

2016.04.26

3.14 Deputy A.D. Lewis of the Minister for Treasury and Resources regarding economic assumptions which forecast a growth in average earnings:

Further to the economic assumptions in the draft 2016 Budget which forecasts a growth in average earnings of 3 per cent in 2016 and 4 per cent in 2017, what assessment was made of the likelihood of such growth levels being achieved? Do economic indicators suggest that such growth will occur and if this level of wage growth is not achieved what impact will this have on income tax receipts?

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

The Deputy will be aware that F.P.P. (Fiscal Policy Panel) oversaw the economic assumptions that we used in Budget 2016. They arrived at them by considering all the economic information available at that time. The Fiscal Policy Panel have since then updated these economic assumptions, indeed only a few weeks ago in March, as part of the income forecasting process. They have revised the average earnings growth down in 2016 to 2.8 per cent and down in 2017 to 3.6 per cent. The F.P.P. letter to me, explaining their latest assessment of the economic situation, was sent to all States Members and is published on their website. They did highlight that risks in the economic outlook have increased further. If earnings growth turns out lower than expected then it is likely to lead to lower growth in tax receipts. However, this will depend on what else changes in the forecast, for example; inflation and other factors like measures agreed by this Assembly in future budgets.

3.14.1 Deputy A.D. Lewis:

The Minister is therefore suggesting that the Fiscal Policy Panel is still forecasting a 6 per cent growth in wages over the next 2 years. Does the Minister really believe that that is realistic, a 6 per cent growth in earnings, in wages in the next 2 years? Could the Minister confirm that he has full confidence in the forecasting of his department and the advice of the Fiscal Policy Panel?

Senator A.J.H. Maclean:

I do have full confidence not only in the forecasting of the department but in particular the oversight and the exceptional level of expertise contained within the Fiscal Policy Panel. These are independent economists who advise us on fiscal matters. It is their input and, indeed, when considering further afield than Jersey the insights that they are able to give to the forecasting that does give me confidence but I would emphasise to Members that forecasts are exactly that. They have to be updated and to be certain they will change and we have to be flexible, as I was pointing out earlier on this morning, to adapt to any changes that come in the future.

3.14.2 Deputy G.P. Southern:

Is the F.P.P. proposing to keep these economic indicators under review as we go into the second stage of M.T.F.P. or will the March figures be maintained and in particular is the F.P.P. likely - does he believe - to revise the figures for one, 2, 3 years hence?

Senator A.J.H. Maclean:

Yes, the Income Forecasting Group are still deliberating on the income forecasts which will be relevant. The most updated forecast which will be relevant for the Medium Term Financial Plan addition which, as Members would know, will be lodged at the end of June. Indeed, yes, the F.P.P. will continue to have oversight during the period of the M.T.F.P. and I have no doubt, as I said a moment ago, that the forecast contained will be, during the course of this period, revised as economic conditions, external largely to Jersey, will impact on our fortunes indeed in a positive or possibly in a negative way.

3.14.3 Deputy R. Labey:

What contingency measures will be in place or does the Minister for Economic Development ... sorry, the Minister for Treasury and Resources envisage if the economic growth is not achieved?

Senator A.J.H. Maclean:

That was an interesting slip of the tongue by the Deputy. Of course, economic growth is an important aspect with regard to the future. We need to continue to invest in the economy to ensure that it diversifies, to ensure that we can maintain what we have in terms of market share but look to new markets and new opportunities and I am confident that (a) the investment is there, and (b) it is delivering returns. I am pleased to see that we have seen growth return in 2014 and job levels are returning, particularly in our important sector of financial services, to levels last seen pre the recession. These are all encouraging signs but, make no mistake, there are challenges ahead and that is certainly the point raised in the letter by the F.P.P. that the risks in the euro area in particular, in China, emerging markets, the U.K. referendum that is upcoming and many other issues are matters we have to continue to watch and continue to monitor and that is why prudence in forecasting has been important. I am pleased to see that we have, for example, underspends. I am pleased to see that we have the flexibility that we built-in by the measures approved by this Assembly in the Budget 2016. We need to continue to be prudent. We need to continue to invest in key priorities and if we do that I think we have a very strong and positive future ahead of us despite the challenges.

3.14.4 Deputy R. Labey:

The Minister did not answer my question. I asked what contingencies are in place or will be in place if the economic growth is not achieved. That is not the same as, we need to be prudent.

Senator A.J.H. Maclean:

Well, one of the flexibilities that I have talked about, which is exactly what the Deputy is talking about, is that we have made it clear that we want to keep the Reserve Fund - the Consolidated Fund - with a minimum level of £20 million through each of the years through the M.T.F.P. That gives us flexibility to a certain extent should we underscore with regard to the tax receipts that we expect. We have also got contingencies built-in. There is £7 million of contingencies in each and every year. So there is flexibility and, of course, the fall-back position is ultimately our reserves, but I have been particularly keen that we forecast prudently through this Medium Term Financial Plan. I believe that is what has been done. We have strengthened the Income Forecasting Group. We have the expertise of the Fiscal Policy Panel and I do believe that we have and it will be demonstrated, as we move forward, that backdrop of flexibility through prudent forecasting.

3.14.5 The Deputy of St. John:

Does the Minister place too much reliance on the F.P.P. when setting policy objectives and if not, how does he test the theories?

Senator A.J.H. Maclean:

A good question from the Deputy. Of course, almost unanswerable I would suggest but I will attempt to return it with some top spin. I mean clearly we have to rely on external advice. The importance of the Fiscal Policy Panel cannot be underestimated and indeed the balance of expertise contained within that panel is equally important but we do have internally the Income Forecasting Group. We have strengthened that, as I have already said this morning, and we have added some 2 now independent members. Originally the Deputy would know there was one independent

member. We have now added another independent member and I think that broad cross-section of advice is something from a Ministerial point of view, in terms of setting of policy and ensuring the direction is appropriate, does give me a degree of comfort.

3.14.6 The Deputy of St. John:

Supplementary. Does the Minister believe that there is a role for the Economics Unit within this and that they have a role to play in terms of testing the theories as well?

Senator A.J.H. Maclean:

Absolutely. In fact the Economics Unit, as the Deputy I think is aware, sits on and is part of the Income Forecasting Group. The Economic Adviser is part of that group as well. It is a broad group with a wide range of experience and we have both got internal expertise but also external independents advising which is an important new development or newer development.

3.14.7 Deputy A.D. Lewis:

The Minister will know that I am an eternal optimist but I am also a realist and I am not seeing these types of wage increases in the market currently or forecast to happen in this real market that we are in next year. We are still talking about a 6 per cent real increase in income. There has been a trend over the last decade of downgrading personal income tax forecasts. Does the Minister still have full confidence in his forecasting models, not the Fiscal Policy Panel, but the models that they use and perhaps other advisers use because this just does not appear to be, on the face value, realistic and has he discussed this matter with the likes of the Chamber of Commerce, I.o.D. (Institute of Directors), and what surveys does he have to back up the fact that he thinks wages will increase in Jersey in the next 2 years by 6 per cent?

Senator A.J.H. Maclean:

I can say that when the Income Forecasting Group are considering forecasts they do not do it sitting in an ivory tower. As I have said, we have added independents and those are people from industry, individuals who are members of the august bodies mentioned by the Deputy, such as the I.o.D. and the Chamber of Commerce, and indeed the forecasting group. Individuals go out speaking to industry to assess from the coalface what experiences they are seeing with their own workforces. So it is not just predicting way out into the future, considering the past as well, which is important, but some real-time data of what is going on in the marketplace within the Island, but that is not because we cannot rely upon what is happening in the Island. We are largely an export economy so we need to look further afield and advice, therefore, from the F.P.P., that I keep mentioning this morning, is important because their contacts and their expertise do give a different dimension that is valuable when we are considering a future forecast for the Island that is so important in terms of ensuring that we have sustainable public finances into the future. Indeed, the forecast may look aggressive in terms of wage growth but they have been tested and retested. They are, however, forecasts and whether it is a local forecast or a forecast further afield in the U.K. you will see those being revised as circumstances change. We need to be able to adapt. We need to be flexible but I am satisfied with the model as the Deputy requested. That has been adjusted with the new Income Forecasting Group and I do believe we have the right people in the right place with the right model to give us the best possible advice although I keep repeating forecasts will change.