

Business

Moody's Investors Service Report

Moody's downgrades Kuwait's issuer rating to A1, changes outlook to stable

Budget deficit could reach KD 13.7 billion this year

NEW YORK: Moody's Investors Service, ("Moody's") has downgraded Kuwait's long-term foreign and local currency issuer rating to A1 from Aa2, and changed the outlook to stable, concluding the review for downgrade initiated on 30 March 2020.

The decision to downgrade the ratings reflects both the increase in government's liquidity risks and a weaker assessment of Kuwait's institutions and governance strength. In the continued absence of legal authorization to issue debt or draw on the sovereign wealth fund assets held in the Future Generations Fund (FGF), available liquid resources are nearing depletion, introducing liquidity risk despite Kuwait's extraordinary fiscal strength.

While the fractious relationship between parliament and the executive is a long-standing constraint on Moody's assessment of institutional strength, the deadlock over the government's medium-term funding strategy and the absence of any meaningful fiscal consolidation measures point to more significant deficiencies in Kuwait's legislative and executive institutions and policy effectiveness than previously assessed.

While liquidity risks are particularly relevant in the next few months, over the medium term next one or two years, upside and downside risks are broadly balanced reflected in the stable outlook. Kuwait has a vast stock of sovereign financial assets currently ring-fenced from the general budget by law, securing predictable access to which would eliminate government liquidity risk. Conversely, Moody's sees a continued risk that the executive and legislature perpetuate stop-gap measures in response to the funding impasse, without providing lasting visibility on the funding of Kuwait's budget. While not Moody's expectation, government liquidity risks would manifest if continuing gridlock over funding led to the exhaustion of available liquid resources ahead of the maturity dates of Kuwait's international bonds, including the \$3.5 billion tranche maturing in March 2022.

Kuwait's foreign currency bond ceiling has been lowered to Aa3, from Aa2 and the foreign currency deposit ceiling has been lowered to A1 from Aa2, whereas the short-term ceilings remain at Prime-1 (P-1). The local currency bond and deposit ceilings have been lowered to Aa3 from Aa2U.

Rationale for downgrade

Government liquidity risk has risen in the absence

of legal authorization to issue debt or access the future generation fund. With a government debt law yet to be passed and General Reserve Fund (GRF) assets likely to be depleted before the end of the current fiscal year (ending in March 2021), government liquidity risks have increased. Legislation passed by parliament so far, including the removal of the mandatory transfer of 10 percent of government revenues to the FGF and the reversal of last year's FGF transfer have only extended the point of depletion to December 2020.

Even if the debt law is passed—whether by parliament or by decree from HH the Amir while parliament is in recess—it will likely not provide a credible medium-term funding strategy, which was a key driver behind Moody's initiating the review for downgrade in March. The draft debt law, which has already been rejected once by the parliamentary financial and economic committee, contains a KD 20 billion debt ceiling which would be reached in less than two years under Moody's baseline scenario. A lower ceiling possibly to wield parliamentary approval would be exhausted even earlier given the large size of the government's immediate and medium-term funding requirements. Even if the government received legal authorization to issue debt without the constraint of a ceiling, Moody's projects net sovereign issuance of up to KD 27.6 billion (\$90 billion) would be required to meet the government's funding requirements between the current fiscal year and the fiscal year ending March 2024, testing the capacity of the government to access such large financing.

Kuwait has one of the largest stocks of sovereign financial assets in the world, both in absolute terms and relative to the size of the economy and government debt burden. Securing predictable access to these funds would eliminate government liquidity risk. However, these funds are explicitly ring-fenced from the general budget by law. While the mandatory budget transfer to the FGF has been suspended, the government has not given any indication nor made any formal request to parliament to access FGF assets or income. Should the request come through, it would be politically contentious and likely take a long time and multiple versions to secure legislative passage. In the meantime, government liquidity risks will remain elevated

Medium-term funding situation

The fractious relationship between parliament and the government is a long-standing and well-known feature of Kuwait's credit profile. While active debates in parliament contribute to checks and balances, when the process is not conducive to agreement-seeking, it hampers policy-making. Historically, the impact of government inertia on the sovereign credit profile has not been so significant since Kuwait long ran large fiscal and current account surpluses. However, in an environment of structurally lower oil prices and growing government expenditure, the ongoing delay in finding a durable solution for Kuwait's medium-term funding presents a more acute risk to the sovereign credit profile. The persisting deadlock addressing the funding situation now directly threatens the ability of the government to function, representing a significant escalation in the brinkmanship between the two branches of government.

Capacity of fiscal policy to respond to shocks

Moreover, the government's continued inability to respond to severe revenue shocks from oil prices points to even weaker fiscal policy effectiveness than previously assumed. In contrast to earlier statements from the government that it would seek to reduce its expenditure in year-on-year terms, the passing of the budget for fiscal year 2020/21 incorporates a 1.6 percent increase in expenditure, despite a budgeted 56 percent decline in revenues.

Kuwait has also made limited progress in reforming subsidies, which account for 22 percent of government spending. In particular, non-energy subsidies, which includes a broad range of subsidies covering services like healthcare and education abroad, have also remained largely untouched due to parliamentary opposition. Kuwait's revenues remain highly dependent on hydrocarbon receipts, which averaged 89 percent of government revenues between 2017 and 2019. Progress in diversifying the non-oil revenue base has been very slow, in part due to parliament's resistance to any measures that would reduce the living standards of their constituents. The implementation of a 5 percent VAT, as part of the Gulf Cooperation Council (GCC) -wide post-2014 oil price shock initiative is the single largest revenue measure that the government has explored. However, Kuwait's parliament has still yet to ratify the VAT treaty which would

precede any VAT legislation, and Moody's now expect the implementation of VAT to be between 2022 and 2023 at the earliest, contrary to earlier indications from the government that it would be in place by 2021. An excise tax on sugary drinks and tobacco which was planned to be implemented this year has also been delayed. Given the absence of any meaningful adjustment following the 2014-16 and the more recent oil price drops, Moody's expects the government budget deficit will reach KD 13.7 billion (38 percent of GDP) this year. While, Moody's expects a reduction in the fiscal deficit in the fiscal year 2021/22 to KD10.6 billion (25.7 percent of GDP), this is underpinned entirely by a higher oil price assumption and increased hydrocarbon production volumes as the OPEC+ production caps taper.

Furthermore, Moody's expects that fiscal consolidation will prove challenging due to the government's inflexible spending structure. Current expenditure has increased cumulatively by over 20 percent since the end of the fiscal year ending in March 2016, which has been driven predominantly by increased spending on government salaries and compensation. Projected growth in the Kuwaiti labor force due to the country's young demographics, the government's status as employer of first resort, and limited tolerance among the leadership for higher unemployment are likely to continue to drive growth in government payroll expenditure unless employment opportunities in the private sector increases significantly or the government is prepared to tolerate higher unemployment, neither of which represents Moody's baseline expectations.

Rationale for stable outlook

While liquidity risks are particularly relevant in the near term, over the medium term upside and downside risks are broadly balanced reflected in the stable outlook. On the downside, the likelihood that the executive and legislature continue to deliver only piece-meal, make shift measures means that uncertainty over the funding situation will persist. The liquidity risk generated by the persisting legislative impasse represents a low probability but high severity tail-risk event. While not Moody's expectation, government liquidity risks would manifest if continuing gridlock over funding led to the exhaustion of available liquid resources ahead of the maturity dates of Kuwait's bonds, such as the \$3.5 billion Eurobond tranche maturing in March 2022

Palantir to begin New York trading on September 30

WASHINGTON: Data analysis specialist Palantir announced on Tuesday it would begin trading on the New York Stock Exchange on September 30 in what could be one of the biggest market debuts since Uber. The secretive company which sells software used by governments and large firms worldwide said in a statement it "expects that trading of shares of its Class A common stock on the New York Stock Exchange will commence on Wednesday, September 30, 2020."

In an earlier filing, Palantir, which hasn't turned a profit, indicated it would go public via a direct listing without raising new funds, listing its shares at \$0.001 on the exchange on or around September 29.

That filing suggested a valuation of some \$10 billion, down from a private value as high as \$25 billion, according to Renaissance Capital. Founded in 2003, the Colorado-based company has said its software is used in more than 150 countries, and that it took in revenue of \$742.6 million last year while logging a net loss of \$579.6 million.

In the first half of this year, Palantir reported that it has generated \$481.2 million with a loss of \$164.7 million. It stressed its mission of working with military and intelligence agencies and revealed it plans to trade under the symbol "PLTR" in New York.

Created after the September 11, 2001 terror attacks with initial funding from a CIA venture-capital unit, Palantir software is used by institutions ranging from defense agencies to companies in the energy, manufacturing and healthcare sectors.

Palantir's predictive analytics platform reportedly helped the US military locate Osama bin Laden and track weapons movements in the Middle East. —AFP

OPPO launches Reno4 series in Middle East

KUWAIT: Global technology brand, OPPO, yesterday announced the launch of OPPO Reno4 Series in the Middle East. The OPPO Reno4 Series which includes Reno4 Pro 5G, Reno4 Pro and Reno4, make it easier than ever to capture creative portraits and imaginative videos at night.

Starting on today, 23 September and exclusively for a week, customers will be rewarded when they pre-order their new Reno4 smartphone - available while stocks last across major retailers and e-commerce platforms in Kuwait.

At an interactive and engaging virtual event titled, 'Own the Night' on 22 September, OPPO unveiled its Ultra Night Wide-angle Video and other engaging videography functions that gives every user a chance to make their night come alive in their own unique way. The event also revealed touch-free interactions and made this flagship feature more easily accessible to a greater market place, powered by an AI-enhanced Smart Sensor that allows the phone to be controlled with a wave, and an AI algorithm secures the phone from peeping eyes.

Ethan Xue, President of OPPO Middle East and Africa said, "The Reno Series has always been a pathbreaker in smartphone camera technology and Reno4 Series carries on Reno3's legacy of pioneering the mobile photography, with new videography features and portrait shooting that enable users shoot a comprehensive range of scenes. Designed for personality and style, the Reno4 Pro 5G not only delivers powerful performance but also enables a connected lifestyle through the power of 5G. Living up to OPPO's mission of elevating life through technological artistry, OPPO's Reno4 Series introduces fun and new ways to 'own the night' by using the trendy phone's innovative technology to express their creativity."

Make your night alive with trendsetting design

The Reno4 Series pushes the boundaries of industrial design by packing a powerhouse of components into a slim and sleek design. A brand-new patent-applied technique introduces a gradient color in a perfect combination of matte and glitter. Reno4 Pro 5G weighs 172g at 7.6mm, while Reno4 Pro weighs 161g and is 7.7mm thin. A 90Hz 3D Curved Screen elevates the premium look and feel of the phones and a unique gradient color on the back cover would certainly elevate your style in all angles.

Inspired by the tranquility of nature, Reno4 Pro 5G comes in Galactic Blue and Space Black, with the Galactic Blue crafted with the patent-applied 'Reno Glow' process, which achieves both a matte finish with a subtle glittery detail, almost like tiny diamonds are embedded on the back cover, and is more resistant to fingerprints and scratches. Reno4 Pro comes in two premium colors, Galactic Blue and Starry Night, which convey an innate peacefulness, but like a blank canvas brings out the user's artistic side.

Equipped with a 6.4-inch AMOLED display, Reno4 is 7.7mm thick, fitting easily in the hand or pocket, while it's 165g light weight ensures that the user will never tire holding it. For trendsetting looks, Reno4 comes in two colors: Galactic Blue and Space Black. Galactic Blue offers a



Omaradizer



Omar Barkan



Asalla Kamal



Ihab Salem



Fadi Awni Abu Shamat, director of planning and strategy, Middle East

● Kuwait fans can 'make their night alive' with ground-breaking low-light photo and video imaging, AI-powered touch-free interactions and immersive listening experiences

● A pioneer of 5G videophone, OPPO Reno4 Pro 5G brings industry-leading innovations in night photography and videography

vibrant and glossy look with subtle glittery details, and the looming OPPO monogram on Space Black adds a sense of mystery, offering a more premium appearance and great in-hand feel.

Make your night alive with Brilliant Videography and Portraits

Continuing to strengthen its foothold with smartphone imaging technology, the Reno4 Series leads the way with exceptional night videography and portrait shooting capabilities. Reno4 Pro 5G is further enhanced with a customized, ultra-wide, ultra-powerful Sony IMX708 image sensor with laser detection auto-focus (LDAF). At 1/2.3 inches, the larger sensor gathers more light making it ideal for brighter night videos or photos. OPPO Reno4 Pro and Reno4 feature a Quadcam matrix, including a 48MP primary camera, 8MP ultra wide-angle camera, a 2MP macro camera and a 2MP mono lens, in addition to a 32MP front camera.

Creative Filming: With the increasing popularity of short video platforms in the region, including TikTok and Instagram stories, the Reno4 Series enables users to effortlessly express their own unique style and share their creativity with the world. For OPPO Reno4 Pro 5G, the scene-stealer Ultra Night Wide-angle Video enables everyone to take stunning videos at night, and there's a suite of playful videography features to capture your life and memories more vividly. On Reno4 Pro and

Reno4, the epic slow-motion shots in the thick of the action, whether sprinkling water or colored powder, are made possible with the 960fps Smart Slow Motion, and the Ultra Steady Video 3.0 enables steady videos of high-intensity activities while walking, running or cycling.

Colourful Shots: On Reno4 Pro and Reno4, the all-new AI Color Portrait Mode on both photo and video function mutes the background into black and white while keeping the subject in real color. The Monochrome Video feature retains only the red, green or blue colors in the video, while turning the others black and white, which produces an effect that resembles a blockbuster video.

Brilliant Night Shots: Mastering nighttime portrait shots is a breeze with Night Flare Mode on Reno4 Pro and Reno4, which applies artistic neon effects against the backdrop of streetlights and makes the subject brighter at the same time. In addition, Ultra Night Selfie Mode and Ultra Dark Mode capture clearer and brighter night shots using both the front and rear cameras.

Make your night alive with AI-enhanced smart sensor

In order to truly keep up with the personality of the youth, the Reno4 offers life conveniences that are hard to dismiss. The phones are equipped with an AI-enhanced Smart Sensor to perform functions like Smart Spying Prevention, Smart

AirControl, Smart Rotation and Smart Always-on Display. With Smart Spying Prevention the sensor automatically hides content when it detects that anyone other than the owner is peeking at the phone. Smart AirControl is a futuristic way to answer a call or scroll through social media apps with just a wave of the hand.

Make your night alive with a phone that keeps up with you

The new Reno4 Pro 5G is configured with a Qualcomm Snapdragon 765G integrated 5G chip, while both the Reno4 and Reno4 Pro smartphones will be packed with a Qualcomm Snapdragon 720G. On top of that, OPPO's best-in-class fast charging technology will reach more consumers in the Middle East through the Reno4 Pro 5G and Reno4 Pro. With 65W SuperVOOC Flash Charger, just five minutes of charging gives four hours of YouTube watching, and 36 minutes gives a full charge. Additional power saving solutions such as Super Power Saving Mode allows users to chat on WhatsApp for 1.5 hours or make calls for up to 77 minutes with only 5 percent of battery. Super Nighttime Standby ensures that only 2% of battery is consumed for around eight hours at night, so that users won't need to worry about power draining out even if they forget to charge the phone at night. The Reno4 Series will be available for pre-order in Kuwait from 23 September 2020.