New Development Bank

Saudi Arabia in talks to join China-based ‘Brics bank’

Multilateral lender founded as competitor to west has struggled to raise funds because of Russia exposure

The addition of Saudi Arabia as a member would strengthen the New Development Bank's presence in the Middle East © NDB/Wikimedia

Joe Leahy in Beijing and **Arjun Neil Alim** in London MAY 27 2023

The New Development Bank, the Shanghai-based lender better known as the "Brics bank", is in talks with Saudi Arabia on admitting the country as its ninth member, a move that would strengthen its funding options as founding shareholder Russia struggles under the impact of sanctions.

The addition of the kingdom would reinforce ties between the bank, which was established by the world's biggest developing economies as an alternative to western-led Bretton Woods institutions, and the world's second-largest oil producer.

"In the Middle East, we attach great importance to the Kingdom of Saudi Arabia and are currently engaged in a qualified dialogue with them," the New Development Bank told the Financial Times in a statement.

The talks with Saudi Arabia come as the NDB prepares to embark on a formal evaluation of its funding options, which were thrown into question by Russia's invasion of Ukraine. The bank holds its annual meeting on Tuesday and Wednesday.

Membership would strengthen Riyadh's bonds with the Brics countries at a time when Saudi Arabia, the world's largest crude oil exporter, is also pursuing closer relations with China. Chinese president Xi Jinping hailed a "new era" in the countries' ties when he visited the kingdom late last year, and Beijing in March brokered an agreement between Saudi Arabia and Iran to resume diplomatic relations.

Saudi Arabian officials were not available for comment.

The NDB was set up in 2015 by the so-called Brics countries — Brazil, Russia, India, China and South Africa — to lend to development projects in emerging economies. It has lent $33bn to more than 96 projects in the five founding member nations, and has expanded its membership to include the United Arab Emirates, Egypt and Bangladesh.

Saudi Arabia would represent another deep-pocketed shareholder as the NDB assesses its ability to mobilise funds, after the war in Ukraine raised concerns about the bank’s dependence on Russia. As a founding member Russia holds a stake of about 19 per cent stake in the bank.

The NDB was forced to put on hold its Russia exposure of $1.7bn, or about 6.7 per cent of its total assets, and cease funding new Russian projects to reassure investors it was complying with western-led sanctions against Moscow.

Fundraising options are “the most important thing at the moment”, said Ashwani Muthoo, director-general of the NDB’s independent evaluation office, which was established last year, in an interview. “We are struggling to mobilise resources.”

Muthoo, who declined to comment on the Saudi talks, said the board wanted to examine alternative instruments and currencies to bring in resources. The NDB has raised funds in China’s renminbi and was seeking to raise South African rand this year.

“We will have to analyse the Russia situation, the war . . . these are the kinds of things we’ll have to look at,” Muthoo said.

Moscow has said it views the bank as an instrument to help alleviate the impact of western sanctions and move away from oil sales pegged to the dollar. Russia’s prime minister Mikhail Mishustin said on a visit to China this week that Moscow saw “one of the bank’s main goals” as defending the bloc from “illegitimate sanctions from the collective west”.

The Asian Infrastructure Investment Bank, another multilateral lender in which China is the biggest stakeholder, also froze its Russia business last year, though it had much less exposure.

The moves by the NDB and AIIB reveal how even institutions intended as challengers to western multilateral organisations have largely co-operated with financial sector sanctions against Russia because of their dependence on access to dollar financing.

Rating agency Fitch downgraded the NDB's credit rating to double-A from double-A plus last July, warning that "reputational risk" from its Russian stake could potentially limit access to the dollar bond market.

This month, the agency revised its outlook for the bank from "negative" to "stable", noting the steps it had taken to mitigate its exposure to Moscow. Multilateral lenders generally rely on high ratings and low funding costs to lend more cheaply.

Additional reporting by Max Seddon in Vilnius