



Written by [Bob Adelman](#) on March 22, 2017

Fitch Knocks Saudi Arabia's Credit Rating Down Another Notch

Fitch Ratings downgraded Saudi Arabia's credit rating [again](#) on Wednesday, bringing it perilously close to "speculative," from "investment grade." It dropped the country's long-term credit rating from A+ to AA-, but with a "stable" outlook, noting that the reduction was due to the country's "continued deterioration of public and external balance sheets."



Fitch sees what both Moody's and Standard and Poor's, the other two global credit rating agencies, see: declining oil prices hurting a country that once enjoyed the highest investment grade ratings thanks to high oil prices that not only paid for extravagant welfare programs and subsidies to its citizens but allowed it to accumulate three-quarters of a trillion dollars in foreign reserves — more than ample to ride out any conceivable storm.

The rating agencies have seen that an inconceivable storm arrived in 2014 when the world price of crude dropped from more than \$120 a barrel to \$27 a barrel in February 2016, touching off a series of moves the sheiks likely never imagined would be necessary: cutting welfare state benefits, raising taxes, reducing subsidies for its citizens, liquidating massive portions of its foreign currency reserves, and — horror of horrors! — going to the international debt markets to raise some \$17.5 billion to help shore up its weakening balance sheet. Its annual deficit hit \$100 billion in 2015 and, according to all three credit rating agencies, will continue at that level, if not higher, for the foreseeable future, possibly reaching 10 percent of the country's gross economic output every year through 2020.

One thing became apparent to the sheiks running the show: There had to be significant diversification away from oil and gas in order for the country to survive and prosper. Hence, the birth of its *Vision 2030*, "an ambitious yet achievable blueprint," according to its author, Mohammad bin Salman, chairman of the country's Council of Economic and Development Affairs.

It's based, he says, upon three "pillars": their present status, their determination, and economic transformation.

The first pillar:

is our status as the heart of the Arab and Islamic worlds. We recognize that Allah the Almighty has bestowed on our lands a gift more precious than oil. Our Kingdom is the Land of the Two Holy Mosques, the most sacred sites on earth, and the direction of the Kaaba ["the House of Allah"] to which more than a billion Muslims turn at prayer.



Written by [Bob Adelman](#) on March 22, 2017

The second pillar:

is our determination to become a global investment powerhouse. Our nation holds strong investment capabilities, which we will harness to stimulate our economy and diversify our revenues.

The third pillar:

is transforming our unique strategic location into a global hub connecting three continents, Asia, Europe and Africa. Our geographic position between key global waterways, makes the Kingdom of Saudi Arabia an epicenter of trade and the gateway to the world.

All of that transforming is going to take money — billions of dollars — to wean the country away from energy and into such diversified offerings that the country becomes a magnet for global investors.

And that's the problem: The kingdom has reluctantly decided to let go of a piece of its most prized economic possession — its Saudi Arabian Oil Company, better known as Saudi Aramco, or just Aramco. The leadership has finally decided to become transparent about just how large the company's reserves are and, more importantly, just how profitable it really is. For years those numbers were deliberately opaque, and now they are slowly being revealed.

Many predict that the company is likely to be priced at around two trillion dollars, and hence the sale of between five and 10 percent of it would generate upwards of \$200 billion, without diminishment of control of it as the primary funding source for the country into the future.

The only problem with that calculation is that Aramco may be worth far less than \$2 trillion — perhaps as little as \$400 billion, according to Wood MacKenzie, the global energy consultancy in Edinburgh, Scotland.

But the rating agencies know all of this, and more, and have watched as OPEC's attempt to drive up the world price of crude oil through its production limitation agreement struck last November by the OPEC cartel utterly fail to accomplish its objective. As the cartel continues to unwind, and Saudi Arabia's influence in it continues to fade, that \$200 billion number continues to be questioned.

That's part of the reason that Standard & Poor's downgraded Saudi Arabia's credit rating back in October 2015 and then again in February 2016, saying that "the decline in oil prices will have a marked and lasting impact on Saudi Arabia's fiscal and economic indicators, given its high dependence on oil."

That's also part of the reason that Moody's Investors Service cut its rating on Saudi Arabia in May last year, saying, "A combination of lower growth, higher debt levels and smaller domestic and external buffers leave the Kingdom less well-positioned to weather future shocks."

Since those prognostications were made, Saudi Arabia embarked on an attempt to cut crude oil production through OPEC in order to raise oil prices. The agreement failed thanks to noncompliance and continued production gains by the fracking producers in the United States. In order to force prices higher, the Saudis did most of the heavy lifting by itself, cutting its own production by 800,000 barrels a day, and cutting its own throat in the process. Now the kingdom is in survival mode, cutting its exports to the United States to the lowest level seen in decades while concentrating on marketing its products to other countries such as France, Spain, and Italy. But cartel members are seeing their chance and are vying aggressively to wean those countries away from the Saudis, while Russia is cutting special deals with China, one of the kingdom's best customers.

The heady days of Saudi Arabia's dominance of the world oil markets are over, with it likely very shortly



Written by [Bob Adelman](#) on March 22, 2017

to suffer the final indignity: a further downgrade of its credit to “speculative,” otherwise known as “junk.”

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at [LightFromTheRight.com](#), primarily on economics and politics. He can be reached at badelman@thenewamerican.com.

Related article:

[Saudi Arabia Losing Influence in Global Oil Markets](#)



Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.

[Subscribe](#)