



Moody's : A1, Stable | Fitch : AA-, Stable | S&P : A+, Stable

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none">• Significant oil revenue at low production costs• Low public debt• Has one of the largest sovereign wealth funds in the world, which holds an exceptional number of assets abroad	<ul style="list-style-type: none">• Hyperdependence on the hydrocarbon sector• Relatively calm regional geopolitical climate ... but for how long?• Difficulty in carrying out reforms

Important reminders

Invasion of Kuwait by Saddam Hussein's Iraq in 1990 for historical, economic, and financial reasons (Iraq was very indebted to Kuwait following the Iran-Iraq War, Iraq blamed the Kuwait from stealing its oil, its overproduction of oil reducing its income etc.).

Small country (18,000 km²) of **5.056 million inhabitants** (3.4 million expatriates, 1.6 million nationals), wedged between Iraq, Saudi Arabia, and Iran.

Kuwait is the only country with no internally generated fresh water resources, both surface water and groundwater, meaning that 100% of the country's renewable water resources come from neighboring countries. .

"Incomplete" constitutional monarchy, the emir enjoys great power despite the **existence of a chamber of elected representatives, which also has broad prerogatives** such as the indictment of ministers (who are for the most part from the Royal family).

News

On Friday, May 10th, Emir Meshaal Al-Ahmad Al-Jaber Al-Sabah issued the order to dissolve the National Assembly and suspend certain articles of the Constitution for a period not exceeding four years, six weeks after the elections. He accuses certain deputies of seeking to interfere with his sovereign powers.

This suspension of Parliament's activities leaves a window for the Emir and the government to carry out reforms.

Parliament was to meet for the first time on Monday May 12th, but **several deputies refused to participate in the government**. Kuwait's constitution requires at least one MP to hold a ministerial portfolio until government formation is completed, but **the prime minister-designate has failed to convince a single MP to participate**.



Context

Quarrels between the legislature and the executive are common, as there have been **13 dissolutions since the adoption of the parliamentary system in 1962**, the last dates back to last year.

The events of recent days are the culmination of the long standoff between this intractable chamber where **the opposition holds the majority (29 seats out of 50)** and the new emir Sheikh Meshaal Al-Ahmad Al-Jaber Al-Sabah who occupied the post of Crown Prince and assumed interim power during the three years of incapacity of his half-brother the Emir Nawaf Al-Ahmad.

House of Representatives has been dominated by the opposition for three legislatures, made up of **mostly independent elected officials (38) (political parties are banned in Kuwait)** and others who display their membership in **the Salafist movement (5) or Shiite religious movement (9), or to the Muslim Brotherhood (3)**.

Unlike other Gulf countries, Kuwait has not invested in the country's infrastructure and has fallen behind Riyadh, Abu Dhabi, Dubai, or Doha. The trauma after the episode of the 1990 invasion, the presence of Iran at the country's gates and the blockage of the House of Representatives which suspects corruption in any transaction are the cause.

Kuwaiti society is not homogeneous : great **religious diversity** (a third of Shiite Muslims) and the **thorny question** of the **"Bidoons"**, Kuwaitis without papers and having no legal existence due to the fact that they have not recorded in the 1960. This problem concerns several hundred thousand people who find themselves, in fact, without legal existence or rights (approx. 300,000 people).

Economic facts

The country's economic model is particularly dependent on hydrocarbons, member of OPEC, has 8% of the world's proven oil reserves (6th in the world ranking), 10th in the ranking of producers.

This oil revenue has made it possible to develop a **very generous welfare state**. This system ensures, through a **bloated public sector (55% of GDP and more than 80% of Kuwaiti salaried employment)**, a **very high standard of living for the population**. Subsidies represent 19% of total state expenditure, and public sector salaries 60%.

The **marked rise in prices in 2022** had a **windfall effect** which enabled it to **stimulate its growth (+8.9%), increase its current account surplus (36% of GDP)**, and generate a **significant budget surplus** (a first in 9 years).

This dynamic stopped in 2023 due to the drop in oil prices and a reduction in production quotas. Activity therefore contracted that year with a change in real GDP estimated at -0.6% by the IMF.

However, **the country has a healthy structure, with public debt amounting to 3.4% of GDP at the end of 2023, an unemployment rate of 2.65% and inflation of 3.4% in February 2024**, a structurally high current account surplus (21% of GDP on average since 2018) mainly driven by exports (91% oil).

China is the country's main trading partner, representing USD 6.7 billion in imports to Kuwait (or 18.8% of the total). **Since 2018, it has also been the leading customer of Kuwaiti crude oil**, representing more than a third of the volume of oil exported.



In terms of capital, Kuwait is a **net emitter of foreign direct investments (FDI)** (+30 billion USD), **external debt remains limited, particularly compared to the amount of assets held abroad** (mainly through the sovereign wealth fund).

The Kuwaiti sovereign fund is one of the largest in the world, the 5th in the world with USD 846 billion in assets under management: the **Kuwait Investment Authority (KIA)** which is responsible for managing the state's budget surpluses.

The finance bill provides for a slight reduction in the public deficit for the coming year. Except for the year 2022 which was marked by a budget surplus, the country has been in deficit every year for 9 years.

To finance this structural deficit, **the government still cannot issue new debt (lack of legal basis)**, but can rely on the general reserve fund (managed by the KIA).

A debt bill, a plan to diversify tax revenues and the introduction of a corporate tax are in the pipeline.

Since 2007, **the central bank of Kuwait has maintained a regime of anchoring the Kuwaiti dinar**, the currency with the highest denomination in the world (1 KWD = 3.25 USD), **to a basket of currencies whose composition is kept secret** (in which the **dollar would weigh more than 4/5**).

"New Kuwait 2035" program worth \$125 billion, which aims to transform the country into a new regional commercial, financial and tourist center.

Conclusion : There is no need to modify the established limit. The dissolution of Parliament is a common event in Kuwaiti politics, and it will not stop the country from functioning. The suspension of certain articles of the Constitution could even give more room for maneuver to the Emir and his government to carry out the desired reforms.

Kuwait being a small country, its situation depends greatly on external factors including changes in oil prices and the regional geopolitical situation. For this last point two main subjects persist: the war in Gaza which until now has not induced any major geopolitical restructuring (apart from the cessation of the processes of normalization of relations between Israel and the Arab countries) and the rivalry between the Iran and Saudi Arabia, although we find ourselves in a moment of calm symbolized by the reestablishment of their diplomatic relations last year.

Written on 22nd May 2024.