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## A preliminary assessment of socio-economic impact of the COVID-19 on the economy of Kuwait

29 March 2020

1 Given exponential dynamics of COVID-19 spread, it is infecting hundreds of thousands of people and claimed thousands of lives. As a result, global recession is looming which brings about unemployment, drop in public revenues, decline in profitability and long recovery among others. The economy of Kuwait can never be an exception. As of 28 March 2020, the government of Kuwait (GoK) had recorded 235 confirmed cases of COVID-19, with 171 cases under treatment, 64 cases recovered and discharged and somehow fortunate that no community transmission has been reported so far.<sup>1</sup>

2 Notwithstanding measures that are being put in place are evolving and changing every day given uncertainty of both the intensity and the duration of the outbreak in question, this paper attempts to provide a preliminary assessment of the possible socio-economic impacts of COVID-19 on the economy of Kuwait based on an assumption that current situation persists (is be maintained) over the next three months. In the end, fulfilling the objective of the paper would help UNCTs timely prepare integrated policy options for discussions as part of a broader mitigation plan to the GoK.

3 Notably, **the negative effect is going to be felt from a supply-side due to a series of the GoK measures to contain the spread of COVID-19**, including imposing partial curfew and travel restrictions, suspending inbound commercial flights, closing schools and universities, banning public celebrations and gatherings, and suspending non-essential work in governmental entities. It is therefore highly anticipated that domestic supply chains of goods and services will negatively be affected, eventually putting a lot of strain on supply chains and logistics between and across national boundaries.

4 Caused by outbreak containment efforts, **the supply disruption is, in turn, likely to affect household consumption which will have a ripple on effect on**

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<sup>1</sup> According to the WHO COVID-19 Situation Report No. 14 – Kuwait, as of 28 March 2020



**demand.** Many companies and especially SMEs have already experienced a sharp decrease in revenues and higher costs of doing business, in part attributed to restricted supply chains. Under unfavorable fall of demand in which domestic consumption is likely to be depressed by a potentially increase in domestic prices due to delays in import deliveries, the economy of Kuwait will inevitably suffer from an economic slowdown.

5 **The anticipated slowdown cannot be underestimated as various industries and sectors have already been impacted by COVID-19**, including retail, restaurant, tourism, transportation, among others, with which an increase in the number of urban unemployed people is likely accompanied in a short- and medium-term. In this context, outlook for growth will significantly be worsened, possibly leading to a scenario of a prolonged crisis where a considerable number of companies may resort to laying off employees or closing business.

6 Such gloomy prospects will be accelerated by the consequences of the sharp drop in the price of oil. In effect, coupled with a failure of recent OPEC+ agreement on oil supply cut, **the COVID-19 is driving demand relentlessly down and thus sending Brent crude to a 17-year low below \$25 a barrel and will potentially halve to nearly \$30 billion of the oil export revenue from that of the previous year.** This is based on an assumption that the economy of Kuwait maintains its oil production level in 2020 same to 2.7 million b/d of 2019.

7 Given that fact that the country's revenues from oil exports account for more than 90% of government income, **an anticipated drop in oil export revenue will seriously deteriorate fiscal balance.** The GoK has recently submitted to parliament a draft law that would allocate \$1.6 billion (equivalent to 1.4% of GDP) additional funds to support governmental entities' efforts in fighting the spread of COVID-19. This should be considered timely but can be another factor restraining the country's ability to sustain its fiscal performance.

8 In addition to the fiscal challenges, **the oil export-led deterioration in trade dynamics will also apply to the economy of Kuwait in a negative fashion** given



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about \$50 of external break-even oil price.<sup>2</sup> For this reason, net exports will severely be hit by rapidly worsening global demand and unfavorable terms of trade. The COVID-19 is spreading rapidly, affecting most of Kuwait's key trade partners, notably Asian countries, including China, Japan and South Korea where nearly 80% of goods exported by Kuwait are destined to. Furthermore, an increasing number of partner countries announcing state of disaster and emergencies will potentially limit economic activities particularly in the services sector.

9 Nonetheless, **relatively considerable financial buffers supported by stable financial sector would allow the economy to face these shocks from somewhat a position of strength to some extent**, unless current situation will be aggravated further. Two weeks ago, the Central Bank of Kuwait cut its policy rates by a 1 percentage point (from 2.5% to 1.5%) on all monetary policy instruments in tandem with the U.S. ongoing cycle of interest rate cut to zero. Together with such commitment to provide liquidity as required, the Central Bank has further taken actions to ensure uninterrupted access to financial services, including online banking, payment, settlement and electronic clearing systems, and access to disinfected banknotes in current situation.

10 As two-thirds of Kuwait's population is comprised of migrant workers, **the negative impact of COVID-19 on migrant workers may have far-reaching consequences beyond what is expected**. The experience of many domestic workers who are at heightened risk of exposure to the COVID-19 due to the work they perform, while facing ongoing financial, administrative, cultural and legal barriers to accessing health care facilities for testing, monitoring and treating the disease, is instructive. Meanwhile, many migrant workers in construction sector are likely to live in labor camps or dormitories with poor conditions (overcrowded), which create ideal conditions for transmission of COVID-19, putting them at an additional risk.

11 Among these vulnerable workers, **women will suffer disproportionate impacts and are indeed at higher risk to the COVID-19 given their overall social and economic circumstances**. Most health care workers in the country are women and the likely impact of COVID-19 on women's role as homemakers and carers is an increased burden. More seriously, the COVID-19 may intensify the degree of their

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<sup>2</sup> According to the IMF Regional Economic Outlook: Middle East and Central Asia, accessed at <https://www.imf.org/en/Publications/REO/MECA/Issues/2019/10/19/reo-menap-cca-1019>



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vulnerability to multiple forms of exploitation, sexual and gender-based violence, trafficking and other basic human rights violations such as the right to health services, shelter, nationality and others.

12 In any case, it is imperative to be aware that these workers regardless of men and women are most hit hard by the outbreak of COVID-19, and **such vulnerability will be translated into further lessening the pace of economic activities in services sector, while influencing the potential transmission of COVID-19 from informal to formal society**, which is why an effective treatment and/or adequate safety nets and facilities should urgently be in place as part of both outbreak containment and humanitarian efforts.

13 In particular, **recent closures of schools and universities in an attempt to slow the spread of COVID-19 have already put a million of learners at risk, especially children and young people**. The limited capabilities in both public and private educational institutions to support e-learning (e.g. distance learning) options to learners will remain risk factors interrupting the country's concerted efforts to shift to the human capital-led knowledge economy. On the social front, such risk factors will be accompanied by higher social costs among students, teachers and even parents, and such potential costs will further be associated with elevated levels of uncertainty in schooling, social distancing, xenophobia, among others.

14 In mid- to longer-term perspective, **the COVID-19 will likely trigger explicit tensions between the executive and the legislature over public spending (e.g. fuel subsidy cuts) ahead of the general election scheduled to take place in November 2020**. This political process will substantially hinge upon a number of uncertainties that are equated each other, but not limited to:

- a) degree of the aforementioned socio-economic consequences of COVID-19;
- b) its fiscal implications arising from fluctuation of global oil prices; and
- c) most importantly, the effectiveness of COVID-19 containment to the end.

If the COVID-19 driven crisis persists or is exacerbated over the third quarter of 2020, the election will unavoidably be postponed, and such anticipated political instability will further complicate the socio-economic dynamics and development trajectory in years to come.