

# Goodbye to 2014 and a warm Finance Column hello to 2015!

words | Ian Le Breton



This is the time of year when newspapers are full of stories reviewing events and trends over the past 12 months and forecasting what might lie in store for us over the next 12 months.

I wouldn't want to disappoint you but, as this is the finance column, I will not be venturing to make predictions about the gender or name of the new royal baby, still less will I rate Gibraltar's chances on the international football stage as the 54th member of UEFA.

History is littered with pundits who have made, often spectacularly, the wrong call: so don't expect me to make predictions about the euro exchange rate against the pound or the level of the FTSE 100 index at the end of 2015. Rather I'll take a more general look at where we seem to be now and where we might be heading.

This time last year I looked at economic recovery, particularly in the UK, and much of that column still holds true 12 months down the line. With growth of 3% and the largest falls in unemployment on record, the UK is outperforming other countries, but the deficit — not just the long-term debt but the UK's "overdraft" as well — is showing little sign of improvement. This is a great concern for the

government and not just in political terms.

Any good news in the UK is also tempered

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by ongoing problems elsewhere. Towards the end of November, David Cameron told parliament that the UK was "leading the pack" in its performance but there were growing "warning signs" elsewhere, with weak growth in Europe and a slowdown across Asia. The situation across Europe, where Italy is in recession and Germany barely registering any growth, was "worrying" and the euro zone "needed to properly fire up".

I have written before about the economic miracle enjoyed by the BRICS countries (Brazil, Russia, India, China and South Africa) in recent years but as 2015 dawns, things are looking a little less, well, miraculous. "World trade is not developing as fast as it should, previous fast-growing economies are slowing down



and only today Japan entered recession," said Cameron. Opposition leaders said that, with a general election only six months away, the PM was merely "getting his excuses in early". I will return to the election later.

Around the globe we have seen the growing use of a financial tool known as Quantitative Easing, or QE for short. Usually, central banks try to raise the amount of lending and activity in the economy indirectly, by cutting interest rates. But when interest rates can go no lower, a central bank's only option is to pump money into the economy directly by buying assets — generally government bonds — using money it has simply created out of thin air.

The financial institutions selling those bonds then have "new" money in their accounts, which then boosts the money supply. The thinking is that this stimulus will lead to growth, higher tax receipts and everything will start moving again. At least, that's the theory. The end of 2014 sees QE coming to an end in some countries such as the US and Britain, although in Europe further such encouragements will be needed for some time to come and Japan will also be resorting to this tool. I shall come back to QE in a future article.

Here at home, how has Gibraltar fared over the past year? It is impossible to speak for everyone but for many I suspect 2014 was much like 2013 and indeed several years before that. Many readers may have focused on paying down existing debt or perhaps been more wary than in the past of taking on new financial commitments. I know of people who are waiting just that little bit longer to purchase a new car or other major acquisitions. Others are opting to extend or otherwise improve their homes rather than trading up. Having said that my real estate and motor dealer friends tell me that business is really holding up very well. Can both be right?

The real message is that in a diversified economy such as Gibraltar's, based as it is on the UK model, there are bound to be widely differing opinions on the state of any recovery — and where precisely one finds oneself as a result. For example, Gibraltar government figures show that our Gross Domestic Product — or GDP — is growing at a rate that would have most European finance ministers salivating. Locally, as in the UK, inflation continues to be under control and we can see both government and private sector infrastructure and capital

projects sprouting up everywhere.

But let's not forget that for many Gibraltarians, even in what is by any international standard a prosperous country, 2014 will have been a year to forget from a financial viewpoint. Far too many workers have lost their jobs — not least in the banking industry where rationalisation by some and complete withdrawal by others has been most unwelcome. Naturally the greatest impact is felt by the staff involved but clients too are seriously inconvenienced. Equally worrying to those of us working in the local financial industry is that any reduction in the already limited choice of banking options has a detrimental effect on our efforts to attract new business to these shores. On a more positive note, the planned opening of the Gibraltar International Bank in early 2015 should help to alleviate the situation a little. I wish it well.

So how about a prediction for 2015? Well, barring some unforeseen event, the UK parliament will end its fixed five-year term with its dissolution on 30th March 2015. The ensuing general election will follow on Thursday, 7th May. Of course Gibraltarians cannot vote in those elections but the result could be hugely significant for each and every one of us.

No one can be certain at this stage about the outcome — not even the "most likely" result. Since a coalition was formed in 2010 for the first time since the Second World War, the British public has become used to a changed political landscape. Of most interest to us, surely, is the possibility that a future conservative government will be under serious pressure to honour

Cameron's pledge to hold an "in or out" referendum on Britain's continued membership of the European Union by 2017. Depending on the level of reform he is able to engineer from the EU, it is certainly possible that Cameron may advocate leaving the bloc — the so-called "Brexit" (British exit) option.

The financial consequences for Gibraltar would be huge. Many businesses here — particularly those in the financial sector — rely for their prosperity at least in part on their ability to "passport" their services across the 28 countries that make up the EU. Moreover, we comply with all European directives and regulation save for the bits that we have not signed up to, such as the Customs Union and Common Agricultural Policy. This has led to a significant diversification of our economy and allows us to compete effectively with other non-EU British territories such as the Channel Islands and the Isle of Man.

Then of course there is the question of our own general election here in Gibraltar. Again I am not going to fall into any prediction trap although it should more straightforward than in the UK because we will be making a choice between fewer political parties locally. To conclude then, prepare yourself for a great deal of politics and financial developments in the 12 months ahead. Oh yes, and a royal baby. At least the souvenir makers should be in for a bumper year — provided of course, that they make the right call between pink and blue!

On behalf of all my colleagues at Sovereign, I wish you all a prosperous, financially positive and, most importantly, a healthy and happy 2015. ■

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*May all our readers, clients  
and friends have a Happy,  
Healthy and Prosperous 2015*

*The Gibraltar Magazine team*