

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EB/CM/San Marino/92/1
Correction 1

August 31, 1992

To: Members of the Committee on Membership -
San Marino

From: The Committee Secretary

Subject: San Marino - Calculation of Quota

The following corrections have been made in EB/CM/San Marino/92/1
(8/19/92):

Page 1, para. 3, line 2: for "the Marches and" read "the Marche and"

Page 2, para. 3, lines 8 and 9: for "the 11-member Congress"
read "the 10-member Congress"
last para.: for "Judicial authority ..cases."
read "According to...cases."

Page 4, Table 1, last line: for "per physician" read "per health unit"

Page 13, 1st full para., lines 6-9: for "In general...state budget."
read "Of these...state budget."
2nd full para., lines 1-6: for "it consists...collection, etc."
read "it provides...collection, etc."
last para., line 1: for "The AASFN produces and sells stamps"
read "The AASFN takes care...of stamps"

Page 17, last para., line 3: for "the 1979 agreement"
read "the 1939 agreement"
line 4: for "(in 1981)" read "(in 1971)"
lines 5-7: for "than gold, provided...the minting"
read "than gold. This...The minting"

Page 19, lines 2 and 3: for "In May 1991, the...Bank of Italy renewed"
read "In December 1991, the...Italian Government
renewed"

Page 50, para. No. 8, line 6: for "the Great and General Council;"
read "the Council of Twelve;"

Corrected pages are attached.

Att: (7)

Other Distribution:
Department Head:

I. Introduction

In a letter dated May 29, 1992 (EBD/92/111, 5/29/92), the Secretary of State for Foreign Affairs of the Republic of San Marino applied on behalf of San Marino for membership in the Fund. A staff team visited San Marino during July 8-17, 1992 for discussions with the authorities concerning the membership application. 1/ The staff team met with the Captains Regent (the heads of state), the Secretary of State for Finance and Budget, the Ministers of Labor, Industry, and Commerce, the Director of the Central Bank, the Director of the State Legal Office, and other senior government officials. San Marino has not applied for membership in the World Bank.

The main purpose of the mission was to gather the data required to calculate a quota for San Marino under the Eighth and Ninth General Quota Reviews. The mission also reviewed the economic and financial situation of the country and its exchange and trade system; in addition, it discussed with the authorities the legal, financial, and procedural issues involved in the application process, as well as the rights and obligations of membership.

1. Geographic and demographic characteristics

The Republic of San Marino is geographically located within Italy, between the north-central regions of Emilia-Romagna and the Marche and about 20 kilometers from the Adriatic Sea (Figure 1). It covers an area of about 62 square kilometers on the slopes of Mount Titano, whose three peaks boast commanding views of both the Adriatic and the surrounding Apennine Mountains. More than 65 percent of San Marino is covered by farmland, pine forests, and native woodland. Its climate is mild, with moderate temperatures.

At end-1991, San Marino's population was 23,576. Over 4,100 people live in the capital (also called San Marino). In addition, approximately 12,000 citizens live abroad, mainly in Italy and the United States. 2/ More than half of the population is gainfully employed. The number of Sammarinese engaged in traditional occupations, such as farming, logging, and stone quarrying, has declined in recent years; the bulk of the working population--37 percent, 19 percent, and 18 percent, respectively--is employed in manufacturing, commerce and tourism, and the public sector.

1/ The mission consisted of Messrs. Roncesvalles (Head-TRE), Hagan (LEG), Huybrechts (EURI), Niebuhr (PDR), Tavlas (TRE), Violi (EURI), Walter (SEC), and Mrs. Atienza (Admin. Assistant-TRE).

2/ Nonresident citizens of San Marino are eligible to vote in the legislative elections, which take place every five years. As proxy voting is not allowed, the Government provides financial assistance to enable nonresidents wishing to vote to travel to San Marino for this purpose.

2. History

San Marino considers itself to be the smallest and oldest republic in the world. In 301 A.D., according to legend, the eponymous St. Marino founded a monastery atop Mount Titano, which gradually evolved into a self-governing community of monks, shepherds, peasants, artisans, hunters, and woodsmen. The commune resisted the encroachments of neighboring territories and remained independent throughout the Middle Ages, largely because of the formidable fortresses it constructed in its defense. By the middle of the fifteenth century, San Marino had become a republic ruled by a grand council of 60 men chosen from the Arengo, or assembly of families.

Over the next three centuries, various political alliances helped the country to ward off serious attacks and maintain its freedom. When Napoleon invaded Italy in 1797, he respected the independence of San Marino and even offered to expand its territory--an offer that the Sammarinese, in keeping with their traditional policy of nonaggression, refused. At the conclusion of the Napoleonic wars, the Congress of Vienna in 1815 confirmed San Marino's independent status. As a neutral country, San Marino offered asylum to Garibaldi and his followers in 1849, during the movement for Italian unification. Following its unification in 1862, the new Italian nation signed a treaty of friendship and cooperation with San Marino, which was renewed in 1939 and revised in 1971. The treaty was most recently amended in 1991. San Marino has maintained its neutrality during the twentieth century, including through both world wars; during World War II, the Republic provided shelter to over 100,000 refugees, most of whom were from Italy.

3. Governmental structure

A multiparty political system has developed in San Marino, with elections based on universal adult suffrage. Legislative authority is vested in a unicameral parliament, the Great and General Council, whose 60 members are elected to five-year terms through a system of proportional representation. The Council, which is currently controlled by a coalition of the Christian Democratic and Socialist parties, elects two of its members to act jointly as Captains Regent for six-month terms. The Captains Regent function as heads of state, sharing executive power with the 10-member Congress of State, which is elected by the Council from among its members to oversee the various ministerial departments for the duration of its term. The three most important members of the Congress are the Secretaries of State for Foreign Affairs, Internal Affairs, and Finance and Budget, respectively. The Captains Regent preside over meetings of both the Council and the Congress.

According to the statute of San Marino, its magistrates cannot be citizens of the Republic; therefore judicial authority in San Marino is administered in large part by Italian magistrates. However, the Council of Twelve, which is composed of judges elected for a legislative term (no longer than five years) by the Great and General Council among their members, serves as a final court of review in civil cases.

4. International relations

San Marino maintains diplomatic representation in over 50 countries, including most European states, and recently San Marino has begun to widen its external relations by joining a number of regional and international organizations. It formally entered the United Nations in March 1992, having already joined some of its specialized agencies, including the ILO, WHO, UNCTAD, and UNESCO. San Marino has also been active in the establishment and operations of the Conference on Security and Cooperation in Europe. In 1983, San Marino established diplomatic relations with the European Economic Community, and, in 1991, it entered into a customs and cooperation agreement with that organization. *San Marino's application to join the Fund is the most recent example of its widening external relations with international organizations.*

II. Production, Employment, and Prices

1. Gross domestic product

The structure of domestic production of San Marino has changed from that of an exclusively agricultural economy at the end of World War II to that of a mixed economy, in which the public sector plays an important role, and tourism and manufacturing account for the bulk of the activities of the private sector (Table 1). During this transformation, the economy of San Marino has grown rapidly, with nominal GDP at market prices estimated to have risen by an average of 13.7 percent per annum during 1980-91. ^{1/} With domestic inflation estimated at about 8.9 percent per year, the average annual real growth rate of the Sammarinese economy is estimated at 4.3 percent, which is somewhat above the growth rate of the Italian economy. Per capita GDP has also risen relatively sharply, and, in 1991 GDP per capita amounted to about Lit 24.7 million (about \$19,900), a figure that is broadly comparable with per capita GDP in the northern part of Italy and in most of the major European industrial countries.

Available data on the national income accounts of San Marino are rudimentary, and have been estimated by the authorities and the staff using the factor cost approach (Table 2). Compensation of employees accounted for almost 50 percent of GDP in 1989, compared with 55 percent at the beginning of the 1980s. Aggregate compensation in the private sector has generally exceeded compensation in the public sector, but the growth in both categories of income has generally been steady throughout the 1980s. As a result, net operating surplus has mirrored the cyclical fluctuations in economic activity, as occurred during the contraction of 1986-87, which was

^{1/} GDP figures for 1981-86 were compiled and published by the Statistical Office of San Marino. For 1987-91, GDP figures are staff estimates based in part on the regional income accounts of the neighboring Italian region of Emilia Romagna (see Italian Statistical Office, Conti Economici Regionali, Collana d'Informazione, 1991).

Table 1. San Marino: Selected Social Indicators

GDP per capita (current U.S. dollars, 1991)	19,869
Area (sq. km)	61.2
Demographic indicators	
Total population	23,576
Population growth (percent)	
1950-91	82.4
1981-91	8.5
Life expectancy at birth (years) <u>1/</u>	
Male	76
Female	82.1
Crude birth rate (per 1,000)	10.6
Crude death rate (per 1,000)	7.3
Infant mortality (per 1,000)	13.1
Labor force	13,332
Employed	12,838
In percentage:	
Agriculture and fisheries	2.3
Manufacturing	35.0
Construction	8.2
Wholesale/retail trade (including tourism)	17.4
Transport, storage, and communications	1.8
Credit and insurance	2.3
Public sector	25.4
Other services	7.6
Unemployment rate	3.8
Education	
Primary	61.3
Secondary	27.8
Higher education	10.9
Student/teacher ratio	6.4
Health	
Number of inhabitants per health unit	1,571

1/ 1987.

The total social security levy on wage income is 24 percent, with 21.9 percent paid by the employer and 2.1 percent by the employee.

4. Public enterprises

There are three major public enterprises: (1) the public utilities corporation (AASS), (2) the public works corporation (AASP), and (3) the stamp and coin corporation (AASFN). In addition, there are three smaller public entities whose activities are rather limited (as measured by expenditure), namely: (1) the Olympic Committee (CONS), (2) the Centrale del Latte (dairy corporation), and (3) the University of San Marino. Of these nonfinancial public enterprises, only the AASS and the Centrale del Latte have been self-financing, all the others have been financed from the state budget. In recent years, the combined annual surplus of the nonfinancial public enterprises has averaged about 1 percent of GDP.

The AASS was created as an autonomous entity in 1982, and it provides services like electricity and gas distribution, water management, maintenance services, public transport, the cable car operation, garbage collection, etc. Electricity and gas are purchased from Italian state companies, and their distribution represents the major activity of the AASS. Prices to consumers are adjusted frequently and are set in line with those prevailing in Italy. The AASS is self-financing on a current basis, as fees and charges have kept up with current expenditure. However, internal cross-subsidization occurs, with profits on gas and electricity distribution generally covering losses on garbage collection, public transport, and water distribution.

The AASP's three major responsibilities involve the overseeing of roads, soil conservation, and public buildings. A small fourth division provides special minor services (e.g., the organization of public events). New construction is usually subcontracted out to the private sector while certain preparatory and maintenance services are provided by the permanent staff of the AASP. The corporation is largely financed from the state budget, although some small fees are received from the private sector. The AASP also provides an important social function by employing a significant number of persons with disabilities.

The AASFN takes care of the design and commercialization of stamps and coins; it has been a profitable enterprise since its inception as an autonomous corporation in 1984. Every year, 300,000-400,000 pieces of about 25 new stamps are issued and sold at face value. Also, two types of coins are issued: (1) special gold coins denominated in scudi (one scudo has a nominal value of Lit 50,000), and (2) legal tender coins denominated in lire. Under agreement with Italy, all coins are minted in Rome by the Italian State Mint.

IV. Money and Banking

1. Institutional structure

The Italian lira circulates as legal tender in San Marino, and the financial sector in San Marino consists of the central bank (the Istituto di Credito Sammarinese), the Office of Banking Supervision (Ispettorato per il Credito e le Valute), eight nonbank financial institutions, ¹/ and four commercial banks. The use of the lira reflects historical, institutional, and economic factors. Agreements between San Marino and Italy govern currency and coinage issue, as well as banking transactions of Italians and Sammarinese (see subsections 3 and 4 below and Appendix II). In this connection, the use of the Italian lira has been easy to maintain given: (i) complete labor mobility between San Marino and Italy; (ii) similar structures of production, particularly with respect to San Marino and northern Italy; and (iii) a high degree of financial market integration with that of Italy.

a. The San Marino central bank (Istituto di Credito Sammarinese)

As part of the establishment of indigenous government institutions, the central bank started operations in early 1992. Total capital amounted to Lit 25 billion, with the Government of San Marino holding the majority interest (70 percent). The remaining 30 percent share is divided among the four commercial banks. The objectives of the central bank are to promote the development of the economy; to oversee the smooth functioning of the banking system; to encourage growth of trade; and to promote the balanced expansion of the banking and financial system.

In order to implement these objectives, the central bank has been empowered with a number of functions. These functions include the development of a money market and trading in treasury bills and treasury bonds; the provision of a discounting function for the commercial banks; tax collection for the public administration; the implementation of reserve requirements; the issuance, holding, and portfolio management of government securities; and, acting as a clearing house for the banks. The functions of the central bank dealing with currency regulation include the exclusive power to authorize banks to engage in foreign currency transactions; the exclusive exercise of transactions in gold; and maintenance of financial relations with foreign countries. The central bank also has a role in the management of medium- and long-term credit to the private sector, including the allocation of preferential credit and holding of equity shares in private sector institutions.

¹/ Authorization has been granted to three other financial institutions to begin operations. Three of the eight existing nonbank financial institutions are linked to San Marino banks.

repurchase the securities at a specified future date. At the end of 1991, such off-balance-sheet contracts totaled Lit 1,322 billion, and loans totaled Lit 687 billion (Table 7). On the asset side, Sammarinese banks invest mainly in Italian treasury bills or in the Italian interbank market. The banks are subject to a 50 percent capital adequacy coefficient (i.e., the ratio of net worth to loans). The return on deposits plus net worth has averaged 2 percent in recent years, compared with 1 percent for banks in Italy. Because of the high standards applied in granting loans, the number of nonperforming loans is reported to be negligible.

Although monetary policy in San Marino is determined by the Italian monetary authorities, San Marino's banking system also acts as a financial intermediary of Italian funds, drawing deposits from Italian residents and investing excess liquidity in Italian treasury bills and the Italian interbank market. Deposit rates are generally higher in San Marino than in Italy, while lending rates are generally lower. (See Table 8 for the range of interest rates on various San Marino financial operations.) The activities of Sammarinese banks with Italian residents are estimated to represent about half of their transactions. This "external" orientation reflects mainly the advantage of banks in San Marino vis-à-vis banks in Italy with respect to reserve and liquidity requirements. While there is a 25 percent reserve requirement in Italy, San Marino's banks are not subject to a reserve requirement; instead, they are subject to a 10 percent liquidity requirement, which can be satisfied by holding high-yielding instruments, including treasury bills. Consequently, the interest rates on savings deposits are higher than those offered by Italian banks (this differential partially reflects the wider range of services offered by Italian banks). Moreover, there is a tax advantage to holding deposits in San Marino banks, which are subject to a smaller (13 percent) withholding tax than that prevailing on deposits in Italian banks of 30 percent. It may, however, be noted that Sammarinese banks are subject not only to a 12.5 percent Italian withholding tax on their investments in Italian treasury bills, but also to San Marino taxation on income earned.

3. The monetary agreement between San Marino and Italy

The issuance of Sammarinese coins is regulated by monetary agreements between the Republic of San Marino and Italy which date back to the nineteenth century. Under the 1939 agreement, San Marino was also allowed to mint gold coins in unlimited amounts. 1/ A further agreement (in 1971) allowed San Marino to mint metal coins other than gold. This agreement was renewed in 1981 and it provided that the face value of such coins did not exceed Lit 1.1 billion in 1981. 2/ The minting of nongold coins under the

1/ Such coins are legal tender in San Marino. However, the face value of these coins (in terms of Italian lira) has been below the corresponding market value. The coins are not legal tender in Italy.

2/ These Sammarinese coins are minted in the same denominations, size, and shape as Italian coins, and the two sets of coins are interchangeable.

Table 8. San Marino: Interest Rates on Various Financial Operations 1/

(In percent)

	<u>Deposit Rates</u>		<u>Loan Rates</u>		<u>Italian Interbank Rates</u>	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1986	5	11	12	18	10	12
1987	5	10.75	11	17	9.50	11
1988	5	9.75	11	17	9	11.5
1989	5	10.50	12	18	9.50	11.5
1990	5	10	12	17	9.50	11
1991	5	10	12	18	9.50	11

Source: Data provided by the Sammarinese authorities.

1/ End-year data.

1981 monetary agreement was subject to biannual upward adjustments in line with inflation in San Marino and in Italy. In December 1991, the Republic of San Marino and the Italian Government renewed the 1981 monetary agreement (Appendix II). This latest renewal allows San Marino to issue nongold coins with a face value of Lit 2.7 billion each year beginning in 1992, with an upward adjustment of the maximum amount to reflect inflation every two years. Although the agreement has not yet been ratified by the Italian Parliament, a "protocol" agreement allows for immediate enforcement of the Lit 2.7 billion limit on the issuance of nongold coins for 1992 (Appendix II). Responsibility for distribution of coins in San Marino is held by the AASFN (see Chapter III above).

4. The agreement on financial and exchange relations

An agreement (see Appendix III) was also reached in May 1991 between San Marino and Italy, subject to ratification by the parliaments of both countries, 1/ that includes measures to provide increased autonomy to San Marino's monetary authorities, particularly in the area of foreign exchange transactions with banks other than Italian banks. Under this agreement, San Marino credit institutions would be permitted to engage in exchange transactions subject to the authorization of the central bank of San Marino. The central bank would also be permitted to accord such institutions the foreign exchange status of operational authorized banks, provided that the relevant Italian authorities approve the criteria to be applied to each credit institution "without prejudice to the harmonization of their spheres of operation with those in force in Italy." The agreement stipulates that the monetary authorities of San Marino shall provide the Italian Exchange Office with such data and information as the Italian Exchange Office requires, at regular intervals if need be, on the foreign exchange transactions carried out by the central bank of San Marino, by Sammarinese credit institutions, or by other residents of San Marino. Likewise, the Italian Exchange Office would provide the San Marino monetary authorities, at the latter's request, with data and information concerning foreign exchange transactions carried out on the territory of Italy by residents of San Marino. To date, only a very limited amount of such foreign exchange transactions have taken place in San Marino.

V. External Sector

Balance of payments data are not compiled by the San Marino authorities. The staff has constructed a balance of payments for the period 1986-91 on the basis of information on trade collected in the process of levying a sales tax on imports and rebating domestic taxes on exports, budget data, and other indicators such as estimated tourist arrivals and expenditures (Table 9). However, information on trade prior to 1986 was not compiled in a form fully comparable with that of recent years. Public

1/ This agreement is still to be ratified by Italy.

Table 9. San Marino: Balance of Payments, 1986-91

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991
Trade balance	<u>-161.2</u>	<u>-203.9</u>	<u>-224.3</u>	<u>-232.0</u>	<u>-270.7</u>	<u>-314.8</u>
Exports, f.o.b.	429.3	630.0	754.1	771.1	978.5	1,097.8
Imports, c.i.f.	590.5	833.9	978.4	1,003.1	1,249.2	1,412.7
Services (net)	<u>173.3</u>	<u>238.9</u>	<u>274.8</u>	<u>277.6</u>	<u>351.4</u>	<u>393.3</u>
Tourist receipts	69.8	85.9	92.2	90.6	113.6	125.5
Nonresident consumption	98.7	144.9	173.4	177.3	225.1	252.5
Factor income (net)	4.8	8.0	9.1	9.7	12.8	15.4
Interest payments	7.5	11.3	12.5	13.1	17.0	19.7
Official	-1.1	-1.3	-2.5	-2.3	-2.6	-2.2
Private	8.6	12.6	15.1	15.4	19.6	22.0
Labor income (net)	-2.7	-3.3	-3.4	-3.4	-4.2	-4.3
Transfers (net)	<u>7.3</u>	<u>8.5</u>	<u>8.5</u>	<u>8.2</u>	<u>9.5</u>	<u>9.3</u>
Private transfers	1.3	1.6	1.6	1.6	2.0	2.1
Official transfers	6.0	6.9	6.9	6.6	7.5	7.3
<u>Current account balance</u>	<u>19.4</u>	<u>43.5</u>	<u>59.1</u>	<u>53.7</u>	<u>90.2</u>	<u>87.8</u>
Capital inflow (net)	-13.3	4.9	-57.4	-33.3	-64.7	-128.0
Official capital	<u>-0.8</u>	<u>-1.0</u>	<u>-1.1</u>	<u>-2.1</u>	<u>-3.7</u>	<u>-2.7</u>
Inflow	--	--	--	--	--	--
Outflow	0.8	1.0	1.1	2.1	3.7	2.7
Private capital	-12.5	5.9	-56.3	-31.2	-61.0	-125.2
<u>Overall balance</u>	<u>6.1</u>	<u>48.4</u>	<u>1.7</u>	<u>20.5</u>	<u>25.5</u>	<u>-40.2</u>
<u>Memorandum items:</u>						
Exports/GDP (in percent)	182.8	213.6	233.5	225.4	226.4	234.2
Imports/GDP (in percent)	251.5	282.7	302.9	293.3	289.0	301.3
Trade balance/GDP (in percent)	-68.6	-69.1	-69.4	-67.8	-62.6	-67.2
Current balance/GDP (in percent)	8.3	14.7	18.3	15.7	20.9	18.7
External public debt (in \$ millions) ^{1/}	<u>31.3</u>	<u>35.5</u>	<u>31.1</u>	<u>29.5</u>	<u>29.2</u>	<u>25.7</u>
Bilateral creditors	20.7	23.9	21.2	21.5	23.8	23.1
Commercial creditors	10.6	11.6	9.9	8.0	5.4	2.7
Debt service ratio (in percent)	0.3	0.3	0.4	0.4	0.5	0.3
Debt/GDP ratio (in percent)	13.3	12.1	9.6	8.6	6.8	5.5
Implicit average interest rate ^{2/}	8.0	8.2	8.8	8.8
Tourists (in millions)	2.8	2.8	2.9	2.8	2.9	3.1
Increase (in percent)	-0.9	1.6	3.0	-2.5	2.4	6.9
Share from Italy (in percent)	83.7	82.2	82.7	84.6	80.0	...

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

^{1/} Valued at end-of-year exchange rates and includes the effects of valuation adjustments and transactions.

^{2/} Calculated in terms of lira. Average rates in 1986 and 1987 (of about 4 percent) were not representative because these two years are part of the grace period on the 1984 bilateral loan from Italy.

2. Administration of control

Residents of San Marino are allowed to conduct foreign exchange transactions freely, with settlement effected through authorized Italian intermediaries (the Bank of Italy, the Italian Foreign Exchange Office, authorized banks, and the Postal Administration). Direct settlements (e.g., by drawing on own external accounts), authorized under Italian exchange control regulations in 1990, do not appear yet to be utilized. Nonresidents and residents are free to maintain any type of deposit accounts; although in practice deposit accounts other than in lire are not offered by domestic banks.

San Marino does not maintain any bilateral payments arrangements.

3. Prescription of currency

Settlements with foreign countries are made in convertible currencies or in lire on foreign accounts.

4. Imports and import payments

Imports from Italy are unregulated, while imports from third countries are subject to governance by the relevant Italian regulations. No license, other than the general business license, is required to engage in trade transactions. Trade is free of regulation except that import of electricity, gas, and water is reserved for the public sector. Payments for imports are unrestricted.

Imports into Italy are currently governed by two decrees, respectively, of July 14, 1990 (No. 313) and of October 30, 1990 (No. 68); both of which entered into effect on November 20, 1990. The import regulations vary with the country of origin. Countries are grouped in three major areas: Zone A, which is subdivided into subzones A/1 (European Community (EC) countries), A/2 (overseas countries and territories, member countries of the European Free Trade Association (EFTA), and other countries associated with the EC), and A/3 (third countries); Zone B, which comprises the Eastern European countries, the People's Republic of China, the Democratic People's Republic of Korea, and Vietnam; and Zone C (Japan). The import control procedures distinguish between goods that may be freely imported without quantitative restrictions and goods that require a special license. Import liberalization is virtually complete for subzones A/1 and A/2, and very few quantitative restrictions remain for subzone A/3. Many types of goods from Zones B and C are heavily restricted. For imports from countries in Zone B, as well as Yugoslavia, the country of origin must also be the country of shipment.

Imports from non-EC countries of most products covered by the Common Agricultural Policy (CAP) of the EC are subject to variable import levies that have replaced all previous barriers to imports. Common EC regulations are also applied to imports from non-EC countries of most other agricultural and livestock products.

Import duties are not levied by San Marino. However, a one-time sales tax is levied on all imports at time of entry. The structure of this tax corresponds closely to the Italian VAT, but the average effective rate is about 4 percentage points lower. Italian sales to San Marino that are properly documented are free of VAT; and thus prices of traded goods in San Marino may be slightly lower than in Italy, except for petroleum products for which price parity is sought by San Marino.

5. Payments for invisibles

There are no restrictions on payments for invisibles.

6. Exports and export proceeds

No surrender requirements apply to export proceeds. There are no taxes or quantitative restrictions on exports maintained by San Marino. A rebate of domestic taxes on the import content of exports is provided.

Exports to Italy are unregulated, while exports to third countries are governed by relevant Italian regulations. Exports from Italy are at present governed by two decrees of July 14, 1990 (No. 313) and of October 30, 1990 (No. 68). Exports to any country of products listed in Decree No. 68 require export licenses; other exports do not require authorization.

7. Proceeds from invisibles

Proceeds from invisibles are unregulated.

8. Capital

All inward and outward capital movements, with few exceptions, are unregulated. Foreign direct investments, irrespective of the degree of ownership, are welcomed but require government approval, which is based on conformity with long-term developmental and environmental policy considerations. Purchase and ownership of real property by noncitizens requires approval from the Council of Twelve; approvals have been given on merit and decided on a case-by-case basis. There are no restrictions on the repatriation of profit or capital. Foreign investors are accorded parity of treatment with national firms, i.e., investment incentives are equally available to foreign and domestic investors.

9. Gold

There are no restrictions on gold transactions.