



Jersey's Fiscal Policy Panel

News release

Embargoed until 15:30 on Monday, 13 November 2023

Amidst a weak global outlook, the Jersey economy remains strong. Risks remain, highlighting the need to rebuild reserves

The Fiscal Policy Panel (FPP) has today (Monday 13 November) published its 2023 Annual Report. This report provides the Minister for Treasury and Resources and the States Assembly with advice on public finances ahead of the Government Plan debate in December.

Dame Kate Barker, the Panel's Chair, said: "Whilst the global macroeconomic outlook is weak, Jersey has benefited from higher interest rates boosting banking sector profits and government revenues. With the economy at full capacity, this should have been used as an opportunity to rebuild Jersey's reserves."

Rising interest rates have subdued global growth but have had a positive effect on profits and growth for Jersey's banks. This sector accounts for 20% of Jersey's economy, and its strong performance enabled the economy to grow by 6.7% in 2022. However, the rest of Jersey's economy saw no change in GVA in 2022.

Jersey's economy is at full employment. The number of people registered as actively seeking work, a measure of unemployment, remains low, whilst vacancy rates are high. In 2022, the number of people in employment increased by 1,600 (full-time equivalent workers) compared to 2021.

Despite a slowing of housing market activity in 2023, the high cost of housing continues to be a potential drag on economic growth and productivity and is also likely to be contributing to difficulties in recruiting and retaining workers.

On the basis of current spending commitments and forecast tax revenues, there will be a primary budget deficit in all years of the Government Plan, with spend on the public sector boosting demand further.

Jersey's net asset position as a percentage of Gross Value Added (GVA) has declined since the last Government Plan, from just over 150% of GVA in 2019 to 135% in 2022. The net asset position is projected to fall further to 122% of GVA by 2027. The Panel is concerned that the projected net asset position remains lower than pre-pandemic levels.

The Panel's full set of recommendations are:

- 1. The Government's long-run goals.** The Government's Strategy for Sustainable Economic Development sets out Jersey's fundamental economic challenges in the coming decades: to maintain living standards for all as the population ages, and to reverse the trend of declining labour productivity. The FPP agrees that meeting these long run challenges via the Future Economy Programme is vital.
- 2. Reserves.** In the shorter term, renewed policy action is needed. Both the Stabilisation Fund and the Strategic Reserve as a proportion of GVA have shrunk and have not been replenished, despite strong economic growth and exceptionally strong government revenues. The Strategic Reserve is about half the minimum value recommended by the Panel. The low values of both mean that Jersey is increasingly vulnerable to a serious economic downturn. The FPP recommends that the Government takes urgent action to replenish these funds. The FPP has previously recommended that the Strategic Reserve should be between 30% and 60% of GVA. The Panel recommends that all Prior Year Basis receipts should be ringfenced and transferred to the Strategic Reserve as they arise.
- 3. Housing.** Following strong growth in both transactions and prices in recent years the market has cooled: while prices have held up, the number of transactions has dropped sharply. The high cost of housing (and land) is likely to be a drag on productivity on Jersey and as such a risk to economic growth. The Panel are currently undertaking a review into Jersey's housing market, which will be published in due course.
- 4. Fiscal Strategy and Spending.** Jersey's economy grew strongly in 2022. Growth was driven by higher profits in the banking sector as a result of higher interest rates; the rest of the economy saw no growth. The improved fiscal position should be used to rebuild reserves and not to fund further expenditure growth, though the Panel welcomes the Government's extensive capital programme. It recommends that the primary balance should move to a surplus as soon as possible, but that this shouldn't be achieved through cuts to the capital programme.

5. **Inflation.** Inflation has peaked and is forecast to fall steadily. However, higher prices are affecting households who face an elevated cost of living. With many mortgage holders protected by fixed rates the full effect of the interest rate rises has not been felt yet but will materialise as these fixed deals come to an end. There is a risk of worsening the inflation outlook if the Government's fiscal stance adds too much demand into the economy.

6. **Health-related funds.** Recent actuarial reviews have established that the Health Insurance and Long-Term Care Funds will be exhausted before the end of the demographic transition that they are designed to mitigate. It is important that in the context of Jersey's future health and care financing needs, the sustainability of these Funds is considered.

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Contact

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Notes to Editors

1. The Fiscal Policy Panel's role is to give the Minister for Treasury and Resources and States Members independent economic advice on matters relating to tax and spending policy and in particular on the use of the Stabilisation Fund and Strategic Reserve.
2. The Panel and its reporting procedures have been placed on a statutory basis from 2014.
3. The three members of the Fiscal Policy Panel are Dame Kate Barker (Chair), Professor Francis Breedon and Professor Richard Davies:

Dame Kate Barker was appointed to the FPP in 2014, and has been Chair since 2016. She has been a non-executive director of Man Group plc since April 2017. She is chairman of trustees for the British Coal Staff Superannuation Scheme, and also chairs the trustee board of the Universities Superannuation Scheme of the Yorkshire Building Society pension scheme. She led a quality review of the UK National Accounts for the Office for National Statistics in 2014 and has chaired a commission on Health and Social Care for the King's Fund. She was a member of the Monetary Policy Committee (MPC) at the Bank of England (2001 to 2010). She led two major policy reviews reporting to the Chancellor and the Secretary of State for Communities and Local Government: Barker Review of UK Housing Supply (2003 to 2004), Barker Review of Land-Use Planning (2005 to 2006). She was

created Dame Commander of the Order of the British Empire (DBE) for services to the economy in 2014.

Professor Francis Breedon was appointed to the FFP in 2016. He is Professor of Economics and Finance at Queen Mary University of London, a role which he has held since 2010. He has wide-ranging experience as a professional economist, including practical and academic experience. As well as working at the Bank of England for seven years, he has held senior economics positions in the private sector and continues to consult for a number of financial firms. His academic research focusses on international finance, and covers international macroeconomics and fiscal policy, including government funding and sovereign wealth funds. He is also a Commissioner in the Scottish Fiscal Commission.

Professor Richard Davies was appointed to the FFP in 2018. He is a professor at the School of Public Policy at the London School of Economics (LSE) and is director of the Economics Observatory and the Growth Lab, a joint project with Harvard University. He holds the inaugural Chair in the Public Understanding of Economics at Bristol University. Previously he was Chief of Staff of the LSE's Growth Commission, Chair of the Council of Economic Advisors at HM Treasury, and worked at the Bank of England and the UK Competition Commission. In addition to research and policy, Richard's work includes writing for the public: he was previously Economics Editor at *The Economist*, authoring their guide to economics and, more recently, *Extreme Economies*, published by Penguin.

4. Previous publications by the Panel, including its economic assumptions published in July 2023, can be found at www.gov.je/FiscalPolicyPanel