S&P Global
Ratings

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Summary:
Kuwait

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Summary:
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Issuer Credit Rating	AA/Stable/A-1+

Key Rating Factors

Institutional and economic profile	Flexibility and performance profile
An oil-dependent economy with limited medium-term diversification prospects. • Kuwait's economy remains dependent on oil, which accounts for 90% of exports and government revenue. • We forecast modest economic growth this year given the recent OPEC+ agreement to cut oil production further in 2020. • Regional geopolitical tensions, including a recent escalation of confrontation between the U.S. and Iran, continue to pose risks.	Substantial savings of more than 400% of GDP accumulated within the sovereign wealth fund. • We estimate Kuwait's net general government asset position amounted to 420% of GDP at the end of 2019—the highest ratio of all rated sovereigns. • Despite lower oil prices ahead, general government surpluses are set to continue, bolstered by returns from managing the assets accumulated within the sovereign wealth fund. • Kuwaiti dinar will remain pegged to a U.S. dollar-dominated currency basket.

Outlook

The stable outlook reflects our expectation that Kuwait's public and external balance sheets will remain strong over the next two years, primarily underpinned by sizable foreign assets accumulated in the country's sovereign wealth fund. This should partly offset risks related to Kuwait's undiversified oil-dependent economy.

We could raise the ratings if wide-ranging political and economic reforms enhanced institutional effectiveness and improved long-term economic diversification, although we think such a scenario is unlikely over the forecast horizon to 2023.

We could lower the ratings on Kuwait if we observed a sustained decline in economic wealth, for example due to a fall in oil prices beyond our current expectations or materially weaker rates of economic growth. We could also lower the ratings if Kuwait's domestic political stability deteriorated, or if regional geopolitical risks were to significantly escalate.

Rationale

The ratings on Kuwait remain supported by the country's high levels of accumulated fiscal and external buffers. The ratings are constrained by the concentrated nature of the economy and relatively weak institutional settings compared with those of nonregional peers in the same rating category. Kuwait derives about 50% of GDP, more than 90% of exports, and about 90% of fiscal receipts from hydrocarbon products. Given this high reliance on the oil sector, we view Kuwait's economy as undiversified.

Institutional and economic profile: The December 2019 OPEC+ decision to further cut oil production constrains short-term growth while the recent escalation of U.S.-Iran tensions poses risks.

Kuwait's economy remains almost entirely dependent on oil, which accounts for an estimated 90% of exports and government revenue. The oil sector directly comprises close to 50% of the country's GDP, although if other related activities are taken into account, that proportion is even higher. As of 2018, Kuwait was estimated to be the world's eighth-largest crude oil producer, with the ninth-largest oil reserves. Assuming current production levels, Kuwait's total proven oil reserves are equivalent to about 100 years while the cost of production is among the lowest globally.

Given this high concentration, Kuwait's economic performance will remain largely determined by oil industry trends. We estimate that real GDP increased by 0.5% in 2019, held back by the OPEC+ decision to cut oil production. OPEC+ initially implemented that agreement in January 2019 for a period of six months, but it expanded the agreement in December 2019 with additional cuts of 500,000 barrels per day (bpd). Consequently, we expect Kuwaiti oil production will average about 2.65 million barrels per day (mbpd) in 2020 compared to the 2.8 mbpd originally planned and included in the 2019-2020 fiscal year government budget. As a result, we project the overall economy will expand by a modest 0.5% this year, similar to 2019. We assume Brent oil prices will average $60 per barrel (/bbl) over 2020 before reducing to $55/bbl thereafter (see "S&P Global Ratings Lowers U.S. Natural Gas Price Assumptions For 2020 Through 2022," published Dec. 6, 2019).

Beyond 2020, we expect growth rates to accelerate to an average of 2.5% over 2021-2023. We base this on our expectation of OPEC+ oil production cuts ultimately being discontinued and Kuwait's planned expansion of oil output and refining capacity, including via the restart of production within the Partitioned Neutral Zone (PNZ) between Kuwait and Saudi Arabia. We understand that the two countries have reached an agreement to resume production, following years of PNZ inactivity. Oil production from the PNZ could amount to 0.5 mbpd once operational, although actual output will remain lower in the short term, partly because Kuwait will continue to comply with the new OPEC+ agreed cuts.

Kuwait's political system features a powerful cabinet appointed by the Emir, and a democratically elected parliament. In our view, the country's institutional arrangements are generally more balanced compared to other Gulf Cooperation Council (GCC) countries, with the parliament providing at least some checks and balances regarding government activities. Nevertheless, ultimate power rests with the Emir. This reduces the predictability of decision-making, posing succession risks.

Despite somewhat stronger institutional arrangements, Kuwait's structural reform efforts have generally lagged behind other regional economies' in recent years. Unlike Saudi Arabia, the United Arab Emirates, and Bahrain, Kuwait still has not introduced value-added tax. We understand that the government is considering introducing excise taxes first, although the timeframe remains unclear and much remains to be done in terms of capacity building. The new debt law has also faced persistent delays and we no longer expect parliament to approve it in 2020, given the lengthy discussions and processes as well as the upcoming parliamentary elections. Without the debt law, the government is not able to issue new debt and thus continues to rely on large asset drawdowns to fund deficits at the central government level.

Kuwait is scheduled to hold a general parliamentary election in 2020 and domestic political volatility has been rising in recent months. Public protests briefly broke out in November 2019 and subsequently there was a government reshuffle, with a new prime minister appointed and several other ministers also replaced. The confrontational nature of the relationship between Kuwait's legislature and the executive branch is not new: similar reshuffles have happened in Kuwait several times before. The new government will likely be in place for only a limited amount of time with further changes possible after the general election. We do not expect any major changes in Kuwait's policy direction before or after the election.

More significantly, regional geopolitical tensions have increased at the beginning of 2020: following the killing of Iranian general Qasem Soleimani in a U.S. drone strike, Iran retaliated with air strikes on U.S. bases in Iraq. Although there are no immediate direct implications for Kuwait, the growing confrontation between U.S. and its allies and Iran poses risks. For example, a significant escalation of regional tensions could have a detrimental impact on Kuwait's economy if trade routes through the Strait of Hormuz are disrupted. The Strait remains of key importance for Kuwait given that currently all of the country's oil exports pass through it.

Flexibility and performance profile: Strongest net general government asset position of all rated sovereigns

Kuwait's formidable government assets, as a percentage of GDP, remain a key ratings strength. These result from historical savings of oil profits and are accumulated in the Kuwait Investment Authority (KIA), the sovereign wealth fund. The KIA comprises the General Reserve Fund (GRF) and the Future Generations Fund (FGF). GRF contains government holdings in several domestic enterprises alongside some portfolio and cash investments that the government can deploy for general budget use. In contrast, the FGF is intended as a buffer for future generations when the oil runs out. We include both the FGF and GRF in our estimate of government liquid assets because we think the government may consider authorizing drawdowns from the FGF, if needed. However, this action would require the introduction of specific legislation. By law, the government must transfer at least 10% of its revenue to the FGF annually.

There is no official data available on the total amount of KIA assets. Moreover, KIA is prohibited by law from discussing the exact size of its holdings. Nevertheless, there are several methods that we can use to indirectly estimate the size of the sovereign wealth fund. These include summing up the government's historical fiscal surpluses or outward financial account flows in the country's balance of payments, the data for which are publicly available. The latter approach, for example, results in an estimate of more than 400% of GDP as of end-2019.

In our calculations, we rely on the International Monetary Fund as well as fiscal data published by the Ministry of Finance. We estimate that the total size of KIA is currently about 430% of GDP, which makes it the largest sovereign wealth fund in the world relative to the size of the economy. These substantial savings provide the government with fiscal headroom to maneuver in an adverse scenario, such as worse-than-expected terms of trade or temporary disruption of export routes.

Despite our forecast of a reduction in the oil price to $55 in 2021 from an average price of $60 that we project for 2020, we still expect Kuwait will continue to post headline general government surpluses averaging 8% of GDP over the medium term. This is primarily due to substantial investment returns generated through managing the existing stock of KIA assets. We do not expect any debt issuance for now because parliament has not yet passed the new debt law. Consequently, the government will continue to rely on asset drawdowns from the GRF to finance deficits at the central government level.

Continued unchecked reliance on GRF assets to fund deficits at the central government level could ultimately lead to the GRF's depletion, although we understand this is more a medium-term risk rather than an immediate one. Our baseline expectation is that parliament will finally pass the amended debt law within the next two to three years, authorizing the government to borrow. The Finance Ministry has recently amended this new draft debt law but is yet to submit it to parliament.

We expect Kuwait's current account to remain in surplus in 2020, largely mirroring its fiscal performance, turning to only modest deficits from 2021 onward. Although we expect oil prices to moderate over the medium term, Kuwait's plans to expand production will support its external position. At the same time, growing domestic consumption at fixed exchange rates of the Kuwaiti dinar means imports will also rise, eroding current account surpluses.

Kuwait's exchange rate is pegged to an undisclosed basket of currencies. This basket is dominated by the U.S. dollar, the currency in which the majority of Kuwaiti exports are priced and transacted. In our view, Kuwait's foreign exchange regime is somewhat more flexible than those in most other GCC countries that maintain a peg to the dollar alone. For example, the Central Bank of Kuwait (CBK) decided to cut the key interest rate only once in 2019 by 25bps to 2.75%, while ignoring rate cuts by the Federal Reserve in July and September. In our view, some degree of monetary-policy divergence between the Federal Reserve and the CBK is possible, in part due to the limited amount of portfolio flows between Kuwait and the rest of the world.

Despite the challenging operating environment, the Kuwaiti banking sector remains resilient with stable profitability and improved asset quality. In our view, concentration in the commercial real estate segment remains a key credit risk for banks. For more information on Kuwait's banking system, see the latest BICRA report, "Banking Industry Country Risk Assessment: Kuwait," published on Dec. 20, 2018.

Key Statistics

Table 1

Kuwait Selected Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(Mil. KWD)										
Economic indicators (%)										
Nominal GDP (bil. LC)	46.28	34.47	33.06	36.61	42.47	41.83	41.41	41.26	42.92	44.66
Nominal GDP (bil. $)	162.65	114.59	109.41	120.69	140.02	138.53	138.04	137.53	143.08	148.86
GDP per capita (000s $)	39.7	27.0	24.8	26.8	30.3	29.4	28.7	28.0	28.6	29.2
Real GDP growth	0.5	0.6	2.9	(4.7)	1.2	0.5	0.5	2.5	2.5	2.5
Real GDP per capita growth	(2.6)	(2.9)	(1.1)	(6.6)	(1.4)	(1.5)	(1.5)	0.5	0.5	0.5
Real investment growth	4.5	15.5	11.6	1.3	4.7	3.8	4.0	4.0	3.4	3.2
Investment/GDP	16.3	25.4	30.0	27.7	25.2	26.7	28.7	31.1	31.8	32.5
Savings/GDP	49.7	28.9	25.3	35.7	43.5	44.2	33.5	30.3	30.7	31.1
Exports/GDP	68.5	53.8	47.6	51.2	56.7	54.1	52.0	48.9	48.3	47.7
Real exports growth	1.4	(0.9)	2.5	(4.8)	(4.8)	0.0	0.0	2.4	2.7	2.7
Unemployment rate	2.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
External indicators (%)										
Current account balance/GDP	33.4	3.5	(4.6)	8.0	18.3	17.5	4.8	(0.8)	(1.1)	(1.4)
Current account balance/CARs	42.8	5.2	(7.2)	11.6	23.2	21.7	6.7	(1.1)	(1.7)	(2.0)
CARs/GDP	78.1	67.2	64.1	68.7	78.9	80.7	71.7	67.9	67.3	66.7
Trade balance/GDP	47.7	24.4	17.8	21.3	33.0	29.7	26.1	22.1	21.7	21.3
Net FDI/GDP	7.0	(4.4)	(3.8)	(7.2)	(2.1)	(4.5)	(3.0)	(3.0)	(3.0)	(3.0)
Net portfolio equity inflow/GDP	(30.1)	(23.6)	(15.2)	(12.5)	(3.0)	(12.5)	(2.0)	(2.0)	(2.0)	(2.0)
Gross external financing needs/CARs plus usable reserves	67.2	124.6	143.2	118.6	105.6	108.1	132.8	147.7	153.4	157.3
Narrow net external debt/CARs	(413.8)	(633.3)	(682.1)	(599.0)	(477.0)	(487.2)	(570.7)	(627.2)	(633.2)	(639.7)
Narrow net external debt/CAPs	(723.6)	(668.1)	(636.1)	(677.6)	(620.8)	(622.4)	(611.5)	(620.2)	(622.7)	(627.0)
Net external liabilities/CARs	(479.3)	(746.9)	(810.0)	(711.9)	(558.7)	(574.0)	(670.2)	(734.0)	(737.0)	(740.1)
Net external liabilities/CAPs	(838.2)	(788.0)	(755.4)	(805.2)	(727.1)	(733.3)	(718.1)	(725.8)	(724.7)	(725.3)
Short-term external debt by remaining maturity/CARs	12.6	41.8	52.1	45.2	40.8	41.5	52.6	60.9	63.9	64.8
Usable reserves/CAPs (months)	0.8	1.2	1.3	1.7	1.8	1.7	1.3	1.2	0.9	0.7
Usable reserves (mil. $)	7,415.0	7,909.1	10,490.9	12,596.9	12,125.7	9,770.5	9,105.9	7,601.6	6,022.0	4,363.5
Fiscal indicators (general government; %)										
Balance/GDP	21.6	8.7	7.7	10.3	16.6	11.0	7.8	7.0	8.9	9.5
Change in net debt/GDP	(44.4)	11.0	9.7	(6.3)	(21.6)	(5.6)	(7.8)	(7.0)	(8.9)	(9.5)
Primary balance/GDP	21.6	8.8	7.8	10.7	17.1	11.5	8.3	7.4	9.6	10.5
Revenue/GDP	67.8	61.6	61.3	62.9	68.0	64.8	63.1	63.7	64.5	63.9
Expenditures/GDP	46.3	52.9	53.6	52.6	51.4	53.8	55.3	56.7	55.6	54.4

Table 1

Kuwait Selected Indicators (cont.)										
Interest/revenues	0.1	0.1	0.2	0.7	0.8	0.8	0.7	0.6	1.1	1.5
Debt/GDP	3.4	4.6	9.9	19.6	14.0	11.8	10.7	20.9	29.4	37.3
Debt/revenues	5.1	7.5	16.1	31.1	20.6	18.2	17.0	32.7	45.5	58.4
Net debt/GDP	(364.9)	(479.0)	(489.8)	(448.5)	(408.2)	(420.1)	(432.2)	(440.8)	(432.6)	(425.3)
Liquid assets/GDP	368.4	483.6	499.7	468.1	422.2	431.9	442.9	461.6	461.9	462.6
Monetary indicators (%)										
CPI growth	3.1	3.7	3.5	1.5	0.6	1.0	1.5	2.2	2.2	2.2
GDP deflator growth	(6.8)	(26.0)	(6.8)	16.2	14.6	(2.0)	(1.5)	(2.8)	1.5	1.5
Exchange rate, year-end (LC/$)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Banks' claims on resident non-gov't sector growth	4.3	7.4	2.8	2.3	3.1	4.5	3.5	3.5	3.5	3.5
Banks' claims on resident non-gov't sector/GDP	73.7	106.3	113.9	105.2	93.5	99.2	103.8	107.8	107.2	106.7
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	7.7	9.2	7.2	6.5	6.0	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

KWD--Kuwaiti dinar. Sources: Central Bank of Kuwait, Central Statistical Bureau (Economic Indicators); International Monetary Fund, Central Bank of Kuwait (Monetary Indicators), Ministry of Finance, Central Bank of Kuwait (Fiscal Indicators), Central Bank of Kuwait, Ministry of Finance,International Monetary Fund (External Indicators).
Adjustments: Usable reserves adjusted by subtracting monetary base from reported international reserves. General government revenues adjusted by including investment incomes from Sovereign Wealth Fund. Liquid assets include the liquid assets of the General Reserve Fund and the Future Generations Fund.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. CAPs--Current account payments. CARs--Current account receipts. e--Estimate. f--Forecast. FDI--Foreign direct investment. LC--Local currency. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot		
Key rating factors	**Score**	**Explanation**
Institutional assessment	4	Reduced predictability of future policy responses because of an uncertain or untested succession process and moderate challenges to political institutions due to highly centralized decision-making. Ultimate power is concentrated with the Emir. At the same time, Kuwait has managed to consistently pursue a prudent fiscal policy.
Economic assessment	3	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1 .
		Weighted average real GDP per capita trend growth over a 10-year period is below sovereigns in the same GDP category
External assessment	1	Based on narrow net external debt and gross external financing needs/(CAR + useable reserves) as per Selected Indicators in Table 1 .

Table 2

Ratings Score Snapshot (cont.)		
Key rating factors	**Score**	**Explanation**
		We estimate the sovereign's net external liability position is more favorable than the narrow net external debt position by 100% of CAR, as per Selected Indicators in Table 1.
		Kuwait's external data lacks consistency as there is no complete published international investment position or disaggregation of external debt. This could lead to an underestimation of credit risk .
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1 .
		Substantial savings accumulated within the sovereign wealth fund, Kuwait Investment Authority, of more than 400% of GDP.
		Kuwait has a volatile revenue base, since 90% of general government revenue is based on hydrocarbon production
Fiscal assessment: debt burden	1	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.
Monetary assessment	3	The Kuwaiti dinar is pegged to a basket of currencies. There is monetary independence, but it is less secure than at better assessments.CPI as per Selected Indicators in Table 1 .
Indicative rating	a+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	2	We estimate Kuwait's government assets are exceptionally large, substantially more than the 100% of GDP. They are also high in an international comparison: KIA is among the biggest sovereign wealth funds globally, even though Kuwait is a country with a comparatively small population.
Final rating		
Foreign currency	AA	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt
Local currency	AA	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria - Governments - Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Banking Industry Country Risk Assessment: Kuwait, Dec. 20, 2018

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