

7. Statement by the Minister for Treasury and Resources regarding the Stabilisation Fund

The Deputy of St. John:

On a point of order in reply to the Minister's statement, I think it is totally offensive to this House to have to read it in the *Evening Post* before the Minister makes that statement. [Approbation]

7.1 Senator P.F.C. Ozouf (The Minister for Treasury and Resources):

If I may say, the Deputy is quite right, the statements are made to this Assembly first. Statements are normally made before lunchtime before deadlines of the media. This did not happen on this occasion and I apologise for any slight to Members. Members will see in the statement there is a great deal more detail and quite a lot of substance in it that is not covered in that rather speculative story. I apologise to the Deputy and other Members.

Deputy G.P. Southern:

May I follow that up, please? Is it not the case that, in fact, rather than being in this Chamber this morning, the Minister was deciding what the wording should be on this statement and that it is an unfortunate precedent to set on a new term that the press gets information before this House does?

Senator P.F.C. Ozouf:

This Assembly gets the information. This is an important issue on which I wanted to ensure that Members were informed and the Island was informed of our latest thinking on economic matters. So I will get on with the statement, if I may. Members will be aware that the international economic situation is changing very rapidly. Recently, the I.M.F. (International Monetary Fund) has said that the world economy faces its worst conditions for 60 years. Today I want to set out to Members the work that is being undertaken to assess the implications for Jersey of the global economic difficulties and to explain how we intend to respond. Jersey is, of course, not immune to the global turmoil. It was and is only a question of when and to what extent, as the Chief Minister explained, our economy will be affected. The finance industry and the economy as a whole has remained remarkably resilient during the early stages of the credit crunch. However, it is fair to say, as was to be expected, conditions are beginning to change. The latest data that we have points to a slowdown in economy activity in both the financial and non-financial service sectors of the economy, particularly in construction and retail. There have been the first cases of job losses and there is speculation that there may be more to come. As a responsible government, we must assess properly the extent and the length of any downturn in our Island economy. The previous Assembly supported the Council of Minister's proposition to establish a new fiscal framework. This set up a Stabilisation Fund to enable us to put money aside in the good times for use in stimulating the economy, and by that I mean support for local jobs and businesses in tougher times. We have also established the Fiscal Policy Panel, a team of 3 independent and leading international economists to advise the Treasury Minister and the Assembly on when the time is right to use the Stabilisation Fund and how best to maximise the economic benefits we get from it. Many countries, large and small, are having to take action to boost their economies. While I am not saying the next period is going to be easy, Jersey had the foresight to set aside almost £140 million in the Stabilisation Fund. Such prudent decisions put us in a much stronger position than many other economies which face equally challenging economic conditions without the cash in the bank to offset the prospect of mounting government debt. As I have said, we must not be complacent. We have limited resources at our disposal and we must put them at the right time to deliver the greatest benefit for all Islanders. The Fiscal Policy Panel has set out - and I have accepted - clear guidelines on how we should consider use of the Stabilisation Fund. Any consideration for withdrawals should pass 3 tests: timely, the impact must be at a time of the economic downturn, not before or after the event; targeted, the impact must be targeted on those individuals and businesses that will deliver the biggest impact;

temporary, policy should be temporary and must not have a permanent impact on government spending or on tax revenue. These are known as the 3Ts and I intend to apply these principles whenever the Assembly is asked to consider use of the Stabilisation Fund. I agree with the Chief Minister that we must be disciplined and ensure that any proposals we bring forward focus on short-term investment aimed at helping local people and businesses to weather the storm, but they must not be used to fund new initiatives that we would like to do in any event. During the panel's last visit on 6th January 2009, the Council of Ministers and I had a detailed discussion with them about the research that we have commissioned and the plans we are developing. The panel was very supportive of this approach and I would like to outline to Members the work that is being undertaken. Firstly, in the face of a rapidly changing external economic environment, I have asked the Economic Adviser and the Economic Development Department to assess the likely trends in the economy in 2009 and continue to do this throughout the year. They will be analysing both local and worldwide economic development to anticipate changes in G.V.A. (gross value added) and to assess how key business sectors are performing using detailed information from the local business community. This work was started some time ago and will be discussed by the Council of Ministers during February and shared with Members. We will also ask the Fiscal Policy Panel to judge whether this evidence changes their assessment of the economic outlook in Jersey. Specifically, I will ask the panel to recommend whether or not we should withdraw money from the Stabilisation Fund to support the local economy. Secondly, the F.P.P. (Fiscal Policy Panel) suggested in the October update to their annual report that we should be drawing up contingency plans on what we should do if the economy deteriorated more rapidly than expected. So, in parallel with the research I have already outlined, we are developing a package of economic stimulus measures that we can implement at short notice to support local people and businesses if necessary. The past decision to put aside £140 million currently in the Stabilisation Fund means that if required we can put together an economic stimulus package of real benefit. Members will, of course, want to listen to the F.P.P. as to the level of stimulus necessary, but I do want to signal that given the severity of the global economic downturn the size of the fiscal stimulus appropriate is likely to be a package running into tens of millions of pounds. Our plans for an economic stimulus package will be completed and then considered by the Council of Ministers during the first week of March. We will discuss it with Scrutiny and States Members and very quickly ask the F.P.P. whether the economic stimulus package is robust and sensible and if the time is right to implement it. Of course, the final decision as to what and when will rest with States Members, and I hope that we can work together to ensure that our decisions are timely and effective. While an economic stimulus package will be an important response to an economy under pressure, it is also important to bear in mind the other factors that will help support the economy this year. Firstly, existing resources are already working to help people and businesses. The Skills Executive is researching and planning appropriate actions. Social Security is supporting people who are looking for work, and Economic Development is working with businesses. Secondly, global economic policy, whether through a massive reduction in interest rates, fiscal stimulus or other direct support for the financial system, will also help mitigate some of the effects of the credit crunch on the Island. Overall, I believe that we are ready for a well-judged and timely response to changing economic conditions. We are acting now so we can offer further assistance to people and businesses experiencing difficulties. We must try to intervene in the most effective manner, in a way that will support our long-term economic objectives of economic growth, low inflation and employment opportunities for local people. It is often said that our economic prospects are determined by factors outside our control. This is not just the case of our Island economy but of many others in today's global economy. However, by planning and ultimately implementing policies funded by our Stabilisation Fund, I hope we can demonstrate that sensible economic management means that we have more to say in how our economy performs than has been the case in the past. This can only be encouraging for Islanders and businesses and show that the

strong economic performance we have enjoyed in recent years has not been squandered and can help support us through difficult times ahead.

7.1.1 Deputy M.R. Higgins:

Is it not the case that the credit crunch has already affected the Island in that since September 2007 structured finance business involving structured investment vehicles has dried up and that funds being channelled into the London interbank market and the commercial paper market has reduced? Would the Minister just confirm that is the case, please?

Senator P.F.C. Ozouf:

The Island economy and our financial services industry has been affected in a variety of ways, of which that may well be one of the cases. What we are doing, working with Economic Development and Jersey Finance, is carrying out very detailed assessments on all our financial services sectors to understand the full implications of all of these pressures. These pressures are due to the global slowdown. They are due to rising commodity prices, due to a number of different effects. I am determined that working with colleagues on the Council of Ministers and other agencies that we have a full and detailed understanding in order for us to predict what action is necessary and what the effects on the local economy are going to be.

7.1.2 Deputy M.R. Higgins:

Just another question following on from the Minister's statement, he mentions under his 3Ts that withdrawals from the Stabilisation Fund must be timely and, in particular, the impact must be at the time of the economic downturn, not before and not after the event. Is it not true, though, that the statistics evidencing a recession are a lagging indicator and that we would already be in recession probably for at least 2 quarters, taking the official definition of a recession, and that, therefore, action may well be taken or should be taken well before the indicators are telling us we are in the recession which we have already been in for 9 months?

Senator P.F.C. Ozouf:

The words of the Chief Minister will no doubt be recalled by the Deputy when he said that we do not believe that the Jersey economy is in recession. We believe that there is a global recession which we will not be insulated for. The reason for making this statement today and saying to Members very clearly that we are carrying out detailed research on the economy is precisely to do what the Deputy is asking, to forecast the likely impact on the economy and to take action before there are serious issues which emerge locally, which we can do with the Stabilisation Fund.

7.1.3 The Deputy of St. Mary:

Two questions in one, if I may. Firstly, you mentioned an economic stimulus package. Will the Minister confirm that the Council of Ministers will look at stimulating investment in order to save in the long term - for instance, home insulation - and not stimulating consumption, as has been shown to fail in the U.K. where you throw money at people and they refuse to spend it on domestic consumption. My second question is when you mentioned ...

The Deputy Bailiff:

One moment, Deputy, I think Standing Orders say one question at a time.

Senator P.F.C. Ozouf:

I want to be very clear to Members that the rules which the F.P.P. will be asked to look at in terms of the withdrawals are going to be very tough. This is not a blank chequebook for all sorts of spending sprees that Members may have or others may have. They are going to be incredibly tightly drawn, as they must be. In terms of insulation, there could be a good case for accelerating some investment in bringing forward maintenance to keep people in work. I draw to the

Deputy's attention the fact that we are already spending £1 million. As to his points on investment, I want to ensure that Jersey is positioned in the best possible place for the upturn when it happens. We want a leaner, more efficient economy. Investment use of the Stabilisation Fund will mean that we are both fitter and in a better place in order to take as much of the next rising tide as possible. Investment is absolutely the right word.

The Deputy of St. Mary:

A supplementary, if I may. The Minister mentions rising tide. I am very troubled in this document. He talks about a one-year horizon. I would rather see a 10-year horizon.

Senator P.F.C. Ozouf:

The Deputy is right to be cautious and that is exactly the kind of econometric analysis that we are doing on the economy. We are doing 2 scenarios initially: a 2-year freeze and a 4-year freeze, a much more detailed, maybe fundamental change of the global economy which will impact on Jersey, and I want to assure Members that we are taking the longest term possible view. I want to ensure that any withdrawals from the Stabilisation Fund will be sufficient to take Jersey through whatever recession we are going to be seeing, whether it be a 2-year or 4-year cycle. If it is longer than that, then all bets are off and we are facing, not unlike other places, a fundamentally different world, but I am not expecting that.

7.1.4 The Connétable of St. Helier:

The silver lining, if there is one, of the current situation should be that the Island is more favourable as a tourist destination, both from France and the U.K. Could the Minister say if any of this targeted money is going to be going into improving our tourism offer?

Senator P.F.C. Ozouf:

I would expect advice from the Economic Development Minister in respect of all aspects of the economy. Clearly, there are some opportunities, but there are some threats in relation to tourism and the Economic Development Minister will be a key partner. We are setting up a subcommittee of the Council of Ministers on this issue, and he is a key partner in terms of advising what action is necessary in order to protect a number of sectors of the economy and, of course, tourism is absolutely important to that.

7.1.5 The Deputy of St. Mary:

I come to my second question now. The Minister mentioned the second "T" targeted. I would like to know what the Council of Ministers' view is likely to be or what the Minister's view is on the need and the desirability to support small and medium enterprises as a route to developing the resilience of this Island in case of a longer term downturn.

Senator P.F.C. Ozouf:

Support of small and medium-sized businesses is absolutely going to be at the heart, I imagine, of any fiscal stimulus package. We have already done a great deal in setting up Jersey Enterprise in assisting the small Jersey business venture in terms of giving business advice. It is absolutely right that small and medium-sized sectors will be receiving all the attention necessary and all the assistance necessary. I do not want to see and the Economic Development Minister and Council of Ministers colleagues do not want to see any businesses in Jersey failing because, for example, they do not have access to appropriate credit. So extending the small loans guarantee scheme, looking at ways that we can work with banks to ensure that there is appropriate credit; no good business must fail because they cannot get credit.

7.1.6 The Deputy of Grouville:

In 2007, we enjoyed 7 per cent economic growth. Could the Minister confirm how many (j) categories were brought in to support that growth and what protection local people are going to have now we are in recession?

Senator P.F.C. Ozouf:

I would need notice of that. I know that I am acting Housing Minister, but I will get that number for the Deputy if she wishes. There is some criticism that we had 7 per cent economic growth in the Island. The fact that we enjoyed 7 per cent economic growth and the tax revenue that followed meant that we were able to fortify our Stabilisation Fund, which has put us in a remarkable position compared to other places in order to take us through a much more difficult time. The Deputy does raise an important point of the multi-ministry approach needed to deal with the downturn. The Economic Development Minister is going to need to consider, with the Housing Minister, the approach to Regulations of Undertaking to ensure that local people are given first priority to local jobs. That is the work that is necessary and that is the work that will be carried out in accordance with the law and in accordance with the new emerging picture necessary to protect businesses and protect Islanders.

The Deputy of Grouville:

I did, in fact, say we enjoyed 7 per cent economic growth. However, the Strategic Plan was aiming at 2 per cent. Would the Minister say that this economic growth was sustainable?

Senator P.F.C. Ozouf:

It was not sustainable in terms of it not being able to be repeated, but the fact that we delivered 7 per cent of economic growth with low inflation, with limited numbers of population increases, meant that our economy became more productive and that was not only shared by the financial services industry. Other commentators would say that we have positioned ourselves extremely well. What I want to ensure is for the next rising tide that we are able to take as much of the economic growth as possible without growing our population. That is the aim: to have an economy which most Islanders or the greatest number of Islanders possible can share. Economic growth raises the standard of living of the community, and that is what we want to ensure.

7.1.7 Deputy T.A. Vallois of St. Saviour:

The Minister mentions the Fiscal Policy Panel. However, a recommendation of these independent economists has already been ignored with regard to the Annual Business Plan and the expenditure we are looking at doing. Could the Minister, therefore, assure the Assembly that all recommendations with regard to the stimulus package will be looked at and considered very carefully going forward?

Senator P.F.C. Ozouf:

The Deputy is absolutely right to say that it is important that advice is listened to. I have to say that the F.P.P.'s approach in relation to the Stabilisation Fund arrangements has been quick and responsive. That information of the F.P.P. will be published to Members and to the Island and they will be able to reconcile the proposals brought by the Council of Ministers together with the F.P.P. and I expect the Deputy and other colleagues to ensure that we are held to account that that advice is stuck to. What I would say is that £10 million injected in the economy is, by coincidence, going to be helping. It is its own mini stimulus package in terms of taking the economy through difficult times. But I accept the general point that she makes.

The Deputy Bailiff:

That completes questions on the statement.