S&P Global
Ratings

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Research Update:

Kuwait Ratings Affirmed At 'A+'; Outlook Remains Negative

April 7, 2022

Overview

- We expect higher oil prices to bolster Kuwait's fiscal and balance of payments positions over 2022-2023.
- Nevertheless, beyond this short-term support, Kuwait's medium-term funding strategy remains uncertain. The General Reserve Fund (GRF) has dwindled and the new debt law has still not been adopted. Other financing arrangements--such as an authorization for the government to readily directly access the large Future Generations Fund (FGF) up to a certain amount--are not yet in place.
- Tensions between the government and the parliament are rising again, reducing the likelihood that these reforms will be implemented in the near future.
- We project Kuwait's general government debt will be just 4% of GDP by the end of 2022 and we estimate its total fiscal assets at around 400% of GDP. Despite the prolonged standoff between the executive and legislative branches and the reported late payments to suppliers, we still assume the government will overcome institutional constraints and have a mechanism to access the FGF if other options are not available.
- We affirmed our long- and short-term ratings on Kuwait at 'A+/A-1'. The outlook remains negative.

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Rating Action

On April 7, 2022, S&P Global Ratings affirmed its long- and short-term foreign and local currency sovereign credit ratings on Kuwait at 'A+/A-1'. The outlook remains negative.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on Kuwait are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2022 EMEA Sovereign, Regional, And Local Government Rating Publication Dates," published Dec. 16, 2021, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is the upward revision of our oil price assumptions. The next scheduled publication on the ratings on Kuwait is for July 15, 2022.

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 future financing strategy.

Downside scenario

We could lower the ratings if no sustainable comprehensive financing arrangements are agreed. This could happen, for instance, because of ongoing confrontations between the government and parliament, rendering the government unable to implement fiscal reforms, pass the debt law, or authorize other budget-financing mechanisms if needed. We could also lower the ratings if we concluded that the government will not have full ready access to the FGF for budgetary and debt repayment needs, contrary to our current assumption.

Upside scenario

We could revise the outlook to stable if the government successfully addresses Kuwait's existing fiscal funding constraints, for example through a combination of debt law adoption, authorization to withdraw specified amounts from the FGF when required, and a fiscal consolidation program.

Rationale

As an oil producer, Kuwait is currently benefitting from favorable developments in its terms of trade. We now project oil prices over 2022-2023 to exceed our assumptions when we last published research on Kuwait in January 2022. Specifically, we expect the Brent oil price will average $88/bbl in 2022 and $70/bbl in 2023 (see "S&P Global Ratings Raises Near-Term Oil And Gas Price Assumptions Following Russian Invasion Of Ukraine," published Feb. 28, 2022, on RatingsDirect).

In parallel, the OPEC+ group of oil-producing countries (of which Kuwait is a member) has been scaling up production in line with the agreement reached in mid-2021. We expect Kuwait's production will rise to 2.73 million barrels per day (mbpd) in 2022 from 2.40 mbpd in 2021. Production should continue gradually rising thereafter, and we expect it will reach 3.3 mbpd in 2025. The authorities are targeting a slightly higher increase in output toward 3.5 mbpd by 2025, but it is not clear if this will be reached. The output increases should come from additional drilling, investments in existing fields, and full-scale production in the Partitioned Neutral Zone operated jointly with Saudi Arabia.

In our view, higher oil prices and rising production volumes should help alleviate immediate liquidity pressures at the government's main fiscal financing buffer, the GRF. These liquidity pressures have previously arisen because the debt law expired in 2017 and the government has not since had parliamentary authorization to borrow. It has been relying solely on funding from the GRF, which has consequently diminished substantially.

Yet, beyond the favorable short-term oil price developments, there has not been any tangible progress in addressing Kuwait's longer-term fiscal funding needs. Specifically, a new debt law has still not been agreed and, in the absence of parliamentary authorization to do so, the government is not able to access the much larger FGF. The government previously resorted to asset swaps by moving some less-liquid assets from the GRF to the FGF in exchange for cash. Given that Kuwait does not disclose the amount of assets available at the FGF or the GRF, the size of the GRF's remaining less-liquid assets is uncertain, raising questions about the government's future ability to make similar transactions.

Relations between the government and the parliament remain difficult in the context of Kuwait's complex institutional system. In early April, opposition lawmakers demanded that the prime minister testify in parliament; in response, the government resigned on April 5. This was Kuwait's third government resignation in one-and-a-half years. In our view, the prolonged deadlock between the executive and legislative branches of government reduces the likelihood that the aforementioned structural reforms will be adopted soon.

Given our assumptions for oil prices and production volumes, we forecast that Kuwait will run a budgetary surplus of 3% of GDP in 2022 (after deficits averaging 15% of GDP annually over the last five years). However, as oil prices moderate, we project the budget will return to a deficit of 1.4% of GDP in 2023. We also note that reports of late payments to public entities and suppliers emerged earlier this year, suggesting an ongoing liquidity shortage at the GRF. We expect the deficits will widen to average 10% of GDP annually over 2024-2025. Our forecasts assume that the government will be able to keep expenditures broadly flat in nominal terms through 2025, but there is a risk of upward spending pressure particularly given higher global and Kuwaiti domestic inflation.

Kuwait's expenditures are typically difficult to adjust downward for political reasons, given that salaries constitute 60% of overall fiscal spending. Although the government's proposed budget for the fiscal year 2022 (ending March 2023) contains an aggregate 5% expenditure reduction, to Kuwaiti dinar 21.9 billion, salary spending is still growing while a bulk of the downward spending adjustment falls on capital expenditure. Efforts to reduce the non-oil deficit from the revenue side have also yielded limited results so far and, unlike most other Gulf Cooperation Council states, Kuwait has still not implemented VAT. For 2022, we estimate that the oil price at which the budget balances is close to $80/bbl. Therefore, central government fiscal outcomes depend overwhelmingly on developments in the global energy markets given the limited progress made so far to increase tax revenues by introducing a VAT, or cut key expenditure items--particularly public-sector salaries.

Positively, after a March 2022 principal payment of $3.5 billion (2.2% of GDP) on a maturing Eurobond, we forecast Kuwait's general government debt will be just 4% of GDP by the end of 2022, while interest expenditure will constitute less than 0.5% of overall budget spending, reducing near-term financing pressures. We also estimate that Kuwait's overall fiscal assets--including the FGF and the GRF--were about 460% of GDP at the end of 2021, the highest of all our rated sovereigns.

Our current ratings on Kuwait are also based on our key assumption that the government will be able to overcome institutional constraints and access the FGF (despite its inability to do so to date) if other options are not available. Given the delays to the debt law, we no longer foresee any borrowing in 2022 and we expect the debt law will be adopted sometime in fiscal 2022 with borrowing subsequently resuming in fiscal 2023.

Key Statistics

Table 1

Kuwait Selected Indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Economic indicators (%)										
Nominal GDP (bil. KWD)	33	37	42	41	32	41	50	47	42	44
Nominal GDP (bil. $)	109	121	138	136	106	135	166	157	141	145
GDP per capita (000s $)	24.8	26.8	29.9	28.5	22.7	29.2	36.1	34.3	31.1	32.1
Real GDP growth	2.9	(4.7)	2.4	(0.6)	(8.9)	0.8	8.0	6.5	2.0	2.0
Real GDP per capita growth	(1.1)	(6.6)	(0.3)	(3.8)	(6.8)	1.8	8.8	7.0	2.5	2.5
Real investment growth	11.6	1.3	3.4	(2.6)	(10.0)	6.0	4.0	3.8	3.0	3.0
Investment/GDP	30.0	27.7	25.3	25.0	26.4	22.7	19.5	21.8	25.3	25.9
Savings/GDP	25.3	35.7	39.7	38.1	29.1	41.4	48.3	41.7	35.1	34.1
Exports/GDP	47.6	51.2	57.5	53.3	44.0	55.5	62.8	58.0	52.0	52.0
Real exports growth	2.5	(4.8)	(0.4)	(10.1)	(10.0)	(0.7)	12.2	8.8	2.5	2.5
Unemployment rate	2.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
External indicators (%)										
Current account balance/GDP	(4.6)	8.0	14.4	13.1	2.7	18.7	28.9	19.9	9.8	8.1
Current account balance/CARs	(7.2)	11.6	19.7	18.4	4.4	26.3	38.5	28.0	14.7	12.1
CARs/GDP	64.1	68.7	72.9	71.1	61.9	71.3	74.9	71.2	66.9	67.2
Trade balance/GDP	17.8	21.3	29.7	25.9	14.6	26.0	34.6	28.1	19.1	18.2
Net FDI/GDP	(3.8)	(7.2)	(2.5)	2.2	(7.7)	(4.0)	(3.0)	(2.0)	(2.0)	(2.0)
Net portfolio equity inflow/GDP	(15.2)	(12.5)	(3.9)	(30.5)	(34.4)	(9.0)	(4.0)	(4.0)	(2.0)	(2.0)
Gross external financing needs/CARs plus usable reserves	143.2	118.6	111.0	118.7	135.3	105.8	91.1	102.1	122.3	133.8
Narrow net external debt/CARs	(682.1)	(601.3)	(517.1)	(578.1)	(853.1)	(585.9)	(485.3)	(565.6)	(682.2)	(680.2)
Narrow net external debt/CAPs	(636.1)	(680.0)	(644.4)	(708.8)	(892.1)	(794.9)	(789.1)	(785.6)	(799.4)	(773.8)
Net external liabilities/CARs	(827.0)	(731.1)	(624.6)	(648.4)	(956.1)	(678.5)	(561.6)	(646.0)	(781.0)	(774.4)
Net external liabilities/CAPs	(771.3)	(826.8)	(778.3)	(795.0)	(999.8)	(920.5)	(913.2)	(897.4)	(915.2)	(880.9)
Short-term external debt by remaining maturity/CARs	52.1	45.2	44.6	52.0	65.6	46.3	37.4	39.9	50.9	60.9
Usable reserves/CAPs (months)	1.3	1.7	1.9	1.8	2.4	2.2	1.7	1.6	1.6	1.5

Table 1

Kuwait Selected Indicators (cont.)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Usable reserves (mil. $)	10,491	12,590	12,142	12,568	12,986	10,657	10,675	10,825	10,887	10,954
Fiscal indicators (general government; %)										
Balance/GDP	(13.9)	(8.9)	(3.1)	(9.5)	(33.2)	(12.4)	3.2	(1.4)	(11.0)	(9.5)
Change in net debt/GDP	9.7	(8.8)	(21.3)	(16.9)	(1.0)	(5.5)	(19.8)	(19.2)	(13.0)	(15.1)
Primary balance/GDP	(13.8)	(8.4)	(2.6)	(9.0)	(32.8)	(12.1)	3.3	(1.2)	(10.8)	(9.0)
Revenue/GDP	39.6	43.7	49.3	41.6	32.4	41.3	47.3	45.4	40.8	41.0
Expenditures/GDP	53.6	52.6	52.4	51.1	65.6	53.6	44.1	46.8	51.8	50.6
Interest/revenues	0.3	1.0	1.1	1.2	1.4	0.7	0.3	0.3	0.5	1.3
Debt/GDP	9.9	19.6	14.2	10.8	10.6	7.8	4.0	5.3	14.1	20.9
Debt/revenues	24.9	44.8	28.9	26.0	32.8	19.0	8.5	11.6	34.6	51.0
Net debt/GDP	(489.8)	(451.1)	(417.0)	(437.7)	(558.9)	(449.0)	(387.7)	(430.5)	(490.0)	(493.1)
Liquid assets/GDP	499.7	470.6	431.2	448.5	569.5	456.8	391.7	435.8	504.1	514.0
Monetary indicators (%)										
CPI growth	3.5	1.5	0.6	1.1	2.1	3.4	4.0	2.8	2.5	2.0
GDP deflator growth	(6.8)	16.2	11.3	(0.4)	(13.9)	25.0	13.0	(11.5)	(11.5)	0.5
Exchange rate, year-end (LC/$)	0.31	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Banks' claims on resident non-gov't sector growth	2.8	2.3	3.1	4.4	3.6	6.2	4.0	4.0	4.0	4.0
Banks' claims on resident non-gov't sector/GDP	113.9	105.2	95.2	100.3	132.4	111.5	95.0	104.9	120.8	122.6
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	7.2	6.5	6.0	5.8	4.5	5.0	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. 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

Kuwait Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Reduced predictability of 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 often 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/(current accounts receipts [CAR] + usable 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, particularly over the second half of the forecast horizon, as per Selected Indicators in Table 1.
		Kuwait's external data lack 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 about 460% 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 U.S.-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. Consumer price index 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, at 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

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- S&P Global Ratings Raises Near-Term Oil and Gas Price Assumptions Following Russian Invasion of Ukraine, Feb. 28, 2022
- Sovereign Risk Indicators, Dec. 13, 2021. An interactive version is also available at www.spratings.com/sri
- Default, Transition, and Recovery: 2020 Annual Sovereign Default And Rating Transition Study, April 12, 2021

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

Ratings Affirmed	
Kuwait	
Sovereign Credit Rating	A+/Negative/A-1

Ratings Affirmed	
Transfer & Convertibility Assessment	AA-
Kuwait	
Senior Unsecured	A+