Fiscal Policy Panel – Economic Outlook

May 2025

Introduction

The Fiscal Policy Panel (FPP) have assumed a statutory role since 2014 and are responsible for advising the Government of Jersey on economic matters both domestically and globally. The Panel is required to provide economic forecasts (FPP assumptions) and fiscal policy recommendations intended to maintain economic stability and the sustainability of Jersey's public finances. The current members of the Panel are:

Sir Jon Cunliffe (Chair, appointed 2024)

Professor Richard Davies (appointed 2018)

Amanda Rowlatt CBE (appointed 2024)

Professor Paul Mizen (appointed 2025)

Previous forecasts and recommendations produced by the Panel can be found in FPP Annual Report 2024

Since the Fiscal Policy Panel's previous annual report (published September 2024), shocks to the global economic framework have led to the outlook for the World Economy changing significantly. This report provides an updated assessment of the performance of Jersey's economy and the Panel's assessment of the economic outlook facing Jersey for the next few years to inform discussions and decisions for Budget 2026.

'Economic Outlook 2025' summarises the Panel's assessment of the rapidly changing global economic outlook and its impact on Jersey's economy, summarised in our economic assumptions. The current global economic outlook is one of weaker growth as a direct result of the new US administration's trade policies on economic activity exacerbated by the uncertainty which has accompanied them which in and of itself has a dampening effect of economic activity. The degree of economic uncertainty is exceptional: unusually the IMF has not been able to produce a central forecast for the global economy but has rather set out a number of scenarios. This higher level of uncertainty in the global economy means there is a greater than usual degree of uncertainty around The Panel's forecast for Jersey.

The structure of the Economic Outlook is:

- Section 1: Structure of Jersey's Economy – analysis of the structure of Jersey's economy and the key drivers of growth.
- Section 2: Current Economic Performance (2024-2025),
- Section 3: Global Outlook – Panel's assessment of the rapidly changing global economic landscape and the likely impact on Jersey's economy,
- Section 4: Economic Forecasts and Fiscal Policy Panel Assumptions 2025-2029 – the Panel's forecasts for Jersey's economy,

Executive Summary

The Fiscal Policy Panel's Economic Outlook for Spring 2025 summarises their assessment of Jersey's economy and its economic outlook amidst a challenging global environment characterised by uncertainty and volatility. Jersey experienced strong economic growth (7.3%) in 2023, primarily driven by strong growth in the financial services sector, particularly banking. The Panel estimates that Jersey's economy contracted in 2024, by 1.5% in 2024. This estimate is driven by the banking sector's estimate of negative growth in bank profits.

The non-financial sectors saw mixed results in 2024, with areas such as construction, real estate, accommodation, food services, and retail experiencing declines due to rising costs, inflationary pressures, and weakened consumer spending. However, other sectors such as the public sector expanded. The public sector also contributed positively to overall employment, despite reductions in private sector roles.

Inflation, although significantly reduced from 10.2% in 2023 to 4.1% in 2024, remains elevated both in absolute terms and compared to the UK, reflecting persistent local cost pressures such as wage growth and higher import costs. The labour market remains tight with high economic activity rates and low unemployment levels, further amplifying wage-related inflationary pressures faced by businesses.

Globally, economic forecasts have weakened due to escalating trade tensions and geopolitical uncertainty, significantly impacting major advanced economies, including Jersey's main trading partner, the UK. This external environment could negatively affect Jersey through increased import prices, subdued consumer demand, and potential reductions in tourism and financial services activities.

Looking ahead, economic growth in Jersey averaging is projected to average around 1.0% pa in real terms, from 2025 to 2029, materially below its long-term average. Financial services is expected to remain the predominant driver of economic activity. Inflation is forecast to stay above historical norms in the short-term before stabilising around 2.5% towards the end of the forecast period.

In its September 2024 Report the panel advised greater prudence in fiscal policy and strategic planning to enhance economic resilience. In the light of the deteriorating global economy and the increase in uncertainly, including around international taxation policy and global capital flows, the Panel's view is that a prudent approach is even more necessary.

There are risks on both the downside and the upside. Jersey might benefit from global capital flows seeking secure jurisdictions amid international uncertainty. On the other hand, Jersey will be impacted by lower global growth and may be adversely impacted by broader changes in global capital flows and increasing fragmentation of the global financial sector. Maintaining Jersey's reputation as a stable, responsible and attractive jurisdiction and financial centre will be crucial in these circumstances.

Section 1: Structure of Jersey's Economy

1.1 Introduction

In 2023 Jersey's economy grew by 7.3% in real terms to £6,575 million. This follows an annual average growth rate of 1.6% over the past decade and brings total economic growth since 2021 to 13.9%. Labour productivity, measured as GVA per full-time equivalent (FTE) worker, increased by 5.7% in real terms in 2023. Both economic growth and labour productivity growth were driven by gains in the Financial Services sector.

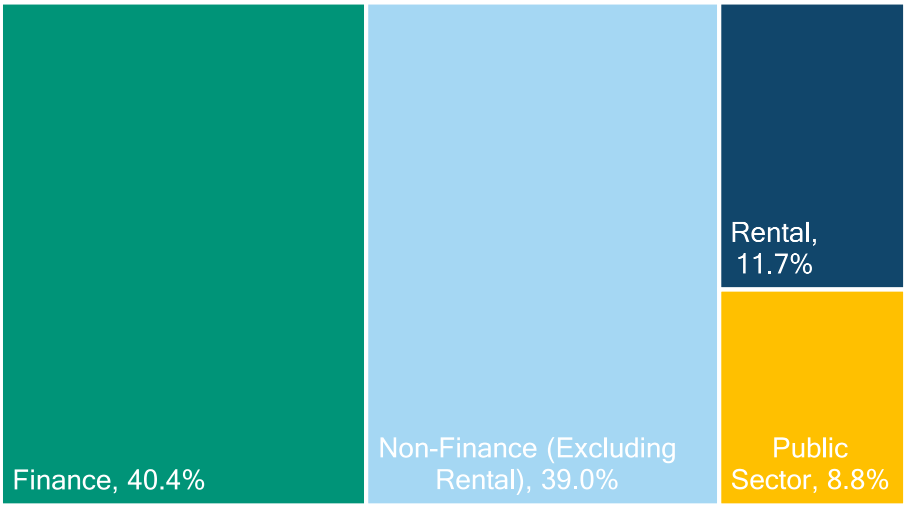
The Financial Services sector makes up 40% of Jersey's economy directly. More specifically, the banking sector accounted for 20% of total output in 2023 due to a 69% increase in real profits. This profits growth was primarily caused by increases in the UK, US and EU interest rates, which allowed Jersey banks to generate greater profits from widening net interest margins (the difference between lending and deposit rates) on sterling, dollar and euro deposits. The UK Bank of England Bank Rate had been set at very low levels close to zero over the period 2008-2021, and lending rates offered by banks were also lower, but deposit rates could not follow suit without turning negative. This compressed the net interest margin and decreased bank profits. A rise in Bank Rate in December 2021 and subsequent months to address rising inflation allowed banks to raise lending rates and expand their net interest margin, increasing bank profits. Similar effects were seen in the US and euro area. Banking profits was the most significant driver of GVA growth in 2022 and 2023.

Figure 1.1

Composition of Jersey's Economy in 2023

The breakdown of contributions to gross value added for Jersey in 2023.

Source: Statistics Jersey



1.2 Sector Breakdown

Growth in 2023 was driven by the financial services sector; the non-financial sectors collectively showed **modest real GVA growth of only 0.4%**, with mixed performance by sector.

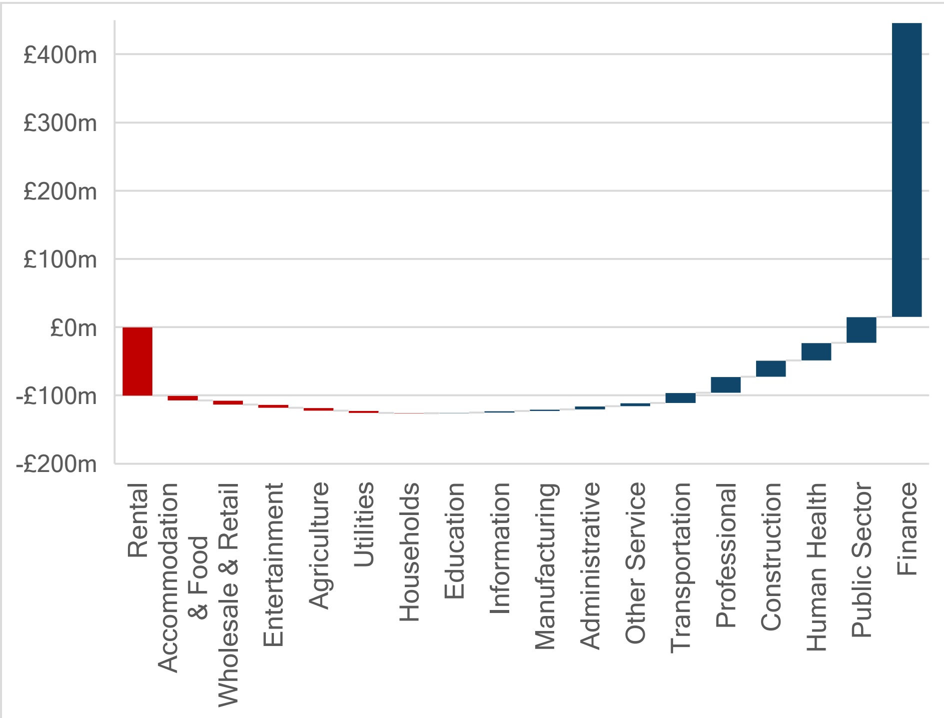
Figure 1.2

Composition of Jersey's Economic Growth in 2023

The breakdown of contributions to the growth of gross value added for Jersey in 2023.

Red denotes contractions while blue denotes increases relative to 2022. The Finance Sector provided the overwhelming majority of all GVA growth.

Source: Statistics Jersey



Fastest Growing Sectors

- The Financial Services sector grew by 19.4% in real terms, contributing £459 million to economic growth, driven by higher net interest income and a favourable interest rate environment. Financial services remains the largest sector of Jersey's economy, accounting for 40.4% of the total economy.
- The Human Health and Social Work sector grew by 16.3% (£26 million),
- The Construction, Mining and Quarrying sector grew by 5.3% (£24 million),
- The Transport and Storage sector grew by 12.3% (£15 million), benefiting from post-pandemic recovery.

The Public sector also grew significantly by 7.0% (£38 million in GVA), largely driven by increased employment.

Slowest Growing Sectors

- The Real Estate Activities (rental) sector contracted by 11.5% (£100 million), reflecting a 13% decline in house prices since their peak in Q3 2022. High mortgage rates contributed to decreased affordability and weaker market activity.
- The Accommodation and Food sector contracted by 3.0% (£7 million), consistent with inflation increasing the costs faced by the sector and increasing costs of living faced by Islanders and visitors reducing spend.
- The Wholesale and Retail Trade sector contracted by 1.6% (£6 million), with continued cost pressures across 2023.
- The Arts, Entertainment and Recreation sector contracted by 10.9% (£5 million).
- The Agriculture, Forestry, and Fishing sector contracted by 9.3% (£4 million).

Section 2: Current Economic Performance (2024-2025)

2.1 Introduction

GVA data for 2024 will be published by Statistics Jersey in October 2025 (Statistical publications), In the absence of Statistics Jersey GVA data, the Panel has drawn on other key economic data to assess 2024 and 2025 economic performance. These include:

- Fiscal policy and the operating balance between government revenues and current spending
- Inflation and interest rates
- Trends in the labour market, employment and capacity in the economy
- Earnings growth across all sectors
- Consumer spending and the balance of offshore purchasing
- Activity in Jersey's housing market
- Business performance in the financial services and non-finance sectors

2.2 Fiscal Policy

As set out in the Fiscal Policy Panel's Annual Report 2024 (FPP Annual Report 2024), the return to relatively high interest rates created opportunities for strong growth in financial services and especially the banking sector, increasing the level of government income received through corporate income tax receipts. In 2024, total income received from taxes and revenue increased by £125 million, (11.6%), whilst public spending increased by £177 million (17.4%), resulting in an operating deficit of £63 million. The deficit has been funded partly by a reduction in capital spending, some drawdown of reserves and savings in Government. As set out in Budget 2025, this expansionary fiscal position will continue into 2025 with further increases in spending. Additional spending might contribute to economic growth but is likely to also increase imports and exacerbate inflation.

2.3 Inflation

The Retail Price Index (RPI), Jersey's headline measure of inflation, fell to an annual average 4.1% in 2024, from an annual average rate of 10.3% in 2023. RPI(X), which excludes mortgage interest rates and is a measure of underlying inflation, fell to 3.7%. Easing inflation has slowed price rises for consumers, however a recent uptick in RPI(X) inflation to 3.4% in Q1 2025 indicates that cost pressures are now increasing for Jersey businesses. Conversely, RPI inflation continued to fall in Q1 2025 to 2.3%, its lowest level since 2021, driven by cuts to the Bank of England base rate, which has reduced mortgage interest rate payments for Jersey households.

Figure 2.1

Inflation in Jersey and United Kingdom 2021-2024

Annual percentage change in the Jersey Retail Price Indexes and UK Consumer Price Index

Source: Statistics Jersey

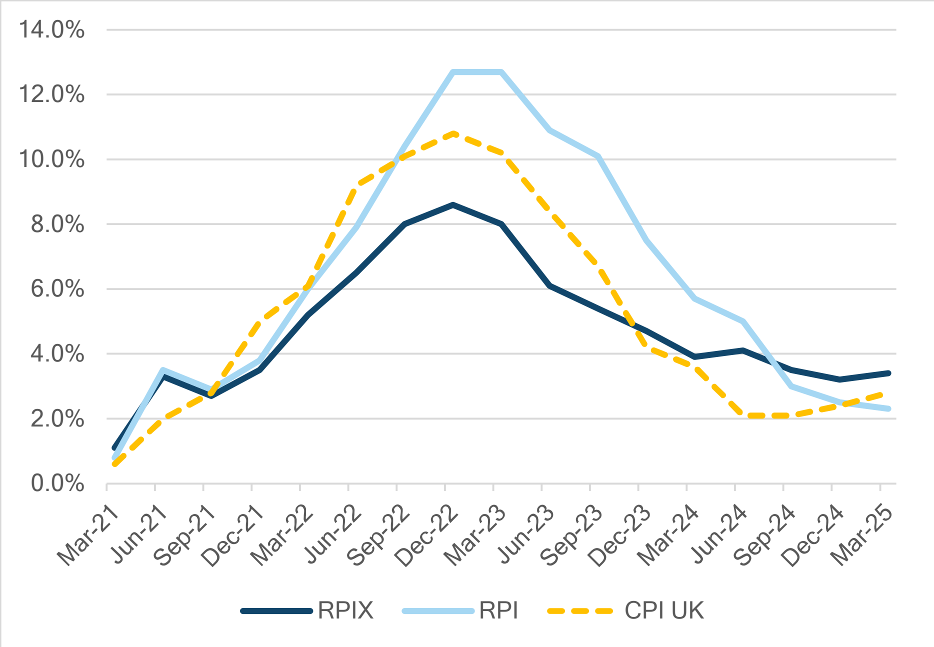


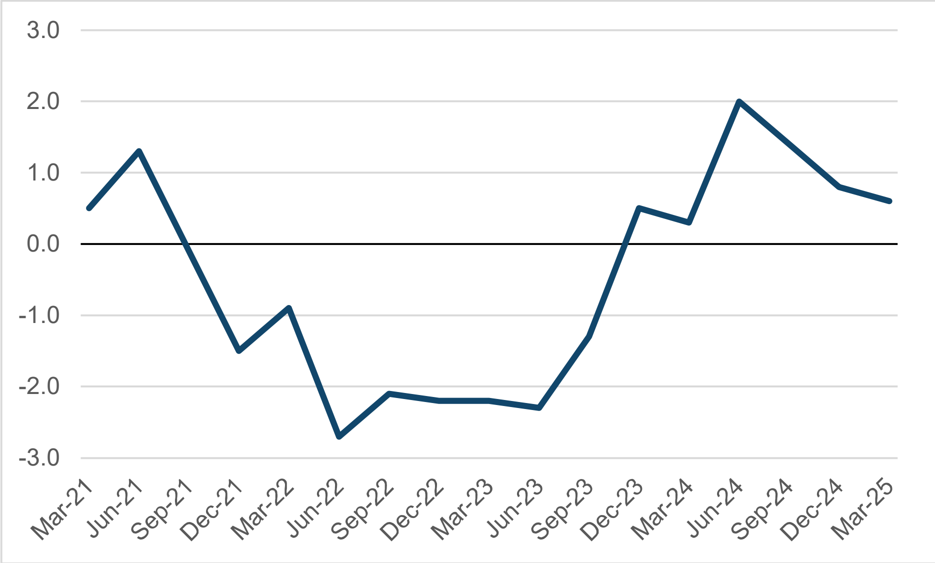
Figure 2.2 compares Jersey's RPI and RPI(X) measures of inflation with UK CPI. In 2024, average annual RPI(X) inflation (3.7%) was consistently above annual CPI inflation (2.6%). As most of the goods sold on Jersey are imported from the UK, any increase in the difference between RPI(X) and CPI is suggestive of on-island inflationary pressures. Jersey and the UK both experienced significant services inflation across the year. The impact was more pronounced in Jersey, where wage pressures contributed to sharp annual price rises in household services (4.4%) and leisure services (8.6%). In the last quarter of 2024, Jersey also saw a higher rate of annual food inflation (3.8%) compared to the UK (2.0%), providing further evidence of inflationary pressures building on-island.

Figure 2.2

Difference between Jersey and UK underlying inflation

Percentage point (ppt) difference between Jersey RPI(X) and UK CPI

Source: Statistics Jersey, Bank of England



2.4 Labour Market

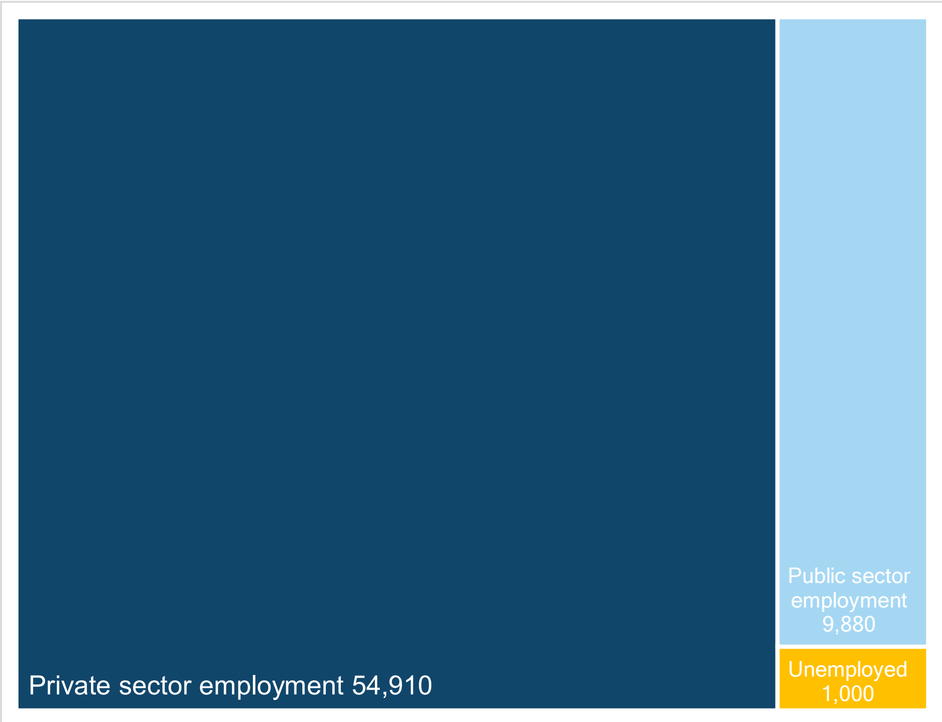
Jersey's labour market remains tight. The total number of jobs in Jersey grew by 0.8% in 2024 with 530 new jobs. However, this employment growth was largely limited to the public sector. Only 100 new jobs were created in the private sector. Private sector employment growth of 0.1% in 2024 was lower than 2022 (2.0%) and 2023 (1.3%), comparing June to June.

Figure 2.3

Total Employment December 2024

Total number of jobs in the private and public sector and total number of those registered unemployed or actively seeking work.

Source: Statistics Jersey



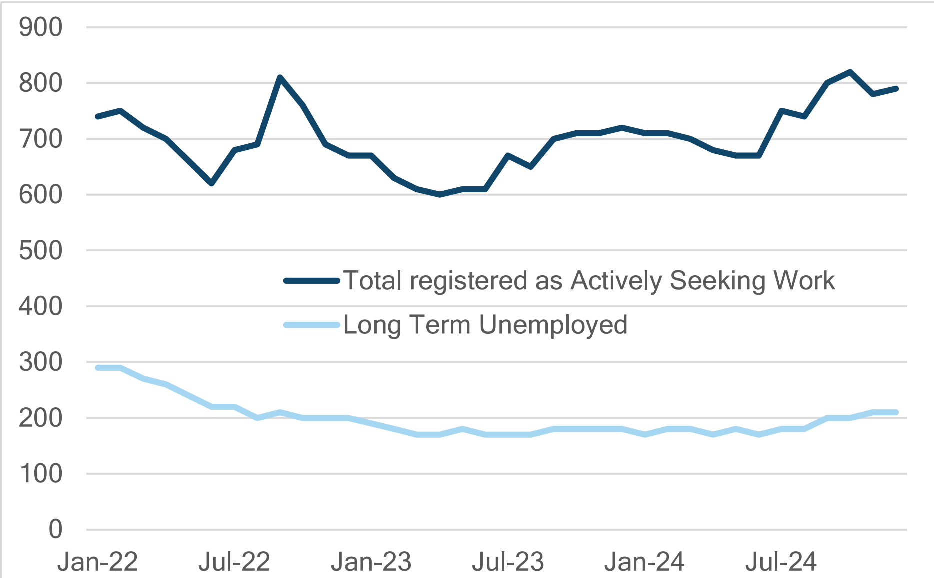
Jersey's economic activity rate (the proportion of 16-64 years that are working or actively looking for work) is high. According to 2023 population data, Jersey's economic activity rate was estimated at above 80%, higher than the UK (78%) and the EU average (75%). Jersey's high activity rate reflects a strong labour market but also policy decisions affecting who can live and work in Jersey. Unemployment remains low. The number of those registered as 'Long-term unemployed' remained low and stood at 230 people in December 2024. However, there has been a small increase in the number of unemployed people who are 'Actively seeking work'.

Figure 2.4

Total Unemployment 2024

Number of those registered as 'Long-term unemployed' or 'Actively seeking work'

Source: Statistics Jersey



Several sectors shrank in terms of employment over 2024. Overall, the number of jobs decreased in non-finance sectors with a net loss of 180 FTE (full time equivalent) jobs, comparing June to June. The construction sector experienced the largest decrease in FTE employees (-160), which corresponds with the conclusion of several major developments and a downturn in housing market activity. The hospitality sector also had a reduction in FTE roles (-90) for the first time since the COVID-19 pandemic. Employment decline continued in the wholesale and retail sector (-130) for the third consecutive year. Job losses in non-finance sectors reflect the challenging business environment created by mounting cost pressures, caused by elevated inflation and increases in the minimum wage, as well as falling consumer demand.

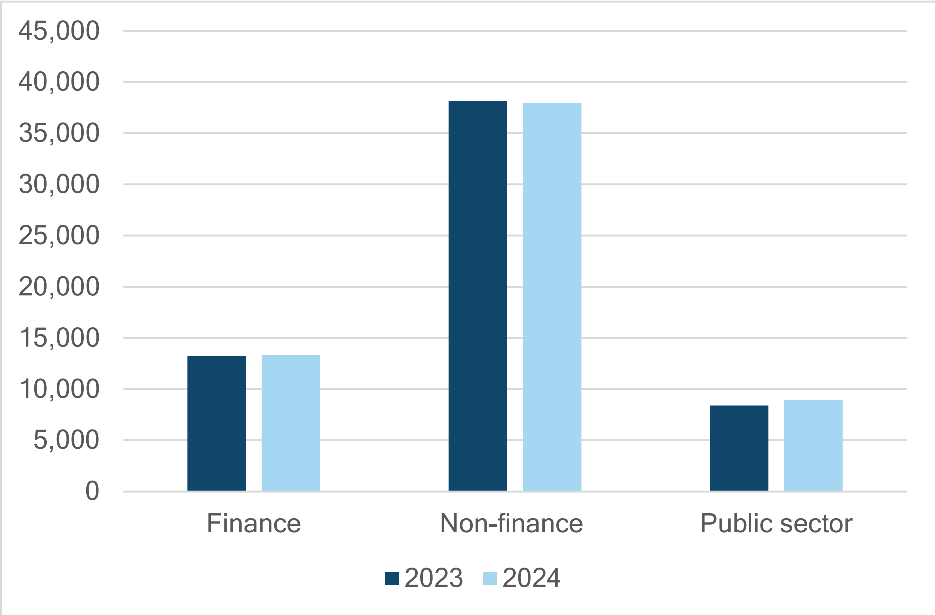
Falling employment in non-finance sectors was offset by growth in financial services (+110) and the public sector (+470). Net employment growth for financial services reflected the long run industry trend and continued strong performance of the sector. The number of FTE roles grew by 6.4% in the public sector for 2024, which is above the long run trend. The majority of this growth came from within the Health and Community department, which saw an increase of 580 FTE roles. Most other areas of the public sector saw an overall fall in the number of jobs.

Figure 2.5

Number of Jobs (Full-time equivalised) by Sector

Number of full time equivalent (FTE) employees by sector

Source: Statistics Jersey



2.5 Earnings and Wages

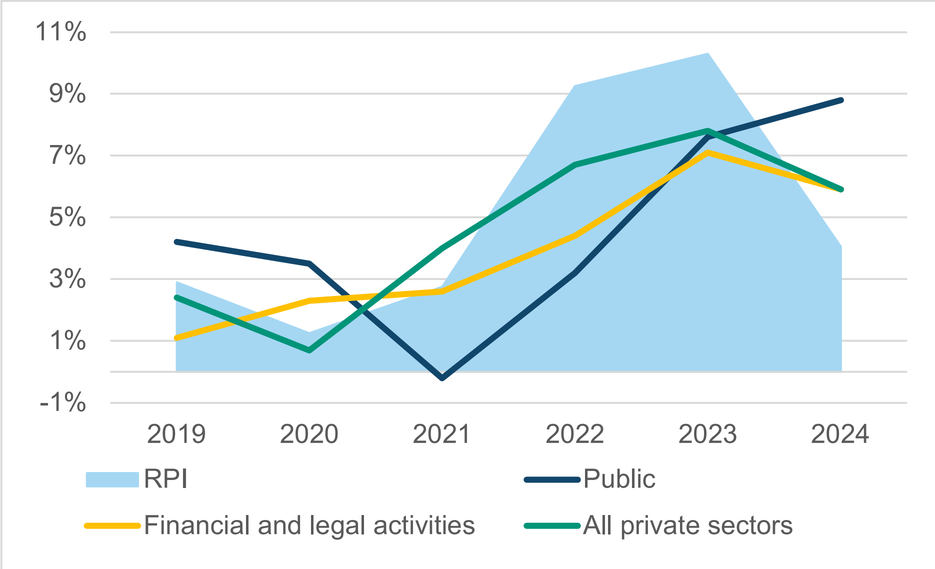
Inflation-adjusted earnings grew in 2024, rising by 2.3%. All sectors, except for agriculture and fishing, saw real earnings growth. This was the first instance of real earnings growth since 2021 and corresponds with a drop in annual inflation from 10.3% to 4.1%. Outside the financial services sector, growth in real earnings was not matched by growth in productivity. As a result, real unit costs have increased for many Jersey businesses.

Figure 2.6

Average Earnings Index Growth and Annual Inflation

Annual percentage increases in the Average Earnings Index and Retail Price Index

Source: Statistics Jersey



Real wage growth can stimulate economic growth as it increases spending through higher disposable incomes. However, higher wages are unlikely to provide material stimulus to growth in the Jersey context where non-financial productivity has been sluggish, the labour market is tight, and imports are high. Earnings growth in lower paying sectors such as Construction, Hospitality and Retail is mostly due to the £1.14 increase in the Minimum Wage from the start of 2024. At the same time apprenticeship rates were increased to the main Minimum Wage rate, significantly increasing wages for trainees. Whilst earnings growth can increase demand in an economy, current elevated levels of domestic inflation are associated with higher spending on imports, creating leakage from Jersey's economy. The cost of labour is high in Jersey compared to other economies and, where they are able, employers may respond to high wage growth by raising prices or lowering employment to preserve their operating profits. Employers unable to adjust prices or employment will face lower margins as wages and other costs increase.

2.6 Housing Market

Jersey's housing market followed an upward trend in both prices and transactions between 2011-2021, but since then the housing market experienced a flattening off in 2022 and then a significant downturn in 2023. This downturn has persisted, and the House Price Index fell by 8.2% in 2024, which is the largest annual decrease since 1986. The total number of housing transactions also reached its lowest levels since 2002. There are signs that activity in the housing market is beginning to pick up with turnover increasing in the last 3 quarters of 2024 and into 2025.

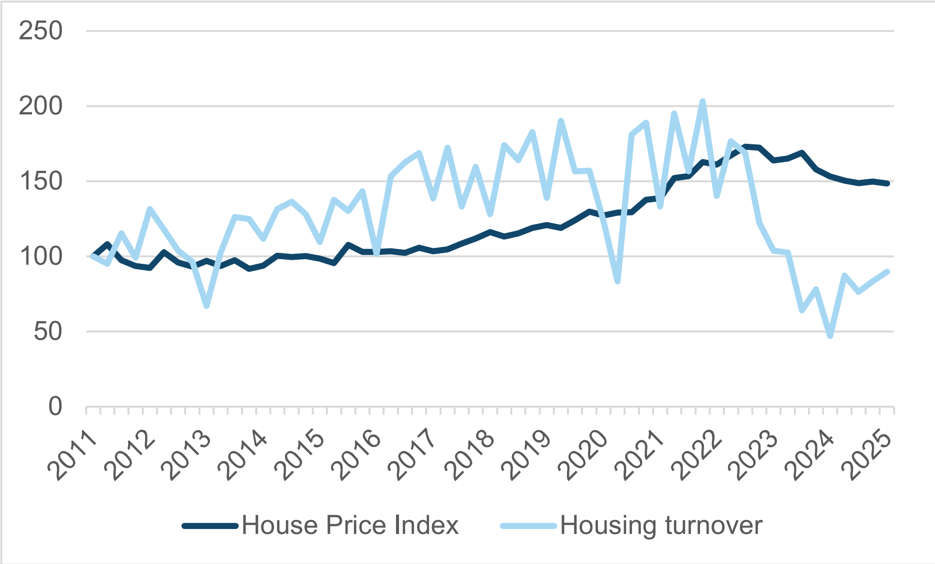
Figure 2.7

Quarterly House Price Index and Turnover Index

Index: Q1 2011 = 100

Average house prices and total number of housing sales per quarter

Source: Statistics Jersey



2.7 Business Performance

Businesses continue to be affected by higher costs from inflation and wage growth. In addition, consumer confidence appears weak. Figure 2.8 contains the results of the Business Tendency Survey (BTS)* from non-finance sectors for the first three quarters of 2024. The indicator for business activity became neutral in 2024, slightly improving on sentiment in 2023. However, the indicator for new business remained negative. The indicator for profitability has continued as strongly negative with the wholesale and retail sector reporting the lowest rating for profitability, followed by the hospitality sector, which also reported worsening indicators for business activity. The combination of higher costs and low confidence is a challenge for firms in Jersey.

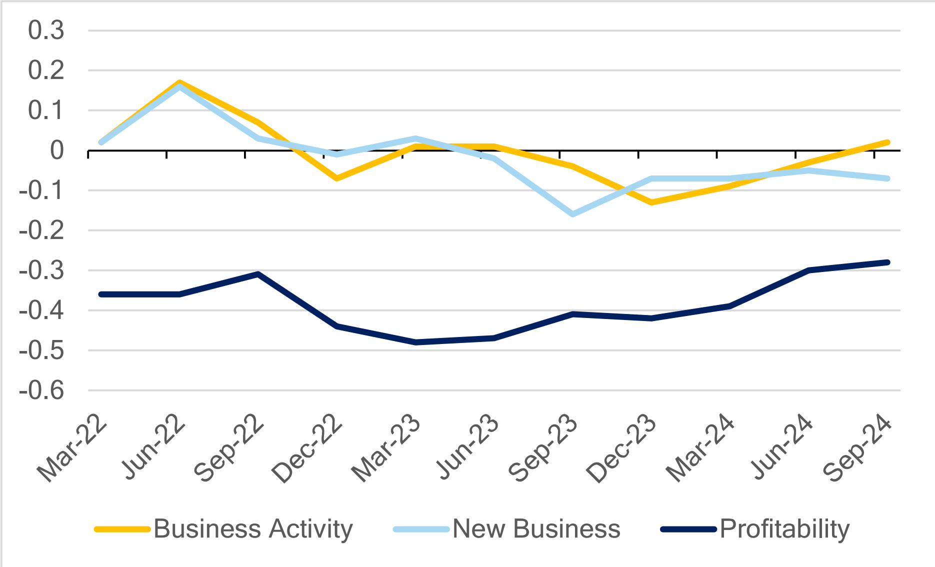
**Statistics Jersey temporarily stopped producing the Business tendency Survey in March 2024, publication of these statistics will resume later in 2025*

Figure 2.8

Business Tendency Survey Results 2022- Q3 2024 for Non-finance Sectors

Business tendency results for indicators of Business Activity, New Business and Profitability as of September 2024

Source: Statistics Jersey



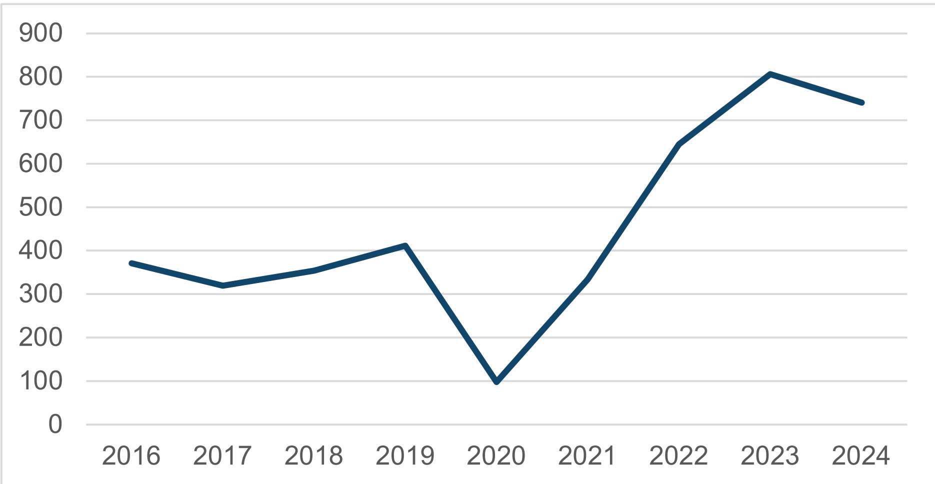
Financial services firms were more optimistic. The BTS results for the first 3 quarters of 2024 showed positive indicators of business activity and new business, though banking profits appear to have levelled off following the very fast growth in 2022 and 2023 driven by sharply rising interest rates **(Figure 2.9)**. Bank profits account for 50% of total economic output (GVA) produced by financial services and the growth in bank profits has been the largest driver of growth within the sector. A slowdown in profit growth within the banking sector, will directly and significantly affect economic growth in the whole economy. Wages and profits generated by the trusts and funds industry accounts for the other 50% of GVA produced by financial services, all of which experience gradual and less volatile growth.

Profits for regulated banks in Jersey fell by 8% over 2024. This fall will have a sizeable negative effect on overall GVA growth for 2024 as the banking sector equated to 20% of Jersey's total GVA.

Figure 2.9

Regulated Banking Profits (£ million) 2016-2024

Source: Jersey Financial Services Commission



2.8 Estimated Output and Economic Growth in 2024

Whole economy output, described as Gross Value Added (GVA), is calculated by aggregating total income generated by the economic activity of Jersey's businesses, labour market and public sector. In October 2025, Statistics Jersey will produce the official figures for 2024 output and real GVA growth. The Panel has estimated real GVA growth using earnings data, employment data and expectations for business profits.

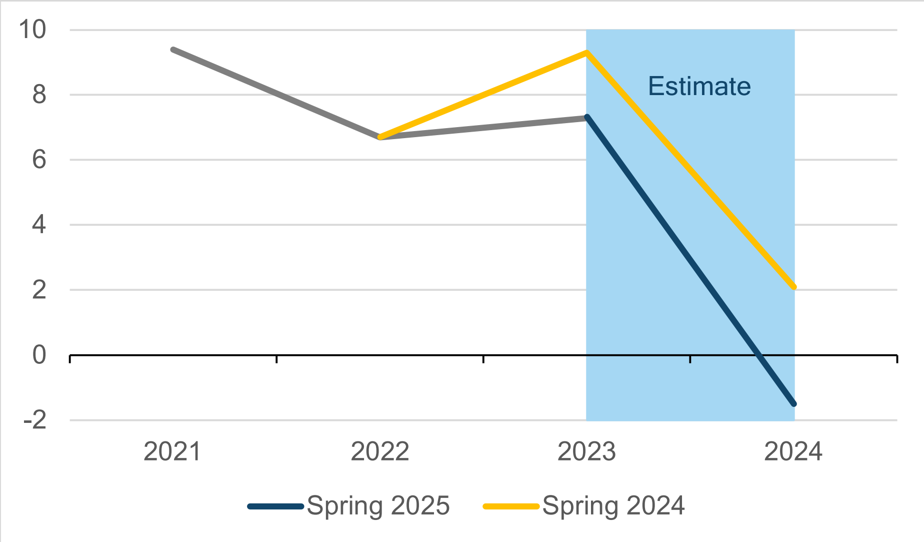
The Panel has revised down its estimate of 2024 GVA growth. Last year, in its 2024 Spring economic assumptions, the Panel forecast real GVA growth of 2.1%; the Panel's current assessment is that real GVA growth was negative in 2024 and that the economy shrank in real terms.

Figure 2.10

Real GVA Growth and Estimated 2024 (%)

FPP assumptions Spring 2024 and FPP assumptions Spring 2025

Source: Statistics Jersey, Fiscal Policy Panel



The Panel's central estimate is that Real GVA fell by 1.5% in 2024. Falling bank profits, which comprised 20% of total GVA in 2023, is the primary reason for shrinking real GVA. Bank profits are mostly driven by deposit rates and capital flows, factors that are largely exogenous to Jersey, real decline is not necessarily representative of performance in the rest of Jersey's economy.

Strong earnings growth, particularly in financial services which are less affected by mandatory increases in the minimum wage, implies that the private sector (excluding banks) did experience overall real growth, despite expectations for non-financial profits remaining low. The public sector was a significant driver of GVA growth, largely through employment growth. However, a slowdown in employment growth for the private sector reflects a more subdued year of GVA growth for the rest of the economy.

Section 3: Global Outlook

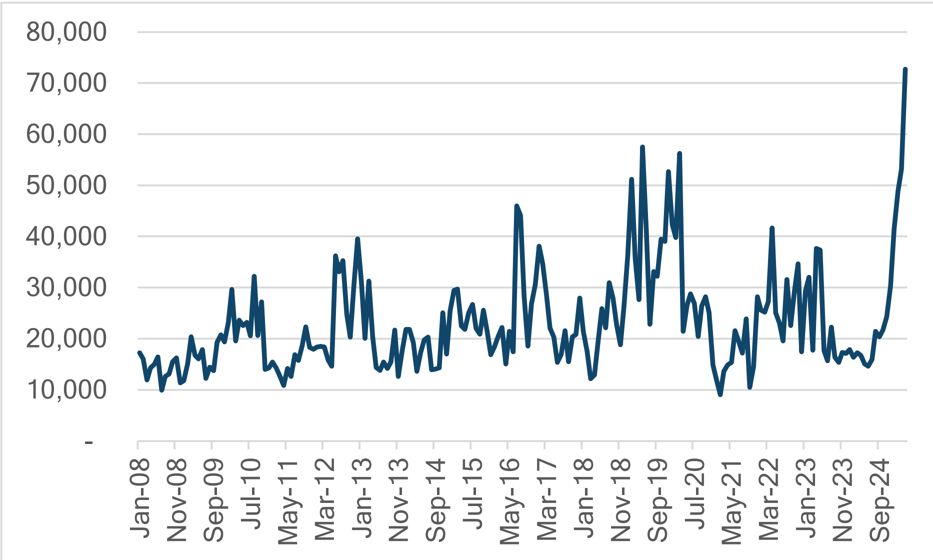
The global outlook is weak and uncertain. An escalation of trade tensions and high levels of policy uncertainty have led to sharp downward revisions of global growth forecasts. Given the high degree of uncertainty, the International Monetary Fund (IMF) did not issue a single "central" forecast for 2025 but instead offered a reference case and a range of alternative scenarios, reflecting the "extreme complexity and fluidity". This is highly unusual. In its latest projection the IMF has revised down global growth to 2.8% (2025) and 3% (2026) from 3.3% in both years. US growth is expected to slow to 1.8% and growth in the euro area to slow to 0.8%, whilst global headline inflation is forecast to be higher. The IMF forecasts that UK GDP will increase by just 1.1% in 2025 (compared to 1.6% forecast earlier this year). Andrew Bailey, Governor of the Bank of England, has warned of a "growth shock" to the UK from global trade tensions. In short, growth is slowing amidst increased uncertainty; advanced open economies like the UK are expected to be among the hardest hit.

Figure 3.1

World Uncertainty Index

The WUI is a measure used by the IMF and is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports.

Source: Ahir, Bloom, and Fuceri 2022



The IMF's Global Financial Stability Report (April 2025) emphasizes the mounting financial risks under these conditions. Trade tensions threaten bank profitability as slowing growth and higher uncertainty increase both loan-loss provisions and credit costs, while anticipated rate cuts threaten to compress net interest margins. Leveraged lending markets show similar strains: spreads on new loans have widened and deal volumes have dropped as investors pull back. Many borrowers already had weak cash flow even before the tariffs, so refinancing maturing debt at today's higher rates is increasingly difficult. Private equity backed firms are especially vulnerable. The IMF notes private equity funds face pressure to sell assets or increase loans to meet payouts, further straining borrowers' debt. In short, non-bank credit (including private credit and syndicated loans) is seeing defaults edge up and funding costs rise.

With monetary policy pivoting toward easing, US economic prospects weighed down by tariffs and US economic policy becoming more volatile and uncertain, capital flows have also begun to shift. So far, there has been no significant panic flight to safety, though the US government bond market did experience a worrisome episode of accelerating stress following the US administration's announcement of reciprocal tariffs on all trading partners (which led to a pause in the implementation of these tariffs). However, demand for the US dollar and core bonds has eased and risk aversion is elevated.

For Jersey, the economic outlook is broadly consistent with the global tone. A weaker UK economy and higher uncertainty abroad could drive up inflationary pressures locally. Since Jersey imports much of its food, fuel and consumer goods, any sustained UK inflation or sterling weakness would raise import costs and squeeze households and businesses. At the same time, Jersey's tourism sector may be squeezed if consumer spending and travel from source markets (UK, Europe and beyond) soften, which could exacerbate the current decline in the hospitality and retail sectors. Financial services could see mixed effects.

A lasting de-escalation from current tariff rates, along with new trade agreements to provide stability and clarity could cause global growth to rebound, however the balance of risks is downward: growth is slowing, uncertainty is high, and financial vulnerabilities are rising and while some of the extreme tariff increases announced by the US administration are likely to be scaled back, the overall increase in US tariffs is likely to be very significant and there is likely to be retaliation by a number of jurisdictions. For Jersey, this suggests that policymakers and firms should prepare for a more subdued economic environment, build up capital and liquidity cushions, and plan for weaker demand.

Section 4: Economic Forecasts and Fiscal Policy Panel Assumptions 2025-2029

4.1 Introduction

As part of the Fiscal Policy Panel's statutory responsibilities in advising the States of Jersey, a five-year forecast for the economy is published. Forecasts for a group of economic variables are produced to form a set of assumptions – the **Fiscal Policy Panel Economic Assumptions 2025**. The assumptions are used by the States of Jersey as the central economic forecast for the Budget (formally known as Government Plan) and form the basis for fiscal decision making.

The Panel uses various modelling and forecasting techniques to produce the economic assumptions. The assumptions are revised annually at the request of the Treasury and Resources Minister. In revising its assumptions, the Panel considers all data and information on Jersey's economy as well as data and information on global trends. As such, this year's economic assumptions have been revised in the context of increasing economic uncertainty, as set out in 'Section 3: The Global Economic Outlook'. **Figure 4.1** contains the published Fiscal Policy Panel Economic Assumptions 2025.

The FPP Spring 2025 economic assumptions reflect the Panel's expectations for Jersey's economy, as at the date of publication (**May 16, 2025**). The Panel emphasises that the exceptional levels of uncertainty and current volatility of global economic policy means that there is a greater than usual likelihood of outturns differing materially. In this case, the Panel will work closely with the States of Jersey to provide further advice and updated forecasts as required.

Figure 4.1
Fiscal Policy Panel Economic
Assumptions Spring 2025

Source: Statistics Jersey, Fiscal Policy Panel

% change unless otherwise specified	2023	2024	2025	2026	2027	2028	2029
Real GVA	7.3	-1.5	0.4	0.9	1.1	1.1	1.1
RPI	10.2	4.1	2.7	2.6	3.0	2.7	2.7
RPI(X)=RPI(Y)	6.0	3.7	3.7	3.6	3.0	2.6	2.5
Nominal GVA	12.5	1.9	4.2	4.2	3.8	3.5	3.5
Gross operating surplus (including rental)	15.6	-3.6	4.3	4.3	4.7	4.5	4.5
Financial services profits	*39.5*	-6.0	5.3	5.3	5.9	5.6	5.6
Compensation of employees (CoE)	9.6	7.4	4.3	4.3	3.5	3.1	3.1
Financial services CoE	*6.5*	6.0	5.0	4.5	3.8	3.5	3.5
Non-finance CoE	*10.0*	5.8	4.1	4.3	3.0	2.7	2.7
Employment	1.4	0.8	0.1	-0.1	0.2	0.2	0.2
Average earnings	7.7	6.4	4.5	4.5	3.4	3.0	3.0
Interest rates (%)	4.7	5.1	4.1	3.7	3.8	3.8	3.8
House prices	-2.6	-8.0	0.0	2.0	2.0	2.0	2.0
Housing transactions	-42.9	-15.5	0.0	17.1	14.6	12.8	11.3

4.2 Inflation

The Panel has revised upwards its expectations for inflation in Jersey. The Bank of England, in its May 2025 Monetary Policy Report, forecast higher CPI inflation in the UK during 2025 before a steady decline in 2026 and beyond. This will feed through directly to price increases in Jersey through higher import costs in the short term. Specifically, the Bank of England anticipates higher food inflation this year, which will likely cause grocery prices to increase in Jersey.

In addition to the prospect of higher import costs, underlying inflation RPI(X) increased in Jersey over Q1 2025, from 3.2% to 3.4%. This indicates that inflation generated on-island has increased and can be expected to persist. Further, the increase in the minimum wage (April 2025) as part of the transition to a living wage, will add to the mounting costs faced by businesses. The Panel expects that the living wage, along with agreed increases in the public sector pay award, will cause wage pressure across Jersey's economy and risks creating more inflationary pressure. A period of elevated inflation is forecast for 2025 and 2026, before inflation returns to more moderate levels in 2027.

4.3 Growth Forecast and Output Gap

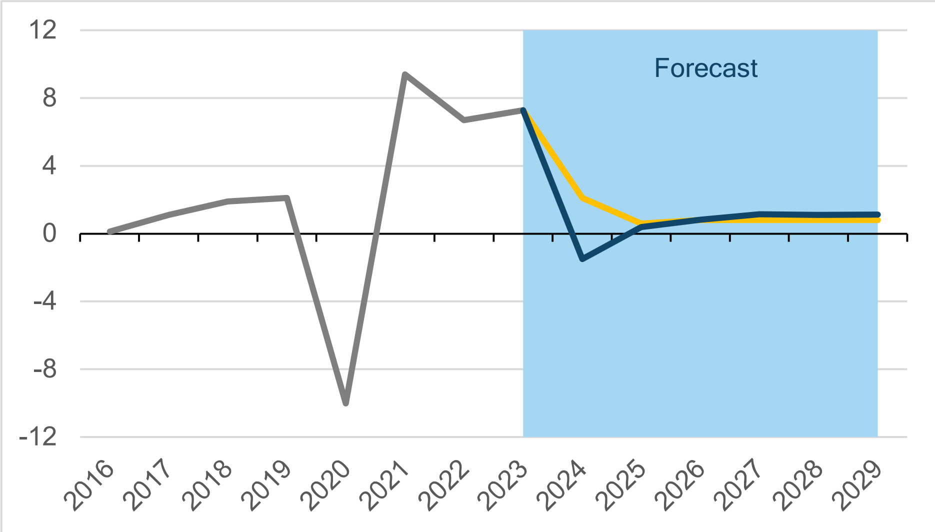
Real GVA growth is expected in all years of the forecast period, however, growth is expected to remain subdued in 2025 with 0.4% real growth, considerably below the pre-pandemic average of 1.5%. This is a small downward revision on the previous forecast (0.6%). Financial services, and particularly bank profits, are forecast to continue to be the main driver of growth over the period. Lower levels of real GVA growth are anticipated in the non-finance sectors, as forecast higher wages and input cost inflation increases business costs and reduces consumer confidence and spend.

Figure 4.2

Forecast for Real GVA growth (%)

FPP assumptions Spring 2024 and FPP assumptions Spring 2025

Source: Statistics Jersey, Fiscal Policy Panel



The States of Jersey's decision to transition the minimum wage to a living wage has contributed to an uplift in real earnings over the forecast period, with the non-finance sectors seeing the largest increases. However, in the absence of productivity increases, the Panel does not expect this to have any meaningful impact on real growth. Businesses will offset higher wage costs with higher consumer prices and/or by reductions in employment or profits. Further, mounting wage pressure risks creating more inflationary pressure. The real GVA growth forecast anticipates the continuation of real decline in some non-finance sectors in the short-term, specifically hospitality and retail. Higher inflation will likely damage consumer confidence and demand for goods and services, which will limit growth in these sectors.

The uncertain global outlook creates both upside and downside risks to growth over the forecast period. The financial services sector may be in a position to benefit from changing patterns in capital flows, conversely, the volatility also presents a risk to the Jersey's financial services sector. The Panel's assumptions present a central forecast which does not include any material shocks to Jersey's economy.

Figure 4.3

Forecast for Output Gap

Percentage of output that is being produced at a level above or below Jersey's trend economic capacity, with upper and lower range

Source: Statistics Jersey, Fiscal Policy Panel

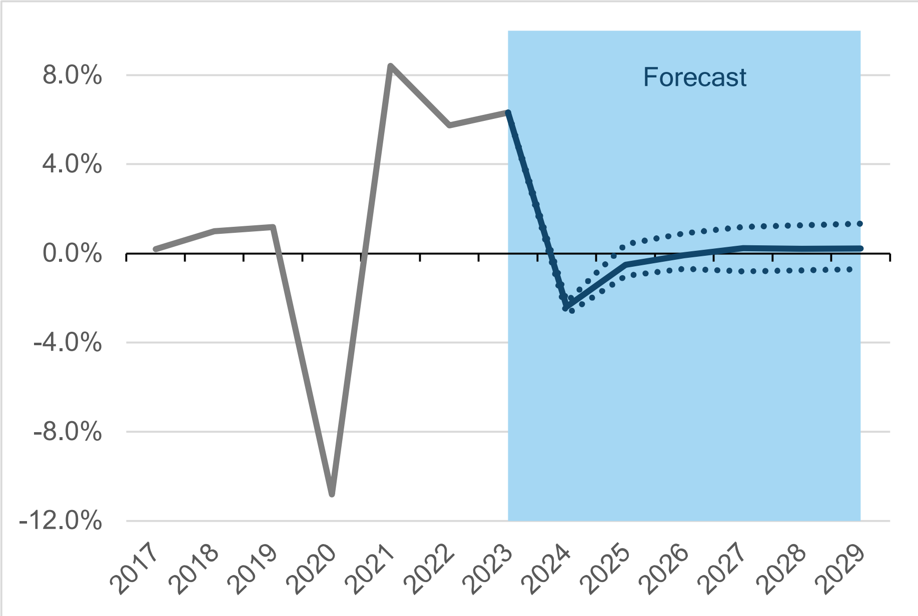


Figure 4.3 shows that the downward revision to the central real GVA forecast means Jersey's economy will be operating below trend in 2025, creating a negative output gap, before returning to moderate levels of growth in 2026. This implies lower growth for Government revenues in the near term, particularly if real earnings fail to increase further in 2025. In more diversified economies where, financial services generate a lower share of GVA, negative output gaps typically cause a loosening of the labour market. However, as Jersey's negative output gap is being driven by a fall in bank profits, the labour market is expected to remain tight, limiting the growth in revenues made possible from new job creation. Jersey's economy is expected to return to trend levels of output and trend real GVA growth by 2026.