



Fitch On:
Gulf Cooperation Council (GCC)

About Fitch On: GCC

Fitch On: GCC is a curated compilation of Fitch Ratings' in-depth research and commentary. This edition takes a deep dive into GCC Sovereigns, Oil and Gas, Corporates & Infrastructure, and Banks and reflects our views on the GCC as at August 2020. At Fitch, our skilled analysts collaborate across our sovereigns, supranationals, international public finance, corporates and financial institutions teams to provide global, integrated analysis and commentary.

We hope this issue, as well as future ones, serve as valued resources to help you make more informed investment decisions. We welcome comments, including suggestions for topical or credit-specific research for future issues.

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Sovereign Data Comparator: [Click Here to View](#)

Real GDP Growth (%)	2014-2018	2019	2020	2021	2022
Abu Dhabi	2.4	1.5	-6.6	1.7	4.9
Kuwait	0.1	0.4	-7.9	2.4	2.6
Qatar	2.6	-0.2	-3.8	2.7	2.0
Saudi Arabia	2.2	0.3	-6.0	5.4	2.2
Oman	2.6	-1.3	-5.6	-0.6	0.9
Bahrain	3.3	1.8	-4.5	3.9	2.5
General government balance % of GDP					
Abu Dhabi	-2.5	1.6	-11.6	-6.5	-1.7
Kuwait	0.7	-0.9	-22.6	-15.6	-12.2
Qatar	2.0	3.4	-0.8	-2.3	-0.5
Saudi Arabia	-10.1	-4.5	-15.3	-10.1	-8.1
Oman	-13.2	-7.9	-18.6	-14.4	-10.9
Bahrain	-12.6	-7.4	-15.7	-9.2	-7.4
General government debt % of GDP					
Abu Dhabi	4.3	11.8	23.3	25.1	27.6
Kuwait	14.6	15.0	16.9	22.0	25.7
Qatar	48.3	68.4	72.5	59.2	57.9
Saudi Arabia	11.3	22.8	37.6	40.8	41.7
Oman	30.0	60.0	80.1	92.0	96.2
Bahrain	75.0	102.4	128.8	127.5	126.6
Sovereign Net Foreign Assets % of GDP					
	14-18 av.	2019	2019 USDm		
Abu Dhabi	204.3	221.2	551,174		
Kuwait	504.4	483.5	651,493		
Qatar	120.3	130.3	238,968		
Saudi Arabia	96.8	72.1	571,814		
Oman	33.5	-1.6	-1,250		
Bahrain	-13.3	-37.5	-14,461		

Source: Fitch Ratings

GCC Sovereigns

How are GCC countries coping with the twin shocks of lower oil prices and COVID-19 induced global recession?

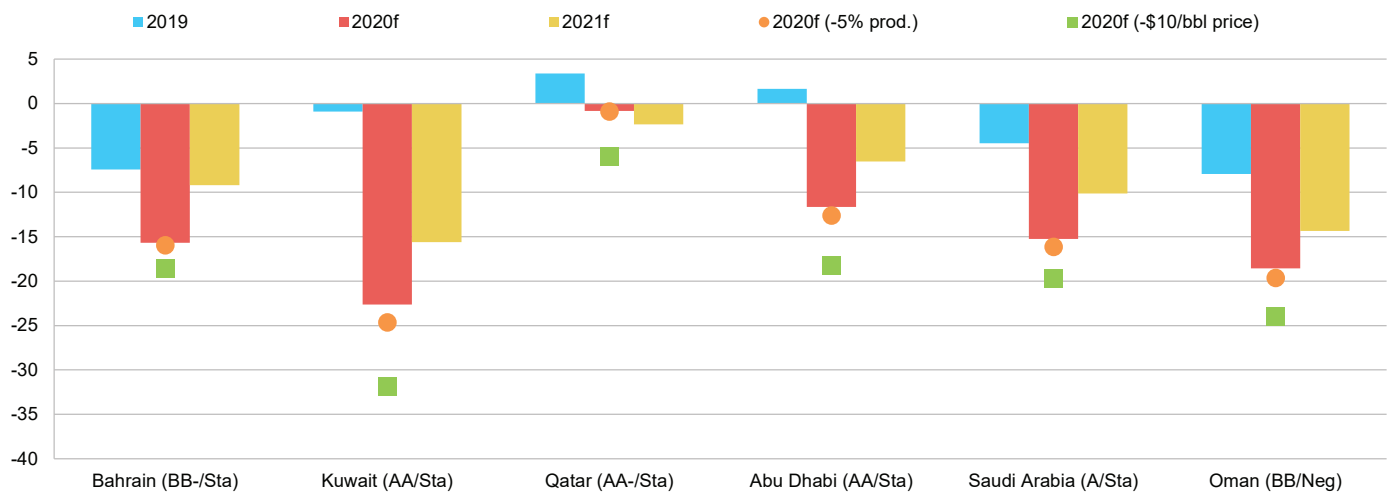
The OPEC+ agreement to cut oil output and the additional production cuts announced by Saudi Arabia, the UAE and Kuwait will push Gulf Cooperation Council (GCC) countries' budgets even deeper into deficit amid the collapse in oil prices. Oil production cuts will also contribute to a stark contraction in overall economic output, along with an unprecedented recession in non-oil economies in the GCC.

In the higher-rated GCC sovereigns, large wealth funds and central bank reserves and manageable government debt levels will stave off pressure on external funding and on exchange rate pegs. In lower-rated Oman (BB/Negative) and Bahrain (BB-/Stable), further support from the rest of the GCC may be necessary.

Erosion of fiscal and external positions has been a factor in past rating downgrades in the GCC, particularly for Saudi Arabia (A/Stable), Bahrain and Oman. It remains a negative rating sensitivity for all GCC sovereigns.

Significantly wider fiscal deficits in 2020

% of GDP



Source: Fitch Ratings

Sharply Higher Fiscal Deficits

We now expect most GCC sovereigns to post fiscal deficits of 10%-20% of GDP in 2020, with only Qatar's likely to maintain a roughly balanced budget, while Kuwait is set to post the largest deficit at 26% of GDP. This assumes an average Brent oil price of USD35/bbl and full compliance of the GCC with the OPEC+ deal to limit production, resulting in significant declines in oil output. We also assume that the additional cuts recently announced by Saudi Arabia, Abu Dhabi and Kuwait last until the end of the year.

A further USD10/bbl decline in average prices would increase deficits by 4%-6% of GDP (Kuwait being an outlier with an impact of 9% of GDP). A 5% cut to oil production would widen fiscal deficits by 1%-2% of GDP (less in Bahrain and Qatar).

Large Economic Stimulus Mostly Off-Budget

All GCC countries have announced economic stimulus packages. These amount to nearly 30% of GDP in Bahrain and Oman, more than 10% of GDP in Kuwait, Qatar and the UAE, and more than 7% of GDP in Saudi Arabia. They consist largely of monetary and off-budget measures, for example loan repayment holidays to businesses. We estimate that the budgetary effect of the stimulus packages will be smaller (at around 5% of GDP in Saudi Arabia and 1%-2% of GDP elsewhere), mostly relating to suspension and deferral of government fees and taxes, accelerated payments to contractors, increased health spending and salary support to the private sector.

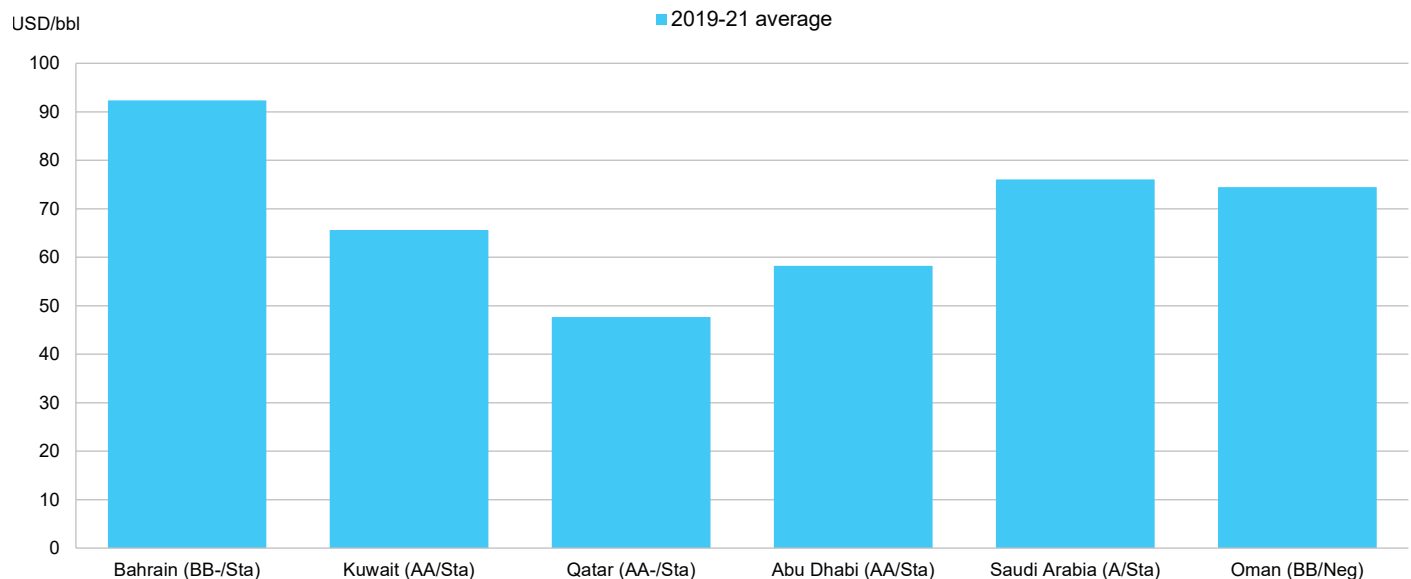
Pro-Cyclical Fiscal Policy Makes Comeback

We expect the governments with the weakest balance sheets to press ahead with spending cuts sufficient to outweigh the direct fiscal effect of stimulus measures. This will exacerbate the recession in the non-oil economy, stemming from measures to contain the coronavirus outbreak. We forecast a non-oil sector recession of 3%-5%; this is unprecedented in the recent history of most GCC states and heightens social stability risks.

Wide Fiscal Deficits, High Break-Even Prices

Most sovereigns would still need an oil price far above forecast levels to balance their budgets. Most fiscal break-even prices are in the USD60-80/bbl range, although Qatar (USD48/bbl) and Bahrain (USD91/bbl) are outliers.

Fiscal Break-Evens Remain Significantly Above Forecast Prices



Source: Fitch Ratings

The main factor pushing break-even prices higher this year is oil production cuts in line with the OPEC+ agreement (about 10% relative to 2019). This effect is particularly pronounced in Abu Dhabi, where we expect production to decline to an average of 2.8 million barrels a day (mmbbl/d) and Kuwait (decline to 2.4 mmbbl/d).

Fiscal consolidation will likely outweigh the volume effect on break-even prices in Saudi Arabia (production falling to 8.8 mmbbl/d) and Oman (production falling 0.87 mmbbl/d).

Qatar is not participating in the OPEC+ deal and in any case most of its hydrocarbon revenue stems from gas.

The OPEC+ deal does not impose a binding constraint on Bahrain's production, which was already well below the reference level used in the deal.

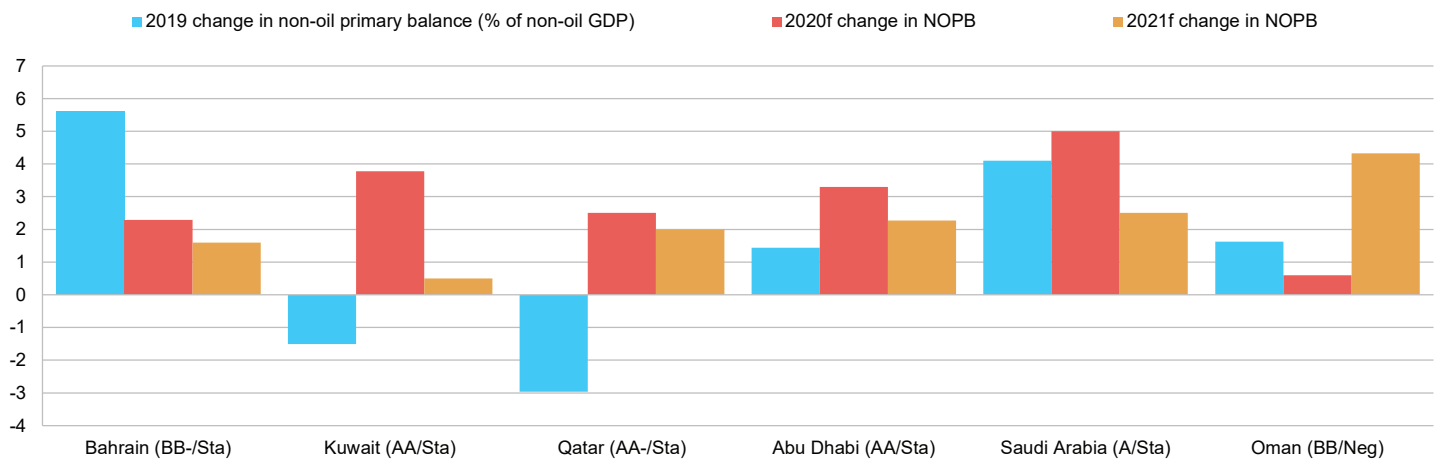
Underlying Fiscal Tightening

Fiscal policy in the GCC tends to be pro-cyclical with the oil price; however, consolidation in 2020 will be hampered by and deepen the recession in the non-oil economy stemming from measures to contain the coronavirus outbreak.

Apart from oil revenue, the main direct impact of the coronavirus is on budgetary non-oil revenue. Deferral or suspension of various government fees and taxes is a key component of all GCC economic stimulus packages. In any case, primary non-oil revenue would have fallen as a result of economic disruption and constitutes a small share of total revenue.

The main focus so far of fiscal consolidation efforts is spending. Bahrain has announced spending cuts of 30%, although the timing and composition of these is unclear. Qatar has reduced planned spending by 16% mainly by postponing non-essential development projects. Oman and Saudi Arabia are planning cuts of about 10% and 12%, respectively (including the abolit). This is despite higher coronavirus-related spending, particularly on healthcare. In any case, some spending items could decline as a result of economic lockdowns, for example government employee overtime and travel allowances.

Stimulus and Fiscal Consolidation Vie for Dominance



Source: Fitch Ratings

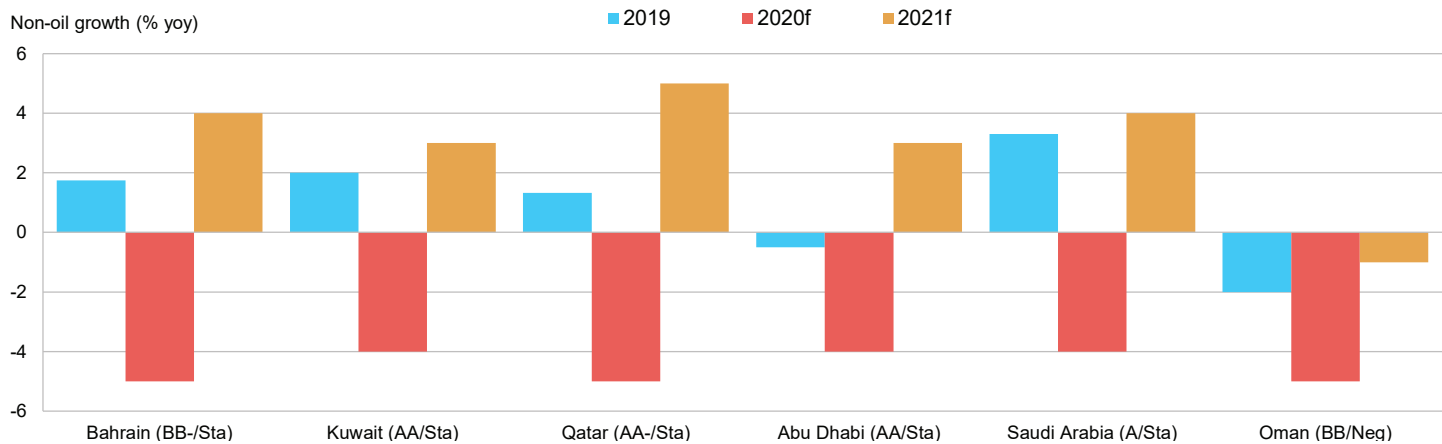
Efforts are underway to increase non-oil revenue collection in the second half of the year. Oman's Fiscal Balance Program includes broad electricity subsidy reform and new taxes (including VAT and personal income tax). Saudi Arabia tripled the rate of VAT to 15% from July 1st.

We expect material improvements in the non-oil primary deficit in Saudi Arabia this year, and, to a lesser extent, in Oman and Bahrain. In Oman, a deep non-oil recession (following recession in 2019) will likely offset the immediate gains from spending cuts through weaker non-oil revenue collection (and a shrinking denominator). In Bahrain, scope for savings this year may be limited by the significant consolidation achieved in 2019. We expect Abu Dhabi, Kuwait and Qatar to focus on supporting their economies, reflecting their stronger balance sheets (and pre-election political dynamics in Kuwait).

We expect significant non-oil economic contraction in 2020, which is unprecedented in the GCC. Growth stayed positive even during the global financial crisis of 2008-2009 (except in Kuwait) and the oil price crash of 2015-2016. Oman is likely to see the deepest contraction, reflecting pre-existing economic weakness and sharp fiscal consolidation.

Rebound in non-oil activity in 2021 should allow governments to restore some non-oil revenue and could offer more scope for fiscal consolidation.

Fiscal Consolidation, Coronavirus Feeding Unprecedented Non-Oil Recession



Source: Fitch Ratings

Strong Balance Sheets Provide Resilience for Higher-Rated Sovereigns

Wider fiscal deficits will lead to higher debt and drawdowns of fiscal reserves. In 2020, we expect the GCC funding mix to shift in favour of drawdowns from fiscal reserves. We expect the GCC to issue around USD58 billion in foreign debt this year (of which USD33 billion has already been issued), roughly in line with last year. This will be accompanied by around USD120 billion in drawdowns from fiscal reserves and wealth funds, compared with only about USD10 billion (net) last year.

The reserve drawdown is likely to be led by Kuwait (where the government's authority to borrow has expired), Saudi Arabia and Abu Dhabi. Asset prices have recovered from their lows in mid-March (which had largely erased 2019 gains), but the value of sovereign wealth fund (SWF) assets will remain subject to financial market volatility.

For Abu Dhabi, Kuwait and Qatar, SWF assets will remain sufficient to cover years of spending and nearly a decade in non-oil deficits, although in Kuwait's case accessing the bulk of SWF assets will require parliamentary approval and may be politically contentious. Economic contraction will even increase the headline ratio of sovereign net foreign assets to GDP.

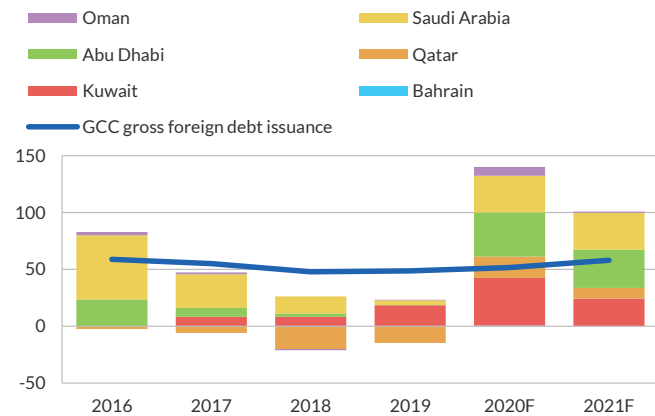
In Saudi Arabia, the bulk of sovereign foreign assets are the official reserves of the Saudi Arabian Monetary Authority (SAMA). The government can immediately draw on its deposits at SAMA (which are in local currency and thus only affect reserves indirectly). Furthermore, large official exchange-rate reserves support the government's ability to fund itself through the local financial system and may also be used directly through extraordinary distributions by SAMA to the government (SAMA already pays regular dividends to the government). USD40 billion was already transferred out of SAMA reserves into the Public Investment Fund in March-April. There is, however, a limit to use of SAMA reserves as large reserves are needed to support confidence in the US dollar peg.

In Oman, although foreign assets are relatively low in net terms, gross assets in the form of central bank reserves and the assets of the State General Reserve Fund still give the government a degree of funding resilience and would allow it to stay outside of the debt markets for more than a year. Support from other GCC governments and/or multilaterals, such as the IMF and/or other international partners, may be necessary and available if Oman's funding conditions continue to be stressed.

In Bahrain, GCC support remains critical to the sustainability of its public and external finances and helps maintain market access. Bahrain issued USD2 billion of international bonds and sukuk in May. Around USD4.5 billion in interest-free loans from the GCC remains undisbursed; USD1.8 billion is scheduled for this year.

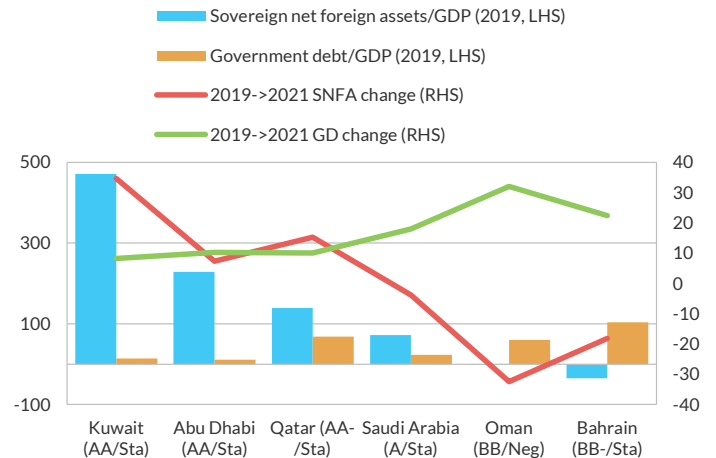
Asset Drawdowns will Dominate Financing this Year

Use of deposits and external assets for deficit financing (USDbn)



Source: Fitch Ratings; national ministries of finance; market sources

Large Scale Balance Sheet Deterioration



Source: Fitch Ratings

Oil and Gas Price Assumptions *as of April 2020

	2019A	2020	2021	2022	2023
Base Case					
Brent (USD/bbl)	64.8	35	45	53	55
WTI (USD/bbl)	56.9	32	42	50	52
Henry Hub (USD/mcf)	2.6	1.85	2.45	2.45	2.45
TTF/NBP (USD/mcf)	4.5	2.5	3.75	5	5.5
Stress Case					
Brent (USD/bbl)		30	35	40	50
WTI (USD/bbl)		27	32	37	47
Henry Hub (USD/mcf)		1.65	1.65	2	2.25
TTF/NBP (USD/mcf)		2	2.75	4	5

Source: Fitch Ratings

How resilient are the pegged exchange rate regimes in the GCC?

We foresee no change in the pegged exchange rate regimes in GCC countries in the medium term, despite double-digit fiscal and current account deficits that have opened up as a result of the crash in oil prices and the coronavirus pandemic. GCC countries prefer fiscal consolidation as a means of fiscal and external rebalancing, which in our view is consistent with their structural economic limitations and their ability to defend the pegs, alone as in Kuwait, UAE, Qatar and Saudi Arabia, with likely external support as in Bahrain, where it has been amply demonstrated, and Oman, where it has so far been limited.

The sovereign net foreign assets of the UAE (including Abu Dhabi sovereign assets), Kuwait, Saudi Arabia and Qatar would be sufficient to cover their entire stock of broad money liabilities. So these countries could, in theory, maintain their exchange rate arrangements even in case of a complete loss of domestic confidence. In practice, countries would likely not wish to entirely deplete their foreign assets for the sake of the exchange rate peg, even in Saudi Arabia where these assets are predominantly in the form of liquid international reserves. However, the presence of large external buffers forestalls loss of confidence and speculation.

Full coverage of broad money by reserves is not necessary for a pegged exchange rate regime to be sustainable; for example, in Hong Kong, this ratio is just over 20%. The IMF's Reserve Adequacy metric would suggest that there is leeway for higher-rated GCC states to lose a substantial portion of their reserves without challenges to the peg. They could also use interest rates or capital controls to stem outflows, although this would have ramifications for the domestic economy.

For example, in Saudi Arabia, official foreign exchange reserves of the Saudi Arabian Monetary Authority (SAMA) nearly fully cover broad money and in 2019 were equivalent to 3-4x the IMF's reserve adequacy metric. SAMA net foreign assets have fallen to USD444 billion in May from USD494 billion at end-2019, reflecting large fiscal and current account deficits and the special transfer of USD40 billion out of SAMA reserves to the Public Investment Fund. However, it would still take several years for reserves to fall to close to the IMF adequacy threshold even without significant external borrowing or adjustment in the current account deficit (which we forecast at over USD50 billion or 8% of GDP for 2020).

Although higher-rated GCC sovereigns would be able to sustain pegs over prolonged periods of time, depletion of net foreign assets to defend the exchange rate and to fund fiscal and external deficits in the absence of sustainable adjustment would eventually negatively impact their ratings.

Devaluation would result in few competitiveness benefits to the GCC countries given the undiversified nature of their economies, instead delivering fiscal and external adjustment through erosion in the real value of government spending and residents' incomes and wealth (leaving the real value of oil revenue unchanged).

In our view, fear of social unrest is another factor discouraging GCC governments from currency devaluations. Soaring cost of living has been a factor in political unrest across the region, including in the Arab Spring protests in Tunisia, Jordan and Oman in 2011. Potential social backlash is a risk both of devaluation and fiscal consolidation, although fiscal policy may lend itself better to a more gradual adjustment.



Bahrain reserve levels precarious, but GCC support explicit

Bahrain's peg has survived periods of exceptionally low reserve coverage, helped by the widespread expectation that it would receive further support from allies in the GCC. Nonetheless, at less than 1.5 months of current external payments, reserves are very low and other key metrics, such as reserves to differing measures of money supply have also worsened considerably since 2014. Reserves/M1, which was only 17% in May, is materially lower than the average of 80% in 2005-2014, and reserves/M3 is under 10%, down from an average of 20%. This makes the currency peg vulnerable to any loss of confidence that precipitates increasing demand for conversion of Bahraini dinars to US dollars and outflows from Bahrain's large banking sector.

External financial support therefore remains critical for confidence in Bahrain. In 2018 reserve ratios reached historic lows and concern about the stability of the currency peg mounted prior to the announcement of the USD10 billion Gulf support package in 2H2018. The fact that funds remain available within that package has buttressed confidence in Bahrain during the collapse in oil prices in 2020 and facilitated the country's access to international bond markets. Concern though could re-emerge if the current financing package is consumed without clarity on further support for Bahrain. We would expect further support to be forthcoming in some form, although this may require Bahrain to undertake further fiscal consolidation measures.

Buffers larger in Oman, but external support uncertain amid mammoth external funding challenge

To some extent, expectation of Gulf support may also be a factor supporting confidence in the Omani rial, although Oman also benefits from having significant gross foreign assets (despite net sovereign foreign assets being negative) and not unduly low foreign exchange reserves. At over USD17 billion at end-2019, Oman's official foreign exchange reserves were sufficient to cover 36% of broad money, a significantly higher share than in Bahrain. Reserves have been stable so far in 2020. The State General Reserve Fund (SGRF) had a further USD17 billion in foreign assets, which were predominantly liquid.

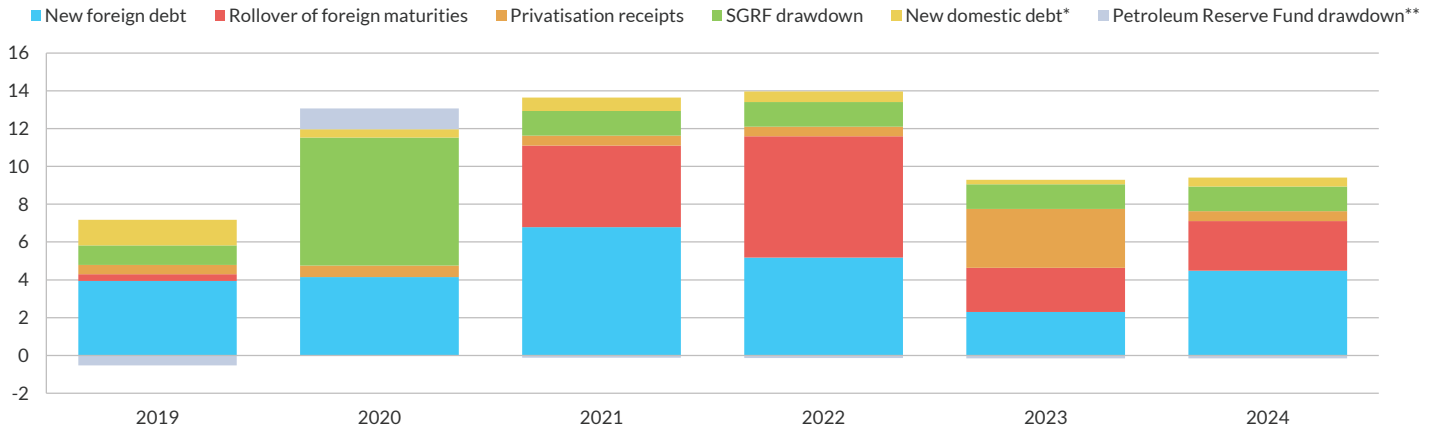
Nevertheless, Oman's remaining external buffers are eroding quickly and could decline to a point where confidence in the peg becomes undermined, in the absence of clearer prospects for external support or a return to foreign debt markets or indeed meaningful near-term fiscal adjustment. We forecast the current account deficit, which broadly mirrors the fiscal deficit, of nearly USD11 billion (17% of GDP) in 2020 and nearly USD10 billion in 2021, assuming oil prices average USD35/bbl and USD45/bbl respectively. Oman also faces foreign maturities of USD1.2 billion in 2020, USD4.3 billion in 2021 and USD6.4 billion in 2022. The maturity profile of USD19 billion in external SOE debt is uncertain.

We assume that Oman will be able to meet its financing needs through large drawdowns from the SGRF, new foreign debt (including from bilateral sources or syndicated loans) and rollover of maturities (only a small portion of which is eurobonds). Risks are skewed to the downside, given the large gross issuance this would imply. Our forecast does not take into account potential financial support for Oman from other governments in the Gulf Cooperation Council and/or from multilaterals such as the IMF.



Oman’s Government Faces Funding Crunch

Fitch’s assumptions (bars sum to fiscal deficit + foreign maturities)



* Domestic maturities assumed to be rolled over. ** Part of oil revenue deposited at the central bank for debt service. Reflected in central bank reserves.

Source: Fitch Ratings; Ministry of Finance

External support might be available to Oman and would strengthen its financing position and its capacity to tap international debt markets, and news have recently emerged of high-level discussions between Oman, Qatar and Kuwait on this issue. Like Bahrain, Oman received commitments of USD10 billion in grants for development projects in 2011, of which only a fraction (relating to Kuwait’s commitment) has been used.

Nevertheless, the provision, extent and timeliness of any support for Oman remains uncertain. Oman’s desire to maintain geopolitical neutrality has been a factor in the limited use of the 2011 support package. Agreement on a new or renewed package would be complicated by geopolitical considerations including Qatar’s rift with Saudi Arabia and the UAE as well as fiscal considerations in potential donor countries, including in Qatar, which is planning to reduce its debt burden from high levels,

and Kuwait, which is facing imminent depletion of the easily accessible portion of its vast fiscal reserves (amid political paralysis leading up to parliamentary elections and uncertainty about an eventual leadership transition). Oman’s engagement with the IMF has historically been limited and it does not consent to the publication of regular IMF Article IV staff reports.

There are a number of explanatory factors—economic, commercial, (geo)political and social—all underpinning Gulf support for Bahrain and potential support for Oman. Within these calculations, GCC countries may judge that the cost of preventing the collapse of a GCC peg (and possible social and political upheaval) is worth it to help maintain overall economic and political stability and confidence across the GCC and ward off any contagion risk, even if it is limited for the stronger GCC countries.

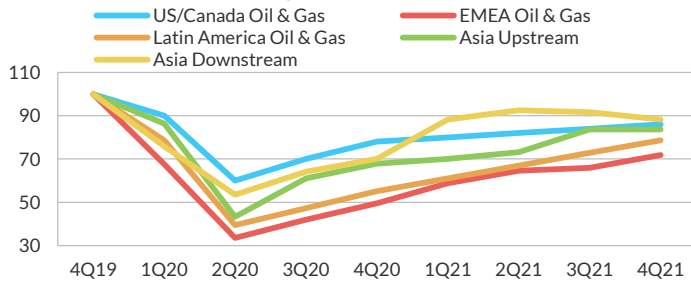


GCC Corporates and Infrastructure

The Road Back: Post-Lockdown Assumptions for Global Corporates: [Click Here to View Full Report](#)

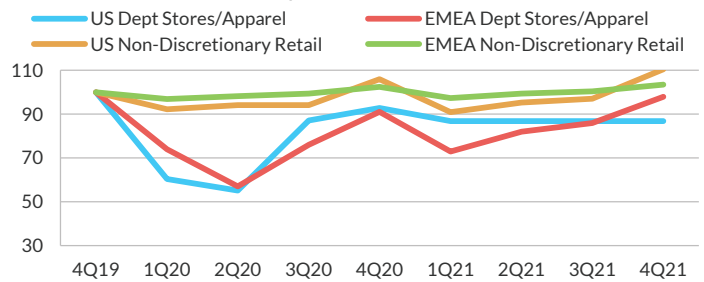
Oil & Gas

Indicative Revenue Curve, 4Q19 Indexed as 100



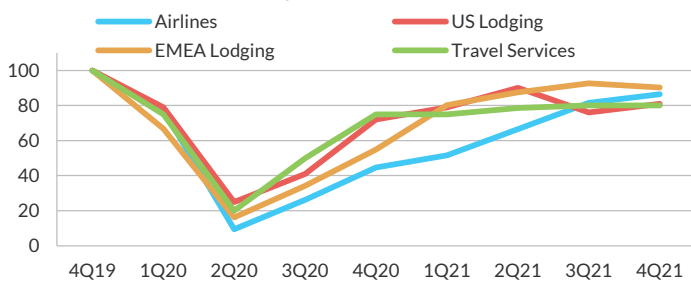
Retail

Indicative Revenue Curve, 4Q19 Indexed as 100



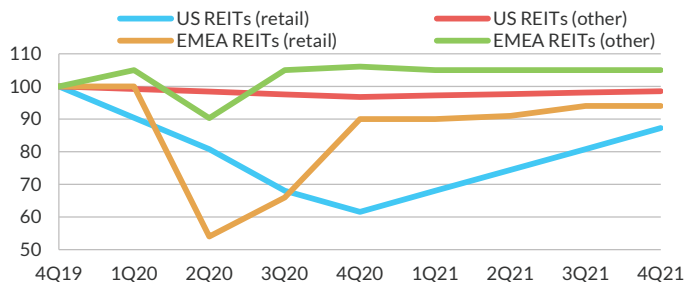
Leisure & Transport

Indicative Revenue Curve, 4Q19 Indexed as 100



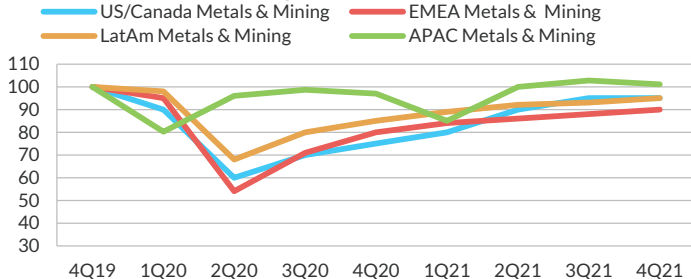
REITS

Indicative top-line curve, 4Q19 Indexed as 100



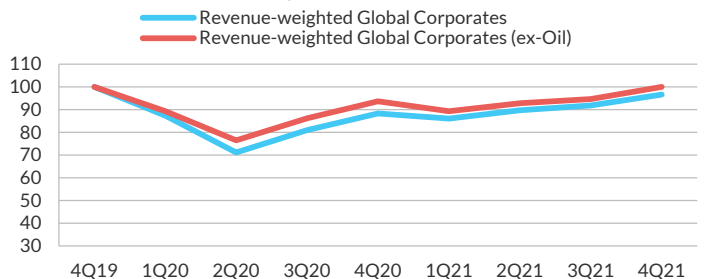
Metal & Mining

Indicative Revenue Curve, 4Q19 Indexed as 100



Global Revenue-Weighted Curve

Indicative Revenue Curve, 4Q19 Indexed as 100



Source: Fitch Ratings

Will lower oil prices and low global growth lead to more defaults in GCC? Do you see risks that real estate developers will fail?

Government spending is the primary source of growth in the private sector in the GCC. We expect lower government spending along the lines of the cuts proposed by the Saudi government to significantly affect growth in the private sector. However, the majority of rated GCC corporates are government-related entities and while we therefore expect to see pressure on standalone credit profiles we do not expect the strength of the linkage between corporates and governments to materially weaken.

For real estate, the picture varies significantly between different markets. An oversupply of housing in Dubai was a key issue before the crisis and the pipeline of new units remains considerable. At the same time, a COVID-19 driven economic slowdown has further affected the already weakened purchasing power of mid-to upper-class expatriates living in the UAE. This means the volatility of the high-end market is being exacerbated by the coronavirus pandemic, compounded by a sharp fall in oil prices and a lack of potential overseas buyers, who currently cannot travel to the region.

The combination of oversupply and falling values and rents is a clear threat to developers. If development projects are not completed, or are completed and sold at less profitable values, companies will be in jeopardy. Many Dubai real estate developers are GREs and their ability to maintain liquidity during the crisis is likely to be highly dependent on the availability of state support via local banks.

The situation in Saudi Arabia is different. Home ownership among Saudis is low and the government has introduced its 'Sakani' programme to deliver homes at subsidized prices to mid-income Saudi families. We do not expect a full retreat of subsidies to the housing project by the Ministry, but there will be cuts in spending and project delays going forward.

DP World: What was the motivation to de-list? Assuming the new global growth picture, do you expect downgrade to HY soon, or will you still provide more time to see how the leverage situation and transparency situation has evolved?

DP World believes that the equity market is underappreciating its medium-term growth strategy. The Group is investing in ports-ancillary businesses such as logistics providers, industrial parks, inland transport and special economic zones with a view of building stronger direct relationships with their end customers, rather than

through shipping lines. This strategy should make their volumes "stickier" to its geographical diversified terminal network thus enhancing the long-term value creation of the business.

We recently downgraded DP World's rating from BBB to BBB- and revised the Outlook to Stable following the progression of the take-private transaction. The increased debt burden as a result of the transaction results in expected group leverage to peak at about 8x in 2020 and deleverage over the next three to five years to about 6x Fitch-adjusted net debt to EBITDAR. This medium-term leverage profile is consistent with a 'BBB-' rating. The deleveraging path could be faster with the use of tools such as monetisation of minority stakes and the reduction/deferral of dividends, capex and M&A activities.

The coronavirus pandemic has also impacted DP World's credit rating, resulting in a previous downgrade in April from BBB+ to BBB. This is based on our expectation that DP World's credit profile and metrics will be affected by a severe but relatively short-lived demand shock. DP World's liquidity profile is comfortable for 2020, and it has some financial flexibility to mitigate the expected short-term revenue shortfall. We assume the 2020 shock will progressively recover but will revise the rating case according to the severity and duration of the outbreak.

Despite the impact of both the take-private transaction and the coronavirus pandemic Fitch believes that DP World has extensive balance sheet flexibility to deleverage and we expect it to maintain its investment grade ratings. To reflect this Fitch has removed the Rating Watch Negative and revised the Outlook to Stable. However, the take-private transaction and demand shock related to the coronavirus has impacted the expected evolution of the group leverage profile and further reduced the visibility on the company's plans to bring its leverage below the 4x mark within the next two to three years. Some comfort is taken from the financing documentation at the parent company, PFZW, which locks up dividends post-transaction until group leverage returns to less than 4x pre-IFRS-16 net debt to EBITDA.

In our updated Fitch rating case (FRC), we look at the group's consolidated credit profile to rate DP World, including its parent company Port and Freezone World FZE. This is because DP World's cash-flow generation and asset disposals will be the primary source for servicing any debt at the parent company. We continue to assess the group on a standalone basis, separated from Dubai World.

For more information on the transaction, please click on the following link: [Click Here](#)

In Fitch's models and assumptions, when will the retail industry pick up again and how long will it likely take to reach pre-crisis levels?

We do not have separate assumptions on retail for the GCC, but overall our assumptions for the major markets of Europe and the US show similar trends of discretionary retail sales falling by around 30% in 2020, with the bulk of that impact coming in the first half of the year. While we do see a significant rebound in 2021, this is unlikely to be large enough to recover all the decline in 2020 and our core assumption is that 2021 discretionary retail sales are likely to be around 10% below 2019 levels. Food retail is clearly much less affected and indications from some European retailers show sales growth has accelerated, however, profitability is likely to be diluted by higher costs and a shift in sales channels.

For the GCC region, the declines in discretionary spending could be exacerbated by the impact of a sustained low oil price on consumer spending. While we expect oil prices to recover somewhat in 2021, growth will be restrained by greatly increased volumes in global storage facilities. Our current assumption of an average Brent price of USD45/bbl in 2021 is therefore significantly below the pre-crisis assumption of USD60/bbl.

The impact on individual retailers will vary significantly, with one of the biggest factors being their ability to replace in-store sales with online. There have been reports of a significant increase in ecommerce penetration in the GCC since the start of the pandemic.

How does Fitch see the prospects for the tourism sector in 2H20?

Our core assumptions are for a very gradual recovery in air travel starting in 2H20 after a near shutdown in 2Q20. However, trends in the aviation industry are likely to trail behind the broader economic recovery. We expect air travel restrictions, especially on international flights, to remain in place well beyond 2H20 and that airlines will continue to be affected by a lower propensity to travel beyond 2021. For Etihad Airways, for example, we expect a full recovery to pre-COVID 19 scope of operations to take two-to-three years. As of end-June 2020, UAE's scheduled flights were operating at less than 30% of its capacity in the previous year according to OAG.

How will GCC National Oil Companies (NOCs) protect profitability on the back of global expected energy consumption dropping i.e. debt raising exercises, Dividend cut's, reduction in capex plans, asset monetization, etc.

GCC NOCs share similar challenges with the major international oil producers – lower prices and volumes are leading to a sharp contraction in EBITDA and operating cash flows, which leaves them no other options but to reconsider capex and potentially dividends or to incur additional debt to cover cash flow deficits. Lower cost of production and low maintenance capex requirements are clear advantages of companies such as Saudi Aramco and ADNOC, but those do not make them immune from the oil price shock.

Saudi Aramco has already committed to cut capex by around 25-30% compared to their previous guidance for 2020. Its 1Q20 dividends will be in line with the previous guidance of at least a USD75 billion annual dividend in 2020 and beyond. Later in the year Saudi Aramco may face a choice of either sticking to the same dividend target or incurring additional debt unless prices recover substantially. Aramco, however, previously made it clear that dividends to be paid to non-government shareholders would be prioritized and should anyway be based on the USD75 billion target – which is affordable under practically any price scenario.

ADNOC does not have a clear dividend target and in the past its dividend was based on the available free cash flow. However, we believe the company is also likely to cut capex to support its cash flows generation.

NOCs in the region are likely to become less interested in acquisitions and non-core projects, including international downstream expansion and unconventional natural gas. They may also consider using alternative ways of attracting funding, such as ADNOC's successful selling of minority stakes in its oil and gas pipeline units in 2019 and 2020.

While debt load of many regional NOCs, such as Saudi Aramco and ADNOC, may increase as a result of the oil price collapse, we expect they leverage metrics to remain conservative in comparison with international peers and consistent with the current ratings. Their final issuer default ratings are ultimately driven by the credit quality of the respective sovereigns, which will continue to have a significant impact on the company's strategy and operations.

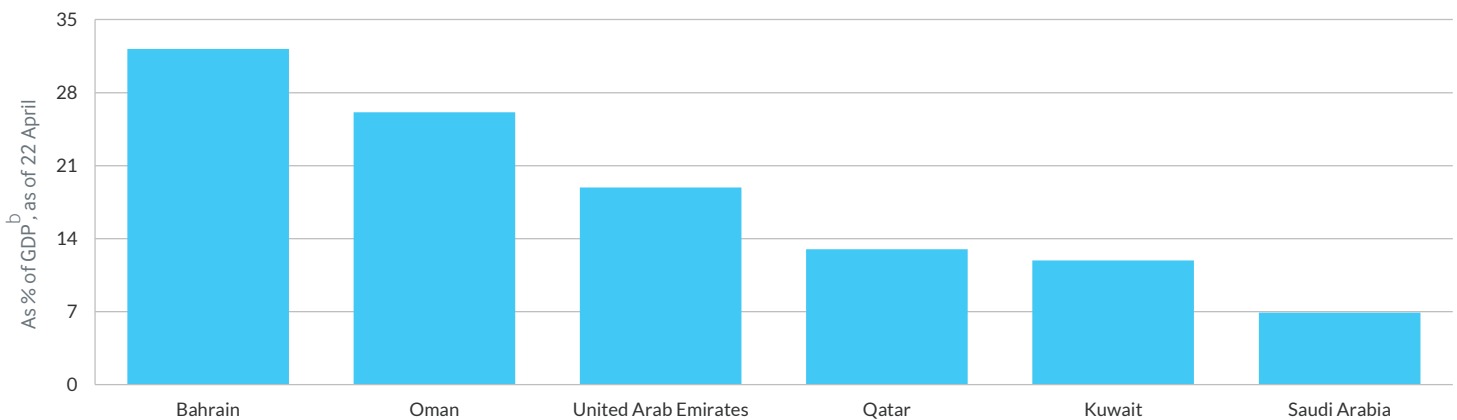
GCC Banks

What are your views on the GCC Banking sector? Do you anticipate more consolidations to take place particularly in UAE, Saudi Arabia, Qatar and Kuwait?

GCC banks standalone credit profiles are likely to weaken as a result of the coronavirus and lower oil prices and despite the timely support measures introduced by central

banks in the region. We will first see pressure on banks' profitability. Asset quality will also weaken, but the true impact will be masked by loan deferral programmes and regulatory flexibility for banks to recognise impairments under IFRS 9.

GCC Stimulus Package ^a



^aInclude all fiscal, monetary and macro-financial measures

^bStimulus as % of GDP based on GDP figures at end-2019 for Bahrain, Oman, Kuwait, Saudi Arabia; end-2018 for UAE; end-2Q19 for Qatar

Source: Fitch Ratings, Bloomberg, National Sources, International Monetary Fund's Policy Responses to Covid-19, Kuwait Financial Center "Markaz" Research

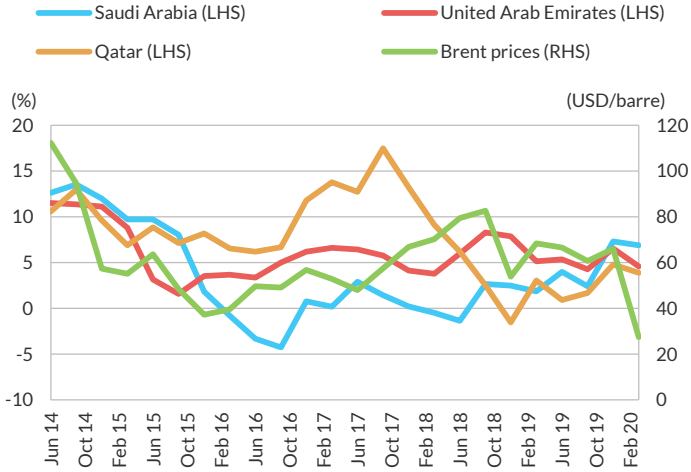
If economic disruptions caused by the coronavirus and lower oil prices remain for longer, asset quality problems and lower profitability are likely to put downward pressure on currently adequate capital buffers. Liquidity is less of a risk as the government has already taken measures, including debt issuance, to be able to inject deposits in the banking system as necessary.

We do anticipate more consolidation in the GCC banking sector. In the past M&A activity was about creating shareholder value, particularly where it creates or strengthens domestic leaders, and competitive advantages are enhanced. This is still important, and could still happen in Saudi Arabia, which unlike Kuwait, Abu Dhabi, Dubai and Qatar does not have a flagship bank, but the pressures of lower oil prices and the coronavirus might takeover this

as the key reason for M&A. Bahrain is the most obvious country for M&A, where fragmentation is greater than at regional peers, with a large number of banks resulting in strong competition and weak pricing power. The Bahraini authorities are supportive of M&A, but sound profitability and a lack of common shareholders prevents obvious tie-ups. Banks have also been looking abroad for growth opportunities, although this can bring additional risks.

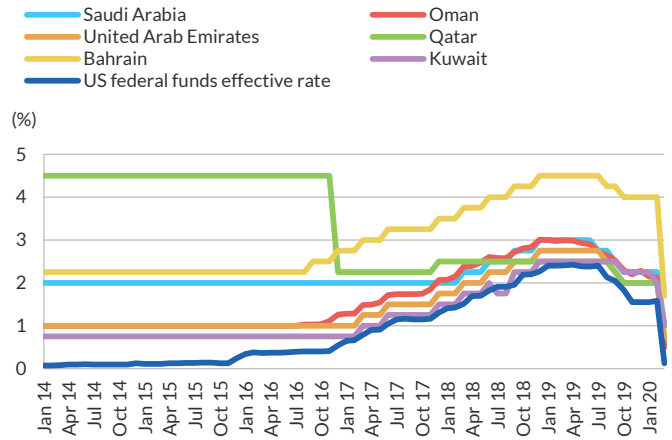
The UAE has a large number of banks. Smaller banks are generally more vulnerable as they have weaker franchises, thinner capital buffers, and lower revenue generation and diversification. If coronavirus challenges persist, a wave of mergers and acquisitions could follow, particularly among these banks with weaker franchises.

Customer Deposit Growth vs. Oil Prices



Source: Fitch Ratings, Bloomberg

GCC Central Banks' Repo Rates vs. US Federal Reserve Interest Rates^a



^a Latest data point is on 24 March

Source: Fitch Ratings, Bloomberg, Central Banks

For more information and a detailed report on the above, please click on the following link: [Click Here](#)



Appendix: Key GCC Credit Metrics

	2016	2017	2018	2019	2020F	2021F
Bahrain						
General government balance (% of GDP)	-17.4	-14.2	-10.2	-7.4	-15.7	-9.2
Primary non-oil balance (% of non-oil GDP)	-29.7	-26.5	-26.0	-20.3	-18.1	-16.5
Real GDP growth (% yoy)	3.6	4.3	1.8	1.8	-4.5	3.9
Real non-oil GDP growth (% yoy)	4.5	5.5	2.5	1.7	-5.0	4.0
Break-even Brent oil price (USD/bbl)	105	115	115	96	96	85
Sovereign net foreign assets (% of GDP)	-15	-25	-38	-37	-57	-58
General government debt (% of GDP)	81	88	95	102	129	127
Kuwait						
General government balance (% of GDP)	-6.2	-0.5	5.1	-0.9	-22.6	-15.6
Primary non-oil balance (% of non-oil GDP)	-82.0	-83.7	-89.9	-91.4	-87.6	-87.1
Real GDP growth (% yoy)	2.9	-4.7	1.2	0.4	-7.9	2.4
Real non-oil GDP growth (% yoy)	1.6	2.6	2.3	2.0	-4.0	3.0
Break-even Brent oil price (USD/bbl)	56	56	62	64	62	71
Sovereign net foreign assets (% of GDP)	575	561	461	483	590	545
General government debt (% of GDP)	15	23	19	15	17	22
Qatar						
General government balance (% of GDP)	-6.7	-4.1	4.4	3.4	-0.8	-2.3
Primary non-oil balance (% of non-oil GDP)	-47.1	-39.4	-32.8	-35.7	-33.2	-31.2
Real GDP growth (% yoy)	2.1	1.6	1.5	-0.2	-3.8	2.7
Real non-oil GDP growth (% yoy)	5.3	3.8	3.2	1.3	-5.0	5.0
Break-even Brent oil price (USD/bbl)	57	65	59	57	36	50
Sovereign net foreign assets (% of GDP)	141	119	105	130	152	144
General government debt (% of GDP)	53	58	59	68	72	59

Source: Fitch Ratings

Appendix: Key GCC Credit Metrics

	2016	2017	2018	2019	2020F	2021F
Abu Dhabi						
General government balance (% of GDP)	-9.1	-3.5	3.6	1.6	-11.6	-6.5
Primary non-oil balance (% of non-oil GDP)	-50.4	-50.7	-55.8	-54.4	-51.1	-48.8
Real GDP growth (% yoy)	2.6	-0.9	1.2	1.5	-6.6	1.7
Real non-oil GDP growth (% yoy)	5.3	3.8	3.2	1.3	-5.0	5.0
Break-even Brent oil price (USD/bbl)	63	63	65	61	56	58
Sovereign net foreign assets (% of GDP)	217	220	185	221	279	251
General government debt (% of GDP)	4	8	7	12	23	25
Saudi Arabia						
General government balance (% of GDP)	-16.0	-9.2	-5.9	-4.5	-15.3	-10.1
Primary non-oil balance (% of non-oil GDP)	-39.8	-36.5	-39.9	-35.8	-30.8	-28.3
Real GDP growth (% yoy)	1.7	-0.7	2.4	0.3	-6.0	5.4
Real non-oil GDP growth (% yoy)	0.2	1.3	2.2	3.3	-4.0	4.0
Break-even Brent oil price (USD/bbl)	94	85	89	76	75	77
Sovereign net foreign assets (% of GDP)	99	87	73	72	73	64
General government debt (% of GDP)	13	17	19	23	38	41
Oman						
General government balance (% of GDP)	-21.9	-13.8	-8.7	-7.9	-18.6	-14.4
Primary non-oil balance (% of non-oil GDP)	-43.7	-38.5	-39.8	-38.2	-37.6	-33.3
Real GDP growth (% yoy)	5.0	0.3	1.8	-1.3	-5.6	-0.6
Real non-oil GDP growth (% yoy)	5.0	3.3	2.0	-2.0	-5.0	-1.0
Break-even Brent oil price (USD/bbl)	88	86	93	82	70	71
Sovereign net foreign assets (% of GDP)	31	13	4	-2	-20	-34
General government debt (% of GDP)	33	45	51	60	80	92

Source: Fitch Ratings

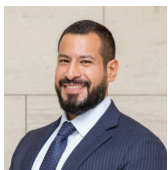
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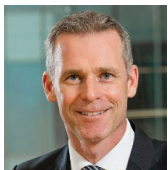
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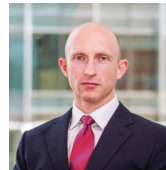
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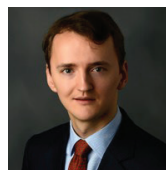
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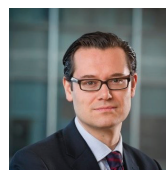
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