P R O C E E D I N G S O F T H E

G I B R A L T A R P A R L I A M E N T

MORNING SESSION: 11.01 a.m. – 12.40 p.m.

Gibraltar, Wednesday, 2nd July 2025

Contents

The Gibraltar Parliament

The Parliament met at 11.00 a.m.

[MADAM SPEAKER: Hon. Judge K Ramagge GMH *in the Chair*]

[CLERK TO THE PARLIAMENT: P A Borge McCarthy Esq *in attendance*]

Appropriation Bill 2025 —
Second Reading —
Debate continued

Clerk: Meeting of Parliament, Wednesday, the 2nd of July, 2025.

Madam Speaker: Yes, the Hon. Sir Joe Bossano.

Minister for Inward Investment and the Gibraltar Savings Bank (Hon. Sir J J Bossano): Madam Speaker, I believe the present state of Western civilisation 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 has 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 represents a similar 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 the decades-long trend towards globalisation as nations turn inwards, 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. Mechanisation 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 abandoned, craftsmen and rural workers lost their roles, new classes of industries and wage earners emerged.

Yet, despite these painful shifts, the Industrial Revolution also ushered in a new era of global expansion. Steam ships and railways shrunk distances, empires expanded, and global trade flourished. Europe, in particular, used its industrial edge to protect power abroad.

Industrialisation and globalisation 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 dislocation 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 happens with this disruption is different in the speed and the 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 sceptre of obsolescence.

Like factory workers in the 19th century, knowledge workers may find themselves pushed aside by machines that do the jobs faster, cheaper, and round the clock. One of the stark contrasts between the two eras lies in globalisation. The Industrial Revolution accelerated global integration.

AI, paradoxically, is contributing to its fracturing. The late 20th and 21st centuries were defined by hyper-globalisation. 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 US and China, have led to economic nationalism and technological decoupling.

AI, being a strategic technology, is now at the centre of this retreat. Nations here become independent 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 in the Industrial Revolution, which 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, and 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 trusts 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 fundamental questions about the source of economic value.

Is it 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 of AI is going to accelerate the demand for electricity, and nations conscious of this are in a race 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 realised at scale, fusion could decouple energy production from resource scarcity.

This would 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 structures across economies.

This would shift the traditional labour and capital value equations and force a rethinking of scarcity-based valuation, which is what we've had in the whole of human history. The emergency of fusion energy and artificial intelligence represents a pivotal moment in human history, one that may redefine civilisations itself. Each of these technologies, powerful in isolation, become 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 prioritise our adoption and adaptation to the inevitable changes, or we face others competing against us successfully because they have been 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 5,000 workers.

So, against that background, coming to the economy, for many years, Madam Speaker, I have analysed indicators to make an assessment of the potential and therefore the probable level of gross domestic product, the GDP, that we could expect to achieve and share my estimates by putting the figures in the public domain.

The GSD in those days did not have anyone in their ranks, but thought that I was boasting when I did this. But there were many doubting Thomas's 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 £150 million to £352 million. Since the GSD Government in 1996 did not believe this was possible, they thought the figures were wrong, they commissioned a report from Bournemouth University to check the numbers. After several years of 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 GDP for 2007/2008 and then we spelled out the GDP target on this basis of £800 million as being achievable. At the time we published our calculations in 2003, the GDP was around £500 million. Again, we had disbelief from the GSD ranks who eventually had to confirm in 2010 that the GDP had indeed attained the figures suggested and slightly surpassed it for 2007/2008, reaching a level of £806 million.

We also predicted in 2007 the size of the GDP for 2011/2012, which we estimated would reach a level of £1.2 billion and eventually reached a level of £1.201.31 billion when the final figures were produced. For 2015, we were expecting 1.8 billion and it came in slightly under at 1.794 billion. Four years later, we reached £2.568 billion when the COVID development happened. Given that we are now targeting a slower rate of growth and a smaller size of workforce as a future for a sustainable economy, the levers of economic development have totally changed. The change initially analysed 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 Treaty, which results in fluidity of movement for residents and visitors across the entry point to the Schengen area, which starts at 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 tourists actually staying in Gibraltar if it is much cheaper accommodation 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 (I was in the Opposition then). However, it remains to be seen exactly how the 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 in terms that makes 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 gaining 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 Governments of the UK and Spain have welcomed the agreement for the trade treaty and suggest that it can result in very large increases in economic activity and the creation of wealth in Gibraltar and 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 materialise. 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 the UK for the market of services that is what is most important to our economy and recurrent Government revenue.

Even before the latest developing promising much higher probability that increased trade will materialise, 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 the new developers who came here are coming 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 Eastside project, there are two different possible investors with different projects that are not concerned with property development and which would make an impact similar in size to that of the development of the Eastside should the 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 business 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 its demand on land, property and labour will be comparatively low and the contribution to the economy will be in terms of high volumes. The failure of the UK to extend the existing trade agreement which goes back to as far as the 1950s and has a clause providing for extension to non-self-Governing territories, that is, the 10 remaining British colonies, is a problem. Regrettably, this has been an impediment in our being more successful in developing this new industry and 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 high record, as the Chief Minister has already mentioned, breaking new high ground in passing the £3 billion barrier at £3.809.5 billion. 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 the 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, which is no longer growing as fast as it was, as I have demonstrated with 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 the sources of income that are available to residents.

The new measure that I have introduced to replace this is income per worker. From this we could calculate the income of the Frontier workers and produce a lower income per capita for residents. However, this would have no value, because it would not be comparable to the statistics of all other jurisdictions, because all these jurisdictions all still continue with the system that I have abandoned.

The value of the new system is that it is a measure of 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 efficiency of our workforce and compare it with the past and also with the recent comparable data from the 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 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.

The 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 £152 million 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 GDP, as I have said, by 133% to £352 million, with virtually the same workforce.

In fact, April 1996 was slightly lower than 1988 at 12,980 workers. This translates into a value of output per worker of £27,119 compared to the inherited level of £11,697, over double. The GSD inherited this level in their 15 years between 1996 and 2011.

The GDP increased from £352 million to £1.201 billion, 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 the 2011 value, the GDP has increased to an initial estimate last year, 2024/2025 of £3,089,000,000.47 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 compared to £53,998 in 2011. These figures compare favourably with the levels of productivity in the UK economy which are as follows: in 2019, the output per worker in the UK was £74,000, in Gibraltar £80,392; In 2020, the UK went down £72,000, we went up to £81,870; In 2021, the UK recovered and reached £76,800 and we actually were affected by COVID and we came down from £81,870 to £83,520. But the recovery in output and productivity in 2022, post COVID, meant that we grew much faster the productivity rate than the UK - the UK went from £76,800 to £79,200 between 31 and 22 and we went up by £8,302 from £80,352 to £88,302. And in 2023, the last figure that we have for the UK, it went in the UK to £80,700, an increase of just £800 in productivity, and we went up by £4,000 per worker in productivity from £88,302 to £92,349.

One of the factors is of course the nature of our economy and the fact that particularly in the provision of online services, which is the main industry in Gibraltar in relation to our UK market, it is not labour intensive. That is, you can increase the volume and therefore the benefit, the profits, much, much more than if you are actually producing things in a factory. So having a service economy predominantly is I think one of the assets that we have in helping us to push productivity at a faster rate. Clearly the real way to increase wealth is by increasing the output per worker, not by simply increasing output by increasing workers because that doesn't change anything.

The 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 in the UK by £3,552 a year in 2021, £9,102 a year in 2022, £11,684 a year in 2023, which is the last figure which is available from the UK.

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 private sector activities 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 may be sponsored when they are brought to our attention.

Therefore, it is the policy which now seeks to increase productivity and to measure and promote increased efficiency as opposed to increased growth. This is what I have suggested would be in the public interest to know if they support the programme of increasing efficiency or they are still committed to the previous policy that we had and they had in the Government of increasing the growth in the GDP and doing it in a labour-intensive way.

I have explained in previous Budgets that the policy of increasing the size of the labour market which was introduced by the GSD and continued by us after 2011 until the period after Brexit and then after the effects of COVID in 2021.

So, each year I explain how the new policy is working, no longer seeking higher GDP for its own sake but instead targeting higher productivity. I have also raised several times the absence of a response from the Opposition to my explanation on the economic policy we are committed to which one would have expected them to have a new one, whether it is good, bad or indifferent as to whether they agree with it and that it is the future that we must aim for against the wider economic background that I have explained or what do they think we should be doing otherwise.

For example, are they committed to pursuing a bigger labour market? I believe this is essential for Gibraltar. 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 at one stage the Leader of the Opposition remarked that to grow the economy is what the GSD wanted to do to create more jobs.

This suggests that they are still committed to GDP growth instead of productivity growth. Last year I provided detailed figures which showed how successful our policy was of enhancing labour market self-sufficiency and how it has been so since we announced it in 2019 and earlier in the context of the 2016 Brexit decision. We have been able to reduce growth in the dependence of 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. Summarising these results, it shows the following picture. In October 2015, the labour market employed 26,144 persons and by October 2018 it had reached 29,995, an increase of 3,851 in three years, an average of 1,084 extra workers a year, an extra 107 employees a month.

The policy change came into effect after COVID which covered the 24-month period of 2019/2021. So, the figures for October 21 show the position in the closing months of the COVID period. From the 29,995 that it had reached 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 and a monthly average of 11 employees.

Over the four-year period prior and post-2018, the position of the labour market growth continued in the same manner. In 2014, the level was 24,422 and the growth to 2018 was 5,573 new workers or 1,383 per year, equating to 160 new employees per month over four years. Under the new policy, the four-year growth is 1,158, the average per year is 348, and the increase in employment over the four years is just 29 employees a month.

The five-year period from 2013 to 2018 produced growth in the labour market of 7,088, a yearly average of 1,480 and a monthly average increase over the five years of 118 employees. The post-2018 growth for five years to 23 reported last year based on the October 2023 employment survey showed that the number of employees had gone up by 1,528 in the five-year period, an average of 306 a year and a monthly rate of growth of 25.5 employees. Coming to the latest October employment survey report recently available, the increase of employees over the six years since 2018 has been 1,639, an annual average of 273 and a monthly average of 23 employees.

In contrast, the six years to 2018 from our first year in Government in October 2012, the size of the labour market was 21,590 and therefore by 2018 it had grown by 8,476 to reach 29,995. This increase translated into an average of 1,412 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. We no longer want to increase the number of employees and we are 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 the future bring it down. The growth in the six years post-2018 according to the latest employment survey reported has been 111 more employees from the figure of 2023.

So in the last survey between October 23 and October 24 the position has been 1,100 or more workers. The previous year's average increase to 2023 came in at 306 employees and the monthly average at 25.5. The one-year figure now reported of 111 additional employees in the period 2023 to 2024 therefore reduces the annual average from 306 to 273 and the monthly average from 25.2 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 five-year period the number of Frontier workers went from 7,504 in 2013 to 13,654. An increase of 6,150 out of an increased workforce of 788. That is 87% of the total increase consisted of Frontier workers whereas the resident workers proportion was only 13% of the increase.

In the second five-year period the new policy objective the workforce grew 1,528 and the increase in Frontier workers amounted to 490. That is to say 32% of the total whereas resident workers now accounted for 68% of the total in the increase in the workforce from the level of 2018 to the level of 2023. The reduction in the size of the labour force that 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 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 as it does after Brexit. This was reflected in the last figures which showed that the six-year increase to 2018 was Frontier workers went from 7,229 to an increase of from 6,425 to 13,654. So in that year it was the year that we had one of the biggest increases and clearly it was the demand for labour was at a level that it could never have been fed from the natural increase in the population of our resident labour force.

Taking the post-2018 to this year figures the workforce grew by 1,639 and the Frontier workers amounted to 190 from 13,654 in 2018 to 13,844 in 2024. In the last year alone, October 2023 to October 2024, there has been a reduction of 300 Frontier workers. What the analysis clearly shows is that the increase we are experiencing 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.

This year I think it is evident that the effect on the increase of the GDP has not in fact been dented by the control in the size of the labour market. 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 by resident workers. This is a very encouraging development because it indicates that in a more labour efficient market economy that Gibraltar needs to develop at the point when this starts happening that we shall see the majority decline of Frontier workers.

Indeed, recent registration of employment in the last three months have seen more Frontier workers leaving the 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 have an impact on the demand for labour in Gibraltar in either direction. There is no indication in which direction it will be.

Since Gibraltar has not implemented so far the change in the rules, that is one of the things that members I imagine are aware of, is that as a result of the special method of crossing the Frontier that we have been able to enjoy since January 2021, which was that we were not required to have our passport stamped and apply the 90 days and so forth, we reciprocated by leaving the right to work in Gibraltar as if we had not left the European Union.

So, in fact, the transition to a new relationship will not be seen as something that is an increase in accessibility because we never stopped the accessibility that came from being members. So, since we have not implemented the change in the rules following our departure in 2020 in respect of employment of EU nationals, the facilities that would follow from the new access to the EU would lead to a new regime which may offer, in fact, less access than has been happening until now, de facto over the past four years, because the access will now be limited to EU nationals who are legally resident as Frontier workers coming in with legal residence in Spain. And we have not had that limitation until now. We still don't have it.

It will come in when the Treaty comes in, if and when. 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, improvement in labour utilisation and increasing productivity will also continue to be pursued in both the public and the private sector. The Ministry for Economic Development will be keen to help private sector entities move in that direction if they approach us.

Finally, Madam Speaker, the best news on the composition of the labour market in the October employment survey is that, for the first time since we started service in 1972, the result for Gibraltar employment is of an increase.

That is, there was an increase of 304 between October 23 and October 24, and in the same 12-month period, employment of other nationalities went down by 138. I think this is the first time that we have had more Gibraltarians being employed and less Gibraltarians in the market. Of course, as I mentioned, the number of non-Gibraltarians that leave the labour market is of the order of 5,000 a year, so it is a situation where it is not that we have to physically take action to replace anybody, it is just that we are in a position to import less workers than those that terminate their employment and go elsewhere.

Therefore, the net increase in the level of employment of 166 was all due to the increase of Gibraltarian employment since, in fact, the Gibraltarian employment went beyond the net growth in the number of jobs. This is the clearest and the best indicator of our growing self-sufficiency and the diminishing dependency on imported labour, which we still have to pursue irrespective of the new relationship.

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

Of course, people need to understand that if the GSD ever gets 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, the economy of Gibraltar that benefits from the Gibraltar Savings Bank reinvestment in Gibraltar to promote economic growth. This time he exceeded his previous attempts to undermine the Savings Bank by the stupidity and ignorance of some of the comments revealed in his accusations and in the process claiming that I was boasting of my financial genius. This accusation is totally false, Madam Speaker, and unworthy of the hon. Member.

I have never considered myself a genius in finance or anything else and I have never claimed to be a genius. So when I tell him that the performance of 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 him 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 the Savings Bank would be bad news for Gibraltar.

He was the one who, for the first time, identified the role of the Savings Bank as playing that of economically being 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 carrying out 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 its 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 £200 million plus of savings invested in the stock exchange in loan notes of UK companies. The portfolio of investments in the UK is what was done by the GSD Government and we have continued at the same level 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 he has never commented or seen anything being wrong about losing money by investing in the debt 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 £7 million by issuing debentures at 5% to depositors and buying Government debentures at a lower rate.

He says this is a loss to being cared 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 time to help Government finances, it has no effect whatsoever. It could equally charge more in interest and then refund the amount as a distribution from the reserves. This is the clearest example anybody should need, which shows a disgraceful manipulation of arguments.

He castigates me because the income of the Savings Bank will be 7 million less than it could otherwise be if the Government paid 7 million more in interest and therefore decreased its spending in recurrent expenditure at the same time. Yet he attacks me for not removing 10 times that amount, that is 70 million, from the bank reserves and giving it away to the Government to sustain recurrent expenditure. Well, Madam Speaker, if the Savings Bank, for which I am responsible, charges less on a loan to the Government and produces a theoretical negative amount of 7 million on the balance sheet, that is completely wrong according to him, and it shows that I don't know what I am doing and so I am not a financial genius, so charging a low rate of interest and thereby not getting 7 million is totally wrong and giving away money. But giving away 70 million pounds, which is what he has told me to do more than once, 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, I can count to more than 7 and I know that 70 is 10 times the cost of forfeiting 7 million.

So, if it is bad to give away 7 million, by definition it must be 10 times as bad to give away 70 million. However, not content with his absurd arithmetic, he then went on as far as accusing me of thinking the 70 million was mine when I ignored his complaint about not leaving the savings bank reserves at zero as he wants me to. 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 because they have told me so. The GSD left the savings bank with £1,444 in reserve. At the time, they said it was because deposits were invested 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 9 million loss in interest paid to debentures holders compared to the interest received from the deposits in the local banks. Then they said that that was a social policy but it was paid for by taxpayers for the benefit of the shareholders of the banks. I challenge the view that placing money in the 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 supporting and 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. So, I don't agree with that view, but they are entitled to have it. What is totally unacceptable is that the Opposition respect the right of the GSD to carry out a policy when we are there, which we don't agree with the policy, and they in Opposition have thanked me for delivering the policy that is in the manifesto that the Electors voted for.

So, if the Savings Bank receives a lower rate in investment in dimensions from the Government, it is because the manifesto has projected the targeted reserves to reach £100 million 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 reserves to zero, it is because I have an obligation to do what he thinks, I have no obligation to do what he thinks should be done, and 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 have been elected says I have to do.

So, if I was doing what he wanted, I would not be able to achieve the £100 million target, I would be breaking the manifesto, and then another member would accuse me of not delivering the things that I had promised. Of course, we all know that 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 they say and do in Government one thing, that they never say and do should be done the same 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 assume that it was intended as an attack, since I have never heard him say a good word about our people's 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 the lender of last resort.

His announcement logically would mean that this had happened between 2023 and 2024, or at least that it only discovered it in this year. Of course, to the average person in the street, I imagine the word last resort must suggest that we are on the very edge of bankruptcy and on our last legs, which presumably was his expectation of what the Book would be this year. However, members of the banking fraternity to which he once belonged, would consider the label lender of last resort as the highest accolade or praise that you could 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 in 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 the 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 market 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 it is the only thing it reveals, because he was convinced that we had a second set of books as if the Government revenue and expenditure of public service departments was a backstreet commercial operation with two sets of books to fix the level of profits and avoid paying taxes. Or perhaps, Madam Speaker, what the hon. Member was trying to mislead people into thinking is that no bank was willing to lend to the Government money anymore and that therefore the Government had been left with no option other than to use the funds from the Savings Bank to sell debentures. If that is what he was trying to do, then this is also 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 £300 million or less for many years, other than the Government debt that consists of bank debt that was provided for by COVID, with the support of the Opposition and 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 to any other British non-self-governing territory for this matter. For the UK Government to be the guarantor of the £500 million 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 rationale of the advice given by the UK Treasury was to assess that the risk that we would default on the debt and that the UK would have to step in to repay it was negligible. The advice was that the chance of this happening was so slim that therefore it was safe for the guarantee to be approved.

Clearly, the UK Government has more confidence in the sound state of Gibraltar's economy and finances than this Parliament's Opposition. That is the status that the Government has in terms of 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 £300 and £400 million in cash in the local banks, as the hon. Member well knows, it would be very stupid not to say bank management for the Government to borrow from the banks the money that the banks borrow from the Savings Bank at lower interest rates. And that would simply be using the Savings Bank's money to provide unnecessary profits to commercial banks. That is the sort of thing that they did in Government, making huge losses in the process.

The different interpretation 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 that at the same time he knows very little about how the public service manages current revenue and expenditure, which has been basically the same in all the Budgets in all the years that I have been in this Parliament.

And now, Madam Speaker, as 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 apologise for not being able to tell them that the Savings Bank was losing its customers and that the level of deposits was shrinking, which is what they want or 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 2023 and investors had purchased £11.25 million in the first month. I told Parliament that the level of sales from December 2023 on went up and that I was confident that in a year we would reach a level of £200 million in sales, that is, in the period to late August 2024. The actual level reached by August 2024 was 232 million.

If we look at the more recent figures, the sales of economic development debentures stood at £144 million at the start of April 2024 and reached £414 million by the close of March 2025, meaning that within the last financial year, depositors purchased £270 million of economic development debentures.

Looking ahead, I would not expect the coming year to increase the sales at the same rate, given that the fact is 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 that 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 from the UK.

On the basis of the current levels of demand, we should continue to grow to a level of £500 million 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 in 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 of their deposits.

Madam Speaker, looking at this year's departmental expenditure, the expenditure forecast had a balance of Consolidated Fund provided for a year ago of £179.4 million for April 2024. This has now been revised and the forecast balance is at £182.7 million. There was an exceptional improvement in recurrent revenue in 2024/2025 at £830.4 million, compared to an estimate of £733 million. However, the Treasury estimate for the current year of £773.7 million is close to the receipts for 2023/2024, which was at a level of £748.1 million, the previous trend of improving revenue. The original estimate of 2022/2023 was £637 million, following an actual level of £650 in the previous year. This was the start of the revenue recovery, which had fallen from an all-time high of £703.4 million in 2018/2019. This conservative estimate was revised and forecast as expected to come in at £731 million, primarily as a result of forecast income tax receipts of £251.4 million, as opposed to an original estimate of £182.4 million, and further revised to a level of £255.5. In the case of company tax, the forecast was £159.5 million, compared to an original estimate of £125.2 million, and an actual figure that has now come in at £159.7 million. For the year just ended, 2023/2024, the forecast revenue is £746.3 million, compared to an original estimate of £726.9 million, and an actual £748 million. This includes revised income tax receipts of £755.6 million, compared to an estimate this year of £750 million, and in the case of company tax, a final figure of £155.4 million, compared to our original estimate of £155 million. It is quite clear that many people think that increasing the level of spending by Government every year is normal. This is not the case, when the level of revenue which recovered after COVID has been stable and not on an increasing trend.

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

Madam Speaker, given the level of misunderstanding, or perhaps deliberate misrepresentation, that we get in the contributions on recurrent expenditure from Members opposite, I thought it would be useful to provide an analysis for Members and 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.

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 £500 million 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 over which this 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 Service pensions, which in the last financial year, 2024/2025, is forecast to be £61 million. In 2023/2024, the cost was £58 million, and in 2011/2012, when we were elected, it was £26.5 million, and it is now £61 million. Although I am analysing 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 and not in our gift to control. However, this can work to our benefit, where the expectation is that interest will continue falling, and the Chairman of the Bank of England only yesterday predicted that this would be the case.

At present, the UK base rate is predicted to continue falling in 2025, potentially reaching 3.75 by the end of the year. While there is no guarantee of this specific level, most analysts expect further cuts, though the extent of the reduction may vary. My analysis will therefore deal with the recurrent expenditure, the amount which is voted and approved by this Parliament since 2015 by Government Members only, as Members opposite vote against, all and every expenditure, given different reasons or excuses for doing so in different years, but in any event, voting to shut down the public sector, because if we vote for everything and there is no money, we pack up and go home.

The expenditure approved for departments at COVID, which they voted in favour of, was £574 million, which is a figure if we take 50% of the two-year Budget and therefore applies to 2021. The equivalent expenditure for the year ended 2024/2025, that is up to last March, is now forecast to have come in at £675.2 million four years later, just over £100 million higher. This seems an awful lot of money, and it is when you 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 2024 this year. Of course, the fact that the growth of the cost of providing public services between 2021 and 2024/2025 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 for our 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 is really happening 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 think that having failed to work this out for themselves and therefore still believe that what we do is that we set out to create inaccurate promises, as they called them a couple of Budgets ago, only to break them every year and then give them an opportunity to criticise us.

On the revenue side, our best year had been the £708.3 million pre-COVID in 2018/2019. The COVID 24-month period estimated at £1,393 million, or £696.5 million per annum, finally came in lower at £1,260 million, or £630.15 million per annum. It was £60 million less than what we were expecting. This took us back to the revenue level of 2015/2016, since 2016/2017 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 2018/2019.

In 2021/2022 we finished at £650 million. In 2022/2023 we did quite well, however, not just in recovering the previous level but surpassing it and reaching £773.4 million. And then we seemed to be at a level that was difficult to surpass until 2023/2024 when we finished at £748.1 million. I think it would be prudent to consider that last year's forecast outturn of £830 million is an outlier and to work on the premise that our normal revenue level will continue to be in the range of £750 million. I therefore assume we need to contain our recurrent expenditure on the basis of anticipating this level as probable level of revenue that we can rely on. I note that the Hon. Mr Clinton in the 2023 Budget said, and I quote, if the Government revenue is indeed improving on a sustainable basis, not on a one-off basis, then that, of course, is welcome news.

So, something he can welcome. If we take what I have called our normal revenue level, the £750 million for 2024/2025, instead of the actual forecast of £830 million, then the income equates to a 19% increase from the level of 2021. So, if what I am calling the normal level was we had received, in fact, we would have had a level of 19% whereas the level of inflation has been just over 20%.

Although we have a higher level of spending by departments after four years, this is the cost of providing services in the last 12 months which has been £100 million more costly than it was four years ago. But it is not true of all departments. In fact, the increased costs are incurred in just three or four departments out of 55.

They are the: Health Service, Elderly Care and Care Agency, which cost £191.7 million in 2021 and £243.8 last year, which is a cost increase of £52 million in four years; the Education Department, which went from £58.7 million in 2021 to £73.1 million last year and so increased costs here was £15 million; Utilities in 2021 cost £60 million and in 2024-2025, £75.5 million, an increase of £15.5 million; and the Environment Department, which went from £16.3 million to £18.7 million, an increase of £2.7 million.

So, of the 55 departments, these four account for £85 million out of the £100 million and the remaining 51 spent £50 million more in 2024/2025 than in 2021. In other words, 51 departments had a combined cost of £247 million in 2021 and the cost increase for these services in 2024/2025 was £15 million higher, which equated to a 6% increase over the four years. That's the equivalent of 1.5% per annum, below inflation. It is clear that the main drivers of rising costs are: Education; Health and Care; Utilities; and Environment. Two demand-driven, one subject to international fuel costs and the fourth is policy-driven by setting standards on environment. 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 2024/2025, which is exceptionally high and may not be repeated over the coming years, and compare the position as we have done for the department's expenditures in 2021, then we have in 2021 revenue net of COVID and consolidated farm charges available for departments of £536.9 million. On the same basis, available funds for 2024/2025 was £683.5 million. So, last year the recurring cost of the department was £100 million more than 2021 and our net revenue was £146 million more than 2021.

Given the recent developments in the conclusion of a potential Treaty with the EU to allow you both the Schengen access for persons and single market for goods, it is difficult to evaluate how this may impact on departmental recurring revenue and expenditure, especially as the estimates predate the close of the financial year, of the last financial year. So, we may find considerable departures from estimates during the course of this financial year, more than is reflected in my analysis over the past four years. In the absence of new factors affecting either our recurring revenue or expenditure, what is estimated for the current year follows the analysis I have provided.

This year's overall recurring department expenditure at £643.6 million is below the forecast outturn of £675.2 million by £31.6 million and is £9.3 million higher than the final 2023/2024 figure which came in at £634.3 million. The four areas I have identified in the estimates for the current years, that is: Health and Care at £224.3 million compared to a forecast of £243.5 million and a final expenditure of £228.4 million in 2023/2024; Utilities at an estimate of £77.2 million compared to a forecast outturn of £80.1 million and a final expenditure in 2023/2024 of £73.6 million; Environment with an estimate of £17.3 million compared to a forecast of £18.1 million and a final figure of £18.6 million in 2023/2024; and in the case of Education, the estimate provided is £68.2 million compared to a forecast of £73.1 million and a final figure of £17.7 million in 2023/2024.

Therefore, the £31.6 million we are providing less than the forecast outturn of the 55 departments' recurring expenditure, £27.8 million is in the four departments that historically have been mainly responsible for the bulk of the overspend compared to the original Budgets. Clearly, we have to concentrate in trying to control the areas that have been found difficult to control in the fall because the remaining 51 departments are being provided by £4.2 million less for the current year than they've had before because, of course, they have been very close to their original estimates in every year. In other words, the forecast outturn for 2024/2025 for these 51 departments is £260.4 million and they are being provided for the current year £256.6 million.

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, heightened policy uncertainty. This is contributing to a deterioration in the prospects across most of the world's economies.

We are one of the world's economies, the same as those we are not on a different planet. The downside risks to the outlooks predominate and include 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 globally in 2025, with deceleration in most economies relative to last year. This would make the slowest rate of global growth since 2008, aside from the outright global recessions.

In 2026/2027, a tepid recovery is expected, leaving global output materially below the January expectations. 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 the build-up of financial stress.

Other downside risks include weaker-than-expected growth in major economies and 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, then there is little evidence that this is going to happen any time soon.

I have already identified how important the UK market for services is to the reliance on the growth of our international companies. In addition to the general negative assessment of a global sundown, which is projected by the World Bank, the UK's own position appears weaker than other advanced economies. The British pounds have dropped sharply after recent publication of the UK's economic growth in April, disappointed investors raise questions about how the UK Government will fund its spending plans.

According to the ONS, the UK economy, that is, the GDP, contracted by 0.3% month-on-month in April, down from 0.2% growth in March, and below a consensus of 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' £190 billion spending plan. The GDP reading represents a significant negative surprise for investors, and it is a little wonder that the pound-to-dollar exchange rate slumped in the minutes following the release. The pound-to-euro exchange rate, already under pressure, went down.

The UK is watching its currency suffer again against the euro following the weak labour market report and the monthly GDP report and industrial production data, which were disappointing, adding pressure on the Labour Government to amend its fiscal plan on significant tax increases. Clearly, the problems of the UK market and the UK economy, the expected global slump and the potential de-globalisation connected to trade barriers all signal dangerous waters ahead, and we need to navigate this to protect the continued success of our current economic model. The fact that what the Budget reflects and what the economic factors reflect is that we are doing better than others doesn't mean that we are in a cocoon, unsafe from the problems that can be transmitted for us, and therefore on the basis of the analysis I commend the support, exceptionally this year, from the members of the Opposition for the Budget.

Adjournment

Chief Minister (Hon. F R Picardo): Madam Speaker, a candidate for the Presidency of the United States who is younger than the man who has just addressed this House was discarded, but certainly the man who just arrested the imagination of the House for the past year and a half would have made an excellent President of the United States for the next four years. And with that, Madam Speaker, I move that the House should now recess until 4.30 this afternoon for the speech from Mr Nigel Feetham.

Madam Speaker: All right, we will recess until 4.30 this afternoon.

The House adjourned at 12.40p.m.