Abu Dhabi to Take Billions From ADIA for Debt, Fitch Says

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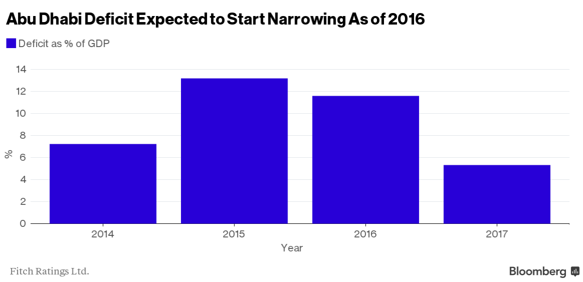
Abu Dhabi Investment Authority's assets will probably shrink by billions of dollars by the end of this year as the emirate's government taps its sovereign-wealth fund to bridge a deficit brought on by low petroleum prices, Fitch Ratings Ltd. said.

Assets will drop to $475 billion at the end of this year, from an estimated $502 billion at the end of 2014, Fitch said in a report, adding that it expects them to rise again in 2017. The government may also issue local and foreign currency bonds to finance its deficit this year and next, according to the ratings company. Abu Dhabi's department of finance has "intensified" talks with the central bank and commercial banks on a local debt sale, it said.



Governments from Moscow to Oslo have tapped reserve funds built up during the days of high oil prices to help sustain spending during a slump in crude caused by oversupply and China's economic slowdown. Saudi Arabia, the world's largest oil exporter, has taken unprecedented steps to counter the drop in revenue and has raised the possibility of selling a stake in government-owned entities, including state oil giant Aramco.

Abu Dhabi's government relies on oil dividends that come through state-owned Abu Dhabi National Oil Co., or Adnoc, for much of its revenue. ADIA, as the sovereign wealth fund is known, is set up to have liquid and semi-liquid assets that the government can tap as needed. The fund has seen government withdrawals "infrequently and usually during periods of extreme or prolonged weakness in commodity prices," according to the fund's annual report.

"We expect ADIA assets to rise again in 2017, when the Adnoc dividend should be sufficient to cover the budget deficit," Fitch said in the report. ADIA declined to comment.

Issue Bonds

A liquidity improvement in local banks towards the end of last year may have been a sign that the government injected cash from foreign-asset sales, said Apostolos Bantis, a Dubai-based credit analyst at Commerzbank AG.

"I don't believe that the local sovereign wealth funds have any particular need to liquidate major hard assets at this stage, given the unfavorable valuation environment," Bantis said by phone. "Most likely, the latest liquidity injection came from sale of short-term liquid holdings".

Fitch expects the emirate to issue 40 billion dirhams ($11 billion) of bonds in the local market in 2016 and 60 billion dirhams in 2017. It said the deficit widened to 13.2 percent of gross domestic product last year from 7.2 percent in 2014. The agency predicted deficits of 11.6 this year and 5.3 percent of GDP in 2017.

"The 2016 budget is still under discussion but we expect further reductions in non-current expenditure," it said. "The drop in oil revenues has accelerated reform efforts at the UAE level, and these benefit Abu Dhabi as the largest contributor to the federal budget."

Fitch rated Abu Dhabi's risk of defaulting on local and foreign debt at 'AA' and gave the emirate a stable outlook. About half of Abu Dhabi's economy comes from oil while the percentage drops to about 30 percent for all of the United Arab Emirates, a federation of seven states that also includes Dubai.

"Despite the rising challenges, Abu Dhabi's credit-risk profile remains comfortable with no risk of a rating downgrade as the emirate has sufficient reserves and adequate fiscal flexibility to weather a low oil-price environment at least for another two years," Bantis said.

Oil Boom

Even during the oil boom, Abu Dhabi began to diversify its economy away from oil, branching out into aviation, industry and services. As oil prices dropped to below $30 this year from more than
habi has taken measures to reduce expenditure by deregulating **fuel**
y prices.

wn to non-oil parts of the economy, with local banks suffering a liquidity squeeze as a result of outflows of government deposits and state-owned companies such as Etihad Rail **cutting** jobs and suspending tendering process.

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