Comments on the Saudi 2018 budget in Arab News, 20 Dec 2017

The below article titled "**Saudi budget: 2018 to be 'litmus test' for economy**" was published in Arab News on 20th Dec 2017, and can be directly accessed here. Comments are highlighted in the article posted below.

Saudi budget: 2018 to be 'litmus test' for economy

Next year will be "a litmus test for private-sector engagement in the Saudi Arabian economy," a leading regional economist said in reaction to the Kingdom's budget announced in Riyadh on Tuesday.

Nasser Saidi, the former chief economist of the Dubai International Financial Centre and Lebanese economy minister, told Arab News, "Much hinges on providing the stimulus and incentives to the SME (small and medium enterprises) sector and women's greater participation in the labor force."

He added that the 2018 budget comes at a crucial time in the Kingdom's economic history: "We see public-private partnerships in infrastructure and development projects, including in public utilities services and social capital sectors such as health and education, as well as the anticipated privatization of state enterprises and the mother of all privatizations, Aramco."

Jason Tuvey, Middle East economist at London-based consultancy Capital Economics, said the budget — which forecasts the biggest-ever expenditure in the Kingdom's history — amounted to a “modest” loosening of fiscal policy in 2018.

“The effect of the introduction of the Citizens Account (a plan to compensate the less well-off for the forecast higher cost of living) and the recent SR72 billion ($19.2 billion) private-sector stimulus will be partly offset by the introduction of VAT (value-added tax, set to be introduced in 2018), other fees and levies, and subsidy removal.

“But I should stress that it is just a relatively modest loosening and actually rather less than the loosening this year, as measured by the non-oil budget balance, which we think is the best way to measure it,” he added.

Saidi said the big expenditure was in part enabled by the improvement in oil revenues in the second half of 2017. “The Saudi 2018 budget reflects the modest recovery of oil prices during the latter half of 2017, which resulted in a lower budget deficit than expected, and the start of the implementation of the National Transformation Plan (NTP) 2.0 on a conservative estimate of oil prices in 2018.”

He said: “The services sectors, including tourism and hospitality, and their support infrastructure of transport and logistics (ports, airports and their services) represent low-hanging fruit.”

Tuvey noted that the budget statement had confirmed that the date for achieving a balanced budget is 2023, rather than 2020 as had previously been suggested.

“That is fair enough because policymakers have undertaken a lot of austerity over the past couple of years and the IMF said that they could afford to take longer over it. But that also means there will have to be more austerity over the next few years, in the absence of any great rise in the price of oil,” Tuvey said.

He said that there had appeared to be a big ramp-up in spending in the Kingdom in the final quarter of 2017.

Accounting and consulting firm KPMG released the details of a survey of top executives in the Kingdom, in which it was revealed that 70 percent thought that growth would be between 2 and 5 percent over the next three years.