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WRITTEN QUESTION TO THE CHIEF MINISTER
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ANSWER TO BE TABLED ON TUESDAY 12TH SEPTEMBER 2017

Question

Is it the Chief Minister's assessment that public spending cuts suppress demand within the economy and that, for a genuine sustainable recovery from the 2008 financial crisis to be achieved, such demand has to be boosted?

Is it also his assessment that the policies followed by his government have not achieved their goals of generating economic growth through increased productivity, and balancing tax revenues and spending?

What lessons, if any, has the Chief Minister drawn from the experience of Portugal, where the economy is now in recovery following a restoration of public sector pay, increases in the minimum wage, increasing social security benefits, and a reversal of regressive tax measures?

Answer

The Council of Ministers' approach since the onset of the global financial crisis in 2008 has been to support the economy in a way that will help mitigate some of the impacts on the local economy but also that is sustainable and does not weaken the underlying structural position of government finances. We have followed the advice of the Fiscal Policy Panel (FPP) initially using the Stabilisation Fund to support projects that were timely, targeted and temporary. In subsequent years a large public sector capital expenditure programme has also added significant support to the economy.

We continue to ensure that the government adds support to the economy and we remain committed to following the FPP's advice in their August letter to the Treasury and Resources Minister, which stated that "While it is still appropriate to support the economy in the short term, attention must remain firmly on putting in place measures that contribute to balancing the budget".

Our aim on productivity is to raise the underlying rate of productivity growth through the measures set out in the Strategic Plan and MTFP Addition. This is a difficult challenge which many other governments also face, but it is too soon to judge the impact of the policies we are implementing.

Portugal's experience since the global financial crisis has been interesting. After receiving a bailout from the EU and IMF the economy has shown signs of improvement. In their June 2017 assessment of the Portuguese economy the OECD highlighted that a wide range of structural reforms, backed by accommodative monetary policy and the low oil price, have helped to support growth, boost competitiveness and increase exports. They point out that the outlook is now becoming more challenging and vulnerabilities are rising. With respect to the fiscal position in Portugal the OECD state Portugal has made strong progress in reducing public deficits since 2010, when the deficit peaked at 11.2% of GDP.

The OECD also consider the fiscal stance to be broadly neutral in 2016 and 2017, which is appropriate given the still fragile economic recovery. They conclude that "fiscal policy is in a difficult spot" as putting off fiscal consolidation to support growth implies risks as fiscal sustainability remains weak with public debt of 129% of GDP in 2015.