

The case for investing in Saudi Arabia



Saudi Arabia is rapidly evolving into a dynamic and diversified economy, benefiting from strong reform momentum, favorable demographics, rising foreign direct investment, and a government committed to diversifying the economy. Today, Saudi Arabia presents a differentiated and compelling investment opportunity for global investors seeking higher income and diversification.

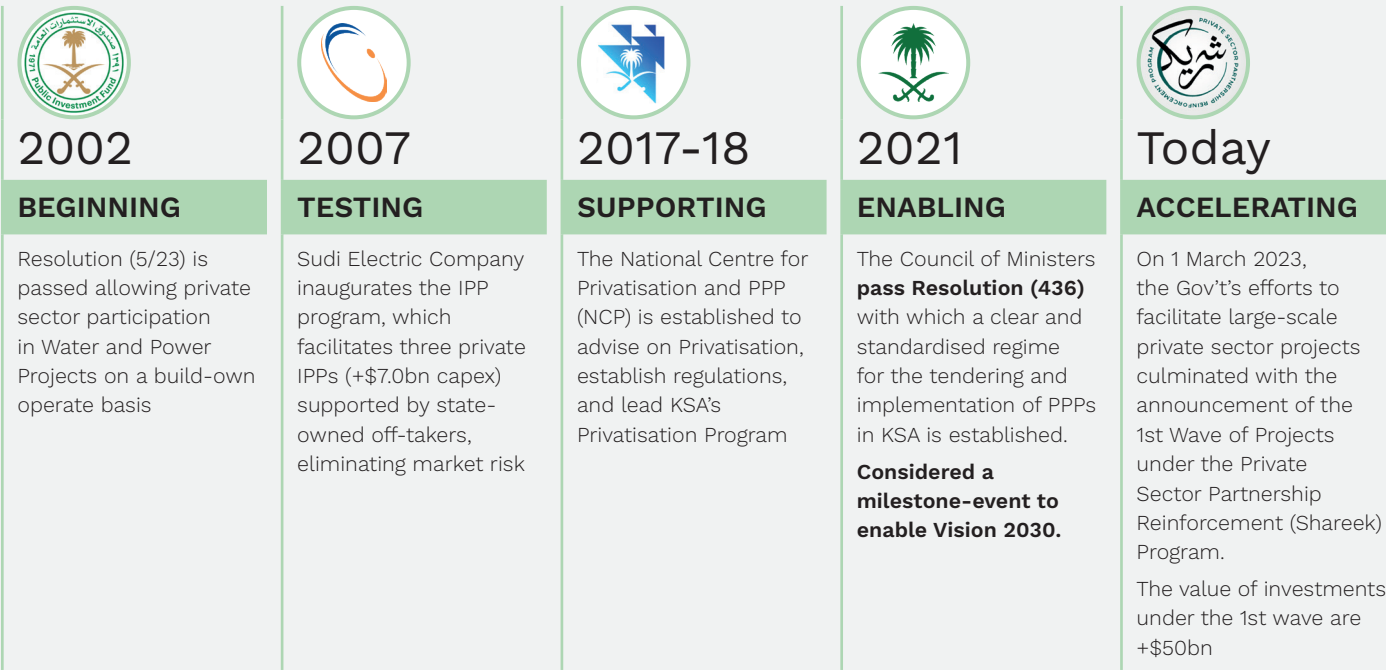
Asad Hajiyeu, Portfolio Manager
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The advantage of having 20-30 Vision

It is rare for a country to have articulated a master plan for aggressive economic growth, but Saudi Arabia’s “Vision 2030” lays out an ambitious roadmap to shift the country’s historical reliance on hydrocarbons to a more diversified

and sustainable model for economic growth. Supported by a combination of structural reforms and sovereign support, this capital-intensive plan aims to double the contribution to GDP from small and mid-sized companies by 2030.

FIGURE 1: FROM VISION TO INVESTMENT, THE PATH TO 2030



Source: Saudi Gazette; Saudi Vision 2030; Shareek; National Center For Privatization

To accomplish this, Vision 2030 aims to position Saudi Arabia as a leader in sectors as diverse as mining, logistics, renewable energy, and tourism. Even the previously almost non-existent entertainment sector is now targeted to be a cornerstone of the country’s economic diversification plan. In each of these sectors, numerous steps have already been taken to establish and support the necessary legislative

frameworks to stimulate investment, particularly through public-private partnerships.

There is little doubt that this strategy is already bearing fruit. The Plan was launched in 2016 and has already achieved 87% of its 1,064 targets, including boosting tourism by over 100m visitors (doubling tourism’s contribution to GDP in just the last three years), and increasing the

employment rate of women to over 35% in 2023 from 18% in 2016¹. Today, these targets, combined with a steady expansion in the mining, technology, construction, manufacturing, and entertainment industries, have resulted in the non-oil sectors of the economy currently accounting for 70% of Gross Domestic Product (GDP), up from 63% in 2018².

Economic growth is expected to be double US & Eurozone

In response to growing concerns about the outlook for global trade, the IMF recently updated its 2025 GDP forecasts. It lowered the growth rate for the world's advanced economies to 1.4% from 1.9%, and revised Saudi Arabia's growth rate down to 3.0% from 3.6%. That is, even with the IMF's assumption that oil prices would drop around 15% in 2025, Saudi Arabia is expected to see more than twice the growth of the world's advanced economies this year. Looking ahead to 2026, the IMF expects advanced economies to experience a slight rise in growth to 1.5%, while Saudi Arabia is expected to outperform significantly, generating 3.5% growth³.

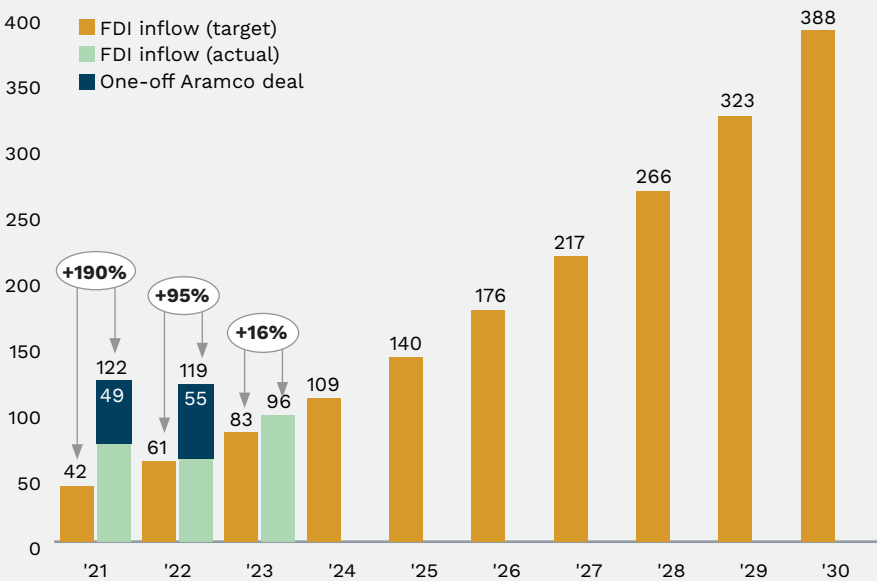
Strong demographics are a significant tailwind to long-term growth, with Saudi Arabia expected to have the highest population growth among the G20 over the next five years. Furthermore, the median age in the Saudi Arabian population of 35m is just under 30, well below Europe's (at 43) and North America's (at 39) median age⁴. Given this younger demographic, the aggressive levels of foreign and domestic investment that are currently targeted can be expected to provide both a greater boost to consumption and result in a gradual but more significant increase in productivity.

Capital inflows have surged, but more is sought

While the domestic banking sector has traditionally funded local companies, providing nearly 95% of all onshore bank financing, the investment required to implement Vision 2030 fully has sparked a surge

in foreign direct investment (FDI). Between 2011 and 2021, FDI has more than tripled (from \$5bn to \$19bn) but is targeted to rise to nearly \$400bn per year by 2030, see Figure 2.

FIGURE 2: FDI INFLOW TARGETS AND ACTUAL FLOWS (SAR BN)



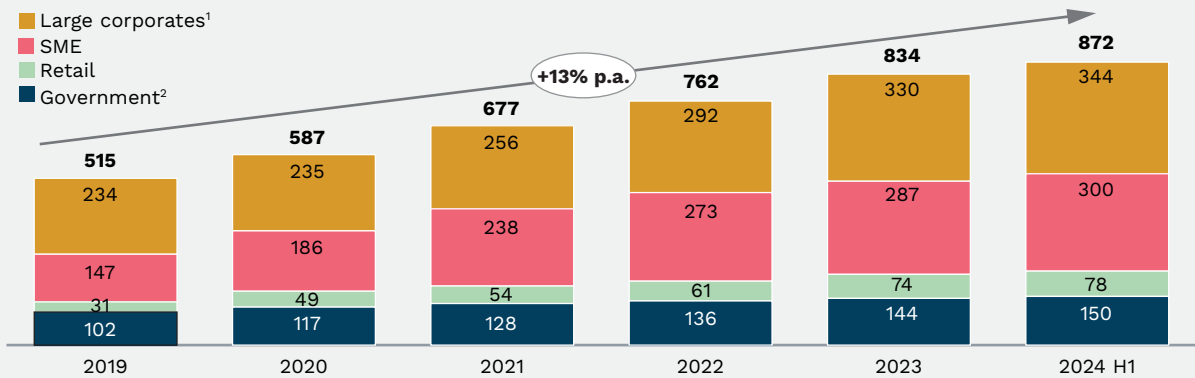
Source: Vision 2030, Kingdom of Saudi Arabia

NOW AN A+ CREDIT RISK

S&P Global raised its long-term foreign currency rating for Saudi Arabia to 'A+' from 'A' in March, specifically crediting the country's socioeconomic and capital market reforms for sustaining strong non-oil growth momentum⁵. Regarding the oil sector, which has dominated the Saudi Arabian economy, S&P noted that the country's status as the largest oil exporter, combined with its substantial hydrocarbon reserves and low production costs, can serve as significant buffers during the global transition to alternative energy sources.

Macro-economic indicators, more broadly, are also supportive. S&P sees little risk of inflation, expecting it to tick up slightly to 1.9% into 2026 – a remarkably stable and low rate when compared to the region, where the IMF expects the Middle East and Central Asia to see 11.1% inflation in 2025. S&P also expects Saudi Arabia's debt-to-GDP to rise into 2028, but to remain relatively low at near 36% – the lowest debt-to-GDP ratio among the G20. Similarly, the rating agency expects the fiscal deficit to rise but remain relatively contained, despite spending on the Asian Winter Games in 2029, the Expo in 2030, and the FIFA World Cup in 2034. Overall, S&P is even more positive than the IMF on the economic outlook for Saudi Arabia, expecting real GDP to average 4.0% over the next three years. Regarding the Saudi Riyal (SAR), S&P expressed little doubt that the country will maintain its long-standing currency peg to the US dollar. In place since 1986, the peg has helped anchor inflation expectations and provide some stability and predictability in interest rates.

FIGURE 3: FUNDING DEMAND (USD BN)



Source: Vision 2030, Kingdom of Saudi Arabia. 1. Only includes Govt. & Quasi-Govt Bonds. 2. Includes total bank claims on the private sector, deducting retail and SMEs, and adding state-owned entities (SOEs) credit. 3. One USD = 3.75 SAR

Saudi Arabia has taken numerous steps to enhance the domestic investment climate, including establishing four new special economic zones, but the investment targets and anticipated levels of economic growth are widely expected to require substantial external (and flexible) capital. With demand for credit in Saudi Arabia already growing

Source: Saudi central Bank 2024

at around 13% per annum over the last 5 years, Saudi Arabia could be characterized as a lender's market for the foreseeable future.

Nevertheless, compared to the size of its economy, Saudi Arabia is largely underweighted in foreigners' international portfolios. For example, the Saudi Arabian stock market, the

Tadawul, is the largest equity market in the Middle East, with a market capitalization that ranks it among the top 10 equity markets globally. However, despite being added to the MSCI family of indices in 2019 and seeing portfolio flows into the market increase by 400% between 2019 and 2024, foreign participation in the Tadawul is currently only around 5%.⁷

Strong diversification benefits

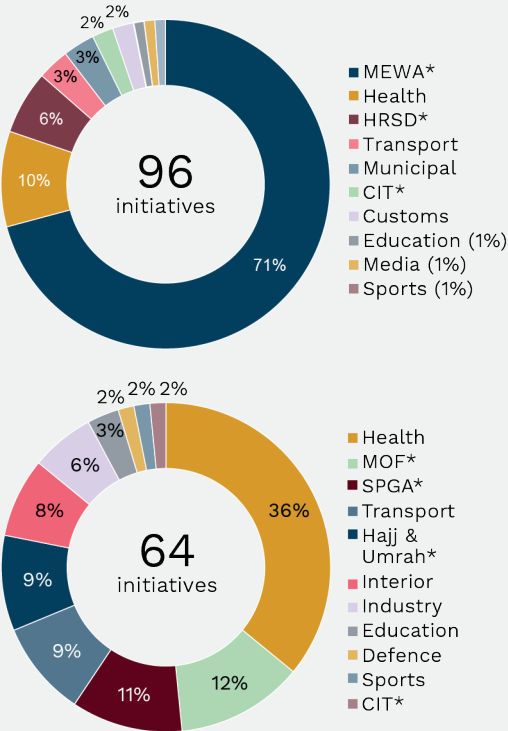
Recently confirmed investments in Saudi Arabia (top pie chart, Figure 4) and investments under review (bottom pie chart, Figure 4) illustrate the current diversification away from hydrocarbon investments, with the energy sector not even appearing on either list. Instead, 71% of the recently approved transactions fell under the purview of the Ministry of Environment, Water, and Agriculture (MEWA), while 6% were within the entertainment and cultural sectors, overseen by the Ministry of Human Resources and Social Development (HRSD). Looking ahead, the bulk of transactions still under review fall within the healthcare sector.

A rapidly growing and diversified economy with strong fundamentals and a relatively low weighting in foreign portfolios could be sufficient to consider increasing exposure to Saudi Arabia. A variety of domestic factors suggest future returns are likely to provide attractive diversification in a period of rising

geopolitical risk and uncertainty about the outlook for global growth and inflation. As the IMF's GDP forecasts show, Saudi Arabia's growth rate is likely to outperform that of the developed world, precisely because of its domestic and foreign investment – a plan we expect to be pursued, regardless of geopolitical and macroeconomic uncertainty.

Investors can further increase their diversification from global stock and bond markets by considering investing in Saudi Arabia through the private credit markets. Whether it is helping to build new infrastructure, funding new or existing Saudi Arabian companies, or helping finance international companies looking to establish or expand their presence in Saudi Arabia, private investment can provide attractive yields while offering increased diversification, given the nature of the asset class.

FIGURE 4: THE DIVERSITY OF RECENT INVESTMENT



Source: Cantor Fitzgerald
*Please refer to Definitions on page 7

Our Approach

Regardless of the region, sector, or asset class we invest in, our approach to private credit investing combines an analysis of top-down macroeconomic themes with bottom-up due diligence provided by our regionally based teams. In general, we believe that a private equity approach is well-suited to private credit investing in emerging markets, where solutions are tailor-made and direct, lasting engagement with borrowers helps align interests and often significantly reduces risk.

When investing in Saudi Arabia specifically, we have, to date, aimed to provide traditional senior secured funding as well as more flexible capital structures, such as mezzanine debt and other hybrid financing solutions, regardless of whether we are lending to government, quasi-sovereign, or corporate entities. And we often favor projects of strategic importance to the country as we believe this can help reduce credit risk by ensuring all parties' (including borrowers, lenders, regulators, and the governments) interests are aligned and invested in the project's success. For example, the development of critical water supply infrastructure and the establishment of public-private partnerships to support the transition to renewable energy are both investment priorities for Saudi Arabia and areas where Gemcorp Capital has found success in structuring private investment.

However, the opportunities currently available in Saudi Arabia span a vast range of sectors and industries, and are evolving rapidly. As such, we rely on our regional presence to provide us with an ongoing and up-to-date understanding of domestic economic and political conditions, which helps us identify the most compelling opportunities.



About the Authors



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Asad is a Portfolio Manager and member of the Investment Committee. He has held various positions at J.P. Morgan investment bank, between M&A, ECM and Leveraged Finance Executions and Distressed Credit. He has a wide experience of successful multibillion dollar M&A, capital raising and restructurings for the Energy, TMT and other sectors. Prior to his career in investment banking, he worked as a financial analyst and treasury team leader in the upstream unit of BP in Azerbaijan. He holds an MBA from Columbia Business School, as well as an MA in International Relations from the University of Warwick, and a BA in International Economics from Schiller International University in Germany. He is a chartered accountant in the UK (CIMA qualification).



Petar Ivanovic

Vice President

Petar is a VP in Gemcorp's investment team responsible for investment analysis, structuring and portfolio monitoring of the funds positions. He has 8 years of investment and advisory experience from both the buy- and sell-side. Prior to joining Gemcorp, Petar was an Associate in Citi's Natural Resources and Clean Energy Transition team in London working on M&A advisory mandates for corporates and financial sponsors, as well as public and private credit transaction

DEFINITIONS

CIT	Ministry of Communications and Information Technology
Hajj & Umrah	Ministry of Hajj & Umra (responsible for supervision of all services related to Hajj and Umrah pilgrimages)
HRSD	Ministry of Human Resources and Social Development
MEWA	Ministry of Environment, Water and Agriculture
MOF	Saudi Arabian Ministry of Finance
SPGA	State Properties and General Authority, responsible for managing state owned properties and real estate

- 1 All figures and estimates from S&P Global Ratings, “Saudi Arabia Rating Raised to A+...”, 14 March 2025
- 2 Vision 2030, GASTAT
- 3 IMF, World Economic Outlook, April 2025
- 4 <https://www.worldometers.info/world-population/saudi-arabia-population/>
- 5 S&P Global Ratings, “Saudi Arabia Rating Raised to A+...”, 14 March 2025
- 6 SAMA Bulletin
- 7 S&P Global Ratings, “Saudi Arabia Rating Raised to A+...”, 14 March 2025

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