



**Zilla  
Capital**



# TOP TRENDS

## **SAUDI ARABIA**

### **The Future Investment Destination**

#### **7 Key Reasons to Invest in KSA**

MAY 2023

# TABLE OF CONTENTS

<b>3-5</b>	<b>1. EXECUTIVE SUMMARY</b>
<b>6-9</b>	<b>2. MACRO OUTLOOK, POSITIVE GROWTH TRAJECTORY TO CONTINUE</b>
<b>10-11</b>	<b>3. SAUDI ARABIA POLITICAL TIES</b>
<b>12-18</b>	<b>4. SAUDI ARABIA INVESTMENT INCENTIVES</b> 4.1. Saudi Arabia's Vision 2030 has been Achieving Remarkable Initial Success 4.2. Saudi Arabia's International Trade Agreements 4.3. Investment Incentives 4.4. New Companies Law Means Major Change & Uplift in the Corporate Sector
<b>19</b>	<b>5. SAUDI ARABIA STOCK MARKET</b>
<b>20-30</b>	<b>6. TOP BOOMING SECTORS WE WANT TO HIGHLIGHT</b> 6.1. Tourism & Hospitality: Welcoming the World 6.2. Entertainment, Sports & Leisure: Showcase of Opportunities 6.3. Real Estate Sector & Construction 6.4. Entrepreneurship & VC Investments



# 1 EXECUTIVE SUMMARY

**Saudi Arabia is committed to developing its investment environment and is making strides to improve and advance the ease of doing business in the Kingdom through the implementation of 'Saudi Vision 2030'.** Many such measures have already been introduced including allowing 100% foreign ownership of investment, no personal income taxes, low corporate tax rates and no restrictions on capital transfer abroad. Most recently, the Ministry of Investment has published the New Investment Strategy (NIS), which according to the Minister of Investment will transform Saudi Arabia into an investment powerhouse and global hub for business and talent. It is a strategy that invites investors to seize the opportunities as Saudi Arabia unleashes its investment potential as part of Vision 2030 and enhances the economy's openness and competitiveness.

**The NIS looks across several sectors and aims to empower investors with a platform for opportunities, creating a competitive environment which will further push the private and public sector collaboration to grow and prosper.**

Visitors to the country will notice the incredible changes that have been taking place in recent years, particularly following the announcement of Vision 2030. The shift in the culture brought about by an ambitious leadership vision is seen in full effect, and young nationals are now being encouraged to establish their own businesses, women are being empowered to join the workforce and the economy is benefitting from this change.



**As we welcome you to Saudi Arabia, it is our aim to provide you with a unique investor experience supported by a country that is committed to help you establish and expand your business. It is our goal to present you the key seven reasons you should invest in Saudi Arabia:**

## **1** Saudi Arabia Reform's Journey

- Development of Vision 2030, with priorities and alignment amongst stakeholders.
- Strong governance.
- Clear 3-year planning, through 12 programs.
- Undeniable initial successes across multiple themes (ease of doing business, entertainment, social, cultural, localization of industries, women participation in the workforce, fiscal balance).

## **2** Game Changing Opportunities

- Privatization program to unlock state-owned assets and to increase private investors participation.
- Localization of value chain cooperating with both local and international investors.
- Giga projects to create integrated economic ecosystems.
- Large commitment to attract investors by improving overall business environment.

## **3** Integrated Infrastructure

- Strategic natural location linking three different continents.
- Largest seaport on Red Sea, capturing 80% of maritime flows.
- Internal transport network well interconnected.
- Efforts to optimize logistics for turning Saudi Arabia into a leading logistic hub.
- Digital infrastructure development with private sector.



## 4 Attractive Property Solutions

- 35 industrial and economic cities, strategically positioned.
- Many of those creating cluster-effects (e.g., chemicals, mining, maritime) leveraging synergies and fostering system productivity.
- Presence of ready-built supporting infrastructure.
- Land at very competitive prices.

## 6 Expanding Quality of Life

- Tax free salaries. Among the world's lowest levels of tax.
- High safety and security. One of the safest places in the world.
- Advanced healthcare systems and facilities, ranking 26th worldwide.
- Expanding lifestyle. Women driving, entertainment, plan for culture, alternative tourism.

## 5 Young & Skilled Workforce

- 30% of Saudi working age population is below 29 years old.
- 400,000 young Saudis entering the labor market every year, contributing to strengthen the development of workforce capabilities.
- Education as the second largest area of government spending.
- Leading universities growing scientific research activities.

## 7 Leading Financial Sector

- Large financial system. 192% financial sector total assets to GDP in 2016.
- Well-capitalized and resilient banking sector. 15% bank capital to assets in 2016.
- Biggest capital market in Middle East, North Africa and Turkey. Around 450 billion USD market cap.
- New reforms and initiatives. T+2 settlement cycle, qualified foreign investors framework, International Financial Reporting Standards.



## 2 MACRO OUTLOOK, POSITIVE GROWTH TRAJECTORY TO CONTINUE

Saudi Arabia's economy enjoyed a strong rebound in 2022, in line with the rest of the Gulf countries, where higher oil prices and production, as well as the recovery from the pandemic, boosted sentiment, fiscal spending, and domestic demand. Real GDP grew by 12% in 9M22, according to Saudi Central Bank (SAMA), thanks to strong growth in oil GDP by 22%, as well as the non-oil economy by 4.8%. The strong pick-up in economic activity has been driven primarily by the strong recovery in oil production volumes, in line with the OPEC+ agreement. In addition, investment has been recovering strongly, growing c24% Y-o-Y in real terms in H1-2022, thanks to the increased investment drive from the public sector, both the central government and the Public Investment Fund (PIF).

This comes in line with a strong rebound in the construction sector, especially noticeable from Q2-2022. The economy is also benefiting from a strong rebound in the tourism sector, with religious tourism (both Umrah and Hajj) a returning to near full capacity. Consumers suffered a hit to purchasing power during the pandemic, due to the fiscal measures implemented at the time, primarily the tripling of VAT. In this respect, the sharp rise in oil prices over the past 12-18 months has not immediately boosted purchasing power as was the case historically. This is now more likely being transmitted through different channels, including investment spending by PIF, wealth effect from the booming local stock market, and increased government spending.

**Business activity in Saudi Arabia's non-oil private sector expanded at the fastest pace in almost eight years as an economic boom fueled rising demand.**

New orders rose in February by the most since September 2014, and companies are optimistic about the year ahead, according to a survey of purchasing managers compiled by S&P Global. The Riyadh Bank Saudi PMI rose to 59.8 in February from 58.2 in January, well above the 50-mark separating growth from contraction and the highest since March 2015. The strong PMI reading was partly down to a sharp and accelerated increase in new business inflows. Over 42% of surveyed companies indicated that new orders had risen over the latest survey period, and often attributed this to an improvement in market conditions.

**The budget shows that fiscal spending was up 14% Y-o-Y in 9M22, driven by a sharp 43% Y-o-Y expansion in investment spending and 10% growth in spending on social benefits.** Total spending is also 7% higher than 9M19, reflecting increased appetite to spend amidst higher oil prices. It is worth noting that the government is maintaining fiscal discipline, despite the rising oil price. It is projected that the budget will record a surplus of at least 8% of GDP this year and 4.3% next year, according to oxford economics.





The economy has the foundation to maintain a largely positive performance in 2023. It is expected that growth will slow from a high base in 2022, but still projected relatively robust growth of 2.9% and 3.6 in non-oil GDP in 2023 and 2024, respectively.

These growth rates come in line with the World Bank latest World Economic Outlook report released in April, where an expected decline in oil prices from highs in 2022 is behind the downward revision to growth forecasts, with Saudi Arabia, forecast to grow by 2.9% in 2023, compared to 8.7% in 2022, and 3.7% projected in October.







**Crude prices surged after Saudi Arabia and other members of the Opec+ group announced surprise oil production cuts of more than 1 million barrels a day on Sunday, 3rd of April.**

Oil prices jumped by 8% when trading opened in Asia on Monday morning following news of the cut, with international benchmark Brent trading at over **86 USD** a barrel and West Texas Intermediate, the US marker, rising to almost 81 USD. Saudi Arabia will implement a “voluntary cut” of 500,000 b/d, or just under 5% of its output, in “co-ordination with some other Opec and non-Opec countries”, it said on Sunday. The kingdom is attempting to boost prices amid fears of weaker demand. It is worth remembering that Brent crude, the global benchmark oil price, hit a high of 139 USD in March last year, close to its all-time high.



**Moody’s revises Saudi Arabia’s outlook to ‘Positive’ and affirms ‘A1’ credit rating.** The rating is based on Moody’s assessment of the government’s track record of fiscal policy effectiveness and the comprehensive regulatory and economic reforms that will support the sustainability of the economic diversification efforts over the medium and long terms. These include the reforms and investments in various non-oil sectors that will reduce the Kingdom’s reliance on hydrocarbons over time. Moody’s report is a validation of the Kingdom’s fiscal policies as part of its Vision 2030 programs, and keeping debt at a moderate level, which is lower than most similarly rated sovereign debts, offering robust fiscal buffers and a competitive position in the global energy market.



INDICATORS	OUR TAKE	ECONOMIC FACTORS
 <b>Oil (Real) GDP Growth</b>	Strong	<p>Growth momentum in oil sector to sustain in 2023 but not as compared in 2022. This comes in line with the World Bank latest World Economic Outlook report released in April, where it is expected that the kingdom will grow by 2.9% in 2023, compared to 8.7% in 2022, and 3.7% projected in October. Considering the oil price estimate of 85 USD for 2023, it is projected a fiscal surplus of 49 billion SAR (1.3% of GDP) next year, bringing about a comfortable fiscal position and capacity to support the strong economic rebound witnessed this year.</p>
 <b>Non-Oil (Real) GDP Growth</b>	Moderate	<p>The non-oil economy will continue to enjoy healthy growth 3.8% vs 4.0% in 2022, by virtue of increased investment spending by the national funds, led by PIF, as well as the gov't which is evident in commitment to increasing investment spending in the budget.</p>
 <b>Fiscal Balance</b>	Moderate	<p>Expected to stabilize and keep improving due to increased revenues on back of higher oil prices in H2 2022; Saudi Arabia recorded quarterly surplus in Q1 2022 for the first time in 6 years mainly driven by higher oil prices.</p>
 <b>Investments</b>	Neutral	<p>Current trends expected to persist in 2023. Capex has decreased 1% y-o-y in Q1 2022 to 14.84 billion SAR as the government continues to shift most of its investment spending to the Public Investment Fund and other investment vehicles.</p>
 <b>Money Supply</b>	Neutral	<p>Expected to increase by the end of 2023 and 2024 due to expected easing monetary policy environment followed by the US Fed.</p>
 <b>Inflation</b>	Moderate	<p>Remains well-contained and moderate in Saudi Arabia despite inflationary pressures experienced in Developed Markets due to supply chain disruptions and elevated food prices.</p>
 <b>Population Growth</b>	Moderate	<p>With a population of 35.34 million (2021, data provided by the United Nations) it is the second largest Arab state (after Algeria). Riyadh is the capital of the Kingdom and its largest city with a population of 7.4 million. With the new Saudi Vision 2030 under the guidance of the Crown Prince Mohammed bin Salman al Saud this number is expected to increase over the coming years.</p>
 <b>Job Creation</b>	Moderate	<p>Initiation of major infrastructure projects and robust economic activity should ensure healthy job creation.</p>
 <b>Interest Rates</b>	Subdued	<p>With the expected hike in Fed interest rates, Saudi Arabia's interest rates are also expected to slightly keep increasing in 2023 which will lead to consumer spending to reduce. But an easing monetary policy environment projected to be implemented by the end of 2023/ beginning of 2024.</p>



# SAUDI ARABIA MACROECONOMIC INDICATORS

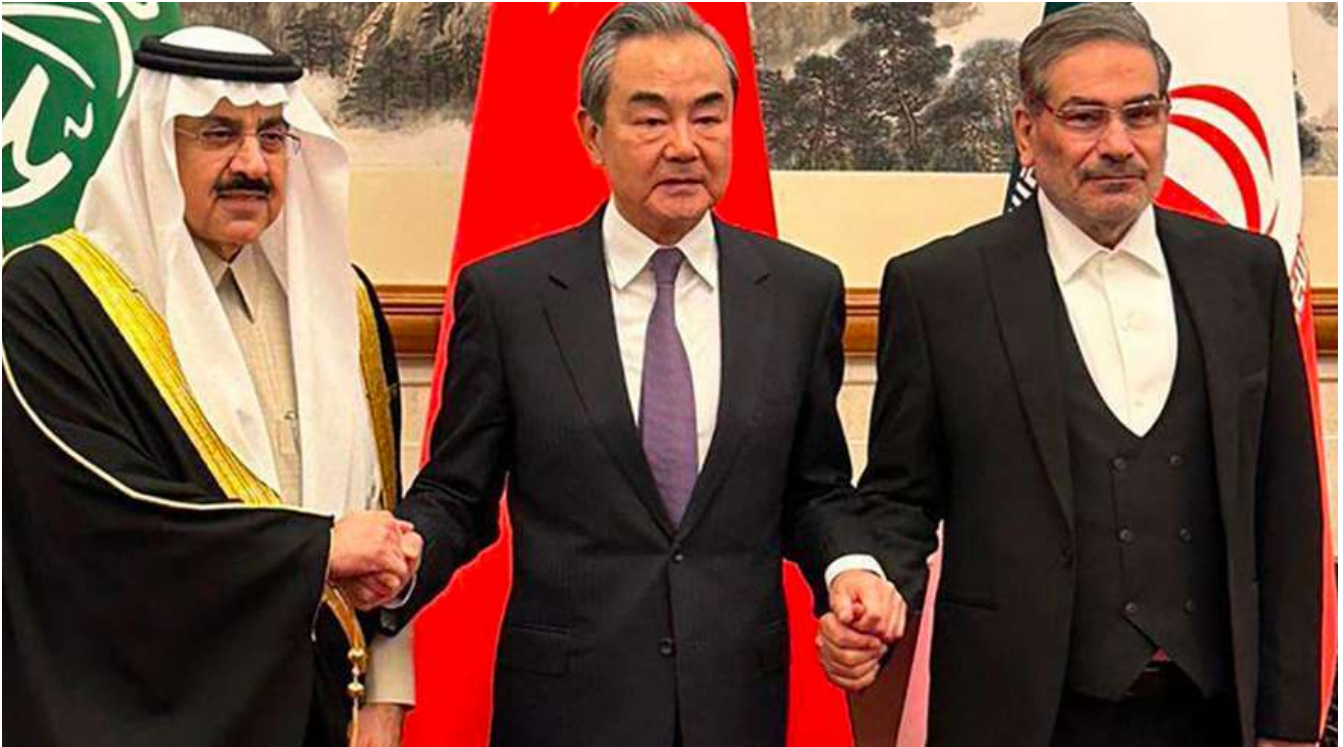
source: SAMA, General Authority for Statistics and IMF



REAL SECTOR	2020	2021	2022	2023e	2024e
Nominal GDP (USDbn)	703.4	833.5	1,004.6	994.3	1,023.3
Real GDP growth	-4.1%	3.2%	5.4%	3.1%	3.1%
Real non-oil growth	-2.5%	4.9%	4.0%	3.8%	3.8%
Population (mn)	35.0	35.6	36.2	36.8	37.4
Per capita GDP (USD)	20,089	23,410	27,743	27,002	27,326
Oil price (Brent, USD/b Avg.)	42.3	70.5	100.0	85.0	80.0
CPI inflation (% Avg.)	3.4%	3.1%	2.7%	2.0%	2.0%
EXTERNAL SECTOR					
Trade balance (USDbn)	46.0	135.4	217.6	164.0	144.7
HC exports (USDbn)	119.4	202.2	296.8	257.4	247.1
Non-HC exports (USDbn)	52.5	72.9	72.1	67.3	68.4
Services balance (USDbn)	(47.3)	(63.0)	(65.0)	(75.0)	(85.0)
Net transfers (USDbn)	(37.4)	(44.4)	(45.1)	(47.2)	(49.4)
Current account (USDbn)	(24.8)	43.2	124.3	59.4	28.8
Current account (% of GDP)	-3.5%	5.2%	12.4%	6.0%	2.8%
FDI (USDbn)	0.5	(4.6)	(14.0)	(4.0)	(4.0)



# 3 SAUDI ARABIA POLITICAL TIES



## Saudi Arabia and Iran to restore diplomatic ties after seven-year rift.

Saudi Arabia and Iran have agreed to end their seven-year rift and restore diplomatic ties in March in China as part of a China-brokered deal aimed at reducing tensions in the oil-rich region. The Iran-Saudi deal is a victory for Chinese diplomacy and underscored Beijing's growing clout in the Middle East region. It is also a challenge to the US, whose traditionally strong relations with Riyadh have cooled recently. Iran and Saudi Arabia had previously held several rounds of talks hosted by Iraq and Oman. The agreement is a "major win for regional de-escalation efforts". The improvement in Saudi-Iranian relations also come during a period of increasing tensions between the Islamic republic and

the west over Tehran's crackdown on protesters, its nuclear ambitions and the sale of combat drones to Russia that are used to attack Ukraine.

**Saudi delegation arrives in Yemen for talks to end war.** A Saudi Arabian delegation has arrived in Yemen to negotiate an end to the long-running war that has pitted the kingdom and its allies against the Iran-backed Houthi militia group. A Saudi-led coalition intervened in Yemen in 2015 after the Houthis seized swaths of the country, including Sana'a. The war has killed hundreds of thousands of people, whether directly or through disease and malnutrition, and led to Houthi drone and missile strikes on oil installations in Saudi Arabia.



### **Saudi Arabia hosts Syrian foreign minister for first time since civil war.**

Syria's foreign minister has visited Saudi Arabia for the first time in more than a decade, as Arab governments who opposed President Bashar al-Assad during his country's civil war move closer to embracing Damascus. Syria was suspended from the pan-Arab organization in 2012 after Assad's brutal crackdown on a popular uprising triggered the outbreak of civil war that devastated the country. Assad has since regained control over much of Syria, thanks to Russian and Iranian military support. The warming of regional ties has picked up since the devastating earthquake in February that killed at least 6,000 people in Syria,

as well as close to 46,000 in neighboring Turkey. Prince Faisal bin Farhan al-Saud, Saudi Arabia's foreign minister, also said in February that there was "a growing consensus" in the Arab world that isolating Syria was not working.

**Long-term investors would be encouraged by Saudi Arabia's 2023 foreign policy, its recent strategy and taken decisions to avoid any more involvement in the war in Yemen and the volatile relationship with neighboring Qatar, as well as its rivalry with Iran – these are all risks to be eliminated diplomatically in 2023 to guarantee and prove a different strategy to the investment climate.**





# 4 SAUDI ARABIA INVESTMENT INCENTIVES

## 4.1. Saudi Arabia's Vision 2030 Has Been Achieving Remarkable Initial Success

**Vision 2030 is a hugely ambitious plan to diversify the economy of Saudi Arabia and reduce its dependency on hydrocarbons.** To achieve this transformation, the private sector must take a front seat as a strong driving force for future economic growth and change. It was created as a bold step towards a transformation into a more sustainable economy. The Kingdom's Public Investment Fund (PIF) will also transform to one of the largest sovereign wealth funds in the world, with 2 trillion USD in assets under management.



**The Government is continually investing in new ventures, having announced a 3 trillion USD investment in numerous Mega and Giga projects spread across Saudi Arabia.** The largest and most prominent of these is the brand new 'smart city' of NEOM, a 500 billion USD project spanning 17 sectors. Other similar projects include Qiddiya and Dereiyah (entertainment and culture hubs), the Red Sea Project (an exquisite sanctuary), Al Ula (a living museum) and AMAALA (health and wellbeing centred around wellness and sports; arts and culture; and sea, sun, and lifestyle).





**Saudi Arabia is determined to promote and push its agenda of tourism, cultural, housing and investment initiatives through several schemes defined by these giga projects.** These ambitious landmark projects are already underway and will help transform the economy while showcasing Saudi Arabia's geographic wealth, cultural heritage, hospitality, and economic ambitions to the world. Saudi Arabia has set itself ambitious targets for green energy usage. The target as part of Vision 2030 is to have 50% of the country's electricity usage being derived from green energy sources, and there is a specific focus on solar to generate green energy. Additionally, the Government has invested heavily in the country's national infrastructure in a bid to attract foreign investments. The Government recently announced the opening of the retail and wholesale sectors to 100% foreign ownership and has launched an extensive privatization program.





**Already achieved remarkable initial success along multiple themes, attesting the seriousness of the country's transformation into a global and modern nation:**

### Women's Empowerment

Increased women's participation in the workforce, through initiatives and reforms. Around 38% of small and medium enterprises in Saudi Arabia are owned and operated by women.



### Cultural & Educational Enrichment

Unveiled in 2019, Saudi's cultural scholarship program seeks to nurture emerging young talent and help forge a rich cultural landscape for the benefit of future generations. Scholars are given the opportunity to study at more than 60 prestigious international universities, ranging from Harvard to the Sorbonne, and to choose from subjects including archaeology, design, literature, filmmaking, the culinary arts, and more.

### Home Ownership

Saudi homeownership rose from 47% in 2016 to 60% in 2020, just surpassing targets by 8%. By 2030, the Kingdom expects almost two-thirds of citizens to own their home. Private investment in the real estate sector exceeded 67 billion USD in 2020.







## Spotlight on Sports

More than 2,000 sports, cultural and volunteer events took place between 2016 and 2020, attracting over 46 million visitors, providing thousands of jobs and bolstering investment. In three years, the number of entertainment venues in the Kingdom has leapt from 154 in 2017, to 227 in 2020.



## Road Connectivity

More than 2.4 billion USD has been invested in industrial infrastructure in support of Saudi Arabia's efforts to increase the role of the private sector, promote economic diversification, and confirm itself as a hub for global industry.

## Green Growth

The Kingdom is investing in new technologies that will revolutionize the way the oil sector works and the way the world thinks about fossil fuels. Investment in solar power is also helping to meet the Vision's commitment to 50% renewables in the energy mix by 2030. Reduction of budget deficit, from 15% to 8% of GDP between 2015 and 2017 (a reduction of more than 160 billion SAR in two years).





## 4.2. Saudi Arabia's International Trade Agreements



**Saudi Arabia is member of WTO with commitment to further liberalize trade regime and accelerate integration in the global economy.** On a regional dimension, Saudi Arabia is member of the Gulf Cooperation Council and of the Greater Arab Free Trade Area<sup>1</sup>. Bilaterally, Saudi Arabia signed treaties for the avoidance of double taxation of income and capital (DTAs) with 29 countries as well as agreements aimed at promoting and protecting the investments of the enterprises of one contracting party in the territory of the other with 23 countries. In addition, Germany and Saudi Arabia have formalized bilateral relations since 1929 by signing the Treaty of Friendship. After the United Arab Emirates, Saudi Arabia has become Germany's second largest trading partner in the Arab World. The main goods exported from Germany into Saudi Arabia are machinery, chemical products and electrical, precision engineering, motor vehicles and optical goods. The reform program Saudi Vision 2030 is offering promising new (international) business opportunities.



### 4.3. Investment Incentives

**While setting up a business within the Kingdom, the Saudi Industrial Development Fund (SIDF) offers loans of up to 50 to 70% of the project costs during a time period of 15 to 20 years without interest fees.** Interest fees are not permitted according to Sharia law. During pay-out, 2.5% of the loan are due and a yearly administrative cost is calculated. In general, in case of 50% SIDF financing, the input is the following: 25% equity contributed by the foreign investor, 25% commercial loan from a local bank and 50% SIDF loan. Furthermore, technical know-how can be regarded as investment and a contribution in kind, however this step is required to be evaluated by an auditor and can take up to several months. As a foreign investor it is also possible to invest in several Tadawul – Investment Funds of the Saudi Arabian stock market. Part of its attractive framework is also the free convertibility of the Saudi Riyal and the free profit and currency transfer.



### 4.4. New Companies Law Means Major Change & Uplift in the Corporate Sector

**A significant change to the corporate governance regime in Saudi Arabia comes into effect at the end of 2022, which should bring the Kingdom in line with other jurisdictions and make doing business here easier.** On 29/11/1443H (28 June 2022), the Council of Ministers approved a new Companies Law. The new Companies Law introduced new legal entities' types, such as the Simplified Joint-Stock Company (SJSC). The SJSC seems to form a combination of both a Limited Liability and the standard well-known joint-stock companies whereby it offers its shareholders the structure and flexibility of the standard joint-stock company, yet does not apply the same compliance reporting to a certain extent such as minimum number of management composition.

**This will likely be the preferred model for joint-ventures as it offers the flexibility of the ingress and egress of shareholders** as opposed to a limited liability, which grants pre-emption rights and sets out certain procedures carried out and approved by 75% of its shareholders to allow such ingress or regression. Nevertheless, the shareholders are permitted to set out restriction on a shareholder or more by applying selling restriction terms. Also, the SJSC is permitted to issue different classes of shares with different rights and obligations.



**In addition, and which fortunately marks a great achievement in corporate transactions governed by Saudi laws, is the recognition of shareholders' agreements (and joint-venture agreements).** Prior to the new Companies Law, the only recognized agreement was the company's Articles of Association (or Bylaws) which effectively had a massive impact from an enforceability position. The regulator's approach in accepting recognition of shareholders' agreements (and joint-venture agreements) and permissibility of including such terms into the company's Articles of Association and Bylaws will be valuable, especially with certain common terms such as Drag-Along and Tag-Along rights, which used to be a gap and difficult to enforce whereby now is resolved by the new Companies Law, and as a result offers founders and shareholders considerable confidence in agreeing such terms at more comfort.

**All of these great achievements, will certainly have an impact on the appetite of new foreign investors, especially those entering into joint-ventures with local investors, or foreign investors with a group policy structure that needs to be followed or adopted in attractive jurisdictions such as Saudi Arabia.** While the new Companies Law offers more flexibility with regards to adopting certain commercial terms that are now permitted and can be recognized by the regulator, the new initiative of setting up foreign Regional Headquarters in Saudi Arabia will also have a greater influence in attracting multinational groups setting up their regional offices in the Kingdom for the purpose of supporting, managing and providing strategic decisions in a manner to direct its vehicles being its subsidiaries, affiliates and branches in Saudi Arabia, and generally within the region.





# 5 SAUDI ARABIA STOCK MARKET



There is a growing demand for investment banking, partly from Vision 2030 projects which rely on services such as fund and asset management, as well as from an increasing number of M&A and IPO transactions, and debt structuring and restructuring deals.

Another factor driving demand is that the country's capital market (Tadawul), is opening up to foreign ownership – up to 49% or, in the case of a strategic investor, 100%. Tadawul is also listing a greater range of investment products, including tradable funds, bonds and sukuk (Sharia-compliant bonds). Having taken the bold decision to re-imagine its economy, the Saudi Government is taking significant steps to make the country an easier place in which to do business and offer significant opportunities to reward foreign investment.

**The total Value of Shares Traded for the year 2022 reached 1.708 billion SAR (455.48 billion USD)**

compared to 2.23 billion SAR (596.24 billion USD) for the previous year, decreased by 23.61%. The total number of Transactions executed during the year 2022 reached 87.90 million compared to 91.87 million trades for the previous year, decreased by 4.32%. The Volume Traded for the year 2022 reached 45.11 billion shares compared to 68.51 billion shares traded during the previous year, decreased by 34.16%.

**Around 18 companies/funds offered parts of its shares to public (IPOs) during the year 2022.** At the end of the year the total number of listed companies reached 223. The total offered value reached 37.51 billion SAR and 2.96 billion shares/units were offered for all IPOs during the year 2022. At the end of the year 2022 the market capitalization of all IPOs reached 147.37 billion SAR that represent 1.49% of the total market capitalization.



# 6 TOP BOOMING SECTORS WE WANT TO HIGHLIGHT

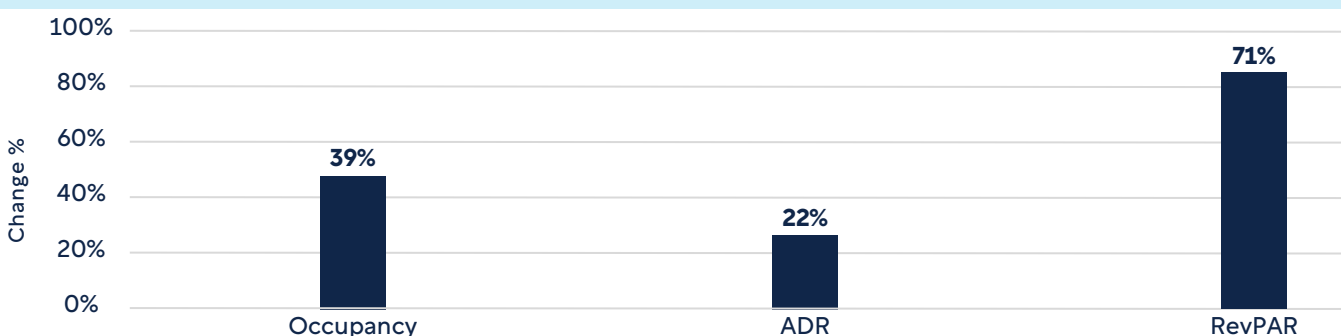
Over the past five years, and within their framework, Saudi Arabia has delivered on the promises of Vision 2030 by creating new investment opportunities, funding promising new sectors, and accelerating the growth of the non-oil economy. Gateway industries such as tourism, local manufacturing and smart services – sectors that will generate the jobs of the future for Saudi youth – have taken root, helping to create inclusive and sustainable economic growth for all. The Kingdom has also strengthened its central government, restructuring ministries to ensure their alignment with the goals of the nation and the needs of citizens, and optimizing efficiency. In partnership, the government has invested strongly in smart infrastructure, enabling it to digitize a broad range of essential services.

## 6.1. Tourism & Hospitality: Welcoming the World

One of the sectors that best illustrates the changes set in motion by Vision 2030, is **tourism and hospitality**. The target is for the travel and tourism sector to comprise more than 10% of GDP by 2030, compared to 3% today. The country expects to attract more than 100 million local and international visitors per year and become a leading international tourism hub by 2030, creating an extra 1.2 million jobs in the process. To achieve these targets, the Government is combining regulatory reforms with major investment in tourism infrastructure. This is not only aimed at attracting foreign tourists, but also encouraging citizens to travel internally more frequently. Saudis spend around 20 billion USD on travel, shopping, and entertainment in other countries each year. The Government is hoping to bring at least the same amount back into the domestic tourism sector.

**The preparations for this began in 2019, when a new visa category was created specifically for tourists.** Before this change to the Tourism Law, foreign travel to Saudi Arabia was restricted to Muslim pilgrims – who received special visas to visit the holy cities of Mecca and Medina – resident workers and their dependents, and business travelers. Now, citizens from 49 countries can visit as tourists – all they need is to obtain an e-visa before they arrive or a visa once they have landed. This radical reform was accompanied by relaxing the rules for single female travelers and unmarried foreign couples, who can now book hotel rooms together.

### KSA hotel performance, percentage change, January to September 2021 versus January to September 2022



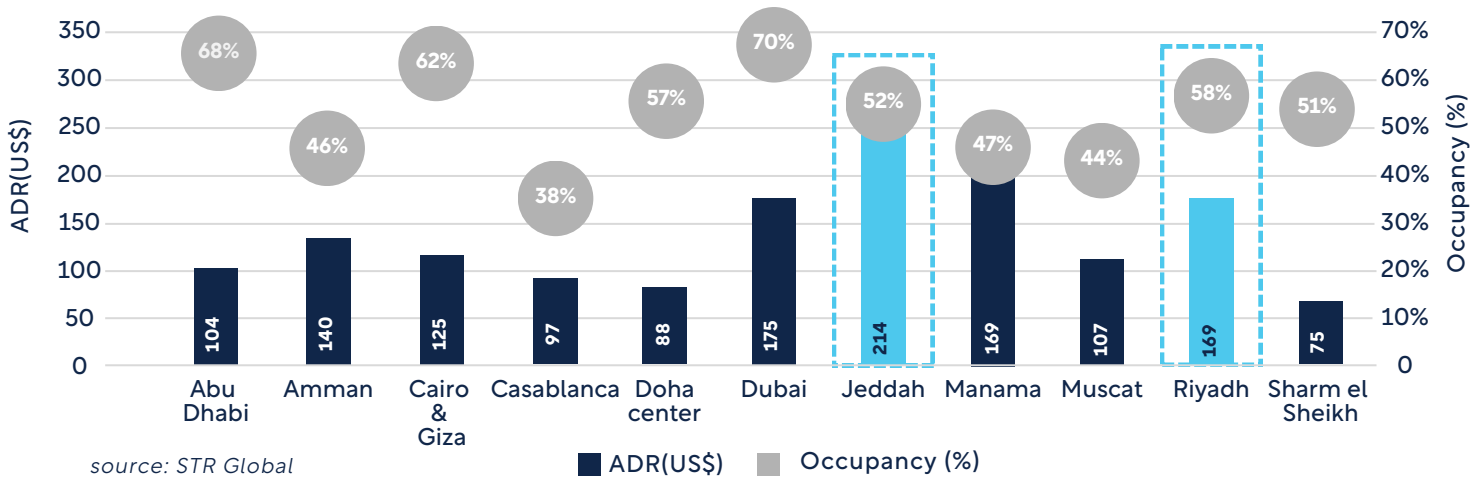
source: STR Global



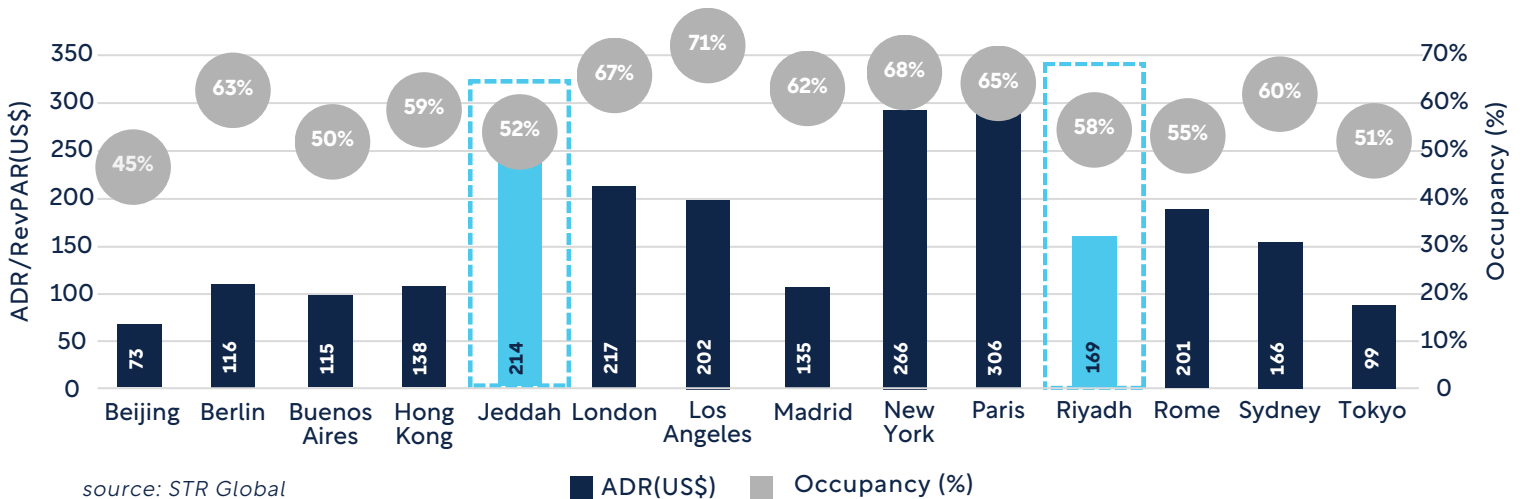


Some 150,000 new hotel rooms will be built by the end of 2023, of which 70% will be funded by the private sector, and airport capacity is scheduled to grow to more than 100 million passengers per year by 2030. Currently, religious tourism with pilgrims undertaking Hajj and Umrah, accounts for 19 million visitors annually and is the largest segment of the sector. The Government is determined to diversify and expand through investment in new resorts and the country's rich heritage – Saudi Arabia is home to six UNESCO world heritage sites and more than 4,000 registered archaeological sites. Saudi Tourism Authority reported in November 2022 that the country welcomed 62 million visitors in 2021, with visitation estimated to reach 70 million in 2022. The facilitation of a tourist visa for GCC residents and the visa on arrival extension to UK, US and EU residents aims to support KSA's ambition to welcome 100 million visitors a year by 2030.

### ADR and occupancy vs regional markets, YTD September 2022



### ADR and occupancy vs international markets, YTD September 2022





**Upmarket resorts in locations such as the Red Sea Project and AMAALA – dubbed the Riviera of the Middle East – will soon be available to wealthy tourists.** The Red Sea Project offers an extraordinary variety of attractions ranging from dormant volcanoes, mountains, a marine life reserve and beaches, to leisure and entertainment facilities. Scheduled for completion in 2023, the first phase will incorporate an airport, a yacht marina and 3,000 luxury and ultra-luxury resort keys. It also has its special economic zone, complete with a legislative and regulatory system and streamlined visa requirements to attract jetsetters all year round. Even more exclusive, AMAALA is aimed at the world's top 2.5 million ultra-high net worth travelers. Sited on the north-western coast, the resort is set in an area of 380 hectares and, once complete, will have 2,500 luxury hotel rooms, 700 residential villas and apartments, and a golf course.



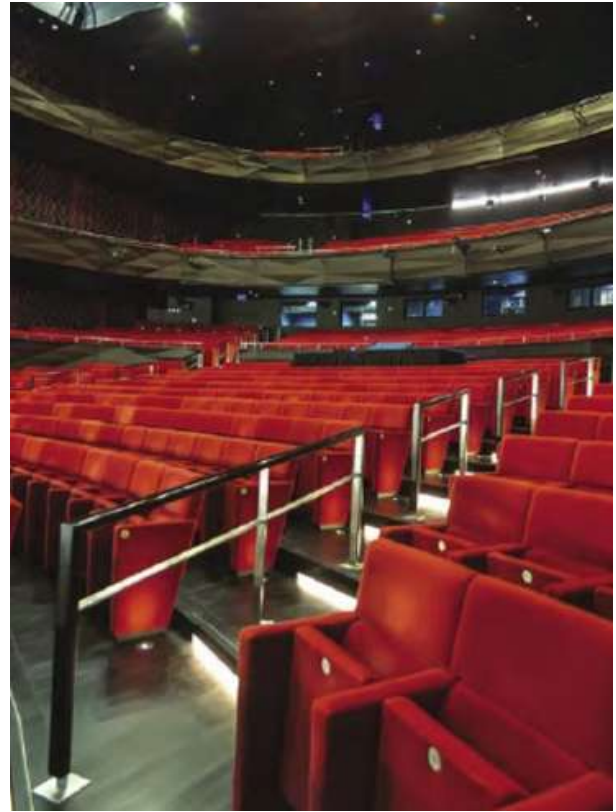
**The Government is also developing, with respect and sensitivity, cultural assets such as the cities of Al Ula and Diriyah. Al Ula features Mada'in Saleh,** the second largest Nabatean heritage site after Jordan's Petra, among its many archaeological attractions. Now the city is being transformed to attract eco-friendly tourists interested in outdoor pursuits and cultural experiences, with activities such as camping, hiking and sightseeing. **Diriyah,** on the northwest outskirts of Riyadh, is an iconic mud-brick city, the home of the first house of the Al Saud family and capital of the first Saudi state, with At-Turaif UNESCO World Heritage Site at its heart. The whole area is being sensitively transformed to showcase the country's history and culture, while also providing an extensive range of facilities for shopping, entertainment, and dining. All these measures mean that many opportunities and tourism experiences are on the horizon as the Government opens the country's vast and varied landscapes, as well as its rich heritage and culture, to foreign visitors and investors.



## 6.2. Entertainment, Sports & Leisure: Showcase of Opportunities

The transformation in the Saudi economic climate and the modern, future-facing approach is exemplified by the entertainment and sports industries, while the enthusiastic response perfectly illustrates the phrase ‘pent-up demand’. As ever, these changes have been spurred by the radical national development strategy set out in Vision 2030. This aims for household spending on entertainment and cultural activities to rise from **2.9% to 6%**. In just one of many moves to achieve this, the Government ended a 30-year ban on cinemas in 2018. By the end of 2021, there were **45 cinemas** which had shown more than 1,000 films and the first Red Sea International Film Festival (RSIFF) was underway at Jeddah’s historic old town of Al Balad. It featured 138 films and shorts from 67 countries in 34 languages, 27 of which were from Saudi Arabia, and was seen by 30,000 people and 3,115 industry professionals, press and students over its 10-day duration.

**Vision 2030 does not see the sector in isolation:** it is integral to a range of ambitions, from improving the health of the nation, for instance, through promoting sport to encouraging tourism. The General Entertainment Authority (GEA), established in 2016, is charged with developing the local entertainment industry and its infrastructure needs. The Public Investment Fund (PIF), is also involved through Saudi Entertainment Ventures (SEVEN), its specialist implementation and investment arm. Similarly, the Ministry of Sports (MOS), regulates the sector, promotes its activities and provides modern facilities to broaden the base of sports participants and achieve regional excellence.



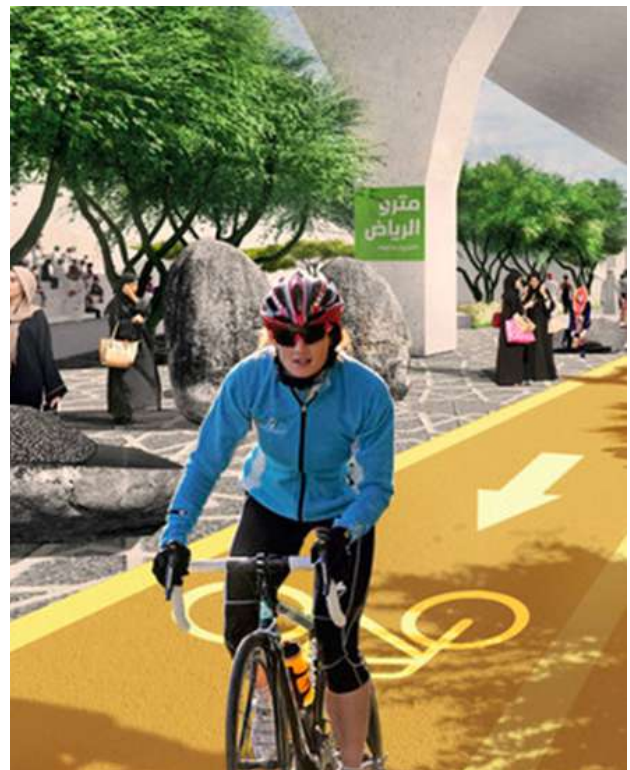
The scale of the Government’s ambition was shown in 2020, when the PIF bought a **5.7% stake in the world’s largest concert promoter, Live Nation, for 382 million USD**. For its part, the public showed its appetite for entertainment through the success of initiatives such as the Saudi Seasons – an annual series of festivals in cities across the country offering a wide mix of events including auto shows, car races, and pop concerts. The demand for entertainment is also shown in official licensing figures: In 2020, the Government issued **117** permits for entertainment events, **219** licenses for operating entertainment facilities, and 398 permits for live shows in restaurants. Additionally, **180** investors received licenses to manage and develop artistic talents, and more than 410 restaurants and cafes registered to obtain live performance permits.





And there is more to follow. In January 2018, the GEA established a subsidiary, the Development and Investment Entertainment Company (DIEC), with an initial capitalization of 2 billion USD, to act as both a planning body and investor in the entertainment industry. **The GEA has a budget of some 49 billion USD to spend by 2029 on developing entertainment-related infrastructure and creating 224,000 new jobs in the process.** Some indication of its ambitions came just a few months later, in April when it signed an agreement with US movie theatre chain AMC Theaters to open 30-40 cinemas in 15 cities over the following five years, and a total of 50-100 cinemas in 25 cities by 2030. Entertainment and sports facilities are incorporated into every new development. **Riyadh's facilities, meanwhile, are to be boosted with the Sports Boulevard and the King Salman Park.** The Boulevard will stretch 134km and feature green pedestrian pathways, cycling lanes, horse-riding tracks, and indoor sports facilities together with arts centres, museums, studios, libraries, and conference halls. The largest urban park in the world, the King Salman Park will include an arts complex, theatres, museums, cinemas as well as sports venues and a golf course.

**Opportunities for constructing sporting facilities and managing large-scale sporting events are emerging,** in line with the targets of a threefold increase in participation in sports, as well as creating and hosting world-class events as a way of attracting globally respected sporting brands, championships and events to the country. It has already hosted the Diriyah ePrix, the PGA European Tour, the WWE Crown Jewel, the Saudi Cup Horse Race, and the Saudi Formula 1 Grand Prix. All these events require construction and management skills. Examples like this show the potential across the whole value chain, from construction to catering to event management.

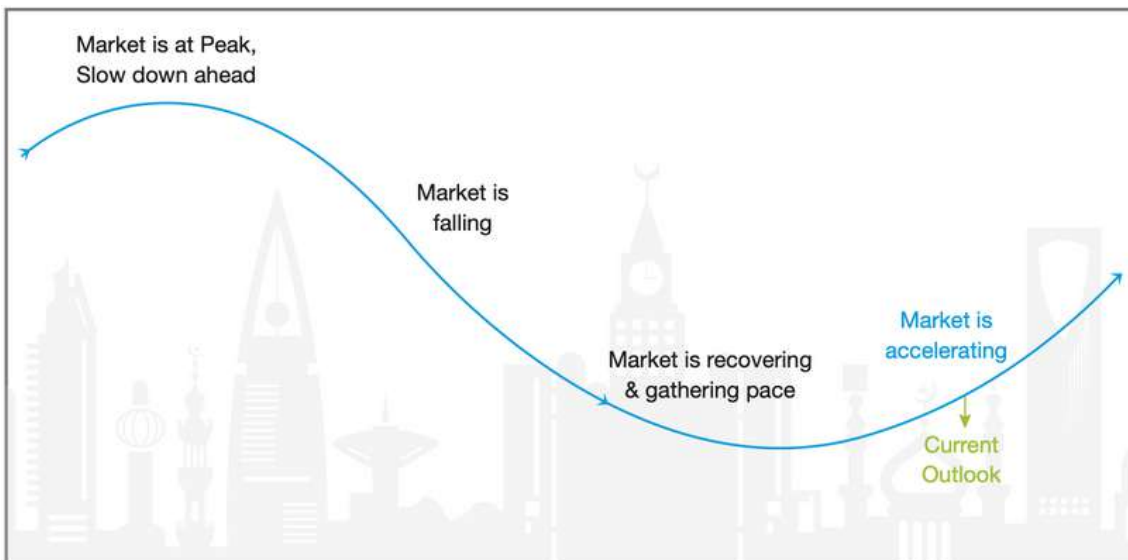




### 6.3. Real Estate Sector & Construction

The post-COVID recovery of the real estate sector is led by increasing tourist demand and government spending on infrastructure projects such as the investment in King Salman International Airport, among others. The Saudi Arabian real estate market has made a strong recovery from the coronavirus-induced slowdown. Various measures taken by the government like ensuring home ownership for all nationals, mandating regional headquarters for foreign companies has also given new impetus to the real estate sector. Also, other government initiatives like Sakani (enable Saudi citizens to own their first home) and Wafi (off-plan sales and rent program) boosted the demand for affordable homes. The real estate sector in Saudi Arabia is expected to show further stability with a chance of mild acceleration in 2023.

#### Saudi Arabia Real Estate Market Outlook



Real estate loans offered by banks stood at 605.51 billion SAR at the end of Q1 2022, representing a healthy growth of 28% (Y/Y). Of the total value, loans offered to retail customer stood at 476.16 billion SAR, growth of 33% (Y/Y) and those to corporates stood at 129.35 billion SAR, growth of 11% (Y/Y). Value of new residential mortgages offered to individuals by banks stood at 36.21 billion SAR as of Q1 2022-end, representing a fall of 26.2% y-o-y compared to same period in the previous year. After steady growth in the take-up of residential mortgages due to strong underlying demand from Saudi nationals to own residential units, the total number of transactions trended down sharply by 28.3% y-o-y in Q1-2022. The drop is largely attributed to the change in procedures relating to obtaining a residential mortgage.

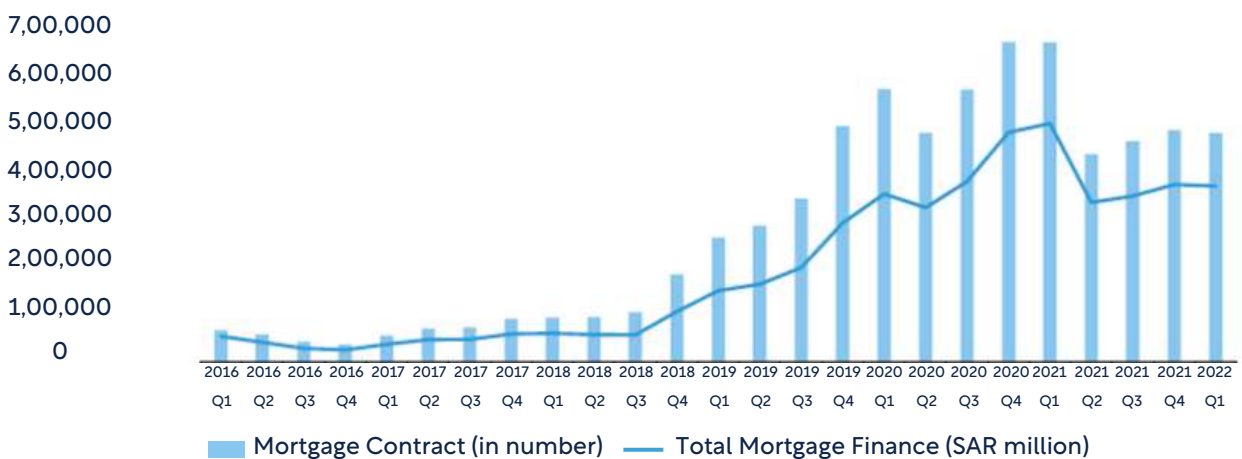


### Real Estate loans by banks (SAR million & Y/Y change %)



source: SAMA

### Number of new residential mortgage contracts and total mortgage value



source: SAMA

**Saudi Arabia to build 300,000 houses in 4 years.** Saudi Arabia will spend at least 200 billion SAR (53.3 billion USD) to build nearly 300,000 houses in the next four years within plans to increase citizens' house ownership to nearly 70%, according to a Saudi housing official. The Kingdom has already pumped more than 500 billion SAR (133.3 billion USD) into the housing sector over the past few years as part of its economic diversification scheme 'Vision 2030,' said Mohammed bin Saleh Al- Butti, CEO of the National Housing Company (NHC).

**Sakani Program.** Saudi Arabia has announced that work is progressing well on seven major residential suburbs being developed in major cities across the kingdom under its Sakani Housing program. Once completed, it will add 146,500 new homes into the Saudi Arabia's real estate market. These residential suburbs are coming up on a total area of more than 53 million sq. m. in partnership with a number of real estate developers from the private sector. All these residential suburbs have a modern concept of housing that meets the needs and aspirations of the Saudi families. It includes all educational, health and commercial facilities, in addition to green spaces, sports and recreational centers to boost their quality of life.





### **Foreign diplomatic missions, global firms can own headquarters, residences under amended Saudi Real Estate Law.**

The amended Law on Real Estate Ownership and Investment by non-Saudis allows foreign diplomatic missions accredited to the Kingdom to own their official headquarters and residences of the head of their missions and their members and that is on the basis of reciprocity. There is also a provision in the amended law that permits international and regional organizations to own their official headquarters and that is within the limits of the agreements governing them. These ownerships would be granted on the condition of obtaining a license from the Minister of Foreign Affairs, it was specified in the amended law. The amendments to the law were introduced with the aim of raising and improving the efficiency and effectiveness of the procedures and controls related to the ownership or use of real estate by non- Saudis, who enjoy natural and legal capacity, in cities and economic zones in the Kingdom targeted for development, including the cities of Makkah and Madinah.



**Saudi Central bank SAMA announces amendment articles of implementing regulations of finance laws.** Real estate finance companies are now allowed to practice financing activities without stipulating the prohibition of combining Real Estate financing and other forms of financing activities. SAMA retains the discretion to restrict licensing by certain conditions.

**PIF-backed Saudi real estate refinance signs mortgage finance deal worth 266 million USD.** The Saudi Real Estate Refinance Company (SRC), a mortgage financier backed by the kingdom's Public Investment Fund, has reached a refinancing deal worth 1 billion SAR (266.6 million USD) with Saudi National Bank as it seeks to boost the home finance market in the Kingdom. This is considered to be the largest bank refinancing deal in the kingdom to date. The agreement aims to refinance the lender's real estate portfolio to provide long-term liquidity to the kingdom's home finance market. Saudi Arabia has set an ambitious target of raising home ownership rates in the kingdom to 70% by 2030 under the Sakani program.

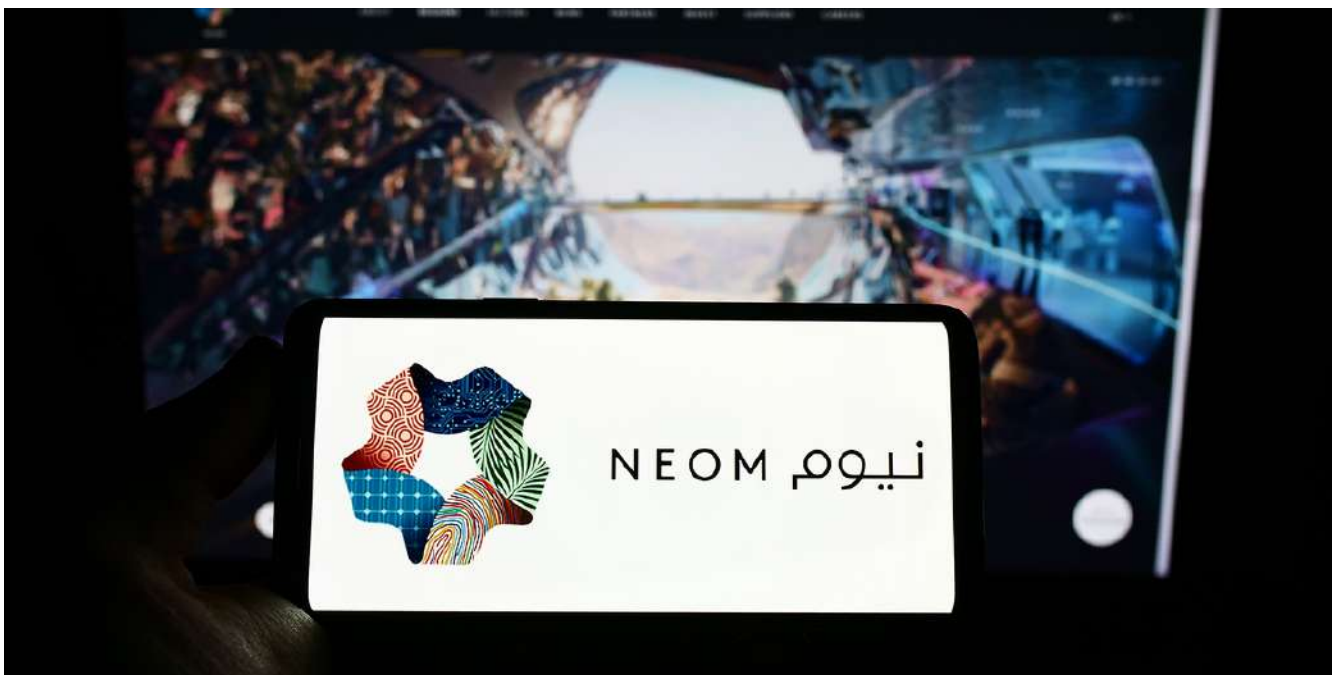


### Saudi Arabia's Jadwa Investment launches real estate growth fund.

Saudi asset management and advisory company Jadwa Investment has launched a new real estate fund with a target size of 3 billion SAR (800 million USD) as it seeks to capitalise on the growth of the kingdom's rapidly expanding property market. The Real Estate Growth Fund, launched in partnership with Tatweer Group, Numu Holding Company and Riyadh Bank, is a close-ended, Sharia-compliant real estate investment fund. The kingdom plans to turn Riyadh into one of the top 10 city-economies in the world and is investing 220 billion USD to transform the Saudi capital. Jadwa Investment said its new fund has already acquired **The Zone**, one of Riyadh's most prominent commercial assets, located in Al Mohammadiya district, with debt financing provided by Riyadh Bank.

### Saudi Arabia plans to build largest-ever buildings in Neom city.

Saudi Arabia is planning the world's tallest buildings in a mostly unpopulated part as part of an entirely new 500 billion USD development called Neom. The aim is to build twin skyscrapers about 500 meters (1,640 feet) tall that stretch horizontally for dozens of miles. The skyscrapers would house a mix of residential, retail and office space running from the Red Sea coast into the desert. The plan is a shift from the concept announced last year of building a string of developments linked by underground hyper-speed rail, into a long continuous structure. Designers were instructed to work on a half mile-long prototype. If it goes forward in full, each structure would be larger than the world's current biggest buildings, most of which are factories or malls rather than residential communities.

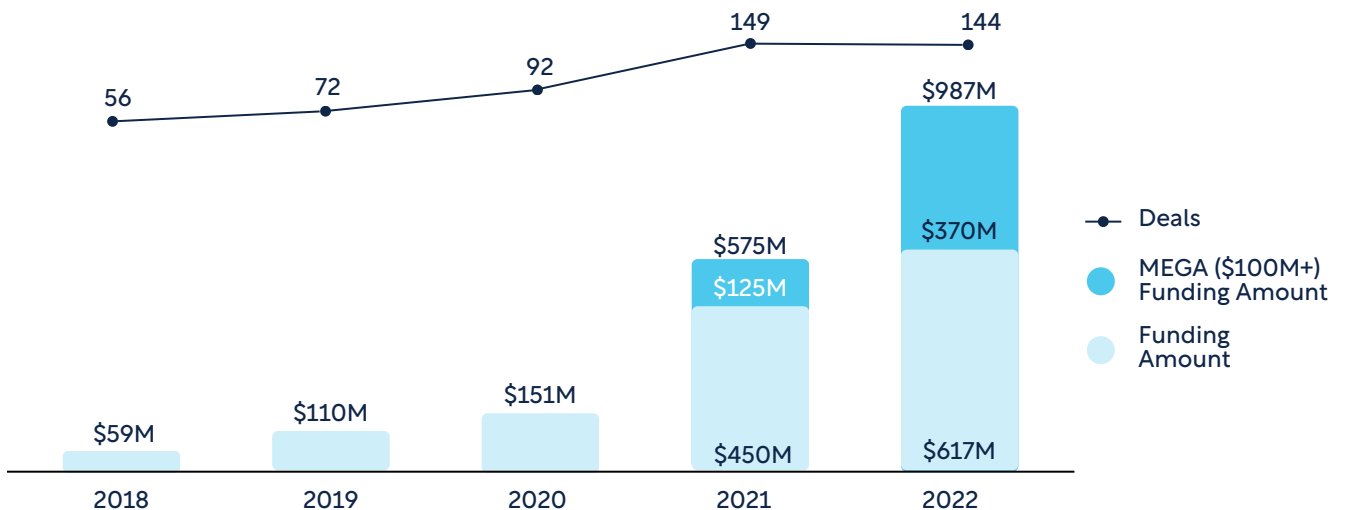




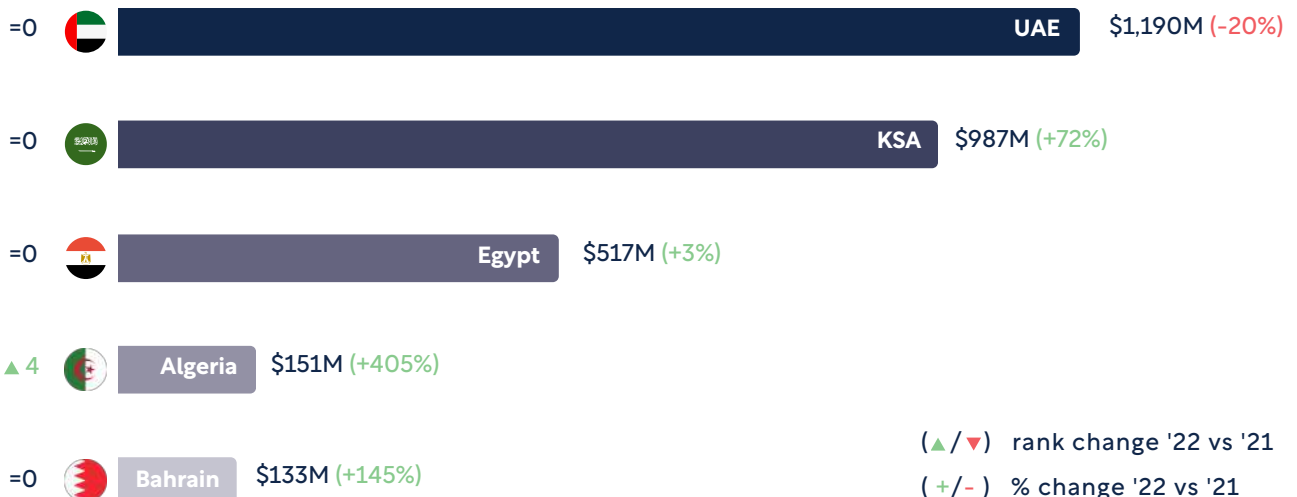
## 6.4. Entrepreneurship & VC Investments

**Saudi Arabia was one of the emerging markets that recorded YoY growth in 2022 nearing the 1 billion USD mark.** The VC ecosystem surpassed FY 2021's numbers by 72% aggregating 987 million USD in funding across 144 deals, reporting a 3% decline in terms of total transactions. The Kingdom also saw the most Mega Rounds in one year for a MENA-based geography. Saudi Arabia recorded 3 Mega Deals, 170 million USD Series C by Foodics, 100 million USD Series B by FinTech Tamara, and 100 million USD Series C by TruKker, and captured 37% of the total funding seen over 2022. Moreover, the record first quarter drove 32% of the total funding which was a continuation of the funding highs we saw in 2021. Following Q1, the Kingdom saw quarterly declines both in terms of funding and deals in line with the global economic growth slowdowns, a trend that was observed across the MENA region.

### 5YR venture funding evolution in Saudi Arabia by amount (\$) and number of deals (#)



### Top countries by total funding (\$) in MENA in 2022



source: FY2022 Saudi Arabia Venture Investment Report



**Saudi Arabia also elevated the funding levels of MENA, accounting for 31% of the total capital deployed in the region.** If we look at the country breakdown, the Kingdom managed to reduce the funding gap with the UAE to 200 million USD, a number which stood closer to 1 billion USD the year before. The deal gap between the two also retreated to nine as opposed to 23 in 2021. To its credit, Saudi Arabia is also the only geography out of the top three markets which recorded significant YoY growth, while the top geography, UAE, saw a decline in funding compared to 2021. In terms of industry breakdown, the Saudi VC ecosystem mirrored its peer MENA markets and I saw most of the capital being deployed in FinTech which captured 24% of the total funding. The Kingdom saw investments from a record 104 investors, up by 30% when compared to 2021. It is worth noting that Saudi-based investors continue to dominate the scene accounting for almost 60% of the total investors. Participation from Corporate VCs saw a slight decline in 2022 while international investor interest has remained consistent since 2020. Over the past years, names like 500 Global have set up shop in the Middle East followed by Sequoia Capital's debut investment in Saudi FinTech Lean Technologies in 2022.

**For more reports, please check our website [www.zillacapital.com](http://www.zillacapital.com)**

**Subscribe Here**



**Zilla  
Capital**

Cairo

Abu Dhabi

Dubai

Nairobi