FitchRatings

Sovereign Wealth Funds in the GCC

Large Sovereign Assets Helping Governments Weather Virus, Oil Shock

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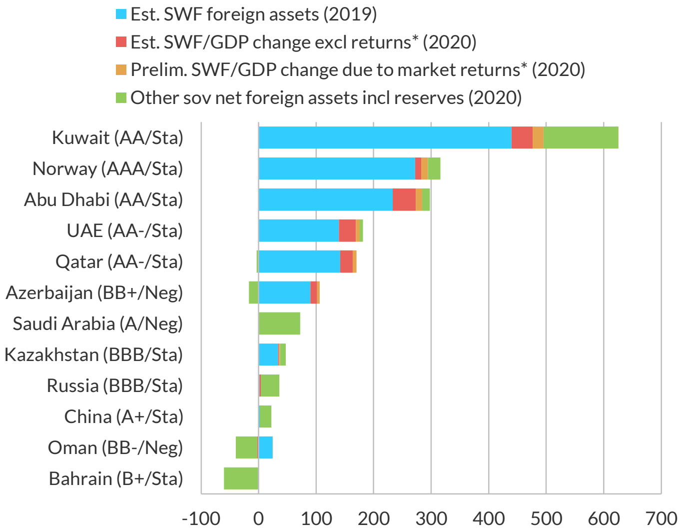
GCC Wealth Funds Remain Among Largest in the World

GCC Countries vs. Selected Peers (% of GDP)



* Large increases in SNFA/GDP in 2020 mostly reflect denominator effect of falling nominal GDP. Preliminary market returns are up to end-Nov.
Source: Fitch Ratings

The sovereign wealth funds (SWFs) of Abu Dhabi, Kuwait and Qatar have underpinned the resilience of their sovereign ratings despite lower oil prices and the coronavirus shock. The SWF assets of these countries could be higher by end-2020 than they were in 2019 due to supportive market returns, and despite these governments using more than USD60 billion of SWF foreign assets and other deposits to cover government funding needs in 2020.

Resilient Rating Uplift from SWF Assets

The uplift to ratings from SWF assets has been stable or increasing despite sharply higher fiscal and external deficits in 2020. In Abu Dhabi, the UAE, Kuwait and Qatar, SWF assets provide two to six notches of uplift to sovereign ratings by boosting sovereign net external asset positions, fiscal balances, and overall financing flexibility. Estimated gross sovereign external assets of these countries are sufficient to cover five to eight years of total government spending and six to eight years of non-oil deficits.

Structural Oil Market Shift Poses Large Risk

We estimate that SWF assets in Kuwait, Abu Dhabi and Qatar would remain sizeable in the medium term even under adverse oil market scenarios. All three countries stand to substantially deplete their SWF assets in the long term without some combination of recovery in oil prices, growth in production, fiscal adjustment and supportive financial market returns. Exceptionally strong balance sheets are necessary to support their ratings at current levels, given structural constraints in particular the lack of economic diversification. Erosion of fiscal and external balance sheets, for example due to an inability to adjust to lower-for-longer oil prices, is a negative rating sensitivity in all GCC sovereigns.

Focus on Liquid External Assets

The three SWFs that are the focus of this report predominantly invest in external assets and are intended to be used directly for government funding: the Kuwait Investment Authority (KIA, whose foreign assets under management (AUM) we estimate at more than USD560 billion in 2019), the Abu Dhabi Investment Authority (ADIA; estimated foreign AUM of USD580 billion), and the Qatar Investment Authority (QIA; estimated foreign AUM of USD250 billion).

SWF assets in the GCC are generally not disclosed, and we estimate them with varying degrees of supporting data. Kuwait and Abu Dhabi offer significantly more transparency than Qatar.

Fitch's sovereign rating analysis also considers other assets beyond the focus of this report, for example foreign assets held by the Saudi Central Bank (SAMA) or Kuwait's Public Institution for Social Security (PIFSS). To a lesser degree, it may consider the assets of holding entities with mandates that include local development, such as Saudi Arabia's Public Investment Fund (PIF), Abu Dhabi's Mubadala Investment Company or Bahrain's Mumtalakat Holding Company. Of these, the PIF is becoming increasingly relevant to fiscal and economic policymaking.

Related Research

Sovereign Contingent Liabilities in the GCC (December 2020)

Fitch Ratings 2021 Outlook: MENA Sovereigns (December 2020)

MENA Sovereign Credit Overview 3Q20 (October 2020)

Sovereign Rating Criteria (October 2020)

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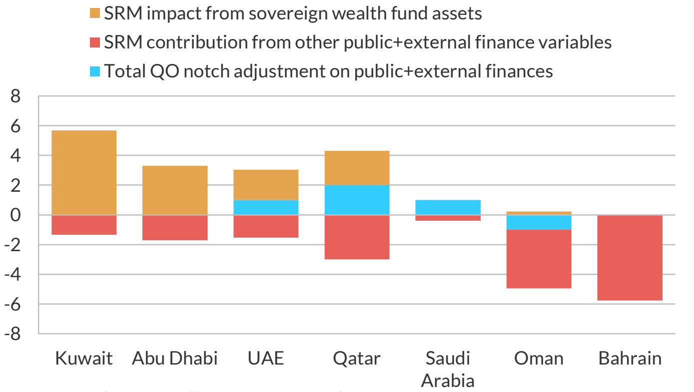
Sovereign Assets in Fitch's Rating Analysis

Sovereign assets are reflected in ratings through Fitch's quantitative Sovereign Rating Model (SRM) and the Qualitative Overlay (QO).

Sovereign Rating Model

Significant Impact on Ratings From SWF Assets



Note: not reflecting preliminary 2020 market returns.
Source: Fitch Ratings

The main variable through which SWF assets affect the output of Fitch's SRM is sovereign net foreign assets as a share of GDP (SNFA, central bank reserves plus other sovereign foreign assets less sovereign and central bank external debt). Through SNFA, SWF assets boost the SRM score by 5.1 notches for Kuwait, 3.1 notches for Abu Dhabi, 1.8 notches for the UAE and 1.6 notches for Qatar in 2020.

The category of other sovereign assets could include SWF assets, pension fund assets and government deposits abroad. In particular, Kuwait's SRM score is boosted by more than one notch by the PIFSS (included in SNFA).

The SNFA of the UAE includes the estimated assets of the Emirates Investment Authority (EIA) as well as the estimated assets of ADIA. We evaluate the creditworthiness of the UAE federal government based on the consolidated fiscal and external position of all the Emirates as is standard practice for federal entities. Nevertheless, we recognise that ADIA assets are primarily for Abu Dhabi's own benefit.

Other key variables affected by SWFs are the general government balance as a share of GDP (in which we would include estimated interest and dividend income) and the government interest payments/revenue ratio (which is reduced to the extent that estimated SWF interest and dividend income boosts government revenue). Through these channels, SWF assets boost the SRM score by a further 0.6 notches for Kuwait and Qatar, 0.4 notches for Abu Dhabi and 0.2 notches for the UAE. Qatar receives a contribution on par with Kuwait, despite Qatar's lower level of assets, because of the higher level of Qatar's government debt and interest burden.

Income on external assets would also boost the current account balance (percentage of GDP) and reduce external interest service (percentage of current external receipts), but these variables receive a relatively small weight in the SRM.

The contribution of SWF assets to SRM scores has increased in 2019-2020 due to the arithmetic effect of contraction in nominal GDP and non-investment (primarily hydrocarbon) revenue. This has helped to stabilise SRM scores even as other quantitative indicators (such as overall fiscal deficits or government debt/GDP) have deteriorated.

SWF assets are distinct from central bank reserves, which, like SWF assets are part of SNFA, but are also separately included in Fitch's SRM (as months of cover of current external payments). Saudi Arabia's SNFA consists almost entirely of the official reserves of SAMA and boost the SRM score by nearly one notch, although this is offset by other public and external finance factors including a high fiscal deficit and commodity dependence (leading to a combined zero contribution by public and external finance variables in the SRM).

Qualitative Overlay

Sovereign assets can be reflected in a positive adjustment in the QO under the External Finances and Public Finances pillar, in cases in which a rating committee judges that the sovereign's overall net fiscal and external debt and solvency position are materially stronger than indicated by the SRM. This could be the case, for example, when SNFA are exceptionally large compared with peers, when external assets fulfil a reserve-like function but are not captured in official exchange rate reserves, when the sovereign has access to other fiscal assets beyond the perimeter of SNFA or when net government debt is much lower than gross debt (which is the definition used in the SRM). Typically, Fitch would need to establish that assets are liquid in order for them to result in positive QO notching.

We apply one notch upward adjustments on the Public and External Finances pillars (for a combined two notches) for Qatar, although the Public Finances adjustment is not primarily related to the QIA assets, but reflects a flexible government spending structure, our expectation that a return to fiscal surpluses and an expansion of hydrocarbon production will lead to debt reduction.

In Saudi Arabia, an upward adjustment on the Public Finances pillar reflects large albeit declining government deposits held with the central bank as well as other public sector assets that could be mobilised to support government funding. The lack of a positive adjustment on External Finances (removed in the latest rating review) reflects Fitch's view that Saudi Arabia's external balance sheet strengths are reflected in SRM, particularly in its high reserve coverage of external payments and SNFA/GDP (which primarily reflects reserves).

The lack of an upward QO adjustment for Kuwait and Abu Dhabi reflects limited headroom at the 'AA' rating level given structural constraints such as lack of diversification and political risks.

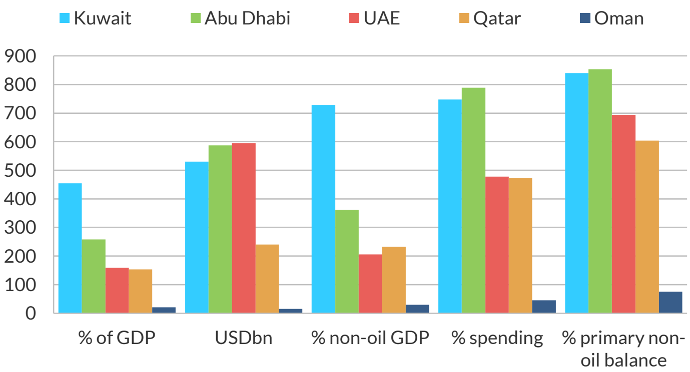
Measures of Relative Size

Sovereign assets are measured relative to GDP in Fitch's SRM, but other ratios can provide additional perspectives on the sufficiency and sustainability of wealth fund assets. With the share of hydrocarbons extraction in GDP ranging from more than 30% in Qatar to nearly 50% in Kuwait, the assets/GDP ratio is volatile due to oil price and production movements, ballooning after the price crash in 2014-2015 and 2020.

Ratios to non-oil GDP and spending are more stable and also account for the political economy of GCC states, which demands the redistribution of a significant share of oil revenue in the form of public employment, direct transfers to citizens and government spending that drives non-oil economic activity. For example, the foreign assets of the KIA are nearly 5x GDP but would be enough to fund about seven years of government spending or non-oil economic activity. SWF assets as a share of non-oil GDP or spending are also higher than assets/GDP in the rest of the GCC, reaching eight years of government spending in Abu Dhabi.

The ratio to the primary non-oil balance takes into account the sovereign's structural budgetary position. Indicatively, Abu Dhabi and Kuwait could cover about eight years of non-oil primary deficits out of their foreign assets, the UAE could cover seven years, while Qatar could cover about six years.

Estimated SWF Foreign Assets in the GCC in 2020



Note: not reflecting preliminary 2020 market returns.
Source: Fitch Ratings

Strategic Holding and Development Companies Excluded

Some entities commonly referred to as SWFs are not captured in our SNFA numbers. Their external assets usually take the form of large strategic, illiquid stakes. Unlike the SWFs we consider in this report, they issue debt at the parent entity level, and the local and international portions of their portfolios are often difficult to distinguish. They can also have a local development mandate. Below are some notable examples of funds not included in SNFA.

- Saudi Arabia's Public Investment Fund (PIF), which predominantly holds the government's stakes in domestic companies, many of which it has funded from inception (for example Saudi Basic Industries Corporation, SABIC). The most recent public figure for its assets is SAR980 billion as of end-2018 (over USD260 billion or 35% of GDP). The market value of the PIF's listed local equity holdings was SAR550 billion at end-2019.

  In addition to a USD40 billion re-allocation from SAMA reserves this year, the PIF received significant liquidity as a result of the government's USD29 billion (equivalent) flotation of shares in Saudi Aramco. It is also expected to receive the equivalent of USD69 billion in instalments until 2028 from Saudi Aramco in consideration for the PIF's 70% stake in SABIC. The PIF has issued debt at the parent entity level (about SAR80 billion at end-2019). This is in addition to the consolidated debt of its subsidiaries (which we estimate at about SAR300 billion at end-2019).

  The PIF has made international investments, the biggest single investment being a USD45 billion commitment to Softbank's Vision Fund in 2016, which in our view would not be liquid in case of an urgent funding need. It also invested internationally after the USD40 billion SAMA transfer in early 2020 (although it is not clear whether these investments were strategic or tactical in nature).

  We expect the Saudi government to use the PIF to support economic growth and partly offset the impact of budgetary austerity through its domestic investments. The PIF's domestic projects include a large theme park and entertainment complex outside Riyadh, tourist developments on the Red Sea coast and Saudi Arabian Military Industries.

- Abu Dhabi's Mubadala Investment Company (MIC), which holds a portfolio of strategic domestic and foreign assets, including in petrochemicals, mining, aerospace and semiconductor manufacturing. MIC reported AUM of AED853 billion at end-2019 (around USD230 billion or 90% of GDP), of which about 72% was reported to be outside of the UAE. Only 21% of the total was reported to be in public markets. We estimate MIC's consolidated end-2019 debt at about AED150 billion (about AED80 billion parent-entity debt). Abu Dhabi also has a separate holding company, ADQ, whose focus is exclusively domestic.

- The Investment Corporation of Dubai (ICD), which holds a portfolio of mostly domestic assets on behalf of the Dubai government, including Dubai's flagship bank, airline and property developer. ICD's book value of equity was AED250 billion at end-2019 (65% of Dubai GDP), of which identifiable local equity holdings were about AED70 billion. Consolidated debt, including wholesale and interbank funding of subsidiary banks, was AED300 billion.

- Bahrain's Mumtalakat (which Fitch rates in line with the sovereign at 'B+/Stable), which mostly consists of large domestic entities such as Aluminium Bahrain and the National Bank of Bahrain, but it also has some international holdings such as McLaren. At end-2019, Mumtalakat's total assets were BHD7.1 billion (around USD17 billion or 49% of GDP), with Fitch-estimated listed local equity holdings of BHD1.1 billion and consolidated debt of around BHD2.5 billion.

The Oman Investment Authority (OIA) was created in 2020 to consolidate and improve the management of the government's foreign and local holdings and is partly reflected in our SNFA for Oman. OIA merged the State General Reserve Fund (which held foreign assets used for fiscal and current account financing), the Oman Investment Fund (for strategic non-oil investments), and OQ (the petroleum holding company). According to the government's bond prospectus, total assets in the OIA amounted to OMR16.5 billion in mid-2020 (65% of full-year GDP), of which around OMR7.7 billion was foreign and is included in our estimate of SNFA. Although Oman's overall SNFA is negative, significant gross foreign assets are a significant support to its financing flexibility, and supportive market returns have partly offset drawdowns for government funding purposes in recent years.

Estimating SWF Assets

Abu Dhabi, the UAE, Kuwait and Qatar provide very limited disclosures on the size, composition and returns on their wealth funds.

We estimate rates of return for each wealth fund using broad asset class total return indices, weighted by assumed asset class allocations (informed by public disclosures, discussions with management or peer data), taking off 0.5%-1% a year for management costs.

Annual investment income included in our general government finance numbers only includes income returns (based on index-level dividend and bond yields), although we use total returns to estimate historical asset values. When forecasting asset values, we conservatively assume zero price return.

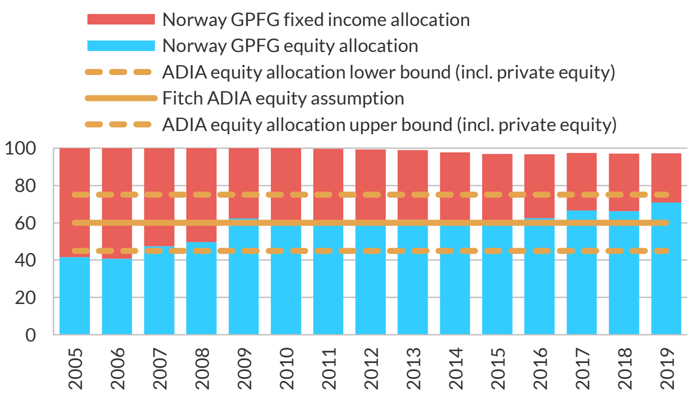
Our estimates of asset values are sums of historical net inflows, based on fiscal outturns and the balance of payments (BOP), compounded at these rates of return. The assumed asset allocation approximates a 60/40 equity/bond portfolio, with a smaller equity weight for Kuwait and a larger weight for Qatar, to reflect our view on the differences in their risk profiles. We recognise that SWFs hold a much broader range of assets. However, for many of these asset classes (e.g. hedge funds) accurate and comprehensive total return indices are not readily available.

Norway's main wealth fund, the Government Pension Fund Global (GPFG), is comparable in size and mandate to the wealth funds of the GCC and represents a benchmark for their returns and asset allocations. Despite our simplifying assumptions, our estimate of the ADIA return is close to that of GPFG, and the 20-year average of our estimate is close to ADIA's published average return.

Fitch uses conservative assumptions to take into account uncertainty and lack of transparency and judges that the estimated SWF assets are liquid enough to be used for budgetary funding.

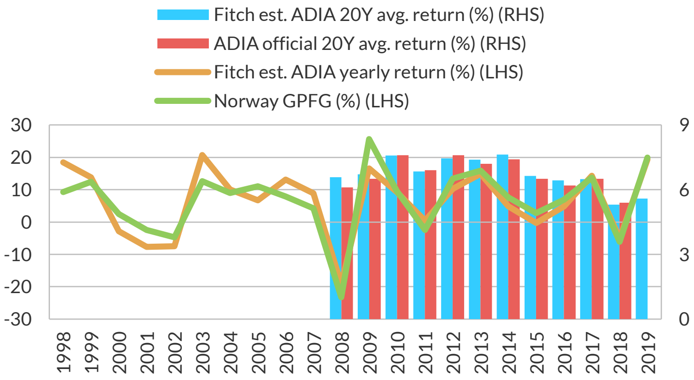
The available sources of information on SWF assets, performance and asset allocations are summarised below. These consist of information on inflows and outflows from fiscal and external accounts and any direct disclosures.

Equities Dominate Allocations and Returns in Large SWFs



Source: Fitch Ratings; ADIA; NBIM

ADIA Return Estimates in Line With Norway Fund and Official Averages Despite Simplifying Assumptions



Source: Fitch Ratings; ADIA; NBIM

Fiscal Flows: Most Reliable in Kuwait and Abu Dhabi

In our view, the fiscal accounts provide the most reliable basis for estimation of SWF assets in Kuwait and Abu Dhabi.

In Kuwait, net inflows to the KIA are known as there is a legal requirement to transfer 10% (sometimes 25%) of total government revenue into the KIA's Reserve Fund for Future Generations (RFFG). Any remaining government surplus is deposited into the General Reserve Fund, which is set to be depleted this year after drawdowns in every year since 2014.

For Abu Dhabi, Fitch has historically been provided with guidance on inflows and drawdowns over an extended period.

For Qatar, we use fiscal accounts only in conjunction with BOP data, as there is no clear policy on whether fiscal surpluses should be deployed in the QIA or in other foreign or domestic investment vehicles. The government has deployed its surpluses towards significant investments in domestic enterprises.

Direct Disclosures: Least Sparse in Abu Dhabi and Kuwait

Direct disclosure of assets and returns is very limited throughout the region, although Abu Dhabi, the UAE and Kuwait disclose slightly more than Qatar.

In Abu Dhabi, ADIA publishes an annual report with guidance on 20-year and 30-year average returns and strategic asset allocation ranges (in addition to the government's direct guidance to Fitch on inflows and outflows).

Assumptions for EIA returns and inflows are informed by direct discussions with the UAE federal authorities.

In Kuwait, the KIA presents its results in a closed session of the National Assembly every year, and occasional statements by Kuwaiti officials in local media mention AUM; this provides points of comparison for our estimated series of KIA assets.

Qatar's central bank governor made a statement putting the value of QIA assets at USD300 billion in 2017, but lack of any further detail on the asset figure (such as the basis of valuation, the domestic/foreign split and the treatment of leverage at the asset level) means that it is only a rough point of reference.

External Accounts: Essential in Qatar

SWF investments abroad would normally appear in a country's BOP as acquisition of assets abroad by the general government. We use this in the case of Qatar to estimate the government's external investment transactions in 2011-2018 given the difficulty of interpreting fiscal flows; before 2011, the investments abroad of Qatar's residents are not disaggregated by sector, so we use BOP and fiscal flows in conjunction.

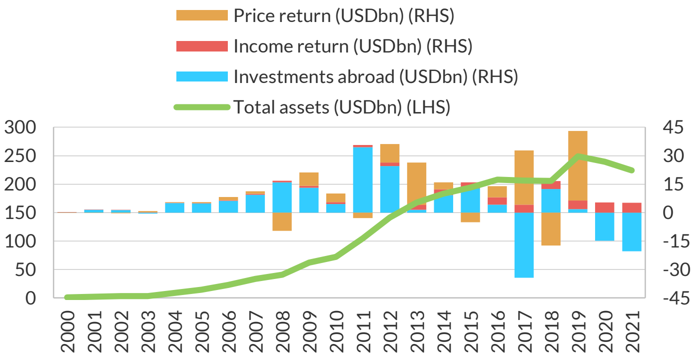
Not all of the Qatar government's external investments relate to the QIA. The Ministry of Finance maintains a separate government reserve account (in part funded through cash flow surpluses from USD34 billion bond issuances in 2017-2020, in excess of fiscal surpluses, and some of it in foreign currency). Other, smaller public-sector entities also make investments abroad (for example, the pension fund and Qatar Holding).

BOP data could also be used in Kuwait, but are less necessary there due to greater clarity on flows in to the KIA, and on the KIA's asset allocation (e.g. the RFFG is entirely invested abroad). In Abu Dhabi, there is no BOP data at the emirate level.

SWF investments should also be reflected as such in the statement of international investment position (IIP). However, Kuwait excludes the KIA from its IIP data. IIP data are unavailable in Qatar and Abu Dhabi.

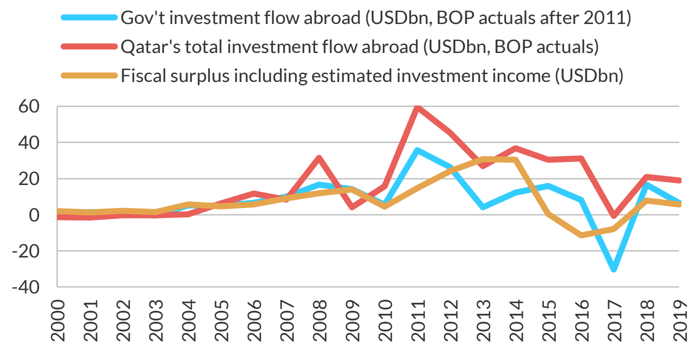
Estimation of Qatar's Non-Reserve Sov. Ext. Assets

Fitch's assumptions



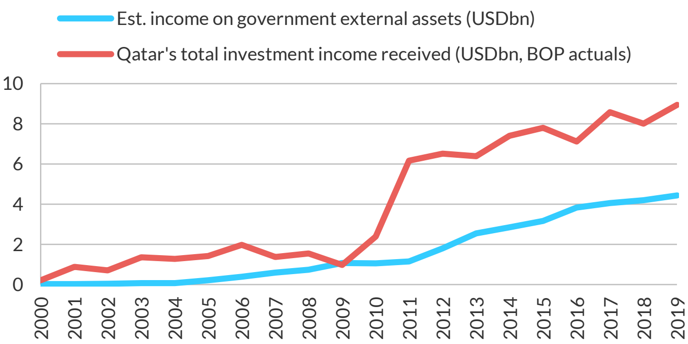
Source: Fitch Ratings; QCB; IMF

BOP Data and Fiscal Surpluses Guide Assumptions About Qatar's Government Investments Abroad



Source: Fitch Ratings; QCB; IMF

Assumed Investment Income on Qatar's Government External Assets is Conservative



Source: Fitch Ratings; QCB; IMF

Our estimation of Qatar's external assets does not consider the QIA's ability to leverage its balance sheet, and the investments abroad compounded to arrive at an estimate of AUM should be considered QIA's own equity only. The QIA was reportedly seeking to raise over USD7 billion in May 2020 by pledging its investments in listed European equities.

SWFs and Government Financing

Ratios such as SWF assets/spending or assets/non-oil primary balance potentially understate the significance of fiscal buffers in Abu Dhabi, Kuwait, and Qatar. Although financial market returns are uncertain and could lead to sudden valuation losses, historically they would comfortably exceed a drawdown rate of 1% of assets, which we forecast for Abu Dhabi. Kuwait's expected drawdown rate of more than 4% (even assuming some debt issuance) appears less sustainable over the long term.

Abu Dhabi, Kuwait, and Qatar have combined asset drawdowns with debt issuance, and we expect further debt issuance in Abu Dhabi, the UAE and Kuwait, reflecting higher expected returns on sovereign assets compared to yields on sovereign debt and their low government debt/GDP. We expect the Qatari government to focus on reducing high levels of government debt.

In 2021, we expect gross foreign debt issuance of more than USD20 billion from Kuwait and the UAE (including USD15 billion from Abu Dhabi) for new financing and rollover of existing maturities, accompanied by more than USD30 billion in drawdowns from wealth funds and other assets. Qatar would have to draw nearly USD30 billion from its assets (the government reserve and local deposits) to meet its debt reduction targets and cover its (mild) fiscal deficit.

We forecast total GCC foreign borrowing of more than USD50 billion and asset drawdowns of nearly USD70 billion (more than USD80 billion excluding the UAE federal government, which might use debt issuance proceeds to build fiscal reserves resulting in "negative drawdowns"). The GCC will also see about USD45 billion in local issuance, mostly in Saudi Arabia.

Long-Term Scenarios for Kuwait

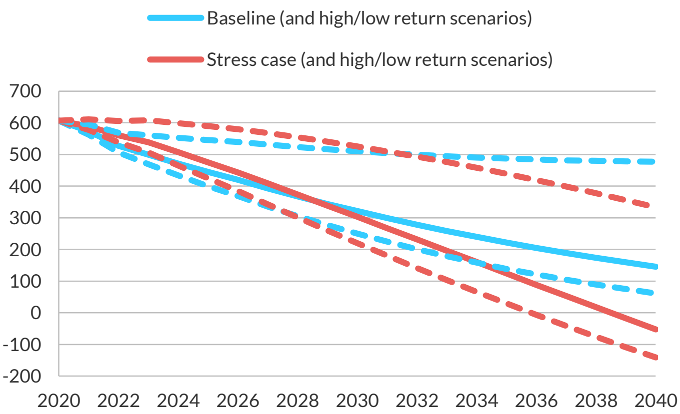
Our scenario assumes that a new debt law enables about USD7 billion in net new issuance every year until 2026, when debt approaches around KWD20 billion (about 45% of GDP), in line with the latest proposals for a new debt ceiling and debt issuance limits, after which we assume that maturities are refinanced. There would still need to be legislation allowing the use of the RFFG from 2021. The net annual transfer from the KIA would average just short of USD30 billion per year in 2020-2040 (rising from 4-6% of assets in the near term to the double digits by 2040).

Our baseline assumes a gradual 2% per year increase in oil production starting in 2022, taking it to 3.6 million barrels a day (bbl/day) by 2040, even as oil prices recover to our long-term assumption of USD53/bbl by 2023 (in real terms). It also assumes improvement in the non-oil primary balance (NOPB) by around 1% of non-oil GDP per year driven by restrained (but continued) spending growth. This is aggressive in Kuwait's challenging political context, but still results in persistent double-digit fiscal deficits.

Our stress case represents flat oil production and flat nominal oil prices starting in 2021, or about 40% lower nominal prices and 30% lower production than in the baseline. This is partly offset by slightly tighter fiscal policy (albeit at a cost of slower non-oil growth). The authorities could increase the debt limit to preserve available assets, although this would have a neutral impact on SNFA. A more decisive fiscal policy response could well be possible in this scenario, as overall fiscal deficits remain in the high double digits.

Kuwait's Buffers Will Likely to Decline, But Will Remain Large Even Under Prolonged Stress Scenarios

Scenarios for SNFA (% of GDP)



Source: Fitch Ratings

Baseline	2019	2020	2021	2025	2030	2035	2040
Government debt (% of GDP)	15.0	16.5	22.1	40.6	38.9	32.4	27.0
Non-oil primary balance (NOPB, % non-oil GDP)	-86.5	-86.8	-85.2	-82.4	-78.2	-74.2	-70.3
Overall fiscal balance (% of GDP)	-0.4	-18.4	-17.2	-14.7	-13.8	-12.3	-11.0
Real GDP growth (%)	0.4	-7.0	1.8	2.0	2.0	1.9	1.9
Non-oil GDP growth (%)	2.0	-4.0	3.0	1.5	1.5	1.5	1.5
Oil production (m bbl/day)	2.7	2.5	2.5	2.7	2.9	3.2	3.6
Oil price (Brent)	64.1	41.0	45.0	55.1	60.9	67.2	74.2
Sovereign net foreign assets (% of GDP)							
Baseline (returns 2% p.a.)	518	607	573	445	321	222	145
Baseline high return scenario (6% p.a.)	518	607	594	546	510	487	477
Baseline low return scenario (0% p.a.)	518	607	562	400	250	139	61
Stress case							
Government debt (% of GDP)	15.0	16.5	22.8	46.6	48.1	43.0	38.4
Non-oil primary balance (NOPB, % non-oil GDP)	-86.5	-86.8	-84.1	-79.6	-74.0	-68.4	-62.9
Overall fiscal balance (% of GDP)	-0.4	-18.5	-21.0	-26.7	-31.6	-35.6	-38.2
Real GDP growth (%)	0.4	-7.0	1.8	0.6	0.6	0.6	0.7
Non-oil GDP growth (%)	2.0	-4.0	3.0	1.0	1.0	1.0	1.0
Oil production (m bbl/day)	2.7	2.5	2.5	2.5	2.5	2.5	2.5
Oil price (Brent)	64.1	41.0	41.0	41.0	41.0	41.0	41.0
Sovereign net foreign assets (% of GDP)							
Stress case (returns 2% p.a.)	518	607	589	475	303	124	-53
Stress case high return scenario (6% p.a.)	518	607	611	590	525	439	333
Stress case low return scenario (0% p.a.)	518	607	578	425	220	30	-141

Source: Fitch Ratings

Long-Term Scenarios for Qatar

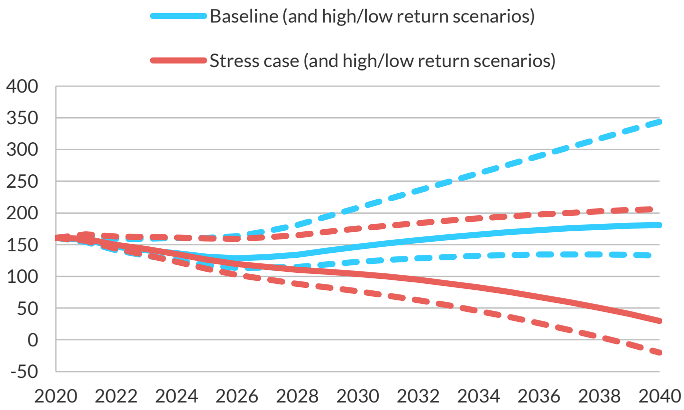
Our baseline incorporates the assumption that Qatar's capital spending will not return to pre-2020 levels, which in combination with moderate spending growth and tax reform leads to a 8pp narrowing and stabilisation in the NOPB by 2030. Qatar Petroleum's returns will be subdued in 2022-2028 as it deploys some of its cash flow to finance the expansion of North Field production, which could again deliver government surpluses from 2026, which we assume would be entirely invested (while maturing debt is refinanced). Conversely, we assume that Qatar's crude oil production will be in structural decline.

In our baseline, Qatar uses its government reserve account to meet funding needs and reduce the stock of debt by USD20 billion, on top of existing maturities, by end-2021 (although there are indications that the government may pursue a more gradual reduction). However, we expect that the government will likely issue new debt again in 2022-2025, pending North Field expansion ramp-up.

Our stress case represents only 50% implementation of North Field production expansion (for example due to a structural shortfall in demand) and flat nominal oil prices from 2021. In this case all additional funding needs are assumed to be met through debt issuance (reflecting the authorities' revealed preference to maintain high gross asset levels despite high leverage). In response, we assume 0.5 of non-oil GDP / year additional improvement in the NOPB, resulting in slower non-oil GDP growth. In practice, QIA assets may well be used to slow the debt build-up in this scenario.

North Field Expansion Brings Prospects for Gradual Buildup of Qatar's External Assets

Scenarios for SNFA (% of GDP)



Source: Fitch Ratings

Baseline	2019	2020	2021	2025	2030	2035	2040
Government debt (% of GDP)	71.4	75.8	63.9	67.7	55.9	49.2	43.2
Non-oil primary balance (NOPB, % non-oil GDP)	-38.4	-38.6	-37.0	-31.4	-30.3	-30.3	-30.4
Overall fiscal balance (% of GDP)	3.5	-0.1	-3.0	1.4	5.7	4.0	2.3
Real GDP growth (%)	0.8	-4.8	2.3	5.5	0.2	0.3	0.5
Non-oil GDP growth (%)	2.4	-6.0	4.0	1.5	1.5	1.5	1.5
Hydrocarbon production (m boe/day)	2.0	2.0	2.0	2.3	2.9	2.8	2.8
Oil price (Brent)	64.8	41.0	45.0	55.1	60.9	67.2	74.2
Sovereign net foreign assets (% of GDP)							
Baseline (returns 2% p.a.)	137	161	158	131	146	170	181
Baseline high return scenario (6% p.a.)	137	161	164	161	208	276	343
Baseline low return scenario (0% p.a.)	137	161	154	118	123	134	132
Stress case							
Government debt (% of GDP)	71.4	75.8	65.0	94.7	108.2	121.4	138.0
Non-oil primary balance (NOPB, % non-oil GDP)	-38.4	-38.6	-36.5	-28.8	-24.7	-22.1	-19.4
Overall fiscal balance (% of GDP)	3.5	-0.1	-4.1	-5.4	-4.1	-5.5	-6.6
Real GDP growth (%)	0.8	-4.8	2.3	2.7	0.0	0.1	0.2
Non-oil GDP growth (%)	2.4	-6.0	4.0	1.0	1.0	1.0	1.0
Oil production (m bbl/day)	2.0	2.0	2.0	2.2	2.5	2.4	2.4
Oil price (Brent)	64.8	41.0	41.0	41.0	41.0	41.0	41.0
Sovereign net foreign assets (% of GDP)							
Stress case (returns 2% p.a.)	137	161	159	127	104	75	30
Stress case high return scenario (6% p.a.)	137	161	166	160	175	195	206
Stress case low return scenario (0% p.a.)	137	161	156	112	76	36	-20

Source: Fitch Ratings

Long-Term Scenarios for Abu Dhabi

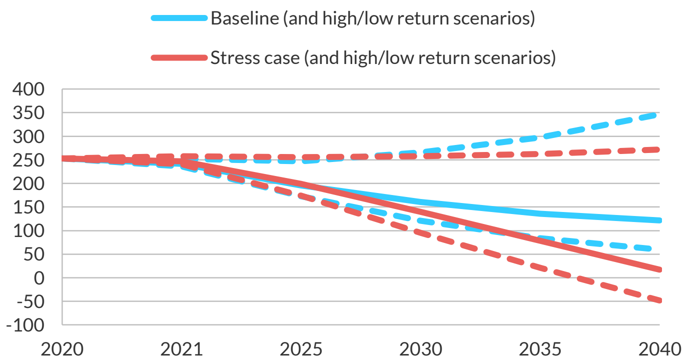
Our baseline scenario reflects roughly unchanged non-oil primary deficits starting in 2021, as authorities balance their priorities of supporting economic growth and maintaining the long-term sustainability of the government's balance sheet strengths. Starting in 2022, oil production grows at 2% a year, reflecting expected production capacity of 4 million bbl/day in 2020 (and planned increases to this) against actual production of under 3 million bbl/day in 2020.

Our stress case represents flat oil production and flat nominal prices starting in 2021. In response, we assume 0.5 % of non-oil GDP / year additional improvement in the NOPB, resulting in slower non-oil GDP growth. In practice, if faced with the adverse oil market scenario, the government may be able to pursue even faster fiscal adjustment.

In both the baseline and stress scenarios, we assume gross external debt issuance of USD10 billion per year, with the ADIA drawdown used for any remaining government financing needs. The ADIA drawdown averages about USD7 billion a year across the forecast period in the base case, generally less than the estimated interest and dividend income on ADIA assets. In the stress case, the ADIA drawdown averages USD30 billion per year and results in a shrinkage of principal.

Abu Dhabi's Balance Sheet Remains Strong Despite ADIA Drawdown and Debt Issuance

Scenarios for SNFA (% of GDP)



Source: Fitch Ratings

Baseline	2019	2020	2021	2025	2030	2035	2040
Government debt (% of GDP)	11.8	20.5	25.6	34.2	38.0	47.1	52.9
Non-oil primary balance (% non-oil GDP)	-53.6	-42.4	-43.6	-45.0	-44.8	-44.4	-44.1
Overall fiscal balance (% of GDP)	2.1	-5.8	-3.9	-2.5	-1.4	0.0	1.6
Real GDP growth (%)	1.5	1.2	-1.9	1.6	1.6	1.6	1.7
Non-oil GDP growth (%)	-0.5	11.4	-4.4	1.5	1.5	1.5	1.5
Oil production (m bbl/day)	3.1	2.8	2.8	3.1	3.4	3.8	4.1
Oil price (Brent)	64.1	41.0	45.0	55.1	60.9	67.2	74.2
Sovereign net foreign assets (% of GDP)							
Baseline (returns 2% p.a.)	222	253	242	196	161	136	122
Baseline high return scenario (6% p.a.)	222	253	252	247	265	298	346
Baseline low return scenario (0% p.a.)	222	253	236	173	121	84	60
Stress case							
Government debt (% of GDP)	11.8	20.5	26.3	38.4	45.9	61.0	73.6
Non-oil primary balance (% non-oil GDP)	-53.6	-42.4	-43.1	-42.5	-39.8	-36.8	-33.9
Overall fiscal balance (% of GDP)	2.1	-5.8	-5.6	-8.5	-9.9	-10.9	-11.9
Real GDP growth (%)	1.5	1.2	-1.9	0.5	0.5	0.6	0.6
Non-oil GDP growth (%)	-0.5	11.4	-4.4	1.0	1.0	1.0	1.0
Oil production (m bbl/day)	3.1	2.8	2.8	2.9	2.9	2.9	2.9
Oil price (Brent)	64.1	41.0	41.0	41.0	41.0	41.0	41.0
Sovereign net foreign assets (% of GDP)							
Stress case (returns 2% p.a.)	222	253	247	199	140	78	17
Stress case high return scenario (6% p.a.)	222	253	257	255	258	262	272
Stress case low return scenario (0% p.a.)	222	253	241	174	95	21	-48

Source: Fitch Ratings