Research Update:

# Kuwait Ratings Lowered To 'A+' On Lack Of Comprehensive Funding Strategy; Outlook Remains Negative

**July 16, 2021**

## Overview

- We forecast that Kuwait's central government deficits will average a substantial 17% of GDP annually over 2021-2024.
- Even so, the government has yet to enact a comprehensive strategy to augment its main source of budget deficit financing, the depleted General Reserve Fund (GRF).
- We still forecast the authorities will adopt a debt law, or overcome parliamentary opposition and gain access to other available funding alternatives such as the Future Generations Fund. However, the prolonged and continued absence of a long-term funding strategy indicates credit risks more in line with our 'A' rating category.
- We are therefore lowering our long-term ratings on Kuwait to 'A+' from 'AA-'.
- The negative outlook primarily reflects risks relating to the government's ability to overcome the institutional roadblocks preventing it from implementing a financing strategy for future deficits.

PRIMARY CREDIT ANALYST

**Maxim Rybnikov**
London
+ 44 7824 478 225
maxim.rybnikov
@spglobal.com

SECONDARY CONTACT

**Benjamin J Young**
Dubai
+971 4 372 7191
benjamin.young
@spglobal.com

ADDITIONAL CONTACTS

**Shruti Ramakrishnan**
Mumbai
+ (022)33421966
shruti.ramakrishnan
@spglobal.com

**EMEA Sovereign and IPF**
SovereignIPF
@spglobal.com

## Rating Action

On July 16, 2021, S&P Global Ratings lowered its long-term foreign- and local-currency sovereign credit ratings on Kuwait to 'A+' from 'AA-'. The outlook remains negative.

We also lowered our short-term foreign and local currency sovereign credit ratings to 'A-1' from 'A-1+'.

At the same time, we revised our transfer and convertibility assessment to 'AA-' from 'AA'.

## Outlook

The negative outlook primarily reflects risks over the next 12-24 months relating to the government's ability to overcome the institutional roadblocks preventing it from implementing a financing strategy for future deficits.

### Downside scenario

We could lower the ratings if elevated central government deficits persisted over the medium term, with still no sustainable comprehensive financing arrangements agreed. This could happen, for instance, as a result of continued confrontation between the government and parliament rendering the government unable to implement fiscal reforms, pass the debt law, or authorize other sources of budget financing.

### Upside scenario

We could revise the outlook to stable if the authorities demonstrated a track record of structural reform implementation that addressed Kuwait's long-term funding needs, enhanced policymaking, and improved economic prospects.

## Rationale

The downgrade reflects the persistent lack of a comprehensive funding strategy despite the central government's ongoing sizable deficits. Due to parliamentary opposition, the government has so far been unable to pass a law giving it the authority to issue debt or gain immediate access to its large stock of accumulated assets. The pace of structural reforms in Kuwait also remains sluggish: the long-discussed adoption of new taxes and broad expenditure adjustments has largely stalled. We consider that these persistent delays could ultimately leave Kuwait more vulnerable to potential future terms-of-trade shocks.

We estimate that in the 2020/2021 fiscal year (ending March 2021) Kuwait ran a central government deficit of 33% of GDP, the highest ratio of all sovereigns we rate globally. Oil prices have recovered substantially from last year's lows, and we expect Kuwait's oil exports to increase as OPEC+ production cuts are gradually discontinued. Even so, we forecast Kuwait's central government deficits will average 17% of GDP over 2021-2024. We estimate the fiscal breakeven oil price currently at over $90 per barrel (/bbl), which is substantially above our medium-term oil price assumptions (see "S&P Global Ratings Raises Short-Term Oil And Gas Price Assumptions On Improving Market Conditions," published on June 16, 2021).

In recent years the government has, on multiple occasions, communicated its intention to accelerate the momentum of fiscal reform, but actual progress remains slow. The 2021/2022 budget was adopted in June with a deficit of 31% of GDP and expenditure increasing in nominal terms by 8.5%, vis-à-vis the 2020/2021 outcome. Although we believe the actual outcome for 2021/2022 will be stronger, partly due to higher-than-budgeted oil prices, we consider that the adopted budget deviates from the stated goals of reigning in the fiscal imbalance and containing expenditure.

In contrast to our previous expectations, the central government has yet to put in place a comprehensive funding strategy for these deficits. The expiry of Kuwait's debt law in 2017 meant that the government has been unable to borrow since, relying instead on the GRF to meet budgetary requirements. This has depleted the GRF. The authorities have so far not been able to draw on the much larger Future Generations Fund (FGF), primarily earmarked for when Kuwait's oil reserves eventually run out. Such withdrawals require parliamentary approval, but a parliamentary committee rejected the government's proposal to authorize them earlier this year.

If the GRF were to completely run dry, Kuwait could face a hard budgetary constraint requiring a rapid and sizable expenditure adjustment. Even under such an extreme scenario, however, we would not expect debt service to be affected primarily because the amounts involved are small. We estimate Kuwait's gross general government debt at 10% of GDP, while interest expenditure is equivalent to only about 1% of total spending. Nevertheless, a potential disorderly spending adjustment could weaken the economy and dent foreign investor confidence. The latter could be particularly important as Kuwait plans to return to foreign market funding in the coming years.

The recent rise in oil prices helps relieve some immediate pressures, but could also mean that the government's structural reform plans are further delayed. This would then leave Kuwait less prepared for any adverse future terms-of-trade shocks.

Reform efforts in Kuwait remain complicated by the confrontational relationship between the government and parliament. This has been a recurrent institutional feature, but has recently escalated. Opposition MPs gained almost 50% of parliamentary seats in the December 2020 election and since then have been opposing government proposals, including adopting the debt law and authorizing limited withdrawals from the FGF. Parliament was suspended for a month from mid-February and then the passing of the budget was delayed by several months as some MPs demanded the Prime Minister first face parliamentary questioning. The government refused to concede this point. In our view, the path to policy-reform consensus remains challenging.

Our ratings on Kuwait remain supported by the country's high accumulated fiscal and external buffers, which mitigate the undiversified nature of the economy. Our baseline scenario still assumes that the government will be able to overcome parliamentary opposition--perhaps via the enactment of an Emiri Decree--and tap the FGF if other options are not available.

The ratings are constrained by the relatively weak institutional settings compared with those of nonregional peers in the same rating category. Alongside the fact that the relationship between the government and parliament often results in policy stalemates, there are information gaps regarding the size and composition of the GRF and the FGF.

Kuwait's monetary policy flexibility is comparatively limited in our view given the dinar's peg to a U.S. dollar-dominated basket of currencies. This limits capacity for an independent monetary response to ease financing conditions or cushion fluctuations throughout the economic cycle. This is particularly so as the economy is dominated by the oil sector, conditions for which are mostly driven by external rather than domestic factors.

## Institutional and economic profile: Projected real GDP stagnation in 2021 follows a sharp 9% contraction in 2020 and reflects ongoing OPEC+ oil production cuts

- Kuwait's economy depends on oil; it accounts for 90% of exports and government revenue.
- We project 0.5% economic growth this year. This masks a rebound of the non-oil sector from the pandemic, which is being offset by oil production quotas under the OPEC+ agreement.
- Kuwait's political system remains confrontational and often deadlocked, and structural reforms have lagged peers' in recent years.

Kuwait's economy depends heavily on oil--an estimated 90% of exports and government revenue. The oil sector directly constitutes close to 50% of the country's GDP and even more if we take oil-related activities into account. Kuwait is among the world's top 10 exporters by volume of output as well as oil reserves. Assuming current production levels, the country'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, oil industry trends will continue to determine Kuwait's economic performance.

As a member of OPEC, Kuwait has committed to implement oil production cuts in line with the April 2020 cartel agreement (and its subsequent iterations) that followed the pandemic-induced collapse in oil prices. Under the agreement, additional oil output returns only gradually, in stages. Uncertainty regarding future oil production quotas persists as the July OPEC+ meeting was called off. This was due to reported disagreements between the UAE and Saudi Arabia, with the UAE calling for the return of higher oil production to the market.

In line with our previous expectations, Kuwait produced 2.43 million barrels per day (mbpd), on average, in 2020 and we forecast 2.39 mbpd in 2021, 2.78 mbpd in 2022, 3.10 mbpd in 2023, and 3.20 mbpd in 2024. Given our projected production levels, we expect Kuwait's oil sector will contract in 2021 compared to 2020. We project the Brent oil price will average $65/bbl in 2021, before reducing to $60/bbl in 2022 and $55/bbl from 2023.

Consequently, we expect Kuwait's economy will grow by only 0.5% in real terms in 2021, following a 8.9% contraction last year on oil production cuts and pandemic effects. A stronger recovery should follow in 2022 and 2023, with GDP growth averaging 7.0% as OPEC+ cuts end and Kuwait ramps up production. Kuwait also remains slightly ahead of the emerging market average in terms of the pace of vaccine rollout, with 30% of the population having received at least one dose as of early July. This dynamic underpins our expectation of a gradual recovery in the non-oil sector this year and next.

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 less opaque than other Gulf Cooperation Council states, with parliament providing at least some checks and oversight on government activities. Nevertheless, parliamentary power is largely limited to blocking legislation.

Kuwait's parliament and government frequently clash, making important policy decisions difficult. A law allowing the government to issue debt has still not been passed after the previous one expired in October 2017, while alternative arrangements to fund central government deficits, in the context of GRF depletion, have yet to be adopted. There has also been parliamentary opposition to a number of structural reforms, such as the introduction of new taxes. Now that the new parliament has greater opposition representation, passing some of the aforementioned initiatives could prove even more difficult.

The regional geopolitical environment has improved over the last year. In January 2021, four Arab countries ended a diplomatic boycott of Qatar, which should contribute to regional stability and improve the broader business and investment environment. Previously, Kuwait had not participated in the boycott, adopting a more neutral stance. We understand that Kuwait has played a mediating role to help resolve the boycott.

## Flexibility and performance profile: Low GRF liquidity poses risks despite overall sovereign wealth fund assets of an estimated 470% of GDP

- We estimate Kuwait's net general government assets amount to 460% of GDP--the highest ratio of all rated sovereigns.

- Nevertheless, central government deficits are also the highest globally and a comprehensive funding strategy is still absent.
- We expect the Kuwaiti dinar will remain pegged to a U.S. dollar-dominated currency basket.

Kuwait faces risks stemming from the depletion of its main budget financing fund, the GRF. The GRF is the smaller portion of the country's sovereign wealth fund, the Kuwait Investment Authority (KIA). Due to parliamentary opposition, the government has so far been unable to gain immediate access to the much larger FGF, which is earmarked for when oil runs out.

Based on our projections for oil production levels and prices (see above) we forecast the central government deficit could reach 20% of GDP in fiscal 2021 following a 33% of GDP deficit in fiscal 2020. We understand that the liquid assets available at the GRF are not enough to cover this large budget deficit. We project that the general government budget will be in surplus over our forecast horizon. But this is because of the sizable investment returns the FGF generates. These have to be reinvested with the FGF and are therefore subject to the same withdrawal constraints as the rest of the FGF's assets.

The authorities have taken some steps over the past few months to address the situation. These have included suspending annual transfers from the GRF to the FGF and injecting additional liquidity into the GRF by transferring some less-liquid assets to the FGF, including the national oil company, Kuwait Petroleum Corp. Nevertheless, the adopted measures have so far fallen well short of what would be needed to address the funding gap.

Passing the debt law could provide a funding source for Kuwait's fiscal deficits over the next three years. A more-structural approach aimed at reducing wasteful subsidies and raising revenue through alternative sources could provide longer term stability. For political reasons, however, this has remained difficult to achieve so far.

Although we understand that the GRF has been substantially diminished, KIA's total assets, including the FGF, remain substantial. This is the main factor supporting the sovereign ratings. No official data are available on the total worth of KIA's assets and the authority is prohibited by law from discussing the exact size of its holdings. Nevertheless, we use several methods to 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. We also rely on IMF data. We estimate KIA's assets at around 470% of GDP as of end-2020.

Even though the government has so far been unable to access FGF resources, our baseline scenario assumes that it will eventually succeed if other options are not available. We expect the government will repay the $3.5 billion (3% of GDP) Eurobond maturing in March 2022 by tapping into FGF funds if the debt law has not been adopted. If the government were still unable to tap the FGF to meet the repayment, we expect budgetary expenditures would be shifted to make room for it; we estimate central government budget revenues at 15 billion Kuwaiti dinar ($50 billion equivalent in 2021, 90% of which are paid in U.S. dollars due to oil receipts).

Mirroring its strong government asset position, Kuwait's balance-of-payments position is also solid and supports the sovereign ratings. We estimate that at end-2020 its net external creditor position was equivalent to about 600% of GDP, among the strongest of all rated sovereigns. Last year the current account posted a 31% of GDP surplus, even as oil prices declined and eroded the revenue base. This is primarily due to the high returns on the KIA investment portfolio in the second half of the year, which contributed to an all-time high income surplus in the balance of payments. We expect this effect to be transitory and current account surpluses to average 11% of

GDP through 2024, more in line with historical averages.

We expect Kuwait's exchange rate will remain 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. Although this regime has served Kuwait well in the past, we note that it constrains its ability to conduct an independent monetary policy to help cushion against fluctuations in the economic cycle. The local currency debt market is also less developed compared with similarly rated peers.

We consider that the Kuwaiti banking sector has fared well during the pandemic. We note that it entered the downturn in a relatively strong position, with low nonperforming loans (NPLs) of about 1.5%, high provisioning coverage exceeding 200%, and strong capitalization. At the onset of the pandemic in 2020 the regulator acted promptly to implement a number of support measures for the economy and financial system. Throughout 2020 and the beginning of 2021, NPLs increased only marginally and the previously adopted forbearance and support measures are being withdrawn.

**Environmental, social, and governance (ESG) factors relevant to the rating action:**

- Strategy, execution, and monitoring

## Key Statistics

Table 1

### Kuwait Selected Indicators

| KWD mil. | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Economic indicators (%) | | | | | | | | | | |
| Nominal GDP (bil.KWD) | 34 | 33 | 37 | 42 | 41 | 32 | 39 | 40 | 41 | 42 |
| Nominal GDP (bil. $) | 115 | 109 | 121 | 138 | 136 | 106 | 129 | 135 | 136 | 140 |
| GDP per capita (000s $) | 27.0 | 24.8 | 26.8 | 29.9 | 28.5 | 22.7 | 27.8 | 29.1 | 29.6 | 30.7 |
| Real GDP growth | 0.6 | 2.9 | (4.7) | 2.4 | (0.6) | (8.9) | 0.5 | 8.5 | 6.0 | 2.0 |
| Real GDP per capita growth | (2.9) | (1.1) | (6.6) | (0.3) | (3.8) | (6.8) | 1.0 | 9.0 | 6.5 | 2.5 |
| Real investment growth | 15.5 | 11.6 | 1.3 | 3.4 | (2.6) | (10.0) | 4.5 | 4.0 | 3.2 | 3.0 |
| Investment/GDP | 25.4 | 30.0 | 27.7 | 25.3 | 25.0 | 26.4 | 23.4 | 23.9 | 24.6 | 24.9 |
| Savings/GDP | 28.9 | 25.3 | 35.7 | 39.7 | 41.3 | 57.5 | 36.6 | 36.0 | 35.8 | 34.2 |
| Exports/GDP | 53.8 | 47.6 | 51.2 | 57.5 | 53.3 | 44.0 | 53.6 | 53.8 | 52.8 | 52.5 |
| Real exports growth | (0.9) | 2.5 | (4.8) | (0.4) | (10.1) | (10.0) | (1.2) | 13.0 | 8.0 | 2.5 |
| Unemployment rate | 2.2 | 2.2 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Table 1

## Kuwait Selected Indicators (cont.)

| KWD mil. | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **External indicators (%)** | | | | | | | | | | |
| Current account balance/GDP | 3.5 | (4.6) | 8.0 | 14.4 | 16.3 | 31.1 | 13.2 | 12.1 | 11.2 | 9.2 |
| Current account balance/CARs | 5.2 | (7.2) | 11.6 | 19.7 | 23.0 | 33.5 | 19.1 | 17.5 | 16.3 | 13.5 |
| CARs/GDP | 67.2 | 64.1 | 68.7 | 72.9 | 70.6 | 92.8 | 69.0 | 69.2 | 68.7 | 68.4 |
| Trade balance/GDP | 24.4 | 17.8 | 21.3 | 29.7 | 26.0 | 16.8 | 25.9 | 25.4 | 23.4 | 22.6 |
| Net FDI/GDP | (4.4) | (3.8) | (7.2) | (2.5) | 1.9 | (3.3) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net portfolio equity inflow/GDP | (23.6) | (15.2) | (12.5) | (3.9) | (24.9) | (40.0) | (5.0) | (9.0) | (9.0) | (9.0) |
| Gross external financing needs/CARs plus usable reserves | 124.6 | 143.2 | 118.6 | 111.0 | 114.8 | 111.7 | 126.2 | 129.5 | 134.6 | 144.4 |
| Narrow net external debt/CARs | (633.3) | (682.1) | (601.3) | (517.1) | (566.2) | (555.3) | (618.8) | (605.4) | (613.0) | (603.2) |
| Narrow net external debt/CAPs | (668.1) | (636.1) | (680.0) | (644.4) | (735.6) | (834.5) | (765.3) | (733.4) | (732.6) | (697.5) |
| Net external liabilities/CARs | (759.3) | (827.0) | (731.1) | (624.6) | (676.7) | (635.6) | (719.4) | (701.5) | (709.9) | (699.1) |
| Net external liabilities/CAPs | (801.0) | (771.3) | (826.8) | (778.3) | (879.2) | (955.3) | (889.7) | (849.8) | (848.3) | (808.3) |
| Short-term external debt by remaining maturity/CARs | 41.8 | 52.1 | 45.2 | 44.6 | 52.4 | 59.4 | 63.9 | 62.4 | 67.6 | 76.0 |
| Usable reserves/CAPs (months) | 1.2 | 1.3 | 1.7 | 1.9 | 2.0 | 2.3 | 2.2 | 1.7 | 1.8 | 1.7 |
| Usable reserves (mil. $) | 7,909.1 | 10,490.9 | 12,590.3 | 12,141.7 | 12,567.9 | 13,126.0 | 11,164.7 | 11,595.8 | 12,020.7 | 11,059.6 |
| **Fiscal indicators (general government; %)** | | | | | | | | | | |
| General Government Balance/GDP | 11.3 | 10.3 | 12.6 | 16.8 | 11.8 | (4.7) | 3.9 | 5.1 | 7.0 | 9.1 |
| Central Government Balance/GDP | (17.3) | (17.9) | (13.2) | (8.0) | (9.5) | (33.0) | (19.1) | (17.4) | (16.3) | (14.5) |
| Change in net debt/GDP | 11.0 | 9.7 | (8.8) | (21.3) | (16.9) | (1.2) | 1.5 | (5.1) | (7.0) | (9.1) |
| Primary balance/GDP | 11.4 | 10.5 | 13.0 | 17.4 | 12.3 | (4.2) | 4.2 | 5.5 | 7.8 | 10.4 |
| Revenue/GDP | 64.3 | 63.9 | 65.2 | 69.2 | 62.9 | 60.7 | 62.1 | 62.9 | 64.1 | 64.6 |

Table 1

## Kuwait Selected Indicators (cont.)

| KWD mil. | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Expenditures/GDP | 52.9 | 53.6 | 52.6 | 52.4 | 51.1 | 65.3 | 58.2 | 57.9 | 57.2 | 55.5 |
| Interest/revenues | 0.1 | 0.2 | 0.7 | 0.8 | 0.8 | 0.7 | 0.5 | 0.7 | 1.4 | 2.0 |
| Debt/GDP | 4.6 | 9.9 | 19.6 | 14.2 | 10.8 | 10.6 | 12.7 | 25.3 | 37.2 | 47.0 |
| Debt/revenues | 7.2 | 15.5 | 30.0 | 20.6 | 17.2 | 17.5 | 20.4 | 40.2 | 58.0 | 72.8 |
| Net debt/GDP | (479.0) | (489.8) | (451.1) | (417.0) | (437.7) | (559.1) | (464.1) | (452.9) | (454.4) | (450.1) |
| Liquid assets/GDP | 483.6 | 499.7 | 470.6 | 431.2 | 448.5 | 569.7 | 476.7 | 478.2 | 491.6 | 497.1 |
| **Monetary indicators (%)** | | | | | | | | | | |
| CPI growth | 3.7 | 3.5 | 1.5 | 0.6 | 1.1 | 2.1 | 3.0 | 2.0 | 2.0 | 2.0 |
| GDP deflator growth | (26.0) | (6.8) | 16.2 | 11.3 | (0.4) | (13.9) | 19.5 | (4.5) | (4.5) | 1.0 |
| 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 | 7.4 | 2.8 | 2.3 | 3.1 | 4.4 | 3.6 | 4.0 | 4.0 | 4.0 | 4.0 |
| Banks' claims on resident non-gov't sector/GDP | 106.3 | 113.9 | 105.2 | 95.2 | 100.3 | 132.4 | 114.7 | 115.1 | 118.2 | 119.4 |
| 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 | 9.2 | 7.2 | 6.5 | 6.0 | 5.8 | 4.5 | 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 |

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 estimated 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 claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. 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.

## 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 succession process and moderate challenges to political institutions due to centralized decision-making. Ultimate power is concentrated with the Emir. At the same time, Kuwait's parliament and government frequently clash, making important decisions difficult and frequently resulting in policy paralysis. Kuwait has pursued a prudent fiscal policy in the past by accumulating substantial savings within the sovereign wealth fund Kuwait Investment Authority |
| Economic assessment | 3 | Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1. |
| External assessment | 1 | Based on narrow net external debt and gross external financing needs/(CAR +useable reserves) as per Selected Indicators in Table 1. |
| | | We estimate the sovereign's net external liability position is more favorable than the narrow net external debt position by around 100% of CAR, as per Selected Indicators in Table 1 |
| | | Kuwait's external data lacks consistency as there is no full published international investment position. 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, estimated at around 500% of GDP. |
| | | Kuwait has a volatile revenue base, since close to 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 | 4 | The Kuwaiti dinar is pegged to a US dollar dominated basket of currencies. There is operational independence, but it is less secure than at better assessments. Prevalence of market-based monetary instruments, but effectiveness may be untested in a downside scenario. 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 | 1 | We estimate Kuwait's government assets are large, substantially over 100% of GDP. |
| **Final rating** | | |
| Foreign currency | A+ | |
| Notches of uplift | 0 | Default risks do not apply differently to foreign- and local-currency debt. |
| Local currency | A+ | |

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: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

## Related Research

- Kuwait 'AA-' Ratings Affirmed; Outlook Remains Negative, Jan. 15, 2021
- S&P Global Ratings Raises Short-Term Oil And Gas Price Assumptions On Improving Market Conditions, June 16, 2021
- Default, Transition, and Recovery: 2020 Annual Sovereign Default And Rating Transition Study, April 12, 2021
- Sovereign Risk Indicators, July 12, 2021. An interactive version is also available at http://www.spratings.com/sri

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

## Ratings List

**Downgraded**

| | To | From |
|---|---|---|
| **Kuwait** | | |
| Sovereign Credit Rating | A+/Negative/A-1 | AA-/Negative/A-1+ |

**Downgraded**

| | To | From |
|---|---|---|
| Transfer & Convertibility Assessment | AA- | AA |
| Senior Unsecured | A+ | AA- |