3.9 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the impact of the U.K. decision to leave the European Union on the economic outlook: [9566]

Will the Minister inform Members what impact the U.K. decision to leave the European Union has had on the economic outlook for the next 2 years and beyond, and in particular what effects are likely to the forecasts of growth, inflation and tax revenues made by the Tax Forecasting Group over the period of the Medium Term Financial Plan Addition 2017-2019?

Senator A.J.H. Maclean (The Minister for Treasury and Resources):

We acknowledged in the Medium-Term Financial Plan Addition that the global economy has entered a new period of heightened uncertainty and financial market turbulence following the decision of the U.K. to leave the European Union. The precise implications for the U.K. economy, in both the short and long term, remains unclear to most commentators including the finest economists both nationally and internationally. It is therefore simply too soon for anybody to say what the exact implications will be for the economic outlook in Jersey over the next 2 years or beyond. However, in light of the vote I have already written to the Fiscal Policy Panel to seek an update on their March advice, in particular whether in their view there is a reason to change their advice at this stage in terms of the economic outlook, the need to continue to support the economy in the short term, and to aim to balance our books by 2018/2019. I expect that we will receive this advice within a week. I should add that their annual report, that is the Fiscal Policy Panel, is due by the end of August to further inform the Medium Term Financial Plan Addition debate.

3.9.1 Deputy G.P. Southern:

Is it the case that the figures for interest rates, for example, which have a marked impact upon our major industry, have been revised between September 2015 and May 2016, for 2016 down by 0.3 per cent, 2017 minus 0.6 per cent, 2018 minus 1.1 per cent and 2019 minus 1.0 per cent? Will he accept that those figures will be further depressed or likely to be further depressed before we come to debate the Medium Term Financial Plan Addition?

Senator A.J.H. Maclean:

With the greatest of respect, the Deputy is speculating. I have already pointed out that some of the finest economists in the U.K. and globally are struggling with the outlook in light of the U.K.'s decision and the impact not only on its own economy but also the E.U. and the possible, therefore, knock-on effect to Jersey. The Deputy was quoting from the Income Forecasting Group's latest update which was published in July. Again, these figures have changed since last year, as Members would expect. I continually point out that forecasts are exactly that and that is why it is important that they are regularly updated. I have also pointed out that I have written to the Fiscal Policy Panel for an update from them, an interim update before their formal annual report at the end of August. The data will change. At the moment there is a great deal of uncertainty. We will have to react accordingly when we know more about what the forecasts are going to be given some additional information over time.

3.9.2 Deputy M.R. Higgins:

We all accept there is going to be uncertainty but the Minister is aware that the Bank of England is considering a further reduction in interest rates being announced. Although the actual reduction has not been announced, certainly the Governor has been making indications that is the case. What figures have you calculated ... sorry, has the Minister calculated what the effect would be on the interest rates, or the profits made on interest, made by the banks in Jersey would have? How much further will that be reduced and what effect will that have on the shortfall in income?

Senator A.J.H. Maclean:

Well, first of all the Minister has not calculated but the Minister has advisers who are looking at a whole range of indicators. They are the Income Forecasting Group, which also include 2 external independents, and they have looked at - and the latest income forecasting numbers were published, as I have said, in July - they will be looked at again in light of the report that the Fiscal Policy Panel will publish at the end of August and will be updated further if there is a need to do so, depending on some of the points that the Deputy has referred to, like the possibility of interest rates reducing.

[11:00]

Nothing has happened yet, there is merely speculation, but that is one of the tools in the armoury for the Bank of England. They have a number of tools in their armoury should the U.K. economy need support in the coming weeks and months and, for that matter, years ahead and we will have to react when the facts are known.

3.9.3 The Deputy of St. John:

Understanding the uncertainties surrounding forecasting, as has always been the case, could the Minister explain and spell out in absolute clear terms what the flexibility that is built into the M.T.F.P. Addition is in order to deal with the consequences that we are unable to foresee?

Senator A.J.H. Maclean:

If I may say so, that is an excellent question from the Deputy of St. John. I have on many occasions said in this Assembly that it is absolutely critical that the Medium Term Financial Plan has flexibility built into it and it does. It has got a number of areas of flexibility, for example, we have insisted that the Consolidated Fund would have a minimum balance of £20 million per year and Members will have seen in the plan that was published that that is the case. There is £7 million of contingencies. One of the areas that the economy can be assisted or one would react to a downturn in economic fortunes, would be the automatic stabilisers and that would be through the Social Security Department as one might see the economy turn down, jobs being lost and therefore more benefits being paid out. Social Security has within its budget an additional £1 million and £2 million further held centrally through the Treasury Department. There is plenty of flexibility, we believe, within the plan to take into consideration the period of uncertainty that we face. If, however, the situation were to deteriorate further, we do of course have reserves and one of the considerations that we would need to bring forward to this Assembly would be the use of reserves to populate the Stabilisation Fund for targeted timely interventions in the economy should it be needed, I hasten to add, should it be needed in the future. We do not believe that at this stage that is likely to be the case.

3.9.4 The Deputy of St. John:

Supplementary. In the Minister's answer he referred to automatic stabilisers, a £1 million or £2 million contingency that is held in Social Security, or is it held by Treasury? Could the Minister just clear that up and also explain what reserves are left?

Senator A.J.H. Maclean:

In terms of the automatic stabilisers, it is £1 million held within the Social Security budget and there is £2 million held centrally within Treasury and Resources. It is interesting, perhaps, for Members to be made aware that during the course of the recessionary period that started in 2008 there were similar contingencies in place within Social Security, and Members will be aware of the significant numbers of jobs that were lost and the stress the economy was under. Nevertheless, over the 3-year period of the first Medium Term Financial Plan there was enough in those contingencies and in fact at the end of the period there was £12 million of underspend left which does suggest that some of the investment that went into areas like Back to Work, was very successful indeed.

3.9.5 Deputy G.P. Southern:

Will the Minister just briefly focus on figures that we have some understanding of, without any doubt? The figures for 2016, which we are in, show that real G.V.A. (Gross Value Added) down by 0.4; R.P.I. (Retail Price Index) down by 0.2; nominal G.V.A. down by 0.4; compensation of employees, the source of our tax, down by 0.7; average earnings down by 0.2; interest rates down by 0.3. Does he have any indicators in his armoury to suggest that any of those figures will improve between 2016 and 2017?

Senator A.J.H. Maclean:

That is why it is extremely important that the Income Forecasting Group, in particular, and the economic advice that independently is received through the F.P.P. (Fiscal Policy Panel), looks at all the prevailing factors and takes those into consideration when forecasting over the term of the M.T.F.P. and why those forecasts are updated on a regular basis. I think what we have seen in recent years is an improvement although there have been some drops that the Deputy has referred to, for example banking deposits. I am not sure whether he mentioned those, they did fall in 2015 driven largely by foreign currency deposits which are impacted upon by variations in exchange rates. That is not surprising but we have also seen - and my colleague behind, Senator Routier, was alluding to the improvement in the job market - employment in the financial services sector, in particular, in December 2015 was at its highest level since June 2009. So although we have seen some stresses in the banking area, we have seen trust and legal sectors growing. There is a fluid and volatile environment. There are some positive signs we have seen in the economy. We have seen extra income coming in last year generally as a result of improved performance within the economy. Part of it was an accounting policy change, I accept, but nevertheless the income was up and that is encouraging. We also saw areas, within the financial services sector, where bonuses, 5,500 per employee, were 12 per cent higher than in 2014. So there are some encouraging signs within the economy. We do face some uncertainties ahead and we have flexibility within the plan to deal with the majority of that volatile area.