



PRESS RELEASE

No: 491/2025

Date: 2nd July 2025

The Budget 2025 – The Minister for Economic Development

Sir Joe Bossano

Index

Introduction.....	2 - 7
The Economy.....	8 - 16
Labour Market.....	17 - 24
Savings Bank.....	25 - 36
Departmental Expenditure.....	37 - 44
The Future.....	45 - 47



INTRODUCTION

Madam Speaker,

I believe the present state of Western Civilization and the global community is at a historical point which will bring tremendous changes to all our lives and in particular the concept of the economic activity that had been an innate part of our understanding of human history and has shaped human concepts of value.

Human history is punctuated by transformative shifts that redefine economies, societies, and the balance of global power. The Industrial Revolution of the 18th and 19th centuries was one such shift, radically altering how people worked, lived, and interacted with one another. Today, artificial intelligence (AI) represents a similarly profound disruption. As machines once replaced muscle, AI is now poised to challenge the supremacy of human thought in specific domains. At the same time, we are witnessing a reversal of a decades-long trend toward globalization, as nations turn inward, reassess dependencies, and assert greater control over their economic destinies.

If we examine the parallels between the Industrial Revolution and the AI era, not only in terms of disruption and dislocation, we also see how each wave of change has reshaped global integration — or, increasingly today, contributes to its unwinding.

The Industrial Revolution was driven by invention, energy, and scale. Mechanization transformed agriculture and manufacturing, enabling productivity on a scale previously unimaginable. The steam engine, textile mills, and ironworks did more than change production,



they created a new economic system rooted in factories, wage labour, and urban migration. Societies were upended. Craftsmen and rural workers lost their roles; new classes of industrialists and wage-earners emerged.

Yet despite these painful shifts, the Industrial Revolution also ushered in a new era of global expansion. Steamships and railways shrank distances, empires expanded, and global trade flourished. Europe, in particular, used its industrial edge to project power abroad. Industrialization and globalization went hand in hand driven by the need for raw materials, markets, and labour.

But these changes weren't smooth. The era was also marked by harsh inequality, resistance by workers (such as the Luddites), and deep political tensions. Reform movements emerged. Trade unions, socialism, and eventually the welfare state developed as responses to the dislocations of industrial capitalism.

The current wave of AI is similarly transformative but rather than replacing physical labour, it targets cognitive work. AI systems can now write, diagnose, translate, analyse legal documents, and even produce art. What makes this disruption different is the speed and scope of change.

Unlike the Industrial

Revolution, which unfolded over a century, AI's impact is unfolding in a matter of months.



Professionals once seen as immune to automation accountants, lawyers, teachers, even software developers now face uncertainty. For some, AI offers tools for greater productivity. For others, it raises the spectre of obsolescence. Like factory workers in the 19th century, knowledge workers may find themselves pushed aside by machines that do the job faster, cheaper, and around the clock.

One of the stark contrasts between the two eras lies in globalization. The Industrial Revolution accelerated global integration; AI, paradoxically, is contributing to its fracturing.

The late 20th and early 21st centuries were defined by hyper-globalization. Trade barriers fell, capital flowed freely, and supply chains stretched across continents. Emerging economies like China and India rose by integrating into the global system, supplying goods and labour to Western markets.

However, over the last decade, the tide has turned. Populist politics, supply chain vulnerabilities (exposed brutally by COVID-19), and rising geopolitical tensions (especially between the U.S. and China) have led to economic nationalism and technological decoupling. AI, being a strategic technology, is now at the centre of this retreat. Nations fear becoming dependent on foreign AI systems for reasons of security, sovereignty, and control.



As a result, we are witnessing efforts to “re-shore” manufacturing, restrict foreign investment in key tech sectors, and build AI behind national firewalls. The global village is fragmenting into digital fortresses.

Moreover, just as the Industrial Revolution brought a new global order centred on industrial powers the AI revolution may reshape geopolitical influence. Countries that lead in AI may wield enormous power. But if handled poorly, inequality within and between nations could grow worse than ever.

We stand at a new turning point in global history. AI has the power to transform economies as profoundly as steam and steel once did. But unlike the Industrial Revolution, which expanded global links, today’s AI era is emerging during a period of strategic fragmentation and declining trust between nations.

Artificial intelligence, already deeply embedded in daily life, is evolving from narrow tools to general systems capable of learning, reasoning, and even creating. With AI able to write code, draft legal documents, diagnose diseases, and create art, the boundary between human and machine productivity blurs. This raises foundational questions about the source of economic value: is it in the labour, the output, the algorithm, or the data?

There is another connection between AI and the industrial revolution.



The use of energy.

Without the steam engine which for the first time replaced animal and human labour, there would have been no industrial revolution.

The appetite for energy for AI is going to accelerate the demand for electricity and nations conscious of this are in a race to be first to deliver fusion energy.

Fusion energy, long seen as a distant dream, promises to deliver nearly limitless, clean power without the environmental downsides of fossil fuels or the long-term waste of nuclear fission. If realized at scale, fusion would decouple energy production from resource scarcity. This could make energy effectively free, upending industries from manufacturing to transportation. In economic terms, the cost of energy has historically been a limiting factor in production and growth. Fusion could radically lower input costs, transforming the marginal cost structure across economies. This would shift the traditional labour and capital value equations and force a rethinking of scarcity-based valuation.

The emergence of fusion energy, and artificial intelligence (AI) represents a pivotal moment in human history—one that may redefine civilization itself. Each of these technologies, powerful in isolation, becomes exponentially more disruptive when considered together. They challenge not only the way economies function but also how we understand the very concept of value in economic theory.



The choice before us is stark, and the same for everyone else.

Either we move quicker than others and prioritize our adaptation to the inevitable changes or we face others competing against us because they've been successful in getting there first.

We have two advantages that puts us in an ideal position, we are small enough to move faster and we have an annual turnover of some 5000 workers.



THE ECONOMY

For many years, Madam Speaker, I have analyzed indicators to make an assessment of the potential, and therefore the probable level of Gross Domestic Product (GDP) that we could expect to achieve and shared my estimates by putting the figures in the public domain.

The GSD in those days did not have anyone in their ranks that thought I was boasting when I did this. But there were many doubting Thomases, who did not believe it was possible to project future economic output levels with accuracy.

In the first two terms of the GSLP government, we achieved GDP growth of 133% between 1988 and 1996. The economy grew from £152m to £352m.

Since the GSD government in 1996 did not believe this was possible they commissioned a report from Bournemouth University to check the numbers. After several years delay, in 2003, the report confirmed the accuracy of the figures that had been originally calculated by the statistics office.

In the 2003 election campaign, we projected the estimated level of the GDP for 2007/8. Then we spelt out a GDP target of £800m, which was achievable.

At the time that we published our calculations in 2003, the GDP was around £500m.



Again we had disbelief from the GSD ranks, who eventually had to confirm in 2010 that the GDP had indeed attained the figure suggested and slightly surpassed it for 2007/08, reaching a level of £806m. We also predicted in 2007 the size of the GDP for 2011/12, which we estimated, would reach a level of £1.2b and eventually reached a level of £1,201.31b when the final figure was published.

For 2015 we were expecting £1.8b and it came in slightly under that at £1.794 and four years later, reached a peak of £2.568b when the Covid development happened.

Given that we are now targeting a slower rate of growth and a smaller size of workforce as the future for a sustainable economy, the levers of economic development have totally changed.

The change initially analyzed as necessary, was as a result of the 2016 Brexit referendum and we reflected it in the 2019 manifesto commitments.

The coming into operation in the near future of the recently announced agreement for an EU/UK Trade Treaty, which results in fluidity of movement for residents and visitors across the entry point to the Schengen area, which starts in La Linea creates a totally new background for the analysis of the economy.



The fluidity and the widening of the area for crossing between Schengen and Gibraltar could result in much higher numbers of visitors, but there is a limit to how much we can absorb.

The retail trade dealing with visitors should benefit from this however it could also lead to less tourist actually staying in Gibraltar if much cheaper accommodation is available in La Linea and the crossing to Gibraltar is very easy.

The totally new element in terms of our economy is the access to the internal market for goods which we did not have in the 43

years that we were members of the European Union, by our own choice.

In 1972 when we negotiated our entry into the EU we did so on terms arrived at by consensus between the Government and the Opposition.

However, it remains to be seen exactly how this new market access will function. It should be a benefit in terms of importation of goods and in terms of retail sales physically in Gibraltar or online within the single market, if it is possible to do this on terms that make us competitive.

Having said that I want to make clear that our economic objective to target labour productivity remains unchanged.

The main source of our government revenue is from the businesses that predominantly are online and providing services to the United Kingdom. Therefore it will be the combination of



retaining access to the UK for services and access to the EU for goods that provides a new framework in which we need to discover how we can get most advantage from this configuration, in order to maintain revenue streams.

Both the government of the UK and Spain have welcomed the agreement for the Trade Treaty and suggest that it can result in a very large increase in economic activity and creation of wealth in Gibraltar, and in the hinterland.

The reality is that it is impossible to scientifically predict what the economic impact will be when the new rules are fully implemented. My own view would be to take a more cautious position and not give rise to expectations of a level of wealth creation that may not materialize.

In principle, the new relationship should create new business opportunities by participating in the market for goods, which was not previously available to us, as members, but it is the continued relationship with UK for the marketing of services, that is what is most important to our economy and recurrent government revenue.

Even before the latest development promising much higher probability that increased trade will materialize, there has been no shortage of potential investors coming to Gibraltar.

However, the bulk of these investors have expressed interest in the property market and in entering this market as prospective property developers.



This kind of Inward investment is not the sort of investment that the Ministry for Economic Development would sponsor or promote since the developers for this market are currently well supplied, and clearly it is preferable that local property developers, who are based here should continue, rather than that they should be replaced by outsiders who may be less committed to Gibraltar in terms of social and political grounds. Which could be the case if new developers who come here, are here just for the money.

However, there are others that have come with proposals for very innovative and potentially very profitable initiatives, which are at a very early stage in terms of considering the viability of the projects.

Other than the East Side Project there two different possible investors with different projects that are not concerned with property development, but which would make an impact similar in size to what the development of the East Side would reach once fully developed.

We also have a stream of smaller inward investors seeking to explore establishment in Gibraltar to trade from our jurisdiction as a base in developing businesses in third countries.

This is a very important sector in the National Economic Plan, which promotes the concept of providing Gibraltar as a place to do business from, rather than to do business in. This is particularly attractive because it's demand on land, property and labour will be comparatively low and the contribution to the economy would be in terms of high volumes.



The failure of UK to extend existing trade agreements which go back to as far as the 1950s and have a clause providing for extension to Non-Self Governing Territories (NSGT), that is the ten remaining British Colonies, is a problem.

Regrettably this has been an impediment in our being more successful in developing this new industry. It is a matter that we continue to take up with the UK so that we are able to explore the potential of this initiative.

The GDP this year is at a new record and breaking new high ground in passing the £3b barrier, at £3,089.5b.

The Hon. Mr Clinton says that the size of the GDP is not important and ascribes that view to me.

The measurement of the output of our economy is the GDP. It is important to know what is the value of the economic output.

However, because it is the value of the output of the whole of the workforce and almost half of this workforce is made up of frontier workers, although it is no longer growing as fast as it was, as I have demonstrated with the relevant figures that I have provided, it is still significant.



The issue that I have suggested is inaccurate, is the use of the GDP to calculate income per capita, limited to residents. For the obvious reason that the earnings of the frontier workers are not sources of income that are available to residents.

The new measure I have introduced to replace this, is income per worker.

From this, we could calculate the income of frontier workers and produce a lower income per capita for residents however this would have no value and would not be comparable to the statistics of other jurisdictions because these other jurisdictions all still continue with the system that I have abandoned.

The value of the new system is that it measures efficiency rather than income, and it is accurate because it is for the whole workforce, including frontier workers. Moreover, similar statistical indicators have been calculated for some time in other countries.

So this year we can compare the progress we have made in increasing the efficiency of our workforce and compare it with the past and also with recent comparable data from UK.

Coming back to the calculation of our increasing productivity in relation to the measurement of GDP per worker, what we are measuring is the average value of the output per worker.

That means, of course, that there are some workers that achieve a much higher contribution in value to the economy than the average, and others will contribute less than the average.



If we go back to the transformation of our MOD based economy, which was started by the GSLP government post 1988, we can identify the level of productivity that we inherited.

This starting level is a reflection of the state of the economy at the close of the AACR administration which we inherited

We inherited a GDP of £152m and a workforce of 12,995 in April 1988, which produced a value of output per worker of £11,697.

By 1996 we had increased the size of the GDP by 133% to £352b, with virtually the same workforce, in fact in April 1996, it was slightly lower than in 1988 at 12,980 workers. This translates into a value of output per worker of £27,119 compared to the initial inherited level of £11,697.

The GSD inherited this level and in their 15 years between 1996 and 2011 the GDP increased from £352m to £1,201.31b and the workforce went up from 12,982 to 22,247.

This provides a value of output per worker of £53,998 in 2011.

Since 2011 the value of the GDP has increased to an initial estimate last year, 24/25, of £3,089.47b and the workforce over the period has increased to 31,634, subject to any changes in the size of the GDP in future revisions of the estimate. This provides a value of output per worker of £97,662.



These figures compare favorably with the levels of productivity in the UK economy. The UK figures are as follows.

Year	United Kingdom (£)	Gibraltar (£)
2019	74,000	80,392
2020	72,000	81,870
2021	76,800	80,352
2022	79,200	88,302
2023	80,700	92,349

This comparison between the level of value per work output in UK and Gibraltar shows higher levels in Gibraltar, even during the Covid shutdown and an even bigger gap in the post Covid recovery period with per worker productivity higher in Gibraltar than in UK by £3.552 a year in 2021, £9.102 a year in 2022 and £11,648 a year in 2023, the last year for which UK figures are available.



LABOUR MARKET

Madam Speaker,

The Hon Mr. Clinton has also claimed that I have suggested that they should endorse the National Economic Plan.

This is not correct, there is no reason why I should want him to do that.

In fact, I would say that it is impossible for him to do this, since the key element is to support the private sector by investing in projects through the purchase of loan notes and he opposes the use of the Savings Bank for this purpose.

What I have said on a number of occasions is that in 2019 the manifesto changed the economic policy in the National Economic Plan, not the projects that are or maybe sponsored when they are brought to our attention.

Therefore, it is the policy which now seeks to measure and promote increased, efficiency as opposed to increase growth.

This is what I suggested would be in the public interest to know if they support the program of increasing efficiency, or they are still committed to the previous policy of increasing growth in GDP.

I have explained in previous budgets the policy of increasing the size of the labour market, which was introduced by the GSD was continued after 2011 until the period after Brexit and then after the effects of Covid in 2019/21.



Every year I explain how the new policy is working, no longer seeking higher GDP and instead targeting higher productivity.

I have also raised several times the absence of response from the opposition to my explanation on the economic policy we are committed to, which one would have expected them to have a view on, as to whether they agree that it is the future that we must aim for against the wider economic background or what do they think should be done otherwise, for example pursuing a bigger labour market.

I believe this is essential for Gibraltar, and that is why I have invited them to say whether they agree that we should be pursuing higher productivity instead of higher growth and they have given no indication of their position on this policy, until this year when the Leader of the Opposition remarked that to grow the economy is what the GSD would want to do.

This suggests they are still committed to GDP growth instead of productivity growth

Last year I provided detailed figures, which showed how successful our policy of enhancing labour market self-sufficiency has been since we announced it in 2019 and earlier in the context of the 2016 Brexit decision.

We have been able to reduce growth in dependence on frontier workers and we have slowed down the rate of increase of the working population.

We have measured the success of this policy by comparing the growth that took place prior to 2018 and post 2018, over an equal number of years.



Summarizing these results, it shows the following picture.

In October 2015 our labour market employed 26,144 and by October 2018 it had reached 29,995, an increase of 3851 in three years, an average of 1084 a year, an extra 107 employees a month.

The policy change came into effect after Covid, which covered the 24-month period of 19/21.

So the figures for October 2021 show the position in the closing months of the Covid period.

From the 29,995 in the above calculation at October 2018, we went to 30,403 three years later, an increase of 408 employees, equating to an annual average of 136 individuals, a monthly average of just 11 extra employees.

Over the four-year period prior and post to 2018, the position of labour market growth continued. In 2014 the level was 24,422 and the growth to 2018 was 5573, or 1383 per year equating to 116 new employees per month.

Under the new policy, the four-year growth was 1158, an average of 348 a year and just 29 employees a month.



The five-year period from 2013 to 2018 produced growth in the labour market of 7088, a yearly average of 1418, and a monthly average increase over the five years of 118 employees.

The post 2018 growth for five years to 2023, reported last year, based on the October 23 employment survey showed that the number of employees had gone up by 1528 in the five-year period, an average of 306 a year and a monthly rate of growth of 25.5 employees.

Coming now to the latest October Employment Survey Report, recently available, the increase of employees over the six years since 2018 has been 1639, an annual average of 273 and a monthly average of 23 employees.

In contrast, the six years up to 2018, from our first year in government in October 2012, the size of the labour market was 21,519 and therefore by 2018 it had grown by 8476 to reach 29,995. This increase translated into an annual average of 1412 employees and almost 118 employees a month.

In that year, the GSD opposition was arguing that we could not grow the economy or the labour market by the numbers we had put in the manifesto and that our plan for increasing the number of employees would fail.

Now, of course, we are doing the opposite, targeting efficiency and productivity, which means we want to contain the size of the labour market to a maximum of 32,000 employees and in future bring it down.



The growth in the six year post 2018 according to the latest employment survey report has been 111 more employees from the figure of October 2023.

The previous year average annual increase up to October 2023 came in at 306 employees and the monthly average was 25.5 employees.

The one-year figure now reported of 111 additional employees for the period October 23 to October 24, therefore reduces the annual average from 306 to 273 and the monthly average from 25.5 employees to 23.

Each successive year from now on with low increases, will have the effect of reducing the size of the average annual increase to date.

In the first 5-year period the number of frontier workers went from 7504 in 2013 to 13,654 an increase of 6150 out of an increased workforce of 7088. That is 87% of the total increase consisted of frontier workers whereas the resident worker proportion was a 13% of the increase.

In the second 5-year period with the new policy objective, the workforce grew 1528 and the increase in frontier workers amounted to 490, that is 32% of the total, whereas resident workers now account for 68% of the increase in the workforce from the level of 2018 to the level 2023.



The reduction in the size of the labour force that we have been engaged in promoting since 2018 has a consequential effect on the number of frontier workers, which increases our self-sufficiency.

By the same logic, increases in the size of the labour market prior to 2018 generated demand for more frontier workers which in the context of our membership of the EU, and trans frontier workers' rights, did not suggest the need for self-sufficiency to the same degree that it does after Brexit. This was reflected in last figures, which showed that the six-year increase to 2018 had an increase of frontier workers of 7229 from 6425 to 13,654.

Taking the post 2018, to this year figures, the whole workforce grew by 1639 and on the frontier workers amounted to 190, from 13654 in 2018 to 13844 in 2024. In the last year alone, Oct23 to Oct24, there was a reduction of 300 frontier workers.

What the analysis clearly shows is that the increase we experienced in the size of the workforce in the first six years to 2018 was only possible because the majority of the jobs created were taken by frontier workers with resident workers not being able to meet the demand.



Since 2018 over the six years with our economy now operating on a much lower demand for labour, the bulk of the demand has been met by resident workers.

This is very encouraging because it indicates that in a more labour efficient market economy that Gibraltar needs to develop, at the point when this starts happening what we shall see is a majority decline in frontier workers.

Indeed, recent registration of employment in the last three months has seen more frontier workers leaving our market than the numbers of new entrants taking up employment.

The current financial year may experience different trends as the UK/EU agreement giving Gibraltar access to the EU frontier workers may become operational and has an impact on the demand for labour in Gibraltar in either direction.

Since Gibraltar has not implemented a change in the rules following our departure from the EU in 2020, in respect of employment for EU nationals, the facilities that would follow from the new access to the EU would lead to a new regime, which may offer less access than what has been operating de facto over the past four years.

This is as far as the supply of labour is concerned.



However as regards the demand it is not possible to make any assessment at this stage on the likely effect.

The policy will not change however, and the objective of reducing reliance on frontier workers will continue and at the same time improvements in labour utilization and increasing productivity will also continue to be pursued.

Finally Madam Speaker, the best ever news on the composition of the labour market in the October 24 Employment Survey Report, and for the first time since we started the surveys in 1972, is the result for Gibraltarian employment.

This increased by 304 between October 2023 and October 2024.

In that same 12 month period employment of all other nationalities combined went down by 138.

Therefore, the net increase in the level of employment of 166 was all due to the increase in Gibraltarian employment

This is the clearest and best indicator of our growing self-sufficiency and the diminishing dependency on imported labour.



SAVINGS BANK

Madam Speaker

In a recent article, the, Hon Mr. Clinton decided to attack me on the Savings Bank, which clearly is what he has been doing since he arrived in this place to undermine the confidence of depositors and what he has spectacularly failed to achieve up to now.

Of course, people need to understand that if the GSD ever get back into government and he believes in what he says in opposition, the Savings Bank will be run down like it was before 2011 to the detriment of savers and the economy of Gibraltar that benefits from the Savings Bank reinvestment in Gibraltar to Promote economic growth.

This time he exceeded his previous attempts at undermining the Savings Bank by the stupidity and ignorance revealed in his accusations and in the process, claiming that I was boasting of my financial genius.

This accusation is totally false and unworthy of the honourable member. I have never considered myself a genius in finance or anything else.

I have never claimed to be a genius.



So when I tell him what the performance, the Savings Bank is, namely that it is highly successful, what I am doing is providing information and demonstrating a level of growth which as a former banker I would have thought he would agree is a very good performance.

To my knowledge, banks compete with each other in attracting customers and deposits and that is a measure of their success.

Providing him with this information is what he calls boasting.

Of course for him, supplying information which is good news about the Savings Bank is not what he wants to hear. Obviously he would prefer that I should be giving bad news in order to suit his political ambitions even though bad news for Savings Bank would be bad news for Gibraltar.

He was the one who for the first time identified, the role Savings Bank was playing economically, by saying its role was the equivalent of a Development Bank.

Madam Speaker, the role of our Development Bank is to use money from depositors and provide, by purchasing loan notes from private sector entities, support for the carrying out of projects that provide a beneficial contribution to the growth of the economy, and this is precisely what the Savings Bank does. It invests part of the deposits in the local economy instead of investing it in the UK stock exchange.

The stock exchange was the preferred investment of the previous GSD government and presumably the preferred methodology of the present opposition, as far as the Hon. Mr. Clinton is concerned.



He has never questioned the wisdom of having £200m plus of the savings invested in the stock exchange in loan notes of UK companies. The portfolio of investments in the United Kingdom is what was done by the GSD government and what we have continued since 2012.

It is in this area of investment that we have occasionally suffered losses because when the investments matured and were cashed, in some cases, the prices were below what we had originally paid resulting in capital losses which have been shown in the accounts. The Hon member opposite has read this and has never commented or seen anything being wrong about losing money by investing in the debts of UK companies.

However, in his recent list of complaints, one of them is that he accuses me of giving the government a subsidy of £7m by issuing debentures at 5% to depositors and buying the government debentures at a lower rate. He says this is a loss to be incurred by the Savings Bank.

This is utter and complete nonsense and he should know it, if he knows anything at all about finance and accounting as he claims. The government is the owner of the Savings Bank, if the Savings Bank decides that it will provide funding to the government at a low rate at a particular point to help government finances, it has no effect because it could equally charge more and then refund the amount as a distribution from reserves.

This is the clearest example anybody should need to have which shows a disgraceful manipulation of arguments. He castigates me because the income of the Savings Bank will be £7m less than it could otherwise be if the government paid £7m more in interest and therefore decreased it's spending in recurred expenditure yet at the same time he attacks me for not



removing 10 times that amount that is £70m from the Bank reserves and giving it away to the government to sustain recurrent expenditure.

If the Savings Bank for which I am responsible charges less on the loan to the government that produces a theoretical negative amount of £7m on the balance sheet that is completely wrong and according to him, I don't know what I'm doing, so I'm not a financial genius. So charging a low rate of interest and thereby not getting £7m is totally wrong but giving away £70m pounds is totally right. Well I don't claim to be a financial genius or a genius of anything at all, but I know one thing that I can count to more than 7 and I know that £70m is ten times the cost of forfeiting the receipt of £7m, so if this is bad, then giving away £70m by definition, must be 10 times as bad. However not content with his absurd arithmetic he went as far as accusing me of thinking the £70m was mine, when I ignored his complaint about not leaving the Savings Bank reserves at zero.

This is an outrageous criticism.

But I do look after the savers money as if it was mine and I know many of the customers of the Savings Bank believe that their savings are in safe hands, as long as I am the Minister responsible for the Savings Bank, and they tell me so.

The GSD left the Savings Bank with £1.444 in reserve.

At the time they said it was because deposits were reinvested in private Bank accounts, which paid less interest than the Savings Bank was paying and in quoted debt of UK companies and was therefore safer, so no reserves were needed.

In fact, on government debentures they produced an annual £9m loss in interest paid to debenture holders compared to the interest received, from deposits in local banks. They then



said it was a social policy, but it was paid for by the tax payers for the benefit of shareholders of the banks.

I challenge the view that placing money in private banks that only guarantee a maximum repayment of £80,000 if they run into trouble, or buying loan notes of international companies that have no guarantee is a better option than to support creating in Gibraltar investments which have tangible assets as a result, assets that have value and cannot be taken away.

But it is legitimate in my book, for one political party to have one policy or opinion of what is best in respect of investing, the deposits in the Savings Bank and another party to hold the opposite view.

What is totally unacceptable is that we in opposition respect the right of GSD to carry out a policy, which we don't agree with, and they in opposition attack me for delivering the policy that is in the manifesto the electors have voted for.

So if the Savings Bank receives a lower rate in the investment in debentures from the government, it's because the manifesto has projected for the targeted reserves to reach £100m by 2027 and the target can be achieved with the interest rate that is being paid.

And if I don't agree with the member opposite to reduce the reserves to zero. It is not because I have an obligation to do what he thinks should be done and if I don't do it, it is not because I think the money is mine, which is a nasty narrow minded thing to think, never mind to say, but simply because it is what the manifesto on which I was elected says I have to do. So if I was doing what he wanted, I would not be able to achieve the £100m reserve target.

Of course, we all know the members opposite do not share our view that what is in the manifesto is what we should try to deliver and achieve when we are in government.



Although what they say and do in government is never what they say, others should do when they are in the opposition.

Last year's budget contribution from the Hon. Mr. Clinton contained yet another attack on the role of the Savings Bank.

At least I assumed it was intended to be an attack, since I have never heard him say a good word about our peoples Savings Bank, which for us is an institution, the best asset. Gibraltar has and the cornerstone of our economic strategy since 2011 as it was between 1988 and 1996.

So, the new discovery or invention, in last year's budget we were told by the Hon Mr. Clinton, was that the Savings Bank had now been reduced to being the "lender of last resort".

His announcement logically would mean that this had happened between 2023 and 2024 or at least that he had only discovered it in this year.

Of course to the average person in the street the word "last resort" would suggest that we are on the very edge of bankruptcy, on our last legs.

However, members of the banking fraternity, to which he once belonged, would consider the label the "lender of last resort" as the highest accolade or praise that you can use to describe a banking institution.



I only wish it were true Madam Speaker, we would be a sovereign jurisdiction with our own differentiated currency and the capacity to be able to step up and rescue normal commercial banks when they got into difficulties and also have the ability to control the exchange rate of our currency and the bank rate of interest for making loans to commercial banks.

With the Savings Bank, as “Lender of last resort” we would own the equivalent of the Bank of England or the United States Federal Reserve Bank, and have at our disposal instruments for shaping the markets to suit our economic policy.

Wonderful as this would be, regrettably it is not true and as inaccurate as his other fictional discoveries which started in 2015 when he suggested that the budget book did not reveal the whole of the revenue and expenditure, which in fact is the only thing it reveals, because he was convinced we had a second set of books as if the government revenue and expenditure of public service departments was a back street commercial operation with two sets of books to fix the level of profits and avoid paying tax.

Or perhaps, Madam Speaker, what the honourable member was trying to mislead people into thinking, that no bank was willing to lend the government money, and therefore the government had been left with no option other than to use the funds from the Savings Bank to sell their Debentures.



If this is what he was trying to do, then this also is total nonsense and false, if that is what his game was.

The debentures purchased by the Savings Bank represent the traditional debt of the government, which has been at the level of around £300m or less for many years. Other than that, the government debt that consists of bank debt, was provided for Covid with the support of the opposition and with the UK government as guarantor.

The guarantee of the UK Government is something that has never been provided to any previous government in Gibraltar's history, or in any other British Non Self-governing Territory for that matter.

For the UK Government to be the guarantor of this £500m debt it was necessary for the UK Treasury to prepare an assessment of our economy and the state of our finances. This was done to reach the conclusion, in a paper produced to advise the UK Parliament, to approve the guarantee. The rational of the advice given, by the UK Treasury, was to assess what was the risk that we would default on the debt and the UK would have to step in to repay it. The advice was that the chance of this happening was negligible, and therefore it was safe for the guarantee to be approved by the UK Parliament.

Clearly the UK government has more confidence in the sound state of the Gibraltar Economy and its Finances than this Parliament's Opposition.



That is the status that the government has in terms being a potential borrower of loans from local banks.

Not that I would favour that happening.

Bearing in mind that the Savings Bank has regularly between £300m and £400m in cash in the local banks, as the honourable member well knows, it would be very stupid not to say bad management for the Government to borrow from banks the money that the banks borrow from the Savings Bank at lower interest rates. That would simply be using the Saving Bank's money to provide unnecessary profits to commercial banks.

That is the sort of thing they did in government making huge losses in the process.

The different interpretations over the years of what he believes or wants others to believe is a revelation of how limited his understanding of the instruments of revenue and expenditure is, and suggests that it is not just the economy that he knows nothing about, which he admits is the case, but also at the same time he knows very little about how the public service manages its recurrent, revenue, and expenditure, which has been basically the same in all the budgets in all the years that I've been in this Parliament.

And now Madam Speaker, as the Minister responsible for the Savings Bank I will present an update of its performance in the last financial year.



I am sorry to have to say and I regret very much that last year has been a very successful year for the bank.

I know and understand how disappointed the Hon. Mr. Clinton and the opposition members will be to learn this, and I apologize for not being able to tell them that the Savings Bank was losing its customers, and that the level of deposits were shrinking, which is what they would like to hear.

Last year I explained how the new product which was the Economic Development Debentures had been well received when launched in August 23 and investors had purchased £11.25m in the first month.

I told Parliament that the level of sales from December 23 on, went up and I was confident that in a year, we would reach a level of £200m in sales, that is in the period to late August 2024. The actual level reached by August 24 was £232m

If we look at more recent figures, the sales of Economic Development Debentures stood at £144m at the start of April 2024 and reached £414m by the close of March 25, meaning that within the last financial year depositors purchased £270m worth of Economic Development Debentures.



Looking ahead, I would not expect the current year to increase the sales at the same, rate given the fact that many of these sales are the result of local residents switching from alternative savings to the Savings Bank, and now the numbers are likely to be less with much of the increase coming from existing customers.

The rate that we pay on sterling debentures is the most competitive in the Gibraltar market and also in the UK market although we do not access the UK market by marketing the product there, but we do get occasional customers writing in from the UK.

On the basis of current levels of demand, we should continue to grow to reach a level of £500m in issued Economic Development Debentures.

This does not mean that we necessarily have to deploy the whole of this amount in purchasing loan stock from developers, carrying out Gibraltar based projects.

However, it does mean that as the policy is that providing funding for Gibraltar projects makes more economic sense than buying loan notes from UK companies on the London Stock Exchange, we are in a position to do so in the knowledge that depositors in the Savings Bank are aware of the preferred reinvestment for their deposits.





DEPARTMENTAL EXPENDITURE

Madam Speaker,

As regard to recurrent expenditure the forecast balance of the consolidated fund provided a year ago was £179.4m for Apr 24

This has now been revised and the forecast balance is £182.7m.

There was an exceptional improvement in recurrent revenue in 24/25 at £813.4m compared to an estimate of £733m however the treasury estimates for the current year at £773.7m is close to the actual receipts for 23/24 which was at £748.1m the previous trend of improving revenue.

The original estimate for 22/23 was £637m following an actual level achieved of £650.3m the previous year.

This was the start of the revenue recovery, which had fallen form an all-time high of £703.8m in 18/19.

This conservative estimate was revised and forecast and as expected come in at £731m primarily as a result of forecast income tax received of £251.4m as opposed to an original estimate of £182.4m and now further revised to a level of £255.5m.

In the case of company tax, the forecast was for £159.5m compared to an original estimate of £125.2m and an actual figure that has now come in at £159.7m. For the year just ended 23/24 the forecast revenue is £746.3m compared to our original estimate of £726.9m, and the actual £748m.

This includes revised income tax of £255.6m compared to an estimate last year of £250m and in the case of company tax a final figure of £155.4m compared to an original estimate of £155m.



It is quite clear that many people think that increasing the level of spending by the Government every year is normal. This is not the case when the level of revenue, which recovered after Covid, has been stable but not on an increasing trend.

Therefore, restraining growth of public sector expenditure in these circumstances is no mean task but as long as our revenue streams show's slow growth there is no other choice.

Madam Speaker, given the level of misunderstanding, or perhaps deliberate misrepresentations, we get in the contributions on the recurrent expenditure, from members opposite. I thought it would be useful to provide an analysis for members and the public at large of what the picture is of the growth in recurrent expenditure by government departments. I do this without expressing a view as to whether it is too much, too little or just right and I do so to explain what has taken place since the Covid budget, when we experienced an increase in spending and a slump in income and had to borrow £1/2m to plug the hole, which members of the opposition were involved in more than I was.

The first point I need to make is that the recurrent cost in the annual budget is made up of two elements.

One is the Consolidated Fund Charges (C.F.C.) over which the parliament has no control. These are mandatory charges from the consolidated fund where they are the first charge on government revenues. The biggest element of which is the civil services pensions which in the last financial year 24/25 is forecast to cost £61M, in 23/24 the cost was £58m and in 11/12 the cost was £26.5m.

Although I am analyzing the available, recurrent revenue net of Consolidated Fund Charges because these costs are removed before the balance of revenue becomes available for the recurrent departmental expenditure, I note and accept that within the Consolidated Fund



Charges the element of debt servicing is subject to what happens to interest rates on Sterling loans, which is determined internationally.

However, this can work to our benefit where the expectation is interest rates falling.

At present the UK base rate is predicted to continue falling in 2025, potentially reaching around 3.75% by the end of the year. While there's no guarantee of this specific level, most analysts expect further cuts, though the extent of the reductions may vary.

My analysis will therefore deal with the recurrent expenditure, the amount which is voted and approved by this parliament. Since 2015 by the government members only, as members opposite vote against all and any expenditure, giving different reasons or excuses for doing so in different years, but in any event voting to shut down the public sector.

The expenditure approved for departments at Covid, which they voted in favor was £574m which is the figure if we take 50% of the two year budget, and therefore applies to 20/21.

The equivalent expenditure for the department for the year ended 24/25 that is up to last March is now forecast to have reached £675.2m, 4 years later.

Just over £100m higher, this seems an awful lot of money, and it is when we need to keep to the golden rule and not incur deficits in recurrent expenditure.

The percentage increase, however, comes to 17.5%. The index of retail prices rose 20.5% from April 2021 to April 24 this year.



Of course the fact that the growth of the cost of providing public services between 20/21 and 24/25 has increased by less than inflation puts the increase in context, but is no consolation if the revenue does not increase to a greater degree to deliver the surpluses we need to meet other commitments.

We need to understand that a very large proportion of our revenue comes from the earnings of international companies based in our jurisdiction, whose business is affected by what is happening in the global economy more than by anything that we do here.

Having explained the overall picture I will now deal with the areas of increased expenditure, and then perhaps members opposite will understand what really happens to the departmental expenditure, or perhaps they prefer not to understand and continue to attack, what is not there.

Madam Speaker the approved estimate and the actual level of recurrent departmental expenditure follows a trend where we reduce the previous level of overspending, where it exists, as a mechanism of control. Apparently, members opposite have failed so far to work this out for themselves and instead believe that we set out to create inaccurate promises only to break them every year, to give them an opportunity to criticize us.

On the revenue side, our best year had been the £708.3m in pre-Covid 18/19.

The Covid 24-month period was estimated at £1393m, or £696.5m per annum, and finally came in at £1260.30m or £630.15 per annum.

This took us back to the revenue level of just after 15/16, since 16/17 was higher.



I have in the past expressed concern as to how long it would take us to get back to where we were in 18/19.

In 21/22 we finished at £650Mm.

In 22/23 however, we did quite well in not just recovering the previous high level but surpassing it at £733.4m but then we seemed to be at that level with difficulty to surpass it, until 23/24 finished at £748.1m.

I think it would be prudent to consider that last year's forecast outcome of £813m is an outlier and to work on the premise that our normal revenue level will continue to be in range of £750m.

I therefore assume that we need to contain our recurrent expenditure on the basis of anticipating this level as the probable level of revenue we can rely on.

I note that the Hon Mr. Clinton in the 2023 budget said, I quote "if the Government revenue is indeed improving on a sustainable basis, and not a one off basis, that is of course welcome news"

If we take what I have called "our normal revenue level" the £750m for 24/25, instead of the actual forecast of £813m, then the income equates to a 19% increase from the level of 20/21.

Although what we have is a higher level of spending by departments after four years, this is the cost of providing Government services in the last 12 months, which has been £100M more costly than it was four years ago, but this is not true of all departments.

In fact, the increased cost was incurred in just three or four departments out of 55.



They are the Health Service, Elderly Care and Care Agency whose cost was £191.7m in 20/21 and £243.8m last year, which is an increase in cost of £52m.

The Education Department spent £58.7m in 20/21 and £73.1m last year, so the increased cost here was £15m.

Utilities in 20/21 cost £60m and in 24/25 £75.5m, an increase of £15.5m, and the Environment Department went from £16.3m to £18.7m an extra £2.4m.

So, of the 55 departments this four account for £85m out of the £100m and the remaining 51 together spent £15m more in 24/25 than in 20/21.

In other words the 51 Departments had a combined cost of £247.3m in 20/21 and the costs of these services in 24/25 was £15M higher which equated to a 6% increase over the four years the equivalent of 1.5% per year.

It is clear that the main driver of rising costs are Education, Health and Care, Utilities, and Environment.

Two demand driven and one subject to international fuel costs and the fourth is policy driven by standards.

The way ahead is to look for improved efficiency in these areas rather than searching for “waste” which is said to exist, but has not been identified.

If we look at our revenue in 24/25, which is exceptionally high and may not be repeated over the coming years, and compare the position as we have done for the department expenditure since 20/21.

Then we have in 20/21 revenue, net of Covid and Consolidated fund charge, hence available for departments of £536.9m. On the same basis, the available funds in 24/25 was £683.5m.



So last year the recurrent cost of department was £100m more than in 20/21 but our net revenue was £146.6m more than in 20/21.

Given the recent developments in the conclusion of a potential UK/EU Treaty to allow Gibraltar, Schengen access for persons and single EU Market for goods, it is difficult to evaluate how this may impact on Departmental recurrent revenue and expenditure, especially as the estimates predate the close of the last financial year.

So we may find considerable departures from estimates during the course of this financial year, more than what is reflected in my analysis of the last four years.

In the absence of new factors affecting either our recurrent revenue or expenditure what is estimated for the current year follows the analysis I have provided.

This year's overall recurrent departmental expenditure at £643.6m is below the forecast outturn of £675.2m by £31.6m and is £9.3m higher than the final 23/24 figure which came in at £634.3m. The four areas I have identified in the estimates for the current years Health and Care has £224.3m compared to a forecast out turn of £243.5m and a final expenditure of £228.4m in 23/24, Utilities has an estimate of £77.2m compared to a forecast out turn of £80.1m and a final expenditure for 23/24 of £75.6m, Environment has an estimate of £17.3m compared to a forecast out turn of £18.1m and a final figure for 23/24 of £18.6m and in the case of Education the estimate provided is £68.2m compared to a forecast outturn of £73.1m and a final figure for 23/24 of £17.7m.



Therefore, of the £31.6m we are providing less than the forecast outturn of 55 departmental recurrent expenditures, £27.8m is in the four departments that historically have been mainly responsible for the bulk of the overspend compared to the original budgets, in previous years.

The estimated forecast outturn in the other 51 departments, are being provided with £4.2m less, in the budget for the current year.

In other words, the forecast outturn for 24/25 for these other 51 departments is £260.4m and they are being provided for the current year £256.6m.



THE FUTURE

Madam Speaker, earlier this month the World Bank produced a report that painted a bleak picture for the global economy.

It said that, after a succession of adverse shocks in recent years, the global economy is facing another substantial headwind, with increased trade tension and heightened policy uncertainty. This is contributing to a deterioration in prospects across most of the world's economies.

Downside risks to the outlook predominate, including an escalation of trade barriers, persistent policy uncertainty, rising geopolitical tensions, and an increased incidence of extreme climate events.

It suggests that global cooperation is needed to restore a more stable and transparent global trade environment.

The global outlook is that growth is slowing due to a substantial rise in trade barriers and the pervasive effects of an uncertain global policy environment. Growth is expected to weaken to 2.3% in 2025, with deceleration in most economies relative to last year. This would mark the slowest rate of global growth since 2008, aside from outright global recessions. In 2026-27, a tepid recovery is expected, leaving global output materially below January projections.

The outlook largely hinges on the evolution of trade policy globally. Growth could turn out to be lower if trade restrictions escalate or if policy uncertainty persists, which could also result in a build-up of financial stress. Other downside risks include weaker-than-expected growth in major economies with adverse global spillovers, worsening conflicts, and extreme weather events.



The ongoing global headwinds underscore the need for determined multilateral policy efforts to foster a more predictable and transparent environment for resolving trade tensions, some of which stem from macroeconomic imbalances.

If the World Bank is right and this is what is needed there is little evidence that it is going to happen any time soon.

I have already identified how important the UK market for services is to the reliance and growth of our international companies.

In addition to the general negative assessment of a global slowdown which is projected by the World Bank, the UK's own position appears weaker than other advanced economy.

The British Pound has dropped sharply after the recent publication of UK's economic growth in April disappointed investors raising questions about how the UK government will fund its spending plans.

According to the ONS, the UK economy that is its GDP, contracted by 0.3% month-on-month in April, down from 0.2% growth in March and below a consensus expectation for -0.1%.



The surprise comes at just the wrong time for the UK, with investors asking whether the economy will be able to deliver the growth required to fund Chancellor Rachel Reeves £190b spending plans.

This GDP reading represents a significant negative surprise for investors, and it is little wonder the Pound to Dollar exchange rate slumped in the minutes following the release.

The Pound to Euro exchange rate - already under pressure also went down.

The UK is watching its currency suffer once again against the euro. Following Tuesday's weak labour market report, and the monthly GDP report and industrial production data were disappointing, further adding pressure on the Labour government to amend its fiscal plan of significant tax increases and stronger.

Clearly, the problems of the UK economy, the expected Global Slowdown and the potential deglobalization connected to trade barriers, all signal dangerous waters ahead that we need to navigate to protect the continued success of our current economic model.