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WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.P. SOUTHERN OF ST. HELIER

ANSWER TO BE TABLED ON TUESDAY 2nd DECEMBER 2008

Question

Given the composition of the Fund management sub-sector of the finance industry, and the fall in profits reported in the Survey of Financial Institutions for 2007, and in the light of heavy losses in the Hedge Fund Sector, will the Minister restate his assurances that the Jersey economy will not go into recession?

Will he further qualify this in the light of recent announcements from the City of the Royal Bank of Scotland's decision to cut 3,000 jobs in it investment banking business worldwide, and large-scale job losses at Citigroup?

Furthermore, can the Minister inform members whether he is in agreement with the UK Prime Minister and others in the G20 that the most direct method of stimulating an economy in recession is by fiscal measures, that is, by reducing taxes on low to middle earners?

Answer

I have never said that the Jersey economy will not go into recession. In the Jersey Evening Post of 11 November 2008 I stated that I had "not yet received any information to alter the opinion that we continue to enjoy smaller economic growth". Since that date the Fiscal Policy Panel have updated their annual report and concluded in a similar manner to myself that there "is as yet, little evidence to suggest that growth is slowing more rapidly". The Panel's central expectation is still that the economy will see slower growth in 2008 and 2009. However, they also emphasised that the risks to this outlook are firmly on the downside and that the negative world economic outlook overshadows things.

I do not necessarily agree that "the most direct method of stimulating an economy in recession is by fiscal measures". In general terms the preference is to use monetary policy to stimulate an economy entering recession. What is clear in terms of the situation in the larger economies today, facing recessions as a result of the credit crunch and associated banking crisis, is that monetary policy may have lost some of its potency. Under such circumstances the consensus is that fiscal policy should be used to support monetary easing.

In Jersey we have the opportunity to use our Stabilisation Fund to support the economy should growth slow more sharply than the FPP currently predicts. The FPP have been clear that in considering the best way to use the Stabilisation Fund and stimulate the Jersey economy we need to think about the 3 T's –whether the intervention is Temporary, the Timing of the impact of the intervention and the intended Target of the policy. It is quite conceivable to think both of tax and spending measures that meet these requirements and those which do not.