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Statement by Mr. Lanciotti on San Marino
Executive Board Meeting 94/63
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Following the recent accession to Fund membership in September 1992, this first Article IV Consultation with San Marino represents a significant opportunity to strengthen the integration of the country's economy and institutional setting into the international community.

San Marino has been able to attentively manage its limited territorial resources, building up its fortune chiefly through a pattern of careful fiscal policies that extend tax exemptions to local industries and subsidized credits to particular sectors such as tourism, textiles, and ceramics.

Such a straightforward policy setting has produced remarkable achievements so far. Against an external background of widespread economic recession, real GDP growth in San Marino accelerated constantly from 1989 to 1992 and maintained fairly high rates in 1993.

Since inflation in San Marino is closely related to that in Italy owing to the currency union and strict economic interrelations, the Sammarinese economy has benefitted from the recent decline in Italian inflation rates. At the same time, total employment excluding non-resident workers has increased by 2 percent per year on average since 1989. Non-residents, seeking seasonal job opportunities in San Marino, have recorded an increase of 1.9 percentage points per year over the same period. As a result, the unemployment rate has remained steadily below 6 percent since 1989 and was only 4.9 percent at the end of 1993. This is far lower than in Italy as a whole (11.3 percent) and even in the surrounding Italian region (7.4 percent).

The Sammarinese financial sector is traditionally large in relation to the size of the economy. It experienced further remarkable growth in the last two years, when total liabilities of the banking system grew by some 47 and 22 percent in 1992 and 1993, respectively.

As for the external sector, in spite of the absence of proper BOP accounts --which is understandable in a tiny country uniquely situated in north-central Italy with currency union and no border controls-- the current account surplus is estimated by the staff at nearly 20% of GDP in 1992, mainly owing to tourism receipts and to increasing interest income received by Sammarinese banks on their growing net foreign assets. BOP accounting will substantially improve with the implementation of the Cooperation Agreement with the European Union and the Exchange and Financial Agreement with Italy.

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The basic reasons for this favorable performance have been already touched upon in my previous description and are clearly listed in the excellent staff report. These include a strong fiscal situation, government activist policies in favor of the economy, the strong position of the banking system, the great adaptability of the tiny firms constituting the industrial web, and a gain in competitiveness from the real depreciation of the Italian lira for exports outside Italy.

Of course, much remains to be done to address some structural imbalances of the Sammarinese economy. My authorities are fully aware of the challenge represented by increasing harmonization and integration into the international environment. There are some reasons why my authorities are confident that such a process is taking place on a firm footing.

First of these is the implementation of the Cooperation Agreement with the European Union and the Exchange and Financial Arrangement with Italy, both concluded in 1991. They will require courageous reforms, mainly the introduction of a supplementary tax on domestic production adjusted to the import duty by 1996 and of a regulatory system for foreign exchange, tax monitoring, and prevention of money laundering. This might entail some difficulties in the short run but would potentially have beneficial effects in the medium term. My authorities are aware that, as highlighted in the staff's report, harmonization will attenuate fluctuations of national income and government revenues depending on the Italian tax and regulatory situation.

Second, my authorities greatly appreciated the policy advice provided by the staff during its mission. In particular, special attention will be paid to the issues regarding the pervading incentive structure that has been working well so far but is increasingly challenged by international integration, the distortion of the labor market owing to the public wages dynamics, the improvement of ICS' functioning, and the privatization of public enterprises.

Third, technical advice by the Fund staff will be invaluable in establishing a statistical base which will facilitate international harmonization.

Finally, I would like to point out the willingness displayed by my authorities to contribute to the extent possible by the limited size of the economy to development assistance, as a meaningful signal of involvement in the international community.