



Deputy Elaine Millar  
Minister for Treasury and Resources

03 May 2024

Dear Minister,

### **Updated Economic Assumptions**

Thank you for your letter of 19 April, requesting updated economic assumptions. We have updated our economic forecasts for 2023 to 2028. The set of economic assumptions and the variation to the Summer 2023 economic assumptions are appended to this letter (see Annex 1).

Since the Panel's 2023 Annual Report, global growth projections for 2024 have improved slightly but remain unchanged for 2025. Inflation has peaked and the global economy has avoided a recession, but growth prospects are unbalanced and remain below the 2009-2019 average growth rate of 3.8%. The US has been the main driver for recovery and growth but other advanced economies, including the UK, are forecast to experience low growth in the medium term as governments seek to limit public spending and attempt to consolidate their fiscal position. China is experiencing an economic slowdown and will continue to present a downside risk to global growth. A further risk comes from the geopolitical tensions in the Middle East threatening price volatility in the energy and commodities market. The Panel remains cognisant of the possible

downside to global economic projections and the challenges this may bring in forecasting Jersey's economic path in the near term.

In previous economic assumptions, the Panel commented on the path of Bank of England's tightening monetary policy to combat inflationary pressures in the UK. In 2023, the Bank Rate was increased five times from 4.0% to the current 16-year high of 5.25%. The average annual rate of inflation for Jersey has also been high at 10.2% for the Retail Prices Index (RPI<sup>1</sup>) and 6.0% for RPI(X)<sup>2</sup> in 2023 but is expected to continue to fall from 2024 to 2027.

The Jersey economy continues to grow strongly despite weak global growth but may be running hot:

- Registered unemployment remains low at 700 in March 2024.
- Average earnings were 7.7% higher in June 2023 than the year before.
- The Business Tendency Survey indicated positive current and future business activity for the finance sector throughout 2023. Profitability remains elevated as the banking sector continues to benefit from growing deposits and high interest rates. However, the disaggregated results for the non-finance economy are less positive, with weakened current and future business activity noted from September 2023 to March 2024. Input costs and product prices remain a concern throughout the economy.

The economy is estimated to have grown robustly in 2023, primarily driven by the banking sector, but growth is likely to be more modest for the rest of the forecasting period.

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<sup>1</sup> RPI includes both indirect taxes and estimation of mortgage interest payments.

<sup>2</sup> RPI(X) excludes estimated mortgage interest payments.

The Panel expects inflation in Jersey to continue to fall. By the end of this year, RPI and RPI(X) are expected to fall to 2.2% and 3.1% respectively. We further note that the differential between RPI and RPI(X) inflation is likely to narrow in the middle of 2024, after which the Panel's current forecast suggests that the growth in RPI(X), which excludes estimated mortgage interest payments, will be greater than RPI.

Current market expectations indicate that UK Bank Rate has peaked at 5.25% and will begin to fall through 2024 and 2025; although it is likely to remain above 3% for the forecast period. The Panel has received data from industry to understand how banks are performing and this has informed our revised profile of profits in the financial sector. Profits in the financial sector are now expected to have grown considerably in 2023 with slowing growth from 2024 to 2028. As such, the Panel has revised its forecasts for real GVA growth in 2023 up very sharply from 1.7% to 9.3%.

The key remaining points in the Panel's updated forecast are:

- Slightly higher average earnings growth in 2024 to 2026, driven by the 2023 public sector pay deal and higher remuneration in the financial sector. This will have positive impacts on compensation of employees, and therefore, gross value added. However, expectations on employment growth remains largely unchanged.
- 2023 saw a slowdown in the housing market as a result of higher mortgage rates. Transactions fell by 42.9% in 2023, but this is expected to grow back to pre-pandemic levels by 2026 with modest growth thereafter. House prices fell by 2.6% in 2023 following strong growth in 2021 and 2022 and are not expected to increase until 2025.

This is my final letter as the Chair of the Fiscal Policy Panel. It has been a great privilege to serve the people of Jersey in this way, and also a great pleasure. The times have not been easy, with the low Bank Rate pushing down on government revenues and the shocks of Brexit and the pandemic. However, Jersey has maintained sensible fiscal discipline, and I wish you future success in balancing that discipline with the inevitable short-term demands.

Yours sincerely,

A handwritten signature in black ink that reads "Kate Barker". The signature is written in a cursive style and is underlined with a single horizontal line.

Kate Barker (Chair)

Francis Breedon and Richard Davies

## Annex 1: Updated economic assumptions

### Spring 2024 Forecast

<i>% change unless otherwise specified</i>	2021	2022	2023	2024	2025	2026	2027	2028	Trend
Real GVA	9.4	6.7	9.3	2.1	0.6	0.8	0.8	0.8	0.5
RPI	2.7	9.3	10.2	3.5	1.7	1.7	2.0	2.2	2.4
RPI(X)=RPI(Y)	2.7	7.1	6.0	3.2	2.9	2.5	2.4	2.4	2.4
Nominal GVA	12.3	14.7	16.1	5.3	3.2	3.0	2.9	3.0	2.9
Gross operating surplus (including rental)	20.4	23.8	23.6	4.7	3.1	3.0	2.9	3.0	2.9
<i>Financial services profits</i>	13.1	49.4	40.0	6.0	4.0	4.0	4.0	4.0	3.2
Compensation of employees (CoE)	6.3	7.2	9.0	6.0	3.4	3.1	2.9	2.9	2.9
<i>Financial services CoE</i>	5.9	6.1	7.3	5.4	3.4	3.4	3.4	3.4	3.4
<i>Non-finance CoE</i>	6.3	7.8	9.1	5.1	3.3	2.9	2.8	2.8	2.7
Employment	2.9	2.8	1.4	0.5	0.4	0.4	0.4	0.4	0.1
Average earnings	3.3	6.2	7.7	5.2	3.0	2.6	2.4	2.5	2.8
Interest rates (%)	0.1	1.5	4.7	5.1	4.6	4.1	3.8	3.7	3.3
House prices	16.0	11.0	-2.6	0.0	2.0	2.0	3.0	3.0	2.9
Housing transactions	15.1	-12.9	-42.9	12.0	30.0	23.0	1.0	1.0	4.0

\*Trend interest rates represent market expectations for 2028

### July 2023 Forecast

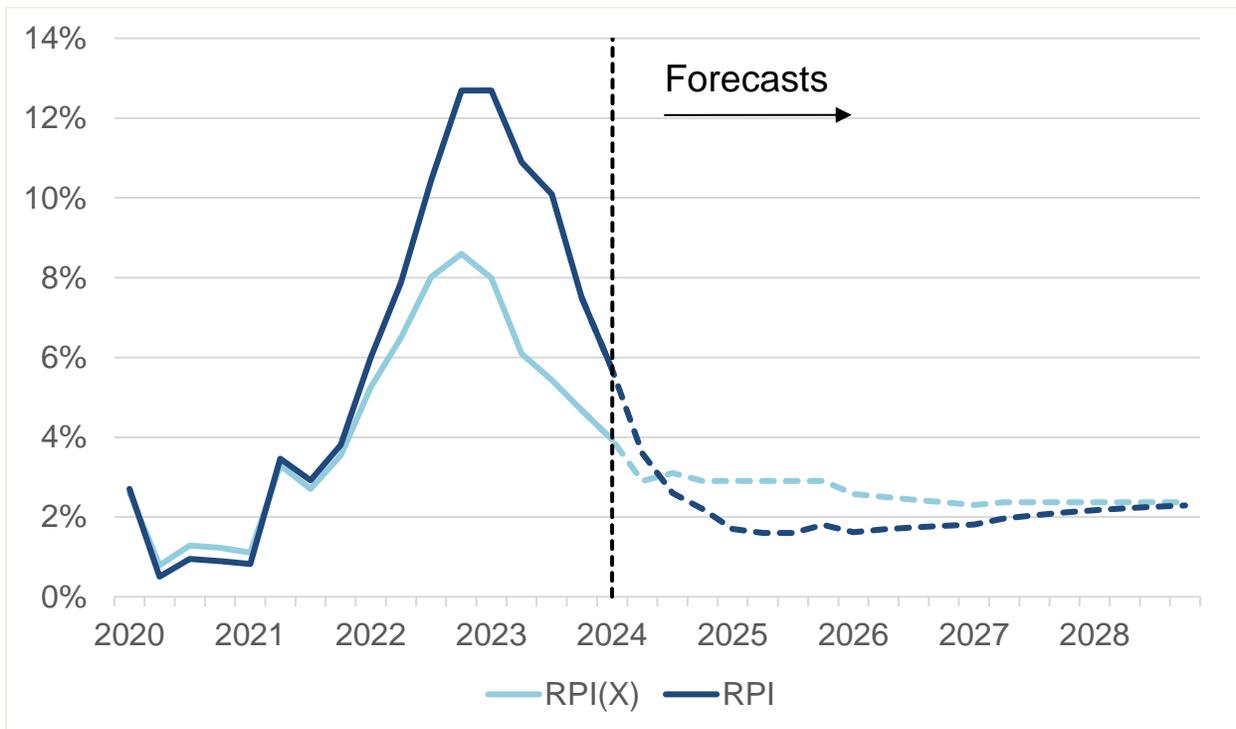
<i>% change unless otherwise specified</i>	2021	2022	2023	2024	2025	2026	2027	Trend
Real GVA	9.2	8.7	1.7	2.6	-0.2	-0.5	0.5	0.5
RPI	2.7	9.3	10.8	5.3	0.8	1.2	2.4	2.4
RPIY	2.7	7.1	6.2	3.8	1.9	2.3	2.4	2.4
Nominal GVA	12.1	16.8	8.3	6.5	1.8	1.8	2.9	2.9
Gross operating surplus (including rental)	19.2	27.2	8.9	8.0	0.4	0.7	2.9	2.9
<i>Financial services profits</i>	13.1	50.0	9.0	11.0	-2.0	-2.0	3.2	3.2
Compensation of employees (CoE)	6.8	8.2	7.7	5.0	3.1	2.9	2.9	2.9
<i>Financial services CoE</i>	3.9	5.1	9.0	5.4	3.4	3.4	3.4	3.4
<i>Non-finance CoE</i>	8.7	11.3	6.8	4.1	2.6	2.6	2.7	2.7
Employment	2.9	2.9	0.7	0.5	0.4	0.4	0.1	0.1
Average earnings	3.3	6.2	6.7	4.2	2.6	2.4	2.8	2.8
Interest rates (%)	0.1	1.5	4.8	5.9	5.1	4.4	4.0	3.3
House prices	16.0	11.0	-2.0	0.0	4.0	3.0	2.9	2.9
Housing transactions	15.1	-12.9	-50.0	20.0	25.0	35.0	4.0	4.0

\*Trend interest rates represent market expectations for 2027

### Change since July 2023

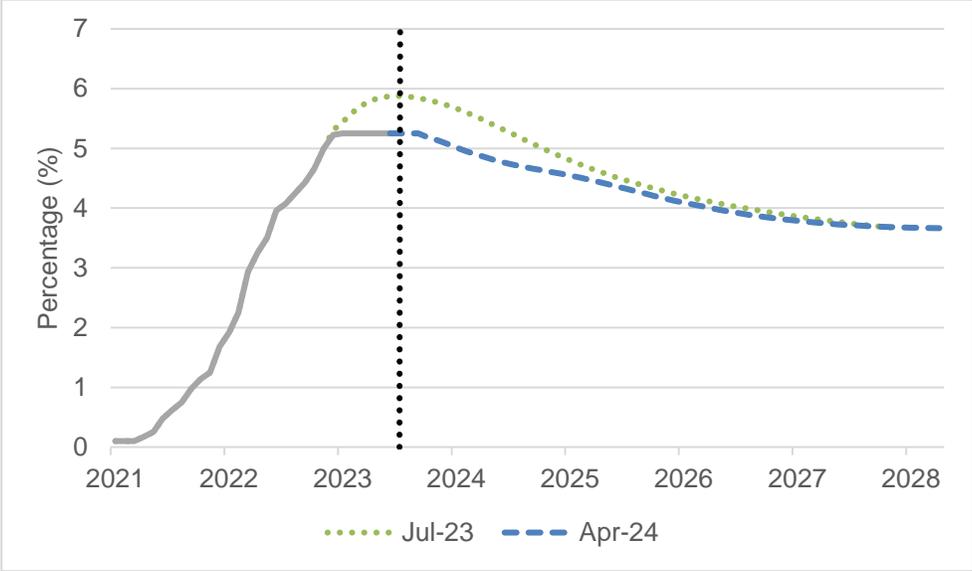
<i>% change unless otherwise specified</i>	2021	2022	2023	2024	2025	2026	2027	Trend
Real GVA	+0.2	-2.0	+7.6	-0.5	+0.8	+1.3	+0.3	+0.3
RPI	0.0	0.0	-0.6	-1.8	+0.9	+0.5	-0.4	-0.2
RPIY	0.0	0.0	-0.2	-0.6	+1.0	+0.2	0.0	0.0
Nominal GVA	+0.2	-2.1	+7.8	-1.2	+1.4	+1.2	0.0	+0.1
Gross operating surplus (including rental)	+1.2	-3.4	+14.7	-3.3	+2.7	+2.3	0.0	+0.1
<i>Financial services profits</i>	0.0	-0.6	+31.0	-5.0	+6.0	+6.0	+0.8	+0.8
Compensation of employees (CoE)	-0.5	-1.0	+1.3	+1.0	+0.3	+0.2	0.0	0.0
<i>Financial services CoE</i>	+2.0	+1.0	-1.7	0.0	0.0	0.0	0.0	0.0
<i>Non-finance CoE</i>	-2.4	-3.5	+2.3	+1.0	+0.7	+0.3	+0.1	+0.1
Employment	0.0	-0.1	+0.7	0.0	0.0	0.0	+0.3	+0.3
Average earnings	0.0	0.0	+1.0	+1.0	+0.4	+0.2	-0.4	-0.3
Interest rates (%)	0.0	0.0	-0.1	-0.8	-0.5	-0.3	-0.2	+0.4
House prices	0.0	0.0	-0.6	0.0	-2.0	-1.0	+0.1	+0.1
Housing transactions	0.0	0.0	+7.1	-8.0	+5.0	-12.0	-3.0	-3.0

**Annex 2: RPI(X) and RPI inflation forecast and table of quarterly year-on-year changes**



Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
<b>RPI Inflation (percentage change, %)</b>								
7.5	5.7	3.6	2.6	2.2	1.7	1.6	1.6	1.8
<b>RPI(X) Inflation (percentage change, %)</b>								
4.7	3.9	2.9	2.9	3.1	2.9	2.9	2.9	2.9

**Annex 3: Future market expectations for interest rates**



## Annex 4: Letter from the Minister for Treasury and Resources

Minister for  
Treasury and Resources

19-21 Broad Street | St Helier  
Jersey | JE2 4WE



Dame Kate Barker  
Chair of the Fiscal Policy Panel

19 April 2024

Dear Dame Kate,

Since the change in Government in January this year, the Council of Ministers have been working towards their Common Strategic Policy (CSP) for the remaining two years of office, which has now been lodged. This sets out deliverable solutions to improve the lives of Islanders and is structured around 12 priorities that will benefit our Island community.

In agreeing the CSP, this Council of Ministers remains committed to maintaining sound public finances with existing budgets being reprioritised where appropriate to deliver against these priorities. With this in mind, I'm writing to request an updated set of economic assumptions to inform the income forecast and aid the Council of Ministers in agreeing their Government Plan, to ensure budgets are balanced.

Recent escalations in geopolitical tensions in the Middle East remind us of the fragile nature of world affairs and continued global economic uncertainty. Given the current economic context I welcome the Panel's views on an updated set of economic assumptions and how these might impact the outlook for Jersey's economy. This advice and assumptions will be crucial in supporting the development of this year's Government Plan covering the years 2025 – 2028 due to be lodged in July.

Now that your tenure as Chair of the Fiscal Policy Panel is nearing an end, may I also take this opportunity to thank you personally for your invaluable contribution, advice and support to successive Governments and the Island of Jersey, and wish you well for the future.

I look forward to receiving your response.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Elaine Millar".

Deputy Elaine Millar