Resilient growth drives GDP above its potential

- The economic expansion remains steadfast, as shown by a 5% y-o-y increase in real GDP in Q2, which is consistent with a 0.9% q-o-q rise. The growth trajectory was underpinned by robust investments and continued positive contributions from domestic consumption.
- Recent survey indicators have also demonstrated resilient growth during Q2. PMI picked up in April, followed by a slight decrease in May, and it came down again in June, settling at 51.6. Despite this decline, the PMI remains above the threshold of 50, suggesting a stable outlook for short-term economic growth.
- By end of Q2 2023, we estimate, real GDP exceeded its potential (or maximum sustainable) GDP by about 1.5%, after running slightly below potential level in 2022.

Inflation eases, yet remains stubbornly high, still squeezing families

- The annual inflation rate has been steadily declining for the fourth consecutive month, settling at 14.6% in June y-o-y, down from 15.9% in May. This recent deceleration can partially be due to base-year effects (the prices we’re paying today are being compared with the very peaks of what we saw last year).
- There were widespread downward pressures affecting mostly food products. Services inflation eased to 13.3% y-o-y in June 2023, down from 14.2% in January and food inflation showed a decline to 14.6% y-o-y in June, down from 25.7% in January. The aggregate utility bill rose 14.6% y-o-y in June (10.3% in June 2022) with electricity price increases of 8.6% y-o-y (7.5%), heating 10.1% (-2.3%), water tariff 9.2% (no increase in June 2022).
- Although the slowdown in grocery inflation brings some positive news, the increase in utility costs add additional complications and continue to impose a cost of living squeeze on many families.
Investment growth accelerates and housing cools down

- Investment growth significantly accelerated in H1, rising by 13.1% y-o-y, compared with a growth of 9.2% in the whole of 2022.
- Strong investment dynamics were supported by continued production increases in mining and manufacturing while the contribution from housing investment eased. Retained earnings have been a key source of funding for capital investment (77% of total capital spending) in light of tightened credit conditions.
- Housing has weakened in January-June 2023. The underlying weakened momentum in the sector is primarily attributed to the challenges posed by high inflation and rising interest rates as well as the reduced pace of implementation of government-run subsidized housing programs, which in aggregate put downward pressure on house prices.

Real credit growth rebounds amidst decelerating inflation

- Bank lending rates for both firms and households further increased in June 2023. This upward movement in lending rates reflects the impact of the increased policy rate. As a result of the tightened monetary policy, banks are experiencing rising funding costs attributed to higher deposit rates and stricter credit standards.
- Specifically, household loan rates rose to 19.8% in June from 17% a year ago, while business loan rates increased from 15.2% to 19% during the same period.
- Since the beginning of 2023 credit growth picked up to 6.6% in real terms in June amid decelerating inflation, while remaining lower than a solid increase of 14% in June 2022.
- Loans to businesses steadied, compared to the 2.5% decline of last year, and credit to households moderated from strong growth of 27.3% in June 2022 to 11.7% in June 2023. This trend was largely influenced by the ongoing decrease in the growth of mortgages and retail loans since the start of the year.