

**COUNTRY PROFILE:****PRINCIPALITY OF MONACO**

IES/02: ATTACHMENT A

**DATED:****JULY 2008****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	1A	No restrictions

*Recent Political Highlights*

- ❑ Monaco is a constitutional monarchy with Prince Albert II as chief of state. The head of government, known as the minister of state, is traditionally appointed by the monarch from a list of three candidates presented by the French government. The current minister of state, Jean-Paul Proust, has held the post since June 2005. The prince also appoints five other ministers (counselors), who make up the cabinet.
- ❑ The 24 members of the unicameral National Council are elected for five-year terms; 16 are chosen through a majority electoral system and 8 by proportional representation. All legislation and the budget require the assent of the National Council. However, the prince has the sole authority to initiate legislation and change the government. Elections were last held in February 2008 and the next scheduled for February 2013. With 20 seats out of 24, the UPM party won the election for the National Council of Monaco with the remaining four seats being taken by the REM.
- ❑ Prince Albert took over as head of state following the death of his father Prince Rainier, in April 2005. Prince Rainier is often credited with engineering Monaco's impressive economic growth. During his reign, the country ended its dependence on gambling and nurtured other sources of revenue—principally tourism and financial services. He staunchly defended Monaco's banking taxation systems in the face of criticism from France. It will be for Prince Albert, who says he wants to attract high-tech industry to Monaco, to carry this work forward. The prince says he will seek to cement the idea that money-laundering in the country is a thing of the past.

*Recent Economic Highlights*

- ❑ The population of the second smallest independent state in the world is estimated at 32,543 of which about only 7,000 are actual Monegasques. The constitution differentiates between the rights of Monegasque nationals and those of noncitizens. Monegasques benefit from free education, unemployment assistance, and the ability to hold elective office. As long as they secure a residence permit, noncitizens are free to purchase real estate and open businesses.
- ❑ A British company has listed Monaco as the 4<sup>th</sup> most prosperous and stable country from 235 countries and independent territories. A number of criteria were used to rank the countries, including political structure, social and economic trends, military and security risks and external relations. Monaco scored 98 out of a possible 100 points.
- ❑ Monaco has an economy geared toward finance, commerce and tourism. The tourism industry has been booming and accounts for close to 25% of annual revenue and every May the principality hosts the Monaco Grand Prix. Low taxes have drawn many foreign companies to Monaco. The country is a major banking centre and closely guards the privacy of its clients. In 2007 Monaco remained on the OECD blacklist of uncooperative tax havens along with Andorra and Liechtenstein, but since July 2005 it has applied a withholding tax to accounts held by citizens of EU member states. Most of the resulting revenue goes back to the country where the account holder resides.
- ❑ If the current financial turmoil worsens and global economic slowdown continues, it could have an impact on the European tax havens of Andorra and Monaco. A British company that specializes in tax haven properties sees a direct link between the high prices of property in Monaco and the high spenders moving into Andorra. Monaco property prices have risen in recent years to the extent where it challenges London for having the most expensive real estate in the world. Andorra has consistently seen double digit property inflation, but is still considerably cheaper than Monaco. With similar tax benefits, some buyers who initially consider Monaco end up buying in Andorra.
- ❑ Monaco has plans to expand its territory by building more land on stilts in an idea inspired by oil rigs as it has almost run out of space. With less than a square mile of territory, Prince Albert II wants to build more land in a project where new land would be attached to the shore and stand on stilts. Critics decry the environmental damage such a monumental project would have and say it will wreak on the native ecosystem. Proponents, however argue that the project is very eco-conscious as it will not only protect the ecosystem but actually better the environment by putting in man-made reefs to allow species to thrive.

*Latest Trade Developments*

- ❑ Main exports: pharmaceuticals, perfumes and clothing.
- ❑ Monaco has full customs integration with France, which collects and rebates Monegasque trade duties. It also participates in the EU market system through customs union with France. In February 2002, Monaco adopted the euro currency despite the fact that it is not a member of the European Union (EU).

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