

GDP recovers slightly in third quarter of 2020 as Covid-19 restrictions eased

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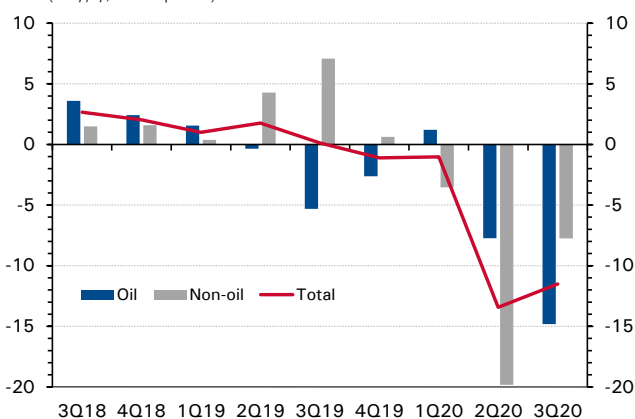
Highlights

- Recently released quarterly GDP data for 2020 show the extent of the economic recession caused by the Covid-19 pandemic.
- The economy contracted by 11.5% y/y in 3Q20, improving slightly from the previous quarter's decline of 13.4% y/y.
- Oil sector output was constrained by Kuwait's participation in the OPEC+ production cuts, falling 15% y/y.
- The rate of decline in non-oil GDP lessened in 3Q20 (-7.7% y/y) as private and government consumption accelerated following the easing of lockdown restrictions.
- Full-year headline economic growth for 2020 is expected to come in at around -8% y/y.

Kuwait's economy remained in recessionary territory in the third quarter of 2020, according to data recently released by the Central Statistical Bureau (CSB). Headline real GDP declined by 11.5% y/y in 3Q20, a fourth consecutive contraction in the quarterly series since 4Q19. (Chart 1.) While the economy did grow 1.2% q/q from the previous quarter, the CSB release reveals for the first time the scale of the contraction brought about by the coronavirus pandemic in 2020. Output in 2Q20 was especially hard hit, declining by 13.4% y/y (-12.5% q/q), amid the most stringent lockdown measures introduced last year.

▶ **Chart 1: Real GDP**

(% y/y, 2010 prices)



Source: Kuwait Central Statistical Bureau (CSB), Refinitiv

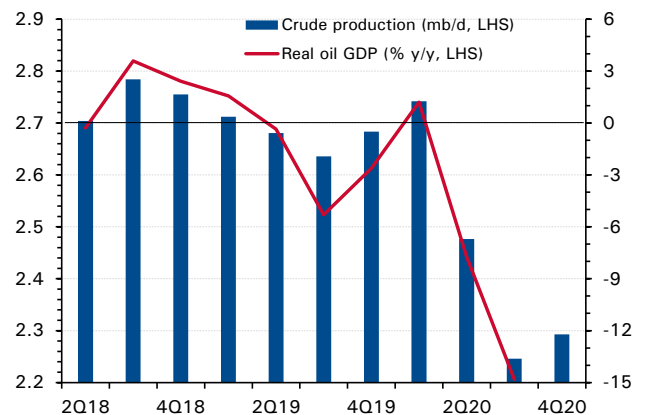
Oil sector potential remains constrained by OPEC+ policy

With Kuwait's oil sector comprising more than 51% of the country's total economic output in real terms, headline economic activity is therefore highly sensitive to the performance of the oil sector and changes in crude oil production. Real oil GDP in 3Q20 fell for the second quarter in a row in 3Q20 (-14.8% y/y;

-8.2% q/q) as crude production declined almost 15% y/y (from 2.64 mb/d in 3Q19 to 2.25 mb/d in 3Q20) due to Kuwait's participation in the OPEC+ production cuts. (Chart 2.)

▶ **Chart 2: Oil sector real GDP**

(% y/y, 2010 prices)



Source: CSB, Joint Organizations Data Initiative (JODI), OPEC

Production is likely to remain well below potential capacity until at least April 2022, when the current OPEC+ deal, signed in April 2020, is due to expire.

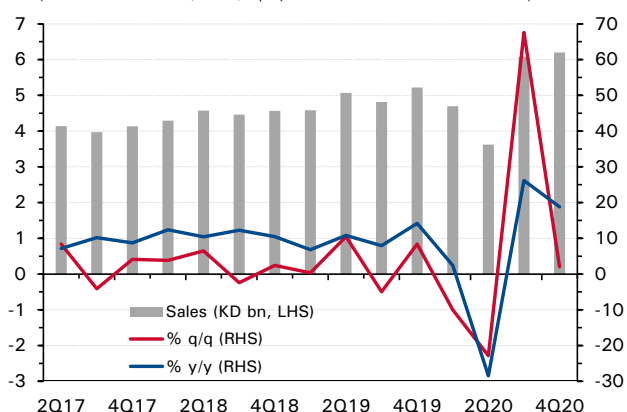
Post-lockdown consumer and government spending drives non-oil gains

Non-oil activity fell for a third consecutive quarter in 3Q20 (-7.7% y/y) though it did improve on 2Q20, increasing by 13.3% q/q, lifted by pent-up consumer demand. The almost 20% annual decline in economic activity in the second quarter of 2020 was unprecedented, with severe coronavirus mobility restrictions imposed in May forcing businesses to shutter and consumers to remain housebound. Construction, trade

(wholesale and retail) and hospitality (hotels and restaurants) were the three sectors worst affected by the pandemic in annual growth terms, contracting, by 65.9%, 47.8% and 44.4%, respectively. Little surprise, therefore, that once restrictions were eased from July onwards, these sectors recorded the quickest quarter-on-quarter turnaround in activity. The release of pent-up demand was especially visible in the quarterly increase in consumer spending, as measured by KNet data, which jumped almost 68% q/q (+26.2% y/y) to KD6.1 billion—a level that was also maintained in 4Q20. (Chart 3.)

Chart 3: Consumer spending

(includes KNET POS, IPOS, Kpay-online and ATM withdrawals)

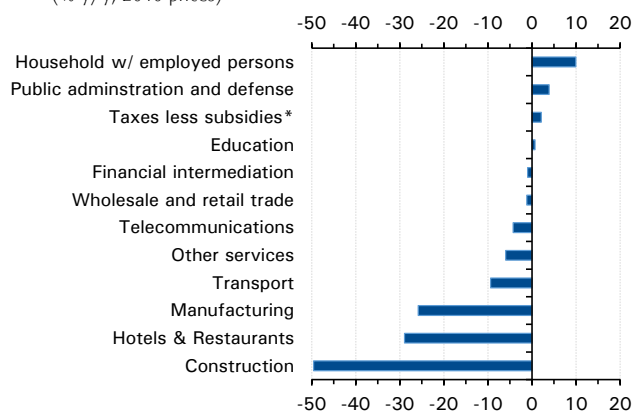


Source: KNet data

While almost all sectors in Kuwait’s non-oil economy posted quarter-on-quarter gains in 3Q20, only a few recorded positive year-on-year output increases. Chief among these was public administration and defense, historically the largest component and contributor to the non-oil economy, which expanded by 3.9% y/y. The ‘household with employed persons’ (domestic workers) and education sub-sectors also grew, by 10% y/y and 0.7% y/y, respectively. (Chart 4.)

Chart 4: Growth rate of non-oil sub-sectors in 3Q20

(% y/y, 2010 prices)



Source: CSB

Full year 2020 output to benefit from oil and non-oil sector improvements in the fourth quarter

Looking ahead to full year real GDP outturns, headline growth is likely to come in at around -8% y/y, helped by expected improvements in the performance of both the oil and the non-oil sectors in the still-to-be-released 4Q20 results. The rate of decline in both sectors should moderate to around -8% y/y, with non-oil activity improving in on the back of further easing in Covid-19 mobility restrictions, the resumption of normal business operations and robust consumer spending. Government consumption, the lynchpin of the economy, is also likely to increase in 4Q20, according to preliminary fiscal data. Oil sector output gains, on the back of higher crude oil production in the fourth quarter, will also feed into the improved picture.

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