

It's game over for Jersey as funds under manageme..

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I've [long predicted](#) that Jersey would go bust sometime this decade as a result of a [massive black hole](#) in its budget. The Crown Dependency adopted the zero ten corporate tax regime (now deemed non-acceptable to Europe), massively cut its estimate of income tax to be collected, said it could make up the difference from a 3% GST (VAT) and a heroic assumption on continuing economic growth from the finance sector and, I said, would fail spectacularly to balance its books. I was, of course, completely dismissed. They were absolutely confident of the future.

One of us had to be wrong. The bad news for Jersey is it looks horribly like they were. In [May 2009](#) they realised the [black hole I forecast](#) was real. In February this year [talk of raising GST dramatically](#) emerged. Now we know why. Two reports from the Jersey Evening Post yesterday tell us. [The first says](#):

JERSEY bank deposits were down by 20 per cent while the value of funds under administration fell by 30 per cent in 2009.

The latest figures released by Jersey Finance show the impact of the economic downturn on the finance industry.

Let me be fair and add what they claim to be the good news:

However, there was some room for cautious optimism with the values of specialist funds growing as compared to the previous quarter. These include hedge, private equity and real estate funds.

Meanwhile, the value of funds under investment management increased from £18.4 billion to £19.7 billion — a rise of 4.4 per cent — during 2009.

And let's also offer the excuses;

Jersey Finance chief executive Geoff Cook said that the decrease of almost 20 per cent for Jersey's banking deposits during 2009 was hardly surprising given the very low level of interest rates throughout the year.

Before considering the impact, [note the second article](#):

UNEMPLOYMENT figures in Jersey have soared to their highest level for 30 years.

According to official statistics released this morning, 1,200 people were registered as unemployed at the end of January — the highest number since 1980. Since the recession began in 2008, the number of people out of work has climbed steadily by 360 a year.

Of course in absolute terms the rate of unemployment is low — which is because those made redundant from Jersey who are resident on condition of their employment simply leave when they lose their jobs. What is significant is the trend.

In the case of deposits what is being seen is not so much as a trend as a rout. The source [data is here](#) in the December 2009 report. In December 2009 there was £165bn on deposit in Jersey, down from £206 bn a year before and £212 bn a year before that. Funds under management were down to £166 bn from £241 bn a year before.

Geoff Cook of Jersey Finance says cash is down due to low interest rates: that's absurd; they're down all over the world. Jersey would not see cash deposits fall for that reason.

And to make such an appeal to external factors in the case of funds is impossible. There have been marked correlations in the past between movements in the value of funds in Jersey and stock market movements in the past, unsurprisingly. In 2009 the FTSE 100 [rose by](#) 18.6% after a fall of 28.14% in 2008. In 2008 funds under management in Jersey fell from £246 bn to 241 bn. There must have been a big net inflow of funds in consequence. But in 2009 that £241 bn should have increased, logically, to £285 bn, without assuming dividends were reinvested. Instead they fell to £166 bn. That's not a fall of 30%. That's a fall of 42%.

Total funds leaving Jersey in 2009 amounted to £160 bn on this basis.

What possible explanation could there be for funds leaving in such enormous quantity — and remember there's no threat from the European Union Savings Tax Directive to most of these funds so this is not a sufficient explanation.

I can only offer one explanation. It's a simple and logical one. In many of the prime markets for Jersey there have been tax amnesties. Italy is one, and its biggest market of all (the UK) is another. With regard to the UK the 'amnesty' for Jersey funds was not that attractive. That for Liechtenstein funds was much more attractive. We know Liechtenstein has [seen an inflow of funds](#).

What does this imply? Simply this: that the money that has already left Jersey is part of the very large stock of funds previously held there that there were illicit in some form or other, whether with regard to the capital balance, the income earned or with regard to

the nature of their origin. And now they have fled — either back to Italy, or the UK, or to Liechtenstein on their way to the UK. Alternatively they have fled — as many have said such funds would — to Singapore, Dubai or the even more ‘exotic’ locations such as Panama where they hope to remain hidden from view for while longer.

What alternative explanation is there? I’m struggling to explain this is anything but the outflow of illicit funds. And if this hypothesis (and I stress, it is only that) is true; then all these previous protestations that there were no illicit funds in Jersey, it had never welcomed any and all its systems were tight enough to ensure none remained look as hollow as I, and many others around the world, always assumed them to be.

Let me return to my original hypothesis though — that this signals the beginning of the end for Jersey. This is not a minor crisis for its financial services industry. It is apparent that that industry is now collapsing. Far from fuelling growth it is suffering massive, even catastrophic loss in its volume of trade which makes any problem besetting Toyota look trivial by comparison. And yet this is the industry that was to fuel Jersey’s growth; the industry that was to fill its tax gap that was to provide for the future well being of those who lived there. Now, instead, it looks like that industry itself is failing.

This is disastrous for Jersey (even if the rest of us have to celebrate its potential demise as a secrecy jurisdiction). The financial services industry is 50% of Jersey’s GDP, which is now bound to be in freefall. The inevitable failure of the island’s finances is bound to be approaching as a result.

Like the Isle of Man which has recently suffered its own shock to its government’s revenue, Jersey is an island used to OECD levels of government spending. This will clearly not be possible if the financial services industry collapses. Despite that the need for healthcare, education, pensions, and other essential public services will not go away as a result of this change. Jersey will not, I think, be able to meet this challenge. In that case the end game for the island as a quasi-independent jurisdiction looks to be coming to an end. States can only survive when they are financially viable: the chance that Jersey is not is very high (and raising GST on local residents is not in any way a viable option when the real cost of living is already so high).

Jersey looked to financial services to be its salvation. But its business model, as many admit in their quieter moments, was based on illicit funds. The claim has been made that these have been eradicated as this century progressed. I always doubted that, until now. But if this is those funds leaving (and no doubt there will be more to follow) the claim that the act had been cleaned up was decidedly hollow.

There trouble is that now there is no plan B. Full independence is folly in the face of financial disaster. Luring new industry in now is not possible — the damage is too far progressed for the current structure of the island’s economy to sustain other activity. The options left are limited: it seems to only be an appeal to the UK or the EU for integration. Nothing else seems plausible as the island begins to sink rapidly below the

zones of financial viability.

I'm sorry in a sense to be proved right. I just wish Jersey had taken action sooner. Then it might not be in this mess. As it is things look like they're going to get very grim indeed, very soon.