

Saudi Arabia: A report card on Vision 2030

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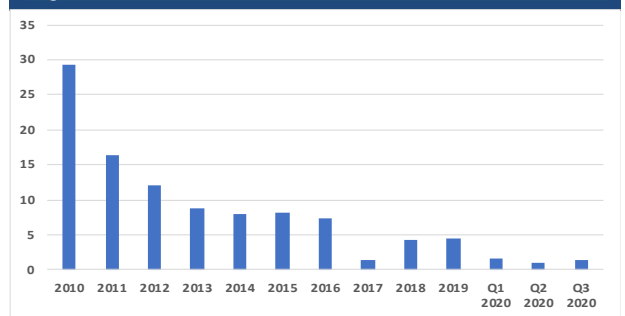
- Saudi Arabia has made significant progress on key areas of its Financial Sector Development Program (FSDP), especially in terms of improving access to SME financing and in deepening its capital markets.
- Saudi Arabia continues to present a favourable risk-reward trade-off. We look to see how progress in Vision 2030's reform plans could improve the performance of FDI inflow.
- As the budget curtails CAPEX while seeking fiscal consolidation, the Public Investment Fund (PIF) is set to play a key role in powering recovery and attracting investment through various projects.

Reform momentum sustained

Saudi Arabia is proving its resilience by making headway with its Vision 2030 plans despite the pandemic-induced economic slowdown. Over the last year, we witnessed an acceleration in key areas of the Financial Sector Development Program (FSDP).

- Significant progress has been made, so far, under the FSDP, a program which aims at creating a diversified and effective financial sector and enabling financial institutions to support private sector growth.
 - In light of the pandemic, the authorities have taken measures as part of their development efforts to support SMEs and the financial institutions that were hit hard by the economic decline.
 - Among the measures rolled out in 2020 were the provision of USD 3.2B in financing for SMEs by the Saudi Social Development Fund and a USD 13B stimulus package by SAMA, the Saudi Central Bank.
- At the beginning of 2021, SAMA released two new mandates targeted at growing its fintech ecosystem in the kingdom.
 - The open banking policy, which is set to go live in H1 of 2022, combined with the new crowdfunding regulations, are testimony to the continued reform taking place, broadening the fintech sector and the use of modern financial products.
- Since the introduction of the bankruptcy law in 2019, loans granted to SMEs have grown exponentially. By Q2 of 2020, loans reached 6.5% of total bank loans, exceeding the 2030 target of 5%. We expect this upward trend to continue.
 - Over 60 active fintech companies were registered in 2020, from a low base of 20 in 2019, with an annual growth rate of 150% since 2018.
- Separately, SAMA accepted 9 new fintech companies into its Regulatory Sandbox in 2020. Following the first two cohorts, the new companies brought the number of companies permitted to test new financial solutions to 30.
 - Transactions in the fintech sector in Saudi Arabia are estimated to exceed USD 32B by 2023, up from USD 20B in 2019. But based on the growth rate in the sector, we believe that fintech transactions could be higher than expectations, particularly with new investors entering the market.
- An indication to the growing attraction of investors to the domestic fintech market is Saudi Telecom Company (STC) Group's 15% sale of its subsidiary STC Pay to Western Union USD 200M in November 2020.
- Moreover, the launch of Tadawul's first derivatives market, along with the registration of its first listing in its parallel market, marks a significant step in introducing sophisticated financial market products to attract international investors and deepen its domestic capital market.
 - The Capital Market Authority (CMA) approved the registration of Saudi White Cement Company's for the first direct listing on the kingdom's parallel market, Nomu.

Figure 1 - FDI Inflow into KSA¹



- Tadawul is the first GCC exchange to allow direct listings. The exchange's active role in supporting Vision 2030 ushers in higher levels of portfolio investment.

Saudi Arabia continues to present a favourable risk-reward trade-off, and we are looking to see how well the recent Future Investment Initiative (FII) and the growing PIF-backed investments could accelerate FDI and support the recovery.

- In a sign of growing appeal of Saudi Arabia as a business and investment hub, 24 multinationals have announced plans to set up their regional HQs in the King Abdullah Financial District.
- The incentives put forward under the "Programme HQ" are expected to cultivate multinational trust and lure in foreign investment. Such initiatives would prove crucial to reversing the lower than average FDI performance of the last three years. This is also key to the success of Vision 2030.
 - In Q3 of 2020, FDI inflows saw a 12% YoY increase compared with the same period in 2019, which registered USD 1.2B in inflows.
 - Available data shows this is a sharp rebound from Q2 of 2020 as well, when inflows plummeted by 16% YoY to USD 945M, as the shock of the pandemic and lockdown measures dampened interest.
 - In 2019, Saudi Arabia saw the value of inward FDI grow to an estimated USD 4.5B after the 80% YoY slump in 2017 to USD 1.4B. Significant investments occurred that year due to the negative intracompany loans by multinationals.
 - FDI inflows peaked at USD 39B in 2008 and have averaged USD 12.4B in the last 10 years.
- Saudi Arabia has missed its USD 10B FDI target by more than half in 2019, but the PIF's new five-year strategy, which focuses on boosting domestic investment is expected to yield returns and expand Saudi Arabia's investors base.
 - To encourage FDI, the PIF plans to grow its assets to USD 1.07T and increase its allocation of investments in new sectors from 15% as of 2020 to 21% by year-end. Thirteen sectors have been outlined, including healthcare, technology, entertainment and leisure, among others.
- We are already witnessing a step up in the PIF's investment plans, as it unveils ambitious projects and partnerships in emerging sectors.
 - During the FII, Crown Prince Mohammed bin Salman announced plans to develop a local cruise industry after launching the "Cruise Saudi" company in Jeddah. This is part of the kingdom's plan to turn itself into a global tourism destination in line with the Vision 2030.
- To add to this, the PIF is planning to establish an airline company in partnership with local and international investment bodies.
 - The airline, which will compete with the state-owned Saudi Arabian Airlines and other local airline providers, is intended to expand on the country's aviation industry as it aims to host 100 million visitors annually by 2030.
- Attracting tourists is a central plank of the country's plan to draw in foreign investment.
 - The direct contribution of tourism to GDP rose to 5% in 2020 from 2.9% in 2017.
 - Domestic travel spending generates up to 60% of the tourism contribution to GDP with the rest coming from foreign visitors. With new projects underway, we expect the spending contribution from the latter group to expand.

¹ Arabia Monitor; UNCTAD, Invest Saudi.

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