Jersey's Fiscal Policy Panel

News release

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FPP supports Government Plan's short-term economic stimulus and borrowing; but highlights need to return to sustainable government finances

The Fiscal Policy Panel (FPP) has published its 2020 Annual Report, to provide the Treasury Minister and the States Assembly with advice on public finances ahead of the Government Plan debate in December.

Dame Kate Barker, the Panel's Chair, commented "This is a very challenging time to set out taxation and spending plans for a four-year period. The coronavirus pandemic has resulted in a global recession and put considerable strain on public finances for governments around the world. This has also been the case in Jersey with the pandemic estimated to result in budgetary pressures of over £800m. The Government Plan sets out a plan to close the deficit by 2024, in line with the Panel's advice, but the Government should plan now how their Plan could be adapted as economic conditions develop."

The Panel's forecast is for the economy to shrink by 7.6% this year, with only a partial recovery next year. This is very similar to their forecast from August but is subject to a substantial degree of uncertainty regarding the depth of the recession and the pace of the recovery. The necessary restrictions on economic activity, particularly in the second quarter of this year, has inevitably resulted in a recession – but the impact is uneven across sectors. While available indicators suggest hospitality, construction and retail were worst hit, the recovery has been slowest within hospitality. Sectors like financial services and digital have fared better due to their easier transition to remote working.

Dame Kate added "The Government has rightly put considerable resources into supporting the economy this year, and this will continue into 2021 with the Co-Funded Payroll Scheme, the Fiscal Stimulus Fund and the temporary cut to Social Security contributions. The support provided has helped to cushion the blow from Covid-19, and there are clear signs of a recovery, though sectors like hospitality continue to struggle due to their reliance on travel and social contact. Jersey's finance sector has adapted well to the challenges of the pandemic but profits in the banking sector are likely to come under pressure due to the low interest rate environment.

“It is right that Government provides support to the economy, including the use of borrowing, while there is spare capacity. However, some of the impact on the economy seems likely to be permanent and therefore Jersey’s economy will be smaller in the long term than previously expected. The extent of this structural damage will become clearer as the global pandemic is brought under control, enabling economic recovery. The permanent adverse impact on the economy will result in a worse underlying position for the public finances and it will be important to address this in the medium term.

“The path of recovery is uncertain, both for the global and local economies. This will require flexibility in fiscal policy – providing stimulus when needed but ensuring that the budget can be brought back to balance when the economy has recovered.”

The Panel’s full set of recommendations are:

1. It is appropriate that the Government Plan does not propose significant new or increased revenue streams in 2021, as large increases in revenue may undermine the economy recovery. However, it is important that Government considers its options for revenue-raising in the future, which is likely to be a key element of any plan to close the structural deficit.
2. The Panel recommends that the next Government Plan includes a clear estimate of the size of the structural deficit and breaks down the measures intended to close it, similar to the breakdown provided for MTFP2. Government should seek to consider what alternative approaches might be developed to close the deficit, if the rebalancing measures fall short of the £120m target.
3. More work should be undertaken to consider how the capital programme can be managed to ensure that it can contribute to the economic recovery but avoiding creating capacity constraints within the construction sector.
4. The combined impact of the deficits in both the Consolidated Fund and Social Security Fund, in addition to the large combined capital programme, provide significant support to the economy, particularly in the early part of the Government Plan period. This support should be unwound as the economy recovers, though this should not be a reason to delay necessary capital expenditure.
5. In the long term, increasing the Strategic Reserve should remain a priority but it is not advisable to make any transfers to the Reserve over the Government Plan period, given the pressure already on the Consolidated Fund.

6. The Panel agrees that it would not be prudent to draw heavily on the Strategic Reserve at the current juncture, unless the Covid-19 crisis has an even more significant impact. The purpose of the Reserve is to insulate the economy against significant structural decline. While Covid-19 has led to a severe recession, it is important to protect the Strategic Reserve to maintain flexibility to deal with further shocks.
7. The plan to borrow to fund the health and economic costs of the pandemic is appropriate under the fiscal framework, which allows borrowing under times of economic duress. With the Stabilisation Fund forecast to be exhausted this year, it remains important that government finances retain the flexibility to respond to changes in both the medical and economic situation.
8. Any review of the Social Security Fund should be taken in the context of the fiscal framework guideline to increase public sector net worth.
9. The establishment of an Infrastructure Fund should be rigorously compared with other options, including further borrowing or the use of reserves.
10. Projects considered for funding under both the Economic Recovery funding and the Fiscal Stimulus Fund should be assessed against their ability to have a permanent positive impact on the productivity of the economy overall.

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Contact

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Notes to Editors

1. The Fiscal Policy Panel's role is to give the Treasury and Resources Minister and States Members independent economic advice on matters relating to tax and spending policy and in particular on the use of the Stabilisation Fund and Strategic Reserve.
2. The Panel and its reporting procedures have been placed on a statutory basis from 2014.
3. The three members of the Fiscal Policy Panel are Dame Kate Barker (Chair), Professor Francis Breedon and Professor Richard Davies:

   Dame Kate Barker was appointed to the FPP in 2014, and has been Chair since 2016. She has been a non-executive director of Man Group plc since April 2017. She is chairman of trustees for the British Coal Staff Superannuation Scheme, and also chairs the trustee board of the Universities Superannuation Scheme of the Yorkshire Building Society pension scheme. She led a quality review of the UK National Accounts for the Office for National Statistics in 2014 and has chaired a commission on Health and Social Care for the King's Fund. She was a member of the Monetary Policy Committee (MPC) at the Bank of England (2001 to 2010). She led two major policy reviews reporting to the Chancellor and the Secretary of State for Communities and Local Government: Barker Review of UK Housing Supply (2003 to 2004), Barker Review of Land-Use Planning (2005 to 2006). She was created Dame Commander of the Order of the British Empire (DBE) for services to the economy in 2014.

   Professor Francis Breedon was appointed to the FFP in 2016. He is Professor of Economics and Finance at Queen Mary University of London, a role which he has held since 2010. He has wide-ranging experience as a professional economist, including practical and academic experience. As well as working at the Bank of England for seven years, he has held senior economics positions in the private sector and continues to consult for a number of financial firms. His academic research focusses on international finance, and covers international macroeconomics and fiscal policy, including government funding and sovereign wealth funds. He is also a Commissioner in the Scottish Fiscal Commission.

   Professor Richard Davies was appointed to the FPP in 2018. He holds the inaugural Chair in the Public Understanding of Economics at Bristol University, is director of the Economics Observatory, and a fellow at the Centre for Economic Performance, part of the London School of Economics ("LSE"). Previously he was Chief of Staff of the LSE's Growth Commission, Chair of the Council of Economic Advisors at HM Treasury, and worked at the Bank of England and the UK Competition Commission. In addition to research and policy, Richard's work includes writing for the public: he was previously Economics Editor at *The Economist*, authoring their guide to economics and, more recently, *Extreme Economies*, published by Penguin.

4. Previous publications by the Panel, including its economic assumptions published in August 2020, can be found at www.gov.je/FiscalPolicyPanel