

**STATEMENT BY THE GSLP/LIBERAL OPPOSITION  
73/2008**

**24 July 2008**

The Gibraltar Savings Bank is this month 73 years old, having started in July 1935.

The Savings Bank Act has throughout provided a guarantee from the Government, as the bank's owner, for 100% of the bank's deposits and for the payment of the interest due to its depositors in case of failure on the part of the bank.

In spite of this, the bank has been required to maintain its own reserves before it could hand over any of its profits to the Government.

This reserve originally had to be kept at 15% of total deposits before any dividend was paid to the Government.

In 1987-88 the bank had reserves of £ 398,000, just under 15% of the deposits at the time, and made a profit for the year of £60,000.

The GSLP Government in 1988 set out to increase the activity of the bank. Nine years later in 1996-97 the bank made a profit of £6,704,000 and its reserves reached an all time high of £ 20,253,000.

The GSD Government withdrew some of the reserves at the time.

Since then, the bank has continued to make profits and increase its reserves. Last year, the profit was £3.7 million and the reserves just over £ 16m.

This year the reserves are expected to reach £ 17,024,781. The Government has changed the law so as to take out and make use of the £17 million and leave the reserves of the bank at £ 24, 781.

Moreover the bank is no longer required to hold any reserves of its own under the changes introduced.

The Government view is that this money is wasted by being kept in the reserves of the savings bank because there is already an obligation for the Government to bail out the savings bank if it is unable to repay its deposits or pay the interest due.

These fall-back guarantees have been there since 1935 and nobody had considered this meant the bank should not have its own reserves. Indeed it has taken Mr Caruana 12 years to reach this conclusion.

The effect of these changes and the emphasis on cash deposits will probably mean that the savings bank will become less competitive than alternative savings vehicles and be less profitable than in the past.

The Opposition believes in expanding the role of the savings bank and has carried a manifesto commitment to this effect at the last elections.

The scenario facing the bank as a result of the changes in the law regrettably is more likely to be one of contraction rather than expansion. The Opposition is committed in Government to reverse this situation.

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