation could accelerate to 10% or slightly higher in 2025.

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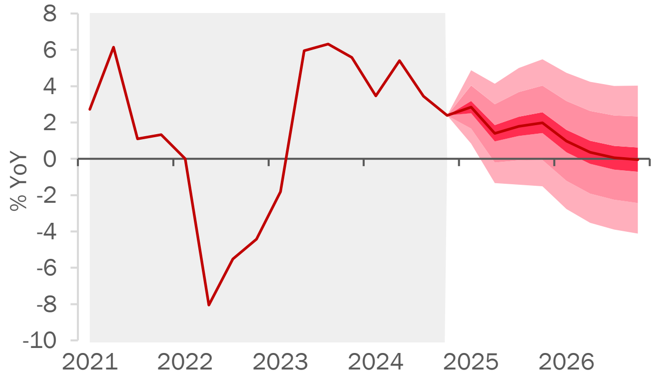
Dynamics and Forecast of Economic Indicators of Belarus

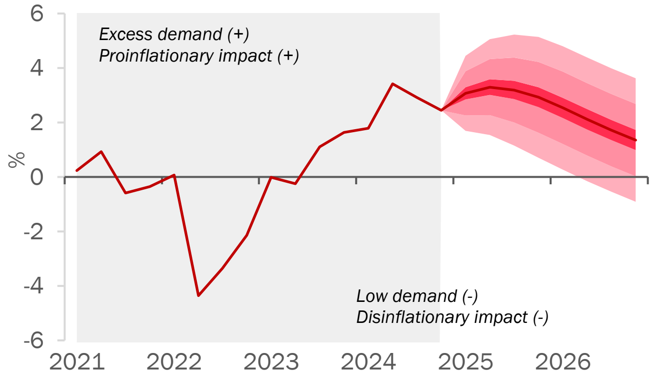
Real GDP

(growth, quarter to the correspond. quarter of the prev, year)



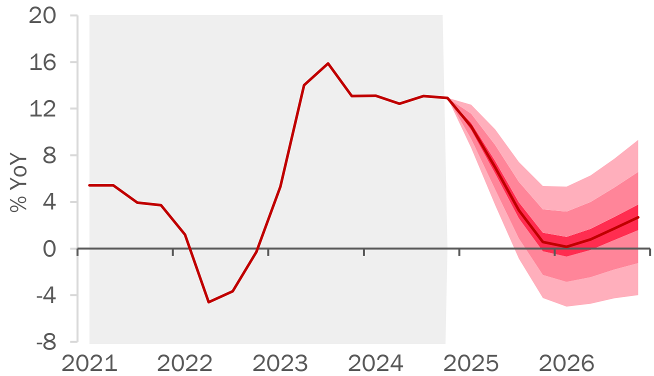
Output gap

(GDP deviation from the potential level)



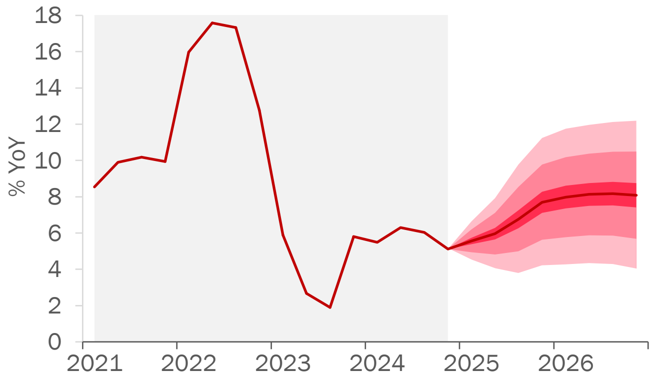
Real wage

(growth, quarter to the correspond. quarter of the prev, year)



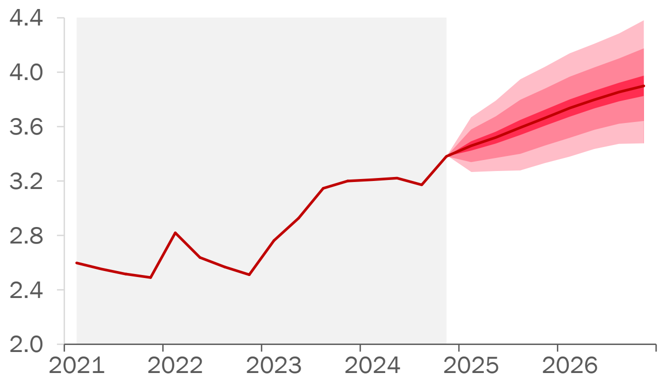
Inflation

(quarter to the correspond. quarter of the prev, year)



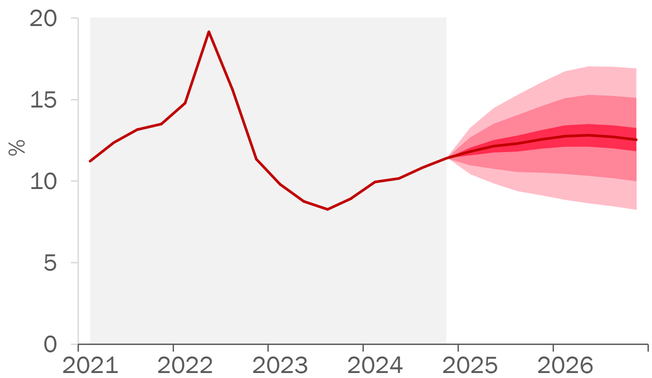
Belarusian ruble to US dollar exchange rate

(average for the quarter)



Interest rate on market loans

(average for the quarter)



Source: The BEROC's calculations are based on the Quarterly Projection Model for Belarus (QPM BEROC).

Note: The figure shows a seasonally adjusted indicator. As new data are published, the indicator dynamics can be updated. The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

Economic Research Center
Tyrimų centras, VšĮ

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