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Republic of San Marino: Selected Issues and Statistical Appendix

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SAN MARINO

Selected Issues and Statistical Appendix

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Approved by the European I Department

November 20, 2001

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San Marino: Basic Data

Total area (sq. km.):	61.2
Population (December 2000):	26,941
GNP per capita (current US$, 1999):	23,390
Life expectancy (2000):	77 (male)
	84 (female)
Infant mortality (1995/1999 average):	7.9 per thousand

	1996	1997	1998	1999	2000	2001
Output and Prices						
Real GDP 1/	4.9	6.9	7.5	9.0	7.5	7.5
Real National Income	...	...	6.1	7.1	...	...
Employment	2.6	3.3	4.3	4.5	3.5	3.5
Unemployment rate (end of year)	4.9	4.2	4.0	3.2	3.0	2.6
Inflation rate (annual average)	4.9	2.0	2.1	3.3	3.3	3.3
Wages	9.3	5.0	4.2	3.9	1.9	...
External Accounts						
Trade balance (in millions of US$)	22.6	...	...	...	...	...
Exports 2/	218.7	233.8	201.6	196.7	...	...
Imports 2/	215.8	238.3	203.8	200.0	...	...
Current account balance (in millions of US$)	10.7	...	...	...	...	...
(In percent of GDP) 3/	1.3	...	...	...	...	...
Number of tourists (in millions)	3.3	3.3	3.3	3.1	3.1	...
(Percent change)	-0.7	-1.1	-1.3	-3.6	-2.5	...
Average length of visit (in days)	1.3	2.1	1.5	1.5	1.4	...
Lira US$ exchange rate (end of period)	1,531	1,759	1,936	1,945	1,802	...
Nominal effective exchange rate index (Italy) 3/	75.6	75.8	76.0	74.1	70.7	71.1
Real effective exchange rate index (Italy) 3/	84.9	85.4	86.0	84.3	80.9	81.6
Fiscal variables 2/ 4/						
Central government revenue	55.1	59.7	57.2	57.5	47.5	44.1
Net of tax reimbursements	30.1	31.2	31.8	28.1	26.9	25.6
Central government expenditure	56.9	61.1	57.4	60.2	50.3	46.6
Net of tax reimbursements	31.9	32.6	32.0	30.7	29.7	28.1
Central government balance	-1.8	-1.4	-0.2	-2.6	-2.8	-2.5
Central government deposits	15.3	13.1	8.4	10.8	2.1	8.5
Gross public debt 6/	12.8	14.5	14.3	14.0	13.3	...
Interest rates 7/						
Loans	13.8	11.0	8.2	8.1	8.7	9.0
Repurchase agreements	8.1	6.2	4.3	2.6	4.5	4.3
Time deposits	5.5	4.2	3.3	2.6	3.0	2.9
Italian deposits	6.6	5.0	3.3	1.8	1.8	2.0
Net foreign assets 2/ 7/						
Deposit money banks	81.6	84.5	66.7	73.9	55.0	47.0
Central bank 8/	26.8	25.2	20.1	17.9	16.5	15.9
Fitch IBCA country rating 9/			AA			

Sources: Sammarinese authorities and Fund staff estimates. Data for 2001are Fund staff estimates and projections.

1/ Fund staff estimate for 2000.
2/ In percent of GDP.
3/ Annual average. Data for 2001 are for end-July.
4/ Accrual basis.
5/ Data for 2001 are as of August 8.
6/ Data for 2000 are for end-September.
7/ End of period. Data for 2001 are for end-June.
8/ The central bank (ICS) has no foreign liabilities.
9/ Long-term, foreign currency rating. Italy's Fitch IBCA rating is AA-.

INTRODUCTION AND OVERVIEW

1. San Marino has enjoyed high real GDP growth during the 1990s, reaching 9 percent in 1999. Amid few signs of a major slowdown, growth is estimated at over 7 percent in both 2000 and 2001, with the unemployment rate under 3 percent. This success was helped by a comparatively low labor cost—crucially supported by a lower and less sharply rising tax and contribution burden than in Italy—that promoted fast employment growth, attracting Italian commuters from surrounding regions with high unemployment. These commuters now account for about one third of the private sector workforce. However, despite the impressive growth performance, fiscal policy has recently deteriorated: during 1999–2000, the central administration budget deficit—computed in line with Eurostat's ESA95 standards—widened to around 2¾ percent of GDP, up from a deficit of about 1 percent of GDP during most of the 1990s. Nevertheless, the overall net asset position of the public sector remains sound.

2. The two chapters of this paper shed light on various aspects of this economic performance. Chapter I—**Financial Sector Developments and Challenges**—takes the pulse of San Marino's financial sector. The banking sector is of strategic importance for San Marino's economy given its size and contribution to fiscal revenue. The chapter explains the structure of the financial sector, compares the performance of Sammarinese banks against those in other countries, reviews the legal and regulatory environment as well as supervisory practices, and discusses the challenges facing the banking system.

3. Several conclusions emerge from the analysis of San Marino's financial sector. First, the financial system is in a state of flux: new banks are entering the Sammarinese market and existing banks have recently changed their ownership structure to become joint-stock companies. Banks are successfully offering new services, notably asset management, to offset lower revenue from interest rate margins. Moreover, the authorities are planning to develop a legal and regulatory framework for insurance and mutual fund activity. Second, the data suggest that the Sammarinese banks are well capitalized and well provisioned, profitable, and cost efficient. Third, the authorities have pursued a prudent policy in developing the financial sector and are in the process of strengthening further the regulatory environment. Close supervision is crucial at a time when banks venture into new areas of activity. Accordingly, the authorities are in the process of formally implementing the Basel principles and capital adequacy requirements as the framework for supervision of the financial system.

4. Increased transfers from the central administration budget to the Social Security Institute (ISS) to cover a rising gap between social security contributions and pension payments partly account for the deteriorating fiscal performance. Chapter II—**Pensions and Population Aging**—reviews the pension system of San Marino. In particular, it presents the main institutional features of the system; reviews recent financial developments; explores scenarios for future financial developments under various assumptions; compares institutional features of the Sammarinese pension system with those in other European Union (EU) countries; and presents some reform options. Two key conclusions emerge from the analysis. First, the Sammarinese pension system is generous, even compared with the

systems in other EU countries. As a result, the system has recently begun posting deficits, despite a worker-to-retiree ratio of 4:1. Second, absent remedial measures, the financial position of the pension system would weaken further over the next 15 years under various plausible assumptions. As always, the results from long-term scenarios depend crucially on the underlying assumptions. Nevertheless, the results add further support to existing studies that have drawn attention to emerging weaknesses and have made the case for pension reform.

I. Financial Sector Developments and Challenges[1]

5. The banking sector is of strategic importance for San Marino's economy given its size and contribution to fiscal revenue. This chapter explains the structure of the financial sector, compares the performance of Sammarinese banks against those in other countries, reviews the legal and regulatory environment as well as supervisory practices, and discusses the challenges facing the banking system. Several conclusions emerge from the analysis of San Marino's financial sector. First, the financial system is in a state of flux, as new banks enter the markets and existing banks change their ownership structure and business. Second, the data suggest that the Sammarinese banks are well capitalized and well provisioned, profitable, and cost efficient. Third, the authorities have pursued a prudent policy in developing the financial sector and are in the process of strengthening further the regulatory environment.

6. The chapter is organized as follows: Section A provides an overview of the structure of the Sammarinese financial system; Section B explains developments at the central bank, the Istituto di Credito Sammarinese; Section C analyzes the commercial banks, comparing their performance to that of banks in other countries; Section D reviews the nonbank financial institutions; Section E briefly summarizes how competitive San Marino's banks are, based on the analysis presented in earlier sections; Section F discusses issues related to the introduction of the euro and Section G reviews prudential issues; Section H concludes.

A. Introduction

7. The financial sector is large relative to San Marino's size, and it contributes significantly to the overall economy and tax revenues. It comprises the central bank, four established commercial banks as well as several newly incorporated banks, and several specialized nonbank financial institutions. All are supervised by the Office of Bank Supervision (OBS), the Ispettorato per il Credito e le Valute. Insurance and mutual fund companies cannot be established under Sammarinese law, but this may change in the near future.

8. San Marino has adopted the euro and its commercial banks can deal directly with foreign correspondents. The central bank (Istituto di Credito Sammarinese—ICS) acts much like an agent bank for the government and public sector and does not have an independent monetary policy nor does it carry out a full range of central bank functions. The major commercial banks all extend credit to residents, but also draw funds from Italy for reinvestment in Italian bank securities and are increasingly shifting to asset management and private banking. Banking activity has been bolstered by advantageous withholding taxes and bank confidentiality. Activity by nonbank financial institutions is limited but important in

[1] Prepared by Russell Krueger.

several specialized areas, such as consumer credit and construction lease financing. Residents of San Marino have ready access to Italian banks to obtain credit or banking services.

9. The analysis of the financial system focuses on prudential issues and institutional and competitive factors affecting Sammarinese banks within the larger Italian and euro-area financial sectors. Key indicators of bank activity for 1999 and 2000 are summarized in Tables 1 to 4, below.

Table 1. San Marino: Total Assets of Sammarinese Banks, 1999 and 2000
(As of December 31; in millions of lire)

Bank	1999	2000	Change (In percent)
Istituto di Credito Sammarinese	312,964	315,859	+0.9
Private banks			
Cassa di Risparmio (Sammarinese)	3,969,628	4,146,370	+4.5
Banca Agricola Commerciale (Italian ownership)	2,473,236	2,723,733	+10.1
Banca di San Marino (Sammarinese)	1,831,035	1,981,237	+8.2
Credito Industriale Sammarinese (Italian ownership)	819,044	881,372	+7.6
Two newly-chartered banks	n.a	43.687	...
Total - Private banks (in millions of lire)	9,092,945	9,776,399	+7.5
Total - Private banks (in millions of euro)	4,696	5,049	+7.5
Total as percent of GDP	586	574	...

Source: Bank annual balance sheets.

Table 2. San Marino: Asset Management and Security Custody Activity of Private Sammarinese Banks
(As of December 31; in millions of lire)

	1999	2000	Change (In percent)
Asset management 1/	1,865,858	2,046,454	+9.7
Custody and securities management	18,519,472	21,628,985	+16.8
a. Nonproprietary bonds deposited at the bank	7,681,709	8,094,625	+5.3
b. Nonproprietary bonds deposited elsewhere	6,145,027	7,892,747	+28.4
c. Proprietary bonds deposited elsewhere	4,692,735	5,641,611	+20.2
	(In percent of GDP)		
Asset management	115	103	...
Custody and securities management	1,145	1,219	...
a. Nonproprietary bonds deposited at the bank	475	456	...
b. Nonproprietary bonds deposited elsewhere	380	445	...
c. Proprietary bonds deposited elsewhere	290	318	...

Sources: Office of Bank Supervision (OBS), Statistics Office; and staff estimates for GDP in 2000.

1/ Data for 2000 reflects a new provision in 2000 under which one bank reported market value data, 220 million lire more than the historical valuation.

Table 3. San Marino: Banking Sector Operating Indicators
(In millions of lire)

Line	Item	1997	1998	1999	2000
(a)	Interest margin	188,283	217,837	180,072	204,022
	Percent of assets	*2.4*	*2.8*	*2.0*	*2.0*
	Percent of operating income	*63.4*	*70.0*	*64.1*	*64.5*
	Interest Income	553,031	550,411	349,992	430,083
	Interest Expense	364,748	332,574	169,920	226,061
(b1)	Revenue from services	14,651	25,328	50,533	74,265
	Percent of assets	*0.2*	*0.3*	*0.6*	*0.7*
	Percent of operating income	*4.9*	*8.1*	*18.0*	*23.5*
	Commission income	17,365	29,309	54,493	79,246
	Commission payments	2,714	3,981	3,960	4,981
(b2)	Trading gains	86,706	59,815	43,095	29,492
	Percent of assets	*1.1*	*0.8*	*0.5*	*0.3*
	Percent of operating income	*29.2*	*19.2*	*15.3*	*9.3*
(b3)	Other revenues, total	7,119	8,288	7,375	8,417
	Dividends	1,014	1,515	1,518	1,573
	Other revenues	6,105	6,773	5,857	6,844
(b) = (b1..b3)	Net other receipts	108,476	93,431	101,003	112,174
	Percent of assets	*1.4*	*1.2*	*1.1*	*1.1*
	Percent of operating income	*36.6*	*30.0*	*35.9*	*35.5*
(c) = (a) + (b)	Intermediation margin (Operating income)	296,759	311,268	281,075	316,196
	Percent of assets	*3.7*	*4.0*	*3.1*	*3.2*
	Percent of operating income	*100.0*	*100.0*	*100.0*	*100.0*
(d)	Administrative costs, total	55,959	62,520	67,565	73,933
	Percent of assets	*0.7*	*0.8*	*0.7*	*0.7*
	Percent of operating income	*18.9*	*20.1*	*24.0*	*23.4*
	Personnel costs	35,622	38,073	41,112	43,590
	Other administrative costs	20,337	24,447	26,453	30,343
(e)	Profits	46,871	52,028	55,777	64,912
	Percent of total assets	*0.6*	*0.8*	*0.6*	*0.7*
	Percent of operating income	*15.8*	*16.7*	*19.8*	*20.5*
(f)	Total Assets (end of year)	7,980,857	7,831,216	9,092,945	9,976,399
	Employees	337	359	379	397
	Assets per employee	23,682	21,814	23,992	25,129

Sources: OBS and, for total assets in 1997–98, staff estimate based on OBS data.

Table 4. Cross-Country Comparison of Banking Sector Operating Indicators, 1999
(All data are in millions of euros)

Line	Item	San Marino	Italy	Luxembourg
(a)	Interest margin	93.0	33,094.0	3,399.0
	Percent of assets	*2*	*2*	*1*
	Percent of operating income	*64*	*62*	*51*
	Interest income	180.8	66,252.1	37,539.0
	Interest expense	87.8	33,094.1	34,140.0
(b1)	Revenue from services	26.1	11,349.1	...
	Percent of assets	*0.6*	*0.8*	...
	Percent of operating income	*18*	*21*	...
	Commission income	28.1	13,181.0	...
	Commission payments	2.0	1,831.9	...
(b2)	Trading gains	22.3	7,570.2	...
	Percent of assets	*0.5*	*0.5*	...
	Percent of operating income	*15*	*14*	...
(b3)	Other revenues, total	3.8	939.4	...
	Dividends	0.8	...	...
	Other revenues	3.0	...	...
(b) = (b1..b3)	Net other receipts	52.2	19,858.8	3,274.0
	Percent of assets	*1.2*	*1.3*	*0.6*
	Percent of operating income	*36*	*38*	*49*
(c) = (a) + (b)	Intermediation margin (Operating income)	145.2	52,952.8	6,673.0
	Percent of assets	*3.3*	*3.6*	*1.2*
	Percent of operating income	*100*	*100*	*100*
(d)	Administrative costs, total	34.9	31,962.5	3,072.0
	Percent of assets	*0.8*	*2.2*	*0.5*
	Percent of operating income	*24*	*60*	*46*
	Personnel costs	21.2	19,091.3	1,483.0
	Other administrative costs	13.7	12,871.1	1,589.0
(e)	Profits	28.8	9,125.8	2,052.0
	As percent of total assets	*0.6*	*0.6*	*0.36*
(f)	Total assets (average)	4,370.3	1,485,608.9	567,408.3
	Employees	379	311,100	21,200
	Assets per employee	11,531	4.775	26.764

Sources: OBS; and OECD, Bank Profitability, 2000.

Note: Excludes central bank.

10. The commercial banking system is large for the size of the economy, is highly productive, and fast growing (Tables 1–4). Total on-balance-sheet assets of the banking system approached almost Lit 10 trillion at year-end 2000, or somewhat over €5 billion, which translates into €87,400 per capita. Growth in assets in 2000 was a sizable 7.5 percent, with all major banks sharing in the growth. Table 2 provides some indication of the substantial asset management and security custody activity carried out by the banking sector, which involves management of slightly more than twice the volume of on-balance-sheet assets.[2] As shown in Table 3, the income from investment of on-balance-sheet assets and the commission fees (which are earned mostly from asset management) are large. The growth of commission income from 1997 to 2000—at an average annual rate of 72 percent—was exceptionally strong. After-tax profits grew steadily, at an 11.5 percent annual rate over the period. The yield per employee was also very strong, with each employee in 2000 generating on average € 84,000 in after-tax profits.[3] Moreover, nonperforming loans stood at 1.2 percent of credit in 2000 and are covered by ample provisions totaling 5.1 percent of credit. These data indicate a strong banking sector that has contributed importantly to the economic growth of San Marino in recent years. The future vigor of the economy could thus depend considerably on the continued health of the banking sector.

11. Available data suggest that the Sammarinese banking system compares favorably with those of Italy and Luxembourg.[4] Sammarinese commercial banks' income profile is very similar to that in Italy, with net interest providing over three-fifths of operating income in both systems. In both systems, interest income is about twice income expense because of the relatively large margin between lending rates and retail deposit rates. In contrast, in Luxembourg, interest income is only 10 percent greater than interest expense because the banking system handles a large volume of low-margin interbank transactions. The low margin for interest income in Luxembourg is offset by the contribution of service income and trading and other revenues, which comprise fully half of operating income. On the expense side, Sammarinese banks appear to be highly efficient, with administrative costs equaling only 24 percent of operating income, in contrast to 60 percent in Italy and 46 percent in Luxembourg.

B. Istituto di Credito Sammarinese

12. The Istituto di Credito Sammarinese is San Marino's central bank. It began operating in 1992, funded 70 percent by the public sector and 30 percent by Sammarinese banks. It is

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[2] The analysis of the financial sector of San Marino is better understood by taking into consideration the size and rapid growth of the off-balance-sheet asset management activity.

[3] The table does not include data on taxes paid by banks, but for comparison, in 2000 Sammarinese banks paid on average € 59,000 in taxes per employee.

[4] Data for Italy and Luxembourg are from OECD *Bank Profitability 2000.*

charged with promoting the economic and financial development of the Republic of San Marino. Among its stated functions are advising the government and state authorities on financial issues, acting as the state treasury, including tax collection and management of public sector deposits, collecting and disseminating financial sector data, managing financial transactions with foreign counter parties, and maintaining relationships with the IMF and other foreign financial organizations. In this regard, it is listed as a partner bank with the European Central Bank on the introduction of the euro.

13. The main activity of the ICS is to serve as banker to the government and public enterprises by taking government and public enterprise deposits and reinvesting them abroad, along with investing its own substantial capital. Per a 1993 law, the ICS is established as the single Treasury of the government, although the social security funds are managed autonomously and are not deposited at the ICS. Some other activities are constrained. For example, some regulatory functions are shared with the OBS, and a five-member council of ministers, the Credit and Savings Committee, carries out general oversight over the economy and has a large role in setting the government's agenda for development of the financial sector. A summary of major ICS accounts from monetary statistics reported to the Fund is shown in Table 5. These data show that government deposits stood at 56 percent of total liabilities in June 2001, and public enterprise deposits were 11 percent. Foreign assets stood at 88 percent of total assets in June 2001, mostly in euro-denominated securities and certificates of deposit. The ICS experienced a modest decline in size since 1996 (Table 6), largely as a result of a drop-off in deposits by the central government. Liabilities to nonresidents are negligible. The capital position is strong.

Table 5. San Marino: Composition of Balance Sheet of ICS

	1999	2000	2001
Assets	IV	IV	II
As percent of total assets			
Foreign assets	86	86	88
Claims on general government	9	9	8
Of which: short-term credit to central admin.	8	8	8
Claims on banks	0	2	1
All other assets	5	3	2
Total assets	100	100	100
Liabilities			
As percent of total liabilities			
Foreign liabilities	0	0	0
General government deposits	65	61	56
Nonfinancial public enterprise deposits	4	12	11
Liabilities to banks	0	1	8
All other liabilities	9	4	2
Capital	22	23	24
Total liabilities	100	100	100

Table 6. San Marino: Total assets of the ICS
(In millions of lire)

1994	319,891
1995	334,997
1996	367,140
1997	362,984
1998	320,560
1999	312,963
2000	315,859

Source: ICS financial statements.

14. The ICS derives substantial income from investment of its assets (Table 7), which has contributed to regular profits, the ability to make regular annual tax payments, and growth in capital. Net interest income swelled during 1995–97, a period that corresponded with historically high total assets and a peak in interest rates. It has dropped off during the past three years as ICS's total assets have trended downward, interest rates have declined, and interest margins tightened some. After-tax profits relative to total assets have increased steadily to 0.95 percent in 2000; in contrast, the after-tax return on capital has been steady in recent years at 4.6 percent.

Table 7. San Marino: ICS Interest Income, Profits Taxes, and After-Tax Profits
(In millions of lire)

	Interest Receipts	Interest Payments	Net Interest	Taxes	After-Tax Profits		
					Profits	Percent of Average Assets	Percent of Average Capital
1994	23,923	14,355	9,558	1,332	2,019	...	...
1995	33,016	20,919	12,096	1,328	2,189	0.67	...
1996	31,995	18,995	13,000	3,573	2,398	0.68	6.2
1997	26,402	13,383	13,020	3,484	2,530	0.69	5.2
1998	18,641	7,871	10,771	1,957	2,689	0.76	4.6
1999	13,081	4,331	8,750	1177	2,840	0.90	4.6
2000	14,588	4,587	10,001	1,507	2,983	0.95	4.6

Source: ICS financial statements.

15. The ICS has asset custody and management accounts (Table 8). The largest component is own securities deposited elsewhere. However, there are also two large accounts reflecting proprietary and nonproprietary Titano Fund bonds deposited outside the country. The Titano Fund was created in 1995 by the ICS, two Sammarinese banks, and an Italian bank as a vehicle to provide residents with a mutual fund investment instrument. There was no provision under local law to establish a mutual fund, so the fund was established through a management company subject to Luxembourgeous supervision in which the ICS held a

60 percent capital share. The Sammarinese banks marketed shares until 1998, when they pulled out of the Titano Fund in order to market other mutual funds. The ICS chose to continue the Titano Fund at that time as a service to investors. The Fund remains open, but new sales are slow.

Table 8. ICS Custody and Asset Managements Accounts
(In millions of lire)

	1996	1997	1998	1999	2000
Nonproprietary bonds deposited at the bank 1/	19,443	19,983	20,410	34,128	91,261
Of which: Treasury service	2,178	2,189	2,216	2,242	2,240
securities issued in favor of IMF	17,266	17,795	18,193	31,886	40,829
Nonproprietary bonds deposited elsewhere 2/	5,598	6,218	43,149	47,304	48,192
Of which: third party Titano Fund shares	5,498	6,218	43,149	47,304	46,343
Proprietary bonds deposited elsewhere	274,199	268,131	205,997	237,347	264,197
Of which: owned securities with third parties 3/	262,007	254,780	187,560	204,118	228,991
owned mutual fund shares (Titano Fund and other) 4/	12,189	13,348	18,434	33,226	35,203
SWIFT shares 5/	3	3	3	3	3

Source: ICS.
1/ Beginning in 2000, includes amounts in item 2.
2/ Beginning in 2000, these amounts are also included in item 1.
3/ Nominal value.
4/ Market value at end of year
5/ Cost value

16. Presently, the ICS does not participate in euro-area clearing organizations, but steps have been taken to participate in the Italian settlement system, and through that in the euro-area system. Sammarinese banks now clear positions on a bilateral basis, but the ICS is considering creating an interbank clearing network for Sammarinese banks across an IT network that it would maintain.

C. Commercial Banks

17. The banking system of San Marino is large relative to population and domestic business activity and growth has been strong, contributing significantly to the overall economy. The four major commercial banks, by order of size of total assets, are Cassa di Risparmio della Republica di San Marino (Sammarinese), Banca Agricola Commerciale (BAC) (Italian ownership by Unicredito—Moody's financial strength rating in mid-2001: B—through Rolo Banca 1473), Banca di San Marino (Sammarinese), and Credito Industriale Sammarinese (CIS) (Italian ownership by Gruppo Antonveneta—Fitch financial strength

rating in mid-2001: C/D). All are active within the local market, but they are also involved in drawing in funds from Italy for reinvestment in Italian bank securities and in earning commission income from asset management and private banking. Four new small banks have recently opened.

18. As in several other European jurisdictions, bank confidentiality has spurred the business with nonresidents. However, unlike some of those jurisdictions, taxes on interest income are withheld, at an annual rate of 13 percent.[5] Interest paid to Italian depositors is subject to the Italian taxes, net of interest paid in San Marino. As of mid–2001, foreign liabilities of banks stood at 67 percent of total liabilities, unchanged from the fourth quarter of 1998.

19. Diversification of banks into asset management and securities custodian business appears to have helped sustain the overall competitiveness of Sammarinese banks. Asset management involves customers placing funds at the banks and granting them power to allocate funds for the purchase and sale of securities in the name of the customer; securities custodian business is similar but the customer retains control of purchase and sale decisions. The structure of banks' liabilities to nonresidents has changed as a rise in the share of liabilities under asset management accounts has about offset decreases in the shares of securities under repos and demand and savings deposits.[6] On the asset side, banks' claims on nonresidents have remained steady at about three-quarters of total assets, sustained by rapid growth of asset management accounts to a 15 percent share of total assets by June 2001. The large volume of assets managed off-balance-sheet is shown in Table 2. The asset management and securities custodian business contributed directly to the quadrupling of commission and fee income of Sammarinese banks from 1997 to 2000 to a substantial amount of Lit 79 billion, or €41 million (Table 3).

20. Key ratios for the four major Sammarinese banks compare favorably with three competitive banks in Italy and Luxembourg.[7] The first comparator bank is Banca delle Marche SpA (BdM), a regional bank based in the nearby Italian city of Ancona that is a potential direct competitor for retail business; BdM itself is about twice the size of the entire Sammarinese banking system. The second comparator is Unicredito, one of the largest Italian banks, which can provide some indication of banking ratios of highly rated banks in Italy. The third comparator is Banca Nazionale del Lavoro, International S.A. (BNL), based in

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[5] Italian withholding taxes are 27 percent or, for public debt, 12.5 percent.

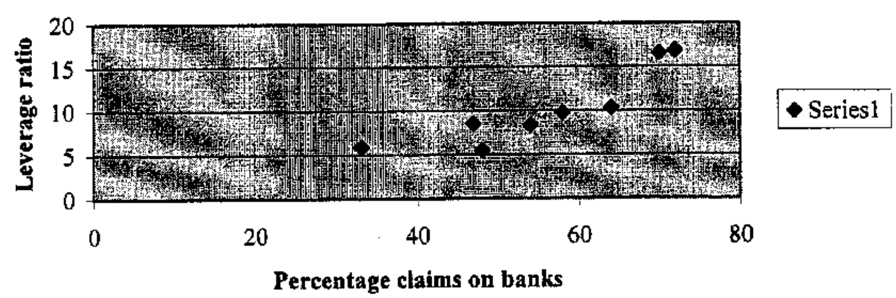
[6] The repo business mostly involves purchases by Sammarinese banks from Italian banks of lire-denominated three- or six-month certificates of deposit, and their resale to retail customers as three-month repurchase agreements.

[7] Data are drawn from balance sheet and bank income reports of Sammarinese banks filed with the ICS and from Bankscope.

Luxembourg, which engages in offshore type transactions typical of much of the business of Sammarinese banks; BNL is somewhat larger than Cassa di Risparmio, the largest Sammarinese bank.

21. The capital adequacy position of Sammarinese banks appears strong. Data on the Basel capital adequacy ratio for the comparator banks in 1999 and 2000 were, respectively, BdM 9.42 percent and 8.81 percent, Unicredito 8.97 percent and 8.67 percent, and BNL 8.90 percent and 110.3 (sic) percent. All these ratios are above the 8 percent regulatory floor, but are not especially high except for the ratio for BNL in 2000. Moreover, the two Italian banks reported decreases in the ratio in 2000. Thus, the comparator banks in general do not have very strong capital adequacy positions. In contrast, OBS tests of the Basel capital adequacy ratio for the Sammarinese banking system found that the Tier 1 ratio for every bank well exceeded the 8 percent regulatory minimum, with the range spanning 12.6 percent to 57.6 percent in 2000. Ratios for the banking sector were 31 and 30 percent in 1999 and 2000, respectively.[8] The OBS attributed these high ratios to the fact that the two Sammarinese-owned banks had been mutual institutions until recently and had not distributed profits. Moreover, nonperforming loans are low, the level of provisioning is high, and banks generally reinvest at least one-quarter of annual net profits.

**Figure 1. Leverage of Sammarinese Banks
1999 and 2000**



22. Leverage ratios (total assets relative to bank capital) of Sammarinese banks are relatively low (Tables 8–9).[9] The aggregate ratio for the four established Sammarinese banks

[8] The banks operating in San Marino need not respect a capital adequacy requirement and thus do not report capital adequacy ratios. However, the OBS is in the process of introducing such a requirement.

[9] The leverage ratio is a simple ratio of assets to capital drawn from standard balance sheet data. In contrast, the Basel capital adequacy ratio is the inverse (capital to assets) based on a specific supervisory definition of capital and assets weighted by their riskiness.

was 8.27 in 1999 and an improved 7.78 in 2000. However, the distribution is skewed, with one bank recording a high leverage ratio of over 16 in both years. The differences in leverage ratios between the four Sammarinese banks appear to reflect variations in leverage practices associated with different lines of business, with wholesale offshore banking involving greater leveraging. Figure 1 shows leveraging at Sammarinese banks in 1999 and 2000 relative to the intensity of interbank activity, as represented by the ratio of claims on banks to total assets. There is a clear positive relationship between greater interbank activity and leveraging. For example, the bank with the highest share of holdings of bank securities had the highest leverage ratio.[10] In contrast, the comparator banks have generally higher leverage ratios than all Sammarinese banks. For example, the leverage ratio for BNL, which engages in pure offshore business, is very high at 72 in 1999 and 100 in 2000.

23. The above data suggest that the Sammarinese banking system is adequately capitalized and leveraging is less than in likely comparator banks. Thus, the system appears relatively well insulated against financial shocks. The capital base appears sufficient to allow scope for greater efficiency in the use of capital and increased dividends, possible developments that would have to be closely monitored by the supervisory authorities.

24. Growth in the income and profitability of Sammarinese banks was strong in 2000 (Table 3). Moreover, the ratio of administrative expenses (personnel and other) to operating income in 2000 is only 23 percent, which is much lower than at either comparator retail bank. This suggests that the banks are efficient and well situated to face increased competition. Of course, the low ratio partly reflects the contribution of the low expenses arising in offshore business, which uses relatively few staff to handle large wholesale capital markets transactions. The comparator offshore bank BNL, which is even more heavily engaged in such operations, has an administrative expenses ratio of only 2.3 percent.

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[10] Such variation is also apparent in the comparator banks' ratios--BdM and Unicredito, which are retail banks with loans comprising about 80 and 60 percent of their respective assets, have much lower leverage ratios than does BNL, which specializes in offshore type transactions and has only 3 percent of its assets in the form of loans.

Table 9a. San Marino: Capital Adequacy and Balance Sheet Indicators, 1999

						Comparator Banks		
Banking Indicator	San Marino Total	Cassa di Risparmio	Banca Agricola Commerciale	Banca di San Marino	Credito Industriale Sammarinese	Banca delle Marche (Italy)	Banca Nazionale del Lavoro, Int'l. (Luxembourg)	Unicredito (Italy)
	(In millions of lire)					(In millions of euros)		
Capital adequacy								
Basel ratio	...	...	...	...	...	9.42	8.9	8.97
Basel capital	...	...	...	...	...	754	...	...
Risk-weighted Assets	3,652,228	1,453,601	1,025,319	766,956	406,352	8,004	...	...
Tier I ratio	31.49	48.47	13.98	26.42	24.52	7.98	n.a	7.60
Tier I capital	1,149,953	704,502	143,226	202,607	99,618	639	...	...
Leverage ratio	8.27	5.87	16.85	10.36	8.30	12.94	72.39	14.50
Balance sheet items								
Total assets	9,092,943	3,969,628	2,473,237	1,831,035	819,044	8,931	3,185	168,923
Credit to clients	1,691,863	618,490	419,120	356,744	297,509	7,647	113	101,577
Share of total assets (in percent)	18.6	15.6	16.9	19.5	36.3	81.1	3.6	60.1
Claims on banks Or bank securities	4,713,111	1,339,145	1,772,003	1,162,201	439,762	184	2,419	20,007
Share of total assets (in percent)	51.8	33.7	71.6	63.5	53.7	1.9	77.9	11.8
Securities liabilities	3,703,615	1,806,980	1,410,977	1,024,731	45	...	...	...
Due to clients	3,001,480	1,142,663	660,594	524,998	673,225	...	...	...
Capital	1,098,726	676,464	146,808	176,784	98,670	690	44	11,645

Sources: OBS and Bankscope database.

Table 9b. San Marino: Capital Adequacy and Balance Sheet Indicators, 2000

							Comparator Banks		
Banking Indicator	San Marino Total	Cassa di Risparmio	Banca Agricola Commerciale	Banca di San Marino	Credito Industriale Sammarinese	Two New Banks	Banca delle Marche (Italy)	Banca Nazionale del Lavoro, Int'l. (Luxembourg)	Unicredito (Italy)
	(In millions of lire)						(In millions of euros)		
Capital adequacy									
Basle ratio	...	...	...	...	...	...	9.0	110.3.	9
Basle capital	...	...	...	...	...	...	798	...	11,979
Risk-weighted Assets	4,188,475	1,356,261	1,184,523	1,052,703	594,988	...	9,058	...	135,165
Tier I ratio	29.95	57.64	12.56	20.35	18.47	...	8	...	6
Tier I capital	1,254,600	781,752	148,755	214,179	109,914	...	702	...	8,610
Leverage ratio	7.78	5.49	16.59	9.73	8.47	1.38	11.81	100.13	17.28
Balance sheet Items									
Total assets	9,779,397	4,149,370	2,723,732	1,981,237	881,372	43,686	9,424	3,104	202,649
Credit to clients	2,136,468	777,983	510,412	436,045	397,960	14,068	7,648	114	115,157
Share of total Assets	21.8	18.7	18.7	22.0	45.2	32.2	81.2	3.7	56.8%
Claims on banks and bank securities	5,470,591	1,988,500	1,891,965	1,157,862	416,922	15,342	184	2,420	24,903
Share of total Assets	55.9%	47.9%	69.5%	58.4%	47.3%	35.1%	2.0%	78.0%	12.3%
Securities liabilities	4,907,897	1,945,997	1,591,321	1,155,365	210,292	4,922	...	...	...
Due to clients	2,784,512	1,098,889	723,345	492,712	461,278	8,288	...	...	...
Capital	1,257,099	755,287	164,433	203,587	104,056	29,736	798	31	11,725

Sources: OBS and Bankscope database.

D. Nonbank Financial Institutions

25. A limited range of nonbank financial institutions operates in San Marino. They specialize in real estate leasing to finance new construction, consumer lending against future wages, and management of foreign assets or corporations. There is currently no authorization for insurance companies or mutual funds to operate in San Marino.

26. Real estate leasing companies are a major source of financing for new construction. San Marino limits direct purchases of real estate to physical and legal residents, companies must have approval to make purchases, and purchases should be related to the business. The leasing companies provide a channel for investors (including nonresident investors if authorized by the Council of Twelve) to finance real estate investments once a resident takes out a lease contract, which avoids a registration tax on real estate purchases. There are two larger leasing companies and five or six smaller firms that have been financing housing, factory construction, and to a lesser degree retail shops. The extent of financing is such that data on new leases might be a useful indicator of current overall construction activity. While data on real estate prices are not collected in San Marino, companies estimate that real estate prices have increased by perhaps 5–7 percent annually, with some recent acceleration. No company reported evidence of a real estate price bubble or excessive speculation.[11]

27. One firm specializes in personal and consumer credit for employees of larger firms, against one-fifth of future wages. The firm makes agreements with larger companies to loan to employees (mostly commuters from Italy) against future wages. The employer makes the reimbursement and the loans are covered by life insurance and loss of job insurance. There are no cooperatives that might compete in such lending.

28. A number of firms act as asset managers or as fiduciary agents for control of companies outside San Marino. They may not accept deposits directly, but typically borrow from banks when there is a funding need. These companies must have a link to the economy, such as owning or renting office space.

E. Competitiveness Issues

29. The condition and stability of the financial sector is particularly important to San Marino, given its large relative size and fiscal impact, as well as in its role in providing retail credit for the economy. The authorities and market participants recognize the challenges from increasing competition from Italian or other euro-area banks, as well as the need to improve the financial infrastructure to support the continued expansion and evolution of the sector.

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[11] Almost two-thirds of Sammarinese families fully own their residential property; 10 percent of the families rent and the remainder has mortgages outstanding.

30. Various factors have contributed to the strong performance of the banks. The sector has benefited from favorable tax and bank confidentiality situations relative to Italy, close relationships with clients, a highly trained professional staff, low bureaucracy, capable and flexible entrepreneurs, and the quality of the judiciary. These advantages have been combined with a prudent supervisory environment; efforts to know customers and discourage illicit activities; and measures to create a flexible, highly professional, low cost sector. These attributes have supported the development of asset management and private banking, which is widely viewed as the most interesting avenue for the future development of the sector.

31. A more competitive environment, with a growing number of internal and external bank and nonbank competitors, is expected. The regulatory and supervisory infrastructure therefore would have to evolve to enable the financial sector to provide new services and instruments. Plans are being developed for a clearing facility, a central credit register, and a legal and regulatory framework to authorize the creation of insurance companies, mutual funds, and trusts.

F. Introduction of Euro Banknotes and Coins

32. The euro is the official currency of San Marino, but for the time being the Italian lire is the circulating currency used for commercial banks' accounts and current transactions. With the authority of the Council of the European Union,[12] Italy was empowered to negotiate agreements with San Marino to replace the monetary union agreement between Italy and San Marino with an agreement making the euro the official currency of San Marino, providing access to payment systems, and covering other monetary conditions.

33. A monetary agreement with Italy on behalf of the European Community came into force in July 2001.[13] It granted legal status to euro banknotes and coins from January 1, 2002. San Marino was obligated to apply European Community rules regarding banknotes and coins, follow the schedule of Italy in introducing euros and retiring Sammarinese lira coins, and suppress counterfeiting.[14] San Marino does not now plan to issue banknotes, but is permitted to issue euro coins, with the common euro area obverse and national design reverse, up to an annual value of €1,944,000. This amount will be recalculated biannually based on changes in the Italian consumer price index. San Marino may issue collector euro coins with distinct designs as legal tender in San Marino only, but they are to be included

[12] 1999/97/EC: Council Decision of 31 December 1998 on the position to be taken by the community regarding an agreement concerning the monetary relations with the Republic of San Marino. European Union *Official Journal* L 030, 04/02/1999. pp. 33-34.

[13] Monetary Agreement between the Italian Republic, on Behalf of the European Community, and the Republic of San Marino. *Official Journal* (2001/C 209/01).

[14] In early November 2001, San Marino negotiated an agreement to bring its laws on counterfeiting of euros completely in line with EU standards.

within the total above.[15] San Marino can continue to issue gold scudi without limit as legal tender of San Marino only. It was also agreed that Sammarinese financial institutions may have access to payments systems within the euro area under terms determined by the Bank of Italy with the agreement of the ECB.[16]

34. The introduction of euro banknotes and coins will begin January 1, 2002. Authorities and market participants report that their internal systems are ready and that businesses and the public are educated regarding the change, and that the transition will be smooth and with limited costs. Although there might be the possibility of movements of counterfeits or underground cash prior to the changeover, no evidence has reportedly surfaced of unusual transactions or increased incidence of counterfeiting.

G. Prudential Issues

Framework

35. The OBS is responsible for supervision of banks and other financial institutions. It had a staff of eight in mid-2001. The Law 113 of 1999 provided the OBS the power to issue amendments and explanations of the banking law. In accordance with this provision, in October 1999, the OBS issued a major revision to the supervisory structure by mandating the adoption of the Basel capital adequacy and related principles. The specific provisions are now being developed and are expected to be circulated in May or June 2002. Under the new standard, all banks must report information on supervisory capital, accounting standards, risk evaluation, nonperforming loans and their collection, capital ratios, and interest margins. The OBS presently intends to have auditors prepare certificates of compliance that banks are applying the Basel principles.

36. Presently, banks do not need to meet a specific capital-to-asset ratio but the supervisor monitors developments in their BIS ratio. Banks can provision up to 5 percent of outstanding credit (tax free) for general credit risk, but there are no specific provisioning requirements; loans must be classified as nonperforming as soon as the bank has started legal action against a delinquent debtor. Medium- and long-term loans cannot exceed the higher of one-third of deposits or one-half of total loans. Exposures exceeding 20 percent of bank capital are considered large, and require prior approval if they exceed 40 percent. In practice, banks submit all proposals for loans exceeding 20 percent of regulatory capital to the OBS,

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[15] The value of euro coins issued annually by San Marino shall be added to the value of coins issued by Italy for purposes of ECB approval of the total value of the issue by Italy.

[16] The treaty makes no reference to any distribution to San Marino of monetary income based on its use of euro banknotes. However, another treaty with Italy, the Canones Doganales, provides for an annual payment to San Marino of Lit 9 billion in lieu of San Marino issuing banknotes, imposing tariffs, or operating a casino. The amount of the payment has not been adjusted since the mid-1980s.

which reviews them very closely. Such proposals are supported with data on all the banks' important exposures as well as with data on the project that the loan is to fund, and on the outstanding loans of the client company.

Supervisory practice

37. Financial institutions are closely supervised. The OBS has close, daily contact with each bank. Each year, it schedules two in-depth inspections of banks and up to five or six for nonbanks. Priority is given to new institutions and those not recently inspected. The schedule could be altered if there are reasons. In addition to general inspections, the OBS undertakes deeper reviews of specific lines of activity. In 2000, the focus was on internal auditing methods, risk management in financing, and anti-money laundering.

38. The process to review applications to open financial institutions is thorough. The first step is a technical review by the OBS to determine the reputation of the applicant. This involves direct contact with the applicants and contact with foreign supervisors whenever foreign investors are involved. The OBS gives a decision for or against the application. The OBS opinion goes to the Credit and Savings Committee that provides a second opinion based on political reasons. Finally, the application goes to the government, which makes a decision on a political basis. New banks must provide Lit 15 billion in capital, and nonbanks Lit 3 billion. Four new banks with minority interests by Swiss banks and nonbanks have recently entered the market. These institutions were required to render all licenses needed in their home countries.

Money laundering

39. Major progress has been made in the fight against money laundering through the adoption of the law on money laundering, the ratification of the *1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime* (the Strasbourg Convention), and the signing of the *European Convention on Mutual Assistance in Criminal Matters* and the *European Convention on Extradition.*[17] Except for opening bank accounts, all operators in San Marino have to have their main activity in the country to qualify for the required residency permit, conditions for which are very restrictive. In addition, the banks are required by law to identify customers opening an account. One potential vulnerability in the legal and regulatory framework is that the nonfinancial company legislation allows bearer shares and nominee shareholders, meaning that information on beneficiary owners of nonfinancial companies might not be available. However, measures to restrict the recourse to such types of ownership are already under consideration.

[17] San Marino is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures, which has observer status with the Financial Action Task Force on Money Laundering.

40. Under a 1998 law, the OBS is designated as the financial intelligence unit (FIU) for San Marino and is required to cooperate with courts and investigative bodies elsewhere. Procedures for acting on possible money laundering cases are as follows. The first step is that a bank officer, in accordance with the Basel know-your-customer rules, finds a suspicious activity. He is obliged to inform a responsible person in the bank, who prepares a report for the compliance officer, or to the bank head office in smaller banks. At this point, information on the activity of the suspect is collected from all arms of the bank to look for patterns of activity. The bank reports the information to the OBS, with an explanation of their concerns. The OBS investigates, looking at activity within the bank and in other Sammarinese banks, and may make external contacts, if appropriate. Once information is gathered, the OBS sends a report to a magistrate for possible criminal action and prepares a letter to other country supervisors, if appropriate. The OBS clarified that a bank officer can be sanctioned for not reporting suspicious activities, but would not be subject to punishment for violation of bank confidentiality regulations if the initial suspicion is found groundless. The OBS reported that it had investigated four cases in 2000, had completed three cases in 2001, and had several more in progress. Four cases have been referred to magistrates.

41. The OBS reports that the know-your-customer rules are carefully applied to transactions from abroad. Banks on rare occasions have received requests from foreign lawyers or agents to open high-value deposit accounts. These applications are monitored particularly carefully. In cooperation with the OBS, banks request information on the beneficial owners, at which point applications are often dropped. There has been no recent increase in such requests.

42. Following the September 2001 terrorist attacks, the authorities have strengthened their international collaboration to monitor financial flows related to terrorist activities and have instructed banks and other financial institutions to freeze the assets of persons or organizations listed as suspects of international terrorist activities.

Disclosure

43. Increased disclosure of financial sector information would be useful. At present, San Marino banks only make annual public disclosures. However, the banks make monthly and quarterly reports of balance sheet items and transactions to the OBS, which then prepares a semiannual report that is sent to the Credit and Saving Committee, and then back to the banks. The recent introduction of the Basel principles in San Marino was aimed in part to promote more disclosure to shareholders to involve them in reviewing bank performance. The authorities are considering requiring quarterly data reports, perhaps early next year when the implementing regulations for the Basel requirements are introduced.

H. Conclusion

44. Overall, San Marino has undertaken a highly measured strategy for financial sector development. The choice of the prudent strategy reflected the view that a small economy must primarily avoid mistakes and the ensuing reputational losses. As a result, the financial

sector is successful and has a reputation for stability. However, banks still have considerable room to increase the flexibility and innovation needed in to stay competitive in today's financial markets. And the changes to prudential regulations envisaged by the OBS should help in maintaining the strength of the financial system as the competitive pressures on banks increase.

II. Pensions and Population Aging[18]

45. This chapter reviews the main features of pension system of San Marino, and analyzes its medium-term sustainability. Two key conclusions emerge from this study:, first, the Sammarinese pension system is generous—even compared to the systems in other European Union (EU) countries. As a result, the system has recently begun posting deficits, despite a worker-to-retiree ratio of 4:1. Second, absent remedial measures, the financial position of the pension system can be expected to weaken further over the next 15 years. The chapter is organized as follows: Section A presents the main institutional features of the system; Section B reviews recent developments in the financial situation of the pension funds; Section C presents alternative scenarios of future contributions and expenditures paths under various assumptions; Section D compares institutional features of the Sammarinese pension system with those in other EU countries; and Section E concludes with a presentation of reform options.

A. The Current Pension System

46. The current pension system is entirely a pay-as-you-go-system, mandatory for all workers, including the self-employed. The system provides retirement benefits to local residents and cross border residents (former commuters) who have contributed at least for 15 years. It also provides disability pensions and survival benefits but these only represent 1 percent of the total pension outlays. Furthermore, the system guarantees a minimum "social" pension to residents aged 65 and older who can prove that they have no other source of income—outlays on "social" pensions account for about 12 percent of total outlays. Eligibility for the survival or disability pension requires seven years of active contributions. To be eligible for the social pension an individual must have lived in San Marino for five years and have a yearly income below the average wage.

47. The pension system is generous. The minimum retirement age for old age pensions is generally 60 years except for farmers and employers, for whom it is 65 years. Public employees can retire after 56 years of age if they have contributed for at least 35 years. The pension is equal to a fraction of the simple average of the retiring individuals' income (adjusted for inflation) over the last 5 years for dependent workers and over the last 10 years for the self-employed. The weighing coefficient by which the average income is multiplied to obtain the pension payment is computed by adding 3 percentage points for each of the first 15 years and 2 percentage points for each additional year of work. However, if retirement is postponed above the minimum entitlement age, each additional year of active labor ads 5 percentage points to the weighing coefficient. The resulting pension is subject to a ceiling equal to 100 percent of final work year's income or Lit 67 million (in 2001), whichever is less. Also, the minimum payments for monthly pensions cannot be below Lit 2.1 million, the level of the "social" pension in 2001. All pensions are fully indexed to inflation (cost of living index).

[18] Prepared by Luisa Zanforlin.

48. Commuters from Italy make sizable contributions to the pension system. Commuters represent about 25 percent of the labor force and are entitled to receive a pension either from San Marino or from Italy, provided they have at least 20 years of active contributions. Their pension would then be determined according to Sammarinese laws and it would be proportional to the number of years worked in San Marino relative to the 35 year minimum contribution period required for the standard, full pension. If commuters pay contributions for less than 20 years, they are entitled to receive a yearly rent based on the capitalized contributions.

49. Pensions in San Marino are administered by an autonomous government agency, the Istituto di Sicurezza Sociale (ISS), which also provides for health care services and social services[19]. The agency is funded through payroll contributions, which include a direct public participation, and through government transfers from the general budget. Payroll contributions are calculated on workers' first Lit 67 million of wages (2001 ceiling). The contributions are credited to separate pension funds, depending on whether they are made by agricultural workers, artisans, dependent workers etc. and no cross subsidization between funds may in principle occur.

50. Worker and employer contribution rates in San Marino are substantially lower than in Italy, a feature that has enabled the country to attract Italian businesses and workers. Also, contributions from dependent workers currently account for about 87 percent of total workers' contributions. The contribution rates are as follows:

	Employee	Employer	State
Dependent workers	1.6	10.3	1.19
Artisans	16.2	...	3.5
Agricultural	10	...	80 percent of the deficit
Shopkeepers	17.5	...	4.375
Professionals	10	...	1.0

B. Recent Financial Developments

51. Rapid employment growth has boosted contributions but recently pension outlays have outpaced contributions. The increase in employment in recent years, mostly driven by commuters,[20] has raised total contributions to the system—excluding the mandatory state

[19] Such as retirement homes, orphanages, and mental institutions.

[20] The number of commuters working in San Marino increased by 77 percent during 1995–2000. As a result, they accounted for over half of the new jobs created during that period.

contribution—at annual rates of about 7¼ percent on average (Table 1). Inclusive of the mandatory state contributions, the annual increase of contributions has averaged about 7¾ percent. However, counterpart expenditures of the pension system have grown on average at annual rates above 11 percent. Accordingly, the pension has posted a deficit of about ¾ percent of GDP for the first time in 1996, if the mandatory state contribution is excluded. Upon including this contribution, the system was close to balance in 1996 and began recoding a deficit in 1998. Notice that the negative cash flow has emerged despite a worker-to-retiree ratio of 4:1.

Table 1. San Marino: Pension Statistics and Projections
(In billions of lire)

	Actuals			High Employment		Low Employment	
	1996	1999	Avg. Yearly Change 96/99	2005	Avg. Yearly Change 99/2005	2005	Avg. Yearly Change 99/2005
Total pension contributions 1/	55	68	7.9	103	8.6	93	6.1
Total pension expenditure 2/	65	86	11.2	132.6	8.9	132.4	8.9
Number of retirees 3/	3,806	4,448	5.6	5,576	4.2	5,576	4.2
Average pension per retiree			5.4	23.8	4.6	23.7	4.5
Balance	-9.7	-18.4	-8.7	-29.5	-1.9	-39.8	-3.6
(In percent of GDP)	-0.7	-1.2	-0.5	-1.3		-1.8	
Number of workers	15,985	18,010	4.2	21,700	3.4	20,400	2.2
Of which: frontalieri (in percent)	20	24	...		...		...
Workers-to-retirees ratio	4	4	-3.8	3.9	...	3.7	...

Sources: Sammarinese authorities; and Fund staff estimates.

1/ So- called "contributi propri", or direct wage contributions (excluding mandatory state contributions).
2/ So- called "Pensioni ordinarie e privilegiate".
3/ Old-age pensions only.

C. Short- and Long-Run Scenarios

52. The extent of future financing requirements of the current system can be analyzed by projecting future expenditures and contributions under different productivity and employment scenarios, taking into account the current age structure of the population. For the purpose of this analysis, two scenarios—a high growth scenario and a low growth scenario—are depicted for the current contribution structure, retirement behavior, and age structure of population over the next 15 years:

- The **high growth scenario** assumes annual labor productivity growth of 2 percent; inflation of 2 percent; wage growth of 4.1 percent (the product of inflation and productivity); and employment growth of 3.2 percent.[21]

[21] The employment increase assumption represents the weighted average of an assumed increase of 4 percent in manufacturing sector employment, in line with recent trends, an
(continued)

- The **low growth scenario** assumes the same annual inflation rate but annual productivity growth of only 1.1 percent, and annual employment growth of only 2 percent.

53. Simplifying assumptions have to be made to compute the evolution of pension outlays in the medium term. However, a broad range of possible outcomes can be reviewed by considering different scenarios. An important assumption underlying both scenarios is that the average retirement age in San Marino is set at 59 years, but the retirement age could increase as population growth declines and wages rise. Both scenarios assume that contributions are fully paid, implying that effective contribution rates are equal to the statutory rates. Actual developments could be different.

54. The labor productivity assumptions in both scenarios could appear pessimistic in the short run but not in long run. Labor productivity in San Marino has grown annually by about 3 percent during the 1990s, far exceeding levels recorded in most EU countries. However, simulations for Italy have assumed annual growth rates between 1.1–1.8 percent.[22] And the 1990s were a catch-up period for San Marino, during which the level of nominal GDP per employed rose from about 84 percent of the Italian level at the beginning of the decade, to an estimated 95 percent in 2000. Productivity growth may thus remain higher than in Italy, but a convergence to Italian growth rates can be expected.

55. Although the employment assumptions may also appear pessimistic compared with recent developments, they imply a continuous strong inflow of foreign workers in both cases. Taking the demographic projections of Eurostat for Italy as a benchmark, the population of 20–64 year olds would contract annually by about 0.4 percent on average through 2015. Thus, at an unchanged labor force participation rate, this would imply that the level of resident workers would decline from about 14,000 in 2000 to about 13,100 in 2015. To ensure even an average employment growth of 2 percent over this period, the level of commuters would have to rise from about 4,700 in 2000 to 12,500 in 2015. Projected developments of the pension system depend on a continued inflow of nonresident workers, a setting that can hardly be maintained over the medium term.[23] In addition, under these assumptions, these commuters and immigrants earn average wages, and not less, as currently is the case, because of the composition of their skills.

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average employment increase of 2 percent in the public sector and an average increase of 1 percent in the self employed.

[22] See Ministero del Economia e delle Finanze (2000), *Le Tendenze di Medio-Lungo Periodo del Sistema Pensionistico Italiano.*

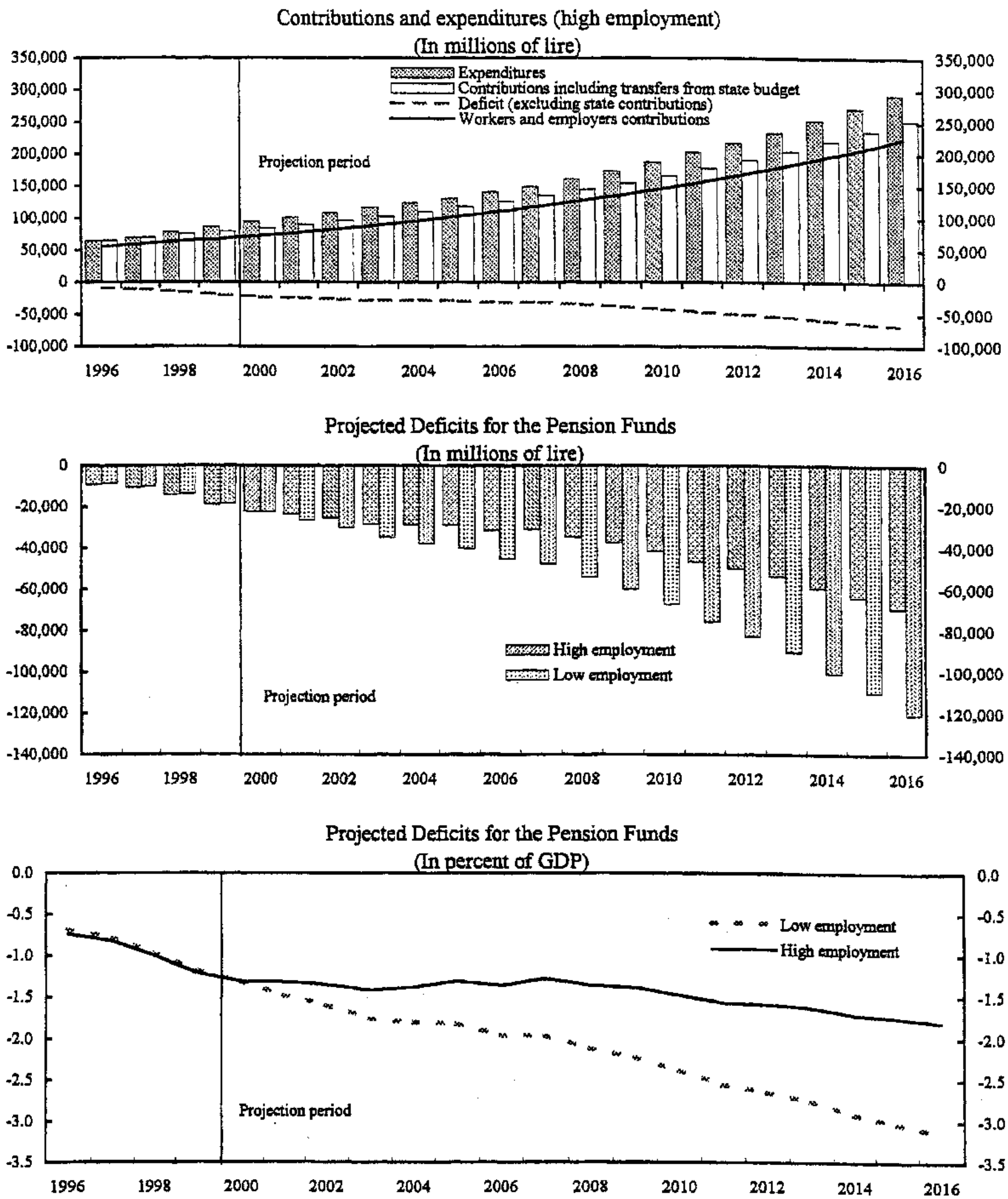
[23] A further issue is the compatibility of these scenarios for employment with available land resources.

56. Under both scenarios, the pension funds would post rising deficits. Expenditure would increase at annual rates of 8–9 percent (Table 1).[24] Under the high growth scenario, contributions would grow at an average annual rate of about 7½ percent.[25] Under the low growth scenario, contributions would grow at an annual average rate of only about 5¼ percent. The pension fund deficit—measured as the difference between workers and employers contributions and the direct contributions on their behalf by the state on the one hand and pension expenditure on the other—would rise from approximately 1¼ percent of GDP in 2000 to 1¾ percent of GDP under the high growth scenario and to 3 percent of GDP under the low growth scenario by 2015 (Figure 1). Notice that under the high growth scenario, this would imply a favorable break relative to the trend displayed in the second half of the 1990s: this trend break reflects (i) that under the assumptions the evolution of wages of the new commuters would be more in line with that of the present average wage, unlike today; and (ii) that all new workers would pay their contributions.

[24] For the purposes of these calculations, life expectancy at birth was assumed 78 years of age.

[25] For the years after 2002.

Figure 1. San Marino: Pension Funds, 1996-2016



Sources: Sammarinese authorities and Fund staff calculations.

57. On the expenditure side, near-term projections are very sensitive to the assumptions on the retirement behavior of a significant amount of workers with matured pension rights, currently in the active labor force. This represents an additional short-term risk to the system. According to a rough calculation, if all those entitled to a pension in 2001 were to claim their benefits, expenditures of the ISS would increase by about 15 percent in a single year (by about Lit 9 billion, or roughly ½ percent of GDP).

58. In the medium term and under both scenarios, expenditure projections to 2015 assume that all the workers above 44 years of age, currently in the labor force[26] will retire and be entitled to receive a pension. Given the high life expectancy in San Marino and pensioners already in the system, this would imply a doubling of the number of retirees and the worker to retiree ratio would drop to 3:1.[27] In addition, all pensions are expected to increase yearly at an average rate of 3 percent.

59. A recent study of the Sammarinese pension system also projects sizable future deficits.[28] The assumptions retained for contributions in that study resemble those under the high growth scenario in the near term, but then converge to those of the low growth scenario over the long term. Expenditure is very similar to the level projected here until 2008. However, thereafter expenditure is projected to grow at an annual rate of about 3½ percent each year. Since this is substantially less than envisaged under the scenarios discussed here, the estimated deficit, inclusive of mandatory state contributions, is lower in 2015, by about ½ percentage point of GDP relative to the high growth scenario. Differences in the projected deficits of the pensions funds as presented by the Sammarinese authorities may depend on differences in the underlying assumptions.[29]

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[26] Some 6,000 workers according to the age distribution of the active population.

[27] In the high employment scenario.

[28] "*La Previdenza: Il Presente e La Prospettive*" (Maggio 2001) Republica di San Marino, Segreteria di Stato per il Lavoro e la Previdenza, la Programmazione Economica, il Commercio con L'Estero e la Cooperazione.

[29] In particular, differences in expenditure projections beyond 2008, could depend on diverging assumptions on mortality rates, retirement behavior of people currently in the active labor force, and in labor migration. The scenarios discussed above assume workers currently in the active labor force will retire at age 60 and enjoy a full pension in San Marino for the next 18 years.

D. Comparative Analysis of the Sammarinese Pension System

60. The pension benefits in San Marino are among the more generous in Europe (Table 2).

Table 2. Pension Systems in European Countries

	Average Replacement Rate	Average Age at Retirement for Old Age Pensions	Minimum Retirement Age 1/	Contribution Years to Take Early Retirement 1/	Minimum Contribution Years 2/
San Marino 3/	87	59	60/56	35	15/0
Austria 3/	65	65	65	37.5	15/5
Belgium	35.5	63	60/64	22	5
Denmark 3/	56	67	67	...	0
Finland 3/	50	66	65	...	0
France	85 4/	62	60	...	15
Germany 3/	33	63	65	35	5/15
Greece	...	61	65/55	15	15/20
Luxembourg	53	...	65	40	10
Ireland	...	62	66	n.a.	n.a.
Italy 3/	...	62	65	35/40	19/5
Netherlands	70	65	65	40	10/5
Portugal	n.a.	...	65	36	15
Spain	65	...	65	...	15
Sweden	65	65	65	...	...
United Kingdom 3/	...	...	65	...	...

Source: Economic Policy Committee Report: "Impact of Ageing Populations on Public Pension Systems."

1/ Differences in minimum retirement ages are granted in certain systems on the basis of gender and sector of employment.

2/ Certain systems grant differences in the minimum contributions period depending on the sector of employment, the retirement age, and whether the system is earnings- or contributions-based.

3/ Systems where old age pension schemes co-exist with retirement pensions.

4/ Only for certain categories of workers.

Note: Because of the many exceptions and varieties of different pension systems within any single country, all data should be considered as indicative.

- The average retirement age in San Marino, is slightly below 60, mainly because dependent workers of the public sector, who represent about 20 percent of the active labor force, retire, on average at age 57. In the EU, the most common minimum retirement age which would ensure pension benefits eligibility is 65 years.

- The statutory replacement rate for Sammarinese pensions is among the highest of the EU.[30] While for most of other EU countries the replacement rate is below 70 percent (with few exceptions for specific categories of earners), in San Marino it is just below 85 percent of the last work year salary.

- In San Marino only the salary for the last 5-work years enters the pension benefit calculation, while in most other EU countries the pension benefits are calculated over the average salaries of the last 10 to 15 years. In addition, the current system in San Marino offers an incentive to workers to maximize the years of work after the minimum entitlement age, as doing so boosts the replacement rate.[31]

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[30] The replacement rate is the ratio of the pension to the latest salary.

[31] Each year of contribution above the minimum entitlement age increases the weighing coefficient by the same amount as to 2½ years of ordinary contributions.

E. Reform Options

61. The scenarios suggest that under plausible assumptions the Sammarinese pension system will post rising deficits over the next 15 years, underscoring the need for remedial action.

62. One measure that is being discussed is moving towards a fully funded pension system or a so-called multi pillar system. There are currently no private pension funds in San Marino. A multi-pillar system includes the pay-as-you-go public pension scheme (the so-called first pillar) as well as mandatory, fully funded private pension funds (second pillar), and, on a voluntary basis, other private pension schemes (third pillar). Most of the European systems are first pillar systems. Among OECD countries, Australia, Denmark, the Netherlands, and the United Kingdom have a well-developed private component. Moving progressively toward a two pillar system seems a suitable strategy for San Marino to avoid large deficits in the social security administration. In particular, a fully funded component of the pension system would limit the dependency of the system from the contributions of the commuters.

63. In San Marino, the existing assets of the social security funds could be used to finance the immediate shortfall in contributions to the public system during the early period of the transition from the defined benefit to a fully funded system. The pension fund's assets are estimated at some 10 percent of GDP in mid-2001. The government could issue bonds in recognition of future pension payments that cannot be cashed by workers until retirement or it could promise a compensatory pension over the whole retirement period.

64. Before considering a transition to a two-pillar system, the current system could be reformed to increase efficiency and to re-define the claims of workers and pensioners. Benefits could be aligned more closely with contributions through (i) lengthening the minimum required contribution period; (ii) extending the period over which the average qualifying wage is calculated; (iii) changing the computation of the weighing coefficients; (iv) raising the effective retirement age; (v) equalizing benefits and contributions for workers in the private sector; and (vi) improving tax administration to prevent under reporting of income to avoid taxes and social security contributions.

Table 1. San Marino: National Accounts

(In billions of lire)

	1992	1993	1994	1997	1998	1999
Gross domestic product	777	881	979	1,280	1,401	1,551
Consumption	614	689	761	806	845	877
of which:						
Private	499	551	599	586	618	620
Public	115	139	162	220	227	254
Gross investment	181	216	240	532	587	725
Private fixed capital formation	154	172	209	429	423	590
Public fixed capital formation	20	28	18	62	95	52
Change in stocks	8	16	13	41	69	83
Exports of goods and services	2,298	2,400	2,691	2,992	2,824	3,051
Imports of goods and services	-2,315	-2,424	-2,714	-3,050	-2,855	-3,102
Balance of goods and services	-18	-24	-23	-58	-31	-51

Source: Statistics Office.

Table 2. San Marino: National Accounts

(In billions of lire; at 1990 prices)

	1992	1993	1994	1997	1998	1999
Gross domestic product	685	735	774	946	1017	1109
Consumption	541	575	602	596	614	627
of which:						
Private	440	460	474	433	449	443
Public	102	116	128	163	165	182
Gross investment	159	180	190	393	426	518
Private fixed capital formation	135	143	166	317	307	422
Public fixed capital formation	17	23	14	46	69	37
Change in stocks	7	13	10	30	50	59
Exports of goods and services	2024	2003	2129	2212	2051	2181
Imports of goods and services	2040	-2023	-2147	-2254	-2073	-2217
Balance of goods and services	-16	-20	-18	-43	-23	-36
Memorandum item:						
Italian CPI	112	117	121	135	138	140

Source: Statistics Office.

Table 3. San Marino: National Income in Current and Constant Prices 1/

(In billions of lire)

	1997	1998	1999
	In current prices		
Gross National Income	1,179	1,273	1,385
Current taxes on income and wealth	144	164	167
Social contributions and benefits	20	22	21
Other current transfers	38	49	53
Disposable national income	977	1,039	1,143
	In constant (1995) prices		
Gross National Income	1,116	1,183	1,267
Current taxes on income and wealth	136	152	153
Social contributions and benefits	19	20	19
Other current transfers	36	45	49
Disposable national income	925	966	1,046

Source: Statistics Office. Contabilita Nazionale 1997-1999.

Table 4. San Marino: Labor Market

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Unemployed	493	503	616	580	495	653	568	553	454	428
Labor force	13,332	14,113	14,874	15,519	16,073	16,638	17,078	17,781	18,464	19,072
Cross border workers	1,434	1,931	2,268	2,640	2,986	3,182	3,428	3,828	4,244	4,680
Resident labor force	11,898	12,182	12,606	12,879	13,087	13,456	13,650	13,953	14,220	14,392
Unemployment rate										
Percent	4.1	4.1	4.9	4.5	3.8	4.9	4.2	4.0	3.2	3.0
Total employment	12,839	13,610	14,258	14,939	15,578	15,985	16,510	17,228	18,010	18,644
Percent change	5.8	6.0	4.8	4.8	4.3	2.6	3.3	4.3	4.5	3.5
Total resident employment	11,405	11,679	11,990	12,299	12,592	12,803	13,082	13,400	13,766	13,964
Percent change	3.6	2.4	2.7	2.6	2.4	1.7	2.2	2.4	2.7	1.4
Contractual wage (percent change)	8.8	7.3	6.2	5	6.4	5.0	4	5.1	5.1	5.0
CPI (Italy) (percent change)	6.4	5.4	4.3	3.9	5.4	3.9	1.7	1.8	1.6	2.6
CPI (San Marino) (percent change)	7.7	5.4	4.7	5.0	5.0	4.9	2.0	2.1	3.3	3.3

Source: Statistics Office.

Table 5. San Marino: Total Employment

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Employment by sector										
Agriculture	296	296	294	256	249	247	250	245	249	244
Manufacturing	4,495	4,591	4,739	5,078	5,256	5,339	5,515	5,774	5,934	6,132
Construction	1,058	1,106	1,195	1,291	1,440	1,479	1,451	1,510	1,569	1,603
Commerce	2,232	2,402	2,499	2,531	2,641	2,736	2,710	2,804	3,059	3,278
Transportation	231	285	278	282	311	337	353	362	394	435
Banking and insurance	294	339	390	400	417	433	471	511	541	574
Services	970	1,116	1,239	1,322	1,432	1,511	1,684	1,802	2,018	2,223
Government	2,196	2,358	2,737	2,892	2,963	3,029	3,148	3,236	3,279	3,228
Public corporations	1,067	1,117	887	887	869	874	928	984	967	927
Total employment										
Private sector	9,576	10,135	10,634	11,160	11,746	12,082	12,434	13,008	13,764	14,489
Public sector	3,263	3,475	3,624	3,779	3,832	3,903	4,076	4,220	4,246	4,155
Total	12,839	13,610	14,258	14,939	15,578	15,985	16,510	17,228	18,010	18,644

Source: Statistics Office.

Table 6. San Marino: Wage and Employment Developments

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(In billions of lira)						
Wage bill	200.4	227.7	247.1	294.9	329.3	374.1	417.9	470.9	514.3	564.9	618.6	656.4
Public	73.1	81.7	89.2	109.2	118.1	133.4	140.7	159.6	171.5	189.6	201.2	212.6
Private	127.3	146.0	157.9	185.7	211.2	240.7	277.2	311.3	342.8	375.3	417.4	443.8
Dependent employment	9,195	9,527	10,189	10,948	11,606	12,347	12,951	13,347	13,884	14,639	15,430	16,065
Public	3,032	3,139	3,263	3,475	3,624	3,779	3,832	3,903	4,076	4,220	4,246	4,155
Private	6,163	6,388	6,926	7,473	7,982	8,568	9,119	9,444	9,808	10,419	11,184	11,910
						(In thousands of lira)						
Per employee	21,794	23,900	24,252	26,936	28,373	30,299	32,268	35,281	37,043	38,589	40,091	40,859
Public	24,109	26,027	27,337	31,424	32,588	35,300	36,717	40,892	42,076	44,929	47,386	51,167
Private	20,656	22,855	22,798	24,849	26,460	28,093	30,398	32,963	34,951	36,021	37,321	37,263
						(In thousands of lira)						
Real per employee	33,176	34,290	32,696	34,454	34,828	35,783	36,172	38,065	39,284	40,202	41,117	40,859
Public	36,699	37,342	36,855	40,195	40,002	41,690	41,160	44,118	44,621	46,807	48,599	51,167
Private	31,442	32,791	30,736	31,785	32,479	33,178	34,076	35,563	37,066	37,526	38,277	37,263
						(Percent change)						
Wage bill	...	13.6	8.5	19.3	11.7	13.6	11.7	12.7	9.2	9.8	9.5	6.1
Public	...	11.8	9.2	22.4	8.2	13.0	5.5	13.4	7.5	10.6	6.1	5.7
Private	...	14.7	8.2	17.6	13.7	14.0	15.2	12.3	10.1	9.5	11.2	6.3
Dependent employment	...	3.6	6.9	7.4	6.0	6.4	4.9	3.1	4.0	5.4	5.4	4.1
Public	...	3.5	4.0	6.5	4.3	4.3	1.4	1.9	4.4	3.5	0.6	-2.1
Private	...	3.7	8.4	7.9	6.8	7.3	6.4	3.6	3.9	6.2	7.3	6.5
Per employee	...	9.7	1.5	11.1	5.3	6.8	6.5	9.3	5.0	4.2	3.9	1.9
Public	...	8.0	5.0	15.0	3.7	8.3	4.0	11.4	2.9	6.8	5.5	8.0
Private	...	10.7	-0.3	9.0	6.5	6.2	8.2	8.4	6.0	3.1	3.6	-0.2
Memorandum items:												
Public/Private wages												
In percent	116.7	113.9	119.9	126.5	123.2	125.7	120.8	124.1	120.4	124.7	127.0	137.3
Per worker (in US$)	15,884	19,949	19,548	21,857	18,030	18,791	19,810	22,867	21,750	22,219	22,058	19,414
Public	17,571	21,724	22,035	25,499	20,708	21,893	22,541	26,503	24,705	25,870	26,071	24,312
Private	15,054	19,076	18,377	20,163	16,814	17,423	18,662	21,364	20,522	20,741	20,534	17,705

Source: Statistics Office.

Table 7. San Marino: Central Administration Operations

(In percent of GDP)

	1996	1997	1998	1999	2000
Total revenues	55.1	59.7	57.2	57.5	47.5
Total revenue net of reimbursements on tax advances	30.1	31.2	31.8	28.1	26.9
Current revenue	54.1	59.4	56.3	56.4	46.6
Tax Revenue	46.7	52.1	49.9	50.7	41.2
Direct taxes	9.6	10.8	11.3	10.4	9.2
Indirect taxes	1.9	1.9	1.8	1.9	1.8
Monofase	35.2	39.4	36.8	38.4	30.2
Nontax revenue	7.4	7.2	6.4	5.7	5.4
Capital revenues	1.0	0.3	1.0	1.2	0.9
Total expenditures	56.9	61.1	57.4	60.2	50.3
Total expenditures net of reimbursements on tax advances	31.9	32.6	32.0	30.7	29.7
Current expenditures	52.0	56.7	52.9	57.2	47.1
Wages and salaries	10.2	10.8	10.9	10.5	10.3
Goods and services	...	...	3.2	3.1	3.2
Transfers to private sector	...	...	1.2	1.0	1.0
Interest	...	...	0.5	0.3	0.3
Reimbursements on tax advances	25.0	28.5	25.4	29.5	20.5
Transfers to rest of the public sector	...	...	11.3	12.3	11.4
Other current expenditures	...	...	0.4	0.4	0.3
Capital expenditures and net lending	4.8	4.4	4.5	3.0	3.2
Balance	-1.8	-1.4	-0.2	-2.6	-2.8
Financing	1.8	1.4	0.2	2.6	2.8
New Float (- asset) 1/	2.1	2.7	-1.0	5.2	-1.8
Domestic financing	3.1	1.6	3.6	-3.3	7.8
Foreign Financing	0.0	0.0	-0.1	-0.2	0.1
Loans	0.0	0.0	0.0	0.0	0.3
Amortization	0.0	0.0	-0.1	-0.2	-0.2
Payments (-)/ accumulation of arrears 2/	-3.4	-2.9	-2.4	0.9	-3.2

Sources: Sammarinese authorities; and Fund staff estimates and calculations.

1/ The system of reimbursement on tax advances generates large volumes of float to be carried over to the next year.
2/ These are carried over items that were cashed in the fiscal year. No carryover is assumed for 2001.

Table 8. San Marino: Gross Public Debt, 1996- 2000

(In millions of lire)

	1996	1997	1998	1999	2000 1/
Long term					
Domestic debt	38,659	46,393	52,930	51,489	49,076
Cassa DDPP	24,117	23,665	23,176	22,646	22,071
Law 129/1993	14,542	22,728	29,754	28,843	27,005
Long term	0	0	10,234	9,323	19,285
Overdraft 2/	14,542	22,728	19,520	19,520	7,720
Foreign debt 3/	5,000	5,000	5,000	6,250	7,500
Total long and medium term	43,659	51,393	57,930	57,739	56,576
(in percent of GDP)	3.6	4.0	4.1	3.7	3.3
Short-term and publicly guaranteed debt	114,097	133,687	142,711	159,585	170,594
(in percent of GDP)	9.3	10.4	10.2	10.3	10.0
Total gross public debt	157,757	185,080	200,641	217,324	227,170
(in percent of GDP)	12.8	14.5	14.3	14.0	13.3

Sources: Sammarinese authorities; and Fund staff calculations.

1/ Data for September.

2/ Amount overdrawn on existing long-term credit facility authorized by Law 129/93.

3/ European Council. As of 1/1/2002 will no longer be considered foreign debt.

Table 9. San Marino: Social Security Institute Operations

(In percent of GDP)

	1998	1999	2000
Revenue	21.4	20.6	20.2
Contributions	10.2	10.1	10.0
Transfers	10.1	9.5	9.3
Of which: from central administration	8.7	8.5	8.3
Other	1.1	1.1	1.0
Expenditure	21.5	20.8	20.4
Benefits (in cash)	9.7	9.9	9.7
Provisions	2.6	2.5	2.4
Cost of labor	4.2	4.1	4.0
Goods, services, and other benefits and transfers	4.9	4.3	4.4
Profit	-0.1	-0.2	-0.2

Sources: ISS; and staff estimates.

Table 10. San Marino: Interest Rates

(In percent; end-of-period)

	Deposit Rates		Loan Rates		Repurchase Agreement	Italian Deposit Rate
	Sight Saving	Time	Prime	Average		
1990 1/	7.5	8.0	11.0	12.5	...	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	10.0	6.2
1995	6.5	7.2	12.5	15.5	9.5	6.5
1996	4.8	5.5	10.4	13.8	7.0	6.5
1997	3.4	4.2	8.7	11.0	5.7	4.2
1998	2.4	3.3	6.5	8.2	3.2	2.3
1999	1.1	2.6	5.0	8.1	2.7	1.5
Mar-00	1.1	2.7	6.0	9.2	3.6	1.6
Jun-00	1.1	2.8	6.2	9.4	3.6	1.8
Sep-00	1.2	3.0	6.3	9.5	4.0	2.0
Dec-00	1.3	3.0	6.0	8.7	4.5	2.2
Mar-01	1.5	3.5	6.2	9.6	4.5	2.2
Jun-01	1.4	2.9	5.9	9.0	4.3	2.0

Sources: Data provided by the Sammarinese authorities; IMF, *International Financial Statistics.*

1/ Italian deposit data are annual averages.

Table 11. San Marino: Monetary Authorities 1/

(In billions of lire)

	1995	1996	1997	1998	1999	2000				2001	
						March	June	Sept.	Dec.	March	June
Foreign assets	315	329	322	282	278	276	302	297	281	297	294
Claims on central government	1	2	17	29	28	28	28	27	29	28	28
Claims on banking institutions	34	41	18	2	1	26	0	1	8	3	3
Claims on nonbank financial institutions	0	0	0	0	0	0	0	0	0	0	0
Reserve money	46	48	39	42	47	40	67	42	44	84	70
Deposits from banking institutions	0	0	0	3	1	10	20	5	4	23	26
Other demand deposits	20	21	22	23	27	30	38	37	39	60	44
Time, savings, and foreign currency deposits	25	27	17	16	19	0	9	1	1	1	1
Bonds	0	0	0	0	0	0	0	0	0	0	0
Foreign liabilities	0	0	0	0	0	0	0	0	0	0	0
Central government deposits	263	270	267	216	205	226	203	218	204	175	186
Central administration	220	224	209	178	171	154	166	185	162	133	152
Social security	30	31	41	23	12	41	15	11	10	13	7
Other	14	14	6	2	0	31	21	23	32	29	27
Capital Accounts	42	54	63	67	71	71	72	76	75	77	80
Other items (net)	-1	0	-12	-12	-16	-8	-12	-11	-6	-8	-11
Memorandum items:											
Foreign assets (share of GDP)	0.28	0.27	0.25	0.20	0.18	0.16	0.18	0.17	0.17	0.16	0.16
Foreign liabilities (share of GDP)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Sources: End-of-period data provided by the Sammarinese authorities; GDP for 2000 and 2001 estimated by Fund staff.

1/ San Marino has adopted the euro at a rate of 1936.27 Italian lire per 1 euro.

Table 12. San Marino: Monetary Survey 1/

(in billions of lire)

	1995	1996	1997	1998	1999	2000				2001	
						March	June	Sept.	Dec.	March	June
Foreign assets, net	1,655	1,332	1,404	1,216	1,424	1,372	1,448	1,345	1,218	1,307	1,162
Domestic Credit	1,131	1,207	1,533	1,914	2,088	2,090	2,231	2,324	2,642	2,635	2,990
Claims on central government, net	-259	-263	-250	-187	-177	-198	-175	-191	-175	-147	-158
Claims on private sector	1,223	1,298	1,594	1,865	2,010	2,028	2,133	2,238	2,497	2,458	2,787
Claims on nonbank financial institutions	167	172	189	236	255	260	273	277	320	324	361
Other items, net (including capital accounts)	-702	-811	-939	-1,142	-1,224	-1,229	-1,312	-1,266	-1,387	-1,408	-1,501
Broad money	2,084	1,728	1,998	1,988	2,288	2,233	2,367	2,403	2,473	2,534	2,651
Money	585	437	443	486	556	525	543	559	565	593	574
Broad money	1,499	1,291	1,555	1,502	1,732	1,708	1,824	1,844	1,908	1,941	2,077
Memorandum items:											
Foreign assets, net (share of GDP)	1.47	1.08	1.10	0.87	0.92	...	...	...	0.72	...	0.63
Domestic credit (share of GDP)	1.00	0.98	1.20	1.37	1.35	...	...	...	1.55	...	1.62
Broad money (share of GDP)	1.85	1.41	1.56	1.42	1.48	...	...	...	1.45	...	1.44

Source: End-of-period data provided by the Sammarinese authorities.

1/ San Marino has adopted the euro at a rate of 1936.27 Italian lire per 1 euro.

Table 13. San Marino: International Reserve-Like Assets

(In billions of lire)

	1995	1996	1997	1998	1999	2000				2001	
						March	June	Sept.	Dec.	March	June
Central Bank											
Foreign assets of the Central Bank	315	329	322	282	278	276	302	297	281	297	294
Foreign liabilities of the Central Bank	0	0	0	0	0	0	0	0	0	0	0
Banking Institutions											
Foreign assets of banking institutions	6,342	7,200	7,755	7,245	8,607	8,461	8,772	8,925	8,926	9,115	9,209
Foreign liabilities of banking institutions	5,002	6,197	6,673	6,311	7,461	7,365	7,626	7,877	7,989	8,105	8,341
Net foreign assets of banking institutions	1,340	1,003	1,082	934	1,146	1,096	1,146	1,048	937	1,010	868
Memorandum items: As share of GDP											
Foreign assets	5.6	5.9	6.1	5.2	5.5	n.a.	n.a.	n.a.	5.2	n.a.	5.0
Foreign liabilities	4.4	5.0	5.2	4.5	4.8	n.a.	n.a.	n.a.	4.7	n.a.	4.5
Net foreign assets	1.2	0.8	0.8	0.7	0.7	n.a.	n.a.	n.a.	0.6	n.a.	0.5

Sources: End-of-period data provided by the Sammarinese authorities; GDP for 2000 and 2001 estimated by Fund staff.