

# MONACO: A DISTINCTIVE, ENDURING MODEL

*As a model for economic, cultural, and social stability in an otherwise tumultuous world, the Principality of Monaco is constantly evolving and improving. In this article, Monaco's Minister of State delves into what makes Monaco a distinctive state model from a political economy point of view – its favorable social politics, economy, tourism sector, and demographics. The author outlines an “attractiveness” approach, which is predicated on sustainability, expanding upon what Monaco can offer to its citizens and visitors, and encouraging economic diversification.*

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**W**hen visitors travel to Monaco they often ask what is Monaco's secret. In fact, there are no secrets or mysteries. This article will delve into the distinctive qualities that lend to Monaco's success.

The first key, which is obvious but not always clearly understood, lies in the fact that Monaco is a sovereign, independent state operating within a framework of the general principles of international law, as well as special agreements with France.



The Constitution, promulgated on 17 December 1962, is the fundamental law of the state. It sets forth the nation's general organization, defines its institutions and regulates the way it works. It also seals the union between the Princes and the Monegasque people, a union that guarantees the future of the Principality and explains its history. The government is grounded in the principle of hereditary constitutional monarchy, and the Principality abides by the rule of law and is committed to respecting the freedoms and fundamental rights of its citizens.

These institutions, which underwent relatively little change during the reign of Prince Rainier III (1949-2005), have remained unchallenged since the accession of Prince Albert II in 2005. They underlie a solid consensus defended by the Monegasque community, the nation's children (foreigners with strong ties to the Principality), and those who have resided in the country for only a few years. The various components of Monaco's population manifest a special attachment and loyalty to the Prince and his family.

Seven centuries of history account for the gradual evolution of these institutions within the framework of a hereditary monarchy, which became constitutional in 1911 and has always opted for neutrality, particularly in signing international agreements.

This first dimension, which underpins the sovereignty of the Monegasque state, is not enough to explain the country's success, however. Indeed, in addition to its stable, balanced institutions, the Principality of Monaco enjoys a privileged location, which it has wisely enhanced.

It has an enviable geographical position. Located along the southern coast of Western Europe in an enclave of the Alpes-Maritimes department, Monaco is close

to the Italian border and at the foot of the Alps. This location guarantees its enviable natural environment and year-round climate. It is easily accessible by land (motorway and railway), air (near the Nice International Airport and permanent helicopter connection), and sea. We should point out that the state has undertaken an ambitious mobility policy of developing alternative, public transport as well as continuous infrastructure investment to improve traffic (tunnels, car parks, transport networks, public lifts, etc.).

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Mobility is only one aspect of the priority given to sustainable development in service of the planet by HSH Prince Albert II since his accession. This commitment, which has met with considerable support abroad, is implemented in the daily life of Monaco in a particularly dense urban context.

When a country aims to be a “model,” its collective organization, in the sense of public services, must strive to be exemplary. I have the honor of managing a very able administration, capable of modernizing while introducing ambitious public policies that are both economical in the use of state funds and efficient in serving the citizenry.

Among these policies, the promise of a high level of security for people and goods certainly contributes to Monaco’s reputation for “tranquility.” Few countries or cities in the world have comparable resources per square kilometer: more than 250 policemen and more than 300 remote surveillance cameras. It has internationally recognized expertise in maintaining cooperation among police forces in areas relating to petty as well as organized crime.

More broadly, under the authority of the government organized into various departments covering all public activity, we can boast a certain number of elements that are not opinions but actual facts:

- Our educational system is one of the finest among developed countries;
- Our social safety net and health care system are among the most advanced.

Generally speaking, the various social measures existing in Monaco – notably assistance to the elderly and aid to families – are especially favorable. Similarly, the state

has made considerable efforts to provide affordable housing for the Monegasques, despite very high rents in the private sector. The public health policy, both in terms of prevention and the organization of treatment, is certainly one of the reasons why Monaco holds a record among OECD countries for the longevity of its inhabitants.

Ensuring the quality of urban development and public facilities is a priority for the princely government. It oversees a major program of public works (which account for 25-30 percent of total state expenditures) based on a sensible compromise between urban density, the presence of green spaces (20 percent of the territory), limited pollution, ambitious projects (underground as well as off the coast and upwards), and budgetary caution.

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This aspect is hardly a secret: the Principality’s finances are sound. Monaco is one of the few countries in the world without a cent of public debt – an obvious guarantee of its independence, which is reassuring to those thinking about settling in the country. While maintaining a high level of investment, the government’s operating expenses have been contained in recent years. We have maintained these efforts

without going into debt or dipping into the Constitutional Reserve Fund (CRF), a sign of the country’s wisdom, whereas Europe was experiencing one of the worst economic crises in its history.

At the same time, public revenues have increased, particularly due to proceeds and income from the Domain of the State. This detail brings us to one of the reasons for the country’s appeal that is most frequently discussed (often inaccurately): its tax system. Monaco has optimized its revenues while controlling spending to achieve a balanced budget. When the economic crisis took place in 2008, our finances showed a deficit that might have been worrying. My government’s policy is clear: no sovereign debt, no budget deficit.

Monegasque taxation takes many parameters into account. Monaco lives on taxes. Tax revenues, which account for about 70 percent of total state income, are derived for 50 percent from VAT, at the same rates as in France. The very high rents in the private sector are offset by reduced direct taxation. The only direct tax paid in the Principality is corporate income tax on industrial and commercial activities. The

Monegasques and foreign residents (except for French and American nationals) are exempt from income tax (this of course pertains to activities or persons actually established on Monegasque territory, who do not have property or revenue abroad). Inheritance or donation taxes are applied to property located in the Principality or when Monaco is their tax base, regardless of the domicile, residence, or nationality of the deceased or the donor.

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With regard to corporate taxation, it should be noted that companies engaging in industrial or commercial activities, which generate more than 25 percent of their turnover outside Monaco, are subject to ISB (legal entity income tax) at the same rates as in France. The type of activity and its location determine tax liability.

At the international level, it is important to emphasize that Monaco complies with international requirements with regard to tax transparency imposed by the OECD, and has continued the negotiations begun in 2009 to reach agreements on avoiding double taxation and regarding the exchange of tax information. The Principality also complies with its commitments to international bodies.

In view of all these factors, there are clearly many reasons for the continuity of the Monegasque model, including its location, the centuries-old commitment of its princely family, and the introduction of public policy carefully thought out by its governments. Yet this explanation fails to take into account an essential component of the country’s success: its human activity – creation, sport, culture, tourism, research, etc.

Monaco must not only stay attractive; it has to become a bit more attractive every day. Under the impetus of the Sovereign Prince, I have therefore introduced, together with the government and all the actors of the Principality, an ambitious “attractiveness” approach. This approach is designed to expand our business activity by enhancing the advantages of Monaco and facilitating the establishment of new companies. The economic policy we have pursued since the early 1950s, which must be continued, has been marked by uninterrupted growth in most of the main sectors of activity: real estate, commerce and trading, banking, shipping, public works, telecommunications, hotels, and restaurants, etc.

To encourage the establishment of new activities, the princely government is developing a number of initiatives with the help of all the actors concerned.

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The Monegasque economy is historically solid and focused on international development. Monaco is a center of high-quality banking, with extremely qualified personnel and modern structures favorable to the development of wealth management and family offices, for example. Aside from banking activity, the economy is very diversified, relying on several cutting-edge

fields and adapted to the specific features of the country and today’s changing world. According to IMSEE (Monaco Statistics), eight sectors contribute six to ten percent of GDP. Monaco is a destination of choice for investors, using an on-shore model encouraged by a tax system that favors activities established in the Principality.

The human dimension of the Principality is as important, if not more so, to Monaco’s success. This fellow feeling is immediately palpable to visitors upon their arrival. United behind the princely family, the Monegasque community is often considered to be like a family. People know each other, they chat and exchange their news, and this sense of solidarity is supported by a responsible social policy serving the most vulnerable. Yet, far from being closed to outsiders, the Monegasque community is a model of openness illustrated by the obvious harmony among more than 130 nationalities living together without any problems of race or religion or any particular divide. We are indeed talking about a community, as nationals (8,600 people) are in the minority. Today Monaco has a population of 37,000 inhabitants for 55,000 jobs (slightly more than 49,000 in the private sector and 6,300 in the public sector). Employees work in more than 5,000 companies and in various public sector entities.

Thus, the Principality is useful to its neighbors, and this affects the role of Monaco, as illustrated in a recent international communication campaign. In 15 years, 20,000 jobs have been created. Three-quarters of these jobs contribute to the economy of the Provence-Alpes-Côte-d’Azur region, in France. If some 30,000 French people come to work every day in the Principality, this workforce contribution is obviously essential to the country receiving it. But it is also an indispensable contribution to the lifeblood of the Alpes-Maritimes department, which also benefits from other positive effects of Monaco’s economic success (GDP, wages, pensions, events of all

kinds, conferences, airport passengers, etc.). The Principality is therefore a job pool for part of its neighboring region.

How can we assess Monaco's role beyond the borders of these neighboring countries? Monaco has been a member of the UN since 1993 and of the Council of Europe since 2004. Monaco is not a member of the European Union and is only an entry point to the Schengen countries, but it does belong to the Euro zone and the European Customs Union. Monaco does not wish to join the European Union, but we have started

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negotiations with Brussels to facilitate economic exchanges and allow better access to the EU market.

The Government I lead is deeply attached to preserving specificities that characterize the Principality. No agreement would be possible without respecting the main Monegasque principles, first of which are employment and housing priority for nationals, as well as control of both individuals and companies wishing to establish themselves. The outcome is crucial to ensure the survival of Monaco. It will be a long process and will certainly take several years.

Through its status as a sovereign, independent state, the Principality enjoys full international recognition and a special place in the concert of nations. Of course, it is characterized by its neutrality, which implies discretion and humility. But Monaco has also achieved distinction in several specific areas (protection of the environment and biodiversity, sport, humanitarian action) where its recognition and role are undeniable, notably thanks to the actions of its Princes.

The Principality is also a model society. Its institutions, its neutrality, the sound management of its public finances, its economic and social equilibrium, its lifestyle, and environment, its influence and, in general, its political, social, and financial stability cannot but arouse interest in the country. This distinctive model, which has thus far proved to be sustainable, illustrates the visionary spirit of the successive Princes, particularly their ability to adapt and the importance they have given to major public works projects. After the challenge of constructing Fontvieille, an entire quarter built on land created in the Mediterranean Sea in the 1970s, HSH Prince Albert II announced his decision to launch a new project extending seaward from

the coastline to the right of Anse du Portier. The project will involve numerous local enterprises to build upscale housing and public facilities. It is slated to require more than 20 years and will be a model of environmental responsibility, both in terms of protecting the marine reserves nearby and sustainably managing resources and waste.

Monaco, a model? Now that you know a few of its “secrets,” you can judge for yourself.