



GOVERNMENT OF GIBRALTAR
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**ADDRESS BY THE CHIEF MINISTER, PETER CARUANA
TO THE CHAMBER OF COMMERCE
ON THE OCCASION OF THEIR ANNUAL DINNER
WEDNESDAY 11TH NOVEMBER 2009**

Mr President, Members of the Chamber, distinguished fellow guests, it is for me a great honour and privilege to be delivering here tonight this “State of the Nation” address half way through this our fourth term in office (and therefore very much a mid term report), against the backdrop of two of the most turbulent years for the global economy and financial system in living memory.

THE ECONOMY

Throughout the crisis the Gibraltar economy has demonstrated a robustness and resilience that reflects its solid foundations, the benefit of the extent of diversification that it enjoys for one so small, and the fruits of our policy focus on high standards and high quality operators in our principal economic sectors. We have worked hard to achieve this solidity and stability, and success of our economic model is best tested in hard and stressful times for the rest of the world. I think it has passed the test with high marks.

As other economies have shrunk in size, our economy has continued, and continues to grow. It did so by more than 8% in 2008, and is likely to have grown by at least 6% in the year to March 2009, to something over £850 million. All current indicators point to continued significant growth during the remainder of 2009/2010. We are conservatively and very provisionally estimating at least 5% at this stage, which would produce a GDP of around £900 million as at 31 March 2010.

It is a measure of the extraordinary success of our economy that it has grown by 145% since 1996, that is an average of over 11% per annum. Assuming just 5% growth during each of the next 2 years, which is very likely to be exceeded, the economy will have nearly trebled in size in just 15 years.

There are now 7534 more jobs in the economy than in 1996, representing an increase of 58%.

The ability of our economy to create jobs has continued even during the global recession as most other economies were losing jobs. The number of jobs in our economy increased by 813, to 20,509 during 2008, an increase of 4%. These record employment levels have been sustained during 2009, and we look forward to the results of the October 2009 survey to see if it has grown further still. Indeed, sectors such as online gaming have continued to further increase employment levels. Import duty figures also suggest the same direction of travel for the economy.

Of course, the Government is aware that this picture of growth and resilience in the face of the global crisis masks short term problems being experienced by a few sectors of our economy, and the Government will take whatever appropriate targeted steps it can to provide relief for those affected sectors.

One example is the local construction industry which is suffering the consequences of the low level of private sector work following the drying up of bank finance for developers as a result of the banking crisis. The Government will shortly be announcing a series of measures to provide a stimulus to that important sector of our economy.

GOVERNMENT FINANCES

Unlike most of the rest of Europe, the Government's fiscal position also remains strong despite the global recession. In the year to last March the Government again produced a substantial budget surplus. Since then, Government revenue from its principal sources remains strong, reflecting the continued buoyancy of the economy, and we therefore fully expect a significant overall budget surplus again this year of at least £15 million, which amounts to 5% of the Government's total expenditure, and 1.75% of GDP.

This contrasts with the fiscal position of most governments around the world, where budgets have fallen into significant deficits, public debt is spiralling and record levels of public borrowing is being used to fund recurrent expenditure and budget deficits.

This is not the case in Gibraltar, where public debt is used only to fund investment and never to fund recurrent expenditure. In addition our public debt remains very low. The UK has long since now abandoned its 40% of GDP "prudent" borrowing level, which now stands at around 70% and is expected to rise still further.

In contrast, as at March 2009, the Gibraltar Government's net public debt stood at just 7.3% of GDP, which is very low indeed by any economically relevant measure. To put this in perspective, in 1995, that is 14 years ago net public debt represented 23% of GDP in a much smaller economy.

REGIONAL CONTRIBUTION

As our economy has prospered and grown, so our contribution to regional prosperity through our contribution to the neighbouring campo economy has also grown. This has been well demonstrated by the excellent report commissioned by the Board of the Chamber and which shows that Gibraltar accounts for at least 12% of the Campo's economy, and 1 out of every 6 jobs in the Campo. Also, jobs in Gibraltar represent the largest single source of employment for Campo residents.

And this was the position in **2007**, since which time our economy has grown further and the Campo economy and job numbers have contracted as a result of the recession, rendering it certain that we have become still more regionally significant in these respects. The Government welcomes Gibraltar's very significant contribution to the economic prosperity and job availability in the region. This is a very far cry from the allegations of being a parasitic economy to which we used to be subject for so many years from certain political and media quarters in Spain.

Mr President, the Government firmly believes that Gibraltar's economy has been and continues to be a net beneficiary of openness. Our consumers benefit from openness too. We do not believe that reversing the model that has delivered demonstrable success is in Gibraltar's economic interests, nor in the interests of consumers in Gibraltar, for whom life would simple become more expensive.

However, I firmly agree with those who believe in the greatest possible degree of level playing field. This does not mean, since it can never be the case, that the costs to business in Gibraltar can be the same as in Spain. But there should certainly be no advantage to competitors of local businesses derived from an unpoliced failure by cross border businesses to comply with the law in Gibraltar. We welcome the current debate taking place around these issues, and the Government will play its full part in it.

GIBRALTAR ECONOMY POISED FOR MORE GROWTH

Mr President, Gibraltar is not just having a relatively good global recession and financial crisis, but is further positioning itself well to move into a significant new growth phase when the global economy and markets recover. A number of factors speak to this:

- 1) The next tax year will see the introduction of the new 10% across the board corporate tax rate. It is already available for new business start ups. As the developed world increasingly bears down on zero tax jurisdictions, we expect our conventional but competitive tax model, coupled with Gibraltar's many other attractions as a business location to fuel further economic growth and development of business.
- 2) The Government will remain committed to Gibraltar's focus on selective licensing, high but reasonable standards of regulation and a pre occupation with guarding our jurisdictional reputation which, together with our EU status and post crisis emerging new global consensuses on many issues on which Gibraltar is already well placed, will continue to serve us well, especially in financial services and online gaming;
- 3) Although the Government does not undertake public investment programmes to stimulate or grow the economy, there can be no doubt that the Government's significant pipeline of projects will indeed provide an important boost to many sectors of our economy, and will add significantly to its growth.

THE PUBLIC SECTOR

Mr President, I know that Chamber folk lore has it, and many of you believe that the public service is bloated and inefficient. The Government does not agree. Generalisations are always odious.

In the public service there are many, many hundreds of competent, hard working, committed and highly valued employees. True it is that there are some who do not recognise the need for efficiency, quality of service and value for money, but these are the minority, and the Government accepts the responsibility to eradicate this where it occurs.

We are making good progress in our discussions with the trade unions relating to reforms in such important strategic issues as civil service pensions, management of absenteeism, modernisation of working practices, computerisation and e-government. Socio economic prosperity is not just measured by economic statistics, but also by how a society invests to look after those in need. This requires investing in people to deliver modern and extensive health and social services, in which areas the number of staff and the amount of expenditure has grown dramatically, by policy design during the last 12 years. Economic growth and increased prosperity are socially pointless and indefensible if a proportion of its fruit is not invested in these things for the benefit of the whole community.

But it is still not true that the public service is bloated or public expenditure too high. Public expenditure as a proportion of GDP has fallen from 45% in 1988 to 34% now. In the UK it is 38%. Nor is the public service increasing its share of labour, indeed the very opposite is true. Government accounted for 31% of all jobs in Gibraltar in 1988, 21% in 1996 and 19.5% now, the lowest that it has ever been. So, the public sector is getting smaller as a proportion of our economy as a whole.

EXCITING TWO YEARS AHEAD

And so, Mr President, the next two years or so will be an exciting period in our collective journey as a community to still higher levels of economic and social prosperity, for the physical development of Gibraltar, for political progress and for the reform of several important things:

- We have already spoken about public sector reforms.
- The Government will also be carrying out a reform of our state pension scheme and of our systems for the provision of elderly and social care financial support;
- We must orchestrate a smooth transition to the new 10% company tax rate. Of course, as this new tax rate represents a very significant reduction in tax to most businesses, it is inevitable that its introduction will be accompanied by a new, more aggressive approach to collection, compliance and enforcement. **NOW** therefore seems a good time for those of whom it is not already the case, to put their house in order in respect of corporation tax, PAYE, Social Insurance contributions and correct registration and contractual classification

of employees. This also is a vital element of the much wanted “level playing field”;

- Gibraltar has a modest supply of available local labour, and in addition produces a crop of local graduates each year. As our economy grows it is vital that these are incorporated into our economically active population and are not overlooked for the jobs that our economy creates. We will be taking targeted measures to focus on this important issue.
- The economic growth that the new corporate tax regime will help to generate, and the more aggressive approach to tax collection will, in turn enable us to continue to make significant cuts to personal tax rates. High rates of personal tax are not sustainable indefinitely against a backdrop of low corporate tax rates, and the Government is thus committed to a significant closure of the gap between the two over a manageable period of time, after the 10% company rate comes in;
- We must assimilate and exploit the new international consensuses that will continue to emerge in financial services and that will begin to emerge in relation to online gaming;
- The Government continues to actively study the desirability, viability and feasibility of a new locally owned Bank;
- Through the Trilateral Dialogue Forum we shall continue to seek the greatest degree of cooperation and normality in relations with Spain. I do not share the view of my political opponents that the process has to date mainly benefitted Spain.

We were able to persuade the UK to pay the Spanish pensions claim and thus lift that sword of Damacles from above our heads; we obtained a solution, entirely on our terms of the historical telephone numbering problems, through full recognition of our 350 international direct dial code, which complaints to the EU and litigation had failed to resolve in our favour; we were able to obtain a normal EU status for our airport and thus end 20 years of suspension of and exclusion from our EU rights, which litigation had also failed to achieve; and we were able to obtain some significant improvement in frontier fluidity (even if it can and must be further improved).

I think therefore that we have obtained our fair share of benefits from Round 1, and we shall ensure that we make good agreements in the Round 2 agenda issues as well. We believe that this necessarily slow but inexorable process of improving and normalising our relations with Spain as far as is safely possible is good for Gibraltar;

INVESTING IN GIBRALTAR'S FUTURE

Mr President, ladies and gentlemen, economic prosperity must also be reflected in how we invest in the future of our country, and thus in the quality of life of its citizens, its environment and economy in the future. We have an obligation to our children, grandchildren and future generations to build and provide for their future. This requires foresight and vision which is unlikely to be present in those who focus on the present cost of everything, but on the future value of nothing.

If Gibraltar wants to remain a modern, attractive place for citizens to live and work in, and for international businesses to locate, so that our future generations will enjoy a high standard of living and prosperity (and the political security that it brings) as we have done, then it is vital to invest in roads, parking, housing, social and sports and leisure amenities, and parks and open spaces and office buildings. It is vital to have modern, reliable and environmentally sustainable electricity supply and other utilities. It is vital that we invest in preserving our heritage and upgrading our urban fabric.

It is also important to have an air terminal that will not only provide for our air travel needs into the distant future, and support and encourage more extensive connectivity of Gibraltar with other places, but also provide a first and last impression to visitors of a successful and prosperous society, confident of its future and of its prospects. We thus do not agree with those who are critical of the new air terminal, of which Gibraltar will be proud, and which will help to attract foreign investment and economic activity well into Gibraltar's future.

All of these things are at the root of the Government's extensive public capital investment programme. Without it Gibraltar cannot and will not prosper in the future. Nor will this necessary investment programme saddle the Government or future generations with large, unaffordable public debt. Net public debt is not expected to rise above 25% of GDP, which is still relatively low in economic terms, barely above its economic level in 1995, and well below the 40% that was considered prudent in the EU before public debt exploded in most other countries as a result of the current recession. It will not prevent the Government from continuing with its tax cutting agenda.

And so, Mr President, in conclusion, Gibraltar is poised and well placed to make a quantum and qualitative leap in every aspect of our development – economic, social, infrastructural and environmental.

The Government will continue to deal with the banana skins that life throws in Gibraltar's path, be it tax challenges, issues with Spain or the UK, swine flu or whatever else may come, calmly but effectively, and will continue to position Gibraltar so that the resulting stability, opportunity and confidence, coupled with Gibraltar's other attractions, and the proven acumen of our businessmen and professional classes will continue to ensure the success and prosperity of this remarkable little country of ours.