Saudi Arabia Banking Sector Outlook 2025

Vision 2030 Momentum Continues

S&P Global Ratings

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This report does not constitute a rating action

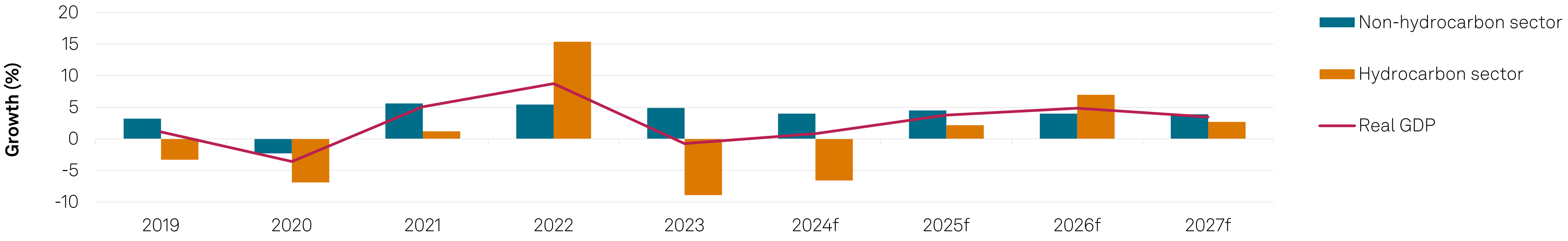
Key Takeaways

- We project solid real GDP growth as Saudi Arabia diversifies its economy beyond oil, with non-oil sectors gaining prominence.
- Growth will be increasingly driven by construction and the services sector as Vision 2030 projects ramp up.
- Corporate lending is set to drive credit growth, supported by a strong project pipeline, while lower rates could boost mortgage lending.
- We expect cost of risk to normalize owing to the supportive economic environment and declining interest rates. That said, higher private sector leverage may have adverse implications for asset quality over the longer term.
- Banks are poised for stable profitability in 2025 as the volume effect compensates for lower margins.
- We expect Saudi banks to continue resorting to international capital markets to help fund growth related to Vision 2030.

Vision 2030 Is Driving Diversification and Opportunities

- We project a strong average GDP growth rate of 4.0% from 2025-2027 compared to 0.8% in 2024.
- Vision 2030 initiatives are set to enhance non-oil growth in the medium term, driven by increased construction activities and a growing services sector fueled by rising consumer demand and an expanding workforce. Female labor participation has increased and has stabilized at 36% since 2022, up from 17% in 1999.
- Tourism, contributing about 4% of GDP and 9% of current account receipts in 2023, from 5% in 2022, shows significant growth potential from improved visa processes and more leisure options.
- Fiscal risks from rising debt issuances by the government and PIF are being mitigated by the recalibration of some large infrastructure projects, and we expect the government will maintain a net asset position above 40% of GDP through 2027.

Hydrocarbon sector and diversification initiatives are driving growth

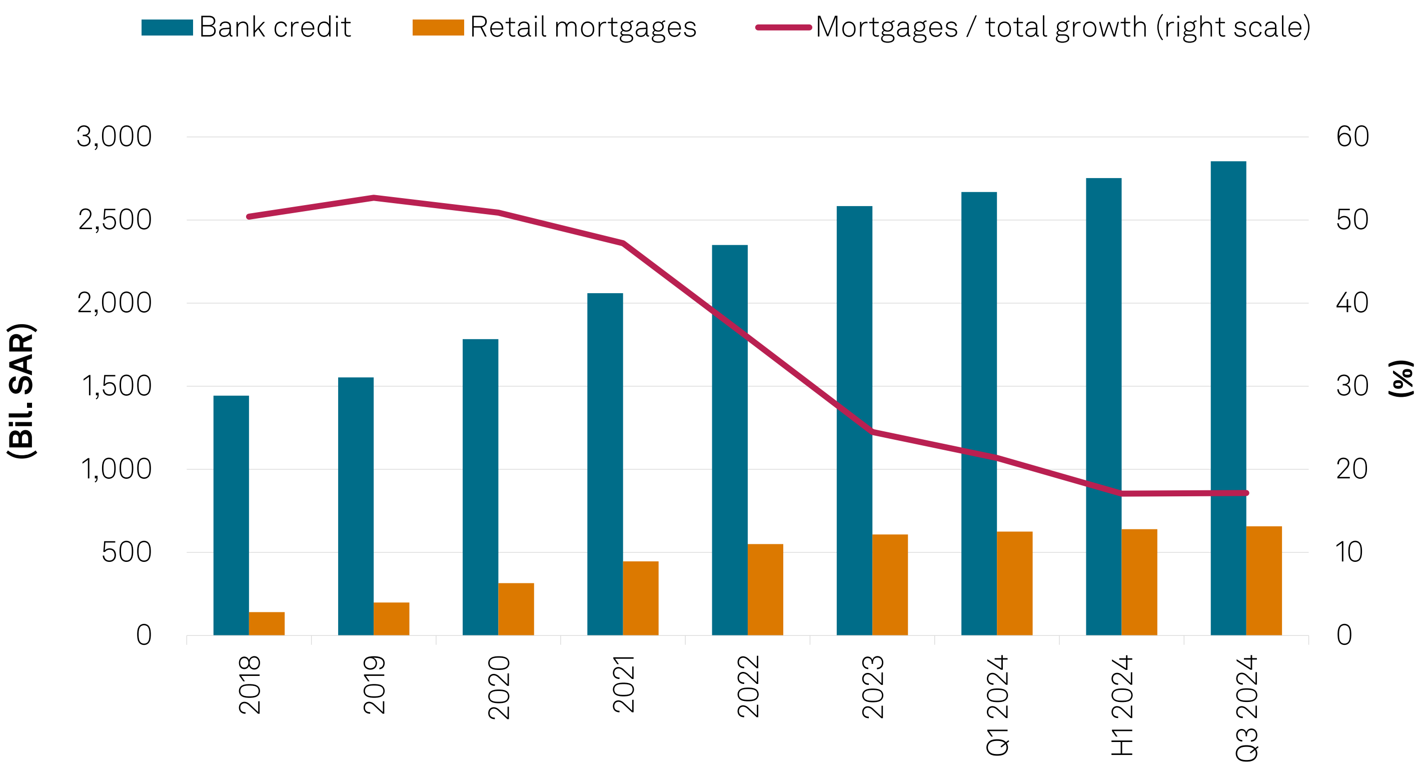


f--Forecast. Source: S&P Global Ratings.

Strong Lending Growth Is Set To Continue

Lower interest rates and the supportive economic environment will support higher lending growth

Corporate lending drives credit growth



Source: Central Bank Data.

- We forecast strong lending growth of around 10% driven primarily by corporate lending stemming from the implementation of Vision 2030 projects.

- At the same time, we expect mortgage lending growth to get a boost from lower interest rates and expanding demographics supporting residential real estate demand.

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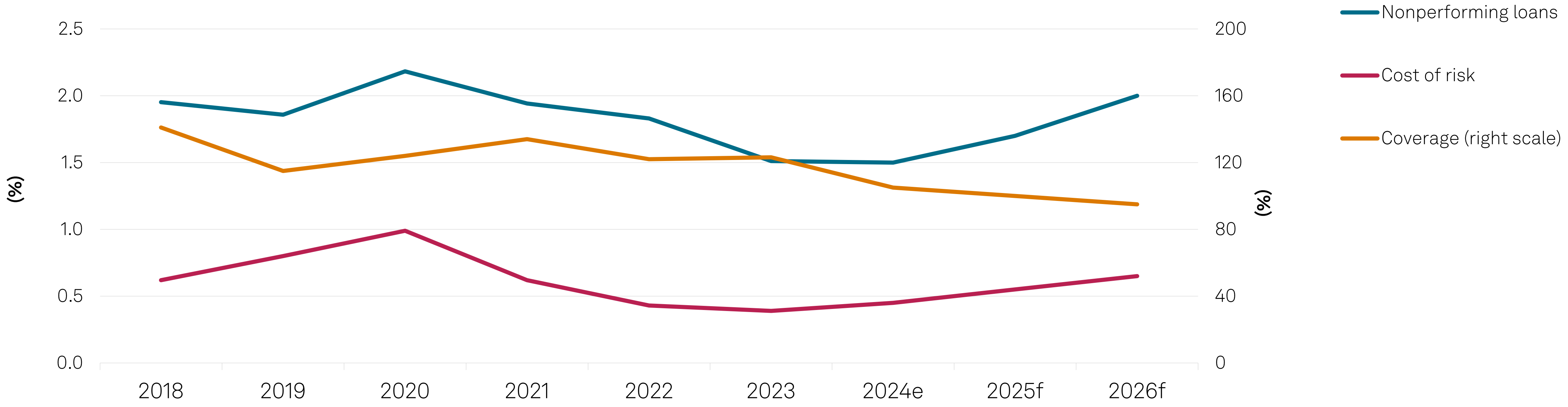
NPL Formation Is Slowing Amid Lower Rates

- We expect NPL formation to be slow given lower interest rates.
- We anticipate an increase in NPLs to about 1.7% of systemwide loans by the end of 2025 from 1.3% at September 2024 as we do not foresee significant write-offs.
- Credit losses will likely reach 50-60 bps in the next 12-24 months enabled by banks' comfortable provisioning cushions.

Saudi banks' asset quality is strong

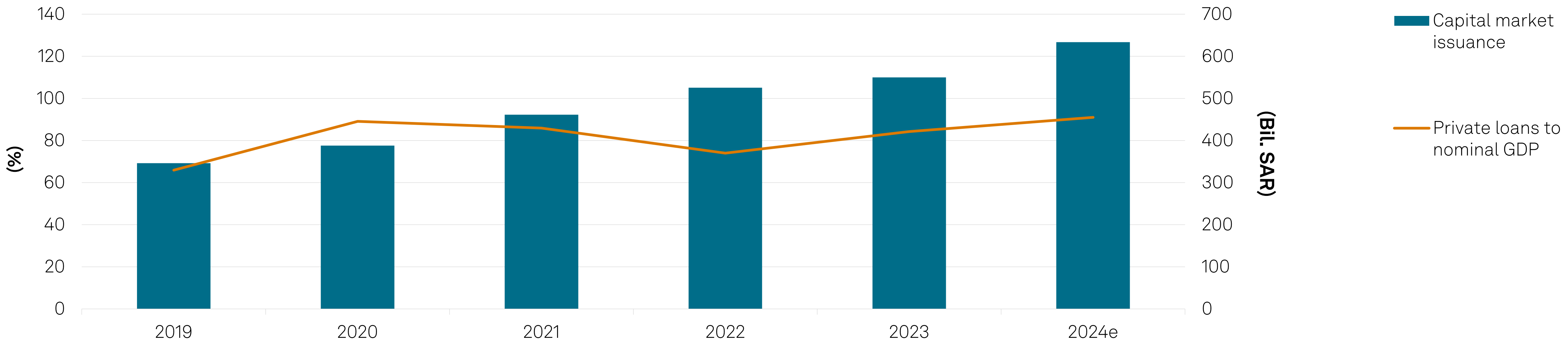


f--Forecast. e--Estimate. Source: S&P Global Ratings.

Corporate Leverage Is Rising

- As interest rates decline, we expect local companies will increase their leverage, with debt accumulation continuing in the private sector, contributing to strong corporate lending growth.
- While we foresee higher leverage levels, we expect total private sector debt to GDP to remain below 150% in the medium term.
- In the long term this could have implications for banks' asset quality metrics

Leverage levels are rising

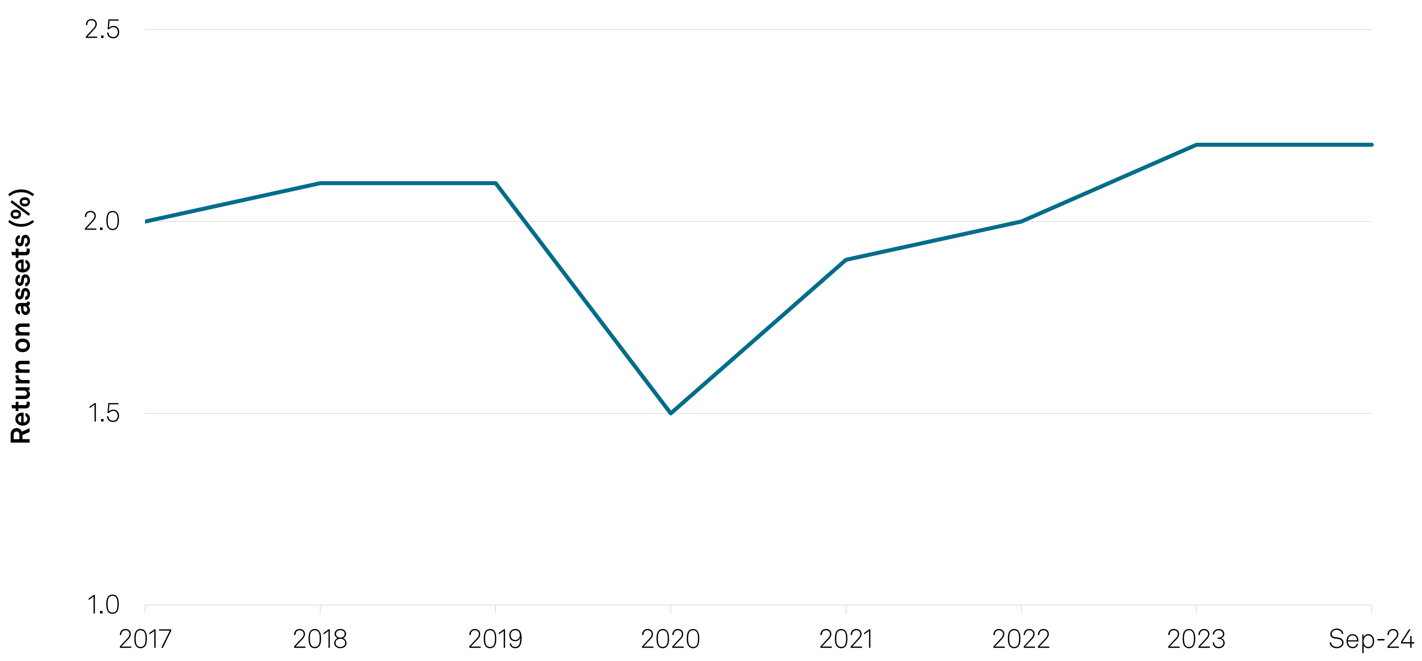


e--Estimate. Sources: Tadawul Exchange, S&P Global Ratings.

Profitability Should Stay Stable

Lower interest rates and the supportive economic environment will support higher lending growth

KSA banks' profitability will remain stable on stronger credit growth



Source: Central Bank Data.

- We anticipate credit growth will bolster banks' profitability, stabilizing RoA at 2.2%-2.1%, consistent with our 2024 estimate.
- NIM is expected to drop by 20- 30 bps by the end of 2025 relative to 2023 as SAMA follows the Fed's rate cuts to maintain its currency peg.
- Largely floating corporate lending (50% of total loans) will reprice quickly leading to lower interest income, partly offset by fixed-rate and long-term mortgages (25% of the total).
- While lower interest rates will cut funding costs, a sharper decline could shift consumer preferences toward demand deposits, impacting overall bank funding.

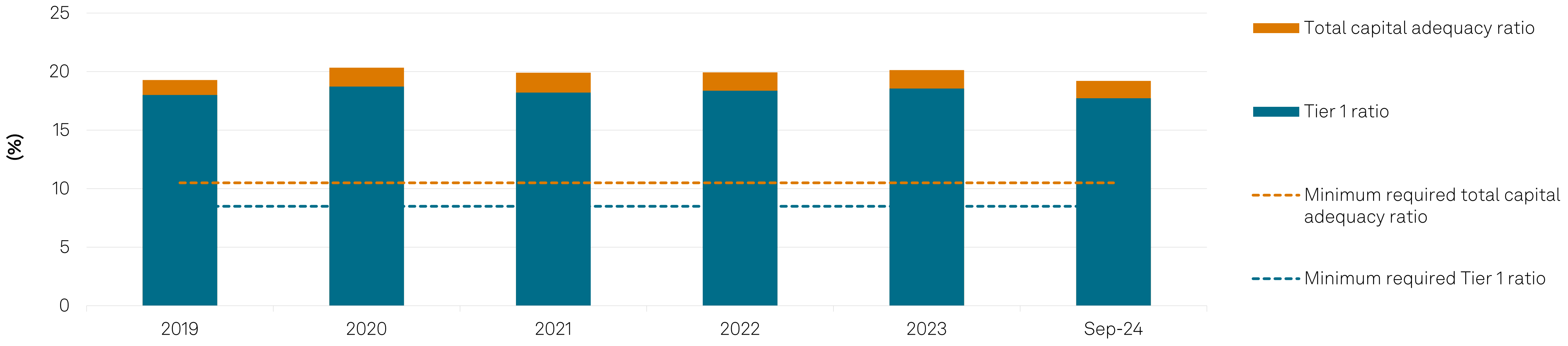
Capitalization Remains Supportive

- Saudi banks are well-capitalized and we expect this will continue to support their creditworthiness.

- They reported a capital adequacy ratio of 19.2% at Sept. 30, 2024, well above the minimum capital adequacy requirement of 10.5%.

- Banks are profitable and their earnings generation is sufficient to cater for asset growth. We expect their dividend payout ratio will hover at an average of 50%.

Saudi banks have strong capital positions

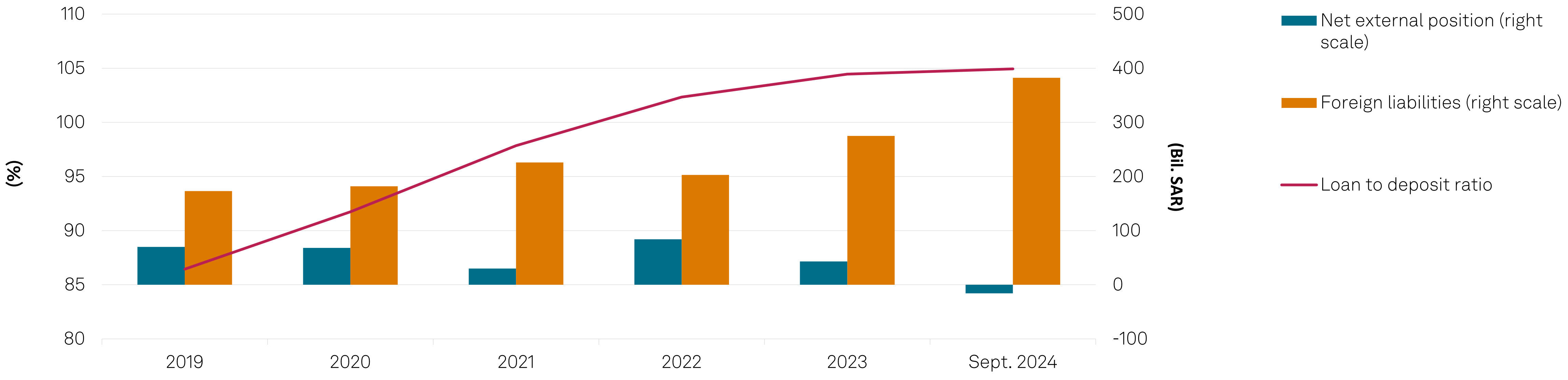


Source: Central Bank Data.

Liquidity Pressures Persist Amid Rapid Lending Growth

- Lending growth outpaced that of deposits, pushing banks to look for alternative funding sources.
- In the second half of 2024, the banking system shifted to a net external debt position, close to 1% of total loans. We expect the external debt buildup to continue in the next couple of years.
- We expect SAMA would intervene if liquidity tightens.

Shifting to an external debt position



Source: Central Bank Data.

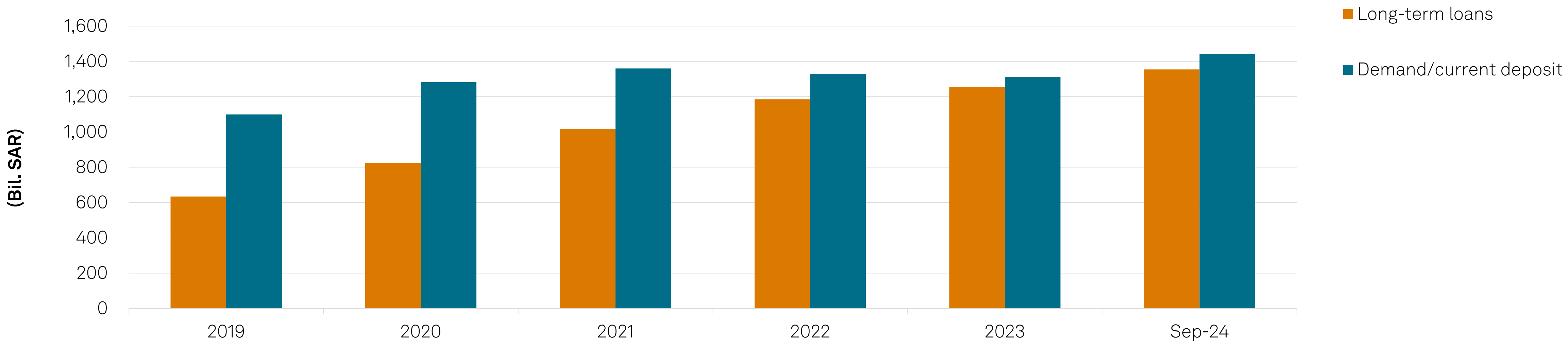
Banks Are Turning To External Debt And Alternative Funding

- Saudi banks' reliance on external funding will continue due to Vision 2030 investment needs, though recent mortgage-backed securities initiatives may help.

- Saudi Real Estate Refinance Company (SRC) and Hassana's initiatives to issue residential mortgage-backed securities, and SRC's agreement with Blackrock, could help attract local and foreign capital and unlock liquidity to support Vision 2030.

- The Saudi banking sector has seen mergers create dominant 'national champions'. Although this has resulted in concentration of market share and raised competitive pressure on smaller institutions, overall industry dynamics in terms of broader financial stability remain sound .

Asset-liability mismatches are rising after strong mortgage lending growth



Source: Central Bank Data.

Our KSA BICRA And Bank Ratings

	Issuer credit rating
Al Rajhi	A-/Positive/A-2
Saudi National Bank	A-/Positive/A-2
Riyad Bank	A-/Positive/A-2
Banque Saudi Fransi	A-/Stable/A-2
Arab National Bank	A-/Stable/A-2
Alinma Bank	A-/Stable/--
Saudi Investment Bank	BBB/Positive/A-2

- We view the trend for economic risk as stable. The stable economic risk trend mirrors banks' resilient asset-quality indicators and still-moderate economic imbalances with a contained increase in inflation-adjusted real estate prices.
- We also view the trend for industry risk as stable. This reflects our expectation that SAMA will maintain close supervision of the banking system and banks' risk-adjusted profitability while their net external debt position remains manageable.

Related Research

- Banking Industry Country Risk Assessment: Saudi Arabia, Dec. 6, 2024
- Rating Outlooks On Three Saudi Banks Revised To Positive Following Similar Action on The Sovereign, Sept. 18, 2024
- External Sources To Play A More Prominent Role In Saudi Banks' Funding, June 6, 2024
- Your Three Minutes In Saudi Vision 2030: Credit Implications For Banks And Corporates, May 2, 2024
- Your Three Minutes In Banking: Saudi Banks May Turn To Alternative Funding Options, April 30, 2024
- How Will Saudi Banks Fare In 2024?, Feb. 5, 2024
- What Would An Escalation Of The War In The Middle East Mean For GCC Banks?, Oct. 21, 2024
- Your Three Minutes In Banking: GCC Banks Are Well Positioned To Continue Their Strong Run, Sept. 4, 2024

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