

Richard McCreery's Business Blog

Riviera Living set to get even more expensive



Richard McCreery's Business Blog RLTV 19 Mar 10

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

Do you ever get the feeling that life is getting rapidly more expensive? The French Riviera has always been a relatively expensive place to live and France as a whole, compared to other countries, appears to be a victim of rising prices even with the economy still weak. There are several reasons why this might actually be the case.

Taxation in France is quite high and is probably set to go higher in the next few years in order to pay down the deficit. TVA is higher than the UK at 19.6%, we have a wealth tax that many other countries don't have and social charges on income (another form of taxation) are extremely high, especially for the self-employed. However, where the average person really gets hit is in 'upfront' taxes on the two biggest purchases we make during our lives: buying a property and buying a car.

The notaires fees we pay when buying an older property are between 7% and 10% of the purchase price and since property prices have doubled during the past 10 years, a much larger increase than the average salary, this is a huge chunk of money to pay to the government for the privilege of changing your abode. It is no wonder that there has been a significant slowdown in activity in the property market when you also remember that most lenders will ask for a deposit of at least 15-20% of the property value. It is incredibly difficult for many young people or first time buyers to find this kind of money.

Another big upfront tax that the government has hiked up recently is the cost of a 'carte-grise' when buying a car, (no doubt also partly responsible for the troubles in the French car industry which then required a bailout from the taxpayer.) The total cost depends on the horsepower of the vehicle and the amount of CO2 it emits. This is an eco-tax designed to encourage people to drive less-polluting cars, but it seems even quite efficient vehicles are now expensive to buy. I looked at two examples; a 2 litre diesel estate car costs €450 to register, not cheap but not prohibitive, whereas a 3 litre diesel will cost a shocking €2300 to register! It would seem that larger cars with larger engines will in future only be enjoyed by the wealthy who can afford to pay these taxes and they take no account of how many kilometres a person actually drives each year.

However, the real threat to the French standard of living may be yet to come. Rising taxes will eat away at disposable income and higher interest rates (they are only going up from here!) will at some point also drain spending power from the economy. Additionally, the effect of a weak currency can also push up prices. If the Euro continues to weaken significantly as it has threatened to do in recent weeks then you will see the cost of life's essentials, so many of which are imported into the Eurozone, getting more expensive. These rising expenses are unlikely to be countered by large salary increases or more easily-available consumer credit, so we might well find that our spending power continues to diminish for the foreseeable future.

Richard McCreery 19th March 2010 email: richard@rivieralife.tv