

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 16th NOVEMBER 2010**

Question

Does the Minister have any firm economic indicators that the economy is in recovery and if so what are they?

Is he satisfied that the imposition of tax rises in the coming 6 months will not depress the economic outlook further, and if so, give his reasons?

Further, will he consider use of the Strategic Reserve to alleviate conditions for residents when the economy is in a state that he describes as “structural deficit”?

Answer

The Minister has not stated that the economy is in recovery now. However, the Minister does take advice from the States Economics Unit and the Fiscal Policy Panel as to the likely direction of the economy. Both their forecasts are pointing to weak growth next year, albeit with significant uncertainty. The main reasons for these forecasts are:

- the world economy is forecast to continue to recover this year and next and financial markets have stabilised and strengthened since the global crisis;
- the latest market expectations are that interest rates will start to rise towards the end of 2011 (which will start to ease some of the pressure on banking profitability);
- the Business Tendency Survey indicates that the finance sector is already reporting improvements in business activity and is now optimistic about future conditions and business activity;
- improved expectations in the Financial Institutions Survey regarding profitability.

The latest assessment of the Fiscal Policy Panel will be published on 29 November.

The only tax rises proposed for the coming six months are the increase in impôts and International Services Entities (ISE) Fees proposed in the draft Budget 2011 and the Minister is confident that, given the latest assessments of the economy referred to above, such minor increases will not pose a risk to recovery.

The Strategic Reserve, as agreed by the States in 2006, is only to be used in exceptional circumstances to insulate the Island economy from severe structural decline such as the sudden collapse of a major Island industry. This is not what we face now and the Deputy should not confuse major structural decline with a structural deficit in States finances as they are different things. However, should the economy not recover as forecast in coming years and continue to decline the Minister would take further economic advice and reassess the situation.