

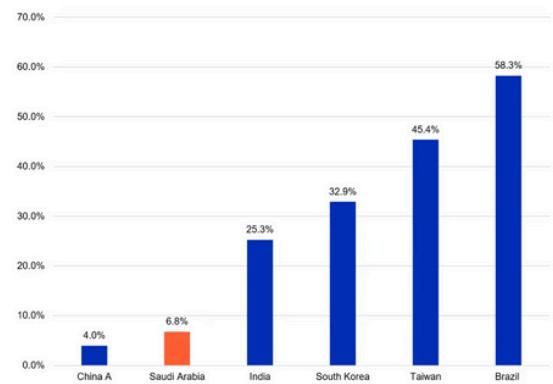


Saudi Arabia Foreign Investment to Increase as Market Barriers are Removed

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Saudi Arabia is currently undergoing a historic shift towards an open market, addressing a critical oversight in its economic strategy. On 6 January 2026, Saudi Arabia's Capital Market Authority (CMA) announced that the Kingdom's financial markets will open to all foreign investors from 1 February. This development advances years of reform under Vision 2030, removing key barriers to foreign investment. Despite significant efforts, foreign ownership of Saudi equities has remained relatively low compared to emerging market peers including India, South Korea, Taiwan, and Brazil, due to access constraints. The 2026 reforms seek to correct this imbalance, eliminating swap agreements and Qualified Foreign Investor (QFI) requirements, opening the market to enhance liquidity and global economic integration.

Saudi Equities: Low Foreign Ownership Leaves Much Room for Institutional Inflows vs. EM Peers

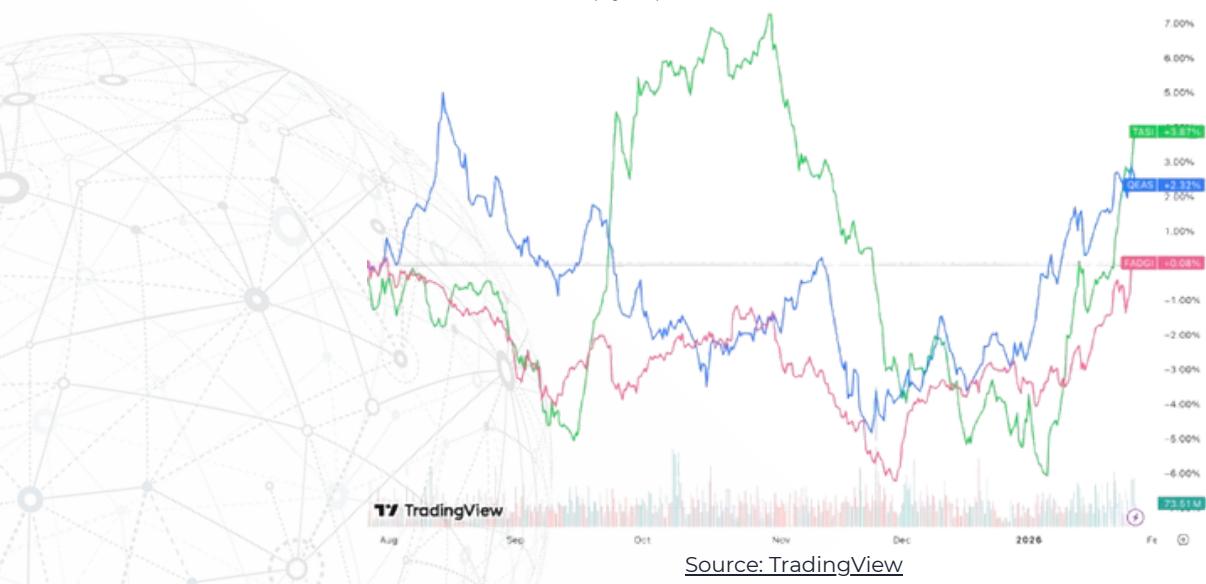


Sources: China - estimates range between 3%-5%. China A-shares are shares of mainland China-based companies traded in RMB on the Shanghai and Shenzhen Stock Exchanges. Initially restricted to local investors, A-shares opened to select foreign investors through the Qualified Foreign Institutional Investor (QFII) system in 2003. Saudi Arabia - Bloomberg, January 7, 2026 and analysis by Franklin Templeton. India - NSE, December 2025. Figure includes 8.3% "Foreign Promoters". South Korea - Financial Supervisory Service, 2025. Taiwan - TWSE, 2025, data as of 2024. Brazil - Valor Int., November 2025.

Key Context and Highlights

- Saudi Arabia currently underperforms in terms of foreign ownership compared to other emerging markets (behind by roughly 34% in 2025).
- Following the January 2026 reform announcement, Saudi Arabia's benchmark Tadawul All Share Index (TASI) continues to rise, gaining 1.2% driven by market optimism. Currently, foreign ownership accounts for merely 4.7% of the index's SAR 8.8 trillion market cap. Hence, even an incremental increase in foreign ownership is likely to significantly boost liquidity in the Kingdom's financial markets.
- Other GCC markets continue to struggle as Qatar's benchmark index slipped by 1.3% on 25 January since investors locked in profits, and Emirati markets mirrored the trend.

Saudi Arabia, Qatar, and UAE's Stock Indices Over the Past 6 Months



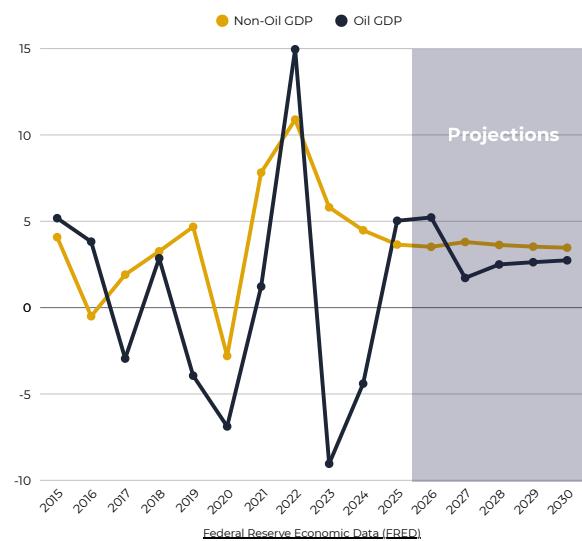
Vision 2030

For more than a decade, Saudi Arabia has been progressing towards economic liberalization by relaxing restrictions on QFI under Vision 2030. The initiative aims to transform the Saudi economy, increasing GDP contribution from non-oil sectors and promoting small and medium-sized enterprises. The reforms should bolster efforts to attract greater foreign capital, supporting the Kingdom's broader ambitions for modernization and economic diversification. However, Vision 2030 faces critical challenges, including financing its \$500 billion giga-projects amid oil price volatility and Foreign Direct Investment (FDI) shortfalls (only \$5.92 billion in Q1 2025, 7% down quarter-on-quarter). However, Saudi Arabia continues to push for growth in the non-oil sector despite the tumultuous transition. By widening the portfolio capital pool, market-access reforms can lower the equity cost of capital for IPOs and balance-sheet funding, complementing FDI in financing the Kingdom's diversification strategy.

The Oil Economy

On 23 January, oil prices rose by nearly 3% following increased tensions between the US and Iran. Washington has imposed a new series of sanctions targeting Tehran's oil export vessels, aiming to restrict a key source of Iran's revenue. The expectation of a rebound in oil prices points to the potential for continued recovery within Saudi Arabia's oil economy. Current forecasts anticipate a 6.4% expansion in the sector during 2026, reflecting optimism about the industry's short-term prospects. However, concerns remain regarding the recovery's sustainability. Factors such as weaker production levels, persistent price volatility, and broader global economic shocks continue to pose challenges to the long-term stability and growth of Saudi Arabia's crude oil sector. Further, oil volatility transmits into equities via earnings uncertainty and a higher risk premium, dampening optimism.

Saudi Arabia Oil Vs Non-Oil Real GDP Growth (per cent)



Business Implications

- Many of Saudi Arabia's sectors and their related companies remain relatively unknown to global institutional and strategic investors. Increased access for foreign participants may prompt a period of discovery and reassessment of market opportunities. For global investors specifically, eliminating QFI qualification and swaps reduces onboarding time and legal complexity, making Saudi exposure easier to implement.
- This could stimulate greater transparency and information sharing, encouraging innovation and improving corporate governance as international investors begin exploring these less familiar industries. Such developments are likely to bolster Saudi Arabia's appeal as a modern investment destination, increasing foreign participation in Saudi equity markets and accelerating industrial growth.
- Implications can be tracked by monitoring liquidity in the Main Market. The Tadawul Group reported an average daily value traded of US\$881.5 million and total QFI holdings of US\$90.11 billion in December 2025. An upward trend in these indicators will symbolize increasing foreign ownership, enabling stakeholders judge the success of the current reforms.
- While CMA's measures carry significant potential to improve foreign participation in the Kingdom's financial sector, further easing of the existing 49% foreign-ownership ceiling on listed firms would be the bigger catalyst for increasing international participation in Saudi equity markets.