



Capital Markets & Private Sector Development in Saudi Arabia: *Focus on Debt Capital Markets*

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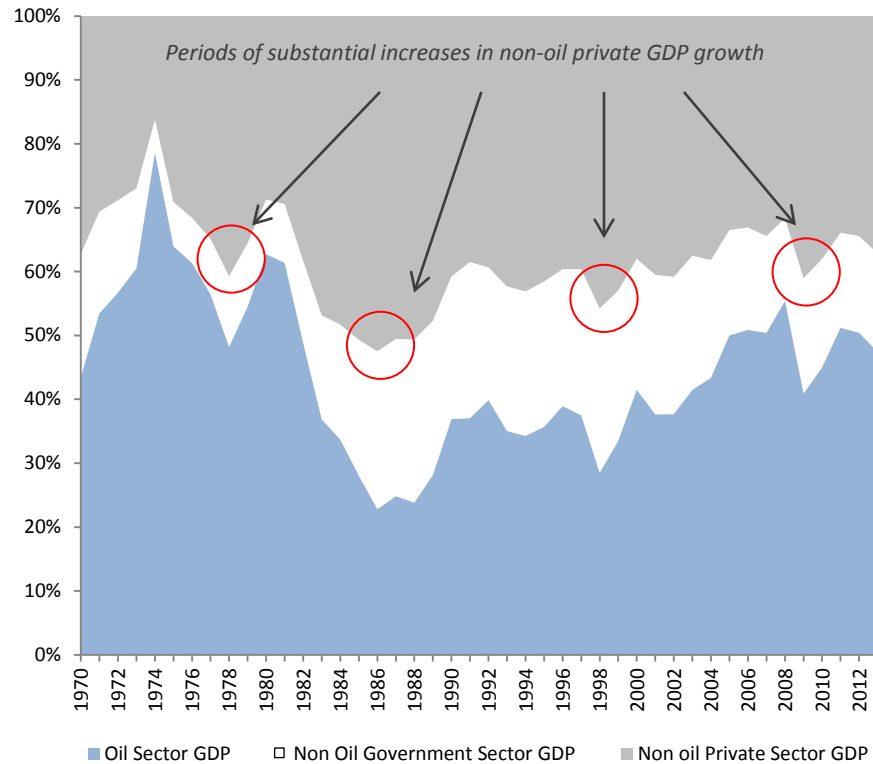
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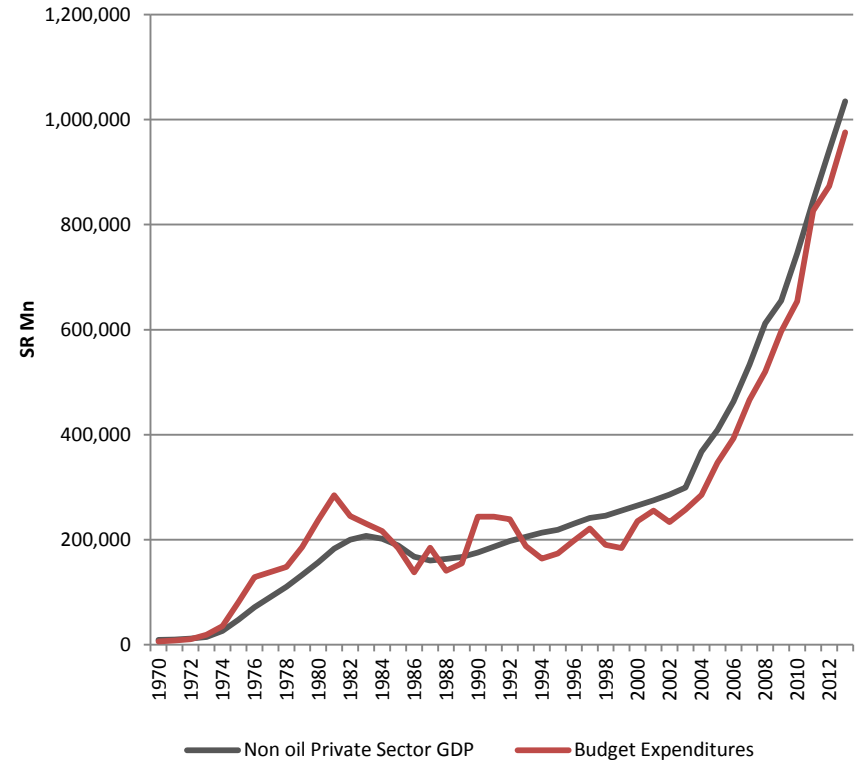
Development of the Saudi Private Sector

Composition of GDP
(1970 – 2013)



Development of the private sector has exhibited an erratic trend.

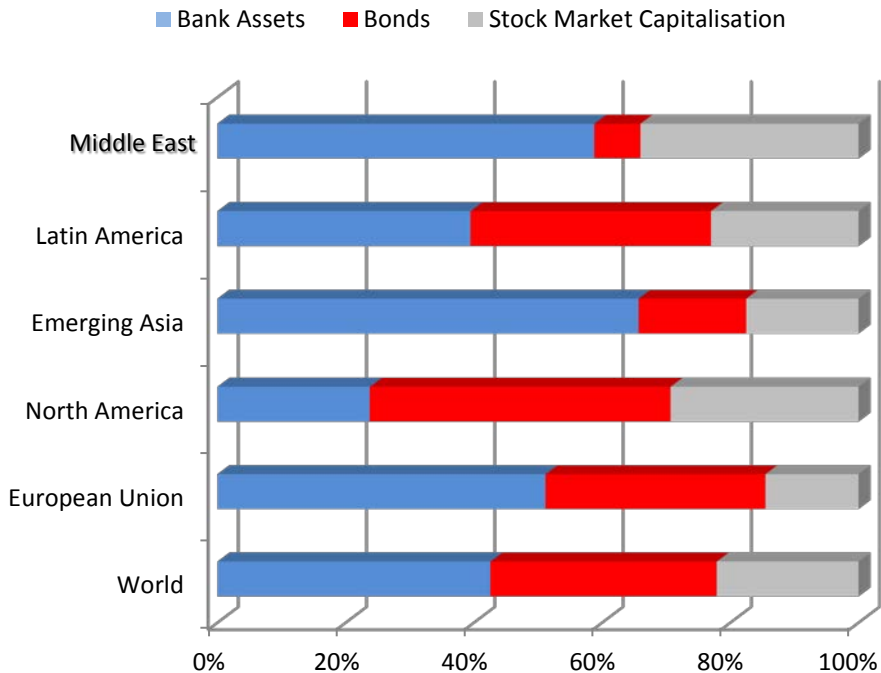
Private Sector Contribution to GDP and
Budget Expenditures (1970 – 2013)



The private sector is dependent on government spending.

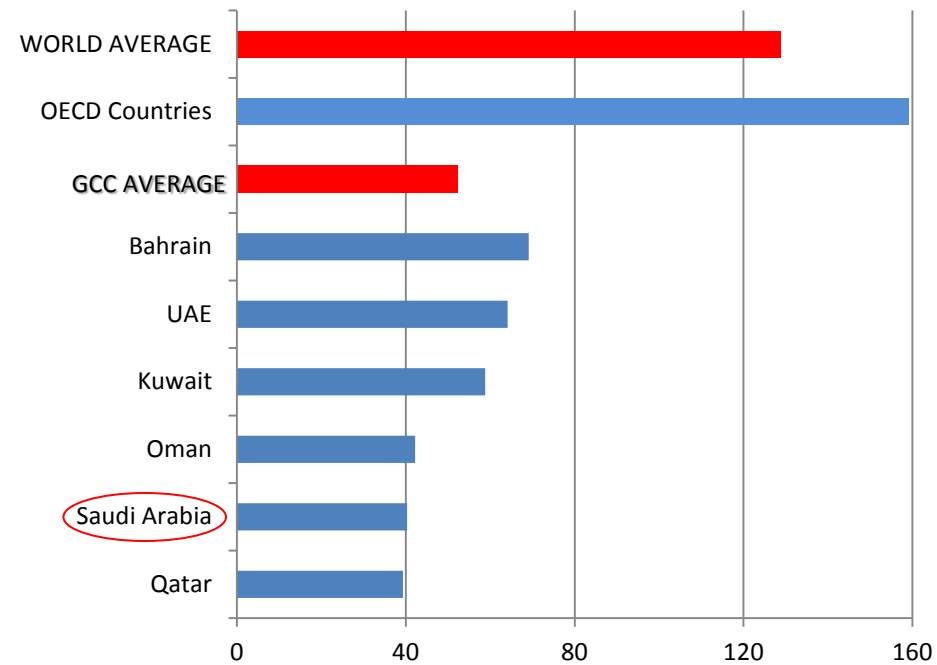
MENA Private Sector Funding Challenges

Global Funding Patterns (2013)



Banks constitute the main source of funding for economic development and growth in the MENA region.

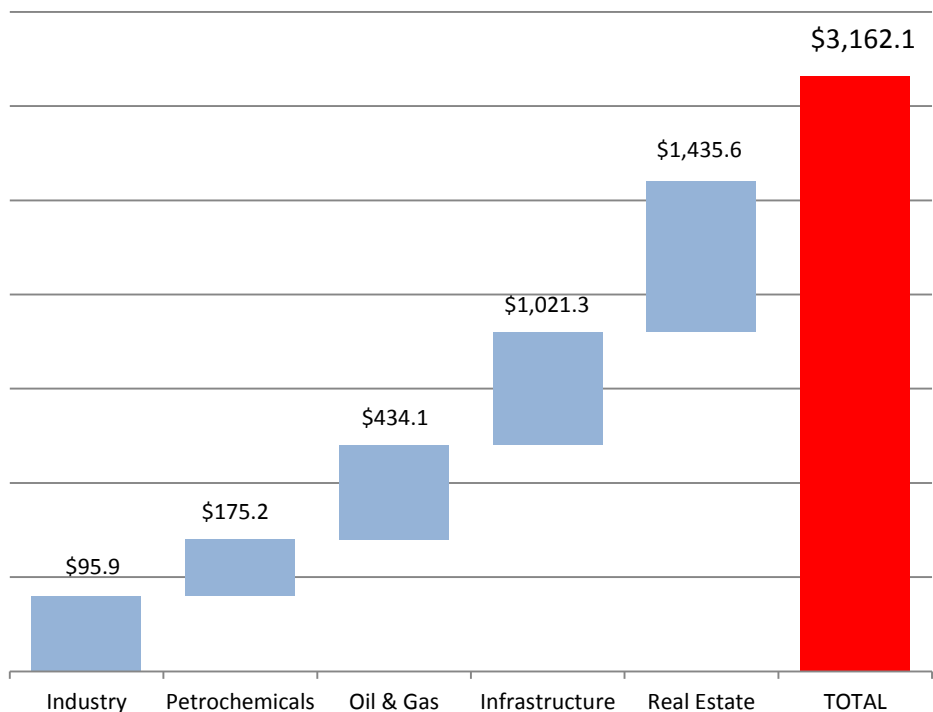
Private Sector Credit to GDP (2013)



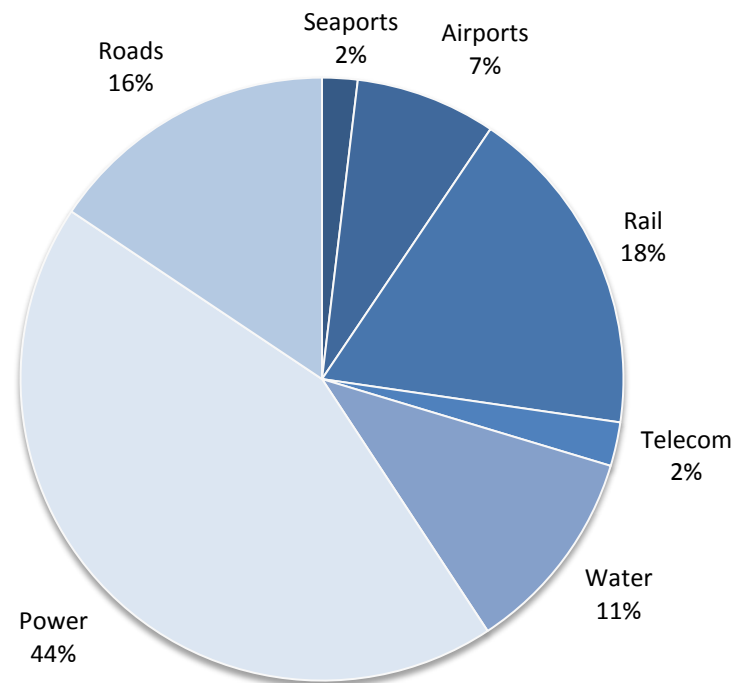
Private sector credit to GDP in Saudi Arabia is the lowest among the GCC countries and less than half of the world average.

Sizing GCC Long-Term Investment Demand (2014 – 2035)

Investment Demand by Sector
(US\$ Billion)



Infrastructure Breakdown
(by sector)



*The role of the private sector needs to be enhanced to help meet the massive investment needs.
Saudi Arabia accounts for nearly 40% of the total investment demand of the region.*

Enhancing the Role of the Private Sector

Why is it Important?

Private sector is a key driver for:

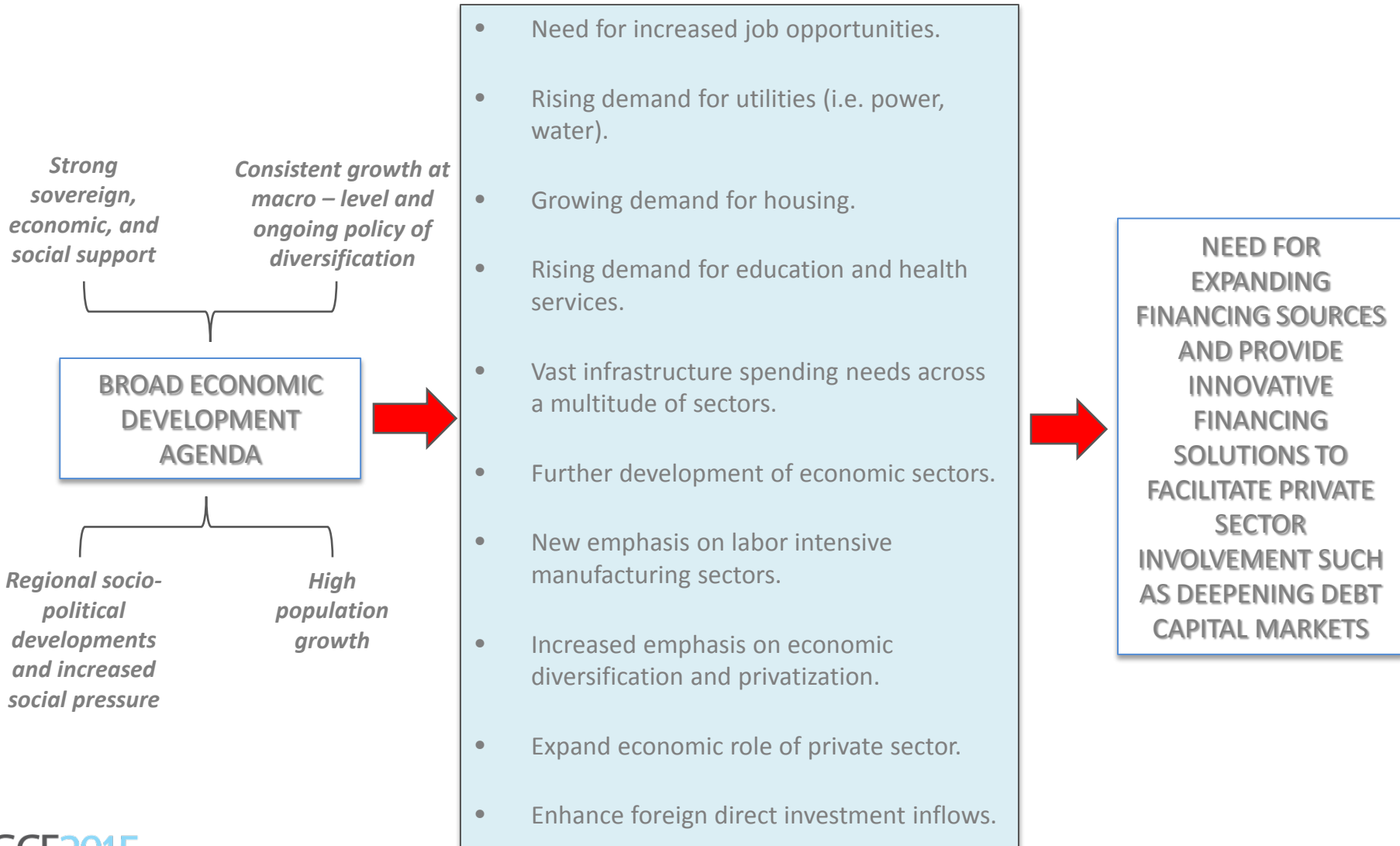
- *Balanced development*
- *Economic diversification*
- *Improving productivity*
- *Boosting the gross domestic product*
- *Enhancing the competitiveness of the domestic economy*
- *Creating employment*

What are the Enablers?

Reforms to improve the business and investment climate:

- *Policy environment and institutions*
- *Regulation & Laws*
- *Infrastructure*
- *Business facilitation & economic diversification*
- *Macroeconomic environment*
- *Financial market development*

Private Sector Development Opportunities: Saudi Arabia



The Role of Financial Development: Focus on Debt Capital Markets

Developing local debt capital markets must become a priority for the Saudi government, given the strategic role of the public sector in deepening financial markets.

ADVANTAGES:

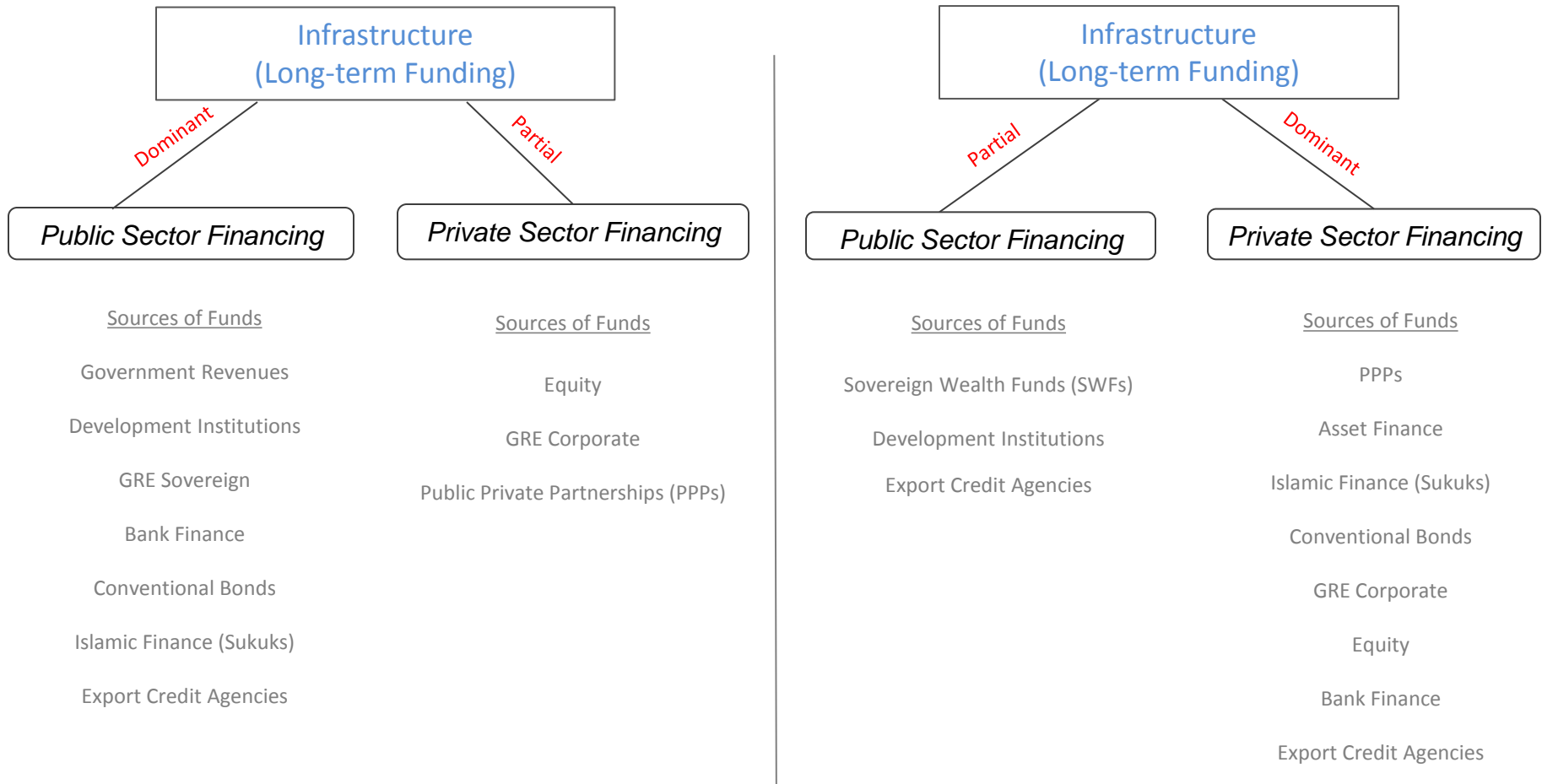
- Developing local debt capital markets is an important component of providing innovative financial solutions for an economy towards enhancing the private sector.
- Deep, efficient local markets are the foundation for a thriving private sector, the key driver of jobs and growth.
- Debt capital markets create access to long-term, local currency finance.
- Debt capital markets can mobilize private sector funds to finance infrastructure, housing and other priority sectors, thereby reducing dependence on government financing.
- Countries with strong local equity and debt markets are more resilient to economic uses.
- Efficient local capital markets protect economies from capital flow shocks and reduce dependency on foreign debt.

Development Challenges Facing the GCC Debt Capital Markets

- Change market mindset from a bank market to an investor market: bank loans are cheaper and less complex.
- Critical need to shift to more capital market financing of GCC project finance transactions.
- GCC debt capital markets remain shallow and face numerous challenges.
 - Governments have reduced outstanding debt in recent years.
 - Need for increased issuances of government paper across a range of tenors to build domestic yield curve.
 - Absence of institutional investors and secondary markets.
 - Need for regulatory overhaul to boost local debt capital market development.
 - Scarce investor confidence and challenging global economic and finance conditions.
 - Challenging socio-political regional environment.
 - Absence of supporting infrastructure i.e. domestic rating agencies, qualified brokerages etc.

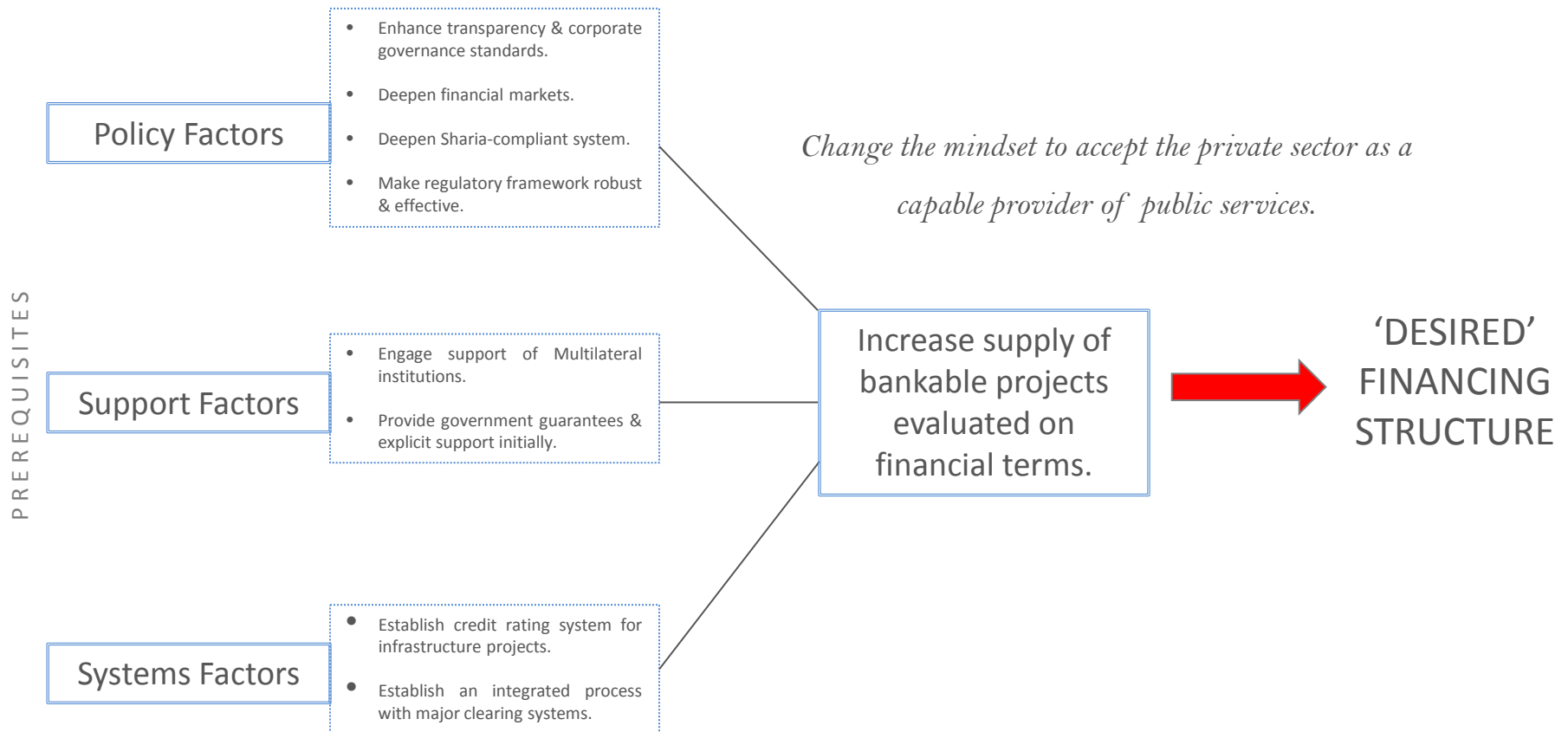
Saudi Arabia's Long-Term Funding Challenge

Current → *Desired*
Risk transfer & private sector efficiency benefits



Unlocking New Sources of Long-Term Finance: The Way Forward

How can Saudi Arabia bridge the gap between the 'Current' and the 'Desired' financing structure?



The Role of Small & Medium-Sized Enterprises (SMEs) in Private Sector Development

Innovative financing sources will also encourage the development of SMEs.

Why is it Important?

A well developed SME sector is a key driver for:

- *Diversification into non-oil businesses and ancillary sectors.*
- *Growth in productivity*
- *Boost the export base*
- *Creating employment opportunities*
- *Enhancing living standards*
- *Improving wealth distribution*
- *Diversifying lending avenues*
- *Encourage financial market development*
- *Enhance economic efficiency and institutional structure*

What are the Enablers?

- *Coordination between relevant authorities and stakeholders to develop supportive regulatory and legal framework.*
- *Need for government financial support structure (i.e. in the form of partial guarantees) to provide initial impetus for the development of the SME sector.*
- *Establish specialized institutions and teams within the banking sector with a SME focus to:*
 - *Provide guidance and support on attractive business areas*
 - *Provide support on business and financial management*
 - *Coordinate with regulators to address bottlenecks*

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