

# **The Guernsey Economy & Fiscal Position**

## **October 2011**

# Presentation outline

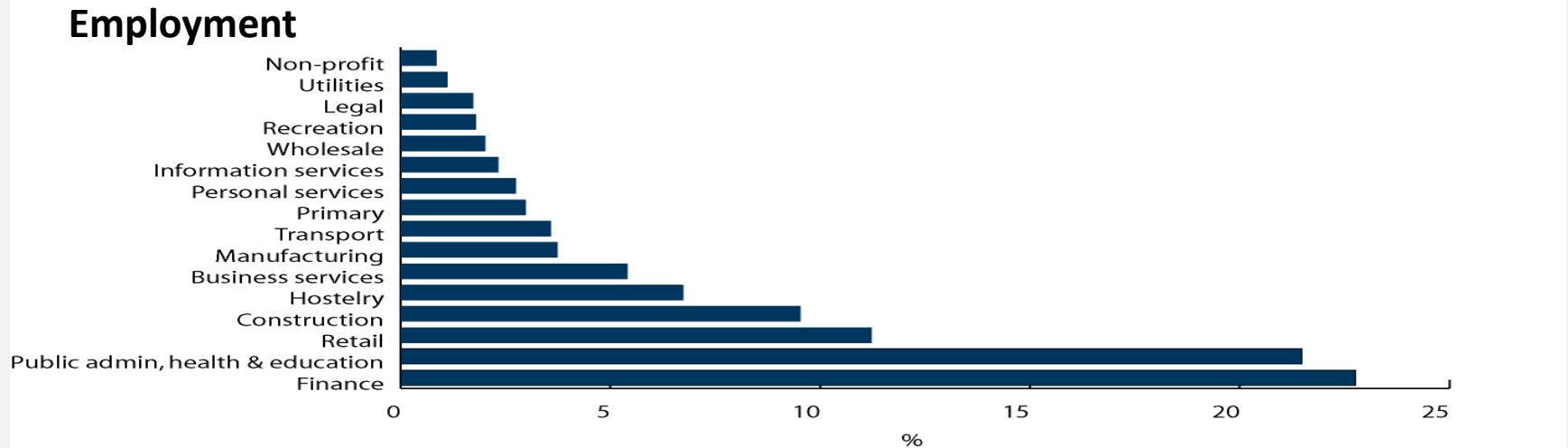
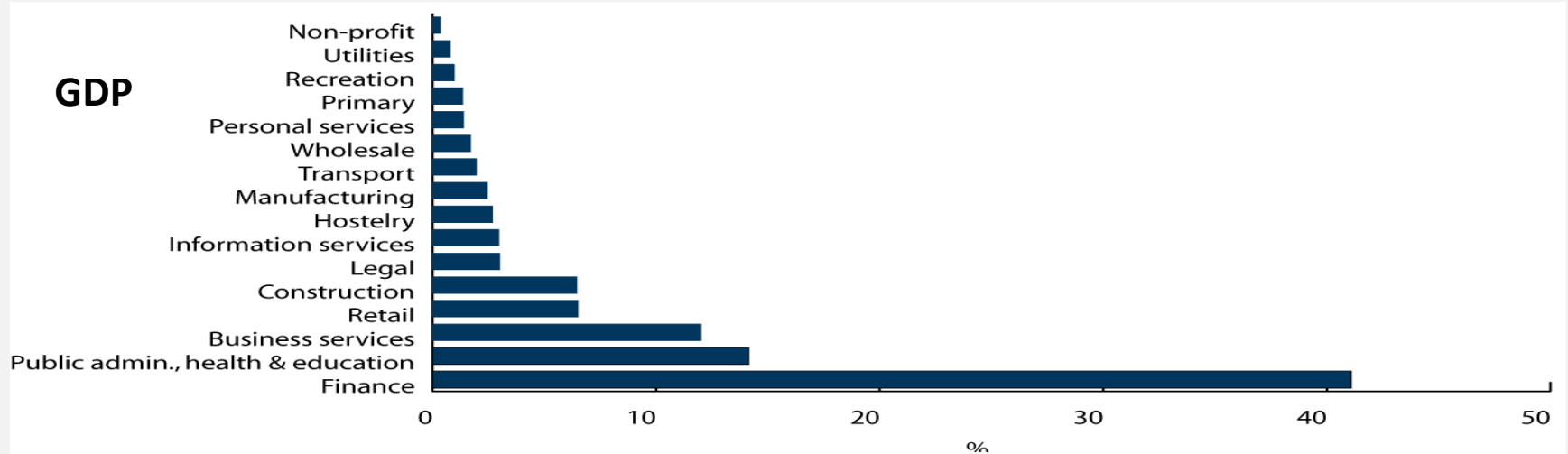
- Snapshot of economy
- Measurement issues
- Long run trends
- The short run: the recent 'cycle' and outlook
- The fiscal position
- Recent fiscal trends
- Summary

# A snapshot of GSY's economy

- Total GDP 2009: c.£1.9bn
- Forecast /estimated growth 2010: Slight positive growth
- Average earnings median/mean: £27,400 / £34,000
- Average Household Income: £45,000
- Population: 62,431
- Historic average 10 year GDP growth: 2.2%
- Inflation (RPIX): 2.9 %
- Workforce: 32,190
- Unemployment: 0.9%/1.3%

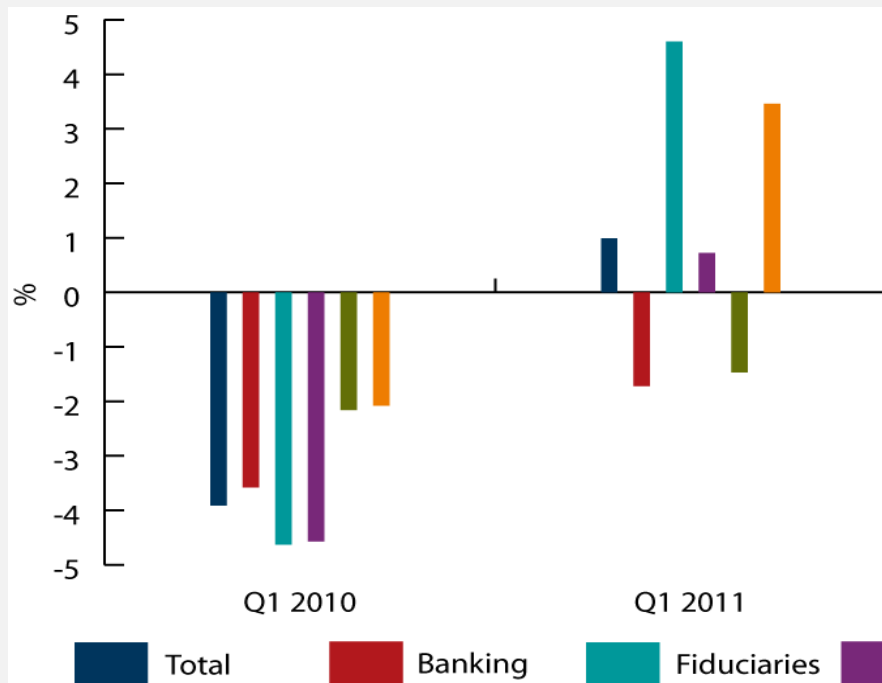


# GDP and Employment by Sector

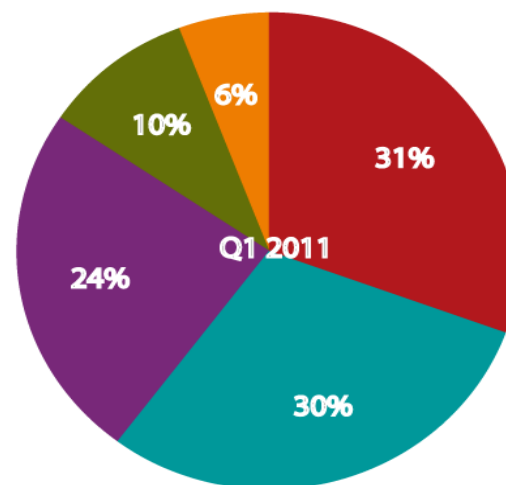


# Finance Sector Employment

## Annual employment growth (as at)



## Distribution of finance sector employment

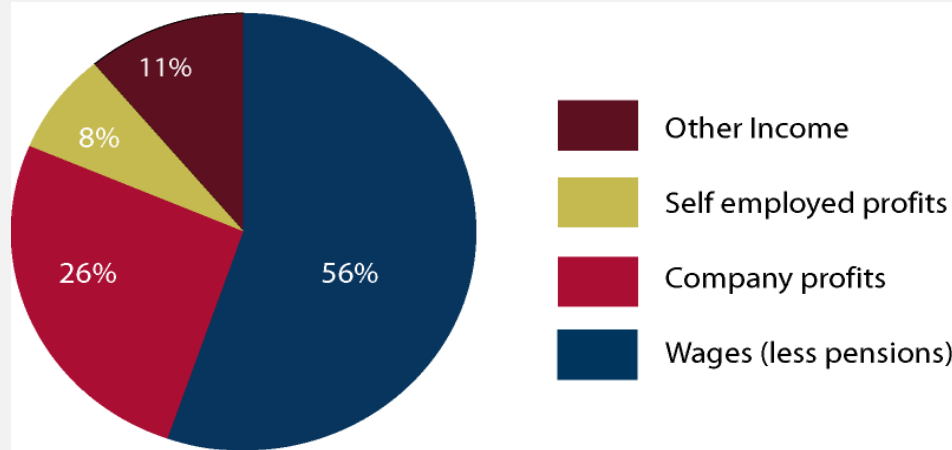


	2009 Q1	2010 Q1	2011 Q1
Banking	2,235	2,155	2,118
Fiduciaries	2,051	1,956	2,046
Investments	1,750	1,670	1,682
Insurance	693	678	668
Other	384	376	389
<b>Total</b>	<b>7,113</b>	<b>6,835</b>	<b>6,903</b>

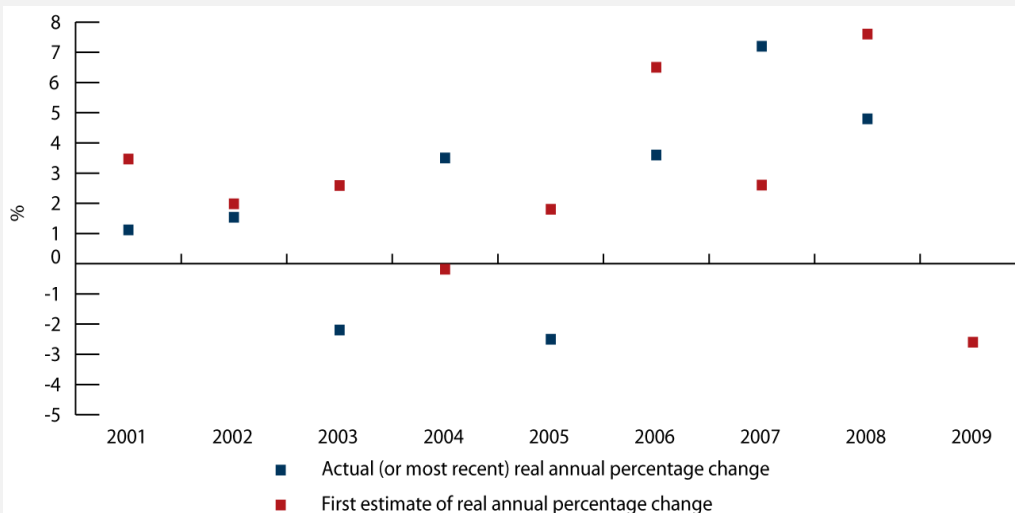


# Measurement issues

Composition of GDP



First estimates of growth



Guernsey can only measure GDP via 'income' approach, methodology does not follow any standard ESA methodology.

EG does not include OIIR, JSY's OIIR £532m 2010

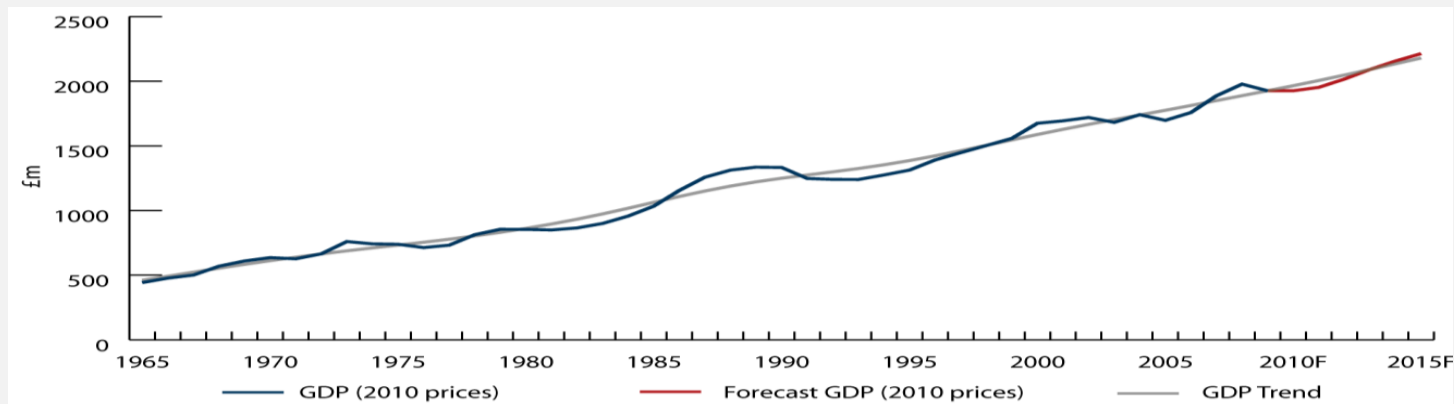
However, done so on a (relatively) consistent basis since 1965.

Primary data source administrative tax records, subject to significant 'ex post' accounting revision

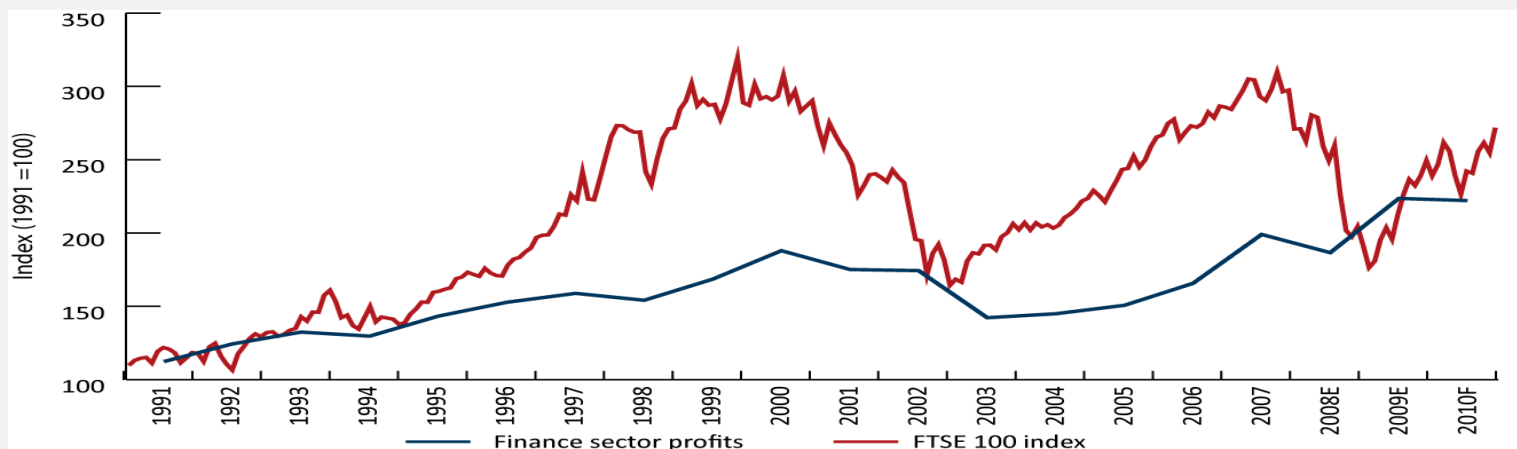
Average growth estimate (final from initial) revised by on average by 3 percentage points (over last 10 years)

# Long term 'trends' (1)

## Long run GDP (real terms, 2010 prices)



## Finance sector profits and global markets (indexed, 1991 = 100)

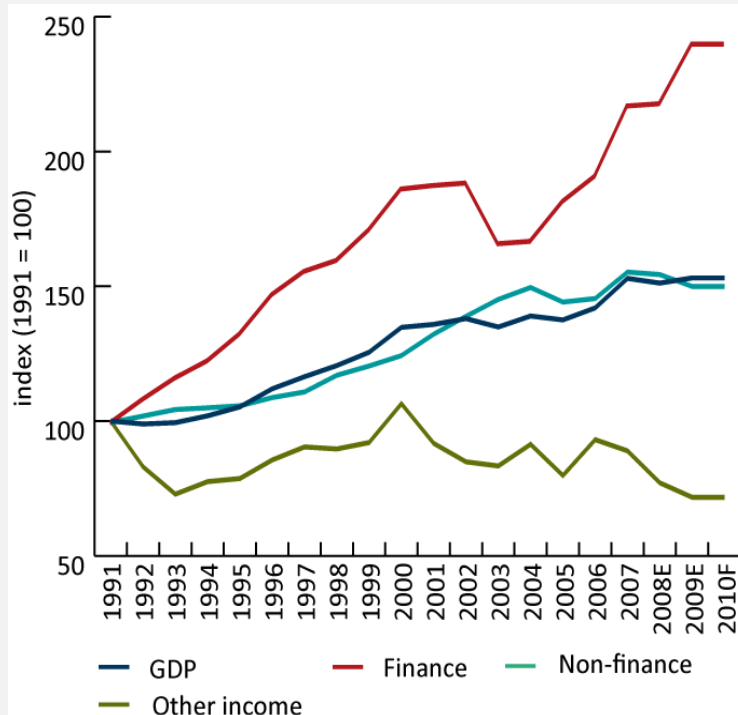


- Downturn evident if 'depth' yet to be accurately registered
- Total profits of finance sector linked to generic global conditions, idiosyncratic local factors impossible to determine without hindsight

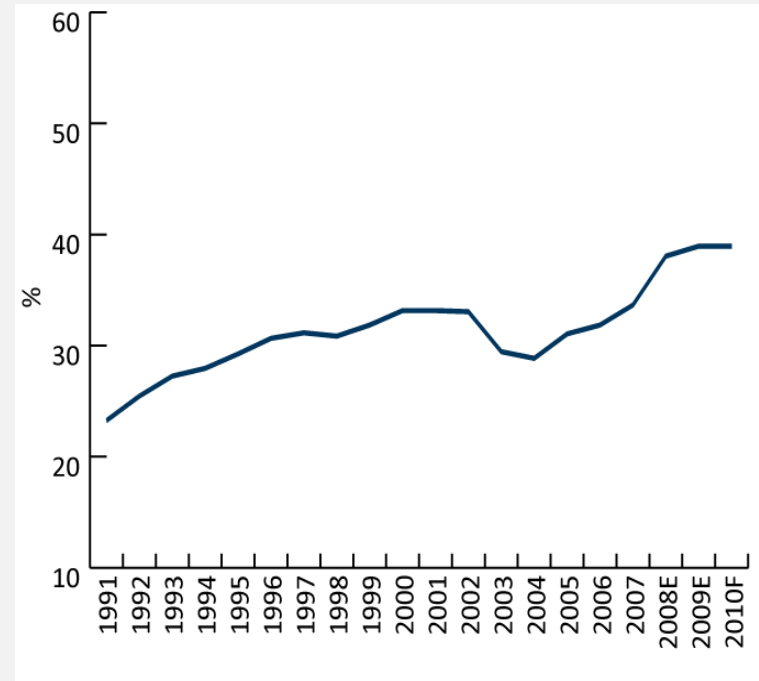


## Long term 'trends' (2)

Finance and non finance output  
(indexed, 1991 = 100)



FS 'share' of economic activity  
(indexed, 1991 = 100)



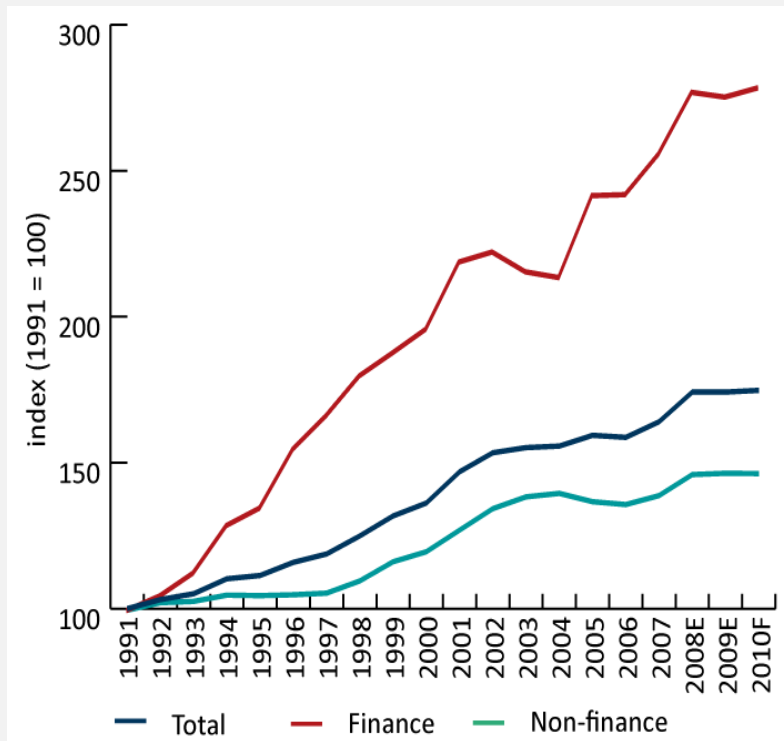
- Historic finance sector growth more rapid and increasing share of economy
- Questions over location of the 'upper bound'



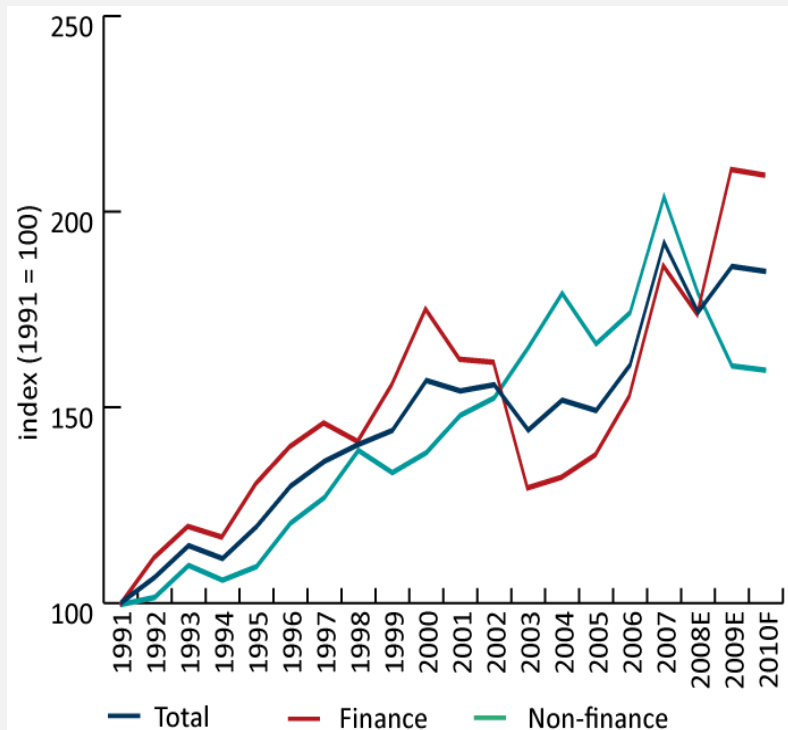


# Long terms 'trends' (3)

Finance and non finance wages  
(indexed, 1991 = 100)



Finance and non finance profits  
(indexed, 1991 = 100)

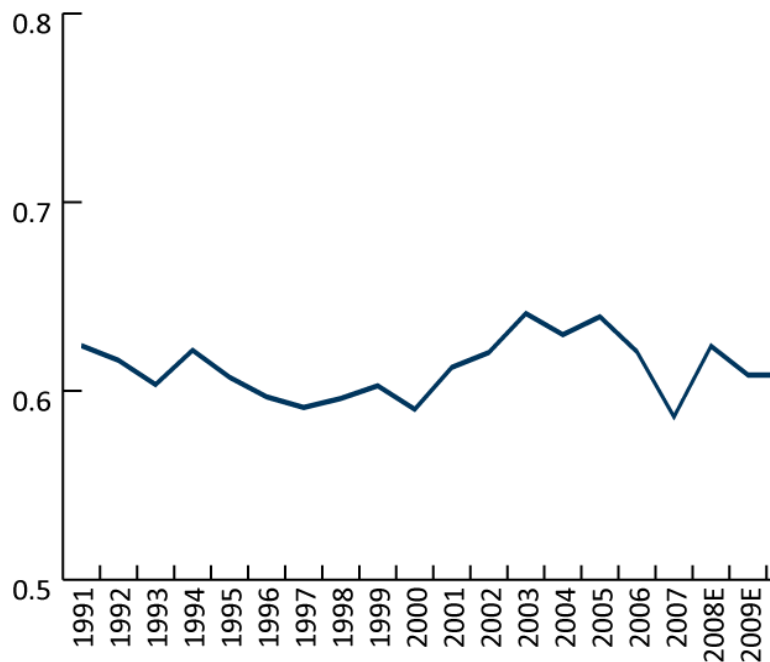


- Wages less volatile than profits, aggregate wage growth faster than profits in finance  
(But per capita wage growth similar (34-37%) across finance and non-finance)

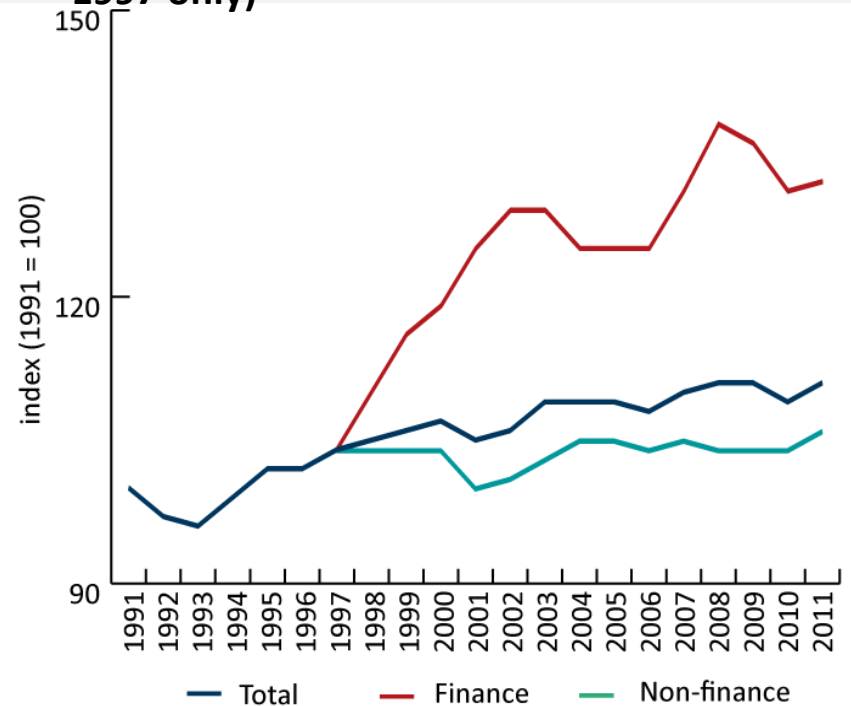


# Long term 'trends' (4)

'Labour share'



Employment growth  
(indexed, 1991 = 100, disaggregated from  
1997 only)

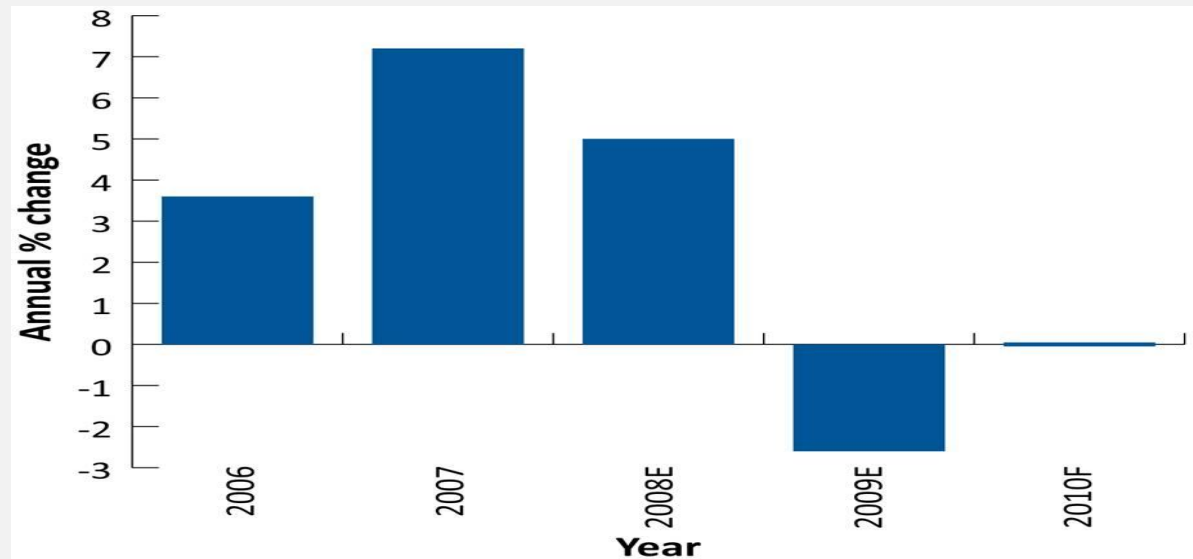


- Total 'labour share' quite stable over time
- Finance sector accounts for all employment growth in last ten years



# The short run, the recent 'cycle' (sic) (1)

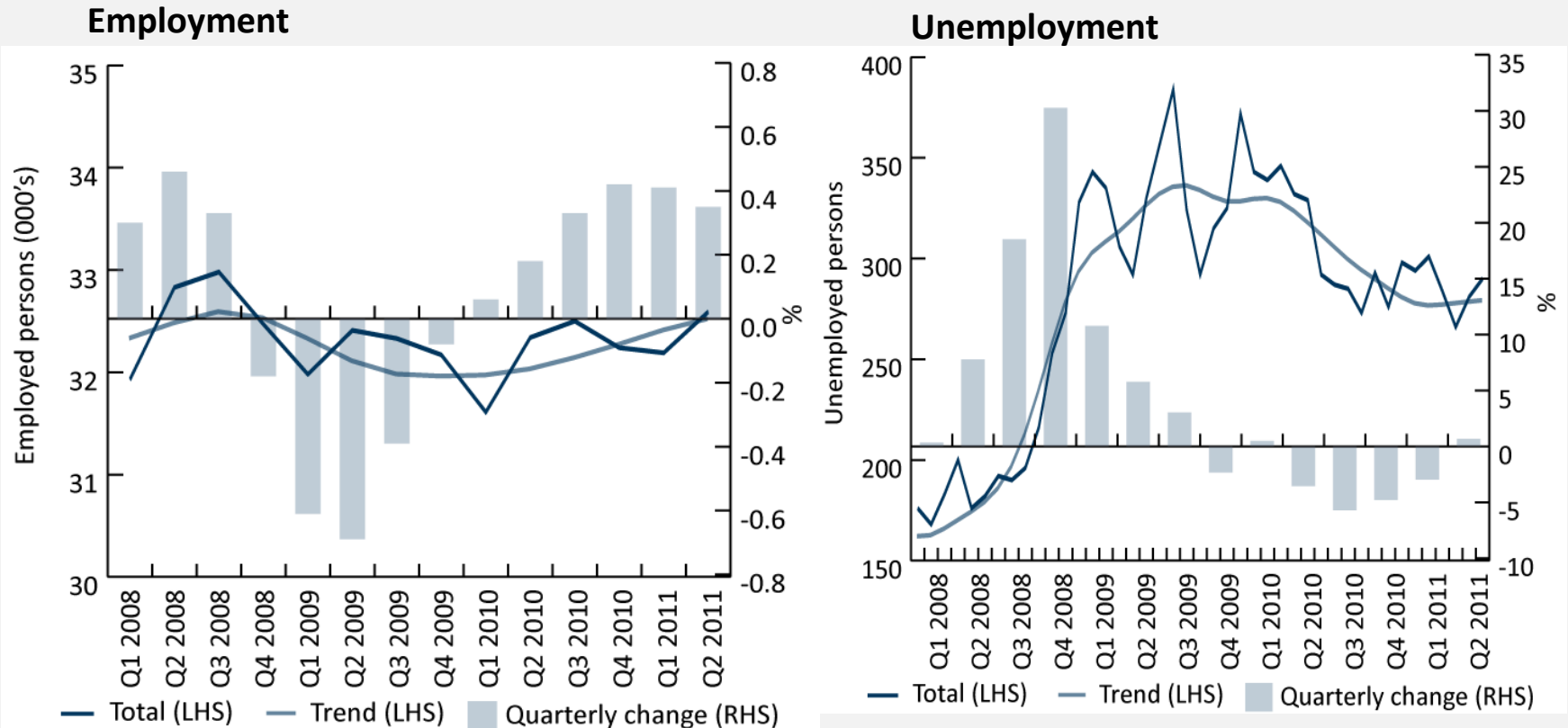
Recent growth, real terms (per annum, per cent)



- Little quarterly reporting of key output variables (although tax on earnings data timely and accurate)
- No knowledge of key variables eg spending (although track vehicle sales, passenger volumes and M0), investment or surveys of business confidence

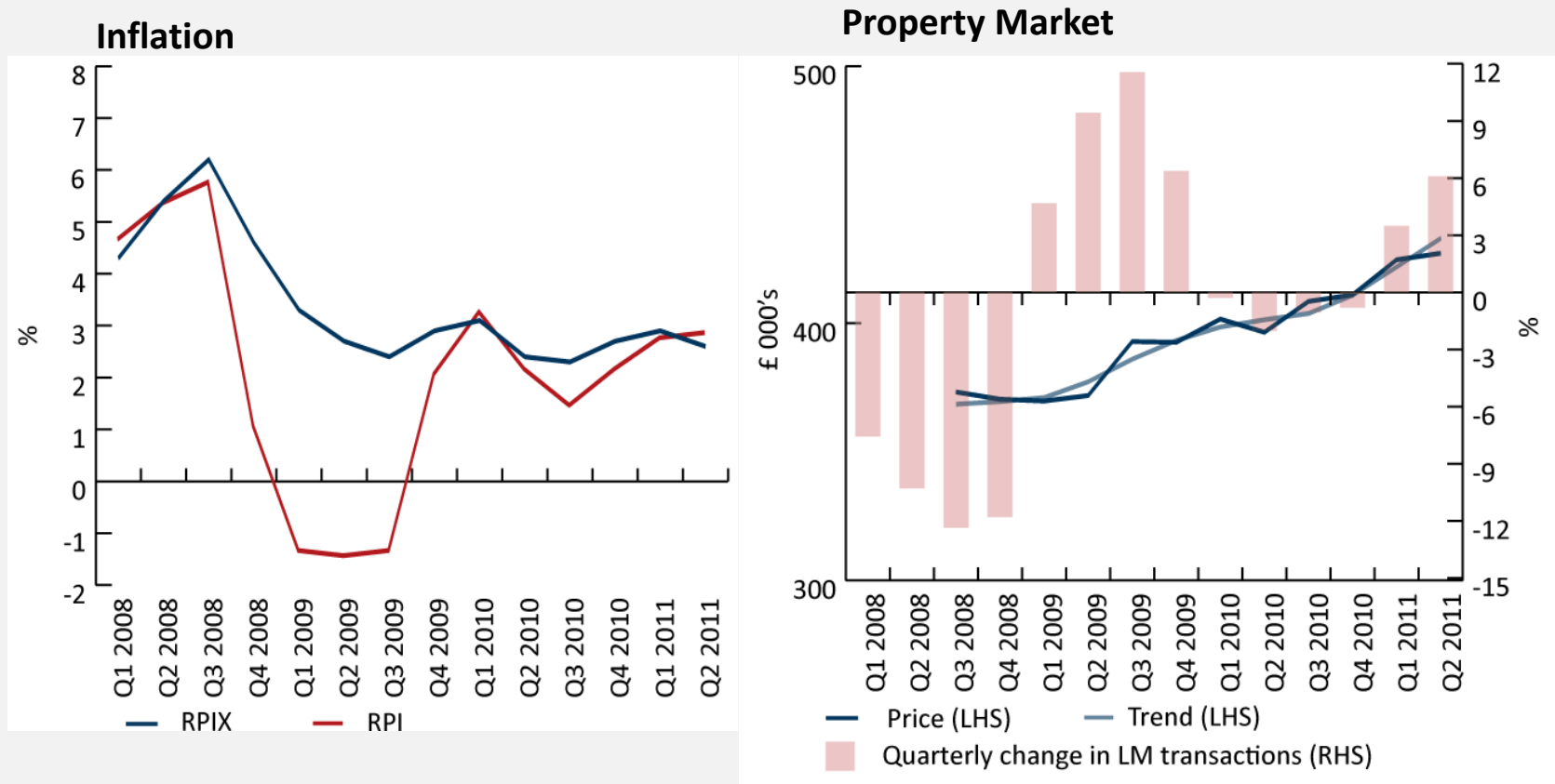


# The short run, the recent 'cycle' (2)



- Labour market recovery well underway to mid 2011, although per cap earnings growth weak
- Some signs of growing 'in employment' welfare dependency in supplementary benefits figures

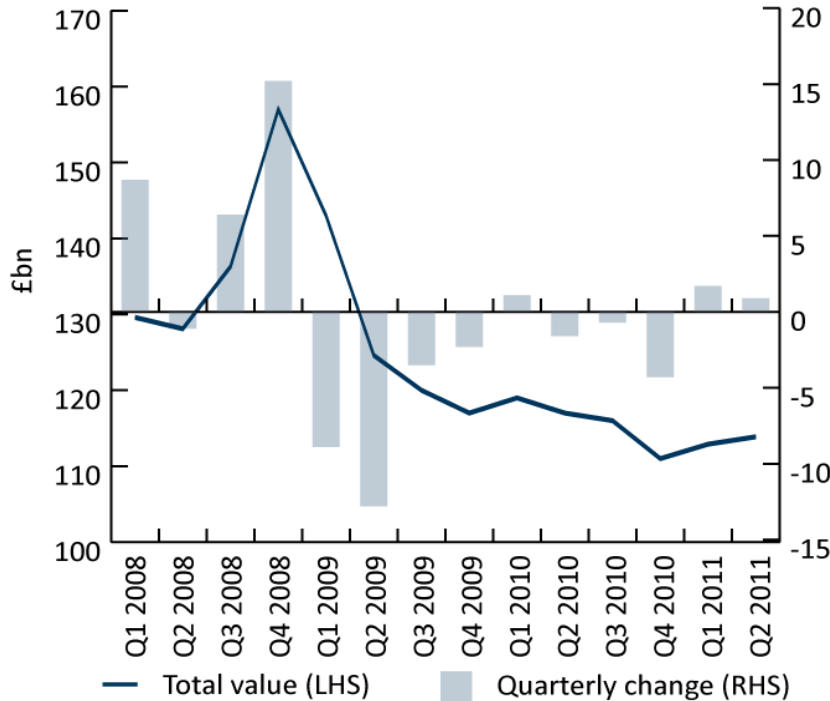
# The short run, the recent 'cycle' (3)



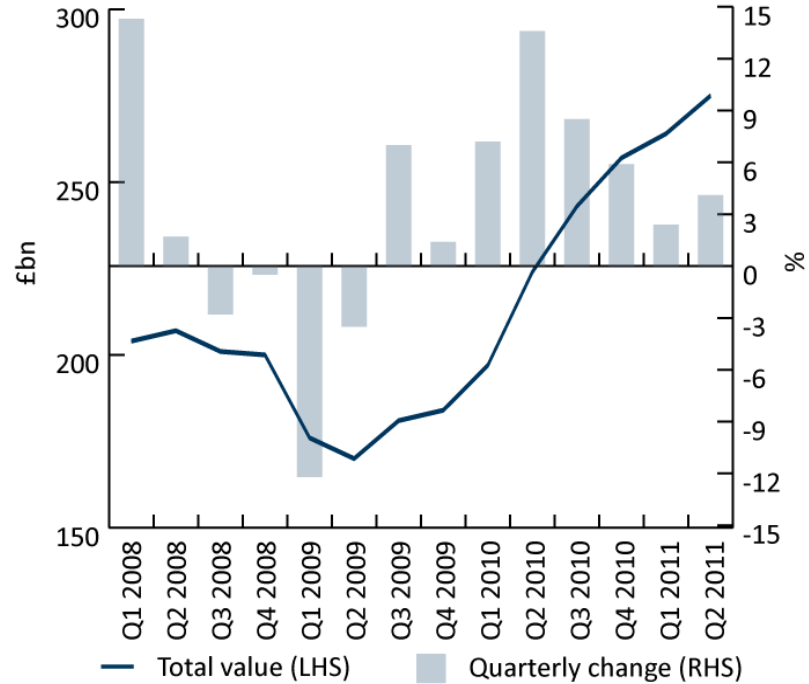
- Inflation 'subdued' relative to previous decade
- Local property market relatively robust (although dipped in 2008) although relative prices (to earnings, to rents) becoming more concerning

# The short run, the recent 'cycle' (4)

## Bank deposits



## Fund values



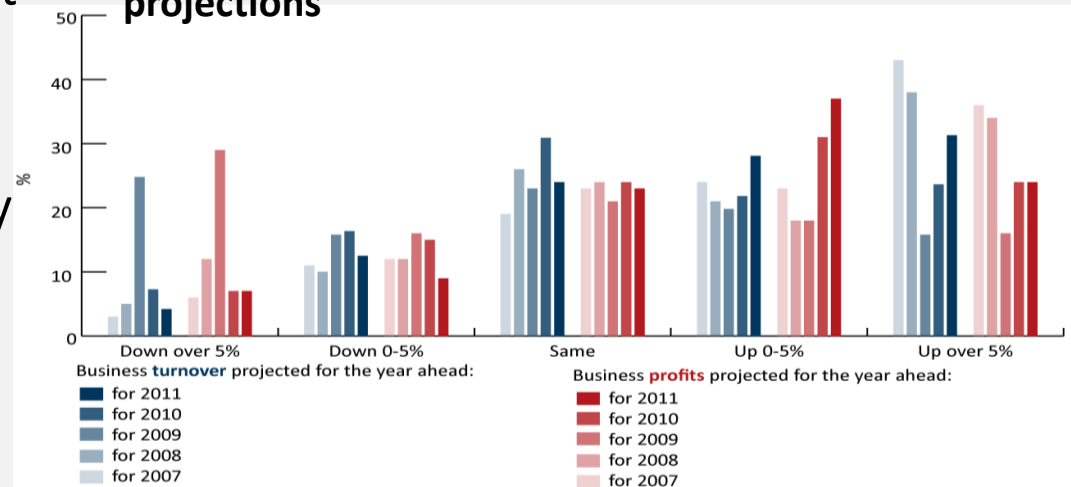
- Effects of crisis readily apparent
- Bank deposits stabilised but possible early signs of secular decline
- Recent strong growth in funds but impact of summer 2011 yet to be reported



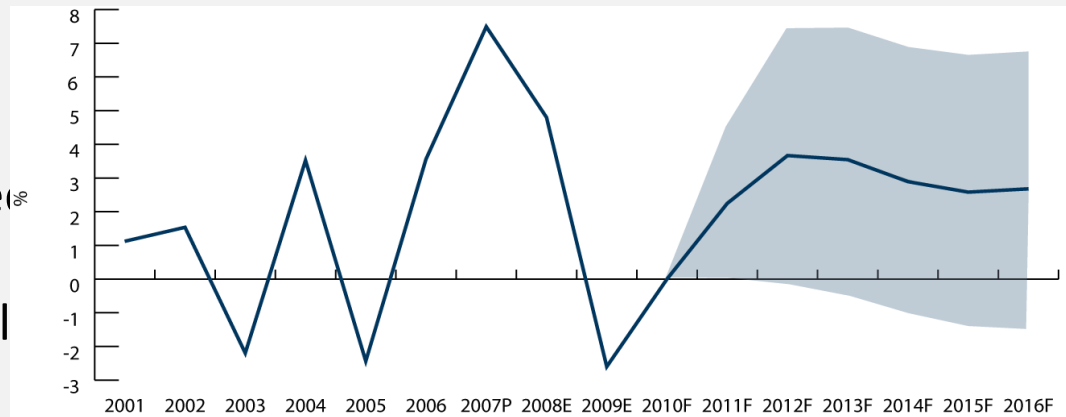
# The (historic) future outlook

- Business optimism high at start of year
- Well entrenched recovery by mid year
- Short and long term impact of summer 2011 yet to be felt (or factored in)
- SSP projections produced in June: probable that short run projections will be downgraded

Chamber Annual Survey: profitability and turnover projections



SSP growth projections to 2016



## **Fiscal position**

- Nil Government Debt
- Reserves of 20% of GDP
- Overall 2010 deficit of 2% of GDP (revenue budget balance)
- Strategic plan eliminates deficit in four years through zero (real terms) expenditure growth

## **Fiscal Framework**

- Constraints on revenue budget expenditure
- Sets upper bound for expenditure and income
- Commits the States to 'permanent balance'



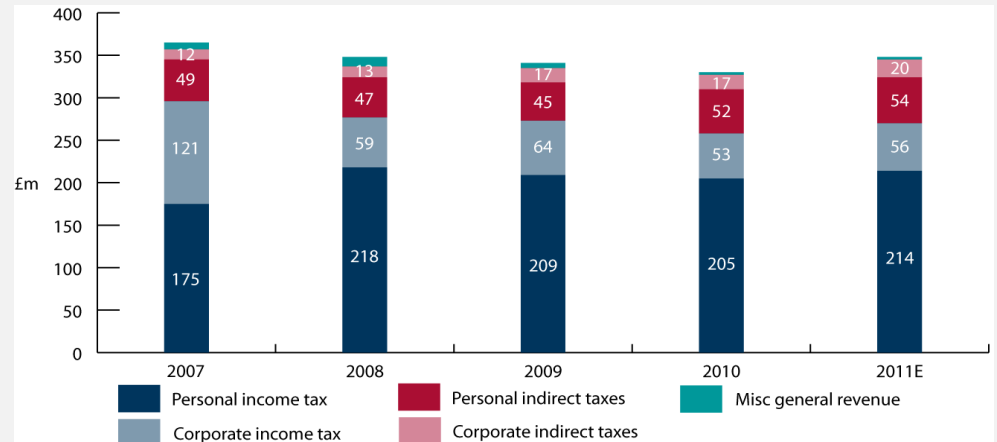


# Trends in income and expenditure

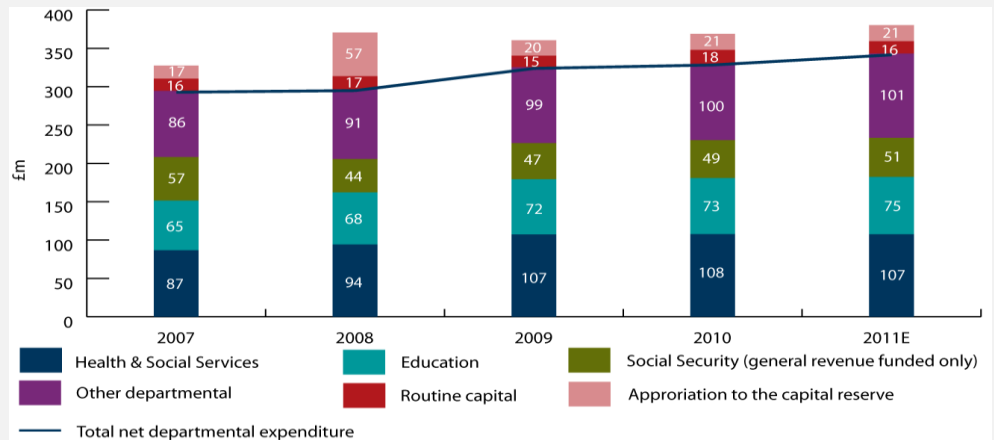
Revenue income declined since zero/10....  
*(by 13% in real terms from 2007 to 2011 (est))*

....whilst revenue expenditure grown, albeit slowly and less so in recent years  
*(by 6% in real terms from 2007 to 2011 (est))*

**Net revenue income 2007 – 2011 (est), current prices**

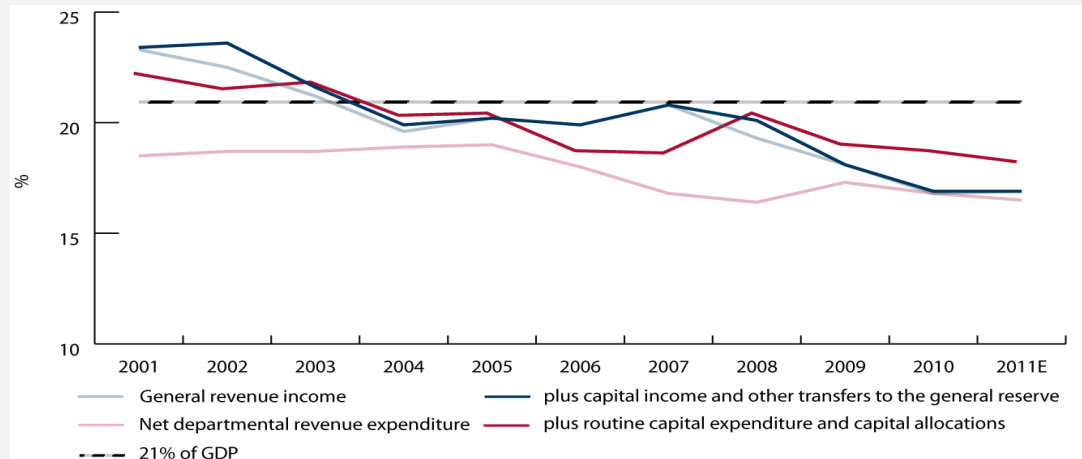


**Net revenue expenditure 2007 – 2011 (est), current prices**

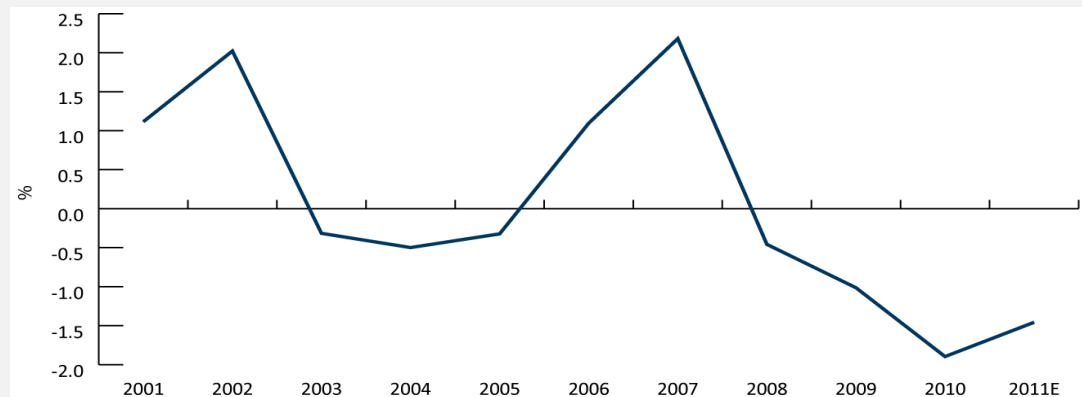


# Current fiscal (revenue budget) position

Revenue income and expenditure (inc capital), 2001 – 2011 (e), % GDP



States' overall surplus/ (deficit), 2001 – 2011 (e), % GDP



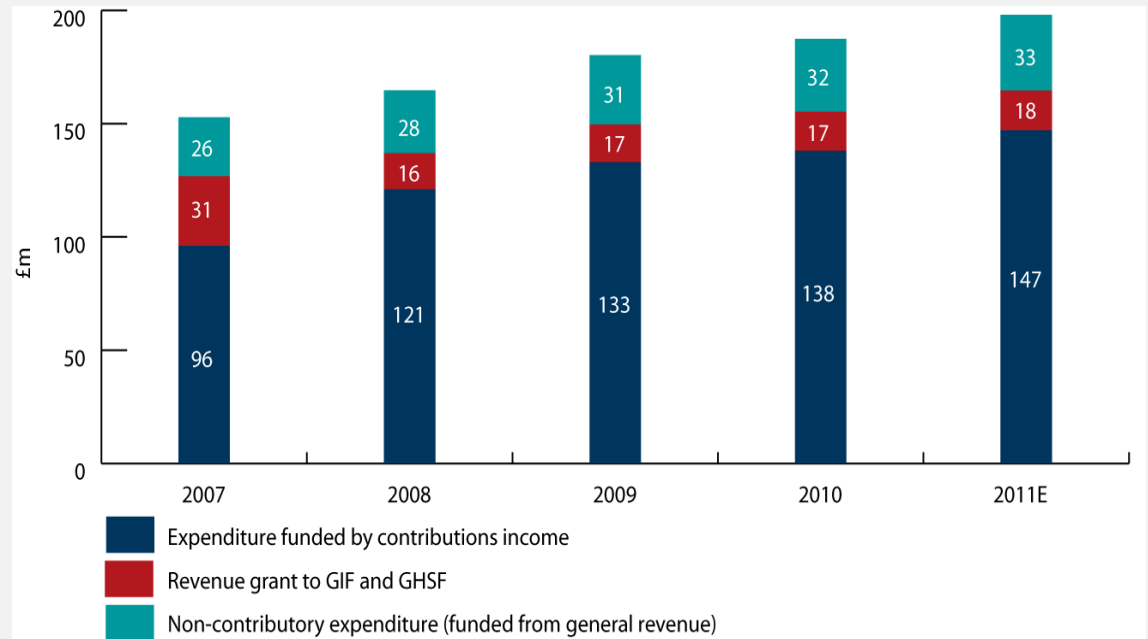
Spending is below limits of Fiscal Framework and has been restrained relative to trend GDP

But deficit readily apparent - mainly 'structural', but worsened by economic conditions

# Social security

Meanwhile, social security expenditure (and income) growth more rapid than general revenue budget expenditure  
*(by 19% in real terms from 2007 to 2011 (est))*

Social security expenditure (by funding source), 2007 – 2011 (e), £m

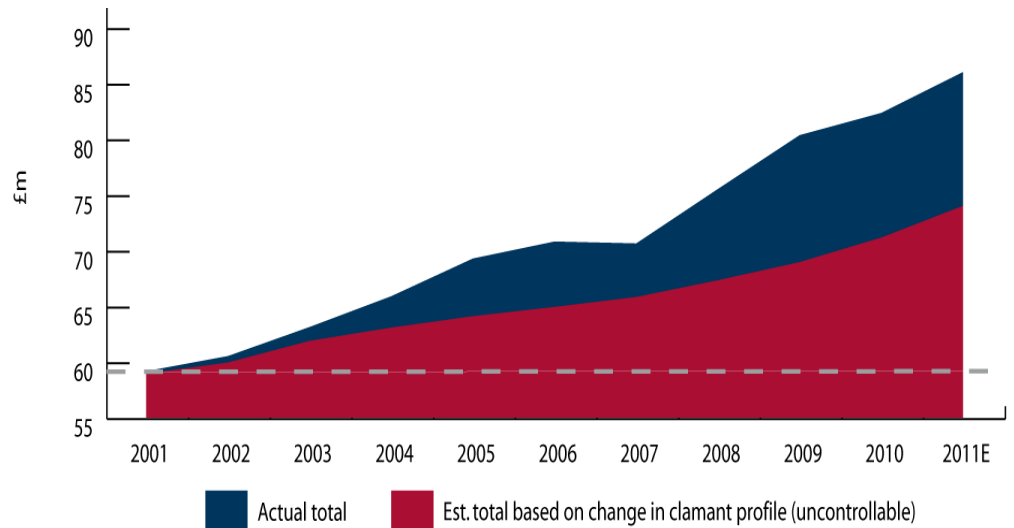
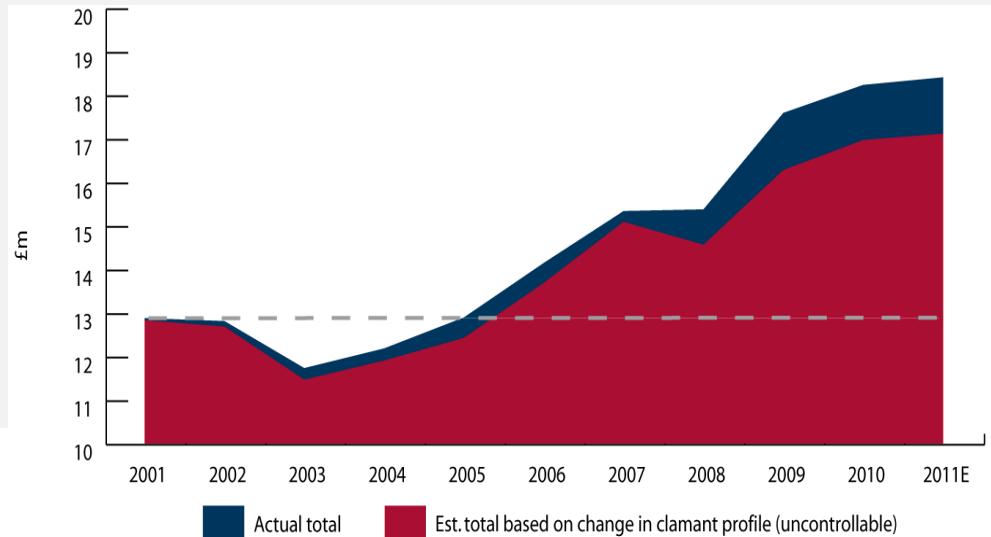


# 'Controllable' vs 'uncontrollable' costs

*However, not all social security growth within States direct control*

**Controllable and uncontrollable supplementary and unemployment benefit expenditure ), 2001 – 2011 (e), current prices £m**

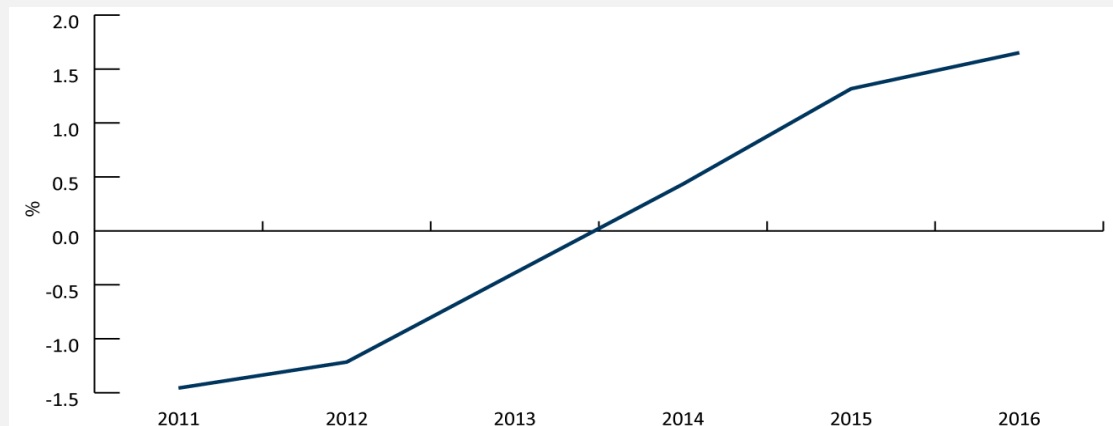
**Controllable and uncontrollable pensions benefit expenditure, 2001 – 2011 (e), current prices £m**



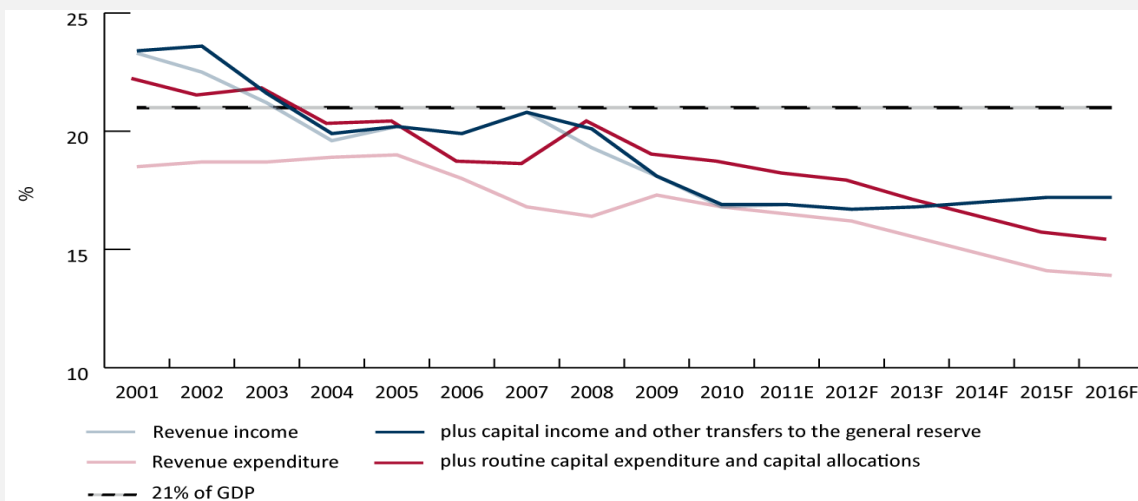
# Current revenue budget strategy

SSP strategy to eradicate deficit through expenditure restraint and delivery of savings through FTP.

Projected overall surplus/(deficit): central case



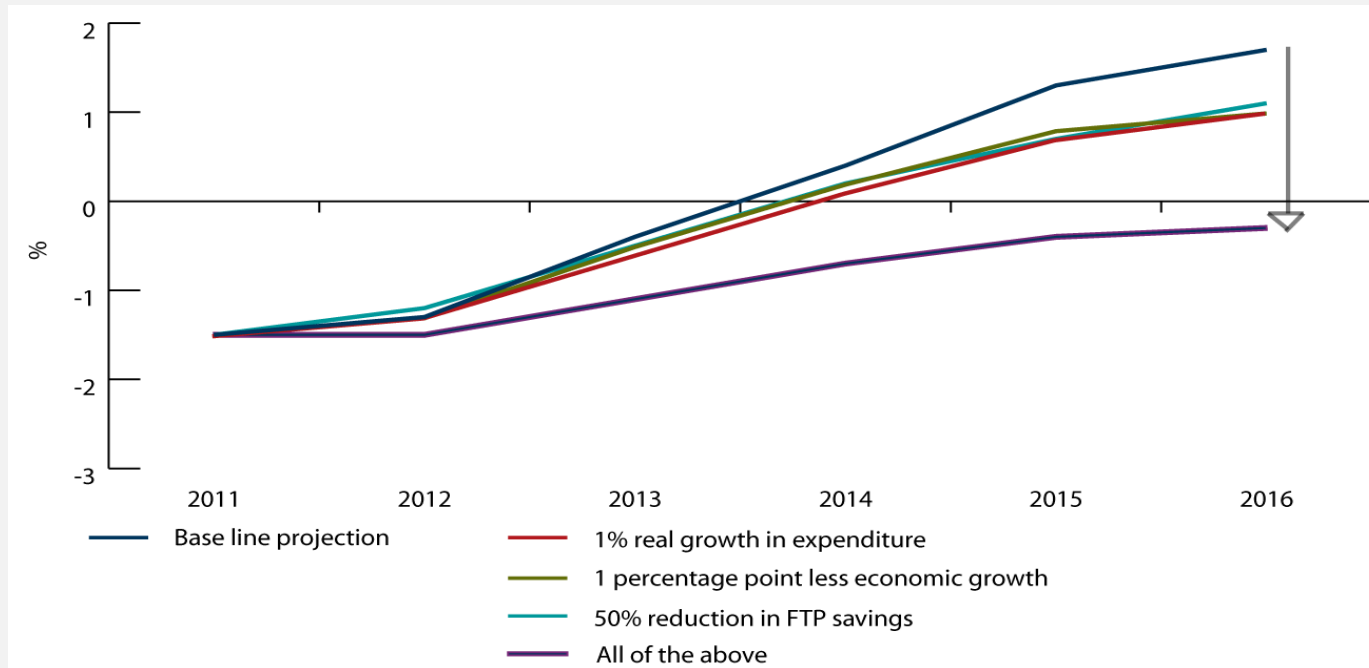
Projected revenue income and revenue and capital expenditure (Fiscal Framework)- Central case



# Risks to the strategy

- Economic and income growth less than forecast
- Failure to restrain expenditure
- Delay or loss of savings from the FTP

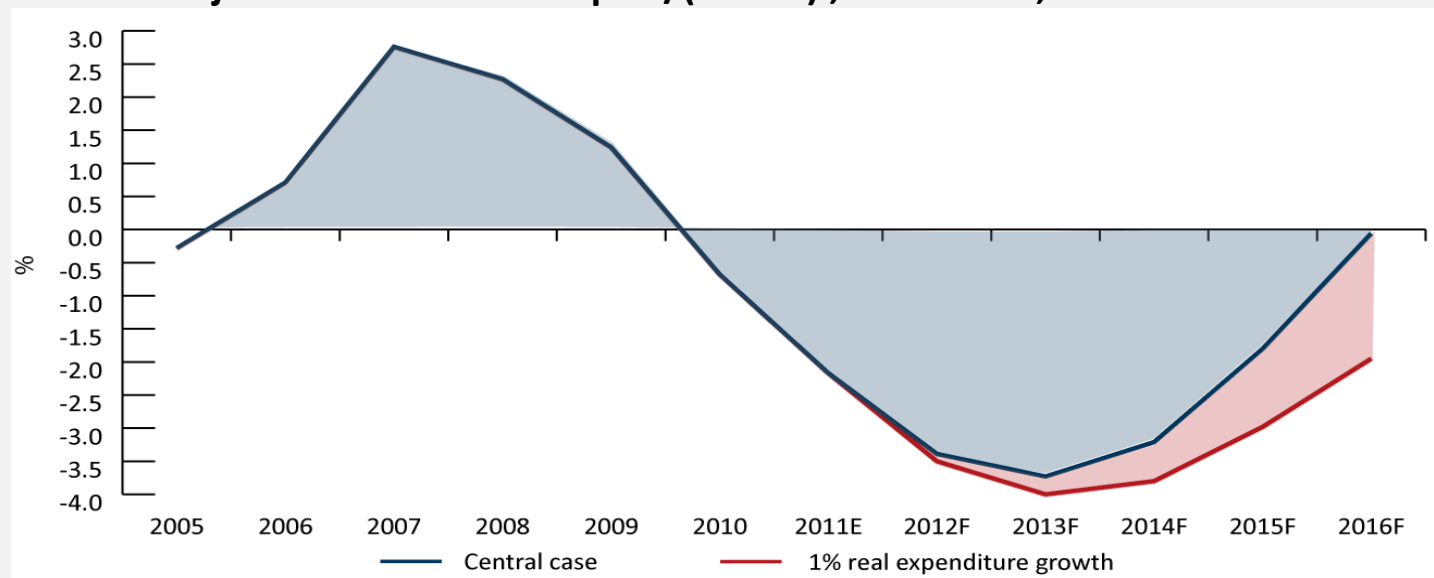
## Implications of risks to surplus/(deficit) projections



# Projected performance against FF (1)

- Income, expenditure and operating deficit within guidelines
- Projected cumulative balance between 2005 – 2016 on central case but sensitive to highlighted ‘downside risks’
- To meet the permanent balance criteria, projected surpluses generated post 2014 should be saved not spent

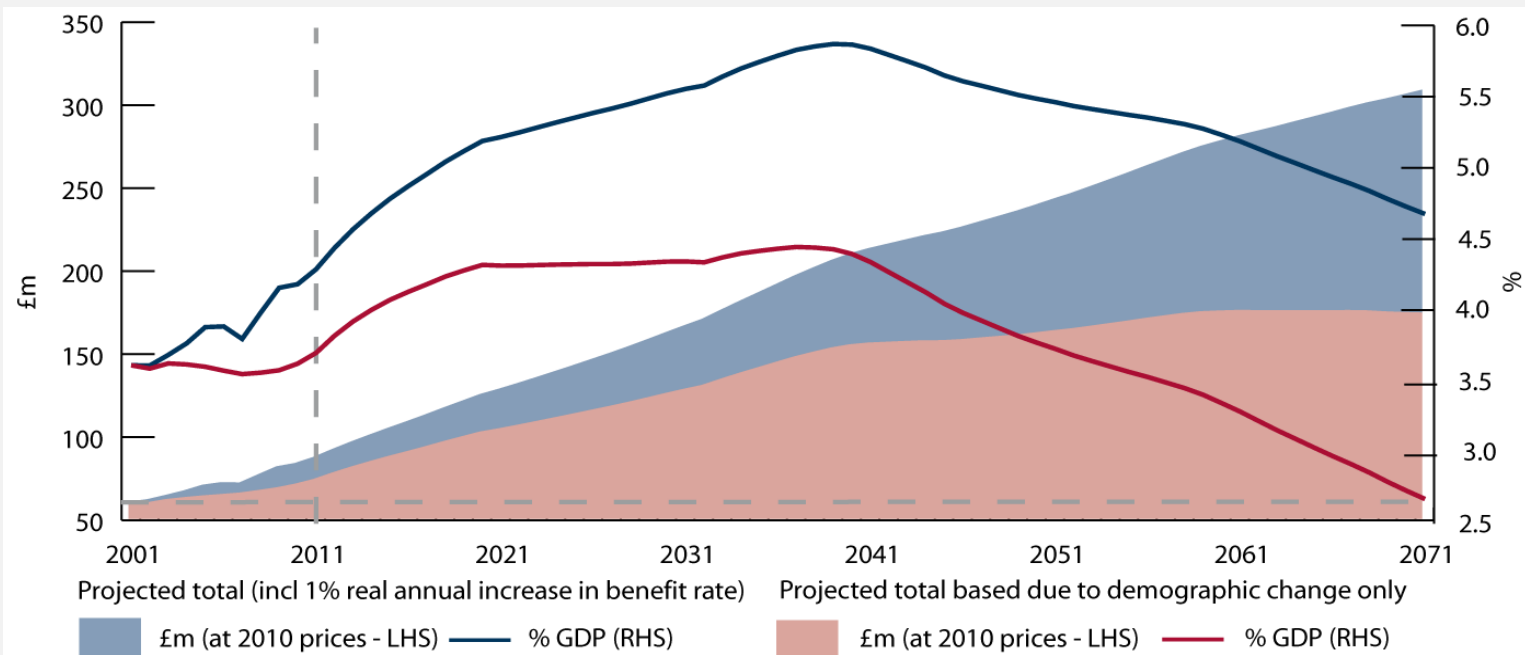
Projected cumulative surplus/(deficit) , 2005-2016, % GDP



# Medium term issues

- Significant medium term pressures lays outside expenditure constrained by the Fiscal Framework driven by (uncontrollable) demographics
- Separate reserves have been built up to manage/mitigate the impact
- Issues still to fully resolved

## Projected pensions expenditure





# Summary

- Strong fiscal position, healthy reserves,  
but
- Mild fiscal imbalance
  - 2% of GDP
  - driven by tax changes and to a lesser part cycle
- Planned ‘adjustment’ through freezing real term expenditures and achieving savings thru FTP
- Medium term pressures on social security spending

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