

## Minister for Treasury and Resources

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**To the Fiscal Policy Panel**

13 March 2009

Our Ref: PO/DP/MDC

Dear Chairman

### **Fiscal Stimulus**

Since your last report in November, developments in the global economy have unravelled at a pace not seen in recent history. The global economic outlook is now seen by many as being the worst in the post-war period. I note that in the last few days both the World Bank and the IMF have said they expect the world economy to shrink this year, in what the IMF describes as "the worst performance in most of our lifetimes".

Jersey has close ties with the UK. The latest evidence shows that the UK economy is now in recession with GDP falling by 1.5% in the fourth quarter of 2008 – the sharpest fall since the 1980s. Of all the main industrial economies, the IMF forecasts for the UK are among the worst, with the economy expected to shrink by a further 2.8% in 2009. The UK Government and the Bank of England have taken unprecedented fiscal and monetary action to support the domestic economy.

The latest research from the States of Jersey Economics Unit indicates that Jersey is likely to enter a period of significant contraction in 2009 and could weaken further in 2010. Our prospects to a large extent are dependent on the fortunes of the global economy and policy makers steering the world economy back on course. However, thanks to a prudent fiscal policy operated over the last three years and more, we have the means to support employment and businesses in the meantime through the Stabilisation Fund.

Last week you visited the Island to prepare for your next annual report and met with many businesses and organisations from all sectors of the economy. I hope you found these discussions informative and it is a great credit to the Panel that I have received excellent feedback from those who participated in the meetings.

Under the States' new Fiscal Framework, as Minister for Treasury and Resources, I have the ability to ask for an update to your most recent report at any time should economic conditions change. Based on all the available information, I feel that economic conditions have changed markedly since your November report and, as a consequence, I am writing to ask whether you could update your previous advice?

Specifically, I would like you to advise as to whether, in your opinion, economic conditions now justify use of the Stabilisation Fund to support the local economy?

Based on information available to the Council of Ministers, the downturn now appears to be beginning to put local jobs and businesses at risk. Whilst accepting that we cannot prevent the downturn in Jersey we want to consider what action should be taken to mitigate the impact on the worst affected individuals and businesses.

Initial forecasts prepared by Treasury and Resources officials suggest that in the face of a sharp economic slowdown in Jersey, a large proportion of the Stabilisation Fund could be used to cover for the automatic stabilisers i.e. the fall in tax revenue and rise in expenditure associated with economic contraction.

Given the nature of the automatic stabilisers in Jersey – they operate largely through lower tax receipts and can therefore take time to feed through into the economy – there may be a need to implement discretionary policy and introduce a number of new initiatives to support our economy. Work is underway in both the Treasury and Resources and Economic Development Departments to determine the most suitable policies to achieve this objective.

Your previous advice has been that in the face of a sharp economic slowdown the automatic stabilisers should be allowed to work first before contemplating discretionary changes. I would appreciate your advice as to whether you agree that, given the extent of the economic downturn in Jersey, the States should be doing more than just allowing the automatic stabilisers to work and implementing discretionary policy to support the economy this year?

The work already in train will identify what we think is achievable in Jersey in terms of discretionary policy. However, it would be extremely helpful if you could give me some further guidance on how some of the options may comply with your 3Ts criteria (that policy should be Temporary, Targeted and Timely) and expand your advice to cover general advantages and disadvantages of particular policy options. Options that I may consider or those that may be suggested by other States members include:

1. Supporting people on low incomes
2. Direct tax cuts
3. Indirect tax cuts
4. Spending on skills/training
5. Additional infrastructure/maintenance expenditure
6. Expanding small business support

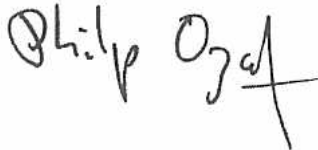
I appreciate that you are not due to publish this year's annual report until May, by which time you will have been able consider the issues in more detail. However, I would appreciate any initial advice and guidance you could give in the meantime.

I believe it is imperative that we act quickly and decisively to support demand in the local economy and therefore help mitigate some of the effects of the downturn in Jersey.

It would be most helpful if any advice could be given publicly, by the end of March. If this timetable can be achieved, your advice would assist me in finalising the fiscal stimulus package that, subject to your advice, I intend to lodge for debate by the States alongside the Strategic Plan on 8 April. States members would also have the benefit of some initial advice from you at the time of lodging but also more detailed advice in your annual report ahead of the debate.

I look forward to hearing from you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Philip Ozouf". The signature is written in a cursive style with a large initial 'P' and a long, sweeping underline.

**Senator Philip Ozouf**  
Minister for Treasury and Resources

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