

EXPERT OPINION

July 2025

Summary

- **INSTITUTIONAL WEAKENING OF THE NATIONAL BANK AND ITS CONSEQUENCES FOR PRICE AND MACROECONOMIC STABILITY**

The National Bank of Belarus is effectively losing its status as an autonomous authority and increasingly submitting to the current interests of the executive branch. However, the shift in monetary policy focus from price stability to administrative support of GDP growth intensifies economic overheating, weakens the institutional foundations of development, and increases vulnerability to external shocks.

- **SLOWDOWN SIGNALS: OUTLOOK FOR THE RUSSIAN ECONOMY**

After two years of rapid economic growth in Russia, it has sharply decelerated — largely due to the Central Bank's tight policies. Although the downturn will continue, a full-fledged recession is unlikely. Even if the regulator shifts toward monetary easing, it will only give the economy a boost by the end of this year at best, but more likely in 2026.

- **INVISIBLE WORK: THE ECONOMIC VALUE OF DOMESTIC LABOR AND DISTORTIONS IN ITS DISTRIBUTION**

Domestic labor is a large and systematically underestimated component of economic life. Despite consuming several hours daily, it goes unrecorded in statistics, unpaid, and unaccounted for in official work experience. Given that it is primarily performed by women, this invisibility distorts the picture of economic activity, increases labor market vulnerabilities, and leads to the erosion of human capital.

INSTITUTIONAL WEAKENING OF THE NATIONAL BANK AND ITS CONSEQUENCES FOR PRICE AND MACROECONOMIC STABILITY

The role of central bank independence in long-term economic growth

The global economy is becoming increasingly uncertain. Confidence in its sustained growth has waned due to political and economic tensions among major powers, while volatility in global financial and commodity markets has intensified. For Belarus, global challenges are compounded by regional and internal risks, including extreme dependency on Russia and accumulated distortions within the national economy. In the years ahead, development institutions that foster long-term economic growth through innovation may take a backseat to stabilization institutions that ensure resilience to shocks.

The importance of stabilization institutions in fostering long-term improvements in citizens' well-being is clearly reflected in GDP per capita growth trends over the past decade in Belarus and its EU neighbors. From 2014 to 2024, average annual GDP per capita growth was 0.9% in Belarus, compared to 2.9% in Latvia, 3.3% in Lithuania, and 4.0% in Poland. This reveals a stark lag: 2.0 percentage points behind Latvia, 2.4 behind Lithuania, and 3.1 behind Poland. However, if we exclude years with GDP per capita contraction (including 2020, the pandemic's peak), Belarus' gap with its neighbors more than halves: to just 0.2 points behind Latvia, 1.0 behind Lithuania, and 1.4 behind Poland. This underscores that macroeconomic stability, while insufficient alone, is a necessary condition for sustainable long-term growth. Macroeconomic stability here means preventing large deviations (in either direction) of GDP from its potential level, maintaining low and predictable inflation (i.e., price stability), and ensuring that the current account of the balance of payments remains near its "norm" for the country.

A key prerequisite for ensuring macroeconomic stability is central bank independence — its ability to independently, without direct interference from the executive branch, set objectives (including monetary policy goals) and freely use the tools necessary to achieve them. Independence builds economic agents' confidence in the economy's stability, creating a predictable environment for investment planning, forecasting, and managerial decision-making. Conversely, executive influence over central bank decisions increases macroeconomic volatility, accompanied by fluctuations in prices, exchange rates, bond yields, and risk premiums.

The National Bank of Belarus is becoming increasingly dependent on the executive branch and abandoning stabilization-oriented monetary policy

The National Bank of Belarus has never been a fully independent body within the government structure. In its

decision-making on monetary policy and financial stability, the National Bank has always looked to the government and the Presidential Administration. Since 2020, its room for maneuver has been reduced to an absolute minimum. Nevertheless, a sliver of that independence remained. The previous top leadership of the National Bank used this limited autonomy to counteract both the severe output contraction in 2022 and the significant economic overheating from autumn 2023 to early 2025.

After a leadership reshuffle in the spring of this year, the Bank's legal status has not changed — formally, it remains independent of the government. However, the statements and actions of its current leadership in recent months signal that the already narrow margin for maneuver will no longer be used for stabilization purposes, but rather to support the government's key performance indicator: GDP growth.

The monetary policy of the National Bank is shifting toward increased softness (or resistance to tightening), greater tolerance for inflationary risks, and the threat of severe economic overheating. Providing credit support to the economy by stimulating investment lending to enterprises has become the top monetary policy priority. At the same time, directive instructions for banks — concerning the volumes, directions, and costs of lending — are beginning to dominate over market instruments. Ensuring price stability has been pushed to the background, becoming a secondary task for the National Bank. It may even be losing its relevance altogether in monetary policy decision-making, potentially being handed over to the Ministry of Economy and the Ministry of Antimonopoly Regulation and Trade.

What actions by the National Bank indicate a shift in monetary policy focus toward credit support for the economy?

First, the direct statements of the new National Bank leadership. These are permeated by the message of the need to intensify long-term corporate lending to support economic growth. At the same time, issues of inflation, macroeconomic stability, and risks to price stability are practically absent from these comments. Even the press release explaining the National Bank's June decision to raise the refinancing rate is riddled with logical contradictions, and inflation — the Bank's primary mandate — is barely mentioned.

Second, the National Bank's decision to raise the refinancing rate by 0.25 p.p., despite inflation rising by almost 2 p.p. since the beginning of the year and currently exceeding the target by a similar margin. Under current conditions, such a "symbolic" increase does not counteract the effective monetary loosening. Crucially, the National Bank did not raise the overnight deposit rate. This means that, under the continued practice of holding only liquidity support auctions (even in a context of significant excess liquidity in the banking system), the interbank lending rate will remain low (around 4–6%) unless powerful shocks trigger a liquid-

ity crisis. As a result, the transmission of the refinancing rate hike into lending and deposit rates will be weak.

Third, the National Bank's actions regarding changes in the estimated values of standard risk (EVSr). EVSRs are prudential instruments originally designed to limit banks' risk-taking in lending. But since around 2021, they have been used to directly influence interest rates on loans. From late 2023 through March 2025, the National Bank slowly and cautiously raised EVSRs to reduce monetary stimulus. Given the current economic conditions – the most overheated since mid-2014, above-target and rising inflation, and a significant trade deficit – further monetary tightening was warranted. Yet in April–May, the Bank did not proceed with such measures. Instead, in June, it took a rather “original” approach: it increased EVSRs for household deposits and loans as well as corporate loans up to 3 years, but decreased them (as in May) for corporate loans over 3 years. This diverging adjustment confirms the National Bank's focus on investment stimulus. However, these actions may have a discouraging effect on banks' willingness to expand long-term lending, which accounts for only about 5% of corporate loan issuance and, overall, finances just over 10% of capital investment. Hence, the overall impact of the National Bank's decisions on investment demand is expected to be neutral or mildly restraining.

Fourth, the National Bank has stopped publishing estimates of the output gap. The output gap measures the deviation of GDP from its potential level – a significantly positive gap signals overheating and excess demand; a negative one, weak demand. According to the Bank's previous estimates, the output gap turned positive in the second half of 2023 and slightly exceeded 2% by the end of 2024. In its latest May inflation report, the National Bank discontinued the seven-year-long practice of publishing the output gap, likely removing from public view the contradiction between its credit-support policy and the economy's strong overheating.

What are the consequences for price and macroeconomic stability of the National Bank's shift away from stabilization-focused monetary policy?

The National Bank's reluctance to implement moderate tightening in monetary policy means that monetary conditions will not contribute to neutralizing the accumulated imbalances. In the absence of major external shocks, the Belarusian economy will continue operating in a state of overheating and excessive domestic demand. This will be accompanied by rising inflation – potentially testing double-digit levels by late 2025 or early 2026 – a persistent trade deficit, and moderate depreciation of the Belarusian ruble. Due to the limited availability of labor and capital resources, GDP growth will slow, followed by a deceleration in wage growth.

Neither the National Bank nor commercial banks – through directive-driven expansion of credit for investment projects or artificially low interest rates – will be able to ensure long-term acceleration of economic growth. This may create an illusion of growth: a temporarily elevated pace, possibly lasting a significant period, sustained by inefficient resource allocation and overheating.

Yet credit availability does not influence the fundamental drivers of growth – namely, institutions and values. In fact, with a stable inflation rate near 5% and a genuinely independent central bank, credit would naturally remain accessible, with lending rates not exceeding 10%, eliminating the need for policy “crutches.” However, procyclical monetary policy undermines stabilization institutions, making deep and prolonged recessions more likely after seemingly sustainable periods of prosperity. The National Bank's abandonment of stabilization policy leaves the Belarusian economy far more vulnerable to external shocks – for example, a sharp and significant drop in demand from Russia, a sudden global economic slowdown, or large-scale and coordinated tightening of sanctions against Belarus and Russia by the U.S. and EU.

Further complicating the situation is the accumulated inflationary overhang resulting from prolonged price controls. The current state of price regulation is a *zugzwang* – any move (loosening, tightening, or maintaining current controls) will have negative consequences. Easing control could push inflation above 10%, while tightening or preserving it heightens the risk to firms' financial stability. The National Bank's growing resistance to monetary tightening only fuels the problem.

Unpredictable and inconsistent monetary policy raises the level and inertia of inflation expectations, complicates investment planning and forecasting, and increases the risk of ineffective monetary regulation. If any of the aforementioned shocks – or others – materialize, they could trigger a recession in Belarus, possibly accompanied by a sharp surge in inflation. While the probability of a “hard landing” is currently estimated to be lower than that of a gradual economic “cooling,” the risk is rising. Authorities still possess sufficient reserves to mask distortions for some time – especially under favorable external conditions – but the odds of adverse outcomes are increasing as the National Bank shifts its focus from macroeconomic stability toward promoting growth. These odds will continue to rise if domestic economic policy is not adjusted to address accumulated imbalances.

SLOWDOWN SIGNALS: OUTLOOK FOR THE RUSSIAN ECONOMY

Tight monetary policy has slowed economic growth

In recent years, the Belarusian economy has become increasingly tied to Russia's. During the peak of sanctions and the exodus of Western companies from Russia, this worked in Belarus's favor, as its producers filled the gaps. However, with the Russian economy now slowing, the effects are inevitably spilling over to its closest partner. That's why understanding Russia's economic outlook is crucial.

In 2023–2024, Russia experienced a boom – GDP grew by more than 4% annually. This was an unusual development for the country: such growth rates hadn't been seen in years. In fact, the economy had been stagnating for a decade before the war, with average annual growth of just around 1%.

After 2022, driven by rising military spending, a "wage race," and import substitution, this trend reversed – and for two years, the economy surged.

But by early 2025, a sharp slowdown became evident. The main reason, in my view, is the extremely tight monetary policy pursued by Russia's Central Bank. The regulator responded swiftly to the inflation surge in spring 2022 and gradually brought it down. But in the second half of 2023, a new cycle of rate hikes began – reaching a record 21%, which persisted from October 2024 through June 2025. The goal was to bring inflation down to the Central Bank's target of 4%. Yet, even adjusting for inflation, the real interest rate remained extremely high – around 10–11%.

This monetary tightening has a lagging but clear impact on slowing inflation. However, by early 2025, many companies could no longer afford to borrow at such historically high rates. The same applied to auto loans, mortgages, and consumer credit. As of June 1, credit growth in the real economy over the previous year was 10.9% in nominal terms. Adjusted for inflation, that's virtually zero – meaning credit activity had essentially stalled. Household lending, in particular, suffered: nominal growth was just 2.6%, translating to a real decline of roughly 7%. Corporate lending did grow in real terms, but this was largely driven by preferential loans to defense sector enterprises.

In short, tight monetary conditions led to a sharp contraction in lending and incentivized saving over spending. This undermined household consumption, especially for housing and durable goods. Combined with the lack of credit access for a large portion of businesses, this slowdown in consumption and investment has cooled economic growth.

According to data from Q1-2025, Russia's GDP grew by only 1.4% YoY.

Modest steps by the Central Bank toward easing monetary policy

Authorities' views on the risk of an economic downturn diverge. Russian Minister of Economic Development Maxim Reshetnikov has warned about the risks of entering a recession. However, Central Bank head Elvira Nabiullina and Finance Minister Anton Siluanov consider the slowdown a planned cooling of the economy.

Most likely, Reshetnikov is using his position to pressure the Central Bank to ease the key interest rate and stimulate economic growth. Striving to reduce inflation to 4% at any cost may not be justified. History offers many examples where inflation in the range of 8–10% in developing economies over extended periods was not a serious problem.

It seems that the Central Bank's decisions were overly strict, and Nabiullina likely understands this. She is now under pressure not only from the Ministry of Economic Development but also from banks that are eager for a policy reversal. On June 6, the key rate was cut by a symbolic 1 percentage point. However, this move appears more as a signal that the regulator intends to continue easing than as a truly impactful measure. In practical terms, this decision likely had little effect on the economy. In real terms, the rate did not decrease, since inflation has also slowed recently. For the regulator's actions to benefit the economy, the interest rate must decline faster than inflation.

As for prices, according to the Central Bank, seasonally adjusted annualized inflation was around 6% in April and about 5% in May. This provides a strong argument for further rate cuts.

A slowdown in growth is inevitable, but a recession is unlikely

Despite concerns voiced by economic authorities, I believe a recession is unlikely in the near future. While GDP data for the second quarter is not yet available, indirect indicators point to some stabilization. For example, the April index of output in the basic sectors of the economy suggests growth of 1.9%, up from 1.4%. This implies an average growth rate of around 1.6% YoY.

Nevertheless, low economic growth is expected to persist. The trajectory in the second half of the year will largely depend on monetary policy – specifically, how much the key interest rate is reduced. On the other hand, even a significant cut – say, to 17% – won't produce an immediate effect. Typically, the lag between monetary easing and its impact on the economy is longer than in the case of tightening.

It's also important to note that other objective factors are contributing to the economic slowdown. The substantial increase in military spending seen in recent years has likely peaked. As confirmed by Vladimir Putin, a reduction in such spending is planned, with no notable increases expected in other budget categories.

Therefore, fiscal policy is unlikely to provide additional stimulus for economic growth.

Moreover, the import substitution drive has likely reached its natural limits – most of what could be replaced has already been replaced. As a result, its growth potential is now exhausted.

Thus, while the slowdown in economic growth may have occurred naturally, actions by the Central Bank have exacerbated the pace of deceleration. Even if monetary policy is eased – and if the easing is substantial – the earliest the economy could see a notable boost would be by the end of this year, though 2026 appears more likely.

Impact of slowing growth on the labor market

Unemployment in Russia has reached its lowest level since the early 1990s. As of May, it stood at 2.2%. At the same time, a widespread labor shortage persists – not only among skilled professionals. As a result of the “wage race,” incomes have risen rapidly across many social groups, particularly among blue-collar workers. It's worth noting that payments to military personnel and their families, especially in economically depressed regions, have played a significant role in this trend.

However, the cooling economy will affect the labor market, as well as wage growth, which is already slowing. While last year real wages increased by around 9%, the growth rate for January–April dropped to 3.8%. This slowdown will have a direct impact on the dynamics of private consumption.

Foreign trade

Foreign trade, which hasn't been a growth driver over the past two years, also shows no signs of recovery. This is partly due to sanctions – many export flows simply cannot be redirected to other countries, particularly those involving gas and coal.

In recent months, the situation has worsened due to falling oil prices. Notably, Donald Trump's announcement in April of the introduction of import tariffs shocked global financial markets, including Russia's. This impacted energy demand forecasts, triggering a sharp decline in prices. Additionally, over the past two months, OPEC+ has pursued a policy of increasing oil production despite the price drop. These prices also remain volatile due to the military conflict between Israel and Iran. Whether the truce holds or a new round of war erupts, oil prices will inevitably be affected.

Altogether, the drop in oil prices and overall energy exports – combined with the high exchange rate of the Russian ruble – poses challenges for budget revenues. It is expected that monetary easing will lead to some weakening of the ruble, as it may cause a partial shift of savings into foreign currency.

On the other hand, the slowdown in economic growth will likely result in a slight decline in imports by year-end. However, the drop in exports will be more pronounced – estimated at around 6–7%.

INVISIBLE WORK: THE ECONOMIC VALUE OF DOMESTIC LABOR AND DISTORTIONS IN ITS DISTRIBUTION

Kateryna Bornukova, Academic Advisor

Housework as a second job

In reality, nearly every adult engages in various types of labor essential for our comfort but completely invisible to the economy – housework. That's its paradox. When a person cleans their home, cooks meals, or cares for children themselves, this work is unpaid and unaccounted for in the economy. However, when these same tasks are performed by a paid third party, they become part of the formal economy, are included in GDP, and the worker earns money and accumulates employment history.

At the same time, people routinely spend so much time and energy on housework that it can often be considered a second job. The most recent data for Belarus dates back to 2014 (Belstat conducted a similar survey in spring of this year, but the results have not yet been published). It showed that, on average, adults spent about 3.5 hours per weekday managing household tasks.

Housework involves continuously performing a wide range of tasks. It is a significant additional workload. The fact that it is not acknowledged simply because it is done for one's own family is a major shortcoming.

Labor cost in the economy

In Belarus, the value of domestic labor has not been officially estimated. There are two main approaches to calculating it. The first is relatively straightforward: what if someone else – paid professionals – performed the same work? Imagine a woman on maternity leave managing the household and caring for a child. To estimate the value of her labor, one could add up the average full-time salary of a nanny, the weekly cost of cleaning services, and the cost of hiring a cook who prepares meals every two to three days. Combining these gives a fairly substantial figure representing the value of her unpaid work.

The second approach frames the issue as a loss of potential earnings. Take, for example, an engineer who takes a three-year parental leave. What would her salary have been during that time? This is the opportunity cost of her labor.

Both methods have been used in OECD countries. According to 2018 data, the economic value of unpaid domestic labor was estimated at between 15% and 27% of GDP, depending on the method used (on average across OECD countries).

Household duties are unevenly distributed

The study also revealed that, on average, men spent about 2 hours per day on housework, while women spent around 4.5 hours. At the same time, men dedicated more time to formal employment – 6 hours compared to roughly 4 for women. This indicates that while men spend more time on paid work and earn

wages, women shoulder the majority of unpaid and invisible labor.

This issue of unequal societal recognition of unpaid domestic labor is particularly visible in families with rigidly divided roles: the husband works while the wife manages the household. If such a family breaks up, the husband retains his income source, work experience, pension contributions, and job security. In contrast, the woman's domestic labor isn't recognized, she has no income, no employment history, and no social protection because she hasn't been making insurance payments.

This problem is not unique to Belarus – it's relevant globally. Even in countries that have made more progress toward gender equality, such as Sweden, a time gap in domestic work remains. However, in Sweden, this gap is shrinking quickly. Swedish men, for instance, now spend more time on some types of domestic tasks – like cleaning – than women.

Sweden has also seen cultural shifts in the workplace, promoting work-life balance for both women and men. Men benefit from these changes as well, facing less pressure to overwork and breaking free from the "breadwinner" stereotype. This is reflected in statistics: men in Sweden are now spending fewer hours at work and more time on domestic tasks and child-rearing. Meanwhile, the country maintains high levels of happiness and GDP.

Origins of gender role division

The division of roles within the family has historical roots. For a long period, agriculture was humanity's primary occupation. People farmed for themselves – there were no wages. Since this work required significant physical strength, a natural division of labor emerged: women handled domestic responsibilities while men worked the land. This was further reinforced by physiological differences – only women can bear and nurse children. In those times, families had many children, not just one or two. Over centuries, this natural and logical division of roles became embedded in culture and religion, and was normalized in most regions of the world.

With the advent of industrialization, technological progress, and the rise of the service sector, physical strength lost much of its relevance in the workplace. Today, in terms of productivity, women are no different from men. Birth rates have also declined sharply, especially in the last 100 years – people now invest more in the quality rather than the quantity of children.

As a result, the rational basis for the traditional division of labor disappeared fairly quickly (except for the period of pregnancy). However, cultural change lags behind. This creates a conflict: culturally, a traditional family model still prevails, where the woman is the "homemaker" and the man the "breadwinner." In reality, this is far from the truth. In Belarus, for example, as of early

this year, 84.4% of women and 84.6% of men of working age are employed.

Yet cultural expectations persist, leading to a double burden on women: they are expected to work and also take on most of the domestic labor. This creates significant problems – excessive workload leads to stress and increased anxiety. It also hinders women from fully realizing their potential in the labor market.

Moreover, this overload results in rational discrimination against women in the workplace. Employers often assume that a female candidate may not stay late due to childcare responsibilities, might miss work if a child is sick, or be distracted by household concerns. Such thoughts don't typically arise with male candidates. From an employer's perspective, this bias may seem rational in pursuit of efficiency. But society loses out because it effectively pushes half the population into less skilled labor.

Some argue that since women dedicate less time to their careers, it's natural for them to handle more household duties. But this view merely reflects ingrained biases that reinforce a vicious cycle. The truth is that women often sacrifice career advancement due to domestic demands. It's usually the woman who stays home with sick children or ensures a hot dinner is ready after work. Consequently, their professional productivity suffers. Since they are burdened with a "second shift" at home, they simply cannot expand their first – paid employment.

It's crucial to understand that imbalances in domestic labor distribution hurt not just women. This is not only about women's rights. As a society – especially one facing aging demographics and a shrinking workforce – we cannot afford to sideline half the population into economically undervalued roles. That's wasted potential.

If the Ministry of Health in Belarus officially claims that women can't be surgeons, it essentially writes off half the pool of potential professionals. The Belarusian economy can't afford this – there are already shortages

in healthcare, and the situation is likely to worsen. The same applies across all skilled professions.

How to break the vicious cycle?

The good news is that we are gradually breaking out of it already. Cultural shifts are taking place. In Belarus, the level of female employment and the range of industries accessible to women are actually better than in some other countries. Moreover, technological advances – like washing machines, microwaves, and dishwashers – have improved daily life for everyone by reducing the amount of domestic labor.

To keep moving in the right direction, the focus should be on not reinforcing the vicious cycle or the idea of gender-based division of both paid and unpaid labor. It is essential to speak and think – especially at the official level – about women and men as equal members of society with equal capacities. We must allow women to thrive in the labor market and men to feel competent in household duties.

Though we often focus on discrimination against women in the workplace, men also suffer from rigid gender roles. Stigmas still exist around men taking care of their homes and families, especially in their role as fathers.

Wherever possible, we need to make it easier to combine parenthood and work – for both women and men. This includes policies such as paternity leave, allowing fathers to become more engaged in childrearing. Equally important is the development of childcare services that enable women to return to work sooner than the traditional three years after childbirth – if they choose to do so. These are foundational steps. Belarus has made some progress in this area, but the pace remains slow.

Judging by the official rhetoric surrounding traditional roles, family values, and calls for women to bear more children, there is a risk that this progress could slow down even further. But for now, it isn't working. Rational reality shows that women in today's economy are just as productive as men. Thus, over time, cultural norms must adapt to this new reality.