

SUR/11/25

March 22, 2011

**The Acting Chair's Summing Up
Republic of San Marino—2010 Article IV Consultation
Executive Board Meeting 11/25
March 14, 2011**

Executive Directors agreed with the thrust of the staff appraisal. While acknowledging recent steps to address long-standing policy concerns, they encouraged the authorities to support medium-term economic prospects through a more effective pursuit of the unfinished reform agenda. In particular, restructuring the financial sector, strengthening economic and financial relations with Italy, and introducing a comprehensive fiscal framework will be key to a successful repositioning of the economy.

Directors noted that the financial sector weathered a period of heightened turbulence and deposit outflows relatively well, and commended the Central Bank of San Marino (CBSM) for its liquidity management. Looking ahead, they encouraged the monetary authorities to address remaining vulnerabilities, including shoring up the financial position of the largest bank, which remains a priority.

Directors recognized progress in response to the 2009 recommendations under the Financial Sector Assessment Program, but called for additional reforms to strengthen the financial system and improve its transparency. Measures taken to enhance the operational autonomy of the CBSM, buttress supervisory functions, and strengthen AML/CFT defenses have been steps in the right direction. However, effective implementation is still lagging in a number of instances. For example, Directors urged the authorities to appoint as soon as possible a Head of Supervision, a position that has remained vacant for over one year.

Directors agreed on the importance of a new business model for San Marino's financial sector, as the relaxation of bank secrecy and regulations better aligned with international standards undermine the viability of previous business practices. Accordingly, they welcomed strategic reviews underway and looked forward to their recommendations.

Directors welcomed the authorities' goal to reduce the fiscal deficit, but counseled that the credibility of fiscal plans would be enhanced by a better articulated consolidation strategy. Cuts in public sector employment through attrition and comprehensive tax reforms could be key elements of such a strategy. Directors also recommended a rapid enactment of the new pension laws to build on progress already made and to safeguard the sustainability of the pension system.

Directors noted the loss in competitiveness of the economy in recent years. In this regard, they considered that easing rigidities in labor markets, in particular impediments to the hiring of skilled non-resident workers, would be desirable.

Directors reiterated their concern about the inadequacy of national account and general government statistics, which hampers policy design and evaluation, and took note of the authorities' request for technical assistance in this area.

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