

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES  
BY DEPUTY G.P. SOUTHERN OF ST. HELIER  
ANSWER TO BE TABLED ON TUESDAY 11th SEPTEMBER 2012**

**Question**

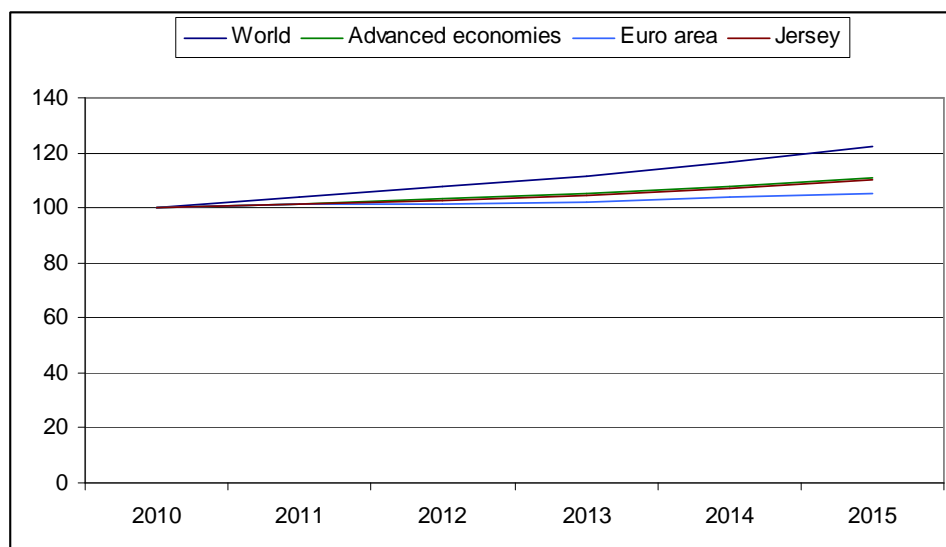
Will the Minister inform members how his growth predictions for the economy and taxes over the period of the Medium Term Financial Plan are related to local, UK and Europe-wide predictions for economic growth from any other respected institutions in the field?

**Answer**

Chart 1 below shows that Jersey economic growth as forecast over the MTFP period is below that forecast by the International Monetary Fund for the world economy but in line with that forecast for the advanced economies. Not surprisingly, given the difficulties faced by some of the Eurozone countries, growth is forecast to be higher in Jersey than the average for the Eurozone as a whole over the same period.

**Chart 1: Economic growth forecasts**

Real GDP/GVA index, 2010=100



Source: MTFP/IMF World Economic Outlook

Table 1: Forecasts for real GDP/GVA

% change

	2010	2011	2012	2013	2014	2015
<b>World</b>	5.3	3.9	3.5	3.9	4.5	4.5
<b>Advanced economies</b>	3.2	1.6	1.4	1.9	2.7	2.7
<b>Euro area</b>	1.9	1.5	-0.3	0.7	1.7	1.7
<b>Jersey</b>	-5	1.2	1.4	2	2.5	2.5

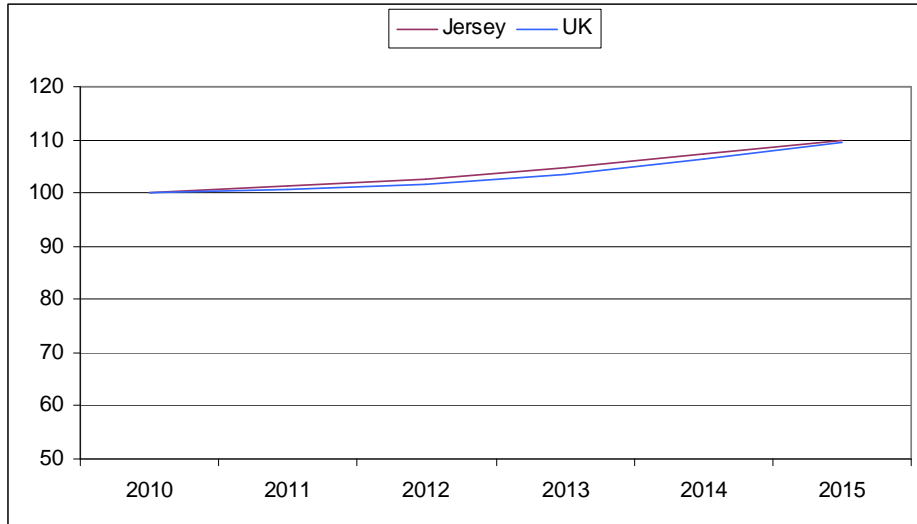
Source: MTFP/IMF World Economic Outlook

The latest forecasts from the UK's independent and official fiscal watchdog, the Office for Budget Responsibility (OBR), show real economic growth in the UK in line with that forecast for Jersey over the MTFP period. The chart below shows that although Jersey is forecast to grow at a

slightly higher rate in 2012, the UK is forecast to grow more quickly in 2014 and 2015, meaning that by 2015 there is little difference in the rate of growth over the period.

**Chart 2: Jersey and UK economic growth forecasts**

Real GDP/GVA index, 2010=100

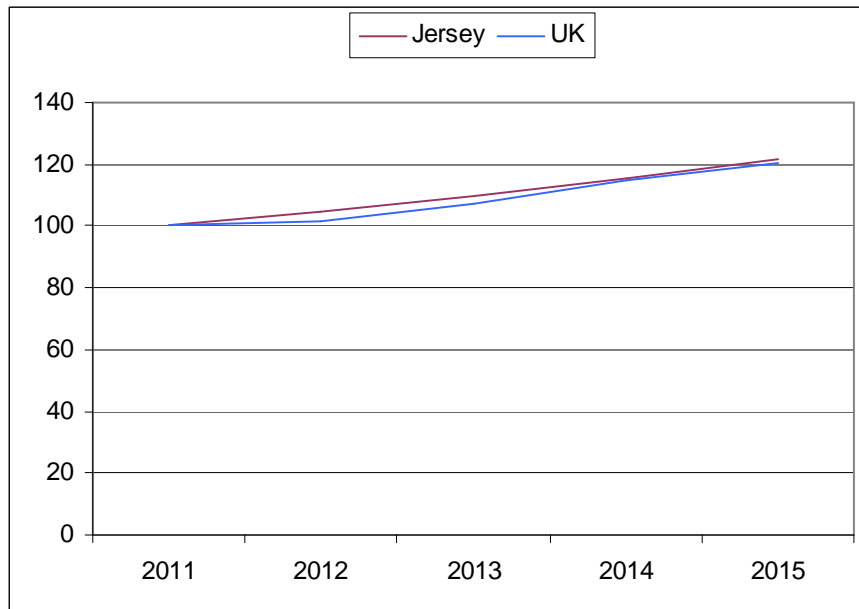


Source: MTFP/OBR Economic and Fiscal Outlook

Chart 3 shows that the growth in corporate and personal income tax forecast as a result of these trends in the UK and Jersey economies is also very similar.

**Chart 3: Trends in UK and Jersey personal and corporate income tax**

Index 2011=100, nominal trends



Source: MTFP/OBR Economic and Fiscal Outlook

These comparisons show that the assumptions underpinning the MTFP are both suitably cautious and balanced given the global economic situation. They were based on the latest forecasts from

the FPP, rolled forward on the basis of a fairly average economic performance – in line with the approach taken elsewhere.

When forecasting Income Tax receipts, 3 scenarios are predicted - pessimistic, central and optimistic. The central scenario has been adopted in the MTFP and will be adopted in the Budget.

Income Tax accounts for 70% of total States income (£450 million out of £647 million in 2013) and the latest Labour Market report show total employment is at its highest level for 15 years. In only one of the last 5 years (2010) have Income Tax receipts fallen short of the forecast, and even in 2010 receipts exceeded the forecast in the 2010 Budget.

It is already apparent that 2012 Income Tax receipts will exceed the forecast by at least £7 million and there are likely to be a small number of large settlements of complex cases.

Receipts from GST, Impôts and Stamp Duty in 2012 are proving less robust than income tax receipts and the forecasts in the MTFP reflect this. However the slight downturn in these receipts is more than compensated for by buoyant income tax receipts. At the end of July Income Tax is forecast to be £21 million up on the 2012 Budget with GST, Impôts and Stamp Duty down £3.3 million, £2.9 million and £1.6 million respectively. Overall income is projected at £1.4m above the 2012 forecast in the MTFP. We monitor GST, Impôts and Stamp Duty throughout the year and amend our forecasts in the light of actual receipts. This means we could decide to adapt spending plans if income from these sources appears to be worse than anticipated.

Our own independent experts the FPP will publish their annual report in October which will include more up to date economic forecasts and it is important we see what their advice is on what this means for the approach taken in the MTFP. The Council of Ministers will listen closely to their views and if the FPP advise that a different approach is required we will consider bringing appropriate amendments to the MTFP.

Growth forecasts are a useful part of our financial planning and will not require significant changes in our tax system.