WRITTEN QUESTION TO MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY M.R. HIGGINS OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 4th MARCH 2014

Question

Does the Minister believe that Jersey's credit rating from Standard and Poor's is in danger of being downgraded following the downgrading of the Isle of Man's credit rating from AA+ to AA because it is constrained by its undiversified small economy which makes it vulnerable to external shocks and a global downturn threatens its core industry, finance and, if he does not, would he state why, bearing in mind Jersey's higher reliance on finance than the Isle of Man and the prospect for continued low interest rates for depositors, greater competition from, and regulation applying to, offshore financial centres?

Answer

Jersey's credit rating from Standard and Poor (S&P) was announced on 22nd November 2013. It is AA+ with a stable outlook. The "stable outlook" comment from S&P is a formal part of their rating and provides certainty and confidence in Jersey's future, as expressed in their initial report: "The stable outlook reflects our view of Jersey's high wealth and its strong public policy settings and government finances." Last week the Treasury confirmed directly with S&P that they do not anticipate any changes in Jersey's rating.

In accordance with their Regulatory obligations and their routine cycle, S&P plan to publish an up dated report on 23rd May 2014.

For Members' ease of reference, the full text of the S&P initial report is reproduced overleaf.

OVERVIEW

- *The States of Jersey has mature political and institutional settings, transparent economic decision-making, and high fiscal flexibility--the latter underpinned by no direct public debt and strong fiscal discipline.*
- *It also has a wealthy, market-oriented, and open economy.*
- *We are assigning our 'AA+/A-1+' long- and short-term sovereign credit ratings to Jersey.*
- *The outlook is stable, reflecting our view of Jersey's high wealth, as well as its strong public policy settings and government finances.*

RATING ACTION

On Nov. 22, 2013, Standard & Poor's Ratings Services assigned its 'AA+/A-1+' long- and short-term foreign and local currency sovereign credit ratings to the States of Jersey. The outlook is stable. Jersey is the 128th sovereign rated by Standard & Poor's.

RATIONALE

The ratings on Jersey reflect our view of its high wealth, strong fiscal flexibility, and public-policy stability. These strengths are moderated by Jersey's dependence on its financial services sector, its lack of monetary policy flexibility, and data deficiencies on the external side that hamper our full assessment of external risks.

Jersey is one of three British Crown Dependencies (the others are Guernsey and the Isle of Man). It has an open and wealthy economy; we estimate 2013 real per capita GDP at nearly US$60,000. Following six years of economic contraction, we expect Jersey to return to modest real per capita growth of 0.1% in 2014 and to average a similar level over 2013-2015 (1% growth in real GDP terms).

Growth will depend on Jersey's financial services sector (banking, trusts, funds management, and legal, accountancy and investment advisory services) recovering in line with global financial and economic trends. That said, recovery is likely to be uneven and comparatively shallow given the sector's high contribution to GDP (more than 40% in 2012) and the uncertain growth prospects of key European trading partners. The other main external risk to Jersey's growth prospects is the potential tightening of international financial sector and taxation agreements, which would affect off-shore financial hubs globally.

Offsetting these risks are the Jersey government's strong fiscal position and mature institutional arrangements, which are conducive to swift policy responses if required. Broad community and political support for prudent fiscal policies have resulted in balanced budgets on average over the past 10 years. The government has also accumulated financial assets that can be drawn-down to support growth during more difficult economic times, such as the past five years. While we expect the government will continue to stabilize its fiscal position over the next three years, we project that lower taxation revenues stemming from financial system weakness (the sector generates 75% of corporate tax revenues) and higher capital expenditure will delay a return to surpluses until 2015.

The government has no direct debt. Its balance sheet is also not materially at risk from contingent liabilities pertaining to its related entities (mostly housing authorities, utilities, and pension funds), whose debt we estimate to be about 6% of GDP.

Incomplete data constrains our assessment of Jersey's private-sector balance sheets, but they do not appear to be under pressure. While the financial services sector poses risks, these are partly mitigated by Jersey's high per capita income; strong system liquidity and capital; the same lending and underwriting standards as the (mostly U.K.-based) parent banks; a funded banking sector depositors' compensation scheme (of up to £50,000 paid to depositors, with a total scheme cost capped at £100 million or about 2.7% of GDP); and the sector's role in providing offshore banking services to clients of U.K. banks. We do not see immediate risks to the sector nor do we believe that Jersey's government would likely be called upon to support an ailing institution, if required.

Jersey's monetary policy flexibility is limited by its currency board arrangement with the British pound sterling. The Jersey pound is not accepted internationally. We find that this long-standing arrangement is credible in light of the island's fiscal assets (over 100% of GDP) and its economic links with the U.K.

Like other British Crown Dependencies, Jersey does not collect external data and its economic data is limited in coverage and is published with lags, which complicates our analysis.

OUTLOOK

The stable outlook reflects our view of Jersey's high wealth and its strong public policy settings and government finances. We could raise the ratings if more-complete data were available to assess Jersey's balance of payments and external risks, and if we saw an increase in economic diversification.

We could lower the ratings if we saw that Jersey's strong position as a financial center was declining or if the island's very strong fiscal position were to weaken.