S&P Global Ratings

RatingsDirect®

Summary:
Kuwait

Primary Credit Analyst:
Maxim Rybnikov, London (44) 20-7176 7125; maxim.rybnikov@spglobal.com

Secondary Contact:
Benjamin J Young, Dubai (971) 4-372-7191; benjamin.young@spglobal.com

Table Of Contents

Key Rating Factors

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Related Criteria

Related Research

Summary:
Kuwait

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 revenues. • We forecast muted economic growth this year given the recent extension of the OPEC+ agreement to cut oil production, and only modest non-oil growth. • Regional geopolitical tensions persist.	Substantial savings of over 400% of GDP accumulated within the sovereign wealth fund. • We forecast Kuwait's net general government asset position will reach 430% of GDP by end-2019--the highest ratio of all rated sovereigns. • General government surpluses are set to continue even with lower oil prices ahead, bolstered by investment returns on the sovereign wealth fund assets. • The Kuwaiti dinar (KWD) 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 partially 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 2022.

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 around 55% 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 extension of the OPEC+ agreement constrains short-term growth, but higher oil prices offset a broader impact

Kuwait's economy remains almost entirely dependent on oil, which accounts for an estimated 90% of exports and government revenues. The oil sector directly comprises over 50% of the country's GDP, although if other related activities are taken into account, that proportion is even higher. As of 2018, Kuwait is estimated to be the world's eighth-largest crude oil producer, with the seventh-largest oil reserves. Moreover, on a per capita basis, Kuwait is the largest producer in the world. Assuming current production levels, Kuwait's total proven oil reserves are equivalent to about 100 years.

Given this high concentration, Kuwait's economic performance will remain largely determined by oil industry trends. We currently forecast headline growth at 1.5% in 2019, held back by the OPEC decision to cut oil production. The OPEC+ agreement was implemented in January 2019 for an initial period of six months but has now been extended until March 2020. Consequently, we expect Kuwait oil production will average about 2.7 million barrels per day (mbpd) compared with the 2.8 mbpd originally planned and included in the government budget.

OPEC+ production cuts, alongside other factors, have supported the oil price. We now assume Brent oil prices will average US$60 per barrel (/bbl) over the remainder of 2019 and 2020 before reducing to US$55 per barrel thereafter (see "Brent Crude Price Assumption For 2019 And 2020 Raised To $60 Per Barrel," published March 19, 2019, and "S&P Global Ratings Lowers U.S. Natural Gas Price Assumption For 2019 and 2020; Long-Term U.S. Natural Gas, Canadian AECO, And Crude Oil Price Assumptions Unchanged," published June 11, 2019). Higher oil prices will underpin Kuwait's larger fiscal and current account surpluses through 2020.

Beyond 2019, we expect growth rates to accelerate to an average of 2.5% over 2020-2022. This is based on our expectation of OPEC cuts being discontinued after March 2020; Kuwait's planned expansion of oil output capacity; a potential restart of production within the so-called Partitioned Neutral Zone (PNZ) between Kuwait and Saudi Arabia, as well as multiple government investment projects planned.

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 with other Gulf Cooperation Council (GCC) countries, with the parliament providing at least some checks and balances regarding government activities. Nevertheless, ultimate power is concentrated with the Emir. This reduces the predictability of decision-making and poses succession risks (the Emir is 90).

Despite somewhat stronger institutional arrangements, Kuwait's structural reform efforts have generally lagged those of other regional economies in recent years. Unlike Saudi Arabia, the UAE, and Bahrain, Kuwait still hasn't introduced VAT. We understand that the government is exploring 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 it to be approved in 2019, since Parliament is now in recess. Without the debt law, the authorities are not able to issue new debt and have to rely on asset drawdowns to fund deficits at the central government level.

Geopolitical tensions in the region are likely to persist and perhaps increase due to ongoing tensions between the GCC countries and Iran and the re-imposition of sanctions on Iran by the U.S. Relations have also soured within the GCC, since Saudi Arabia, the United Arab Emirates, and Bahrain, along with some other countries in the region, imposed a boycott on Qatar in June 2017.

In our view, a significant escalation of regional tensions could have a detrimental impact on Kuwait's economy if trade routes are disrupted. Over the past few months, multiple attacks on oil tankers have taken place near the Strait of Hormuz. 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. 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 can be deployed for general budget use by the government. In contrast, 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, if needed, we believe the government may consider authorizing drawdowns from the FGF. This action would, however, require specific legislation to be introduced. By law, at least 10% of government revenues must be transferred to the FGF annually and funds have never been drawn from the FGF since its inception in 1976.

There is no official data available on the total amount of KIA assets. Moreover, KIA by law is prohibited from discussing the exact size of its holdings. Nevertheless, there are several methods that can be used 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 is publicly available. The latter approach, for example, results in an estimate of over 400% of GDP as of end-2018.

In our calculations, we rely on International Monetary Fund (IMF) data, as well as fiscal data published by the Ministry of Finance. We estimate that the total size of KIA is currently around 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 in 2021 to $55 from $60, 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 don't expect any debt issuance as the new debt law has not been passed yet. Consequently, the government will continue to rely on asset drawdowns from the GRF to finance deficits at the central government level.

Largely mirroring its fiscal performance, we expect Kuwait's current account to remain in surplus over the next two years, turning to only modest deficits from 2021.

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 regime is somewhat more flexible than the foreign exchange regimes in most other GCC countries that maintain a peg to the dollar alone. This is evident, for instance, in the central bank's decision to hike the key interest rate only once, compared with four U.S. Fed hikes last year. In our view, some degree of monetary-policy divergence between the U.S. Fed and the Central Bank of Kuwait 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, see "Banking Industry Country Risk Assessment: Kuwait," Dec. 20, 2018.

Key Statistics

Table 1

Kuwait Selected Indicators

(Mil. KWD)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Economic indicators (%)										
Nominal GDP (bil. LC)	49	46	34	33	36	43	41	42	42	43
Nominal GDP (bil. $)	174	163	115	109	120	141	136	139	139	144
GDP per capita (000s $)	43.9	39.7	27.0	24.8	26.6	30.5	28.8	28.9	28.3	28.8
Real GDP growth	1.1	0.5	0.6	2.9	(3.5)	1.2	1.5	2.5	2.5	2.5
Real GDP per capita growth	(2.4)	(2.6)	(2.9)	(1.1)	(5.4)	(1.4)	(0.5)	0.5	0.5	0.5
Real investment growth	8.9	4.5	15.5	11.6	5.2	8.5	5.0	5.0	4.0	3.2
Investment/GDP	14.4	16.3	25.4	30.0	29.1	27.3	30.4	32.1	33.8	34.2
Savings/GDP	54.7	49.7	28.9	25.3	35.0	45.0	36.9	35.0	33.0	32.8
Exports/GDP	70.9	68.5	53.8	47.6	50.4	56.4	52.0	50.0	47.2	46.6
Real exports growth	(4.0)	1.4	(0.9)	2.5	(3.3)	2.8	0.5	2.2	2.5	2.7
Unemployment rate	N/A	2.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
External indicators (%)										
Current account balance/GDP	40.3	33.4	3.5	(4.6)	5.9	17.7	6.5	2.9	(0.8)	(1.4)
Current account balance/CARs	51.4	42.8	5.2	(7.2)	8.7	22.3	8.8	4.1	(1.1)	(2.1)
CARs/GDP	78.4	78.1	67.2	64.1	68.2	79.3	73.1	71.3	69.0	67.8
Trade balance/GDP	51.8	47.7	24.4	17.8	21.4	32.8	26.6	24.1	20.6	20.3
Net FDI/GDP	(8.7)	7.0	(4.4)	(3.8)	(6.5)	(2.0)	(4.5)	(4.5)	(3.0)	(3.0)

Table 1

Kuwait Selected Indicators (cont.)

(Mil. KWD)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net portfolio equity inflow/GDP	(11.1)	(30.1)	(23.6)	(15.2)	(20.8)	(3.0)	(5)	(5.0)	(5.0)	(5.0)
Gross external financing needs/CARs plus usable reserves	57.3	67.2	113.8	126.9	105.9	93.3	110.1	121.5	136.1	140.6
Narrow net external debt/CARs	(360.1)	(426.6)	(658.7)	(708.2)	(628.7)	(486.8)	(560.5)	(579.1)	(621.5)	(631.8)
Narrow net external debt/CAPs	(740.8)	(746.0)	(694.9)	(660.5)	(688.7)	(626.6)	(614.9)	(603.6)	(614.7)	(618.9)
Net external liabilities/CARs	(415.6)	(483.3)	(758.6)	(815.7)	(727.5)	(561.2)	(648.2)	(666.9)	(709.5)	(717.6)
Net external liabilities/CAPs	(855.1)	(845.1)	(800.4)	(760.8)	(796.9)	(722.4)	(711.0)	(695.1)	(701.8)	(702.9)
Short-term external debt by remaining maturity/CARs	11.0	12.6	25.7	29.3	25.4	24.3	29.8	35.6	42.9	44.4
Usable reserves/CAPs (months)	1.0	0.8	0.7	0.8	1.3	1.4	1.3	1.0	0.7	0.5
Usable reserves (mil. $)	5,048	4,497	5,293	8,354	10,471	9,794	8,198	5,539	4,077	2,541
Fiscal indicators (general government; %)										
Balance/GDP	37.8	21.6	8.7	7.7	10.4	17.1	9.5	8.5	6.2	7.1
Change in net debt/GDP	(29.4)	(44.4)	11.0	9.7	(6.4)	(22.1)	(4.0)	(8.5)	(6.2)	(7.1)
Primary balance/GDP	37.9	21.6	8.8	7.8	10.9	17.6	10.0	9.0	7.0	8.3
Revenue/GDP	76.1	67.8	61.6	61.3	63.5	66.2	64.3	63.5	62.4	62.3
Expenditures/GDP	38.3	46.3	52.9	53.6	53.1	49.1	54.8	55.0	56.2	55.1
Interest/revenues	0.1	0.1	0.1	0.2	0.7	0.8	0.8	0.8	1.3	1.8
Debt/GDP	3.1	3.4	4.6	9.9	19.8	13.9	14.5	23.1	33.5	42.3
Debt/revenues	4.1	5.1	7.5	16.1	31.1	21.0	22.5	36.3	53.7	67.9
Net debt/GDP	(300.3)	(364.9)	(479.0)	(489.8)	(452.9)	(405.9)	(427.2)	(429.4)	(435.9)	(426.1)
Liquid assets/GDP	303.4	368.4	483.6	499.7	472.6	419.8	441.7	452.5	469.4	468.4
Monetary indicators (%)										
CPI growth	2.7	3.1	3.7	3.5	1.5	0.6	0.8	1.5	2.2	2.2
GDP deflator growth	0.2	(6.8)	(26.0)	(6.8)	13.7	16.6	(5.5)	(1.0)	(2.5)	1.5
Exchange rate, year-end (LC/$)	0.28	0.29	0.30	0.31	0.30	0.30	0.30	0.30	0.30	0.30
Banks' claims on resident non-gov't sector growth	5.9	4.3	7.4	2.8	2.3	3.2	3.5	3.5	3.5	3.5
Banks' claims on resident non-gov't sector/GDP	66.2	73.7	106.3	113.9	106.2	92.9	100.2	102.2	105.9	105.3
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	8.6	7.7	9.2	7.2	6.5	6.0	N/A	N/A	N/A	N/A

Table 1

Kuwait Selected Indicators (cont.)										
(Mil. KWD)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
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, Bank for International Settlements (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. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. e--Estimate. f--Forecast. 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 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.
		We estimate the sovereign's net external liability position is more favorable than the narrow net external debt position by 90% of CAR, as per Selected Indicators in Table 1.
		Kuwait's external data lacks consistency as there is no 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.
		Based on liquid assets/GDP as per Selected Indicators in Table 1. Substantial savings accumulated within the sovereign wealth fund, Kuwait Investment Authority.
		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	General government liquid assets as per Selected Indicators in Table 1. 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 low population.

Table 2

Kuwait -- Ratings Score Snapshot (cont.)		
Key rating factors	**Score**	**Explanation**
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

- Sovereign Ratings History, July 2, 2019
- Sovereign Ratings List, July 2, 2019
- Banking Industry Country Risk Assessment Update: June 2019, June 27, 2019
- Default, Transition, and Recovery: 2018 Annual Sovereign Default And Rating Transition Study, March 15, 2019
- Sovereign Debt 2019: MENA Borrowing To Increase By 25% To $136 Billion, Feb. 21, 2019
- Middle East And North Africa Sovereign Rating Trends 2019, Jan.15, 2019
- Banking Industry Country Risk Assessment: Kuwait, Dec. 20, 2018

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com