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**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Ondo Bile on Republic of San Marino  
(Preliminary)  
Executive Board Meeting  
November 15, 2021**

We thank Staff for the comprehensive report and Mr. Fanizza and Mr. Spadafora for their insightful Buff statement.

The economy of San Marino was hit hard by the pandemic--with the real GDP estimated to have dropped by -7.2 percent in 2020. However, the authorities' timely and well-targeted policy response package has helped mitigate the impact of the pandemic on the most vulnerable and helped strengthen the economy's resilience. It is encouraging to note that a swift recovery of about 5.5 percent is expected this year, underpinned by a successful vaccination campaign. Nonetheless, it would be important for authorities to contain the medium-term risks stemming notably from the high debt level--which has increased on the back of mitigation measures--the rollover of the Eurobond in 2024, the projected limited fiscal buffers, and weak bank balance sheets. In particular, the authorities should press ahead with their fiscal and reform agenda, including leveraging on the actions already taken in the banking sector and on access to international capital markets.

**We share the view that, while the fiscal policy should continue to support recovery, it should be precisely and narrowly targeted, given the limited buffers.** Once the crisis is under control supported by a continued strong vaccination campaign, pursuing an ambitious fiscal adjustment encompassing both structural revenue and expenditure measures will help strengthen the fiscal position and place public debt on a sustainable downward path. We encourage the authorities to move swiftly with the planned measures, including reviewing deductions and incentives, and introducing VAT and pension reforms. We expect these and

other reforms to yield the desired outcome, including expanding the tax base and rationalizing social benefits to generate savings for needed infrastructure spending.

**Ongoing reforms to reduce financial sector fragilities should continue as they are essential to sustain a viable recovery.** Efforts should be vested to consolidate and expand recent improvements in liquidity, profitability, and capitalization. At the same time, additional measures should be deployed to strengthen the Central Bank of San Marino (CBSM) further and reduce associated fiscal risks. This includes devising a business plan that will help reduce cost and improve underwriting standards at performing asset base, consistent with safeguarding the ample fiscal support provided to the state-owned bank Cassa di Risparmio di San Marino (CRSM) over the years. Additionally, we see merit in bringing down the large stock of tax credits once the banks start to generate profits, and consideration should be given to transforming those credits into marketable government securities, as indicated in the report. Similarly, we welcome the progress made in improving the AML/CFT framework, as revealed by the recent MONEYVAL assessment, which showed satisfying levels of effectiveness to risk understanding, international cooperation, financial intelligence, confiscation, and prosecutions of lawbreakers.

*We would appreciate staff's comments on the authorities' concerns that high reserve requirements could unduly impact banks' profitability, favoring complementary measures, and that more aggressive steps towards Basel III, including booking provisions based on IFRS9's forward looking-approach, are constrained by the current version of the Monetary Agreement with the EU, which is based on pre-IAS/IFRS.*

**Structural reforms to support private sector-led growth should be unleashed as the recovery solidifies.** We welcome the recent progress made under the San Marino 2030 ambitious development agenda to reduce bureaucracy, simplify the legal framework, and foster digitalization and internationalization of the country's business acumen. *Regarding the labor market distortions, can staff elaborate on the challenges facing San Marino on training and reskilling considering the relatively stable population?* Restoring the outdated insolvency framework and strengthening collaboration and economic relations with major trading partners should be pursued as well to improve productivity. Therefore, we appreciate the negotiations with the EU in this regard and would expect these to be finalized promptly and as planned, to help attract foreign investment and improve domestic firms' competitiveness.

With these remarks, we wish the authorities of San Marino success in their policy and reform endeavors.