



Deputy Ian Gorst
Minister for Treasury and Resources

26 July 2023

Dear Minister,

Updated Economic Assumptions

Thank you for your letter of 24 July, requesting an updated set of economic assumptions. We have appended an update to this letter (see Annex 1). Revisions to the assumptions have been informed by the latest available outturn data for Jersey as well as developments in the UK economy with respect to inflation and interest rates.

The International Monetary Fund (IMF) has revised its forecast up slightly for the global economy, now projected to grow by 3% in both 2023 and 2024¹. However, global growth remains historically weak and monetary policy may continue to tighten. For Jersey Gross Value Added (GVA) growth trends are driven by the financial sector given the recent and expected changes in interest rates. Very strong GVA growth estimated for 2022 is followed by more moderate growth in 2023 and 2024, with the likelihood that declining interest rates in 2025 and 2026 will result in small falls in GVA.

Whereas there are signs that UK inflation has peaked and is falling (as energy and fuel prices come down and food inflation slows), core² inflation remains high. It remains the

¹ World Economic Outlook Update – 25 July 2023, IMF

² Core inflation includes the change in the price of goods and services but excludes those from food and energy.



advice of the IMF that economies should prioritise managing core inflation to prevent persistent inflation from embedding. This is reflected in the increased market expectations for the Bank of England's Bank Rate (see Annex 3) given its commitment to return UK inflation back to the 2% target rate.

In light of the latest UK inflation and interest rate forecasts and adjusting for the different energy price changes expected in UK and Jersey, the forecast for the Retail Prices Index (RPI) and RPI(X) has been revised upward by the Panel. It is the view of the Panel that RPI peaked in Q1 2023 at 12.7% and also that both RPI and RPI(X) inflation will continue to fall, albeit more gradually than anticipated. There is a risk in Jersey that the tight labour market will result in wage increases, which would keep inflation higher for longer.

Other notable updates to the economic assumptions include:

- Financial services profits: using the latest available data from the Jersey Financial Services Commission and the Bank of England, the Panel has upgraded its assumption on the sector's growth in profits in 2022 from 30% to 50%. Growth for 2023 and 2024 has been revised to 9% and 11% respectively. As interest rates begin to fall in the outer years of the forecasting period, it is likely that financial sector profits will fall moderately.
- Housing transactions and prices: we previously forecast a slight growth in housing transactions; we now forecast transactions to fall by 50% in 2023. This is based on information gathered on our recent visit. The sharp fall is driven by higher mortgage rates. The Panel has assumed that housing transactions will return to pre-pandemic level of transactions by 2026. Similarly, the Panel has forecast house prices to fall in 2023 by 2%, with no growth in 2024, before resuming increases of 4% in the outer years.
- Employment and earnings: 2022 outturn data for employment showed strong growth in both the non-finance and public sectors. The Panel has not changed its employment growth assumptions. As financial services profits increase, remuneration in the sector is likely to increase. As such the assumptions for average earnings are revised upward in 2023 to 2026 implying some small real wage growth.
- Real GVA: the real economy is estimated to have grown by 8.7% in 2022, up from 4.3%, and remain positive until 2025.

The Panel will continue to monitor any developments affecting the Jersey economy.



Given the clear and increasing evidence of exceptionally strong government revenues over the last few years, we reiterate our firm view that the government should both eliminate any remaining short-term debt, make significant contributions to the Stabilisation fund and, ideally, some contribution to the Strategic Reserve.

Yours sincerely

Kate Barker (Chair)

Francis Breedon and Richard Davies



Annex 1: Updated economic assumptions

<i>Change unless otherwise specified</i>	2020	2021	2022	2023	2024	2025	2026	Trend 2027+
Real GVA	-9.6	9.2	8.7	1.7	2.6	-0.2	-0.5	0.5
RPI	1.3	2.7	9.3	10.8	5.3	0.8	1.2	2.4
RPI(X)=RPI(Y)	1.2	2.7	7.1	6.2	3.8	1.9	2.3	2.4
Nominal GVA	-8.1	12.1	16.8	8.3	6.5	1.8	1.8	2.9
Gross operating surplus (including rental)	-16.4	19.2	27.2	8.9	8.0	0.4	0.7	2.9
<i>Financial services profits</i>	-18.8	13.1	50.0	9.0	11.0	-2.0	-2.0	3.2
Compensation of employees (CoE)	-0.8	6.8	8.2	7.7	5.0	3.1	2.9	2.9
<i>Financial services CoE</i>	-0.5	3.9	5.1	9.0	5.4	3.4	3.4	3.4
<i>Non-finance CoE</i>	-4.4	8.7	11.3	6.8	4.1	2.6	2.6	2.7
Employment	-2.4	2.9	2.9	0.7	0.5	0.4	0.4	0.1
Average earnings	1.1	3.3	6.2	6.7	4.2	2.6	2.4	2.8
Interest rates (%)	0.2	0.1	1.5	4.8	5.9	5.1	4.4	4.0*
House prices	6.1	16.0	11.0	-2.0	0.0	4.0	3.0	2.9
Housing transactions	-3.8	15.1	-12.9	-50.0	20.0	25.0	35.0	4.0

*Trend interest rates represent market expectations for 2027

March 2023 Forecast

<i>Change unless otherwise specified</i>	2020	2021	2022	2023	2024	2025	2026	2027+
Real GVA	-9.6	9.2	4.3	3.9	1.6	0.4	0.4	0.5
RPI	1.3	2.7	9.3	9.9	1.8	0.8	0.2	2.4
RPIY	1.2	2.7	7.1	5.9	2.2	1.5	2.1	2.4
Nominal GVA	-8.1	12.1	12.1	10.3	4.3	2.2	2.7	2.9
Gross operating surplus (including rental)	-16.4	19.2	19.0	13.8	5.3	2.5	2.4	2.9
<i>Financial services profits</i>	-18.8	13.1	30.0	20.0	5.5	1.0	1.0	3.2
Compensation of employees (CoE)	-0.8	6.8	6.5	7.0	3.2	2.0	3.0	2.9
<i>Financial services CoE</i>	-0.5	3.9	5.4	6.9	2.6	1.9	3.7	3.4
<i>Non-finance CoE</i>	-4.4	8.7	8.5	6.8	2.8	1.9	2.9	2.7
Employment	-2.4	2.9	0.9	0.6	0.5	0.4	0.4	0.1
Average earnings	1.1	3.3	6.2	6.4	2.6	1.6	2.6	2.8
Interest rates (%)	0.2	0.1	1.5	4.2	4.0	3.5	3.3*	3.2*
House prices	6.1	16.0	11.0	1.0	4.0	3.0	3.0	2.9
Housing transactions	-3.8	15.1	-12.9	3.0	2.5	2.5	2.5	4.0

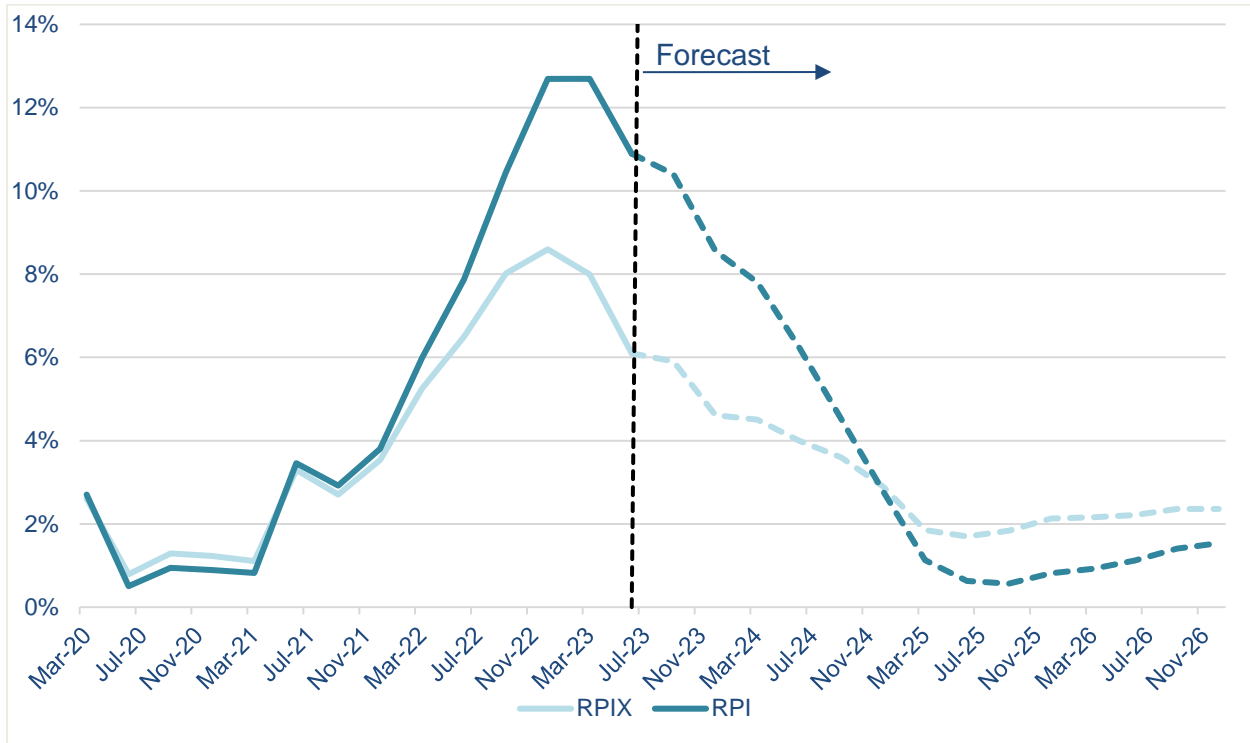
*Trend interest rates represent market expectations for 2027

Change since March 2023

<i>Change unless otherwise specified</i>	2020	2021	2022	2023	2024	2025	2026	2027+
Real GVA	0.0	0.0	+4.4	-2.2	+1.0	-0.6	-0.9	0.0
RPI	0.0	0.0	0.0	+0.9	+3.5	0.0	+1.0	0.0
RPIY	0.0	0.0	0.0	+0.3	+1.6	+0.4	+0.2	0.0
Nominal GVA	0.0	0.0	+4.7	-2.0	+2.2	-0.4	-0.9	0.0
Gross operating surplus (including rental)	0.0	0.0	+8.2	-4.9	+2.7	-2.1	-1.7	0.0
<i>Financial services profits</i>	0.0	0.0	+20.0	-11.0	+5.5	-3.0	-3.0	0.0
Compensation of employees (CoE)	0.0	0.0	+1.7	+0.7	+1.8	+1.1	-0.1	0.0
<i>Financial services CoE</i>	0.0	0.0	-0.3	+2.1	+2.8	+1.5	-0.3	0.0
<i>Non-finance CoE</i>	0.0	0.0	+2.8	0.0	+1.3	+0.7	-0.3	0.0
Employment	0.0	0.0	+2.0	+0.1	0.0	0.0	0.0	0.0
Average earnings	0.0	0.0	0.0	+0.3	+1.6	+1.0	-0.2	0.0
Interest rates (%)	0.0	0.0	0.0	+0.6	+1.9	+1.6	+1.1	+0.8
House prices	0.0	0.0	0.0	-3.0	-4.0	+1.0	0.0	0.0
Housing transactions	0.0	0.0	0.0	-53.0	+17.5	+22.5	+32.5	0.0



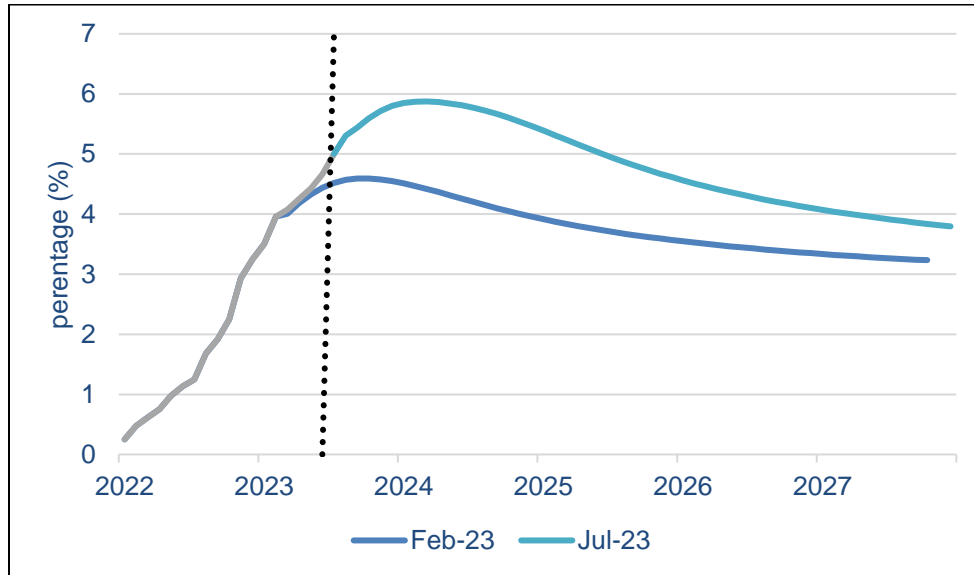
Annex 2: RPI(X) and RPI inflation forecast and table of quarterly year-on-year changes



Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
RPI Inflation (percentage change, %)								
12.7	12.7	10.9	10.4	8.6	7.8	6.2	4.5	2.8
RPI(X) Inflation (percentage change, %)								
8.6	8.0	6.1	5.9	4.6	4.7	4.0	3.6	2.9



Annex 3: Future market expectations for interest rates





Annex 4: Letter from the Treasury and Resources Minister

Minister for
Treasury and Resources

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



Dame Kate Barker
Chair of the Fiscal Policy Panel

24 July 2023

Dear Dame Kate,

Thank you for your letter of 20 March, setting out updated economic assumptions and fiscal advice in response to my letter of 13 March. These set of assumptions have been used by the Income Forecasting Group to prepare their Spring 2023 income forecast and have informed the forecasting and planning work for the forthcoming Government Plan.

Before the Council of Ministers agree and finalise the Government Plan, for lodging by the 19th September, I'm writing to request a more recent set of forecast economic assumptions.

Economic policy continues to evolve rapidly in the current climate of high inflation, with the Bank of England recently increasing its base rate to 5%, surpassing the peak in rates predicted in the March assumptions. Inflation and the ensuing cost of living crisis continues to present challenges for Government and household budgets. The Government remains committed to supporting Islanders facing rising costs and the effects of rising interest rates.

Given the ongoing challenges in economic forecasting, I welcome the Panel's views on an updated set of economic assumptions and how these might impact the outlook for Jersey's economy. These assumptions and advice will form a significant contribution in developing and finalising the Government Plan for 2024 to 2027.

I look forward to receiving your response in due course.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Ian Gorst".

Deputy Ian Gorst