

# Ukraine Watch: Economic growth slowed down to 3.7% in the second quarter

Economic growth slowed to 3.7% yoy in Q2, down from 6.5% in Q1. While government consumption fell, household consumption rose. The GDP growth forecast for 2024 is 3.4%, slowing to 2-3% in H2 due to a low harvest and power outages.

*Economic growth slowed down to 3.7% yoy in the second quarter* **1**

*Disclaimer* **3**

*Analyst* **6**



## Economic growth slowed down to 3.7% yoy in the second quarter

**GDP dynamic weakened** its upward movement to **3.7%** in the second quarter of this year (which is very close to our estimates of 3.5% and the consensus forecast) from 6.5% a quarter before. However, we still consider **the growth rate to be quite strong** under current circumstances and considering the presence of substantial downturn risks.

We notice some unusual trends that might improve the GDP dynamic over Q2 2024. In particular, **favourable weather conditions allowed the harvesting of certain agricultural products earlier** than usual, which partially shifted value added from these operations from the third to the second quarter. However, on the negative side, we noticed **a visible decline in merchandise exports** by 18% yoy in June due to the quick exhaustion of stocks because of more active exports in earlier months. On the other side, additional purchases of energy equipment and fuel **expanded imports**, which significantly increased the negative figure in net exports over the second quarter. Even though we do not yet have the data on other expenditure components of GDP, we consider **net exports as one of the factors behind the slowdown** in real GDP growth then.

We also assess **the contribution of the fiscal sector as moderately negative** over 2Q24 due to estimated government consumption by about 2% yoy in nominal terms and even greater if adjusting it for deflator. On the other hand, **household consumption** (which is the main component of the aggregate demand), would definitely **record a positive yoy dynamic** last quarter, supported by a fairly strong wage increase (22% yoy). According to our estimates, private domestic investment also positively contributed to GDP growth over 2Q24.

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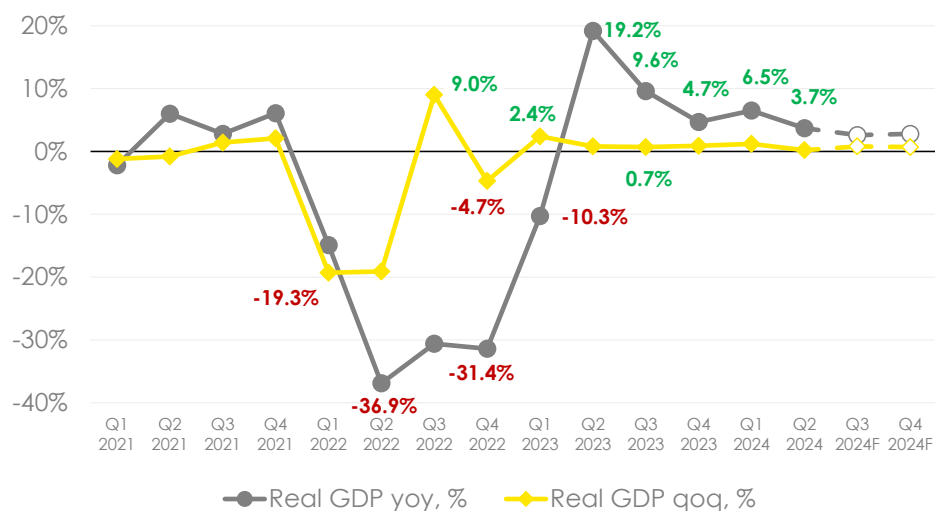
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**Real GDP (in %)**



Source: Statistical Office of Ukraine, RBI/Raiffeisen Research

Among the sectoral breakdown of GDP components, we estimate a **fairly strong contribution from metallurgy** (which demonstrates about 30% yoy growth in its output). We also notice **positive signals from the construction and trade sectors**. However, we do not expect to see strong growth in the services sector due to the additional mobilisation measures since May and the electricity supply disruptions in June.

The latest data on real GDP growth in the second quarter **fully support our current forecast** of 3.4% over the whole of 2024. **We expect a slowdown in economic upturn to 2-3% in the second half** of 2024 due to a relatively low harvest of major crops (which would impact GDP figures over the third and fourth quarters) and an electricity supply deficit in July-August. Our forecast also includes the negative impact of electricity disruptions (which are expected closer to the end of the year) on both household consumption and business development.

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
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Creation time of this publication: 27/09/2024 15:18 P.M. (EEST) ;

First Dissemination of this publication: 27/09/2024 15:18 P.M. (EEST)

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