

## Media Release

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### **2022 Budget: Economy outperforms COVID forecasts but challenges remain**

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Today the Policy & Resources Committee is publishing the 2022 Budget, following an extraordinary year which has continued to see the pandemic affect many aspects of Island life and the economy.

However, the latest figures indicate that Guernsey's economy has weathered the predicted impacts, and quickly set about a very strong recovery. Forecasts last year estimated a contraction in Gross Value Added (GVA) of 6% to 8% in 2020. But the expectation now is that the contraction was less than 5%, and 2021 is forecast to see all of that recovered. Other indicators also point to a strong economy with the housing market continuing to see very high demand and unemployment currently at pre-COVID levels of less than 2%.

This extraordinary performance is in large part down to a very successful COVID response by the whole community, which allowed much of the economy to continue functioning fully for much of the last 18 months, unlike many other jurisdictions. The second lockdown in early 2021 was also shorter and less restrictive than the first. This meant the cost of emergency measures such as business support in 2021 could be more targeted, and was less overall, compared to 2020. In 2021 the estimated cost of business support is expected to be just £25m compared to £51m in 2020. All of this together has resulted in a significant reduction in the forecast deficit for 2021.

There are other economic risks highlighted in the 2022 Budget: the strength of the housing market means housing is less affordable which can create challenges for economic growth, particularly in Guernsey where there is already a shrinking workforce. There is also uncertainty over the future for corporate tax rates internationally, which remain under scrutiny, and what impact that will have locally.

Against this backdrop, the States' General Revenue position is expected to return to surplus in 2022. However longer-term fiscal issues remain which have been highlighted in recent days during the Tax Review debate.

Deputy Mark Helyar, Treasury lead for the Policy & Resources Committee said:

"I am delighted that accelerated recovery has led to increased revenues in 2021. This has absorbed the unanticipated additional expenditure as a result of the second

lockdown, including increased losses for both Aurigny and Guernsey Ports, at the same time as reducing the deficit by £17m against our budget.

“This is welcome news and it speaks to how well as a community we worked together to respond to pandemic. It has been an extraordinary challenge and Islanders have been incredible in how we all stepped up to meet it. However, when it comes to the Island’s public finances, the strong results in 2021 will not all translate into our baseline and we must not forget that we are facing economic headwinds and have pent up demand in the system creating cost pressures.”

Earlier this year the States Assembly agreed the Government Work Plan resolutions which directed the Policy & Resources Committee to raise an additional £1m per year in real terms.

To do this, Policy & Resources Committee is proposing that the excise duties on Alcohol and Motor Fuel; and Tax on Real Property (TRP) tariffs in 2021 are increased by 4% which comprises 2.5% as the amount necessary to maintain their value in real-terms, and 1.5% to raise additional revenues:

- An increase of 4% in the excise duty on Alcohol, increasing the duty on a pint of standard-strength beer by 2p to 52p (26p if produced by a small independent brewery) (raising £250,000 in real-terms);
- An increase of 4% in the excise duty on Motor Fuel, increasing the duty by 2.9p per litre to 76.3p per litre (66.3p per litre for biodiesel) (raising £300,000 in real terms);
- An increase of 4% in commercial TRP tariffs (raising £300,000 in real terms); and
- An increase of 4% in domestic TRP tariffs (raising £150,000 in real terms).

The other budget measures proposed are:

- A 2.5% increase in Personal Income Tax Allowances, increasing an individual’s allowance by £300 to £12,175;
- An increase of 7.5% in the excise duty on Tobacco products, increasing the duty on an average packet of twenty cigarettes by 44p to £6.26; and
- Continuation of gradually increasing the commercial TRP tariffs for the general Office and Ancillary Accommodation category to the same tariff as the other Office and Ancillary Accommodation categories, resulting in an increase of a further 23% - £6.25per unit.