S&P Global
Ratings

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Research Update:

Kuwait Outlook Revised To Negative On Continued Depletion Of Fiscal Liquidity Buffer; 'AA-/A-1+' Ratings Affirmed

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Overview

- We forecast that, as a result of lower oil prices, implementation of the April 2020 OPEC+ oil production cuts, and the COVID-19 pandemic, Kuwait's central government deficit will widen to almost 40% of GDP in 2020 from an estimated 10% in 2019.
- Meanwhile, we estimate that the government's main source of budget deficit funding, the General Reserve Fund (GRF), will be insufficient to cover this deficit on its own.
- A timely and sufficient policy response to address a potential hard budget constraint in the coming months has yet to emerge.
- We are consequently revising our outlook on Kuwait to negative from stable and affirming the 'AA-/A-1+' sovereign ratings.

Rating Action

On July 17, 2020, S&P Global Ratings revised its outlook on the long-term foreign- and local-currency sovereign credit ratings on Kuwait to negative from stable. At the same time, we affirmed the foreign- and local-currency sovereign credit ratings at 'AA-/A-1+'.

Outlook

The negative outlook primarily reflects our view of risks stemming from fiscal pressure, including the likely depletion of the GRF, the government's main source of budget funding, while alternative financing arrangements are not yet in place.

Downside scenario

We could lower the ratings over the next two years if Kuwait's institutional settings prevent the

government from finding a sustainable long-term solution to its funding needs. In an extreme case, an insufficient policy response could leave Kuwait facing a hard fiscal budget constraint, potentially resulting in a disorderly expenditure adjustment that could inflict long-term damage on the Kuwaiti economy.

We could also lower the ratings if broader reform efforts, such as taxation and labor market changes, and measures to diversify the economy remain sluggish, increasing the burden on Kuwait's fiscal and balance-of payments metrics beyond 2020. Additionally, ratings could come under pressure if we consider that Kuwait's monetary policy flexibility has reduced or regional geopolitical tensions materially deteriorate, potentially disrupting key trade routes.

Upside scenario

We could revise the outlook to stable if the authorities swiftly address immediate and medium-term funding constraints. Wide-ranging political and economic reforms enhancing institutional effectiveness and improving long-term economic diversification would also support the ratings.

Rationale

The outlook revision primarily reflects our view of risks stemming from the continued depletion of the GRF, the government's main fiscal liquidity buffer, given that the authorities are yet to adopt a timely alternative funding strategy. The GRF has been the sole funding source for deficits at central government level since October 2017, when the debt law expired and it was no longer possible to issue government debt. We note that the GRF balance has been steadily reducing over the past three years, but this process has accelerated in recent months following the decline in oil prices and Kuwait's implementation of the OPEC+ oil production cut agreement in March-April 2020, which has adversely affected revenue.

We project the central government deficit will amount to almost 40% of GDP during the fiscal 2020 (fiscal year ends March 30), up substantially from an estimated 10% in fiscal 2019. Although full details on the GRF's current position are not available, we estimate that the GRF alone will be unable to fund a deficit of that magnitude. Other financing options have faced implementation delays, and so far no clear alternatives have been put in place.

We understand that the government could implement several short-term measures to mitigate continued GRF depletion, a combination of which we expect will be introduced in the following weeks. These measures include the suspension of a 10% of revenue transfer to the Future Generations Fund (FGF), which together with GRF comprises the sovereign wealth fund the Kuwait Investment Authority (KIA); the FGF extending a loan to the GRF; or the FGF providing cash in return for other GRF assets. The authorities have so far been reluctant to directly draw on FGF assets, which are mainly earmarked for future generations. We estimate the assets amounted to over 400% of GDP at the end of 2019, but ordinarily they cannot be drawn upon without parliamentary approval.

A long-term, sustainable funding policy has also yet to be put in place, while risks to the government's short-term funding sources remain. In the past, Kuwait's parliament has opposed passing a law to allow the government to issue debt. Agreeing substantial policy measures in 2020 could be particularly challenging given the political cycle, with upcoming parliamentary elections in November 2020. In our view, lack of a prompt solution to Kuwait's funding arrangements could have a number of negative longer-term economic consequences.

Specifically, in the absence of other measures, complete depletion of the GRF could lead to a hard budget constraint for Kuwait. Such a constraint could precipitate a distortionary expenditure adjustment at a time when economic performance is already weak owing to the COVID-19 pandemic and the contraction in both oil and nonoil sectors. That, in turn, could hamper the prospects for Kuwait's economy.

Although we don't expect Kuwait's liquidity issues would have immediate implications for servicing general government debt (which remains low, at an estimated 10% of GDP), we consider that the terms at which Kuwait would be able to tap the market could also be adversely affected.

Nevertheless, 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: deep output contraction in 2020 due to OPEC+ agreed oil production cuts and the direct impact of the COVID-19 pandemic

- Kuwait's economy remains dependent on oil, which accounts for 90% of both exports and government revenue.
- We project that real GDP will contract by 7% this year, with both oil and nonoil sectors shrinking.
- Kuwait's political system remains confrontational and often deadlocked, and structural reforms have lagged behind peers' in recent years.

Kuwait's economy remains heavily dependent on oil, which accounts for an estimated 90% of exports and government revenue. The oil sector directly constitutes close to 50% of the country's GDP, although if other related activities are taken into account, that proportion is even higher. Kuwait is 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 heavily determined by oil industry trends.

We believe oil industry prospects have weakened substantially since the onset of the global COVID-19 pandemic and a subsequent large reduction in demand for travel. We forecast that the Brent oil price will average $30/bbl through year-end ($37/bbl on average for the whole of 2020), compared with a $64/bbl average price in 2019. We expect the oil price will recover to $50/bbl in 2021 and $55/bbl in 2022. At the same time, OPEC, alongside several other oil producers such as Russia, Kazakhstan, and Azerbaijan, reached an agreement in April 2020 to cut oil production to support the oil price. The agreement has a staged nature, with deeper production cuts being implemented initially followed by a gradual relaxation until the agreement expires at the end of April 2022.

As a member of OPEC, Kuwait has committed to implement the cuts in line with the aforementioned agreement and we assume it will continue to comply in full until the agreement's expiry in April 2022. Consequently, we project that Kuwait's oil production will average 2.45 million barrels per day (mmbpd) in 2020--an almost 9% decline compared with 2019. We forecast flat

production of 2.42 mmbpd in 2021 given the continuation of the OPEC+ agreement, followed by an increase to 2.84 mmbpd in 2022 and 3.10 mmbpd in 2023 as cuts are discontinued and additional capacity comes online in Kuwait, including from the restart of production in the Joint Neutral Zone with Saudi Arabia.

In addition to its impact via the oil industry, we project that COVID-19 pandemic will also take a direct toll on Kuwait's wider economy, similar to most other countries this year. So far, over 50,000 cases of coronavirus have been officially declared in the country and following a period of extensive restrictions on gatherings and curfews, the authorities are proceeding with a plan to gradually open up the economy. We expect this will be a slow and gradual process, with the relaxation of measures having already been delayed or reversed on several occasions because the number of new cases had not declined sufficiently.

Overall, our baseline economic projection is for a real GDP decline of 7% this year. The decline will span both the oil and nonoil sectors and will be fairly broad-based in terms of expenditure components: We expect exports, investment and consumption will all contract by 5%-9% in 2020. Contrary to our expectation for most other countries, we don't expect a rebound in Kuwait next year and project 0% growth in 2021, largely due to the continuation of OPEC+ production volume cuts. However, the recovery should gather pace from 2022, and we forecast average real GDP growth of close to 7% over 2022-2023.

Kuwait's economic growth was already sluggish even before the onset of the COVID-19 pandemic, with output expanding by just 0.4% in 2019 and 1.3% in 2018. As such, Kuwait's growth rates will remain lower over the economic cycle on average compared with other countries at a comparable level of economic development. Against the background of the pandemic, the government has announced a renewed Kuwaitization effort, whereby expat workers should be replaced by Kuwaiti nationals. The economic implications of this are difficult to model, but we assume this to be a gradual process and don't expect the population structure will change overnight.

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 (GCC) countries, with the parliament providing at least some checks and oversight on government activities. Nevertheless, ultimate power rests with the Emir and parliamentary power is largely limited to blocking legislation.

Kuwait's institutional arrangements are characterized by frequent confrontations between the parliament and government, making important policy decisions difficult. For instance, 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 address the continued depletion of the GRF are yet to be formally adopted. There has also been parliamentary opposition to a number of structural reforms, including the introduction of value-added tax (VAT) and excise taxes in the country. As a result, Kuwait's reform efforts have generally lagged behind those of other regional economies in recent years. Unlike Kuwait, Saudi Arabia, the United Arab Emirates, and Bahrain, have already introduced VAT, for example.

In our view, Kuwait's ability to promptly address some of the aforementioned issues, such as debt law and taxation, in the short-term could be hampered by the political cycle, given the upcoming parliamentary elections in November 2020.

Flexibility and performance profile: Continued depletion of the GRF poses risks, despite overall sovereign wealth fund assets exceeding 400% of GDP

- We estimate Kuwait's net general government asset position amounted to 440% of GDP at the

end of 2019--the highest ratio of all rated sovereigns.

- Nevertheless, the continued depletion of the GRF could severely constrain Kuwait's fiscal budget and leave limited financing options.
- We expect the Kuwaiti dinar will remain pegged to a U.S. dollar-dominated currency basket.

In our view, Kuwait faces risks stemming from the continued depletion of its main budget financing fund, the GRF. The GRF is the smaller portion of the country's sovereign wealth fund Kuwait Investment Authority (KIA). The GRF contains government holdings in several domestic enterprises alongside some portfolio and cash investments that the government is permitted to deploy for general budget financing use. In contrast, the FGF is much larger and is primarily intended as a fund to support future generations when the oil runs out. The GRF has been the sole source to fund deficits at the central government level since October 2017 when an expiry of the debt law rendered additional debt issuance impossible.

Based on our projections for production level and price of oil (see above), we forecast the central government deficit will widen to almost 40% of GDP in fiscal 2020 compared with an estimated 10% of GDP deficit for fiscal 2019. We understand that the amount of liquid assets available at the GRF is not sufficient to cover this much larger budget deficit.

Introducing a revised debt law and authorizing new borrowing has proven to be a difficult political process. A draft new law was prepared earlier by the Ministry of Finance and has recently been formally submitted to parliament, but it remains to be seen if it will be implemented. Given the upcoming general elections in November 2020, we don't expect the debt law will be passed before the end of this year.

In the absence of the debt law, the authorities are considering several short-term alternatives to resolve this situation. They include:

- FGF supporting the cash position of the GRF through a direct purchase of some of the GRF's domestic and regional securities holdings.
- Cutting government spending. The scale of any cuts and the timeframe remain unclear so far, but similar initiatives have faced persistent delays.
- GRF borrowing from the FGF.
- Temporary suspension of the transfer of 10% of central government revenue to the FGF, and linking any transfer to Kuwait's fiscal performance so that it only happens in years when central government budget is in surplus. We understand that this measure could apply to both the current fiscal year and, retrospectively, to fiscal 2019, since the FGF transfer for last year hasn't yet happened.

Importantly, each measure alone will not be sufficient to address the problem given the scale of the budget deficit in 2020 and the authorities will have to deploy several of them at the same time. Our central government deficit projection for 2020 of 40% of GDP already incorporates suspension of the 10% of revenue transfer and 5% budgetary expenditure cuts. We estimate that the GRF amounts to 30%-40% of GDP (precise data is not available due to lack of regular public disclosure of the size of the fund), but a sizable portion of this amount is not liquid and includes government stakes in domestic enterprises like Kuwait Petroleum Corp., as well as in domestic bank Kuwait Finance House.

Structural reforms to ensure a more sustainable budgetary performance in the long term would require additional efforts, such as raising nonoil revenue through taxation and optimizing spending through reduction of generous subsidies and rationalizing the wage bill, for example.

We also consider that the current funding impasse constrains the government's ability to engineer a fiscal stimulus to address the fallout from the COVID-19 pandemic. While Kuwait's monetary response has been largely in line with that of other countries, its fiscal measures have been relatively limited, at about 2.4% of GDP in spending, against a background of cuts in other areas.

Although the GRF has been continuously falling, the total size of the KIA's assets remains very large and is the main factor supporting the sovereign ratings. 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. Based on the IMF, as well as fiscal data published by the Ministry of Finance, we estimate that the KIA amounted to about 430% of GDP at end- 2019.

Mirroring its strong fiscal stock position, Kuwait's external position is also strong and supports the sovereign ratings. We forecast that by the end of 2020, Kuwait's net external creditor position will amount to about 600% of GDP, among the strongest of all rated sovereigns. We expect the current account will swing to a 12.5% of GDP deficit in 2020 from a 16.4% of GDP surplus last year, reflecting the oil price and production dynamics. However, it should gradually strengthen thereafter back toward 6% of GDP surplus by 2023.

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. 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. Through end-May 2020, the central bank foreign exchange reserves remained stable and we have not observed any increased conversion of domestic residents to foreign currencies. Resident deposit dollarization remains low, at about 6%.

We consider that the COVID-19 pandemic and the resulting economic contraction pose some risks for Kuwait's banks, particularly with regards to asset quality. That said, we note that Kuwait's financial system has entered the current downturn in a relatively strong position, with low nonperforming loan levels of about 1.5%, high provisioning coverage exceeding 200%, and strong capitalization as of December 2019.

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

- Strategy, execution, and monitoring

Key Statistics

Table 1

Kuwait--Selected Key Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic indicators (%)										
Nominal GDP (bil. LC)	46	34	33	37	42	41	30	35	38	41
Nominal GDP (bil. $)	163	115	109	121	140	135	100	115	128	135

Table 1

Kuwait--Selected Key Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP per capita (000s $)	39.7	27.0	24.8	26.8	30.3	28.6	22.0	25.7	28.9	30.8
Real GDP growth	0.5	0.6	2.9	(4.7)	1.2	0.4	(7.0)	0.0	8.0	5.5
Real GDP per capita growth	(2.6)	(2.9)	(1.1)	(6.6)	(1.4)	(1.6)	(3.1)	1.0	9.1	6.6
Real investment growth	4.5	15.5	11.6	1.3	4.7	1.0	(6.0)	2.5	2.7	3.5
Investment/GDP	16.3	25.4	30.0	27.7	25.2	26.4	34.2	31.3	29.4	30.0
Savings/GDP	49.7	28.9	25.3	35.7	39.4	42.9	21.7	30.2	35.5	36.6
Exports/GDP	68.5	53.8	47.6	51.2	56.7	51.9	36.7	42.9	48.8	50.4
Real exports growth	1.4	(0.9)	2.5	(4.8)	(4.8)	(2.0)	(8.8)	(1.2)	15.0	9.0
Unemployment rate	2.9	2.2	2.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
External indicators (%)										
Current account balance/GDP	33.4	3.5	(4.6)	8.0	14.1	16.4	(12.5)	(1.0)	6.1	6.6
Current account balance/CARs	42.8	5.2	(7.2)	11.6	19.7	23.0	(22.8)	(1.7)	9.0	9.6
CARs/GDP	78.1	67.2	64.1	68.7	71.6	71.4	54.7	61.9	67.0	68.6
Trade balance/GDP	47.7	24.4	17.8	21.3	29.2	26.2	5.7	13.3	19.6	20.6
Net FDI/GDP	7.0	(4.4)	(3.8)	(7.2)	(2.5)	1.9	0.0	0.0	0.0	0.0
Net portfolio equity inflow/GDP	(30.1)	(23.6)	(15.2)	(12.5)	(3.8)	(25.2)	7.0	3.0	2.0	0.0
Gross external financing needs/CARs plus usable reserves	67.2	124.6	143.2	118.6	111.2	114.8	186.8	157.4	147.9	145.8
Narrow net external debt/CARs	(413.8)	(633.3)	(682.1)	(601.3)	(519.6)	(564.7)	(989.9)	(762.5)	(655.6)	(634.4)
Narrow net external debt/CAPs	(723.6)	(668.1)	(636.1)	(680.0)	(647.4)	(733.6)	(805.9)	(750.1)	(720.8)	(701.9)
Net external liabilities/CARs	(488.5)	(759.3)	(827.0)	(731.1)	(627.4)	(674.8)	(1,170.1)	(893.9)	(755.7)	(718.9)
Net external liabilities/CAPs	(854.3)	(801.0)	(771.3)	(826.9)	(781.8)	(876.7)	(952.5)	(879.4)	(830.9)	(795.5)
Short-term external debt by remaining maturity/CARs	12.6	41.8	52.1	45.2	44.9	52.2	107.0	78.3	73.3	73.2
Usable reserves/CAPs (months)	0.8	1.2	1.3	1.7	1.9	2.0	2.2	1.7	1.5	1.6
Usable reserves (mil. $)	7,415	7,909	10,491	12,597	12,126	12,531	10,237	9,498	11,304	13,232
Fiscal indicators (general government; %)										
Balance/GDP	23.4	11.3	10.3	12.6	16.6	11.0	(8.5)	4.2	16.3	19.2

Table 1

Kuwait--Selected Key Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Change in net debt/GDP	(42.0)	11.0	9.7	(8.6)	(21.7)	(16.8)	12.7	(4.2)	(16.3)	(19.2)
Primary balance/GDP	23.4	11.4	10.5	13.0	17.1	11.5	(7.9)	4.5	17.0	20.0
Revenue/GDP	69.7	64.3	63.9	65.2	68.1	64.2	60.4	61.1	65.0	66.2
Expenditures/GDP	46.3	52.9	53.6	52.6	51.4	53.3	68.9	56.9	48.6	47.0
Interest/revenues	0.1	0.1	0.2	0.7	0.8	0.8	0.9	0.6	1.0	1.1
Debt/GDP	3.4	4.6	9.9	19.6	14.0	10.9	11.6	20.7	22.3	25.5
Debt/revenues	4.9	7.2	15.5	30.0	20.6	17.0	19.1	34.0	34.4	38.5
Net debt/GDP	(364.9)	(479.0)	(489.8)	(450.8)	(410.3)	(442.8)	(589.9)	(517.1)	(481.2)	(475.4)
Liquid assets/GDP	368.4	483.6	499.7	470.4	424.3	453.7	601.5	537.9	503.6	500.9
Monetary indicators (%)										
CPI growth	3.1	3.7	3.5	1.5	0.6	1.1	1.0	1.5	2.2	2.2
GDP deflator growth	(6.8)	(26.0)	(6.8)	16.2	14.6	(4.1)	(21.0)	15.0	3.0	0.0
Exchange rate, year-end (LC/$)	0.29	0.30	0.31	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Banks' claims on resident non-gov't sector growth	4.3	7.4	2.8	2.3	3.1	4.4	0.0	3.0	3.0	3.0
Banks' claims on resident non-gov't sector/GDP	73.7	106.3	113.9	105.2	93.5	101.4	138.0	123.6	114.4	111.7
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	5.8	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

Kuwait Ratings Score Snapshot

Table 2

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 pursued a prudent fiscal policy in the past by accumulating substantial savings within the sovereign wealth fund Kuwait Investment Authority.
Economic assessment	4	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 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, of over 500% 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-	

Kuwait Ratings Score Snapshot (cont.)

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

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

Outlook Action; Ratings Affirmed

	To	From
Kuwait		
Sovereign Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
Transfer & Convertibility Assessment	AA	AA
Senior Unsecured	AA-	AA-

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