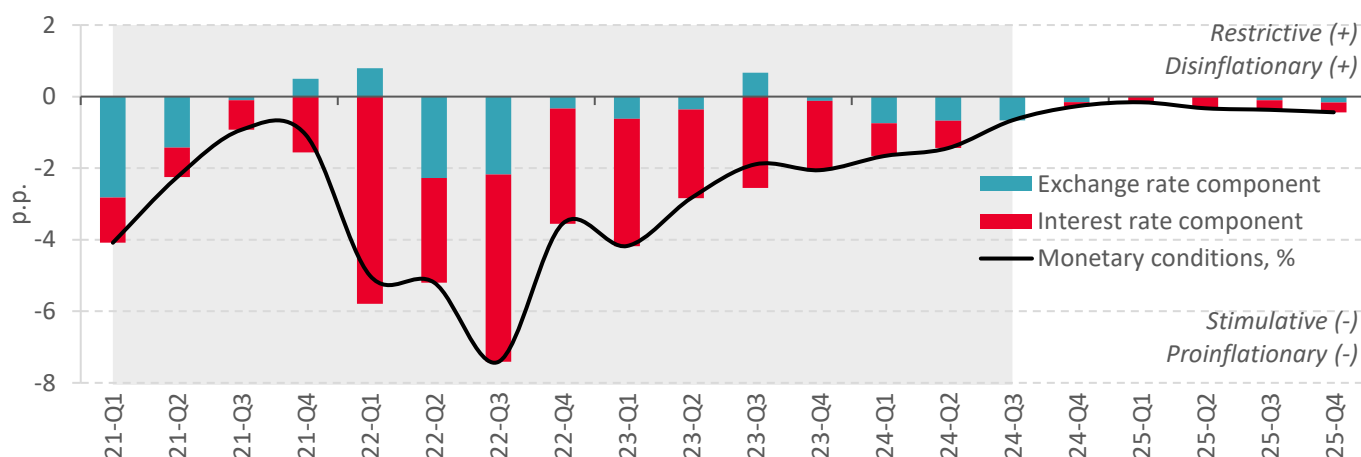


## Monetary conditions in Belarus reached a neutral level in Q3-2024

The interbank market rate remained nearly unchanged from Q2-2024 and stayed significantly below the neutral level. The National Bank's increase in reserve requirements proved ineffective in an environment of fiscal dominance, characterized by ruble issuance through National Bank purchases of government bonds. Interest rates on loans and deposits for individuals and firms rose in Q3-2024, reaching neutral levels. The Belarusian ruble slightly appreciated against a currencies basket and remained moderately undervalued due to significant net foreign currency supply on the domestic market.

The substantial overheating of the economy and the prevalence of inflationary risks suggest the need for a moderately tight monetary policy. However, due to the institutional weakness of the National Bank, this outcome is unlikely. The baseline scenario anticipates maintaining near-neutral monetary conditions (Fig. 1), which will be insufficient for the economy's quick return to a balanced state.

Figure 1. The nature of monetary conditions in the Belarusian economy



**Source:** The BEROC's calculations are based on the BEROC's 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. See: WP BEROC no. 82: [Quarterly Projection Model for Belarus: Methodological Aspects and Practical Applications](#).

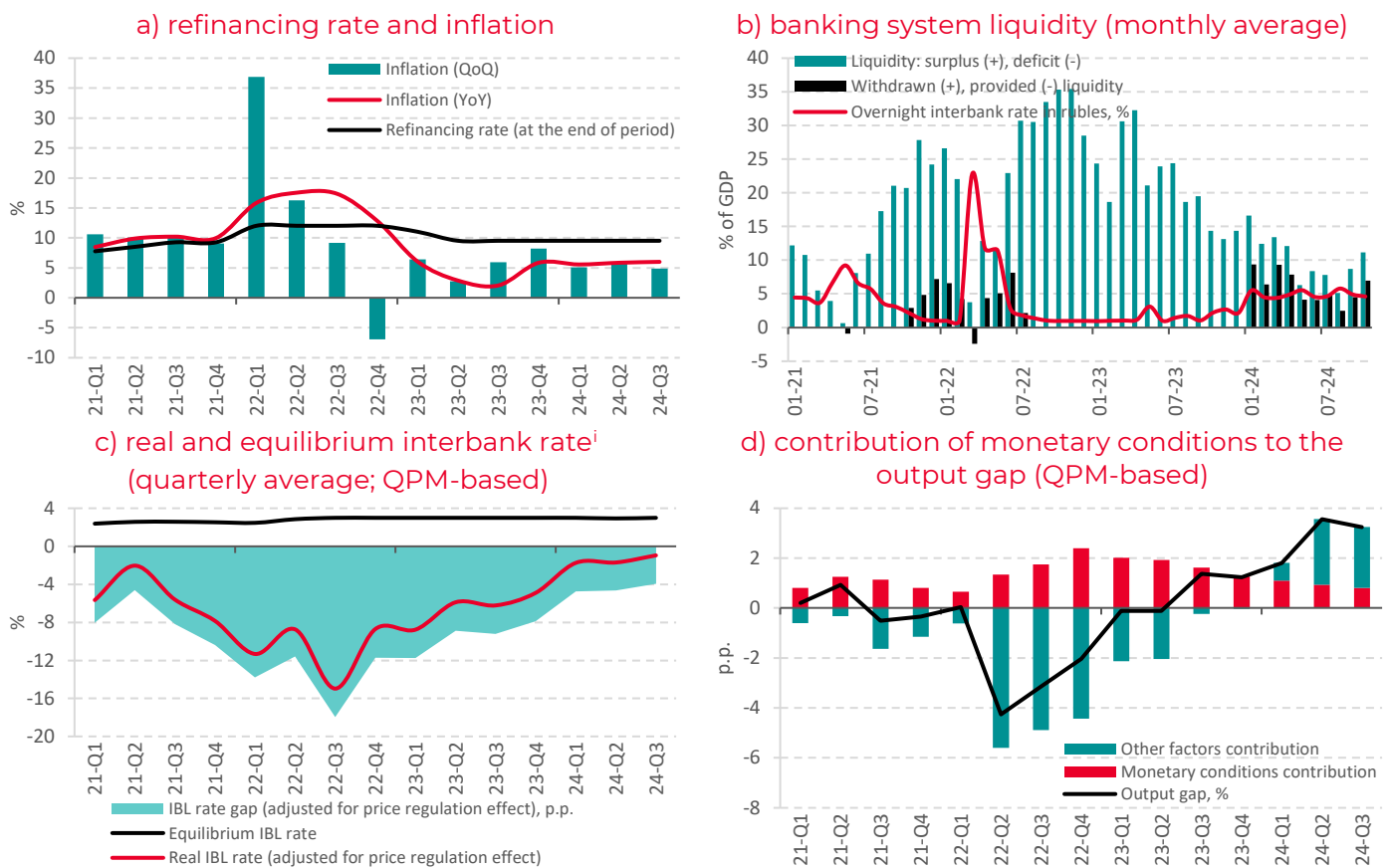
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# 1 Monetary policy: measures, direction, nature

## Monetary policy remained accommodative in Q3-2024

During Q3-2024, the National Bank raised the overnight loan rate by 0.5 p.p. while keeping refinancing and overnight deposit rates unchanged (Fig. 2.a). To absorb some (estimated at around Br0.5 billion) of the excess liquidity in banks, reserve requirements on foreign currency liabilities were increased by 2 p.p. This measure proved ineffective. Budget expenditure remained significant, and the National Bank purchased Br1.3 billion in government bonds on the secondary market during Q3-2024. These operations, together with ruble issuance through foreign currency purchases by National Bank (over Br2 billion in Q3-2024), more than offset the impact of increased reserve requirements on banking system liquidity, which remained excessive (Fig. 2.b). Since no liquidity-regulating auctions were conducted, the interbank market loans rate (IBL) stayed low and significantly below the neutral level in real terms (Fig. 2.c). Thus, **monetary policy continued stimulating economic activity in Q3-2024, but the size of the stimulus narrowed noticeably versus 2023** (Fig. 2.c).

Figure 2. Dynamics of monetary policy indicators



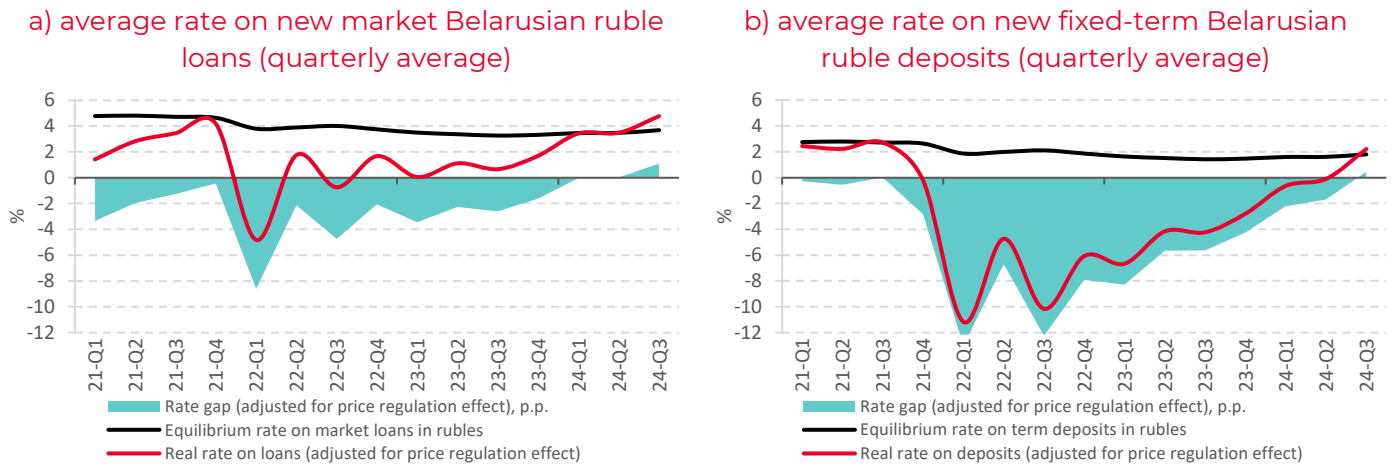
**Source:** BEROC’s calculations based on the data by Belstat, National Bank of Belarus, QPM BEROC.

**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.<sup>ii</sup>

**Interest rates on market loans and deposits were close to neutral levels in Q3-2024**

The average nominal rate on new fixed-term ruble deposits rose by 1.7 p.p. to 8.3% in Q3-2024,<sup>iii</sup> while the rate on new market-based ruble loans increased by 0.7 p.p. to 10.8%.<sup>iv</sup> Interest rates on loans and deposits also increased in real terms, slightly exceeding neutral levels (Fig. 3). This modest margin above equilibrium levels suggests that interest rates on the loan-deposit market were neutral for economic activity in Q3-2024. However, they were not restrictive and continued to provide favorable conditions for firms and individuals to meet high credit demand. Additionally, the sustained low interbank rate likely maintained stimulative non-price lending conditions (such as requirements for collateral, financial standing, range and terms of loans, etc.).

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



**Source:** The BEROC’s calculations are based on QPM BEROC.

**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).

**The National Bank’s increased secondary market purchases of government bonds amid elevated inflation risks – due to an overheated economy and rising prices in Russia – effectively signals fiscal dominance in Belarus**

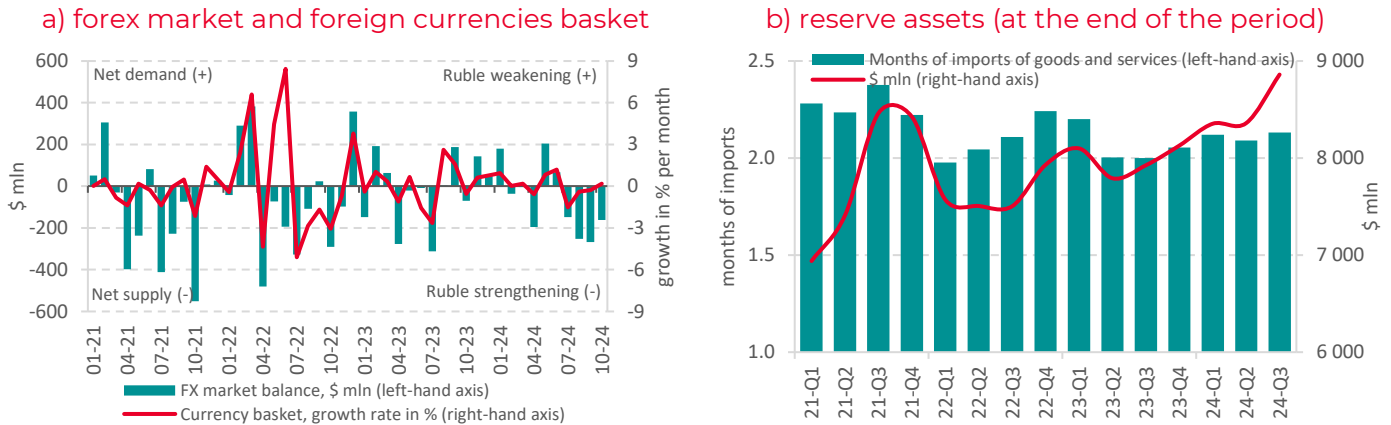
Monetary conditions continued to support excess demand in the economy, although their contribution to the output gap decreased as monetary stimulus lessened (Fig. 2.d). At the same time, the contribution to the output gap from budget spending and wages continued to grow, partly due to the National Bank’s institutional weakness, which limits its ability to curb budget-related issuance. In an overheated economy with a tight labor market, inflationary pressures intensified, though direct price increases were restrained by strict price controls. Without these regulatory effects, annual inflation would have reached approximately 10.5% YoY in September instead of the actual 6.0% YoY.<sup>v</sup>

QPM-based estimates indicate that even with the current price control system, the interbank market rate should have been closer to 9.5% rather than actual 5.1% in Q3-2024 to mitigate risks to macroeconomic stability. Fiscal dominance and rising government spending reduce the effectiveness of monetary policy, increasing the risk of declining loan and deposit rates in the short term due to bank liquidity surpluses. This situation raises the likelihood of a hard landing for the overheated economy in the medium term.

## 2 Exchange rate policy: measures, direction, nature

The Belarusian ruble appreciated in Q3-2024 due to substantial net supply of foreign currency in the domestic market (Fig. 4.a)

Figure 4. Dynamics of the foreign currencies basket and of gold and foreign exchange reserves

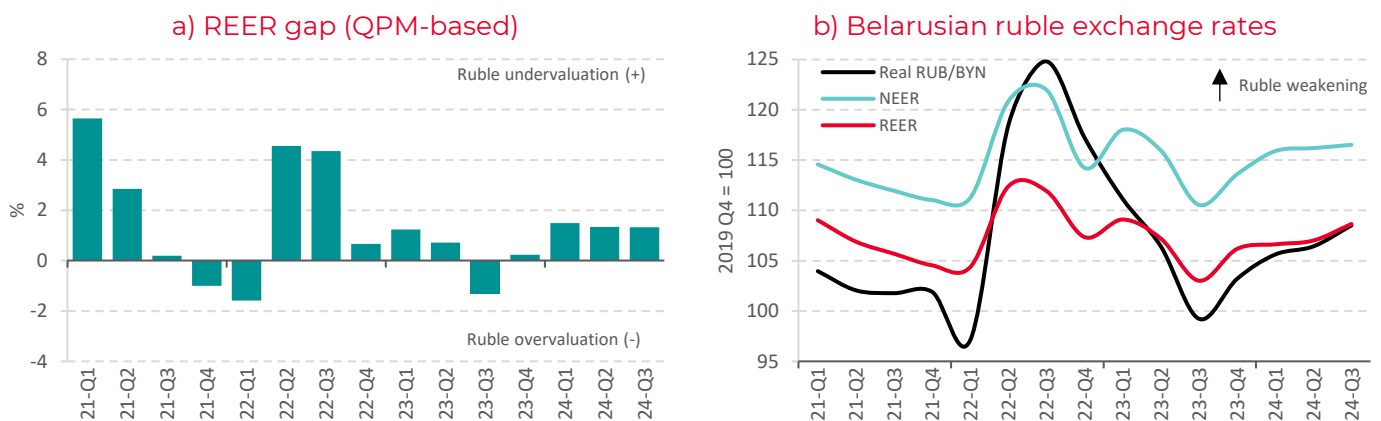


**Source:** The BEROC’s calculations are based on the data by the National Bank of Belarus.

**Note:** Figure 4.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. The dynamics updates once new data are published.

On average for Q3-2024, the value of the basket of 3 currencies (Russian ruble, US dollar, Chinese yuan) decreased by 0.1% compared to Q2-2024 (Fig. 4.a). Exchange rate fluctuations against individual currencies were mainly determined by the dynamics of their cross rates in foreign markets: on average for Q3-2024, the Belarusian ruble strengthened by 1.4% against the US dollar and weakened by 0.4% against both the Russian ruble and the Chinese yuan. The quarterly depreciation against the Russian ruble was influenced by a notable weakening of the Belarusian ruble against the Russian ruble in June, which raised the RUB/BYN rate at the beginning of Q3-2024. In August and September, however, the Belarusian ruble strengthened significantly against the Russian ruble, supported by a net supply of foreign currency in the domestic market. In terms of the real effective exchange rate (REER), the ruble depreciated by an average of 1.5% over Q3-2024 due to accelerating inflation in Russia and a significantly slower rate of price increases in Belarus (Fig. 5.b). The national currency remained undervalued by approximately 1.3% relative to the equilibrium REER level (Fig. 5.a).

Figure 5. Effective Belarusian ruble exchange rates and deviations of REER from the equilibrium level



**Source:** The BEROC’s calculations are based on the data of the National Bank of Belarus and QPM BEROC.

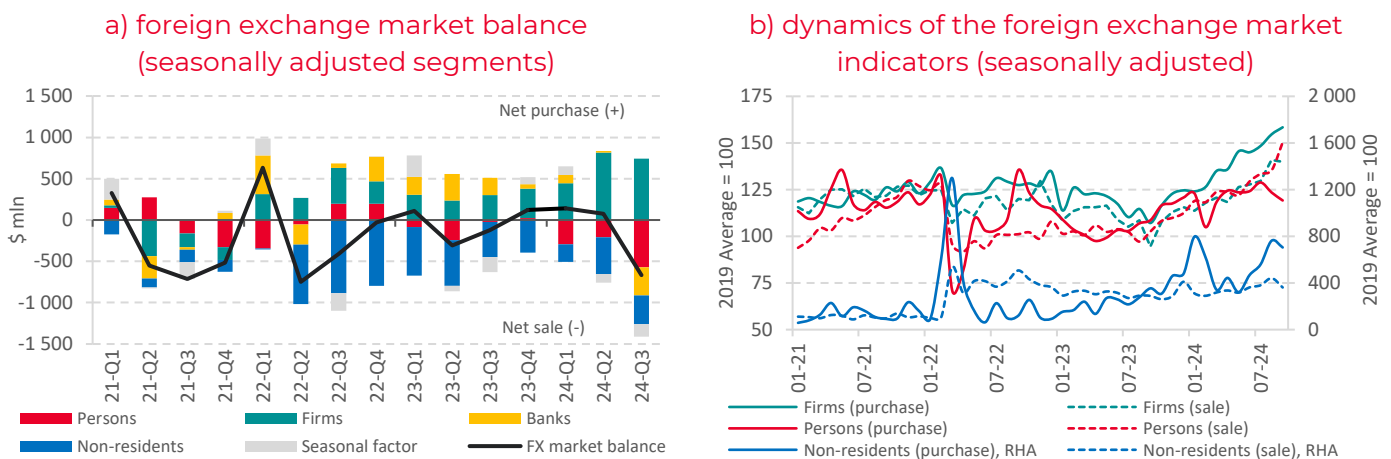
**Note:** These are the Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER).

**Net supply in the FX market reached a two-year high in Q3-2024, totaling \$668 million (approximately \$516 million after seasonal adjustment)**

The National Bank stabilized the market, smoothing exchange rate volatility through interventions: net currency purchases (including Ministry of Finance operations) amounted to \$668 million in Q3-2024 (Fig. 4.a). The significant net supply stemmed from increased currency sales by households and banks. Banks sold a net total of ≈\$0.3 billion (seasonally adjusted) in Q3-2024 (Fig. 6.a), a notably large volume that suggests potential one-time large transactions.

**Households sold a record net amount of almost \$0.6 billion (seasonally adjusted) from July to September 2024 (Fig. 6.a)**, marking the largest quarterly sale in seven years, with September’s monthly sales reaching a 15-year high. This behavior of the population in an environment of high income growth may be associated with high demand for real estate, a neutral level of interest rates on ruble deposits and an inflow of rubles into them, as well as a decrease in incentives for savings in foreign currency due to the effects of sanctions. Thus, the ratio of the growth of fixed-term ruble deposits of the population (excluding accrued interest) to the volume of income (with the elimination of seasonality) in Q3-2024 was a record high in nine years. Additionally, higher housing loan rates in Q3-2024 may have prompted households to use foreign currency savings more actively for real estate purchases, boosting foreign currency sales (Fig. 6.b).

Figure 6. State of the domestic foreign exchange market



**Source:** The BEROC’s 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.

**Substantial net currency supply from households masked a worsening situation in the firm segment.** Corporates’ net demand for foreign currency remained near record levels since 2010, reaching over \$0.7 billion (seasonally adjusted) in Q3-2024 (Fig. 6.a). In 2022–2023, corporate demand was offset by sales from non-residents (likely due to adjustments in supply chains and financing mechanisms); however, this compensation did not occur this year. Non-residents’ net sales (seasonally adjusted) totaled ≈\$0.35 billion. As a result, total net purchases by resident firms and non-residents held steady at approximately \$0.4 billion in Q3-2024 (Fig. 6.a).

Part of the elevated corporate demand may have been tied to one-time purchases by large companies. But even without these transactions, firms’ net currency demand remained near peak levels seen since 2010. This high demand is due to the elimination of the foreign trade surplus and delays in foreign currency revenue receipts, likely a result of complications in financial operations under sanctions.

**Gold and foreign exchange reserves rose by \$0.5 billion over Q3-2024, reaching \$8.86 billion by October 1, 2024.**

This growth is attributable to rising global gold prices and the weakening of the dollar against Special Drawing Rights (SDR): the value of monetary gold and SDR holdings increased by \$517 million and \$40 million, respectively, during Q3-2024. Meanwhile, the most liquid reserve component – foreign currency assets – decreased by \$57 million. Given the significant volume of currency purchases by the National Bank, such a reduction indicates probable payments to repay the government debt in Q3-2024, as well as the high importance of the Russian ruble in currency interventions. Reserve adequacy remained low as of the beginning of Q4-2024, covering approximately 2.1 months of imports of goods and services (Fig. 4.b), while the most liquid component in foreign currency covered only about 0.7 months.

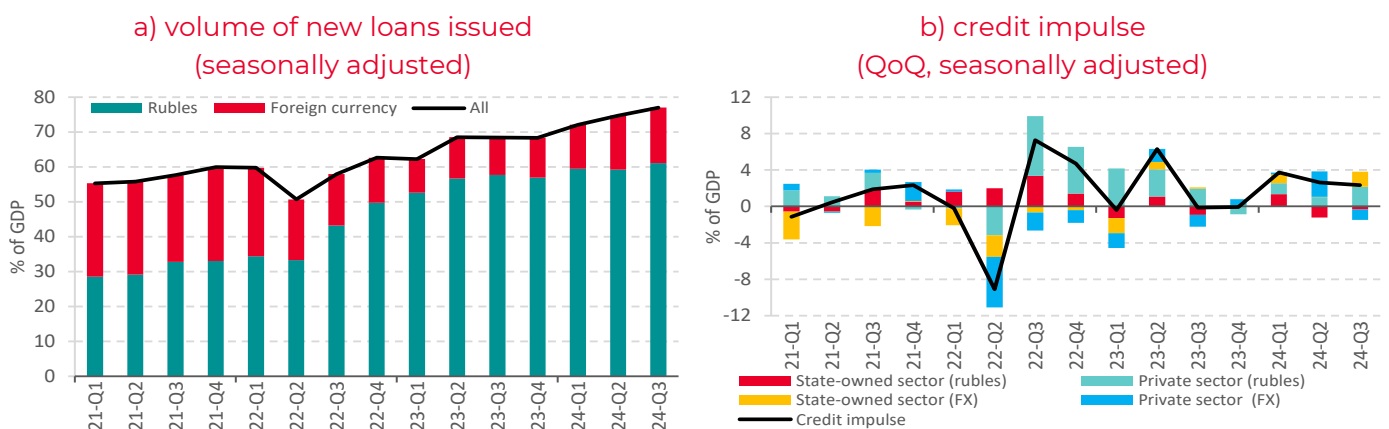
**3 Impact of monetary conditions on the credit and deposit market**

**Lending expanded in Q3-2024, contributing to the overheating of the economy**

The volume of loans issued exceeded the 2021 average by approximately 90%, and relative to GDP, it reached a new peak at around 77% (Fig. 7.a). While the credit impulse decreased slightly compared to the first half of the year, it remained significantly positive in Q3-2024 (Fig. 7.b). Loan debt also grew at a high rate in Q3-2024, although it was slower than in the previous period (Fig. 8). This slowdown can be attributed to some reduction in the growth of bank claims on organizations, while growth in household debt remained close to the previous quarter’s rate (over 6% per quarter, seasonally adjusted).

Higher interest rates may have slightly restrained lending activity. However, as the rates were not restrictive and non-price borrowing conditions likely remained soft, lending continued to be a substantial factor stimulating economic activity. Given the record volume of loans issued, it supported excess demand in the economy.

Figure 7. Dynamics of new loans issued and credit impulse

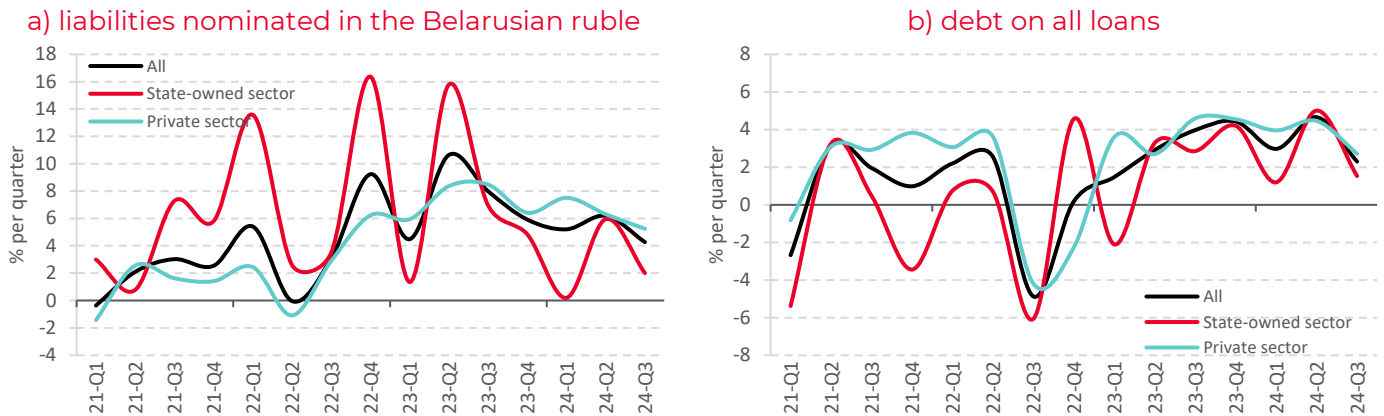


**Source:** The BEROC’s calculations are based on the data by the National Bank of Belarus, Belstat.

**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.



Figure 8. Dynamics of bank loan investments (quarterly growth, seasonality adjusted)



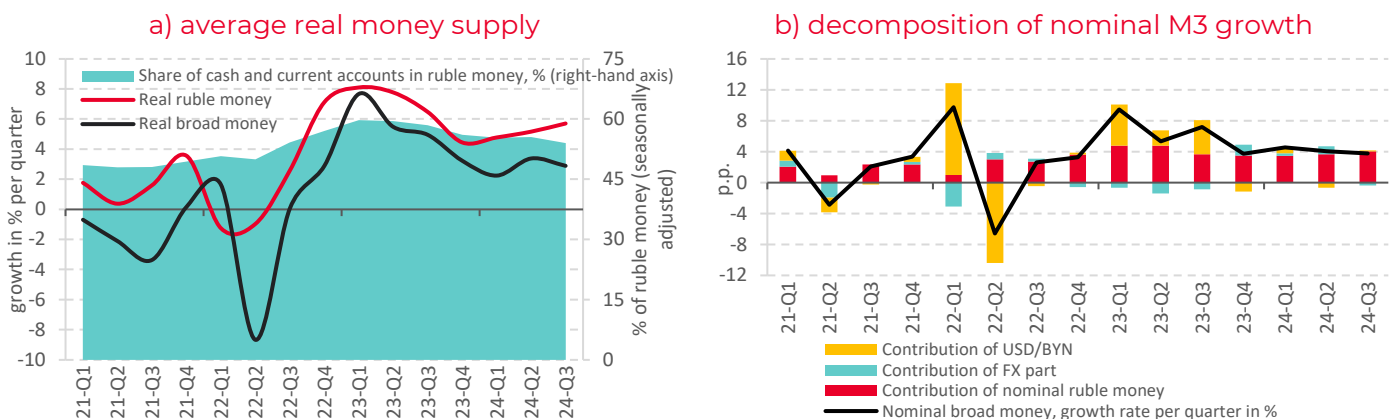
Source: The BEROC’s calculations are based on the data by the National Bank of Belarus.

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

**In Q3-2024, the money supply in Belarus continued to grow at a rate that outpaced economic growth**

Broad money supply (M3) rose by approximately 4.3% QoQ in nominal terms (Q3-2024 vs. Q2-2024 averages) and by about 2.9% QoQ in real terms (all seasonally adjusted indicators). This expansion was driven primarily by the ruble component (Fig. 9.b), which grew by 7.2% QoQ nominally and 5.7% QoQ in real terms over the same period (Fig. 9.a). The increase in credit to the economy continued to be the most important source of growth in the money supply. Additionally, an increase in net foreign assets of the banking system contributed notably, partly due to National Bank foreign currency purchases, which resulted in an unsterilized issuance of Belarusian rubles. **The nominal increase in broad money in Q3-2024 outpaced nominal GDP growth by nearly 3 p.p.** (seasonally adjusted). For eight consecutive quarters, money supply growth has exceeded GDP growth, and its real volume now significantly surpasses a balanced level. This consistent divergence likely underscores the limits of Belarus’s extensive growth model, hindered by production constraints like labor shortages, logistical challenges, limited capacities, and moderate investment activity. The National Bank’s subordinate stance to government policy in this context, along with its deviation from rule-based monetary policy, may weaken the economy’s resilience to potential shocks.

Figure 9. Average money supply dynamics (seasonally adjusted)



Source: The BEROC’s 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).

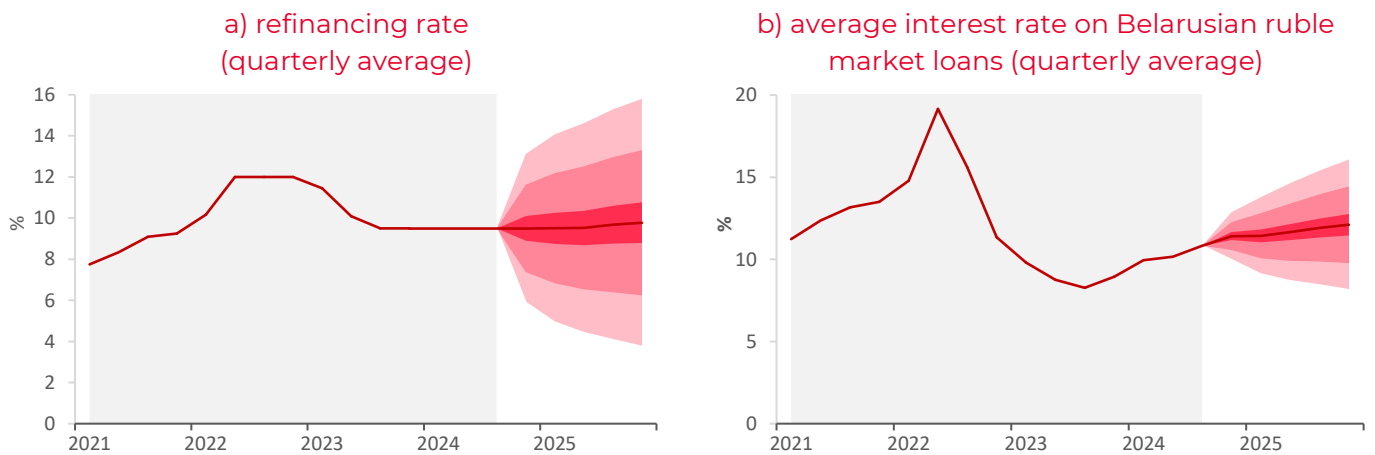
## 4 Monetary conditions short-term forecast

**In Q4-2024 and throughout 2025, interest rates on loans and deposits in Belarus are expected to remain near neutral levels**

Given the inflationary overhang and the extent of economic overheating, moderate monetary tightening would be the optimal approach. However, the National Bank lacks both operational and institutional independence, limiting its flexibility and its ability to set autonomous quantitative values of the monetary policy goal. The National Bank will likely rely on indirect tools (such as the estimated values of standard risk, reserve requirements, and prudential credit load restrictions) to maintain interest rates near their neutral levels. With inflation projected to rise from 5.5–6.0% in 2024 to around 6–8% in 2025, this approach corresponds to an increase in the average market loan interest rate from approximately 10.6% in 2024 to around 11.8% in 2025 (Fig. 10.b). The refinancing rate, barring any major shocks, is expected to remain near 9.5% in 2025 (Fig. 10.a), though a slight increase after the election campaign may occur to prevent monetary easing amid rising inflation.

**A shift toward a stricter monetary policy is unlikely due to the National Bank's limited institutional power.** Fiscal stimulus is expected to continue, albeit at a lower level than in 2023–2024. Consequently, assuming no significant disruptions in the Russian or global economies, the Belarusian economy is likely to experience a gradual cooling phase. The output gap is anticipated to remain significantly positive in 2025 but will gradually narrow due to the diminishing influence of both internal and external stimuli.

Figure 10. Interest rate forecast (QPM-based)



**Source:** The BEROC’s calculations are based on QPM BEROC.

**Note:** The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

**The baseline forecast for 2024–2025 anticipates a foreign trade deficit in goods and services of around 0–2% of GDP, with moderate depreciation of the Belarusian ruble by 4–6% against the basket of foreign currencies**

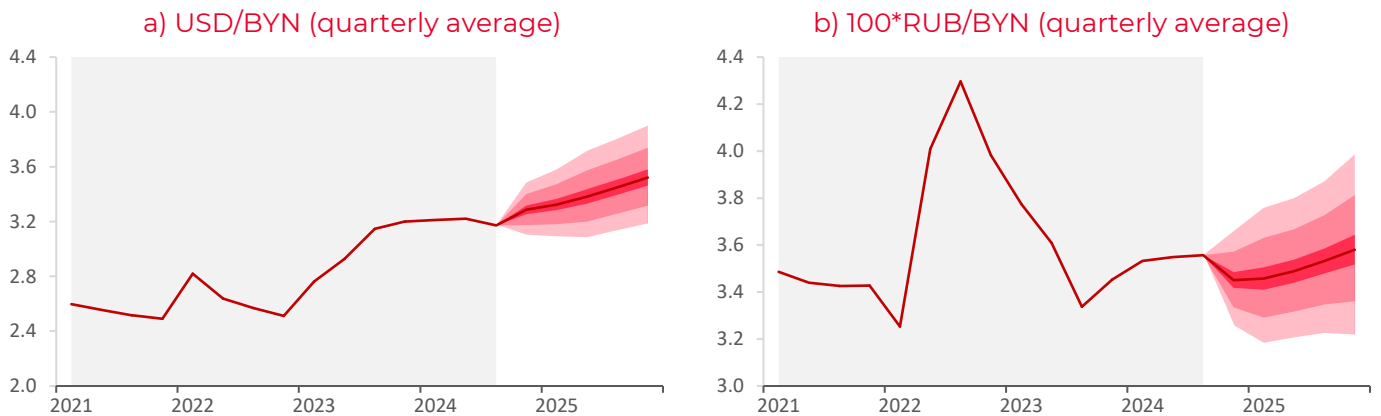
In 2025 external conditions may become less favorable for expanding Belarusian exports. Russia is expected to experience a slowdown in demand growth due to tightened monetary policy, restrictions on subsidized mortgage programs, and anticipated reductions in fiscal stimulus by Russian authorities. These factors are likely to exert downward pressure on demand for Belarusian exports. Furthermore, the Belarusian manufacturing sector's limited capacity, insufficient investment for rapid expansion, and ongoing infrastructural constraints for increasing fertilizer and petroleum exports are projected to limit export growth potential.



Imports are expected to remain elevated in 2025. This year’s expansion of government bond purchases by the National Bank in conditions of high budget revenue growth suggests that a stimulus-oriented fiscal policy is likely to continue through at least the first half of 2025. Together with the non-restrictive monetary policy, these actions are likely to sustain incentives for excess consumption, making the correction toward a balanced state quite slow and inertial.

In the baseline scenario, and barring significant shocks or a hard landing, the Belarusian economy is expected to cool gradually, with GDP growth slowing from  $\approx 4.3\%$  in 2024 to around 1.5–2.5% in 2025. This would correspond to a foreign trade deficit in goods and services of 0–2% of GDP and moderate pressure on the Belarusian ruble, which could weaken by 4–6% against the currency basket over the course of 2025. Assuming an exchange rate of 97 USD/RUB, the USD/BYN rate would average 3.42 in 2025 (Fig. 11.a), while the rate for 100 RUB/BYN is forecasted to be around 3.51 on average for the year (Fig. 11.b).

Figure 11. Belarusian ruble exchange rate forecast (QPM-based)



**Source:** The BEROC’s calculations are based on QPM BEROC.

**Note:** The ranges in the figure correspond to the 15%, 50% and 75% confidence intervals.

**The risks of deviation from the baseline forecast are significant due to the "fragility" of Belarus's overheated economy and external uncertainties**

The absence of rules in the conduct of monetary policy, particularly amid discretionary fiscal policy and lack of independence of the National Bank, reduces policy predictability. There remains a possibility that budgetary and quasi-budgetary stimulus measures could be intensified in 2025 if authorities pursue the GDP growth target of 4.1%. If the National Bank does not respond with corresponding tightening of monetary conditions, the positive output gap could reach 6%, greatly increasing the likelihood of a hard landing in the medium term – a severe downturn associated with declining citizen welfare. Conversely, if the National Bank tightens policy in response to such actions, the negative consequences would likely be directly felt by the private sector due to higher costs of market financing.

Expected desynchronization of monetary policy between Belarus and Russia, with significantly higher interest rates in Russia, will pose risks for Belarus's foreign exchange market. This is expected both in terms of sustaining excessive domestic demand and imports in Belarus and the increased attractiveness of assets denominated in Russian rubles.

**New significant sanctions and the threat of supply chain disruptions remain risk factors for the exchange rate dynamics: if they materialize, this will inevitably lead to a more significant depreciation of the Belarusian ruble (including against the Russian ruble) than assumed by the baseline scenario**

## 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](#). The QPM used in the preparation of this material has been developed by the BEROC experts. See: [Quarterly Projection Model for Belarus: Methodological Aspects and Practical Applications](#).

### 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

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<sup>i</sup> 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.

<sup>ii</sup> 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).

<sup>iii</sup> The nominal average rate on new term Belarusian ruble deposits increased from 6.6% on average in Q2-2024 to 8.3% in Q3-2024, including interest rates on corporate deposits, which increased from 6.2% to 7.9%, and interest rates on retail deposits, which increased from 10.1% to 10.8%.

<sup>iv</sup> The nominal average interest rate on new market bank loans in Belarusian rubles increased from 10.2% on average in Q2-2024 to 10.8% in Q3-2024; in particular, interest rates on business loans increased from 10.2% to 10.9%, and interest rates on retail loans – from 10.0% to 10.2%.

<sup>v</sup> For more information about the dynamics, factors and projections of inflation processes in Belarus, see: BEROС (2024) Inflation Review: Q3-2024.

URL: <https://beroc.org/upload/medialibrary/3f1/3f1fbb151d182d9c885a0c86da630976.pdf>.