Jersey's Fiscal Policy Panel Annual Report

October 2011 Update

Key points

Economic developments

- The global economic outlook has deteriorated markedly since the Panel published its Annual Report in July. Future expectations for global economic growth have been revised downwards and the speed and extent of global recovery is now much more uncertain than before. This is likely to hold back Jersey's recovery, although it is hard to quantify the effects.
- Recent data would seem to confirm the Panel's view that Jersey's economic conditions were improving in the first half of this year. However the recently published September Business Tendency Survey shows the impact of global developments. There was a marked deterioration in indicators of profits and optimism in the finance sector compared to three months previously. Together with the deteriorating international outlook this suggests that prospects for growth in measured activity in the Island in 2012 have been reduced.
- The Panel's central expectation remains that Jersey will record modest growth of 0% to 3% for 2011. But the Panel has revised its central estimate for 2012 down to -2% to 2% with the risks weighted to the downside.
- The Vickers report on the UK's banking sector recommends further regulatory reforms to promote financial stability and competition. The eventual changes could have long-term effects on Jersey's banking sector and will be considered in more detail in the next report. This adds to the uncertainty for the longer term economic outlook.

Public finances

- There are only minor differences between the overall fiscal position presented in the draft 2012 Budget and that presented previously in the draft 2012 Business Plan. The underlying financial forecast for income and expenditure - which the Panel commented on in its July Annual Report - is unchanged. The financial situation is therefore still very tight.
- The Panel believes that recent international economic developments and their implications for the local economy increase the downside risks to the fiscal outlook, although 2011 may turn out better than expected.
- The 2012 Business Plan returned £4.3m more to the Consolidated Fund from unspent Pandemic Flu and fiscal stimulus provisions than was proposed in the draft Plan. Of this, £2.3m was used to fund one-off expenditures.

- Although the Consolidated Fund balance is now expected to be £2m higher from the end of 2012, the balance is still expected to be extremely tight in the next couple of years before recovering to £22m by 2014.
- The balance in the Stabilisation Fund is projected to remain low at £10m throughout the 2012-14 period.
- The structural risks identified in the Annual Report remain. Namely:
    - One-off funding sources are being, and are planned to be, used to fund capital expenditure in 2012, 2013 and 2014. Although the individual capital projects they fund are one-off, they may still indicate a higher structural capital spending requirement that will need an ongoing revenue stream in the longer term.
    - A temporary transfer of £6m from the Health Insurance Fund will be used to offset ongoing expenditure by the Health and Social Services Department in 2011 and probably 2012. Until a longer term funding source is found this remains a structural risk.
    - The decisions not to proceed with all the FSR measures and not to progress with all the expenditure savings in education have not been reconsidered.
- The agreement by the States to amend the public finances legislation to establish a Medium Term Financial Planning Framework is welcome. The Panel will review its recommendation that money in excess of £20m in the Consolidated Fund should be transferred to the Stabilisation Fund in the light of the new provisions for contingencies and growth.

Recommendations

- Jersey should plan on the basis of a global recovery that will be more fragile and drawn-out than expected at the time of the July report.
- The increased downside risks to the public finances reinforce the need to remain focused on phased fiscal consolidation and financial stability in the medium term. The implementation of the Fiscal Strategy and Comprehensive Spending Review measures in Budget 2011 and the Business Plan 2012 provide an absolute minimum. Any decisions that dilute their impact on the longer term fiscal situation should be accompanied by compensating measures.
- The States should avoid making decisions in Budget 2012 that permanently reduce revenue or increase expenditure.
- There should be no transfers into or out of the Strategic Reserve.
- There should be no transfers out of the Stabilisation Fund at this stage and whenever possible the balance should be increased. If the global environment continues to deteriorate, to the extent that future tax revenues are undermined then the Stabilisation Fund should be used to fund any cyclical deficit. However, given the lags in the Jersey tax system that is unlikely to arise until 2013.
- The Panel does not recommend that the Stabilisation Fund (or other money) be used for further discretionary fiscal stimulus at this stage. However, should the economic situation deteriorate, the States should be ready to support economic activity without weakening States' finances. For example:
  - bringing forward already funded capital projects in the capital programme, or redistributing past capital project allocations to projects that are able to take place sooner.
  - speeding up the planning process for private sector projects already in the pipeline.
- Only if the above provide insufficient additional activity and global and local economic conditions show signs of further significant deterioration, should additional discretionary stimulus be considered, in which case it would probably be necessary to consider alternative sources of funding given the low balances in the Consolidated and Stabilisation Funds.
- Intra-year transfers from the Consolidated Fund that are used to fund one-off increases in capital expenditure, such as that which allows the investment in Clinique Pinel, should be made more explicit in the financial forecasts.

Section 1: Economic developments

1.1 Developments in the global economy

The global economic outlook has deteriorated markedly since the Panel published its Annual Report in July. Global economic growth has weakened mainly due to the impact of the unfolding sovereign debt and banking sector problems in the euro area. This has added further instability to financial markets already nervous about a lack of political direction from the US in dealing with its public finances and in the face of weakening US economy.

Emerging and developing economies have generally performed as expected, although there is a large variation across regions. Many of them, especially the oil exporters, have benefited from strong and buoyant commodity prices.

The International Money Fund (IMF) has revised down its growth expectations for advanced economies (from 2.4% to 1.7% for 2011 and 2.6% to 1.9% for 2012) and slightly lowered growth expectations for emerging economies. Consequently, global growth expectations have been revised downwards by an average of 0.5 percentage points for 2011 and 2012, before converging to the previous expectations of growth beyond this. The revision results in a path for expected world economic activity that is 1.3 percentage points lower by the end of 2012 (Figure 1.1).

Figure 1.1

International economic outlook has worsened since June

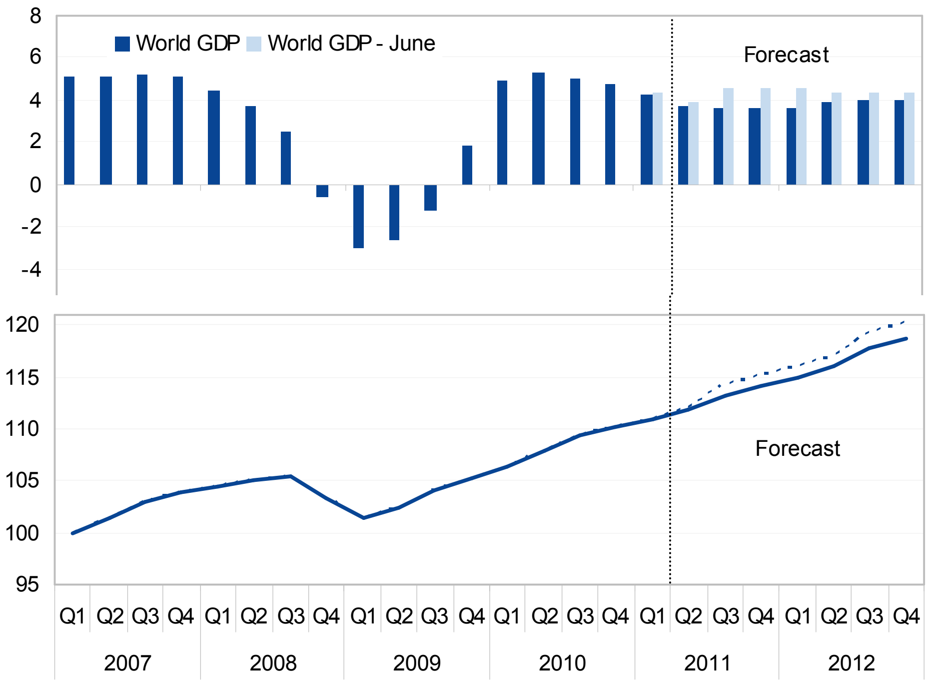
Top panel: % change in world GDP on previous year September 2011

Pale bars are June 2011 forecast

Bottom panel: index of world GDP, Q1 2007 = 100

dotted line is June 2011 forecast

Source: IMF World Economic Outlook, June 2011 Update and September 2011



These are significant revisions to the expectations for future global economic growth. Moreover, even after these revisions the speed and extent of global recovery is now much more uncertain than before and the risks have increased on the downside. A slower and more uncertain path to recovery for the advanced economies will impact on Jersey's recovery, although it is hard to quantify the effects.

The States should be setting fiscal policy on the basis of a slower and more drawn out global recovery than was expected in July and preparing for the risk that the outlook in Jersey could deteriorate further.

1.2 Jersey economic outlook

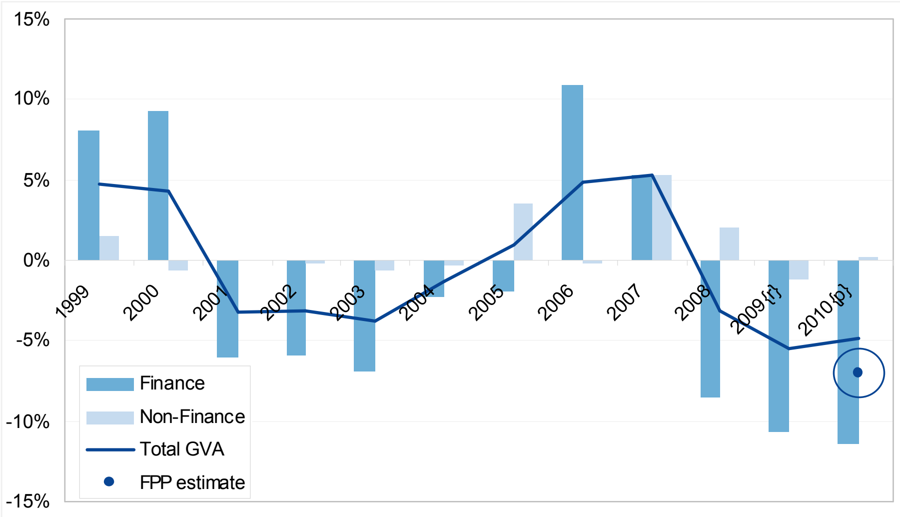
The level of economic activity in Jersey, as measured by Gross Value Added (GVA), fell by 5% in real terms in 2010. This fall is smaller than the Panel expected but of a similar nature and therefore does not by itself change overall expectations for the future (Figure 1.2).

Figure 1.2

A breakdown of Gross Value Added growth

Annual % change

Source: States of Jersey Statistics Unit



As expected, the sharp fall in financial services activity - in particular in banking profits - explains most of the fall recorded in the overall economy in 2010. The ongoing record low interest rate environment was the main factor responsible and to a much lesser extent, the fall in the sterling value of deposits from £165.2 billion to £161.6 billion between 2009 and 2010[1].

Across the non-finance sectors of the economy, GVA held up better, rising slightly in real terms in 2010. At the sectoral level, construction, other business activities and public administration recorded small real gains, whilst agriculture saw a fall in real terms.

The financial markets' expected path of the Bank of England base rate has changed significantly in the last couple of months, reflecting the latest views on medium term inflationary pressure in the UK in light of slower growth and international economic developments.

[1] Jersey Financial Services Commission: http://www.jerseyfsc.org/banking_business/statistics/growthinbanks.asp

Whilst a delay to an increase in interest rates will help to counteract some of the economic slowdown through the positive effect on consumer and business spending, it will have a more pronounced negative effect on Jersey through its banking sector. The longer interest rates remain low, the longer it will take for the margins made on deposits by the banking sector to recover.

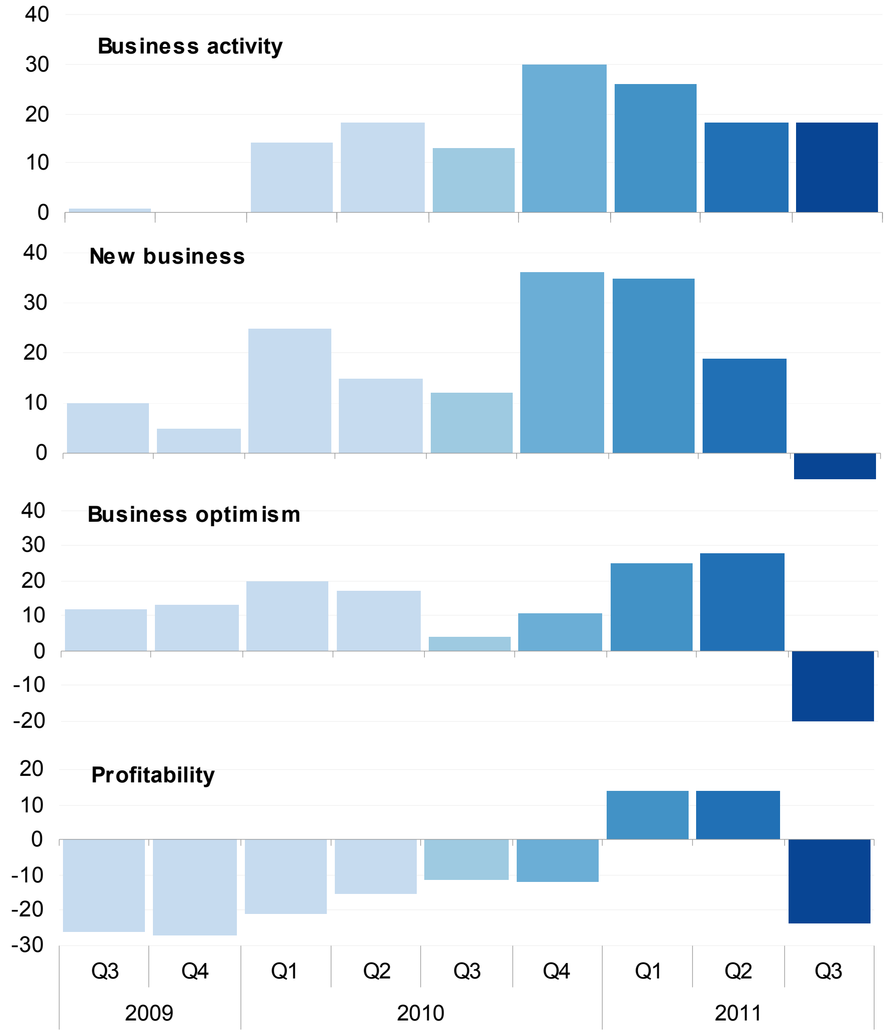
The September Business Tendency Survey provides the most recent insight into local business performance and expectations since the deterioration in the global economic outlook in recent months.

Figure 1.3

Financial services business tendency

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

Source: States of Jersey Statistics Unit



Financial services businesses continued to report increases in business activity in the last quarter, but some of the other indicators worsened significantly (Figure 1.3). The balance of financial services businesses (large and small) reported declines over the last quarter in the amount of new business, confidence about the overall business situation for the sector and total profits earned.

Despite this change in sentiment about performance in the last quarter, financial firms' future expectations for the next three months continued to remain positive for business activity (particularly for large financial firms, such as banks) although expectations about future employment were less positive than three months' ago (section 1.3).

For the non-finance sectors of the economy as a whole, the Business Tendency Survey findings were little changed (Figure 1.4). Within the total, many of the indicators for construction improved significantly and those for wholesale and retail marginally.

Since the Panel's Annual Report retail sales volumes have continued to grow on an annual basis with volumes in the second quarter up by 4% compared with the same quarter a year ago.

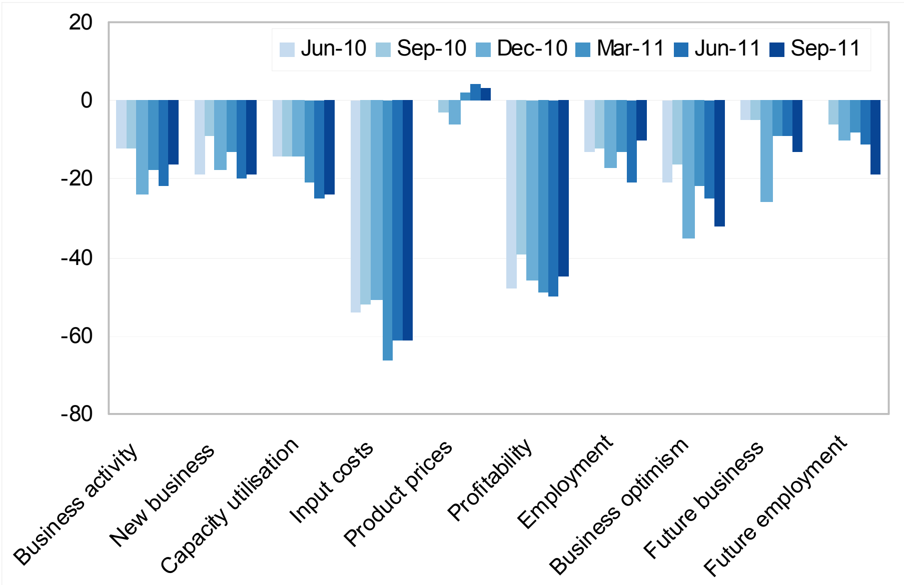
Should the actual performance of the finance sector decline once more, then this would be expected to affect the non-finance sectors' performance as well.

Figure 1.4

Non-financial services business tendency

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

Source: States of Jersey Statistics Unit



On 12 September 2011, the Independent Commission on Banking chaired by Sir John Vickers released its final report which recommended reform of the UK banking sector to promote financial stability and competition.

The Commission proposed that the retail banking activities of UK banks should be structurally separated from other potentially riskier banking activities and have higher capital requirements than has been internationally agreed.

The long term implications of this for Jersey's banking sector is uncertain but the Jersey Financial Services Commission are looking at this closely. The Panel will consider the outcome of this analysis in their next Annual Report.

1.3 Labour Market

There are clear indications that the local labour market has been weakened by the downturn, most notably with the rise in those unemployed and actively seeking work. However, the most recent employment number for June 2011 was stronger than expected, showing that businesses had started to increase employment.

Total employment in June 2011 was 740 higher than a year ago, and 280 higher than the last peak in June 2008. The increase over the last year was driven by the wholesale and retail sector and the finance sector recorded its first increase in employment for more than two years.

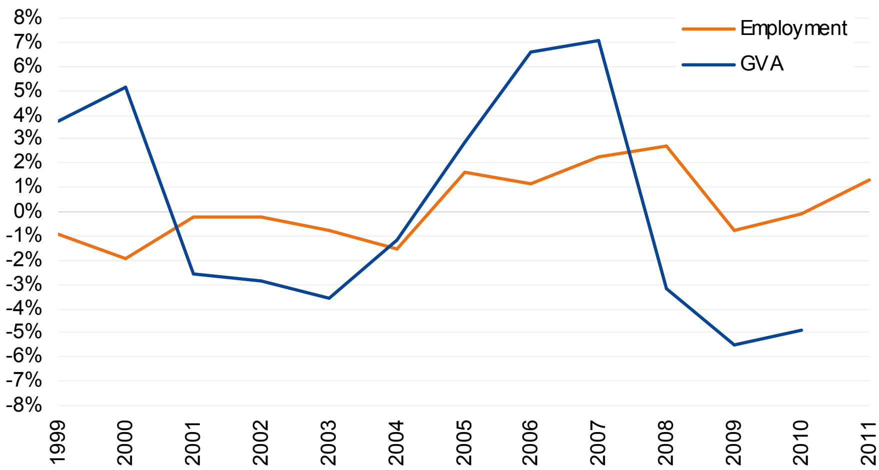
Changes in employment tend to lag behind changes in economic activity so whilst this recent news is positive, it does not reveal much about the future level of employment or economic activity (Figure 1.5).

Figure 1.5

Changes in employment and GVA

Annual % change in real GVA and in June headcount (public and private sectors)

Source: States of Jersey Statistics Unit



The shift in employment from finance to other sectors commented on in the last Annual Report remains. Finance employment in June 2011 was 12,820 (610 below its peak) and over 250 of the growth in part-time jobs since then has been concentrated in the wholesale and retail sector.

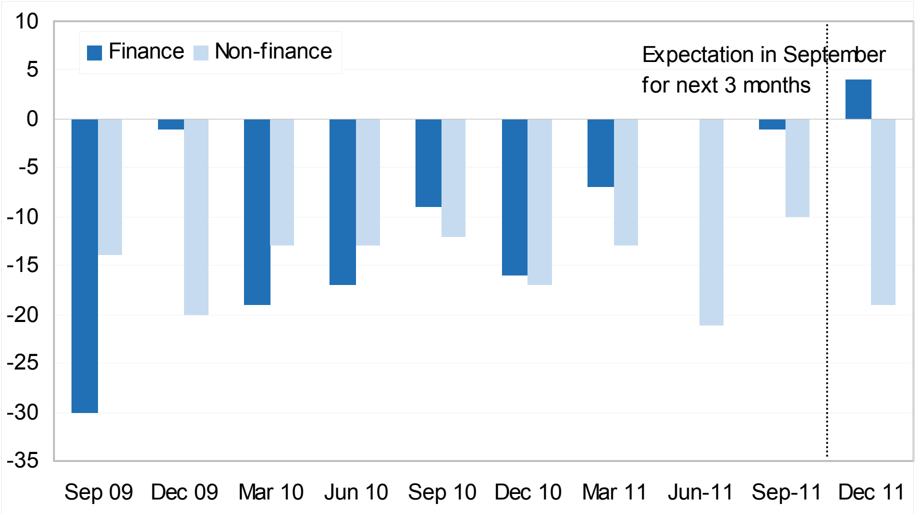
The September Business Tendency Survey showed a slightly more positive response for employment over the last quarter. However, looking forward firms were slightly less positive across all sectors about employment in the next quarter. There was a small positive net balance of finance companies expecting to increase employment and a large negative balance of non-finance companies expecting to decrease employment (Figure 1.6).

Figure 1.6

Employment trends in key sectors

Weighted net balance reporting increase in employment

Source: States of Jersey Statistics Unit



There are tentative signs that the numbers actively seeking work may have stabilised this year (Figure 1.7). Registered unemployment was about 1,200 in the first half of 2010, 1,300 in the second half of 2010 and appears to have levelled off at about 1,350 since April 2011. The International Labour Organisation (ILO) measure of unemployment (the percentage of economically active people who are unemployed) is a better indicator of the level of unemployment as not all of those looking for work will register as unemployed. In the summer of 2010 the ILO unemployment rate was 3% which corresponds to about 1,700 people (Figure 1.7).

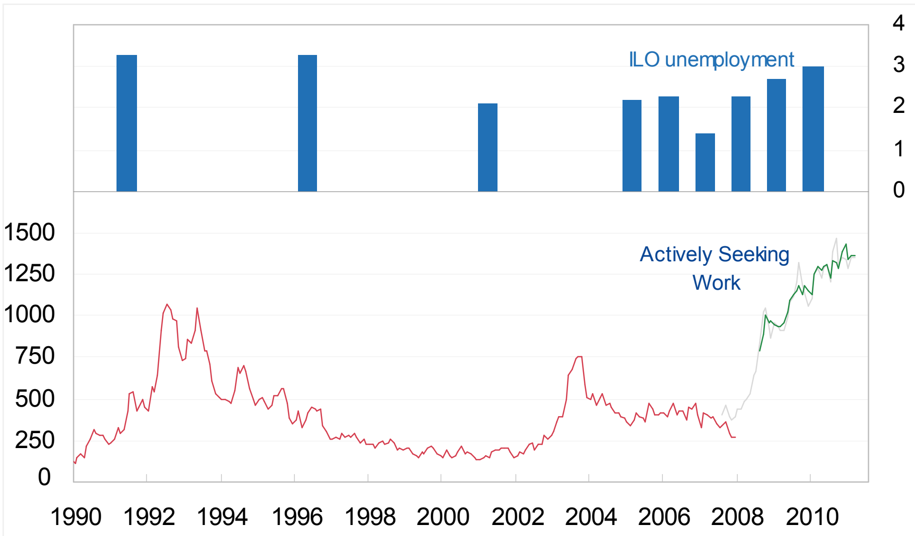
Figure 1.7

Changes in unemployment

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

Lower Panel: Number registered as unemployed and 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



Average earnings increased by 2.5% between June 2010 and June 2011, up from 1.1% in the previous 12 month period. Figure 1.8 shows how earnings and inflation have increased since the early 1990s. Over the last twenty years, earnings growth has been on average 0.6% more than inflation growth. However, from 2002 to date, earnings growth has on average only kept pace with inflation, so there has been no growth in real earnings. In the current climate, it is difficult to see how earnings growth could be significantly higher than underlying inflation in 2012 and this is reflected in the Panel's economic forecasts.

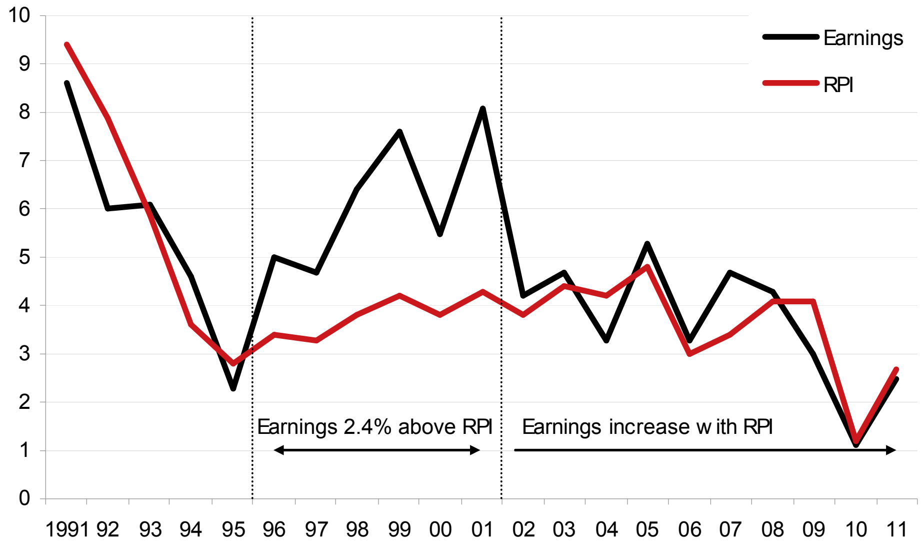
Figure 1.8

Average earnings growth and inflation

% change in average earnings and RPI on year before

(RPI is the 5 quarter moving average)

Source: States of Jersey Statistics Unit



1.4 Spare capacity

The Panel's assessment of spare capacity has not changed in the last few months. Although employment increased slightly in the first six months of 2011, unemployment is still high compared to recent years. Given the current local and global economic environment, it is likely that spare capacity remains in the Jersey economy.

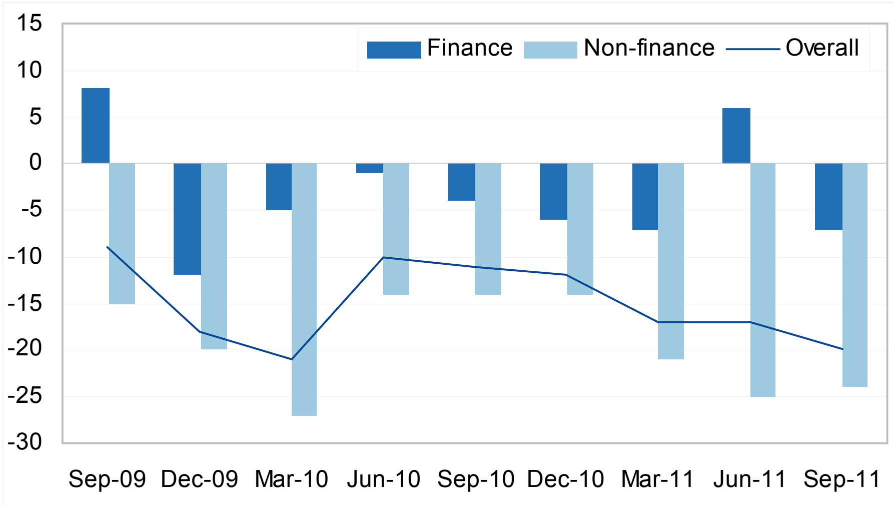
While it is not possible to determine absolute levels of spare capacity, the results of the Business Tendency Survey suggest that the degree of slack in the economy increased slightly in the third quarter of this year. A net balance of 9% of finance firms stated that they were below capacity, while there was a much larger net balance of 24% of non-finance businesses stating they were below capacity (Figure 1.9).

Figure 1.9

Capacity utilisation

Net balance of firms reporting activity above/below normal capacity, weighted by employment

Source: States of Jersey Statistics Unit



1.5 Inflation

Inflation measured by the Retail Prices Index (RPI) was 4.5% in June 2011. Most of the increase in RPI inflation from March was due to the increase in the Goods and Services Tax to 5% in June which added about 1.3 percentage points to the headline inflation rate. This effect will drop out after three more quarters. Headline inflation is forecast by the Economics Unit to remain at around 4.5% for the rest of 2011 and early 2012 before falling to just over 3% thereafter. This assumes that that wages do not increase to compensate for the temporary increase in the RPI.

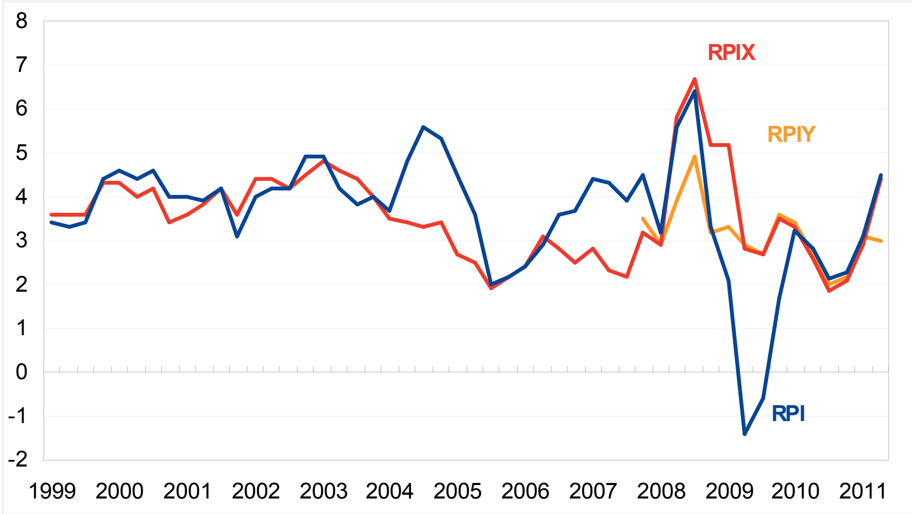
At times of significant changes in indirect taxation it is important to look at underlying inflation excluding these impacts. RPIY inflation (which excludes mortgage interest payments and indirect taxes) was 3.0% in June - a similar level to that seen in March (Figure 1.10). RPIY inflation is forecast by the Economics Unit to rise only slightly as spare capacity in the local economy helps counteract any upward pressure from imported inflation.

Figure 1.10

Inflation in Jersey

Annual % change

Source: States of Jersey Statistics Unit



1.6 Growth forecasts

In light of recent international developments and mixed news locally, with better than expected conditions in the local labour market, but a deterioration in some key responses to the September Business Tendency Survey, the Panel has reviewed its economic growth forecasts (Figure 1.11).

The Panel's central expectation remains that Jersey will record modest growth of 0% to 3% for 2011. But the Panel has revised its central estimate for 2012 down to -2% to 2% with the risks weighted to the downside.

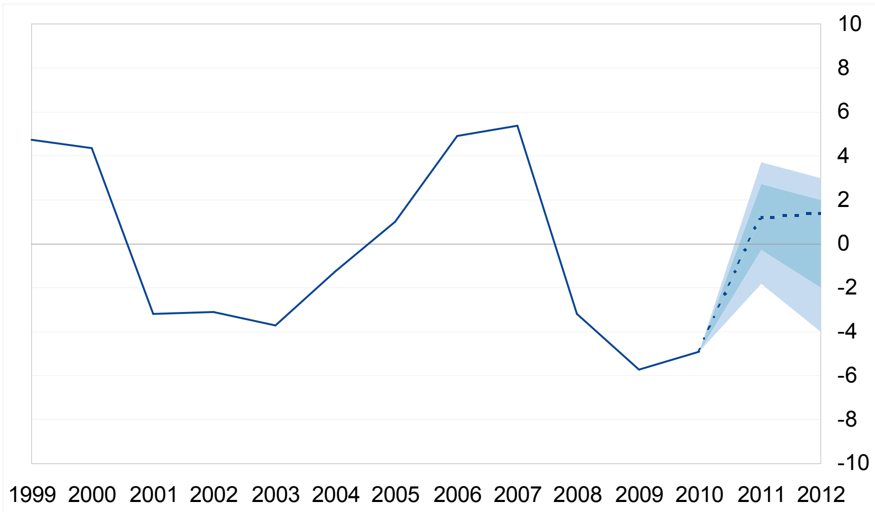
The Panel's forecasts are very dependent on labour market conditions including average earnings (section 1.3), the future path of interest rates, future regulatory changes and global financial market and economic conditions. Significant risks therefore remain to the downside and to a greater extent than at the time of the previous report.

Figure 1.11

Economic forecasts

% change in GVA on year before

Source: States of Jersey Statistics Unit; Panel forecasts



Section 2 – Fiscal outlook

2.1 Public finances update

The Panel's last report in July included details of the public finances and financial forecasts as published in the 2012 draft Business Plan and how this had changed since the 2011 Budget.

Since then, the States debated and agreed the 2012 Business Plan with some fairly minor changes and amendments.

The 2012 Business Plan showed £3m additional revenues for Budget 2012, the detailed proposals for which are included in the draft Budget 2012. These are an extra £1m (net) from income tax measures, £1m from Goods and Services Tax measures and £1m from impôts measures during the forecast period.

The financial forecasts have been reviewed by the Treasury and Resources Department and remain unchanged from the 2012 Business Plan, so total income, expenditure and the surpluses and deficits expected during the forecast period are the same as before (Figure 2.1).

Figure 2.1

2012 Budget financials

Source: States of Jersey Treasury

Estimate 2011 £m		2012 £m	<-- Forecast --> 2013 £m	2014 £m
390	Income tax	416	441	471
65	Goods and Services Tax	80	82	84
53	Impots duty	55	55	56
21	Stamp duty	24	27	30
24	Other income	23	21	23
11	Island rate	11	11	12
3	Increase in CIF asset vakue	4	5	5
567	**States Income**	**613**	**642**	**681**
592	Departmental net revenue expenditure	584	577	602
9	Central reserve/contingency	9	9	9
	Additional central reserve/contingency	4	4	4
6	Restructuring provision	10	2	3
	Items offset by restructuring provision:			
	- Net impact of P72 fee paying schools		6	5
	- Skills and training		2	2
13	Underspend carry forward to 2011			
	Revised FSR proposal - social security	9	9	9
	Growth allocation		6	16
13	Net capital expenditure allocation	16	21	22
633	**Expenditure**	**632**	**636**	**672**
-66	**Forecast surplus/(deficit) for the year**	**-19**	**6**	**9**

The changes since the 2012 Draft Business Plan are:

- £3.8m was transferred to the Consolidated Fund from a Pandemic Flu provision that is judged to be no longer required.[2]
- £0.5m of unspent fiscal stimulus money was transferred to the Consolidated Fund.
- £1.8m was allocated by the States to increase expenditure on a capital project starting in 2012 (Clinique Pinel, Figure 2.3) and £0.5m was committed to being transferred to the Tourism Development Fund.

Overall these changes left £2m more in the Consolidated Fund in each year between 2012 and 2014 than previously anticipated ("Other Adjustments" in Figure 2.2). The Stabilisation Fund balance is unchanged at £10m over the same period.

Figure 2.2

2012 Budget financials

Source: States of Jersey Treasury

Estimate 2011 £m		2012 £m	<-- Forecast --> 2013 £m	2014 £m
	Consolidated Fund			
54	**Opening Balance**	**24**	**7**	**13**
-66	Surplus/Deficit	-19	6	9
	Transfer to Stabilisation Fund			
36	Transfer from Stabilisation Fund			
	Fiscal Stimulus Allocation			
	Other Adjustments*	2		
24	**Estimated Consolidated Fund balance**	**7**	**13**	**22**
	Stabilisation Fund			
46	**Opening Balance**	**10**	**10**	**10**
-36	Transfer to/from Consolidated Fund			
	Other income/transfers			
10	**Estimated Stabilisation Fund balance**	**10**	**10**	**10**

The unexpected receipts and increases in expenditure do not affect the total income or expenditure lines of the financial forecasts although additional one-off expenditure of £2.3m has, in effect, been agreed by the States. Clinique Pinel is part of the net capital expenditure allocation and is offset by unused pandemic flu money (Figure 2.3) and the Tourism Development Fund commitment is outside of the Consolidated Fund. This is in addition to the one-off £3.6m capital expenditure on Philip's Street Shaft, noted by the Panel in its last report.

[2] In 2009, the States agreed a provision of £4.2m be made available to enable the Island to manage in the event of a major wave of illness due to pandemic flu.

The presentation of these increases in spending makes it harder to identify changes in total spending because they are netted off with other receipts and should be made more explicit in future.

Figure 2.3

Changes in net capital allocation

Source: States of Jersey Treasury

	2012 £m
Draft Business Plan:	
Total Proposed Capital Allocation	35.8
Other Funding Sources	-19.9
Net Capital Allocation	15.9
Final Business Plan:	
Original Proposed Capital Allocation	35.8
Clinique Pinel	1.8
Amended Proposed Captial Allocation	37.6
Original Other Funding Sources	-19.9
Unused Pandemic Flu money	-1.8
Amended Other Funding Sources	-21.7
Net Capital Allocation	15.9

In the July Annual Report, the Panel identified a number of risks to the fiscal outlook that appeared to be structural – that is they could lead to a permanent deterioration in the States finances through continued higher expenditure or lower revenue. The Panel notes the following risks:

1. The funding for Clinique Pinel is another example where one-off funding sources are being, and are planned to be, used to fund a large proportion of capital expenditure in 2012, 2013 and 2014. Although the individual capital projects they fund are one-off, they may indicate a higher structural capital spending requirement that will need an ongoing revenue stream in the longer term. The Panel is aware that work is already underway in the Treasury and Resources Department to identify long-term capital expenditure requirements. This is a welcome development if it leads to improved planning for such investment in the future.
2. The Panel noted in the Annual Report that a transfer of £6m from the Health Insurance Fund will be used to offset expenditure by the Health and Social Services Department in 2011. This will probably occur again in 2012. This remains a structural risk to public finances from 2013 until a longer term funding source is found[3]. Items like this should be made more explicit in the financial forecasts in the future.
3. The revised FSR proposal for Social Security (to cap Employer's social security contributions at £150,000 and not to increase Employee Social

[3] P125/2010 "Draft Health Insurance Fund (Miscellaneous Provisions)(Jersey) Law 201-"

Security contributions from 2012) has not been reconsidered in the 2012 draft Budget. No permanent solution has yet been found to reach the targets set for savings in education identified in the CSR.

Although the Consolidated Fund balance is now expected to be £2m higher from the end of 2012 because of the net effect of the amendments agreed during the Business Plan debate, the balance is still expected to be extremely tight in the next couple of years before recovering to £22m by 2014. Moreover, weaker economic growth expectations means that it is less likely that States finances will return to balance by 2013 and 2014.

In view of the tight fiscal position, no transfers into the Stabilisation Fund are recommended at this point, but should surpluses materialise in the Consolidated Fund the most appropriate use of these funds would be a transfer into the Stabilisation Fund, especially as the Stabilisation Fund will need to be replenished if it is to be useful in the future.

The Panel is of the view that any unspent funds or increase in revenues should remain in the Consolidated Fund and not be used to fund additional expenditure. The Panel recommends that in future all unspent fiscal stimulus money is returned to the Stabilisation Fund rather than the Consolidated Fund.

The Panel has previously recommended that any unallocated funds in the Consolidated Fund in excess of £20m should be transferred into the Stabilisation Fund. This level was based on the need for flexibility to deal with unexpected variations in revenue and expenditure and prevent money accumulating in the Consolidated Fund unnecessarily.

However, the States has recently agreed to amend the public finances legislation to establish a Medium Term Financial Planning Framework. In particular, this has allowed for a central contingency for urgent and unforeseen items of expenditure and the introduction of an annual allocation for growth to provide for emerging pressures and changes in priorities. As a result in the current financial forecasts £13m per year from 2012 has been set aside for the central contingency and the growth allocation includes £6m for 2013 and a further £10m for 2014.

The Panel's recommendation that money in excess of £20m in the Consolidated Fund should be transferred to the Stabilisation Fund will be reviewed in the light of the new provisions for contingencies and growth.

2.2 Fiscal Stimulus

Overall Fiscal Policy remains accommodating and as illustrated in the Annual Report (also Figure 2.4) the States will run a significant deficit in the region of £100m this year (once adjusted for Fiscal Stimulus and Energy from Waste) and over £22m next year.

Should income fall short, or expenditure exceed, expected levels as a consequence of a longer and more drawn out economic recovery (known as "automatic stabiliser effects"), then this temporary impact should be funded by the remaining balances in the Consolidated Fund and Stabilisation Fund. The lags in the Jersey tax system mean that the impact on States finances is unlikely to arise until 2013. With only £13m balance in the Consolidated Fund and only £10m in the Stabilisation Fund, this may not be enough to allow the automatic stabilisers to work properly. It may be necessary to prepare to consider other funding options in case this situation occurs.

Figure 2.4

Projected fiscal balance, adjusted for the timing of expenditure

Source: States of Jersey Treasury; Panel calculations

Note: adjustments for past years are capital elements only, as revenue expenditure already included in budgeting surplus/deficit

				Forecast			
	2008	2009	2010	2011	2012	2013	2014
	£m	£m	£m	£m	£m	£m	£m
Surplus/Deficit	-7	71	-85	-66	-19	6	9
Adjustments							
Energy from Waste	89	-46	-27	-11	-1		
Fiscal Stimulus		-1	-15	-18	-2		
Adjusted Surplus/Deficit	82	24	-126	-95	-22	6	9
Adjusted Surplus/Deficit as % GVA	2.2%	0.7%	-3.6%	-3%	-0.6%		

The Panel does not recommend that the Stabilisation Fund (or other money) be used for further discretionary fiscal stimulus at this stage. However, given the deteriorating economic conditions, the States should be ready with measures to support economic activity without weakening States' finances. The Panel is aware that the Treasury is already examining the scope to bring forward already funded capital projects in the capital programme and any flexibility of this type could be beneficial given current economic uncertainties. Another option, if possible, would be to speed up the planning process for private sector projects already in the pipeline.

The options discussed above could provide important ways to add impetus to the local economy without undermining the medium-term fiscal outlook. Only if the above provide insufficient additional activity and/or global and local economic conditions show signs of further significant deterioration, should further additional discretionary stimulus be considered.

Should this be necessary, it is likely that the remaining £10m Stabilisation Fund balance would be insufficient to cover the deficits arising from the automatic stabiliser effect. Therefore any additional discretionary stimulus would have to be funded in another way. Consideration should be given as to how this could be achieved, but the Panel's view is that whatever the funding source, the money should be transferred into the Stabilisation Fund and applied to projects in a manner consistent with the "three Ts principles" i.e. that the stimulus is targeted, temporary and timely.

2.3 Long-term pressures

The main long term pressures known to the Panel were set out in the July Annual Report. These include uncertainty over future sources of economic productivity growth, the path of future international financial regulation, the assessment of the Island's zero-ten regime and managing the impacts of an ageing population.

The draft Economic Growth Strategy is a welcome start to addressing the underlying issues the Island faces regarding economic growth. It contains some interesting ideas but these will need to be translated into concrete proposals and given time to work before any impact can be expected on growth potential.

The recent publication in the UK of the report by the Independent Banking Commission (the Vickers Report) on promoting financial stability and competition in UK banking could have long term implications for Jersey's banking sector, although it is too early to say more at this stage.

Earlier this year, the elements of the zero-ten legislation which were considered by the EU Code of Conduct Group to give rise to harmful effects were removed. The Code Group met in September 2011 and, following a presentation by representatives from Jersey, accepted that the repeal of these provisions removed the harmfulness of the Jersey business tax regime. This still needs to be ratified by ECOFIN in December 2011.

It is therefore important to take these large uncertainties into account when making decisions relating to ongoing income and expenditure.