

# GDP declines 8.9% in pandemic-affected 2020; consumers leading the recovery

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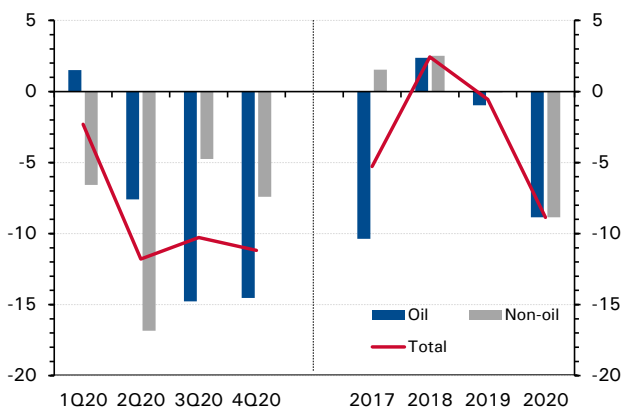
### Highlights

- Kuwait's economy contracted by 8.9% in 2020, with pandemic-driven pressures including plunging oil demand and business closures generating similar-sized falls across both the oil and non-oil sectors.
- Oil output was restrained by OPEC+ policy, while on the non-oil side, manufacturing and trade were especially hard hit.
- The outlook for 2021 has improved, in tandem with the vaccination drive and greater mobility.
- Non-oil GDP growth should recover to 4.0%, led by rebounding consumer activity and supported by government spending.

Kuwait's economy contracted by 8.9% in 2020, figures released by the Kuwait Central Statistical Bureau (CSB) show. This was the second consecutive decline after negative growth of 0.6% in 2019 and the steepest since the global financial crisis in 2009. In what was an extremely challenging year due to the coronavirus pandemic, both the oil and the non-oil sectors registered declines of around 8.8% in 2020. (Chart 1.)

▶ **Chart 1: Real GDP**

(% y/y, 2010 prices)



Source: Kuwait Central Statistical Bureau (CSB), Refinitiv

In the quarterly dataset, growth in 4Q20 came in at -11.2% y/y, lower than the previous quarter's rate of -10.3% and still pressured by weakness in oil output linked to OPEC+ policy (see below). However, growth on a quarter-on-quarter (q/q) basis was positive at 4.7% and for the second quarter in a row—the first time that has happened in two years.

### Non-oil activity severely reduced by pandemic impact

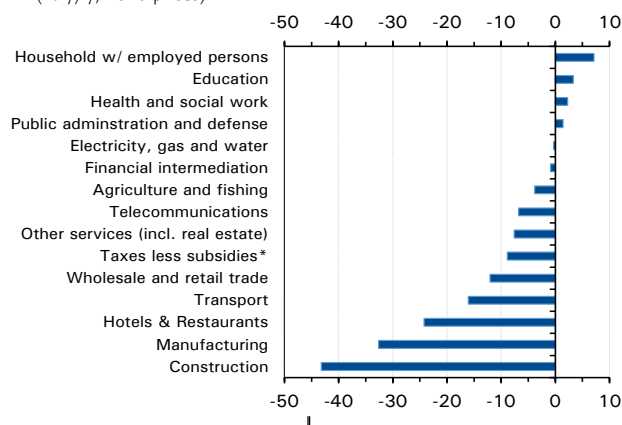
For the non-oil economy, this was the most severe contraction

in the annual data series available and the sharpest among GCC non-oil sectors last year. Indeed, real non-oil sector output was back at levels last seen in 2014.

Services, manufacturing and trade were especially hard hit by the mobility restrictions put in place to limit the spread of the coronavirus. Of the largest non-oil sub-sectors, services (including real estate) declined by 7.6% y/y, manufacturing fell by 32.6%, wholesale and retail trade dropped by 12.1% and telecommunications contracted by 6.8%. Construction, however, was the worst performing sector in 2020, declining 43.2%, with many projects understandably delayed. (Chart 2.)

▶ **Chart 2: Growth rate of non-oil sub-sectors in 2020**

(% y/y, 2010 prices)



Source: CSB

Were it not for the positive contribution of the largest non-oil sub-sector, public administration and defense, which grew by 1.4% y/y in 2020, the economic contraction in 2020 could have been even more marked.

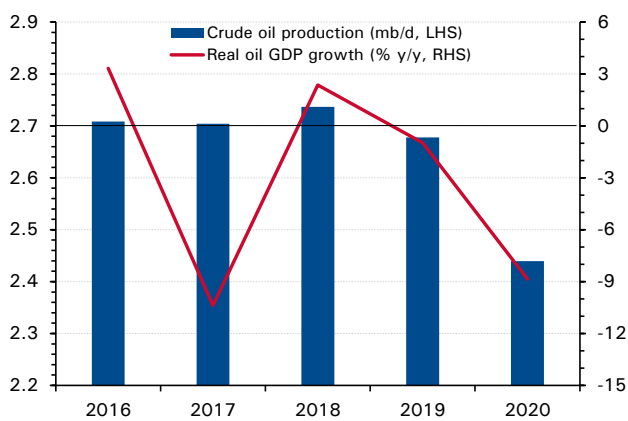
The other sub-sectors that posted real output gains were education, health and social work and household w/employed persons, which recorded the fastest growth (+7.1% y/y) since 2012. This was despite official labor force data showing a decline in domestic workers last year of 1.5%, which would chime with the broader fall in expatriate numbers caused by the pandemic.

### Oil output declines on lower oil demand and OPEC policy

Oil sector GDP declined for the second year in a row in 2020. With oil demand ravaged by the pandemic and prices plummeting to multi-decade lows last April, Kuwait, implemented a production cut agreement negotiated last April by OPEC+ to withhold supply and rebalance the market. Kuwait's average targeted output cut in 2020 was 0.56 mb/d, or a 20% reduction from a reference level of 2.809 mb/d. Kuwait achieved a commendable compliance rate of 101% in 2020, with crude output averaging 2.44 mb/d for the year as a whole. This reduction is reflected in the real oil GDP contraction of 8.9% y/y. (Chart 3.)

sustained would ease some of the pressure on public spending which would trickle down to higher private sector activity. Non-oil GDP could therefore rise by 4% this year, though this could be revised down if the pandemic persists, consumer spending cools and the government adopts a more cautious fiscal stance. Oil GDP, though, is projected to decrease further by about 1.0% in-line with Kuwait's OPEC+ output commitments. This will result in overall real GDP growth of 1.2% this year.

▶ **Chart 3: Oil sector real GDP**



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

### Economic outlook improving, led by surging consumer spending

The economic outlook has improved in recent months, with vaccination efforts stepping up and partial curfews eased. Businesses are seeing considerable pent-up demand from consumers. According to the most recent consumer spending figures provided by Knet, total spending in May skyrocketed by 137% to a record high of KD 2.25 billion, boosted by year-on-year base effects but also fundamental factors including loan repayment deferrals and reduced overseas travel. Moreover, the decline in project activity in 2020 looks to have abated, and could even be inching up with a backlog of projects that need actioning.[remove from Arabic expected project spending values]

Underpinning the rebound will also be government spending, the lynchpin of the economy. The government's draft budget outlined an increase of nearly 7% in spending in FY21/22 (with capex +20%) and the rise in oil prices to above \$70/bbl if

**Table: National accounts**

Real GDP (constant, 2010 prices)	% y/y annual		% q/q				% y/y			
	2019	2020	1Q20	2Q20	3Q20	4Q20	1Q20	2Q20	3Q20	4Q20
	<b>GDP (at market values)</b>	<b>-0.6</b>	<b>-8.9</b>	<b>-3.3</b>	<b>-12.6</b>	<b>0.4</b>	<b>4.7</b>	<b>-2.3</b>	<b>-11.8</b>	<b>-10.3</b>
Oil	-1.0	-8.9	0.1	-8.9	-8.2	2.1	1.5	-7.6	-14.8	-14.8
Non-Oil	-0.1	-8.8	-7.1	-17.1	11.9	7.5	-6.6	-16.8	-4.8	-7.5
Agriculture and fishing	-4.6	-3.8	-5.0	-0.5	-1.5	0.3	-2.4	-3.2	-3.0	-6.6
Manufacturing	0.3	-32.6	-34.4	-4.9	7.4	9.0	-32.1	-37.9	-33.6	-26.8
Electricity, gas and water	-6.0	-0.3	-23.0	76.0	31.8	-41.9	1.0	-4.4	0.1	3.8
Construction	4.6	-43.2	-21.6	-66.1	50.0	35.4	-18.9	-64.7	-49.0	-46.1
Wholesale and retail trade	0.9	-12.1	-15.7	-42.1	93.7	5.5	0.5	-47.7	-1.0	-0.3
Hotel and restaurants	-1.2	-24.2	-9.9	-40.0	29.8	30.1	-14.9	-45.0	-29.2	-8.7
Transport	-10.6	-16.1	-5.0	-18.7	-2.8	22.1		-23.3	-25.3	-8.3
Telecommunications	-1.6	-6.8	-10.2	-12.0	16.7	11.2	-10.3	-16.0	-3.9	2.6
Financial intermediation	2.8	-0.1	-0.3	-1.5	1.1	0.0	1.4	-0.4	-0.6	-0.6
Other services (including real estate)	2.5	-7.6	-5.2	-20.0	24.1	2.1	0.3	-20.9	-6.0	-3.9
Public administration and defense	-0.6	1.4	1.1	-0.3	-0.1	0.7	0.8	2.4	1.0	1.5
Education	2.3	3.3	1.8	-1.1	2.6	-0.2	4.2	1.6	4.3	3.1
Health and social work	2.9	2.3	0.8	0.5	0.2	0.3	2.6	2.5	2.2	1.9
Household with employed persons	3.5	7.1	9.8	0.0	-1.5	-2.7	8.0	6.0	9.4	5.2
Financial services indirectly measures (FISIM)	0.2	-0.9	0.3	-1.5	1.1	0.0	-1.0	-1.6	-1.0	0.0
Taxes less subsidies	1.6	-8.9	-23.0	58.4	17.1	-27.3	5.7	-12.0	-19.5	3.9

Nominal GDP (current prices)	KD billion		KD billion			
	2019	2020	1Q20	2Q20	3Q20	4Q20
	<b>GDP (at market values)</b>	<b>41.4</b>	<b>32.4</b>	<b>9.5</b>	<b>6.4</b>	<b>8.0</b>
Oil	19.7	11.2	3.9	1.7	2.8	2.8
Non-Oil	22.0	21.3	5.7	4.7	5.2	5.7

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