EB/CM/San Marino/92/1

CONTAINS CONFIDENTIAL INFORMATION

August 19, 1992

To: Members of the Committee on Membership - San Marino

From: The Committee Secretary

Subject: San Marino - Calculation of Quota

A staff memorandum relating to the calculation of a quota for San Marino is attached. This matter will be considered at a meeting of the Committee to be held on Tuesday, September 1, 1992 at 10:00 a.m. in Committee Room 12-120.

Mr. Fawzi (ext. 37808) is available to answer technical or factual questions relating to this paper prior to the Committee discussion.

Att: (1)

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INFORMATION

INTERNATIONAL MONETARY FUND

REPUBLIC OF SAN MARINO

Calculation of Quota for the Republic of San Marino

Prepared by the European I and Treasurer's Departments

(In Consultation with the Policy Development and Review, Legal, and Secretary's Departments)

Approved by Massimo Russo and David Williams

August 19, 1992

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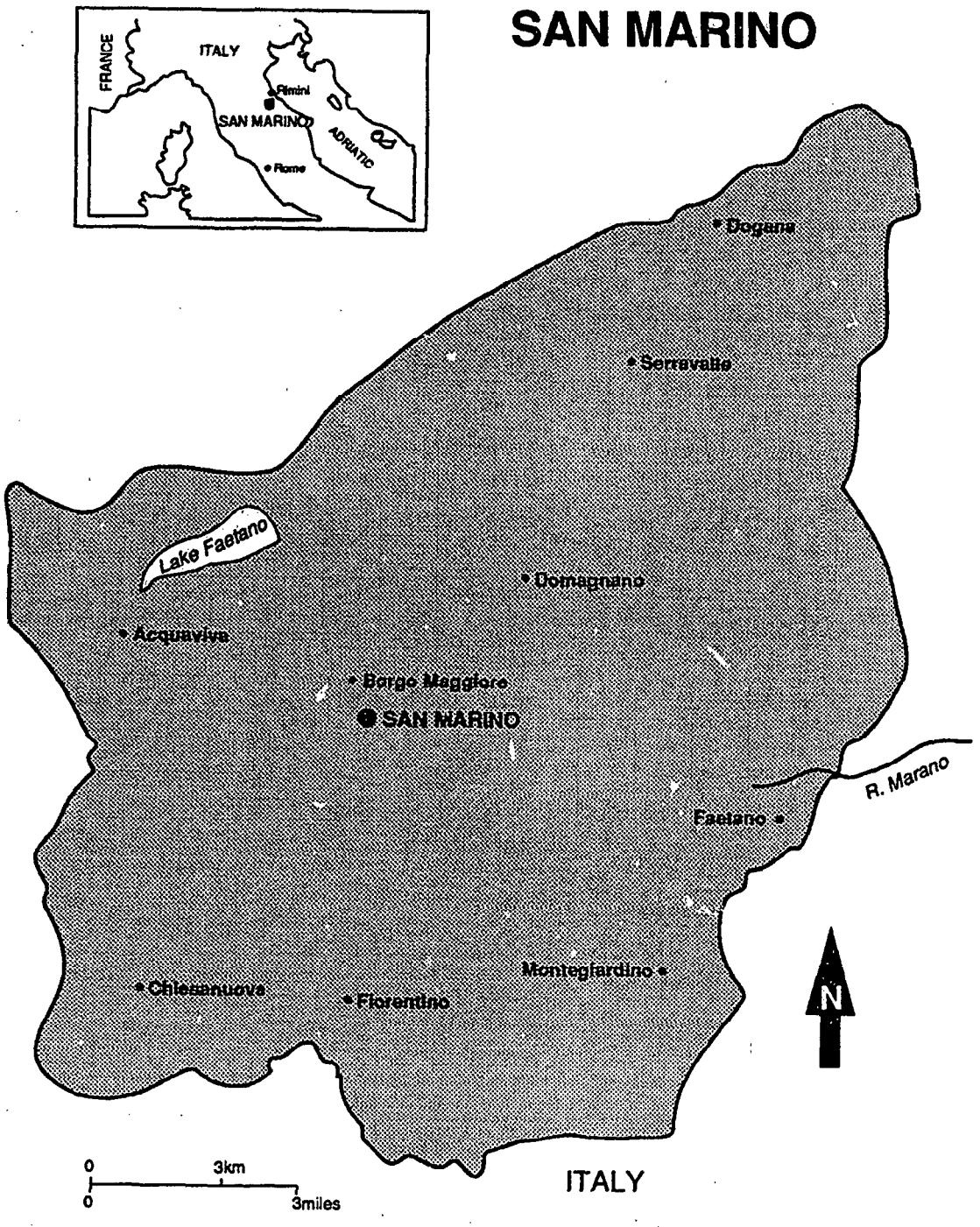
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I. Introduction

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 Marches 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 11-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.

Judicial authority in San Marino has been delegated in large part to Italian magistrates. However, the Council of Twelve, which is composed of judges chosen for six-year terms from among the members of the Great and General Council, 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

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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) 1/	
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 physician	1,571

1/ 1987.

Table 2. San Marino: Gross Domestic Product, 1986-91

(Current prices: in billions of lire)

	1980	1986	1987	1988	1989	1990	1991
GDP (market prices)	141.7	350.1	382.3	420.4	469.3	517.8	581.6
Compensation of employees	71.0	176.2	197.8	218.4	232.7	262.2	295.5
General government	...	47.4	...	...	76.1	...	...
Other 1/	...	128.8	...	...	156.6	...	...
Net operating surplus	36.1	104.9	101.3	106.6	130.2	131.6	148.3
Indirect taxes less subsidies	25.4	41.4	55.7	66.0	68.3	87.2	94.2
Consumption of fixed capital	9.2	27.4	27.5	29.4	38.0	36.8	43.6
Memo:							
GDP deflator (percent change)	22.1	6.1	13.4	4.7	6.1	7.0	7.0
Real GDP growth (percent)	1.9	-1.8	-3.7	5.0	5.2	3.1	5.0
Consumer price inflation (percent)	21.4	6.4	5.3	4.7	6.1	7.0	7.0

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

1/ Private sector and nonfinancial public enterprises.

associated with a tax reform that had increased net indirect taxes by some 3 percentage points of GDP. Prior to this tax reform, economic activity in San Marino had kept pace with the strong expansion that was under way in Italy in the first half of the 1980s in conjunction with the wave of restructuring of manufacturing in both countries. The share of net operating surplus in GDP has risen, on balance, from about 22 percent in the early 1980s to 25 percent in 1991.

2. Labor force and employment

The Government of San Marino pursues an active policy of promoting full employment. In the period between 1980 and 1991, the labor force rose from 44.8 percent to 56.1 percent of the total population, and the unemployment rate has generally been below that in other European countries. The unemployment rate had risen to 7.3 percent in the early 1980s but subsequently fell to less than 4 percent in 1991, as demand for labor grew rapidly in the second half of the decade, driven by buoyant tourism activity and a recovery in investment. Furthermore, unlike in Italy and other industrial countries, economic activity in San Marino did not decelerate in 1991, and as a result, a tightening of the labor market has exerted some pressure on wages and prices. Reflecting the tight labor market conditions, the level of economic activity in recent years has involved substantial employment of Italian labor.

Real wages have been remarkably stable in San Marino throughout most of the past decade, and in recent years, relations between the labor unions and employers--both private and public--have been smooth. Absenteeism rates and time lost to strikes declined substantially in 1988-91. This outcome reflected in part the Government's strategy of economic diversification (see below), as well as the policy of full wage indexation, which was established in 1991. The wage indexation system is due to be reviewed at the end of 1993.

During the 1980s, there were shifts in the distribution of employment toward commerce, government, and services, and away from manufacturing, agriculture, and construction (Table 3). Nonetheless, the share of manufacturing in the Sammarinese economy remains well above the average for Italy, and is close to that in the neighboring region of Emilia Romagna and in northern Italy. The process of "de-industrialization" has prompted the Government to provide financial incentives to selected sectors of the economy, such as electronics, telecommunications, and tourism. Since the firms receiving these incentives are generally less labor intensive than the rest of the economy, the incentives are expected to contribute to the maintenance of economic growth while lessening the pressures in the labor market in San Marino. The incentives are in the form of subsidized credits; in addition, training in the skills needed by these sectors is being offered in conjunction with the school system.

Table 3. San Marino: Employment by Sector

(In percent of total labor force)

	1980	1985	1989	1990	1991
Agriculture	5.2	3.2	2.6	2.4	2.2
Manufacturing	37.4	35.7	35.0	34.1	33.7
Construction	9.0	8.1	7.5	7.6	7.9
Commerce	13.4	14.2	15.9	16.3	16.7
Transport	1.5	1.1	1.5	1.5	1.7
Finance	1.1	1.8	2.0	2.2	2.2
Services	3.5	5.0	6.2	6.5	7.3
Government	23.7	24.6	24.6	24.6	24.5
Unemployment	5.4	6.5	4.7	4.9	3.7

Source: Official estimates.

3. Prices

Most prices are freely determined and follow those prevailing in northern Italy. However, certain public sector tariffs, such as electricity rates and water use charges, are subject to administrative controls. A consumer price index is compiled by the Statistical Office using a basket of goods identical with that in used Italy. A government-established commission monitors the prices of certain basic commodities, such as bread and milk, and also the prices charged by hotels and restaurants.

III. Public Finance

1. Institutional structure

The public sector of San Marino comprises the Central Government, the social security system, and a number of nonfinancial public enterprises. The social security system was established in 1955. Until 1980, most of the activities of the nonfinancial public enterprises (mainly public works and the issuance of stamps and coins) were undertaken by the Central Government. Under the Public Finance Law of 1979, the audited financial statements of the Government are established on an accrual basis and include as revenues certain receipts that are earmarked for transfer to third parties (e.g., the social security system and the nonfinancial public enterprises). Thus, the official published accounts overstate the size of the Government. An attempt has been made in this section to present the finances of the general government, i.e., inclusive of the social security system, on a consolidated basis.

2. Central government

Government has traditionally played an important role in the Sammarinese economy, both by virtue of its size and through the active pursuit of government policies aimed at employment promotion and diversification of the economy. As noted above, until 1980, the Central Government also undertook the activities of public works, energy distribution, and the issuance of stamps and coins. Although these activities were taken over by autonomous public enterprises in the early 1980s, the size of the Central Government has grown to about 23 percent of GDP in 1991 (Table 4). 1/ More recently, social security expenditure has also been rising rapidly, bringing general government expenditure to over 43 percent of GDP by 1991.

1/ While official data for 1991 are not yet available, indications are that this trend continued to manifest itself in that year.

Table 4. San Marino: Public Expenditures

	1980	1985	1986	1987	1988	1989	1990	1991 1/
				(In billions of lire)				
Central government (Stato)	83.2 2/	58.1	65.8	75.9	86.2	97.4	114.3	132.0
General government (Stato + social security system)	108.7 2/	119.3	129.4	150.2	172.2	185.6	217.6	251.7
Publi sector 3/	--	173.3	190.0	206.2	232.9	250.9	296.3	335.5
				(In percent of GDP)				
Central government	58.7 2/	17.3	18.8	19.9	20.5	20.8	22.1	22.7
General government	76.7 2/	35.5	34.1	39.3	41.0	39.5	42.0	43.3
Public sector 3/	--	51.6	54.3	53.9	55.4	53.5	57.2	57.7

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

1/ Staff estimates based on budget data and the experience of recent years in which actual expenditure has consistently fallen short of budgeted expenditure.
2/ Government data prior to 1985 include the public enterprises.
3/ General government plus the public enterprises.

The bulk of government revenue is collected in the form of direct taxes on incomes, a single-stage (sales) tax on imports, 1/ and a special (excise) tax on petroleum products (Table 5). There are also a number of minor indirect taxes collected by the Public Registry Office and the Motor Vehicle Registration Office (see Appendix I), but their share in government revenue is relatively small. Nontax revenue consists largely of the Canone Doganale 2/ and profits derived from monopoly sales by the Government of a few products, e.g., tobacco products, salt, coins, and stamps. The combined burden of taxes and social security contributions has risen to about 40 percent of GDP in the early 1990s, which is approximately the same order of magnitude as in the major industrial countries of Europe and somewhat higher than that in Italy. 3/

In recent years, fiscal surpluses (on an accrual basis) have been consistently achieved for the General Government. These surpluses were quite substantial, averaging nearly 4 1/2 percent of GDP in the period 1985-88, but have declined in more recent years (Table 6). Consequently, the public debt ratio and interest burden, which reflect mostly borrowings undertaken in 1984-85, have been comparatively low and declining.

3. Social security system

The social security system in San Marino provides health care, pensions, and income supplementation for its participants. The system also subsidizes certain additional health care and social services, such as child care facilities. 4/ Until 1990, 50 percent of the Government's direct tax revenue was earmarked to finance basic health care services, which are provided free to citizens, and any shortfalls were covered by the other social security funds. These costs have been rising rapidly in recent years, and, under recently enacted legislation, cross-subsidization from other social security funds will no longer be permitted. Unless curtailed, the cost of basic health services is therefore likely to absorb a growing proportion of fiscal revenues in future years.

Social security contributions are used to finance the pension and income supplementation schemes. The latter consists mainly of temporary unemployment benefits, family allowances, and a number of social services.

1/ The tax on imported goods operates like a one-time VAT levy. Under the terms of a recent agreement with the EC, the Sammarinese authorities are committed from 1993 onward to levy a similar tax on domestic goods to provide for equal treatment.

2/ This is an annual payment from Italy to compensate San Marino for giving up certain sovereign rights, including the right to levy import duties on Italian goods.

3/ An international comparison of the tax burden of general government is contained in EB/CM/Switzerland/90/1 (8/10/90), pp. 15-16.

4/ These services are fee-based, but are partly financed by budget transfers from the Central Government.

Table 5. San Marino: General Government Revenue and Expenditure

(In billions of lire)

	1980 1/	1985	1989	1990
Total revenue	106.1	130.6	194.4	225.4
Direct taxes	7.2	35.2	45.8	57.9
Indirect taxes	32.1	47.4	75.1	93.2
Social security contributions	16.1	34.1	52.5	58.9
Canone Doganale 2/	4.5	9.0	9.0	9.0
Other revenue	46.2	5.0	12.0	6.4
Total expenditure	108.7	119.3	185.6	217.6
Current expenditure	77.3	109.9	166.8	199.4
Wages and salaries	32.8	47.4	76.1	90.3
Goods and services	23.0	17.4	29.7	33.5
Subsidies and transfers	18.4	39.9	54.9	67.3
Interest payments	0.6	0.9	2.3	2.4
Other current expenditure	2.5	4.3	3.8	5.9
Capital expenditure	31.4	9.4	18.8	18.2

Source: Data provided by the authorities.

1/ Data prior to 1985 include the public enterprises.
2/ Compensation from Italy.

Table 6. San Marino: Summary of General Government Finances 1/

(In billions of lire)

	1980	1985	1986	1987	1988	1989	1990
Total revenue	106.1	130.6	148.1	168.6	189.1	194.4	225.4
Total expenditure	108.7	119.3	129.4	150.2	172.2	185.6	217.6
Balance	-2.6	11.3	18.7	18.4	16.9	8.8	7.8
(In percent of GDP)	(-1.8)	(3.4)	(5.3)	(4.8)	(4.0)	(1.9)	(1.5)
Memorandum items:							
Public sector balance 2/	...	...	...	...	21.0	12.4	13.8
(In percent of GDP)	(...)	(...)	(...)	(...)	(5.0)	(2.6)	(2.7)
Tax burden (In percent of GDP)	27.7	24.6	26.5	27.3	26.3	25.8	29.2
Collective burden 3/							
(In percent of GDP)	39.1	34.7	37.4	38.9	37.8	36.9	40.5

Sources: Data provided by the authorities.

1/ Stato and social security system.
2/ Includes the public enterprises.
3/ Tax burden plus social security contributions.

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. In general, the nonfinancial public enterprises have been self-financing or have generated surpluses, except for the AASP and the investment expenditures of the AASS, which 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 consists of two separate branches. The smaller branch provides maintenance for public buildings and is financed entirely from the state budget. The larger branch provides certain services, e.g., 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 produces and sells 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.

b. The Office of Banking Supervision (Ispettorato)

The Office of Banking Supervision, or Inspectorate, performs prudential supervision of credit and finance institutions; it was established in 1984 and began operations in 1985. It is composed of three supervisory members, appointed by the Grand and General Council on the recommendation of the State Congress. The Inspectorate has elaborated a set of procedures concerning its supervisory functions. These procedures fall into the three broad categories of problem prevention, inspection, and resolution. In the first stage--problem prevention--the Inspectorate regularly obtains information pertaining to the financial statements of the banks. If an anomaly is discovered in the preventive stage, the second stage--inspection--authorizes the Inspectorate to audit a bank's financial statements. In the third stage--resolution--the Inspectorate can issue "dispositions" regarding the credit operations, investments, and reserve requirements of the banks. Moreover, the Inspectorate is assigned the duty of verifying whether a bank has implemented the dispositions. Banks are also required to report to the Inspectorate any shareholders possessing more than 5 percent of the capital stock of the bank.

In support of the prudential and supervisory tasks assigned to the Inspectorate, each bank has a Board of Directors and a Board of Auditors that cooperate with the Inspectorate. The Boards consist of six members each: three are appointed by the shareholders of the bank, and three by the Grand and General Council.

The Inspectorate also provides guidance to the Credit and Saving Committee regarding that Committee's role of granting authorizations for the establishment of new banks. Such authorization can be granted only if a prospective bank can demonstrate the existence of funds of at least Lit 15 billion; produce a financial statement showing its projected operations and a program detailing the organizational structure of the corporation; and verify the presence inside the management of the applicant corporation of at least two persons deemed by the Inspectorate to be of "high professionalism and to possess adequate experience."

2. Monetary policy and the operations of commercial banks

The four commercial banks operating in San Marino are: Credito Industriale Sammarinese (the Industrial Investment Bank), Banca Agricola Commerciale (the Bank of Commercial Agriculture), Cassa di Risparmio (the Savings Bank), and Cassa Rurale di Depositi e Prestiti di Faetano (the Rural Bank of Deposits and Loans). The former two banks are controlled by Italian banks; there are no branches of foreign banks. The largest bank is the Savings Bank, which has more than one half of total deposits. Total deposits of the four banks combined rose from Lit 963 billion at end-1986 to Lit 1,789 billion at end-1991 (Table 7). All four commercial banks issue interest-bearing checking deposits. In addition, the banks raise funds off-balance-sheet through "repo contracts," whereby they sell securities (typically Italian treasury bills) under a contractual agreement to

Table 7. San Marino: Banking Survey, 1986-91 1/

(In billions of lire)

	1986	1987	1988	1989	1990	1991
Assets	1,161.502	1,315.628	1,659.997	1,675.100	1,947.634	2,293.005
Cash	2.777	3.220	20.407	18.977	38.171	48.313
Loans	246.900	362.914	402.071	427.409	554.250	687.241
Fixed assets	514.064	440.206	478.617	477.397	579.921	802.252
Other	397.761	509.288	758.902	751.317	775.292	755.199
of which:						
Cash in Italian banks	260.151	405.016	497.181	640.807	571.886	577.345
Liabilities	1,161.502	1,315.628	1,659.997	1,675.100	1,947.634	2,293.005
Deposits	963.469	1,122.983	1,299.923	1,383.677	1,560.080	1,789.290
Demand deposits	(287.658)	(388.665)	(479.166)	(544.037)	(668.700)	(800.975)
Savings deposits	(445.644)	(502.006)	(563.780)	(648.289)	(731.197)	(812.590)
Time deposits	(230.167)	(232.312)	(256.977)	(191.351)	(160.183)	(175.725)
Other	136.280	103.568	256.416	166.223	226.079	306.651
Shareholders' equity	61.573	89.077	103.658	125.200	161.475	197.064
Memorandum item:						
Net deposits of the Government	24.688	77.832	89.102	112.729	129.104	85.265
Securities sold under repurchase agreements	...	...	248.192	480.377	882.191	1,321.536

Source: Data provided by the authorities.

1/ End-of-year data.

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 neglible.

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-á-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. <u>The monetary agreement between San Marino and Italy</u>

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 1979 agreement, San Marino was also allowed to mint gold coins in unlimited amounts. 1/ A further agreement (in 1981) allowed San Marino to mint metal coins other than gold, provided that the face value of such coins did not exceed Lit 1.1 billion in 1981. 2/ Thereafter, the minting of nongold coins under the 1981 monetary agreement

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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)

	Deposit Rates		Loan Rates		Italian Interbank Rates	
	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.

was subject to biannual upward adjustments in line with inflation in San Marino and in Italy. In May 1991, the Republic of San Marino and the Bank of Italy 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

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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	-161.2	-203.9	-224.3	-232.0	-270.7	-314.8
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)	173.3	238.9	274.8	277.6	351.4	393.3
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)	7.3	8.5	8.5	8.2	9.5	9.3
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
Current account balance	19.4	43.5	59.1	53.7	90.2	87.8
Capital inflow (net)	-13.3	4.9	-57.4	-33.3	-64.7	-128.0
Official capital	-0.8	-1.0	-1.1	-2.1	-3.7	-2.7
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
Overall balance	6.1	48.4	1.7	20.5	25.5	-40.2
Memorandum items:						
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/	31.3	35.5	31.1	29.5	29.2	25.7
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.

sector transactions in respect of interest, transfers, and capital are available from budgetary sources. The compilation of a balance of payments is further complicated by the fact that commercial banking data do not distinguish between transactions of residents and nonresidents, and that the Italian lira is used as the domestic currency. In these circumstances, changes in the Government's deposit balances at commercial banks have been used to define the overall balance of payments, as they are viewed as available to meet import and debt service payments and are considered as a proxy for official reserves. As private capital transactions are largely unregulated and are not monitored, they are implicitly included in errors and omissions.

1. Overview

A striking feature of the external sector of San Marino is the rapid growth in external trade in recent years and its large size in relation to GDP. Over the five-year period 1986-91, total exports (including re-exports) grew at an average annual rate of nearly 21 percent, while imports rose by about 19 percent annually. In terms of GDP, exports increased from 183 percent in 1986 to 234 percent in 1991. Correspondingly, imports rose from 252 percent to 301 percent of GDP over the same period. This marked expansion in trade largely reflected the continued growth of light manufacturing industries in the country, which are closely integrated into the northern Italian economy. During this period, large trade deficits, averaging about 68 percent of GDP, were more than offset by receipts from tourism and nonresident consumption. Accordingly, the current account is estimated to have recorded a surplus during 1986-91 that varied between $19-90 million, averaging the equivalent of 16 percent of GDP. The overall balance of payments recorded surpluses during 1986-90 ranging from $2 million to $48 million. In 1991, an overall deficit of $40 million reflected a bunching of government expenditure that led to a decline in the Government's deposit balances. 1/ The residual entry for private capital transactions has dominated developments in the capital account in recent years and suggests net acquisitions of assets abroad, except for 1987. The main elements of these capital outflows were increases in Italian lire in circulation and changes in the net foreign assets of commercial banks (adjusted for changes in government deposits attributed to official reserve movements). There was no foreign borrowing by the public sector in the 1986-91 period. Repayments reduced external public debt to the equivalent of $25.7 million, or 5.5 percent of GDP, by 1991.

1/ During the first half of 1992, government deposit balances recovered and increased by $43 million.

2. Merchandise trade

a. Exports and imports

Information on exports and imports by sector of origin is presented in Table 10. At present, data are not based on a standard commodity trade classification, and are available only for 1989-91. The available data indicate that exports are heavily concentrated in the manufacturing sector, which accounts for about 80 percent of total exports. The wholesale and retail trade sector is the second largest source of exports, accounting for about 15 percent of total exports. However, since the bulk of these exports is likely to be manufactured items, virtually all of San Marino's exports are manufactured goods.

Available data on imports indicate that about 60 percent of imports originate in the manufacturing sector, and about one-third in the trade sector. Petroleum products account for less than 1 percent of imports, while electricity, natural gas, and water account for about 2 percent. The relatively small share of energy in total imports reflects the nature of the industrial structure, which is heavily import dependent for supplies and contributes only a moderate amount of value added to exports. The bulk of the industrial sector consists of small- to medium-scale foreign-owned firms that are closely linked in trade with their Italian affiliates.

b. Direction of trade

Historical links, geography, and the free trade arrangement have made Italy the country's predominant trading partner. In recent years, Italy has accounted for about 90 percent of San Marino's exports and about 85 percent of its imports (Table 11). In 1988 and 1989, the only years for which such data are available, other EEC countries as a group accounted for about 6 percent of exports and 5-7 percent of imports. Other "third countries" account for about 4 percent of exports and 8 percent of imports.

3. Services

Net service receipts have grown by about 18 percent annually between 1986 and 1991, significantly faster than the average growth of nominal GDP. Earnings from tourism--San Marino's most highly visible economic activity--are estimated to have increased to about $125 million in 1991 when tourist arrivals grew by nearly 7 percent to 3.1 million visitors. Since there is no survey of actual expenditure by tourists, an expenditure of Lit 50,000 per visitor-day was assumed for 1991 and this estimate was maintained in real terms for earlier years as adjusted by use of the consumer price index. Tourism in San Marino consists almost entirely of day visitors who arrive by automobile or excursion bus. Italian visitors are estimated to account for about 80-85 percent of the market. Generally, growth in tourist arrivals has been associated with economic conditions in Italy and nearby European countries.

Table 10. San Marino: Exports and Imports by Sector of Origin, 1989-91

	1989	1990	1991	1989	1990	1991
	(In millions of U.S. dollars)			(In percent of total)		
Public enterprises/individuals	0.5	0.9	0.6	0.1	0.1	0.1
Agriculture	0.5	0.5	0.4	0.1	0.0	0.0
Manufacturing	646.0	798.5	851.9	83.8	81.6	77.6
Construction	8.7	14.1	19.9	1.1	1.4	1.8
Wholesale and retail trade	96.4	141.7	188.3	12.5	14.5	17.2
Wholesale trade	49.0	93.3	126.2	6.4	9.5	11.5
Retail trade	47.4	48.5	62.2	6.1	5.0	5.7
Transportation	8.0	11.6	13.7	1.0	1.2	1.3
Credit and insurance	0.6	1.7	0.6	0.1	0.2	0.1
Services	10.5	9.6	22.4	1.4	1.0	2.0
Total exports	771.1	978.5	1,097.8	100.0	100.0	100.0
Public enterprise/individuals	33.8	47.4	...	3.4	3.8	...
Agriculture	2.9	2.7	...	0.3	0.2	...
Manufacturing	600.2	726.3	...	59.3	58.1	...
Construction	15.4	20.8	...	1.5	1.7	...
Wholesale and retail trade	329.0	429.4	...	32.8	34.4	...
Wholesale	182.9	246.4	...	18.2	19.7	...
Retail	146.1	182.9	...	14.6	14.6	...
Transportation	2.7	2.3	...	0.3	0.2	...
Credit and insurance	11.3	13.5	...	1.1	1.1	...
Services	7.6	6.7	...	0.8	0.5	...
Total imports	1,003.1	1,249.2	1,412.7	100.0	100.0	100.0
Public enterprises/individuals	-33.4	-46.5	...	14.4	17.2	...
Agriculture	-2.5	-2.3	...	1.1	0.8	...
Manufacturing	45.8	72.1	...	-19.7	-26.6	...
Construction	-6.7	-6.7	...	2.9	2.5	...
Wholesale and retail trade	-232.6	-287.7	...	100.3	106.3	...
Wholesale	-133.9	-153.2	...	57.7	56.6	...
Retail	-98.7	-134.5	...	42.5	49.7	...
Transportation	5.3	9.2	...	-2.3	-3.4	...
Credit and insurance	-10.7	-11.9	...	4.6	4.4	...
Services	2.9	2.9	...	-1.2	-1.1	...
Trade balance	-232.0	-270.7	-314.8	100.0	100.0	100.0

Source: Data provided by the Sammarinese authorities.

Table 11. San Marino: Director of Trade, 1986-91

	1986	1987	1988	1989	1990	1991
		(In millions of U.S. dollars)				
Exports to Italy	...	558.2	676.9	690.1	892.7	...
Exports to third countries	...	71.8	77.3	81.0	85.8	...
EEC	...	...	43.9	46.0	...	...
Other	...	...	33.4	35.0	...	...
Total exports	429.3	630.0	754.1	771.1	978.5	1,097.0
(In billions of lire)	640.0	816.6	981.6	1,058.0	1,172.4	1,362.0
Imports from Italy	519.4	723.4	832.1	861.8	1,089.1	...
Imports from third countries	71.1	110.5	146.3	141.3	160.1	...
EEC	...	...	66.0	52.8	...	...
Other	...	...	80.3	88.5	...	...
Total imports	590.5	833.9	978.4	1,003.1	1,249.2	1,412.7
(In billions of lire)	880.3	1,080.8	1,273.5	1,376.3	1,496.7	1,752.6
Trade balance	-161.2	-203.9	-224.3	-232.0	-270.7	-314.8
Italy	...	-165.2	-155.2	-171.7	-196.4	...
Third countries	...	-38.7	-69.0	-60.3	-74.3	...
EEC	...	...	-22.1	-6.8	...	...
Other	...	...	-47.0	-53.5	...	...
		(In percent of total)				
Exports to Italy	...	88.6	89.8	89.5	91.2	...
Exports to third countries	...	11.4	10.2	10.5	8.8	...
EEC	...	...	5.8	6.0	...	...
Other	...	...	4.4	4.5	...	...
Total exports	100.0	100.0	100.0	100.0	100.0	100.0
Imports from third countries	12.0	13.2	15.0	14.1	12.8	...
EEC	...	...	6.7	5.3	...	...
Other	...	...	8.2	8.8	...	...
Imports from Italy	88.0	86.8	85.0	85.9	87.2	...
Total imports	100.0	100.0	100.0	100.0	100.0	100.0

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

Receipts from nonresident consumption are the largest item in service receipts. 1/ Estimated nonresident consumption, which would normally be recorded as a part of net travel (tourist) expenditure, also represents unrecorded exports and other service receipts. It is estimated that net private interest receipts were equivalent to about 2 percent of exports, as banking data and the structure of financial relationships suggest that commercial banks held a sizable net foreign asset position, although its exact size will remain indeterminate until banking transactors are distinguished by residence. Improvements in data collection, including the introduction of a resident and nonresident classification in the banking statistics, will in time facilitate improved reporting of these service receipts in the balance of payments of San Marino.

Data on payments for services are limited. Imports are recorded and presented on a c.i.f. basis in Table 11. Data available only for 1989 and 1990 suggest that the freight and insurance component may be on the order of 2 percent of imports. Payments for labor services relate to seasonal employment of nonresidents in the tourist industry and regular employment of nonresidents in manufacturing industries. The estimates used are based on a 1985 benchmark that has been extrapolated to account only for changes in the average wage level. Tax records would provide a more accurate estimate for this component if such data were to be compiled in a suitable manner.

4. Unrequited transfers

During the 1950s and 1960s a weak economy caused a number of Sammarinese to emigrate in search of better employment opportunities. This pressure subsequently has been eliminated by San Marino's rapid economic development, and data on private transfers relate largely to pension income of Sammarinese who have returned to retire. Transfers to family members by citizens living and working abroad no longer appear to be of importance. The data used in the estimates are extrapolated from a 1985 benchmark.

Pursuant to its historical treaty arrangements with Italy, San Marino receives an annual payment--the Canone Doganale (see Section III). In 1991, this payment amounted to Lit 9 billion (equivalent to about $7.3 million). No other official transfers are received. Transfer payments would relate to moderate amounts of pension payments to non-Sammarinese who were employed in the public sector; however, actual data on such transfers are not available.

1/ This item, however, is in the nature of a residual adjustment factor that has been set to be equivalent to 23 percent of exports. The scale of the adjustment made, while arbitrary, is consistent with trends in the current account as reflected in available financial data and other economic indicators.

5. Capital account

Private capital transactions are estimated as a residual and include direct investment and short-term capital, as well as errors and omissions. While it is known that a substantial part of physical capital in manufacturing industries has involved direct investment, largely from Italy, data on actual amounts and the timing of these receipts are not available. Information on direct and portfolio investment abroad by residents is also not known.

Official capital flows relate only to long-term transactions of the Central Government and its related entities; no account is taken of short-term credits or assets transactions of the public sector. At the end of 1991, the Government's outstanding external debt amounted to the equivalent of $25.7 million or about 5.5 percent of GDP. The outstanding external debt consisted of bilateral loans from Italy ($23.1 million) and two ECU-denominated commercial banking credits ($2.7 million). The debt to Italy that is currently outstanding consists of five loans made for general budgetary support; all were made for a 35-year term at interest rates ranging from 5.5 percent to 9 percent. The loans were made in 1960, 1968, 1974 (two loans), and 1984. The 1984 (9 percent) loan amounted to Lit 20 billion and accounted for 70 percent of the outstanding debt to Italy at end-1991.

The two ECU-denominated loans from banks abroad were contracted in 1985. The first, a five-year ECU 3.5 million credit, was used to fund a credit facility for the private industrial sector. The second loan, a seven-year ECU 7 million credit, was used to provide the bulk of the financing for a publicly-owned utility project to supply methane gas throughout the country. The final amortization payment of this loan is to be made in 1992.

VI. Quota Calculations and Suggested Quota Range

Following past practice, quota calculations have been made for San Marino using the formulas agreed in connection with the Eighth General Review of Quotas in 1983. These formulas reflect the economic situation at the time of that review and employ data for the prospective member that are consistent with those used in the calculations made for existing members and for members that subsequently have joined the Fund. The results of the Eighth Review quota calculations and comparisons with the actual quotas of present members, as discussed below, are used to indicate for the consideration of the Membership Committee a suggested range for an initial quota for San Marino.

The actual quota of a new member should fit reasonably well into the existing structure of Fund quotas and should be in the same range as the quotas of existing members considered by the Fund to be broadly comparable

in economic size and characteristics. San Marino falls within the range of countries with very small quotas, i.e., those with quotas below SDR 10 million, which received particular attention at the time of the Eighth Review. 1/ Quota calculations for San Marino have therefore been compared also with those for the members with very small quotas. However, San Marino has a highly developed and industrialized economy, and these characteristics distinguish San Marino from other small quota members, which are largely agriculture-based island economies.

It may be recalled that in 1955-65 the Fund adopted policies on special quota increases and instituted a minimum quota policy that benefitted the relative position of members with small quotas in the Fund. While the small quota policy addressed certain specific needs of small countries for access to Fund resources, it introduced distortions of its own into the quota structure. In particular, it resulted in above-average ratios of actual to calculated quotas for many small countries as well as a relatively wide dispersion of such ratios for these members. Subsequently, when the minimum quota became inappropriately large in relation to the economic size of some new members in the mid-1960s, the small quota policy lapsed, and greater emphasis was placed on quota calculations for determining initial quotas. 2/

The position of countries with very small quotas was re-examined in the Eighth General Review on the grounds that such members faced special economic problems, or had relatively large potential financing needs, as measured by the size of their current payments. As noted below, the issue was again discussed in the context of the Ninth General Review. Concerns were also expressed in 1982 regarding the loss of voting power of such members whenever quotas are increased. To meet these concerns, while avoiding distortions in the overall quota structure, it was agreed in the Eighth General Review to adopt a special adjustment for very small quotas, through a rounding procedure whereby these quotas were rounded up to the next higher multiple of SDR 0.5 million (quotas of other members were rounded up to the next higher multiple of SDR 0.1 million).

Quota calculations have also been made using the data and formulas agreed in connection with the Ninth General Review of Quotas for the purpose of determining an increase in quota for San Marino on the same basis as the increases proposed under that Review, including rounding procedures, for

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1/ See, in particular, "A Review of Fund Policies on Minimum Quotas," EB/CQuota/82/12 (12/13/82). The matter of small quotas was also discussed in connection with the Ninth General Review (see "Ninth General Review of Quotas - Position of Very Small Quotas in the Fund," EB/CQuota/89/3, 1/25/89).

2/ A few very small quotas were determined in the second half of the 1960s on the basis of the average ratio of actual quota to foreign trade of other small quota countries, in part because of the lack of data for making quota calculations for such countries.

countries with very small quotas. 1/ However, it should be borne in mind that, as noted earlier, the structure of the San Marino economy is fundamentally different from that of the economies of other members with small quotas, and the problems to be addressed by the special adjustments in quotas do not fully apply to the case of San Marino. The Committee may wish to take this qualitative differences into account in their consideration of the initial quota and quota increase for San Marino.

1. Data used for quota calculations

Under the Eighth General Review, the economic data used for quota calculations for all members were those for gross domestic product (GDP) and reserves in 1980, external current receipts and payments (goods, services, and private transfers) during 1976-80, and the variability of current receipts as measured over the period 1968-80. All such data are expressed in SDRs for the purpose of making quota calculations. The data for San Marino, as converted into SDR equivalents by the staff, are presented in Table 12.

Table 12. San Marino: Data for Quota Calculations Under the Eighth General Review

(In millions of SDRs)

GDP, 1980	127.1
Reserves, 12-month average in 1980	2.4
Current payments, 1/ average 1976-80	82.7
Current receipts, 1/ average 1976-80	72.2
Variability of current receipts, 1968-80	2.1

1/ Goods (excluding re-exports), services, and private transfers.

Data for GDP in 1980 at current market prices are official estimates based on the income approach at factor cost. Compensation of employees and the private sector operating surplus are based on data contained in company financial statements submitted either to the tax office or to the judicial system. Data on subsidies, taxes, and the government operating surplus are from government budget documents.

1/ Under the Ninth Review, it was also agreed to grant special increases to four very small members to raise their actual quota shares to equal their corresponding shares in calculated quotas. These special adjustments were intended to improve the position of countries with very small quotas relative to countries with quotas between SDR 10 million and SDR 75 million.

Current account transactions of the balance of payments comprise merchandise exports (imports), service receipts (payments), and private transfer receipts (payments). Official data on exports and imports are available only from 1986. For earlier years, staff estimates were made using data on the sales tax on imports, which are available from 1976, 1/ using the tax-to-import ratio for 1986 (9.6 percent). In discussions with the authorities of San Marino, this estimation procedure was considered to be reasonable inasmuch as the structure of the sales tax rates had remained essentially unchanged throughout the 1976-86 period. However, the authorities estimated that about 50 percent of imports were subsequently re-exported, and, consistent with the practice applied in other countries with significant re-exports, this element was excluded in the trade data used for quota calculations. Service payments relate mainly to freight and insurance.

As regards merchandise exports, the authorities provided annual data (back to 1976) on the rebate of sales tax on exports, which they believed had maintained a fairly stable relation to exports over time. 2/ Using the ratio of the rebate of sales tax in 1986 to corresponding exports, data series on exports, including re-exports, was estimated by the staff back to 1976. The authorities were of the view, however, that this approach underestimated the value of total exports (including non-tourism service receipts) because not all exporters applied for the rebate, especially with respect to nonresident consumption by visitors from Italy. It will be recalled, and as discussed in Chapter V, that the external current account has included a component of unrecorded nonresident consumption which the authorities believe should be included in the data for exports. Estimates of this component have therefore been made in a manner consistent with data indicated by official statistics for 1986-91, and have been added to the export data series; this has tended to increase exports in the order of 23 percent. However, in accordance with standard practice, re-exports have been excluded from the total exports data for the purpose of quota calculations. As noted above, these re-exports accounted for about 50 percent of total trade flows as officially recorded in the information on sales taxes on imports and rebates on exports. The resulting series for exports is fully consistent with the data available for 1986 and onward. Furthermore, the exports data used in the quota calculations exhibited relatively fast growth in the late 1970s and early 1980s, broadly in line with the strong expansion in the international trade of Italy during this period.

1/ San Marino shares a "no-border" import duty system with Italy. Imports from third countries are subject to the relevant Italian regulations (see Chapter V and Appendix III). Although import duties are not levied by San Marino, a one-time sales tax is levied on all imports. This sales tax is rebated if the import is subsequently re-exported or used as an intermediate product for the production of exports.

2/ The stability of this relationship is considered to reflect the relatively constant import content of San Marino's exports.

With regard to tourism receipts, the authorities provided the staff with estimates of the number of visitors and the average length of stay. The staff and the authorities agreed on estimates of average daily expenditure adjusted for inflation so as to derive a data series for tourism receipts. Owing to its position as an international financial intermediary, San Marino has relatively large gross payments and receipts of interest. In accordance with the practice applied in the case of other members, interest paid and received on international banking transactions is included in the current account on a net basis. 1/ These net receipts were estimated to be about 2 percent of merchandise exports during 1976-80.

The variability of current receipts, which is defined for the purposes of quota calculations as the standard deviation from the centered five-year moving average, is calculated on the basis of data for 1968-80 under the Eighth Review. Inasmuch as data for San Marino are not available from 1968, and in light of the high degree of integration of San Marino's economy with that of Italy, the staff and the authorities agreed to use Italy's ratio of variability to average current receipts in 1976-80, and apply that ratio to San Marino's average current receipts to derive an estimate of variability. It should be noted that this approach may tend to underestimate the variability of receipts of San Marino, since variability would normally be higher in relation to the level of receipts for relatively small and more open economies.

As discussed previously (Section V), the normal concept of official reserves is not applicable for San Marino because of the use of the Italian lira as the domestic currency. However, the authorities maintain financial holdings in the form of Italian lira deposits in domestic financial institutions, which are available for import payments and external debt service. These holdings have been treated as reserves for purposes of quota calculations.

2. Quota calculations

The results of quota calculations for San Marino are given in Table 13. Following established practice, a calculated quota range of SDR 8.19-9.33 million has been derived from the results of the calculations using the Bretton Woods formula (reduced) and the average of the lowest two results of the four remaining formulas. The upper end of this

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1/ For quota calculations under the Eighth Review, data on international banking interest on a net basis were used for the United Kingdom and Switzerland. Data on international banking interest for other members were not available during the Eighth Review but these flows were considered to be generally small, and their inclusion on a net basis would not have affected the quota calculations to any material extent. Quota calculations under the Ninth Review were made with international banking interest on a net basis for all member countries with significant international banking activities.

Table 13. San Marino: Quota Calculations under the Eighth Review

(In millions of SDRs)

1.	Bretton Woods formula, reduced	9.33
2.	Bretton Woods formula, reweighted and modified	
	Scheme III	11.23
	Scheme IV	10.71
3.	Bretton Woods formula, linear, reweighted, and modified	
	Scheme M4	8.36
	Scheme M7	8.01
4.	Average of the lowest two of the reweighted and modified Bretton Woods formulas (Scheme M4 and Scheme M7)	8.19
5.	Calculated quota (higher of (1) and (4))	9.33

calculated quota range is regarded as the calculated quota for San Marino, i.e., SDR 9.33 million.

The calculated quota for San Marino of SDR 9.33 million can be viewed as a composite index of its economic size which, taken together with the calculated quotas of other members, provides a useful indicator of its relative position within the Fund and with existing members with comparable size and characteristics. It may be recalled that calculated quotas for all members as determined under the Eighth General Review exceeded on average the actual quotas resulting from that review by a relatively large margin. This margin is significantly smaller for 22 members 1/ with very small quotas of less than SDR 10 million. 2/ In determining a suggested ratio of actual to calculated quota for San Marino, account has been taken of the impact of the very small quota policy in determining the initial quotas for members with relatively small quotas, as discussed above, and in particular the resulting relatively high ratios of actual to calculated quotas for these countries.

3. Comparison of quota calculations for San Marino and other broadly comparable members

As indicated earlier, comparisons are made on the basis of quota calculations for San Marino and existing members in order to derive a suggested quota range for San Marino, within which its initial quota could be determined, and which might fit reasonably well into the structure of actual Fund quotas. The following calculations suggest themselves (Table 14):

(i) If the ratio of actual to calculated quotas for all existing members (0.43) were applied to the calculated quota of San Marino, an initial quota of SDR 4.01 million would be indicated;

(ii) If the ratio of aggregate actual to calculated quotas for 22 countries with very small quotas of less than SDR 10 million each (0.82) were applied to San Marino's calculated quota, an initial quota of SDR 7.65 million would be the result;

(iii) If the ratio of aggregate actual to calculated quotas for the 29 new members since the completion of the Eighth Review (0.54) were applied to San Marino's calculated quota, this would yield an initial quota of SDR 5.04 million for San Marino;

1/ Including Micronesia. The Board of Governors has approved the membership resolution for Micronesia, but Micronesia has not yet signed the Articles of Agreement.

2/ For these members, the ratio of aggregate actual quotas to calculated quotas is 0.82, whereas the ratio for all members is 0.43.

Table 14. San Marino: Illustrative Quota Calculations
(Eighth Review)

	Average ratio of actual to calculated quota of existing members (1)	Illustrative quota for San Marino based on ratio in col. (1) applied to San Marino's calculated quota (In millions of SDRs) (2)
1. All members	0.43	4.01
2. Twenty two countries with quotas of less than SDR 10 million 1/	0.82	7.65
3. Twenty nine new members joining since the Eighth Review was completed 2/	0.54	5.04
4. European industrial countries 3/	0.37	3.45
5. Six countries with broadly comparable calculated quotas, GDP, or current account transactions 4/	0.62	5.78
Memorandum item:		
San Marino's calculated quota		*9.33*

1/ Belize, Vanuatu, Djibouti, Guinea-Bissau, St. Lucia, Western Samoa, Grenada, Solomon Islands, Antigua and Barbuda, Comoros, Cape Verde, St. Kitts and Nevis, St. Vincent, Dominica, Sao Tome & Principe, Tonga, Seychelles, Bhutan, Kiribati, Micronesia, Maldives, and Marshall Islands.

2/ Switzerland, the 15 countries of the former U.S.S.R., Poland, Czechoslovakia, Bulgaria, St. Kitts and Nevis, Mozambique, Tonga, Kiribati, Angola, Namibia, Mongolia, Albania, Marshall Islands, and Micronesia.

3/ United Kingdom, Germany, France, Italy, Netherlands, Belgium-Luxembourg, Switzerland, Spain, Sweden, Austria, Denmark, Norway, Finland, Greece, Portugal, Ireland, and Iceland.

4/ Djibouti, Solomon Islands, St. Lucia, Seychelles, Cape Verde, and Bhutan.

(iv) If the ratio of aggregate actual to calculated quotas for the 17 European industrial countries (0.37) were applied to San Marino's calculated quota, this would result in an initial quota of SDR 3.45 million for San Marino; and

(v) If the ratio of aggregate actual to calculated quotas of six countries that have calculated quotas under the Eighth Review, GDP, or total current account transactions that fall within a range of the order of one-third around the corresponding data for San Marino (0.62) were applied to the calculated quota of San Marino, this would yield an initial quota of SDR 5.78 million. 1/

In connection with the above-mentioned calculations, it should be noted that the ratios of actual to calculated quotas for existing members are the result both of past policies regarding the determination of the quotas for new members and the quota increases under subsequent general reviews, as well as the evolution of the economies of members since they joined the Fund. In general, the quota increases under past general reviews have been predominantly equiproportional, with the result that relatively large discrepancies may exist between members' present quota shares and their relative economic positions, as indicated by the calculated quota shares. Indeed, the very low average ratio for the industrial countries in Europe reflects the rapid expansion of the economies of these countries since they joined the Fund, and also the fact that quota increases have generally resulted in relatively low ratios of actual to calculated quotas for the large members of the Fund. The above-average ratios for new members reflect the recent entry into the Fund of countries in Eastern Europe and the former Soviet Union.

It has also been the practice to compare the prospective member with individual countries that may be considered as broadly comparable with San Marino. Table 15 lists the six countries that have calculated quotas under the Eighth Review, GDP, or total current account transactions that fall within a range of the order of one-third around the corresponding data for San Marino. As can be seen from Table 15, GDP for San Marino is the second largest, below that of Djibouti (actual quota of SDR 8 million),

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1/ In accordance with past practice, the comparator countries exclude countries with ratios of actual to calculated quotas that are particularly high or low in relation to the average ratio for the membership as a whole. The following countries, all with ratios of actual to calculated quotas above 0.90, were excluded from the list (the ratios of actual to calculated quota for these members are shown in parentheses): Burundi (2.223), The Gambia (1.515), Belize (0.988), Vanuatu (1.070), Lao, Peoples Democratic Republic (3.643), Equatorial Guinea (2.839), Guinea-Bissau (1.350), Antigua and Barbuda (0.965), and Comoros (1.404). If these countries were included in the group of comparator countries, the average comparator ratio of actual to calculated quotas would be 1.38.

Table 15. San Marino: Comparison of Economic Data used in Quota Calculations with Selected Comparator Countries

(In millions of SDRs)

Country 1/	Actual Quota 2/	Calculated Quota	Ratio of Actual to Calculated Quota	GDP	Reserves	Average Current Receipts	Average Current Payments	Average Total Current Receipts and Payments	Variability of Current Receipts
Djibouti	8.0	14.3	0.558	252	58	50	84	135	9
Solomon Islands	5.0	8.9	0.563	109	24	43	54	97	5
St. Lucia	7.5	8.4	0.889	88	13	52	74	127	2
Seychelles	3.0	7.4	0.407	90	12	44	59	103	3
Cape Verde	4.5	7.2	0.623	51	33	27	54	82	3
Bhutan	2.5	2.8	0.887	90	4	14	25	38	1
Average ratio 3/			0.622						
San Marino		9.3		127	2	72	83	155	2

1/ Ranked according to the size of calculated quotas.

2/ The quotas of the members shown in this table reflect the rounding procedures of the Eighth Review under which the quotas of the then 17 smallest Fund members, i.e., those with quotas below SDR 10 million, after being increased in the manner agreed under the review, were then rounded up to the next multiple of SDR 0.5 million.

3/ Calculated as the sum of actual quotas relative to the sum of calculated quotas, as has been the practice in calculating this ratio for subgroups of countries under the general reviews of quotas.

but above that of St. Lucia (SDR 7.5 million) and the Solomon Islands (SDR 5 million). With regard to total current account transactions, San Marino ranks first among the countries in the table, significantly above Djibouti and St. Lucia. The variability of current receipts for San Marino is, along with that of St. Lucia, the second lowest, slightly above that of Bhutan but slightly below that of both Cape Verde and Seychelles. Reserves for San Marino are the lowest among the comparator countries. Taking these indicators together, as reflected in the calculated quotas, San Marino has a calculated quota in between that of Djibouti and St. Lucia, whose actual quotas are SDR 8 million and SDR 7.5 million, respectively. The calculated quota of San Marino is close to that of the Solomon Islands; however, this country has a ratio of actual to calculated quota that is considerably below the average for the group of countries with very small quotas. A comparison of San Marino with the relevant countries in Table 15 would, on balance, put San Marino toward the top of the range of actual quotas of the comparator countries, which would be consistent with ratios of actual to calculated quota that fall between 0.56-0.89, or a quota range for San Marino of SDR 5.2-8.3 million.

4. Suggested quota range and recommended initial quota

As indicated above, San Marino falls in the group of countries with very small and highly open economies. In general the ratio of actual to calculated quotas for this group (0.82) is almost twice the average ratio of 0.43 for the membership as a whole. While the use of the latter ratio to derive an initial quota for San Marino would result in an initial quota that would seem too low, the use of the larger ratio would tend to result in a relatively high quota. Furthermore, while the Sammarinese economy has features in common with those of other industrial European economies, the use of the ratio of actual to calculated quota of these industrial countries would, as in the case of comparisons with the general membership, also result in an unduly low initial quota for San Marino. Taking the calculations in Tables 14 and 15 into account, a reasonable quota range for San Marino might therefore be determined taking at the lower end of the range the level indicated by the average ratio for the members joining since the Eighth Review (0.54), i.e., a quota of the order of SDR 5.04 million. The upper end of a suggested quota range might reasonably be based on the ratio of aggregate actual to calculated quotas for members with actual quotas of less than SDR 10 million (0.82), which would yield a quota for San Marino of SDR 7.65 million. An initial quota based on the ratio for the comparator countries listed in Table 15 would be SDR 5.78 million which falls within the quota range of SDR 5.04-7.65 million. As noted earlier, the actual quotas for members with very small quotas under the Eighth and Ninth Reviews were rounded up to the next multiple of SDR 0.5 million. The suggested range of SDR 5.04-7.65 million for San Marino could accordingly be rounded up in this manner to SDR 5.5-8.0 million, with a midpoint of SDR 6.75 million.

In light of the above, a suggested initial quota for San Marino around the midpoint of the SDR 5.5-8.0 million range would seem reasonable taking into account both the quotas of the comparator countries listed in Table 15 and the Fund's policy on the quotas of members with relatively small open economies. An initial quota of the order of SDR 7.0 million is therefore suggested for the consideration of the Committee. A quota of this order would seem to fit reasonably well into the structure of Fund quotas, including those of other relatively small countries.

5. Quota increase under the Ninth General Review

This section is based on the assumption that San Marino would become a member before the Ninth Review quota increases comes into effect. If the quota increases under the Ninth General Review of Quotas do not become effective until after San Marino joins the Fund, the initial quota for San Marino under the Eighth Review would be increased under the Ninth Review if San Marino consented accordingly.

Under the Ninth Review, the present total of Fund quotas is to be increased by 50 percent. Sixty percent of the overall increase is to be distributed to all members in proportion to their present individual quotas. The remainder of the overall increase is to be distributed in the form of selective increases in proportion to members' shares in the total of the (Ninth Review) calculated quotas. The equiproportional element is thus equal to 30 percent of the present quota while the selective element will be higher than, equal to, or lower than 20 percent of a member's present quota depending on whether its Ninth Review calculated quota share is higher than, equal to, or lower than its present quota share. In general, this selective element implies an adjustment of quota share equal to 13.3 percent of the difference between a member's calculated quota share and its corresponding present quota share.

San Marino's quota increase under the Ninth Review would be made in three steps. An equiproportional increase of 30 percent of its initial quota would first be provided, which would be the same as for all other members. Second, a selective increase would also be provided, which would depend on the share of San Marino in the total of calculated quotas under the Ninth Review of 0.00628 percent, based on its calculated quota of SDR 21.9 million under the Ninth Review (see Table 16). Third, the unrounded quota would be rounded up to the next higher multiple of SDR 0.5 million. If the initial quota for San Marino under the Eighth Review were set at SDR 7.0 million, its corresponding quota under the Ninth Review would be SDR 10.5 million (see Table 17).

Table 16. San Marino: Quota Calculations under the Ninth Review

(In millions of SDRs)

1. Data	
GDP, 1985	173.4
Reserves, 12-month average in 1985	6.6
Current payments, average 1981-85	173.7
Current receipts, average 1981-85	156.6
Variability of current receipts, 1973-85	4.0
2. Calculations 1/	
Bretton Woods formula, reduced	21.9
Bretton Woods formula, reweighted and modified	
Scheme III	26.5
Scheme IV	25.2
Bretton Woods formula, linear, reweighted, and modified	
Scheme M4	17.2
Scheme M7	16.5
Average of the lowest two of the reweighted and modified Bretton Woods formulas (Scheme M4 and Scheme M7)	16.9
Calculated quota	21.9

1/ The total calculated quotas for existing members, including countries whose membership has been agreed by the Board of Governors but which have not yet signed the Fund's Articles, is SDR 348,846.2 million. Based on San Marino's calculated quota of SDR 21.9 million, San Marino's share in the total of calculated quotas is 0.00628 percent.

Table 17. San Marino: Illustrative Quota Calculations under the Ninth Review Based on Illustrative Initial Quota under the Eighth Review

(In millions of SDRs, unless otherwise indicated)

Initial quota under Eighth Review	7.00
(Quota share, in percent)	*(0.00719)*
General increase 1/	2.10
Selective increase 2/	1.22
Unrounded quota under Ninth Review	10.32
Rounded quota under Ninth Review 3/	10.50
(Quota share, in percent)	*(0.00719)*
Ninth Review increase, in percent	50.0

1/ Equivalent to 30 percent of initial quota.

2/ San Marino's calculated quota share under the Ninth Review of 0.00628 percent applied to the total selective increase for all Fund members plus that for San Marino calculated as $(PQ + IQ_M) * 0.5 * 0.4$, where PQ is total present quotas, IQ_M is the initial quota for San Marino, 0.5 is the overall increase in quotas, and 0.4 is the selective portion of the overall increase.

3/ Method of rounding is to the next multiple of SDR 0.5 million, in accordance with the rounding procedures of the Ninth Review under which the quotas of the then 20 smallest Fund members, i.e., those with quotas below SDR 10 million, after being increased in the manner agreed under the review, were then rounded up to the next multiple of SDR 0.5 million.

VII. Initial Subscription Payment

In September 1979, the Executive Board endorsed a set of guidelines for determining the proportion of the subscription that should be paid in reserve assets by a new member. 1/ Guideline 3 provides that "the amount of the subscription to be paid in reserve assets shall be determined in the light of all the payments of reserve assets made by existing members and the country's external reserve position at the time of membership." A reasonable approximation of the proportion of subscriptions paid in reserve assets in the past is considered to be the average of reserve assets actually paid in terms of the quotas of all members since their membership. To date, the proportion of reserve asset payments by all members, for initial quotas and for quota increases, amounts to 22.7 percent of total quotas.

A reserve asset payment creates a reserve position in the fund of the same amount that can be mobilized in case of balance of payments need without cost and at very short notice. It also reflects only a change in the composition, and not the level, of a country's international reserves. Consequently, the payment of a reserve asset does not generally impose an undue burden on the member country.

San Marino's reserves stood at SDR 11.2 million at the end of December 1991, equivalent to less than one month of total imports of goods and services. Although this ratio is lower than that between the aggregate reserve holdings of all Fund members and their corresponding imports of goods and services, it is not considered to be low in view of the high re-export content of San Marino's imports. Accordingly, it would seem reasonable for San Marino to make a reserve asset payment equivalent to 22.7 percent of its initial quota, which is equal to the average reserve asset payments made by all members.

Consistent with past practice, and in order to permit sufficient time for the completion of necessary legal and technical arrangements, including the designation of the fiscal agency and depository and the opening of accounts, it is suggested that San Marino be required to pay its subscription within a period of six months after it becomes a member of the Fund. San Marino could make the reserve asset payment in the currencies of other members specified by the Fund, with the concurrence of those members, or, in the event that it became a participant in the SDR Department, it could make the reserve asset payment in SDRs, which could be acquired from another participant in a transaction by agreement.

1/ See "Guidelines for Determining the amount of Reserve Assets to be Paid in Connection with Subscriptions," Executive Board Decision No. 6266-(79/156), adopted September 10, 1979.

Summary of the Tax System

I. Direct Taxes

The General Income Tax (Imposta Generale sul Reddito) is based on the Law of 13 October 1984 and subsequent legislative amendments. The taxable base consists of all income of persons liable for tax, net of allowable deductions. 1/ It excludes certain types of income subject to separate taxation (for example, capital gains and pensions), income subject to tax withholding at source (for example, employee earnings and interest income), and tax-exempt income (for example, family allowances and social pensions).

1. Tax rates

a. For individuals, marginal tax rates vary across eight income brackets, from 12 percent (incomes between Lit 15 million and Lit 20 million) to 50 percent (incomes over Lit 100 million).

b. Entrepreneurial income is taxed at 24 percent.

c. Income subject to taxation at a flat rate is taxed at 12 percent, with three exceptions: capital gains and back wages are taxed at 5 percent, and the rate for pensions varies progressively from 1.5 percent to 7.22 percent.

d. Special rates apply to income of nonresidents subject to withholding tax.

e. Tax on interest income is withheld at the source at a rate of 13 percent.

2. Procedures

a. Annual tax returns must be filed by May 31 of each year in the case of individuals, or within three months following approval of the balance sheet in the case of persons required to compile balance sheets. There are three exceptions: (i) persons who have only tax-exempt income, income subject to tax withholding, and income from real estate not exceeding the tax-exempt minimum; (ii) persons receiving income from employment or pension and who have no other income (subject to submission of a certificate); and (iii) persons receiving pensions from Sammarinese institutions alone (no certificate required).

1/ Distinction is made among seven categories, that is, income derived from capital, land, buildings, employment, self-employment, entrepreneurial income, and sundry income.

b. Persons receiving entrepreneurial income, excluding legally incorporated companies, may request by September of each year that their taxable income for the following year be assessed on a presumptive forfait basis (if turnover in the preceding year did not exceed Lit 300 million).

c. There are two commissions responsible by law for assessing income for tax purposes: one for personal incomes, and another for corporations and for persons and entities required to compile annual balance sheets.

II. Indirect Taxes

1. Indirect taxes collected by the Tax Office

a. Under the terms of the December 1972 commercial agreement with Italy, San Marino levies a single-stage tax on imports of goods and services (to replace the Italian VAT). Tax rates are on average 4 percentage points lower than the corresponding VAT rates in Italy. Also, provision is made for exemption of certain goods (for example, imports by the state) and for special tax concessions on capital goods.

b. In addition, a special tax is levied on petroleum products (to replace the relevant Italian excise tax). The rate of tax may not be lower than in Italy under the terms of the July 1974 agreement, pursuant to which the San Marino Government agreed to set the same sales prices as prevailing in Italy.

2. Indirect taxes collected by the Public Registry Office

Stamp tax, registration tax, mortgage taxes, state taxes, commercial and industrial license taxes, and license fees for dogs, hunting, fishing, and radio and television equipment.

3. Indirect taxes collected by the Motor Vehicle Registration Office

Road tax, drivers' license tax, and motor vehicle transfer registration tax.

4. Other indirect taxes

There are a number of other minor indirect taxes connected with advertising, construction, public entertainment, telegraph and telecommunications, as well as official documents requiring revenue stamps.

MONETARY AGREEMENT OF DECEMBER 21, 1991 BETWEEN THE REPUBLIC OF SAN MARINO AND THE ITALIAN REPUBLIC

The Government of the Republic of San Marino and the Government of the Italian Republic agree to the necessity of having a Monetary Agreement which corresponds to the current state of economic relations between Italy and San Marino and, consequently, to proceed with renewing the Monetary Agreement between Italy and San Marino of December 7, 1981, pursuant to Articles 45 and 47 of the Treaty of Friendship and Cooperation, signed in Rome on March 31, 1939, as amended by the Riders to such Treaty signed on April 29, 1953, by the Monetary Agreement of December 7, 1981, and by the Rider on Economic, Financial, and Monetary Matters, and an exchange of memoranda signed in Rome on July 10, 1974, as follows:

Article 1. The Italian Republic shall make the [National] Mint in Rome available to the Republic of San Marino for the minting of its coins as set out in this Agreement.

The Republic of San Marino shall agree to use the [National] Mint in Rome exclusively for that purpose, and shall reimburse the Mint for the costs of the metals and the minting operations applied to such metals.

Article 2. The coins, in the values which the Republic of San Marino intends to mint, shall be identical to Italian coins as regards the metal, chemical composition, face value, size, and intrinsic value of the individual coins.

Article 3. The coins of each of the two States shall serve as identical lawful currency and legal tender on the territory of the other State, in relations among private persons, and in relations with national treasuries.

Article 4. Both of the Governments shall have the right to request that San Marino coins accumulated in the coffers of the Italian Government be exchanged for their Italian equivalent.

Article 5. Gold coins may be minted in unlimited values. Whenever it intends to mint gold coins, however, the Government of San Marino shall make arrangements in advance with the competent Italian technical authorities as to the quantity and size, in order to make use of the services of the Italian [National] Mint.

The Government of San Marino shall not require that the Italian Republic recognize such coins as legal tender on its territory; such coins shall therefore only be deemed to be legal tender on the territory of the Republic of San Marino.

Article 6. The face value of minted coins made of metals other than gold shall not exceed the annual total of two billion seven hundred million Italian lire.

The issue of the first lot of coins shall be deemed to apply to the period January 1-December 31, 1992.

Every two years, the competent financial authorities of the two countries, duly authorized for such purposes, shall, by mutual agreement and subject to administrative process, proceed with the revision of the quotas set out in the preceding paragraph, based on cost of living indicators.

With the same procedure, the quantity could be raised if the Republic of San Marino could document the existence of a new necessity.

Should changes in the circulation of Italian lira occur with respect to the nominal value of the relative denominations, the two parties--subject to formal agreement, through an exchange of memoranda--could agree to subsequent revaluation, to a maximum of 10 percent of the quantity foreseen at this time.

Article 7. Special arrangements shall be made should a given coin be officially withdrawn from circulation by either Party, and this shall be for the sake of reciprocity, both in terms of making such action applicable to the other Party, and in respect of the treatment to be applied to the other Party's equivalent coin denomination.

Article 8. Each of the two States agrees to enforce laws and to issue penalties against the counterfeiting of the other State's coins if such actions should be perpetrated on its territory.

Article 9. This Agreement shall be deemed to be ratified and shall enter into force on the date on which the ratification instruments are exchanged. This Agreement shall remain in effect for ten years, without prejudice to the option of each of the Parties to denounce the Agreement with six months' advance notice.

AGREEMENT OF MAY 2, 1991 ON FINANCIAL AND EXCHANGE RELATIONS BETWEEN THE ITALIAN REPUBLIC AND THE REPUBLIC OF SAN MARINO

The Italian Republic and the Republic of San Marino,

Having regard to the Treaty of Friendship and Cooperation of March 31, 1939 between Italy and San Marino and the subsequent Riders thereto;

Considering the special nature of the relations between these two countries and the particular geographic location of the Republic of San Marino;

Having recognized the advisability, in the mutual interest of improving the relations referred to above, of allowing the Republic of San Marino to regulate autonomously, from the exchange standpoint, the freedom of movement of goods, services, and capital between the two countries;

Have agreed to the following:

1. The Italian Republic and the Republic of San Marino pledge, from the exchange standpoint, not to impede the freedom of movement of goods, services, and capital between the two countries, without prejudice to the provisions of item 4 below.

2. The Italian Republic pledges to accord individuals and legal entities residing in San Marino the same foreign exchange status as that accorded to individuals and legal entities residing in Italy.

3. The Republic of San Marino commits itself to the substantial incorporation of Italian exchange regulations, including safeguard clauses, into its own laws, and it shall adapt its laws to reflect changes in Italian exchange legislation, which shall be communicated promptly to it, with the dispatch required by the circumstances.

4. The San Marino authorities agree to use the most appropriate means, in regard to the relations which credit and financial institutions having registered offices or branches in San Marino engage in with Italian residents, to avoid creating conditions that would in various ways distort competition with institutions established in Italy.

A Liaison Committee, composed of the competent exchange authorities of the Republic of San Marino and representatives appointed by the Ministry of the Treasury and the Bank of Italy, shall be responsible for ensuring that there is a constantly maintained disciplinary framework designed to fulfill that purpose. Such Committee shall normally be required to meet once annually, and in any event may meet at the request of one of the Parties. Such Committee may include members from any other administrations involved, if applicable.

5. The San Marino authorities pledge to maintain an adequate supervision system to ensure the correct and orderly functioning of credit and financial institutions.

6. In the exercise of the supervisory activities incumbent upon them, the Supervisory Authority of San Marino and the Bank of Italy may exchange data and information concerning the structure and operation of the institutions subject to supervision. The data and information acquired in such manner shall be protected by official secrecy, within the limits provided by the respective laws.

7. In the mutual interest of the two countries, the San Marino authorities agree to adopt, in the form deemed most appropriate, instruments designed to pursue the objectives of Italian laws governing tax supervision, recycling, and the limitation of the use of cash in transactions. To that end, a Joint Commission comprising members from the administrations involved in the various cases shall be established.

8. This Agreement shall be accompanied by a Rider in respect of exchange matters, which shall be deemed an integral part of the Agreement.

9. This Agreement shall be valid for an unlimited period although it may be denounced by one of the Parties subject to six months' advance notice. This Agreement shall enter into force on the first day of the month following the final announcement that the internal procedures have been completed.

RIDER TO THE AGREEMENT ON FINANCIAL AND EXCHANGE RELATIONS OF MAY 2, 1991 BETWEEN THE ITALIAN REPUBLIC AND THE REPUBLIC OF SAN MARINO

In conjunction with the "Agreement on Financial and Exchange Relations Between the Italian Republic and the Republic of San Marino" of this date, the Parties agree to the following:

1. The central bank of San Marino [Istituto di Credito Sammarinese] may engage in the same exchange activities as those conducted in Italy by credit institutions [aziende di credito] which possess the foreign exchange status of fully operational authorized banks.

2. Within the framework of current exchange regulations, San Marino credit institutions shall be permitted to engage in exchange activities subject to the authorization of the central bank of San Marino. The central bank of San Marino shall also be permitted to accord such institutions the foreign exchange status of fully operational authorized banks, provided that the competent Italian authorities approve the criteria to be applied to each individual credit institution, without prejudice to the harmonization of their spheres of operation with those in force in Italy.

3. The Exchange Authority of the Republic of San Marino shall provide the Italian Exchange Office (UIC), in aggregate form as requested by the latter, with such data and information as the UIC deems it requires, at regular intervals if need be, that reflect the foreign exchange transactions carried out by the central bank of San Marino, by San Marino credit institutions, or by other residents of San Marino.

The Italian Exchange Office shall provide the Exchange Authority of the Republic of San Marino, in aggregate form and at the latter's request, with data and information concerning foreign exchange transactions carried out on the territory of the Italian Republic by residents of San Marino. Any occasional operational problems which may arise may be solved by communication between the competent San Marino Exchange Authority and the Italian Exchange Office. To that end, the Exchange Authority and the Republic of San Marino shall in the most appropriate manner establish an adequate information and supervision system for foreign exchange transactions carried out in San Marino, which is to be substantially similar to the system used in Italy.

4. The San Marino authorities shall continue to be responsible for procedures for imposing penalties on individuals and legal entities residing in San Marino for foreign exchange violations committed in San Marino.

San Marino: Exchange and Trade System

1. Exchange arrangements

The currency of San Marino is the Italian lira. 1/ The central monetary institution is the Istituto di Credito Sammarinese, which is in the process of establishing its operations. There are no official interventions, or taxes or subsidies on purchases or sales of foreign exchange. The staff considers the present exchange arrangements appropriate.

Exchange, monetary, and trade arrangements essentially reflect the structure formally established by the 1939 Convention between Italy and San Marino. The Convention, inter alia, provided for completely free trade between the two countries, accorded Sammarinese individuals and entities resident status for purposes of Italian exchange control, and established the Italian lira as legal tender currency in San Marino. This structure is now undergoing transformation stemming from the May 1991 Agreement on Financial and Exchange Relations that is in the process of ratification. According to the Agreement, the central bank of San Marino will be a foreign exchange bank with the authority to grant foreign exchange dealer status to Sammarinese financial institutions. Currently, by agreement Sammarinese banks cannot maintain accounts with financial institutions in other countries except Italy. As a result, foreign exchange transactions of domestic banks are effectively limited to buying foreign exchange, at rates similar to those quoted in Italy, and conducting third-country transactions through Italian correspondents. Forward transactions may be conducted through commercial banks without restriction at rates quoted in Italian markets.

In the absence of a functioning central monetary authority and a national currency, the concept of "official reserves" used in standard balance of payments analysis cannot be easily applied. However, the authorities maintain financial holdings in the form of Italian lira deposits in domestic financial institutions, and these are considered by the authorities to be available for import payments and external debt service. These holdings, considered de facto official reserves in this report, rose from Lit 20 billion at the end of 1985 to Lit 85 billion at the end of 1991.

1/ As explained in Section IV of the paper, arrangements with Italy provide for San Marino to issue annually agreed amounts of San Marino lira coins equivalent in form to Italian coinage; these coins are legal tender in both countries. The San Marino gold scudi is also issued and is legal tender only in San Marino. However, it is not generally used in transactions as its numismatic value exceeds the defined legal value of one scudo equals Lit 50,000.

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 Great and General Council; 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.

Quota Formulas Under the Eighth and Ninth General Reviews

The symbols used in the specification of the formulas below are: Y = GDP, R = reserves, P = current payments, C = current receipts, and VC = variability of current receipts. The quota formulas used in the Eighth and Ninth General Reviews are identical except for the adjustment factors. The adjustment factors are applied to each of the four modified formulas (i.e., Schemes III, IV, M4, and M7) so that the totals derived under the formulas at the time of a review equal that derived under the Bretton Woods formula. The adjustment factors for the Eighth General Review have been maintained unchanged with the joining of new members since its implementation.

For each Fund member, the calculated quota is derived as the larger of (i) the Bretton Woods formula and (ii) the average of the lowest two results of the other four formulas. The total of calculated quotas on this basis at the time of the Eighth General Review came to SDR 209,144.5 million. Since the completion of the Eighth General Review, 23 members have joined the Fund (Russian Federation, Switzerland, Angola, Kiribati, Belarus, Kazakhstan, Moldova, Georgia, Mozambique, Lithuania, Latvia, Armenia, Kyrghyzstan, Estonia, Poland, St. Kitts and Nevis, Czechoslovakia, Bulgaria, Namibia, Albania, Mongolia, Marshall Islands, and Tonga) whose calculated quotas total SDR 13,598.8 million. The memberships of Ukraine, Uzbekistan, Azerbaijan, Tajikistan, Turkmenistan, and Micronesia have also been approved, bringing the total of calculated quotas including these countries to SDR 224,402.4 million under the Eighth General Review (SDR 348,846.2 million under the Ninth General Review).

Formulas and their adjustment factors

Bretton Woods: $(0.01Y + 0.025R + 0.05P + 0.2276VC) \times (1 + C/Y)$

Scheme III:

$(0.0065Y + 0.0205125R + 0.078P + 0.4052VC) \times (1 + C/Y)$
Adjustment factor: 0.87556413 (Eighth General Review)
0.84849814 (Ninth General Review)

Scheme IV:

$(0.0045Y + 0.03896768R + 0.07P + 0.76976VC) \times (1 + C/Y)$
Adjustment factor: 0.84551136 (Eighth General Review)
0.81397393 (Ninth General Review)

Scheme M4:

$0.005Y + 0.042280464R + 0.044\ (P + C) + 0.8352VC$
Adjustment factor: 0.89705949 (Eighth General Review)
0.90739479 (Ninth General Review)

Scheme M7:

$0.0045Y + 0.05281008R + 0.039\ (P + C) + 1.0432VC$
Adjustment factor: 0.89571728 (Eighth General Review)
0.90627363 (Ninth General Review)