

# STATES OF JERSEY



## DRAFT BUDGET 2012 (P.159/2011): SECOND AMENDMENT

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Lodged au Greffe on 20th October 2011  
by Deputy G.P. Southern of St. Helier

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STATES GREFFE

**PAGE 2 –**

Number the proposition as paragraph (a) and insert a new paragraph as follows –

“(b) to request the Minister for Treasury and Resources to lodge a proposition in accordance with Article 4(3) of the Public Finances (Jersey) Law 2005 asking the States to agree to transfer £20 million from the interest on the Strategic Reserve Fund to the Consolidated Fund so that the Minister for Treasury and Resources will have sufficient resources to maintain appropriate Fiscal Stimulus measures to support the economy through 2012.”.

DEPUTY G.P. SOUTHERN OF ST. HELIER

## REPORT

The Minister for Treasury and Resources is to be praised for his preparation for, and use of, the Stabilisation Fund to stimulate the economy in 2009 and 2010. However, here we are in 2011 and there is absolutely no sign that the recession is bottoming out with recovery around the corner.

Yet the Minister for Treasury and Resources shows no sign of having recognised this fundamental economic fact let alone of responding to it.

While the economy continues to flat-line, the minister's Draft Budget Statement 2012 contains 2 actions –

- To continue with his proposals for delivering £65 million cuts to public services by 2013; and
- To impose an additional £35 million of additional direct and indirect taxation.

Both of these measures will take money out of the economy and this will tend to prolong the recession and to delay any recovery. Both these actions are wrong.

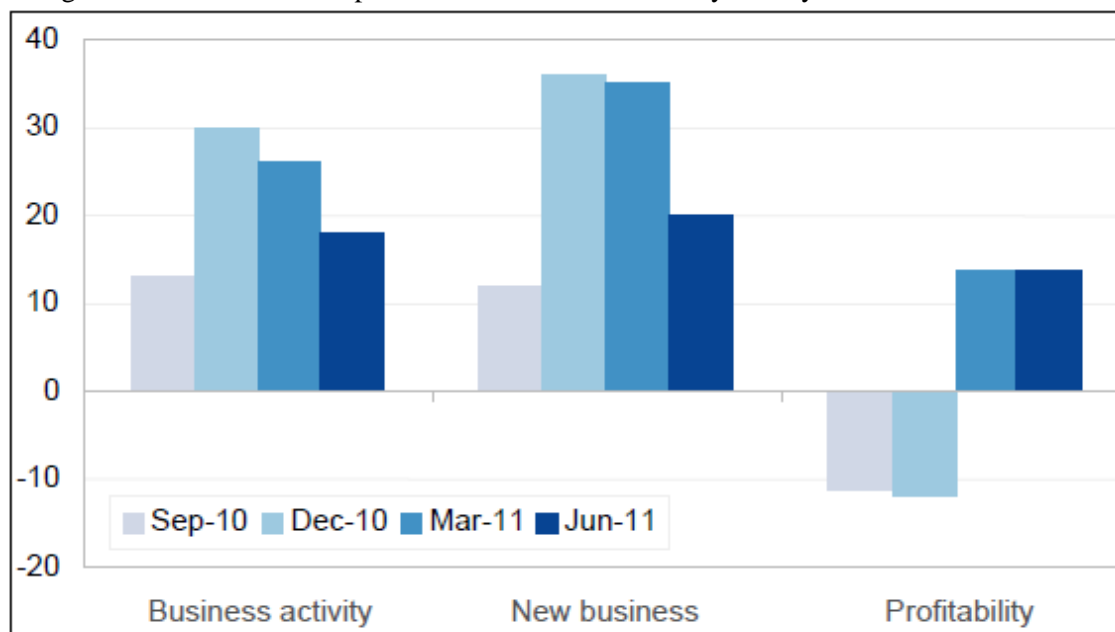
The Minister points in vain to any signs of recovery in various sectors of the economy, but he fools no-one. The survey of the Economic Outlook, given on pages 20 to 22 of the Budget Statement, points clearly in a negative direction.

*“Over the summer the global economy has suffered another bout of turmoil in the financial markets. This has been driven by uncertainty over the fiscal position in the US, the sovereign debt crisis in some eurozone countries and concerns about future growth prospects in the larger economies. Stock markets have fallen and consumer and business confidence has suffered.*

*The OECD has reported that “economic recovery appears to have come close to a halt in the major industrialised economies”. Despite this global uncertainty, there are positive signs in the local economy. In June 2011, responses to the Business Tendency Survey from finance companies showed higher business activity and new business in the second quarter and, for the second quarter in a row, a net balance of companies reported an improvement in profitability (Figure 3.1).”*

Far from being positive, the graph shows the opposite, with both new business and business activity registering the lowest confidence rating in the last 6 months and only a low balance of confidence that profits were recovering.

Figure 3.1: Signs of optimism in the finance sector  
weighted net balance\* of respondents to Business Tendency Survey



\* Balance = % of firms reporting increase less % reporting decrease  
Source: States of Jersey Statistics Unit

The Minister goes on to report that –

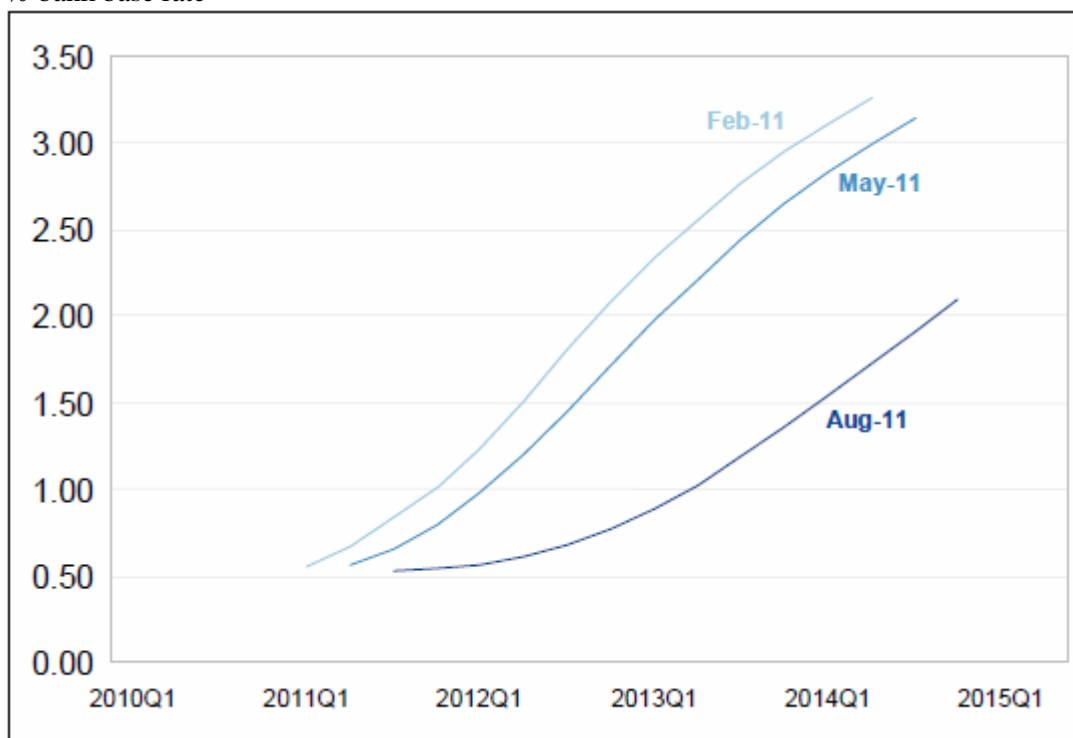
*“Conditions in the non-finance sector as a whole were already challenging before the recent financial market turmoil. The June 2011 Business Tendency Survey suggests that business activity, new business and profitability were still falling for non-finance businesses, with conditions in the construction sector particularly weak. Nonetheless, retail sales volumes in the first quarter of 2011 were 5% higher than a year ago with volumes higher in both food and non-food stores, and footfall on the high street so far this year higher than last year. However, with the global recovery stalling, the prospects for the non-finance sector may have weakened over the summer as they are very dependent on the outlook for the finance sector.”.*

It gets worse –

*“While it is still too early to gauge the impact of the recent financial market turmoil on local economic prospects, one thing is clear: if the weakening in the large economies seen over the summer continues, future rises in interest rates will be delayed. Figure 3.2 below shows that in August 2011 the UK financial markets did not expect interest rates to increase until late 2012 or early 2013, significantly later than had been previously expected.*

*One of the biggest impacts of the global recession on our finance industry has been the low interest rate environment and its impact on the profitability of our banking sector. If market expectations do not change and prove to be correct then this will hold back the expected improvement in banking profitability.”.*

Figure 3.2: Financial markets' interest rate expectations  
% bank base rate



Source: Bank of England

**That is clear then; interest rate rises on which our banking sector depends for its profits will be delayed. This means that we can only expect a slow recovery in the banking sector.**

The Minister had earlier discussed unemployment and the beneficial effects of his fiscal stimulus funding –

*“Employment in Jersey has remained close to the highest level for at least 15 years. Nevertheless, unemployment in Jersey remains high relative to past levels. Young people are most affected and long-term unemployment is increasing, so we need to continue to be vigilant.”.*

We need more than vigilance. We need to create jobs and opportunities.

*“Fiscal stimulus monies that we have put into the economy have made a measurable difference. Young people have taken advantage of Advance to Work. Older age groups have been helped through Advance to Work Plus. We are continuing with this support in 2012 and 2013.*

*Fiscal stimulus has supported training through:*

- Advance to Work – 200 people have found employment after the programme.*
- 21 States apprenticeships have been filled.*
- Advance to Work Plus – 70 people are now back to work, a 64% success rate (twice that of the UK).*

*Fiscal stimulus has supported employment in the local construction industry, for example:*

- Le Squez Housing improvement – 49 new homes for rent.*
- Improvements to the hospice.*
- The creation of a new entrance for Durrell.*
- Fossil fuel heating systems replaced in 1,500 homes.”.*

The Minister makes the case for this amendment himself –

*“Fiscal Stimulus monies .... Have made a measurable difference”.*

The recession is not over. Recovery will be slow and uncertain. Is there a need for continuing fiscal stimulus? I believe there is. What was good for the economy 2 years ago remains good today. We still need to create jobs especially for our young people. We still need to support the construction industry. We still need some fiscal stimulus.

### **Financial and manpower statement**

This amendment will result in there being £20 million less held in the Strategic Reserve. It will enable the Minister for Treasury and Resources to bring a request to the States to proceed with appropriate fiscal stimulus projects to ameliorate economic conditions in 2012. As with the previous fiscal stimulus projects, the workload will be absorbed by existing Treasury staff.