

**QUESTION TO BE ASKED OF THE PRESIDENT OF THE FINANCE AND ECONOMICS
COMMITTEE ON TUESDAY 18th MARCH 2003, BY SENATOR E.P. VIBERT**

Question

Will the President inform members whether the Committee intends to develop a new strategy in order to control inflation, which, last year, was described by his predecessor as 'Jersey's most serious financial problem', and, if so, would he advise whether the Committee intends to bring this strategy to the Assembly for consideration, and when?

Answer

The current Finance and Economics Committee remains of the view that inflation is too high in Jersey.

The tools put in place by the States anti-inflation strategy, P.125/2000, remain crucial to the control of inflation in the Island. This is especially important as, unlike most other jurisdictions, the control of interest rates, the most effective anti-inflation measure, is unavailable to Jersey.

It was always recognised that the solution would not be easy and that, as the Strategy states, there are no "quick fixes".

In the long-term fight against inflation, the initiatives set in place by the Strategy remain essential, none more so than the control of States' expenditure. The deficits caused by States' expenditure growing too rapidly, (as it did in the past), have undoubtedly contributed to the level of inflation in the Island.

Balancing the budget, especially through the control of public expenditure, continues to be the Finance and Economics Committee's primary objective. This is true both from the viewpoint of curbing inflation but is also necessary in order to avoid excessive tax increases and hence reduce the Island's competitiveness.

Relative success has been achieved by reducing increases in expenditure to less extravagant levels, in that Presidents and their Committees have, over the last two years, assisted the Finance and Economics Committee in exercising previously unforeseen degrees of control over the rises in States expenditure, yet if we are to avoid inflationary deficits then even greater control and restraint is necessary.

One of the other policy measures included in the approved anti-inflation strategy was the introduction of a Competition Law for Jersey. Robust and effective competition policies have been shown elsewhere to be extremely effective in the fight against inflation. The Finance and Economics Committee looks forward to supporting the Economic Development Committee when it brings this important law to the States very shortly.

Whilst the Committee is satisfied that it should continue with the measures set in place by the existing Strategy, it was hoped that more progress in bringing down the headline inflation figure would have been achieved by now.

More needs to be done. As long as our inflation rate remains above that of the UK our competitive position will surely be eroded with painful and significant consequences.

A group has been set-up between the Finance and Economics, Policy and Resources and the Economic Development Committees to co-ordinate Economic Policy matters. This group will consist of the Presidents of the three Committees and chaired by the Vice-President of the Finance and Economics Committee.

One of this group's major tasks will be to seek to improve understanding about the causes of inflation. Working with advisors, this group will discuss what additional measures could be introduced to strengthen and supplement our existing policies in a manner which is consistent with our Fiscal Strategy and make recommendations to the Finance and Economics Committee.

The fight against inflation is not just one for the Finance and Economics Committee, nor just the States, but one which must be addressed in the Island as a whole. The best way this Assembly can show its leadership and commitment is to curb its enthusiasm for spending. At the end of the day that remains, in my view, one of the major causes of inflation in the Island.