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VISION 2030 AND THE $1 TRILLION FINANCING GAP

Why Private Credit Is Critical for Saudi Arabia's Economic Transformation

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1. SAUDI ARABIA'S INVESTMENT IMPERATIVE UNDER VISION 2030

The scale and pace of Saudi Arabia's economic transformation under Vision 2030 have created an investment landscape that is unlike any previous phase of national development. As the country moves from a hydrocarbons-centric model toward a diversified, innovation-driven economy, the volume of capital required no longer grows gradually; it expands structurally. Mega-projects such as NEOM, the Red Sea developments, Diriyah, and Qiddiya are not isolated initiatives but multi-year ecosystems whose infrastructure, tourism assets, logistics networks, and residential clusters demand sustained, long-duration financing cycles that stretch well into the next decade.

This acceleration generates a clear mismatch between the speed of transformation and the traditional sources of domestic funding. The economy is not merely expanding existing sectors; it is building entirely new ones, each with its own capital profile. Renewable energy, advanced manufacturing, cultural megaprojects, large-scale logistics chains, and premium hospitality all require financing structures that differ significantly from the classical government-led, bank-intermediated model that dominated past phases of growth. The result is a continuous rise in long-term capital needs that outpaces the historical capacity of banks and government budgets to absorb them.

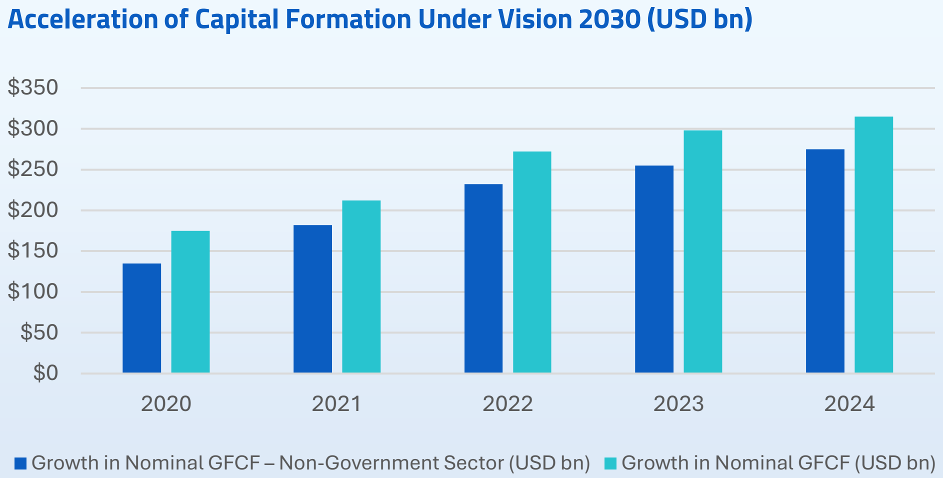

Chart 1: Acceleration of Capital Formation Under Vision 2030;

Source: Saudi Vision 2030 Annual Report 2024, Executive Summary, p. 101.

At the same time, the private sector's expanding role increases the demand for financing rather than substituting for it. The SME segment, expected to drive a significant share of non-oil GDP, requires broad access to credit to scale operations, modernize processes, and integrate into national supply chains. These firms often operate with financing needs that fall outside the risk appetite or maturity structure typical of commercial banks. In parallel, the renewable energy pipeline introduces investment cycles that rely on predictable, long-dated capital rather than short-term balance-sheet lending.

When these layers are considered together, the cumulative financing requirement converges toward an estimated USD 1 trillion gap through 2030. It reflects not a lack of liquidity in the system, but a structural divergence between what Vision 2030 intends to build and the instruments traditionally used to fund development. As the transformation advances, the need for new, flexible, and institutionally scalable forms of financing becomes increasingly evident, setting the stage for alternatives capable of operating where conventional channels reach natural limits.

2. THE LIMITATIONS OF THE CURRENT FUNDING MODEL

The scale of Vision 2030's investment requirements places immediate pressure on the traditional funding architecture, which was never designed to sustain projects of this magnitude or duration. Saudi banks remain well-capitalized, profitable, and central to the financial system, yet their structural characteristics are inherently mismatched with the type of financing the transformation now demands. Their liabilities are predominantly short-term deposits, while the country's new economic portfolio requires long-term, often bespoke capital commitments extending far beyond the maturity comfort zone of commercial balance sheets.

This maturity mismatch is amplified by upcoming regulatory changes. Under Basel IV, risk-weighted assets for corporate exposures rise meaningfully, reducing the economic incentive for banks to expand lending to sectors that already require significant capital buffers. Large infrastructure, mid-market corporates, and projects with extended payback periods become increasingly expensive for banks to carry, even when credit quality is sound. As these regulatory pressures tighten, banks naturally prioritize lower-risk, shorter-duration lending, preserving stability but limiting their ability to take on additional commitments aligned with Vision 2030's horizons.

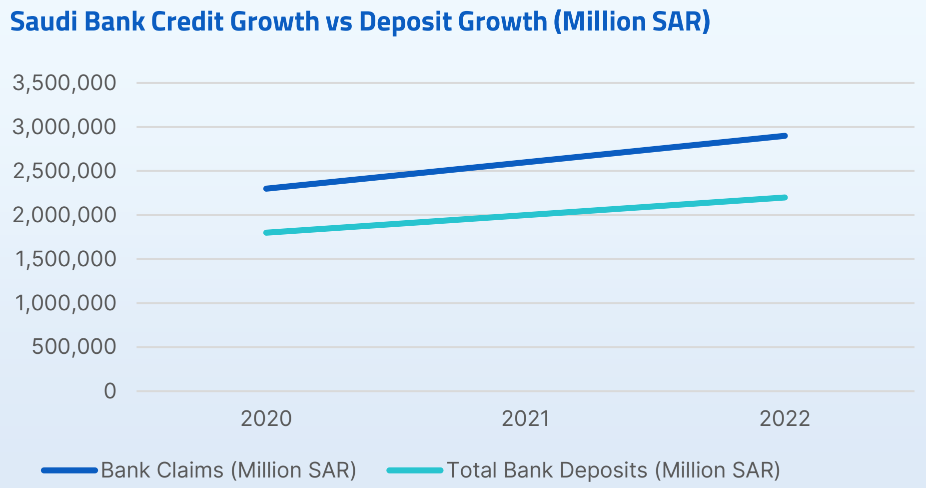

Chart 2: Saudi Bank Credit Growth vs Deposit Growth;

Source: Saudi Central Bank (SAMA), 59th Annual Report, Tables 9.2 and 9.3, pp. 104–106.

Concentration dynamics reinforce this constraint. A relatively small number of large borrowers continue to absorb most of the system's available credit capacity, a pattern common in bank-dominated economies. As these exposures grow, prudential limits restrict further expansion, leaving less room for mid-market companies and emerging sectors that now form the backbone of the diversification agenda. The result is not a decline in lending, but a ceiling on how far banks can stretch in supporting new economic activity without compromising risk thresholds.

These limitations also extend to SMEs, which face the steepest barriers. While government programs have expanded their access to financing, the segment remains chronically underserved relative to its economic importance. SMEs require flexible structures, frequent refinancing, and cash-flow-sensitive terms that banks are not optimally positioned to provide at scale. Even with growing digitalization, conventional underwriting frameworks continue to create friction for younger firms or those with irregular revenue cycles.

In combination, these structural features create a predictable outcome: the banking system can support, but not fully fund, the country's transformation. As investment volumes rise and project timelines lengthen, the gap identified earlier becomes the natural consequence of a model reaching the limits of its design, opening space for financing channels capable of absorbing the long-dated, risk-differentiated capital the next decade requires.

3. PRIVATE CREDIT AS THE NECESSARY COMPLEMENT

The constraints of the banking system make the emergence of alternative financing not just useful, but unavoidable. As the investment requirements of Vision 2030 expand beyond the natural limits of bank balance sheets, private credit steps into a space defined precisely by the types of needs that conventional lenders cannot absorb. Its growing role does not replace banks; instead, it fills the structural void created when long-dated, customized, or higher-complexity financing is required at a scale incompatible with prudential regulation and deposit-based funding models.

This complementarity becomes clear when examining how private credit structures risk and duration. Unlike syndicated loans or standardized corporate facilities, private credit transactions are negotiated directly between lender and borrower, allowing terms to be shaped around project-specific cash flows, collateral, milestones, and sector dynamics. The flexibility to incorporate covenants, step-down features, revenue-based repayment mechanics, or asset-backed structures gives lenders tools that banks, constrained by regulatory uniformity, cannot deploy at the same breadth. For projects with long development cycles or uneven revenue profiles (common across tourism, logistics, and renewable energy) this tailoring is essential.

Another factor strengthening the fit between private credit and the Saudi landscape is the steady improvement in financial transparency across the corporate sector. Since the introduction of VAT in 2018, firms have been required to submit regular financial statements, with audited accounts for companies above defined revenue thresholds. This shift has gradually reduced information asymmetry, long one of the principal obstacles to non-bank lending. More consistent reporting enables private credit managers to conduct deeper underwriting, model cash flows more accurately, and price risk with greater confidence, narrowing the gap between local opportunities and institutional capital requirements.

Financing Instruments by Duration and Flexibility

Criteria	Bank Loans	Capital Market	Private Credits
Duration	Low	High	High
Flexibility	Low	Low	High
Customization	Low	Low	High

Chart 3: Financing Instruments by Duration and Flexibility;

Source: Author's analysis, based on IMF Global Financial Stability Report and industry literature (Ares, Blackstone, Apollo).

Shariah-compliant variants further extend the relevance of private credit. Murabaha, ijara, and asset-backed instruments allow lenders to structure transactions in a way that aligns with regional investor preferences while preserving the risk-adjusted return profile sought by institutional allocators. These formats are particularly well suited to SMEs, logistics operators, renewable energy developers, and mid-market corporates, where asset bases and operational cycles provide a natural foundation for structured financing.

As investment volumes accelerate and diversification deepens, the ability to deploy capital through instruments that adapt to the economic reality of each project becomes essential. Private credit's flexibility, collateral orientation, and capacity for long-dated commitments position it as a financing pillar that complements (rather than competes with) the banking system, aligning capital supply with the needs of the next decade of transformation.

4. WHERE THE IMPACT IS MOST IMMEDIATE: SECTORAL DEEP DIVE

The areas where private credit demonstrates its strongest contribution become clearer once the financing needs of Vision 2030 are examined through a sector lens. The characteristics that define the transformation generate distinct capital profiles across infrastructure, logistics, healthcare, renewable energy, real estate, and the SME and fintech ecosystem. Each of these sectors requires forms of financing that benefit from the flexibility and structuring capacity inherent to private credit, which helps explain why alternative lenders are gaining traction precisely where capital demands are most acute.

Infrastructure stands at the center of the transformation, not only because of the scale of construction but also because of the long development horizons and phased cash flow generation typical of these projects. Transport corridors, utilities, ports, data infrastructure, and integrated tourism destinations all require capital that remains committed well beyond the tenor banks prefer to hold. Private credit can align repayments with milestone achievements, create collateral packages tailored to asset classes, and offer financing structures that adjust to the evolving risk profile over the life of the project. This adaptability becomes decisive in developments like NEOM or the Red Sea clusters, where conventional lending cannot fully match the duration or complexity of the investment cycle.

Healthcare reflects a different dynamic but results in a similar need for alternative capital. The sector is expanding rapidly due to demographic shifts, rising healthcare utilization, and the diversification of service offerings. Mid-sized hospital groups, specialized clinics, diagnostic platforms, and medical technology importers face sustained capital expenditure needs that are often too large for SME credit programs yet too small or complex for traditional corporate lending. Private credit fills this space by providing structured, asset-backed finance that follows patient volumes, reimbursement cycles, and operating cash flow patterns more closely than standard bank facilities.

Logistics shows another dimension of the same structural trend. As the Kingdom positions itself as a global hub for trade, e-commerce, supply chain integration, and regional distribution, mid-market logistics operators require financing for fleet expansion, warehousing, digitalization, and inventory management. These companies typically seek facilities that depend heavily on receivables, equipment, and short-cycle assets. Private credit is well suited to these situations because it can secure lending against operational assets and incorporate dynamic collateral monitoring into the financing structure.

Real estate and tourism development create yet another capital profile. Many projects in these sectors benefit from bridge financing, mezzanine layers, or phased capital injections that correspond to construction and occupancy progress. Traditional banks face limitations in allocating capital to such projects at the pace required by Vision 2030's rapid expansion. Private credit provides instruments that bridge these gaps efficiently and mitigate risks through structured protections.

Finally, the SME and fintech segments illustrate why alternative lending becomes essential in an economy that is diversifying quickly. Growing companies frequently require short-duration, repeat financing that adapts to fluctuating cash flows. Private credit managers, particularly those using Shariah-compliant structures, have already demonstrated that they can extend financing at scale to these firms while maintaining disciplined underwriting.

These sector-specific dynamics show that private credit does not fill a generic need. It aligns precisely with the areas where Vision 2030 accelerates demand and where traditional financing meets natural limitations.

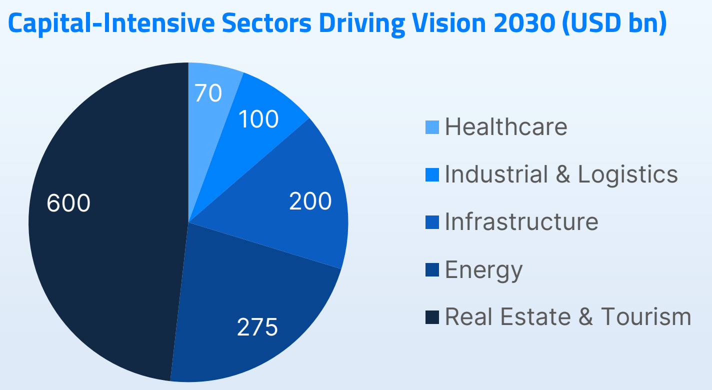

Chart 4: Capital-Intensive Sectors Driving Vision 2030:

Source: Vision 2030 Annual Report 2024; Ministry of Investment; Knight Frank sectoral research.

Note: Figures reflect announced and commi-tted investment across major capital-intensive sectors, aggregated at sector level. They are indicative and not forecasts or total funding requirements.

5. THE EMERGING SAUDI PRIVATE CREDIT ECOSYSTEM

The growing relevance of private credit becomes even more evident when looking at the institutional landscape that has taken shape in Saudi Arabia over the past few years. The country's regulatory framework has evolved in parallel with the economic transformation, creating an environment that supports the type of long-term, flexible financing that the diversification agenda requires. None of these developments operate in isolation. They are part of a broader process in which regulation, data infrastructure, investment capacity, and on-the-ground origination gradually converge.

A central element of this shift is the regulatory architecture introduced through the Direct Financing Investment Funds framework. By allowing licensed managers to originate credit directly to corporates, the Capital Market Authority has created a formal channel for non-bank financing that aligns with both international practice and domestic needs. This framework gives institutional investors clear rules on governance, reporting, valuation, and risk management, which helps reduce the uncertainty that often accompanies early-stage market development.

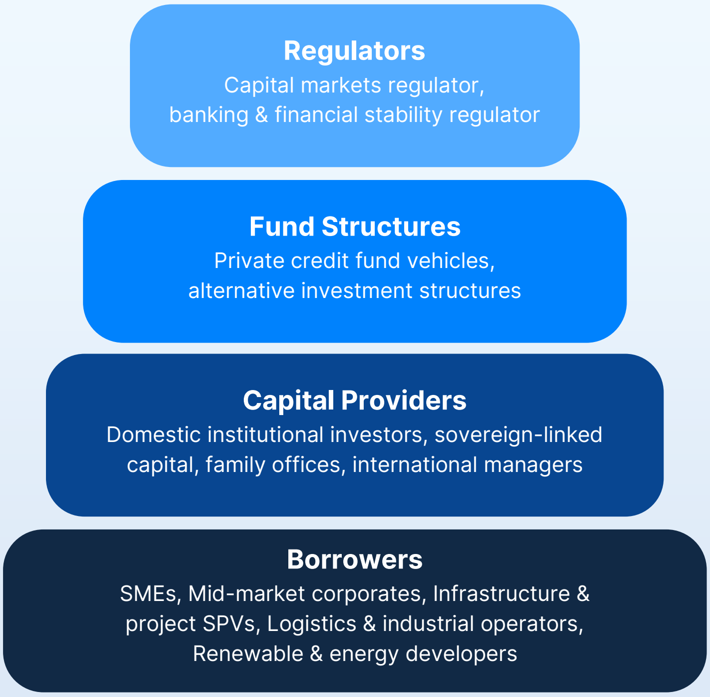

Chart 5: Saudi Private Credit Ecosystem Map;

Source: Capital Market Authority (CMA); Saudi Central Bank (SAMA); public disclosures; author's analysis.

The steady improvement in corporate transparency reinforces this foundation. The financial reporting requirements introduced since the implementation of VAT have increased the availability and reliability of company-level data. This progress is essential for private credit managers, who rely on consistent financial information to execute accurate underwriting, design covenants, and monitor performance. As more companies adopt audited statements, information asymmetry diminishes and the range of firms eligible for structured financing expands.

The ecosystem is also shaped by the role of national institutional investors. Sovereign entities such as the Public Investment Fund and large family offices have the scale and risk appetite to anchor new private credit vehicles. Their participation gives credibility to emerging managers and helps attract global partners interested in deploying capital into Saudi opportunities through locally regulated platforms. In parallel, international managers active in the region contribute expertise in underwriting, portfolio construction, and investor reporting, raising the overall standard of market practice.

These developments together form the early architecture of a functioning private credit ecosystem. Regulation enables deal flow, transparency supports underwriting, domestic institutions anchor capital, and global expertise reinforces discipline. As the transformation advances, these components are positioned to grow in sophistication and scale, expanding the pool of financing options available to the sectors driving Vision 2030.

6. OUTLOOK TO 2030: THE CONTRIBUTION OF PRIVATE CREDIT TO CLOSING THE GAP

As the institutional foundations of private credit continue to strengthen, the question shifts from whether the market can operate in Saudi Arabia to how much of the remaining financing gap it can realistically absorb. The alignment between the country's investment needs and the structural characteristics of private credit suggests that its contribution will not remain marginal. Instead, it is positioned to scale gradually as regulatory confidence deepens, origination channels widen, and domestic and global investors grow more familiar with the opportunity set.

The growth trajectory over the next several years will depend on the ability of market participants to broaden deal flow across mid-market corporates, asset-backed opportunities, renewable energy projects, and tourism-linked developments. As these pipelines become more predictable and data quality improves, private credit managers can deploy capital at a pace that begins to make a measurable difference to the annual financing requirements of Vision 2030. Even conservative scenarios indicate that private credit could shoulder a significant share of the incremental capital demand that banks and sovereign budgets cannot absorb on their own.

Scaling, however, will require continued progress on a few critical fronts. A more harmonized regulatory environment across jurisdictions will help managers structure vehicles that attract international capital efficiently. Faster approval timelines and deeper clarity on reporting standards will support the creation of larger, multi-strategy platforms capable of deploying capital at volume. Strengthening insolvency processes and creditor rights will further reduce perceived risk and bring Saudi Arabia closer to the benchmarks used by global institutional investors.

Investor education will also play a defining role. As domestic pension funds, insurers, and family offices grow more comfortable with the risk and liquidity profile of private credit, the pool of stable capital available for deployment will expand. Partnerships between local managers and international firms can accelerate this process by transferring experience in underwriting, stress testing, and ongoing monitoring.

If these elements advance in parallel, private credit can become an essential pillar of the national financing architecture. Its ability to provide long-dated, structured, and collateral-backed solutions positions it to complement the banking system in closing a meaningful portion of the financing gap identified earlier. As Vision 2030 progresses, the continued maturation of this market will help sustain the pace of transformation and broaden the range of projects that can be executed within the decade.

Capital-Intensive Sectors Driving Vision 2030 (USD bn)

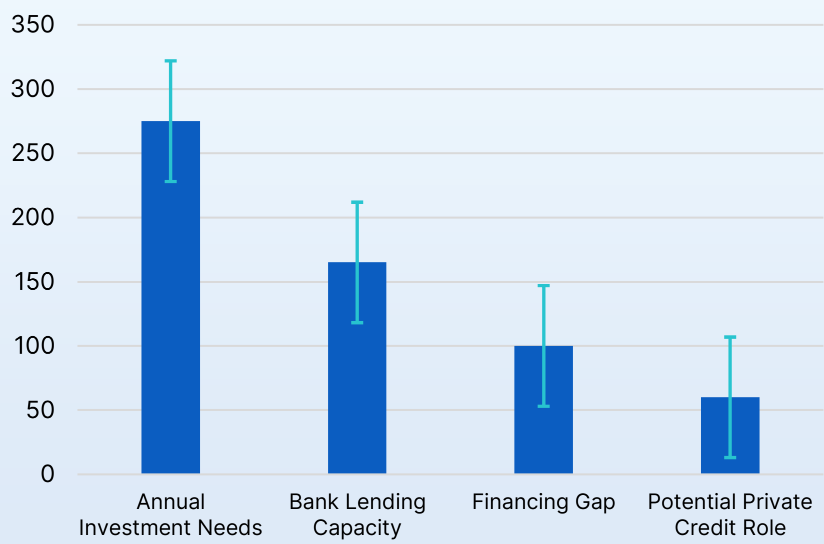

Chart 6: Annual Financing Gap and the Potential Role of Private Credit:

Source: IMF Article IV (Saudi Arabia); Vision 2030 documents; author's analysis.

Note: Scenario-based illustration using midpoints and indicative ranges. Bank lending capacity reflects recent trends and prudential constraints; private credit contribution is illustrative rather than predictive.