Belarus Economy Monitor: trends, attitudes and expectations

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Summary

- **INFLUENCE OF NEW GLOBAL AND REGIONAL CONDITIONS ON THE BELARUSIAN ECONOMY**

In 2025, most global changes may bring negative consequences for Belarus, which will also overlap with domestic economic problems. This increases the likelihood of the economic situation in Belarus developing in unfavorable scenarios. The inertial scenario of a "soft landing" can only be supported by a more willing – in light of the changes taking place in the world – drawing Minsk under its protectorate by China, as the current regime wants.

- **BELARUSIAN BANKING SYSTEM SERVES THE RUSSIAN ECONOMY**

The desynchronization of the monetary policies of Belarus and Russia has led to the Belarusian banking system increasingly working in the interests of the neighboring country's companies. As a result, domestic businesses are facing a shortage of credit resources, and the economy is losing funding, which increases inflation risks and limits growth potential.

- **BETWEEN REFORM AND CRISIS: BELARUS' PENSION SYSTEM NEEDS TRANSFORMATION**

The distribution pension system of Belarus, in which working citizens finance the pensions of current pensioners, is outdated and no longer corresponds to modern demographic and economic realities. It was effective in the context of a growing population. But now, against the backdrop of an aging society, low birth rates and an outflow of the working population, the burden on workers is rapidly growing. Consequently, pension financing is becoming increasingly problematic. Without reforms and a transition to a more sustainable model, the system risks losing its viability.

The Expert Opinion Bulletin ("Belarus Economy Monitor: Trends, Attitudes, Expectations") presents a subjective expert review of the key short-term trends in the Belarusian economy. Each bulletin issue selects three key trends based on a survey of three experts: the BEROC staff members and third party experts. The summary captures these trends, as well as the expectations of the three experts interviewed for future economic dynamics. The body of the bulletin provides individual expert opinions on one of the challenges, their expectations and situation development scenarios.

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INFLUENCE OF NEW GLOBAL AND REGIONAL CONDITIONS ON THE BELARUSIAN ECONOMY

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The state of the Belarusian economy at the beginning of 2025

In recent years, the Belarusian economy has been increasingly dependent on Russia. We have reached a point where the neighboring country has become an ideal source of shocks: any problem in the Russian economy automatically becomes a Belarusian problem.

Economists analyzing the region often joke that to forecast the Belarusian economy, one only needs to look at the situation in Russia – differences will be minimal. Previously, this was perceived as an oversimplification, but today such a correlation is increasingly becoming a reality.

At the same time, due to the chosen domestic economic policy – excessive stimulus, inaction, or lack of necessary tightening – a number of serious imbalances have accumulated.

First, there is a shortage of production capacity and labor. When speaking about the labor shortage, it has generated seemingly positive effects over the past two years: rapid wage growth and record-low unemployment. However, it is crucial to recognize that this is primarily a ticking time bomb for output dynamics. Second, a significant inflationary overhang has formed in the economy (no less than 7–8%). Third, the current account has returned to a substantial deficit, which continues to grow. Given the severely limited access to external financing, this is a serious risk. Fourth, corporate finances have been in a chronically weak state (which is interconnected with the inflationary overhang).

Global trends that could impact Belarus: a reassessment of trade policy standards

Donald Trump's rise to power in the U.S. could influence several key global trends, primarily in global trade. On his first day in office, Trump published the memorandum "America First Trade Policy". This programmatic document outlines the U.S. approach to trade policy. Essentially, it can be interpreted as a course toward a radical revision of the existing standards of international trade.

For example, this memorandum de facto calls into question the approach of friend-shoring – where production locations and trade are determined not only by cost minimization but also by the political alignment of countries. This approach was based on risk minimization considerations. It was actively implemented during Trump's first term, then even more so under Biden, and already posed a challenge to the international trade standards established over the past 30 years. The memorandum and the new administration's initial actions indicate their willingness to move toward an even more radical revision.

If during the election campaign such rhetoric from Trump primarily targeted China, now it is viewed with concern in other traditionally Western-aligned countries, such as Canada, Australia, and New Zealand.

Currently, the media presents a counterargument that this may simply be a tool used to push through political interests. However, it is almost certain to impact trade between developed countries, restricting it. In turn, this will create a new inflationary impulse in the developed world.

The implementation of several other provisions in the memorandum effectively signals a rejection of the principle in which developing countries serve as production hubs while developed countries act as consumers of cheap goods. The consequence will be an acceleration of the decoupling between the U.S. and China, as well as other developing nations. In response, these countries will also seek to revise trade rules in their favor. This means yet another, even more significant, inflationary impulse.

A new wave of inflationary pressure

The formation of a new wave of inflationary pressure is a highly probable scenario as early as 2025. Available data from the beginning of the year indicate that inflation in the U.S. and several other developed countries has already started accelerating. Even more concerning is the sharp rise in U.S. inflation expectations, including long-term ones. This is a dangerous harbinger that the problem of rising inflation is already at the doorstep.

Inflationary pressure puts central banks in a difficult position, as they had only recently moved past post-COVID inflation acceleration. In 2024, regulators began a gradual reduction of interest rates and were poised to continue easing monetary policy. Now, however, they face a new inflationary wave that forces them to shift policy direction. This, in turn, casts doubt on the fragile prospects for global economic growth.

As a result, in 2025, many central banks are likely to face a dilemma: either suppress the new inflationary wave and accept weaker growth (or even a recession in some cases) or prioritize economic output and allow another inflation surge. In the first case, interest rates will stop declining and may even rise again, complicating sovereign debt situations in many countries. In some cases, the risk of debt crises will intensify.

This problem will not bypass Belarus. A global inflation acceleration will affect our economy despite its protective barriers. If, however, inflation is controlled in the global economy through monetary tightening, leading to slower growth, this will create additional negative impulses for Belarus via weaker demand.

In these global developments, Belarus (or rather its current authorities) may find an unexpected benefit. Changing rules and economic conditions increase the likelihood of China seeking to integrate new players into its sphere of influence. This could lead to greater Chinese involvement in the Belarusian economy, including increased investments.

Declining oil prices

Another important trend that the Trump administration could initiate is a reduction in global oil prices. This would be important as a counterbalance to inflation acceleration due to higher tariffs and tightened trade standards. Additionally, recent rhetoric from the new U.S. authorities suggests that lowering global oil prices is seen as a tool to pressure Russia into scaling down its aggression against Ukraine. Currently, there is much skepticism about whether Washington is ready to go beyond statements and implement actual measures to lower oil prices. However, aside from political will, there are objective obstacles to lowering oil prices.

First, most oil market analysts believe that Saudi Arabia and other OPEC members are strongly opposed to lower prices and will resist such a development. Simply increasing oil supply from the U.S. may not be enough to bring prices down significantly. Moreover, many American oil companies are currently in a difficult financial situation and cannot afford to approach their production cost levels.

At the same time, if strong political will is present, these obstacles can be bypassed. Therefore, while not the most likely scenario – I would estimate the probability at about 25% – a significant (over 15%) drop in global oil prices remains possible.

The realization of this scenario would put serious pressure on Russia, removing its current account surplus cushion. Due to Belarus's total dependence on Russia, similar risks would arise for the Belarusian economy.

Sanctions tightening remains on the agenda

In addition to new trends in the global economy, Belarus may also face new rounds of tightened sanctions against itself and/or Russia. Events in February suggest an increasing probability of the opposite development – a relaxation of sanctions policies toward Belarus and Russia. However, given the extreme uncertainty and the unclear willingness of Russia to scale down its military actions in Ukraine, a renewed shift in U.S. policy toward stricter sanctions seems realistic.

For example, a recent special envoy for Trump stated that the current sanctions on Russia were rated "only a three out of ten", implying room for further tightening. If this rhetoric translates into action, then, following the same pattern, Russia's problems would almost immediately become Belarusian problems.

Moreover, one should not rule out divergences in U.S. and EU sanctions policies. While the U.S. may ease sanctions, there is a possibility that the EU and other Western nations could tighten them.

New challenges increase the likelihood of stress scenarios

The most likely scenario for Belarus in 2025 remains a gradual slowdown in growth (toward 1.5% YoY) with gradually accelerating inflation (toward 6–7% YoY). However, the global trends mentioned above reduce the probability of this scenario and increase the likelihood of stress scenarios.

First, the likelihood of an inflationary spike is growing. This could be caused by external factors adding to internal imbalances – such as the accumulated inflationary overhang, excessive domestic demand, and excessive stimulus. These external factors include a potential new wave of global inflation as well as a stronger spillover effect from Russian inflation. The latter seems likely because, in 2025, Belarusian economic authorities will have to allow some depreciation of BYN against RUB to counteract the growing trade deficit. Until recently, the trend was the opposite, and BYN strengthening against RUB acted as a "gateway", mitigating the impact of Russian inflation on Belarus. Under such pressure, continuing price controls and pretending inflation does not exist would risk losing control. As a result, the probability of falling into an inflationary spiral is increasing. In turn, this makes financial stress scenarios more realistic.

Second, the risk of a significant increase in the current account deficit is becoming more apparent, especially given the lack of external financing sources. This could result from a series of trade shocks in the global economy, which would first hit China and Russia and then affect Belarus. The same outcome could arise from a drop in oil prices or the tightening of sanctions against Moscow, both of which could lead to a sharp decline in Belarusian petroleum product revenues. As demonstrated in April–May 2022, this would immediately alter the financial flows within the Belarusian economy. Even if the deterioration of the current account is not critical by standard measures – say, by a few percentage points of GDP – under conditions of limited financing sources, it could lead to sharp disruptions in the foreign exchange market, which would then spill over into financial markets and the real economy.

Third, a direct transmission of a negative shock from Russia in terms of output and incomes is a tangible risk. In Russia, such a development could be driven by the inertia of significantly tighter monetary policy. Additionally, a sharp negative impact on output could come from either further sanctions tightening or a ceasefire in Ukraine, which could lead to budget spending cuts and a contraction in production.

BELARUSIAN BANKING SYSTEM SERVES THE RUSSIAN ECONOMY

A representative of the banking sector, who wished to be anonymous

Desynchronization of monetary policy in Belarus and Russia

The National Bank's policy does not correspond to the real economic situation. According to independent economists, the current conditions require moderate tightening of monetary policy. However, the regulator avoids making decisions regarding the refinancing rate. Moreover, it allows for its reduction, with an average level of 9–9.3% over the year.

The likely reason for the National Bank's reluctance to take decisive action in tightening monetary policy is the lack of independence in decision-making and pressure from economic authorities and the government.

When the regulator is unable to use such a key instrument as the refinancing rate to regulate interest rates on loans and deposits, it is forced to resort to indirect methods of influence. Under current conditions, this includes changing the estimated values of standard risk (EVSR), reserve requirements, and other measures aimed at limiting credit activity and managing risks.

As a result, the refinancing rate has become detached from reality. It has turned into an indicator that neither correlates with the cost of borrowing nor with the level of inflation and does not influence them. Commercial banks cannot attract funds from the National Bank at this rate. In particular, the overnight rate has already reached 11% per annum, and deposits are often placed at even higher rates. In fact, even the Council of Ministers has unofficially instructed local executive committees to keep funds exclusively in state banks, with the yield on these deposits required to be at least one percentage point higher than this benchmark.

While the monetary policy of the National Bank of Belarus remains detached from reality, the Central Bank of Russia pursues a much stricter monetary policy, which is nevertheless justified and more accurately reflects economic conditions. In 2024, the Russian regulator raised its key rate three times, bringing it to 21%.

The divergence in monetary policy exacerbates distortions in the financial sector, negatively impacting Belarusian businesses and the economy as a whole. Additionally, the financial sector is becoming more vulnerable to external factors, increasing associated risks.

First distortion: growth of lending to Russian businesses

Today, the refinancing rate primarily affects only the estimated values of standard risk (EVSR) – the ceiling on loan costs that financial institutions cannot exceed when issuing loans to legal entities. However, complying with these restrictions has become nearly impossible for banks, forcing them to use hidden mechanisms. Financial institutions negotiate with clients to issue loans at the maximum EVSR threshold (as of January, this was 12.5%), while adding several additional percentage points – bringing the total rate up to, for example, 17% – by incorporating them into banking service fees.

Lending at lower rates is unprofitable. Despite the high cost of borrowing, enterprises are forced to accept such conditions. The choice of credit offers is currently limited, yet businesses need resources to maintain working capital, cover cash flow gaps, and finance ongoing operations. For many, refusing to take out loans would mean a loss of liquidity and difficulties in continuing operations.

At the same time, lower interest rates in Belarus compared to those in Russia have attracted the interest of Russian businesses. In December alone, at least $0.5 billion was issued to Russian companies under the guarantees or collateral of Russian banks.

For Belarusian financial institutions, such transactions are highly beneficial: they ensure a guaranteed return of funds with virtually zero risk. Additionally, they require less effort than lending even to large and creditworthy Belarusian companies, as there is no need for collateral, asset valuation, or financial analysis. Notably, Belarusian "Sber Bank" (a subsidiary of Russia's Sberbank) even advertised on Russian information platforms about the opportunity for relatively cheap lending in Belarus for Russian companies.

At the same time, this intensifies competition for borrowed funds in the Belarusian market, a competition that Belarusian businesses are not always able to withstand.

Second distortion: delays in foreign exchange revenue inflows

The divergence in monetary policy choices has led to a significant difference in interest rates between commercial banks in Belarus and Russia: approximately 17% versus 27% for loans and 11% versus 21% for deposits.

Businesses see this as an opportunity to profit from an interest rate arbitrage of up to 4–5% annually. Consequently, some companies with their own trading operations in Russia are taking advantage of these opportunities. For example, they secure financing in Belarus at 17% and place funds in Russia at 21%. Alternatively, they slightly delay the inflow of foreign exchange revenue into Belarus.

From a business perspective, such operations are entirely legal, logical, and justified. However, it is unlikely that this is a widespread practice.

Nevertheless, even at its current scale, this situation puts pressure on banks in terms of liquidity. On the other hand, a lack of liquidity indicates that financial institutions' resources are being fully utilized. Typically, this is offset by raising interest rates to attract additional funds. However, at present, increasing rates to draw in household deposits is challenging – trust in both the Belarusian and Russian ruble remains low.

An alternative source is corporate funds, but this also presents difficulties. Due to the overheated economy, companies are accumulating problems with accounts receivable and payable, while foreign exchange revenue inflows, as noted above, are slowing down. As a result, instead of placing funds in banks, businesses are forced to borrow to cover cash flow gaps.

Risks to the economy

The reality is that part of the business sector cannot secure financing because banks simply lack free resources. Loan applications in Belarusian and Russian rubles are practically approved based on a list authorized by the department head. These consequences of discrepancies in monetary policy and interest rates within the financial market put pressure on the potential for economic growth.

At the same time, the Belarusian banking system continues to serve the demands of Russian companies. This is the most significant macroeconomic effect: the tiny Belarusian economy is effectively financing the Russian one. Consequently, these funds do not contribute to domestic business or economic growth. This, in turn, leads to an increase in the cost of Belarusian goods, which could seriously fuel inflation.

Tools available to the National Bank

It can be assumed that the National Bank understands the risks created by the current situation and recognizes that the Belarusian and Russian economies are interconnected. If the regulator had full autonomy in determining monetary policy, it would have already addressed these arbitrage opportunities by adjusting the refinancing rate.

However, under the current circumstances, administrative interventions remain the primary available mechanism. Specifically, the central bank can issue recommendations and warnings to banks, advising them to be more cautious when lending to non-residents. In the future, stricter measures may be introduced, such as reclassifying the risk group for non-residents, thereby increasing capital requirements for their lending.

Additionally, the regulator may mandate the creation of an interest reserve for loans to non-residents, regardless of collateral type. This measure would limit the attractiveness of working with foreign borrowers, freeing up some funds for allocation to the real sector of the economy.

BETWEEN REFORM AND CRISIS: BELARUS' PENSION SYSTEM NEEDS TRANSFORMATION

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Vulnerabilities of the pension system

A key feature of the Belarusian pension system is that the money currently collected from working individuals in the form of contributions to the Social Protection Fund (SPF) is immediately distributed to current pensioners. Therefore, the presence or absence of problems is always determined by the ratio of pensioners to the number of working people who make contributions.

Currently, in Belarus, there are four pensioners for every ten working individuals. In 25 years, this number will increase to six per ten employed workers. This means that if current trends persist, the ratio will worsen by 1.5 times.

However, the situation could become even more challenging. This is due to the high emigration of the working-age population, which reduces the number of employed individuals contributing to the pension system. At the same time, the birth rate continues to decline. Combined, these factors create difficult conditions for fulfilling pension obligations.

Despite these risks, the government, instead of acknowledging the problem and making efforts to address it, maintains an optimistic stance, insisting that everything is fine and even claiming a surplus in the SPF budget (although the fund constantly receives subsidies from the state budget). Long-term challenges to the system are largely ignored in public discourse, creating the impression that they do not exist. However, demographic shifts occur gradually until they reach a critical threshold – a process that has already begun. This issue is systemic and affects a quarter of the country's population. Its scale is measured not in millions, but in billions of dollars, potentially reaching up to 10% of GDP, making it one of the key threats to the economy.

Targeted measures do not solve the problem

The pension system faces challenges that require a comprehensive solution. Targeted steps are also important, but they can only slightly delay the onset of the crisis.

Take, for example, the recent cancellation of pension deductions for some working pensioners. This is a positive decision. If people want to continue working, penalizing them with pension deductions contradicts both economic logic and principles of social justice. On the contrary, such an initiative should be encouraged, especially in conditions of a labor shortage. However, in terms of its effectiveness, this is only a small step that will bring just a few tens of thousands of people back into the labor market (according to the Ministry of Labor, about 10,000). In other words, it does not address the systemic issue.

Another minor measure already introduced by the government is voluntary additional pension insurance. This is also an important initiative, though it has not been implemented in the most optimal way. However, it too is just a targeted step. First, the number of participants in this system is very low – about 45,000 people. Second, there are concerns about the distribution and accumulation system.

At the same time, the reliability of savings and investment is one of the key elements of a funded pension system. In Belarus, this issue remains unresolved. According to official statements, these funds will be invested through non-transparent schemes and managed by only one organization—presumably, exclusively in Development Bank bonds. This approach raises concerns due to the lack of portfolio diversification at the Development Bank, which could threaten the security of pension savings.

What solutions can reduce pressure on the pension system

It appears that the government is discussing the possibility of raising the retirement age for women. Based on publicly available internal documents from the Ministry of Labor and Social Protection, the relevant papers are already on the government's desk (though officials have not officially announced such intentions). This measure alone does not comprehensively resolve the system's problems, but it can be considered necessary since there is no longer a valid reason for women to retire earlier than men. Especially given that, on average, they live about 10 years longer.

Why hasn't the government implemented this change yet? Most likely for political reasons: such a measure would likely cause dissatisfaction among more than half of Belarus's population – women. On the other hand, the first increase in the retirement age went relatively smoothly, and with the current security apparatus in place, it likely wouldn't trigger significant public discontent.

As for men, there is no room to raise the retirement age any further – they already barely live to see retirement. According to 2019 data, the average life expectancy for men in Belarus was 64 years. Raising the retirement threshold would mean that most men would die before reaching retirement age, which would negatively impact incentives to pay pension contributions.

If we talk about targeted measures that could delay the onset of the pension system's critical phase, another available option stands out. This would involve creating conditions to integrate groups that face discrimination or significant barriers to labor market participation. Specifically, this could mean reducing parental leave by one year (after first establishing the necessary childcare infrastructure) to encourage greater labor market participation among women. Additionally, efforts to eliminate labor market discrimination against people with disabilities would help improve workforce inclusion.

Work in these areas would alleviate the situation but would not eliminate the main issue – the urgent need for a full-scale pension reform.

A reform is long overdue, but implementing it will not be easy

A structural reform would involve transforming the current model – shifting to a mixed pension system that combines both solidarity and accumulation principles, where a significant portion of pensions would come not from contributions by current workers but from individuals' personal savings accounts.

However, such a transition comes with several challenges. The first is financial. If part of the contributions were redirected to personal savings accounts immediately, there would be a shortfall in funds for current pensioners. Theoretically, this gap could be covered by a large long-term loan spanning 50–60 years, during which the reform would pay for itself through the efficiency of accumulated savings.

This leads to the second challenge: such a large-scale and long-term project requires a high level of trust in Belarus as a state from all economic agents. This implies a stable system of power succession, a reliable monetary system, and trustworthy institutions responsible for saving and investing pension funds. However, Belarus lacks a stable political system, guarantees of power succession, or an independent National Bank. Given the current economic situation, Belarus cannot expect support from international institutions. Western organizations that could potentially sponsor such transformations do not trust the Belarusian government. Russia is also unlikely to finance such a project.

The third problem is that such a large-scale reform requires a high level of public trust. Economic and financial turmoil in recent years, as well as the ongoing legal and socio-political crisis, do not contribute to building such trust. Essentially, the government would be asking people to forgo part of their income today in exchange for a promise of payments 30–40 years down the line.

Given this, a full-fledged pension reform is impossible under the current government. However, even if the leadership were to change, implementing such a reform would remain a complex challenge requiring a deep transformation of the entire governance system.

Postponing changes is becoming more difficult

A smooth transition to a new system could be facilitated by stable economic growth of 5–6% per year. However, over the past 15 years, the economy has grown by an average of just 1% annually. There is no reason to believe that it will suddenly accelerate in the coming years. The problem is further exacerbated by the fact that the current government operates with a short-term mindset, without considering the consequences for the horizon up to 2050. As a result, the government is merely patching holes as they appear.

Meanwhile, Belarus faces a choice: either gradually move towards implementing a mixed pension system by taking the steps outlined above or continue ignoring the issue until it escalates into a full-blown crisis. Choosing the latter would mean that, at some point, the accumulated problems will reach a critical level. At that point, the government will be forced to either sharply increase insurance contributions for pension payments or reduce pension payouts by approximately 50%.

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