

**WRITTEN QUESTION TO THE CHIEF MINISTER
BY DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 16th APRIL 2013**

Question

Will the Chief Minister state what effect the indexing of social rents at RPI plus 0.75% over the coming 30 years as proposed in the Housing Transformation Programme (HTP) will have in underlying inflation and explain how the Council of Ministers will ensure that inflation continues to be kept low?

How confident is he that inflation will remain within the range projected over the coming 30 year period of the HTP, and that rates for borrowing will remain low over this period?

Answer

Inflation

The indexing of social rents at RPI plus 0.75 per cent is anticipated to add less than 0.1 percentage points to both the headline rate of inflation (RPI) and to underlying inflation (RPIY).

This will not have any impact on the policy levers which the Council of Ministers should use to control inflation. These are:

1. Listen to the advice from the Fiscal Policy Panel on tax and spending policies so that the balance can be struck between allowing the economy to recover and at the same time ensuring that we do not run large deficits (which add to inflationary pressure) when the economy is growing strongly.
2. Continue to strengthen competition, which will help keep prices low by driving efficiency.
3. The new Economic Growth and Diversification Strategy agreed by the States in July 2012 will ensure that future growth is based on improved productivity (by focusing on developing the skills of local people, and by encouraging innovation, enterprise and inward investment) and therefore better supply-side capability which helps achieve growth without inflation.

One of the outcomes of the Housing Transformation Plan will be a net gain of 434 new homes to the proposed Housing Company, plus an additional 203 units to the Housing Trusts. This is a supply side impact which has the potential to result in a fall in market rents.

In the medium term, the States of Jersey Economics Unit forecasts inflation to remain around 3.0 per cent or less in 2013 and 2014. There is continuing downward pressure due to the level of spare capacity in the economy but this is balanced against the inherent volatility of global commodity prices. In the longer term, volatility in global prices will continue to influence inflation in Jersey but this should not distract from the policy issues which are likely to remain as above.

Borrowing

There can be some confidence around the costs of borrowing if, as anticipated; all funding is at fixed interest rates. Borrowing identified in the Housing Transformation Programme comes from both internal and external borrowing facilities.