Vision 2030 is Saudi Arabia's grand plan to rebalance its economy, diversify and transform the kingdom. What does it mean for the nation and the wider world?
SAUDI ARABIA: A FINANCIAL HUB IN THE MAKING

Saudi Arabia has everything it needs to be the Middle East’s premier financial centre. The economy is big – the region’s largest – and it is rich, thanks to its still-enormous reserves of oil.

Many of its lenders, including Al Rajhi Bank, are ambitious and well-run. And it boasts a sprinkling of world-class institutions, notably the Saudi Arabian Monetary Authority, probably the region’s best central bank. Driven by Vision 2030, an ambitious reform agenda championed by Saudi Crown Prince Mohammed bin Salman (also known as MbS), it’s time for the country to realize its manifest potential.

In a survey carried out by Euromoney and Al Rajhi Bank, an advisory board comprising more than 70 bankers, investors and economists was assembled by Euromoney in order to ask two very simple questions: what Saudi Arabia is trying to achieve through its Vision 2030 plan; and if those aims were achievable. This advisory board was asked what it would take to transform Riyadh into a financial centre of regional and, in time, global relevance and scale. As of March 2019, Riyadh placed 96th in the 26th Global Financial Centres Index, a ranking of international financial centres published twice yearly by London-based Z/Yen Group and the Shenzhen-based China Development Institute. Six other cities in the region ranked higher, including Dubai in 8th place. But the rulers and regulators of the Middle East’s largest economy have lofty ambitions. Finance minister Mohammed Al-Jadaan has stated his desire to transform Riyadh into a top-ten global financial market-place by 2030, and our advisory board believe this to be achievable.

Over half of our advisory board said Saudi Arabia had all the right attributes required to transform its capital into a leading financial hub over the next decade, and 22% said this was “likely” or “very likely” to happen. Vision 2030 outlines plans to have a total of three Saudi cities included in Vancouver-based Resonance Consultancy’s latest 2018 ranking of the world’s best 100 cities, as measured by place, reputation and competitive identity.

There is good reason for this widespread optimism. The country has wealth – always a powerful and convincing story to tell investors – and a lot of untapped money, human capital and natural resources. Four years after opening up the Saudi Stock Exchange, or Tadawul, to foreign investors, the onshore capital markets are beginning to heat up. In April 2019, mall operator Arabian Centres launched the first local initial public offering (IPO) to actively seek international backing in five years, with the aim of raising up to $1 billion. That sale, eagerly anticipated by global institutional investors, and others likely to follow in the near-term, are widely viewed as a dry run for the big one: the IPO of Saudi Aramco.

In October 2018, MbS repeated his assertion that the oil super-major would complete a $100 billion initial stock sale by early 2021, valuing one of the world’s largest companies by revenue at upward of $2 trillion.
Aramco also heartened investors in April 2019 when it completed its inaugural US dollar bond, drawing over $10 billion in orders from money managers from around the world, and raising $12 billion. The sale, which secured support from developed and emerging-market investors, will create a US dollar curve for the firm, and help to finance the $69 billion acquisition of 70% of industrial conglomerate SABIC from the kingdom’s sovereign wealth fund.

Aramco’s blowout bond was a big moment in the development of Saudi Arabia’s onshore debt markets. Nearly 90% of our advisory board said the best way to add weight and depth to the local bond market was to:

A. Diversify it
B. Make it more accessible to foreign investors.

Over half our experts pointed to the need to forge a thriving commercial sector filled with big, well-run corporates keen to print debt and expand at home and abroad. Aramco’s headline-grabbing sale ticks all these boxes.

As for creating a thriving financial hub, this takes time, though again there is good reason to hope. Banks, corporates and sovereigns on capital-raising roadshows once bypassed the region, hopping direct from America to Europe to Asia and back. Yet Dubai and Abu Dhabi are now firmly on the global investor map, and it is surely only a matter of time before Riyadh joins them.

Added to which, King Abdullah Financial District, located on King Fahad Road in Riyadh, is finally getting the overhaul it needs. The $10 billion project, touted as a thriving hub for local and foreign lenders as far back as 2006, has been plagued by delays. Yet it is now a swarm of activity, filled with cranes, construction workers and hip new eateries. Plans to transform it into a ‘city within a city’, driven by finance but also acting as a high-end residential and lifestyle destination, seem to be working.

The same rings true for the banking sector. Vision 2030 is a complex document that breaks down into 12 separate divisions or executive programmes.

The key one here is the financial sector development programme, part of the Council of Economic and Development Affairs, overseen by Mohammed bin Salman. Among other things, it aims to develop an advanced capital markets system and to build sophisticated financial institutions capable of supporting private-sector growth. Better banks, in other words, mean a better economy.

What about Islamic finance and banking: can Saudi Arabia become a world leader in either—or both? Fully 70% of our advisory board said it could become a global trailblazer in the space while 15% of respondents said it was the area of banking set to take off fastest as the country opens up. In total, Saudi Arabia has 16 Islamic banks, the largest of which is Al Rajhi Bank, which became the country’s first fully licensed Islamic lender in 1964. Islamic banks account for 51% of the total sector-wide assets, while local lenders and corporates are leading issuers of Shariah-compliant bonds.

Source: Euromoney and Al Rajhi Bank
In April 2019, the Jeddah-based Islamic Development Bank printed a $1.5 billion sukuk – but it was listed on the Nasdaq Dubai, the biggest global centre for sukuk listings by value. A key ambition for Riyadh must be to supplant Dubai as global leader in the field.

There seems little doubt that the centre of the Islamic banking and finance market will shift to the Gulf region in general, and to Saudi Arabia in particular, in the years to come.

In April 2019, Nitish Bhojnagarwala, vice president of financial institutions at Moody’s, tipped Islamic finance to expand faster than conventional banking, and for sukuk sales to reach $120-$130 billion in 2019. Moody’s noted that 15% of Saudi Arabia’s fiscal deficit had been funded by sukuk issuances.

However, steps need to be taken by politicians and regulators to ensure the chance is not missed. Our board said Saudi Arabia’s banking sector needs to be better regulated and that the country needs a credible ratings agency.

Deregulation of traditional sectors needs to accelerate, they said, thus unlocking assets and securities in which corporates from around the world can invest. Opening up the market to foreign white-collar professionals and external ideas would in turn broaden and deepen the capital markets, encourage better corporate and financial governance, and inject growth, capital and innovation into the economy, giving it a new lease of life. This is the best – and only – way for Vision 2030 to succeed. And this is just the start. Vision 2030 is driven by a genuine desire for economic and financial change. If all goes to plan, the next decade will see the country be “stitched together” – a modern nation state will emerge, boasting gleaming new infrastructure (highways, rail lines, ports, new cities, airports), a host of world-class corporates with global ambitions, and inclusive growth that benefits the many not the few.

The plan envisions a flourishing private sector that makes up 65% of GDP, against 40% at present, and a market bristling with SMEs that contribute to 35% of economic output, against 20% in 2018.

“This should be a serious boon to the banking community. When we asked our advisory board to identify what banking services were set to take off fastest in the next decade, the picture that emerged was compellingly diverse – 28% of participants said project finance, with 13% identifying retail banking or investment banking, and one in 10 pointing to infrastructure lending. In April 2019, the financial regulator added Credit Suisse to the list of foreign lenders licensed to operate onshore, joining JPMorgan, Citi, HSBC, Standard Chartered and two regional providers, First Abu Dhabi Bank and Emirates NBD.

Saudi Arabia is not there yet. Riyadh remains a peripheral financial centre, albeit one with enormous potential. To get to where it wants to be, notes Gabriel Stein, founder of Stein Brothers – a London-based consultancy that specializes in economic forecasting – regulators need to instil and impose “rule of law and of equality before the law, coupled with a modern legal regime”. If that happens – and there is no reason to believe it will not – the next decade will see the Saudi capital transformed from a backwater into a regional and even a global financial hub fit for the 21st century.”

“DRIVEN BY VISION 2030, IT IS NOW TIME FOR SAUDI ARABIA TO REALISE ITS MANIFEST POTENTIAL.”

90% believe having a more diversified debt market will help Saudi Arabia develop its bond market.

Source: Euromoney and Al Rajhi bank
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Renowned for our innovative services, people, technology and sharia compliant products, we adhere to our core values, which place the customer at the center and at the heart of all activities.

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INVESTING IN SAUDI ARABIA'S FUTURE

Once a closed shop, all but inaccessible to foreign investors, Saudi Arabia is opening up quickly.

Under the tenets of Vision 2030, the bold reform agenda championed by Crown Prince Mohammed bin Salman (MbS), capital is starting to flow in both directions. Saudi-based funds are buying stakes in listed firms and start-ups, most of them for now US-based, while global institutional investors are buying and absorbing debt issued by the Gulf state's largest companies. The next few years are key to the success of Vision 2030. There will be ups and downs for sure, but one immutable fact will endure: simply put, the international business community, from universal lenders to global investors to key policy-makers, want the plan to succeed.

More to the point, political leaders in Riyadh are actively shaping their future, rather than sitting back and letting it happen. Take the flagship Future Investment Initiative (FII), hosted by MbS and held each autumn. Referred to by some as ‘Davos in the Desert’, the event may eventually usurp the Swiss shindig. Davos has seen its star wane in recent years, even while the Saudi forum draws many of the biggest names in politics and business. The next FII will take place in October 2019, in Riyadh. Attendees over the past two years have included BlackRock CEO Larry Funk, US Treasury secretary Steven Mnuchin, and IMF managing director Christine Lagarde. The event is always framed by a strong theme – whether investment or banking or global growth – garners global attention, and always comes with a solid-gold pre-prepared headline.

At the 2018 event, $50 billion worth of deals were finalized, with the Public Investment Fund (PIF) – the kingdom’s $300 billion sovereign wealth fund – investing more than $1 billion in Silicon Valley start-ups. A year earlier, MbS unveiled plans to build ‘Neom’, a $500 billion digital mega-city on the Red Sea coast, to be staffed by robots and powered by renewable energy.

When Euromoney and Al Rajhi Bank assembled an advisory board comprising 70 financial-sector experts, one of the questions it asked them was to rate the importance of building Neom and a host of other special economic zones, focusing on everything from IT to finance to manufacturing. The collective response was unequivocal. The projects, they said, were not only vital to the country’s future, but also well-planned and achievable.

Rarely does a month go by without Saudi Arabia making a big splash in the business pages. In April 2019, Saudi Aramco raised $12 billion via an inaugural US dollar bond that drew over $100 billion worth of orders from developed and emerging-market investors alike. Energy minister Khalid Al-Falih said the company would continue to print more debt, promising that this was “only the beginning”. The big event over the next few years – probably the key event in the diary of every seasoned investment banker and fund manager – is Aramco’s long-planned initial public offering, which could raise upward of $100 billion and value the oil super-major at up to $2 trillion.

Another momentous shift – one that will transform Saudi Arabia into the investment powerhouse it has long wanted to be – is seeing it joining the MSCI Emerging Markets Index. The process will happen in two stages, in May and August 2019, during which 69 Saudi-listed stocks with a combined market capitalization of $84 billion, making up around 15% of the $530 billion Tadawul market, will be added to the MSCI. S&P Dow Jones and FTSE Russell began to add Saudi stocks to their indices in March, but the MSCI’s move is the big one: an estimated $14 trillion worth of global investor assets track the non-profit’s indices.

For the Middle East’s largest economy, and for global investment managers desperate to unlock the kingdom’s hidden wealth, this changes everything. More than half of our advisory board said the MSCI’s move was net positive, and that it would encourage more index providers to follow suit. It will also have a snowball effect, with more local stocks likely to start showing up in hundreds of global exchange-traded funds and managed mutual funds that track the index or use it as a performance benchmark. That in turn will suck billions of additional dollars of global capital into the kingdom, encouraging the state to push ahead with the partial or wholesale privatization of companies or entire industries. All of which feeds into the ambition and agenda of Vision 2030, with its aim of diverting productive capital out of oil production and into lower-carbon and higher-margin sectors, from food production to chemicals, and from artificial intelligence to robotics.

List of deals
A good amount of the foundation work has already been done. Vision 2030 set out to convince global investors that the kingdom could be trusted to look after their money. By any measure, this has worked: a majority of our advisory board said the country was already well on the way to becoming a global investment powerhouse. Another key forthcoming event of global consequence will take place in November 2020, when Riyadh is set to host
the annual G20 summit, offering MiS another chance to underline his country’s credentials as a steadfast financial and economic partner.

Challenges, to be sure, remain, and will persist. Saudi Arabia needs to unlock and offer up more viable investment opportunities. But again, this is slowly happening. Mall operator Arabian Centres made a splash in April 2019 when it launched the first domestic IPO to seek international backing in five years, with the aim of raising up to $1 billion. Riyadh now needs more big private—and public—firms to follow suit, offering global money managers a reason to invest in the country’s future. Going forward, the aim is to build a thriving capital markets space, spilling over with investment opportunities, framed and overseen by a reliable and fair-minded regulatory system that investors believe they can trust. More than half the members of our advisory board said the biggest challenge facing Riyadh here was the need for “reliable and enforceable rule of law” and the promotion of “fair and impartial courts”.

Mon Ullah, head of equity finance at ICBC Standard Bank in London, said legal concerns continued to “hamper attempts to create scale, with every [investment] needing to be carefully designed to mitigate enforcement risks”. Yet he genuinely believes the kingdom can and will overcome these problems, noting that Saudi Arabia “can become a genuine gateway” to the world: a powerful and influential destination for commerce and capital, and the Middle East’s chief financial and economic engine. “The country has the financial clout to create a bigger version of DIFC [Dubai’s financial district, founded in 2004] and it could do so quickly,” he says.

If the ambitions set out in Vision 2030 are to be achieved, this is just the start. Under Vision 2030, Riyadh aims to transform the PIF into the largest of its kind in 10 years, with $2 trillion in assets under management, double the size of the [current largest, the] Government Pension Fund of Norway. The PIF is already making great progress. It has hired seasoned bankers from the likes of HSBC and Bank of America Merrill Lynch, deployed $50 billion into the United States over the past two years, and is set to open offices in New York, London and San Francisco. Managing director Yasir Othman Al-Rumayyan said in April 2019 that the US would remain the fund’s “number-one target of investments”.

The PIF has invested billions of dollars in listed firms and start-ups via a partnership with SoftBank’s Vision Fund, and has teamed up with investment company Blackstone to invest over $100 billion in US infrastructure. The fund owns a 5% stake in Tesla, worth an estimated $2 billion, as well as a $3.5 billion stake in ride-sharing app Uber.

Al-Rumayyan is also keen to open an office in Asia, to focus on investments in China. Saudi Arabia is China’s largest supplier of crude oil, and Beijing is keen to embed the Gulf state more deeply in its landmark Belt and Road Initiative.

Vision 2030’s authors are clear in their intent. The text reads: “We will transform the Public Investment Fund into the world’s largest sovereign wealth fund.” It adds that rather than competing with the private sector, the fund will “unlock strategic sectors [that require] intensive capital inputs”, and help to develop “entirely new economic sectors” and build “durable national corporations”. The PIF looks set to be run as a classic sovereign wealth fund, deploying the fruits of Saudi Arabia’s most valuable asset—revenues earned from the global sale of oil—into local and global securities and assets. It also acts as a driver of local innovation. In recent years, PIF managers have dipped into their coffers to establish Super Esco, a $500 million energy-efficiency firm, and set aside $1.1 billion to support SMEs. Its managers lack neither cash nor ambition: in 2018, the fund raised $11 billion from banks in order to boost its financial firepower. But the really big step will come when the government, as is widely expected, transfers ownership of Saudi Aramco to the sovereign fund, after the oil giant completes its long-awaited IPO.

When our advisory board was asked to grade, on a scale of one to ten, the PIF’s long-term value and importance, two-thirds of participants gave an answer of seven or higher. It proves that not only is the PIF potentially the biggest and most important sovereign wealth fund the world has ever seen, but that it is of paramount importance to the success of Vision 2030 and the development and diversification of the Middle East’s largest and most fascinating economy.

Sponsored by Al Rajhi Bank
After several financially rewarding years, Al Rajhi Bank is fully prepared to profit from Vision 2030, a bold and far-reaching reform agenda championed by the Crown Prince of Saudi Arabia, Mohammed bin Salman.

The Riyadh-based bank has enjoyed a remarkable turnaround in fortunes since the appointment of a new chief executive officer in May 2015. The arrival of Steve Bertamini from Standard Chartered led to the influx of several highly qualified executives, including Abdulrahman Al Fadda. The bank’s group treasurer points to five areas where the current management has addressed areas it needed to develop and grow.

Despite being the second largest commercial bank by assets in the Kingdom, not to mention the world’s largest provider of Shariah-compliant financial services, Al Rajhi Bank was underperforming. Profit growth was sluggish and customer service was poorly perceived. Digitally, the bank was dawdling, lacking investment and focus. Employees weren’t engaging with employer, and vice versa. The new management, says Al Fadda, aimed to turn negatives into positives, “to accelerate growth, become an employer of choice, improve customer engagement, improve execution and become a digital leader.” Al Rajhi Bank set out with a number of clear financial parameters in mind. A main point of strategy was to deliver a compound annual growth rate (CAGR) in net income of 15% a year, in the five years to the end of 2020. It also set out to boost the share of transactions completed digitally to more than 60% of the total, and sharply to improve its Net Promoter Score (NPS). A bank that had once treated technology largely as an afterthought has become a leader in the space, using its significant financial and human resources to think about its future with clarity and precision. Al Fadda reckons upward of 24,000 daily transactions are processed seamlessly and digitally, with zero human interaction, from payment screening to credit card and loan applications. “That has allowed us to cut costs and to accelerate turnaround time,” he notes. This devotion to excellence and execution has born fruit elsewhere. A new internal leadership academy is helping to identify the best executives, and ensure they are able to hone and broaden their skillset, ensuring that Al Rajhi Bank retains its best workers. It has also focused on employing more females: since 2015, the number of women working at Al Rajhi Bank has risen by 60%. Customers have noticed the change. Al Rajhi Bank’s NPS score has improved 42%, transforming it in the second best-performing lender in Saudi Arabia, as measured by client satisfaction, against seventh-best in 2016. A sharp spike in the bank’s brand strength has led to an influx of new business, particularly in the consumer space, with the number of retail customers topping 3.6 million. “All of our ambitions have been achieved ahead of time and ahead of plan,” notes group treasurer Al Fadda.

Better management, happier employees and customers, and a digital drive have pushed earnings higher.

Al Rajhi Bank posted a net profit of SR10.3 billion ($2.75 billion) in the full year 2018, a year-on-year increase of 12.9%. Operating income rose 8.9% over the same period, driven by higher special commission income and fees. Return on equity rose to 19.82%, with return on assets in 2018 hitting 2.94%. That stellar performance has continued into 2019. Net profit jumped 21% year-on-year in the first quarter of the year, aided by a sharp increase in total operating income. After a few fallow years, Saudi Arabia’s macro economy will be boosted in 2019 by a surge in liquidity and an anticipated recovery in lending, thanks in large part to higher oil prices, ensuring that Al Rajhi Bank is set for another banner year. The bank’s retail loan book has grown by average of a 6.3% each year since 2015.

Al Rajhi Bank’s financial and structural revival – a process of internal change that continues...
“SAUDI ARABIA’S VAST POTENTIAL IS THERE FOR ALL TO SEE. IT’S THERE IN A RESURGENT ECONOMY DRIVEN BY OIL REVENUES, BUT INTENT ON DIVERSIFYING INTO A HOST OF NEW SECTORS TAILOR-MADE FOR THE 21ST CENTURY.”

As the ‘Davos in the desert’, held in October each year. And in November 2020, Riyadh will welcome delegates from the Group of Twenty nations, marking the first time the G20 summit will have been held in the Middle East.

The plan’s outsized potential – its ability to transform the fortunes of every sector in the Saudi economy, banking included – is there for all to see.

“We are very excited about Vision 2030,” says Al Rajhi group treasurer Al Fadda. “The key for us is the transparency it involves: the ability to see each ambition and to work toward it.”

“Another fascinating aspect of Vision 2030 is the aim of cutting the rate of unemployment.” (The plan envisages a sharp fall in the jobless rate among working-age adults, to 7% by 2030, from 12.5%). “As more people enter the workforce, they will reach out to banks in search of services and credit, and that is where our main comparative advantage, as the biggest retail bank, not just in Saudi Arabia but in the region, kicks in. More bankable customers will be a huge benefit for us.

“We are first and foremost a retail bank, and our focus is to maintain our position, and bolster our brand strength, in this space.”

The bank’s corporate division is also looking to profit from a once-in-a-lifetime opportunity, as Saudi Arabia sheds its dependence on tax revenues generated from a slowly dying oil sector, and embraces everything from AI to financial technology to the vast benefits to be enjoyed from promoting religious and sporting tourism.

“The rapid expansion of a number of sectors, notably entertainment and tourism, healthcare and education, the proliferation of private-sector small- and medium-sized enterprises and infrastructure, are great opportunities and we have positioned Al Rajhi Bank to take advantage of them,” adds Al Fadda. “In infrastructure, you’re going to see upward of SR2 trillion ploughed into projects across the country.

“Scaling them up will require financial expertise and capital, and that is where we come in. And all these projects cannot be funded solely using onshore capital, so many will offer major opportunities for international lenders, and we look forward to working with many of them.”

Al Rajhi Bank is also eagerly eyeing Saudi Arabia’s evolution as a leading financial hub. The $10 billion King Abdullah Financial District on King Fahad Road is a swarm of cranes and construction projects. As it opens over the coming months, global institutional lenders, brokerages and asset managers will set up shop here, attracted to a country committed to deregulating the state sector, completing the $100 billion stock listing of its largest corporate, the oil super-major Aramco, and expanding the power and asset base of its sovereign wealth fund, the Public Investment Fund. “I see the new financial hub being a perfect blend of attributes,” says Al Rajhi Bank’s group treasurer. “You’re already seeing the city become a regional debt capital markets power, and Saudi Arabia’s inclusion in the MSCI’s emerging-market index in May 2019 will draw billions of dollars into onshore stocks. Riyadh can also be the world’s leading centre for sukuk, and for Islamic banking and finance.”

Saudi Arabia’s vast potential is there for all to see.

It’s there in a resurgent economy driven by oil revenues, but intent on diversifying into a host of new sectors tailor-made for the 21st Century. It’s there in the dynamism and drive of Vision 2030, and in the decision making of the Saudi Arabian Monetary Authority, the region’s best-run central bank, which has done an exceptional job in promoting a nascent financial technology sector. And it is there in the performance of Al Rajhi Bank, transformed since the introduction of new management in 2015 into a standout lender capable of driving itself – and its country – into the future.
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