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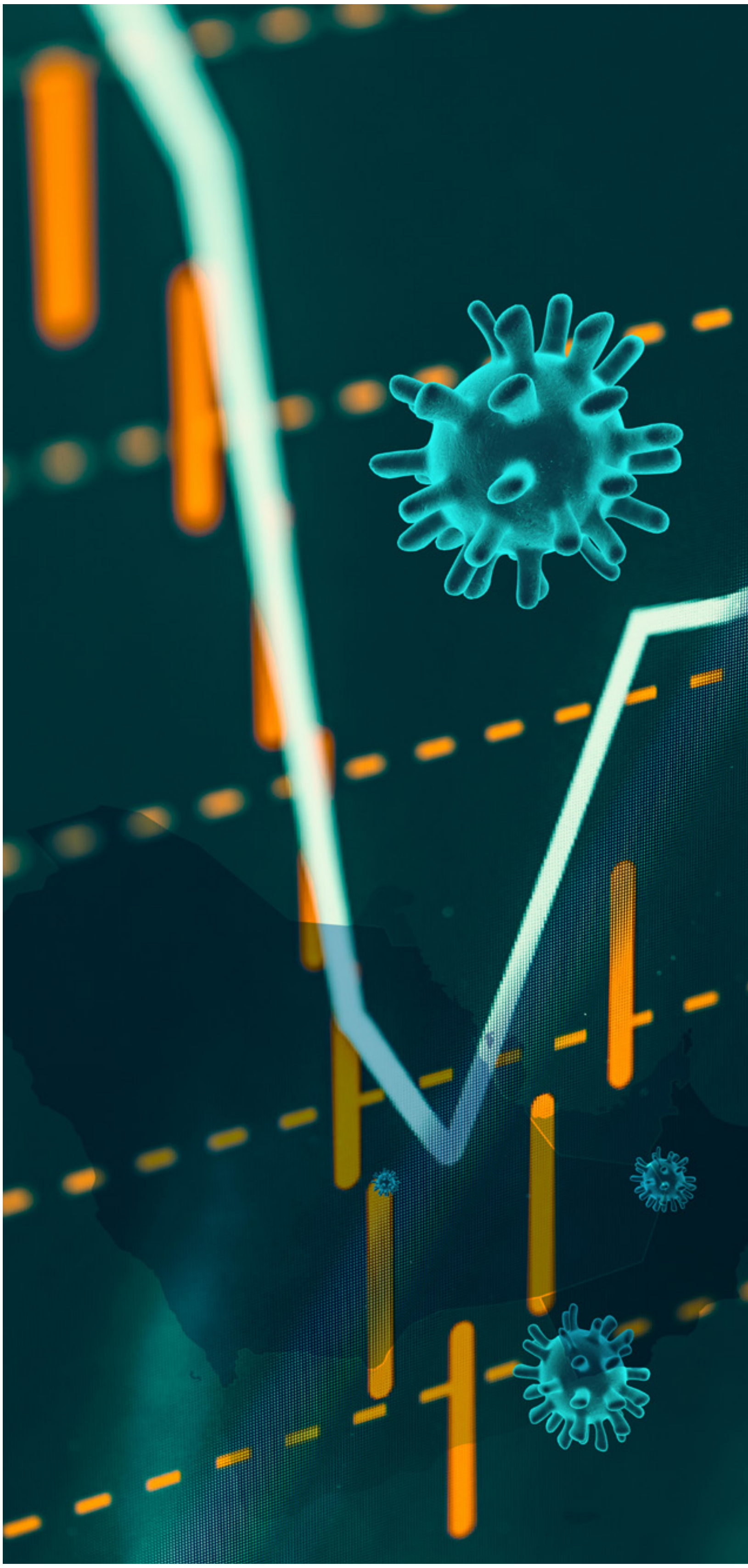
FIRST TAKE



GCC Credit Rating actions post COVID-19

S&P affirms current rating for Saudi Arabia, Qatar and Abu Dhabi; Kuwait and Oman downgraded

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HIGHLIGHTS

- S&P Global Ratings on March 26,2020 revised the credit ratings for GCC countries in light of recent developments including COVID-19 spread and the oil price dispute between Saudi Arabia and Russia. The agency kept the sovereign credit ratings unchanged for UAE (Abu Dhabi), Qatar and Saudi Arabia at ‘AA’, ’AA-’ and ‘A-’ respectively. Kuwait’s sovereign credit rating was, however, downgraded to ‘AA-’ from ‘AA’ due to lower oil prices and slow reform progress.

- S&P has revised its average Brent oil price forecasts to USD 30/bbl in 2020, USD 50/bbl in 2021, and USD 55/bbl from 2022. According to the rating agency, oil markets are now heading into a period of severe supply-demand imbalance in the second quarter of 2020. A recovery of GDP and oil demand through the second half of 2020 and into 2021 is expected as the most severe effects of the coronavirus outbreak moderate.

- S&P stated that Abu Dhabi’s net asset position exceeds 250% of GDP, which alongside proactive policymaking comfortably cushions it from the sharp fall in oil prices and other external shocks. Abu Dhabi’s central government fiscal deficit is expected to widen to about 7.5% of GDP in 2020, from 0.3% in 2019.

- Likewise, in Saudi Arabia’s case, strong net asset position on both its fiscal and external balances continue to be a key ratings support, but prolonged low oil prices will erode its net assets and begin to put pressure on the ratings. Forecast for the 2020 general government fiscal deficit was revised by S&P to 11.2% of GDP in 2020, from 3.9% projected earlier. Average deficits from 2020-2023 is also expected to rise to 6.4% from 4.1% projected earlier.

- S&P believes that Qatar’s government and external balance sheets currently remain strong, underpinned by relatively low central-government debt and the large external assets, which provide a buffer to withstand external shocks. Qatar’s general government balance is projected to record a deficit of 2% of GDP in 2020 compared with a 6.6% surplus in the previous year. S&P also stated that the country would revert to about 4.5% surplus by 2023.

- Kuwait's downgrade was attributed to high reliance on oil revenues and slow progression of reforms. As the country is yet to pass a revised debt law authorizing the government to borrow, how future budget deficits will be financed will be the key question moving forward. S&P has forecasted the general government balance to be in deficit that exceeds 10% of GDP in 2020 but maintained a stable outlook due to Kuwait's large financial buffers, which would provide the government enough headroom for future reforms.

- Oman's sovereign credit rating has been downgraded a notch to 'BB-' from 'BB' while Bahrain's outlook has been revised from 'positive' to 'stable' with an unchanged rating of 'B+'. The provision of zero interest loans from neighbouring sovereigns and the expectation of further timely support, if needed, provides Bahrain with an important financing buffer. Oman's fiscal consolidation reforms despite gathering pace, could be insufficient to stem the rise in government debt unless there is a sudden improvement in macro conditions.

Appendix

Table 1: S&P Rating Actions on Mar 26, 2020

Country	Sovereign Credit Rating		
	From	To	Change
UAE*	AA/Stable	AA/Stable	Unchanged
Kuwait	AA/Stable	AA-/Stable	Rating Downgrade
Saudi Arabia	A-/Stable	A-/Stable	Unchanged
Qatar	AA-/Stable	AA-/Stable	Unchanged
Bahrain	B+/Positive	B+/Stable	Outlook Downgrade
Oman	BB/Negative	BB-/Negative	Rating Downgrade

Source: S&P Global Ratings; Note: *- Reflects Abu Dhabi's rating

About Marmore

Marmore MENA Intelligence is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please *click here*)

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, *click here*)

Marmore provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

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