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November 11, 2021

**Statement by Mr. Binzarah, Mr. Alhomaly, and Ms. Alshaikh on Republic of San Marino  
(Preliminary)  
Executive Board Meeting  
November 15, 2021**

We thank staff for the informative report and Mr. Fanizza and Mr. Spadafora for their helpful Buff statement. While San Marino entered the crisis amid the struggle from the Global Financial Crisis consequences, economic performance has shown notable resilience, despite the limited buffers and the constrained policy actions. While exports rebound along with the pent-up demand, underpinned by the fast pace of vaccination rollout and the scaled up targeted fiscal support financed, pockets of vulnerabilities exist, including, uncertainty from high debt, refinancing risks, weak bank balance sheets, and the still elevated NPLs. Against this background, we broadly concur with the thrust of staff appraisal and would like to make the following comments.

- 1. Given the elevated public debt, and the rollover risk of the large Eurobond, embarking on a more ambitious fiscal consolidation is called for, complemented with fiscal reforms,** including with regard to improving PFM, building debt management capacity, and implementing pension reforms. Like staff, we encourage the authorities to frontload the fiscal reforms to put debt on a sustainable path and to build the needed buffers.
- 2. Building on the previous progress, we underscore the importance of further efforts to safeguard the viability of the banking sector to ensure financial stability and support private sector growth.** Here, continued efforts to strengthen the fiscal position and upgrade the business model of CRSM are warranted to mitigate associated fiscal risks. Also, we encourage the authorities to step up efforts to enhance supervision, governance and transparency and gradually align prudential requirements to Basel III liquidity standards. We also appreciate the focus on tackling the large amount of NPLs, and therefore, view the

approval of the law to establish an Asset Management Company (AMC) as a step in the right direction to avoid AMS associate risk , and agree with staff on the need to establish a conservative ceiling for public guarantee while ensuring adequate provisioning and coverage of NPLs. We positively note the progress in improving the AML/CFT framework and encourage the authorities to further address the remaining challenge identified in MONEYVAL assessment.

**3. Finally, structural policies should continue to strengthen growth potential, including through bolstering productivity.** In this context, we broadly welcome the overarching objectives envisaged under San Marino's 2030 agenda, including with regard to enhancing business environment by reducing bureaucracy, simplifying legal framework, and fostering digitalization. Going forward, we encourage further efforts to liberalize restrictions on hiring, reskilling and boosting productivity through strengthening training for unemployed, improving targeting of the social benefits, and deepening the integration with major trading partners.

With these remarks, we wish the authorities all the success in their future endeavors.