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Binding the Ties that Bind

Commercial Banks and Political-Economic Links between Saudi Arabia and Jordan

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Introduction

On June 21, 2022, Saudi Crown Prince Mohammed bin Salman landed in Amman for a state visit to the Hashemite Kingdom of Jordan, the first such trip made by a senior Saudi representative since 2017. Two weeks before bin Salman's arrival, the Saudi state's sovereign wealth fund bought a 24% ownership stake in Jordan's Capital Bank Group (CBG), one of a string of Saudi investments announced in the days surrounding the crown prince's visit.[1] With assets totalling $9.15 billion, CBG is the Hashemite Kingdom's third-largest bank and possesses a loan portfolio spanning retail, corporate, and government clients in Jordan and Iraq. The $185 million sum spent by the sovereign investment vehicle – called the Public Investment Fund – to acquire its share of CBG represents one of the latest big-ticket deployments of Saudi capital in Jordan. At $14 billion as of mid-2022, the Gulf kingdom invests more than any other country in its neighbour to the north.

Jordan's deep economic ties with Saudi Arabia are not new. Since the oil boom of the 1970s, expatriate remittances and aid from the Gulf states – mainly Saudi Arabia – have underpinned the political-economic stability of Jordan, which lacks the hydrocarbon resources that undergird rentier social contracts found in Gulf Cooperation Council (GCC) member countries.[2] Furthermore, the policies of current- and financial-account liberalisation, public-private partnership, and privatisation that accompanied Jordan's structural adjustment programmes of the 1990s and 2000s opened new doors for Gulf petrodollars to circulate into the country.[3] This trend accelerated during the 2003-2015 oil boom.[4]

While political stability underpins the economic case for Jordan's attractiveness as a destination for surplus petrodollars, the multi-layered financial ties that connect the Saudi and Hashemite Kingdoms do not exist solely for this reason. In addition to constituting a reliable partner in regional foreign policy, the upheaval of the Arab Spring underlined the Hashemite family's importance to the House of Saud as rulers of a fellow Arab monarchy.[5] These considerations came together, for example, in the deployment of Jordanian gendarmerie forces to help Saudi Arabia put an end to protests that threatened Bahrain's royal family, the House of Khalifa, in 2011. To strengthen its proven strategic partnership with Amman, Riyadh supports its northern neighbour's economic stability and political status quo through direct, state-to-state deployments of its economic largesse, including $334 million in central-bank deposits over the past decade. These deposits constitute a direct lever of influence that Riyadh holds over Amman.

Despite its coercive potential, the $334-million Saudi sum parked in Jordan's central bank pales in comparison to the tens of billions of petrodollars the Gulf kingdom routes to Jordan via investment and private-sector economic ventures. In terms of binding Amman to Riyadh, the political implications of these mechanisms are less apparent, in part because they are mediated by commercial banks, as opposed to a direct, creditor-debtor relationship between central banks. This policy report therefore explores the role that commercial banks play in two interconnected processes that facilitate the circulation of Saudi capital into Jordan, strengthening the two kingdoms' political-economic links as a result. In the first process, Saudi businesspeople acquire significant ownership stakes in Jordanian banks, while in the second, commercial banks on both sides of the Saudi-Jordanian border provide loans to Saudi conglomerates that develop real estate in the Hashemite Kingdom. Given the proximity of these Saudi investors to the government in Riyadh, their stakes in Jordanian banks involve them in creditor-debtor ties that influence power relations between Saudi Arabia, on the one hand, and the Hashemite Kingdom's state and citizens, on the other.

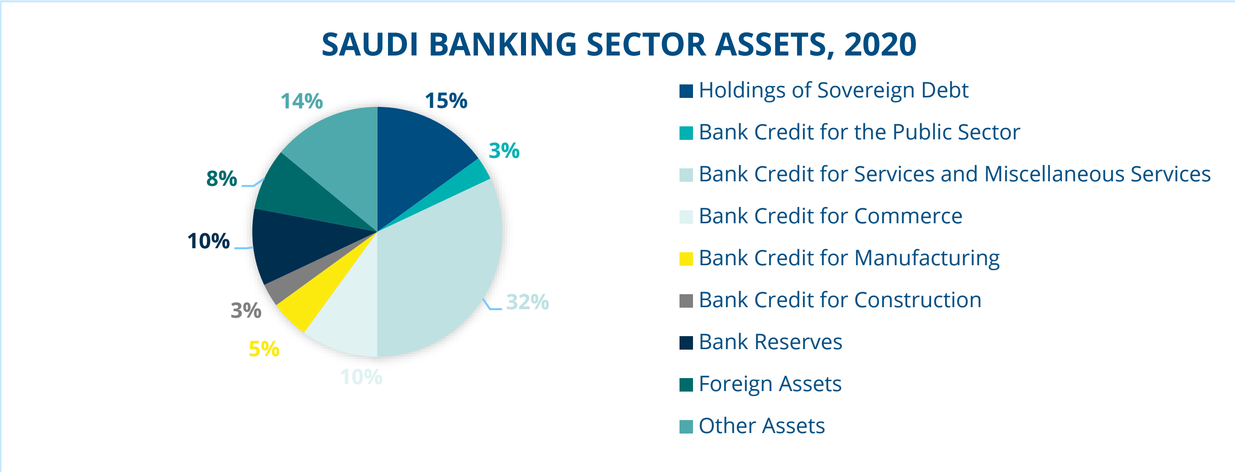
Banks as Nodal Actors in Saudi Arabia

Since the 1970s, the Saudi banking system has facilitated the deployment of hydrocarbon rents to fuel development, both at home and abroad. As oil prices skyrocketed during that decade, banks leveraged oil revenues to finance the domestic construction boom that accompanied this price explosion. Although Saudi firms benefited from government contracts for boom-fuelled construction, foreign banks' dominance over the domestic financial sector meant that profits derived from financing these projects accrued to non-Saudi actors.

To concentrate more of the industry in Saudi hands, a 1975 law mandated that foreign banks list at least 50% of their shares for purchase by Saudis. The 1980s thus saw an increase in Saudi-owned banks, with nationalisation achieved through reducing foreign owners to minority shareholders or acquiring foreign banks outright.[6] Reflected in the 1975 law spurring domestic ownership, the banking sector's top-down nationalisation manifests today in the concentration of 77.5% of sector assets among the kingdom's five largest commercial banks and the state's ownership stake of 19% in these institutions, on average.[7]

Riyadh's significant stake in commercial banks underpins the role lending institutions play as nodal actors connecting the ruling Al Saud family to Saudi Arabia's capitalist class. Saudi family-owned holding companies – the owners of which form the kingdom's domestic business elite – exemplify this phenomenon. Many of these firms hold exclusive rights from the sovereign to import and sell foreign-produced goods ranging from Coca-Cola to luxury automobiles.[8] Company owners, in turn, sit alongside members of the ruling family on the boards of Saudi banks. It is also common for these firms to hold ownership stakes in commercial lending institutions.[9]

With respect to the assets of Saudi lending institutions, 59.1% consist of private-sector claims, a significant portion of which stem from bank credit extended to commerce, manufacturing, services, construction, and other sectors dominated by family-owned firms. Sizable portions of Saudi banks' claims also accrue from government bond holdings (14.7%), reserves (9.7%), and foreign assets (8.4%).[10] On the other hand, most liabilities stem from deposits by the oil-rich public sector or consumers benefiting from hydrocarbon-rent redistribution (see Figure 1).[11] These features of the cumulative balance sheet of Saudi commercial banks suggest that they create money by redeploying petrodollar deposits as loans, many of which are extended to politically-connected conglomerates.



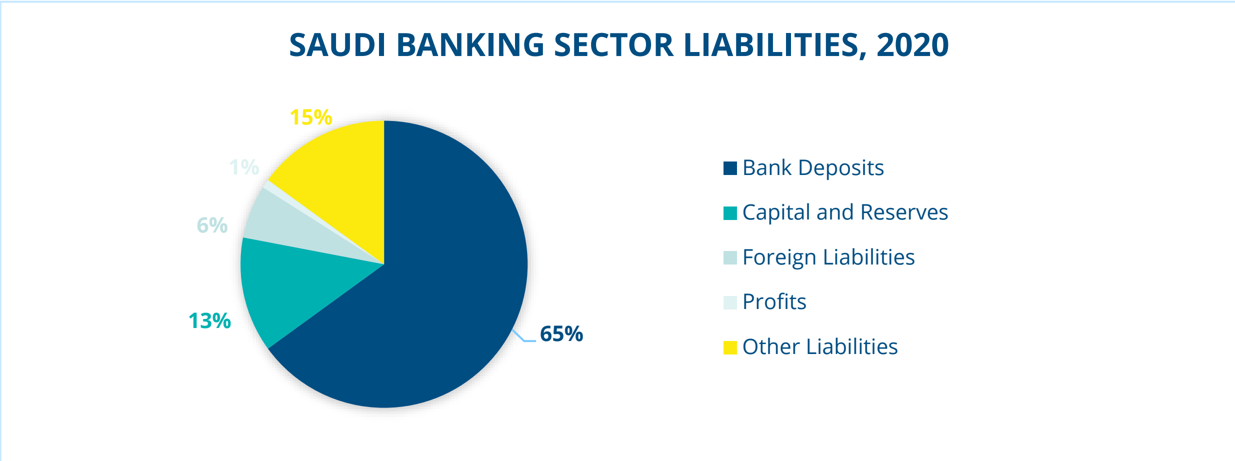
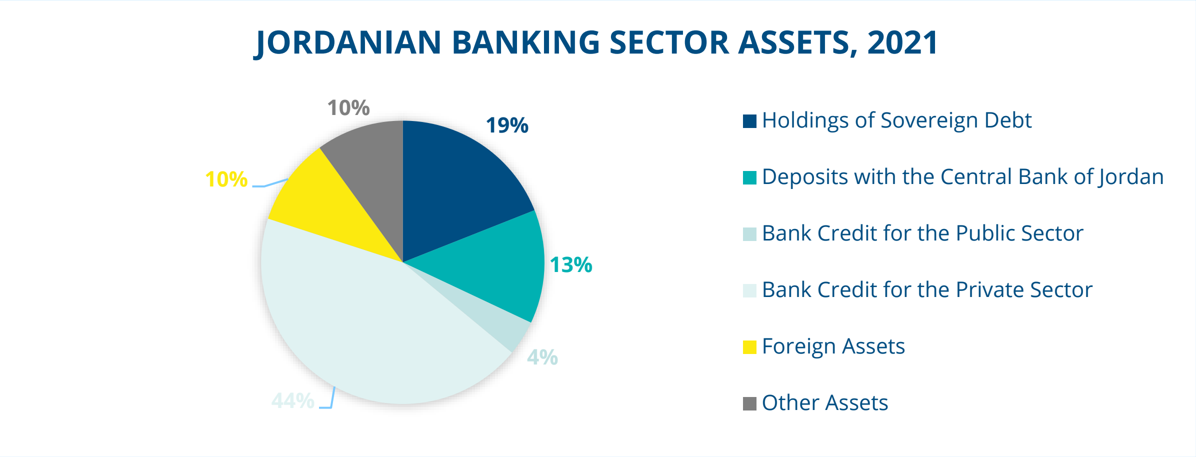


Figure 1. The pie chart above displays the assets of the Saudi banking sector. The pie chart below shows its liabilities.[12]

Purchasing Jordanian Nodes: Bank Acquisitions by Saudi Capital

Jordan's commercial banks also occupy nodal positions in the country's economy. The 2021 cumulative balance sheet of the Jordanian banking sector reveals that commercial banks hold $16.5 billion of the Hashemite Kingdom's sovereign debt. Equal to 19.1% of banking-sector assets (see Figure 2), this amount represents 32.7% of Jordan's total sovereign debt, which at $50.43 billion surpasses the country's GDP by over $4 billion.[13] In addition, deposits with Jordan's central bank (13.1% of assets) and credit extended to the public sector (4.1%) further intensify the creditor-debtor relationship between commercial lending institutions and the state.[14] At 45.1% of industry assets, the balance sheets of Jordanian commercial banks also exhibit deep entanglement with the private sector. Over 90% of claims on the private sector take the form of credit extended by lending institutions.[15] Across the public and private sectors, sizable destinations for commercial-bank lending include construction (25.7% of credit facilities extended) and consumption loans (24.2%), with smaller amounts financing public services and utilities (15.3%), general trade (14.8%), and industry and mining (12.2%).[16] Rounding out the cumulative claims of the Jordanian banking sector are assets that are either foreign (10.4%) or uncategorized (8.0%) (see Figure 2).[17] Like their counterparts in Saudi Arabia, Jordanian banks' balance sheets thus bring together public, private, national, and international entities involved financially in the Hashemite Kingdom.



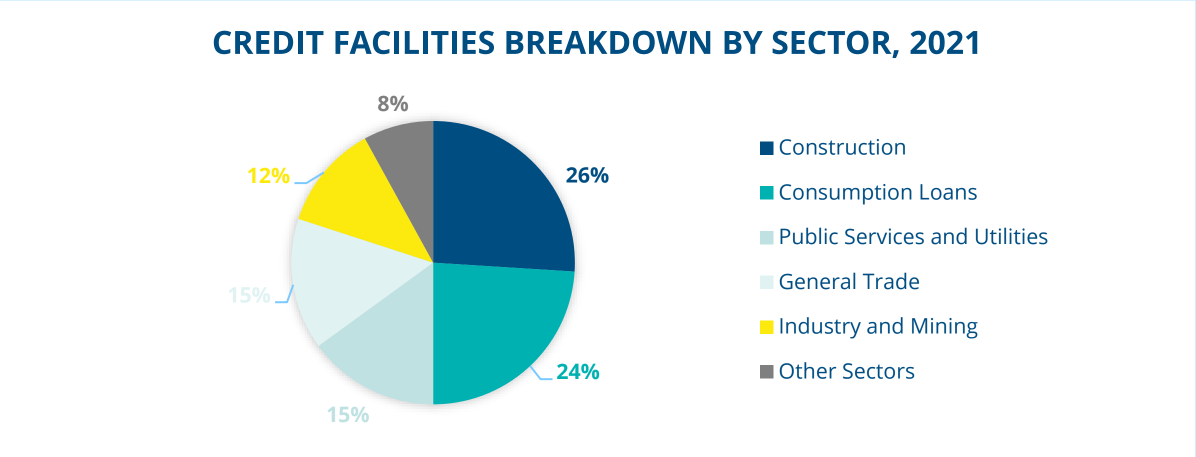


Figure 2. The pie chart above displays the Jordanian banking sectors' assets. The pie chart below depicts the sectoral breakdown of credit facilities extended by Jordanian banks.[18]

Unlike their Saudi counterparts, however, foreign capital features heavily in the ownership structures of Jordan's commercial banks. These foreign stakes stem primarily from the GCC. Eighty-six percent of banking-sector assets in the Hashemite Kingdom are held by institutions that either: 1) are at least 20%-owned by shareholders from the GCC; 2) have at least two board members from GCC countries; or 3) are subsidiaries of a GCC-based financial institution.[19]

Anecdotal evidence underscores the outsize role that Saudi capital plays in GCC dominance over Jordan's banking sector. Beyond the Public Investment Fund's 24% acquisition of CBG, politically-connected Saudi capitalists feature prominently as directors and owners of Jordanian banks. Ownership of Jordan Islamic Bank, for instance, returns via several parent firms to Dallah Al-Baraka, a Jeddah-based holding company founded by the late Saudi billionaire Saleh Kamel.[20] Kamel built his business empire with the help of close ties to the Saudi royal family, which originated through his father's close working relationship with Prince – later King – Faisal bin Abdulaziz.[21] Meanwhile, the chairman of Jordan's biggest lender, Arab Bank, is the Saudi-Palestinian-Jordanian billionaire Sabih al-Masri, who together with his family also owns 19.22% of Cairo Amman Bank – another major Jordanian lending institution. Like Kamel, al-Masri amassed his wealth through proximity to the Saudi state. ASTRA Industrial Group, the crown jewel of al-Masri's business empire, supplied food to the Saudi military, a connection that facilitated a lucrative contract to provision U.S.-led coalition troops during the First Gulf War.[22]

The implications of the entrenchment of Saudi capital in Jordan's banking sector are twofold. As the cumulative bank balance sheet described above reveals, creditor-debtor relationships established through entanglements between the balance sheets of commercial banks and the state's show that Saudi involvement in keeping Jordan's fiscal position manageable extends beyond forms of external assistance typically associated with this objective. In fact, several orders of magnitude separate the $16.5 billion in sovereign debt held by the GCC-dominated banking sector from Jordan's annual foreign budgetary assistance grants ($1.13 billion) and its outstanding obligations to the International Monetary Fund (IMF) ($1.46 billion).[23] Second, politically-connected Saudi individuals and the Saudi state own and manage Jordanian banks whose private-sector lending activities impact Jordanian citizens' everyday lives, from consumption loans for vulnerable families to construction megaprojects.

Saudi-Connected Banks and Real-Estate Development

The ramifications of the role of commercial banks as nodal conduits of Saudi capital into Jordan's economy become tangible in the Hashemite Kingdom's construction sector. Construction contributes between eight and 10% to Jordan's GDP, and megaprojects involving Saudi and GCC capital have transformed the country's built environment. Located in the Jordanian Red-Sea port city of Aqaba, the $2-billion luxury resort at Ayla Oasis constitutes a case-in-point for this phenomenon.

Boasting a championship golf course, five-star hotels, and island apartments built around man-made lagoons, Ayla is the outcome of a public-private partnership between the Aqaba Special Economic Zone Authority (ASEZA) and the Ayla Oasis Development Company (AODC).[24] AODC, a subsidiary of Sabih al-Masri's ASTRA Industrial Group, is responsible for developing Ayla on land made available by ASEZA. Through the deployment of Saudi petrodollars, AODC plans to complete its end of this public-private bargain by 2025.

Aside from ASTRA's direct funding, Saudi capital is involved in financing Ayla's construction. To fund the development of Marina Village – the public-facing downtown of Ayla's largely-gated community – AODC obtained a loan consisting of $60 million from the European Bank for Reconstruction and Development and $20 million each from CBG and Société Générale Bank Jordan (SGBJ). CBG acquired SGBJ in a merger finalised in October 2022, bringing the involvement of Saudi-connected institutions in the loan to 40%.[25]

GCC-connected banks also facilitate consumer investment in completed portions of Ayla's residential community. AODC launched programs for financing home purchases at Ayla with Jordan Housing Bank in 2016 and Safwa Islamic Bank in 2019. Qatar National Bank and Kuwait's sovereign wealth fund together own 57% of Housing Bank, while Jordan's Bank al Etihad holds 62% of Safwa's shares. AODC's partnerships with Housing and Safwa banks reveal the spill-over benefits of Saudi petrodollar deployments for financial-services firms owned by elites in Jordan and state institutions across the GCC.

Commercial banks thus facilitate Ayla's construction and marketing through three mechanisms. First, banks in Saudi Arabia likely provided loans to ASTRA to cover its direct funding for AODC; after all, financing from Gulf banks is crucial to the activities of GCC real-estate and retail conglomerates.[26] Second, AODC raised additional funds from Saudi-connected Jordanian banks. Third, banks in Jordan help finance the purchase of homes at Ayla through mortgages. Though not directly involved in AODC's home-purchase partnerships for Ayla, Saudi-connected institutions are big lenders in Jordan's mortgage market too. For instance, housing loans constituted 14.7% of the $2.8 billion in direct credit facilities extended by Cairo Amman Bank in 2021.[27] The case of Ayla demonstrates that Saudi-connected commercial banks help circulate Saudi capital deployed to develop Jordan's built environment, an endeavour whose direct profits accrue to economic elites in the Hashemite Kingdom and the GCC.

Conclusion: Saudi Arabia in every bank, Saudi Arabia in every home

This policy report finds that commercial banks link Saudi Arabia and Jordan through their role as nodal political-economic actors. The balance sheets of banks on both sides of the border interlock with those of state entities, businesses, and citizen-consumers, bringing lending institutions into intimate contact with all three. Through acquisitions, moreover, politically-connected Saudi capital comes to own and direct Jordanian banks' balance sheets. These Saudi-owned and operated banks, in turn, supplement the activities of banks in Saudi Arabia by helping finance Saudi conglomerates' projects in Jordan. They also lend extensively to the Jordanian state and citizens, highlighting the position of Saudi-connected institutions as financiers in public-public, public-private, private-public, and private-private creditor-debtor relationships whose scope extends far beyond that of Riyadh's deposits at the Central Bank of Jordan.

Illuminating Jordan's bank-mediated ties to Saudi Arabia allows for a fuller appreciation of the extent of the political-economic relationship between the two kingdoms. The complexity, size, and intimacy of this connection reveals the power that Saudi Arabia wields in Jordan. While much ink has been spilled examining the implications of the Jordanian state's role as a debtor to the IMF and a beneficiary of aid from Western governments, the size and societal footprint of these grants and loans pale in comparison to the breadth and depth of the economic links between Amman and Riyadh. Instead of containing only a public dimension, the ties that bind Jordan and Saudi Arabia extend from the central bank in Amman to luxury resorts, the headquarters of commercial banks, and the living rooms of Jordanians who took out consumption loans to weather the economic shocks of the COVID-19 pandemic.

Therefore, it is not just Jordan, but *Jordanians* who rely on bank-mediated Saudi capital to keep their households in order. The same can be said of their Saudi financiers: though the biggest investors are a small group of businesspeople with connections to Riyadh, a summer stroll down Amman's Abdali Boulevard – another Saudi-linked real-estate megaproject – highlights the mall's attractiveness, in equal measure, to Jordanians, Saudis, and residents of other Gulf countries. The economic ties binding Jordan and Saudi Arabia are significant not just because of their absolute size, but also because they touch broad portions of the citizenry of both countries. Accordingly, the deep roots forged by the bank-mediated financial connections between the Hashemite Kingdom and the Kingdom of Saudi Arabia form a fabric that strengthens the political relationship between Amman and Riyadh.

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