Kuwait: GDP contracts in 1Q20 as activity weakens partly due to coronavirus measures

Recently published data by the Central Statistical Bureau (CSB) showed that Kuwait’s economy in the first quarter of the year (1Q20) contracted by 1.0% year-on-year (y/y) in real terms. (Chart 1.) This is the second consecutive quarter of negative output growth, following 4Q19’s decline of 1.1% y/y, and was made worse by the pull-back in business activity in March due to the coronavirus pandemic. Output on a quarter-on-quarter basis (q/q) fell by 2.5%, the slowest rate since 1Q19.

The fall in headline GDP was a reflection of the decline in non-oil sector activity (-3.5% y/y; -5.4% q/q). Oil GDP, in contrast, expanded (+1.2% y/y; +0.1% q/q). Their relative contributions to overall growth were -1.6% and +0.6%, respectively.

Non-oil activity weakens, exacerbated by Covid-19

The annual rate of contraction in non-oil activity was the most severe in the eight quarters of published data. Business activity likely weakened in March after staff were sent home and partial curfew imposed by the government in response to the spread of coronavirus in Kuwait. Output falls were recorded in several sub-sectors including public administration and defense (-5.9% y/y), financial intermediation & insurance (-0.5% y/y), education (-17.2% y/y) and telecommunications (-12.2% y/y). (Chart 2.)

The decline in public administration and defense was surprising given that public administration output is usually quite rigid and its growth trend is usually upwards. In contrast, the manufacturing (+3.8% y/y), wholesale and retail trade (+10.2% y/y) and ‘other services’ (includes real estate) (+1.2% y/y) sectors all recorded higher output compared to the previous year.

Oil sector activity increases on higher crude output

Oil GDP expanded for the first time since 1Q19, rising by 1.2% y/y. This closely matched the annual increase in crude oil production over the same period (+1.1% y/y), from 2.71 mb/d to 2.74 mb/d (average), according to official sources. March saw

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**Highlights**

- Economic growth declined by 1.0% y/y in 1Q20, the second consecutive quarter of contraction.
- Non-oil activity weakened the most in two years (-3.5% y/y), some of which was due to ‘stay at home’ orders in March.
- Oil sector GDP increased on higher crude output (+1.2% y/y) as producers opened the taps following the collapse of OPEC+.
- The economy is expected to weaken further in 2Q20 following the imposition of partial and full curfew in April-May.
output reach a near-four year high of 2.9 mb/d after the dissolution of the OPEC+ agreement which left producers free to pump at will. Comparing 1Q20 with 4Q19, however, the 2.2% q/q increase in crude production was not reflected in the official GDP figures: growth was negligible at 0.1% q/q. As these figures are preliminary, revisions are expected.

Economic activity in 2Q20 to weaken further

Looking ahead, non-oil growth will almost certainly fall significantly in 2Q20 given that this quarter was spent entirely under some form of curfew amid rising coronavirus cases in the country. Full curfew was imposed in May and only began to be eased in June. Judging by the economic impact witnessed in those advanced economies that have reported figures for 2Q, the decline could be very severe and most certainly more than the 3.5% recorded in the first quarter. This is to be expected given that businesses were largely shuttered, employees forced to stay at home or laid off, domestic consumption mostly limited to foods and necessities and government capex spending put on hold. Moreover, with the reinstatement of OPEC+ production cuts in May and June, oil production was drastically curtailed. Therefore, the headline growth rate is expected to reflect declines in both the oil and non-oil sectors.