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San Marino: Recent Economic Developments

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SAN MARINO

Recent Economic Developments

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Approved by the European I Department

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San Marino: Basic Data

Total area (sq. km.):	61.2
Population (December 1997):	25,921
GDP per capita (current US\$, 1996):	31,500
Life expectancy (1987):	76 (male)
	82 (female)
Infant mortality (1992/1996 average):	8.6 per thousand

	1990	1991	1992	1993	1994	1995	1996	1997	1998
(Changes in percent unless otherwise indicated)									
Output and Prices									
Real GDP 1/	5.9	5.8	13.5	8.8	7.0	...	5.0	5.0	...
Employment	3.3	5.8	6.0	4.8	4.8	4.3	2.6	3.3	3.8 2/
Unemployment rate (end of year)	5.4	4.1	4.1	4.9	4.5	3.8	4.9	4.2	3.8 3/
Inflation rate (annual average)	6.4	7.7	5.4	4.7	5.0	5.0	4.9	2.0	2.2 2/
Wages	9.7	1.4	11.1	5.3	6.8	6.5	10.9	6.8	...
External Accounts 4/									
Trade balance (in millions of US\$)	-36.4	-41.1	-50.3	-48.8	-41.2	-3.3	22.6	...	...
Exports 5/ 6/	232.4	232.8	273.9	252.7	256.5	219.2	218.7	...	...
Imports 5/ 6/	-240.0	-240.6	-281.9	-261.4	-263.3	-219.7	-215.8	...	...
Current account balance (in millions of US\$)	42.7	30.8	78.7	46.1	26.4	37.5	10.7	...	...
(In percent of GDP) 6/	9.0	5.9	12.5	8.2	4.4	5.4	1.3	...	...
Number of tourists (in millions)	2.9	3.1	3.2	3.1	3.1	3.4	3.3	3.3	2.9 7/
(Percent change)	2.4	6.9	3.1	-4.2	1.0	8.5	-0.7	-1.1	-1.5 8/
Lira US\$ exchange rate (end of period)	1,130	1,151	1,471	1,704	1,630	1,585	1,531	1,759	1,653
Nominal effective exchange rate index (Italy)	100.0	98.3	95.4	79.6	76.2	69.1	75.6	75.8	76.4 9/
Real effective exchange rate index	100.0	100.3	98.9	83.6	81.2	75.6	84.4	84.9	87.3 9/
(In percent of GDP, unless otherwise indicated)									
Fiscal variables 6/ 10/									
Central administration revenue 11/	38.3	42.9	43.2	36.9	35.7	39.7	37.5	34.9	...
Central administration expenditure 11/	39.4	40.7	38.4	37.1	36.1	36.8	41.5	37.0	...
Central administration balance	-1.1	2.3	4.7	0.2	-0.4	2.9	-3.9	-2.1	...
Net central government deposits 12/ 13/	30.0	27.5	28.1	26.2	25.7	23.0	21.4	19.1	...
Net central government deposits 12/ 13/	171.0	179.0	218.0	230.4	251.3	259.6	262.8	250.4	194.2 3/
(In billions of lire)									
(In percent)									
Interest rates									
Loans 12/	14.5	15.2	17.9	16.0	15.0	15.5	13.8	11.0	9.0 3/
Repurchase agreements 12/	...	...	13.0	10.0	9.5	8.7	7.0	5.7	4.2 3/
Time deposits 12/	8.0	7.6	10.0	9.0	7.5	7.2	5.5	4.2	3.5 3/
Italian deposits 14/	6.8	6.6	8.7	7.0	5.9	6.9	5.8	4.2	2.9 3/
(Changes in percent unless otherwise indicated)									
Banking system liabilities									
(in percent of GDP)	31.1	27.9	46.7	...	...	...	...	...	...
	495.6	556.4	682.1	...	...	...	...	...	...
Broad money									
(in percent of GDP) 6/	...	...	...	...	2.8	8.5	-17.1	15.6	-5.3 2/
	...	...	...	212.1	196.3	184.9	140.6	152.2	...

1/ Staff estimates for 1990-94. Data for 1997 are a joint estimate between the Fund staff and the Sammarinese authorities. Owing to a change in methodology for computing the national accounts, the growth rate for 1995 is not available.

2/ 12-month change through September.

3/ September.

4/ Due to a change in methodology, figures from 1990-94 and 1995-96 are not comparable.

5/ In percent of GDP.

6/ Due to a change in methodology for computing the national accounts, ratios to GDP between 1990-94 and 1995-96 are not comparable.

7/ January-September.

8/ January-September over the same period of the previous year.

9/ November.

10/ Cash basis.

11/ Includes payroll contributions to the Social Security Institute.

12/ End of period.

13/ Excludes Social Security Institute deposits in commercial banks.

14/ End of period, except for 1990 and 1991 (period averages).

I. INTRODUCTION

1. Economic developments in San Marino have been shaped by its unique situation as a small enclave neighbored by the North-Central Italian regions of Emilia-Romagna and the Marche. Its resident population is about 26,000, inhabiting a land area of 61 square kilometers. Given the currency union with Italy (on January 1, 1999 San Marino adopted the euro) and the absence of barriers in trade and goods markets, San Marino has participated in the vigorous economic growth of the neighboring regions of Italy, and has developed niche areas of specialization that have provided the basis for a well-diversified high-income economy. Prudent fiscal policies have allowed for a modest tax burden and a comfortable net creditor position, contributing to the achievement of macroeconomic stability and an economic environment conducive to productive private investment.
2. Given San Marino's small size and its very recent membership in the Fund, the country is just at the initial stages of constructing the traditional macroeconomic yardsticks used to gauge economic performance. In addition, relatively little information and analysis are available from other international organizations on the institutional details and functioning of the economy.
3. This paper is designed to help fill this void by providing the reader with a description of the institutional details of the economy and recent economic developments. The paper is organized as follows. Chapter II provides a description of the real sector; Chapter III explores developments in fiscal policy, including industrial policy; Chapter IV assesses recent activity in the financial sector; and Chapter V addresses developments in the external sector. Appendix I provides a description and comparison of the tax systems of San Marino and Italy.

II. THE REAL SECTOR

4. San Marino enjoys a surprisingly diverse economic base for its small size, with manufacturing, financial services, tourism, and the public sector comprising the main pillars of economic activity. Living standards are high, with GDP per capita estimated at \$31,500 in 1996, above the average for countries of the European Union and about 10 percent higher than the per capita income level prevailing in neighboring Emilia-Romagna.¹ While GDP data are not available for periods before the 1980s, the current high level of per capita income is due to rapid growth experienced since the 1960s.
5. A key development in this regard was the blossoming of tourism, which grew as a consequence of the expansion of seaside resorts in nearby Italy; by the 1990s, about 3 million tourists were visiting San Marino per annum. In the mid-1980s, a booming financial sector,

¹About 10 percent of value added in San Marino is attributable to cross-border workers (Table 6), and thus GDP per capita overstates the amount of output produced by domestic residents.

spurred on by favorable withholding tax differentials with respect to Italy, also contributed to higher growth; by the 1990s, foreign deposits in the banking sector had reached more than 400 percent of GDP. The customs union agreement with the European Union (EU) and the monetary union with Italy have served to maintain the economy's openness (with merchandise exports and imports each equivalent to about 220 percent of GDP), which has facilitated the close integration of manufacturing with the industrial sector in Italy.

6. Manufacturing employed about 33 percent of the labor force in 1997 (Figure 1), a somewhat smaller share than in 1980. Firms are small (averaging about nine workers per firm), which has helped them adapt rapidly to the changing nature of comparative advantage. Workers engaged in transport, commerce, and services—including those involved in tourism—together accounted for some 28 percent of employment in 1997. The number of tourists climbed from about 2.8 million in the late 1980s to 3.3 million in 1995, but has plateaued since then. As a consequence, the growth of tourism has failed to keep pace with the other more dynamic sectors of the economy, and its share of GDP is estimated to have fallen from over 20 percent in the early 1990s to 15 percent in 1996.² The financial sector, while spawning few jobs, has generated sizable capital incomes; for example, profits in the banking sector averaged over 17 percent of GDP in 1995–96. The public sector (including the public enterprises) continues to account for a sizable share of economic activity, and its share of employment has remained stable since 1980, at about 25 percent.

A. Aggregate Supply and Demand

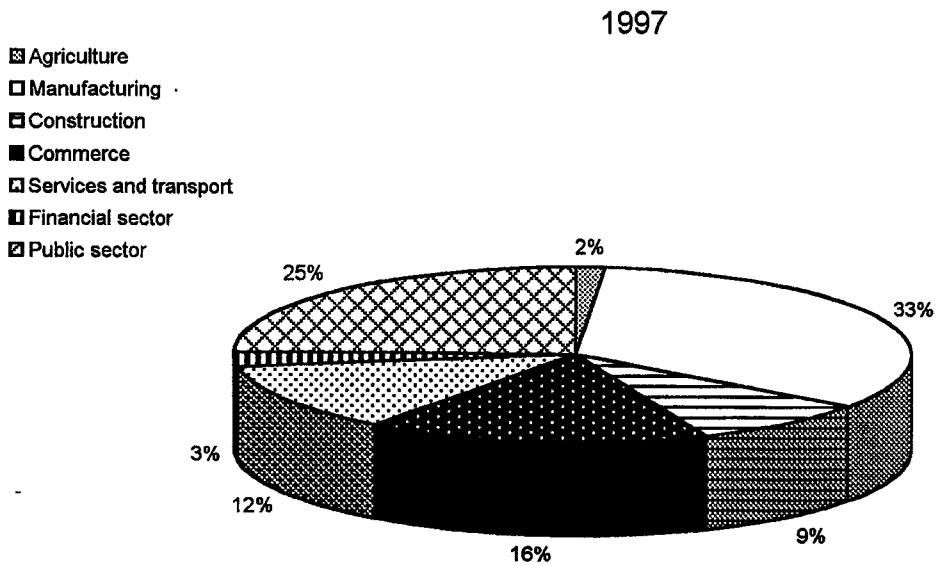
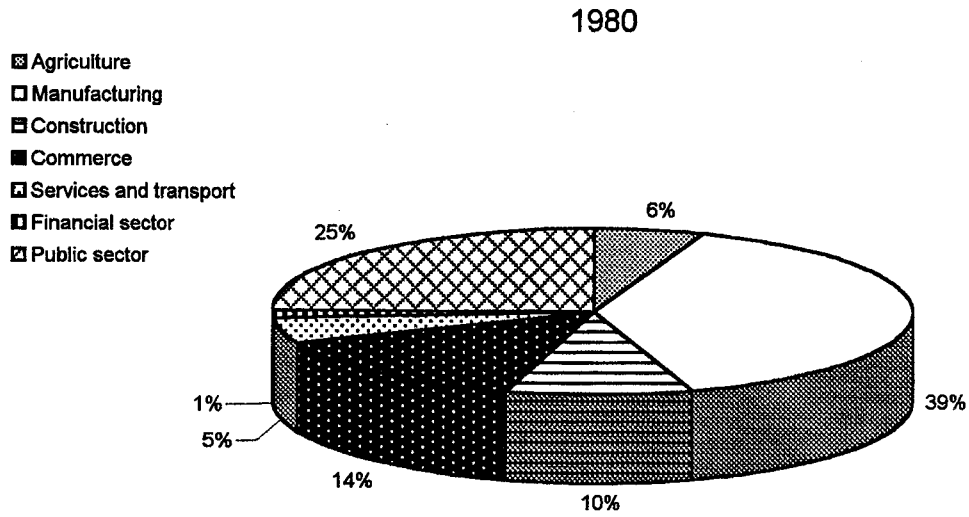
7. San Marino has enjoyed rapid growth in the 1990s, as the expansion in output has outstripped that experienced in Italy as a whole and the surrounding regions of Emilia-Romagna and the Marche (Figure 2). Real GDP rose by an average of about 10 percent per annum in 1992–94 and an estimated 5 percent in 1996 and 1997 (Tables 1–5).³

8. Economic developments have been influenced by those in Italy and Europe as a whole. For example, the 1993 recession in Italy and the rest of Europe resulted in a drop in tourism of 4 percent and a decline in the exports of goods. These adverse developments were more than offset, however, by an expansion of public consumption and investment, as well as growth in the financial sector, as total deposits in the banking system rose by 22 percent in response to political uncertainty in Italy. In the event, economic growth exceeded 8½ percent

²These estimates are based on assumptions regarding the average expenditure per day per tourist visit, rather than national income account figures based on value added from tourism.

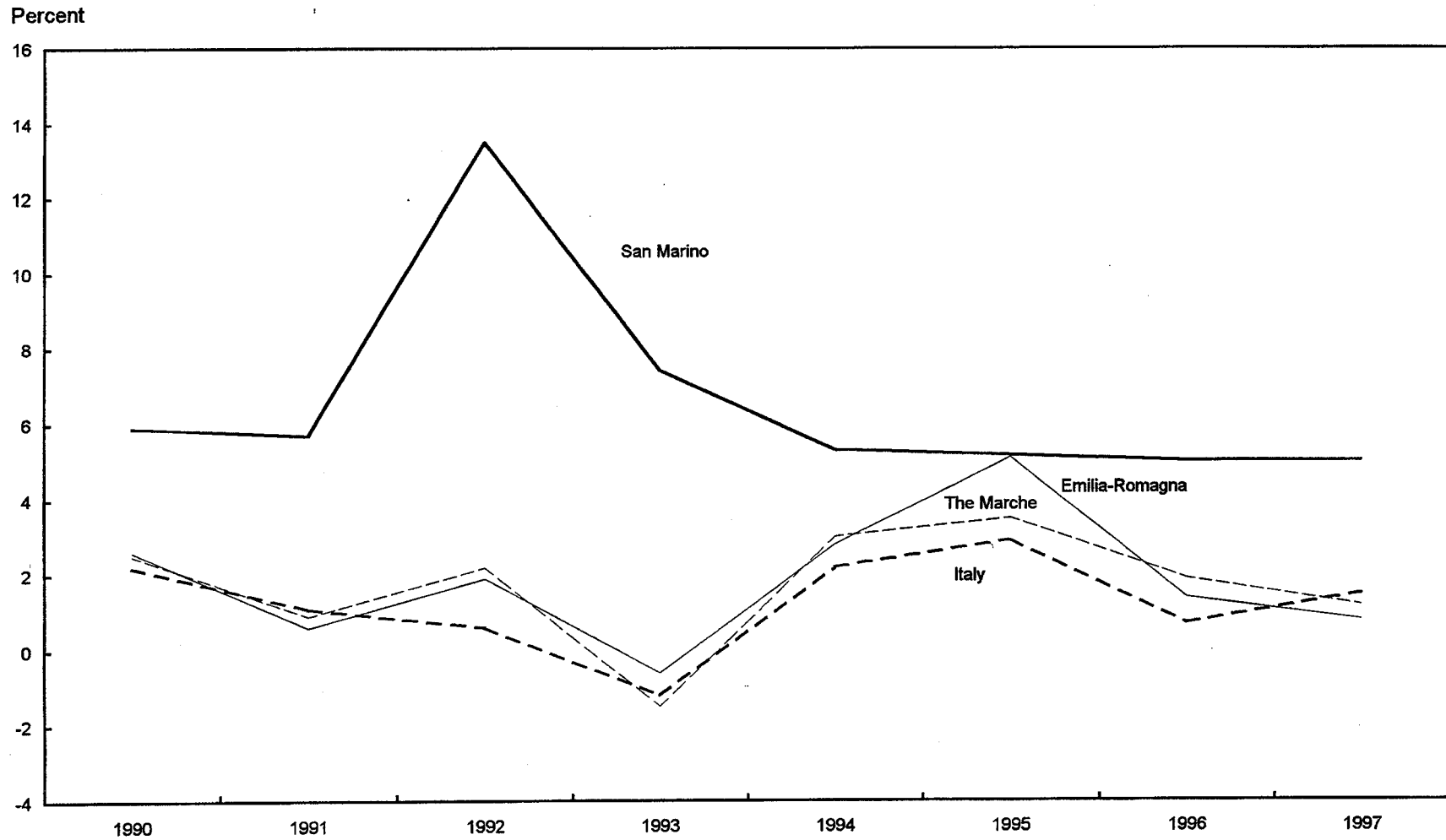
³Real GDP growth figures for 1995 are not available, owing to a change in the methodology used by the Statistics Office for estimating the national income accounts. Figures on employment growth (Figure 4) and the formation of new businesses (Table 7) are suggestive of continued strong growth in that year, albeit at a somewhat reduced pace with respect to earlier years.

Figure 1. San Marino: Employment by Sector



Source: Data provided by the Sammarinese authorities.

Figure 2. San Marino: Real GDP Growth 1/



Sources: Data provided by the Sammarinese authorities; Italian data from *Rapporto 1998 Sull'economia del Mezzogiorno*.
1/ The growth rate for 1997 for San Marino is a joint estimate of the Fund staff and the Sammarinese authorities.

in 1993. Growth slowed in 1994 to about 7 percent, as the stimulus from public consumption and investment abated and the influx of foreign assets to the banking system slowed, reflecting the decline in political uncertainty in Italy following the 1994 elections. Exports of goods rebounded in 1994 in response to the economic recovery in Italy and elsewhere in Europe and the lagged effect of the real depreciation of the lira in 1993 (Figure 3). Tourist activity remained tepid, with only a 1 percent increase in the number of visitors.

9. Growth in recent years has slowed relative to the blistering pace achieved earlier in the decade, and is estimated at 5 percent for both 1996 and 1997. The number of tourists rose to 3.3 million in 1995 but has stagnated at this level since then. Offsetting this development was the brisk increase in deposits handled by the commercial banks (an increase of about 70 percent of GDP) between 1994 and 1996, contributing to a surge in their profits of over 50 percent. Deposits continued to grow in 1997, rising to more than 650 percent of GDP. Manufacturing growth remained strong, spurred on by favorable cyclical conditions in Europe. Although no official data are available for manufacturing output, the Sammarinese Industrial Association (ANIS) estimates that sales volumes rose by 4 percent in both 1996 and 1997. Employment data (see below) also provide corroborating evidence of continued strong growth, as well as figures on the formation of new businesses, which indicate the number of firms is increasing about 5 percent per annum (Table 7).

10. San Marino's vigorous economic growth has been driven by a level of investment that is strikingly elevated for a high-income country. Fixed capital formation averaged about 28 percent of GDP in 1995 and 1996. Public investment has risen markedly in recent years, climbing to about 5 percent of GDP in 1996.⁴

B. Labor Markets

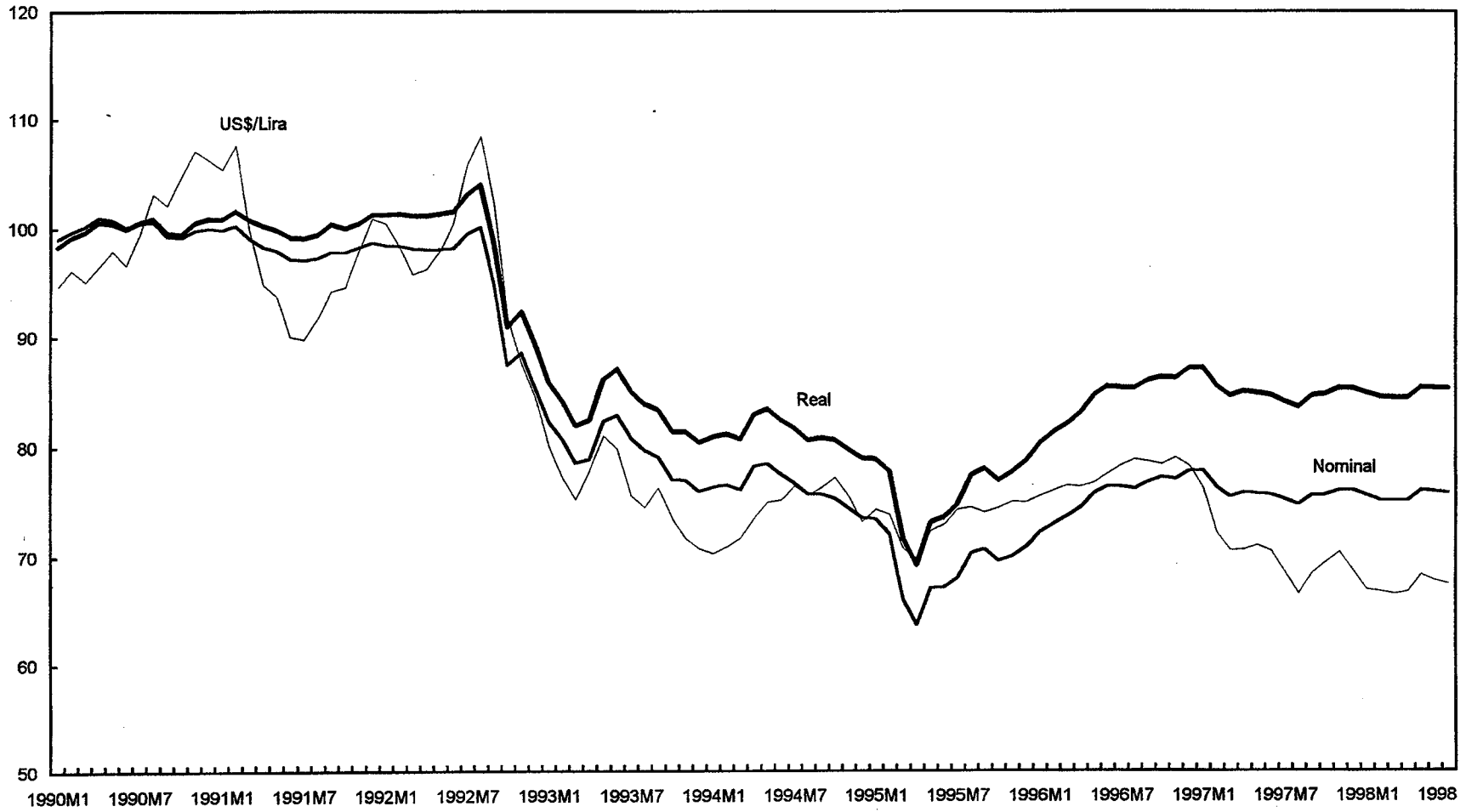
Employment

11. San Marino's robust economic growth has been accompanied by strong job creation. Employment rose sharply in the early 1990s before slowing down to an average of 3 percent in 1996-97 (Figure 4; and Tables 8 and 9). Unemployment has hovered between 3½ and 5 percent since the early 1990s, compared with about 6 percent in neighboring Emilia-Romagna in 1996-97.

12. A distinctive characteristic of the Sammarinese labor market is the heavy reliance on cross-border workers (*frontalieri*), primarily Italians living in neighboring regions working

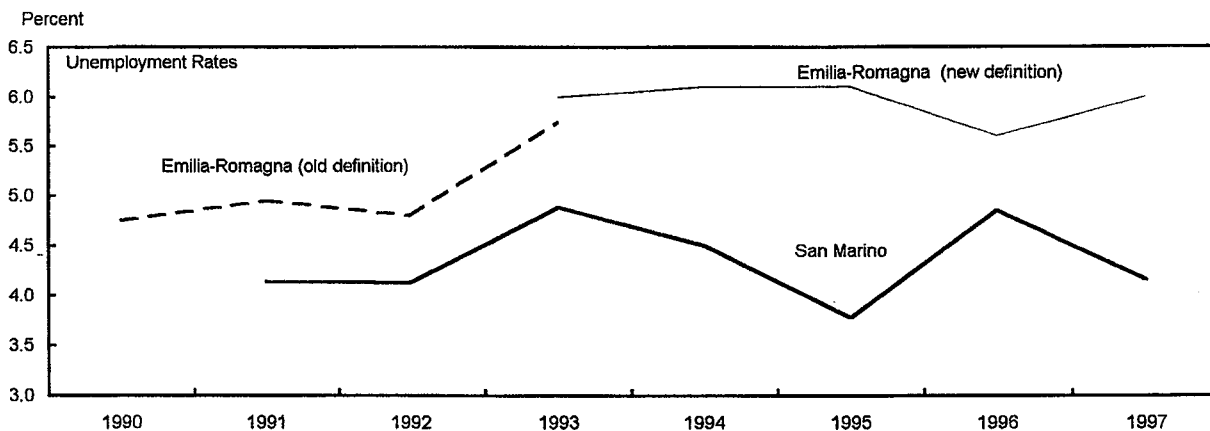
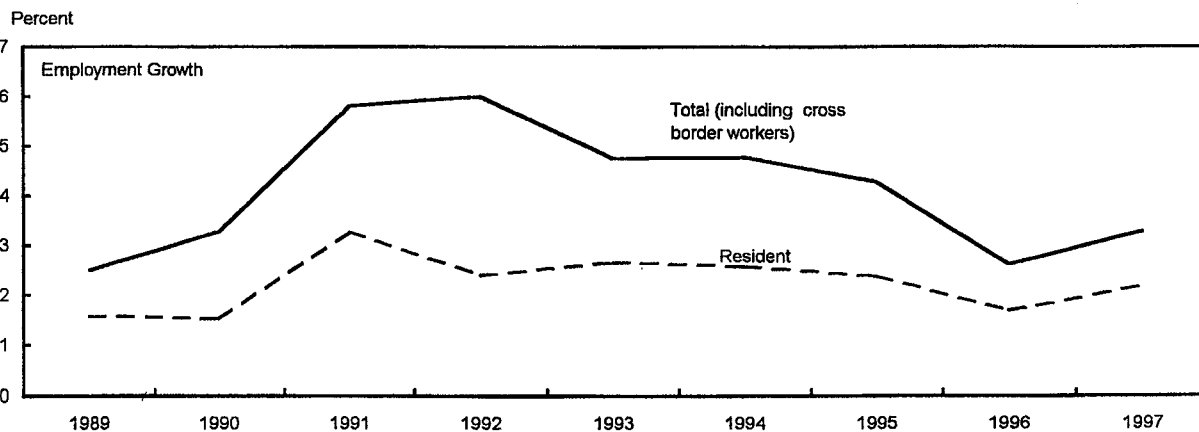
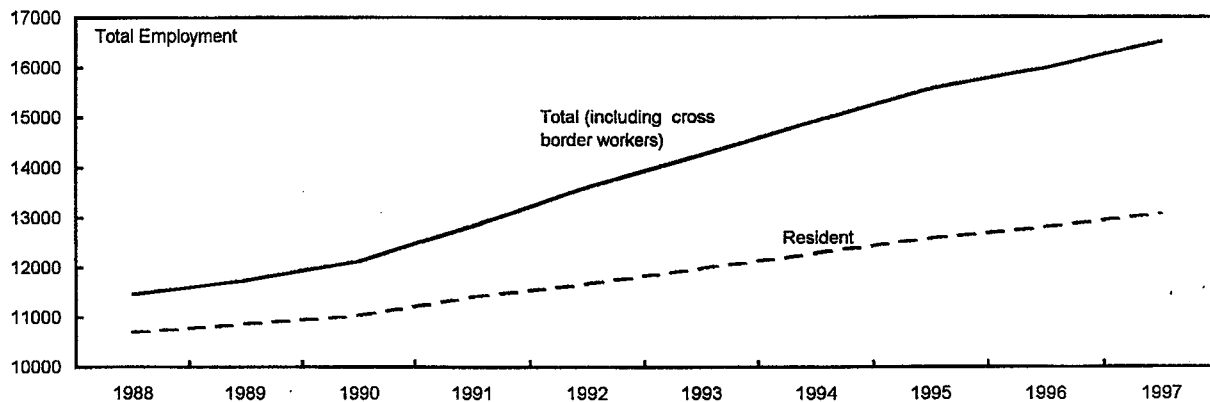
⁴Figures on the composition of GDP by expenditure component must be assessed with caution, given the underlying weaknesses in the raw data used to compile the accounts. For example, consumption is estimated on a territorial basis, with tourism excluded from exports. The staff has adjusted these data to ensure consistency with the balance of payments estimates. For a more complete discussion, see Appendix II of the staff report.

Figure 3. Italy: Effective Exchange Rates
(1990 = 100)



Source: Information Notice System.

Figure 4. San Marino: Employment and Unemployment



Sources: Data provided by the Sammarinese authorities; Italian data from *Rapporto 1998 Sull'economia del Mezzogiorno*.

mainly in commerce, construction, and manufacturing.⁵ The share of cross-border workers in total employment rose from 11 percent in 1991 to about 18 percent in 1994 and 21 percent in 1997. This was associated with a rise in the share of construction and services in total employment during the 1990s (Tables 10 and 11). Resident Sammarinese workers are largely concentrated in government, finance, and, as self-employed entrepreneurs, in commerce.

13. The share of self-employment in total jobs has declined in the 1990s, falling from 21 percent in 1990 to 17 percent in 1994 and 16 percent in 1997. The absolute number of the self-employed also fell during this period. The value added generated by the self-employed is estimated at less than 5 percent of GDP in 1995 and 1996, although these data are thought to be underestimated.

14. The growing share of cross-border workers in total employment is driven by a number of factors. In one sense it reflects the healthy demand for labor by Sammarinese firms and their willingness to pay wages above those prevailing in surrounding regions of Italy. At the most fundamental level, however, it mirrors the mismatch between the reservation wages of Sammarinese labor force entrants and those prevailing in the most dynamic sectors of the economy. In this context, employers prefer cross-border workers to fill positions at prevailing wages, rather than raise compensation to attract Sammarinese workers. The high reservation wages of Sammarinese citizens and their willingness to experience a spell of "wait" unemployment are driven by a number of factors. Among these are (i) the important role of the state in providing attractive jobs to Sammarinese residents; the public sector continues to soak up about one fourth of the labor force, and remuneration levels exceed those in the private sector; and (ii) the high income level of Sammarinese households, which provides a type of "private safety net" to supplement the income of the unemployed while they wait for openings in high-paying sectors. The willingness of these workers to experience this "wait" unemployment is also borne out in figures regarding the characteristics of the unemployed: 98 percent were new labor force entrants in December 1997, and 77 percent were female, with only about half of the unemployed seeking full-time jobs.

15. Sammarinese labor law also encourages a degree of "wait" unemployment through regulations governing the hiring process. In order to find a job, Sammarinese citizens are required to register with the Ministry of Labor on an employment list, which provides information on each unemployed worker regarding their targeted sector of employment and level of education and skill. Individuals on each list are ranked by the Ministry of Labor, based, *inter alia*, on a worker's need (as determined by family size and length of unemployment) and qualification level. Employers with job vacancies are required to interview workers from the list by their ranking. If all willing candidates are interviewed and found unacceptable, firms may then conduct an open search for new applicants, including those

⁵See SM/96/165 (7/3/96) for an examination of the role of cross-border workers in the Sammarinese economy.

already employed and cross-border workers.⁶ Once workers have found a job, they are removed from the employment list.

16. The system contributes to wait unemployment by restricting hiring to those on the employment list, rather than the entire labor force. In this context, many workers choose a bout of unemployment, rather than lose the opportunity for employment in their preferred sector at higher wages.

17. San Marino's labor market restrictions impede its flexibility and add to private sector labor costs. Given the time involved in certifying that no Sammarinese workers are available, vacancies that are eventually filled by cross-border workers can remain open for long periods of time. The authorities recognize the need to further liberalize the labor market and the employment list, and measures in this area are expected to be proposed by the government during 1999.

18. The costs of wait unemployment to the budget have been contained by the modest level of social benefits. Two types of unemployment benefit are available: the regular unemployment benefit (which new labor market entrants are eligible for) and the benefit for redundant workers (*Indennità Economica Speciale* (IES)). Workers are eligible for the regular unemployment benefit for only 100 days. Unemployed workers on the employment list for the public sector are only eligible for the regular benefit, whose level has been unchanged for many years; the maximum payment is only Lit 4,000 per day. As such, the majority of the unemployed do not apply for this benefit, and total benefit payments in 1997 equaled just Lit 5.2 million.

19. The IES is targeted to redundant workers in the private sector. For the first six months, eligible workers receive 70 percent of their salary earned in the six months immediately prior to unemployment, and 65 percent for another six months. Total payments under the IES have been modest; the full-time equivalent number of beneficiaries averaged about 60 per annum during the 1993-97 period. In 1997, payment of these benefits equaled Lit 1.3 billion (0.1 percent of GDP).

20. San Marino has also used employment subsidies to support incomes and prevent higher rates of open unemployment. The *Cassa Integrazione Guadagni* (CIG) is designed to provide support to workers who are temporarily unemployed owing to reductions in product demand, poor weather, and restructuring. The benefit is paid directly to firms to maintain existing employment levels in the face of these adverse events. Firms are eligible for the

⁶The system is slightly less restrictive for the filling of vacancies at the higher skill levels (those above category 5 out of the 12 categories of labor used to formulate the list). For these workers, firms are free to interview anyone they wish on the employment list, rather than following the ranking provided by the Ministry of Labor.

payment for six months; an extension of benefits is only possible with approval, from the Ministry of Labor, of a restructuring plan involving the retraining of employees. About 70 percent of these benefits have been paid to firms in the manufacturing sector. The full-time equivalent number of beneficiaries averaged around 230 persons a year during 1993–97 (equivalent to about 2 percent of the resident labor force), and has remained broadly at this level over time. The cost of these benefits in 1997 equaled about 0.3 percent of GDP.

Wages

21. Collective bargaining plays an important role in wage formation in San Marino, given the highly unionized labor force and sizable share of the labor force in the employ of the public sector. In practice, it appears that these agreements have only provided wage floors, as brisk labor demand in the private sector has provided room for large nominal and real wage increases (Table 12). Thanks to the rapid growth in private sector wages, public/private differentials have declined sharply in recent years.

22. The indexation of labor contracts was abolished in the private sector in 1995–96, and in the public sector in 1997 in the context of the four-year labor agreement covering 1997–2000. In return for conceding the elimination of indexation, workers were granted a wage increase (5 percent per annum) which is large in relation to expected inflation.^{7 8} Some contracts still provide for additional upward adjustment if inflation exceeds the wage increase, although the 5 percent increment is far above the expected inflation rate.

23. Data on wages and productivity by sector are not available, and thus the competitive position of Sammarinese firms cannot be readily assessed. Although Sammarinese wages tend to exceed those in Italy, the fact that its social contribution rates are about half of those in Italy has resulted in lower labor costs than those facing their Italian counterparts.⁹

C. Prices and Inflation

24. As a result of the currency union with Italy, inflation developments in San Marino largely mirror those in Italy; most differences can be explained by the use of a different basket of goods in the Sammarinese and Italian price indices. Sammarinese rates have, on average, exceeded those in Italy by about 0.4 percentage points during 1992–97. Inflation hovered near

⁷The increase in the public sector wage bill can be expected to be greater than 5 percent, owing to wage drift and employment increases in sectors not covered by the recently enacted employment freeze.

⁸The private sector collective bargaining agreement covering 1998–2001 also targets a 5 percent annual wage increase.

⁹See Appendix I for a comparison of the tax systems in Italy and San Marino.

5 percent per annum during 1992–96, before declining sharply in 1997 to 2 percent. During the first three quarters of 1998 inflation remained at a low level, with a seasonally unadjusted year-on-year increase of 2.2 percent.

III. FISCAL DEVELOPMENTS

A. Overview

25. The state has an important presence in San Marino. The central government is estimated to spend about 34 percent of GDP, while the overall public sector, including public enterprises, employs about one-fourth of the labor force. Moreover, the government engages actively in industrial policy to limit unemployment and to promote the economy's development.

26. Tax rates in San Marino are generally lower than in Italy (see Appendix I for a description of the Sammarinese tax system, and a comparison with that in Italy). This gives Sammarinese firms a competitive edge over those in neighboring Italian regions. For example, the standard value-added tax (VAT) rate is set 4 percentage points below the Italian level; public utilities are provided at rates 10–20 percent below those in Italy; most forms of personal and corporate income are taxed at rates that are substantially lower than in Italy; and social security contributions are about one-half those in Italy.

27. The budget has traditionally run small surpluses. The last few years, however, have seen some deterioration in the fiscal balances. Part of the problem lies in a rigid budgetary system, which leaves little room for flexibility in fiscal policy within a given fiscal year. The government has limited control over its overall volume of spending and taxation: key tax and spending decisions by both the central administration and the public enterprises are embodied in legislation and must be accommodated by the administration in various ways, including resource transfers to social security and the public enterprises whenever necessary. Expenditure monitoring and control has had limited effectiveness, although new reforms have recently been adopted in this area. The following sections provide a general description of San Marino's public sector as well as a discussion of the most important recent developments in the public finances.

B. Data Availability

28. Relevant data on government finance statistics are compiled by the authorities, but the way they are presented limits their usefulness. Six problems stand out. First, the official accounts are presented on a "payment-order" basis,¹⁰ and embody the authorities' estimates of

¹⁰The payment-order basis of recording is different from either accrual or cash basis recording. Under the accrual basis of recording, all transactions are recorded at the time economic value

(continued...)

the value of taxes that will eventually be collected. However, these initial estimates are subject to considerable uncertainty, and are often substantially revised over time; this applies especially to the amount of VAT (*monofase* tax) collected and refunded on goods that are imported and subsequently re-exported.¹¹ Second, under the payment order system, all expenditures authorized in the budget in a given year are measured as actual expenditures in that year, even if this spending is postponed to subsequent years. In light of both of these problems, the economic significance of fiscal developments on a payment order basis is unclear. At the request of Fund staff, the authorities provided revenues and expenditures on a cash basis for the period through 1997. Both the 1998 estimates and the 1999 budget are only available on a payment-order basis.

29. Third, and more critically, there are long and variable lags in settling many transactions; this applies especially to VAT tax collections and refunds for goods that are imported and subsequently re-exported. As a result, the stocks of outstanding unsettled receipts and reimbursements have been of the same order of magnitude as GDP. Given variable settlement lags, the cash-basis fiscal balance varies widely from year to year and is difficult to interpret.

30. Fourth, budget data provide a misleadingly pessimistic outlook, as the authorities' characteristic fiscal prudence is in part manifested in intentionally conservative revenue estimates. As a result, in recent years the final accrual-basis balances and, to a greater degree, the staff-estimated cash-basis balances, have been significantly more positive than budgeted payment-order basis balances. Fifth, for some specific transactions the length of the fiscal year has varied over time in an arbitrary way, affecting the comparability of data across years.

31. Finally, consolidated data for the central government and more broadly for the nonfinancial public sector are not readily available; there are financial statements and balance sheets for each component, but these are released only after a long delay. Fund staff produced estimates for the central government accounts by taking central administration revenue and

¹⁰(...continued)

is created, transformed, exchanged, transferred, or extinguished. Under the cash basis of recording, transactions are recorded only when payment is made or received. Under the payment order basis of recording, transactions are recorded when the authorities recognize them as legal and the amount due for payment is registered in the payment order. Taxes are recorded on the basis of tax assessments or tax declarations by taxpayers, and other revenues are recorded at the time they are earned.

¹¹The Sammarinese VAT is not a true value-added tax, but rather a single-stage tax levied on imports and, as of January 1996, on domestic products intended for domestic consumption.

expenditure, and adding to both the social security contributions paid by the private sector.¹² It is expected that the new system of budgetary accounting to be implemented for the year 2000 will provide data on a more timely basis, and will facilitate program monitoring and evaluation (see Section F).

32. The Government Finance Statistics database includes annual data for 1995 for the consolidated central government. These data were compiled by the 1997 IMF Multisector Statistics mission, and were published in the 1997 *Government Finance Statistics Yearbook (GFSY)*. San Marino has not provided updates for publication in the 1998 *GFSY*.

C. Central Government

33. The central government in San Marino comprises: the central administration; the ISS (or *Istituto per la Sicurezza Sociale*); the Public Works Company (AASP, or *Azienda Autonoma Servizi Pubblici*); the Olympic Committee (CONS, or *Comitato Olimpico Nazionale Sammarinese*); and the University of San Marino. There is no local government as commonly understood.

Estimated cash accounts of the central government, 1993–97

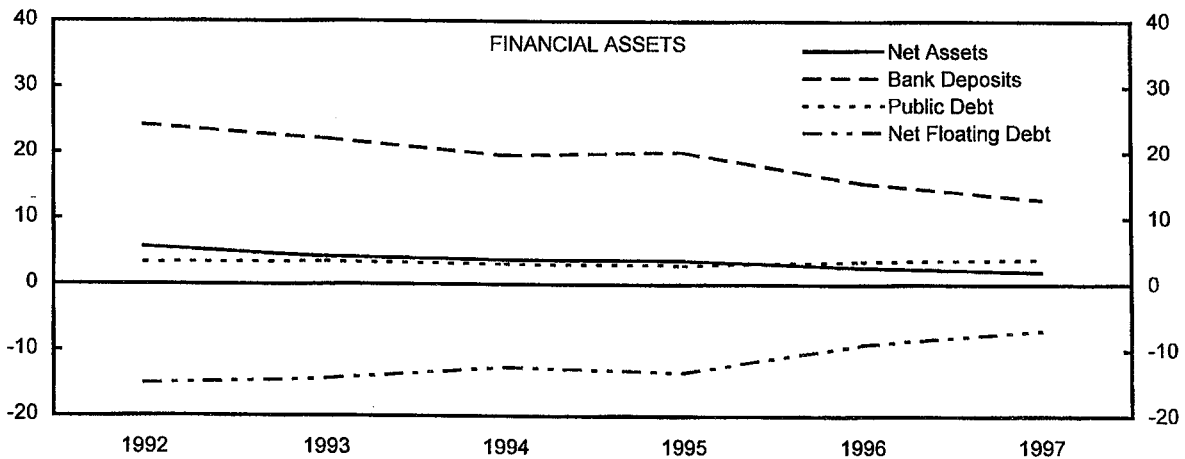
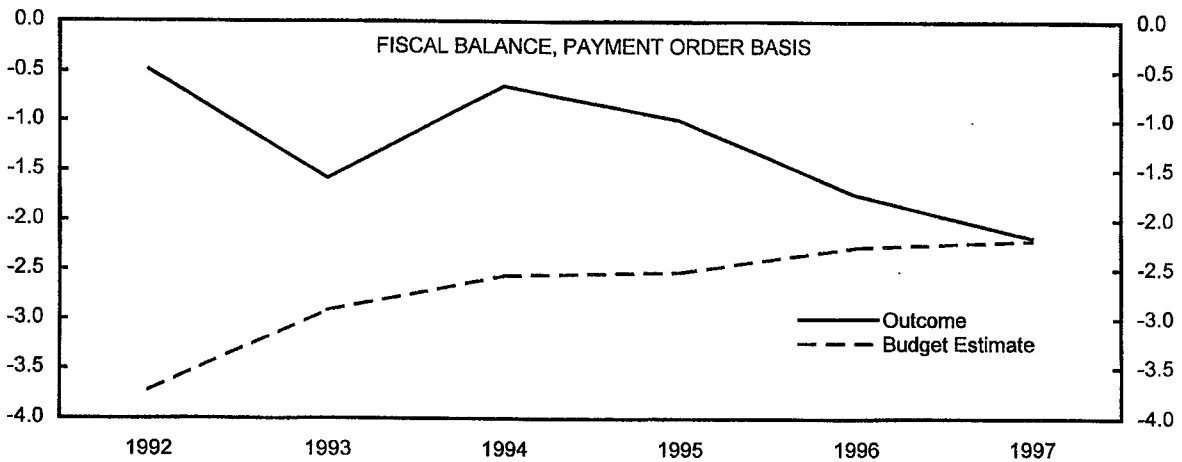
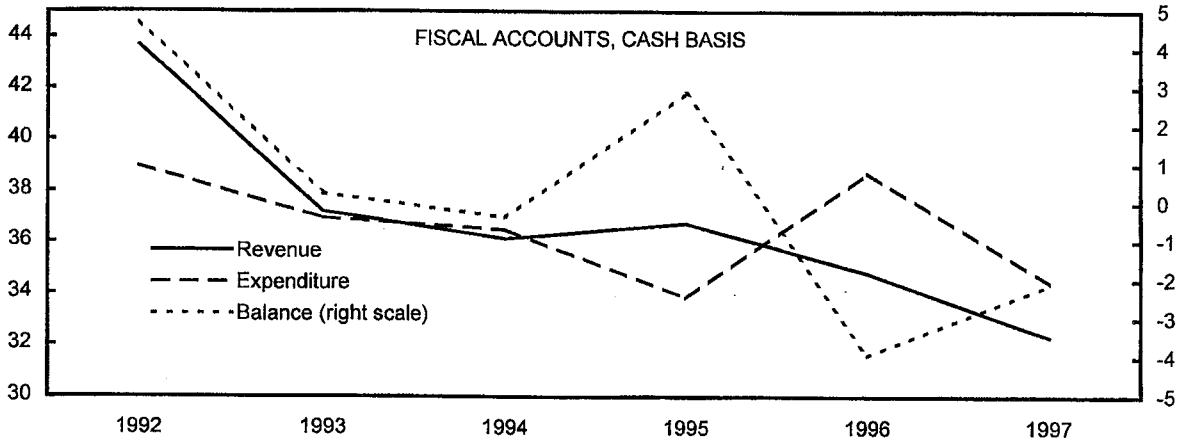
34. Tables 13 and 14 present the central government (more precisely, central administration adjusted for social security contributions); accounts on a cash basis (see also the top panel of Figure 5). While San Marino had run an average budget surplus of 2½ percent of GDP in 1989–92, this surplus disappeared in 1993 and a small deficit emerged in 1994. However, this deterioration may to some extent reflect changes in accounting procedures. Specifically, in the early 1990s the fiscal years for indirect taxes had varying lengths. Instead of end-February (the usual date), central administration accounts for such taxes were closed at end-April in 1991 and at end-March in 1992. These delays produced a 14-month fiscal year in 1991, and two 11-month fiscal years in 1992 and 1993. As a result, in 1993, with two 11-month fiscal years in a row,¹³ revenues were very low. In 1994, revenues probably continued to be biased downward by the lagged effect of the previous 11-month fiscal years.

35. By 1995, such problems with data comparability had disappeared, and the economy again recorded a surplus, of almost 3 percent of GDP. This turned into an average deficit of 3 percent of GDP over 1996–97. A number of factors were responsible. On the revenue side, falling receipts from indirect taxes, and especially from the VAT, may have reflected a weakening in tax administration. On the expenditure side, a new public investment program

¹²These were included, on the revenue side, among total tax revenues, and on the expenditure side, among total transfers to the Social Security Institute (SSI).

¹³Almost 50 percent of the VAT is collected the year after it accrues.

Figure 5. San Marino: Fiscal Policy Indicators
(In percent of GDP)



Source: Data provided by the Sammarinese authorities.

led to a substantial rise in capital outlays, albeit from a relatively low level. Also, net transfers to social security grew by 27 percent in 1996, partly reflecting higher health-care costs. The increase in transfers was reversed in 1997, but at the same time the central administration wage bill grew by more than 12 percent, partly reflecting the new public sector wage agreement.

36. Total revenue, which in 1995 was estimated at 36.2 percent of GDP, fell to 32 percent of GDP in 1997. In that year, direct taxes accounted for 31 percent of all revenues (9.9 percent of GDP), with a large contribution from the corporate income tax.¹⁴ Indirect taxes represented 37 percent of all revenues (11.7 percent of GDP), of which the VAT accounted for about half. San Marino also received an annual transfer from the Italian Government (*Canone Doganale*),¹⁵ and one from the EU as reimbursement for tariffs levied on non-EU products imported into San Marino. Finally, social security contributions paid by the private sector stood at 6.2 percent of GDP.

37. VAT collections in 1997, at 5.7 percent of GDP, were sharply below the average 8.3 percent of GDP recorded over 1993–95. This decrease, which accounts for about half of the reduction in aggregate revenue, occurred even though the VAT was levied only on imports until January 1996. Then, and as required by the Agreement on Cooperation and Customs Union with the EU (see Chapter V), the government started imposing a complementary VAT (*Imposta Complementare*) on domestic products consumed domestically. Hence, one would have expected VAT receipts to actually increase. There are three possible explanations for the decline. First, there could have been a weakening in tax administration; for instance, the introduction of the complementary VAT might have overwhelmed the tax authorities.¹⁶ Second, over 1995–97, gross VAT receipts actually rose (as a share of GDP) by more than 31 percent, but the growth of VAT refunds was even faster, exceeding 125 percent. Hence, the overall decline in VAT may be the transitory result of a speeding up in refund procedures. However, there were no major changes in these procedures over the period. Finally, there could have been a sharp reduction in the value of the economy's external trade. Unfortunately, this hypothesis cannot be verified, because national accounts data on external trade before and after 1996 are noncomparable. Nevertheless, there is little a priori justification for this view.

¹⁴Banks provided about two-thirds of the yield of the corporate income tax in 1996 (the last year for which data are available).

¹⁵This transfer, last negotiated in 1984, represents partial compensation for San Marino's giving up certain revenue sources and for its using the Italian currency as legal tender.

¹⁶In this context, it is notable that the tax administration office reviews all tax and refund claims, instead of a sample, as is done in other countries.

38. Total expenditure, which stood at 33.4 percent of GDP in 1995, increased by 5 percentage points in 1996 but then returned to 34.1 percent of GDP in 1997. A similar pattern—a sharp increase followed by a decrease—prevailed for both current and capital expenditure. Current expenditure in 1997 consisted mainly of wages and salaries (10.6 percent of GDP),¹⁷ transfers to other levels of government (14.4 percent of GDP), and purchases of goods and services (3.5 percent of GDP). Interest subsidies, mainly on loans for industrial investment, residential housing, and agriculture, accounted for 1 percent of GDP. Debt service was small since government debt is virtually nonexistent (gross public debt stood at 3.9 percent of GDP at end-1997), and nonfinancial public enterprises actually provided net current transfers to the central administration of almost 2 percent of GDP.¹⁸

39. Net intragovernment current transfers were directed primarily to the ISS (12 percent of GDP) and the Public Works Company (1.8 percent of GDP).¹⁹ Just over half the transfers to the ISS corresponded to social security contributions paid by the private sector. The rest included the government's matching contributions to the various pension funds, and financing for the national health program.²⁰ These last items have fluctuated substantially over time, rising from 7.3 percent of GDP in 1995 to 9.4 percent in 1996, before falling to 5.8 percent of GDP in 1997. Such fluctuations do not reflect changes in underlying health and pension expenditures, which in real terms have increased steadily over time, but rather the timing of replenishments to the health and pension reserve funds.

40. Capital expenditure, which stood at 2.3 percent of GDP in 1995, rose to almost 5 percent of GDP in 1996, reflecting a new three-year public investment program.²¹ It then returned to 2.4 percent of GDP in 1997.

¹⁷This figure includes the central administration's social security contributions as an employer.

¹⁸However, the central government finances most of the public enterprises' investment projects. Combined with inter-enterprise transfers, this makes it difficult to ascertain exactly which public enterprises are net contributors to the budget.

¹⁹The Olympic Committee receives another ½ percent of GDP. It is in charge of organizing sports activities in San Marino; its expenses consist mainly of salaries and infrastructure expenditures, which are financed entirely from the state budget.

²⁰Social security contributions paid by the government as an employer are reported by the authorities as part of wages and salaries.

²¹ The investment projects included: the refurbishment of the tramway and of the conference center; the construction of a new tennis center and of a sports center; participation in the conference activities of the Rimini Fair; and the Socrates telecommunications project, which will provide all households with fiber optic communications links and will improve private firms' access to several different services, from information technology to bank services.

Central administration accounts on a payment order basis

41. Tables 15 and 16 show the central administration accounts on a payment order basis. On this basis, tax collection lags do not affect the fiscal balance. Furthermore, VAT revenues are reported on a gross basis, rather than net of refunds. As indicated earlier, the gross VAT revenues grew sharply, and hence, the revenue in GDP ratio increased in 1996–97. Since estimates of future VAT refunds were included among other current expenditures, total expenditure also increased sharply in 1996 and 1997. Overall, comparing the period 1994–95 with that of 1996–97, there is still an increase in the average fiscal deficit, from 0.8 percent to 2 percent of GDP. Nonetheless, this represents a far less marked deterioration than the outcome of the cash accounts, and only slightly exceeds the increase in capital expenditure.

42. Tables 15 and 16 also provide information on the government's initial fiscal projections, as incorporated in the approved budgets. Historically, the Sammarinese authorities have systematically projected higher deficits than those actually realized, with higher-than-budgeted revenues more than compensating for expenditure overruns (see the middle panel of Figure 5). But over 1996–97 the bias in deficit estimates shrank to zero, even though gross revenues continued to be underestimated.

43. The 1998 budget sought to maintain the broad stance of fiscal policy, with little change in the planned deficit. On the revenue side, there were no major changes in taxation. On the expenditure side, enactment of the public investment program required an increase of almost 8 percent in planned capital outlays, which would be offset by the containment of discretionary current spending. In particular, the wage bill, which grew by 8.2 percent in both 1996 and 1997, was to increase by only 6.4 percent. In fact, even though a strict hiring freeze was enacted in July 1998 (excluding certain crucial positions in schools and hospitals), the wage bill is now estimated to have grown by 11.9 percent, exceeding the budget target by more than ½ percent of GDP. This is the first time in the 1990s that the wage bill has overshoot the budget target by a significant margin. Reliable figures on the outturn for other components of revenue and expenditure, and for the overall balance, are still unavailable.

44. The 1999 budget allowed for some fiscal loosening relative to the 1998 budget, with an increase of about ½ percent of GDP in the planned deficit. However, the assumptions behind the budgetary projections are quite cautious. Revenues are estimated conservatively; in particular, gross VAT revenues are projected to remain constant in nominal terms. On the expenditure side, the projected wage bill realistically allows for an increase of more than 9.5 percent relative to the 1998 outturn.²² Transfers to the ISS are projected to grow by about 30 percent, or 2 percent of GDP, greatly exceeding growth in underlying social security

²² In part, this reflects the 5 percent per annum contractual pay increase. Normal progression through the pay scales accounts for a further 2 percent increment. Finally, the rest of the rise reflects the lagged impact of new hires enacted before the hiring freeze, as well as an allowance for future exempted new hires in schools and hospitals.

expenditures. Other discretionary current expenditures are to be cut by 5 percent. Finally, capital expenditure is reduced by more than 15 percent, reflecting the winding down of the public investment program.

45. Table 17 reconciles the different definitions of fiscal balance used by the authorities and Fund staff. The cash balance can be derived from the payment order balance (excluding net debt financing) by subtracting the net asset float accrued, but not cashed, in the relevant fiscal year, and by adding the part of the asset float, outstanding at the beginning of the fiscal year, that was cashed during that year. Historically, the latter has tended to exceed the former, so that the cash balance has usually been more positive than the payment order balance; however, 1996 was a prominent exception. The table also reconciles the payment order balance with a deficit measure often tracked by the authorities, called *Avanzo d'esercizio*. This corresponds to the payment order balance adjusted for the annual reassessment of the net float outstanding, and including net debt financing above the line. Since the adjustments are usually favorable to the fiscal balance,²³ the *Avanzo d'esercizio* has typically registered a stronger fiscal position than the payment order balance.

Net government asset position

46. The net asset position tracked by the government is the *Avanzo d'amministrazione*, which corresponds to the sum of bank deposits and net asset float (Tables 18 and 19).²⁴ San Marino's prudent fiscal policies, which generated fiscal surpluses for a number of years, helped accumulate government deposits equivalent to 20 percent of GDP in 1995. By the end of 1997, these deposits had declined steadily to less than 13 percent of GDP. However, this was largely offset by the increase in the net asset float. As a result, the *Avanzo d'amministrazione* decline by less than 1 percent of GDP, to 5.9 percent of GDP in 1997.

47. Fund staff have calculated an alternative net asset position, which also takes into account the stock of gross public debt. Under this definition, net assets also declined between 1995 and 1997, from 3.7 percent of GDP to 1.9 percent (see Figure 5, bottom panel). The annual change in this net asset position corresponds to the *Avanzo d'esercizio* excluding net debt financing.

²³Mainly, they consist of downward revisions of the liability float made by the tax office after processing the requests for reimbursement of the VAT tax presented by importers.

²⁴Its annual change is the *Avanzo d'esercizio* (in the definition including net debt financing above the line).

D. Social Security

48. The ISS offers retirement pensions, health care, and several forms of income supplementation.²⁵ In 1991, a major reform of the social security system instituted three changes. First, payroll contributions for particular components of social security were increased. Second, cross-subsidization among the various pension funds was eliminated,²⁶ although surpluses in other areas, such as income supplementation, could still be used to cover pension fund deficits. Third, the practice of earmarking one-half of general income tax revenues for the ISS was abolished, and replaced with explicit transfers from the central administration to finance health care.

Retirement pensions

49. After the 1991 increase in contribution rates, the overall (flow) annual balance of pension funds turned substantially positive,²⁷ in a sharp break with the previous pattern of deficits. In 1996, the authorities also decided to transfer part of the surplus of the family allowance fund²⁸ to the pension fund for employees. As a result, net pension system assets

²⁵See SM/94/169, Appendix II, for an analysis of the social security system; SM/96/165, Appendix II, for an analysis of the pension system; and Chapter II of this paper for a discussion of labor income supplementation schemes.

²⁶The only exception is that 20 percent of the deficit of the pension fund for agriculture is financed through "solidarity" contributions from other pension funds, with the remaining 80 percent being covered by the state.

²⁷Over 1995–97, pension fund contributions exceeded current outlays in the pension funds for employees, professionals, entrepreneurs, and "other self-employed workers," which together account for over three-quarters of total pension expenditure.

²⁸The family allowance fund (*Cassa Assegni Familiari*) is financed by employer contributions of 4.6 percent of the wage bill. The self-employed are not covered by this scheme, with the exception of artisans, whose contributions are paid by the state. Family allowances are paid to retirees, and to family members of employees and artisans, if the family earns less than the amount of the "social pension" (currently Lit 680,000 per month; for comparison, the minimum contributory pension is Lit 1.28 million per month).

Since family allowances have remained unchanged since 1994, and given a rising total wage bill, the family allowance fund has been running increasing surpluses: by 1997, its income was Lit 23 billion, and its expenditure Lit 10 billion. Until 1996, half of the surplus was transferred to the income supplementation fund, which finances most other income supplementation schemes, and the other half was deposited with the central bank (ICS).

rose from 2.9 of GDP at end-1992 to 5.5 percent of GDP at end-1995, and to almost 8.5 percent of GDP at end-1997.²⁹

50. The finances of the pension system are currently being helped by a favorable demographic situation. The ratio of workers paying contributions to retirees, as of end-1997, stood at 3.7:1, about four times the level in Italy.³⁰ Nevertheless, the impact of population aging is already becoming apparent: over 1995–97 alone, the number of pensioners rose by almost 10 percent; real pension expenditures grew by over 11 percent, and now equal 5.4 percent of GDP. In response, the authorities further increased, to 65 percent, the employees pension fund's share of the surplus of the family allowance fund. Still, demographic projections suggest a need for more additional reforms of the pension system. A further consideration is that, since the pension system was only established in 1965, at present no one is receiving the maximum possible benefits. However, the system will soon mature, leading to a projected rapid increase in costs.

51. Public debate about pension reform began in 1996, backed by actuarial studies carried out over 1994–95. The debate was suspended with the approach of the 1998 elections, but is soon to resume. The authorities intend to present specific reform proposals in 1999. Any reform will almost certainly involve changing the parameters of the existing pay-as-you-go system, but may also include adding a fully funded pillar for new labor market entrants. If so, the presence of significant pension system assets would be of help in financing the transition.

Health care

52. Total health care expenditure equaled 6.2 percent of GDP in 1997. Its average growth rate was 7 percent per annum over 1992–95, before slowing to 5 percent per annum over 1995–97. In part, this reflected successful attempts at rationalizing service provision. Nonetheless, per capita public health spending (Lit 3.1 million) still substantially exceeds the level both in Italy as a whole (Lit 1.8 million), and in Emilia-Romagna (Lit 2.1 million). This is thought to be largely due to the diseconomies of scale associated with the smaller size of the domestic market.³¹

²⁹These assets are deposited mainly with commercial banks; slightly less than 5 percent, as of end-1998, was invested in the Titano mutual fund.

³⁰This favorable ratio reflects the presence of a significant number of cross-border workers, and the recent re-immigration of relatively young Sammarinese living abroad.

³¹Per capita expenditures on pharmaceuticals, one important component of variable costs, only slightly exceeded the Italian level in 1997 (Lit 471,000 versus Lit 408,000), and were fully in line with values elsewhere in the EU.

53. The authorities are trying to increase the degree of cost recovery. In 1997, they introduced fees for the use of health services by nonresident Sammarinese citizens. They also intend to expand the services provided to Italian citizens, not only to raise revenue but also to reap scale economies. To this end, an agreement was signed with Italy in early 1997, stating that Italian residents could use without prior authorization certain Sammarinese facilities.³² However, the administrative agreement specifying exactly what facilities will be covered has yet to be completed. Italy's Marche region is likely to prove receptive to San Marino's strategy: residents of the Marche's outlying districts are often located far from its main health care centers, and would benefit from being able to use Sammarinese facilities. In contrast, Emilia's health care facilities are far more decentralized, and its citizens are therefore likely to generate less demand for Sammarinese services.

E. Public Enterprises

54. There are four main nonfinancial public enterprises in San Marino. Ranked by volume of spending, they are: the Public Utilities Company (AASS, *Azienda Autonoma Servizi Statali*), the Public Works Company (AASP, *Azienda Autonoma Servizi Pubblici*),³³ the Coin and Stamp Agency (AASFN, or *Azienda Autonoma Servizi Filatelico-Numismatici*), and the National Dairy Corporation (see Tables 20 and 21).

55. In 1997, the combined expenditure of all public enterprises was just under 9.5 percent of GDP, with the three largest enterprises accounting for just over 9 percent of GDP; there has been a relative decline since 1992, when the latter's expenditure almost equaled 11 percent of GDP. Likewise, in 1997 public enterprises accounted for 5.6 percent of total employment, slightly down from 6.2 percent in 1993.

56. The AASS is in charge of providing public utilities in San Marino, including water, electricity, gas, garbage collection, and transportation. For water, electricity, and gas, the AASS acts only as a distribution agency for imports from Italy. The AASS monitors separately the operations of each service-providing unit. There is cross-subsidization from water and electricity, which are profitable, to the other activities. In part, this reflects the fact that public utility rates have not been adjusted since 1994.

57. The AASS has consistently posted operating surpluses. A fraction of these surpluses are used to build up "depreciation funds"; these funds, together with capital transfers from the

³²At present, San Marino provides health services only to its citizens and residents. Cross-border workers are not entitled to use Sammarinese facilities, except for emergencies or job-related treatment; these workers' health-care contributions are instead transferred to the Italian government.

³³For the purposes of this section, the AASP is treated as a public enterprise, although it is in fact a part of the central government.

central administration, are then used to finance the AASS' capital expenditure. The remaining surplus (on a cash basis, 1.3 percent of GDP in 1997) is returned to the central administration. While the central administration reports making some current transfers to the AASS, in fact these payments are for services provided by the AASS, including electricity.

58. The activities of the AASP can be divided into four categories: construction of buildings, maintenance and construction of roads, administration of parks and landscaping, and the provision of special services (such as cleaning and security) to the central administration. The AASP undertakes some construction itself, but subcontracts larger projects.³⁴ The AASP also hires most of the handicapped or other workers who are given employment under the terms of the Full Employment Law.³⁵ In 1997, the AASP received about 90 percent of total inflows, or 3 percent of GDP, from central administration transfers. The remaining financing came from charges, for example, for sewerage.

59. The AASFN is in charge of managing the production and distribution of stamps and coins, both for use as legal tender and for collectors.³⁶ Coins and stamps each account for about half its revenues; its cash-basis operating surplus was 0.7 percent of GDP in 1997. Finally, the National Dairy Corporation, created in the early 1970's, enjoys a state monopoly in the processing and distribution of dairy products; its operations are by now extremely small, given the steady reduction in size of the domestic dairy-farming sector that it serves.

60. The government is considering some changes in the structure of public enterprises. In particular, it plans to merge the AASP and AASS into a new joint-stock company, with a view to rationalizing the use of resources and reducing costs. In the new enterprise, all employment that has a "social objective," for example, the hiring of the disabled, will be kept separate from the other activities, which will be run on the basis of standard business criteria. Some activities may also be privatized; for instance, road construction might be largely sub-contracted to private firms, with the AASP providing oversight and maintenance.

³⁴There is no general rule requiring that all projects be opened to public bidding. Rather, the Board of Directors of the AASP has a list of possible contractors and makes preliminary selections, which have to be approved by the central administration. However, the government has now proposed a new law on public procurement, which aims to increase the transparency of the government's and the public enterprises' operations.

³⁵This grants all workers who cannot find a job in the private sector, and who are certified unemployable owing to physical handicaps, psychological handicaps, or social maladjustment, the right to be employed by the public sector.

³⁶An agreement with Italy sets the maximum amount of coins to be circulated by San Marino. These coins are guaranteed by the Ministry of Finance and by Italy. As of end-1998, the limit stood at Lit 3 billion.

F. Public Sector Reform

61. The authorities have taken two separate steps towards reforming the public sector. First, they introduced in 1998 a new Budget Accounting Law, aiming to improve public-sector expenditure management. Second, they have begun work on a plan to reform the structure and operation of the Public Administration.

The Budget Accounting Law

62. The new Budget Accounting Law ("the Law") became effective in January 1999. It will soon be supplemented by more detailed Administrative and Accounting Rules of Procedure. Implementation of the Law is entrusted to the new Public Finances Control Commission ("the Commission").³⁷ More specifically, the Commission has two tasks. First, it exercises ex ante control over expenditure. Ex ante control involves verifying the existence of financial coverage for expenditures, and in particular for public tenders and auctions; authorizing public sector administrative acts; approving public sector investment projects; controlling the use of various public sector asset funds; and controlling all sales of state assets. The Administrative and Accounting Rules of Procedure will specify the threshold above which expenditures will have to be examined by the Commission itself; below this threshold, the approval of the Director General of the Ministry of Finance will suffice.

63. Second, the Commission exercises ex post control over expenditure. This involves auditing the financial statements of the central administration and other public sector entities. The Commission must both verify the accuracy of these statements, and check the efficiency and cost-effectiveness of management. Audits had been carried out also in the past, by the former State Accounting Body. However, the Law introduces two innovations. First, every six months there will be audits of all public sector entities, including the public enterprises, and the Commission will be notified of the outcome of these audits. In the past, the State Accounting Body had only been able to audit the central administration; the auditing of other public sector entities had been delegated to the individual entities concerned. Second, the audits may be carried out using the services of private auditing companies.

64. The Law also requires three major accounting changes. Specifically, it requires the production of: a consolidated government budget; a combined profit and loss and balance sheet statement; and a functional breakdown of government expenditure. There must be a close correspondence between item headings in the budget and in the consolidated statements.

65. Under the new Law, the government must also present to Parliament by July of each year a report on revenue and expenditure trends, together with a supporting technical report

³⁷This has five members: a president, chosen by the Administrative Court; a vice-president, chosen by the Council of Professional Categories; and three other members, chosen by Parliament in representation of the various political forces.

by the Budget Commission. The intent is for these reports to inform budget discussions, which begin in October. The reports, together with regular reports to be produced by the Commission, are to be made public.

Public Administration reform

66. In 1992, following an agreement between the government and the trade unions, an attempt had been made to increase flexibility in the provision of public services by introducing a new type of employment contract, the "quasi-private contract" (*Contratto Privatistico*). Employment contracts for less-skilled public-sector jobs had been commuted from standard public-sector contracts to the quasi-private contract. Examples of the differences under a quasi-private contract are that hiring decisions are made not through public examinations, but simply by choosing from the employment list. Employee compensation is set at a lower level than in the private sector, reflecting the public sector's greater job security.

67. The government now intends to further these reforms, and present by October 1999 a plan to reform the Public Administration. A first draft will be presented for public comment by early 1999. The reform aims to increase the quality of public services, while reducing their cost. To achieve this, there will likely be an emphasis on four areas. First, reviewing and simplifying the structure of the Public Administration, so as to reduce bureaucracy and eliminate duplicate activities. Second, increasing training for public sector workers. Third, increasing mobility within the public sector, which at present is essentially voluntary. Fourth, extending the quasi-private contract to more skilled public sector jobs, and making all contracts at top levels for fixed terms.

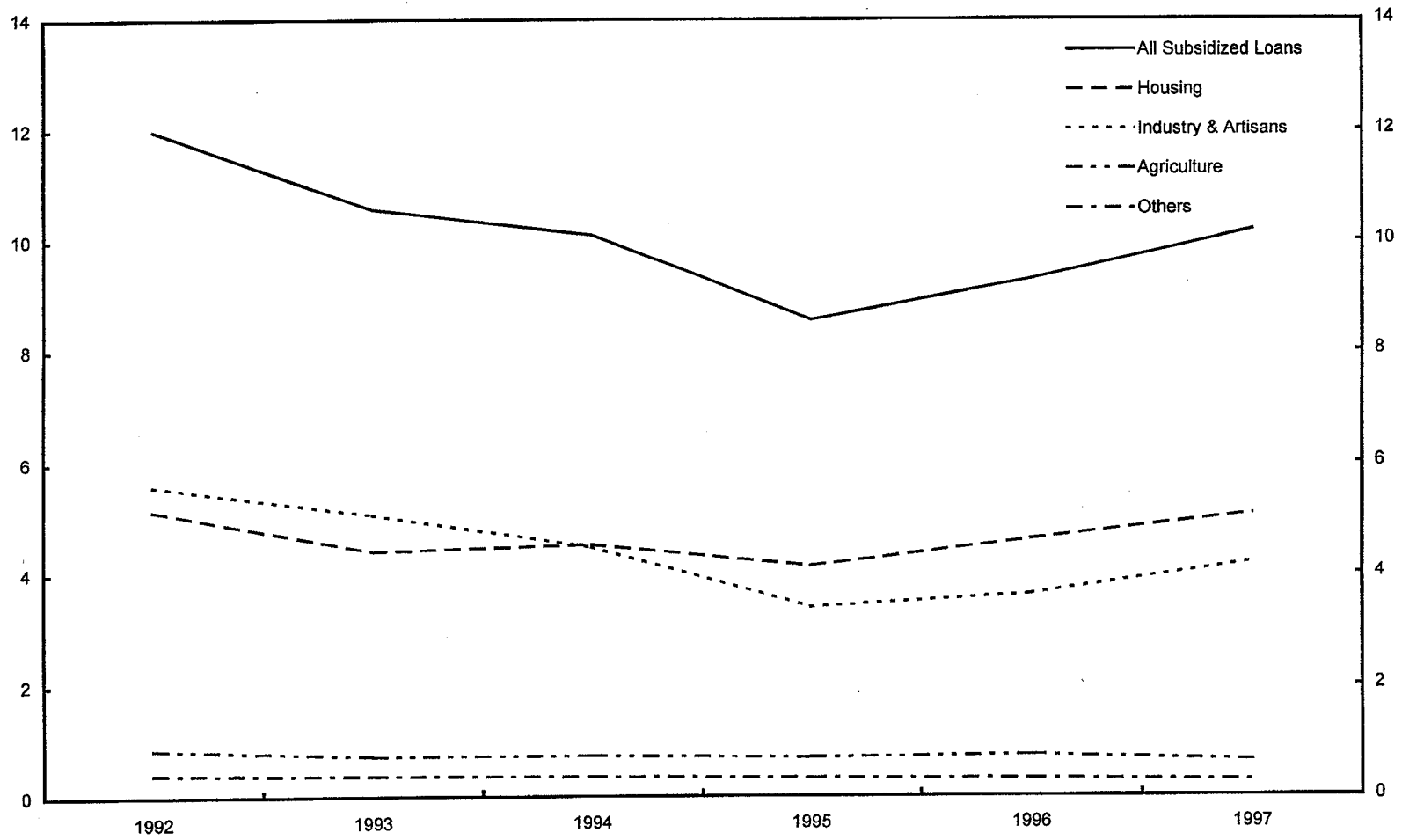
G. Industrial Policy

68. The Sammarinese state actively engages in industrial policy and, more broadly, selective intervention in the economy. Its stated aim is to foster employment, including in particular the skilled jobs increasingly demanded by San Marino's educated labor force, and to promote investment. It conducts its activities through three different means: cash subsidies, including in particular interest subsidies on loans for investment purposes; temporary exemptions from corporate income tax and social security contributions, especially for firms engaged in projects shown to offer significant employment opportunities; and a business licensing system.

Cash subsidies

69. Total cash subsidies amounted to 1 percent of GDP in both 1996 and 1997. They are administered under four different schemes, which cover the following sectors (ranked by value of expenditure): industry and artisans; house-building and house-ownership; agriculture; and general employment. These schemes mainly involve subsidizing the interest on loans. The evolution of the stock of subsidized loans by sector is shown in Figure 6.

Figure 6. San Marino: Stock of Subsidized Loans
(In percent of GDP)



Source: Data provided by the Sammarinese authorities.

70. Industry and artisans benefit from subsidized loans, on terms determined by a law approved in the early 1980s and modified in 1993–94. In 1997, these subsidies totaled 0.4 percent of GDP. Their stated aim is to help firms modernize, and in particular to upgrade their technology. Often, there are performance requirements that beneficiaries of subsidies meet specific European quality standards. The state currently pays one-third of the market interest rate on qualifying loans. Most (80–90 percent) of these loans help firms finance investment in machinery and equipment, while the remainder finances investment in plant. The state does not finance current operations.

71. The state also subsidizes loans intended to finance either the purchase or the construction of residential housing. In 1997, these subsidies totaled 0.3 percent of GDP. Only loans whose amount falls within the range of Lit 50 million–Lit 130 million qualify. The state pays a portion of the interest: 50 percent in the case of building cooperatives, and 75 percent for individual Sammarinese citizens or resident foreigners. In addition, any interest not paid by the state is tax deductible.

72. Agriculture is supported by a number of small subsidies, granted in part for environmental reasons. In 1997, these subsidies totaled 0.3 percent of GDP. There were three main types of subsidies. First, in order to promote new vineyards or olive groves, the state pays 60 percent of the cost of their purchase. Second, in order to support agricultural investment, all agricultural buildings qualify for 20-year loans, and all agricultural machines for either 6-year loans or 25 percent grants, at the recipient's choice. Third, the government grants a subsidy for production of high-quality grapes and cereals.

73. Finally, some subsidized loans are granted for the purpose of encouraging employment. In 1997, these subsidies totaled 0.1 percent of GDP.

Tax exemptions

74. Certain exemptions from the corporate income tax were established by a law approved in 1991. Their main goal is to encourage employment, and to help firms overcome financial crises. These exemptions cover 70–100 percent of corporate income tax liabilities, and typically last for seven to ten years. They are given only to certain firms which either (i) take over other firms in crisis, or (ii) employ workers who have lost their jobs. Forty businesses have received such exemptions during 1992–98. More recently, however, the exemptions have been granted more sparingly; for instance, over 1997–98, only five new businesses had received them. This reduction reflects in part a shift in policy, away from maintaining employment in general and towards supporting the creation of more highly skilled job opportunities.

75. The impact of these tax exemptions on the budget can be calculated in two ways. The first uses the actual value of the exemptions as reported in firms' income tax declarations. Under this approach, the total cost of the exemptions has been rapidly rising, from 1.4 percent of GDP in 1993 to 3.3 percent in 1996 (the latest year for which data are available). However,

this method provides an upper-bound estimate of the potential cost to the budget, as it assumes that an exemption induces no change in the recipient firm's behavior. However, the exemption may encourage the firm to remain active or indeed expand sales, and to report previously undeclared income. Such effects are particularly relevant in the Sammarinese context, where even a small increase in a local firm's cost advantage relative to Italian firms may induce a large increase in exports to Italy, not least through Italian firms shifting sales to their Sammarinese subsidiaries and/or associates.

76. Alternatively, one could estimate the cost of the exemptions by examining the firms' income statements over the two–three years before the exemptions were granted, and assuming that existing trends would have continued in the absence of the exemptions. Under this approach, the authorities estimate that the total budgetary cost of the exemptions is no more than 0.2 percent of GDP a year.

77. San Marino also grants selective exemptions from social security contributions, so as to encourage the employment of: apprentices; youth during the summer period; handicapped workers; part-time working mothers; part-time employees more broadly; and employees in the declining apparel sector, who are generally close to retirement. The total value of these exemptions was 0.1 percent of GDP in 1997.

The business licensing system

78. All new enterprises in San Marino must obtain a business license before commencing operations. Further, the granting of licenses can only be authorized by the cabinet, which enjoys complete discretion in its decisions. Previous governments had defended this system as necessary both to pursue industrial policy, and to achieve other objectives, for example, tax enforcement and environmental protection. Nevertheless, the system has been criticized as opaque, potentially arbitrary, and generally outdated.³⁸

79. The government has therefore announced its intention to review and liberalize the business licensing system. It is planning two approaches. In the case of establishments owned entirely by Sammarinese citizens, business licenses would be automatically granted if, and only if, certain objective criteria and parameters were met. For all other establishments,³⁹ objective criteria for the granting of licenses would also be set; however, some scope for discretion would remain, in that the government could choose to waive such criteria. The nature and details of the criteria have yet to be announced.

³⁸Unfortunately, there are no data on the proportion of applications being granted, or the speed with which decisions are reached.

³⁹Including companies registered as *societa' anonime*, which do not report the identity of the owners.

IV. MONEY AND FINANCE

80. The Sammarinese financial system is large in relation to the size of the economy, with commercial banking sector liabilities averaging well over 600 percent of GDP during the 1993–97 period. The primary activity of these institutions is to intermediate funds between Italian savers and capital markets. Profits from the banking system are extraordinarily large in relation to GDP (about 14 percent of GDP in 1997), and taxes on these profits (some 3½ percent of GDP in 1996, the latest year for which data are available) account for an important share of the total tax effort.⁴⁰

81. The financial sector comprises four banks, that function primarily as financial intermediaries between Italian savers and financial markets, and 26 small nonbank institutions.⁴¹ The currency union with Italy, together with strict bank secrecy and differentials in tax withholding rates, has made San Marino an attractive option for Italian investors.⁴² Sammarinese banks have largely invested these funds in lira-based financial instruments. A 1939 agreement with Italy stipulates that all transactions outside of San Marino and Italy must be transacted through correspondent Italian banks, which has limited the range of transactions the financial sector can undertake. It is envisaged that this restriction will come to an end once final agreement is reached on the modalities of the 1991 Financial and Exchange Agreement with Italy (see Chapter V).

82. Under the currency union San Marino is allowed to mint a limited number of nongold coins; in the most recent agreement in force since 1991, the country was allowed a total of about Lit 3 billion per annum.^{43 44} Negotiations with Italy on behalf of the European Union

⁴⁰Figures on the current profits and retained earnings of the banks are available in the quarterly balance sheet information compiled by the Office of Bank Supervision (OBS).

⁴¹The banks are *Credito Industriale Sammarinese* (the Industrial Investment Bank), the *Banca Agricola Commerciale* (the Bank of Commercial Agriculture), the *Cassa di Risparmio* (the Savings Bank), and the *Cassa Rurale di Faetano* (the Rural Bank of Faetano).

⁴²Subsequent to the introduction of the European Monetary Union on January 1, 1999 (with Italy as a founding member), San Marino has adopted the euro as its currency, although lira notes and coins will continue to circulate until 2002.

⁴³The precise amount that can be minted is negotiated biannually, and rose from 2.7 billion in 1991 to 3.4 billion for 1997–98.

⁴⁴Sammarinese gold coins, denominated scudi, can be issued without legal limitations. While they are legal tender in San Marino, they do not circulate, as their numismatic value exceeds their monetary value.

(EU) are expected to take place in 1999 regarding the conditions under which San Marino may issue euro bank notes or coins.

83. Not surprisingly, interest rates in San Marino moved broadly in line with those in Italy (Figure 7; and Table 22), although changes in the risk premia vis-à-vis Italy resulted in an imperfect correlation between interest rates in the two countries. Deposit rates have generally been higher than in Italy, which also helps explain San Marino's growth as a financial intermediary. The smaller scope of operations and lower portfolio of bad loans, amount other things, has allowed Sammarinese banks to maintain a competitive advantage versus deposit-taking institutions in Italy.

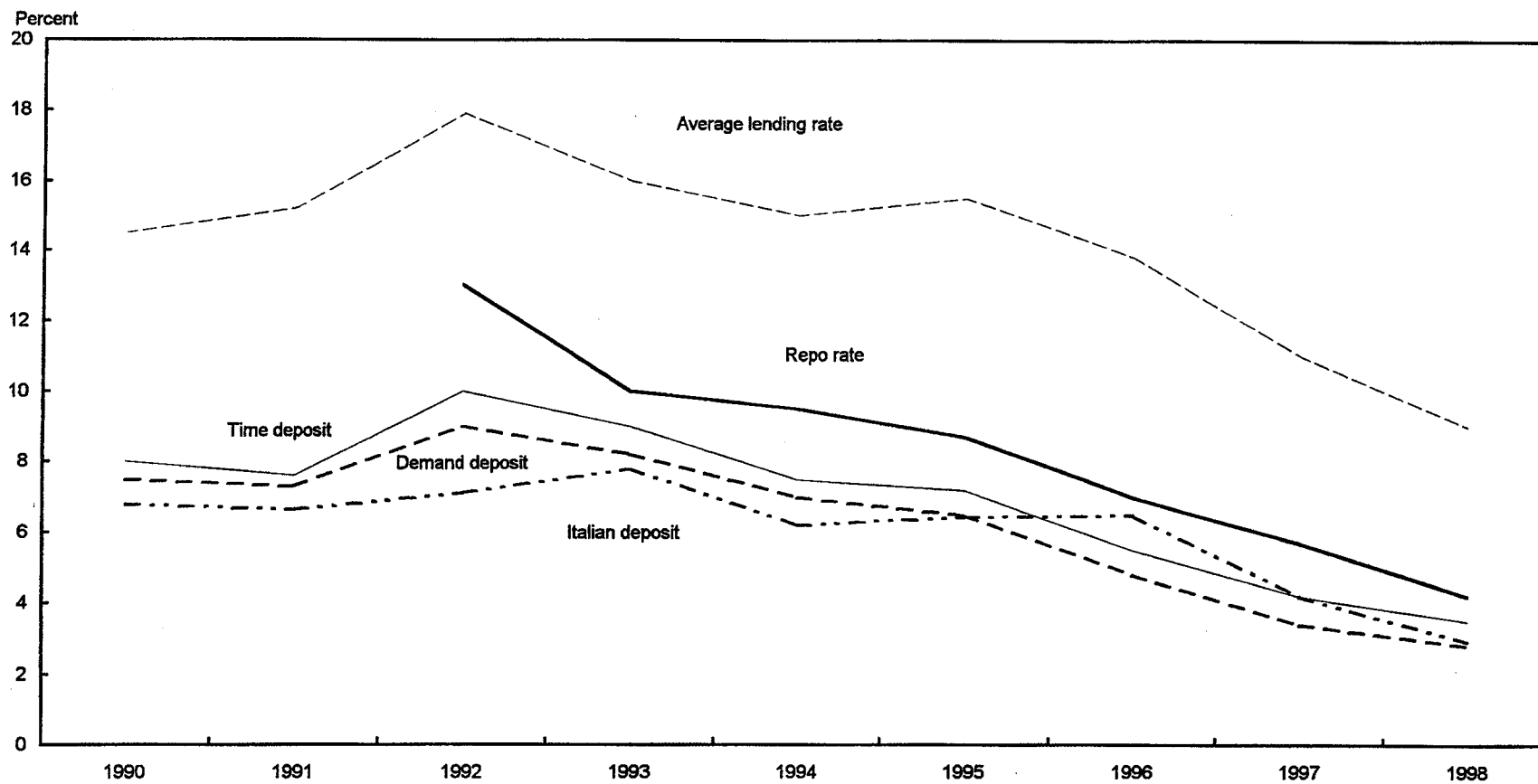
A. Developments at the Central Bank

84. San Marino's central bank, the Istituto di Credito Sammarinese (ICS), was created in 1991 and began operations in 1992. The ICS's mandate is to promote the development of the economy; to oversee the smooth functioning of the banking and financial system; to encourage the growth of trade; and to promote the balanced expansion of the banking and financial system. In practice, the ICS has no instruments to shape the growth of credit and inflation or influence interest rates. Its activities have been primarily confined to acting as the treasurer for the central government and managing the assets accumulated through years of fiscal surpluses. Both the ICS and the OBS have joint responsibility for supervision of the financial sector, although in practice the OBS has taken the lead in monitoring developments in the commercial banks.

85. The ICS no longer places government deposits with commercial banks at interest rates that are below those of the market, a practice in force in the mid-1990s. The ICS pays the government a market-based interest rate tied to the Rome interbank rate (RIBOR), minus a spread of 1-1¼ percent. On credit to the government, it charges RIBOR plus a margin. The ICS is not permitted to place these funds in securities. The funds are managed with a view to maintaining adequate liquidity for the government and a high degree of safety; the ICS only purchases bonds rated AA or above, and is not solely restricted to short-term issues. The ICS must purchase these bonds through Italian banks. They are not restricted from acquiring bonds denominated in currencies other than lire; in practice, however, there is a preference for lire-denominated assets, due to the absence of exchange rate risk.

86. Deposits of the central government grew sharply until 1995, and remained stable through end-1997 (Table 23). Rapid economic growth caused these deposits to decline as a share of GDP from about 30 percent in the early 1990s to 19 percent by end-1997. Deposits declined by about 4 percent of annual GDP during the first six months of 1998, reflecting, inter alia, increased government capital expenditure, before bouncing back by about ½ percent of GDP in the third quarter of the year. It should be noted that these figures exclude the deposits of the ISS held in the commercial banks, which are estimated at about 8½ percent of GDP at end-1997.

Figure 7. San Marino: Interest Rates 1/



Sources: Data provided by the Sammarinese authorities; and *International Financial Statistics*.
1/ Data for 1998 are from September.

87. The ICS does not compile a monetary survey and does not monitor the movement of monetary aggregates. However, since mid-1997 it has produced a quarterly balance sheet on its own operations; together with the balance sheet of the commercial banks, which is compiled by the OBS, standard monetary survey tables can be created (Tables 24–26). These figures are assembled under the assumption that 80 percent of commercial bank deposits are owned by nonresidents. The lack of information on the residency of account owners is not due to bank secrecy concerns, but rather to the fact that in earlier years banks were not gathering data on the residency of account holders. Information on the residency of depositors is available for all accounts opened in recent years, including those using funds rolled over from existing accounts.

88. Until 1996, the ICS provided little credit to the central government, which relied on changes in its deposits, rather than contracting loans, to manage its cash flow. Since 1997, there has been a steady increase in central government loans, although this figure remains under 3 percent of GDP. Net foreign assets increased steadily through September 1997, but have declined slightly since then.

B. Commercial Banks

89. Commercial banks are not subject to a legal reserve requirement. They are, however, subject to a liquidity requirement: banks must hold at least 10 percent of their deposits, less 10 times their capital, in the form of bonds issued or guaranteed by the Italian government or international organizations. Given the high level of capitalization of the banks, this liquidity requirement is not binding. The liquidity requirement does not apply to repurchase agreements.

90. The dominant activity of Sammarinese banks involves rechanneling Italian investors' savings into short-term lire-denominated financial instruments. Nonresident funds in San Marino are received in the form of both regular deposits and repurchase (repo) agreements. Typically, banks buy (through correspondent Italian banks) euro-certificates of deposit denominated in lire with a three- to six-month maturity, and then divide and resell them to nonresident depositors at Sammarinese commercial banks.

91. These repo transactions are advantageous for the Sammarinese banks and Italian investors for a number of reasons. First, it allows nonresident investors to earn interest income and avoid withholding taxes, which in Italy are 27 percent.⁴⁵ Second, investors are able to enjoy interest rates that are typically higher than those prevailing in Italy. For the banks, this activity is particularly attractive, as euro-lire securities avoid withholding taxes that

⁴⁵In principle, Italian residents still have an income tax liability to the Italian authorities for this interest income net of the Sammarinese withholding tax. Nonrepo foreign deposits in San Marino are subject to a withholding tax, albeit at a rate less than half that in Italy (13 percent).

would otherwise be imposed on the interest income they earn on Italian financial instruments.⁴⁶ Third, it provides Sammarinese banks income at relatively low transaction costs and with minimal exchange rate and interest rate risk. Fourth, repurchase agreements are not subject to the 10 percent liquidity requirement, although—consistent with EU directives—they are included on the banks' balance sheets.⁴⁷

92. Changes in the political climate in Italy are believed to explain a large part of the fluctuation in foreign deposits in San Marino. A period of relative tranquility in Italy after the 1994 elections, for example, was associated with a large decline (about 50 percent of GDP) in foreign deposits in the Sammarinese banking system. Beginning in 1995, with a return to political instability in Italy, the decline in deposits was reversed.

93. Bank deposits continued to rise until end-1997, exceeding 650 percent of GDP by end-year (Figure 8). This occurred despite the decline in the spread between Italian deposit rates and those on repos from more than 2 percent in 1994–95 to about 1½ percent in 1997. In 1998, this spread continued to narrow, and together with the decline in interest rates, made repos a less attractive investment vehicle for Italian investors. Unlike the 1995–96 period, the combination of declining rates and spreads appears to have resulted in a sizable reaction in foreign deposits, with a decline in these liabilities by Lit 423 billion (32 percent of GDP in 1997) between January and September of 1998.

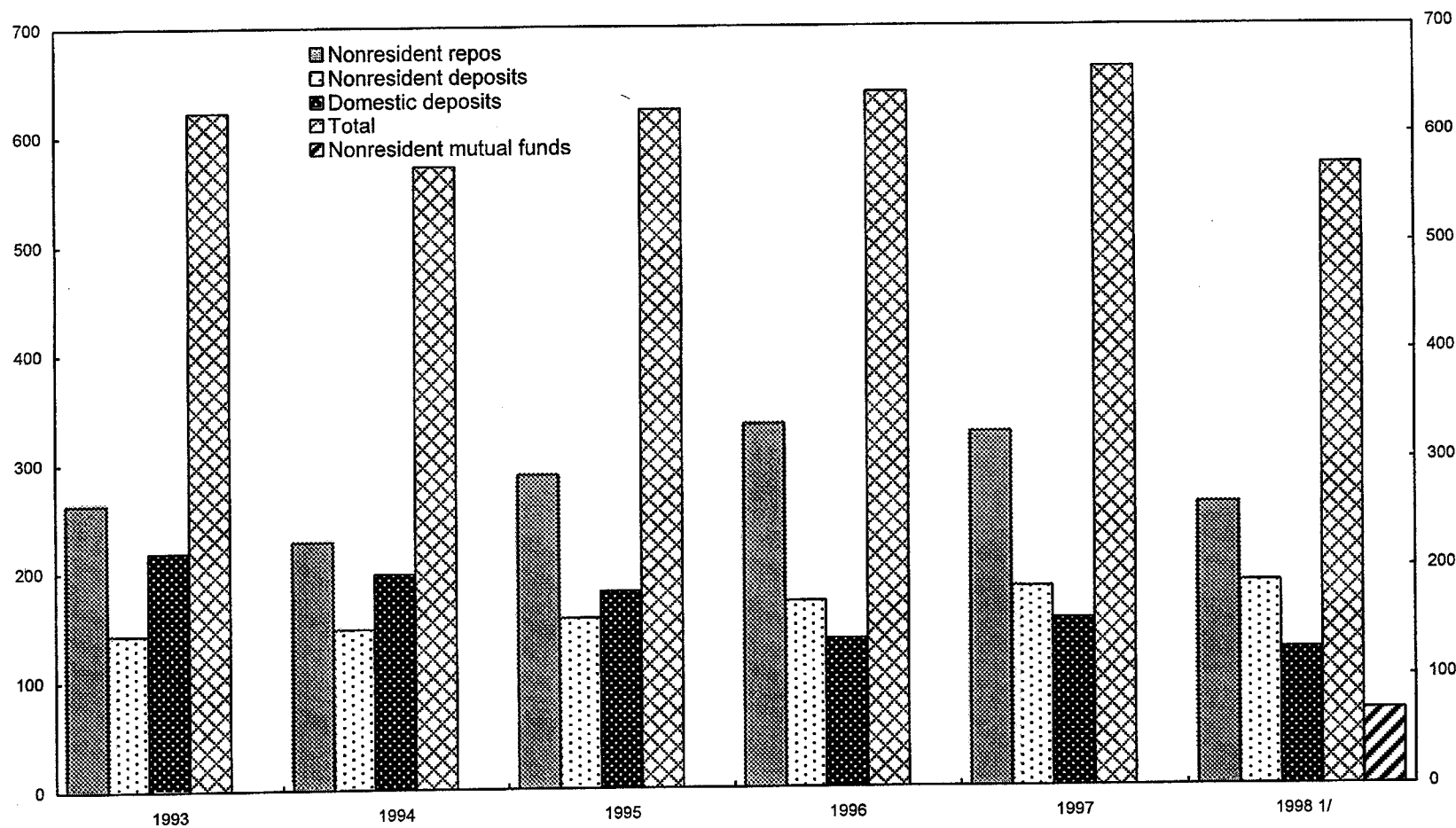
94. The decline in foreign deposits is not expected to have an immediate impact on the profitability of the banking sector, as portfolio management activities for foreign clients has rapidly substituted for the drop in deposits. These assets grew from a negligible level at end-1997 to about Lit 719 billion at end-June 1998 and Lit 971 billion at end-September 1998, more than offsetting the decline in foreign bank deposits. Consistent with EU directives, these deposits are not included in the banks' balance sheets, but are registered as a memorandum item. These funds are rechanneled to Italian mutual funds, and hence offer no tax advantages to Italian investors.

95. Domestic credit to the private sector accounts for a very modest share of the banks' total assets. Nevertheless, these assets are quite large as a share of GDP; by September 1998, this debt reached Lit 1.7 trillion (about 130 percent of 1997 GDP). Credit growth has far outstripped that of the economy, averaging about 20 percent per annum during 1997 and 1998, reflecting the easing of interest rates. Nevertheless, the share of nonperforming loans remains quite low (2.2 percent of outstanding credit at end-September 1998).

⁴⁶Under Italian tax law, Sammarinese banks are treated as "individuals" and are subject to the standard withholding tax on interest income. Branch banking activity in Italy is also discouraged by the lack of a double taxation treaty on corporate profits.

⁴⁷Repo transactions were kept off the balance sheets until end-1996.

Figure 8. San Marino: Liabilities of the Commercial Banking System
(In percent of GDP)



Source: Data provided by the Sammarinese authorities.

1/ Figures refer to data from September 1998. The ratios to GDP assume that the percentage increase in nominal GDP in 1998 is equal to that in 1997 (6.8 percent).

96. San Marino's commercial banks and nonbank institutions are supervised by the OBS, which relies on frequent periodic reporting and on-site inspections. A number of yardsticks indicate that the Sammarinese financial system appears to be sound: the percentage of nonperforming loans is low, and commercial bank capital is estimated at about 25 percent of risk-weighted assets at end-1997 (about three times the BIS target), thanks to the retention of profits earned over the years.⁴⁸

97. While maintaining strict bank secrecy, the Sammarinese authorities have taken a number of steps to prevent money laundering through its financial system.⁴⁹ San Marino signed in 1995 the Council of Europe's Convention on Money Laundering (the Strasbourg Convention), but it has not yet been fully adopted, as a number of changes to the penal code have yet to be implemented. More recently, in end-1998 a new law on money laundering was passed. As of January 1999, suspicious capital flows of more than Lit 20 million must be brought to the attention of the OBS, compared with the limit of Lit 80 million prevailing earlier.

C. Nonbank Financial Institutions

98. The number of nonbank financial institutions has increased in recent years, from 17 in 1996 to 26 by end-1998. These institutions take deposits, manage investment portfolios, and engage in leasing activity. In the mid-1990s the total assets of these institutions were estimated at Lit 1.6 trillion. This figure must be interpreted with caution, however, as it is inflated by the inclusion of the real-estate assets of rental companies, and hence overstates the financial assets managed by the nonbank sector.

99. At present there are no Sammarinese-owned insurance companies. The government intends soon to introduce legislation that would provide the legal framework for a private insurance sector. The regulatory framework for the industry has yet to be developed.

⁴⁸The OBS limits the share of profits that can be distributed back to owners of the banks.

⁴⁹Sammarinese law restricts banks from sharing information on depositor accounts with all but the judicial authorities. If the authorities of another country (e.g., Italy) desire to inquire about a given account—in the context, for example, of a criminal investigation—the procedure for releasing information is as follows. First, the Italian government requests information of the judicial authorities in San Marino. Second, the judicial authorities in San Marino ask the OBS to provide information to the Sammarinese judiciary; and finally, the judicial authorities of San Marino provide the information to the Italian authorities.

V. THE EXTERNAL SECTOR

A. Balance of Payments Developments

100. The Sammarinese economy is characterized by highly open factor and product markets (with merchandise exports and imports each equivalent to some 220 percent of GDP) and is well integrated into the surrounding regions of northern Italy. The Sammarinese authorities do not compile comprehensive balance of payments data, but available estimates from the national accounts and the banking sector form the basis for compiling rudimentary external accounts. The data must be interpreted with caution, however, given that no figures are available for a number of transactions that are likely to form an important share of total international flows (such as foreign direct investment), and many other figures are based on rough estimates by both Fund staff and the Sammarinese authorities. As such, estimated errors and omissions in the balance of payments are quite large. Furthermore, comparisons of the balance of payments figures between 1995–96 and earlier years are problematic, given the adoption of ESA95 for the national accounts (from which balance of payments data are in part derived) beginning in 1995.

101. These uncertainties withstanding, tables 27 and 28 reveal that both merchandise exports and imports have exceeded 200 percent of GDP throughout the 1990s. Exports dipped sharply in 1993 in response to the European recession, before rebounding somewhat in 1994. Imports also followed a similar pattern, and hence the deficit in the trade balance was roughly constant in U.S. dollars. Under the new national accounts methodology the trade balance showed a marked improvement between 1995 and 1996, and a small surplus was achieved.

102. The most important component of nonfactor services is tourism. The growth of tourist receipts has not kept pace with the rapid growth enjoyed by other sectors of the economy, however, as the number of tourists has stagnated in the range of 3.1–3.4 million since 1992. Consequently, the share of nonfactor exports to GDP has fallen from about 20 percent in 1992 to 15 percent in 1996. Developments in tourism appear to have some link to economic growth abroad and changes in the real exchange rate. The number of tourists dropped from 3.2 million in 1992 to 3.1 million in 1993, owing to the European recession. A temporary upswing in tourism was experienced in 1995, thanks to the economic recovery abroad and the lagged effect of the lira's real depreciation; in 1996, the reversal of some of this depreciation may help explain the decline in tourist visits.

103. The balance on factor income has declined throughout the 1990s. This reflects the weakening of the balances for all three components of the income account (labor, interest, and capital incomes). With respect to labor incomes, the growing number of cross-border workers accounts for the increase in the deficit from 4 percent of GDP in 1992 to more than 7 percent

of GDP in 1996.⁵⁰ The decline in interest income from more than 20 percent of GDP in 1992 to less than 10 percent of GDP by 1996 principally reflects the drop in interest rates during the period, as the economy's net foreign asset position was broadly stable until 1996. The rising deficit in other capital incomes is thought to reflect an increase in foreign direct investment, which is imperfectly captured as part of the positive errors and omissions registered during 1992-95.

104. Net transfers are small and have remained roughly constant as a share of GDP during the 1990s. Private transfers are largely comprised of pension incomes earned from abroad by retirees. Public transfers consist of (i) the fixed payment from Italy of Lit 9 billion under the *Canone Doganale*, in return for the customs duties collected by the Italian government and seignorage received by Italy under the currency union, and (ii) tariffs on imports from non-EU countries collected by the EU on behalf of San Marino.

105. As a result of the growing deficit in the factor income accounts, the current account has steadily weakened over time, and by 1996 the surplus had fallen to about 1 percent of GDP, although interperiod comparisons should be made with caution.

106. Data on capital flows are based on changes in the net foreign assets of the commercial banks as registered in the monetary accounts; these data also form the basis for estimating the interest flows for the factor accounts. The banking system experienced a rapid accumulation of net foreign assets during 1992 and 1993. The rate of accumulation slowed down during 1994 and 1995, and in 1996 net foreign assets declined sharply as a share of GDP, resulting in positive net capital inflows of 27 percent of GDP in that year. The overall balance of payments has consistently remained in surplus in the 1990s, resulting in a buildup of net foreign assets by the ICS.

B. Financial and Exchange Agreement with Italy

107. The latest Financial and Exchange Agreement ("the Agreement") with Italy was signed in 1991. The Agreement itself, continuing the monetary union with Italy, is already in force. The Supplementary Act to the Agreement ("the Act") has still not been implemented; when it is, the Sammarinese banking system will enjoy direct access to international capital markets. At present, in contrast, all transactions must go through Italian correspondent banks (Sammarinese banks may not maintain correspondent accounts with banks outside Italy). More specifically, the Act will give the ICS the status of a fully licensed foreign exchange bank under Italian law. The ICS will also be able, at its discretion, to grant some of the associated rights to Sammarinese commercial banks, so as to avoid unnecessary costs and delays in transactions with correspondents outside Italy.

⁵⁰The number of cross-border workers rose from under two thousand in 1992 to over three thousand in 1996 and almost four thousand in mid-1998.

108. The delays in implementing the Act primarily reflect Italian concerns that San Marino could become a center for tax evasion and money laundering. The use by Italian residents of Sammarinese banks to evade taxes, in particular, is a longstanding issue. Nevertheless, and following repeated delays, implementation of the Act is thought to be imminent. All that is required is that a joint Italy-San Marino Commission verify that two conditions have been met. First, Italy and San Marino must be cooperating satisfactorily on tax evasion. This stage had already been reached by summer 1997, with an agreement that the OBS would implement judicial inquiries upon the request of foreign authorities. Second, the Commission has to verify that San Marino's new Law on Money Laundering, approved in December 1998, is satisfactory.

C. Agreement on Cooperation and Customs Union with the EU

109. On December 16, 1991, an Agreement on Cooperation and Customs Union (ACCU) was signed between the European Union (EU) and San Marino. ACCU establishes a customs union between the EU and San Marino, and contains provisions that regulate trade between San Marino and non-EU countries. Under ACCU, trade between the EU and San Marino was to be exempt from all import and export duties (and charges having equivalent effect) starting January 1, 1996. The Sammarinese single-stage import tax (*monofase*) was the main tax affected: while ACCU did not require San Marino to abolish this tax, it did require that, within six months of ACCU's entry into force, San Marino introduce an equivalent value-added tax on domestic products consumed domestically.

110. In addition to its economic aspects, ACCU also seeks to regulate and strengthen links between the EU and San Marino at the political, social, technical cooperation, and cultural levels. In particular, it provides a framework for agreements on patents, copyrights, trade in services, training, education, and technical evaluation standards. Upon its full implementation, further progress was expected in the field of cultural and information exchange and cooperation, including academic exchanges. The EU was also expected to extend to nationals of San Marino the social advantages applicable to nationals of member countries regarding working conditions.

111. The economic aspects of ACCU are already in force, through a joint decision of the Sammarinese and the EU parliaments. As a result, San Marino extended the base of the *monofase* tax, as of January 1, 1996, to domestic products consumed domestically. ACCU has helped reduce certain disadvantages that Sammarinese firms faced when compared with firms located in EU countries, including extra documentation requirements and customs procedures. However, some difficulties remain. In particular, EU firms importing goods from San Marino are not entitled to prefinancing of VAT. This imposes a financial cost, since it implies that EU firms importing goods from San Marino have to pay VAT when the goods cross the border, whereas for intra-EU trade VAT payments are only settled every 3 to 12 months.

112. In addition, San Marino continues to face some inconveniences in its trade with extra-EU countries. Originally, only one port (Genoa) and one airport (Bologna) were designated as

customs posts for San Marino's imports and exports of goods entering or leaving the EU. Later, two more ports (Venice and Ancona) and one more airport (Milan) were added as EU customs posts. Further, the duties levied or refunded for clearing EU customs are settled with delays of about nine months, again imposing a financial cost on firms that trade with extra-EU countries.

113. The aspects of ACCU dealing with political, social issues, technical cooperation, and culture are still not in force, because these issues remain within the competence of the national parliaments, and the relevant parts of ACCU must therefore be ratified by each member country of the EU. Furthermore, before ACCU could be ratified by San Marino and the 12 countries that were members of the EU in 1991, 3 more countries joined the EU. Under EU rules, therefore, the ratification process had to start again from the beginning. It is unclear how much longer it will take; as of end-1998, 10 out of 15 EU member countries had ratified ACCU.

Table 1. San Marino: National Accounts in Current Prices 1/

(In billions of lire)

	1992	1993	1994	1995	1996	1997
Gross domestic product	777	881	979	1,127	1,229	1,312
Consumption	614	689	761	879	954	...
Private	499	551	599	772	812	...
Public	115	139	162	107	142	...
Gross fixed investment	173	200	228	319	334	...
Private capital formation	154	172	209	280	275	...
Public capital formation	20	28	18	39	59	...
Change in stocks 2/	8	16	13	-116	-122	...
Exports of goods and nonfactor services	2,298	2,400	2,691	2,668	2,873	...
Imports of goods and nonfactor services	-2,315	-2,424	-2,714	-2,623	-2,810	...
Balance of goods and nonfactor services	-18	-24	-23	45	63	...

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Due to the adoption of ESA95 starting in 1995, figures for 1995-97 and earlier years are not directly comparable.

2/ Includes errors and omissions.

Table 2. San Marino: National Accounts in Constant Prices 1/

(In billions of lire at 1992 prices)

	1992	1993	1994	1995	1996	1997
Gross domestic product	777	845	904	988	1,036	1,088
Consumption	614	662	703	770	804	...
Private	499	528	553	677	685	...
Public	115	133	150	94	120	...
Gross fixed investment	173	192	210	280	282	...
Private fixed capital formation	154	165	193	245	232	...
Public fixed capital formation	20	27	17	34	50	...
Change in stocks 2/	8	15	12	-102	-103	...
Exports of goods and nonfactor services	2,298	2,303	2,485	2,338	2,423	...
Imports of goods and nonfactor services	-2,315	-2,326	-2,506	-2,299	-2,370	...
Balance of goods and nonfactor services	-17	-23	-21	39	53	...

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Due to the adoption of ESA95 starting in 1995, figures for 1995-97 and earlier years are not directly comparable.

2/ Includes errors and omissions.

Table 3. San Marino: Growth in National Accounts in Constant Prices 1/

(Changes in real terms over the previous year)

	1992	1993	1994	1995	1996	1997
Gross domestic product	13.5	8.8	7.0	...	5.0	5.0
Consumption	13.0	7.8	6.2	...	4.5	...
Private	14.9	6.0	4.6	...	1.2	...
Public	5.3	16.0	12.2	...	27.7	...
Gross fixed investment	13.1	10.5	9.7	...	0.8	...
Private fixed capital formation	14.8	7.2	17.0	...	-5.5	...
Public fixed capital formation	1.1	34.4	-38.1	...	45.6	...
Change in stocks 2/	-1.2	103.5	-23.1	...	1.2	...
Exports of goods and nonfactor services	32.8	0.2	7.9	...	3.6	...
Imports of goods and nonfactor services	32.3	0.5	7.8	...	3.1	...

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Due to the adoption of ESA95 starting in 1995, growth figures for 1995 cannot be computed.

2/ Includes errors and omissions.

Table 4. San Marino: Contributions to Growth of National Accounts in Constant Prices 1/

	1992	1993	1994	1995	1996	1997
Gross domestic product	13.5	8.8	7.0	...	5.0	5.0
Consumption	10.3	6.1	4.9	...	3.4	...
Private	9.4	3.8	3.0	...	0.8	...
Public	0.8	2.3	1.9	...	2.6	...
Gross fixed investment	2.9	2.3	2.2	...	0.2	...
Private fixed capital formation	2.9	1.4	3.4	...	-1.4	...
Public fixed capital formation	0.0	0.9	-1.2	...	1.6	...
Change in stocks 2/	0.0	1.0	-0.4	...	-0.1	...
External sector	0.4	-0.8	0.2	...	1.4	...

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Due to the adoption of ESA95 starting in 1995, growth figures for that year cannot be computed.

2/ Includes errors and omissions.

Table 5. San Marino: National Accounts Shares in Current Prices 1/

	1992	1993	1994	1995	1996
Gross domestic product	100	100	100	100	100
Consumption	79.0	78.3	77.7	78.0	77.6
Private	64.2	62.5	61.2	68.5	66.1
Public	14.8	15.8	16.5	9.5	11.6
Gross fixed investment	22.3	22.7	23.3	28.3	27.2
Private fixed capital formation	19.8	19.5	21.3	24.8	22.4
Public fixed capital formation	2.6	3.2	1.8	3.5	4.8
Change in stocks 2/	1.0	1.8	1.3	-10.3	-9.9
Exports of goods and nonfactor services	295.6	272.4	274.9	236.7	233.8
Imports of goods and nonfactor services	-297.9	-275.2	-277.2	-232.7	-228.6
Balance of goods and nonfactor services	-2.2	-2.7	-2.3	4.0	5.1

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Due to the adoption of ESA95 starting in 1995, figures for 1995-96 and earlier years are not directly comparable.

2/ Includes errors and omissions.

Table 6. San Marino: Gross Domestic Product by Source of Income

(In billions of lire)

	1995	1996
Gross domestic product at market prices	1,127	1,229
Value added at factor cost	939	1,049
Dependent labor income	517	579
Resident workers	411	460
Cross-border workers	106	119
Income from self employment	60	66
Other capital income	363	405
Indirect taxes net of subsidies	189	180

Source: Data provided by the Sammarinese authorities.

Table 7. San Marino: Number of Firms by Sector at Year-End

	1993	1994	1995	1996	1997
Total	3,296	3,339	3,473	3,649	3,841
Agriculture	283	233	231	231	230
Manufacturing	567	598	609	631	636
Construction	265	281	295	323	338
Commerce	1,220	1,217	1,229	1,245	1,293
Transport and communication	113	118	124	137	140
Finance and related activities	36	34	36	44	44
Miscellaneous services	812	858	949	1,038	1,160
Memorandum items:					
Growth in number of firms					
(in percent)	...	1.3	4.0	5.1	5.3
Employees per firm					
Average for all sectors	3.2	3.3	3.4	3.3	3.2
Manufacturing	8.4	8.5	8.6	8.5	8.7

Source: Data provided by the Sammarinese authorities.

Table 8. San Marino: Labor Market Developments 1/

	1992	1993	1994	1995	1996	1997	1998 2/
Unemployment	503	616	580	495	653	568	540
Labor force	14,113	14,874	15,519	16,073	16,638	17,078	17,950
Cross border workers	1,931	2,268	2,640	2,986	3,182	3,428	3,900
Resident labor force	12,182	12,606	12,879	13,087	13,456	13,650	14,050
Unemployment rate	4.1	4.9	4.5	3.8	4.9	4.2	3.8
Total employment	13,610	14,258	14,939	15,578	15,985	16,510	17,410
Percent change 3/	6.0	4.8	4.8	4.3	2.6	3.3	3.8
Total resident employment	11,679	11,990	12,299	12,592	12,803	13,082	13,510
Percent change 3/	2.4	2.7	2.6	2.4	1.7	2.2	2.2
Contractual wage (percent change)	7.3	6.2	5.0	6.4	5.0	...	...
CPI (Italy) (percent change) 3/	5.4	4.3	3.9	5.4	3.9	1.7	1.8
CPI (San Marino) (percent change) 3/	5.4	4.7	5.0	5.0	4.9	2.0	2.2

Source: Data provided by the Sammarinese authorities.

1/ Unless otherwise noted, date refers to December 31 of each year.

2/ September 30, 1998.

3/ 1998 figure refers to 12-month change through September.

Table 9. San Marino: Change in Employment by Sector 1/

	1992	1993	1994	1995	1996	1997
Employment by sector						
Agriculture	0.0	-0.7	-12.9	-2.7	-0.8	1.2
Manufacturing	2.1	3.2	7.2	3.5	1.6	3.3
Construction	4.5	8.0	8.0	11.5	2.7	-1.9
Commerce	7.6	4.0	1.3	4.3	3.6	-1.0
Transportation	23.4	-2.5	1.4	10.3	8.4	4.7
Finance	15.3	15.0	2.6	4.3	3.8	8.8
Services	15.1	11.0	6.7	8.3	5.5	11.4
Government	7.4	16.1	5.7	2.5	2.2	3.9
Public corporations	4.7	-20.6	0.0	-2.0	0.6	6.2
Total employment						
Private sector	5.8	4.9	4.9	5.3	2.9	2.9
Public sector	6.5	4.3	4.3	1.4	1.9	4.4
Total	6.0	4.8	4.8	4.3	2.6	3.3

Source: Data provided by the Sammarinese authorities.

1/ Data refer to December 31 of each year.

Table 10. San Marino: Total Employment 1/

	1992	1993	1994	1995	1996	1997
Agriculture	296	294	256	249	247	250
Manufacturing	4,591	4,739	5,078	5,256	5,339	5,515
Construction	1,106	1,195	1,291	1,440	1,479	1,451
Commerce	2,402	2,499	2,531	2,641	2,736	2,710
Transportation	285	278	282	311	337	353
Finance	339	390	400	417	433	471
Services	1,116	1,239	1,322	1,432	1,511	1,684
Government	2,358	2,737	2,892	2,963	3,029	3,148
Public corporations	1,117	887	887	869	874	928
Total employment						
Private sector	10,135	10,634	11,160	11,746	12,082	12,434
Public sector	3,475	3,624	3,779	3,832	3,903	4,076
Total	13,610	14,258	14,939	15,578	15,985	16,510

Source: Data provided by the Sammarinese authorities.

1/ Data refer to December 31 of each year.

Table 11. San Marino: Employment by Sector
as a Proportion of Total Employment 1/

	1992	1993	1994	1995	1996	1997
Employment by sector						
Agriculture	2.2	2.1	1.7	1.6	1.5	1.5
Manufacturing	33.7	33.2	34.0	33.7	33.4	33.4
Construction	8.1	8.4	8.6	9.2	9.3	8.8
Commerce	17.6	17.5	16.9	17.0	17.1	16.4
Transportation	2.1	1.9	1.9	2.0	2.1	2.1
Finance	2.5	2.7	2.7	2.7	2.7	2.9
Services	8.2	8.7	8.8	9.2	9.5	10.2
Government	17.3	19.2	19.4	19.0	18.9	19.1
Public corporations	8.2	6.2	5.9	5.6	5.5	5.6
Total employment						
Private sector	74.5	74.6	74.7	75.4	75.6	75.3
Public sector	25.5	25.4	25.3	24.6	24.4	24.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Sammarinese authorities.

1/ Data refer to December 31 of each year.

Table 12. San Marino: Wage, Price, and Employment Developments

	1992	1993	1994	1995	1996	1997
(In billions of lire)						
Wage bill	294.9	329.3	374.1	417.9	477.4	530.6
Public 1/	109.2	118.1	133.4	140.7	152.0	171.3
Private	185.7	211.2	240.7	277.2	325.4	359.3
(Number of employees)						
Dependent employment	10,948	11,606	12,347	12,951	13,347	13,884
Public	3,475	3,624	3,779	3,832	3,903	4,076
Private	7,473	7,982	8,568	9,119	9,444	9,808
(In thousands of lire)						
Nominal wage per employee	26,935	28,373	30,299	32,267	35,772	38,220
Public	31,413	32,589	35,300	36,719	38,949	42,037
Private	24,852	26,459	28,093	30,397	34,459	36,634
(Percent change)						
Price developments						
Italian consumer price index	5.4	4.2	3.9	5.4	3.9	1.7
Sammarinese price index	5.4	4.7	5.0	5.0	4.9	2.0
(In thousands of lire; 1997 CPI=100)						
Real wage per employee 2/	32,483	32,839	33,741	34,107	36,391	38,220
Public	37,884	37,719	39,310	38,812	39,623	42,037
Private	29,972	30,623	31,284	32,129	35,055	36,634
(Percent change)						
Wage bill	19.4	11.7	13.6	11.7	14.3	11.1
Public	22.4	8.2	13.0	5.5	8.0	12.7
Private	17.7	13.7	14.0	15.2	17.4	10.4
Dependent employment	7.4	6.0	6.4	4.9	3.1	4.0
Public	6.5	4.3	4.3	1.4	1.9	4.4
Private	7.9	6.8	7.3	6.4	3.6	3.9
Nominal wage per employee	11.1	5.3	6.8	6.5	10.9	6.8
Public	14.9	3.7	8.3	4.0	6.1	7.9
Private	9.0	6.5	6.2	8.2	13.4	6.3
Real wage per employee	5.4	1.1	2.7	1.1	6.7	5.0
Public	9.0	-0.4	4.2	-1.3	2.1	6.1
Private	3.4	2.2	2.2	2.7	9.1	4.5
Memorandum items:						
Average public wage/average private wage	1.26	1.23	1.26	1.21	1.13	1.15
Lira/US\$	1,232.4	1,573.7	1,612.4	1,628.9	1,542.9	1,703.1
(In U.S. dollars)						
Nominal wage per employee	\$21,855	\$18,029	\$18,791	\$19,809	\$23,185	\$22,441
Public	\$25,489	\$20,709	\$21,893	\$22,542	\$25,244	\$24,683
Private	\$20,166	\$16,813	\$17,423	\$18,661	\$22,334	\$21,510

Sources: Data provided by the Sammarinese authorities; and Fund staff calculations.

1/ Comprises the central administration, Social Security Institute, and public enterprises.

2/ Based on the Italian consumer price index.

Table 13. San Marino: Central Administration Operations, Cash Basis,
Adjusted for Contributions Collected by Social Security Institute

(In billions of lire)

	1993	1994	1995	1996	1997
Total revenue and grants	325	350	408	424	420
Current revenue	314	337	397	403	407
Tax revenue and social security contributions	265	310	351	354	365
Taxes on income, profits, and capital gains 1/	89	108	107	114	130
On deposit interest	16	15	15	14	13
Income of employees	8	11	16	13	15
Income of self-employed	16	11	15	20	18
Corporate income	53	71	57	65	80
Banks	40	34	35	43	...
Others	13	37	22	22	...
Others	-4	1	4	2	4
Domestic taxes on goods and services	126	135	177	167	153
Value added taxes	70	74	105	93	75
Excises (special gas tax)	24	25	28	31	33
Profits of fiscal monopolies	13	13	21	20	20
Other taxes on goods & services	19	23	24	23	25
Tariffs	0	9	0	0	0
Social security contributions from private sector	50	57	67	74	81
Nontax revenue 1/	49	27	46	48	43
Capital revenue	2	4	2	12	4
Grants	9	9	9	9	9
Total expenditure	323	353	376	473	448
Current expenditure	302	338	347	420	408
Wages, salaries, and government employer contributions	94	109	116	125	140
Other purchases of goods and services	45	39	31	45	46
Interest payments	2	3	3	4	5
Subsidies and other current transfers	162	188	196	244	216
Subsidies	8	12	11	12	14
Transfers to other levels of national government	145	168	172	219	189
Social Security Institute	115	137	149	189	158
Others	31	31	24	30	31
Transfers to nonprofit institutions 2/	0	0	13	13	14
Other subsidies and other current transfers	8	8	0	0	0
Other current expenditure	-1	0	0	2	2
Capital expenditure	25	18	26	61	31
Acquisition of fixed capital assets	0	0	6	35	9
Capital transfers	25	18	20	26	23
Unclassified expenditures	-3	-3	3	-8	8
Current balance	16	2	48	-9	-9
Balance	2	-3	33	-48	-28
Financing	-2	3	-33	48	28
Reduction in bank deposits	-7	3	-35	38	20
Net debt financing	5	0	3	11	7
Memorandum Items:					
Subsidies and tax exemptions	20	33	47	53	...
Subsidies	8	12	11	12	14
Tax exemptions	12	21	36	40	...

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Data since 1995 are not comparable with those for previous years, owing to changes in the treatment of transfers to public enterprises.

2/ After 1995, includes transfers to the University of San Marino.

Table 14. San Marino: Central Administration Operations, Cash Basis,
Adjusted for Contributions Collected by Social Security Institute

(In percent of GDP)

	1993	1994	1995	1996	1997
Total revenue and grants	36.9	35.7	36.2	34.5	32.0
Current revenue	35.6	34.4	35.3	32.8	31.0
Tax revenue and social security contributions	30.1	31.6	31.2	28.8	27.8
Taxes on income, profits, and capital gains 1/	10.1	11.1	9.5	9.3	9.9
On deposit interest	1.8	1.5	1.3	1.2	1.0
Income of employees	0.9	1.1	1.4	1.1	1.2
Income of self-employed	1.8	1.1	1.3	1.6	1.3
Corporate income	6.0	7.3	5.1	5.3	6.1
Banks	4.6	3.4	3.1	3.5	...
Others	1.4	3.8	2.0	1.8	...
Others	-0.5	0.1	0.4	0.1	0.3
Domestic taxes on goods and services	14.3	13.8	15.7	13.6	11.7
Value added taxes	7.9	7.6	9.3	7.6	5.7
Excises (special gas tax)	2.7	2.6	2.5	2.5	2.5
Profits of fiscal monopolies	1.5	1.3	1.8	1.6	1.6
Other taxes on goods and services	2.1	2.3	2.1	1.9	1.9
Tariffs	0.0	0.9	0.0	0.0	0.0
Social security contributions from private sector	5.7	5.8	5.9	6.0	6.2
Nontax revenue 1/	5.6	2.8	4.1	3.9	3.3
Capital revenue	0.3	0.4	0.2	1.0	0.3
Grants	1.0	0.9	0.8	0.7	0.7
Total expenditure	36.7	36.1	33.4	38.4	34.1
Current expenditure	34.3	34.5	30.8	34.2	31.1
Wages, salaries, and government employer contributions	10.6	11.1	10.3	10.1	10.6
Other purchases of goods and services	5.1	3.9	2.8	3.7	3.5
Interest payments	0.3	0.3	0.3	0.3	0.4
Subsidies and other current transfers	18.4	19.2	17.4	19.9	16.4
Subsidies	0.9	1.2	0.9	1.0	1.0
Transfers to other levels of national government	16.5	17.1	15.3	17.9	14.4
Social Security Institute	13.0	14.0	13.2	15.4	12.0
Others	3.5	3.2	2.1	2.5	2.3
Transfers to nonprofit institutions 2/	0.0	0.0	1.2	1.0	1.0
Unidentified subsidies and other current transfers	0.9	0.8	0.0	0.0	0.0
Other current expenditure	-0.2	0.0	0.0	0.2	0.1
Capital expenditure	2.8	1.9	2.3	4.9	2.4
Acquisition of fixed capital assets	0.0	0.0	0.5	2.9	0.7
Capital transfers	2.8	1.9	1.8	2.1	1.7
Unclassified expenditures	-0.4	-0.3	0.3	-0.7	0.6
Current balance	1.8	0.2	4.2	-0.7	-0.7
Balance	0.2	-0.4	2.9	-3.9	-2.1
Financing	-0.2	0.4	-2.9	3.9	2.1
Reduction in bank deposits	-0.8	0.3	-3.1	3.1	1.5
Net debt financing	0.5	0.0	0.2	0.9	0.6
Memorandum Items:					
Subsidies and tax exemptions	2.3	3.3	4.2	4.3	...
Subsidies	0.9	1.2	0.9	1.0	1.0
Tax exemptions	1.4	2.1	3.2	3.3	...

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Data since 1995 are not comparable with those for previous years, owing to changes in the treatment of transfers to public enterprises.

2/ After 1995, includes transfers to the University of San Marino.

Table 15. San Marino: Central Administration Operations, Payment Order Basis

(In billions of lire)

	1992	1992	1993	1993	1994	1994	1995	1995	1996	1996	1997	1997	1998		1999
	Budget		Budget		Budget		Budget		Budget		Budget		Budget	Est.	Budget
Revenues	348.9	389.2	394.3	430.1	425.5	489.7	492.5	548.3	600.3	677.0	707.3	768.8	774.2	789.1	807.8
Tax	278.3	306.2	316.3	348.6	349.7	407.3	410.1	455.6	510.0	574.2	610.8	663.6	678.0	683.6	696.7
Direct	70.0	84.8	80.0	91.7	91.4	115.5	105.5	110.1	122.8	118.5	133.4	133.6	137.2	141.6	151.8
Indirect	11.8	19.0	15.8	18.8	19.1	22.8	22.6	23.7	23.0	23.2	23.1	23.7	24.5	24.7	26.9
VAT	196.5	202.3	220.5	238.1	239.2	269.0	282.0	321.8	364.2	432.5	454.3	506.3	516.3	517.3	518.0
Nontax	68.7	78.5	74.5	79.1	73.0	78.5	79.6	90.4	88.2	90.5	93.9	102.5	93.1	96.2	92.7
Asset Sales	1.8	4.5	3.5	2.3	2.8	3.9	2.8	2.3	2.1	12.2	2.7	2.7	3.0	9.3	18.4
Expenditures	377.8	393.0	420.0	444.0	450.5	495.7	520.9	559.5	628.2	698.4	736.3	797.3	804.0	818.9	845.6
Current expenditure	332.6	344.6	377.9	402.1	411.7	456.6	478.1	520.0	580.3	639.0	680.8	738.0	740.0	752.9	792.1
Wages and salaries	80.6	80.6	94.3	94.3	110.5	109.0	114.5	116.5	125.6	126.1	135.5	136.5	145.3	152.7	167.3
Transfers to public sector	107.5	105.9	122.0	103.1	130.8	112.0	145.6	113.2	150.1	116.5	127.2	118.6	130.9	135.7	167.6
ISS	58.9	70.5	72.2	84.0	84.5	92.1	94.0	91.0	96.0	95.4	99.3	101.7	100.6	99.5	129.6
AASFN	15.5	5.8	14.4	-7.1	14.1	-5.6	15.0	-4.3	15.7	-5.1	-5.6	-11.6	-4.6	-4.6	-6.7
AASS	3.9	0.8	3.6	-3.1	3.6	-2.2	4.0	-2.3	4.0	-3.2	1.8	-3.1	0.8	0.8	3.6
AASP	21.9	23.2	23.5	22.4	19.4	21.4	22.0	22.1	22.9	23.0	22.6	24.1	25.0	30.9	31.5
Others	7.3	5.7	8.3	6.9	9.2	6.4	10.6	6.6	11.6	6.4	9.1	7.5	9.1	9.0	9.6
Other current expenditure	144.4	158.0	161.5	204.7	170.4	235.6	218.0	290.4	304.6	396.3	418.1	482.9	463.7	464.5	457.3
Capital expenditure	45.2	48.4	42.1	41.9	38.9	39.0	42.8	39.5	47.9	59.4	55.5	59.3	64.0	66.1	53.5
Transfers to public sector	23.7	23.4	18.2	19.9	20.5	19.9	20.2	19.0	23.2	26.5	28.7	28.6	31.7	31.7	22.2
AASS	9.7	9.7	4.7	5.5	5.2	5.4	7.2	7.2	7.7	9.7	8.2	8.2	10.7	10.7	7.2
AASP	14.0	13.8	13.5	14.4	15.3	14.5	13.0	11.8	15.5	16.8	20.5	20.4	21.0	21.0	15.0
Other capital expenditure	21.5	25.0	23.9	22.0	18.4	19.1	22.6	20.5	24.7	32.9	26.8	30.7	32.3	34.3	31.3
Balance	-28.9	-3.8	-25.7	-13.9	-25.1	-6.3	-28.5	-11.2	-27.9	-21.4	-29.0	-28.5	-29.8	-29.8	-37.8
Memorandum items:															
New net asset float	0.0	-28.2	0.0	-27.1	0.0	-16.8	0.0	-54.1	0.0	-26.0	0.0	-34.8	0.0	0.0	0.0
Old net asset float cashed	0.0	12.2	0.0	-11.0	0.0	-13.9	0.0	-7.3	0.0	-41.8	0.0	-37.2	0.0	0.0	0.0
Cash balance	-28.9	36.6	-25.7	2.2	-25.1	-3.5	-28.5	32.5	-27.9	-48.5	-29.0	-27.6	-29.8	...	-37.8
Reassessment of old asset float	0.0	2.3	0.0	6.7	0.0	6.5	0.0	18.5	0.0	23.5	0.0	18.3	0.0	0.0	0.0
Net debt financing	28.9	-0.4	25.7	4.5	25.1	0.1	28.5	-0.5	27.9	-0.6	29.0	10.7	29.8	29.8	37.8

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

Table 16. San Marino: Central Administration Operations, Payment Order Basis

(In percent of GDP)

	<u>1992</u>	1992	<u>1993</u>	1993	<u>1994</u>	1994	<u>1995</u>	1995	<u>1996</u>	1996	<u>1997</u>	1997
	Budget		Budget		Budget		Budget		Budget		Budget	
Revenues	44.9	50.1	44.8	48.8	43.5	50.0	43.7	48.7	48.8	55.1	53.9	58.6
Tax	35.8	39.4	35.9	39.6	35.7	41.6	36.4	40.4	41.5	46.7	46.5	50.6
Direct	9.0	10.9	9.1	10.4	9.3	11.8	9.4	9.8	10.0	9.6	10.2	10.2
Indirect	1.5	2.4	1.8	2.1	1.9	2.3	2.0	2.1	1.9	1.9	1.8	1.8
VAT	25.3	26.0	25.0	27.0	24.4	27.5	25.0	28.6	29.6	35.2	34.6	38.6
Nontax	8.8	10.1	8.5	9.0	7.5	8.0	7.1	8.0	7.2	7.4	7.2	7.8
Asset sales	0.2	0.6	0.4	0.3	0.3	0.4	0.2	0.2	0.2	1.0	0.2	0.2
Expenditures	48.6	50.6	47.7	50.4	46.0	50.7	46.2	49.6	51.1	56.8	56.1	60.8
Current expenditure	42.8	44.3	42.9	45.6	42.1	46.7	42.4	46.1	47.2	52.0	51.9	56.2
Wages and salaries	10.4	10.4	10.7	10.7	11.3	11.1	10.2	10.3	10.2	10.3	10.3	10.4
Transfers to public sector	13.8	13.6	13.9	11.7	13.4	11.4	12.9	10.0	12.2	9.5	9.7	9.0
ISS	7.6	9.1	8.2	9.5	8.6	9.4	8.3	8.1	7.8	7.8	7.6	7.7
AASFN	2.0	0.7	1.6	-0.8	1.4	-0.6	1.3	-0.4	1.3	-0.4	-0.4	-0.9
AASS	0.5	0.1	0.4	-0.3	0.4	-0.2	0.4	-0.2	0.3	-0.3	0.1	-0.2
AASP	2.8	3.0	2.7	2.5	2.0	2.2	1.9	2.0	1.9	1.9	1.7	1.8
Others	0.9	0.7	0.9	0.8	0.9	0.7	0.9	0.6	0.9	0.5	0.7	0.6
Other current expenditure	18.6	20.3	18.3	23.2	17.4	24.1	19.3	25.8	24.8	32.2	31.9	36.8
Capital	5.8	6.2	4.8	4.8	4.0	4.0	3.8	3.5	3.9	4.8	4.2	4.5
Transfers to public sector	3.0	3.0	2.1	2.3	2.1	2.0	1.8	1.7	1.9	2.2	2.2	2.2
AASS	1.2	1.2	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.8	0.6	0.6
AASP	1.8	1.8	1.5	1.6	1.6	1.5	1.2	1.0	1.3	1.4	1.6	1.6
Other capital expenditure	2.8	3.2	2.7	2.5	1.9	2.0	2.0	1.8	2.0	2.7	2.0	2.3
Balance	-3.7	-0.5	-2.9	-1.6	-2.6	-0.6	-2.5	-1.0	-2.3	-1.7	-2.2	-2.2
Memorandum items:												
New net asset float	0.0	-3.6	0.0	-3.1	0.0	-1.7	0.0	-4.8	0.0	-2.1	0.0	-2.7
Old net asset float cashed	0.0	1.6	0.0	-1.3	0.0	-1.4	0.0	-0.7	0.0	-3.4	0.0	-2.8
Cash balance	-3.7	4.7	-2.9	0.2	-2.6	-0.4	-2.5	2.9	-2.3	-3.9	-2.2	-2.1
Reassessment of old asset float	0.0	0.3	0.0	0.8	0.0	0.7	0.0	1.6	0.0	1.9	0.0	1.4
Net debt financing	3.7	-0.1	2.9	0.5	2.6	0.0	2.5	0.0	2.3	0.0	2.2	0.8

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

Table 17. San Marino: Definitions of the Central Administration Fiscal Balance

(In billions of lire)

		1992	1992	1993	1993	1994	1994	1995	1995	1996	1996	1997	1997	1998		1999
		Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Est.	Budget
1.	Payment order balance	-28.9	-3.8	-25.7	-13.9	-25.1	-6.3	-28.5	-11.2	-27.9	-21.4	-29.0	-28.5	-29.8	-29.8	-37.8
	Percent of GDP	-3.7	-0.5	-2.9	-1.6	-2.6	-0.6	-2.5	-1.0	-2.3	-1.7	-2.2	-2.2	...	...	...
(-)	New net asset float	0.0	-28.2	0.0	-27.1	0.0	-16.8	0.0	-54.1	0.0	-26.0	0.0	-34.8	0.0	0.0	0.0
	Percent of GDP	0.0	-3.6	0.0	-3.1	0.0	-1.7	0.0	-4.8	0.0	-2.1	0.0	-2.7	...	...	...
(+)	Old net asset float cashed	0.0	12.2	0.0	-11.0	0.0	-13.9	0.0	-7.3	0.0	-41.8	0.0	-37.2	0.0	0.0	0.0
	Percent of GDP	0.0	1.6	0.0	-1.3	0.0	-1.4	0.0	-0.7	0.0	-3.4	0.0	-2.8	...	...	...
(=)	Cash balance	-28.9	36.6	-25.7	2.2	-25.1	-3.5	-28.5	32.5	-27.9	-48.5	-29.0	-27.6	-29.8	...	-37.8
	Percent of GDP	-3.7	4.7	-2.9	0.2	-2.6	-0.4	-2.5	2.9	-2.3	-3.9	-2.2	-2.1	...	...	...
2.	Payment order balance	-28.9	-3.8	-25.7	-13.9	-25.1	-6.3	-28.5	-11.2	-27.9	-21.4	-29.0	-28.5	-29.8	-29.8	-37.8
	Percent of GDP	-3.7	-0.5	-2.9	-1.6	-2.6	-0.6	-2.5	-1.0	-2.3	-1.7	-2.2	-2.2	...	...	...
(+)	Reassessment of old asset float	0.0	2.3	0.0	6.7	0.0	6.5	0.0	18.5	0.0	23.5	0.0	18.3	0.0	0.0	0.0
	Percent of GDP	0.0	0.3	0.0	0.8	0.0	0.7	0.0	1.6	0.0	1.9	0.0	1.4	...	...	...
(=)	Avanzo d'esercizio - Net debt financing	-28.9	-1.5	-25.7	-7.3	-25.1	0.2	-28.5	7.3	-27.9	2.1	-29.0	-10.2	-29.8	-29.8	-37.8
	Percent of GDP	-3.7	-0.2	-2.9	-0.8	-2.6	0.0	-2.5	0.6	-2.3	0.2	-2.2	-0.8	...	...	...
(+)	Net debt financing	28.9	-0.4	25.7	4.5	25.1	0.1	28.5	-0.5	27.9	-0.6	29.0	10.7	29.8	29.8	37.8
	Percent of GDP	3.7	-0.1	2.9	0.5	2.6	0.0	2.5	0.0	2.3	0.0	2.2	0.8	...	...	...
(=)	Avanzo d'esercizio	0.0	-1.9	0.0	-2.7	0.0	0.3	0.0	6.8	0.0	1.5	0.0	0.5	0.0	0.0	0.0
	Percent of GDP	0.0	-0.2	0.0	-0.3	0.0	0.0	0.0	0.6	0.0	0.1	0.0	0.0	...	...	...

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

Table 18. San Marino: Central Administration Net Asset Position

(In billions of lire, end-of-period)

	1992	1993	1994	1995	1996	1997
Assets	541.4	640.1	798.0	956.6	1,150.2	1,353.8
Percent of GDP	69.6	72.7	81.6	84.9	93.6	103.2
Bank deposits	187.7	194.5	191.1	226.1	188.3	168.1
Percent of GDP	24.2	22.1	19.5	20.1	15.3	12.8
Asset float	353.6	445.7	606.9	730.5	961.8	1,185.7
Percent of GDP	45.5	50.6	62.0	64.8	78.3	90.3
Liabilities	497.0	603.0	760.7	915.1	1,117.8	1,328.3
Percent of GDP	63.9	68.5	77.7	81.2	91.0	101.2
Public debt	26.2	30.7	30.8	33.3	44.0	51.4
Percent of GDP	3.4	3.5	3.1	3.0	3.6	3.9
Liability float	470.9	572.3	729.9	881.8	1,073.8	1,276.9
Percent of GDP	60.6	65.0	74.6	78.2	87.4	97.3
Net assets (= Assets - Liabilities)	44.3	37.1	37.3	41.5	32.3	25.4
Percent of GDP	5.7	4.2	3.8	3.7	2.6	1.9
Avanzo d'amministrazione (= Assets - Liability float)	70.5	67.8	68.1	74.8	76.3	76.8
Percent of GDP	9.1	7.7	7.0	6.6	6.2	5.9
Memorandum items:						
<i>Avanzo d'esercizio</i> - Net debt financing 1/	-1.5	-7.3	0.2	7.3	2.1	-10.2
Percent of GDP	-0.2	-0.8	0.0	0.6	0.2	-0.8
<i>Avanzo d'esercizio</i> 2/	-1.9	-2.7	0.3	6.8	1.5	0.5
Percent of GDP	-0.2	-0.3	0.0	0.6	0.1	0.0

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ The *Avanzo d'esercizio*, excluding net debt financing, should coincide with the change in the net asset position.

2/ The *Avanzo d'esercizio* should coincide with the change in the *Avanzo d'amministrazione*.

Table 19. San Marino: Net Asset Float

(In billions of lire, end-of-period)

	1992	1993	1994	1995	1996	1997
Old stock of net asset float	-79.1	-117.2	-126.7	-123.0	-151.3	-112.0
Percent of GDP	-10.2	-13.3	-12.9	-10.9	-12.3	-8.5
(+) New net asset float	-28.2	-27.1	-16.8	-54.1	-26.0	-34.8
Percent of GDP	-3.6	-3.1	-1.7	-4.8	-2.1	-2.7
(-) Old net asset float cashed	12.2	-11.0	-13.9	-7.3	-41.8	-37.2
Percent of GDP	1.6	-1.3	-1.4	-0.7	-3.4	-2.8
(+) Reassessment of old asset float	2.3	6.7	6.5	18.5	23.5	18.3
Percent of GDP	0.3	0.8	0.7	1.6	1.9	1.4
(=) New stock of net asset float	-117.2	-126.7	-123.0	-151.3	-112.0	-91.3
Percent of GDP	-15.1	-14.4	-12.6	-13.4	-9.1	-7.0

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

Table 20. San Marino: Operations of the Public Enterprises, Payment Order Basis

(In billions of lire)

	1992	1993	1994	1995	1996	1997
Public utilities company (AASS)						
Operating revenue	41.6	44.8	51.1	54.9	61.4	57.2
Operating expenditure	36.3	40.7	43.6	44.7	53.8	56.1
Operational balance	5.4	4.1	7.5	10.2	7.5	1.1
Net transfers 1/	4.7	8.0	3.8	-0.9	4.4	9.8
Current account balance	10.1	12.1	11.3	9.2	11.9	10.9
Capital expenditure	9.7	6.8	14.1	9.5	11.3	12.6
Overall balance	0.4	5.2	-2.8	-0.3	0.7	-1.8
Public works company (AASP)						
Operating revenue	0.7	0.9	1.5	3.2	5.6	0.2
Operating expenditure	16.4	17.7	19.0	29.5	23.0	44.1
Operational balance	-15.6	-16.8	-17.5	-26.3	-17.4	-43.9
Net transfers 1/	28.5	30.0	32.9	31.3	33.3	39.8
Current account balance	12.9	13.2	15.3	5.0	15.9	-4.2
Capital expenditure	17.1	17.2	19.1	8.8	19.8	0.4
Overall balance	-4.2	-4.0	-3.8	-3.8	-4.0	-4.6
Coins and stamps company (AASFN)						
Operating revenue	0.9	0.8	0.6	0.0	7.9	9.4
Operating expenditure	4.1	4.5	4.6	6.8	5.8	6.4
Operational balance	-3.2	-3.7	-3.9	-6.8	2.2	2.9
Net transfers 1/	2.9	3.5	4.7	5.4	-2.5	-3.4
Current account balance	-0.3	-0.2	0.7	-1.3	-0.4	-0.4
Capital expenditure	0.3	0.1	0.0	0.1	0.1	0.1
Overall balance	-0.6	-0.3	0.7	-1.4	-0.5	-0.5
Combined accounts for the three largest public enterprises detailed above						
Operating revenue	43.3	46.5	53.2	58.1	74.9	66.7
Operating expenditure	56.8	62.9	67.1	81.0	82.6	106.6
Operational balance	-13.4	-16.4	-13.9	-22.9	-7.8	-39.9
Net transfers 1/	36.2	41.5	41.3	35.8	35.2	46.2
Current account balance	22.7	25.1	27.4	12.9	27.4	6.3
Capital expenditure	27.1	24.1	33.3	18.4	31.2	13.2
Overall balance	-4.4	1.0	-5.9	-5.5	-3.8	-6.9

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Net transfers from the Central Administration, minus social security contributions paid as employer.

Table 21. San Marino: Operations of the Public Enterprises, Payment Order Basis

(In percent of GDP)

	1992	1993	1994	1995	1996	1997
Public utilities company (AASS)						
Operating revenue	5.4	5.1	5.2	4.9	5.0	4.4
Operating expenditure	4.7	4.6	4.5	4.0	4.4	4.3
Operational balance	0.7	0.5	0.8	0.9	0.6	0.1
Net transfers 1/	0.6	0.9	0.4	-0.1	0.4	0.7
Current account balance	1.3	1.4	1.2	0.8	1.0	0.8
Capital expenditure	1.3	0.8	1.4	0.8	0.9	1.0
Overall balance	0.0	0.6	-0.3	0.0	0.1	-0.1
Public works company (AASP)						
Operating revenue	0.1	0.1	0.1	0.3	0.5	0.0
Operating expenditure	2.1	2.0	1.9	2.6	1.9	3.4
Operational balance	-2.0	-1.9	-1.8	-2.3	-1.4	-3.3
Net transfers 1/	3.7	3.4	3.4	2.8	2.7	3.0
Current account balance	1.7	1.5	1.6	0.4	1.3	-0.3
Capital expenditure	2.2	1.9	2.0	0.8	1.6	0.0
Overall balance	-0.5	-0.5	-0.4	-0.3	-0.3	-0.4
Coins and stamps company (AASFN)						
Operating revenue	0.1	0.1	0.1	0.0	0.6	0.7
Operating expenditure	0.5	0.5	0.5	0.6	0.5	0.5
Operational balance	-0.4	-0.4	-0.4	-0.6	0.2	0.2
Net transfers 1/	0.4	0.4	0.5	0.5	-0.2	-0.3
Current account balance	0.0	0.0	0.1	-0.1	0.0	0.0
Capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.1	0.0	0.1	-0.1	0.0	0.0
Combined accounts for the three largest public enterprises detailed above						
Operating revenue	5.6	5.3	5.4	5.2	6.1	5.1
Operating expenditure	7.3	7.1	6.9	7.2	6.7	8.1
Operational balance	-1.7	-1.9	-1.4	-2.0	-0.6	-3.0
Net transfers 1/	4.7	4.7	4.2	3.2	2.9	3.5
Current account balance	2.9	2.8	2.8	1.1	2.2	0.5
Capital expenditure	3.5	2.7	3.4	1.6	2.5	1.0
Overall balance	-0.6	0.1	-0.6	-0.5	-0.3	-0.5

Sources: Data provided by the Sammarinese authorities; and Fund staff estimates.

1/ Net transfers from the Central Administration, minus social security contributions paid as employer.

Table 22. San Marino: Interest Rates

(In percent; end-of-period)

	Deposit rates		Loan rates		Repurchase agreements	Italian deposit rate
	Sight savings	Time	Prime	Average		
1990 1/	7.5	8.0	11.0	14.5	...	6.8
1991 1/	7.3	7.6	10.8	15.2	...	6.6
1992	9.0	10.0	13.3	17.9	13.0	7.1
1993	8.2	9.0	12.0	16.0	10.0	7.8
1994	7.0	7.5	11.0	15.0	9.5	6.2
1995	6.5	7.2	12.5	15.5	8.7	6.5
1996	4.8	5.5	10.4	13.8	7.0	6.5
March 1997	3.5	5.0	9.3	12.1	6.5	5.4
June 1997	3.5	4.8	9.1	11.4	6.4	5.1
September 1997	3.5	4.5	9.0	11.2	6.1	4.6
December 1997	3.4	4.2	8.7	11.0	5.7	4.2
March 1998	3.3	4.0	8.5	10.8	5.1	3.8
June 1998	3.0	4.0	8.3	10.1	4.6	3.3
September 1998	2.8	3.5	8.0	9.0	4.2	2.9

Sources: Data provided by the Sammarinese authorities; and *International Finance Statistics*.

1/ Italian deposit rate refers to annual average.

Table 23. San Marino: Public Sector Deposits

(In billions of lire; end-of-period)

	1992	1993	1994	1995	1996	1997	Sept. 1998
Central government	220	232	257	263	269	267	222
Central administration							
at ICS	61	190	222	220	224	208	196
at commercial banks	142	0	0	0	0	0	0
Other government agencies							
at ICS	...	4	7	8	8	12	14
at commercial banks	...	0	0	0	0	0	0
Social Security Institute							
at ICS	12	32	21	30	31	41	6
at commercial banks	5	...	...	...	...	...	...
Position with the IMF	...	6	6	6	6	6	6
Public enterprises							
at ICS 1/	5	24	30	34	35	27	31
at commercial banks	34	...	...	...	...	...	...
Total public sector	259	256	286	298	304	294	253
Memorandum items:							
Social Security Institute public pension fund assets 2/	...	...	...	62	82	110	...
Gross bank debt of central administration and other government agencies	...	1	5	4	7	17	28
Gross debt of ICS							
Bank	...	1	...	...	...	...	10
Nonbank	...	2	4	12	14	12	5

Source: Data provided by the Sammarinese authorities.

1/ Includes funds not registered in the monetary survey as demand deposits.

2/ Comprises Social Security Institute public pension fund assets in the commercial banks, which are not formally registered above as public sector deposits.

Table 24. San Marino: Monetary Authorities 1/

(In billions of lire)

	1993	1994	1995	1996	1997				1998		
					March	June	Sept.	Dec.	March	June	Sept.
Foreign assets	204	287	315	329	336	316	346	322	293	289	291
Claims on central government	1	4	1	2	8	11	13	17	23	24	28
Claims on deposit money banks	86	30	34	41	20	25	20	19	1	2	1
Claims on nonbank financial institutions	0	0	0	0	0	0	0	0	0	0	0
Reserve money	25	33	46	48	46	60	43	38	45	44	44
Deposit money banks' deposits	0	0	0	0	0	0	0	0	4	10	9
Other demand deposits	25	14	20	21	20	17	16	21	26	23	22
Time, savings and foreign currency deposits	0	18	25	27	26	43	26	17	14	12	13
Bonds	0	0	0	0	0	0	0	0	0	0	0
Foreign liabilities	1	0	0	0	4	0	1	0	0	2	1
Central government deposits	231	257	263	270	258	234	281	267	216	211	222
Central administration	190	222	220	224	201	187	238	208	156	167	196
Social security	32	21	30	31	27	28	28	41	32	27	6
Other	9	13	14	14	30	19	15	18	28	17	19
Capital accounts	33	36	42	54	56	60	64	63	67	69	63
Other items (net)	0	-4	0	0	0	-2	-10	-11	-11	-11	-10
Memorandum items:											
Foreign assets (share of GDP)	23.2	29.3	27.9	26.8	25.6	24.1	26.4	24.5	...	...	...
Foreign liabilities (share of GDP)	0.1	0.0	0.0	0.0	0.3	0.0	0.1	0.0	...	...	...

Source: Data provided by the Sammarinese authorities.

1/ Unless otherwise noted, data refer to December 31.

Table 25. San Marino: Deposit Money Banks 1/

(In billions of lire)

	1993	1994	1995	1996	1997				1998		
					March	June	Sept.	Dec.	March	June	Sept.
Reserves	0	0	0	0	0	0	0	0	0	0	0
Foreign assets	4,918	4,912	6,342	7,200	7,286	7,387	7,723	7,755	7,665	7,232	7,016
Claims on central government	0	1	3	5	0	0	0	0	0	0	0
Claims on private sector	923	1117	1223	1298	1489	1498	1480	1594	1622	1749	1729
Claims on nonbank financial institutions	127	143	167	172	178	175	175	189	196	215	213
Demand deposits	692	796	565	416	343	355	391	421	399	415	429
Time, savings and foreign currency deposits	1,151	1,093	1,474	1,264	1,499	1,528	1,543	1,538	1,580	1,530	1,399
Foreign liabilities	3,568	3,664	5,002	6,197	6,353	6,461	6,632	6,673	6,711	6,321	6,250
Repos	2,315	2,228	3,248	4,101	4,375	4,367	4,435	4,276	4,358	3,865	3,636
Others	1,253	1,436	1,754	2,096	1,978	2,094	2,197	2,397	2,352	2,456	2,614
Liabilities to the central bank	86	30	34	41	20	25	20	18	1	1	1
Capital accounts	482	575	702	814	728	756	798	857	859	913	956
Other items (net)	-12	15	-41	-56	12	-65	-6	31	-66	15	-77
Memorandum items:											
Total assets (share of GDP)	677.3	630.5	686.4	705.9	682.5	690.6	714.8	727.0	...	...	...
Of which: foreign assets (share of GDP)	558.2	501.7	562.7	585.8	555.4	563.0	588.7	591.1	...	...	...
Foreign assets, net (share of GDP)	153.2	127.4	118.9	81.6	71.2	70.6	83.1	82.5	...	...	...
Total liabilities (share of GDP)	622.6	571.8	624.1	639.6	627.0	632.9	654.0	661.6	...	...	...
Of which: foreign liabilities (share of GDP)	405.0	374.3	443.8	504.2	484.2	492.4	505.5	508.6	...	...	...
Of which: repos (share of GDP)	262.8	227.5	288.2	333.7	333.5	332.8	338.1	325.9	...	...	...

Source: Data provided by the Sammarinese authorities.

1/ Unless otherwise noted, data refer to December 31.

Table 26. San Marino: Monetary Survey

(In billions of lire)

	1993	1994	1995	1996	1997				1998		
					March	June	Sept.	Dec.	March	June	Sept.
Foreign assets (net)	1,553	1,535	1,655	1,332	1,266	1,242	1,436	1,404	1,247	1,198	1,055
Domestic credit	819	1,009	1,131	1,208	1,417	1,451	1,386	1,533	1,626	1,777	1,748
Claims on central government (net)	-230	-251	-260	-263	-250	-222	-268	-250	-192	-187	-194.2
Claims on private sector (dmb)	923	1,117	1,223	1,298	1,489	1,498	1,480	1,594	1,622	1,749	1,729
Claims on nonbank financial institutions	127	143	167	172	178	175	175	189	196	215	213
Other items, net (including capital accounts)	-503	-623	-702	-812	-796	-749	-845	-939	-849	-985	-931
Broad Money	1,869	1,921	2,084	1,728	1,887	1,943	1,977	1,997	2,024	1,990	1,872
Money	718	810	585	437	362	372	408	442	429	447	461
Quasi-money	1,151	1,111	1,499	1,291	1,525	1,571	1,569	1,555	1,595	1,542	1,412
Memorandum items:											
Foreign assets, net (share of GDP)	176.3	156.8	146.8	108.4	96.5	94.6	109.4	107.0	...	...	...
Domestic credit (share of GDP)	92.9	103.1	100.4	98.3	108.0	110.6	105.7	116.8	...	...	...
Broad money (share of GDP)	212.1	196.3	184.9	140.6	143.9	148.1	150.7	152.2	...	...	...

Sources: Data provided by the Sammarinese authorities; and Fund staff calculations.

Table 27. San Marino: Balance of Payments 1/

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996
Trade balance	-50.3	-48.8	-41.2	-3.3	22.6
Exports	1,726.8	1,414.5	1,557.2	1,516.7	1,741.9
Imports	1,777.1	1,463.3	1,598.4	1,520.0	1,719.3
Nonfactor services (net)	36.5	33.5	26.9	31.1	18.3
Exports	137.8	110.6	111.8	121.3	120.4
Imports	101.4	77.1	84.8	90.2	102.2
Factor income (net)	82.8	48.8	28.5	-0.8	-39.9
Labor income	-25.5	-29.9	-37.6	-48.0	-57.9
Interest income	129.5	94.5	84.9	81.8	63.5
Other capital income	-21.2	-15.8	-18.7	-34.6	-45.5
Transfers (net)	9.7	12.5	12.2	10.5	9.7
Current account balance	78.7	46.1	26.4	37.5	10.7
Capital account (net)	-480.3	-128.7	-7.5	-56.8	218.5
Of which:					
Private banking	-480.3	-128.7	-7.5	-56.8	218.5
Errors and omissions 2/	444.2	124.6	-15.0	36.1	-219.8
Overall balance	42.6	42.0	3.9	16.8	9.4
Change in reserves 3/	-42.6	-42.0	-3.9	-16.8	-9.4
Memorandum items:					
Exchange rate lira/US\$ (average)	1,232.4	1,573.7	1,612.4	1,628.9	1,542.9
GDP (lire billion)	777	881	979	1,127	1,229
GDP (US\$ millions)	630	560	607	692	797

Sources: Sammarinese authorities; and Fund staff estimates.

1/ Due to the adoption of ESA95 starting in 1995, figures from 1992-94 and 1995-96 are not comparable.

2/ Includes unidentified nonbank private sector activity, including foreign direct investment.

3/ A negative number reflects an increase in the net foreign assets of the ICS.

Table 28. San Marino: Balance of Payments 1/

(In percent of GDP)

	1992	1993	1994	1995	1996
Trade balance	-8.0	-8.7	-6.8	-0.5	2.8
Exports	273.9	252.7	256.5	219.2	218.7
Imports	281.9	261.4	263.3	219.7	215.8
Nonfactor services (net)	5.8	6.0	4.4	4.5	2.3
Exports	21.9	19.8	18.4	17.5	15.1
Imports	16.1	13.8	14.0	13.0	12.8
Factor income (net)	13.1	8.7	4.7	-0.1	-5.0
Labor income	-4.0	-5.3	-6.2	-6.9	-7.3
Interest income	20.5	16.9	14.0	11.8	8.0
Other capital income	-3.4	-2.8	-3.1	-5.0	-5.7
Transfers (net)	1.5	2.2	2.0	1.5	1.2
Current account balance	12.5	8.2	4.4	5.4	1.3
Capital account (net)	-76.2	-23.0	-1.2	-8.2	27.4
Of which:					
Private banking	-76.2	-23.0	-1.2	-8.2	27.4
Errors and omissions 2/	70.4	22.3	-2.5	5.2	-27.6
Overall balance	6.8	7.5	0.6	2.4	1.2
Change in reserves 3/	-6.8	-7.5	-0.6	-2.4	-1.2

Sources: Sammarinese authorities; and Fund staff estimates.

1/ Due to the adoption of ESA95 starting in 1995, figures from 1992-94 and 1995-96 are not comparable.

2/ Includes unidentified nonbank private sector activity, including foreign direct investment.

3/ A negative number reflects an increase in the net foreign assets of the ICS.

San Marino: Tax Summary, as of 2/1/99

TAX	RATES IN SAN MARINO	RATES IN ITALY																											
1. Direct Taxes																													
1.1. Personal Income, Standard	<p><i>Imposta Generale sul Reddito (IGR)</i>. Marginal tax rates range from 12 percent to 50 percent There are eight income brackets:</p> <table border="0"> <tr> <td>Rate (percent)</td> <td>On income from</td> <td>to</td> </tr> <tr> <td>12</td> <td>Lit 0</td> <td>Lit 18 million</td> </tr> <tr> <td>17</td> <td>Lit 18 million</td> <td>Lit 30 million</td> </tr> <tr> <td>23</td> <td>Lit 30 million</td> <td>Lit 50 million</td> </tr> <tr> <td>29</td> <td>Lit 50 million</td> <td>Lit 90 million</td> </tr> <tr> <td>35</td> <td>Lit 90 million</td> <td>Lit 170 million</td> </tr> <tr> <td>40</td> <td>Lit 170 million</td> <td>Lit 300 million</td> </tr> <tr> <td>45</td> <td>Lit 300 million</td> <td>Lit 450 million</td> </tr> <tr> <td>50</td> <td>above Lit 450 million</td> <td></td> </tr> </table>	Rate (percent)	On income from	to	12	Lit 0	Lit 18 million	17	Lit 18 million	Lit 30 million	23	Lit 30 million	Lit 50 million	29	Lit 50 million	Lit 90 million	35	Lit 90 million	Lit 170 million	40	Lit 170 million	Lit 300 million	45	Lit 300 million	Lit 450 million	50	above Lit 450 million		<p><i>IRPEF</i>. 5 income brackets;</p> <p>Lowest rate: 19 percent Highest rate: 46 percent</p>
Rate (percent)	On income from	to																											
12	Lit 0	Lit 18 million																											
17	Lit 18 million	Lit 30 million																											
23	Lit 30 million	Lit 50 million																											
29	Lit 50 million	Lit 90 million																											
35	Lit 90 million	Lit 170 million																											
40	Lit 170 million	Lit 300 million																											
45	Lit 300 million	Lit 450 million																											
50	above Lit 450 million																												
1.2. Capital Gains	5 percent	12.5 percent (until 7/98: no tax)																											
1.3. Interest Income	13 percent	Standard: 27 percent On public debt: 12.5 percent																											
1.4. Pensions	Varies progressively over: Lowest rate: 1.5 percent Highest rate: 7.22 percent																												
1.5. Back Wages	5 percent																												
1.6. Entrepreneurial Income; Corporate Profits	24 percent	<p>Standard (<i>IRPEG</i>): 37 percent. On profits imputed to new capital investments: 19 percent (average profits tax rate subject to minimum of 27 percent) Additional regional tax on value added net of depreciation (<i>IRAP</i>): Most firms: 4.25 percent Banks: 5.5 percent Agriculture: 3 percent</p>																											
Withholding	Tax on some types of income, for example., employee earnings and interest income, is withheld at source. Tax withheld on interest income earned by nonresidents is not reimbursable.																												

San Marino: Tax Summary, as of 2/1/99

TAX	RATES IN SAN MARINO	RATES IN ITALY
Exemptions	Some types of income, for example, family allowances and social pensions, are tax-exempt.	
Procedures	<p>Annual tax returns must be filed by: (i) May 31 of each year for individuals; (ii) within three months following approval of balance sheet for persons required to compile balance sheets.</p> <p>Persons receiving entrepreneurial income, excluding legally incorporated companies, may request by September of year <i>t</i> that their taxable income for year (<i>t</i>+1) be assessed on a presumptive forfait basis, if and only if turnover in year (<i>t</i>-1) did not exceed Lit 300 million.</p> <p>Two commissions are responsible for assessing income for tax purposes. One handles personal incomes; the other handles corporations and entities required to compile annual balance sheets.</p>	Currently, there exist three separate offices for collecting (i) direct taxes, (ii) indirect taxes, and (iii) registration taxes. They should shortly be unified.
2. Indirect Taxes		
2.1. Domestic Taxes on Goods and Services	<p>Value-added tax (more precisely, one-stage or <i>monofase</i> tax) on goods and services sold domestically. Until 1/1/1996, it was only payable on imports.</p> <p>By agreement with Italy, the principal tax rate may not be more than 4 percentage points below the principal Italian VAT rate. Thus, the VAT rates are:</p> <p style="padding-left: 20px;">Standard: 15 percent Special: 2, 5, 8, and 9 percent (specific categories)</p> <p>Imports by public sector are tax-exempt. Capital goods enjoy special tax concessions.</p>	<p>VAT rates:</p> <p style="padding-left: 20px;">Standard: 19 percent Special: 10 percent (meat, apparel), 4 percent (bread, milk, books)</p>
2.2. Excises	<p>Excises are levied on petroleum products. These excises, combined with the VAT, may not be lower than the relevant Italian excises. Imports by public sector are tax-exempt.</p> <p>The state also enjoys a monopoly over the import and domestic sale of tobacco products. These are purchased from Italian producers at wholesale prices, and sold domestically at the after-tax retail price prevailing in Italy.</p>	

San Marino: Tax Summary, as of 2/1/99

TAX	RATES IN SAN MARINO	RATES IN ITALY
2.3. Others	<p>Stamp tax, registration tax, mortgage tax, license fees for hunting and fishing. Collected by the Public Registry Office.</p> <p>Road tax, drivers' license tax, motor vehicle transfer registration tax. Collected by the Motor Vehicle Registration Office.</p>	Stamp tax, registration tax, mortgage tax yield about 1 percent of GDP.
Procedures	All the above taxes are collected by the Tax Office, unless other wise stated.	
3. Social Security Contributions		
3.1. Pensions	<p>Employees: 11.9 percent of gross pay (worker pays 1.6 percent, employer pays the rest)</p> <p>Artisans, handicraft: 16.2 percent</p> <p>Agricultural workers: 10 percent of minimum income</p> <p>Shopkeepers: 17.5 percent</p> <p>Professionals and entrepreneurs: 10 percent</p>	<p>Employees: 35.7 percent of gross pay (worker pays 12 percent, of which 3 percent does not create pension rights; employer pays the rest)</p> <p>Self-employed: ca. 17 percent.</p> <p><i>Coordinati continuativi</i> (consultants working for only one firm): 10 percent.</p>
3.2. Health	Employees: 5 percent (paid by employer)	<p>Employees: None (until 1997, 11 percent; worker paid 1 percent, employer the rest)</p> <p>Self-employed: none</p>
3.3. Others	<p>Employees: Varies across sectors;</p> <p>Lowest rate: 0.4 percent</p> <p>Median rate: 7.5 percent</p> <p>Highest rate: 14.5 percent</p> <p>For unemployment insurance, "cassa integrazione"; family allowance, trade union dues.</p> <p>Worker pays between 0.4 percent and 0.9 percent, employer pays the rest.</p>	<p>Employees: 6 percent.</p> <p>For unemployment insurance, maternity, "cassa integrazione"; family allowance.</p>
3.4. Total	<p>Employees: Varies across sectors;</p> <p>Lowest rate: 17.3 percent</p> <p>Median rate: 24.4 percent</p> <p>Highest rate: 31.4 percent</p> <p>Worker pays between 2 percent and 2.5 percent, employer pays the rest.</p>	<p>Employees: 41.7 percent of gross pay.</p> <p>Worker pays 18 percent, employer pays the rest.</p>