**Growth is expected to turn slightly negative in the second quarter**

- The authorities reported real GDP growth of 4.9% in Q1 2023. But recent data indicates a noticeable slowdown in manufacturing output, domestic trade, and the transport sectors, although the mining sector has continued to grow.
- Despite still-high inflation and rising interest rates, consumer spending has remained resilient. Mirroring this, trade exhibited a robust increase of 10.2% (compared to 10.8% last year) fueled in part by pick-up in consumer loans (11.7% growth after adjusting for inflation) driven in turn by the resumption of subsidized mortgage and auto loans programs.
- Based on monthly indicators across economic sectors, real GDP in Q2 is likely to grow by a slower rate of around 4.5% y-o-y.

**Inflation eases but still remains well above target levels**

- Inflation stood at 15.9%, year-on-year, in May. This is a significant step down from 16.8% in April and a peak of 21.3% in February. On a month-on-month basis, inflation was also lower, at 0.6% in May compared to 0.9% in April.
- The deceleration in CPI in May was driven by a drop in prices for some staples (eggs, fats, fruits) and there was a modest decline in food inflation to 16.5% (19% a year ago). The strong food price dynamics continue to reflect the lagged effects of past increases in imported intermediate and final goods prices and nominal wage growth that created an upward cost pressure for producers and retailers.
- Despite this easing of price pressure, inflation still remains significantly higher than the levels the central bank aims to achieve. The National Bank decided to maintain the policy rate at 16.75% in May, following five consecutive increases that have raised the benchmark rate since January 2022.
High prices exacerbate falling living standards

- Real incomes have failed to keep up the high inflation over the past year. Real incomes per person have declined by 2.2% y-o-y since the beginning of the year.
- This is the biggest drop in living standards since the 2015 crisis, exceeding even the impacts seen during the pandemic year of 2020.
- As price pressure recedes, higher nominal wage increases are expected to alleviate some of the strain on living standards towards the end of year.

Debt exposure narrows but interest payments reached all time high

- The government debt, including state guarantees, stood at 22.5 percent of GDP in Q1, down from 23 percent in 2022. External debt outstanding decreased from 8.8 percent in 2022 to 8.1 percent of GDP. Conversely, government domestic debt increased slightly to 14.4 percent in Q1 from 14.2 percent in 2022, reflecting the government’s current preference for domestic funding.
- NFRK reserves have been declining over the last three years and currently stand at 25% of GDP, primarily due to extensive drawdowns to finance anti-crisis measures. Net financial assets have also declined to 2.4% of GDP.
- As a consequence of soaring inflation and borrowing costs, debt-service payments as a proportion of the budget’s non-oil revenues reached their highest level ever in 2022. Currently, the government allocates more funds towards interest payments than it does for crucial sectors such as housing programs, agriculture, and infrastructure, diverting the financial resources required for essential development projects.