



Where in the World is Gibraltar?

Over the last couple of months I have been considering Gibraltar's place in today's offshore — or "international" — finance centre pecking order. This has been no simple task for whilst each centre boasts its own particular advantages, it is equally easy to identify disadvantages in using one centre over another.

In comparing Gibraltar's position vis-à-vis its competitors, readers may recall that I considered areas such as legislation and regulation by the relevant authorities combined with infrastructure and qualified, experienced personnel and so on. In other words, local factors that, taken together, led me to the — perhaps inevitable but nevertheless heart felt — conclusion that Gibraltar compares favourably to most other similar centres worldwide.

So much for the local factors. Global events that at first glance would seem to have no particular relevance to Gibraltar, can and do have an impact on us; perhaps far more than we think. Recently I was interviewing a senior politician for a local Internet TV business programme and he told me that he preferred to concentrate on things he could control. "Why worry about things I can do nothing about?" he argued.

I thought at the time that this was a sensibly pragmatic approach — after all politicians

should properly be focused on the things that their voters empower them to do — but on further reflection I also believe that some degree of peripheral vision is necessary in order to ascertain which external factors might someday become pressing internal issues. This line

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of thought led me to consider the consequences of events and decisions made across the globe that in many cases appear to have nothing to do with Gibraltar.

"May you live in interesting times" goes the famous Chinese curse. Well anyone born in the last 50 years or so can hardly be in a position to ask for their money back. After all we have enjoyed unprecedented health and prosperity and haven't had to live through the world wars that so blighted our immediate forbears. But having said that, our age has certainly not been lacking in "interest" — the heightened threat of terrorism, the inexorable rise of celebrity culture and the phenomenon that is the digital age.

So for this final article in my mini-series about Gibraltar and its place in today's financial world, I have considered such "consequences". As a starting point, I thought I could do worse than simply define a consequence. My favourite dictionary describes the noun as

a result or effect, going on to say that typically it is one that is unwelcome or unpleasant. The definition goes on to provide some useful alternatives such as "outcome", "repercussion", "ramification", "aftermath" and the like. Well, you get the idea, I'm sure.

The French have a phrase for this: *les effets pervers*, which may be translated as "unintended consequences". I would suggest that the consequences of the global financial crisis — although the more cynical might say they were not entirely unintended — have had a far greater effect on us here than we might imagine. For instance some banks in Gibraltar are reducing their headcount locally or even exiting altogether and, arguably, this is much more a reflection of the UK banking sector than its local equivalent.

In the past week or two I have finished reading a book by a professional trainer who specialises in the art of negotiation. In it he sets out some thoughts about balance and the importance of achieving it — the aim being to get things into a state of equilibrium at all times. To an extent this is true in financial markets; so, dear reader, where, you may well ask, is all this leading?

Let's consider some examples of how "macro-type" events affect Gibraltar. I define these as global occurrences or trends over which our tiny (but perfectly formed) speck in the far western Mediterranean has absolutely no control — yet the effects are enormous, or indeed *pervers*.

In recent years, I have written about international bodies whose rules and diktats exert far reaching consequences over Gibraltar. Not only must we contend with European Union rules but also those imposed by other organisations like the OECD (Organisation for Economic Co-operation and Development), IMF (International Monetary Fund), or the FATF (Financial Action Task Force) and others with intractable acronyms for names — IOSCO, BCBS, IAIS and ESMA to name but a few. The result is complex rules, regulations and codes on widely different matters such as business taxation, exchange of information or anti-money laundering.

No doubt these international initiatives are born out of decent, common sense thinking but by the time the rules emerge from any of these international behemoths, it's the small jurisdictions — and firms such as Sovereign — who have to expend time and energy on ensuring

compliance with such rules. It is our obligation but of course it doesn't make any money — indeed the costs can be enormous. This is a good example of such consequences at work.

Of perhaps even more significance for you and me are great international events over which we have no control. What, if anything, can we do about them? Two simple examples illustrate my point in this category; both distinct, albeit related, areas that affect each and every one of us but where no-one, individually, can do a thing about them.

The first is the exchange rate. I have written in the past about how important one "currency pair" in particular is to us here in Gibraltar — that is the pound sterling rate against the euro. Those of us who are Spanish residents commuting in daily or, like me, who cross over to Spain at weekends can attest to how the cost of living can vary considerably from month to month because of changes in the prevailing exchange rate.

Future exchange rates are notoriously difficult to predict and we are powerless to control this. However if faced with a large transaction, perhaps a house purchase or similar, then it is not difficult to arrange a forward contract with one of the currency exchange companies. If one is happy with today's rate then "fixing" it now might be a good plan because it helps to budget when faced with certainties rather than an unknown future rate. As always, seeking professional advice would be wise.

An even more important area is the future direction of interest rates as this affects both savers and borrowers. Generally the press highlights the effect of interest rate changes on mortgage holders but I have never felt this to be entirely fair. Interest rates affect everyone, be they savers, borrowers or retired people relying on a pension. Of course rates here in Gibraltar follow the Bank of England whilst just over the

border it is the European Central Bank — an institution dealing with a multinational "economy" that is in a completely different phase of its recovery cycle. In this case, we have two entirely different sets of consequences to deal with — and so it goes on.

Interest rates and currency movements are inextricably linked; traditional economic theory teaches us that as interest rates rise, then the value of the domestic currency should also appreciate against others. Other factors such as overall confidence in the economy will also play a part but, once again, the overriding point here is that we — the individual savers or borrowers — have precious little influence on such matters.

That does not however mean that there is nothing we can do. In the same way that we might try to avoid some of the swings seen in exchange rates, we can also take advice on future interest rates. We might decide to fix our mortgages rates — or at least a margin above a base rate — sometimes for years ahead or, if saving, by using fixed term deposits.

To conclude then, I'm afraid we are all at the mercy of "consequences". We should be aware of the potential impact of global events on our own finances. There are often ways we can mitigate the effects with a little planning and the right advice, so we should all try to stay one step ahead and decide whether and how to react to events happening around us — and indeed further afield.

This concludes my three-month tour of Gibraltar and its place in the global economy. Next month as we head towards the summer, I will cover some more seasonal themes and in the meantime do enjoy the onset of the longer, warmer days. And watch out for unintended consequences — they are to be found everywhere! ■

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Ian Le Breton
is Managing Director
of Sovereign Trust
(Gibraltar) Limited.

Tel: +350 200 76173
Email: ilebreton@
SovereignGroup.com

