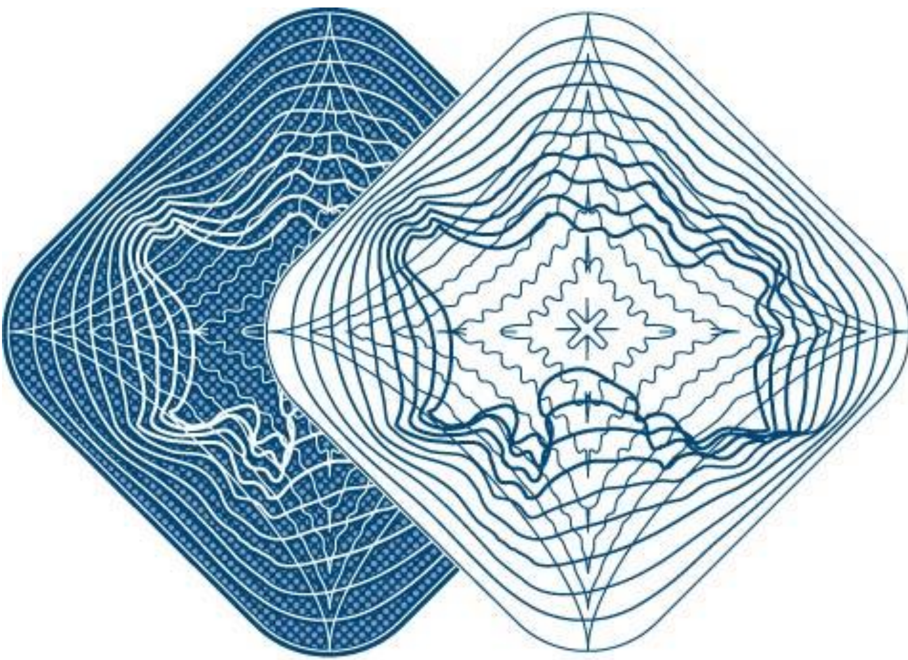
Jersey's Fiscal Policy Panel Pre-MTFP Report

January 2015



Introduction

This is a special report to help the States to develop its next Medium Term Financial Plan (MTFP) for 2016 to 2019. The Fiscal Policy Panel (FPP) was put on a statutory basis last year and is now required to report before each new MTFP. This is the first time the Panel has prepared such a report.

The FPP is an advisory body that aims to help the States improve how its sets fiscal policy. It welcomes the opportunity to advise the States on the key issues regarding economic conditions and the medium-term sustainability of States finances in advance of the next MTFP.

In this report, the Panel:

- Gives an overview of the economic context (section 1, page 7).
- Analyses the trend growth rate and degree of spare capacity in Jersey's economy, and provides economic assumptions that the Treasury and Resources department can use to update its revenue and expenditure forecasts for the MTFP (section 2, page 18). This is fundamental to assessing the structural position of States finances and to setting the balance of fiscal policy over the next four years.
- Gives advice on the factors that should be taken into account in deciding how the position should be dealt with, and how to respond if Jersey's economy or public finances behave differently than expected. (section 3, page 46).

In their last report, the Panel said that it would deepen the analysis of the amount of spare capacity (the output gap) in Jersey's economy and of Jersey's long-term fiscal sustainability (structural position). It also suggested the following principles to help with the development of the next MTFP:

- Aim to balance the budget over the economic cycle.
- Aim to ensure long-term fiscal sustainability.
- Adopt practical and realistic assumptions for future trends in income and expenditure.
- Include flexibility within a clear framework for expenditure.

This report uses further analysis of the output gap and the structural position to flesh out these principles so as to enrich the background for the debate that States will have on the MTFP.

The following timetable shows how the Panel's reports this year will fit in with the development and agreement of the next MTFP. The annual report in July

will assess the lodged MTFP on the basis of the advice and recommendations in this and previous reports, and in light of any important subsequent developments on economic or fiscal matters.

Event	Date
FPP's pre-MTFP report	**January 2015**
Treasury updates financial forecasts	February to March
Strategic Plan lodged	Early March
Strategic Plan debated	Late April
Draft MTFP developed	March to June
Draft MTFP lodged	End June
FPP's annual report	**July**
Draft MTFP States debate	September
Draft 2016 Budget lodged	October
Draft 2016 Budget debate	December 2015

Background to the Fiscal Policy Panel

The FPP was formed in October 2007. Its current members are Joly Dixon CMG (Chairman), Christopher Allsopp CBE (who were both appointed in 2007), Tera Allas and Dame Kate Barker (who were both appointed in April 2014). The Panel makes recommendations on Jersey's fiscal policy to the Minister for Treasury and Resources and the States with reference to:

- the strength of the economy in Jersey;
- the outlook for the Jersey and world economies and financial markets;
- the economic cycle in Jersey;
- the medium and long-term sustainability of the States' finances
- transfers to, and from, the Strategic Reserve and Stabilisation Fund.

The Panel's work is guided by five key principles. These are:

1. Economic stability is at the heart of sustainable prosperity;
2. Fiscal policy needs to be focused on the medium-term;
3. Policy should aim to be predictable, with flexibility to adapt to economic conditions to assist in creating a more stable economic environment;
4. Supply in the economy is as important as demand; and
5. Low inflation is fundamental to the competitiveness of the economy.

The Panel is guided by its understanding of the preferences of Islanders in making its recommendations. They believe that Islanders want the States to be prudent and create the conditions for economic growth while respecting the Island's cultural heritage, maintaining the competitiveness of the economy and keeping inflation low.

The Panel has visited the Island on many occasions and its work has greatly benefited from the discussions it has had with many people and institutions on and off the Island: its job would be much more difficult without their generosity.

The Panel is also grateful for the invaluable support provided by the staff of the States of Jersey, in particular the States of Jersey Economics Unit and Treasury and Resources Department.

More information about the Panel, including previous reports, can be found at www.gov.je/FiscalPolicyPanel.

Key points

Economic context

- The global economy has continued to disappoint. Lower oil prices will help growth in 2015 but there also many downside risks and policy uncertainties.
- The Jersey economy has shown some signs of a moderate improvement in 2014, with a likely return to growth for the first time in six years. Survey data suggest more positive sentiment in both the finance and non-finance sectors.

Trend growth and spare capacity

- The Panel's central assessment of trend GVA (sections 2.2 and 2.3) suggests a risk of a flat trend for GVA and productivity growth from 2018 onwards. These projections should be treated with extreme caution, because of the nature of the Jersey economy and the period for which the data are available. However, there is no evidence to suggest that the trend rate of growth in Jersey will be significantly positive. Therefore, future fiscal trends should be tested against a trend rate of real economic growth of 0% a year.
- The assessment of spare capacity (sections 2.4 and 2.5) suggests that there is currently spare capacity in the Jersey economy.
- The Panel considers that the output of the finance sector is likely to improve over the time horizon of the next MTFP as international demand and UK interest rates increase, provided that it can attract the people it needs from the local labour force or from inward migration. However, the sector is unlikely to recover to pre-crisis levels over this time.
- The non-finance sectors of the economy should also recover and probably return to their trend levels, again, provided there are no bottlenecks between supply and demand.
- The Panel's central assessment is that Jersey's output is currently about 5% below its potential level and that spare capacity will be used up between 2017 and 2019. This assessment is subject to great uncertainty relating mainly to: the speed and durability of the global economy, the competitiveness of Jersey financial services and the ability of businesses to employ people locally and internationally.
- The central forecast is that Jersey's economy returned to growth in 2014 and that it will continue to grow modestly over the next few years (real growth of

between 1% and 2% a year) until spare capacity is used up – possibly by 2018 (Figure 2.14, page 42).

Advice and recommendations

1. Based on the current structure of taxation and expenditure, it appears that there is a significant risk of a structural deficit. The size of any structural deficit will depend on the decisions made for the MTFP.

2. The economic assumptions set out in this report should be used to update the revenue and expenditure forecasts, and the expected position of the States' finances in 2018/2019. This will illustrate the expected underlying structural position.

3. The States should develop a plan that will address any structural deficit by 2018 and 2019. Care should be taken to ensure that the range and timing of the measures minimises the risk to the economic recovery, which, in the early stages, may involve using the States' reserves.

4. The States should always be looking for ways to improve its efficiency and that of the wider economy, irrespective of the stage in the economic cycle. Particularly in the public sector, such changes may be more readily achieved now, especially if the alternatives are to cut expenditure on public services or to increase taxes.

5. It is important that the MTFP should include the flexibility (or contingency plans) to address the structural deficit more or less quickly, according to the economy's performance. There is a role for the Panel in subsequent reports to help in informing and refining the adjustment process.

6. Once Jersey is on a sound path to structural fiscal balance, the States should aim to balance its tax revenues and current expenditure over the economic cycle, including an appropriate allowance for depreciation.

7. New public sector capital expenditure should be treated separately based on its economic costs and benefits, and its impact on the States' net asset position. The funding of such investment is a secondary consideration that will depend on the cost of alternative sources of finance (e.g. borrowing from reserves or the market).

8. Given the strength of Jersey's public sector net asset position, financing issues should not be a reason to delay or postpone important investments, particularly those which support productivity improvements and competitiveness.

9. The States should develop a strategy for managing the fiscal consequences of an ageing population. All other things equal, the ageing population will mean that the public finances will move out of balance over the next 20 years, as spending in areas such as health and the state pension increases faster than revenues.

10. The States should act now and develop a clear strategy for raising productivity (in both the public and private sectors) and competitiveness in the Jersey economy. Ongoing improvements in these areas will help to manage the fiscal consequences of an ageing society and make it more likely that Jersey's economy will grow in the future.

Section 1 - The Economic Context

1.1 International outlook

The IMF's January 2015 World Economic Outlook Update estimated that the global economy grew by 3.3% in 2014, largely in line with growth in the previous two years but below the long-run average. The advanced economies accelerated as a whole, recording their fastest growth since 2010, while emerging and developing economies decelerated further.

Since the Panel's last report, the outlook for the global economy has deteriorated, due to a lowering of expectations for the emerging and developing economies. The outlook for the advanced economies is boosted by lower oil prices but this has been offset by several negative factors.

Figure 1.1

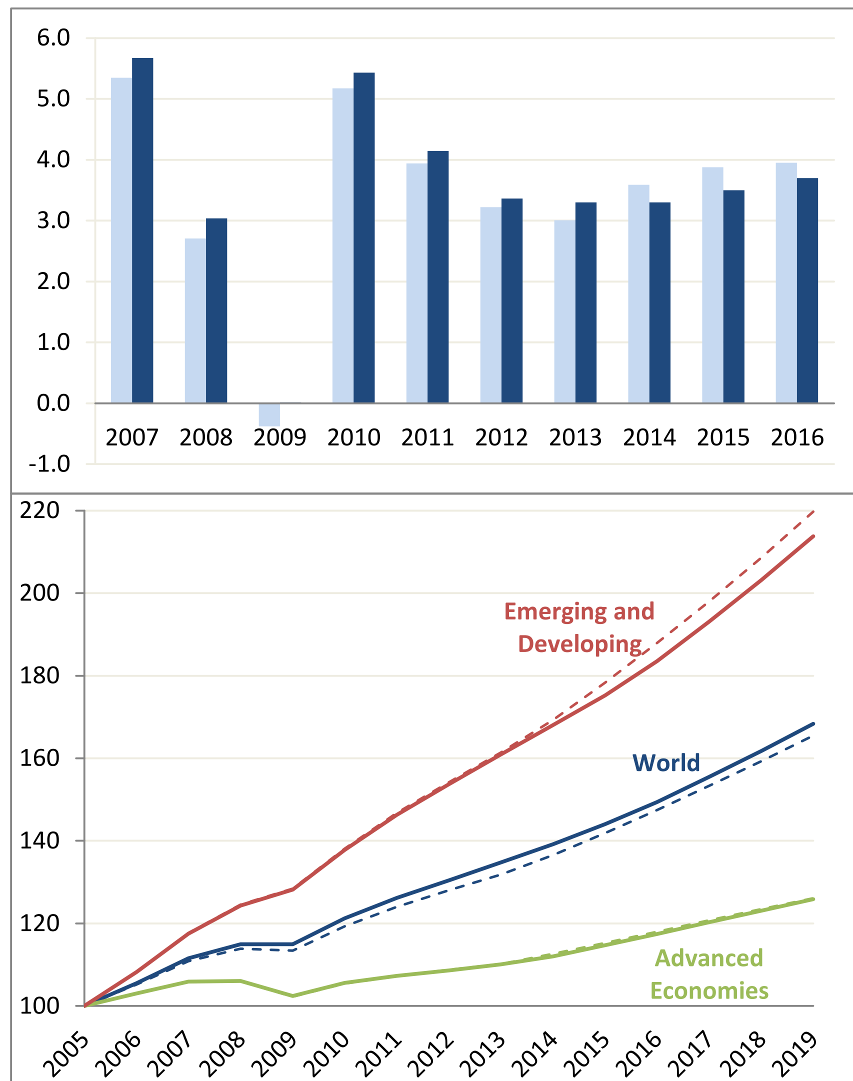
Global Growth

Top panel = global GDP growth estimates/forecasts; pale bars are April 2014 estimates/forecasts

Bottom panel = Index (2005=100) of GDP; dashed lines are April 2014 estimates/forecasts

Source: International Monetary Fund (IMF) World Economic Outlook April 2014 and January 2015 update

Note: The IMF have increased the weighting given to emerging economies to more accurately reflect their share of the global economy. This has resulted in world growth being revised up even though growth for both advanced and emerging/developing economies have been revised down on average over the period shown.



The overall picture masks considerable differences between countries. The euro area emerged from recession in 2013 - though growth has failed to take off and has ground to a standstill in the latter part of 2014. The UK accelerated

significantly to post strong growth, estimated to be 2.6% for the year, though this was lower than anticipated at the time of the Panel's last report. While China's economy has continued to slow, growth remains strong relative to the other major economies. Russia is expected to have tipped into recession in the second half of the year due to a mix of economic sanctions and declining oil prices. The US economy posted strong growth in 2014, but Japan contracted sharply in the second half of the year.

The level of risk to the global economy intensified in the second half of the year, with the euro area's combination of sluggish growth and deflation causing renewed concern – while the outcome of elections in Greece have drawn attention back to unresolved fiscal problems in the currency union. The risk of a hard landing in China has not gone away. 2014 was also troubled by geopolitical tensions – for which the economic impacts to date have been largely contained but the risk of wider impacts cannot be ruled out.

Continuing high levels of public and private sector debt are a risk to many economies. Any tightening of US monetary policy in 2015 will impact on global financial markets and may test some of these vulnerabilities in several emerging market economies – though any rate rises are likely to be gradual and would indicate a strong US economy, which is likely to be positive news.

The recent significant falls in the price of crude oil will hit many oil producing countries hard but should provide a boon to economic growth for countries who are net importers of oil, and is undoubtedly positive for both the UK and euro area.

The IMF anticipates growth accelerating slightly to 3.5% in 2015, due to a further improvement in advanced economies. The emerging economies are expected to slow slightly in 2015, before picking up again in 2016, though growth of the Chinese economy is expected to continue to slow down.

After a long period in which oil prices were stable at a high level by historical standards, prices fell by 50% in the second half of the 2014, and have seen further falls at the start of 2015. Some recovery in the oil price is expected, though its timing and extent is very uncertain. There is always a risk that an oil supply shock could send prices sharply upwards - due to a cut in production by OPEC (Organization of the Petroleum Exporting Countries) or distribution being disrupted by conflict, but the market is thought to be more resilient to isolated supply shocks – not least due to the growing market share of shale oil.

Food prices have also fallen in the second half of the year, losing 10% since June – at their lowest levels since 2010. Projections for 2015 are mixed, with

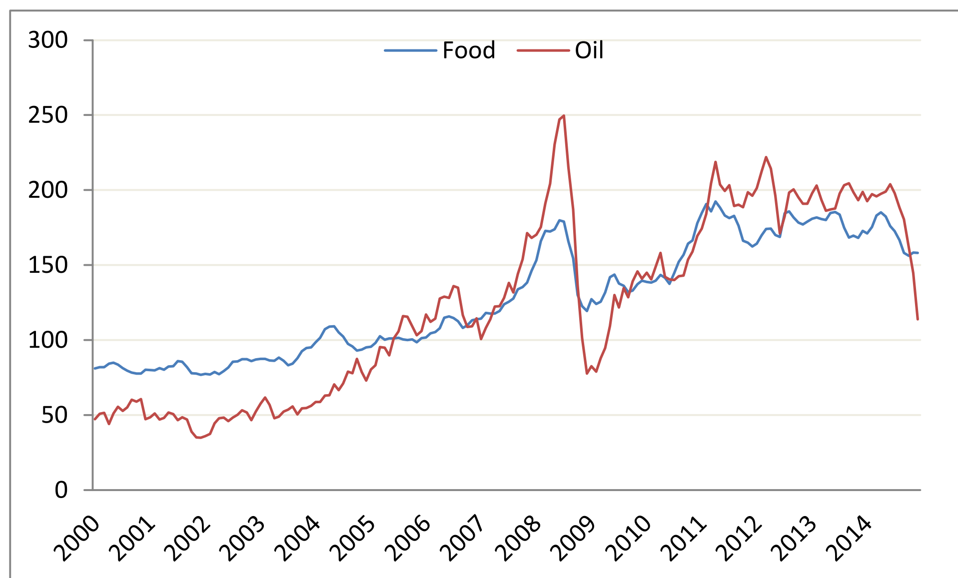
prices for some foods expected to decline further, with others expected to increase or remain flat.

Figure 1.2

Commodity Prices

Nominal US dollar food and oil prices indices, 2005=100

Source: International Monetary Fund, index of primary commodity prices - January 2015



Official interest rates remain at record lows in the US, UK and euro area. The prospect of a 2014 rate rise in the UK faded as the year proceeded, with most now expecting a rate rise in late 2015 at the earliest – with inflation falling below 1%, the argument to increase policy rates in the next few months has weakened. The US is now expected to move first, with a rate rise anticipated in mid-2015. The risk of deflation and of recession in the Euro area means a rate raise seems a long way off – with the European Central Bank recently announcing a quantitative easing programme.

Overall, the outlook for the global economy appears precarious. While the recovery appeared to be gaining traction through much of 2014, there are a number of threats on the horizon in 2015. Lower oil prices will help to sustain strong growth in countries such as the UK and US, but this growth could just as easily be derailed by any one of the risks identified above.

1.2 Jersey economic developments

Since the Panel's last Annual Report in July 2014, new data have emerged on the Jersey economy – particularly relating to employment and economic output. While the next Annual Report will include a full economic outlook, it is important for the Panel to consider the new information which has become available since July 2014.

Gross Value Added (GVA) is the headline measure of economic activity in Jersey. GVA was essentially flat in real terms in 2013, following five consecutive years of decline. This was within the Panel's central forecast range (from July 2014) of -2% to +2%. While the financial services sector

declined by a further 3%, the non-finance sectors as a whole (excluding the rental income of private households) grew by 2% in real terms.

As stated in the Panel's July 2014 Annual Report, the profit element of financial services GVA fell in 2013, by approximately 6.5% in real terms. This was the largest decline in finance profits since 2010. The employment cost element of GVA in financial services saw a small increase after declining in 2012.

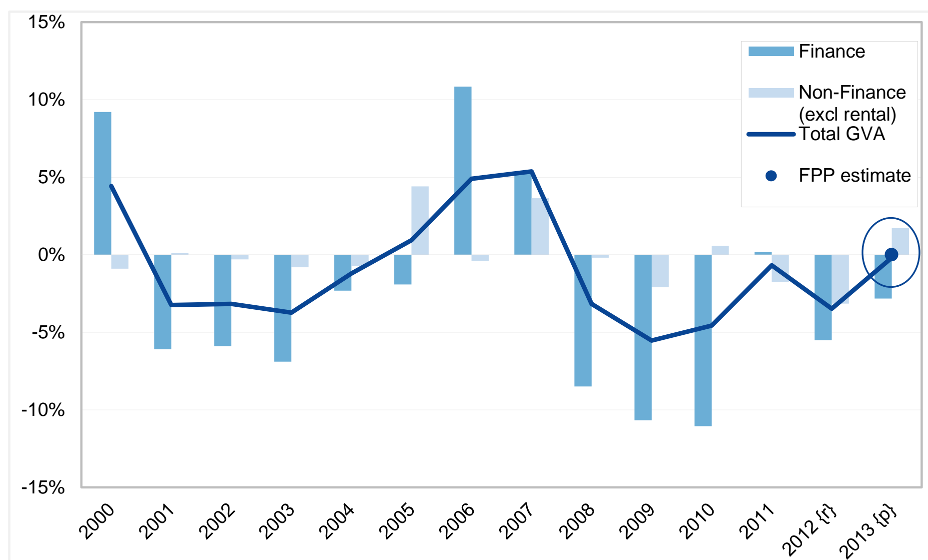
2013 saw real growth in GVA for agriculture; hospitality; transport, storage and communication; electricity, gas and water; and the other business activities sector. Construction GVA fell (though this was much less severe than in 2011 or 2012), as did the GVA of the small manufacturing sector. The wholesale and retail sector was flat.

Figure 1.3

A breakdown of Gross Value Added growth

Annual % change
{r} = revised
{p} = provisional

Source: States of Jersey Statistics Unit



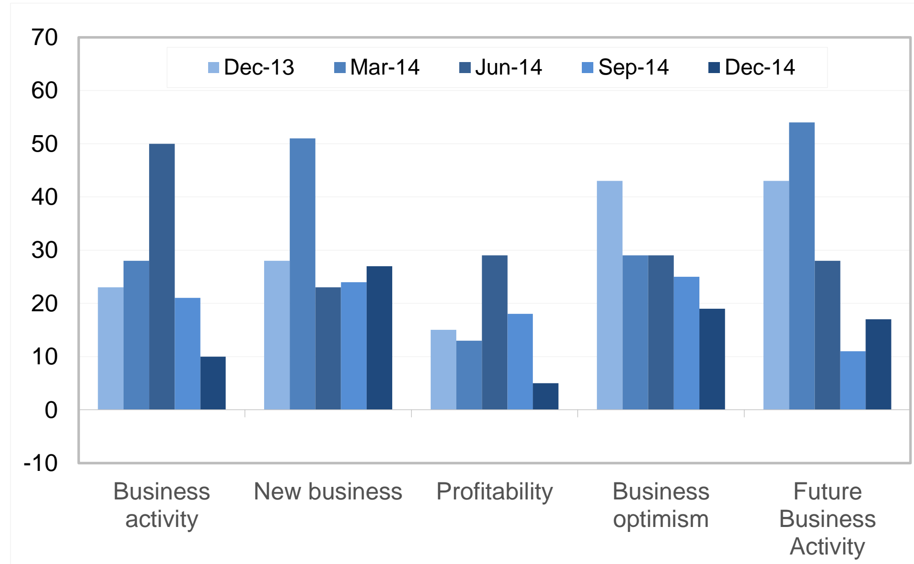
The **Business Tendency Survey** gives a more up to date picture of the sentiment within firms and the results are broken down into the main private sectors of the economy. For finance firms, the headline business activity indicator peaked in June 2014 at the highest level since the survey began in 2009, but remained positive in the September and December surveys. Indicators for new business, profitability, future business activity and business optimism also remain positive.

Figure 1.4

Finance business tendency

% net balance of respondents reporting an increase (weighted by employment)

Source: States of Jersey Statistics Unit



For the non-finance sectors, Figure 1.5 demonstrates that a number of the key indicators for non-finance improved throughout 2014. Business activity remains positive, having become marginally positive in June 2014 - for the first time since at least September 2009. However, profitability remains strongly negative.

Figure 1.5

Non-finance business tendency

% net balance of respondents reporting an increase (weighted by employment)

Source: States of Jersey Statistics Unit

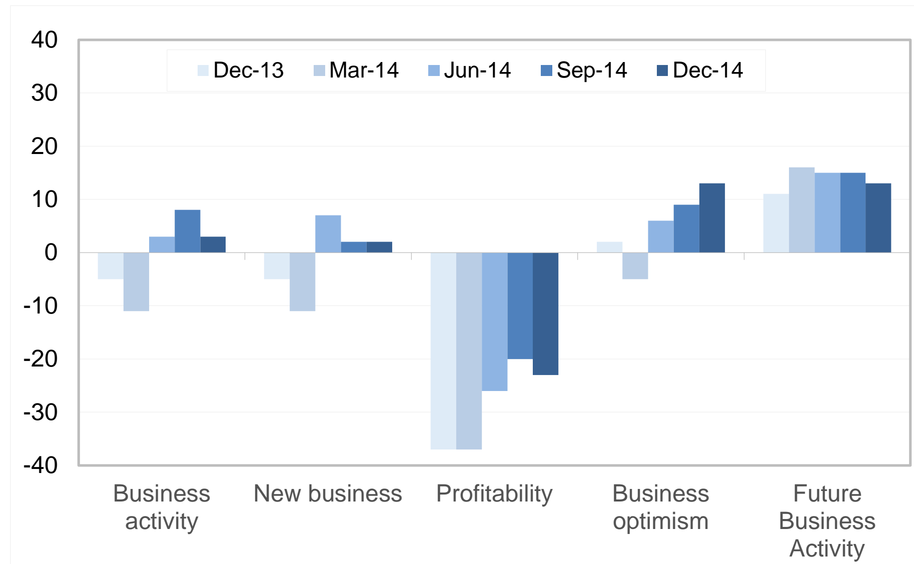


Figure 1.6 compares the responses to the BTS with the growth of non-finance sector GVA (excluding the rental income of private households). This demonstrates that the fall in GVA in 2012 was associated with more negative responses to the profitability and business activity indicators on the BTS. The BTS responses improved in 2013, though remained negative, while GVA grew by almost 2%. Survey responses have improved further in relation to both these two indicators, with business activity neutral on average across in 2014.

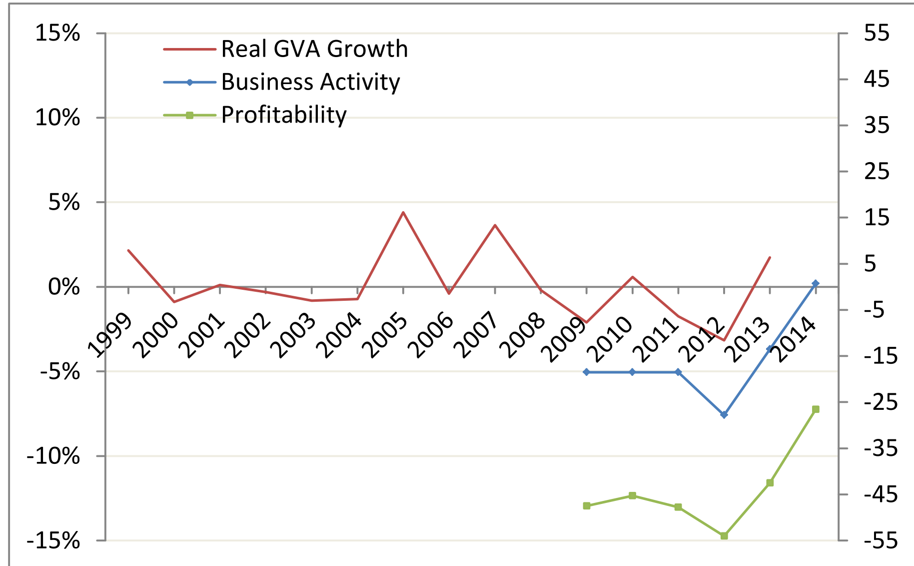
Figure 1.6

Non-Finance GVA Growth

Annual real GVA growth excluding financial intermediation and rental (left-hand scale)

Non-finance responses to business activity and profitability questions averaged over each year (right-hand scale)

Source: States of Jersey Statistics Unit



Retail sales figures were up in the third quarter of 2014, essentially returning to the levels seen in 2013. Staying leisure **visitor numbers** for the first eleven months of 2014 were up 3.5% compared to the same period in 2013. The **House price index** in quarter 3 of 2014 was largely unchanged from a year previous.

1.3 Labour Market

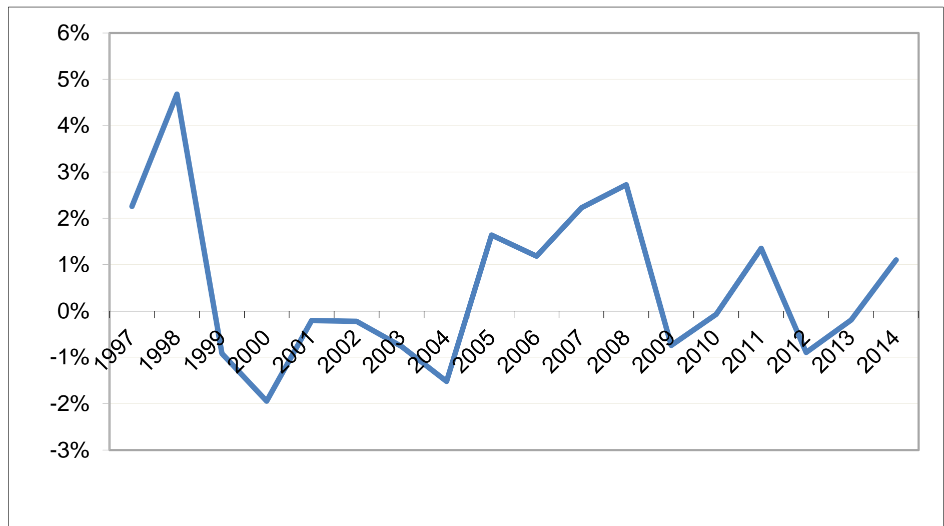
Total **employment** in June 2014 had increased by 620 and stood at its highest level on record. This followed a fall in employment in 2013, partly due to job losses in fulfilment. Total employment has remained relatively stable since the global financial crisis in 2008.

Figure 1.7

Employment

Annual change in total public and private employment in June of each year

Source: States of Jersey Statistics Unit



However, there has been a shift in the share of part-time employment, with the part-time share of private sector employment increasing from 19% in June

2008 to 21% in June 2013. Employment data for June 2014 are not comparable with the previous series as they now include a separate category for zero-hours contracts, but part-time employment in June 2014 was 18% of total full time and part-time employment (i.e. excluding zero hours contracts and exempt). Under either basis, the proportion of part-time employment is higher than the OECD average of 16%.

On a sectoral basis, financial services employment in June 2014 was 110 higher than a year previous, though still 900 below the December 2008 peak. Non-finance sectors saw an increase of 510 jobs in the year to June 2014

Figure 1.8

Employment changes in non-finance sectors

Total headcount for each sector

Note: 2014 employment for education, health and other services includes 200 employees from organisations who were previously exempt from reporting. This has been excluded from the change column.

Source: States of Jersey Statistics Unit

	Jun-13	Jun-14	Change
Agriculture and Fishing	2,330	2,170	-160
Manufacturing	1,140	1,060	-80
Construction & Quarrying	4,940	4,970	+30
Electricity, Gas & Water	480	500	+20
Wholesale & Retail Trades	7,990	7,680	-310
Hotels, Restaurants & Bars	6,540	6,340	-200
Transport, Storage & Communication	2,740	2,740	0
Computer & related activities	680	720	+40
Miscellaneous Business Activities	3,970	4,530	+560
Education, Health & Other Services	6,160	6,770	+410
Public Sector	6,920	7,120	+200
Total	**56,280**	**57,100**	**+510**

Some of the changes between sectors are the result of new reporting criteria which have seen staff reclassified under miscellaneous business activities from a number of other sectors. This has driven the reported increase in this sector and the reported fall in employment in the hotels, restaurants and bars; agriculture and fishing; and wholesale and retail sectors.

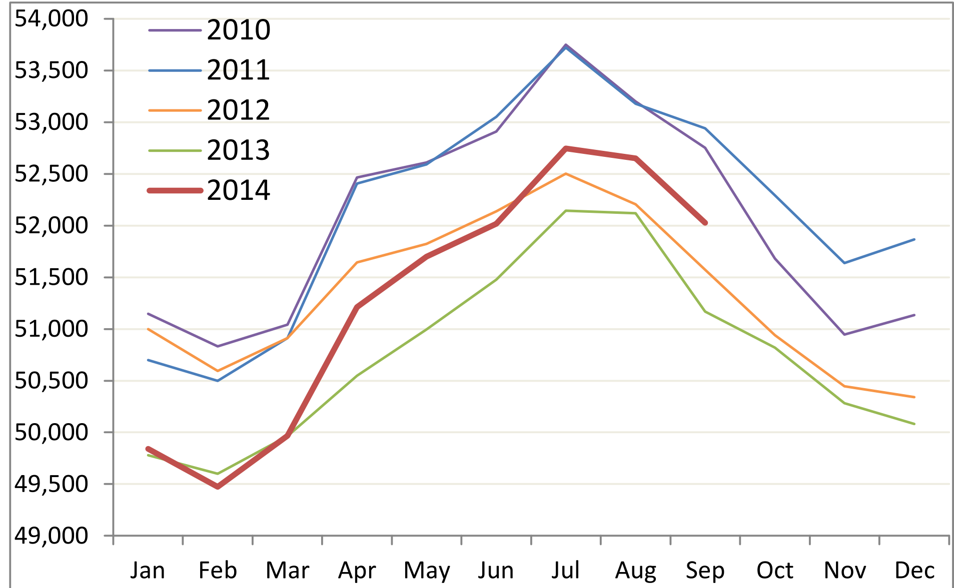
Social Security contribution numbers provide a more up to date picture of employment trends. The most recent data are from September of 2014, and show that contributor numbers were up by almost 900 (2%) when compared with one year earlier. Average contributor numbers for the third quarter of 2013 were higher than the same quarter in both 2012 and 2013, but remain below the levels seen in 2010 and 2011.

Figure 1.9

Social Security contributions

Number of Class 1 and Class 2 contributions in each month

Source: Social Security Department



Unemployment, as measured by the internationally comparable ILO rate, fell to 4.6% in June 2014 - a significant fall from 5.7% in June 2013.

The number of people registered as **actively seeking work** (ASW) can be seen as an indicator of the trend in unemployment, although it cannot be seen as a comprehensive measure of unemployment as there is no statutory requirement for unemployed residents to register. ASW peaked in early 2013 and has fallen since, with a net fall of 360 (20%) in the twelve months to November 2014. However, Figure 1.10 shows that the number registered as ASW remains historically high, though part of the increase is likely to be due to the introduction of Income Support in 2008 which means that the current series is not strictly comparable with the previous series.

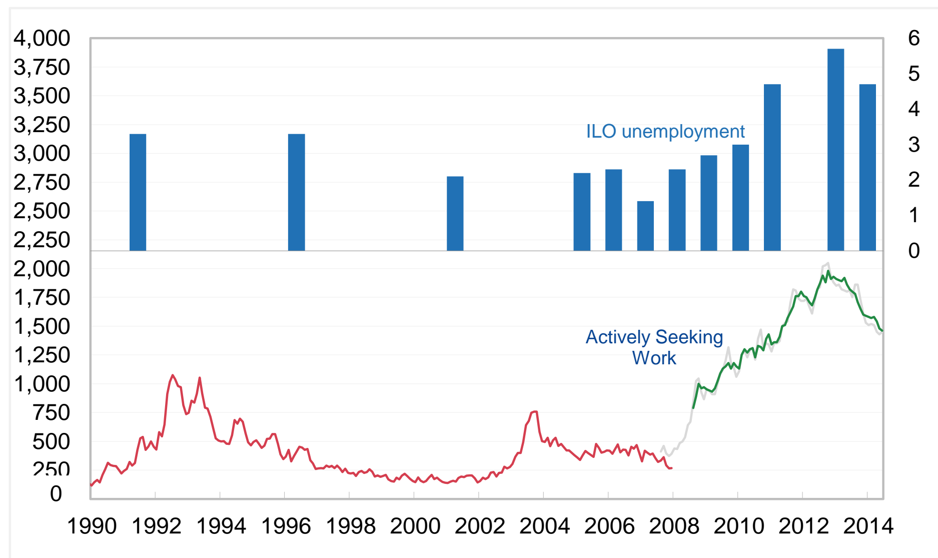
Figure 1.10

Changes in unemployment

Upper Panel: ILO unemployment (% of working age population)

Lower Panel: number registered as actively seeking work. Red line is historic series. Grey line is new series, not seasonally adjusted. Green line is new series, seasonally adjusted

Source: States of Jersey Statistics Unit



The most recent Business Tendency Survey which was carried out in December 2014 showed that 54% of finance firms reported no change in employment, with 25% reporting an increase and 21% reporting a fall in employment. The net balance was therefore mildly positive, down from the previous quarter when it was strongly positive for the first time since the survey began in 2009. The net balance for future employment was positive at +8, having fallen from the higher levels at the start of 2014.

For the non-finance sector, 76% reported no change in employment with 12% reporting an increase and 12% reporting a fall in employment. The net balance has been largely neutral for three quarters, having been negative for each quarter since the survey began in 2009. Expectations for future employment have remained slightly positive throughout 2014.

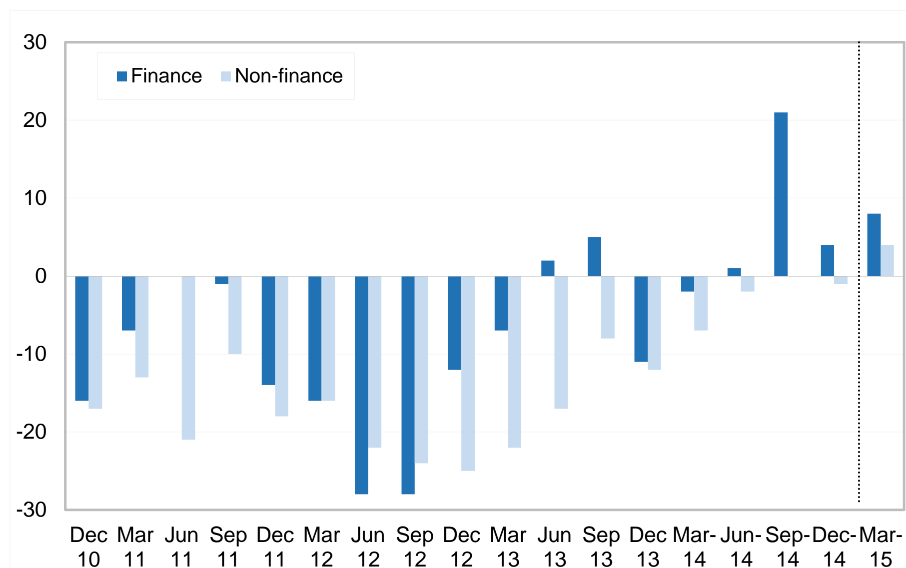
Figure 1.11 demonstrates that the employment indicator has improved considerably over the course of 2013 and 2014 for both finance and non-finance and has been positive on an overall basis for the last two quarters of data.

Figure 1.11

Employment trends in key sectors

Weighted net balance reporting increase in employment, March 2015 figure is based on expectations in December 2014 survey.

Source: States of Jersey Statistics Unit



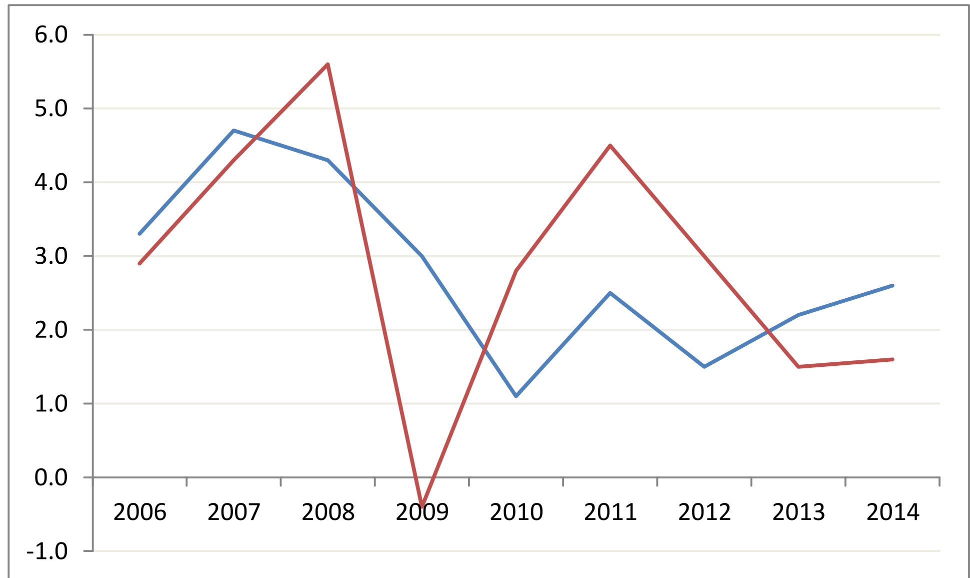
Average earnings in nominal terms increased by 2.6% in the year to June 2014, slightly higher (+0.4%) than last year, but the increase is somewhat lower than the average earnings increases of around 4% a year seen between 2002 and 2009. This was the second successive year in which average earnings increased faster than inflation.

Figure 1.12

Average earnings

% increase in average earnings (blue line) and retail price index (red line) - June each year.

Source: States of Jersey Statistics Unit



1.4 Inflation

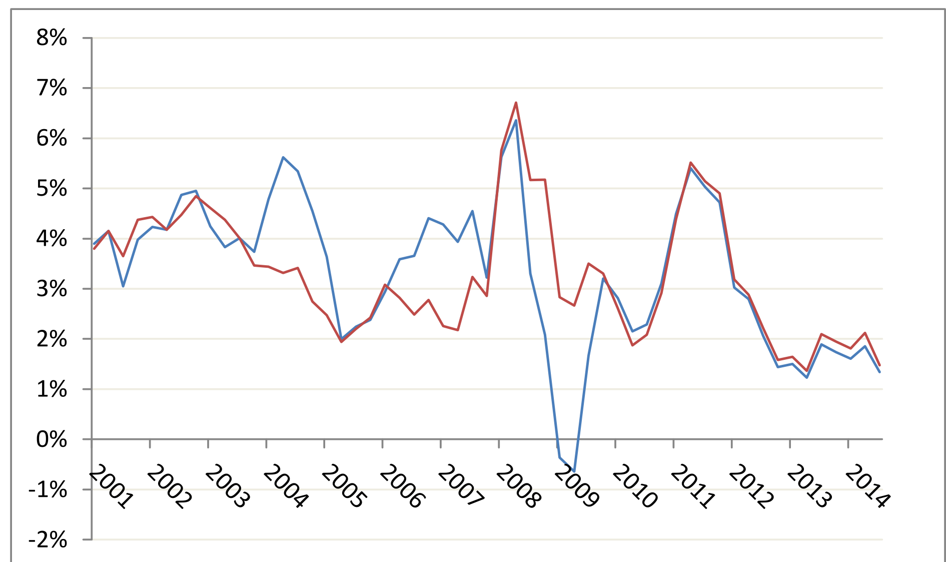
Inflation has been low throughout 2013 and 2014, with the increase in the retail prices index (RPI) remaining below 2%. December 2014 saw RPI inflation fall sharply to 1.3% - its lowest level since mid-2013. RPIX (excluding mortgage interest payments) also fell, to 1.5%.

Figure 1.13

Inflation in Jersey

Annual % change in retail prices index (blue line) and retail prices index excluding mortgage interest payments (red line)

Source: States of Jersey Statistics Unit



1.5 Conclusion

The global economy has continued to disappoint, with a widespread and sustainable recovery still failing to materialise in 2014. There are opportunities for 2015, not least the potential upside of low oil prices. However, there remain a substantial number of risks which could derail any signs of progress.

The Jersey economy has shown some signs of a moderate improvement in 2014. Developments in the labour market are encouraging - with growth in employment, falls in unemployment and a second year of earnings growing faster than inflation. Survey data suggest an improvement in sentiment in both the finance and non-finance sectors – while the low rate of inflation is a positive development, and the fall in global oil and food prices will be beneficial.

However, there has been a large fall in Jersey's economic output since 2007, which may take several years to recover. Productivity growth has been weak since 2000 and there is concern this will continue. These trends are explored further in section 2.2 while the Panel's forecast for the Jersey economy is contained in section 2.7.

Section 2 – Trend growth and spare capacity

2.1 Introduction

In its 2014 Annual Report, the Fiscal Policy Panel committed to undertake further work to consider a quantitative approach to estimating the output gap for Jersey - i.e. assessing how the economy is performing in relation to its potential output, the level of output consistent with full non-inflationary utilisation of resources.

This assessment is important in determining where the Jersey economy is relative to the business cycle and what GVA growth could be over the next cycle. This gives an insight into how best to shape counter-cyclical fiscal policy.

The Panel assesses this in two ways.

Firstly, looking at growth trends in the economy and the underlying components – a 'top-down' approach. The Panel assesses the recent trends in economic growth over past business cycles, what the permanent (structural) and temporary (cyclical) changes have been in the different components of economic growth, and what they might be in future to help forecast the trend rate of growth out to 2030. (Sections 2.2 and 2.3)

Secondly, the Panel estimate spare capacity in the Jersey economy and how it may change over the next few years – a 'bottom-up' approach. This draws on published economic indicators, Business Tendency Survey findings and information gathered by the Economics Unit from a series of interviews with financial services companies. The interviews between November 2014 and January 2015 covered likely trends in employment and profits in key individual businesses over the next few years. (Sections 2.4 to 2.6)

Using this analysis, the Panel forecasts economic growth until 2017 (Section 2.7) and considers what the longer term trend rate growth could be from 2018 onwards (Section 2.8).

2.2 Recent trends in GVA

Changes in output (measured in Jersey in terms of gross value added – GVA) from year to year will include both cyclical factors, as the economy moves through the business cycle, and more permanent structural or 'trend' effects. Potential GVA, or trend GVA, is an estimate of only the trend effects and therefore excludes any cyclical impacts.

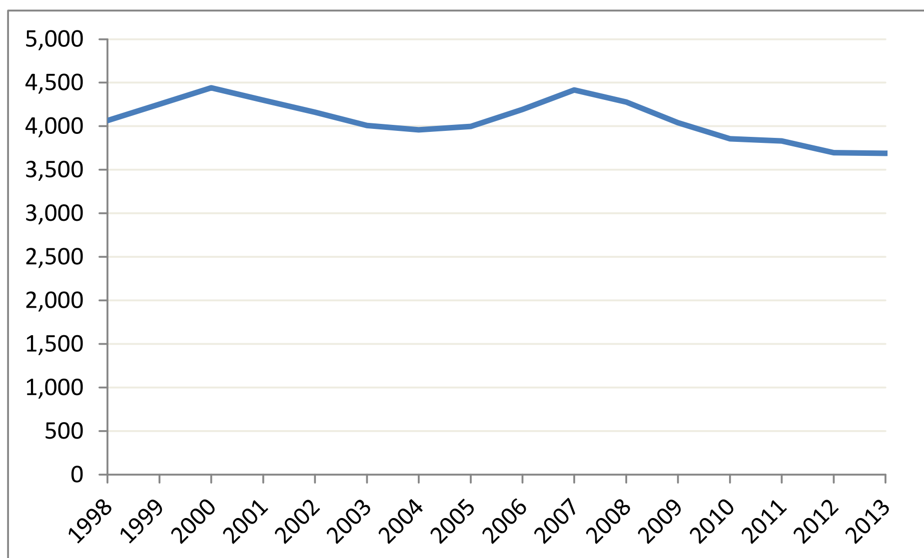
Figure 2.1 shows GVA over the period for which a consistent series is available – from 1998 to 2013.

Figure 2.1

Jersey GVA

£m, constant 2013 prices

Source: States of Jersey Statistics Unit



Over the period 1998 to 2013, measured GVA fell by 9% in real terms – equivalent to an average annual fall of 0.6%. However, this period covers more than one economic cycle, and looking over a single cycle may give a more accurate estimate of trend growth for that cycle. This requires looking at the average growth rate between similar points in the cycle – for example, it is possible to identify a complete economic cycle by looking from peak-to-peak or from trough-to-trough. The most recent full cycle which can be identified on this basis is from the peak in 2000 to the peak in 2007, a period over which measured GVA declined by 1%, equivalent to an average annual fall of 0.1%.

If the FPP forecasts prove to be correct (i.e. the economy grows in 2014) then 2013 would be a new trough and therefore 2004-2013 would also represent a complete economic cycle. Over this period measured GVA declined by 7%, equivalent to an average annual fall of 0.8%.

The significant fall in GVA over the 2004-2013 period is due to trends in the financial services sector (and in particular the banking sector) as the GVA of the non-finance sectors (excluding the rental income of private households) grew by 3% over the same period.

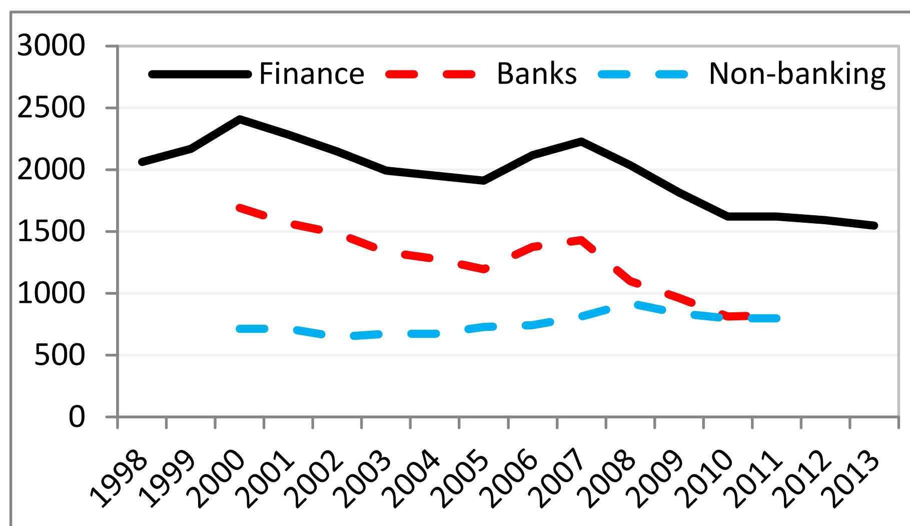
Figure 2.2 shows that the trend in banking sector GVA has driven the overall trend in finance sector GVA in recent years. The fall in banking sector profits, and in particular revenues, explain the recent falls in banking sector GVA. An important component of the banking sector's revenue is the net interest income they receive which fell sharply as UK interest rates were cut.

Figure 2.2

Finance and banking GVA

£m, constant 2013 prices

Source: States of Jersey Statistics Unit



The 2008 to 2012 period, however, is influenced by the global "great recession". This appears to represent a one-off "step down" in GVA, rather than a standard cycle. Caution is therefore required in drawing any conclusions about trends over this period. GVA over this period will also have been negatively influenced by the low interest rate environment, given the importance of financial services profits to total GVA.

2.3 The component parts of GVA

An estimate of the trend rate of GVA growth can be arrived at by estimating the trend rate of growth in the constituent parts of GVA:

$$g_{\text{trend GVA}} =$$

$$g_{\text{trend GVA per FTE}} + g_{\text{trend average hours worked}} + g_{\text{trend employment rate}} + g_{\text{working age population}}$$

The Panel have estimated a range for the trend rate of growth of each of these components – bounded by a low and high scenario for each, representing the Panel's view of what could reasonably be expected given past performance and future expectations. The Panel have also produced a central scenario for each, representing the most likely rate of growth on the same basis.

Trend GVA/FTE

GVA per full-time equivalent employee (FTE) is a measure of labour productivity. Figure 2.3 shows GVA per FTE for Jersey since 1998. GVA per FTE tends to follow the economic cycle, recording high growth rates when GVA growth is high and vice versa. This is because employment tends to be less volatile than GVA.

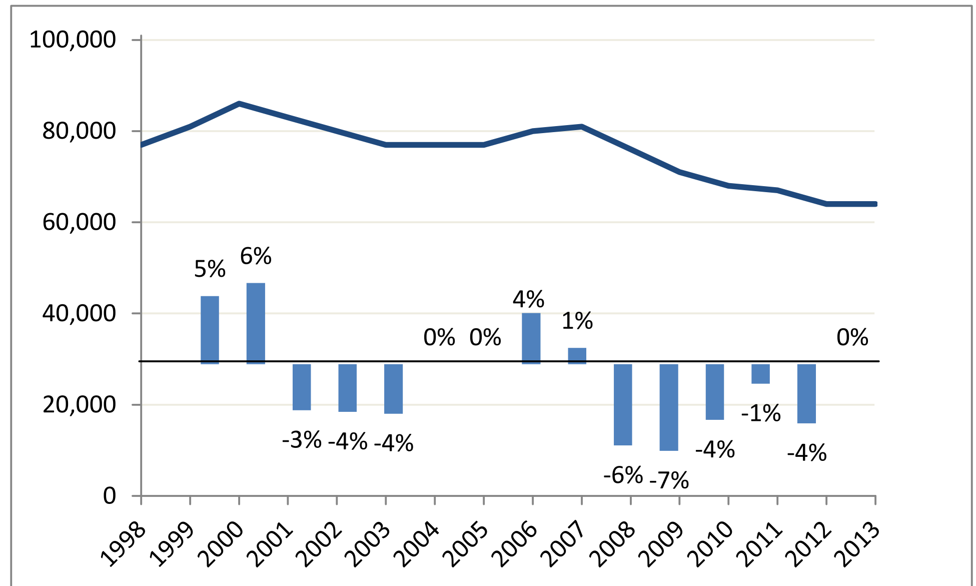
Figure 2.3

GVA per FTE

£, constant 2013 prices (blue line)

% change on previous year (blue bars)

Source: States of Jersey Statistics Unit



Over the economic cycle 2000-2007, GVA per FTE fell by an average of almost 1% per year, driven by a fall in finance sector GVA/FTE. While non-finance productivity grew by an average of 0.7% per year over the period, finance sector productivity fell by an average of 2.4%.

Over the possible economic cycle 2004-2013, GVA/FTE fell by an average of 2% per year – again driven by a fall in finance sector productivity (averaging 3.6% per year) with non-finance productivity relatively flat over the period.

Looking forward, any increase in productivity would represent a considerable improvement on previous performance so the Panel have assumed that under the central scenario, productivity growth would be flat. The low scenario has been assumed to see a fall in GVA/FTE of 2% per year, based on the performance over 2004-13, although much of this fall appears to be due to one-off structural changes. The high scenario has been assumed to see productivity growth of 0.7%, based on non-finance performance over 2000-2007 – which represents a less volatile measure and period which excludes the trends in finance profits – and therefore is one possible estimate of the underlying trend.

Trend hours worked

The Census provides data on average hours worked, excluding overtime. This is not an ideal measure for assessing the trend in hours worked, as there may be a trend in average overtime per worker which could drive changes in GVA. However, assuming overtime is a small proportion of overall hours (overtime represents approximately 3% of hours worked in the UK) then the impact of overtime on the overall trend is likely to be small.

The 2011 Census showed that full-time employees worked 0.3 hours less, on average, than in 2001; while the average full-time self-employed individual worked an additional 2.6 hours. On an aggregate basis, hours worked was largely flat over the ten years between censuses. However, 2001 came one year after the 2000 peak in GVA, whereas 2011 was the fourth consecutive year of the recent downturn. Therefore there may be some trend change in working hours between these two years which is masked by the cyclical element – i.e. a cyclical fall in hours worked might be masking an upward trend.

The Jersey Annual Social Survey (JASS) also collects data on hours worked, excluding overtime. The JASS has collected this information on an annual basis since 2005, though is less reliable than the Census as completion is not compulsory. JASS data on hours worked have not been published for 2012 or 2013 but no cyclical pattern or trend can be identified prior to that, with the average hours worked for full-time employees remaining at 39 hours from 2005-2010, at the same level as identified in the 2011 Census.

In the UK, there was a long-term downward trend in average hours worked from the early 1990s until the aftermath of the financial crisis. The last few years have seen a significant increase in hours worked, though this is likely to be cyclical, as the economy uses up slack and underemployment reduces. The Monetary Policy Committee (MPC) of the Bank of England anticipates average hours worked in the UK to return to their recent (1998-2007) average and remain at that level through to at least 2016. This is consistent with a relatively flat trend over the cycle.

On the basis of the above, Jersey's trend growth rate for average hours worked could be estimated at +/-0.1% with a central value of zero.

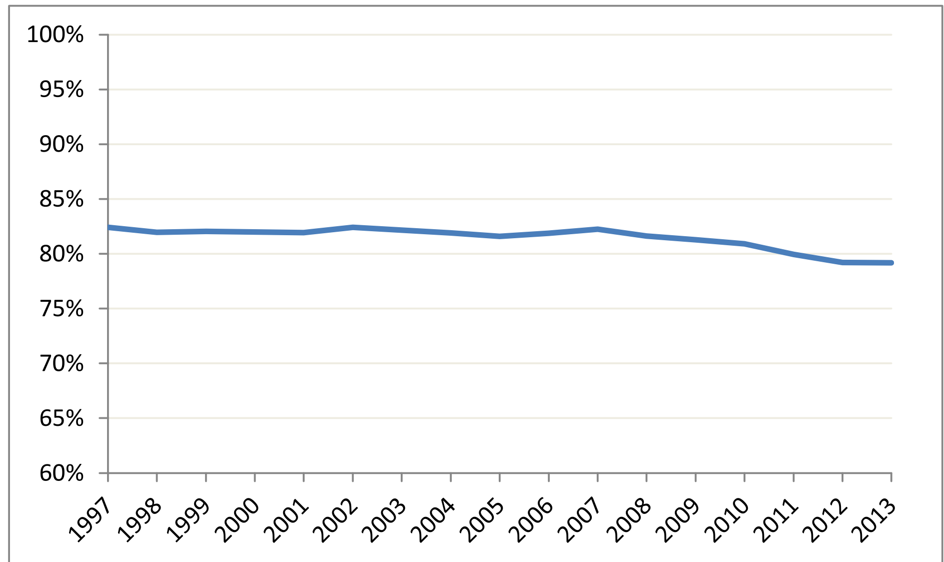
However, this deals with just the average hours worked by full-time workers – there is also a potential trend in the number of hours worked by part-time workers, and a trend in the proportion of part-time workers in the workforce. No data are available for hours worked by part-time workers in Jersey, but Figure 1.3 shows that, in the private sector, the proportion of full-time employees has declined gradually since 1997 – from 82% to 79%.

Figure 2.4

Full-time workers

Full-time employment as a proportion of total private sector employment

Source: States of Jersey Statistics Unit



Over the 2000-2007 cycle, the proportion of full-time employees was flat – remaining at 82% in each year. In the possible 2004 to 2013 cycle, however, the full-time share has fallen to 79%. This is lower than the OECD average of 84%. Proportionally, the rate has fallen by 0.4% per year on average – although it is not clear whether this is a trend or a one-off shift over the period. While this does not include public sector workers, data are not available for this sector and it makes up only 12% of total employment so is unlikely to significantly alter the overall trend. Therefore the proportion of full-time workers has been assumed to decrease by 0.4% in the low scenario, remaining flat in the central and high scenarios.

Combining the proportion of full-time workers and the average hours worked by full-time workers leads to a low scenario of -0.5% annual change in hours worked per employee, a flat central scenario and a high scenario of +0.1%.

Trend employment rate

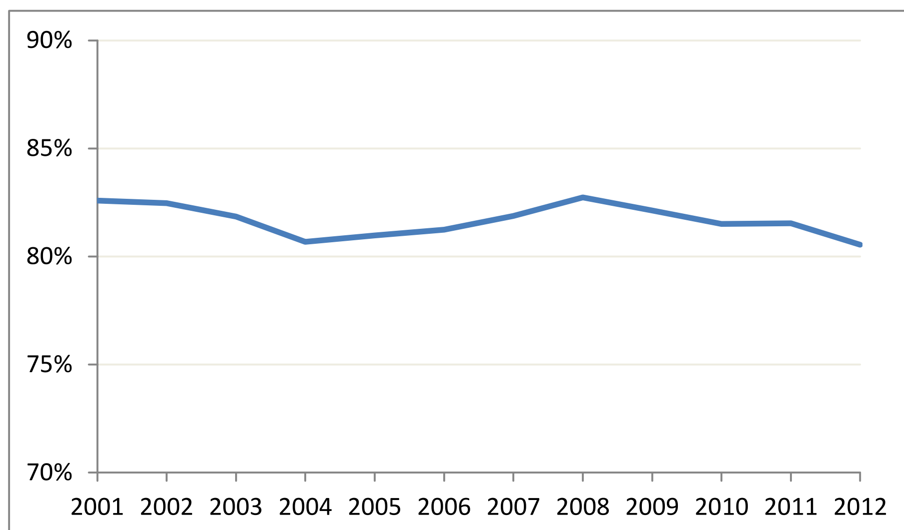
The employment rate measures the number of people in employment as a proportion of the total working-age population. The employment rate can be most accurately calculated based on Census data but as this is every ten years, it will not necessarily fit with the economic cycle. More frequent figures are available from the half-yearly manpower surveys, along with the Statistics Unit population estimates. Figure 1.4 estimates the employment rate since 2001, based on the manpower surveys and population estimates in each year – calibrated to fit with the Census data in 2001 and 2011.

Figure 2.5

Employment rate

Total employment as a % of working age population

Sources: States of Jersey Statistics Unit, Fiscal Policy Panel calculations



The employment rate in Jersey is high by international standards, having remained above 80% throughout the period illustrated above. For example, the employment rate in the UK has remained in the range 70-73% over the same period, while the OECD average is between 64%-67%. The employment rate in Jersey follows trends in the economy, with falls in the rate coinciding with the economic downturns in the early 2000s and 2009 and a gradual increase during 2004-08.

The employment rate peaked in 2008, at largely the same as its previous peak in 2001, which reflects employment remaining at an already very high rate in 2001.

Modelling by the States of Jersey Economics Unit suggests that employment will increase as a proportion of the 16-64 population by an average of 0.2% per year out to 2030, assuming that the pension age increases to 67 between 2020 and 2031 and participation rates are unchanged. Modelling this on the basis of a further increase in the pension age to 68 results in an increase of 0.3% per year in the employment rate (still calculated as a proportion of the 16-64 population, for consistency with the calculation of the 2013 rate).

Therefore it has been assumed that the employment rate (as a percentage of the 16-64 population) grows by 0.2% per year in the central scenario, to reflect potential growing participation by those above 64. The low scenario assumes a gradual fall to the UK rate over the next fifty years – which would see an annual fall of approximately 0.2% in the employment rate. The high scenario assumes the employment rate increases by 0.3% per year, to reflect the potential for further increased participation by those above 64.

Trend working age population

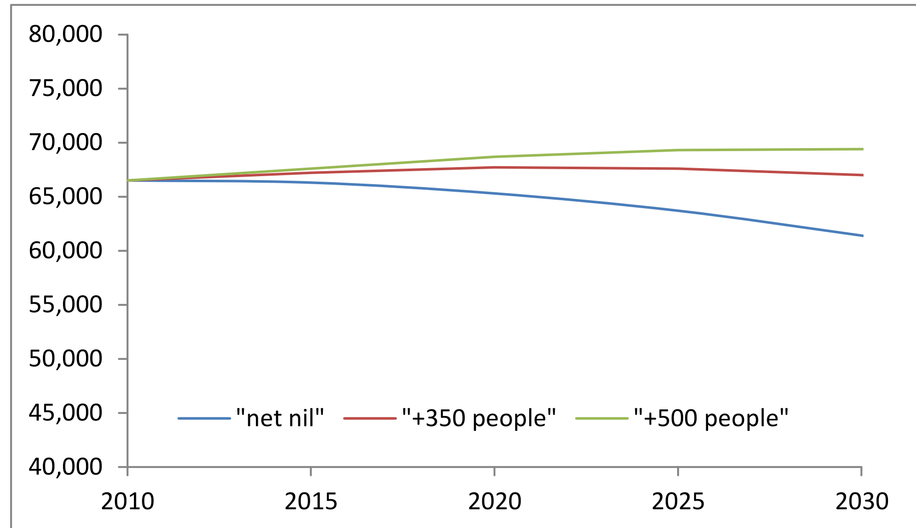
While there has in the recent past been a strong upward trend in working age population, this may not continue in the future – though this will be partly dependent on the future pattern of migration. The Statistics Unit produces projections for the 15-64 population out to 2070 under a number of different migration assumptions. Figure 1.6 shows three of these assumptions – net +350 people per annum (close to the current interim policy of +325 people), plus a lower net migration scenario (net nil) and a higher net migration scenario (+500 people per year).

Figure 2.6

Working age population

Projections for working age population under differing scenarios for migration.

Sources: States of Jersey Statistics Unit, Economics Unit calculations



Under the +350 scenario, the 16-64 population continues to increase out to 2020, and then declines slightly to 2030 to return to close to the 2010 level – on average no annual growth. Under the +500 scenario, the average growth rate is 0.2% to 2030. Under net nil, the 16-64 population declines at an annual average rate of 0.4%. These have been used as the central, high and low scenarios, respectively. However, past trends in migration have been higher than the +500 scenario so there may be some potential for this component to grow more quickly if the past trend were to be recreated.

Conclusion of trend GVA component analysis

The trend growth rate out to 2030 can be estimated by combining the assumptions made for each of the components. High, central and low scenarios have been developed as follows:

Figure 2.7

Calculation of trend GVA growth

Summary of projections for trend in each component of GVA

	Low Scenario	Central Scenario	High Scenario
GVA/FTE	-2.0	0	+0.7
Hours worked	-0.5	0	+0.1
Employment rate	-0.2	+0.2	+0.3
Working age	-0.4	0	+0.2
Total	**-3.1**	**+0.2**	**+1.3**

This shows that based on the assumptions made for each component, there is a wide range of possible trend growth rates for GVA – from an annual average fall of -3.1% to annual growth of 1.3%. Outcomes closest to the broadly flat central scenario are more likely than the extremes - particularly regarding the low scenario which would require everything to go wrong simultaneously.

This large range shows the uncertainty involved in using this approach to forecast future trend GVA growth.

The impact of productivity growth in the future will be particularly important. If the falls in banking sector profits and productivity are not repeated in the future and productivity in the non-finances sector grows, then productivity in the economy as a whole could grow (perhaps between 0% and 0.5% a year).

However, if finance sector productivity continues to fall, productivity in the economy as a whole may fall (perhaps between 0% and -0.5% a year) even if productivity in the non-finance sectors does improve slightly.

This analysis suggests that the most likely scenario is for future trend growth to be broadly flat. However, the Panel have concluded that this type of quantitative approach is uncertain because of the nature of the economy and the period for which data are available. What is clear is that productivity performance will have a profound impact on the trend rate of growth.

Given the uncertainties highlighted above, the next section goes on to look at a more qualitative approach to assessing the current degree of spare capacity now and how it might change in future years.

2.4 Current degree of spare capacity

The economic indicators, in particular, a combination of trends in economic activity (real GVA), high unemployment, low inflation and weak earnings growth in recent years suggests that the economy is operating below its potential level and therefore that there was some spare capacity in the

economy in 2014.

The Business Tendency Survey responses also suggest that some businesses have been operating below their normal capacity in the last few years, which might also suggest there is some spare capacity within businesses. These responses cannot be interpreted precisely, but broadly support the overall picture.

Economic activity

Real GVA in Jersey has fallen significantly between 2007 and 2012, stabilising in 2013. This is largely a result of the global financial crisis, and consequent record-low interest rates, the effects of which are still being felt in Jersey (Figure 2.14 page 42).

GVA can be thought of as the sum of wages (and other employment costs) and profits of activity that takes place in Jersey. The financial services sector's profits are a large part of this measure and have been particularly affected by the crisis. Profitability in other parts of the economy has also fallen, but this has tended to be less steep. Employment and wages have been relatively more stable.

The cuts in UK interest rates down to 0.5% during 2008 and 2009 have reduced banking profits by limiting the margin that can be made on deposits in Jersey (Box 1 in the FPP's 2009 Annual Report[1] explains this in more detail) . It is therefore partly responsible for the overall fall in GVA.

The UK interest rate is below the probable medium-term 'norm' of about 2.5%[2]. Current financial market expectations are that interest rates will increase to between 2% and 2.5% over the next few years, however, this remains uncertain and a larger or smaller increase cannot be ruled out.

An increase in interest rates should increase banking sector profits, other things being equal. However, low interest rates are not the only factor that drives financial sector profitability and it is the overall level of profitability in this sector that affects States' tax revenue.

Labour market

Unemployment

The current unemployment rate in Jersey is above the historical average, which suggests there is some spare labour capacity in the economy. The lack

[1] http://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20FPPAnnualReport%2020090501%20FPP.pdf
[2] Mark Carney, the Bank of England Governor, during a BBC Radio 4 interview, June 2014.

of strong upward pressure on wages (covered later) also confirms this.

The ILO unemployment rate (which includes all those who are unemployed and looking for work even if they are not registered as unemployed) increased from 2.3% of the working age population in 2008 to 5.7% in 2013 and then fell to 4.6% (about 2,800 people) in 2014.

The average ILO rate[3] before 2008 is about 2.5% (Figure 2.8) and suggests that the current level of unemployment is likely to be above that consistent with Jersey's economy operating closer to full capacity.

This suggests that:

1. Some of the spare labour capacity was used up in 2014 as unemployment fell.

2. There was remaining spare labour capacity in 2014 (every 1% of the working age population is about 600 people).

Figure 2.8

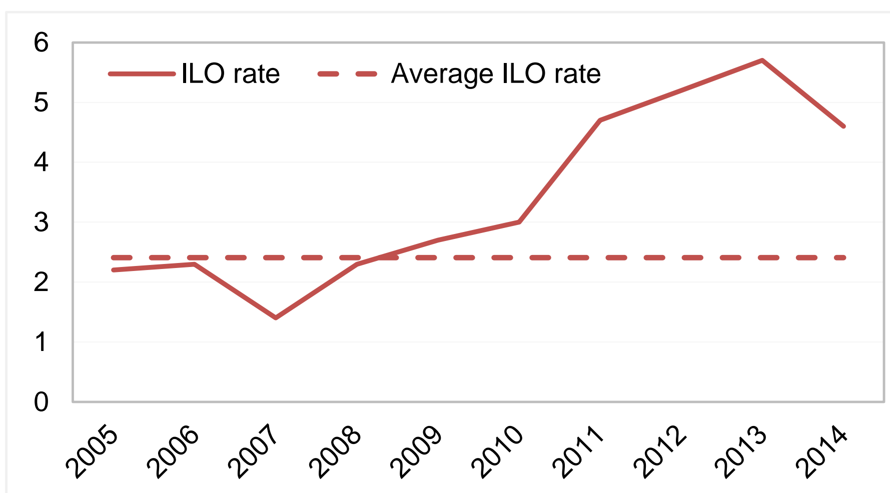
ILO unemployment rate

% of working age population

Source: States of Jersey Statistics Unit

Notes: An ILO rate was not published for 2012, so this has been interpolated between the 2011 and 2013 published figures.

The average ILO rate is the average of ILO rates published before 2008.



The registered unemployment figures corroborate the ILO trend in recent years as well. The Social Security Department records the sector that registered unemployed people last worked in. In November 2014, these data were available for 90% of the people registered. The sectors these unemployed people previously worked in were as follows:

- About 260 people (19%) were previously employed in 'Retail and Wholesale, Motor repairs and sales';

- About 220 people (16%) were previously employed in 'Miscellaneous professional & domestic services'; and

[3] Average of the ILO rates published in the 1991, 1996 and 2001 Censuses and JASS 2005, 2006 and 2007.

- About 180 people (13%) were previously employed in 'Banking, Miscellaneous Insurance, Finance and Business'.

It is worth noting that some people, particularly those with experience of working in the finance sector, may seek employment through private agencies and may not therefore register with the Social Security Department. Such sectors will, therefore, tend to be under-represented in these numbers.

However, amongst those registered as unemployed (rather than the broader pool of unemployed people and wider availability of labour) it suggests there could be more spare capacity for the non-finance sectors of the economy to expand employment, than the finance sectors, as demand for their goods and services increases. This reflects the view that jobs in the finance sector have specific skills requirements and that there are more people who are able to work in the non-finance sectors of the economy than the finance sector.

Inflation

Inflation has remained between 1% and about 2% in 2013 and 2014, which is very low compared to the historical average (RPI inflation averaged 3.7% 1991-2014). It is also low compared to inflation over past economic cycles, whether measuring them peak to peak, for example 1995-2004, and 2004-2013 (provided 2014 sees growth) – or trough to trough, for example 2000 to 2007 (Figure 2.9).

Jersey's inflation is affected by internal and external price pressures. The internal price pressures are affected by the economic conditions in Jersey and conditions in product and labour markets. The external price pressures, particularly from the imported goods that Islanders consume, come from international price trends in commodity and other markets.

This recent period of low inflation is indicative of spare capacity in the Jersey economy and also reflects lower external price pressures from imported goods and services.

The Monetary Policy Committee (MPC) of the Bank of England[4] states that the UK's CPI measure of inflation is below the 2% target due to slack in the domestic economy and lower external price pressures. Jersey and the UK face very similar external price pressures (particularly as many Jersey imports are imported through the UK) and this partly explains the low inflation in Jersey's economy at the moment.

[4] Bank of England Inflation report, November 2014.

Between September and December 2014, the price of crude oil[5] fell from £59 to £39 a barrel (a fall of 34%). This large fall in oil prices is expected to lead to lower inflation through lower prices (or lower increases in prices) of many goods and services, particularly those which have high oil content, such as heating oil and motor fuel.

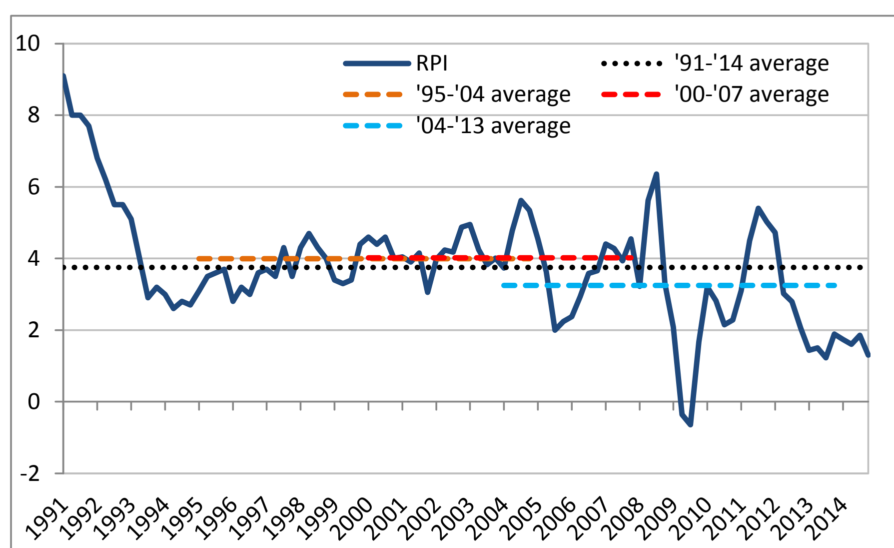
There are indications in the December 2014 RPI statistics release that the lower oil prices have started to affect prices in Jersey with headline inflation down to 1.3% and heating oil and motor fuel prices falling. Jersey's population will benefit from this as consumers, to the extent it has and will feed through into lower inflation and slower growth in retail prices. However, lower inflation in this context does not mean there is more spare capacity in the economy.

Figure 2.9

Inflation

RPI, per cent change, quarterly

Source: States of Jersey Statistics Unit



Earnings growth

Wage developments (nominal and real) give an indication of the degree to which spare capacity is being used up, especially in the labour market.

Nominal average earnings growth in 2013 (2.2%) and 2014 (2.6%) was low by past standards. For example, nominal average earnings growth increased by 4.5% a year on average between 1991 and 2014, and considering the last economic cycles peak to peak (2000-2007: 4.9%) and trough to trough (1995-2004: 5.2% and 2004-2013: 3.1%)(Figure 2.10).

This suggests there is some slack in the wider labour market.

[5] The mean average of the Brent, West Texas Intermediate and Dubai Fateh crude oil prices.

Figure 2.10

Nominal average earnings growth

per cent change, June-June

Source: States of Jersey Statistics Unit

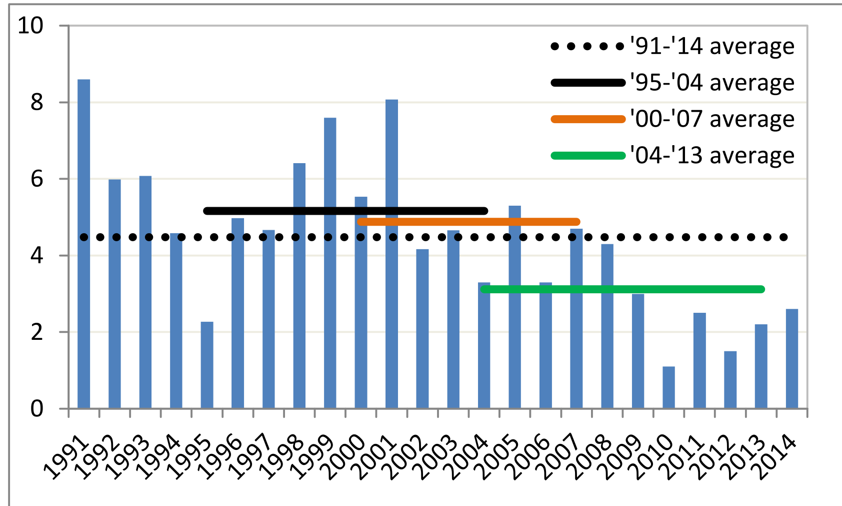


Figure 2.11 shows average earnings growth over the same period in real terms. Again, this indicates a relatively strong labour market with little spare capacity in the 1990s and mid 2000s up to about 2008, with a much weaker labour market from 2010.

However, the real average earnings growth in 2013 and 2014 suggests that some of the spare capacity in the labour market may have been used up. This is consistent with the fall in unemployment during 2014 described earlier.

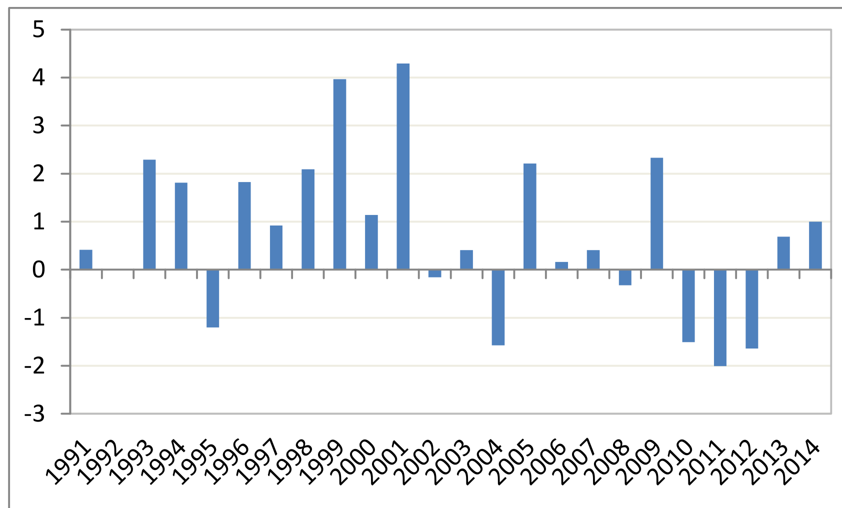
Figure 2.11

Real average earnings growth

per cent change, June-June

Sources: States of Jersey Statistics Unit and Economics Unit calculations

Note: RPI used to deflate average earnings.



Businesses operating below normal capacity

The Business Tendency Survey 'capacity utilisation' indicator measures current business activity relative to normal business activity in the most recent quarter[6]. Care is required in interpreting the survey results. The survey is qualitative and has only been in existence since 2009 which makes it harder to

[6] Businesses are asked: "Please compare the current trading situation of your organisation to three months ago; excluding normal seasonal fluctuations. Please tick one option only… Q3 Level of capacity utilisation: Current business activity relative to 'normal capacity' (e.g. 'above capacity' means busier and longer hours worked than normal): Above capacity, normal capacity, below capacity, N/A."

understand what changes in its indicators mean about conditions in the local economy.

This is particularly true for the 'capacity utilisation' indicator. Changes in the level of 'capacity utilisation' indicator, particularly in one direction over several quarters or more, could indicate the direction in which spare capacity in businesses has changed recently. However, it is harder to determine what the actual level of the indicator reveals about the amount of spare capacity there is within businesses.

Non-finance businesses

The Business Tendency Surveys indicate that the net balance of non-finance businesses operating below normal capacity increased between 2010 and 2012, and decreased between 2012 and 2014 (black line Figure 2.12). A higher net balance of construction and wholesale and retail businesses operated below normal capacity (red and blue dashed lines), than the other non-finance businesses (orange dashed line) between 2012 and 2014.

This suggests that spare capacity within non-finance businesses has followed the same trend, although it is harder to determine what this implies about the degree of spare capacity within these businesses, and how this relates to the amount of spare capacity in the economy as a whole.

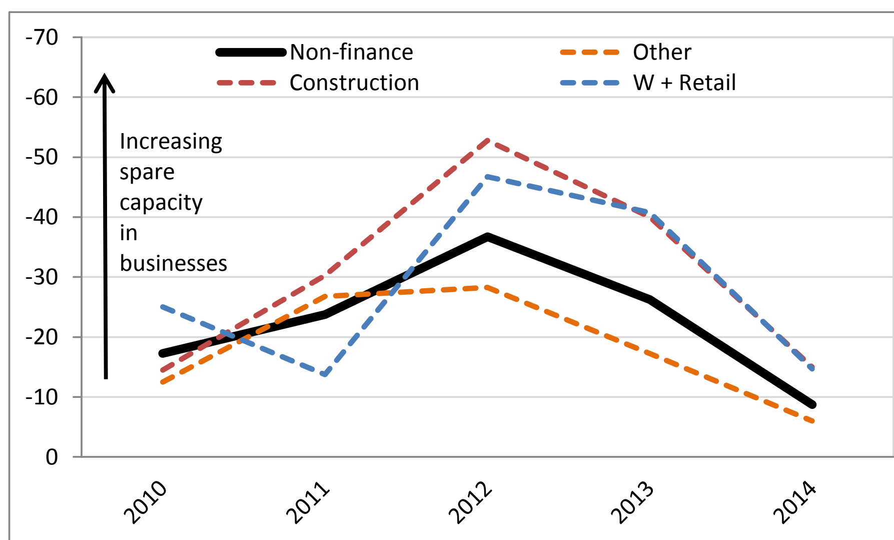
Figure 2.12

Businesses operating below normal capacity

Annual average, Weighted net balance, %

Sources: States of Jersey Statistics Unit and Economics Unit calculations

Note: Negative means operating below normal capacity.



Finance businesses

Unlike the sentiments expressed by most non-finance businesses, finance businesses are either operating above normal capacity (21%) or at normal

capacity (74%)[7].

This is supported by the feedback during the finance sector interviews:

- Some finance firms said that they were close to capacity in their businesses (with their current labour force) and that employment will grow slowly as the number of customers increase in the future.
- Overall, firms did not think they were constrained from employing more people, and thought they could meet their future labour needs either locally or from overseas (via inward migration) when required.

This last point highlights one of the difficulties in understanding how much spare capacity there is in the sector as a whole as it depends in part on the extent to which businesses are able to recruit from outside of Jersey.

The financial services businesses interviewed do not expect that future increases in UK interest rates will directly affect employment or reduce spare capacity in their businesses. However, they do expect an increase in the UK interest rate to have a positive effect on profits, and therefore measured economic activity (GVA), productivity and States' revenue.

There are a number of indicators which suggest that spare capacity remains in the Jersey economy, but there are some signs that this is beginning to be used up.

2.5 How will degree of spare capacity change?

Finance sector

The finance sector is a significant part of Jersey's economy as it made up 42% of economic activity (measured by Gross Value Added) and 23% of total employment in 2013.

The sector's activities and performance have an important impact on the rest of the economy in two broad ways. First, finance sector businesses buy goods and services from a wide range of businesses in Jersey. In 2013, finance sector business spent £710m on goods and services and about £310m of this (45%) was spent on-island[8]. Second, finance sector employees, who are generally relatively well paid (2014 average weekly earnings £940 per FTE compared to £670 per FTE economy average[9]), also buy goods and services in Jersey during day-to-day life.

[7] Jersey Business Tendency Survey December 2014, Jersey Statistics Unit
[8] '2013 Survey of Financial Institutions', Jersey Statistics Unit.
[9] 'Index of Average Earnings – June 2014' Jersey Statistics Unit, p6.

Therefore, the extent and nature of finance sector performance will be an important consideration in assessing the degree of spare capacity in Jersey's economy.

The banking sector was particularly affected by the global financial crisis and its consequences, particularly the cut in UK interest rates to 0.5% that followed.

There are two important factors that will influence the future performance of the finance sector – the global economy and interest rates – which are explored in turn below.

1. Global economy

Jersey is a relatively small and open economy given that a significant proportion of its economic activity relates to exporting financial and legal services, and to a lesser extent other exports such as agricultural products and tourism, for example.

The economic conditions outside of Jersey (globally), wealth creation and wealth management trends all affect the Jersey finance sector's customers, and therefore the finance sector and wider economy. In addition, (as supported by the senior finance executive interviews) the competitiveness of Jersey as a location for the supply of these international financial services is important as there are many locations from which this demand can be serviced and is an important part of this assessment.

Jersey's finance sector customer base is global, including people and businesses based in advanced, emerging and developing economies. As these economies are expected to recover and catch up to their potential output levels, the demand for international financial services should increase and, therefore, the demand in Jersey should increase too. This should be more representative of the longer term trend level of demand in this sector.

The forecasts for the following advanced economies show:

- The UK economy is expected to be much closer to its potential output level by 2017 and edge closer still by 2019[10].
- The euro area is expected to be close to its potential output level much later - by 2019 - which is consistent with the current economic weakness of the euro area generally. This varies from country to country, for example Germany's economy is estimated to be closer to

[10] UK's Office for Budget Responsibility 'Economic and Fiscal Outlook' December 2014 (p11)

its potential output level whilst France and Italy are estimated to be further away[11].

- The US is expected to largely close its output gap by 2017[12].

Economic growth in the emerging and developing economies is expected to accelerate between 2017 and 2019 as well (Figure 1.1, page 7).

This suggests that the external demand for international financial services will be closer to trend level between 2017 and 2019. Assuming that Jersey is able to remain competitive, this in turn suggests that the finance sector's output is also likely to be closer to trend level between 2017 and 2019.

The supply side of Jersey's economy needs to be able to adjust over the next few years to meet this demand. In particular, the finance sector (and its on-island suppliers) must be able to:

- Use up any capacity there is in their businesses - in particular, of people and commercial space;
- Draw on the people and space they need from the wider economy without adding significantly to inflationary pressure; and
- Employ the people they need from outside the Island.

The registered unemployment information (section 2.4) suggests there is not as much spare capacity in the local labour market for financial services as there is for the rest of the economy.

However, the interviews with senior executives of the finance businesses suggested that they did not foresee any problems getting the people they need, provided Jersey's population policy remains flexible.

Therefore, the States' population policy and how it is enforced is very important. Jersey's past experience of net immigration has averaged around net +700 people a year in recent decades, whilst the population policy intent, particularly in more recent years, has been to allow net immigration of about half of this. For example, the current interim population policy 2014-2015 is for net +325 people a year.

If these businesses cannot meet the demand for financial services because of supplyside restrictions, for example, not being able to employ skilled and experienced people locally or internationally, this will mean that spare capacity

[11] International Monetary Fund 'World Economic Outlook' October 2014 and update January 2015.
[12] US Congressional Budget Office, August 2014

is used up more quickly and that the economy arrives at its potential output level earlier (and at a lower level) than 2018.

Office capacity is also an important consideration. The interviews with the senior executives in the finance sector indicated that the availability of office space should not be a limiting factor on finance sector businesses in the immediate future.

The extent to which the finance sector is able to attract the people it needs from within the local labour force and through inward migration is critical as the demand for international financial services recovers. If this is limited by availability of skills locally and/or population controls then it will mean that Jersey's level of potential output will be lower than currently expected and that the economy experiences capacity constraints more quickly.

2. UK interest rates

The expectation that spare capacity in the UK's economy will be used up over the next few years is closely linked to the expectation that UK interest rates will gradually increase to a neutral rate which is lower than before the financial crisis.

During the interviews, senior banking sector representatives were asked how they thought an increase in interest rates, in particular the UK interest rate increasing gradually to about 3% by 2018, would affect business activity, employment and profits. The main points were:

1. There should be a positive impact on profits as interest rates increase.
2. The impact will probably be smaller than the downward impact when interest rates fell.
3. The first rate rises are likely to be passed on to depositors, limiting any impact on profitability.
4. The amount of business activity is expected to remain the same and so have no impact on employment.

It is worth noting that since the interviews, the market expectation for UK interest rates has fallen such that they might reach 2.0-2.5% by 2018[13] rather than 3%. When interest rates will increase is uncertain, as is the pace at which they will rise. If the latest expectation comes to pass, this could reduce the positive profit impact described above, although this will also depend on what

[13] Bank of England Inflation Report, November 2014. Chart 1.1

the change in interest rate reflects about trends in the local and global economies.

This suggests that the financial services sector's output (in particular, the banking sub-sector's profit) is more likely to be closer to trend level when UK interest rates have increased to the new neutral which is currently expected to be by 2018.

Non-finance sectors

The non-finance sectors of the economy include a wide range of activities carried out by the public and private sectors. In the private sector, the sectors include for example, 'wholesale and retail', construction, 'hotels, restaurants and bars', agriculture and 'transport, storage and communications'.

Future demand in these sectors of the economy will be driven by domestic and export demand.

Domestic demand for Jersey's goods and services is made up of demand from the public sector, businesses operating in and from people living in Jersey.

The finance sector's demand for goods and services from Jersey's businesses (for example, IT, marketing, office supplies and recruitment) and those that work for the finance sector is a key component of domestic demand. Therefore, the finance sector's recovery discussed earlier will be an important factor for the non-finance sectors of the economy.

The public sector's demand for goods and services locally and the number of people it employs also has an important impact.

Export demand is made up of demand for Jersey's goods and services (like agricultural or retail goods) from businesses and people living outside of Jersey, including those who visit Jersey. Export demand will gradually improve as external economic conditions return to their longer term trend levels.

The non-finance sectors appear to have spare capacity to help meet this demand as it increases, as illustrated in the last section (Figure 2.12).

Productivity growth across all sectors of the economy during the recovery will be an important factor which affects how quickly the economy reaches its capacity. If productivity growth does not improve, then the likelihood that spare capacity is used up sooner increases.

This suggests that the non-finance sectors of the economy should reach potential output around the same time as the finance sector, provided there

are no bottlenecks in particular sectors in the meantime – for example, a lack of people with particular experience or skills, or availability of suitable land or working space.

One area of concern in this regard is the expected future demands and capacity of the construction industry, particularly in light of the significant public infrastructure projects that are going to be built over the next ten years alongside any changes in private sector activity.

The Panel has previously recommended that the States should manage how their construction projects are delivered to put less strain on local capacity, if capacity constraints start to be felt. This will reduce the risk that the construction sector overheats and leads to inflationary pressure in the economy.

The Panel's assessment is that Jersey's output is currently about 5% below its potential level and improving economic conditions locally and internationally are likely to lead to spare capacity in Jersey's economy being used up by about 2018. This is a central estimate and there are risks that spare capacity could be used up more or less quickly.

Uncertainties with the assessment of spare capacity

There are five very different uncertainties that may affect how much spare capacity there is in Jersey's economy (supply factors) and how quickly it will be used up (demand factors). The first two are the demand factors and the last three are the supply factors.

1. A faster or slower global economic recovery will affect how quickly spare capacity is used up.
2. Higher or lower demand for financial services in Jersey. For example:
    - The impact of UK banking regulations (e.g. ring-fencing) on the banking sector may be better or worse than expected.
    - The prospect of an EU referendum in the UK in 2017 could cause uncertainty in the UK and Jersey.
3. If there is more or less spare capacity than expected in the local labour market and the ability of businesses to employ the people they need from overseas.
4. The extent to which productivity improves during the recovery.

5. If there is more or less spare capacity than expected in other resources such as suitable land and buildings required to expand business activity during the upturn.

A different future path of UK interest rates might also impact when spare capacity is used up in Jersey's economy, although changes in the interest rate are only expected to affect banking profits and not to have significant knock-on effects on the finance sector's wages or demand for local goods and services.

Future development will enable the Panel to reassess, in future reports, the amount of spare capacity in Jersey's economy and how quickly it is being used up.

The two most important uncertainties are the ability of businesses to employ people locally and internationally, and the speed of the global economic recovery.

The Panel's central estimate is that spare capacity will be used up by 2018. However, it could be sooner, or later, depending on how these uncertainties come to pass. Therefore, the States should build flexibility into the next Medium Term Financial Plan so that fiscal policy can adjust as economic developments unfold.

2.6 Finance sector profit and employment expectations

The finance sector's longer term profit and employment expectations have been assessed from information gathered in meetings with finance companies and Business Tendency Survey results.

The current market expectations are that interest rates will gradually increase to about 2.0-2.5% by 2018, which means that the finance sector's profit expectations might now be slightly lower than at the time of the interviews, other things being equal.

In particular, the banks were asked about their taxable profit expectations, because this profit measure is most relevant to the company income tax paid by the finance sector.

However, this is not necessarily the same as the measure of profits (gross operating surplus) which captures the value added of these businesses (along with employees' wages) and which is included in GVA calculations. This means that company taxable profits may not grow in line with the profit component of GVA in 2014 and 2015. GVA is expected to grow more quickly than the company income tax base, which may be subject to annual

fluctuations or one-offs which do not affect the GVA measure.

Figure 2.13 shows the impact of these assumptions on future banking sector profits. Banking sector taxable profits could fall slightly in real terms before returning to real growth from 2016 to 2018. Overall, this would mean that there is expected to be no real growth in taxable profits over the 2014-2018 period.

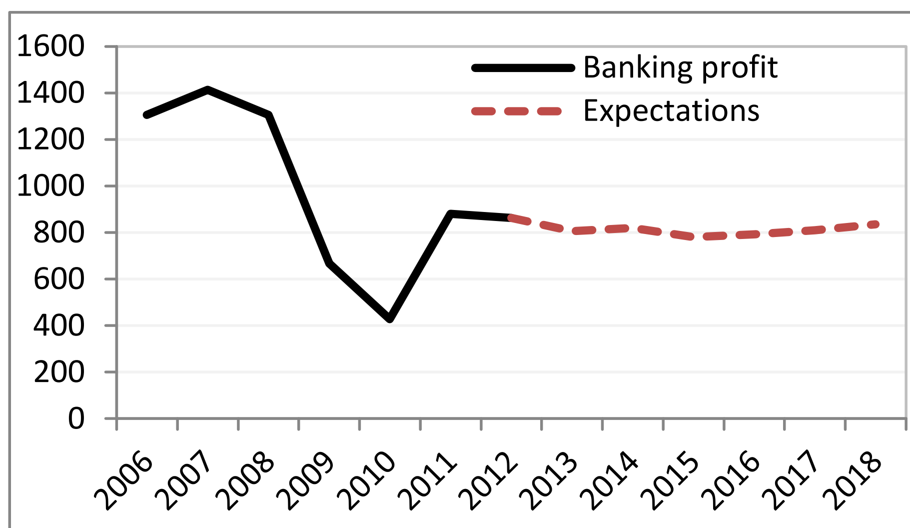
Figure 2.13

Banking sector taxable profit expectations

£m, constant 2013 prices

Sources: States of Jersey Statistics Unit, Economics Unit calculations.

Note: Taxable profit is 'net profit on which Jersey tax is levied'



The main reasons for this are that banks think that business activity will pick up over the next few years as the global economy and demand for international financial services recovers and that rising interest rates will have a positive impact on profitability levels. However, there are a number of trends that might dampen these trends in the initial years, including:

- Higher costs, some one-off, regarding: organisational change, regulatory requirements (such as the ring-fencing requirements in the UK – Box 1) and more compliance activity, for example.

- Initial rises in interest rates may be passed on to customers which will mean that profits are not impacted to the same degree as with subsequent interest rate rises.

The expected lack of a rebound in banking sector profits could also partly reflect the significant amount of uncertainty these businesses face at the moment.

The banks interviewed generally expected to either employ about the same number of people over the next few years, or increase employment slightly, although the types of jobs carried out may change slightly at the same time (for example, less clerical work and more compliance work).

This also suggests that business activity and employment in the finance sector

(particularly banking) might not recover to its pre-crisis levels, either. A key factor is the extent to which the finance sector benefits from the expected improvements in the global economy (and associated rise in interest rates) as discussed earlier.

Box 1: UK banking sector reform

The UK, following recommendations made by the Independent Commission of Banking (ICB), is introducing significant reforms to its banking sector to make banks more resilient to shocks and to reduce the severity of future financial crises.

Some of the banks in Jersey will be affected by the UK's banking sector reforms and in particular, the introduction of a ring-fence which separates the retail parts of the business (which includes the deposits of people and small businesses) from the rest of the banking business where risks are perceived to be higher.

The impact of these changes and what they could mean for the Jersey part of the business was discussed during the interviews with the finance sector. One of the main consequences of the UK's reforms is that the banking activities which take place in Jersey (and the other Crown Dependencies) – both retail and other banking activities - will remain outside of the ring-fenced retail banking activities in the UK.

The implications of this for Jersey's banks vary from bank to bank. The banks were generally positive about their prospects and opportunities after the ring-fencing from 2019 onwards – particularly those with the most global activity outside of the ring-fence. However, it is not possible to say whether these changes will mean that the finance sector as a whole will be more or less profitable in the future.

The banking groups submitted their strategic plans for the ICB's reforms (including their plans for their Jersey businesses) to the Prudential Regulation Authority (PRA) early in January.

The PRA has advised that plans vary and will take some time to process. Once approved, greater clarity will emerge on the future structure of the Jersey businesses affected. However, in addition to the ICB reforms, the interviewed banks expected more international political pressure and regulatory change, and the challenges that will result from these in the future.

The impact of the changes that they expect to take place in their business over the next few years is reflected in their future profit and employment expectations up to 2018. However, beyond 2018 - the medium and longer term - the growth in banking sector profitability (and wider productivity) is very difficult to forecast with any certainty.

2.7 Economic growth forecast

The Panel has forecast economic growth (in real terms) up to 2017 with the economy returning to its estimated trend rate of growth afterwards. This is because the Panel expects spare capacity will be used up in 2018, although it is possible it could be used up earlier or later.

The forecast up to 2017 is based on recent developments, including data on Jersey's economy, survey findings, market interest rate expectations and information from interviews with financial services businesses. It is also based on States' fiscal policy not changing significantly. If significant changes are proposed, this might affect the forecast (Figure 2.14).

The forecast is for 1.6% (real growth) in 2014 and 2.0% growth in 2015 with a central range of 1% either side and 1.5% either side respectively. This is slightly stronger than the Panel's last forecast given that recent local developments have been slightly better than expected.

The forecast for 2016 and 2017 is for a similar rate of growth (1.2% and 1.7%) with a central range of 1.5% either side.

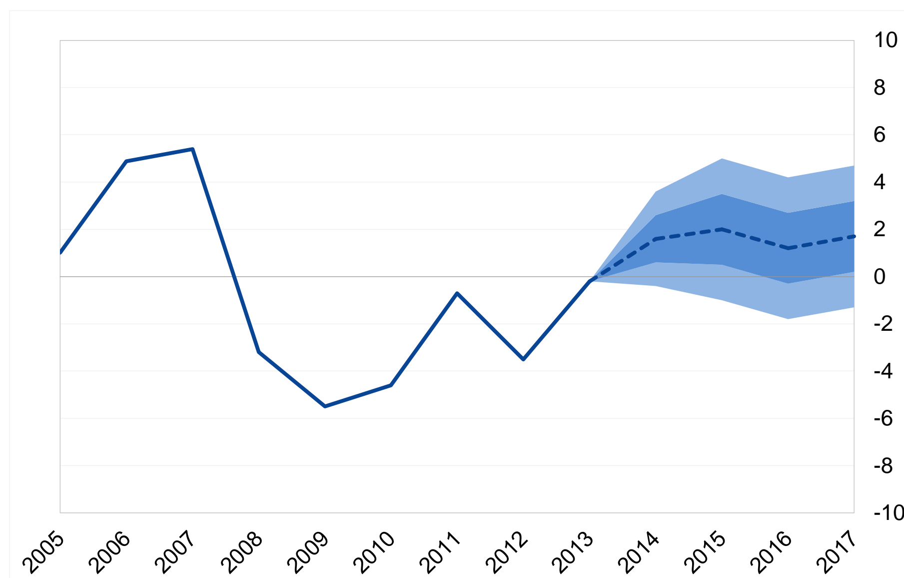
The dark blue area around the central growth forecast represents a more likely range around future growth rates. The light blue area represents a less likely, but still possible, range of growth rates that could occur.

Figure 2.14

Economic growth forecast

% change in GVA on year before

Sources: Panel judgement; States of Jersey Statistics Unit



The economic assumptions that underpin the central scenario are summarised below.

The Panel have agreed to endorse the economic assumptions that underpin the next set of financial forecasts by the Treasury and Resources Department.

Figure 2.15 shows the best estimates at the time of this report. Given the uncertainty about local and global economic trends it would be advisable for the Panel to confirm these assumptions again before the next forecasts are finalised.

Figure 2.15

Central economic assumptions

% change year on year unless otherwise stated

Note: All changes are in nominal terms unless indicated as real

Sources: Economics Unit calculations and Panel judgement

	Outturns					
	2012	2013	2014	2015	2016	2017
Real GVA	-3.9	0.0	1.6	2.0	1.2	1.7
RPI	3.2	1.5	1.6	1.5	2.5	3.0
RPIY	3.0	1.5	1.6	1.5	2.5	2.7
Nominal GVA	-0.9	1.3	3.2	3.5	3.7	4.4
Company profits(a)	-0.7	1.8	2.5	3.4	3.9	4.5
Financial services profits	-2.1	1.0	1.8	3.3	4.3	5.1
Compensation of employees(b)	-1.1	1.6	3.7	3.5	4.0	4.3
Employment	-0.4	-0.5	1.0	1.0	0.5	0.5
Average earnings	1.5	2.2	2.6	2.5	3.0	4.0
Interest rates (%)	0.5	0.5	0.5	0.6	1.2	1.5
House prices	-1.4	-1.3	1.0	3.0	4.0	5.0

(a) Gross profits for all companies, including traders.
(b) The number of employees multiplied by the costs of employment (wages, bonuses, pensions).

2.8 Economic growth from 2018 onwards

The trend GVA growth analysis in subsection 2.3 concluded that analysis of past trends suggests there is a real risk that the trend rate of growth in Jersey could be broadly flat in future.

However, there is significant uncertainty and the trend rate of growth could be slightly positive or negative depending on actual trends in productivity in the finance and non-finance sectors of the economy.

The Panel's view is that there is not sufficient evidence to assume a trend rate of growth in Jersey that is significantly positive.

For these reasons the Panel advise that future fiscal trends are tested against a trend rate of growth of about 0% over future economic cycles. This recognises that there is a real risk this could be the case for Jersey in future years.

If the Panel believes that there is evidence to suggest a higher trend rate of growth based on future economic performance or new evidence this will be highlighted in future reports.

It is clear that one of the key determining factors will be whether Jersey is able to raise the level of productivity growth in future years, relative to that seen in recent years. It is important that the States focuses on how it can improve its own productivity and facilitate productivity improvements in the wider

economy.

Figure 2.16 shows the Panel's central GVA forecast from 2014 onwards based on the central economic growth rates in Figure 2.14 (blue dashed and dotted lines).

The Panel's estimate of Jersey's potential output during the last economic cycle (2004-2013) is shown by the red dashed line. This is the level of output consistent with full non-inflationary utilisation of resources.

Comparing actual GVA and potential GVA in 2013 would suggest that the Jersey economy remains significantly below potential. However, it is possible that the financial crisis, and its implications for businesses in Jersey, has resulted in a larger one-off destruction of productive potential in the economy and that potential GVA in 2013 is lower than indicated. If this is the case, the lines in Figure 2.16 would move down, indicating a smaller amount of spare capacity.

The red dashed line from 2014 onwards shows the Panel's estimate of Jersey's future potential output and trend growth to 2019. These estimates are uncertain, as indicated by the red arrow.

The Panel expects spare capacity in Jersey's economy will be used up in 2018, although it is possible it could be used up earlier or later. This is where the blue GVA central forecast line and red potential GVA lines meet.

Jersey's economy could be operating below potential (i.e. have spare capacity) by 2018 if economic growth is weaker than expected over the next few years (for cyclical reasons), and/or there is more spare capacity in the economy than currently expected.

Jersey's economy could be operating above its potential (i.e. have no spare capacity and a build-up of inflationary pressure) by 2018 if the economy performs more strongly than expected over the next few years (for cyclical reasons), and/or there is less spare capacity in the economy than currently expected.

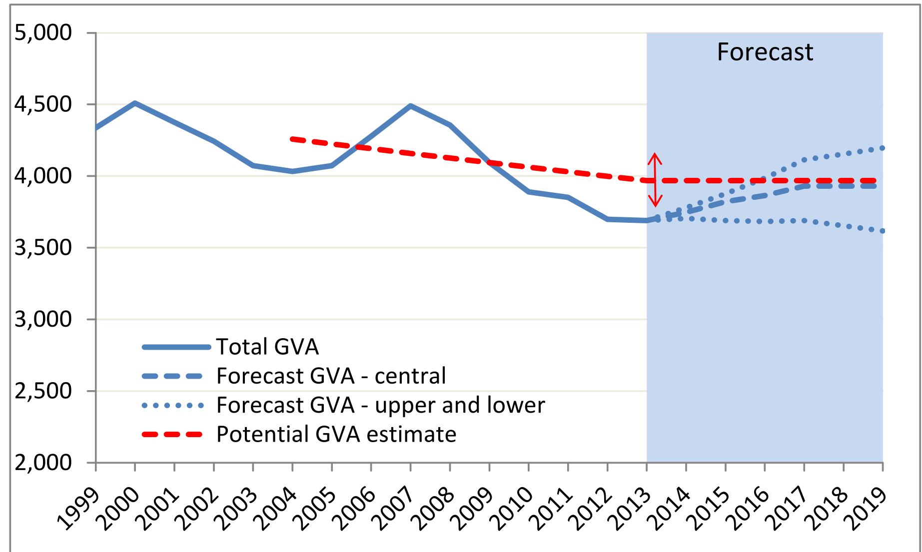
Figure 2.16

Central GVA forecast and potential output estimates

£m, constant 2013 prices

Sources: Economics Unit calculations and Panel judgement.

Note: The y-axis does not start at 0.



Section 3 – Advice and recommendations

3.1 Structural deficit

The Panel now considers that there is a significant probability that there is a structural deficit. New analysis presented in the report and an update of the economic context lead the Panel to assess that spare capacity in Jersey's economy will used up by around 2018.

Based on the current structure of taxation and expenditure, it appears that there is a significant risk that there is a structural deficit. Current economic trends will not lead to sufficient growth in tax revenue for the States to balance its budget by 2018 or 2019.

The size of the structural deficit will depend on what expenditure levels are set over the course of the next MTFP and how revenue growth develops. Political decisions will be required to determine the desired path of expenditure and taxation and this will allow a more certain assessment of the extent of any imbalance in States' finances.

The Treasury and Resources Department will update the financial forecasts in February and March. This exercise is critical to determining the size of the structural deficit. **The central economic forecast and the range in this report should be used to forecast States' revenue over the course of the next MTFP.**

Our central expectation is that the size of the deficit in 2018/2019 will illustrate the likely scale of the underlying structural deficit.

3.2 Adjustment process

Balance economic recovery and fiscal sustainability

The States should bear in mind the prevailing and expected economic trends (and the uncertainties) before deciding its plan to deal with the structural deficit.

Our previous advice in the 2014 Annual Report was:

> *If there is a structural deficit in the public finances, the States should plan to address it once the economy has recovered. Structural changes in taxation, or expenditure programmes are easier to introduce once the economic recovery is fully established. This will be an important consideration for the next MTFP.*

Equally, it is important that the States develops a plan that is likely to put the

States' finances back on a sustainable footing within a reasonable amount of time.

The States should try to balance supporting the economic recovery with addressing the structural deficit. This may require the States to use the strength of its net asset position in the early stages of economic recovery (for example topping up the Stabilisation Fund from one of the States' other reserves so that it can in turn be used to cover any initial deficits).

Box 2: The States' net assets position

The States' finances are in a strong position because the value of its assets (particularly its investments) outweighs its liabilities.

Figure 3.1 shows a snapshot of the States' financial position at the end of each year between 2008 and 2013. This includes the assets and liabilities of all the States' funds, including the Strategic Reserve and Social Security Funds.

It shows that the States' net asset position has improved from £4.7bn to £5.6bn (in real terms) over this period.

However, care is required in interpreting what this measure shows about fiscal sustainability, as there are significant limits. It does not include the present value of future spending that the States will wish to undertake, for example on health, education and pension provision. This measure also excludes the States most valuable financial asset – its ability to raise taxes in the future.

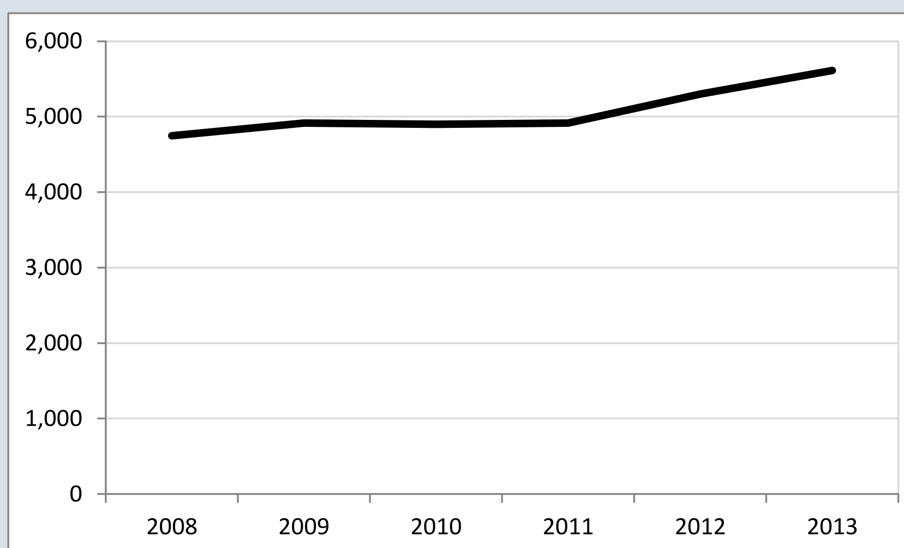
Figure 3.1

States' assets less liabilities

£m, 2013 prices

Note: Time series deflated by RPIY.

Source: States Treasury Department



Box 2 (continued): The States' net assets position

Two main factors explain this increase (Figure 3.2):

1. **An increase in the value of investments,** most of which are held in the Strategic Reserve and Social Security Funds.
2. **An increase in the value of fixed assets**. This is mainly due to revaluations of the existing stock (for example, reflecting higher replacement costs) rather than adding to, or improving the fixed assets stock.

The value of the States' other assets and liabilities has remained fairly stable over the period.

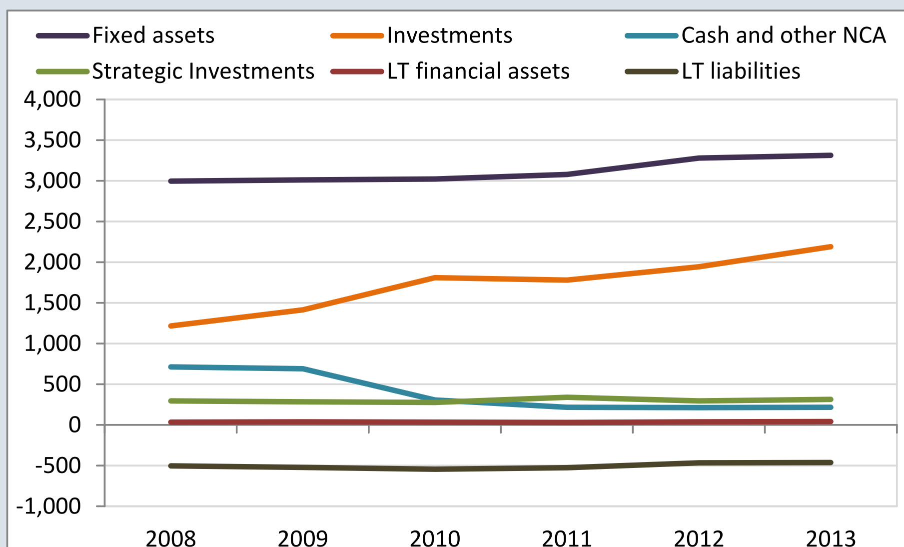
Figure 3.2

States' assets less liabilities breakdown

£m, 2013 prices

Note: Time series deflated by RPIY. NCA is net current assets (current assets less liabilities).

Source: States Treasury Department



Fixed assets includes the States' land, buildings, social housing and networks including the road network, the foul and surface water network and sea defence network.

Strategic investments include the States controlling investments in the following utility companies: Jersey Electricity plc, Jersey New Waterworks Company Limited, JT Group Limited and Jersey Post International Limited.

Long-term liabilities include public sector pension liabilities and the value of currency in circulation.

Measures to address the structural deficit

The type of measures proposed to fix the structural deficit will be important as well the timing.

Fiscal measures like large cuts in public expenditure or capital projects that could have a significant impact on the economy in the early stages of economic recovery should be avoided.

On the other hand, there may be some transformational projects that could improve the productivity and efficiency of the public sector in the future. Such projects, even if they require upfront investment, should not be delayed to help reduce expenditure or give more short term flexibility to fund a structural deficit.

It is important to identify and implement measures to improve the efficiency of the public sector. This will enable public expenditure to be directed towards investment projects, and also potentially mean resources (particularly employment) can be shifted to the private sector as the economy recovers. Otherwise the risk is that public services would need to be cut, or taxation increased.

The States should always be looking for ways to improve its efficiency and that of the wider economy, irrespective of the stage in the economic cycle. Particularly in the public sector, such changes may be more readily achieved now, especially if the alternatives are to cut expenditure on public services or to increase taxes.

When should the structural deficit be closed?

If the size of the fiscal adjustment required is large enough to threaten the economic recovery or the longer term growth potential of the economy, then there would be a case for adjusting the public finances and closing the structural deficit more slowly.

However, the Panel will be able to advise in subsequent reports whether a longer period of adjustment is justified.

The States central scenario should be to plan to address the structural deficit between 2018 and 2019, provided that this will not put the economic recovery at risk.

Dealing with uncertainty

As previously discussed, there are uncertainties which make it difficult to predict the size of Jersey's structural deficit and when exactly it should be fixed. The

two main uncertainties are:

1. Economic growth may be stronger/weaker than expected.

2. There may be more/less spare capacity in the economy than expected.

The next MTFP should be underpinned by a flexible plan, including contingency plans, to address the structural deficit more or less quickly, according to the economy's performance.

These uncertainties may require a change of tack in either addressing the structural position more quickly or delaying action relative to the central scenario.

The plan for addressing the structural deficit should be accelerated if economic growth is faster than expected and/or spare capacity is less than expected. It should also be noted that these conditions may impact on the size of the structural deficit making it necessary to reassess its size before adjusting plans.

If economic growth is slower than expected and/or there is more spare capacity than expected, the plan to address the deficit should be slowed down. This would require flexibility in the reserves position and being ready to use more reserves to fund the extra deficits until they are fixed, as fiscal tightening to tackle the current deficit would put the economic recovery at risk, potentially making the structural position worse.

There is also a risk the States could mistake a cyclical improvement in public finances for a permanent improvement and think that the structural deficit is smaller than it is. In this instance, the States should not scale down the plan to deal with the structural deficit, or otherwise take measures to reduce States' revenue or increase States' expenditure.

Over the next few years, developments in Jersey's economy (economic growth, inflation, unemployment etc) and more widely (global growth, international financial services developments) will shed light on the structural fiscal position.

Future FPP advice will be important in determining what the right approach is, but the States will need to build sufficient flexibility into their plans to be able to adapt to that advice. If plans are too rigid at this important stage in the economic cycle, then this will increase the risks that in coming years the States inadvertently sets fiscal policy which makes economic conditions worse rather than better.

Future advice from the Panel should be able to inform and refine the adjustment process.

3.3 What aspects of the public finances should be balanced?

The key components of States' income set out in Budget and MTFP documents are income tax, GST, impôts, stamp duty, 'other income' and the island rate. Other income is mainly dividend income from States-owned utilities and the States of Jersey Development Company. It also includes some smaller items such as returns from the Jersey Financial Services Commission (JFSC), interest on the Consolidated Fund balance, returns from States Trading operations (e.g. harbours and car parks) and fines.

This income should be balanced against expenditure to provide public services from day to day – which is included in States' net revenue expenditure (plus central allocations which include amounts set aside for pay awards, restructuring, contingencies and growth in department expenditure).

The estimated expenditure required to maintain and renew States' assets (for example, the roads and sewerage infrastructures, and government buildings and equipment) should be included. This is a measure of depreciation that ensures the capital stock that helps to provide public services does not deteriorate over time and lead to an overhang of unfunded costs. An estimate of this type of expenditure should be included rather than the capital allocation measure as set out in Budget and MTFP reports.

Also, one-off receipts of income should not be included in the calculation. One – off items of expenditure should not be included either, provided they can be clearly demonstrated as being one-off. Judgements regarding whether income or expenditure is treated as one-off should be clearly stated.

Once Jersey is on a sound path to structural fiscal balance, the States should aim to balance its tax revenues and current expenditure, including an appropriate allowance for depreciation, over the economic cycle, recognising that in any one year, a deficit or surplus may be appropriate given the economic conditions.

This is the measure of the public finances that should be in balance in 2018 and 2019, given that Jersey's economy is expected to be close to full capacity at that time.

Investment in new and better public infrastructure can help people and businesses to become more productive in the future. This expenditure should not be included in the deficit/surplus calculation but considered more broadly in terms of what it means for the States' finances and overall net asset position.

For example, selling one type of asset to invest in other assets does not impact

on the sustainability of States' finances although there may be different types of returns e.g. financial versus other economic and social benefits.

It will however, be important to monitor the ongoing balance between States' assets and liabilities, understand the drivers of any changes and the implications for the sustainability of States' finances.

The amount of States' capital expenditure in any year is not included in the calculation of what budget should be balanced, However, the economic impact of capital expenditure is extremely important for managing the level of demand in the economy and the economic impact of the States' fiscal position in any one year.

New public sector capital expenditure should be treated separately and its merits based on its total economic costs and benefits and hence its impact on the States' net asset position. The funding of such investment is a secondary consideration that will depend on the cost of alternative sources of finance (e.g. borrowing from reserves or the market).

Given the strength of Jersey's public sector net asset position, financing issues should not be a reason to delay or postpone important investment, particularly that which supports productivity improvements and competitiveness.

3.4 Longer term outlook

The challenges of a population living longer

The States should aim to balance the public finances in 2018/9 - the end of the next MTFP period. However, this is unlikely to be enough to maintain the structural balance on the public finances in the longer term, given the demographic changes that are going to take place.

The fact that people are now living longer will have significant consequences for Jersey and the States' public finances. This is not new - it is a development that has been known about for at least ten years.

The impacts of an ageing population will be gradual - taking place over the next twenty years or so. The States will need to make sure that it can make any necessary policy changes in time to address the pressures that will emerge.

The important demographic changes expected are:

- Pension age population increases from about 15,000 now to about 24,000 by 2035. (Note that this projection includes the impact of the increase in the pension age to 67 by 2031. The pension age population

projection would be about 27,000 people by 2035 without this change.)

- Working age population changes depends on approach to net immigration from now to 2035 (Figure 3.3).

- Together, these changes will mean that the number of working age people for every pension age person will fall from 4 people to 3 people by 2035 (under net +700) and will fall by more with lower amounts of net inward migration.

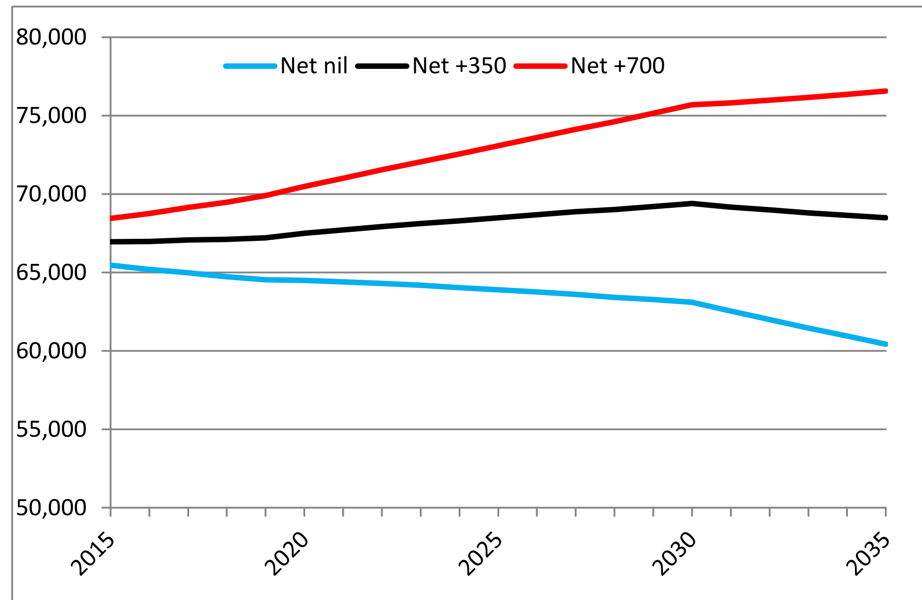
Figure 3.3

Working age projections for three net immigration scenarios

Number of working age people

Source: Statistics Unit population projections from 2012 onwards

Note: The y-axis does not start at 0.



All other things equal, this will mean that the public finances will move out of balance over the next 20 years, as spending in areas such as health and the state pension increases faster than revenues.

Jersey's future economic growth rate, and in particular its future productivity growth (across the private and public sectors) can play an important role in raising Jersey's economic performance and helping to keep the public finances in balance, despite the underlying demographic changes.

Productivity growth in the future is also important because it influences quality of life and Jersey's competitiveness. However, as described in section 2.3, productivity growth since 2000 has been disappointing.

Figure 3.4 shows by how much States revenue and expenditure could increase, in percentage terms, under current States policy and commitments, as Jersey's population ages, on the basis of net +350 inward migration.

The starting point for the States revenue and expenditure projections is 2015. They are based on the MTFP figures for 2015, adjusted for any significant

changes in States policy since the MTFP. These projections are largely made up of tax revenues, departmental expenditure and capital expenditure. The projections do not include the Social Security Funds' revenue and expenditure, although the supplementation transfer is included.

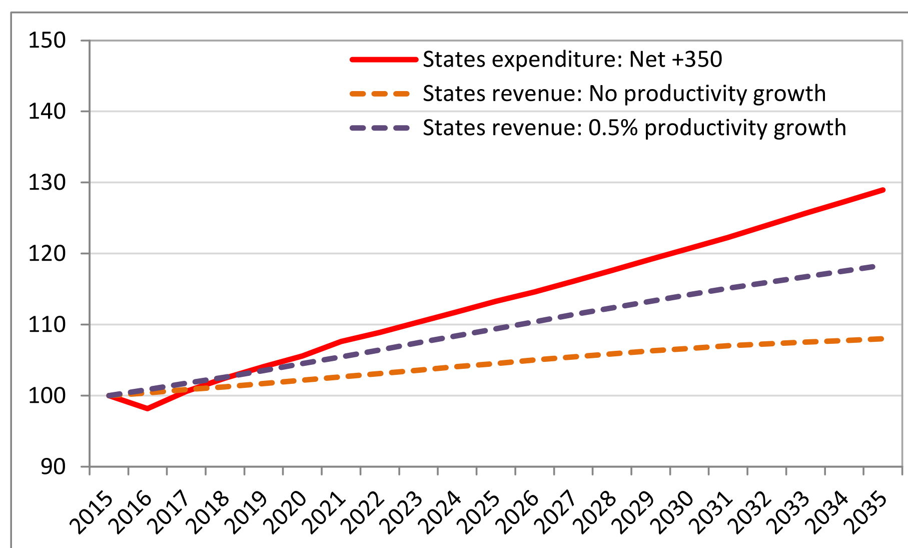
The two revenue projections illustrate two rates of productivity growth (no growth a year and 0.5% growth a year) to show how important productivity growth will be.

Figure 3.4

Change in revenue trends compared to expenditure, net +350

Index 2015=100

Source: Economics Unit calculations



The States should test fiscal plans against the basis that there may be no productivity growth over the next 20 years or so and understand what the implications of this will be for Jersey and the States' finances.

In the Panel's view this highlights the importance of improving Jersey's productivity performance. Productivity might grow more quickly than this with the right government policies and improvements in the public and private sector. However, there could also be developments, particularly for Jersey's finance sector, which leads to further falls in productivity in the future.

Clearly, if productivity continues to decline into the foreseeable future, then the pressures highlighted in the chart above, other things equal, would be even greater.

The States should develop a strategy for managing the fiscal consequences of an ageing population.

The challenges of the ageing society and the risks about future trend rates of economic growth require action now to develop a clear strategy for raising productivity (in both the public and private sectors) and competitiveness in the Jersey economy in the medium-term.

International financial services environment

There may be further challenges to international financial services which would adversely affect Jersey's finance sector (e.g. international regulatory changes, another global economic crisis) or other developments which could lead Jersey's finance sector to become less competitive. During the finance sector interviews, the consensus was that Jersey should remain competitive in future but there will be increasing competitive pressure.

Structural change away from financial services into other parts of the economy which are less profitable and have less well paid jobs, would move the public finances out of balance.

The Panel will continue to review and assess any developments that might affect Jersey's finance sector in the future and advise whether they are likely to affect the structural position of the public finances.