

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY M.R. SCOTT OF ST. BRELADE
QUESTION SUBMITTED ON MONDAY 24th APRIL 2023
ANSWER TO BE TABLED ON TUESDAY 2nd MAY 2023**

Question

“Will the Minister –

- (a) advise what evidence, and what form of modelling, Jersey’s Fiscal Policy Panel used to support its forecast of inflation and interest rates for Jersey over the last three years;
- (b) provide a comparison of the Panel’s inflation and interest rates rise forecasts for Jersey for the last three years with the actual increases that took place in Jersey; and
- (c) advise whether the evidence supports a conclusion that the Panel has given inadequate consideration to US central bank rates as a potential driver of the worldwide rates and inflation?”

Answer

- a) Jersey’s Fiscal Policy Panel uses all available and relevant evidence to inform its forecast of inflation. This includes statistics released by Statistics Jersey, statistics released by the Office for National Statistics (the UK’s statistics agency) and reports and forecasts produced by HM Treasury and the Bank of England. Other available evidence - such as IMF and OECD forecasts – are also used.

Further, linear regression modelling is used with a number of indicators, most of which are mentioned previously, as well layering knowledge over the top. The FPP does not forecast interest rates: it uses data published by the Bank of England on the markets expectations for interest rates.

- b) The table below summarises the FPP forecasts for inflation (averaged for each year) made at different points in time. The shaded cells show actual inflation. A working example is given below the table. As the table show, during stable periods the projections are highly accurate. The recent instability in the world economy has led to these projections decreasing in accuracy. It should also be noted that the forecasting is done in both RPIX and RPI.

RPI	2020	2021	2022
Mar-23	1.3	2.7	9.3
Nov-22	1.3	2.7	9.1
Jul-22	1.3	2.7	7.7
Mar-22	1.3	2.7	5.8
Aug-21	1.3	3.0	3.6
Apr-21	1.3	2.1	2.6

Oct-20	1.3	1.5	2.4
Aug-20	1.3	1.5	2.4
Mar-20	1.2	2.2	2.5
Sep-19	2.4	2.6	2.7
Mar-19	2.6	2.5	2.6

So, in March 2019 the FPP forecast 2020 RPI of 2.6%; in September 2019 they revised this forecast to 2.4%; in March 2020 they revised this forecast to 1.3%; and in October 2020 (when they would have had 2020 Q1 and Q2 RPI data) they left their 2020 forecast unchanged at 1.3%. RPI inflation for 2020 was 1.3%.

The FPP does not forecast interest rates.

- c) The US Central Bank (The Federal Reserve Bank) targets an US inflation rate of 2% and uses monetary policy, including interest rates to deliver this. In the UK, the UK Government has set an inflation target of 2% and has charged the Bank of England to use monetary policy (including interest rates) to achieve the Government's target. Other central banks – including the European Central Bank - also have inflation targets. These central banks all set interest rates independently to bring inflation down (or up) to target in their country and in setting their interest rates will take into account a range of economic and monetary data. In setting their interest rates, central banks will make an assessment of the global threats to inflation. However, there is no direct link between interest rates set by one, or more, Central Bank, and the interest rate set by another.