

Economic and Electoral Cycles in Belarus: Interrelationships and Challenges of 2025–2026

BEROC, 2024

BEROC Policy Paper Series, PP no. 120

ABSTRACT:

The high rates of economic growth in Belarus in 2023–2024, amidst explosive consumer activity, raise concerns about its quality and sustainability. To a significant extent, GDP growth has been driven by an excessively loose economic policy, which at least partially could have been motivated by the 2024-2025 electoral campaign. Based on a macroeconomic gap model, this study examines the relationship between electoral and economic cycles in Belarus. The results indicate that in pre-election years and election years the economy typically operated in a state of excess demand. Budget spending and wages played a significant role in forming this demand. The connection between elections and the economic cycle weakened in 2016–2019, presumably due to a temporary shift in policy priorities by the authorities in favor of macroeconomic stability and private sector development. However, in 2023–2024, old practices of stimulating consumer demand in pre-election years returned. This poses risks of significant economic overheating and a hard landing in the medium term.

Keywords: electoral cycle, economic cycle, household income, wages, budget expenditures, private sector, values, social contract.

1. Introduction

The economy of Belarus in 2023–2024 rapidly recovered after the sanction's shock of 2022 (**Fig. 1.B**). The GDP decline of 4.7% in 2022 was more than compensated by a growth of 3.9% in 2023 and 5% in the first half of 2024. As a result, the real GDP volume in Q2 2024 exceeded the pre-war average of 2021 by almost 4%.

The high economic growth in 2023 and in 2024 can be partly attributed to the structural transformation of the economies of Belarus and Russia in a sanction's environment. Following the tightening of sanctions policies by Ukrainian allies against Russia and Belarus since February 2022 and the disruption of established production and logistics chains, part of the aggregate supply of goods and services in Russia and Belarus disappeared. In turn, the reduction in aggregate demand was temporary, eventually growing amid increased Russian military spending. Consequently, domestic producers were incentivized to ramp up production to meet the growing demand.

At the same time, the high economic growth in Belarus in 2023–2024 was accompanied by extremely strong consumer demand dynamics. By Q2 2024, consumer spending exceeded the 2021 average by more than 17%.

The high economic growth rates, coupled with explosive consumer activity, raise concerns about the quality and sustainability of this growth. Overheating of the economy, combined with total price controls, threatens to have negative consequences in the medium term, including a significant weakening of domestic demand and the potential loss of household welfare in the event of substantial shocks to the global and/or Russian economies.

To a large extent, the high GDP growth in 2023–2024 may have been driven by an excessively loose domestic economic policy. The persistent support of a stimulative policy by the Belarusian authorities amid the probable overheating of consumer demand suggests that the leniency of the policy is at least partially influenced by the 2024–2025 electoral campaign.

The aim of this study is to examine the relationship between electoral and economic cycles in Belarus, their transformation, and the possible consequences of economic policy measures in 2023–2024 for businesses and households in the medium term.

To assess the economic cycle and its driving factors, a macroeconomic gap model for Belarus was applied (BEROC, 2023b). The model was used to analyze the deviations of real budget expenditures and real wages from their equilibrium levels and their correlation with presidential electoral campaigns.

Additionally, statistical analysis methods were employed to investigate the structure of budget expenditures and their changes during election periods.

The findings demonstrate a relationship between the electoral and economic cycles in Belarus. In pre-election and election years, the economy typically operated in a state of overheating. The dynamics of budget expenditures and wages significantly contributed to the formation of this overheating. Each electoral campaign was accompanied by real wages exceeding their equilibrium level. After the elections, there was a reduction in real wages or a substantial narrowing of this gap.

In pre-election years and election years, real budget expenditures significantly exceeded the balanced level, and the share of social benefits and labor costs in the expenditure structure increased. After the elections, these expenditures were typically corrected.

The connection between elections and the economic cycle weakened in 2016–2019. This was due to a temporary shift in the authorities' focus from stimulating domestic demand to ensuring macroeconomic stability, as well as a transformation of Belarusians' values, partly influenced by the development of the private sector in the Belarusian economy. However, in 2023–2024, old practices of stimulating consumer demand in pre-election years returned amid a reactionary policy following the socio-political crisis of 2020.

The analytical material is structured as follows. Section 2 analyzes the relationship between electoral and economic cycles in Belarus and discusses the use of specific economic policy tools to stimulate demand. Section 3 examines the causes and effects of the weakening correlation between the electoral and economic cycles in 2016–2019. The return to old practices in economic policy implementation from 2022 is discussed in Section 4. Conclusions are drawn in Section 5, where recommendations for businesses and households to minimize the potential negative effects of excessive domestic demand stimulation in 2023–2024 are also presented.

2. Relationship Between Economic and Electoral Cycles in Belarus

2.1 The Impact of Budget Expenditures and Wages on the Dynamics of GDP

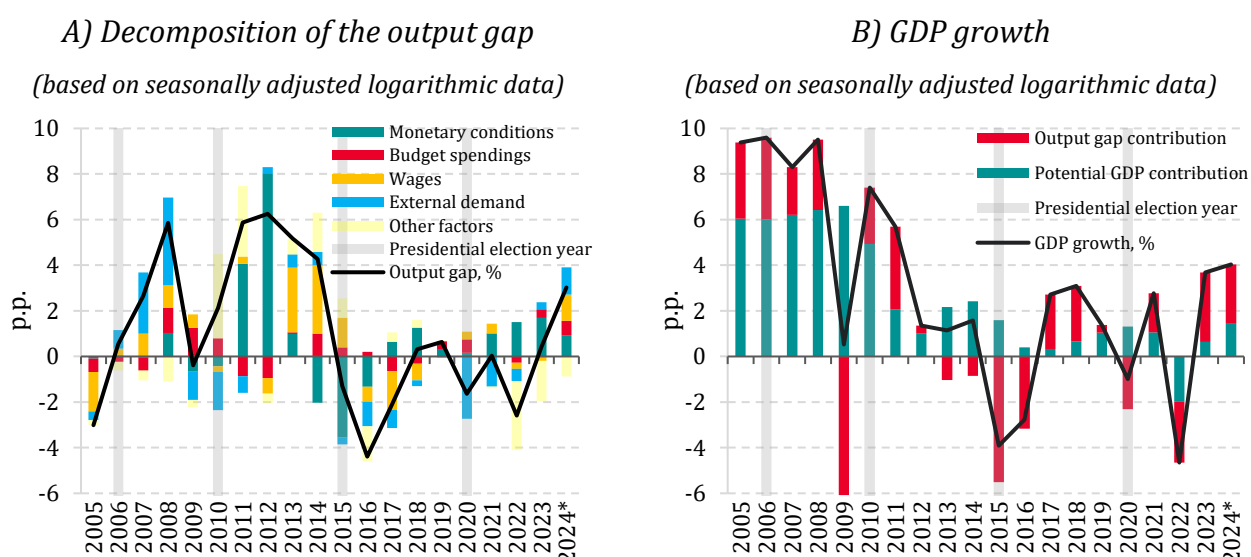
A cursory glance at the economic cycle in Belarus suggests that its development is linked to the electoral cycle (**Fig. 1.A**). In the pre-election years (2014, 2019, 2024), as well as during the presidential election years, which did not coincide with periods of severe external shocks (2006, 2010), the Belarusian economy

operated in a state of positive output gap – where aggregate demand exceeded its balanced volume.¹

In the dynamics of the economic and electoral cycles, there is a period where government-driven economic stimulus was minimal. This period spans from 2016 to 2020 (**Fig. 1.A**). However, in 2023–2024, there is a return to the previous practice of boosting aggregate demand in pre-election years (**Fig. 1.B**). The potential reasons for such fluctuations in the actions of the Belarusian authorities are discussed in Sections 3 and 4.

Estimates based on the QPM show that budget spending and wage dynamics had a significant impact on the formation of excess demand in Belarus (**Fig. 1.A**). These tools, along with mechanisms such as directed lending, guarantees, and other “soft” conditions for the functioning of state-owned enterprises, serve as key elements of demand stimulation by the Belarusian authorities.

Figure 1: Dynamics of GDP and the Economic Cycle in Belarus



Source: authors' calculations based on a Quarterly Projection Model (QPM; BEROC, 2023b).

Note: * The 2024 figures are forecasts based on information available as of September 2024. The output gap represents the deviation of actual real GDP from its equilibrium volume and serves as an indicator of the economic cycle. Equilibrium (or potential) GDP is the volume of GDP that does not lead to additional inflationary or disinflationary pressure. The contributions of factors are calculated considering inertia.

¹ Caution should be exercised when assessing the output gap in 2005–2006, as the model estimation starts from 2003, and the parameterization and specification were based on the period after 2013. Therefore, the Kalman smoothing procedure at the beginning of the sample may lead to biased estimates.

2.2 Household Income and the Electoral Cycle

Wages and transfers to the population constitute the dominant part of household income in Belarus. Their importance has not significantly changed in the 21st century (**Fig. 2.B**). During the period of high economic growth from 2002 to 2011, wages accounted for 64.5% of household income, while transfers made up 21.2%. During the period of slow growth from 2012 to 2021, these figures were 63.6% and 22.5%, respectively. In 2022–2023, they were 64.8% and 22.3%, respectively.

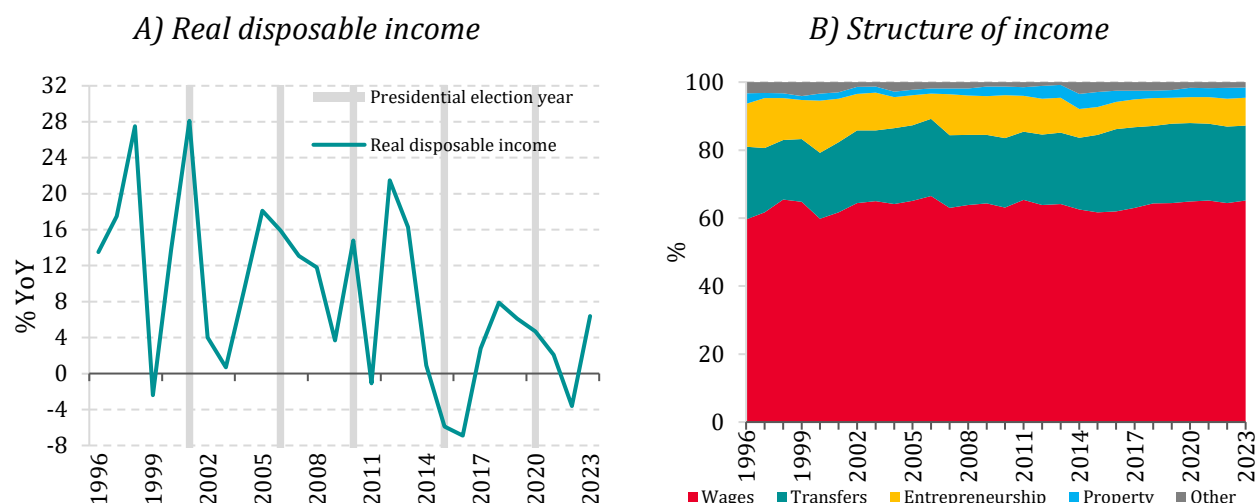
Transfers to the population are primarily represented by pensions. In Belarus, there are over 2.4 million pension recipients, more than 0.4 million of whom are employed. In addition to pensioners, more than 0.8 million workers are employed in the public sector. Thus, at least 40% of all voters in Belarus are directly dependent on budgetary policy. Pensioners and public sector workers mainly belong to low-income groups. The average wage of public sector employees is more than 20% lower than the national average wage, and the average old-age pension for non-working pensioners is more than 60% lower. Given the low-income levels, financial bonuses can feel more impactful than they would at middle or high-income levels. This creates conditions for the authorities to influence people's behavior through the regulation of social payments and wages in the public sector.

The dynamics of household income show a close correlation with the electoral cycle (**Fig. 2.A**). The growth of real disposable income of the population significantly accelerated before the presidential elections in 2001, 2006, 2010, 2020 (considering the negative impact of the COVID-19 pandemic), and 2025. However, after the 2001 and 2006 elections, income growth slowed considerably, and in the 2012–2013 period, high growth rates were artificially stimulated through budgetary and quasi-budgetary instruments to "mask" the structural slowdown in economic growth (**Fig. 1.B**).²

There were no significant changes in the structure of income related to the electoral cycle (**Fig. 2.B**). This indicates that income stimulation in pre-election and election years occurred both in terms of wage increases and social transfers to the population, primarily pensions.

² The causes of the economic growth slowdown in Belarus after 2009 can be explored in the works of D. Kruk (Kruk, 2018; 2020b), V. Komkov (2020), N. Mironchik and A. Levikhina (2020), and the World Bank (2018).

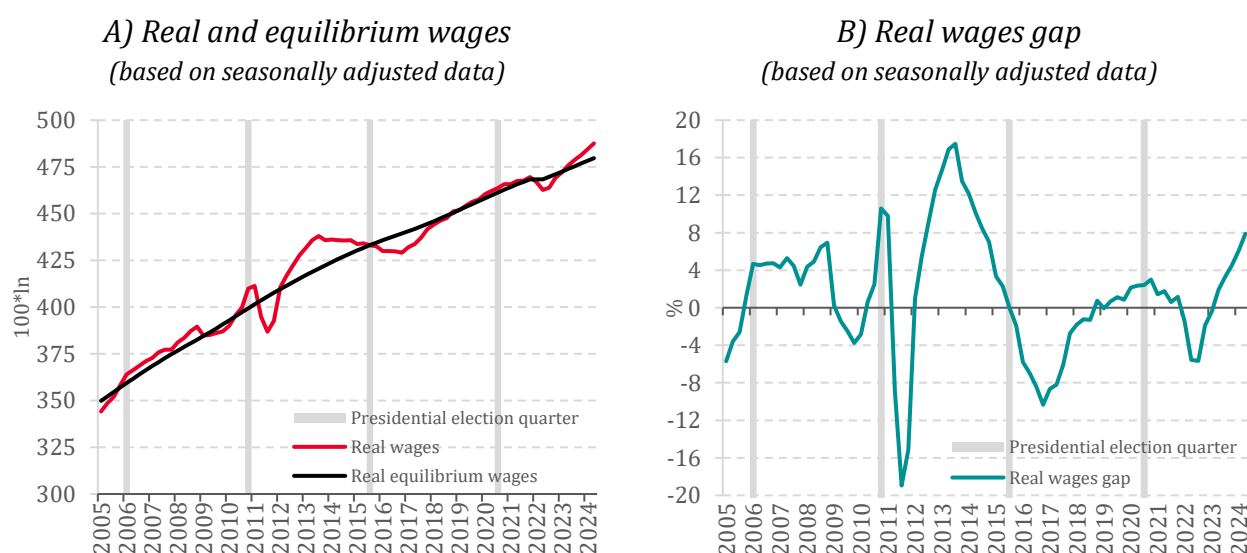
Figure 2: Dynamics of household income in Belarus



Source: authors' calculations based on data from Belstat.

The impact of the electoral cycle on the dynamics of household income is more clearly seen in the trajectory of the deviation of real wages from their equilibrium (balanced) level. Each electoral cycle was associated with the formation of a positive wages gap, where wages exceeded the equilibrium level (**Fig. 3.B**). After the elections, this gap was typically either reduced or real wages significantly decreased (**Fig. 3.A**). This indicates that excessive demand stimulation in the pre-election and election years significantly reduced the economy's resilience to shocks, creating a "favorable" environment for corrections.

Figure 3: Dynamics of real wages in Belarus



Source: authors' calculations based on QPM (BEROC, 2023b).

Note: The real wages gap refers to the deviation of real wages from their equilibrium level.

Before the 2020 elections (in particular, in 2019 – before the onset of the COVID-19 pandemic), the wage excess over the balanced level was small compared to

previous electoral campaigns. However, in 2023–2024, there has been a very rapid wage increase, leading to a significant deviation from the balanced level. The potential reasons for such fluctuations are discussed in Sections 3 and 4.

2.3 Budget Expenditures and the Electoral Cycle

Expenditures on wages and social benefits make up the largest share of the consolidated budget of the Belarusian government (hereinafter referred to as the consolidated budget or the budget). From 2003 to 2023, they accounted for an average of more than 53% of budget expenditures, with over 30% allocated to social benefits and nearly 23% to compensation of employees. More than 90% of social benefits are directed towards pensions.

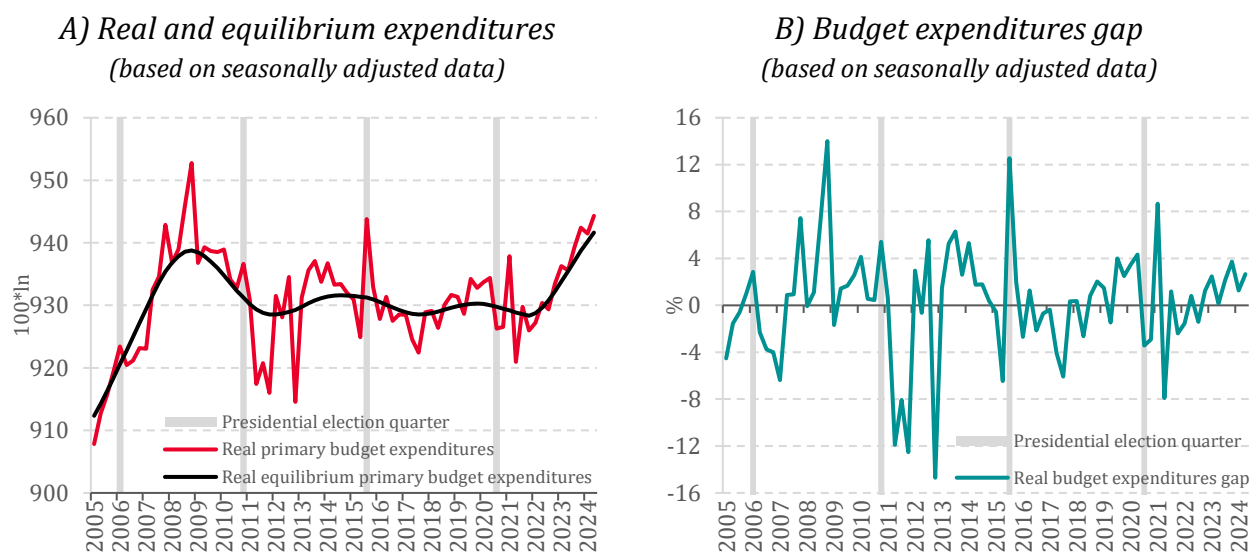
Electoral campaigns in Belarus in the 21st century have been accompanied by a substantial increase in non-interest expenditures of the consolidated budget (here, budget expenditures include those of the Social Protection Fund; SPF).³ In pre-election and election years, real non-interest budget expenditures significantly exceeded their balanced volume, and after elections, they typically experienced a corrective reduction (**Fig. 4.B**). It is worth noting that in the pre-election year of 2009, budget expenditures were negatively affected by the global financial crisis, and their reduction in 2011 was the result of hyperinflation and the banking and currency crises in Belarus.

During the 2011–2015 electoral campaign, demand stimulation through the budget mainly occurred in 2013 and the first half of 2014, after which the economy entered a recession phase, and under pressure from the EFSD (Eurasian Fund for Stabilization and Development), the authorities carried out macroeconomic adjustments. The spike in budget expenditures in Q3 2015 was related to the implementation of support schemes for specific Belarusian machine-building enterprises in relation to their debt positions, rather than stimulating household income.

In the 2016–2020 campaign, budget expenditures remained close to the balanced level until the second half of 2018, after which their expansion began, continuing until the socio-political crisis in Q3 2020 (**Fig. 4.A**).

³ Unlike the study by K. Rudy (2021), the results of the analysis in this paper demonstrate the presence of a political business cycle in Belarus.

Figure 4: Dynamics of real consolidated budget expenditures



Source: authors' calculations based on QPM (BEROC, 2023b).

Note: The budget expenditures gap represents the deviation of real expenditures of the consolidated government budget of Belarus from their equilibrium level.

In the 2021–2025 campaign, budgetary policy was restrained in terms of economic activity until Q4 2022. However, from the end of 2022, budget expenditures began to grow rapidly at rates exceeding the balanced levels. This growth is partly due to an increased reliance on domestic sources of financing amid the tightening sanctions regime against Belarus and the replacement of expenditures previously financed by international development banks and other financial institutions. However, since 2023, there has been an increase in the share of wage expenditures in the consolidated budget, signaling the likely administrative stimulation of public sector wage growth in pre-election years. Additionally, the shortage of workers and the resulting competition between the public sector and the private/non-budgetary state sectors also contributed to the rise in wage expenditures.

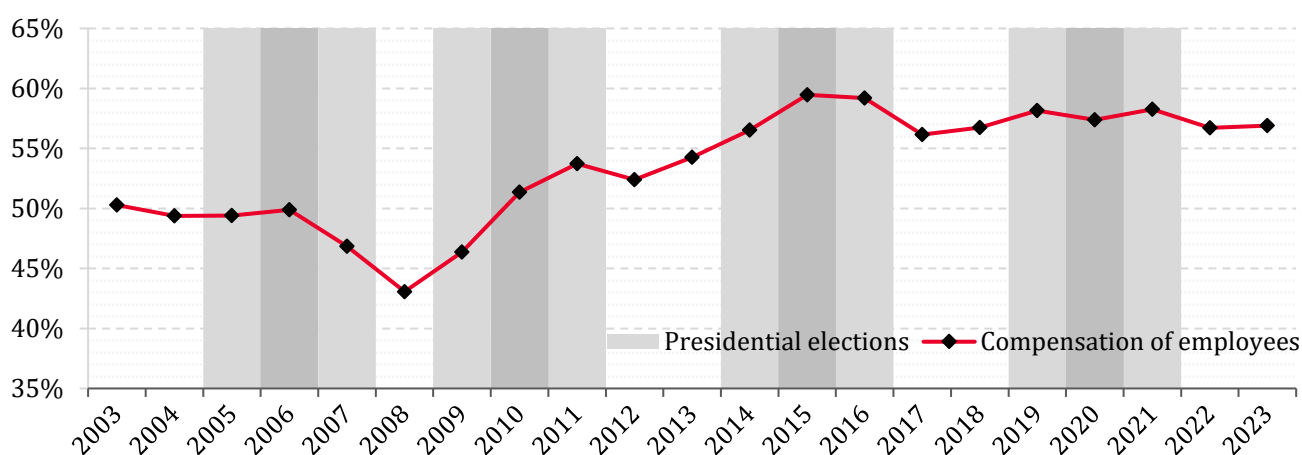
A certain pattern of changes in the structure of budget expenditures was observed during presidential electoral campaigns (**Fig. 5**). As a rule, in the pre-election year and the election year, the share of social benefits and wage expenditures increased within the budget. After elections, their share usually decreased or stopped increasing. A notable exception is the post-election year of 2011, when the share of social benefits and wage expenditures continued to rise. This is likely because cutting social expenditures during a crisis year was politically unacceptable, so other expenditures were reduced (**Fig. 4.A**). By 2012, the share of social expenditures began to decline.

The electoral campaign that ended with the August 2020 elections is distinguished by a less prominent display of the usual patterns of demand

stimulation. The president's directive to ensure an average nominal wage level of Br1000 led to a slight increase in the share of social benefits and wage expenditures in the 2018–2019 pre-election budget. However, this growth was much smaller in scale compared to 2009–2010 and 2014–2015 (**Fig. 5**). In the election year of 2020, the share of social benefits even decreased by more than one percentage point, reflecting the Belarusian authorities' response to the COVID-19 pandemic, during which state enterprises received more support than the population. The reasons for the changes in the behavior patterns of the Belarusian authorities in 2016–2019 are discussed in Sections 3 and 4.

The 2021–2025 presidential cycle saw significant changes in the functioning conditions of the Belarusian economy due to the aftermath of the socio-political crisis of 2020 and the tightening of Western sanctions. Nevertheless, in 2023, signs of a return to the old behavior patterns of the Belarusian authorities began to emerge, as mentioned above. Regarding changes in the budget expenditure structure, no significant shifts occurred, but the share of social benefits and wage expenditures slightly increased in 2023 (**Fig. 5**). At the same time, the growth rate of wage and social benefit expenditures was substantial, estimated at about 17.6% and 15% in 2023, respectively. The relatively small increase in the share of these expenditures in the total budget, despite such high growth, is associated with the forced increase in other budgetary expenditures following the loss of funding from Western development institutions.

Figure 5: Share of wages expenditures and social benefits in the budget of general government in Belarus



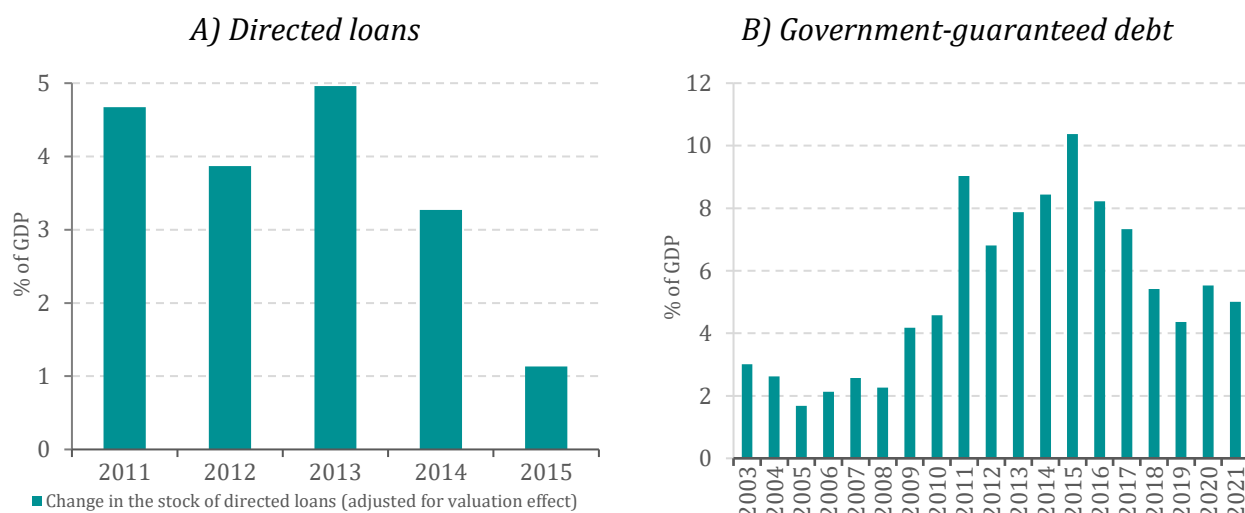
Source: authors' calculations based on IMF and EFSD data.

2.4 Directed Lending and the Electoral Cycle

During the period from 2010 to 2014, directed lending and the expansion of government guarantees served as additional channels for supporting demand,

which led to an increase in public debt (**Fig. 6**). The authorities' attempt during this period to "mask" the structural slowdown in economic growth resulted in significant overheating of the economy until 2015 and became one of the main causes of the currency and banking crisis of 2011 and the currency crisis of 2014–2015.⁴ In the next period of electoral cycle, from 2016 to 2020, the use of such quasi-budgetary instruments became much less intensive. However, these instruments resurfaced in 2022–2024: annual volumes of lending to state-supported enterprises in 2020–2023 amounted to 3% to 4.5% of GDP, which corresponds to the rate of growth in debt from directed lending observed during 2011–2014.⁵

Figure 6: Directed lending and government guarantees in Belarus



Source: authors' calculations based on data from the National Bank of Belarus and Musil et al. (2018).

3. The “Abnormality” of 2016 – the First Half of 2020: Strengthening Macroeconomic Policy, Development of the Private Sector, and the Transformation of Belarusians’ Economic Values

The period from 2016 to the first half of 2020 stands out from other electoral campaigns due to the absence of significant "inflation" of household incomes and "ballooning" of budget expenditures. This policy during that period can be explained by two groups of reasons: a (temporary, as it turned out) shift in macroeconomic policy approaches and the transformation of Belarusians' values associated with the development of the private sector.

⁴ The study of the causes of currency crises in Belarus is presented in the work of Miksjuk et al. (2015).

⁵ See: Ensuring financial stability in 2023 and tasks for 2024. Report by the Deputy Chairman of the Board of the National Bank of the Republic of Belarus, D. L. Kalechits, at the extended meeting of the Board.

Since 2015, the quality of economic policy in Belarus has noticeably improved (though it later turned out to be temporary). Exchange rate policy shifted from a fixed Belarusian ruble rate to a floating one, and monetary and fiscal policies began to rely heavily on sensible rules aimed at maintaining low and predictable inflation and fiscal discipline (Kruk, 2020a). From mid-2016 to mid-2020, the National Bank effectively conducted monetary policy in an implicit inflation-targeting regime, which was evaluated as moderately restrictive, close to neutral, for economic activity. The Belarusian ruble exchange rate fluctuated around its equilibrium level, and the significant overvaluation periods seen before 2015 were not observed (BEROC, 2023a). Directed lending volumes from 2016 to 2020 were limited, and budget policy was based on a conservative forecast for social and economic development, remaining restrictive for economic activity until Q4 2018.

Thus, the focus of economic policy from 2015 to the first half of 2020 shifted from "masking" the weak growth potential of the Belarusian economy by artificially increasing demand to ensuring macroeconomic stability, which, with some caveats, was achieved by 2017 and maintained until the pandemic and socio-political crisis of 2020 (Kruk, 2023). This shift in economic policy was driven by both internal factors and external influences.

The currency crisis of late 2014–2015 and the subsequent deep recession triggered the realization by Belarusian authorities that it was impossible to continue the previous economic course amid structural GDP growth declines.

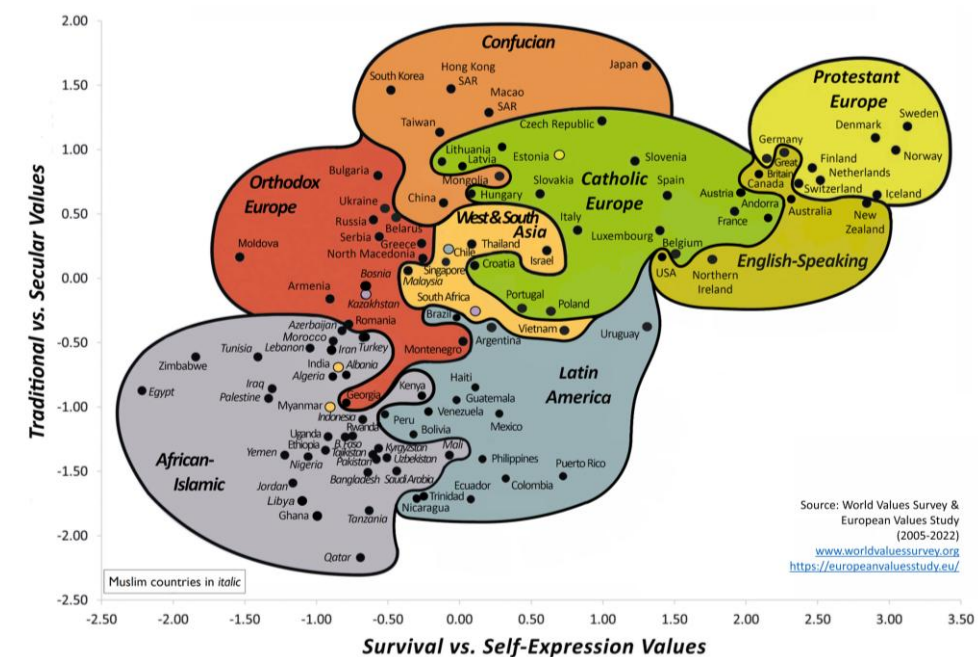
An external factor was the implementation of the reform program under the stabilization loan from the EFSD.⁶ The loan was disbursed in tranches, and each payment required a decision from the EFSD Board on whether the conditions for its provision had been satisfactorily met. This approach disciplined the Belarusian authorities to pursue balanced macroeconomic policies until 2019. However, as the economy stabilized and the 2020 elections approached, the authorities began to deviate from the program's terms, and the final, seventh tranche of the loan was not provided.

Focusing on macroeconomic stability rather than "camouflaging" low output growth allowed the Belarusian authorities to ensure predictability and reduce the volatility of key economic indicators important to the population (inflation, exchange rates, interest rates) while also reducing the need for additional consumer demand stimuli.

⁶ See: <https://efsd.org/en/projects/stabilization-credit-for-republic-of-belarus/>.

Macroeconomic stability, achieved through indicators such as low inflation and a stable Belarusian ruble, aligns with the value system of Belarusian society. Between 2015 and 2019, survival values continued to dominate over self-expression values in Belarusian society (**Fig. 7**). In such conditions, macroeconomic stability could serve as an important factor in securing the loyalty of a significant number of citizens to the political leadership, thus reducing the need for additional stimulus.

Figure 7: Map of value systems



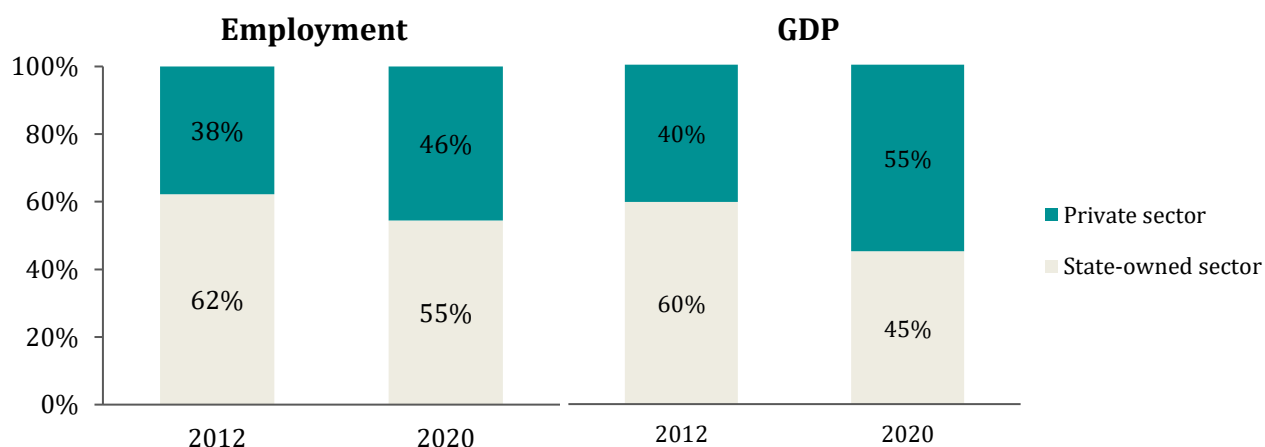
Source: The Inglehart-Welzel World Cultural Map – World Values Survey 7 (2023).
Source: <http://www.worldvaluessurvey.org/>.

Ensuring macroeconomic stability appears to be a crucial, but not the only, element of moving away from the practice of excessively stimulating demand ahead of the 2020 presidential elections. Despite the continued dominance of survival values in Belarusian society, by the end of the second decade of the 21st century, a clear shift in Belarusians' economic values had emerged, driven by the development of the private sector.

Thanks to business liberalization, which concluded in 2020, the new private sector (including foreign companies) became the most dynamic part of the Belarusian economy, even without significant financial and non-financial support or equal business conditions compared to state-owned companies. From 2012 to 2020, the share of private sector employment increased by 7.7 percentage points, absorbing workers laid off from the public sector. By 2020, the private sector's contribution to GDP exceeded that of state enterprises (**Fig. 8**). Thus, in the absence of significant privatization or restructuring of state enterprises, the private sector took over their "social"

function by absorbing workers laid off from the public sector, including the budgetary sphere (BEROC, 2023c).

Figure 8: Contribution of the private sector to Belarus's economic indicators



Source: BEROC (2023c).

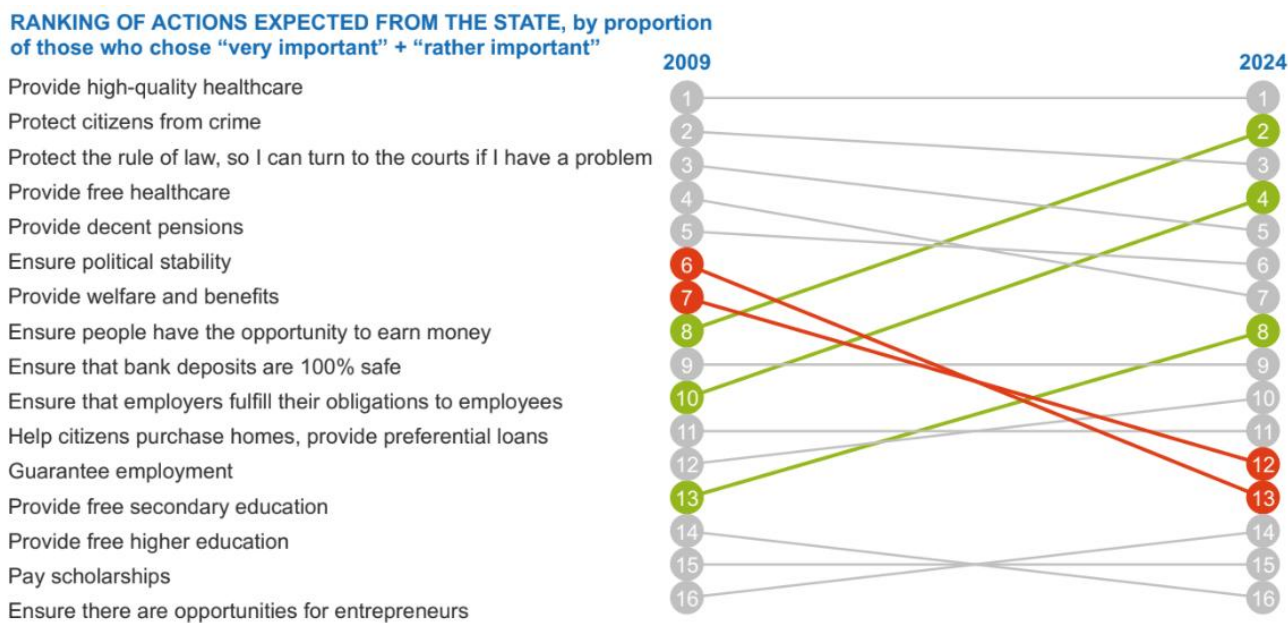
The development of the private sector and entrepreneurial initiative allowed the Belarusian authorities to postpone overdue structural reforms in the state enterprise sector, limiting themselves to gradually reducing excess employment, which the growing private sector absorbed. This maintained social stability, as significant layoffs in the public sector did not lead to increased unemployment, and wages in the private sector were, on average, higher than in the state sector (BEROC, 2023c). As a result, the natural workforce flow reduced the need for mass stimuli during the 2016–2020 electoral campaign.

The development of the private sector was also accompanied by a transformation of Belarusians' economic values towards pro-market views (Daneyko et al., 2023). This manifested in the growing support for increasing the share of private ownership in the economy (+16 percentage points from 1996 to 40% in 2018); the rising positive attitude towards competition (+7 percentage points from 1996 to 64% in 2018); and increasing support for individual responsibility over state responsibility for personal well-being (+30 percentage points from 1996 to 46% in 2018).

As a result, by the end of the second decade of the 21st century, the social contract between society and the authorities began to lose its relevance (BISS, 2009; Chatham House, 2024). The provision of benefits, allowances, and other material and non-material goods by the state in exchange for loyalty forced the authorities to pump up household incomes in pre-election periods. However, by the 2020 elections, there was a significant rise in demand for more private ownership, competition, and, perhaps more importantly, a substantial increase in the share of the population that

prioritized personal responsibility for their financial situation over state responsibility and was willing to take risks for it (Daneyko, 2023; Chatham House, 2024). In 2009, benefits and allowances ranked 7th among expected state actions (out of 16), but by 2024, they had fallen to 12th. At the same time, the "opportunity to earn" moved up from 8th to 2nd place in the rankings (Fig. 9).

Figure 9: Dynamics of society's expectations from the state



Source: Chatham House (2024).

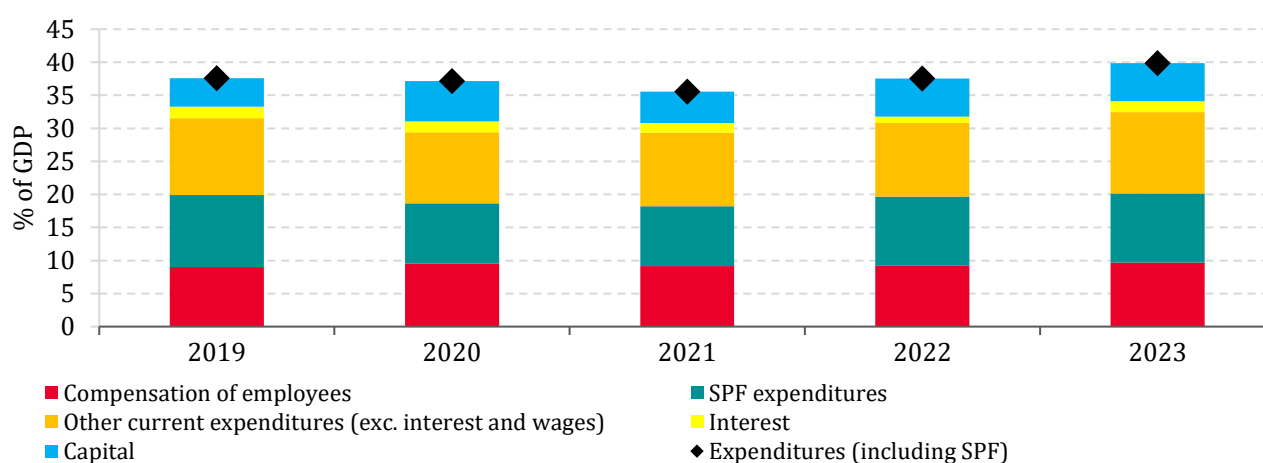
4. The Return of Old Demand-Stimulation Tools in 2023–2024

In 2023–2024, wages began to grow rapidly once again, significantly outpacing balanced levels (Fig. 3). This was largely due to a labor shortage resulting from the structural transformation of the economy, coupled with intensified migration and negative demographic trends. After February 2022, demand for goods and services remained, but part of the supply, previously formed by Western companies, disappeared. The vacant niches required filling, which led to a sharp increase in labor demand. At the same time, the labor force shrank due to emigration, natural population decline, and aging. As a result, a severe labor shortage emerged, with unemployment dropping to a historical low of 3% of the workforce by Q2 2024. To attract new employees and retain existing ones, both firms and the government were forced to raise wages.

The labor shortage is an important, but not the only, factor in the rapid wage growth in 2023–2024. This is evidenced by the extremely high growth in budget expenditures during this period, which significantly exceeded balanced levels (Fig. 3). In 2023, consolidated budget expenditures (including the Social

Protection Fund) increased by more than 10% in real terms. As noted in section 2.3, the share of social benefits and wage expenditures even increased slightly in 2023 (**Fig. 5**), and these expenditures largely drove the rise in budget spending in recent years (**Fig. 10**). Additionally, volumes of directed lending increased again in 2022–2023 (see section 2.4), providing further support for the "soft" conditions under which state enterprises operate. All of this points to reactionary economic policy. The Belarusian authorities have reverted to masking structural problems related to the low efficiency of the economic model, including through the familiar practice of stimulating household incomes during the pre-election period.

Figure 10: Dynamics and structure of consolidated government budget expenditures in Belarus



Source: authors' calculations based on data from the Belarusian Ministry of Finance, Belstat, and EFSD.

The events of 2020 clearly demonstrated the dangers posed to the current government by the development of the private sector. However, the increased administrative pressure on entrepreneurs since 2020 requires replacing the role of the private sector in improving citizens' welfare. In the context of Belarus's increasing isolation and the withdrawal of Western development institutions, much of these expenditures have been shifted to the budget.

A new social contract has not been formed and selling "greatness" like the Russian authorities do is extremely difficult for the Belarusian government. In the context of maintaining remnants of the old social contract, using familiar and understandable methods of administratively stimulating income and consumption among the population seems consistent with the logic of the Belarusian authorities. By early 2024, services such as quality, free healthcare, secondary education, and pension provision remained among the few areas of agreement between society and the state (Chatham House, 2024). In 2024, the demand for the "opportunity to earn" moved to second place in the ranking of public expectations from the state (**Fig. 9**). It is possible that, for a portion of the

population, state-driven income stimulation will be enough, at least temporarily, to ensure loyalty to the current government.

In the first half of 2024, the trend of rapid wage growth continued. Adjusted for price increases, wage levels in Q2 2024 exceeded balanced levels by more than 8%, and compared to the average pre-war level of 2021, they had risen by more than 22%. According to publicly available data, the growth in budget expenditures in the first half of the year was about 8% YoY in real terms. The National Bank's increase in government bond purchases on the secondary market (Br1.2 billion in January–July 2024, including Br0.5 billion in July alone, compared to Br0.65 billion for the whole of 2023) in the context of strong budget revenue growth indicates the authorities' intention to significantly expand spending this year. As a result, the baseline scenario is that stimulative fiscal policy will continue in the second half of 2024 and at least in the first half of 2025. Budget expenditures and wages, barring significant shocks, will remain at elevated levels, slowing the economy's return to a balanced state.

5. Conclusion

The economic and electoral cycles in Belarus are closely interrelated. This correlation temporarily weakened in 2016 – the first half of 2020 but was restored in the 2021–2025 presidential campaign. The excessively loose economic policy led to an overheating of the economy by nearly 4% of its potential GDP as of mid-2024. The Belarusian economy is at the peak of the business cycle, inevitably followed by a downturn phase. The depth and speed of the correction in the overheated economy will depend on the scale of the overheating (which is substantial as of mid-2024), developments in the external sector, and the actions of the authorities.

By the end of the first half of 2024, the "fragility" of the Belarusian economy to external shocks had significantly increased. If the excessively soft economic policies persist into 2025, the risks of a major correctional downturn in the medium term, associated with a loss of household welfare and threats to the financial health of businesses, will rise considerably. To minimize negative consequences in the event of a downturn in 2025–2026, businesses and the population need to be aware of the "fragility" of Belarus's economic successes, build reserves, and develop response scenarios for a potential "hard landing".

It is important to understand that, despite returning to the old, counterproductive economic policy practices, the Belarusian authorities have accumulated a substantial level of competence in responding to crisis situations.

Maintaining exchange rate flexibility is particularly significant today, in contrast to the fixed exchange rate regime of the Belarusian ruble prior to 2015. A floating exchange rate helps avoid situations of excessive overvaluation of the national currency and prevents sharp and painful currency adjustments like those of 2011 and 2015. Furthermore, the floating exchange rate serves as a shock absorber, mitigating negative consequences for the real sector of the economy and the population. The economy would gain even greater resilience from the genuine operational and institutional independence of the National Bank

Literature

BEROC. 2023a. Optimal monetary policy framework in Belarus. *BEROC Working Paper Series*. WP no. 88.

BEROC. 2023b. Quarterly projection model for Belarus: methodological aspects and practical applications. *BEROC Working Paper Series*. WP no. 82.

BEROC. 2023c. Development of the private sector. Instead of reforms and for the economic sovereignty of Belarus. *Research within the project Belarus Beehive* (In Russ.).

BISS. 2009. Social contracts in modern Belarus. Edited by K. Gaiduk, E. Rakova, V. Silitsky. St. Petersburg: Nevsky Prostor (In Russ.).

Chatham House. 2024. Belarus: the changing social contract. *Chatham House Eighteenth Survey Wave*.

Daneyko, P., Panasevich, V., Marozau, R. 2023. Evolution of economic values in Belarus. *BEROC Policy Paper Series*. PP no. 118.

Kamkou, V. 2020. The growth quality of the Belarusian economy. *Bank Bulletin Journal*. No 3/680. PP. 22–25 (In Russ.).

Kruk, D.E. 2018. Economic growth in Belarus: what lies beneath the stylized facts. *Journal of Belarusian State University. Economics*. No 1. PP. 132–144.

Kruk, D. 2020a. Stabilization in monetary sphere: limiter of growth or necessary condition? *Bank Bulletin Journal*. No 3/680. PP. 42–46 (In Russ.).

Kruk, D. 2020b. Economic growth in Belarus: identification of barriers and choice of priorities. *Bank Bulletin Journal*. No 3/680. PP. 15–21 (In Russ.).

Kruk, D. 2023. What is needed to strengthen macroeconomic stability in Belarus? *BEROC Working Paper Series*. WP no 85 (In Russ.).

- Miksjud, A., Pranovich, M., Ouliaris, S. 2015. The game of anchors: studying the causes of currency crises in Belarus. *IMF Working Paper*. No WP/15/281.
- Mironchik, N., Levikhina, A. 2020. How to accelerate the growth of the Belarusian economy? *Bank Bulletin Journal*. Bank's Research No 19 (In Russ.).
- Musil, K., Pranovich, M., Vlcek, J. 2018. Structural quarterly projection model for Belarus. *IMF Working Paper*. No WP/18/254.
- Rudy, K. 2021. Political business cycle: interdisciplinary study of electoral and post-electoral periods. *Belarusian Economic Journal*. No 1. PP. 59–69 (In Russ.).
- World Bank. 2018. Belarus systematic country diagnostic: towards a competitive, inclusive and dynamic Belarus. *World Bank Systematic Country Diagnostics*.