FitchRatings

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Fitch Affirms Kuwait at 'AA-'; Outlook Stable

Fitch Ratings - London - 05 Sep 2025: Fitch Ratings has affirmed Kuwait's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

Credit Fundamentals: Kuwait's 'AA-' rating is supported by its exceptionally strong fiscal and external balance sheets, but is constrained by weaker governance than peers, heavy dependence on oil and its generous welfare system and large public sector, which could be a source of long-term fiscal pressure, despite spending rationalisation efforts. Prospects remain uncertain for meaningful structural reforms to reduce reliance on oil revenue, although legislation has been approved to allow debt issuance and improve fiscal financing flexibility.

Exceptionally Strong External Assets: Kuwait's external balance sheet remains the strongest of all Fitch-rated sovereigns. We forecast its sovereign net foreign assets will rise to 607% of GDP in 2025, from an estimated 576% in 2024, more than 10x the 'AA' median. The bulk of assets are held in the Future Generations Fund managed by the Kuwait Investment Authority (KIA), which also manages the assets of the General Reserve Fund (GRF), the government's treasury account.

Reform Efforts Continue, Albeit Gradually: The government has begun implementing reforms that had stalled under previous administrations due to legislative gridlock, which ended when the Amir dissolved parliament in May 2024. The authorities are prioritising spending rationalisation and plans to introduce a residential mortgage law that would ease borrowing constraints and support growth, are at an advanced stage. However, a significant overhaul of generous public wages and welfare spending (41% of GDP; 81% of expenditure) is unlikely, given the state's deep-rooted generosity towards its citizens and supportive oil prices.

New Debt Law Approved: The government has approved a long-delayed financing and liquidity law, allowing debt issuance for the first time since the previous law expired in 2017. The new law outlines plans to raise KWD30 billion (about USD100 billion), equal to about 60% of GDP over the next 50 years. This will help alleviate pressure on the GRF, support the development of local capital markets, establish a benchmark yield curve and support development projects. Since June 2025, the authorities have issued about KWD1.2 billion (2.4% of GDP) in the domestic market.

Lower Non-Oil Revenue Than Peers: Non-oil revenue (excluding investment income) remains lower than most GCC countries, averaging about 8% of non-oil GDP in 2022-2024 compared with the GCC median of 10.2%. This underscores Kuwait's relatively slow pace of diversification from oil compared with its regional peers.

The government introduced a 15% domestic minimum top-up tax on multinational companies, effective from 1 January 2025, in line with OECD Pillar 2 requirements, with collections (0.5% of GDP annually) expected to commence by 2027. However, we believe that extending this to domestic companies and introducing VAT, in line with the 2017 Gulf Cooperation Council (GCC) agreement, are unlikely in the short term. The authorities also plan to introduce the long-delayed GCC excise tax in the fiscal year ending March 2027 (FY26), which is estimated to generate KWD250 million a year (0.5% of GDP), but further delays are possible.

Reported Budget Balance to Deteriorate: Fitch's budget calculations include an estimate for the KIA's investment interest income, which is not officially disclosed. Including an estimate for investment interest income, we project a surplus of 10% of GDP in FY25, up from 8.9% in FY24. Under the government's reporting convention, which excludes KIA's investment interest income in revenue, we expect the budget deficit to widen to 5.6% of GDP in FY25 (from 2% in FY24), compared with the projected 'AA' median of 2.6%, despite spending rationalisation efforts.

We expect expenditure to rise, largely reflecting the government's drive to execute delayed capital projects, but to remain below 51% of GDP. Revenue will continue to decline due to a drop in oil revenue from lower prices, although the OPEC+ decision to unwind production quotas from 2Q25 should mitigate this loss. We project a drop of about 3% of GDP over FY24, with non-oil revenue rising modestly. Our FY25 forecast assumes about 70% of the deficit will be financed through domestic and external borrowing, with the remainder covered by GRF assets.

Low Government Debt: Fitch expects the resumption of debt issuance, combined with projected fiscal deficits and lower oil prices, to increase government debt/GDP from 2.9% in FY24 to nearly 12% in FY27. Nonetheless, we expect debt to remain well below the projected 2027 'AA' median of 52.4% of GDP.

Oil Assumptions: We forecast Kuwait's average oil price at USD69.9/barrel (b) for FY25, down 11% from FY24, and falling further to USD66.1/b in FY26, while crude oil output will rise by 2% to 2.46mmb/d in FY25, as OPEC+ eases constraints, and by 3.2% to 2.54mmb/d in FY26. Over 80% of government spending consists of sticky current spending, including salaries and subsidies, with a similar proportion of Kuwaitis employed in the public sector. We expect Kuwait's fiscal break-even oil price (excluding investment income) will remain high at USD81/b in FY25 (USD83/b in FY24), with the non-oil primary deficit/non-oil GDP remaining weak at 70%, worse than regional peers.

GDP Growth Recovers, Lower Inflation: We expect real GDP to return to growth in 2025, expanding by 1.7%, after two consecutive years of contraction driven by OPEC+ oil production cuts. We forecast annual inflation will remain below 3% in 2025-2027, although the central bank may be cautious about additional rate cuts given rising geopolitical risks.

Regional Stability Risks, Oil Dependence: Conflicts in the Middle East and disruptions to Red Sea shipping have had a minimal impact on Kuwait, which has large government assets that provide a important buffer to support the economy if tensions were to escalate. However, hydrocarbon dependence weighs on Kuwait's rating, rendering budgetary outcomes highly sensitive to oil prices. A USD10/b change in our oil price assumption for 2025 would affect the budget balance by about 4% of GDP, all else being equal. A change of 100,000b/d of production affects the budget by 1.4% of GDP.

Kuwait has an ESG Relevance Score (RS) of '5[+]' for Political Stability and Rights and the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Kuwait has a medium WBGI ranking at 54, 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 geopolitical shock that negatively affects economic, social or political stability.

- **Public and External Finance**: Significant deterioration in the 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 implement structural reforms to sustainably reduce dependence on oil as a source of fiscal revenue.

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

Fitch's proprietary SRM assigns Kuwait a score equivalent to a rating of 'AAA' on the LT FC IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM score 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 introduced an additional -1 notch for Structural Features, to reflect the volatility in a number of variables that have benefited the SRM score, namely oil prices affecting the GDP deflator and global financial market movements affecting the value of sovereign external assets.

- Public Finances: -1 notch, to reflect the structurally large subsidy and wage expenditure, 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 LT FC 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.

Country Ceiling

The Country Ceiling for Kuwait is 'AA+', two notches above the LT FC 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. Our 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.

ESG Considerations

Kuwait has an ESG Relevance Score of '5[+]' for Political Stability and Rights as 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 and 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-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	ST IDR	F1+	Affirmed		F1+
	LC LT IDR	AA-	Affirmed		AA-
	LC ST IDR	F1+	Affirmed		F1+
	Country Ceiling	AA+	Affirmed		AA+
• 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.24 Oct 2024) (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)

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

Sovereign Rating Model, v3.14.3 (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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