FitchRatings

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Fitch Affirms Kuwait at 'AA-'; Outlook Stable

Fitch Ratings - London - 07 Aug 2026: Fitch Ratings has affirmed Kuwait's Long-Term Issuer Default Ratings (IDRs) at 'AA-' with a Stable Outlook. A full list of rating actions is at the end of this rating action commentary.

Kuwait's 'AA-' rating is supported by its exceptionally strong fiscal and external balance sheets, with sovereign net foreign assets relative to GDP the highest among all Fitch-rated sovereigns. However, the rating is constrained by weaker governance than peers, heavy dependence on oil and a costly welfare system and large public sector, which could be a source of long-term fiscal pressure, despite spending rationalisation efforts.

Key Rating Drivers

Iran Conflict Continues: The collapse of a ceasefire in mid-July 2026, following an interim deal signed in mid-June, means the US-Iran conflict will remain a source of risk for Kuwait's creditworthiness. Kuwait has continued to be affected by attacks from Iran, which have damaged strategic infrastructure and disrupted transit conditions. Even if a renewed ceasefire is agreed, there is a high risk that the geopolitical situation will remain unstable and a further escalation remains possible, but we believe that the implications for sovereign risk will remain manageable given the sovereign's large buffers.

Oil Transit Key Vulnerability: The conflict will continue to affect Kuwait's ability to export oil, given its dependence on the Strait of Hormuz. We expect some degree of normalisation in the near term, but uncertainty is high and severe disruptions remain possible. Production declined by 70% to 0.78m/barrel (b)/d in March-May 2026 with a recovery to 1.65m b/d in June and about 2m b/d in July. We expect Kuwait's crude oil production to average 2m b/d in the fiscal year ending March 2027 (FY26), before recovering in FY27. Some oil facilities have been damaged, but we believe Kuwait has the capacity to restore production quickly once transit conditions normalise.

We forecast Kuwait's average oil price at USD81.4/b for FY26, up 21% from FY25, and to fall in FY27. We expect Kuwait's fiscal break-even oil price (excluding investment income) will remain high at over USD100/b in FY26 (USD83/b in FY24).

GDP Contracts: We expect the Iran war to weigh on economic activity mainly driven by the decline in oil production. Non-oil GDP will also weaken but remain in positive territory, supported by public infrastructure spending, public sector employment and the central bank's support for the banking sector. We expect inflation to rise marginally in 2026 before easing in 2027.

Reported Budget Deficit to Widen: Under the government's reporting convention, which excludes our estimate of Kuwait Investment Authority (KIA) investment interest income, we expect the deficit to widen by 4pp to about 19% of GDP in FY26 as the war weighs on revenue and the government maintains its infrastructure drive, although capex execution will be weaker than budgeted amid heightened security risks. Current spending is sticky, mainly salaries and subsidies, which were 81% of spending and 40% of GDP in FY25. We expect subsidy reform to slow as support for consumers rises, despite the budget assumption that subsidies will fall 0.6pp to 8.2% of projected FY26 GDP.

We assume majority of the FY26 deficit will be financed through borrowing, with the remainder covered by the General Reserve Fund (GRF, the government's treasury account) drawdowns. Including our estimate of KIA's investment income, which is not officially disclosed, we project an overall fiscal surplus of 1.7% of GDP in FY26, up from 0.3% in FY25.

Non-Oil Revenue Below Peers: Kuwait lags GCC peers in diversifying government revenue away from oil, reflecting slow progress broadening the revenue base. Excluding investment income, non-oil revenue averaged 9.1% of non-oil GDP in FY22-FY25, below the GCC median of 10.3%. The budget targets non-oil revenue to rise 1.2pp to 7.2% of projected FY26 GDP (11.6% of non-oil projected FY26 GDP), supported by fee increases, digitalisation efforts and the recently introduced 15% domestic minimum top-up tax (DMTT) on multinationals, estimated to generate 0.5-0.6% of GDP a year. We expect this to fall short as DMTT collections will only begin in 1Q27, and the war will weigh on non-oil activity.

Exceptionally Strong External Assets: Kuwait's external balance sheet remains robust and we forecast its sovereign net foreign assets will rise to 668% of GDP in 2026, from an estimated 652% in 2025, more than 10x the 'AA' median. The bulk of assets are held in the Future Generations Fund managed by the KIA, which also manages the GRF assets.

Rising Debt, But Below Peers: Fitch expects the resumption of debt issuance, combined with projected fiscal deficits to increase government debt/GDP from 2.9% in FY24 to 38% by end-FY28. Nonetheless, we expect debt to remain below the projected 2028 'AA' median of 51.5% of GDP.

ESG - Governance: Kuwait has a medium WBGI ranking at 55, reflecting low scores for voice and accountability, and middling scores across other governance indicators.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

-Structural Features: A political shock or a sharp escalation of regional geopolitical tensions that threatens Kuwait's economic and financial stability, for example, if it caused prolonged disruptions to Kuwait's hydrocarbon sector, or a prolonged disruption to its export route.

- Public and External Finance: Significant deterioration in fiscal and external positions, for example, due to a sustained period of low oil prices or an inability to address structural drains on public finances.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Structural Features/Public Finances: Strong evidence that Kuwait's institutions and political system can tackle long-term fiscal challenges, and reduction of geopolitical risks.

Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns Kuwait a score equivalent to a rating of 'AA+' on the Long-Term Foreign-Currency (LTFC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to SRM data and output, as follows:

- Structural: -1 notch, to reflect continued lack of meaningful action in addressing structural fiscal challenges stemming from heavy reliance on hydrocarbons as a source of fiscal and external revenues relative to peers, a generous welfare state and a large public sector.

Fitch has removed the additional -1 notch on Structural Features, to reflect its view that the SRM score at the current lower level now fully captures volatility in a number of variables that had previously benefited the score, notably oil price effects on the GDP deflator that have since reversed, and therefore no longer warrants this adjustment.

- Public Finances: -1 notch, to reflect the structurally large subsidy and wage expenditures, which are difficult to meaningfully cut, and our expectation of continued budget deficits (excluding investment income) and rising debt that are subject to risk from a sustained period of lower oil prices, notwithstanding large government assets that provide an important buffer.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LTFC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Debt Instruments: Key Rating Drivers

Senior Unsecured Debt Equalised: The senior unsecured long-term debt ratings are equalised with the applicable Long-Term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's Long-Term IDR is 'BB-' and above. No Recovery Ratings are assigned at this rating level.

Country Ceiling

The Country Ceiling for Kuwait is 'AA+', two notches above the LTFC IDR. This reflects strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency, and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of two notches above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

The following limitations were identified and addressed:

KIA's assets are not officially reported by the government.

Fitch estimates these assets by compounding the government's transfers into the KIA, using assumptions about returns and asset allocations that are informed by discussions with the KIA. Fitch benchmarks government transfers into the KIA and KIA investment income against the balance of payments.

The data used was deemed sufficient for Fitch's rating purposes because it expects that the margin of error related to the estimates would not be material to the rating analysis.

Climate Vulnerability Signals

The results of our Climate.VS screener did not indicate an elevated risk for Kuwait.

ESG Considerations

Kuwait has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators (WBGI) have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Kuwait has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Kuwait has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Kuwait has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Kuwait has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Kuwait has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Kuwait has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Kuwait, as for all sovereigns. As Kuwait has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Kuwait	LT IDR	AA-	Affirmed		AA-
	ST IDR	F1+	Affirmed		F1+
	LC LT IDR	AA-	Affirmed		AA-
	LC ST IDR	F1+	Affirmed		F1+
	Country Ceiling	AA+	Affirmed		AA+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	LT	AA-	Affirmed		AA-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Country Ceiling Criteria (pub.24 Jul 2023)

Sovereign Rating Criteria (pub.27 Apr 2026) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.3.3 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Climate Risk Model, v1.0.0 (1)

Sovereign Rating Model, v3.14.4 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Kuwait UK Issued, EU Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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