

The Slow Pioneer and the Fast Follower: How Bahrain and Saudi Arabia Built Different Financial Centres Under Their Vision 2030s

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ABSTRACT

This paper examines how two neighbouring Gulf states have used their Vision 2030 programmes to pursue strikingly different paths toward the same broad ambition: building a modern, diversified financial sector for a post-oil future. Using a policy–incentive–behaviour–outcome framework, and assessing progress across four dimensions — financial depth, innovation, access, and global relevance — the paper argues that Bahrain's decades of accumulated regulatory credibility have produced a financial centre that is stable, trusted, and comparatively unhurried, while Saudi Arabia's later, larger, and more heavily capitalised reforms have produced a financial system that is expanding with unusual speed but has not yet been tested by time. Drawing on official Vision 2030 and Financial Sector Development Program documentation, regulatory announcements, and sector reporting, the paper concludes that Bahrain and Saudi Arabia are not simply at different points along the same road. They are building financial centres suited to different purposes: Bahrain as a trusted regional intermediary, Saudi Arabia as a rapidly scaling domestic financial ecosystem, and each model carries its own characteristic strengths and vulnerabilities.

Keywords: Vision 2030; Bahrain; Saudi Arabia; financial sector development; fintech regulation; Gulf Cooperation Council; sovereign wealth funds; digital banking

1. Introduction

Bahrain and Saudi Arabia sit a short flight apart, share a land bridge, a currency peg regime, and a common regional identity as Gulf Cooperation Council states. Yet in the years since each announced its own Vision 2030 [1,2], the two countries have built financial sectors that look and behave in markedly different ways. Bahrain, a country with barely a million and a half residents and negligible oil reserves compared with its neighbours, entered its Vision with nearly four decades of experience as a regional banking centre already behind it. Saudi Arabia, the region's largest economy by a wide margin, entered its Vision with a financial sector that was, by

comparison, underdeveloped, heavily bank-dependent, and only beginning to experiment with the instruments — capital markets, fintech, digital banking — that Bahrain had spent decades refining.

This paper asks a simple question with a less simple answer: given two different starting points and two different sets of policies, what kind of financial sector has each country actually built, and why? The temptation is to reduce this to a scoreboard of which country is “ahead.” This paper resists that temptation, because being ahead depends entirely on what is being measured and over what time horizon. Instead, the paper uses a single analytical engine to explain the divergence: policy shapes incentives, incentives shape the behaviour of banks, fintechs, regulators, and customers, and that behaviour in turn produces the outcomes we observe today. Applied to Bahrain, this model suggests that a policy environment built around inherited regulatory credibility and a small domestic market rewards caution and reputational protection, producing a financial sector that innovates steadily rather than explosively. Applied to Saudi Arabia, the same model suggests that a policy environment built around sovereign capital, explicit numerical targets, and purpose-built digital regulation rewards speed and visible milestones, producing a financial sector that has expanded with unusual velocity but remains, in places, untested.

To make the comparison precise rather than impressionistic, the paper evaluates each country along four dimensions of a “working” financial system: financial depth (the size and reach of credit and banking activity relative to the economy), innovation (the emergence of fintech firms, digital banks, and new financial products), access (how widely financial services extend to individuals and small businesses), and global relevance (each country's standing as a regional or international financial hub). Drawing on official Vision 2030 and Financial Sector Development Program documentation, central bank announcements, and independent sector reporting, the paper traces the policy–incentive–behaviour–outcome chain separately for Bahrain and Saudi Arabia before bringing the two together in a final comparison. Section 2 examines Bahrain as the slow pioneer; Section 3 examines Saudi Arabia as the fast follower; Section 4 compares the two systems directly and draws out what each model implies for other resource-dependent economies contemplating similar reforms.

2. Bahrain: The Slow Pioneer

Bahrain's claim to being a financial pioneer did not begin with its Economic Vision 2030. It began more than three decades earlier, in October 1975, when the Bahraini authorities invited international banks to establish offshore banking units on the island, offering a permissive tax environment, a stable political climate, and a regulatory apparatus — then run by the Bahrain Monetary Agency, the forerunner of today's Central Bank of Bahrain — that balanced oversight

with commercial flexibility. The response was immediate: within months, dozens of the world's leading multinational banks had applied for licences, and by the early 1980s Bahrain had become one of the largest offshore banking centres in the developing world, filling a geographic and time-zone gap between the oil-surplus economies of the Gulf and the wider international financial system. The collapse of Lebanon's banking sector amid civil war in the mid-1970s further reinforced Bahrain's position as the region's stable alternative.

This head start compounded over time. In 2002, the Central Bank of Bahrain became the first central bank in the world to issue a dedicated regulatory framework for Islamic banks, cementing Bahrain's role as a centre of Islamic finance alongside its conventional banking business. The 2000s brought further ambition in the form of the Bahrain Financial Harbour, a purpose-built financial district intended to signal Bahrain's staying power as a hub even as competition intensified from Dubai and, more recently, Riyadh. By the time Bahrain launched its Economic Vision 2030 in October 2008, the product of roughly four years of consultation between government, business, and international advisors, and organised around the three principles of sustainability, fairness, and competitiveness [1,3,4], the country was not building a financial sector from nothing. It was formalising and extending a sector that had already spent three decades accumulating institutional trust.

This history matters for the policy–incentive–behaviour chain. The policy environment Bahrain's Vision 2030 inherited was one of an unusually mature, internationally respected regulator sitting atop a small domestic economy with limited room for organic growth. The incentive this creates for banks and fintechs is not primarily to grow as large as possible, but to protect Bahrain's reputational advantage as a trustworthy, well-regulated intermediary, because that trust, more than balance-sheet size, is what continues to attract regional wealth and international institutions to a small island with few natural resources of its own. The resulting behaviour is visible in how Bahrain approached fintech regulation: rather than opening the gates broadly, the Central Bank of Bahrain built a regulatory sandbox through which prospective fintechs had to pass before being licensed. In its first year, roughly three dozen fintech firms applied to the sandbox, but only a small number, including the open-banking platform Tarabut Gateway and the digital-asset firm Rain, completed the process and secured full operating licences. Consolidation followed a similar logic: Bahrain FinTech Bay, the ecosystem-building body founded in 2018 that had incubated more than a hundred start-ups, was acquired in 2023 by Benefit, Bahrain's domestic electronic-payments company, folding fintech development back under an established, regulated institution rather than leaving it to sprawl independently [5].

The outcomes across the four dimensions reflect this careful, credibility-first approach. On depth, Bahrain's financial sector remains genuinely substantial relative to its size: the Kingdom is home to several hundred local, regional, and international financial institutions, positions itself as

the Gulf's financial capital, and sits at the centre of a regional wealth pool valued in the trillions of dollars, with financial and insurance services consistently the largest single contributor to inward foreign direct investment. But this depth is concentrated in wholesale, private, and Islamic banking rather than expressed as explosive growth in absolute terms, because the domestic economy underpinning it is small. On innovation, Bahrain's fintech sector has grown steadily rather than explosively; the number of licensed fintech firms has roughly doubled since 2018 to around one hundred to one hundred twenty companies [5], and digital banking has tended to arrive through partnership and platform models, such as Bank ABC's mobile-only ila Bank and the multi-market digital banking infrastructure built by Aion Digital, rather than through a wave of newly chartered independent digital banks. On access, Bahrain's small and already well-banked population means access is less a headline reform target than a background condition already largely met. On global relevance, Bahrain retains a distinctive edge in Islamic finance and corporate governance rankings within the Gulf, though it faces steadily intensifying competition from wealthier and more populous neighbours. Overall, Bahrain's model appears driven less by a push for scale or novelty than by the preservation of an inherited, hard-won reputation for stability.

3. Saudi Arabia: The Fast Follower

Saudi Arabia's starting point in 2016, when Vision 2030 was launched under the direction of Crown Prince Mohammed bin Salman [2], was almost the mirror image of Bahrain's. As the region's largest economy, Saudi Arabia had a banking sector serving a population many times the size of Bahrain's, but one that remained heavily dependent on oil revenue, conventional lending, and a comparatively underdeveloped capital market [6]. Where Bahrain's task in 2008 was to formalise decades of accumulated advantage, Saudi Arabia's task in 2016 was to build financial-sector sophistication essentially from a standing start, and to do so on a national scale.

The vehicle for this effort has been the Financial Sector Development Program, launched in 2017 as one of the delivery programmes of Vision 2030. The FSDP rests on four strategic pillars: enabling financial institutions to support private-sector growth, developing an advanced capital market, strengthening financial planning, and building out a fintech strategy. It is distinguished from Bahrain's approach by the sheer specificity of its numerical targets. By 2030, the programme aims to lift the financial sector's direct contribution to gross domestic product to roughly eight percent, to raise private-sector credit to around two hundred percent of GDP, to increase the share of non-cash transactions from thirty-six percent in 2019 to eighty percent, to raise the insurance sector's contribution to non-oil GDP from under two percent to well over four percent, to more than triple the share of bank financing directed to small and medium enterprises, and to grow the number of fintech companies operating in the Kingdom into the hundreds. A companion Fintech Strategy set intermediate 2025 milestones, including growing the number of

licensed fintech firms from roughly eighty to well over two hundred and lifting digital transactions to seventy percent of the total [7].

What stands out is not merely the ambition of these targets but the pace at which several have been met or exceeded, often years ahead of schedule. By the end of 2023, Saudi Arabia already counted more than two hundred active fintech companies [8], non-cash transactions had reached roughly seventy percent of the total, surpassing the interim target set for that year, and cumulative fintech investment had already surpassed levels the programme had originally targeted for 2025 [7]. By the end of 2024, total banking-sector assets had climbed past the level the FSDP had set as its 2025 target, and private-sector credit as a share of GDP had likewise moved ahead of its near-term benchmark [7], prompting both the Saudi Central Bank and the International Monetary Fund to note that credit growth, while a sign of a rapidly deepening financial system, was also generating funding pressures worth monitoring [10].

Nowhere is the speed of Saudi Arabia's approach more visible than in digital banking. The Saudi Central Bank introduced a dedicated regulatory framework for digital-only banks in February 2020 [9], and within roughly a year the Cabinet had licensed the country's first two digital banks: STC Bank, built on the earlier STC Pay mobile-payments platform of the national telecommunications operator, and a second institution that would later be rebranded Vision Bank. A third, D360 Bank, followed in 2022, backed by a consortium led by Derayah Financial with the Public Investment Fund as a strategic co-investor and initial capital of one point six five billion Saudi riyals, later expanded further. D360 became the first of the three to commence full public operations, launching in December 2024, with STC Bank and Vision Bank following in January 2025. The customer response was immediate: D360 Bank reported attracting more than six hundred thousand customers within roughly two months of launch, a pace of customer acquisition that industry commentators described as among the fastest recorded by any digital bank internationally [8]. This entire sequence — regulation, licensing, sovereign-backed capitalisation, and mass-market launch — unfolded in under five years.

The mechanism behind this speed is not difficult to trace. The policy environment combines explicit, publicly tracked quantitative targets with the deep pockets of the Public Investment Fund, which manages several hundred billion dollars in assets and has shown a willingness to co-invest directly in new financial institutions such as D360 Bank [9]. This combination creates a powerful incentive for both incumbents and new entrants: visible, rapid progress toward state-set milestones is rewarded with capital, regulatory goodwill, and prominent public recognition, while a slower, more cautious pace of expansion offers comparatively little advantage in a system explicitly designed around headline targets and dated benchmarks. The resulting behaviour is a financial sector racing to scale — new digital banks brought to market in rapid succession, fintech firms multiplying nearly threefold in under a decade, and banks expanding

credit quickly enough that regulators themselves have begun flagging the pace as something to watch.

Across the four dimensions, the outcomes mirror this behaviour. On depth, Saudi Arabia's banking sector is expanding rapidly off a much larger economic base than Bahrain's, with total assets and private credit already ahead of the programme's own near-term targets, even if the system's average maturity is lower than that of a financial centre built over half a century. On innovation, the growth has been genuinely explosive: a licensed digital-banking sector that did not exist five years ago now serves millions of customers, and the fintech company count has grown far faster than its Bahraini counterpart in both relative and absolute terms [7]. On access, the FSDP's explicit targets for SME financing and cashless-payment penetration embed financial inclusion directly into the policy's own scorecard, and the rapid rise in non-cash transaction share suggests genuinely broad-based adoption of digital financial tools, even though headline transaction counts move faster than the slower work of extending durable credit access to smaller businesses. On global relevance, Saudi Arabia's ambition to position Riyadh as a regional financial and fintech hub is backed by capital and political will on a scale Bahrain cannot match, but it remains a hub still being constructed rather than one already trusted through decades of continuous operation. Overall, Saudi Arabia's financial sector today appears driven less by the protection of an inherited reputation than by the pursuit of scale, visible milestones, and state-backed acceleration.

4. Comparative Analysis and Conclusion

Placed side by side, Bahrain and Saudi Arabia are not simply two countries at different points along an identical path. They are pursuing two different theories of what a modern Gulf financial centre should be, and the policy choices each has made are internally consistent with the outcomes each has produced.

On financial depth, Bahrain offers a concentrated, well-established pool of wholesale, private, and Islamic banking activity that punches well above the weight of its small domestic economy, while Saudi Arabia is expanding a much larger banking system so quickly that several of its own 2025 targets were exceeded before 2025 arrived [7]. On innovation, the contrast is sharpest: Bahrain has favoured a filtered, sandbox-based approach that lets a modest number of fintechs through a careful regulatory gate, while Saudi Arabia has licensed entire digital-only banks, complete with sovereign-fund backing, within a few years of writing the enabling regulation, and has watched its fintech sector nearly triple in size faster than its own planners initially expected. On access, Saudi Arabia has made financial inclusion an explicit, numerically tracked policy objective embedded in national targets, while Bahrain's access outcomes are better understood as the settled condition of an already small and thoroughly banked population rather than the

product of a headline reform campaign. On global relevance, Bahrain retains an edge built on decades of uninterrupted regulatory credibility and a leading position in Islamic finance, while Saudi Arabia's bid for regional financial-hub status is younger, more heavily capitalised, and not yet tested by a full economic cycle.

These differences carry real trade-offs rather than a simple hierarchy of better and worse. Bahrain's caution buys resilience and continuity, but risks being gradually out-scaled by larger, better-funded neighbours pursuing faster reform. Saudi Arabia's speed buys headline achievement and rapid market development, but has already drawn attention from its own regulators and the International Monetary Fund over the funding pressures that rapid credit growth can generate, a reminder that outcomes achieved quickly are not always outcomes that have been fully stress-tested. Neither approach is free; each has simply chosen where to accept its risk. Bahrain accepts the risk of being slow in exchange for stability; Saudi Arabia accepts the risk of being untested in exchange for speed.

On balance, at this midpoint in both Visions, the honest answer to the question of which country is building the stronger financial centre is that they are building different things for different purposes, and the more useful question for other resource-dependent economies is not which model to copy wholesale but which trade-off best matches their own starting conditions. Three lessons stand out. First, institution-building and rapid digitisation are not mutually exclusive, but they do represent a genuine choice about sequencing: a country can filter innovation through inherited credibility, as Bahrain has done, or it can build credibility through the sheer speed and visibility of its innovation, as Saudi Arabia has attempted, but attempting both simultaneously at the same pace is difficult. Second, large-scale sovereign capital, of the kind the Public Investment Fund has deployed into Saudi Arabia's digital banks, can compress a financial sector's development timeline dramatically, but the resulting growth needs to be matched by proportionate regulatory testing if it is not to create fragility that only becomes visible under stress. Third, small pioneers such as Bahrain retain a durable advantage in the trust-sensitive segments of finance — private banking, wholesale intermediation, Islamic finance — even as larger neighbours out-scale them in retail and digital banking, suggesting that size and trust are not always won on the same battlefield.

Bahrain and Saudi Arabia, in short, illustrate two coherent and internally consistent answers to the same Vision 2030 question. One answer is patient, credibility-first, and calibrated to a small economy that cannot compete on scale; the other is fast, capital-heavy, and calibrated to a large economy determined not to be left behind by its own ambitions. Both are still being written, and the true measure of either model will only be visible once each has been tested not by its own targets, but by a genuine economic downturn.

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