



## Finance Access that Works: Women, Millennials and Mortgages in Saudi Arabia

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**F**or all of the difficult challenges of Vision 2030—including the Saudi government’s efforts to attract foreign direct investment and spur private sector job growth—there is one policy that is achieving notable success. Vision 2030 has a direct target of increasing home ownership to 70 percent among citizens. The mortgage industry is growing in Saudi Arabia, and with it, more young people should be able to access loans to buy their first homes. The acceleration of women’s employment may be a key factor increasing first home purchases for young Saudis. Working women will expand the market size of potential mortgage borrowers, either on their own or as part of dual-income families. As more women are employed, they qualify to borrow and they create demand for new financial products like mortgages, which strengthen the position of local banks listed on the Saudi stock exchange, Tadawul. Bank stocks on the Tadawul are also strengthened by incoming foreign investment as a result of emerging market

index inclusion. Social policy that targets women’s economic empowerment (employment and access to financial products) can also be a powerful growth multiplier.

Sometimes the “sweet spot” in economic development policy requires some simple policy adjustments to provide big impact. In a new research paper by World Bank economists Elena Ianchovichina and Danny Leipziger, they argue for combining gender-enhanced growth diagnostics to identify win-win solutions based on policies that target jointly the binding constraints to economic growth. Essentially, there are some policy adjustments that can be good for women’s economic empowerment while also creating overall positive growth effects in the economy.

### **Saudi home ownership at a glance**

Saudi Arabia does not necessarily have a low percentage of home ownership. In fact, it rivals home ownership rates of the United States, and regional peer Turkey. Sixty percent of Saudis own their homes, the same as Turkish rates and just below that of Americans. Moreover, Saudi Arabia is not too different from more developed economies in the demographics of home ownership among its population. More older people own homes than younger people. Saudi millennials are similar to their peers in the United States where roughly 37 percent of young adults under age 35 own their own homes. In Saudi Arabia, about 39 percent of young adults under 35 own homes and 50 percent of those between the ages of 35 and 44 own homes. What is different is that this group of citizens under age 45 make up nearly half of the Saudi population—in comparison, millennials make up about a quarter of the American population.

So, while home ownership is not low in Saudi Arabia, access to mortgages and financial products is scarce. According to a report on financial inclusion by the King Khalid Foundation, nearly 7 million Saudis do not have bank accounts, and women make up 60 percent of the “unbanked” population. Therefore, the fact that home ownership in Saudi Arabia parallels rates within the United States with its expansive mortgage market tells a complex story about inequality in access to finance in the kingdom. For those Saudi citizens unable to afford a home, there has been very lit-

the hope for the financial mobility to achieve what most of the adult population has achieved without a mortgage. The barriers to finance are more likely to span (and reinforce) urban-rural divides and more nuanced divisions of gender, class, tribe, sect, and religious practice within Saudi society.

#### **Persistent barriers to economic inclusion**

Across the Middle East and North Africa, the structural barriers to economic inclusion have not improved much since 2011. Joblessness and rising cost of living remain key grievances for young people across the Arab world. Hence, there is a policy imperative to improve financial mobility, employment opportunity and social signals of progression, including marriage. The Saudi government recently expanded funding for a new program to encourage marriage among young nationals, the Sanad Mohammed bin Salman Social Enterprise Program and its “marriage grants.” We need better data to understand financial access in the kingdom, but one data point has become crystal clear. Women’s economic participation is increasing and with it, more demand for new products to improve financial mobility. The social implications for young families and young single adults are immense.

#### **Banking, finance tools aligning with growth policy**

The implications for the banking sector are also very positive. New policy changes in bank regulation are encouraging banks to extend housing loans. SAMA, the Saudi central bank, regulates loan to value ratios and has twice extended limits to increase lending limits in the last two years. In the first quarter of 2017, maximum loan value ratios were extended from 70 percent to 85 percent and in January 2018 up to 90 percent. The government has also introduced support for low income and first-time buyers in its Real Estate Development Fund (REDF) as a subsidy for both debt service cost and principal payments. While subsidies have been a weight on the Saudi economy, these particular programs serve to boost access for some buyers, while also providing protection for the banking sector to extend its new lending practices.

For Saudi banks, this also presents an opportunity to grow. Investment into the banking sector

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and into real estate products, whether securities or Real Estate Investment Traded Funds (REITs), creates more access for financing to home buyers, and incentives for the market to cater to different kinds of housing needs, as well as creating new types of financial assets for investors in the kingdom. According to projections by HSBC, there is the potential for \$150 billion of growth in mortgage loans in Saudi Arabia over the next five years, and as much as \$78 billion could come from first time buyers, with women accounting for as much as 40 percent of new first-time buyers. Mortgage lending will be profitable for many banks willing to enter the business. Those banks that seize the mortgage market potential will also benefit from parallel status change of their Tadawul listings, as more emerging market index funds engage the Saudi equity market and search for value in the growing financial sector. Expanding their offerings of loan products will help the banks grow. While consumer credit expands quickly in the Saudi market, the ability to sustain that growth (and service the debt) will continue to depend on job growth.

When social policy and state development objectives align with market opportunity, there can be fast-changing results. The ripple effects of women’s economic inclusion and expanding financial access to mortgages also create incentives for the bank sector to expand, which, in turn, creates attractive growth stories for foreign investors eyeing banks listed on the local stock market. In this social policy, the government continues to underpin the structure, through loan subsidies and social programs like marriage grants. Job growth will be the independent factor that can sustain the growth of the mortgage market and the financial sector at large. That will be finance access that works.

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