

SUR/10/20

February 23, 2010

**The Acting Chair's Summing Up  
Republic of San Marino—2009 Article IV Consultation  
Executive Board Meeting 10/15  
February 17, 2010**

Executive Directors agreed with the thrust of the staff appraisal. They noted the significant negative impact of the global economic crisis on San Marino's economy and the macro financial vulnerabilities that the country faces. Directors endorsed the measures taken by the authorities to address the immediate pressures. They commended the authorities for strengthening international cooperation in economic and financial matters, and for their effort to reach a double taxation agreement with Italy, which would help facilitate a repositioning of the economy.

Directors noted that the financial sector has withstood pressures relatively well. They commended the authorities for managing effectively the emerging liquidity pressures. However, in light of the continued uncertainties, Directors stressed that the central bank should maintain the safeguards it had adopted. Directors agreed that as soon as liquidity pressures abate, mandatory deposits should be replaced by a conventional reserve requirement system. They noted that recapitalization of the largest bank would enhance its financial strength.

Directors expressed concern about the dismissal of the head of banking supervision at the central bank and the ensuing resignation of its top management. They stressed that these developments impact the effectiveness of financial supervision and undermine the credibility of the reform process in the financial sector and the reputation of the country's financial authorities. Directors called on the authorities to resolve this issue urgently and to take the necessary action to rebuild the reputation and credibility of the central bank and ensure its independence and accountability.

Directors considered the authorities' fiscal policy stance to be broadly appropriate. At the same time, they emphasized the importance of ensuring fiscal sustainability. Consolidation measures should include reducing current expenditures as well as resuming pension reforms and consideration should be given to introducing co-payments on healthcare services and products.

Directors urged the authorities to implement FSAP recommendations to further reinforce financial sector supervision and create a level playing field with the European

Community. Noting structural weaknesses in the systemic liquidity management framework, Directors encouraged the authorities to address the lack of an effective lender-of-last resort framework, for example through better integration of Sammarinese banks with reputable international banks.

Directors underscored the need for greater product and labor market flexibility to improve the country's business model. Noting the progress made in the statistical system, they encouraged the authorities to strengthen this effort.

Directors appreciated the transparency measures adopted by the authorities, including on anti-money laundering and combating the financing of terrorism, and urged them to fortify these efforts.

It is expected that the next Article IV consultation with San Marino will be held on the standard 12-month cycle.