

## Richard McCreery's Business Blog

### How will Monaco secure its place in the post-credit crisis world?



**Richard McCreery's Business Editorial** RLTV 12 Jul 10

Riviera based Independent Investment Adviser, Richard McCreery, has joined the expanding *RivieraLife.tv* team as Business Editor. Richard publishes a weekly Financial Editorial every Friday with informed comment on topical financial matters relevant to residents and businesses on the Cote d'Azur.

An article in the French magazine L'Express this week entitled "[Monaco, quand la dorure s'effrite](#)" (*Monaco, when the silver lining begins to crumble*) questions whether Monaco has lost its way under the reign of Prince Albert II or whether it is merely another victim of the financial crisis. Since the coronation of Albert II in July 2005, following the death of his father Prince Rainier, the Principality has been forced to confront a number of challenging issues with varied success.

Monaco was listed on the OECD's blacklist of uncooperative tax havens until its removal in 2009 and has struggled to establish credibility as a serious financial centre. Calling it a tax haven would not normally be enough to keep investors and investment companies away, it hasn't done much harm to the Cayman Islands for example, but there has been a surprisingly small inflow of new financial businesses such as hedge funds into the Principality, even as surrounding European countries raise taxes and make themselves less attractive to the wealthy. Switzerland has clearly been the main beneficiary of the exodus of fund managers who are leaving the UK where the vast majority of European hedge funds are based and Monaco has failed to capitalise on its own very attractive tax advantages.

There are several reasons that are often cited for this. Firstly, there is a distinct shortage of decent office space which makes it very difficult to transfer a sizeable trading room or administrative business. The construction of buildings currently under way should address this problem to some extent but even existing businesses in the Principality talk of the nightmare of trying to find new premises, not to mention the cost. Secondly, when business managers who have to deal with the process of obtaining authorisation compare Monaco with alternatives such as Switzerland they have mentioned how much more efficient the Swiss administrators are. The gnomes of Zurich and Zug are seen to be easier to deal with and more flexible in their approach to new business than the functionaries on the Rock. Thirdly, typical living conditions in the Principality are not attractive to families. Large apartments are rare and houses in France are, officially at least, only for weekend residence. Whatever the reasons, and in spite of the most attractive personal taxation rates in the world, Monaco has never become a natural home for large numbers of fund managers.

The financial crisis has also caused some of Prince Albert's 'grand projects' to be placed on hold. The extension into the sea that would have added new territory to Monaco's state and the proposed island were postponed as the world's financial markets imploded and since which a large number of Monaco residents have departed for less expensive homes. Real estate sales have declined significantly compared to the boom years and new apartments even struggle to attract buyers at the high prices being demanded. This has had a knock-on effect for Monaco because 70% of state revenue comes from VAT and transfer taxes such as stamp duty on property. One major project that has been kept alive is the construction of the Odeon Tower which will be one the tallest buildings in mainland France when it is completed but even this scheme has been plagued with problems since the mayor of neighbouring Beausoleil was implicated on allegations of taking bribes in return for his planning approval.

Monaco's playboy image has faded as the movie stars go elsewhere and as a destination for the rich and famous it now has a lot more competition from the Middle East, North Africa and Switzerland. Whilst European countries worry about losing their wealthiest citizens, Monaco appears to have missed a golden opportunity to attract new money and it is struggling to build itself a new future. However, with property prices coming down and the rising importance of personal security for the world's new millionaires it is possible that its star may soon rise again. The weak Euro and the strong Swiss Franc add to its relative appeal and it may only be a matter of time before Monaco embarks once more on its transformational building projects. If Prince Albert can address the issues that have previously deterred people from coming here, whilst emphasising the Principality's unique assets, then when the struggling countries in the Eurozone provide the impetus to leave (such as higher taxes, social unrest, rising crime, cuts to social services) I would expect to see a flood of wealthy immigrants heading this way.

**Richard McCreery 12th July 2010** Send us your comments for publication email: [richard@rivieralife.tv](mailto:richard@rivieralife.tv)