

### **3.6 Deputy S. Power of St. Brelade of the Minister for Treasury and Resources regarding economic growth assumptions contained within the Medium Term Financial Plan:**

Could the Minister clarify how the assumptions on economic growth as outlined in the Medium-Term Financial Plan were calculated? I am referring specifically to page 42 of the plan which sets the States income will grow from £613 million in 2012 to £681 million by 2014, which is over 10 per cent.

#### **Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

I am grateful for the Deputy and indeed Deputy Southern with his later question to clarify some aspects of the inaccurate reporting that, unfortunately, perhaps inadvertently, happened over the summer on the economic projections. The economic growth assumptions were finalised by the States Economic Adviser in March of this year, which fed into the overall income tax forecasting and process that the Treasury has. The original forecast for 2012 was drawn from the previously-published F.P.P. (Fiscal Policy Panel) forecast. As far as 2013 and 2014 is concerned, the approach is exactly the same as that of the U.K. Office for Budget Responsibility and other forecasting agencies. That is that the economy will return in Jersey, as in the U.K., to average performance in that period, reflecting the long-term trends and recent experience. I personally reviewed all of the assumptions when I returned from my own summer break and I was pleased that that, after having looked at them, I maintained the conclusion that the assumptions are absolutely robust. Indeed the most recent monitoring information that has been provided to me by Treasury shows that in the second quarter of this year tax receipts in 2012 are projected to exceed the forecast previously envisaged by £7 million. That is entirely consistent with the forward levels of income set out in the M.T.F.P. (Medium Term Financial Plan). So I am pleased with the progress and I stand by the assumptions, but they will be reviewed by the F.P.P.

#### **3.6.1 Deputy S. Power:**

I would like to ask a supplementary. Most economies in the west, including the U.K. and the U.S. (United States of America), are forecasting growth rates of less than or equal to 1 per cent in the next 12 months and not much more than that after that. Would the Minister agree that Jersey seems to be out of sync and would he not agree that projecting growth that may not be achievable factors in increased States spending at the same rate? My question to the Minister really is, based on those 2 questions, is this prudent?

#### **Senator P.F.C. Ozouf:**

I am more than happy to discuss with the Deputy or indeed any other Member on the intensive discussions that we are going to have on the M.T.F.P., to go through the detail of what is built in these figures. It is absolutely important that Members have the same level of confidence that I do about the methodology that goes behind it. I would say that these are done independently by the States' Economic Adviser and they are going to be reviewed by the F.P.P., but I completely understand why they should rightly be concerned about whether we have got our figures correct. I would just point out to the Deputy that I think there is a difference between the downgrading of the economic assumptions in various different eurozone and other economies compared to Jersey both this year and what we expect to happen in the subsequent years. The M.T.F.P. is, of course, looking ahead to what the economic situation will be in 2014 and 2015 and indeed real economic growth this year was previously expected to be 1.4 per cent in Jersey and it is 0.8 per cent now in the U.K. We would expect that our economy would perform better than the U.K. We do not have the legacy of debt. We have been actively involved in fiscal stimulus in a number of areas. So surely we should be at least 0.5 per cent above perhaps that of the very difficult situation of the U.K. Going forward into 2013, we are at the same level of real economic growth and for 2014 and 2015 we are virtually the same and, again, I would expect us to do better than that.

#### **3.6.2 Deputy G.P. Southern:**

Is it not the case that the Office of Budget Responsibility has been downgrading the U.K. forecasts so that now in 2012 it has confirmed it is in double-dip recession and that, despite the Minister's optimism, our own figures should equally be downgraded as well?

**Senator P.F.C. Ozouf:**

They may, in this year, be downgraded in terms of economic growth somewhat, but it does not change the income tax forecasts that the Deputy quite rightly said was the most important thing. We look at a number of different statistics when we are looking at our dashboard of numbers for decisions of the Jersey economy. G.D.P. (Gross Domestic Product) matters and I am going to address the linkage between G.D.P. and income in Deputy Southern's answer. Our G.D.P. numbers are still relevant, we believe, but the most encouraging thing that I can say to Members is that the income tax forecasts - at the end of the day, perhaps the most important thing is whether or not we have got the resources to spend - are up. We were ahead and we were criticised of being ahead last year and we continue to be ahead this year. I am happy to publish and to go through with Members in minute detail, with Treasury officials, exactly what these numbers are. I would like Members to be confident about the numbers and I believe that they will be when they see the facts.

### **3.6.3 Deputy G.P. Southern:**

In relation to tax income, we are all used, annually, to the Minister for Treasury and Resources finding additional income tax from somewhere, usually after the pay claims have been settled. Are we now reliant in the forecasting on finding sums extra to that which is forecast? Are we reliant on it now? Have we built it into the projection?

**Senator P.F.C. Ozouf:**

Not at all. I think the Treasury probably always has a reputation of being cautious and I would prefer that to be the case in terms of forward planning, but I also will be criticised if we are too pessimistic. I repeat that it is not Deputy Noel and I that sit there with a pencil and put in the numbers ourselves. We rely upon our expert officials and this Assembly has the confidence, which other Parliaments have not had, in having the independent F.P.P. who have been working through the summer and putting their own slide rules. They have invited Members to their presentation. I do not see their figures any earlier than any other Member and let us see what the F.P.P. says about what the numbers are. If the facts change, as I have said before, I will change my mind but at the moment the forward numbers in terms of our income look pretty robust to me and this Assembly should have confidence about our plans.

### **3.6.4 Deputy M. Tadier:**

It is interesting that the Minister still has not answered the question. We have got a very clear question here from Deputy Power and we are constantly, as usual, invited in private for the Minister's officers to give us figures, but he cannot give any figures publicly and let the Deputies or whoever hold the Minister to account in public. The Minister said that if he was too pessimistic he would come under fire for that. It is not a question about being optimistic or pessimistic. It is just a question of giving the real facts and evidenced analysis into the public domain and to States Members. Does the Minister accept that what he is saying is that it is important to convey confidence in the economy as some sort of self-fulfilling prophecy even if the evidence or confidence is not there to back it up?

**Senator P.F.C. Ozouf:**

No, yes and no. I think that confidence can be a self-fulfilling prophecy if we continue to talk ourselves down when the data shows something different. I am not hiding anything. Indeed this is a difficult issue just to simply use my seconds on complicated numbers. I can read the Deputy, if he wishes, what the upper, central and lower forecasts for income tax is for this year, next year and the year after. The upper level is £470 million this year. The central scenario is

£450 million. The lower forecast is £425 million. It is £495 million, £470 million and £450 million for next year and £525 million, £500 million and £475 million for the year after. We take the central line of our assessments. They are all in the public domain. I am not allowed to use my iPad but I did not want to bring my file. We have published, I think, the longest report ever published in terms of our numbers about the Medium-Term Financial Plan, including chapters on the build-up of our numbers. We have never put into the public domain such forensic granular detail of our forward projections. I am happy to be examined here, at Scrutiny, in public or if people want to come and meet me individually. I have invited all organisations in Jersey also to come and meet with me and the Treasury in order to go through these numbers.

**The Deputy Bailiff:**

Minister, no more speeches at question time, thank you.

### **3.6.5 Deputy R.G. Le Hérissier:**

Would the Minister not acknowledge that, while people are very much supportive of his optimism, the real issue is the cognitive dissonance which everyone is suffering because of the massive austerity programme which he is running at the same time as saying that revenues are buoyant and everything is looking fairly rosy?

**Senator P.F.C. Ozouf:**

I think “massive austerity” needs to be put into some degree of context. When the Portuguese Prime Minister receives 30,000 Facebook messages over the weekend for regretting having to put austerity measures through his parliament I think we need to be relative about austerity. Let us be clear. The comprehensive spending review was trimming States expenditure by 10 per cent to make efficiencies, which we have nearly met, but at the same time - to criticism from the other side of the Assembly - we are spending and investing in our services. The Medium Term Financial Plan, if anything, is expansionary. It is putting more money in the economy; building, as the Minister for Health and Social Services has published today, improvements in our healthcare services. That is quite apart from the fiscal stimulus that we have already done (£44 million), the £27 million of housing projects and all the economic growth matters. Will growth happen by accident? Partly yes but partly no. We need to boost economic activity and we certainly need to say what the facts are rather than the negative issues that we immediately take: U.K. headlines meaning what is happening in Jersey. The situation is not the same in Jersey. No mountain of debt, a deficit dealt with and an economic growth plan which is working.

[10:30]

**The Deputy Bailiff:**

This is question time, not a debate on the Medium Term Financial Plan. **[Laughter]**

### **3.6.6 Deputy G.C.L. Baudains of St. Clement:**

In the United Kingdom we have seen predictions on the future of the economy which, only a few weeks after they are given they have been downgraded. Would the Minister accept that regardless of the expertise of his advisers, these predictions are to my mind rather like weather forecasting, an inexact science, and should we really be basing our expenditure on such a situation?

**Senator P.F.C. Ozouf:**

There is some art and there is some science in it, and I would again ask the Deputy to look at the facts of what we are projecting in terms of economic growth. We are being quite cautious. This year we are suggesting that Jersey economic growth is around about 1 per cent. The good news for this year is that with inflation being slightly lower than expected at 2.7 per cent as opposed to 3.3 per cent - if I have got that number correct, it is certainly 0.5 per cent lower - that boosts the real G.D.P. number already without having anything done by it. Our forecasts are central, they

are not over-optimistic, and I want to go through the detail with any Member to give them the same level of confidence. I will not propose forward projections of income which I do not think are going to happen. That would be foolish. It is never something that we have done before and certainly it is not going to be something that I am going to propose whilst I am Minister for Treasury and Resources.

**The Deputy Bailiff:**

One supplementary, Deputy Power.

**3.6.7 Deputy S. Power:**

I do note that the Minister for Treasury and Resources said that we are achieving a growth rate of something in the region of 1.4 per cent this year. It is a long way from the projected consolidated growth rate that is projected up to the end of 2015, as in the M.T.F.P. My final question is this, given that we are projecting expenditure of the order of £690 million up to the end of 2015 and there are urgings of caution from bodies such as the Chamber of Commerce in Jersey, does the Minister feel 100 per cent confident that the projections of over £700 million in States income in 2015 is achievable or is there an element of risk to that?

**Senator P.F.C. Ozouf:**

There is certainly always an element of risk but we are conservative and realistic in our forward projections. I think the slight double argument of this is that those Members who think that the economic situation is going to be more gloomy going forward, their prescription is to spend more, whereas other people are saying: "If they do not think the economic growth rate is going to be achieved, you need to spend less." I think what the F.P.P. might do if they believe that the short run economic situation is possibly more gloomy is they might want to propose more spending. Now, that is very against what the Chamber of Commerce says. So I am somewhere in the middle of this debate in terms of I am taking a reasonable optimism about our future economy. If it is going to deteriorate, we will probably spend more in the long term. That is going to upset the people who do not think we should be spending because the growth is not there. It is an active debate which is going to run over the next 6 weeks and I welcome the first attempts at having this debate today.