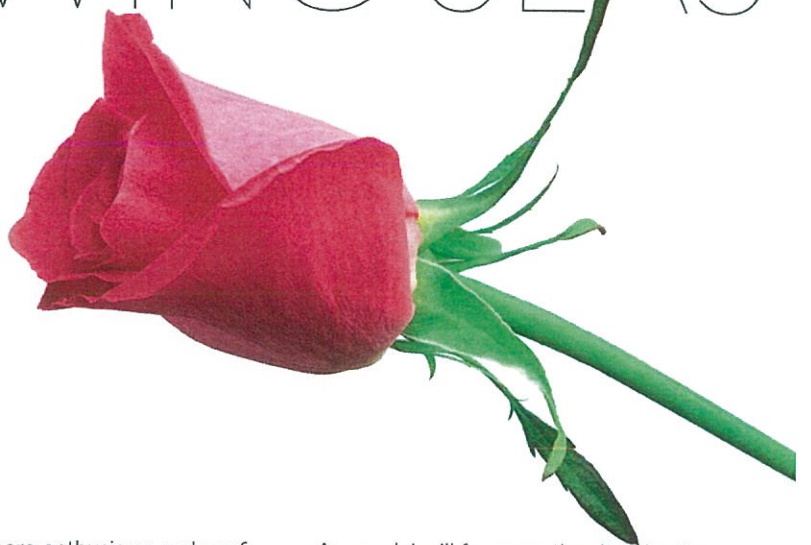


# FAIR WINDS & FOLLOWING SEAS

*2016 predictions*



**W**here does the time go? As you read this article, dear reader, we will have just said goodbye to 2015 and moved into the second half of this decade – already! Inevitably, the New Year brings resolutions – all made in good faith and with well meaning, which, if you're anything like me, is why we feel so guilty when most of them have been broken even before the New Year bank holiday weekend has come to an end.

Nevertheless, whenever 1 January comes around, I confess to a feeling of renewal, of something more positive around the corner – a new beginning. As this is the finance column, I had better restrict myself to financial, rather than personal, resolutions, which – as we have already agreed – are probably already a distant memory anyway.

So, how do we find 2016? Should I be

exuding any more enthusiasm and confidence than I did this time last year? After all, as regular readers may recall, it has been hard to be truly optimistic for several years because many of the positive features that preceded the financial crisis no longer hold true. In fact, with the benefit of hindsight, many of them did not in reality hold true then, but that is ground we have covered before.

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Hence, glancing back at some of my recent New Year commentaries, I see they are peppered with caveats like: "economy doing a bit better financially" ... "still a long way to go" ... "we're certainly not out of the woods yet". So, have we finally turned the corner in 2016 or would I be on safer ground to keep employing the more prudent phraseology that has served me, as a part-time commentator, so well? Is the outlook and prognosis really any different (by which I mean better)?

*It has been hard to be truly optimistic for several years...*

As usual, I will focus on the situation here in Gibraltar and in the two nations most critical to Gibraltar's economic health – the UK and our closest neighbour Spain. General elections were held in all three countries in the course of 2015. The UK election result last May defied all the opinion polls and ushered in a majority Conservative government. In Gibraltar, we went to the polls on 26 November and returned the GSLP-Liberal Alliance with a much-improved percentage of the vote. At the time of writing,

the Spanish electorate are due to speak just a few days before Christmas in what promises to be the most fascinating election in a generation, as the new parties *Podemos* and *Citizens* seek to break the hegemony of the PP and PSOE.

In Gibraltar, the pace of change is clear to see – not least from an infrastructure point of view. All being well, the World Trade Center (that is the correct spelling



## finance

of the global brand) will open in 2016 and new developments, underway or proposed, are springing up all over the Rock. Unemployment and inflation remain under control and, whilst the overall level of business confidence is difficult to gauge, it is encouraging to see all sorts of new businesses applying for licences in the official Gazette. And more people are visiting Gibraltar. Cruise ship arrivals are up and the airlines have announced increased flight schedules for the year ahead.

In the UK, the overall state of the economy is encouraging. Again, there are lower unemployment figures and, although the threat of deflation is still a concern with interest rates so low, the government's efforts to tackle the deficit seem to have some success. Tax receipts are key to this and, as we all know, war has been declared on all forms of tax evasion. At my firm, we welcome these initiatives because we have always advocated using only compliant, legal structures. Any "tax planning" that relies on secrecy is not really planning at all, as will be seen over the next couple of years as the OECD's new Common Reporting Standard comes into force around the world. All of this should be good news for the UK Chancellor.

Spain appears to be holding its own within the Euro zone, although significant challenges remain. There are also hopeful signs in the property market. Spain's second largest bank, BBVA, recently forecast that the year would close with house sales up 10% and that the sector would "leave

*It is encouraging to see all sorts of new businesses applying for licences...*

behind the recession" in 2016 and "consolidate its growth." International demand remains buoyant and it is encouraging to note the level of Chinese interest.

Locally, cross border business with Spain is, of course, greatly affected by the euro exchange rate. Sterling remains strong against the euro, which is good news for local residents because we get more euro for our pound. For local importers, the costs of goods from Spain – or indeed anywhere in the Euro zone – will have fallen. In recent budgets, Gibraltar has reduced, or in some cases eliminated, import duty on a wide range of items. This should encourage spending, which is generally the aim of most European governments to

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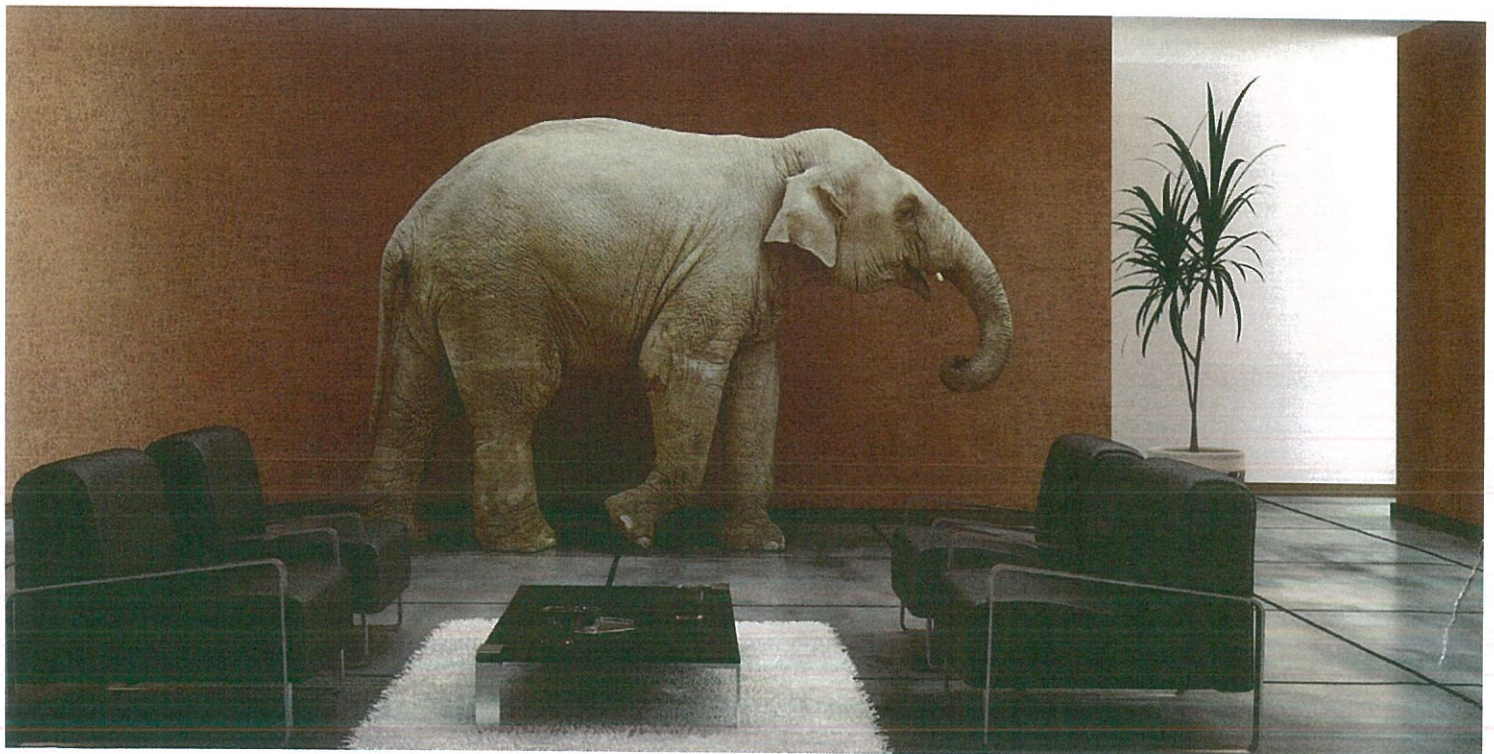
stimulate the economy. Remember though, that goods and services in Gibraltar will now be more expensive to visiting euro zone residents.

It remains to be seen how the new Spanish government will work with the newly re-elected Gibraltar government but, as I have written many times before, I hope very much that it will be in a positive way for the benefit of all those living on either side of the border

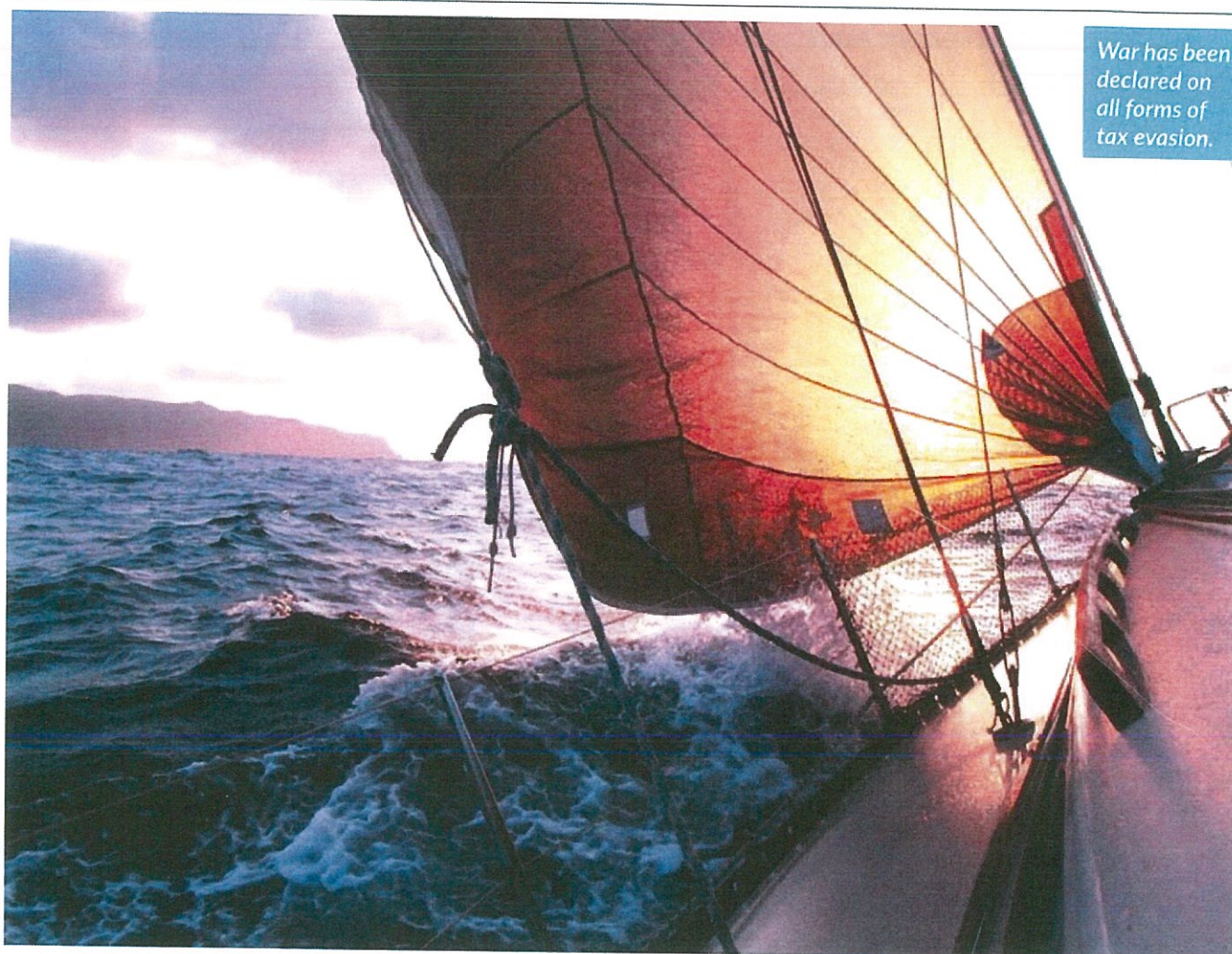
So, everything in the garden is rosy? Not quite – but then let's face it, it never is. International security concerns us far more this New Year than at any time since the Cold War. The threat posed by extremists on a global basis is, sadly, all too real and 2016 is likely



*The threat posed by extremists on a global basis is all too real...*







War has been declared on all forms of tax evasion.

to be equally challenging. The volatility in the Middle East shows no sign of abating; neither does the mass migration of people from that region. The diplomatic, political and military challenges grow ever more complex. How all this will impact us economically and financially will no doubt occupy several of these columns in the year ahead.

And talking of challenges, the wider euro zone remains the *elephant in the room* for Brussels. Portugal elected a new government recently on an anti-austerity platform and, whilst off our

**Spain appears to be holding its own within the Euro zone...**

front pages for the time being, the situation in Greece is far from stable. And, of course, Brussels will be dealing with the UK's demands for reform with the "Brexit" scenario looming ever larger. This is perhaps the most significant potential predicament facing Gibraltar in the months ahead.

Further afield, we should consider the slowdown in China. Its economy is still growing but at a significantly slower rate than before. Indeed, all of the BRICS economies are suffering to a greater or lesser extent. And let us not forget perhaps the greatest economic war of our times – oil. Saudi Arabia's decision to abandon its traditional role as the global oil market's swing producer, and therefore unofficial guarantor of high oil prices, has created havoc as it pursues a strategy of deliberate overproduction. Contagion effects have included the crippling of other oil dependent economies such as Venezuela and Ecuador. The impact on Russia has the potential to lead to more instability in 2016. And financial markets hate uncertainty.

**Financial markets hate uncertainty.**

So, as we welcome in 2016, I am relatively bullish about the financial prospects for the year ahead given fair winds and following seas. But, as any sailor will tell you, any number of variables could serve to damage the vessel or drive us towards inhospitable shores. No doubt I may have to address some – although hopefully not all – in future columns. In the meantime, on behalf of my colleagues at Sovereign in Gibraltar – and there are over 100 of us these days – I would like to wish you all a very happy and prosperous New Year 2016. I hope your resolutions last well into January – and beyond!



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