INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/312

# REPUBLIC OF SAN MARINO

November 2025

## 2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SAN MARINO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of San Marino, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 21, 2025 consideration of the staff report that concluded the Article IV consultation with San Marino.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 21, 2025, following discussions that ended on September 26, 2025, with the officials of San Marino on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 31, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for San Marino.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**
**Washington, D.C.**

PRESS RELEASE

PR 25/390

# IMF Executive Board Concludes 2025 Article IV Consultation with the Republic of San Marino

**FOR IMMEDIATE RELEASE**

- San Marino's economy maintains positive momentum. Its diversified growth model proved to be resilient to shocks. Growth is higher than expected, and fiscal primary balance is strong. Continuing reforms underpinned further reduction in banking sector vulnerabilities, however, significant challenges remain.

- External downside risks prevail, driven by uncertainty. Domestic risks stem from financial sector legacy issues. On the upside, faster implementation of the EU association agreement could lift growth.

**Washington, DC – November 21, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for The Republic of San Marino[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

San Marino's economy maintains positive momentum, as its new growth model proved to be resilient to successive shocks. The service sector has maintained strong momentum since the pandemic, benefiting from the continuing tourism boom and robust domestic consumption. However, subdued external demand for goods weighed on the manufacturing sector. Inflation has stabilized at 2 percent. With the economy booming, labor market conditions have tightened, reflected in employment at record high levels and strong wage growth.

The government achieved strong primary balance, thanks to revenue surprises and prudent expenditure. On the financial sector, the enforcement of calendar provisioning accelerated NPL reduction and, together with better-than-expected asset recoveries by the asset management company, reduced legacy vulnerabilities and fiscal contingent liabilities. Banks' liquidity improved, reflecting increased confidence. However, critical challenges remain in the banking sector, due to the need to reduce operating costs, still large noninterest-generating assets, and tight capitalization in some banks.

GDP growth is estimated to be 1 percent in 2024 and is expected to strengthen to 1.2 percent in 2025, supported by the recovery of external markets, and a robust domestic demand

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/sanmarino page.

benefiting from declining interest rates, strong labor market and domestic political stability. However, downside risks prevail due to elevated external risks related to trade tensions, commodity price fluctuations and prolonged uncertainty. Domestic risks stem from contingent liabilities in the financial sector. On the upside, faster implementation of the EU association agreement could lift growth.

**Executive Board Assessment**[3]

Executive Directors agreed with the thrust of the staff appraisal. They commended the Sammarinese economy's resilience in navigating a challenging external environment, and its positive momentum, supported by successful diversification and prudent policies. However, they also noted downside risks, including from global uncertainties, trade tensions, and lingering vulnerabilities in the financial sector. At the same time, growth could receive a boost from faster implementation of the EU association agreement.

Directors welcomed the recent strong fiscal performance and substantial debt reduction, and emphasized the importance of continued fiscal consolidation for preserving macroeconomic stability and rebuilding buffers. They welcomed the recently approved income tax reform, and agreed that a well-designed VAT would help reduce economic distortions and facilitate integration with the EU single market. Additionally, they highlighted the need to improve public spending efficiency, contain growth in public wages, and ensure the long-term sustainability of the pension system. They welcomed the regular publication of the government's medium-term fiscal strategy and called for the development of a strategy to strengthen debt management.

Directors recognized important progress in financial sector reforms but highlighted the need to address the remaining vulnerabilities. They noted improvements in banks' liquidity and asset quality, as well as progress by the asset management company. Directors welcomed the implementation of calendar provisioning, the gradual replacement of perpetual bonds in the state-owned bank, and the removal of ownership restrictions to facilitate recapitalization. However, given the banks' high levels of non-income-generating assets, elevated operating costs, and extensive branch networks, Directors stressed the need to strengthen capital and adjust cost structures to improve long-term viability. They encouraged initiatives to upgrade the regulatory framework in line with the EU association agreement and underscored the importance of further strengthening the AML/CFT framework.

Directors underscored that structural reforms are critical to support long-term growth. They stressed the need to increase labor market flexibility, facilitate real estate market functioning, increase energy efficiency, and invest in digitalization and network connectivity. They encouraged further efforts to improve the quality and the frequency of data. Directors also noted that the EU association agreement would enhance economic integration and attract foreign investment.

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

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[3] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

## Republic of San Marino: Selected Economic and Social Indicators, 2021–30

GDP per capita (2023): 59,415 U.S. dollars
Population (2023): 34,130 persons

Life expectancy at birth (2018): 86.6 years
Literacy, adult (2015): 96 percent

| | | | | Proj. | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| **Activity and Prices** | | | | | | | | | | |
| Real GDP (percent change) | 14.4 | 7.9 | 0.4 | 1.0 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 |
| Domestic demand | 11.3 | 10.6 | -8.5 | 2.1 | 1.5 | 1.0 | 1.4 | 1.1 | 1.1 | 1.1 |
| Final consumption | 3.5 | 9.9 | 0.1 | 2.2 | 1.7 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 |
| Fixed investment | 3.6 | 9.6 | -4.7 | 0.1 | 1.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Net exports | 5.9 | -0.1 | 6.8 | -0.5 | 0.2 | 0.6 | 0.2 | 0.5 | 0.5 | 0.5 |
| Exports | 28.3 | 14.8 | -5.1 | -0.8 | 1.4 | 1.7 | 1.5 | 1.6 | 1.6 | 1.6 |
| Imports | 29.0 | 17.3 | -9.8 | -0.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Contribution to real GDP growth (percent) | | | | | | | | | | |
| Domestic demand | 2.7 | 6.8 | -0.8 | 1.2 | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Final consumption | 2.0 | 5.1 | 0.0 | 1.2 | 0.9 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| Fixed investment | 0.7 | 1.7 | -0.8 | 0.0 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Inventories | 5.9 | 1.0 | -5.6 | 0.3 | -0.2 | -0.3 | -0.1 | -0.2 | -0.2 | -0.2 |
| Net exports | 5.9 | 0.0 | 6.8 | -0.5 | 0.2 | 0.6 | 0.2 | 0.5 | 0.5 | 0.5 |
| Exports | 46.7 | 27.3 | -10.1 | -1.6 | 2.6 | 3.0 | 2.7 | 2.9 | 3.0 | 3.0 |
| Imports | -40.8 | -27.4 | 16.9 | 1.1 | -2.4 | -2.4 | -2.5 | -2.5 | -2.5 | -2.5 |
| Employment (percent change) | 1.4 | 3.7 | 3.7 | 2.4 | 1.8 | 0.7 | 0.3 | 0.3 | 0.3 | 0.3 |
| Unemployment rate (average; percent) | 6.4 | 5.1 | 4.2 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Inflation rate (average; percent) | 1.6 | 5.3 | 5.9 | 1.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| GDP deflator (percent change) | 1.4 | 2.8 | 7.4 | 1.9 | 2.0 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 |
| Nominal GDP (percent change) | 16.0 | 10.9 | 7.8 | 2.9 | 3.2 | 3.2 | 3.1 | 3.2 | 3.3 | 3.3 |
| Nominal GDP (millions of euros) | 1,568.7 | 1,739.4 | 1,874.9 | 1,929.7 | 1,991.0 | 2,054.1 | 2,118.4 | 2,187.2 | 2,258.6 | 2,332.6 |
| **Public Finances** (percent of GDP) 1/ | | | | | | | | | | |
| Revenues | 20.7 | 22.1 | 21.0 | 21.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 |
| Expenditure | 37.1 | 21.7 | 21.7 | 20.9 | 21.9 | 21.4 | 21.3 | 20.6 | 20.6 | 20.5 |
| Overall balance | -16.4 | 0.4 | -0.7 | 0.4 | -1.6 | -1.1 | -1.0 | -0.3 | -0.3 | -0.2 |

## Republic of San Marino: Selected Economic and Social Indicators, 2021–30 (Concluded)

GDP per capita (2023): 59,415 U.S. dollars
Population (2023): 34,130 persons

Life expectancy at birth (2018): 86.6 years
Literacy, adult (2015): 96 percent

| | | | | Proj. | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Primary balance net of bank support | -2.2 | 2.9 | 2.4 | 3.2 | 1.3 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Government debt (official) | 62.6 | 69.5 | 67.3 | 62.4 | 60.8 | 59.8 | 58.8 | 57.1 | 55.2 | 53.3 |
| Public debt 2/ | 77.2 | 70.6 | 68.3 | 62.8 | 61.3 | 60.3 | 59.3 | 57.5 | 55.6 | 53.6 |
| **Money and Credit** | | | | | | | | | | |
| Broad Money (BM) (percent change) | 4.9 | 1.4 | 0.6 | 3.6 | … | … | … | … | … | … |
| Private sector credit (percent change) | -10.8 | 0.0 | -23.6 | -3.2 | … | … | … | … | … | … |
| Net foreign assets (percent of GDP) | 137.3 | 119.6 | 94.9 | 96.6 | … | … | … | … | … | … |
| Commercial banks | 87.4 | 89.2 | 56.8 | 61.0 | … | … | … | … | … | … |
| Central bank | 49.9 | 30.3 | 38.1 | 35.6 | … | … | … | … | … | … |
| **External Accounts** (percent of GDP) | | | | | | | | | | |
| Current Account | 5.4 | 13.6 | 22.0 | 18.4 | 17.5 | 17.8 | 17.1 | 16.3 | 15.4 | 15.1 |
| Exports | 174.1 | 195.5 | 186.0 | 181.0 | 179.7 | 179.2 | 178.1 | 177.0 | 175.9 | 175.5 |
| Imports | 158.5 | 173.1 | 155.0 | 151.1 | 150.4 | 149.8 | 149.6 | 149.4 | 149.2 | 149.2 |
| Gross int. reserves (millions of euros) | 842.5 | 533.0 | 739.6 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 |
| **Financial Soundness Indicators** (percent) | | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 14.4 | 14.6 | 16.7 | 18.2 | … | … | … | … | … | … |
| NPL ratio | 59.0 | 53.1 | 21.0 | 16.9 | … | … | … | … | … | … |
| NPL coverage ratio | 65.0 | 69.8 | 33.6 | 35.3 | … | … | … | … | … | … |
| Return on asset (ROA) | 0.3 | 0.3 | 0.8 | 1.0 | … | … | … | … | … | … |
| Liquid assets to short-term liabilities | 44.0 | 43.1 | 50.1 | 56.1 | … | … | … | … | … | … |

Sources: International Financial Statistics; IMF Financial Soundness Indicators; Sammarinese authorities; World Bank; and IMF staff.

1/ For the central government.

2/ Central government (official) debt plus Social Security Fund and BNS debt.

INTERNATIONAL MONETARY FUND

# REPUBLIC OF SAN MARINO

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

October 31, 2025

## KEY ISSUES

**Context.** San Marino has successfully diversified its economic structure: the previously oversized banking sector deleveraged following the banking crisis, while manufacturing and nonfinancial services exports expanded, supported by moderate unit labor costs and strong corporate balance sheets. Prudent fiscal policy has helped rebuild buffers and, together with important progress in financial sector reforms, reduced legacy vulnerabilities. However, public debt remains high and significant challenges persist in the banking sector. As a euroized small open economy vulnerable to external shocks, San Marino requires larger policy buffers.

**Outlook and risks.** San Marino's economy maintains positive momentum, with its new growth model proving resilient to successive shocks. GDP growth accelerated to 1 percent in 2024, driven by domestic demand, and is expected to strengthen further in 2025–26, supported by recovering external and robust domestic demand, rising real wages, and easing financial conditions. Nonetheless, risks remain from global uncertainties, trade tensions, and domestic financial sector vulnerabilities. Upside risks include strong manufacturing, healthy private sector balance sheets, and faster implementation of the EU association agreement.

**Policy discussions** Notwithstanding recent fiscal overperformance, additional consolidation is essential to mitigate financing risks, build fiscal buffers, and ensure the debt-to-GDP ratio continues to decline. Key priorities include implementing income tax reform, containing the public wage bill, and improving public spending efficiency. A well-designed value-added tax reform would enhance tax efficiency, reduce distortions, and facilitate integration with the EU single market. Financial sector reforms should be further advanced to improve asset quality, increase capitalization, and accelerate banks' cost structure adjustments. Structural reforms, needed to boost economy-wide productivity, should be prioritized, including those aimed at the implementation of the EU association agreement.

Approved By
**Helge Berger (EUR) and Niamh Sheridan (SPR)**

Discussions were held on September 16–September 26, 2025 in San Marino, Republic of San Marino. The team comprised Ms. Shabunina (head), Ms. Armendariz, Messrs. De Resende, and Qu (all EUR). Ms. Tanaka (LEG) joined virtually. Messrs. Ercoli and De Blasio (OED) participated in the discussions. The team met with the Heads of State, Secretaries of State for Finance and Budget, Foreign Affairs, Labor, Industry, Health and Social Security, Tourism, Education, Central Bank President, other government and central bank officials, private sector representatives, and social partners. Ms. Fisher, Ms. Lee, (all EUR) assisted the mission from headquarters.

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# CONTEXT: FACING NEW SHOCKS WITH RESILIENCE

**1. San Marino's economy maintained positive growth following the post-pandemic recovery as its new growth model proved to be resilient to successive shocks.** Over the past decade, the country has successfully diversified its economic structure: the previously oversized banking sector deleveraged following the banking crisis that started in 2009, while manufacturing and nonfinancial services exports expanded, supported by moderate unit labor costs and strong corporate balance sheets. Following the pandemic and energy crises, the manufacturing sector retained the market share gained through nearshoring, and the tourism sector flourished, benefiting from post-Covid regional demand boom. Total employment has reached record highs, with cross-border workers accounting for over 80 percent of new hires.

**2. Macroeconomic stability needs prudent fiscal management, given limited options for countercyclical policies, structural vulnerabilities, and elevated public debt.** Prudent fiscal policy improved the structural primary balance by 1½ percent of GDP during 2021-24 and lowered the public debt-to-GDP ratio by 14.4 percentage points (Annex VI). Nevertheless, at 62.8 percent of GDP, the debt level remains high, and contingent liabilities are significant. San Marino is a small, euroized economy subject to high volatility in external demand and fiscal policy is the only macroeconomic stabilization tool available. Additionally, legacy issues in the banking sector neccesitate strong public sector liquidity buffers. In the long term, aging population will increase pension deficits, adding upward pressure to the debt-to-GDP ratio.

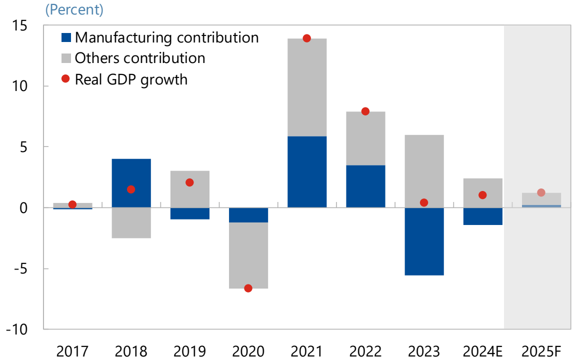
**3. Favorable macroeconomic developments and continuing reforms underpinned further reduction in banking sector vulnerabilities, however, significant challenges remain.** The NPL reduction has exceeded expectations, but the capitalization in some banks is still tight. The high share of non-income generating assets and the onerous operational costs continue to weigh on the quantity and quality of capital. Banks' business opportunities remain limited by the small domestic market.

**4. Trade tensions have had limited impact so far, but heightened uncertainty underscores the need to accelerate reforms, including those aimed at the implementation of the EU association agreement.** San Marino's low direct trade with the US, its focus on exporting high quality products with low price elasticity, and small export volumes that can be reallocated may limit the impact of tariffs. However, global geoeconomic uncertainty remains high. As a small economy, San Marino is highly dependent on external markets of goods, labor, and credit. Building buffers and addressing vulnerabilities now will cost less than in adverse scenarios when options are limited. The EU association agreement marks a pivotal step toward deeper integration with the European Union. The agreement will prompt domestic reforms such as the introduction of VAT signaling San Marino's strong commitment to institutional modernization and regulatory alignment (Republic of San Marino: Selected Issues 2024).

# RECENT DEVELOPMENTS

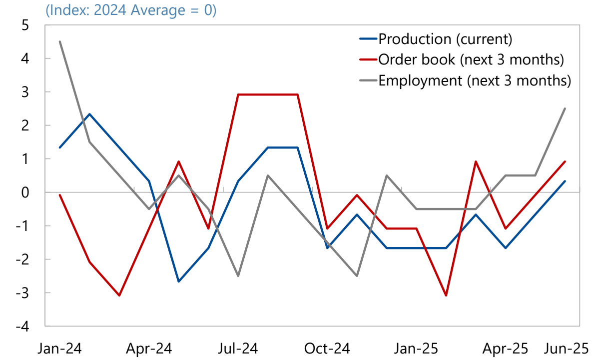
5. **San Marino's economic growth picked up modestly in 2024.** GDP growth increased to 1 percent from 0.4 percent in 2023. The service sector has maintained strong momentum since the pandemic, benefiting from the continuing tourism boom and robust domestic consumption. However, subdued external demand for goods weighed on the manufacturing sector. The phase-out of Italy's housing-related tax incentive affected San Marino construction materials and furniture sector. The adverse impact on profits was partially offset by normalizing energy and material costs. In line with regional developments, manufacturers' order books started a modest recovery in the first half of 2025.

**Real GDP Growth**
(Percent)




Sources: Sammarinese authorities and IMF staff estimates.

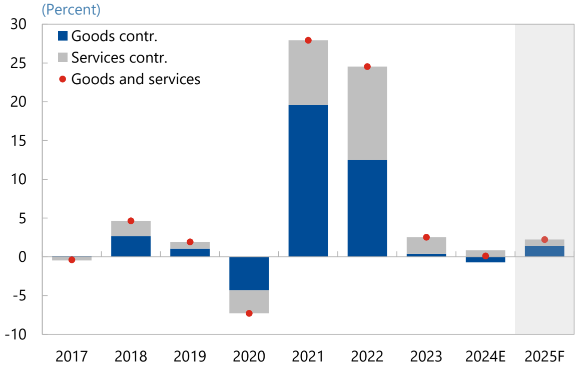
**Manufacuturing Survey: Italy Northeast Region**
(Index: 2024 Average = 0)




Source: ISTAT.

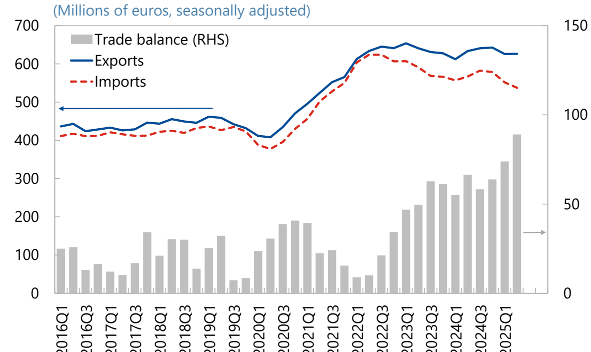
6. **Despite a temporary slowdown in goods exports, San Marino's external demand remains resilient.** In 2024 goods exports declined as Italian residential construction slowed down and supply disruptions that had previously benefited Sammarinese exports eased. However, high frequency data suggest that goods exports have remained stable at elevated levels since early 2024. Meanwhile, service exports continued to grow led by tourism.

**Exports Growth**
(Percent)




Sources: Country authorities and IMF staff estimates.

**Trade of Goods**
(Millions of euros, seasonally adjusted)

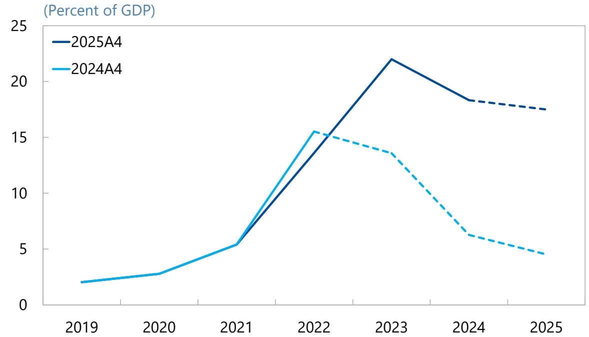



Sources: Country authorities and IMF staff estimates.

7. **The current account surplus declined but remained strong in 2024.** The 2022-23 current account balance was significantly revised upward following official statistical revisions, and an

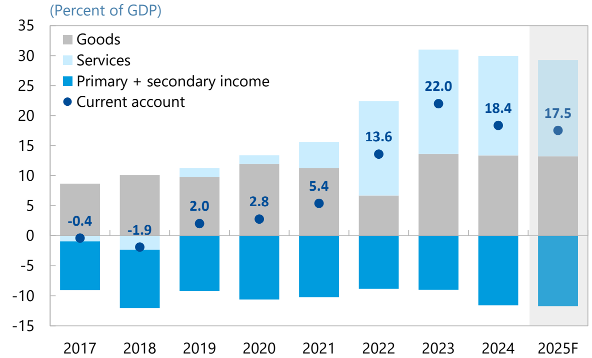
overestimation of 2023 imports.[1] In 2024, the current account balance surplus declined to 18.4 percent of GDP (from 22 percent in 2023) driven by weakening trade and income balances. Higher interest payments on the sovereign eurobond and senior AMC bonds contributed to the lower income balance. With limited investment opportunities in San Marino, capital outflows offset the current account surplus, leaving international reserves broadly stable at €735 million (107 percent of the ARA). The external position in 2024 was stronger than implied by medium term fundamentals and desirable policies (Annex V). Going forward, structural gaps—including in labor market flexibility, digitalization, and real estate market regulations—continue to weigh on medium-term productivity growth and competitiveness.

**Current Account Balance**
(Percent of GDP)




Note: CA is normalized by GDP estimates. Dotted lines represent forecasts.
Sources: Country authorities and IMF staff estimates.

**Current Account**
(Percent of GDP)



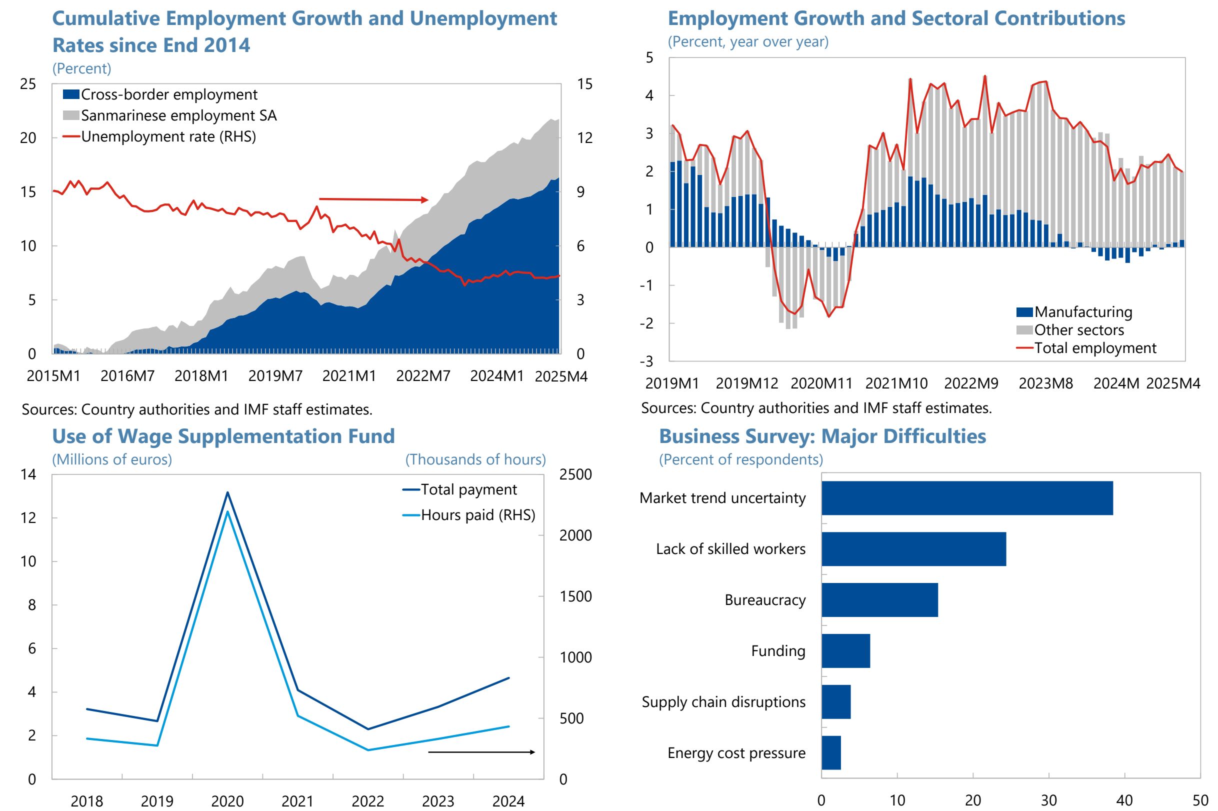

Sources: Country authorities and IMF staff estimates.

**8. Labor market conditions are tight as employment reaches record levels.** The number of employees in San Marino has grown by 20 percent in the past decade. As the economy approaches full employment, more than 4 out of 5 new hires are cross-border workers. In 2024, employment growth was primarily driven by the service sector, while manufacturing employment flattened as firms faced a decline in export orders. To retain skilled workers, some manufacturers reduced working hours and used the wage supplementation program.[2] in anticipation of a demand recovery. In the first half of 2025, manufacturing employment started to recover. Labor shortages persist and constitute the second most significant challenge according to business survey.

[1] Imports were lower than previously estimated due to lower costs of inputs and overstocking in 2022.

[2] San Marino's wage supplementation program is a private contractual arrangement that insures against business downturns. Employers and employees contribute to the fund during good times, and tap the fund when activities are temporarily low. The flexible arrangement allows firms to reduce working hours while retaining employment, making production more responsive to demand.

## Labor Market



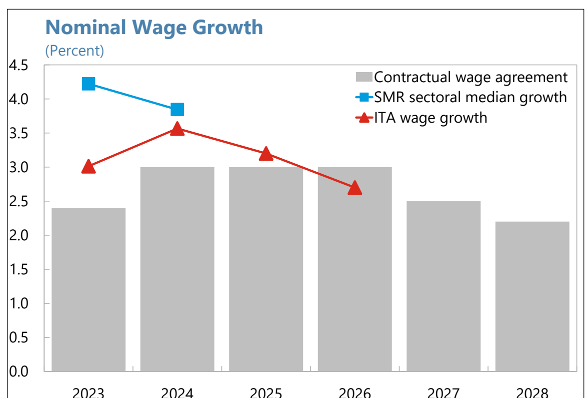

Sources: Country authorities and IMF staff estimates.

Sources: Country authorities and IMF staff estimates.

Source: Country authorities.

Source: ANIS.

**9. Strong wage growth in 2023-24, amid tight labor market conditions, helped sustain domestic consumption.** Average real wage per worker is still 4.5 percent lower than pre-pandemic, but wage growth has been catching up in recent years. Sectoral median wage growth exceeded the minimum growth stipulated by the private collective wage agreement, reflecting strong labor demand. The cumulative wage growth since the pandemic is comparable to Italy.



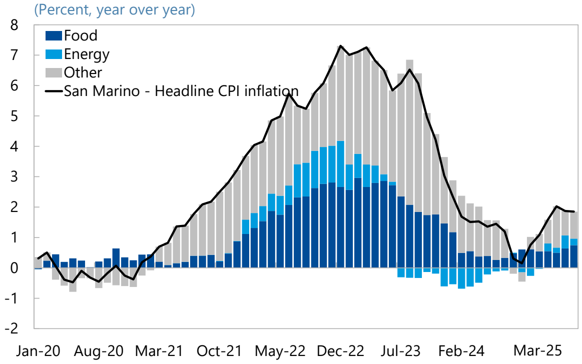

Sources: Country authorities; ISTAT; and Consensus economics.

**10. Inflation has stabilized at 2 percent in line with trends in Italy.** After declining in 2024, inflation edged up in 2025, driven mainly by base effects in transportation costs and, to a lesser extent, energy prices. Above-inflation wage growth is unlikely to have significant second-round effects on inflation due to San Marino's small size, open borders with Italy and strong competitive pressures from Italian firms.

## Inflation Developments

### Headline Inflation

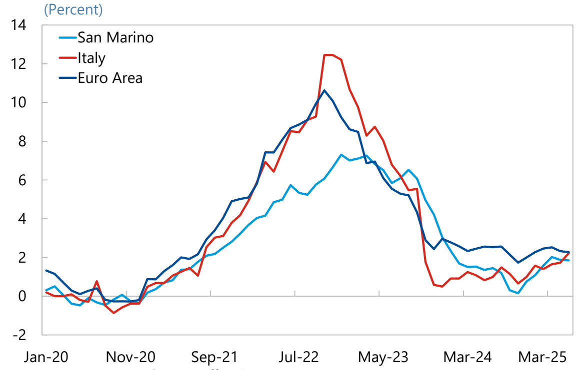
(Percent, year over year)




Sources: Country authorities and IMF staff estimates.

### Headline CPI Inflation

(Percent)



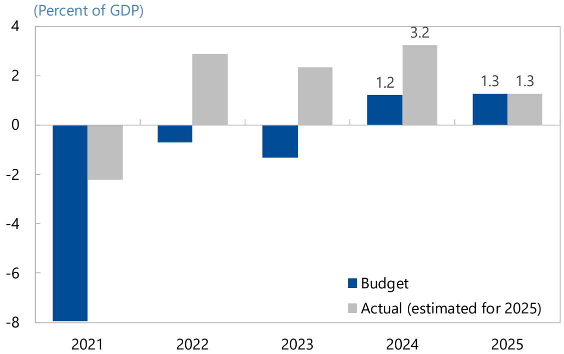

Sources: Eurostat and IMF staff estimates.

**11. The fiscal balance has surprised on the upside due to underspending and one-off revenues, but underlying spending pressures are increasing in 2025.** The primary balance net of bank support in 2024 reached 3.2 percent of GDP (above the expected 1.4 percent). The outperformance reflects one-off revenues from SOEs dividends (0.4 percent of GDP) and direct taxation (0.9 percent of GDP - mainly due to higher CIT revenue from a small number of firms), and underspending on public and private transfers, personnel costs and purchases of goods and services. However, spending pressures emerged in 2025 as public sector hiring has accelerated in recent years and the previously declining trend of public wage bill relative to GDP has flattened.

## Selected Fiscal Indicators

### Primary Balance Net of Bank Support

(Percent of GDP)




Sources: Country authorities and IMF staff estimates.

### Central Government: Selected Fiscal Indicators, 2023-25

(Percent of GDP)

| | 2023 | 2024 | | 2025 |
|---|---|---|---|---|
| | | 2024A4[1] | Est. | 2024A4 |
| Revenues | 21.0 | 20.3 | 21.3 | 20.3 |
| Expenditures | 21.7 | 21.8 | 20.9 | 21.6 |
| *Primary expenditure expenses net of bank support* | 18.6 | 18.9 | 18.1 | 18.7 |
| *Interest payments [A]* | 2.2 | 2.1 | 2.0 | 2.1 |
| *Bank support[2] [B]* | 0.8 | 0.8 | 0.8 | 0.8 |
| **Overall balance [C]** | **-0.7** | **-1.5** | **0.4** | **-1.3** |
| **Primary balance net of bank support [D = C + A - B]** | **2.4** | **1.4** | **3.2** | **1.6** |
| Temporary factors affecting primary balance [E] | 1.1 | 0.2 | 1.8 | 0.3 |
| One-off and cyclical revenues[3] | 1.7 | 0.2 | 1.8 | 0.0 |
| One-off expenditures[4] | -0.6 | 0.0 | 0.0 | 0.0 |
| **Structural primary balance net of bank support[5] [F = D - E]** | **1.2** | **1.2** | **1.4** | **1.3** |
| **Public debt** | **68.3** | **66.8** | **62.8** | **65.6** |

Sources: IMF staff estimates.

1/ Normalized by revised GDP of the current staff report.

2/ Includes the government repayment of BCIS liabilities to the pension fund.

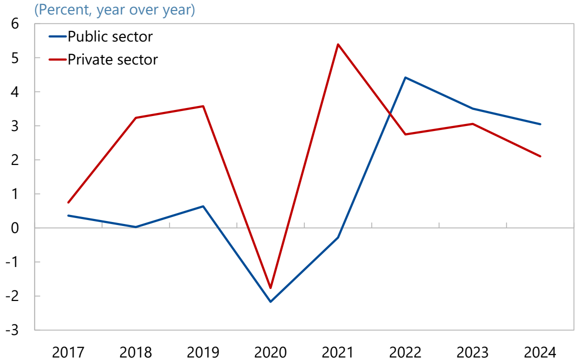
3/ Asset confiscation, profits from SOEs, and direct taxation revenue.

4/ Includes the one-off purchase of office space (0.6 percent of GDP) in 2023.

5/ Corrects for cyclical tax revenue, and one-off revenues and spending.

### Employment Growth

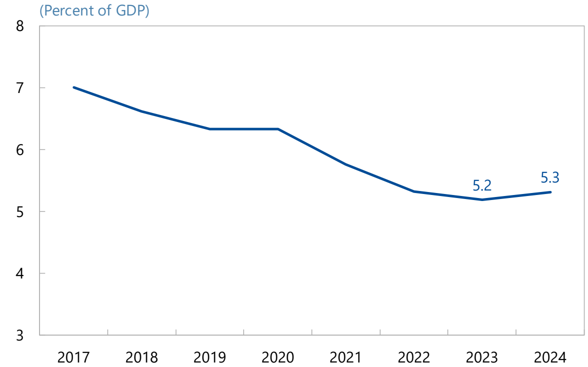
(Percent, year over year)




Sources: Country authorities and IMF staff estimates.

### Public Administration Wage Bill

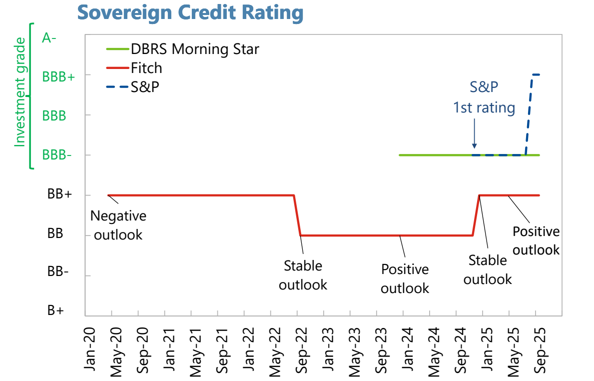
(Percent of GDP)




Source: Country authorities.

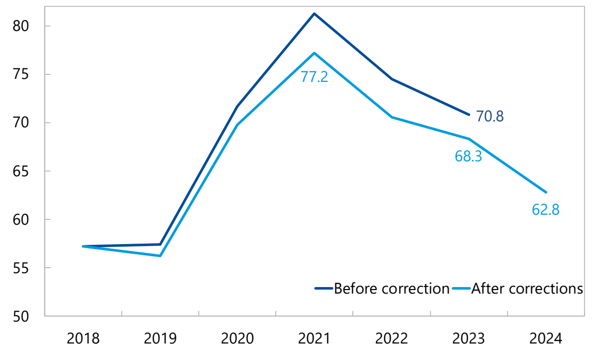
**12. The debt-to-GDP ratio continued to decline in 2024, but remains at a high level.** Historical debt level data for 2019-23 were revised down by around 2.5 percentage points of GDP as a result of improved debt statistics and enhanced transparency on Ex-BNS balance sheets. The debt to GDP ratio declined from 68.3 in 2023 to 62.8 in 2024, mostly driven by the amortization of remaining eurobond and primary surplus. It is expected to decline further in 2025. Since the last Article IV, two out of three rating agencies have upgraded or improved the outlook for the sovereign rating.

**Sovereign Credit Rating**




Sources: DBRS Morning star; Fitch; and Standard and Poors.

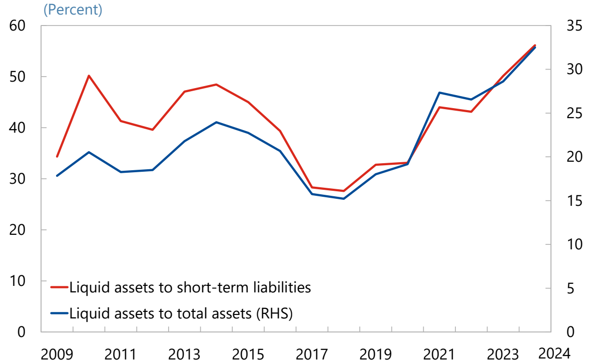
**Public Debt**
(Percent of GDP)




Sources: Country authorities and IMF staff estimates.

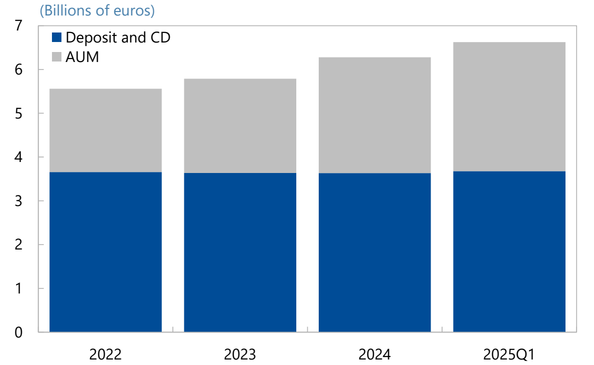
**13. The banking sector's liquidity improved and deposits remained stable.** Recent improvements in liquidity ratio are mainly driven by banks' maturity management. Banks' assets under management maintained strong growth, reflecting increased confidence in the banking system. Meanwhile, the credit quality of banks' performing loans remained stable. Credit to the private sector stabilized in 2024 after the level shift correction caused by the NPLs transferred to the AMC in end-2023, but credit supply remains constrained, limited by tight capitalization of some banks.

**Liquidity Ratios**
(Percent)




Source: FSI.

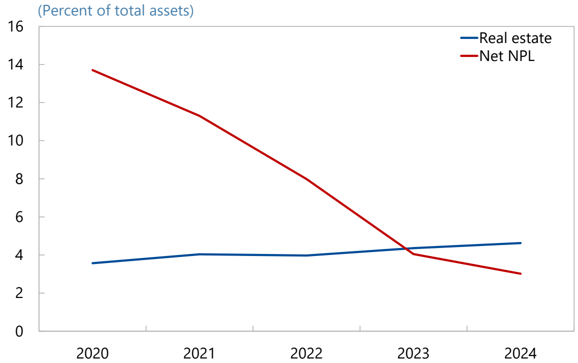
**Bank Deposits and Asset under Management**
(Billions of euros)




Source: Country authorities.

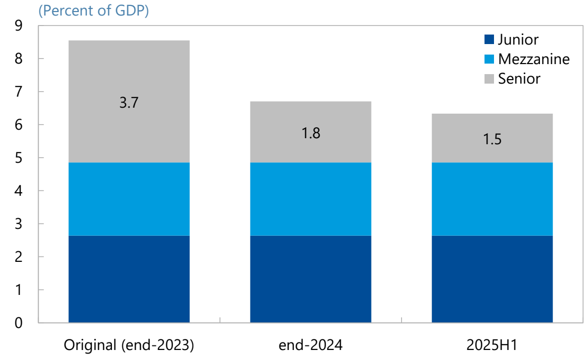
**14. The continued implementation of reforms helped further reduce NPLs within the banking system and distressed debt held by the asset management company (AMC).** The enforcement of calendar provisioning prompted banks to resolve NPLs. The gross NPL ratio fell from 21 percent in 2023 to 17 percent in 2024. Some of the NPL reduction was due to out-of-court resolutions through which banks received cash and real estate assets. However, banks have been slow to liquidate their real estate holdings, which now exceed the net NPLs in the banking system, reflecting illiquidity of the real estate market and potential overvaluation. AMC recoveries outperformed the business plan, accelerating the principal amortization of the NPL-backed senior securities with government guarantee. As of 2025H1, senior NPL securities outstanding fell to 40 percent of the initial level in end-2023, reducing fiscal contingent liabilities. The distressed debt recoveries benefited from faster repossession of collateral in San Marino, which typically takes less than 2 years. According to the business plan, the senior tranche will be fully paid off in 2026.

**Net NPL and Real Estates from Debt Recovery**
(Percent of total assets)




Sources: Bank balance sheets and FSI.

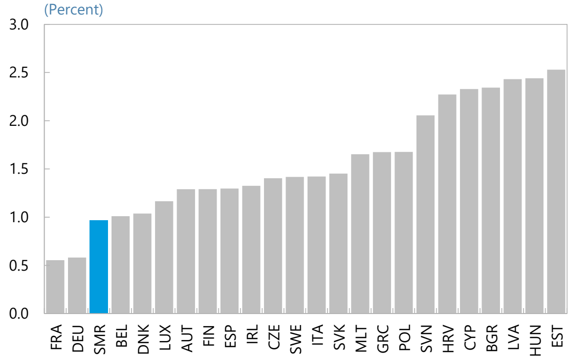
**AMC Securities Backed by NPL Outside Banks**
(Percent of GDP)




Source: Country authorities.

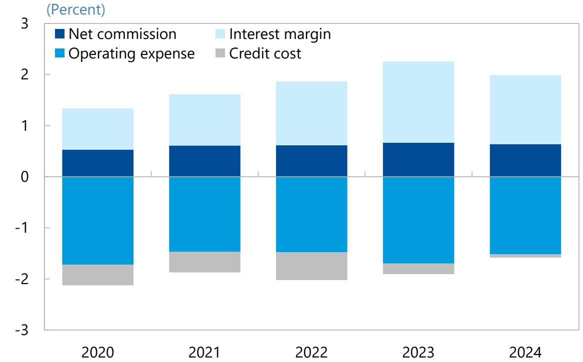
**15. Banks' profits remained stable in 2024, but declining interest margins and legacy loss recognition pose risks going forward.** Notwithstanding a positive profit surprise from higher-than-expected NPL recovery, interest margins appear to have peaked. Banks have made some progress in reducing operating costs by sharing IT systems, but high personnel costs and dense network of branches continue to weigh on profitability.

**Return on Assets, 2024**
(Percent)




Source: FSI.

**Components of Bank Profits over Total Asset**
(Percent)




Sources: FSI and IMF staff estimates.

**16. Banks' reported capital adequacy improved, but the large share of non-income-generating assets still weighs on the overall asset quality.** The capital adequacy ratio increased from 16.7 to 18.2 in 2024. Over the same period, calendar provisioning increased banks' capital adequacy requirement from 11 to 11.7 percent of system-level risk-weighted assets.[3] In line with past staff advice, the authorities converted €55 million perpetual bonds held by the state-owned bank into government bonds of 5-year and 10-year linear amortization.[4] The initiative will gradually improve the bank's liquidity and profitability. In addition, legal limits on banks' shareholding structure have been removed recently, opening the way for a majority stake by new investors.

**17. The signature of the EU association agreement is expected by end-2025.** Recently, the signature of the EU association agreement was delayed due to differing views among EU Member States on whether the agreement falls under exclusive EU competence or constitutes a mixed agreement, which has not yet been resolved. Earlier in 2025, to address concerns of a member state regarding financial sector supervision, an Addendum on financial sector supervision was agreed on to complement the Association Agreement.

# OUTLOOK AND RISKS

**18. Growth is projected to gradually strengthen in 2025-26, supported by recovering external and robust domestic demand.** Growth will be supported by the expected modest increase in growth of the Italian economy —underpinned by the National Recovery and Resilience Plan entering its final year in 2026—together with declining euro area interest rates, a strong labor market, and domestic political stability. The direct impact of US tariffs is expected to be small as the share of Sammarinese exports to the U.S. is about 2 percent of total exports, while indirect effects of US-EU trade agreement remain highly uncertain. The current account surplus is projected to stabilize at around 15 percent of GDP in the medium term. Inflation is expected to stabilize at around 2 percent, broadly following Italian trends, while wage growth is projected to be around 3 percent during 2025-26, in line with the private sector contract agreement.

**Key Macroeconomic Indicators**

| | 2025A4 | | | | | | 2024A4 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| | Percemt | | | | | | | | | | | |
| Real GDP growth | 1.0 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 | 0.7 | 1.3 | 1.2 | 1.1 | 1.3 | 1.3 |
| Inflation - avg | 1.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 1.3 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Nominal GDP growth | 2.9 | 3.2 | 3.2 | 3.1 | 3.2 | 3.3 | 3.1 | 3.4 | 3.2 | 3.1 | 3.3 | 3.3 |
| Unemployment rate | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| | Percent of GDP | | | | | | | | | | | |
| Current account balance | 18.4 | 17.5 | 17.8 | 17.1 | 16.3 | 15.4 | 6.4 | 4.6 | 3.2 | 2.1 | 2.3 | 2.3 |
| Primary balance net of bank support | 3.2 | 1.3 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Consolidated Primary balance | 2.7 | 0.9 | 1.2 | 1.0 | 0.8 | 0.5 | 0.8 | 1.3 | 1.2 | 1.0 | 0.8 | 0.5 |
| Public debt | 62.8 | 61.3 | 60.3 | 59.3 | 57.5 | 55.6 | 66.8 | 65.6 | 64.4 | 63.1 | 61.0 | 58.9 |

Source: Sammarinese authorities, and IMF staff estimates.

[3] Each bank's minimum capital adequacy requirement differs. As according to the applicable prudential regulations, for loans granted before 2024, any difference between supervisory expectations and the accounting coverage for non-performing credit exposures is added to the overall capital requirement, while for loans granted starting from 2024, the insufficient capital coverage for non-performing credit exposures is deducted from regulatory capital.

[4] In 2020, the state-owned bank was recapitalized with €455 million government perpetual bond with 1.75 percent interest rate.

**19. Public debt is expected to decline further, albeit amid remaining challenges.** With a primary surplus (net of bank support) expected to reach 1.6 percent of GDP in the medium term and robust nominal GDP growth, public debt is projected to decline from 61.3 percent of GDP in 2025 to 55.6 percent of GDP in 2029. However, the debt level remains high overall compared to pre-financial-crisis time and relative to other small countries. The pace of debt to GDP ratio reduction is more gradual with moderating inflation, and spending pressures are mounting.

**20. Downside risks prevail**:

- **External risks are elevated.** Escalating trade tensions, commodity price fluctuations, and prolonged uncertainty could trigger new shocks, undermining confidence among households and firms. An unexpected slowdown in the euro area or Italy could further weigh on export demand. In addition, heightened global financial market volatility could increase rollover costs of the eurobond maturing in 2027 (See Annex II and III).

- **Domestic risks stem from contingent liabilities in the financial sector and the potential reversal of fiscal consolidation.** The contingent liabilities include operating banks' contingent liabilities. With private sector wages rising faster than inflation, the outcome of public wage negotiations constitutes a risk for fiscal accounts. Relatedly, higher-than-expected pension growth could add to spending pressures. Furthermore, new spending initiatives and excessive hiring can compromise fiscal consolidation.

**21. On the upside, faster implementation of the EU association agreement could lift growth.** The agreement would improve investors' sentiment and provide business opportunities, which could increase confidence in the economy and boost domestic demand. The agreement, combined with VAT reform, would also reduce non-tariff trade barriers with the EU amid global tariff uncertainty.

***Authorities' Views***

**22. The authorities noted that economic activity has remained resilient to external shocks, supported by diversified growth model and prudent policies.** They remain cautiously optimistic about the outlook and expect economic growth to increase next year as tourism sector continues to be a key growth driver and the manufacturing sector gradually recovers. At the same time, they acknowledged downside risks from elevated trade tensions and weakening external demand and agreed that strengthening policy buffers going forward is crucial. They emphasized that the implementation of the recently negotiated EU association agreement is key to boosting confidence in the economy and improving the medium-term outlook.

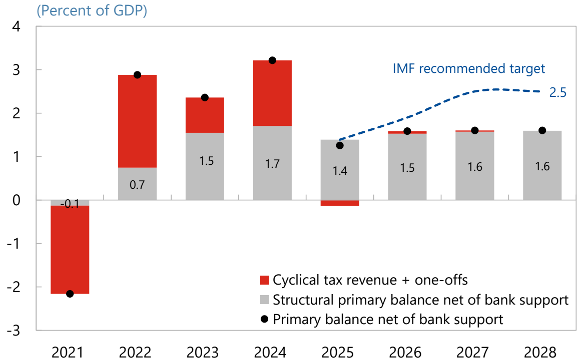
# POLICY AGENDA: STRENGTHENING THE FRAMEWORK TO COPE WITH SHOCKS

## A. Strengthening the Fiscal Position

**23. Strengthening the fiscal consolidation path is essential to secure the continuing reduction of the public debt amid heightened uncertainty and elevated risks.** Fiscal policy is the main tool for macroeconomic stabilization. Moreover, euroization and limited liquidity in domestic banks necessitate maintaining sizable public sector liquidity buffers to support an effective emergency liquidity facility by the CBSM. As a high-income economy with moderate potential growth, San Marino must rely on the speed and quality of fiscal discipline and structural reforms to overcome its fiscal challenges.

**24. San Marino should reduce debt-to-GDP level to below 60 percent in the medium term.**[5] This target is consistent with the European framework and provides a useful operational anchor and predictability. The authorities aim to achieve this goal in the near term.[6] In line with 2024 Article IV advice and taking into account better fiscal outcome in 2024, staff recommends improving the consolidated primary balance—central government plus the pension fund—to 2 percent of GDP (or a primary balance net of bank support of 2.5 percent of GDP) by 2027. The primary balance target would also bring overall deficit to around zero in the medium term. The recommended frontloading of the consolidation effort to achieve a balanced budget by 2027 will reinforce the downward path of debt to GDP ratio and put the country in a stronger position for the rollover of the eurobond (18 percent of GDP).

**Primary Balance net of Bank Support**
(Percent of GDP)




Source: IMF staff estimates.

**Structural Measures that Could Help to Achieve the Recommended Primary Balance**
(Percent of GDP)

| | |
|---|---|
| **Tax increases** | **1.8** |
| Reducing income tax rebates | 1.0 |
| VAT | 0.7 |
| Expanding excises | 0.1 |
| **Spending cut** | **0.7** |
| Cuts in subsidies | 0.4 |
| Improve government expenditure efficiency | 0.3 |
| **Total yield** | **2.5** |

Source: IMF staff estimates.

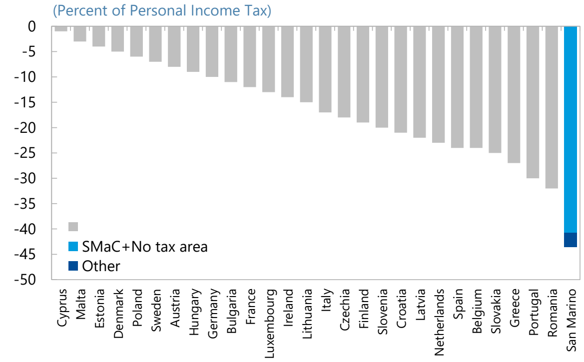
[5] San Marino is not an EU member, and the 60 percent debt to GDP target is not legally required, but has served as an anchor of the government fiscal strategy.

[6] Budget at a glance 2025.

**25. A comprehensive set of reforms is essential to underpin the fiscal efforts.** The upcoming income tax reform is a key element. It should be complemented by improving expenditure efficiency. It is also important to contain growth in wage bill and pensions.

- **Implement an income tax reform.** The effective personal income tax rate in San Marino is low, at 7 percent, mainly due to the generous deductible expenses[7] and the low tax rate for capital income. The number of deductions is large and some of the deductions seem to overlap, resulting in a very complex income tax system. Therefore, it is critical to streamline and rationalize deductions. The draft reform has been submitted to Parliament.[8] (Annex I).

**Revenue Loss due to Tax Exemption**
(Percent of Personal Income Tax)




Sources: European Commision Discussion Paper 212 and IMF staff estimates.

**Main Features of Selected Reforms**

| | |
|---|---|
| **VAT introduction** | |
| | Set general rate at 15 percent |
| | Minimal exemptions |
| **Income tax reform** | |
| | Reduce SMAC rebates |
| | Streamline tax deductions with limited social return |
| **Spending consolidations** | |
| | Enhance targeting of transfers to private sector |
| | Revise transfer to government units based on expenditure reviews |
| **Pension system recalibration** | |
| | Reduce incentives for early retirements |
| | Link retirement age to life expectancy |

- **Introduce a Value Added Tax (VAT).** The EU association agreement and the growing economic role of export-oriented manufacturing has elevated the priority of introducing a VAT and the government is expediting preparatory work. Transitioning from the current import tax to a VAT will be complex, and the challenges related to the design, implementation, and tax administration of a new VAT tax must be tackled early on (Annex VI of 2024 staff report). A VAT has the potential to improve tax collection efficiency, reduce distortions, and further facilitate integration with the EU and attract FDI. It is important to adopt a simple VAT to alleviate the implementation cost for small businesses and contain the administrative burden of the tax office. Exempting small businesses based on their turnover rather than the type of activity is preferrable, as sectoral exemptions can significantly complicate tax administration. The authorities should also consider expanding the use of excise taxes to generate revenue and mitigate negative health externalities (e.g., excise tax on alcohol and soft beverages with high sugar content).

- **Advance government digitalization.** To strengthen revenue mobilization, the authorities have introduced electronic invoicing for transactions with Italy. The planned deployment of electronic invoicing also for domestic transactions, in early 2026, will helpfully reduce transaction costs and

[7] One notable tax expenditure is on consumption in San Marino through SMaC card, which grants each taxpayer up to €9,000 of reduction on taxable income. The measure reduces personal income tax by more than 30 percent.

[8] The income tax reform is pending parliament's approval, its impact has not been incorporated in the baseline forecast.

improve tax compliance. Furthermore, advancing e-government initiatives —such as electronic submission of official forms would improve the business environment and generate fiscal savings.

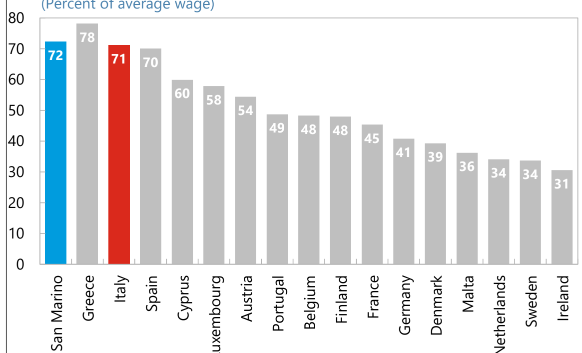
- **Improve the efficiency of public spending.** San Marino should shift away from across-the-board real expenditure compression to a more strategic prioritization of spending based on social returns. This includes reviewing general government fund expenditures and large spending programs, as well as upgrading their monitoring. Staff recommends the following key areas to focus on:

  - *Transfers to the private sector*. Interest subsidies paid to first-time home buyers and businesses increased significantly in recent years —mainly due to higher interest rates. These subsidies are costly and poorly targeted, effectively subsidizing more leveraged debtors and banks. The government should advance its plan to better support vulnerable households by targeting social transfers based on a new index for economic and equity conditions (ICEE[9]).

  - *Education expenditure efficiency* (Annex VII). San Marino has the highest teacher-to-student ratio in Europe. Demographic trends will further reduce the number of students. Hiring fewer new teachers than retiring ones, consolidating campuses, and optimizing class sizes can yield savings (0.3 percent of GDP).

  - *Large investment projects*: Ensure that rigorous cost-benefit analysis underpins the selection and sequencing of major projects.

**Average Pension, 2022**
(Percent of average wage)




Source: IMF staff estimates.

- **Keep public wages and pensions growth in check.** Moderate public wage bill growth has played an important role in improving the primary balance since the pandemic. The trend changed in 2024. New hires related to the EU association process, hiring by the general government, and increased staffing of the police department have lifted public employment. In addition, in 2024, the average public wage was 20 percent higher than the average private wage. While part of this gap reflects skills differences, it remains well above the regional average.[10] Overall the wage bill outcome is within the 2024 budget. Pension spending is also high, underscoring the importance of avoiding public wage and pension indexation above inflation. To alleviate wage bill pressures

[9] The index weighs wealth, income and dependents of households to grant targeted transfers.

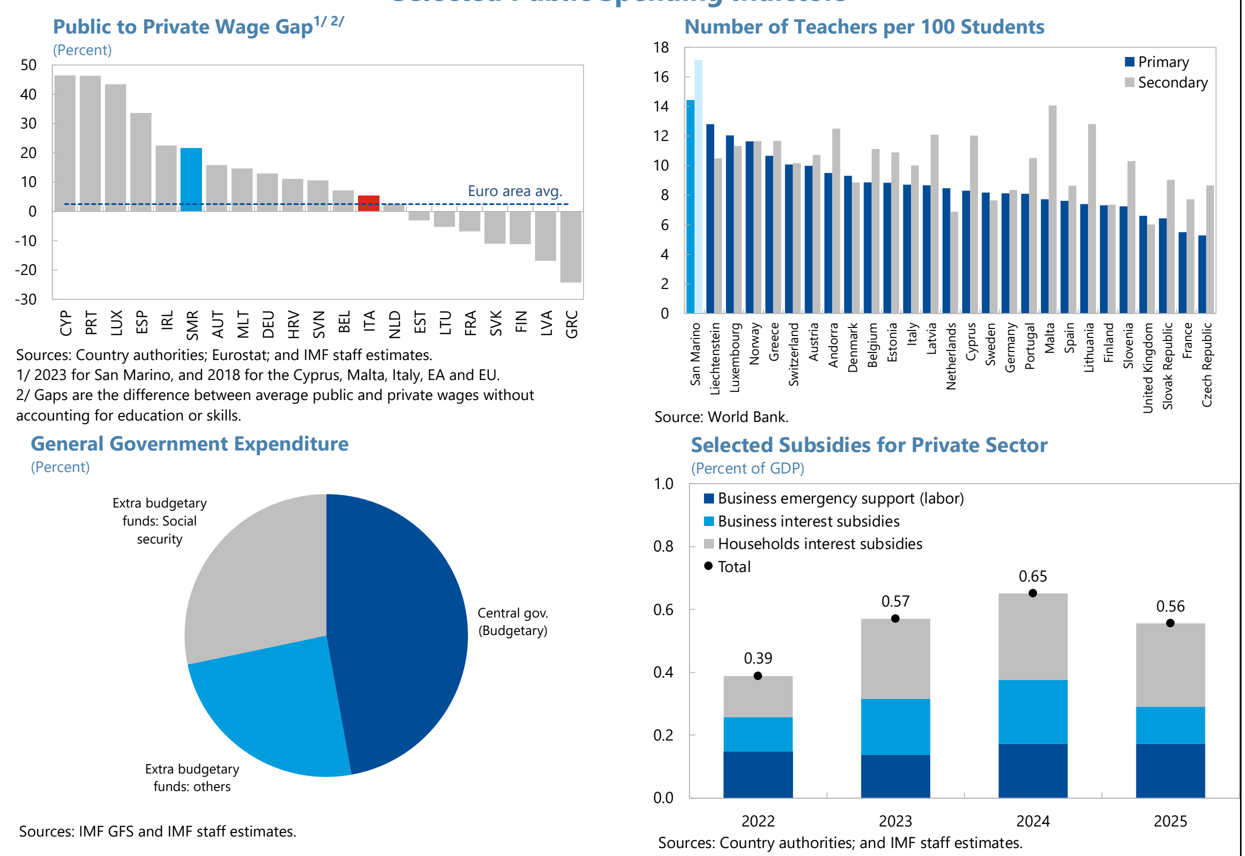
[10] Since end 2019, public sector and private sector average wage has respectively increased by 1 percent and 2.4 percent each year, on average. Public wage growth has accelerated in 2023 and 2024, reaching 3.6 percent each year.

from implementing the EU association agreement, the government can consider reskilling and reassigning public employees.

- **Accommodate additional expenditure within the existing budget envelope.** About 0.1 percent of GDP has been allocated to the implementation of the EU association agreement. Other countries' experience indicates that costs are likely to be higher (Republic of San Marino: Selected Issues 2024). Any additional expenditure should be accommodated without undermining the recommended fiscal adjustment path.

**26. Long-term demographic challenges will require further parametric adjustments to the pension system.** The 2022 pension reform has increased contribution rates, raised the effective retirement age, and strengthened the link between benefits and contributions, delaying the projected depletion of the pension fund by about a decade (until 2037). However, ensuring long-term sustainability will require additional measures to address generous benefits, low penalties for early retirement and linking retirement age to life expectancy. Staff welcomes the diversification of the pension fund's assets (around 17 percent of assets have been invested in external liquid instruments). However, the remaining part is concentrated in domestic banks and short-term instruments with low returns. Further gradual diversification toward international markets is needed to mitigate concentration risks and increase returns, while carefully managing the impact on domestic bank liquidity.

**Selected Public Spending Indictors**

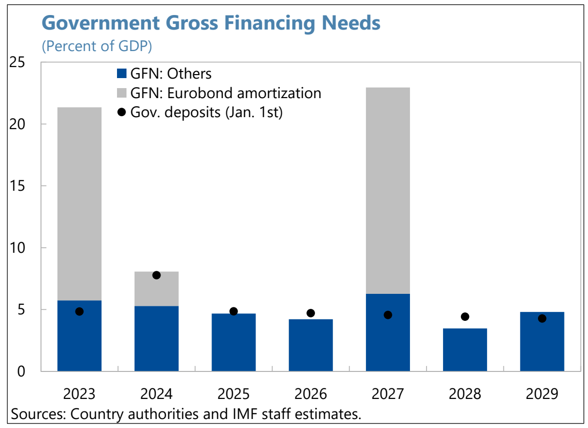



Public to Private Wage Gap: Sources: Country authorities; Eurostat; and IMF staff estimates.
1/ 2023 for San Marino, and 2018 for the Cyprus, Malta, Italy, EA and EU.
2/ Gaps are the difference between average public and private wages without accounting for education or skills.

Number of Teachers per 100 Students: Source: World Bank.

General Government Expenditure: Sources: IMF GFS and IMF staff estimates.

Selected Subsidies for Private Sector: Sources: Country authorities; and IMF staff estimates.




**27. Strengthening debt management capacity is essential to address refinancing risks and diversify financing sources.** To smooth the debt amortization profile, the authorities should consider smaller international issuances with longer maturities (5-7 years), diversify funding sources, and conduct buyback operations of the current eurobond to reduce rollover risks ahead of 2027. Extending the eurobond maturity would also be beneficial, despite potentially higher costs. Issuances in the Italian local debt market would support funding diversification and increase liquidity. A concerted effort is needed to increase San Marino's debt management capabilities to address debt refinancing risks, including granting more autonomy to implement the financing plan approved in the budget.[11]

**28. The recently introduced fiscal strategy could be further developed.** The strategy updated in 2025[12] outlines the main objectives of fiscal policy, budget, and financing projections for the next three years. It shows the impact on debt and outlines key intended reforms ahead. It will be important to enhance the strategy by quantifying the impact of fiscal reforms and expanding the data coverage to include the pension fund. Presenting the fiscal data in the format of Government Finance Statistics (GFS) will provide a more comprehensive view of the fiscal situation to facilitate international comparisons and communication with investors. This will require more timely release of early estimates of government finance statistics.

***Authorities' Views***

**29. The authorities are advancing a comprehensive fiscal reform agenda to continue building fiscal buffers and strengthen debt sustainability.** They emphasized the importance of the income tax reform to help reduce public debt and support public investment. The authorities intend to introduce VAT and have initiated the extensive preparatory work, including consultations with the IMF technical experts, with the aim to design a VAT system adapted to the San Marino circumstances with strong tax administration measures. They recognized the need to contain spending pressures—particularly by maintaining moderate wage and pension growth— and to improve efficiency in education spending and achieve savings through government digitalization. Furthermore, they agreed on the need to improve debt management and diversify financing sources. To that end, they are planning the placement of government securities in the Italian local debt market. The authorities highlighted proactive preparations for the eurobond rollover, and are considering options such as prefinancing and buybacks. Finally, they acknowledged the need for

[11] Under current legislation, each security issuance needs parliamentary approval.

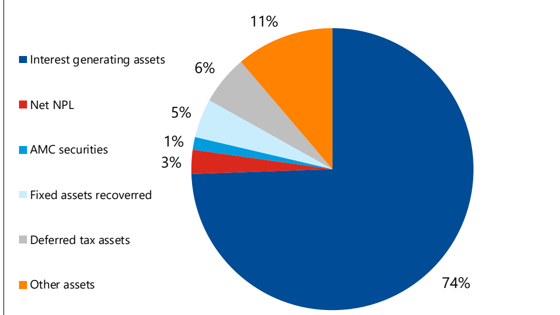
[12] Budget at a Glance (May 31, 2025)

parametric pension adjustments over the medium term, and have started gradually diversifying pension fund investments, while carefully monitoring domestic liquidity conditions.

## B. Finalizing the Banking Reform to Safeguard Stability

**30. Despite continuing progress in increasing liquidity and reducing NPLs, the banking system remains vulnerable due to persistent structural weaknesses.** These include a high share of non-income-generating assets (14 percent of total assets) —including NPLs, repossessed real estate, deferred tax assets, and claims on NPLs transferred to AMC—alongside elevated operating costs and tight capitalization in some banks. Uncertainty about these assets' real economic value suggest further losses are possible, as reflected in the haircuts on NPLs transferred to the AMC (Annex V of 2024 Staff Report). The reduction of income-generating assets has not been matched by a corresponding decrease in banking sector employment. The banking system is still oversized, with the highest number of branches per capita in Europe. Business opportunities are further limited by large exporters' reliance on Italian banks.

**Bank Asset Composition**
(Percent)




Sources: Country authorities and IMF staff estimates.

**31. The stable domestic economy and renewed confidence provide an opportunity to improve banks' capital positions.** While some reforms may entail short-term losses, they are essential for sustained resilience. Additional capital buffers will be crucial to absorb losses and accelerate the sector's transformation, while preserving systemic stability. The recent repeal of legal limits on bank ownership has strengthened supervisory authority and enabled majority stakes by external investors. Staff welcomes CBSM's guidance for banks with tight capital to retain profit. The central bank's enforcement of calendar provisioning[13] has been instrumental in prompting banks to resolve NPLs and seek new capital. Continued implementation of these measures is essential. Furthermore, any potential capital needs should be promptly addressed with credible capitalization plans, followed by strengthened use of supervisory actions. The ongoing efforts by CBSM to thoroughly review new investors to ensure their suitability should continue.

**32. Further efforts are needed to reduce forbearance and encourage banks to improve asset quality.** The current timeframe to fully recognize the value of Junior NPL securities needs to be significantly more ambitious. In addition, while the 2022 regulation to increase recovered real estate risk weights is in the right direction, further action is needed to incentivize banks to transform them into income generating assets. Priority measures to accelerate these processes include: i) accelerating the increase in risk weights for NPL-backed junior securities to fully reflect their real

[13] The calendar provisioning mandates banks to provision each NPL up to initial targets determined by the collaterals and time since the loan became impaired. The initial targets range from 40 to 70 percent of provisioning. The calendar provisioning requires coverages to increase 10 percent every year.

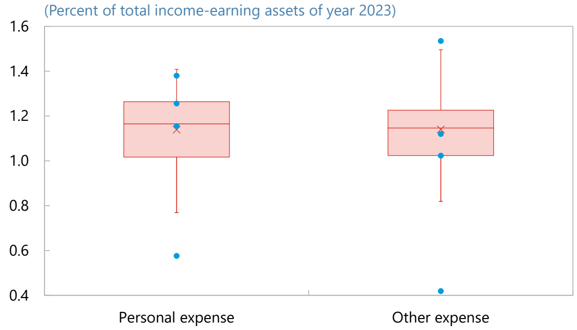
economic value; ii) raising risk weights on repossessed real estate to 100 percent, consistent with Basel III and EU regulation. Banks continue to hold mezzanine and junior tranches of NPL-backed securities, while current regulation[14] does not fully account for the impact of securitization on capital. This may impede asset recovery by the AMC (which is owned by banks participating in securitization), especially after the amortization of the senior tranche. Similarly, incentives remain insufficient to prompt banks to recognize losses and sell the properties, as evidenced by the increasing share of real estate owned by banks (See current regulations in Box 1).

### Box 1. Regulation of Junior NPL Securities and Real Estate from Debt Recovery

- **Junior NPL-based securities:** The book value for junior tranches remains above the real economic value of the securities, the difference will be very slowly reflected on banks' balance sheets through risk weight factor adjustments, starting from three times the average risk weights of the NPLs transferred. Under current regulation, the difference will be fully absorbed into regulatory capital ratio by 2046.
- **Real estate from debt recovery:** The real estate properties must be disposed of (sale, active finance lease or own use): vacant properties within 24 months; occupied properties within 36 months of acquisition. From the financial year after the deadline expires, the carrying amount of each overdue asset is risk-weighted at an extra 10 percentage points per year, reaching 100 percentage points after ten years, if the sum of overdue asset exceeds the regulatory capital.

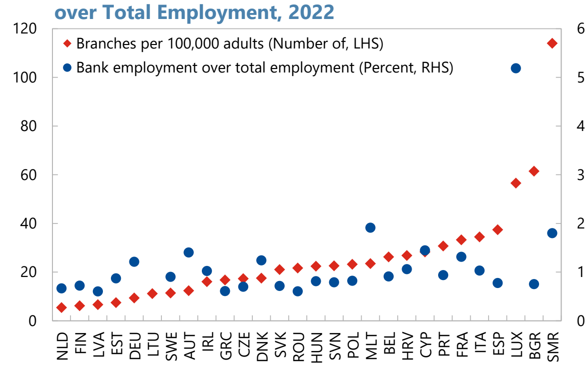
**33. A speedy adjustment of banks' cost structures is a priority to improve long-term viability and capital positions.** Banks' return on assets is among the lowest in Europe. A comparative analysis vis-a-vis neighboring Italian banks with similar business models shows that some banks in San Marino lag significantly in cost efficiency (Republic of San Marino: Selected Issues 2024). Priority should be given to rationalizing banks' high operating costs, especially personnel costs and bank branches. If within-bank consolidation is insufficient to restore competitiveness, system-wide consolidation could be considered.

**Expense Ratios: San Marino Banks (Dots) Italian Regional Banks (Boxes)**
(Percent of total income-earning assets of year 2023)




Sources: Fitch Connect; Banks' annual reports; and IMF staff estimates.

**Branches per 100,000 Adults and Bank Employment over Total Employment, 2022**




Sources: IMF Financial Access Survey and Eurostat.

[14] See Annex V of IMF Country Reports No. 24/330 for more information about the securitization scheme.

**34. Strengthening the legal and institutional framework for insolvency and asset recovery is critical to support NPL resolution and enhance the effectiveness of the AMC operations.** These reforms include upgrading the insolvency and creditor rights framework[15]. San Marino's insolvency system would benefit from pre-insolvency/pre-packed procedures. Further flexibility should be accorded to the existing concordato instrument to make its use more attractive. Recently, an inter-ministerial working group has been formed to reform the insolvency regime with the draft law expected in 2026. Previous reforms of auction procedures and reducing bureaucratic requirements on real estate transfers have led to faster repocession of collateral. Relaxing restrictions on foreign real estate ownership will help expedite liquidation of foreclosed properties. At the same time, the AMC needs to enhance dissemination of the information regarding NPL recovery progress. This will improve accountability, as well as help anticipate and address bottlenecks. Staff recommends that the CBSM be empowered to prompt the activation of the AMC sunset clause, when expected revenues fall below operating costs.

**35. The EU association agreement will improve regulatory standards and require an ambitious reform agenda for the financial sector.** The agreement requires the Central Bank of San Marino (CBSM) to align its regulatory framework with the EU. To meet the compliance costs, including by expanding and training staff, CBSM will need additional financial resources, underscoring the necessity to strengthen the financial autonomy of CBSM. The upgrades of the regulatory framework should be coordinated with solving existing issues in banks. In particular, to boost the quality of the state-owned bank's capital, the perpetual bond[16] used to recapitalize it should be converted into a liquid instrument with market interest rates. The recent initiative to replace €55 million, about 12 percent, of the perpetual bond with fixed-term government bond is welcome. [17] This process should be gradual, considering its potential impact on public debt and debt service. While the banking sector has 15 years to meet the requirements of the EU Association Agreement, early engagement with the EU regulatory institutions will reduce uncertainty, for example, on regulatory treatment of deferred tax assets. A comprehensive plan and acting early promise high payoffs and will boost confidence.

**36. San Marino should continue to make progress to strengthen its AML/CFT framework.** The National ML/TF Risk Assessment, which includes cross-border ML/TF risks associated with legal persons and arrangements in its scope, is being updated and will be finalized in 2026. San Marino's Financial Intelligence Agency (FIA) is taking proactive steps to enhance the accuracy of its central beneficial ownership registry and is stepping up risk-based supervision of the reporting entities. Legal and operational reforms to finalize the EU Association Agreement will be prioritized in the

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[15] See IMF Country Reports No. 16/112.

[16] The perpetual amount is €455 million (30 percent of CRSM's total assets) as of end 2024, with interest rate 1.75 percent.

[17] The two new bonds have linear amortizations of 5 years and 10 years, with interest rates of 2.15 and 2.45 percent respectively.

coming year. The FIA is also establishing a supervisory framework for virtual asset service providers. Adequate resources should be allocated to the FIA to support its expanding responsibilities.

***Authorities' Views***

**37. The authorities highlighted progress in the financial sector reforms, including in liquidity and asset quality.** They noted that the calendar provisioning has increased the capital requirements and reaffirmed their commitment to the NPL reduction strategy and ensuring that potential capital needs are addressed proactively. The EU association agreement is expected to broaden banks' business opportunities and attract external investors, though it also presents challenges. The authorities envision completing the adoption of EU regulations for the financial sector ahead of the 15-year timeline, noting that some areas including payment services are already aligned. They agreed on the need to reduce bank operating costs while increasing the share of income-generating assets to improve profitability, which will enable banks to support the investments (e.g. in IT systems) to implement the EU Association Agreement. The authorities remain committed to improving the state-owned bank's capital, by continuing to gradually replace perpetual bond with fixed-term bonds. They emphasized the importance of strengthening CBSM's financial autonomy to safeguard effective supervision. The authorities highlighted their ongoing efforts and commitment to thoroughly review new investors in San Marino's banks to ensure their suitability, including by using the international network of supervisory authorities strengthened and expanded in recent years. The authorities agree on the importance of transparency. To this end, the Central Bank is preparing a publication of position paper on the challenges, opportunities, and policy recommendations for the financial sector, including those related to the EU Association Agreement.

## C. Implement Structural Reforms to Support Broad-Based Growth

**38. The EU association agreement, still pending to be signed and ratified, offers an opportunity to accelerate reforms and sustainably lift growth.** The benefits of the EU association agreement are expected to become tangible in the medium term by improving confidence in the economy, helping to mobilize domestic reforms, and enhancing the quality of public administration.[18] The authorities should ensure sufficient resources and personnel are available to support implementation without undermining the fiscal consolidation path. Better communication with the public about the implications of the EU association agreement will help build consensus and accelerate reforms. The priority is to assess the staffing and skills sets needed across various ministries and agencies *vis-à-vis* existing resources and responsibilities. Reallocating staff and upgrading skills could help contain the personnel costs.

**39. Additional labor market flexibility will alleviate labor shortage and support the resilience of the economy.** The EU association offers new impetus to further liberalize the labor market by aligning San Marino laws to those of the EU. In particular, the agreement will require

[18] See IMF Country Report No. 24/331.

repealing the restrictions on the direct hiring of cross-border workers when unemployment is high. In addition, some restrictions need to be lifted, including: i) the disincentives to fixed-term contracts that extend beyond the 18-months limit; and ii) the restrictions on the operation of temporary work agencies depending on the level of unemployment. The impact of the new wage agreement on employment should be closely monitored by unions and firms to preserve San Marino external competitiveness. Italy wage growth is expected to moderate in 2025 and 2026, falling below the San Marinese private sector wage agreement.

**40. Improving energy efficiency will enhance competitiveness and resilience.** A reliable energy supply at competitive costs is important for the overall competitiveness of the economy and for a thriving manufacturing sector. The authorities have plans for solar and co-generation plants expected to cover around 16 percent of domestic electricity consumption. The current tariff system, which indexes electricity and gas tariffs to Italian wholesale costs, guarantees the financial soundness of the state-owned utility company and the reliability of supply. However, it uses cross-subsidies favoring residential consumers and other utility services (e.g., water and waste disposal). Instead, consideration should be given to providing targeted support for vulnerable groups to compliment the current social tariff regime. To further foster energy security and green transition, the authorities could allow households to sell back excess solar-generated electricity.

**41. Real estate market reforms can help mitigate supply shock from foreclosed properties and facilitate NPL recovery.** Banks and the AMC need to liquidate local real estate collateral of roughly one to two times the annual transaction volumes in San Marino. The process can be hindered by the illiquid and segmented market. The collection and timely digital publication of real estate prices and transactions will increase transparency and facilitate market turnover. San Marino Real Estate Market Observatory (OMIS) was established in 2024 to faciliate real estate valuations. The cadastral office should be granted more legal power to collect real estate price data from real estate agencies and banks. In addition, relaxing restrictions on foreign ownership could help by expanding demand.

**42. San Marino's economic and export diversification are in line with what is expected given its level of per capita income, but the country is more diversified than its microstate status would predict.** Beyond a threshold in per capita income, which San Marino has long crossed, the literature suggests that further diversification may not bring additional per capita income gains. For high-income economies such as San Marino, these gains are more likely to come from higher value-added products within already existing sectors, such as manufacturing, ICT, and professional services (Selected Issues 2025). These are also sectors that show high and growing labor productivity in San Marino, which provides further motivation for intensified focus on them. Rather than focusing on sector-specific policies, the authorities could consider horizontal measures—such as investing in both physical and digital infrastructure, streamlining the tax system, and enhancing public administration efficiency. The authorities' plans to accelerate the digital transition, improve connectivity and expand the mobile network will support this strategy by strengthening existing productive sectors.

**43. The authorities are facing statistical challenges similar to other small states, but they are making progress to address them, including with IMF support**. The authorities have amended the statistics law to grant independence to the statistics office in 2025. The authorities continue to publish data on their National Data Summary Page, following the IMF's Enhanced General Data Dissemination System (e-GDDS). The data provision to the IMF has some shortcomings but is broadly adequate for surveillance (Annex VIII). The main data gaps are in timeliness and quality across different areas, and lack of adequate source data on household activity. The authorities are committed to address data gaps in external sectors statistics and national accounts and are cooperating closely with the IMF statistical experts. To address national accounts gaps, an IMF technical assistance mission visited San Marino in October 2024. Staff underscores the importance of fully implementing the recommended measures. To address external sector statistics (ESS) gaps, the authorities should concentrate ESS production at the central bank. It will be important to present budget figures into GFS to facilitate international comparisons and communications with investors. The GFS statistics need to be updated timely. For example, the authorities can consider publishing partial updates of GFS based on estimates, before the actual numbers are finalized. Overall, substantial delays on publication have become a prevalent issue across national accounts, external sector statistics and government statistics.

***Authorities' Views***

**44. The authorities are committed to implementing the EU association agreement, advancing digitalization reforms, and making progress on real estate market reforms.** They noted strong national consensus on the benefits of the agreement, while emphasizing the significant efforts and resources needed for its successful implementation— including improved public communication about its implications. The authorities stressed that progress in government digitalization will be key to implementing the EU association agreement. They also agreed on the need to enhance the dissemination of real estate market information and address potential disincentives that may undermine labor flexibility. The authorities highlighted that the high level of diversification of San Marino's economy is a source of its resilience to external shocks. Finally, they emphasized their commitment to improve the quality and timeliness of the data publication by establishing an independent statistics office and increasing its staff.

# STAFF APPRAISAL

**45. San Marino's economy maintains positive momentum, as its diversified growth model proved to be resilient to successive shocks**. GDP growth accelerated to 1.0 percent in 2024, driven by strong domestic demand, a robust labor market, and rising real incomes, which offset weak exports. Manufacturing normalized post-pandemic, while the service sector benefited from tourism and healthy demand, supporting employment. Growth is expected to strengthen further in 2025–26, driven by recovering external and robust domestic demand, rising real wages, and easing financial conditions. However, risks remain from global uncertainties, trade tensions, and domestic financial sector vulnerabilities. Upside risks include the implementation of the EU association agreement which, combined with VAT reform, would also reduce non-tariff trade barriers with the EU, amid global tariff uncertainty. In addition, the external position is stronger than implied by medium-term fundamentals and desirable policies for 2024.

**46. Notwithstanding fiscal overperformance in 2024, strengthening fiscal consolidation is essential to secure the continuing reduction of the public debt**. San Marino's fiscal position improved in 2024 due to prudent spending and one-off revenues, but public debt remains high at 62.8 percent of GDP. Spending pressures are rising in 2025, driven by expanded private transfers and public sector hiring. Staff recommends further fiscal consolidation to mitigate financing risks, strengthen buffers, and ensure debt continues to decline. As a euroized small open economy with limited fiscal space and a vulnerable financial sector, maintaining prudent macroeconomic policies is essential, especially ahead of the eurobond rollover. To this end, a moderate additional fiscal effort of around 0.8 percent of GDP over the next two years is needed.

**47. Implementing the income tax reform would help achieve this goal.** High deductible expenses, including San Marino Card (SMaC) incentives, lead to low effective personal income tax rates by international standards. The proposed reform expands the tax base and improves tax administration. Greater use of tax credits instead of deductible expenses would also help mitigate regressivity.

**48. A well-designed and carefully implemented VAT will improve tax efficiency, reduce economic distortions, and facilitate integration with the EU's single market and attract FDI**. To ease implementation and minimize administrative burden, it is important to keep the system simple, by avoiding too many differentiated rates, limiting exemptions, and carefully calibrating registration thresholds for small businesses.

**49. Improving public spending efficiency is key.** This can be achieved by prioritizing expenditures with high social returns, reviewing subsidies and rationalizing education spending. It is also important to apply rigorous cost-benefit analysis to major projects and strengthen expenditure monitoring. Keeping public wage and pension growth in check is essential. Additionally, San Marino should advance government digitalization to improve the business environment and generate fiscal savings, including expanding electronic invoicing to boost tax compliance.

**50. The remaining long-term challenges of the pension system need to be addressed through recalibrating pension benefits and the retirement age.** The 2022 pension reform has increased contributions, delaying the depletion of the pension fund for a decade. However, ensuring long-term sustainability will require further parametric calibrations.

**51. Strengthening debt management capacity is essential to reduce refinancing risks and diversify financing sources.** To smooth the debt amortization profile, the authorities could consider smaller international issuances with longer maturities and diversify funding sources. It is also important to grant more autonomy to the Ministry of Finance to implement the financing plan approved in the budget.

**52. Continuing financial reforms improved banks' liquidity and asset quality—however, significant legacy vulnerabilities remain.** Liquidity improved, due to recovering confidence and banks' maturity management. Bank asset quality is improving, driven by calendar provisioning and the gradual replacement of perpetual bonds in the state-owned bank.

**53. To further prompt banks to improve asset quality, it is key to reduce any remaining forbearance.** The timeframe needs to be more ambitious. The risk weights for junior securities should be increased faster to reflect the difference between the net book value and the real economic value of NPLs on banks' balance sheets. Accelerating the increase of risk weights of real estate from debt recovery will encourage banks to sell and improve banks' liquidity and profitability.

**54. The stable domestic economy and renewed confidence provide an opportunity to improve banks' capital positions.** Additional capital buffers will be crucial to absorb losses and accelerate the sector's transformation while preserving systemic stability. Any undercapitalization should be promptly addressed with credible capitalization plans, followed by strengthened use of supervisory actions. The ongoing efforts by the CBSM to thoroughly review new investors to ensure their suitability should continue. The EU association agreement will improve regulatory standards and require an ambitious reform agenda for the financial sector. Early engagement with the EU regulatory institutions will reduce uncertainty.

**55. A speedy adjustment of banks' cost structures is a priority to improve long-term viability and capital positions.** Priority should be given to rationalizing banks' high operating costs, especially personnel costs, and bank branches. If within-bank consolidation is insufficient to restore competitiveness, system-wide consolidation could be considered.

**56. San Marino should continue strengthening its AML/CFT framework.** Further enhancing the accuracy of the central beneficial ownership registry remains a priority. The authorities should ensure continuously that the FIA has adequate resources to carry out its functions, including risk-based supervision and efforts to finalize the EU Association Agreement**.**

**57. Heightened trade uncertainty underscores the need to accelerate structural reforms, including those aimed at the implementation of the EU association agreement.** The finalization of the agreement offers an opportunity to accelerate reforms, reduce trade administrative costs, and sustainably lift growth. Additionally, better communication with the public about the implications of the EU association agreement will help build consensus and accelerate reforms.

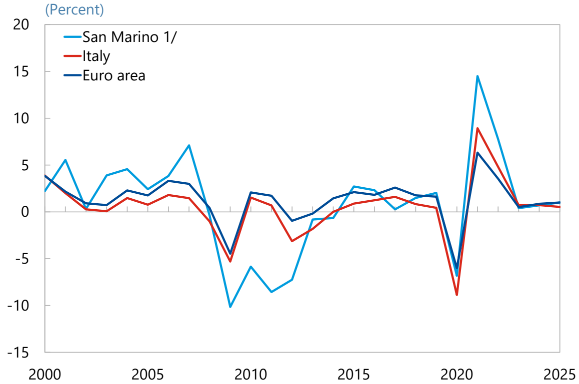
**58. San Marino's diversified economy supports its resilience to external shocks, and horizontal reforms aimed at boosting economy-wide productivity should be prioritized.** These include: i) increasing labor market flexibility by easing restrictions on the operation of temporary work agencies; ii) resolving banking-real estate distortions and facilitating real estate market functioning by empowering real estate observatory to collect data from market participants; iii) increasing energy efficiency and reducing cross-subsidization in the energy market; iv) investing in digital upgrades and improving network connectivity. Enhancing public sector efficiency and modernizing tax system would further reinforce these efforts.

**59. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.**

## Figure 1. Macroeconomic Developments

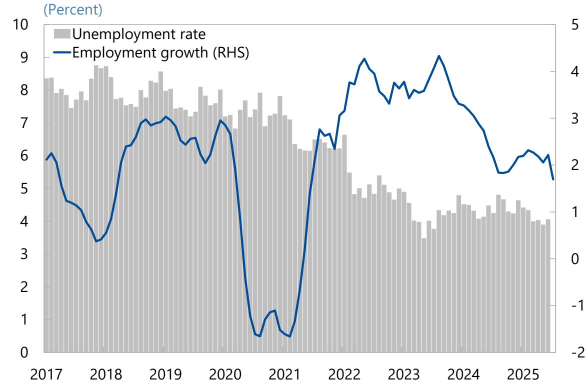
*Real GDP growth recovered modestly in 2024…*

**Real GDP Growth**
(Percent)



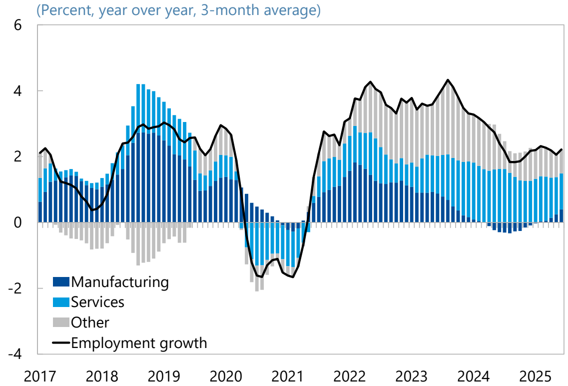

*and labor market remains tight.*

**Unemployment Rate and Employment Growth**
(Percent)



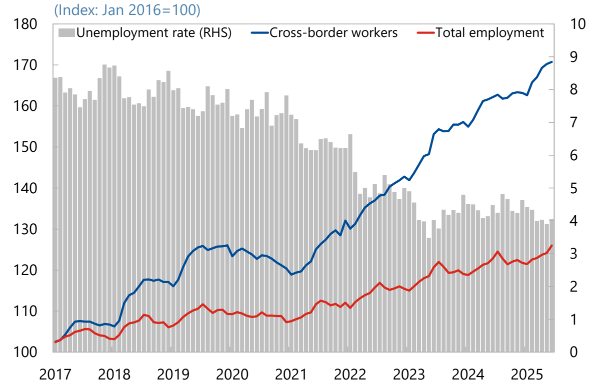

*Manufacturing sector employment recovered, and services and other sectors employment kept growing…*

**Sectoral Contributions to Employment Growth**
(Percent, year over year, 3-month average)



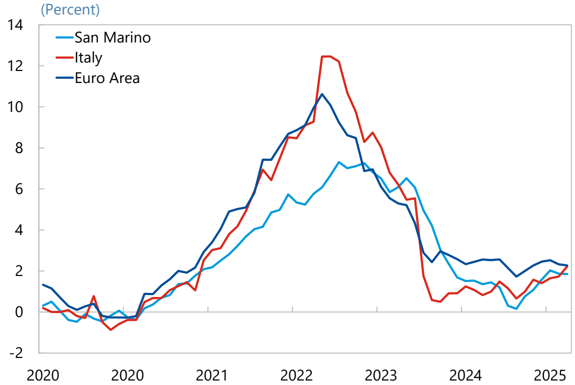

*and hiring of cross-border workers continued to increase.*

**Employment and Cross-Border Workers**
(Index: Jan 2016=100)



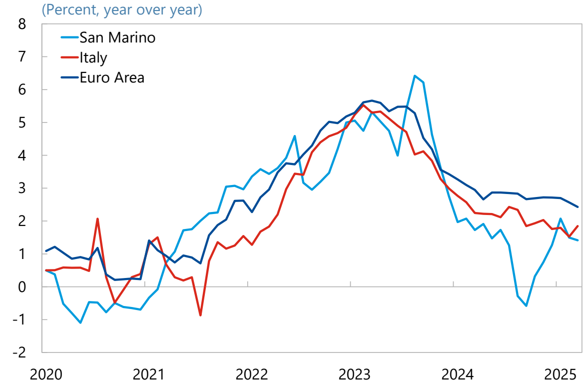

*Headline inflation edged up…*

**Headline CPI Inflation**
(Percent)



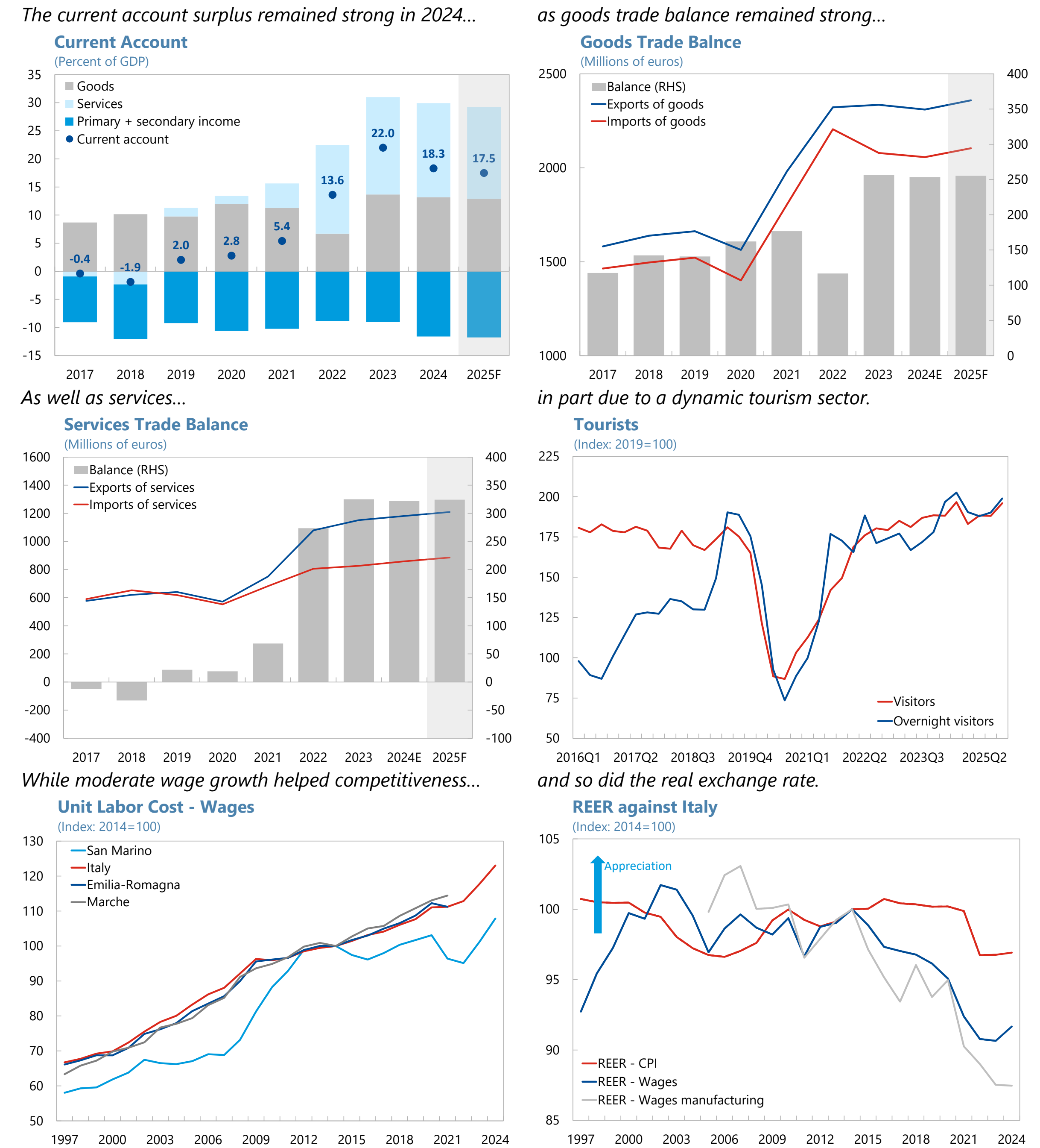

*and so did core inflation, mainly due to base effects.*

**Core Inflation**
(Percent, year over year)




Sources: World Economic Outlook, Sammarinese authorities, and IMF staff estimates.
1/ Projections for 2024-25.

**Figure 2. External Developments**

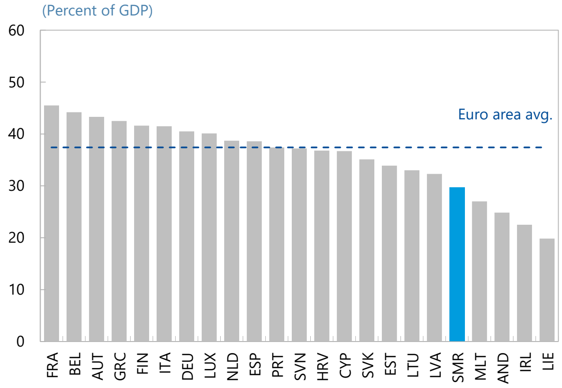



Sources: Sammarinese authorities, World Economic Outlook, and IMF staff estimates.

## Figure 3. Fiscal Developments

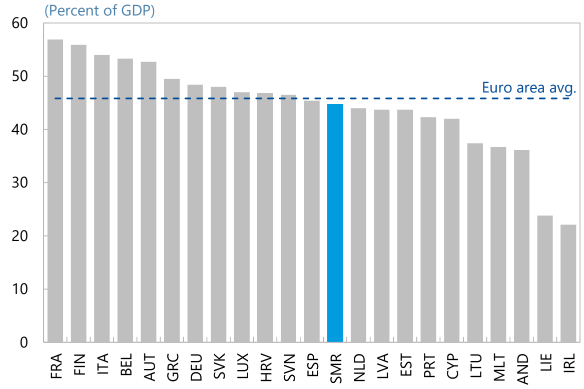
*Core government revenue is low given…*

**Government Tax Rev. and Social Security Contr., 2023**
(Percent of GDP)



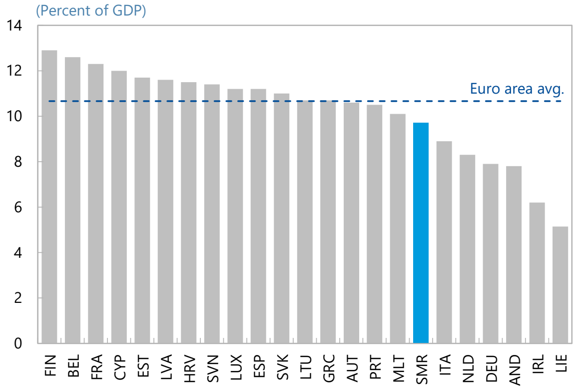

*the expenditure level.*

**Government Expenditure, 2023**
(Percent of GDP)



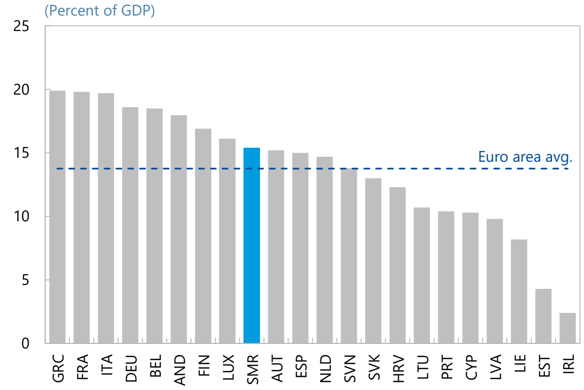

*While the wage bill is close the regional average…*

**Government Wages, 2023**
(Percent of GDP)



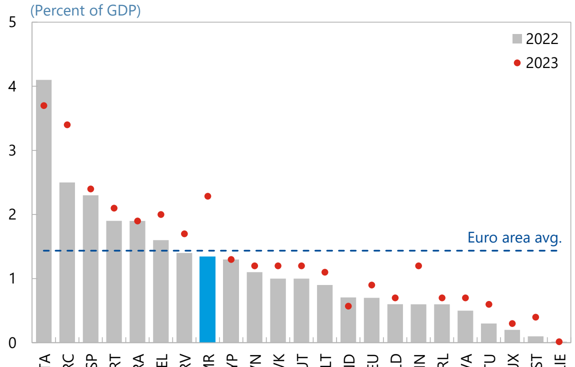

*but social benefits are high.*

**Social Security Social Benefits, 2023**
(Percent of GDP)



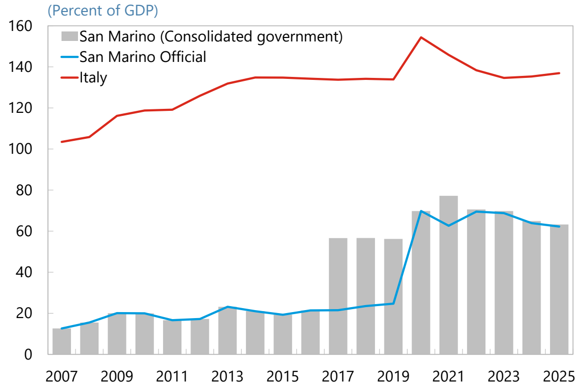

*Higher interest rates increased the interest payments…*

**Government Interest Payments, 2022-23**
(Percent of GDP)




*adding pressure to the public debt that remains high.*

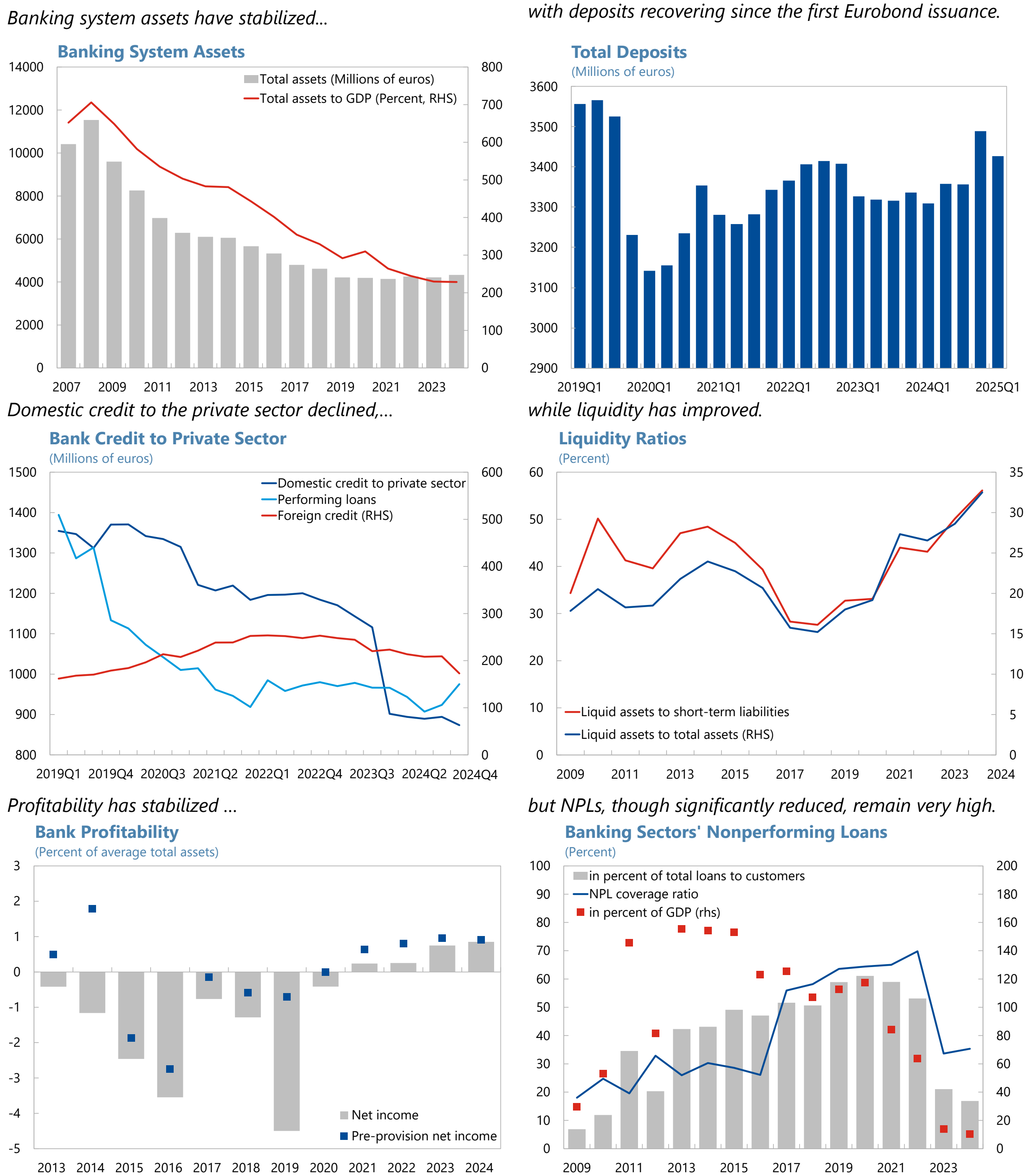
**Government Debt**
(Percent of GDP)




Sources: Sammarinese authorities, Eurostat, IMF World Economic Outlook, and IMF staff estimates.

Note: revenues and expenditures presented in these charts are general government for regional comparison.

## Figure 4. Monetary and Banking Developments




Sources: Sammarinese authorities and IMF staff estimates.

## Table 1. Republic of San Marino: Selected Economic and Social Indicators, 2021–30

GDP per capita (2023): 59,415 U.S. dollars | Life expectancy at birth (2018): 86.6 years
Population (2023): 34,130 persons | Literacy, adult (2015): 96 percent

| | | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| **Activity and Prices** | | | | | | | | | | |
| Real GDP (percent change) | 14.4 | 7.9 | 0.4 | 1.0 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 |
| Domestic demand | 11.3 | 10.6 | -8.5 | 2.1 | 1.5 | 1.0 | 1.4 | 1.1 | 1.1 | 1.1 |
| Final consumption | 3.5 | 9.9 | 0.1 | 2.2 | 1.7 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 |
| Fixed investment | 3.6 | 9.6 | -4.7 | 0.1 | 1.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Net exports | 5.9 | -0.1 | 6.8 | -0.5 | 0.2 | 0.6 | 0.2 | 0.5 | 0.5 | 0.5 |
| Exports | 28.3 | 14.8 | -5.1 | -0.8 | 1.4 | 1.7 | 1.5 | 1.6 | 1.6 | 1.6 |
| Imports | 29.0 | 17.3 | -9.8 | -0.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Contribution to real GDP growth (percent) | | | | | | | | | | |
| Domestic demand | 2.7 | 6.8 | -0.8 | 1.2 | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Final consumption | 2.0 | 5.1 | 0.0 | 1.2 | 0.9 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| Fixed investment | 0.7 | 1.7 | -0.8 | 0.0 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Inventories | 5.9 | 1.0 | -5.6 | 0.3 | -0.2 | -0.3 | -0.1 | -0.2 | -0.2 | -0.2 |
| Net exports | 5.9 | 0.0 | 6.8 | -0.5 | 0.2 | 0.6 | 0.2 | 0.5 | 0.5 | 0.5 |
| Exports | 46.7 | 27.3 | -10.1 | -1.6 | 2.6 | 3.0 | 2.7 | 2.9 | 3.0 | 3.0 |
| Imports | -40.8 | -27.4 | 16.9 | 1.1 | -2.4 | -2.4 | -2.5 | -2.5 | -2.5 | -2.5 |
| Employment (percent change) | 1.4 | 3.7 | 3.7 | 2.4 | 1.8 | 0.7 | 0.3 | 0.3 | 0.3 | 0.3 |
| Unemployment rate (average; percent) | 6.4 | 5.1 | 4.2 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Inflation rate (average; percent) | 1.6 | 5.3 | 5.9 | 1.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| GDP deflator (percent change) | 1.4 | 2.8 | 7.4 | 1.9 | 2.0 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 |
| Nominal GDP (percent change) | 16.0 | 10.9 | 7.8 | 2.9 | 3.2 | 3.2 | 3.1 | 3.2 | 3.3 | 3.3 |
| Nominal GDP (millions of euros) | 1,568.7 | 1,739.4 | 1,874.9 | 1,929.7 | 1,991.0 | 2,054.1 | 2,118.4 | 2,187.2 | 2,258.6 | 2,332.6 |
| **Public Finances** (percent of GDP) 1/ | | | | | | | | | | |
| Revenues | 20.7 | 22.1 | 21.0 | 21.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 |
| Expenditure | 37.1 | 21.7 | 21.7 | 20.9 | 21.9 | 21.4 | 21.3 | 20.6 | 20.6 | 20.5 |
| Overall balance | -16.4 | 0.4 | -0.7 | 0.4 | -1.6 | -1.1 | -1.0 | -0.3 | -0.3 | -0.2 |
| Primary balance net of bank support | -2.2 | 2.9 | 2.4 | 3.2 | 1.3 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Government debt (official) | 62.6 | 69.5 | 67.3 | 62.4 | 60.8 | 59.8 | 58.8 | 57.1 | 55.2 | 53.3 |
| Public debt 2/ | 77.2 | 70.6 | 68.3 | 62.8 | 61.3 | 60.3 | 59.3 | 57.5 | 55.6 | 53.6 |
| **Money and Credit** | | | | | | | | | | |
| Broad Money (BM) (percent change) | 4.9 | 1.4 | 0.7 | 3.6 | ... | ... | ... | ... | ... | ... |
| Private sector credit (percent change) | -10.8 | 0.0 | -23.6 | -3.2 | ... | ... | ... | ... | ... | ... |
| Net foreign assets (percent of GDP) | 137.3 | 119.6 | 94.9 | 96.6 | ... | ... | ... | ... | ... | ... |
| Commercial banks | 87.4 | 89.2 | 56.8 | 61.0 | ... | ... | ... | ... | ... | ... |
| Central bank | 49.9 | 30.3 | 38.1 | 35.6 | ... | ... | ... | ... | ... | ... |
| **External Accounts** (percent of GDP) | | | | | | | | | | |
| Current Account | 5.4 | 13.6 | 22.0 | 18.4 | 17.5 | 17.8 | 17.1 | 16.3 | 15.4 | 15.1 |
| Exports | 174.1 | 195.5 | 186.0 | 181.0 | 179.7 | 179.2 | 178.1 | 177.0 | 175.9 | 175.5 |
| Imports | 158.5 | 173.1 | 155.0 | 151.1 | 150.4 | 149.8 | 149.6 | 149.4 | 149.2 | 149.2 |
| Gross int. reserves (millions of euros) | 842.5 | 533.0 | 739.6 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 |
| **Financial Soundness Indicators** (percent) | | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 14.4 | 14.6 | 16.7 | 18.2 | ... | ... | ... | ... | ... | ... |
| NPL ratio | 59.0 | 53.1 | 21.0 | 16.9 | ... | ... | ... | ... | ... | ... |
| NPL coverage ratio | 65.0 | 69.8 | 33.6 | 35.3 | ... | ... | ... | ... | ... | ... |
| Return on asset (ROA) | 0.3 | 0.3 | 0.8 | 1.0 | ... | ... | ... | ... | ... | ... |
| Liquid assets to short-term liabilities | 44.0 | 43.1 | 50.1 | 56.1 | ... | ... | ... | ... | ... | ... |

Sources: International Financial Statistics; IMF Financial Soundness Indicators; Sammarinese authorities; World Bank; and IMF staff.
1/ For the central government.
2/ Central government (official) debt plus Social Security Fund and BNS debt.

## Table 2a. Republic of San Marino: Statement of Operations for Budgetary Central Government, 2021–30

(Millions of Euros)

| | 2021 | 2022 | 2023 | Est. 2024 | Proj. 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 324.3 | 384.2 | 392.9 | 410.7 | 404.2 | 417.0 | 430.0 | 444.0 | 458.5 | 473.5 |
| Taxes | 251.2 | 295.1 | 304.6 | 320.7 | 324.5 | 334.8 | 345.3 | 356.5 | 368.1 | 380.2 |
| Income Taxes | 141.8 | 162.6 | 176.1 | 195.9 | 193.1 | 199.2 | 205.5 | 212.2 | 219.1 | 226.3 |
| Non-income taxes | 109.4 | 132.5 | 128.4 | 124.8 | 131.4 | 135.6 | 139.8 | 144.3 | 149.1 | 153.9 |
| Taxes on international trade and transactions | 68.7 | 82.1 | 78.9 | 76.2 | 81.3 | 83.9 | 86.5 | 89.3 | 92.2 | 95.2 |
| Other taxes | 40.7 | 50.4 | 49.6 | 48.6 | 50.1 | 51.7 | 53.3 | 55.0 | 56.8 | 58.7 |
| Non-tax revenue | 73.1 | 89.1 | 88.3 | 90.0 | 79.7 | 82.2 | 84.8 | 87.5 | 90.4 | 93.3 |
| **Expenditure** | 581.8 | 376.8 | 406.4 | 403.2 | 436.2 | 438.9 | 451.4 | 450.6 | 464.2 | 478.5 |
| Current Expenditure | 580.1 | 371.0 | 388.7 | 396.1 | 421.3 | 429.9 | 441.9 | 440.8 | 454.1 | 468.0 |
| Compensation of employees | 90.4 | 92.6 | 97.3 | 102.3 | 106.5 | 109.2 | 111.9 | 115.5 | 119.3 | 123.2 |
| Use of goods and services | 23.6 | 25.0 | 27.3 | 29.1 | 34.4 | 35.5 | 36.7 | 37.8 | 39.1 | 40.4 |
| Interest | 29.9 | 22.5 | 42.0 | 38.9 | 41.5 | 39.3 | 40.3 | 39.9 | 40.6 | 41.6 |
| Transfers | 432.2 | 225.3 | 216.3 | 220.4 | 232.8 | 239.6 | 246.7 | 240.9 | 248.2 | 255.8 |
| To other general government units | 205.9 | 182.5 | 173.2 | 174.2 | 178.7 | 183.8 | 189.2 | 194.8 | 200.6 | 206.5 |
| Bank Support | 193.7 | 20.3 | 15.8 | 15.7 | 15.5 | 15.2 | 14.9 | 1.7 | 1.6 | 0.0 |
| To other private sector entities | 32.6 | 22.5 | 27.3 | 30.5 | 38.6 | 40.6 | 42.6 | 44.5 | 46.0 | 49.3 |
| Other expenses (including subsidies) | 3.9 | 5.7 | 5.8 | 5.3 | 6.0 | 6.2 | 6.4 | 6.6 | 6.8 | 7.0 |
| Net acquisition of nonfinancial assets | 1.7 | 5.8 | 17.7 | 7.1 | 14.9 | 9.1 | 9.4 | 9.8 | 10.1 | 10.5 |
| **Overall Balance** | **-257.6** | **7.4** | **-13.6** | **7.5** | **-32.1** | **-22.0** | **-21.3** | **-6.6** | **-5.7** | **-5.0** |
| *Memorandum items* | | | | | | | | | | |
| Primary balance | -227.6 | 29.8 | 28.4 | 46.4 | 9.5 | 17.4 | 19.0 | 33.3 | 34.9 | 36.6 |
| **Primary balance net of bank support [a]** | **-33.9** | **50.1** | **44.2** | **62.1** | **25.0** | **32.6** | **33.9** | **35.0** | **36.6** | **36.6** |
| Temporary factors affecting primary balance [b] | -25.1 | 37.1 | 15.2 | 29.2 | -2.7 | 1.2 | 0.6 | 0.2 | 0.0 | 0.0 |
| Cyclical tax revenue | -9.68 | 21.66 | 17.69 | 9.2 | 1.8 | 1.2 | 0.6 | 0.2 | 0.0 | 0.0 |
| One-off revenue and spending | -22.20 | 15.48 | -2.5 | 20.0 | -4.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Structural primary balance net of bank support [c = a - b] | -2.01 | 12.95 | 29.0 | 32.9 | 27.7 | 31.4 | 33.3 | 34.9 | 36.6 | 36.6 |
| Primary Balance net of transfer to the pension Fund [d] | -172.6 | 76.3 | 73.9 | 103.6 | 67.4 | 75.8 | 78.0 | 80.0 | 82.5 | 83.4 |
| Pension Fund Balance net of government transfers [e] | -74.1 | -64.9 | -53.7 | -51.3 | -48.9 | -51.2 | -56.5 | -63.3 | -71.9 | -81.1 |
| Consolidated primary balance 1/ | -246.7 | 11.4 | 20.2 | 52.3 | 18.5 | 24.6 | 21.5 | 16.7 | 10.6 | 2.3 |
| **Consolidated primary balance net of bank support 2/** | **-62.5** | **22.3** | **20.2** | **52.3** | **18.5** | **24.6** | **21.5** | **16.7** | **10.6** | **2.3** |
| Pension fund balance (incl. gov. transfers) | -28.6 | -27.8 | -24.0 | -9.8 | -6.5 | -8.0 | -12.4 | -18.3 | -26.0 | -34.3 |
| Public debt (official) | 982.4 | 1,209.1 | 1,262.1 | 1,203.2 | 1,211.2 | 1,229.3 | 1,246.6 | 1,249.0 | 1,246.1 | 1,242.2 |
| Public debt 3/ | 1,210.9 | 1,227.3 | 1,281.2 | 1,211.9 | 1,219.9 | 1,237.9 | 1,255.2 | 1,257.7 | 1,254.8 | 1,250.9 |
| Nominal GDP | 1,568.7 | 1,739.4 | 1,874.9 | 1,929.7 | 1,991.0 | 2,054.1 | 2,118.4 | 2,187.2 | 2,258.6 | 2,332.6 |

Sources: Sammarinese authorities; and IMF staff.

1/ Consolidated primary balance of the central government and the Pension Funds ([d]+[e]).

2/ Bank support from 2022 are transfers to the Pension Fund related to BCIS bailout.

3/ Central government (official) debt plus Social Security Fund and BNS debt.

## Table 2b. Republic of San Marino: Statement of Operations for Budgetary Central Government, 2021–30

(Percent of GDP)

| | | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| **Revenue** | 20.7 | 22.1 | 21.0 | 21.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 |
| Taxes | 16.0 | 17.0 | 16.2 | 16.6 | 16.3 | 16.3 | 16.3 | 16.3 | 16.3 | 16.3 |
| Income Taxes | 9.0 | 9.4 | 9.4 | 10.2 | 9.7 | 9.7 | 9.7 | 9.7 | 9.7 | 9.7 |
| Non-income taxes | 7.0 | 7.6 | 6.9 | 6.5 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |
| Taxes on international trade and transactions | 4.4 | 4.7 | 4.2 | 3.9 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 |
| Other taxes | 2.6 | 2.9 | 2.6 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Non-tax revenue | 4.7 | 5.1 | 4.7 | 4.7 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| **Expenditure** | 37.1 | 21.7 | 21.7 | 20.9 | 21.9 | 21.4 | 21.3 | 20.6 | 20.6 | 20.5 |
| Current Expenditure | 37.0 | 21.3 | 20.7 | 20.5 | 21.2 | 20.9 | 20.9 | 20.2 | 20.1 | 20.1 |
| Compensation of employees | 5.8 | 5.3 | 5.2 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |
| Use of goods and services | 1.5 | 1.4 | 1.5 | 1.5 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Interest | 1.9 | 1.3 | 2.2 | 2.0 | 2.1 | 1.9 | 1.9 | 1.8 | 1.8 | 1.8 |
| Transfers | 27.6 | 13.0 | 11.5 | 11.4 | 11.7 | 11.7 | 11.6 | 11.0 | 11.0 | 11.0 |
| To other general government units | 13.1 | 10.5 | 9.2 | 9.0 | 9.0 | 9.0 | 8.9 | 8.9 | 8.9 | 8.9 |
| Bank Support | 12.3 | 1.2 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.1 | 0.1 | 0.0 |
| To other private sector entities | 2.1 | 1.3 | 1.5 | 1.6 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 |
| Other expenses (including subsidies) | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Net acquisition of nonfinancial assets | 0.1 | 0.3 | 0.9 | 0.4 | 0.8 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 |
| **Overall Balance** | -16.4 | 0.4 | -0.7 | 0.4 | -1.6 | -1.1 | -1.0 | -0.3 | -0.3 | -0.2 |
| *Memorandum items* | | | | | | | | | | |
| Primary balance | -14.5 | 1.7 | 1.5 | 2.4 | 0.5 | 0.8 | 0.9 | 1.5 | 1.5 | 1.6 |
| **Primary balance net of bank support [a]** | **-2.2** | **2.9** | **2.4** | **3.2** | **1.3** | **1.6** | **1.6** | **1.6** | **1.6** | **1.6** |
| Temporary factors affecting primary balance [b] | -1.6 | 2.1 | 0.8 | 1.5 | -0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cyclical tax revenue | -0.6 | 1.2 | 0.9 | 0.5 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| One-off revenue and spending | -1.4 | 0.9 | -0.1 | 1.0 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Structural primary balance net of bank support [c = a - b]** | **-0.1** | **0.7** | **1.5** | **1.7** | **1.4** | **1.5** | **1.6** | **1.6** | **1.6** | **1.6** |
| Primary Balance net of transfer to the pension Fund [d] | -11.0 | 4.4 | 3.9 | 5.4 | 3.4 | 3.7 | 3.7 | 3.7 | 3.7 | 3.6 |
| Pension Fund Balance net of government transfers [e] | -4.7 | -3.7 | -2.9 | -2.7 | -2.5 | -2.5 | -2.7 | -2.9 | -3.2 | -3.5 |
| Consolidated primary balance 1/ | -15.7 | 0.7 | 1.1 | 2.7 | 0.9 | 1.2 | 1.0 | 0.8 | 0.5 | 0.1 |
| **Consolidated primary balance net of bank support 2/** | **-4.0** | **1.3** | **1.1** | **2.7** | **0.9** | **1.2** | **1.0** | **0.8** | **0.5** | **0.1** |
| Pension fund balance (incl. gov. transfers) | -1.8 | -1.6 | -1.3 | -0.5 | -0.3 | -0.4 | -0.6 | -0.8 | -1.2 | -1.5 |
| Public debt (official) | 62.6 | 69.5 | 67.3 | 62.4 | 60.8 | 59.8 | 58.8 | 57.1 | 55.2 | 53.3 |
| Public debt 3/ | 77.2 | 70.6 | 68.3 | 62.8 | 61.3 | 60.3 | 59.3 | 57.5 | 55.6 | 53.6 |
| Nominal GDP (in millions of euros) | 1,569 | 1,739 | 1,875 | 1,930 | 1,991 | 2,054 | 2,118 | 2,187 | 2,259 | 2,333 |

Sources: Sammarinese authorities; and IMF staff.

1/ Consolidated primary balance of the central government and the Pension Funds ([d]+[e]).

2/ Bank support from 2022 are transfers to the Pension Fund related to BCIS bailout.

3/ Central government (official) debt plus Social Security Fund and BNS debt.

## Table 3. Republic of San Marino: Balance of Payments, 2021–30

(Percent of GDP)

| | | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Current account balance | 5.4 | 13.6 | 22.0 | 18.4 | 17.5 | 17.8 | 17.1 | 16.3 | 15.4 | 15.1 |
| Balance of goods and services | 15.6 | 22.4 | 31.0 | 30.0 | 29.3 | 29.4 | 28.5 | 27.6 | 26.7 | 26.3 |
| Goods balance | 11.3 | 6.7 | 13.7 | 13.4 | 13.2 | 13.8 | 13.4 | 13.0 | 12.6 | 12.7 |
| Exports | 126.3 | 133.5 | 124.6 | 119.8 | 119.0 | 118.9 | 118.3 | 117.6 | 117.0 | 117.0 |
| Imports | 115.0 | 126.8 | 110.9 | 106.5 | 105.8 | 105.1 | 104.8 | 104.6 | 104.4 | 104.3 |
| of which energy | 7.5 | 11.2 | 8.4 | 7.9 | 7.0 | 6.3 | 6.0 | 5.7 | 5.5 | 5.3 |
| Services balance | 4.4 | 15.7 | 17.3 | 16.6 | 16.1 | 15.6 | 15.1 | 14.6 | 14.1 | 13.6 |
| Exports | 47.8 | 62.1 | 61.4 | 61.2 | 60.8 | 60.3 | 59.9 | 59.4 | 58.9 | 58.4 |
| Imports | 43.5 | 46.3 | 44.1 | 44.6 | 44.7 | 44.7 | 44.8 | 44.8 | 44.8 | 44.8 |
| Income balance | -9.9 | -8.6 | -8.7 | -11.3 | -11.5 | -11.3 | -11.1 | -11.0 | -10.9 | -10.8 |
| Credit | 6.2 | 6.4 | 7.4 | 7.3 | 6.1 | 6.0 | 5.7 | 5.7 | 5.6 | 5.5 |
| Debit | 16.1 | 15.1 | 16.2 | 18.6 | 17.5 | 17.2 | 16.8 | 16.7 | 16.5 | 16.3 |
| Secondary income balance | -0.4 | -0.2 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.4 |
| Capital account balance | 0.2 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Financial account balance | 1.1 | 16.5 | 19.4 | 18.4 | 17.6 | 17.9 | 17.2 | 16.3 | 15.5 | 15.2 |
| Direct investments | -7.4 | -0.3 | 2.6 | -0.9 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 |
| Portfolio investments | -4.0 | 36.4 | 6.9 | 8.3 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| Financial derivatives | 0.0 | -2.3 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | -0.4 | -7.2 | 3.6 | 11.3 | 13.2 | 13.4 | 12.7 | 11.9 | 11.1 | 10.8 |
| Change in reserve assets (increase = +) | 12.9 | -10.0 | 6.7 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net errors and omisions | -4.4 | 2.9 | -2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Memorandum items** | | | | | | | | | | |
| Nominal GDP (in millions of euros) | 1,568.7 | 1,739.4 | 1,874.9 | 1,929.7 | 1,991.0 | 2,054.1 | 2,118.4 | 2,187.2 | 2,258.6 | 2,332.6 |
| GIR (in millions of euros) | 842.5 | 533.0 | 739.6 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 | 734.8 |
| GIR (in months of imports) | 4.1 | 2.1 | 3.1 | 3.0 | 2.9 | 2.9 | 2.8 | 2.7 | 2.6 | 2.5 |

Sources: San Marino Statistical Office and IMF staff.

## Table 4. Republic of San Marino: Financial Soundness Indicators, 2016–24

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| **Capital adequacy ratios** (percent) 1/ | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 11.5 | 13.7 | 12.3 | 9.5 | 10.7 | 14.4 | 14.6 | 16.7 | 18.2 |
| Capital to assets | 6.2 | 6.5 | 6.2 | 4.2 | 4.0 | 5.1 | 5.3 | 5.9 | 6.2 |
| **Asset quality ratios** (percent) 1/ | | | | | | | | | |
| Nonperforming loans to total loans | 47.1 | 51.6 | 50.7 | 58.9 | 61.1 | 59.0 | 53.1 | 21.0 | 16.9 |
| Nonperforming loans net of provision to capital | 361.9 | 250.6 | 260.7 | 362.2 | 340.4 | 212.3 | 140.9 | 65.6 | 45.6 |
| NPL coverage ratio | 26.1 | 56.0 | 58.2 | 63.6 | 64.4 | 65.0 | 69.8 | 33.6 | 35.3 |
| **Earning and profitability** (percent) 1/ | | | | | | | | | |
| Return on assets (ROA) | -3.4 | -0.7 | -1.3 | -4.3 | -0.4 | 0.3 | 0.3 | 0.8 | 1.0 |
| Return on equity (ROE) | -44.8 | -10.3 | -17.2 | -74.6 | -7.7 | 3.8 | 3.8 | 10.2 | 11.1 |
| Interest margin to gross income | 45.5 | 50.2 | 66.8 | 48.0 | 46.4 | 46.9 | 54.0 | 58.5 | 53.5 |
| Non-interest expenses to gross income | 105.3 | 108.4 | 141.2 | 137.7 | 98.7 | 68.9 | 63.7 | 62.4 | 60.2 |
| Trading income to gross income | 3.5 | 4.8 | -23.1 | 3.8 | -2.2 | 5.0 | -4.1 | 7.4 | 7.7 |
| Personnel expenses to non-interest expenditures | 49.2 | 41.6 | 41.1 | 32.6 | 43.9 | 44.2 | 42.7 | 38.6 | 42.0 |
| **Liquidity** (percent) | | | | | | | | | |
| Liquid assets to total assets | 20.7 | 15.7 | 15.2 | 18.0 | 19.2 | 27.3 | 26.5 | 28.6 | 32.5 |
| Liquid assets to short-term liabilities | 39.3 | 28.3 | 27.6 | 32.7 | 33.1 | 44.0 | 43.1 | 50.1 | 56.1 |
| Loans to deposits | 153.8 | 141.4 | 125.6 | 124.1 | 108.4 | 71.3 | 63.7 | 35.7 | 33.4 |
| **Memo items** | | | | | | | | | |
| Banking system assets (millions of euros) | 5,328.8 | 4,795.3 | 4,616.6 | 4,213.1 | 4,191.1 | 4,143.7 | 4,252.3 | 4,217.9 | 4,331.3 |
| percent of GDP | 401.7 | 354.4 | 329.4 | 291.8 | 309.9 | 264.1 | 244.5 | 225.0 | 224.5 |

Sources: Sammarinese authorities; IMF International Financial Statistics; and IMF staff.

1/ 2017-18 data do not reflect 2017 AQR results, while 2019 data reflect changes related to Banca CIS resolution.

## Table 5. Republic of San Marino: Depository Corporations Survey, 2016–24

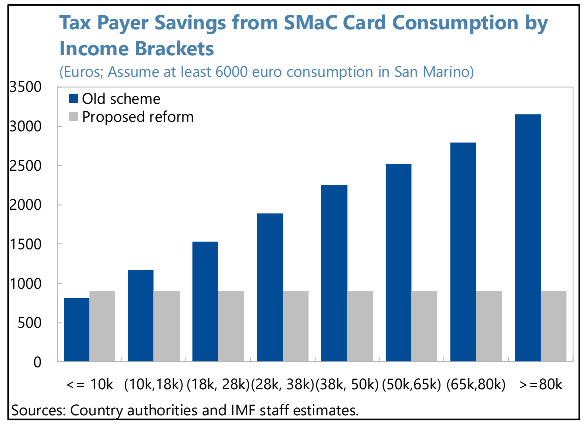
(Millions of Euros)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| **Net foreign assets** | 2,134.4 | 1,865.5 | 1,749.7 | 1,782.6 | 1,912.7 | 2,153.8 | 2,079.6 | 1,780.1 | 1,863.7 |
| Claims on nonresidents | 3,052.7 | 2,609.9 | 2,391.1 | 2,343.1 | 2,451.4 | 2,629.5 | 2,602.1 | 2,179.2 | 2,242.6 |
| Central Bank | 401.2 | 274.6 | 270.5 | 395.2 | 635.8 | 783.2 | 611.5 | 742.3 | 717.8 |
| Other Depository Corporations 1/ | 2,651.5 | 2,335.3 | 2,120.6 | 1,947.9 | 1,815.5 | 1,846.3 | 1,990.6 | 1,436.9 | 1,524.8 |
| Liabilities to Nonresidents | -918.3 | -744.4 | -641.4 | -560.5 | -538.6 | -475.7 | -522.5 | -399.1 | -378.9 |
| Central Bank | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 | -84.2 | -27.7 | -30.7 |
| Other Depository Corporations | -918.2 | -744.2 | -641.2 | -560.3 | -538.4 | -475.5 | -438.3 | -371.5 | -348.2 |
| **Net domestic assets** | 1,294.1 | 1,054.6 | 1,072.5 | 1,020.0 | 890.7 | 631.6 | 733.0 | 1,046.2 | 1,063.4 |
| Net Claims on Central Government | -119.5 | -295.0 | -304.8 | -197.3 | 137.9 | 1.0 | -9.3 | -151.1 | -93.0 |
| Claims on State and Local Government | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Claims on Public Nonfinancial Corporations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Claims on NBFIs | 381.2 | 263.0 | 242.6 | 119.0 | 111.7 | 84.8 | 63.8 | 134.6 | 121.3 |
| Claims on private sector 1/ | 1,468.5 | 1,481.0 | 1,381.7 | 1,394.8 | 1,338.2 | 1,193.2 | 1,193.0 | 911.1 | 882.3 |
| Corporates | 914.2 | 925.9 | 859.5 | 870.6 | 838.0 | 709.8 | 717.9 | 508.6 | 519.2 |
| Households | 554.3 | 555.1 | 522.2 | 524.2 | 500.2 | 483.5 | 475.1 | 402.5 | 363.1 |
| Capital and Reserves (-) | 470.3 | 414.8 | 387.9 | 289.9 | 332.1 | 333.5 | 353.9 | 375.3 | 396.6 |
| Other items, net (-, including discrepancy) 1/ | -34.3 | -20.3 | -140.9 | 6.6 | 365.0 | 313.9 | 160.5 | -526.9 | -549.4 |
| **Broad Money** | 3,069.7 | 2,667.9 | 2,624.4 | 2,476.0 | 2,611.4 | 2,738.7 | 2,775.8 | 2,794.7 | 2,894.0 |
| Currency in Circulation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transferable Deposits | 1,371.9 | 1,364.2 | 1,415.3 | 1,447.4 | 1,617.4 | 1,811.6 | 1,916.7 | 1,740.3 | 1,808.8 |
| Other Deposits | 1,697.8 | 1,303.7 | 1,209.2 | 1,028.6 | 994.0 | 927.1 | 859.1 | 1,054.4 | 1,085.2 |
| Securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Other Liabilities** | 358.8 | 252.2 | 197.8 | 326.7 | 192.1 | 46.7 | 36.7 | 31.6 | 33.1 |
| | | | | (Annual percentage change) | | | | | |
| **Net foreign assets** | -8.7 | -12.6 | -6.2 | 1.9 | 7.3 | 12.6 | -3.4 | -14.4 | 4.7 |
| **Net domestic assets** | 5.7 | -18.5 | 1.7 | -4.9 | -12.7 | -29.1 | 16.1 | 42.7 | 1.6 |
| Claims on private sector | -5.0 | 0.9 | -6.7 | 1.0 | -4.1 | -10.8 | 0.0 | -23.6 | -3.2 |
| Corporates | -3.3 | 1.3 | -7.2 | 1.3 | -3.8 | -15.3 | 1.1 | -29.2 | 2.1 |
| Households | -7.8 | 0.2 | -5.9 | 0.4 | -4.6 | -3.4 | -1.7 | -15.3 | -9.8 |
| **Broad Money** | -3.8 | -13.1 | -1.6 | -5.7 | 5.5 | 4.9 | 1.4 | 0.7 | 3.6 |

Sources: International Financial Statistics and IMF Staff.

1/ Large variations are attributed to the securitization of NPLs and the write-off of Delta group.

# Annex I. Summary of Proposed Income Tax Reform[1]




**1. The government aims to finalize an income tax reform by the end of 2025 to be implemented in 2026.** The amendments aim to broaden the tax base, strengthen tax administration, and simplify procedures. A key step forward, is the replacement of the deductible expenses from consumption in San Marino through SMaC card with tax credits. This will address the shortcomings of the current scheme that favors high-income taxpayers. The amendments equalize the benefits across income brackets. The overall reform is expected to yield 0.5-1 percent of GDP and it can be summarized by:

**2. Major measures to expand tax base:**

- Introduction of tax credit of 15 percent of consumption made in San Marino through the SMaC card, with a cap of €6,000. The original scheme granted deductible expense from tax base to up to €9,000 of consumption in San Marino through SMaC card.
- Temporary surcharge of 1 percent on corporate profits, from 2026 to 2030
- Gradual increase of tax rates on severance payments.
- The tax incentive to hire more workers is limited to periods when unemployment is above 3 percent.
- Tighten rules on deductible expenses, especially for vehicles and advertising.
- Revises tax loss carryforward. The maximum deductible for losses is reduced to 70 percent of taxable income per year (from 80 percent) and eliminates the 3-year limitation to use the tax loss carryforward.
- The depreciation rate for buildings is reduced from 3 to 2 percent. The minimum tax duration of the deduction of financial lease contract has been increased.

**3. Key measures to improve tax administration:**

- Removes the possibility of opting for progressive taxation for income of self-employment and business income of natural persons. This income is now subject to corporate income tax rates. It's a measure that ratify existing temporary approach.

[1] The proposed income tax reform is based on information available up to October 6th 2025.

- Allow to submit tax declaration corrections while paying any higher tax, penalties and interest. If a taxpayer voluntarily submits the correction, a formal control report from the tax office may not be needed. Penalties are amended to ensure taxpayers who voluntarily submit corrective declaration are not punished more than those who are issued control report by the tax office.

- Introduce an automatic audit, if the taxpayer reports an average annual income below €15,000 for the last three years.

- Introduce withholding tax to non-residents on interest income and rental income of movable property and equipment in the context of business-to-business transactions.

**4. Other deductible expenses:**

- The reform expanded deductible expenses in school fees, babysitters, and insurance policy premiums.

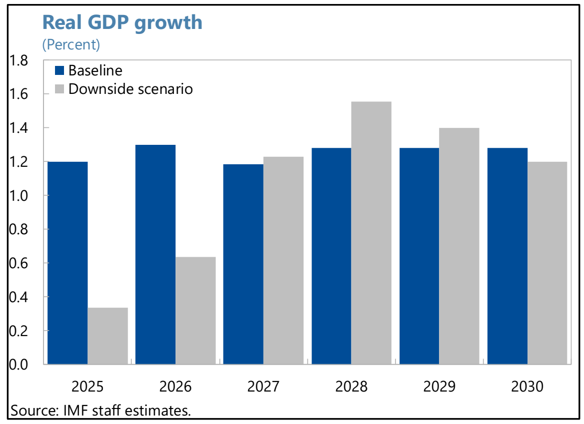
**5. The proposed amendments are in the right direction, but the reform can be more ambitious to reduce the complexity of the system, due to the large number of deductible expenses.** A simple income tax with minimum discretion would be key. The number of types of deductible expenses and variety of income subject to lower rates is large for a small economy with limited tax administration resources. The reform intends to reduce the size of deductibles without reducing types of deductibles. Greater use of tax credits instead of deductible expenses would help mitigate regressivity. In addition, given numerous incentives for investments, it is worth consolidating them into few incentives only.

**6. Increased administrative efforts should be carefully considered.** The reform introduces automatic financial investigations for taxpayers with low reported income. The revenue potential can be small, but the tax administration effort can be large.

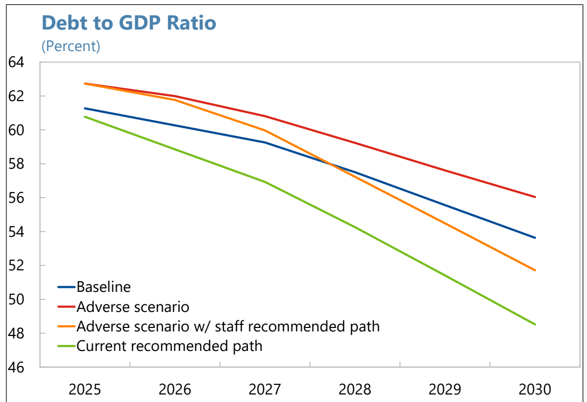
**7. If the income tax reform is ratified and leads to 0.5 percent of GDP of revenue, additional 0.3 percent of GDP of fiscal consolidation will be needed to reach the recommended primary balance target.** This can be achieved by improving expenditure efficiency.

# Annex II. Calibrating the Fiscal Policy Response to Downside Risks

**1. In the face of high global uncertainty, staff emphasized the need for contingency planning.** Staff recommends that sustainable and credible public debt reduction should remain the overarching fiscal policy objective.



Source: IMF staff estimates.



Source: IMF staff estimates.

**2. In the event of a further escalation of trade tensions and more prolonged trade policy uncertainty, growth could markedly weaken relative to current projections.** In an illustrative sensitivity analysis (calibrated based on the 2025 April WEO Box 1.1, Scenario A), annual real GDP growth in San Marino would decline to 0.3 percent in 2025 and 0.6 percent in 2026. In addition, the adverse scenario assumes higher interest rate on the new euro bond to be refinanced in 2027 (1.5 percentage points above the baseline assumption of 6 percent). The adverse scenario would increase the 2030 debt level to 56.2 percent of GDP, compared with 53.6 in the current baseline.

**3. Policy response should focus on letting automatic stabilizers work, time-limited and targeted support for the vulnerable households and improving expenditure efficiency.** In the adverse scenario, staff recommends postponing the consolidated primary balance target of 2 percent of GDP by one year to 2028.

# Annex III. Risk Assessment Matrix[1]

| Source of Risks | Impact if Realized | Policy Response |
|---|---|---|
| **External Risks** | | |
| | | |
| **High**<br>**Geopolitical Tensions**. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains. | **High**<br>Higher commodity prices, including energy prices, could significantly erode households' income and businesses' viability. Since 2023 tariffs are indexed to Italian wholesale energy prices to reduce fiscal risks, but this shifts risks to private sector. Deleterious effects on global trade and tourism would also significantly affect San Marino's economy. | • Prepare temporary programs for low-income households.<br>• Accelerate structural, fiscal, financial sector reforms to reduce vulnerabilities and strengthen economic resilience.<br>• Conclude the EU association agreement. |
| **High**<br>**Commodity Price Volatility.** Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability. | **High**<br>Higher commodity prices, including energy prices, could significantly erode households' income and businesses' viability. | • Prepare temporary programs for low-income households. |
| **High**<br>**Escalating Trade Measures and Prolonged Uncertainty.** Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks | **Medium**<br>San Marino is a highly open economy, extremely dependent on external trade—both imports of final and intermediate goods and exports—and vulnerable to higher trade barriers. Reduction in trade flows could raise import prices and reduce market access to exports, with near- and medium-term deleterious effects on GDP. The relatively small | • Conclude the EU association agreement.<br>• Accelerate structural, fiscal, financial sector reforms to reduce vulnerabilities and strengthen economic resilience. |

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities.

| Source of Risks | Impact if Realized | Policy Response |
|---|---|---|
| in global value chains or inventory overhang. | exposure to exports to the US mitigates the impact of this risk. | |
| **High**<br>**Financial Market Volatility and Correction.** Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations. | **Medium**<br>The direct impact of a spike in yields and risk premia could increase the interest burden going forward, deteriorating the fiscal accounts. The indirect impact, due to weaker external demand, could reduce exports significantly and deteriorate fiscal accounts. A prolonged state of global financial instability could also reduce the prospects and increase the cost of the upcoming rollover of San Marino's Eurobond maturing in 2027. | • Accelerate structural, fiscal, financial sector reforms to reduce vulnerabilities and strengthen economic resilience.<br>• Maintain high liquid buffers and explore options to obtain external contingent financing.<br>• Plan ahead of the eurobond rollover, with a clear strategy and timeline for pre-financing and accumulation of reserve buffers. |
| **Domestic Risks** | | |
| **High**<br>**Eurobond rollover**. The rollover of San Marino's Eurobond maturing in 2027 could be more costly than anticipated, due to external or domestic shocks. | **High**<br>A potential setback in the ongoing fiscal consolidation or a prolonged state of global financial instability resulting from geopolitical and global trade challenges could increase the cost of the upcoming rollover. | • Accelerate fiscal reforms, including of the income and value-added taxes.<br>• Diversify financing options; and seek technical support as needed.<br>• Plan ahead and develop a clear strategy and timeline for pre-financing and accumulation of reserve buffers. |
| **High**<br>**Slow fiscal consolidation and delays in implementing fiscal reforms** due to lack of political capital and social consensus around these reforms. Generous | **High**<br>The lack of clear fiscal consolidation will increase vulnerabilities by increasing borrowing costs and limiting the government's ability to respond | • Accelerate fiscal reforms, develop debt management capacity, and establish a Treasury department. |

| Source of Risks | Impact if Realized | Policy Response |
|---|---|---|
| public wages and pensions indexation adding sizable fiscal cost. | to shocks. It will also crowd out productive spending, thus undermining growth. | • Diversify financing options; and seek technical support as needed. |
| **High**<br>**Slow banking system consolidation.** Limited progress in addressing potential recapitalization needs and cleaning up bank balance sheets. Slow improvement of profitability due to wage rigidity and greater competition from Italian banks. Slow and reduced recovery of NPLs. | **High**<br>Insufficient implementation of measures to restructure the banking sector will lead to a deterioration of confidence, financial outflows, liquidity pressures in the banking system, and retrenchment of credit with adverse growth implications. | • Extend central bank power and tools for tackling failing banks.<br>• Apply bank resolution tools and liquidity safeguards on an "as needed" basis.<br>• Accelerate implementation of a financial sector strategy.<br>• Ensure enough legal resources to face court cases.<br>• Relaxing restrictions on foreign real estate ownership. |
| **Medium**<br>**Delays in the implementation of the EU Association Agreement.** Slower than anticipated progress in signing the negotiated EU association Agreement. | **High**<br>The EU Association Agreement is an important catalyzer of structural reforms that could increase the economy's flexibility and lift San Marino's potential growth. Delays in the implementation of the agreement would hinder the advance of San Marino's reform agenda. | • Conclude the EU association agreement. |

# Annex IV. Authorities' Response to Past IMF Recommendations

| IMF Policy Advice from 2024 Consultation | Authorities' Action |
|---|---|
| **Financial Sector Policy:**<br>• Capitalization plans for banks which foresee losses from calendar provisioning and securitization.<br>• Accelerating the increase of risk weights of NPL-backed securities held by banks.<br>• Continue improving banking system efficiency and enhance the banking sector labor contract flexibility.<br>• Convert perpetual bond in CRSM to marketable domestic debt instruments.<br>• More public communication on the asset recovery progress by the AMC. | • Banks have increased capital by retaining profits at the CBSM request.<br>• Legal constraints on banks' shareholding structure is repealed.<br>• Progress has been made to reduce banks' other operating costs.<br>• Part of the perpetual bond in CRSM will be converted to fixed maturity government bond. |
| **Fiscal Policy:**<br>• Fiscal adjustment over 3 years to 2.5% primary balance<br>• Pension reform to ensure sustainability<br>• Pension fund diversification<br>• Build up government deposits<br>• Develop a medium-term fiscal strategy and debt management capacity<br>• Implement VAT reform | • The government deposits remain at the level of 3 months of spending.<br>• A draft law to modernize debt issuance and management is enacted, expected to be in force 2026.<br>• Pension fund has increased its liquid international investments.<br>• Publication of "Budget at a glance 2025" helps communicate the government's medium-term fiscal strategy to investors.<br>• External consultants were hired to design VAT.<br>• E-invoicing of international trade is implemented. Preparation for domestic B2B e-invoicing is underway, which will start mid-2026. |
| **Structural Reforms:**<br>• Deepen international integration<br>• Liberalize the labor market<br>• Improve insolvency regime<br>• Safeguarding energy security and improving energy efficiency | • An addendum will be added to the EU association agreement, allowing to finalize the last procedures to reach the signature.<br>• The EU association agreement implementation will further liberalize hiring of cross-border workers.<br>• A working group for reforming the insolvency regime was established.<br>• The real estate observatory has been established. Data collection has started.<br>• AASS has received authorization to complete projects on solar energy and co-generation plants. |

# Annex V. External Sector Assessment

***Overall Assessment:*** *The external position of the Republic of San Marino in 2024 was stronger than implied by fundamentals and desirable policies. The current account (CA) model points to an external position that is substantially stronger than implied by fundamentals and desired policies while the real exchange index (REER) model points to an external position that is moderately stronger, with the caveat that the methodology captures only partially the idiosyncrasies of a land-locked small state like San Marino. Given the caveats, the bottom-line assessment is that the external position is stronger than implied by medium term fundamentals and desired policies. Preliminary data suggest that the strong external position will remain in 2025.*

***Potential Policy Responses:*** *Completion of the financial sector reforms and acceleration of structural reforms, including under the EU Association Agreement, will boost private investment and contribute to lower the misalignment.*

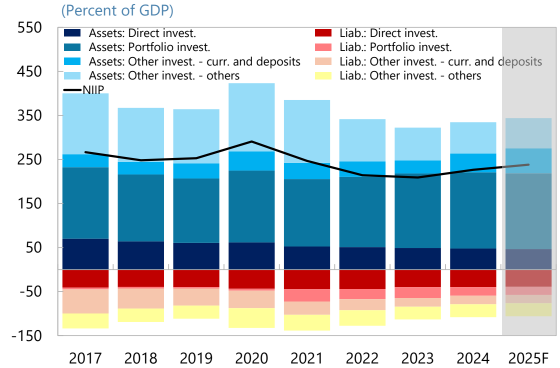
## Foreign Assets and Liabilities: Position and Trajectory

**Background: The net international investment position (NIIP) increased to 226 (from 209) percent of GDP in 2024, reflecting the CA surplus.** The reported NIIP number may be overestimating the actual NIIP[1] since bank-loans to nonresidents still include a sizable amount of NPLs (about 10 percent of GDP). Furthermore, NIIP should be interpreted with caution given the measurement challenges (e.g. the country's lack of customs border check points).

**Assessment:** San Marino has strong NIIP. This reflects the CA surpluses and the limited domestic opportunities for investments. With a strong CA surplus expected, the NIIP will remain high in the near and medium term. Valuation risks are contained, as portfolio assets are diversified among equity and bonds in advanced European economies assets.

**International Investment Position**

(Percent of GDP)




Sources: Country authorities; and IMF staff estimates.

| | | | | | |
|---|---|---|---|---|---|
| 2024 (% GDP) | NIIP: 226 | Gross Assets: 334 | Debt Assets: 166 | Gross Liab.: 108 | Debt Liab.: 33 |

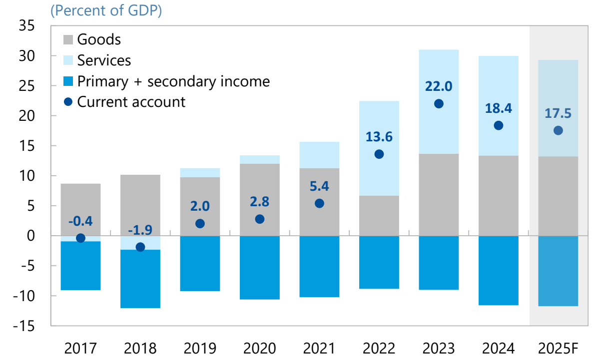
## Current Account

**Background:**

**In 2024, the CA surplus remained strong at around 18.4 percent of GDP, as San Marino retained the markets gained during the pandemic**. Overall, the CA surplus was supported by (i) a robust growth of the Italian economy, (ii) European firms' near-shoring strategies, and (iii) a post-pandemic tourism boom. This expansion was possible due to pre-COVID investments that allowed to expanded manufacturing production capacity, while wages have remained competitive relative to Italy.

**The strong 2024 CA surplus was attributed to a strong trade surplus.** Exports have stabilized at high levels in nominal terms, particularly in the manufacturing and tourism sectors. Exports of goods grew robustly in 2021-22 due to the strong construction activity in Italy and supply disruptions in export-competitors' countries. These forces receded during 2023-24, but San Marino retained some of the markets gained post-pandemic. Meanwhile, exports of services have kept a strong momentum led by tourism. The 2024 CA deterioration is driven by the normalization of supply disruptions and an increased income deficit due to higher interest payments of the sovereign Eurobond and senior securitized NPL-bonds.

**Current Account**
(Percent of GDP)




Sources: Country authorities and IMF staff estimates.

**The strong current account balance reflects high private savings.** While firms and households maintain substantial domestic savings, the government has been running deficits—including in the pension fund, which offers generous benefits amid an aging population (See IMF Staff report 2019 Annex 6).

**Assessment:**

**The CA model indicates that the real exchange rate is substantially stronger the implied by medium term fundamentals and desirable policies.** The estimated 2024 CA norm and the implied CA gap stood at 10.5 and 7.9 percent of GDP, respectively. The high CA norm has been revised from the previous staff report as better data was available.[2] The high norm primarily reflects the relatively high net foreign asset position of the economy, high productivity, and adverse demographics relative to its key trading partners.

**Model Estimates for 2024**
(In percent of GDP)

| | **CA model** 1/ | **REER model** 1/ |
|---|---|---|
| | (in percent of GDP) | |
| **CA-Actual** | **18.4** | |
| Cyclical contributions (from model) (-) | 0.0 | |
| Natural disasters and conflicts (-) | 0.0 | |
| **Adjusted CA** | **18.4** | |
| **Adjusted CA Norm 2/** | **10.5** | |
| **CA Gap** | **7.9** | **1.6** |
| o/w Relative policy gap | 1.8 | |
| Elasticity | -0.7 | |
| **REER Gap** (in percent) | **-11.3** | **-2.3** |

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Additionally, the policy gap is mostly driven by a stronger fiscal performance relative to its key trading partners. Overall CA estimates should be taken with caution given the model's poor fit for San Marino and data weaknesses, which limit the ability to assess the REER elasticity with high confidence.[3] The large unexplained residual is largely attributed to the poor fit of the model to San Marino and quality of statistical data as it is not possible to rule out underestimations of imports.

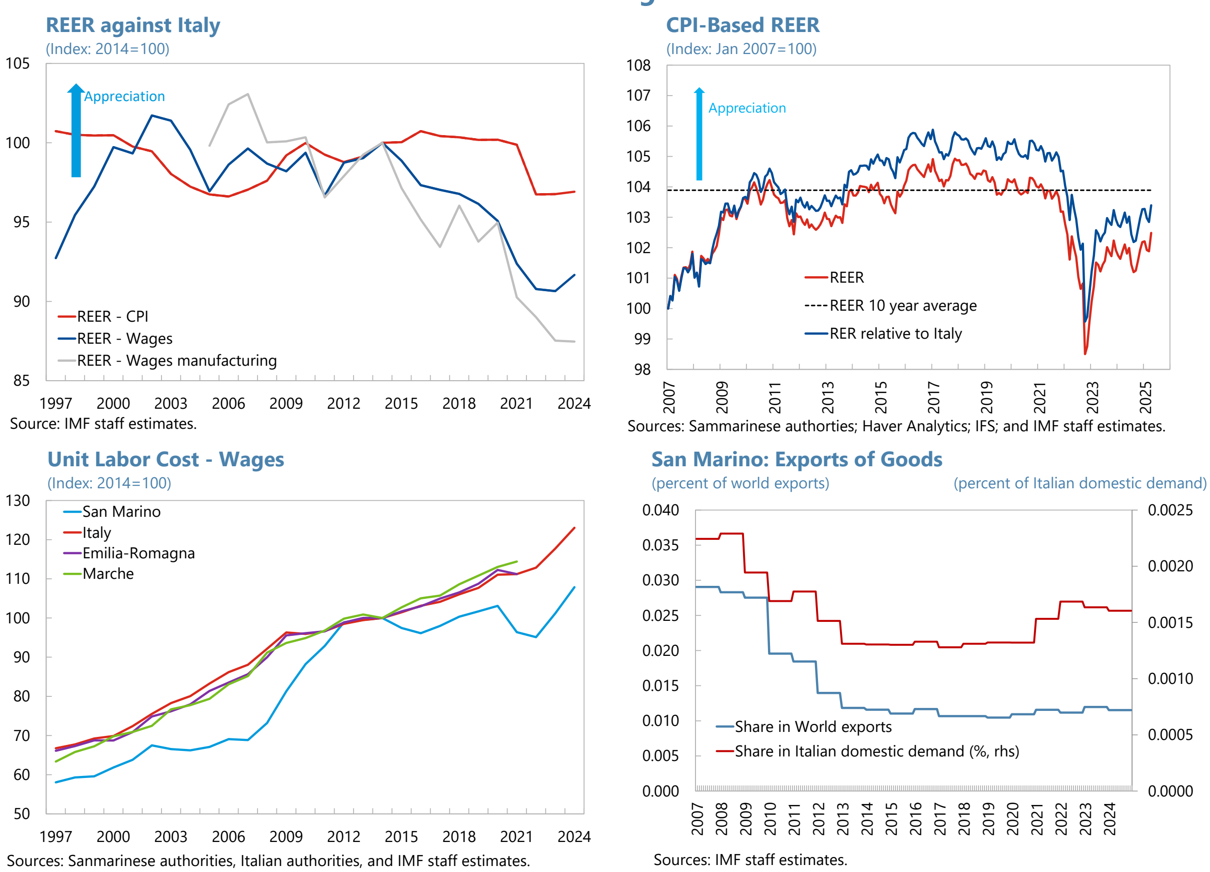
**Staff assess San Marino's external position as stronger than implied by medium term fundamentals and desirable policy settings.** Staff based its assessment on judgement, reflecting the CA model input, and historical developments in the unit labor costs and San Marino export market shares. BOP data weakness and the structure of San Marino economy —a land-locked small state without physical border, large share of cross-border commuter workers, and pension sustainability challenges due to generous pension benefits— calls for caution on the CA model outcomes. Therefore, despite the CA model points to a substantially stronger external position, the team considers the external position is stronger than implied by fundamentals and desirable policies. The stronger external position reflects the large domestic private savings, while the public sector is still running deficits. To close the CA gap San Marino needs to continue advancing on financial sector and structural reforms to enhance the economy's flexibility and maintain external competitiveness, thereby unlocking private investment and reducing precautionary savings by firms and households.

## Real Exchange Rate

**Background:**

**As a small euroized economy without physical borders, the real exchange rate is largely determined by wage differentials.** The economy is a price taker for goods so standard CPI-REER measures become less relevant. Furthermore, the relevant comparison is Italy.

### Real Exchange Rate




**San Marino exporters have retained market gains as the country has preserved wage competitiveness.** Up until 2013, the country lost about two-thirds of its world export market share compared to the pre-GFC period due to: i) a significant adjustment of the financial sector, compounded by the inclusion of San Marino in the 'blacklist' of jurisdictions with preferential tax regimes by Italy from 2010 to 2014, and ii) a weak post-GFC recovery in Italy, particularly in the construction sector. All this contributed to a significant reduction in exports of goods over 2008-14. The loss in export market share occurred during a prolonged appreciation of the REER on account of a persistent, positive inflation and labor costs differential vis-à-vis Italy. However, the situation stabilized in 2014 when a gradual recovery began, largely driven by moderate wage growth, which improved competitiveness. While the REER depreciated as inflation in San Marino lagged inflation in Italy 2022-23, the trend is starting to reverse in 2024 (REER CPI based appreciated 0.3 percent in 2024). In the near term, to preserve competitiveness ahead, it will be key to prevent wage growth beyond Italian wages growth and contain public wages. In the medium term, to safeguard the competitiveness-gains achieved in the last 5 years, there are still structural gaps, including in regulation for starting a business, enforcing contracts, resolving insolvency, protecting minority investors, and dealing with construction permits.

**Assessment:** The REER gap is -2.3 percent, corresponding to a CA gap of 1.6 percent. This points to an external position moderately stronger than fundamentals and desired policies. As in previous assessments, we followed the EBA-Lite tool guidance and re-estimated San Marino's fixed effect since it is not included in the EBA-Lite sample.

## Capital and Financial Accounts: Flows and Policy Measures

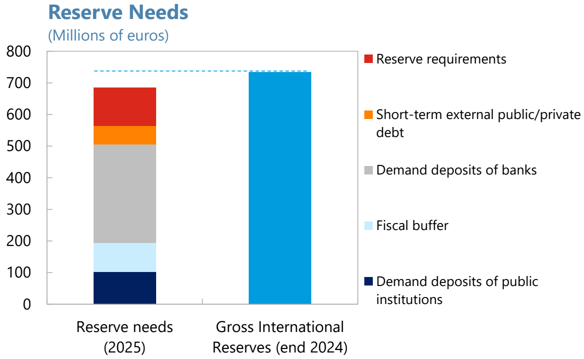
**Background: The 2024 financial account outflows reflected the regular investment of domestic savings abroad.** After sizable private deposits were reallocated abroad looking for higher yields in 2022, domestic bank deposits stabilized during 2023-24. In 2024, given limited financial opportunities in San Marino, private financial outflows reflected the regular dynamics of banks, firms and households channeling domestic savings abroad via portfolio investments and deposits. In addition, banks increased liquidity supported international reserves by offsetting a decline in government deposits at the central bank.

**Assessment: Capital flows risks remain limited, as outflows reflect saving that cannot be invested domestically.** In a downside scenario, if the CA surplus declines, the capital outflows will decline correspondingly. Nonresidents deposits are small, as most nonresidents withdrew liquidity during the financial crisis. The main risk on capital inflows is the risk on the Eurobond rollover in 2027, which is assessed to be limited —considering previous issuances were done under worse global financial conditions and worse domestic fiscal position.

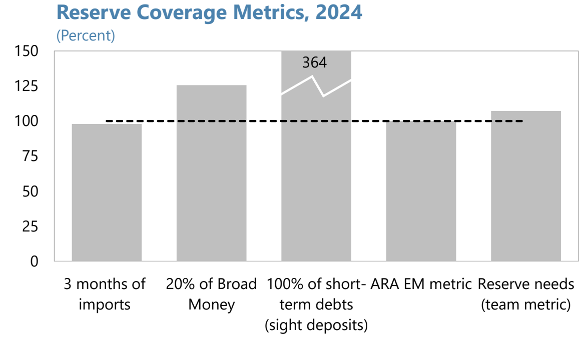
## Reserves Level

**Background:** San Marino's gross international reserves (GIR) stabilized at around €735 million during 2023-2024, reaching about 107 percent of the ARA metric.[4]

## International Reserves




Note: Demand deposits of public institutions exclude the government deposits at the CBSM for liquidity buffer purpose.
Sources: CBSM; IMF Monetary and Financial Statistics; and IMF staff estimates.




Note: ARA EM metric is defined as 10% of exports of goods and services, 30% of non-resident sight deposits and short-term external public debt, 20% of other liabilities to non-residents, and 10% of broad money.
Sources: CBSM; IMF Monetary and Financial Statistics; and IMF staff estimates.

**Assessment: The international reserves are broadly in line with the metric, but higher reserves would be recommended.** While international reserves are in line with several metrics (text chart), given euroization and vulnerable financial sector higher international reserves would be recommended.

[1] The stock of NIIP stood at 226 percent of GDP in 2024, of which 41 percent of GDP was related to banks and 163 percent attributable to other corporations, households, and nonprofit institutions serving households (NPISHs).

[2] The CA norm was revised from 8.2 to 10.5 percent as result of i) about 0.7 percentage points improvement due to better data available that captures the adverse demographic of San Marino (more adverse demographics increase the norm); ii) about 0.3 percentage points improvement due to better data on population overseas (less population overseas increase the norm); and iii) about 1.3 percentage points improvement due to new data on the nonperforming loans overseas that are deducted from NIIP (less NPLs increase NIIP and so the norm).

[3] As in previous assessments, we followed the EBA-Lite tool guidance and re-estimated the elasticity to account for the high share of re-exports in manufacturing exports (manufacturing imports represent about 65 percent of manufacturing exports).

[4] The team calculated an ARA metric that considers special features of the San Marino economy. The team-ARA is estimated at €686 million. The team ARA estimation aims for reserves to cover: i) 2.5 months of government spending (fiscal buffer), ii) demand deposits at banks for private and public institutions (including reserve requirements at the central bank), and iii) amortization debt for the next 12 months (See San Marino Article IV 2021 Annex IV Section B for rational on the estimation). The team ARA metric is close to the standard ARA (€668 million).

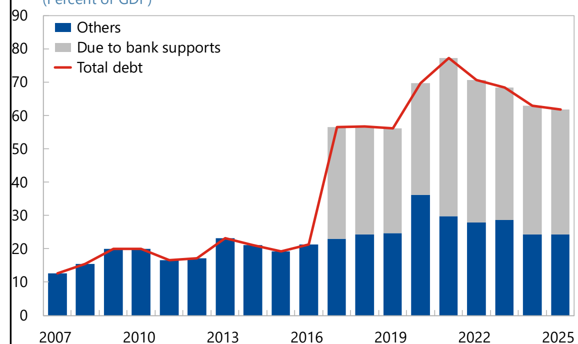
# Annex VI. Sovereign Risk and Debt Sustainability Assessment

*Public debt is projected to drop to 61.3 percent of GDP at the end of 2025 and decline slowly over the medium-term due to robust growth and consolidation efforts. However, there are significant risks associated with uncertainty over future growth, the materialization of contingent liabilities arising from the financial sector, and large spikes in gross financing needs over the medium term.*

## A. Background

**1. San Marino's public debt has been on a decisively declining path since 2021.** After sizable bank support, public debt peaked in 2021 at 77.2 percent of GDP. Since then, the debt-to-GDP ratio has declined to 61.3 percent by end-2025. This substantial decline, amounting to 15.9 percent of GDP, was driven by an acceleration in nominal GDP in 2021-25—a cumulative nominal growth of 26 percent of GDP—which was combined with improvements in primary surpluses—3½ percent of GDP over the same period. Nevertheless, the consolidated overall deficit still contributed to an increase in debt due to the deficit of the pension system.

**Public Debt**
(Percent of GDP)




Sources: Country authorities and IMF staff estimates.

**2. The coverage of the fiscal accounts for debt sustainability in San Marino consists of the consolidation of the central government, pension fund and the former BNS.**[1] As indicated in previous staff reports,[2] official debt in San Marino has not traditionally recognized the full extent of fiscal liabilities toward the banking sector. Therefore, staff adopted a broader coverage of the public sector accounts: the consolidated government, which includes the consolidated debt of the budgetary government, the social security fund, and the former BNS. For this assessment, the deficit of the consolidated government is computed as the sum of the central government's balance (net of transfers to the pension fund) and the balance of the pension fund (net of government transfers). Thus, pension fund deposits in the former Banca Credito Industriale Sammarinese (Banca CIS) are not included in the stock of public debt, but their repayment is part of the transfers from the central government to the pension fund.

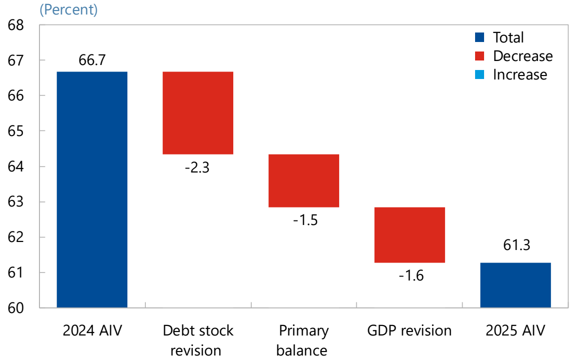
**3. Public debt-to-GDP ratios are revised downward relative to 2024 Article IV projections and the government continues developing the domestic debt market.** More accurate debt statistics of former BNS bond and payable account decreases 2025 debt-to-GDP ratio by 2.3 percent, and the rest (3.1 percent of GDP) is due to primary balance outperformance and revision of

[1] The government guarantees related to AMC operations is not considered public debt but included in the contingent liability shock below given guarantees have been conservatively set well below expected recovery values.

[2] See Annex III in IMF Country Report No. 2021/249 and IMF Country Report No. 2022/349.

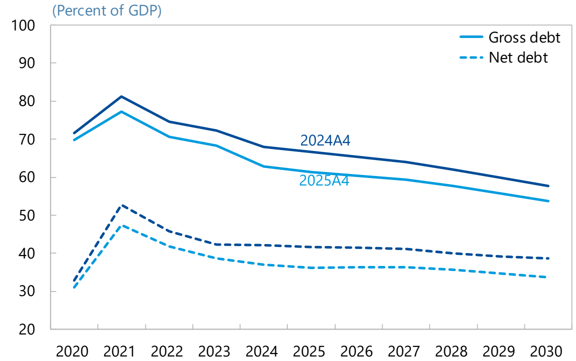
nominal GDP. Future debt level dynamics is broadly the same as 2024 AIV. Financing operations were also in line with the 2024 Article IV estimates. In 2025, the authorities are planning to roll over €50 million of domestic short-term bonds and will finance the remaining €34 million with long-term domestic loans. In addition, to improve the state-owned bank's capital quality, the state has replaced €55 million of the perpetual bond with amortizing government bonds of 5-year and 10 year maturities.

**Debt to GDP Ratio, 2025**
(Percent)




Sources: Country authorities and IMF staff estimates.

**Public Debt**
(Percent of GDP)




Sources: Country authorities and IMF staff estimates.

**4. As a large part of public debt is unresponsive to interest rate volatility, the effective interest rates remain moderate notwithstanding higher interest on the Eurobond.** Only 8 percent of the debt is at variable interest rates as of the end of 2025 and 54 percent of the debt is nonmarketable with low interest rates and long maturities.[3] This helps contain the impact of global interest rates fluctuations on interest payments, while the overall interest rate on government debt is comparable to that of countries with similar credit ratings.

**5. The lumpy profile of gross financing requires further development of risk management frameworks and debt management capacity**. While gross financing needs will be around 5 percent of GDP during 2025-26, they will jump to 23 percent of GDP in 2027 due to the Eurobond amortization. The baseline assumes the Eurobond is rolled over in 2027, when the current one matures.

[3] Nonmarketable debt includes CRSM's perpetual bond with 1.75 percent coupon, CBSM's perpetual bond with 0.1 percent coupon, bonds to convert former BNS bonds (with 1, 1.5, and 1.75 percent coupon and 10, 15, and 20 years maturity), and other accounts payable.

## Selected Debt Indicators

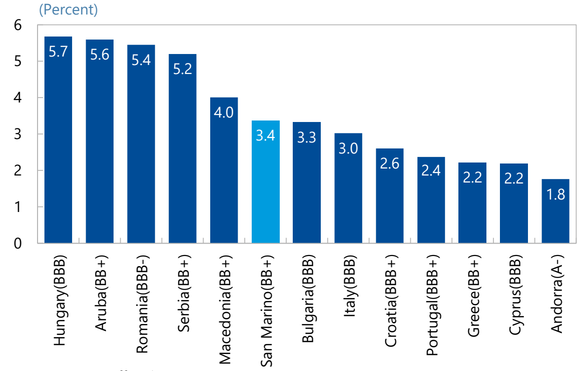
### Public Debt Structure

| | 2022 | 2023 | 2024 | 2025 | |
|---|---|---|---|---|---|
| | Million euros | Million euros | Million euros | Million euros | Percent |
| **External** | **349** | **411** | **358** | **357** | **29.5** |
| External loans | 9 | 8 | 8 | 7 | 0.6 |
| Eurobonds | 340 | 403 | 350 | 350 | 28.9 |
| **Domestic** | **878** | **870** | **854** | **863** | **70.5** |
| Dom. loans | 57 | 39 | 22 | 11 | 1.8 |
| Dom. Bonds: Market | 134 | 134 | 134 | 223 | 11.1 |
| Dom. Bonds: Perpertual bonds | 474 | 474 | 474 | 419 | 39.1 |
| Dom. Bonds: BNS Converted | 196 | 189 | 186 | 186 | 15.3 |
| BNS-Bonds | 0 | 0 | 0 | 0 | 0.0 |
| BNS-others | 18 | 19 | 9 | 9 | 0.7 |
| Payable accounts | 0 | 16 | 30 | 15 | 2.5 |
| **Total** | **1,227** | **1,281** | **1,212** | **1,220** | **100.0** |
| of which nonmarket[1] | 688 | 697 | 699 | 629 | 57.7 |
| **Public Debt according to MoF** | **1,209** | **1,262** | **1,203** | ... | |

[1]Include payable accounts, perpetual bonds, BNS bonds, and BNS other liabilities.

### Implicit Interest Rate of Government Debt, 2024

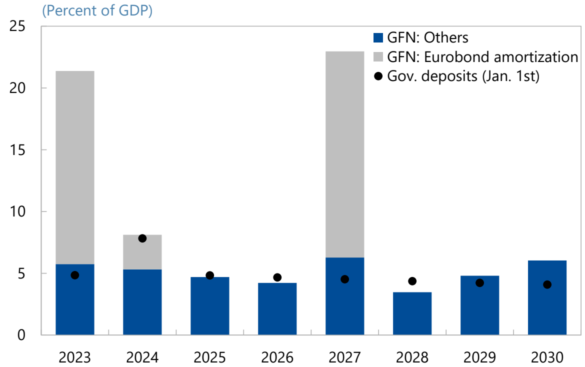
(Percent)




Source: IMF staff estimates.

### Government Gross Financing Needs

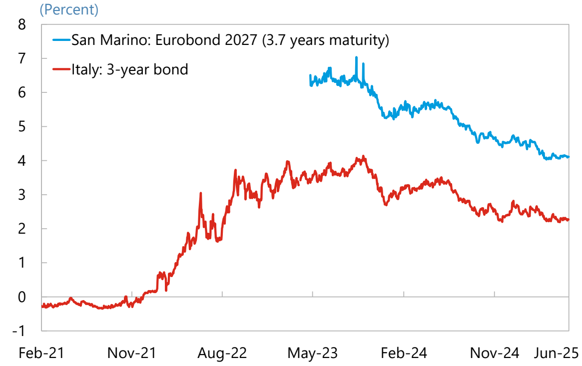
(Percent of GDP)




Sources: Country authorities and IMF staff estimates.

### Selected Bond Yields

(Percent)




Sources: Bloomberg and IMF staff estimates.

## B. Baseline

6. **Under the baseline scenario, public debt is projected to decline over the medium-term.** Public debt is projected to be around 53.6 percent of GDP by 2030, but with social security deposits being drawn down gradually. The pension fund assets will decline from 21 to 16 percent of GDP by 2030 and eventually will be fully depleted. The key assumptions in the baseline scenario include:

- Real GDP growth at 1.2 percent in 2025, with small declines in 2027 as Italy's growth slows due to the reduction of EU funding in those years.

- The central government primary balance (under current policies) is projected to be stable as the government's indexation of public wages and pensions is not exceeding the inflation. As a result, the consolidated primary surplus is expected to peak at 1.2 percent by 2026 and then gradually deteriorate as ageing accelerates pension spending.

- The implicit government interest rate on debt is broadly in line with the previous assessment.

**Annex VI. Table 1. Republic of San Marino: Key SRDSF Assumption**

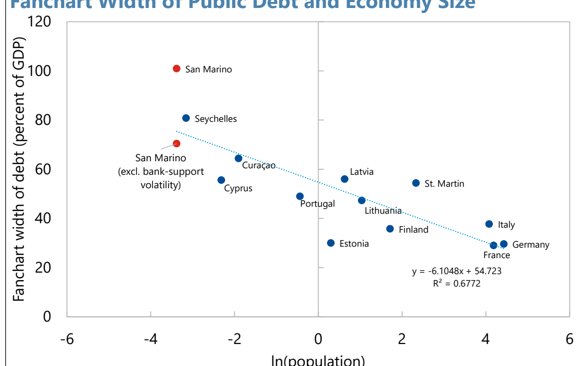
(Percent)

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|
| **Real GDP Growth** (percent) | | | | | | | | |
| 2025A4 | 0.4 | 1.0 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 |
| 2024A4 | 0.4 | 0.7 | 1.3 | 1.2 | 1.1 | 1.3 | 1.3 | ... |
| **GDP deflator change** (percent) | | | | | | | | |
| 2025A4 | 7.4 | 1.9 | 2.0 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 |
| 2024A4 | 5.3 | 2.4 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | ... |
| **Consolidated primary palance** (percent of GDP) | | | | | | | | |
| 2025A4 | 1.1 | 2.7 | 0.9 | 1.2 | 1.0 | 0.8 | 0.5 | 0.1 |
| 2024A4 | 1.5 | 0.8 | 1.3 | 1.2 | 1.0 | 0.8 | 0.5 | ... |
| **CG: Primary balance net of transfers to pension fund** | | | | | | | | |
| 2025A4 | 3.9 | 5.4 | 3.4 | 3.7 | 3.7 | 3.7 | 3.7 | 3.6 |
| 2024A4 | 4.7 | 3.7 | 3.7 | 3.8 | 3.7 | 3.7 | 3.7 | ... |
| **Pension fund balance net of gov. transfers** | | | | | | | | |
| 2025A4 | -2.9 | -2.7 | -2.5 | -2.5 | -2.7 | -2.9 | -3.2 | -3.5 |
| 2024A4 | -3.2 | -2.8 | -2.5 | -2.5 | -2.7 | -2.9 | -3.2 | ... |
| **Implicit interest rates** (percent) | | | | | | | | |
| 2025A4 | 3.4 | 3.0 | 3.4 | 3.2 | 3.3 | 3.2 | 3.2 | 3.3 |
| 2024A4 | 3.2 | 3.0 | 3.1 | 3.1 | 3.1 | 3.0 | 3.0 | ... |

Source: IMF staff estimates.

## C. Risk Assessment

**Fanchart Width of Public Debt and Economy Size**




Source: IMF staff estimates.

7. **Public debt will slowly fall under the baseline from current moderate levels.** As a euroized economy with limited policy buffers, San Marino remains vulnerable to shocks, including external shocks to growth, the materialization of contingent liabilities arising from the financial sector, and spikes in medium-term gross financing needs (GFN). As a result, risks remain significant.

8. **Medium-term risks are assessed to be moderate.** The GFN module indicates moderate risks. However, a spike in GFN in 2027 to above 20 percent of GDP, as the Eurobond matures, will increase risks. The fan chart mechanical signal points to a high risk. The signal is derived from the fan chart width that estimates the uncertainty of public debt based on historical shocks. For San Marino, past shocks may not be a good indication of potential future shocks, as past bank support overwhelmingly explains the historical increase in public debt. Shocks of this magnitude are unlikely to take place going forward (see IMF Country Report No. 2023/373). Thus, staff views the medium-term risks as moderate.

9. **A medium-term worst-case scenario of contingent liability shock.** This scenario envisages potential risks associated with further capital needs in the financial sector, calibrated to cost around 3 percent of GDP, public guarantees related to the securitization of NPLs, calibrated to cost about 2 percent of GDP, and tax credits, which could cost an additional 9 percent of GDP. This calibration is lower than in previous assessment due to the less outstanding NPL-backed securities.

Under this scenario, public debt reaches 73 percent of GDP by 2026 but is expected to follow a moderately declining path thereafter.

**10. Long-term risks are assessed as moderate.** Ageing will accelerate pension spending in the long-term. However, the recent pension reform has postponed the depletion of pension fund assets by at least a decade. This delay provides time to evaluate the impact of the recent reform and to design the necessary complementary (parametric) recalibration.

**11. Managing debt risks requires a credible medium-term perspective on fiscal policy.** Given that the current debt path remains vulnerable to shocks, it is crucial to increase fiscal buffers through a more ambitious fiscal consolidation targeting a primary surplus (net of bank support) of 2½ percent of GDP by 2027. Meanwhile, maintaining higher short-term liquid buffers is a priority, as is improving debt management capacity and strengthening the banking system. Furthermore, it will be important to develop a complementary medium-term debt management strategy (MTDS) that mitigates rollover risks and eventually incorporates the conversion of CRSM perpetual bonds into marketable instruments.

## Annex VI. Table 2. Republic of San Marino: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|---|---|---|---|
| **Overall** | ... | **Moderate** | The overall risk of sovereign stress is moderate supported by a reduction of rollover-risks, improved fiscal outlook, and a pension reform. However, there are risks due to the spike in amortizations in 2027 as the Eurobond matures, contingent liabilities, and the long-term challenges that have not been fully addressed. |
| **Near term 1/** | | | |
| **Medium term** | **Moderate** | **Moderate** | Medium-term risks are assessed as moderate, despite a mechanical signal of high risk from the fanchart. This is largely driven by past government bank-support, which is unlikely to occur in such large magnitudes going forward. Overall, both the mechanical signal and final assessment point out to moderate risk. Medium term risk is assessed as moderate despite high GFN in 2027 due to the Eurobond amortization. |
| Fanchart | **High** | ... | |
| GFN | **Moderate** | ... | |
| Stress test | Bank Crisis | ... | |
| | Cont. Liabty. | | |
| **Long term** | ... | **Moderate** | Long-term risks are moderate, arising from population aging. The approved pension reform in 2022 delayed the depletion of pension assets. However, the pension deficit is expected to increase public debt and eventually also deplete the pension fund assets. |
| **Sustainability assessment 2/** | Not required for surveillance countries | Sustainable | The projected debt path is expected to decline gradually and GFNs will remain at manageable levels for the next 2 years. Therefore, debt is assessed as sustainable. |
| **Debt stabilization in the baseline** | | | Yes |

**DSA Summary Assessment**

Commentary: San Marino is at moderate overall risk of sovereign stress. Indicators have shown strong performance post pandemic. The outlook remained stable as the government has been saving revenue windfalls and keeping cautious wages and pensions indexation. Risks declined as the government built up deposits and successfully rolled over the Eurobond maturing in 2024. Medium-term risks are assessed as moderate based on the GFN Module, despite the Fanchart module high risk signal due to sizable past bank-support. While such magnitudes of bank-support are unlikely to be needed in the future, the spike in GFN in 2027 as the Eurobond matures increases risks. Over the long-term, San Marino should continue with reforms to tackle risks arising from population aging on pension spending.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

## Annex VI. Figure 1. Republic of San Marino: Debt Coverage and Disclosures

| | CG | GG | NFPS | CPS | Other | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | Yes | |

**2. Subsectors included in the chosen coverage in (1) above:**

| | Subsectors captured in the baseline | Inclusion | Comments |
|---|---|---|---|
| 1 | Budgetary central government | Yes | |
| 2 | Extra budgetary funds (EBFs) | No | Not applicable |
| 3 | Social security funds (SSFs) | Yes | |
| 4 | State governments | No | Not applicable |
| 5 | Local governments | No | Not applicable |
| 6 | Public nonfinancial corporations | No | PNFC cannot borrow |
| 7 | Central bank | No | |
| 8 | Other public financial corporations | No | |

(CPS: 1–8; NFPS: 1–6; GG: expected: 1–5; CG: 1–3)

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ | IPSGSs already incorporated in social security |
| **4. Accounting principles:** | Basis of recording | | Valuation of debt stock | | | |
| | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ | |
| **5. Debt consolidation across sectors:** | | Consolidated | | Non-consolidated | | |

**Color code:** chosen coverage; Missing from recommended coverage; Not applicable

**Reporting on Intra-Government Debt Holdings (percent of GDP)**

| Issuer \ Holder | | Budget. central govt | Extra-budget. funds (EBFs) | Social security funds (SSFs) | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Budget. central govt | | 0.0 | 4.1 | 0.0 | 0.0 | 0.0 | 1.8 | 24.8 | 30.7 |
| 2 | Extra-budget. funds | | | | | | | | | 0.0 |
| 3 | Social security funds | | | | | | | | | 0.0 |
| 4 | State govt. | | | | | | | | | 0.0 |
| 5 | Local govt. | | | | | | | | | 0.0 |
| 6 | Nonfin pub. corp. | | | | | | | | | 0.0 |
| 7 | Central bank | | | | | | | | | 0.0 |
| 8 | Oth. pub. fin. corp | | | | | | | | | 0.0 |
| | Total | 0.0 | 0.0 | 4.1 | 0.0 | 0.0 | 0.0 | 1.8 | 24.8 | 30.7 |

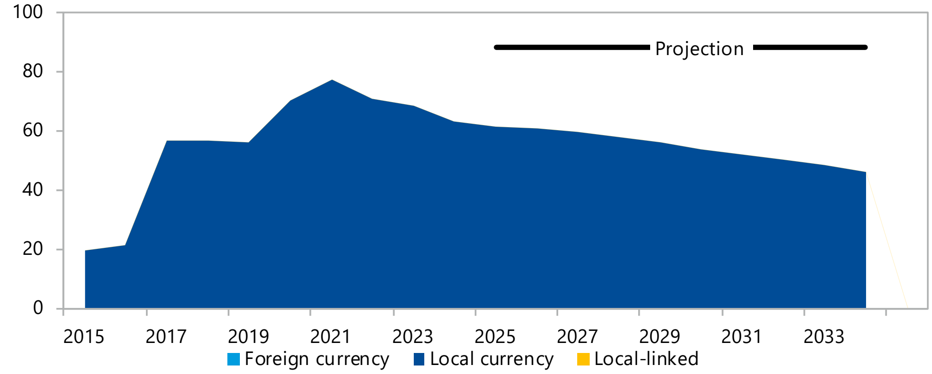
(CPS: 1–8; NFPS: 1–6; GG: expected: 1–5; CG: 1–3)

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The large intra-government debt holding on other public financial corporations is largely explained by the perpetual bond in state-owned bank (CRSM).

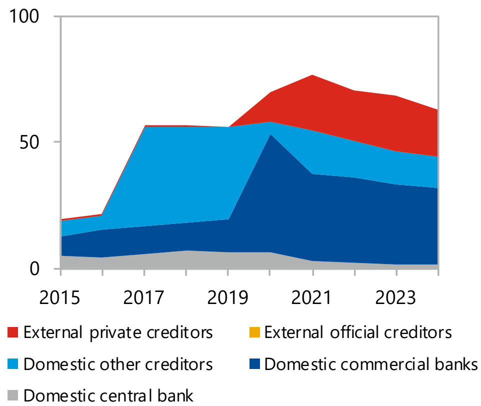
## Annex VI. Figure 2. Republic of San Marino: Public Debt Structure Indicators

**Debt by Currency (Percent of GDP)**



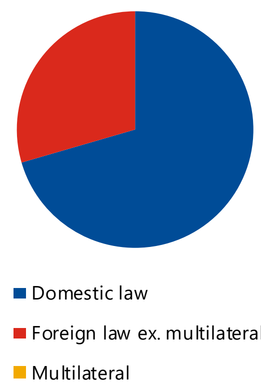

Note: The perimeter shown is central government.

**Public Debt by Holder (Percent of GDP)**



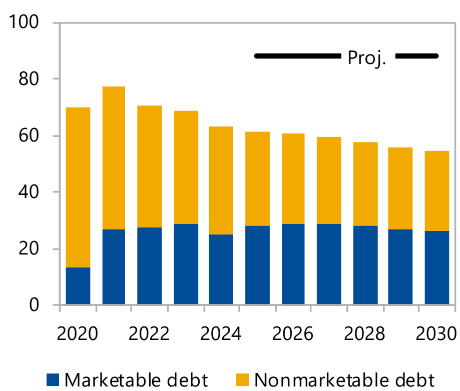

Note: The perimeter shown is general government.

**Public Debt by Governing Law, 2024 (percent)**



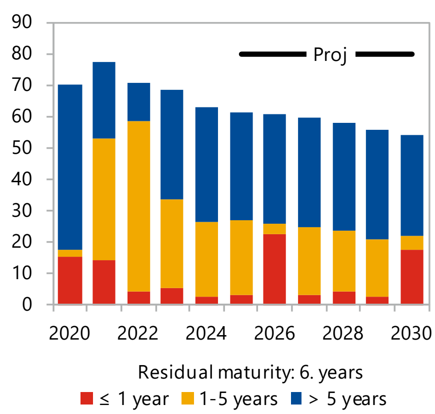

Note: The perimeter shown is general government.

**Debt by Instruments (Percent of GDP)**




Note: The perimeter shown is general government.

**Public Debt by Maturity (Percent of GDP)**




Note: The perimeter shown is general government.

Commentary: Nonmarketable debt is largely explained by a perpetual bond to the state-owned domestic bank (€455 million), the central bank (€19 million), and forced issuance for ex-BNS depositors (€189 million). The increase debt maturing within a year in 2026 is related to the eurobond maturing in 2027 which is a key vulnerability.

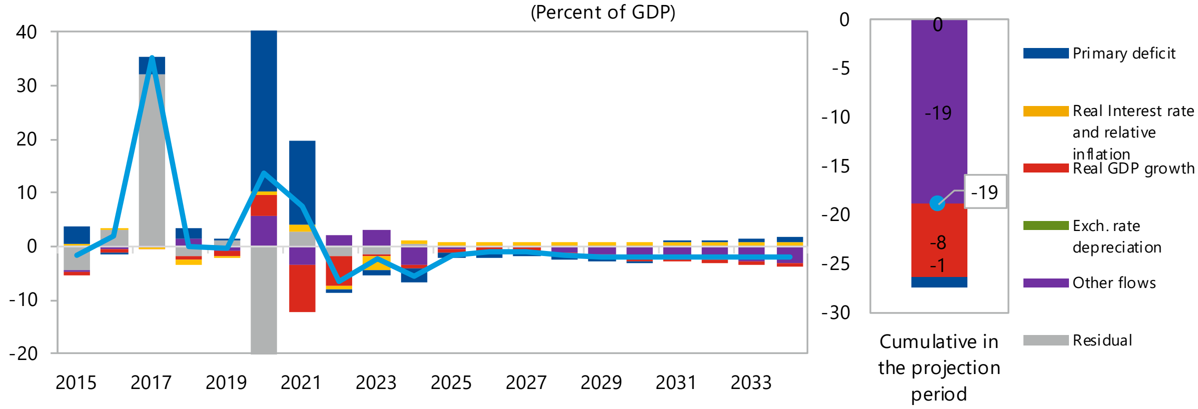
## Annex VI. Table 3. Republic of San Marino: Baseline Scenario

(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
| Public debt | 62.8 | 61.3 | 60.3 | 59.3 | 57.5 | 55.5 | 53.6 | 51.7 | 49.8 | 47.9 | 45.9 |
| Change in public debt | -5.5 | -1.5 | -1.0 | -1.0 | -1.8 | -2.0 | -1.9 | -1.9 | -1.9 | -1.9 | -2.0 |
| Contribution of identified flows | -6.0 | -1.5 | -1.0 | -1.0 | -1.8 | -2.0 | -1.9 | -1.9 | -1.9 | -1.9 | -2.0 |
| Primary deficit | -2.7 | -0.9 | -1.2 | -1.0 | -0.8 | -0.5 | -0.1 | 0.1 | 0.4 | 0.7 | 0.9 |
| Noninterest revenues | 30.6 | 30.1 | 30.1 | 30.2 | 30.3 | 30.3 | 30.4 | 30.5 | 30.5 | 30.6 | 30.6 |
| Noninterest expenditures | 27.9 | 29.1 | 28.9 | 29.2 | 29.5 | 29.9 | 30.3 | 30.6 | 30.9 | 31.3 | 31.6 |
| Automatic debt dynamics | 0.1 | -0.1 | 0.1 | 0.2 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Real interest rate and relative inflation | 0.7 | 0.7 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.8 | 0.7 |
| Real interest rate | 0.7 | 0.7 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.8 | 0.7 |
| Relative inflation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real growth rate | -0.7 | -0.7 | -0.8 | -0.7 | -0.7 | -0.7 | -0.7 . | -0.7 | -0.7 | -0.6 | -0.6 |
| Real exchange rate | 0.0 | … | … | … | … | … | … . | … | … | … | … |
| Other identified flows | -3.4 | -0.5 | 0.1 | -0.2 | -1.0 | -1.5 | -1.9 | -2.1 | -2.4 | -2.7 | -3.0 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (minus) Interest Revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other transactions | -3.4 | -0.5 | 0.1 | -0.2 | -1.0 | -1.5 | -1.9 | -2.1 | -2.4 | -2.7 | -3.0 |
| Contribution of residual | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | |
| Gross financing needs | 5.7 | 6.7 | 3.8 | 23.1 | 4.5 | 6.5 | 5.3 | 19.9 | 7.4 | 6.0 | 6.3 |
| of which: debt service | 8.4 | 7.7 | 5.0 | 24.1 | 5.2 | 6.9 | 5.4 | 19.8 | 7.0 | 5.3 | 5.4 |
| Local currency | 8.4 | 7.7 | 5.0 | 24.1 | 5.2 | 6.9 | 5.4 | 19.8 | 7.0 | 5.3 | 5.4 |
| Foreign currency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 1.0 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Inflation (GDP deflator; percent) | 1.9 | 2.0 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Nominal GDP growth (percent) | 2.9 | 3.2 | 3.2 | 3.1 | 3.2 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Effective interest rate (percent) | 3.0 | 3.0 | 3.4 | 3.4 | 3.3 | 3.3 | 3.4 | 3.4 | 3.5 | 3.6 | 3.6 |

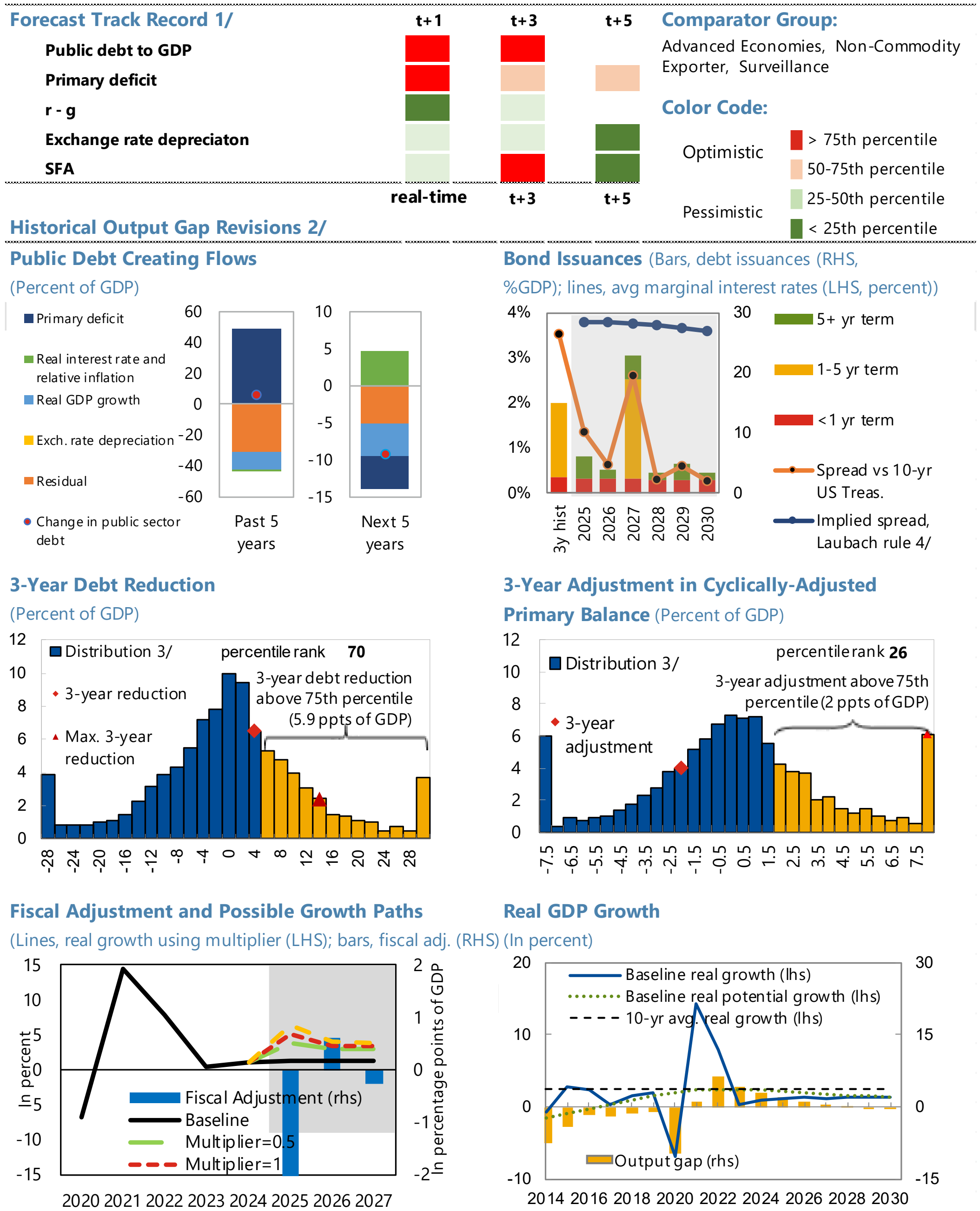
### Contribution to Change in Public Debt

(Percent of GDP)




Commentary: Public debt will decline reflecting that government keeps indexation of wages and pensions below inflation, as moderating inflation slows the decline of public debt to GDP ratio. The contribution of other flows reflects the withdrawal of pension fund assets in the projection period. The high GFN in 2027 and 2031 are explained by the amortization of the Eurobond.

## Annex VI. Figure 3. Republic of San Marino: Realism of Baseline Assumptions




Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

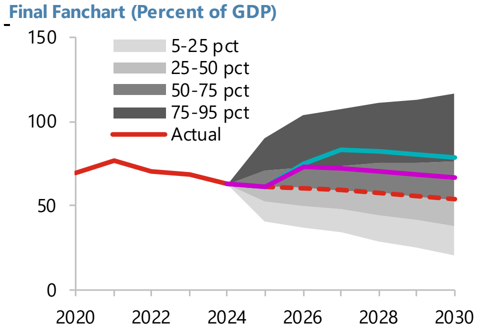
Commentary: Realism analysis is affected by the sizable bank-support observed in the past. This bank-support explains the large forecast errors in public debt, primary deficit and SFA, flagging optimism in past forecasts. However, such bank support is unlikely to occur in comparable magnitudes looking forward. The debt reduction looking forward attributed to the high nominal GDP growth combined with prudent policies on wages and pensions indexation.

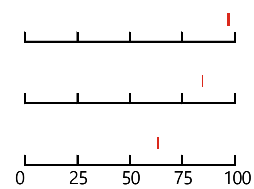
## Annex VI. Figure 4. Republic of San Marino: Medium-Term Risk Analysis

### San Marino: Medium-Term Risk Assessment

| | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| **Debt fanchart module** | | | |
| Fanchart width *(percent of GDP)* | 96.1 | 1.4 | |
| Probability of debt non-stabilizaiton *(percent)* | 48.9 | 0.4 | |
| Terminal debt-to-GDP x institutions index | 16.8 | 0.4 | |
| **Debt fanchart index (DFI)** | | 2.2 | |
| **Risk signal: 3/** | | High | |

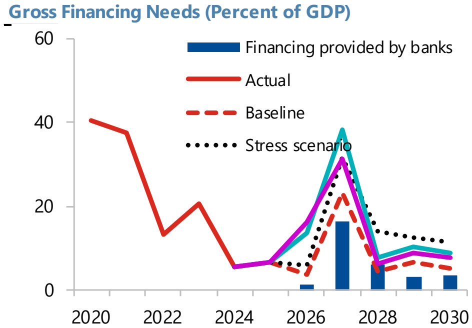
Final Fanchart (Percent of GDP)

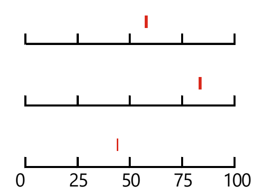



| | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| **Gross financing needs (GFN) module** | | | |
| Average baseline GFN *(percent of GDP)* | 8.3 | 2.8 | |
| Initial Banks' claims on the gen. govt *(pct bank assets)* | 12.1 | 3.9 | |
| Chg. In banks' claims in stress *(pct banks' assets)* | 2.8 | 0.9 | |
| **GFN financeability index (GFI)** | | 7.7 | |
| **Risk signal: 4/** | | Moderate | |

Gross Financing Needs (Percent of GDP)

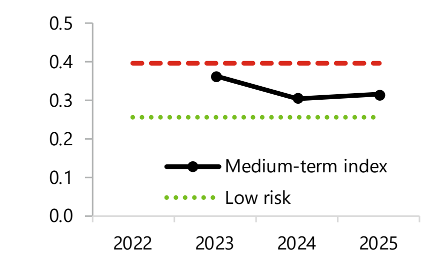



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)




Medium-term risk analysis

| | Value | Value (normalized) | Weight | Contribution |
|---|---|---|---|---|
| Debt fanchart index | 2.2 | 0.5 | 0.5 | 0.2 |
| GFN finaceability index | 7.7 | 0.1 | 0.5 | 0.1 |
| **Medium-term index** | | 0.3 | | |
| **Risk signal: 5/** | | Moderate | | |
| **Final assessment:** | | Moderate | | |

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 25.0 pct.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, uidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

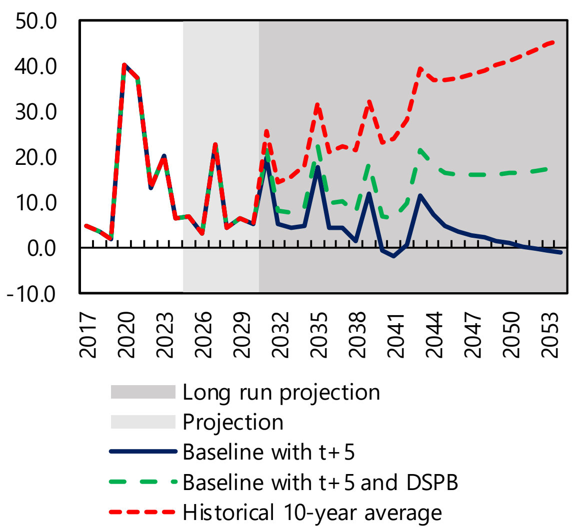
Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to high level of risk, while the GFN Financeability Module suggests moderate despite the high GFN in 2027 due to the Eurobond amortization. Overall, the team assesses the risk as moderate, considering the fantchart model overestimates the risk for San Marino due to large banks support observed in the past, which is unlikely going forward. (See San Marino Country Report No. 2023/373 SRDSF assessment for details).

## Annex VI. Figure 5. Republic of San Marino: Long-Term Risk Analysis

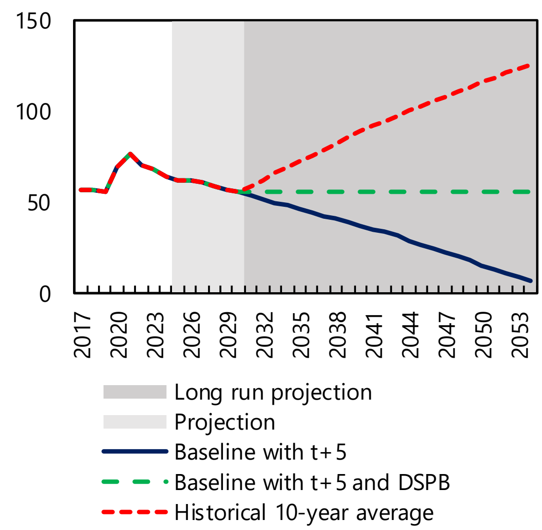
### Large Amortization

| Projection | Variable | Risk Indication |
|---|---|---|
| Medium-term extrapolation | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Medium-term extrapolation with debt stabilizing primary balance | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Historical average assumptions | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Overall Risk Indication | | |

**GFN-to-GDP Ratio**




**Total Public Debt-to-GDP Ratio**




Commentary: The module flags high risk for debt rollover in line with the medium-term analysis (due to the bumpy amortization profile). The template-mechanics flags a high risk of debt rollover based on deviations beyond 1-standard deviations of GFN and amortizations (from the 10-year historical average). In 2021, San Marino issues its first Eurobond with an amortization of above 20 percent of GDP in 2023. Since then, San Marino has a bumpy amortization profile. Before 2023 amortizations have been moderate, so the risk signal is partly explained by the bumpy amortization.

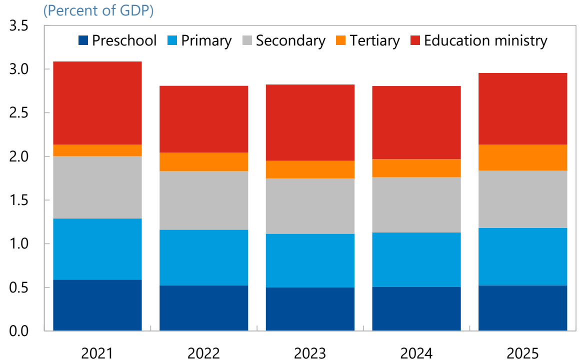
# Annex VII. Improving Education Expenditure Efficiency

*The annex examines public education expenditure efficiency in San Marino, with a focus on below-tertiary level education. Per-student expenditure is high compared with countries of similar income levels, mainly driven by San Marino's elevated teachers-to-student ratio, which is the highest in Europe. Expenditure efficiency can be improved by reducing new hiring, offering re-skilling opportunities to teachers and consolidating school network in line with recent demographic developments. Administrative overhead should be carefully managed, due to limited economies of scale from the small student population.*

**1. San Marino's education system includes preschool education, primary schools, lower and upper secondary schools and one public university. Compulsory schooling covers ages 6 to 16.** Public education is free before tertiary education. In addition to schools, San Marino also has a department of education within the central government.

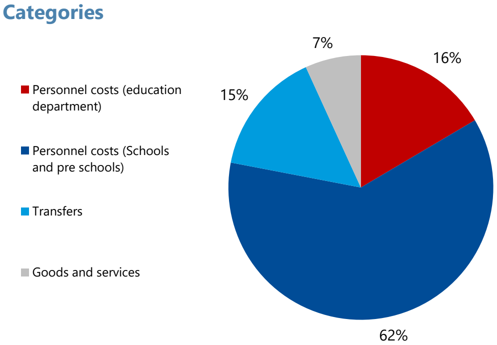
**2. Public education expenditure has been stable in recent years, amounting to around 3 percent of GDP.** Most of the expenditure is allocated to below-tertiary education and the department of education, with payments made directly by the central government. The expenditure of the university is partially covered by transfers from the department of education. Personnel costs, including non-tertiary schools and the education department, amount to 75 percent of the total educational expenditure.

Education Expenditure
(Percent of GDP)




Sources: Country authorities and IMF staff estimates.

Composition of Education Expenditure by Economic Categories




Sources: Realized budget of year 2023 and IMF staff estimates.

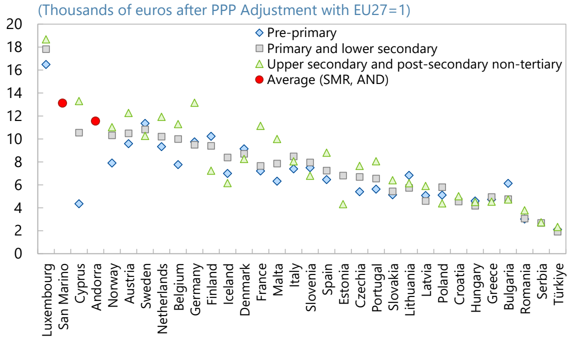
**3. Education expenditure per student is high compared to other southern European countries.** On average, one student cost 13 thousand euro each year in 2023. The expenditure per student is comparable to affluent Nordic countries like Denmark and Sweden, 50 percent higher than Italy, and 20 percent higher than Andorra which has similar population size.

**4. The main driver of the high expenditure per student is the elevated teacher-to-student ratio and large overhead of the education department.** The World Bank data[1] shows San Marino has the highest teacher-to-student ratio in the world, both in primary schools and in secondary

[1] The San Marino statistics is based on 2018 survey.

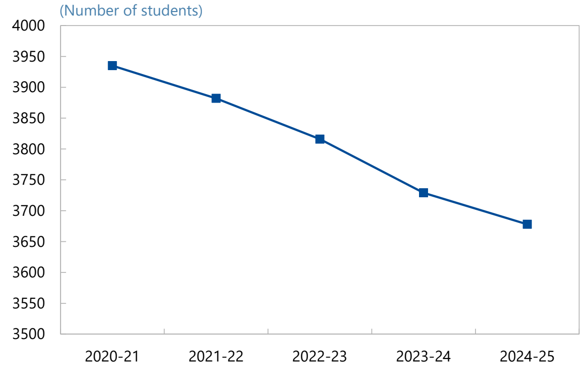
schools. And the teachers-to-student ratio will likely increase, as school enrollment has declined by 6 percent in the past 5 years, driven by demographic trends. Over the same period, the number of teachers has increased by 6 percent. Higher teacher-to-student ratio and the resulting small classes will allow teachers to focus more on the needs of individual students, but overall evidence of the effect of class size on student performance is mixed (OECD, 2016). Given the already high teacher-to-student ratio in San Marino, additional teachers will bring limited benefits to the students.

**Education Expenditure per Student**
(Thousands of euros after PPP Adjustment with EU27=1)



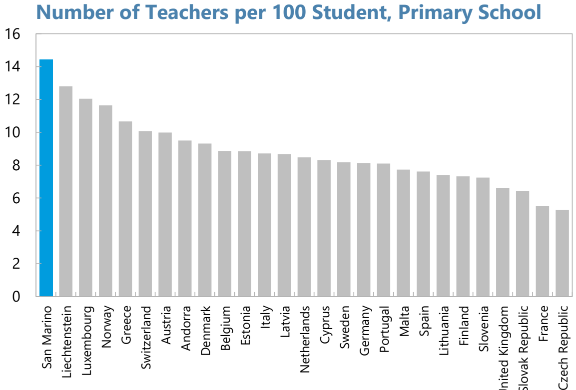

Sources: Eurostat, Sammarinese authorities; Andorra statistics department; and IMF staff estimates.

**Below-tertiary School Enrollment**
(Number of students)



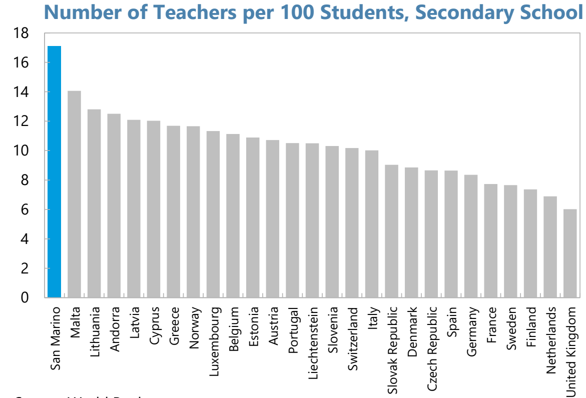

Source: Country authorities.

**Number of Teachers per 100 Student, Primary School**




Source: World Bank.

**Number of Teachers per 100 Students, Secondary School**




Source: World Bank.

5. **It is key to improve the efficiency of education spending.** Rationalizing the teacher-to-student ratio from 14 in primary schools and 17 in secondary schools to 100 per student, a level higher than most advanced European countries, can generate budget savings of around 0.3 percent of GDP. This can be achieved by hiring fewer new teachers than retiring ones. In the context of increasing administrative work to implement the EU association agreement, facilitating the option for teachers to transition to other administrative positions will mitigate expenditure pressure from public wage bills. These measures can be accompanied by consolidating the dense school network. San Marino has 13 primary school campuses serving 1332 students. Many smaller schools have fewer than 100 students. Merging some of the campuses will reduce the demand of teachers, without increasing class sizes. In addition, the administrative overhead of the education department needs to be carefully managed, due to the small student population and the resulting limited economies of scale. To evaluate the effectiveness of education spending, the education department can consider evaluating student academic performance using Italian's INVALSI test.

# Annex VIII. Data Issues

## Annex VIII. Table 1. Republic of San Marino: Data Adequacy Assessment for Surveillance

**Data Adequacy Assessment Rating 1/**

B

Questionnaire Results 2/

| **Assessment** | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency | Median Rating |
|---|---|---|---|---|---|---|---|
| | C | B | B | C | A | C | C |

Detailed Questionnaire Results

| **Data Quality Characteristics** | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency |
|---|---|---|---|---|---|---|
| Coverage | C | A | B | B | A | |
| Granularity 3/ | C | | B | B | A | |
| | | | B | | A | |
| Consistency | | | C | C | | C |
| Frequency and Timeliness | D | B | D | D | B | |

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

| | |
|---|---|
| A | The data provided to the Fund are adequate for surveillance. |
| B | The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. |
| C | The data provided to the Fund have some shortcomings that somewhat hamper surveillance. |
| D | The data provided to the Fund have serious shortcomings that significantly hamper surveillance. |

**Rationale for staff assessment**. The data provided to the Fund has some shortcomings but is broadly adequate for surveillance. Weaknesses in the statistics remain however, mainly due to resource constraints. National accounts, external sector, as well as monetary and financial sector data are compiled according to international standards, but some key statistics (in real, external, and fiscal sectors) are available only with significant delays. The authorities have developed —with IMF technical assistance— external sector statistics and monetary financial statistics. Also the authorities have set up government financial statistics in line with IMF methodology. Despite delays in official data, the nature of a micro state enable the team to interact with firms and social partners which represents a significant share of the economy. Overall the statistics still allow a reasonable assessment of macroeconomic and financial risks, and many of the delays do not significantly affect staff projections or policy advice.

**Changes since the last Article IV consultation**. Data gaps remains, but the authorities have been working to improve statistics by improving their publications and implementing IMF Technical assistance recommendations (BOP and monetary and financial sector statistics). The authorities are aslo aiming to promptly implement the recommendations of the recent national accounts technical assistance (Oct-2024), for example, the restart of the consumption survey**.** The authorities have amended the statistics law to grant independence to the statistics office in 2025.

**Corrective actions and capacity development priorities**. The authorities are committed to improve statistics. The statistics office has hired one additional staff and will continue fluid contact with IMF-STA experts to improve statistics. However, with limited resources and limited fiscal space at the government level, improving statistics will be challenging.

**Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.** While official statistics are largely reliable, the team has used a few adaptations to incorporate risk. The main differences are in the fiscal accounts. First, public debt reported in the policy note includes estimates of liabilities from a state-owned SPV, which are not included in the official debt statistics. Second, due to the lack or long delays on the consolidated general government statistics, the team consolidates the central government and pensions outcomes.

**Other data gaps**. With limited staff and data gaps in core macro indicators, attempts to cover additional indicators (such as climate change, income and gender inequality, and digitalization) will be at the cost of deterioration of core-macro indicators.

## Annex VIII. Table 2. Republic of San Marino: Data Standards Initiatives

San Marino participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since January 2020.

## Annex VIII. Table 3. Republic of San Marino: Table of Common Indicators Required for Surveillance

As of October 9th 2025

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives through the National Summary Data Page | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Expected Frequency[6,7] | San Marino[8] | Expected Timeliness[6,7] | San Marino[8] |
| Exchange Rates | 1-Aug-25 | 1-Aug-25 | D | D | D | D | ... | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Jul-25 | Sep-25 | M | M | M | M | 1M | 2M |
| Reserve/Base Money | Jul-25 | Sep-25 | M | M | M | M | 2M | 2M |
| Broad Money | Jul-25 | Sep-25 | M | M | M | M | 1Q | 2M |
| Central Bank Balance Sheet | Jul-25 | Sep-25 | M | M | M | M | 2M | 2M |
| Consolidated Balance Sheet of the Banking System | Jul-25 | Sep-25 | M | M | M | M | 1Q | 2M |
| Interest Rates[2] | Jul-25 | Sep-25 | M | M | M | M | ... | 2M |
| Consumer Price Index | Jun-25 | Sep-25 | M | M | M | M | 2M | 3M |
| Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4] | 2023 | Feb-25 | A | A | A | A | 3Q | 8Q |
| Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government | 2023 | Feb-25 | A | A | Q | A | 1Q | 8Q |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2023 | Feb-25 | A | A | Q | Q | 2Q | 8Q |
| External Current Account Balance | 2023 | Jun-25 | A | A | Q | A | 1Q | 8Q |
| Exports and Imports of Goods and Services | 2023 | Jun-25 | A | A | M | M | 12W | 4M |
| GDP/GNP | 2023 | Jun-25 | A | A | Q | A | 1Q | 8Q |
| Gross External Debt | 2023 | Jun-25 | A | A | Q | Q | 2Q | 8Q |
| International Investment Position | 2023 | Jun-25 | A | A | A | A | 3Q | 8Q |

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

# REPUBLIC OF SAN MARINO

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 31, 2025

Prepared by European Department

CONTENTS

FUND RELATIONS _______________ 2

# FUND RELATIONS

(As of September 30, 2025)

**Membership Status:** Joined September 23, 1992; Article VIII

| **General Resources Account** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 49.20 | 100.00 |
| Fund holdings of currency | 49.20 | 100.00 |
| Reserves tranche position | 0.00 | 0.00 |

| **SDR Department** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 62.69 | 100.00 |
| Holdings | 46.52 | 74.21 |

**Outstanding Purchases and Loans**
None

**Latest Financial Arrangements**
None

**Projected Obligations to Fund 1/**
**(SDR Million; based on existing use of resources and present holdings of SDRs)**

| | **Forthcoming** | | | | |
|---|---|---|---|---|---|
| | **2025** | **2026** | **2027** | **2028** | **2029** |
| Principal | | | | | |
| Charges/Interest | 0.12 | 0.46 | 0.46 | 0.46 | 0.46 |
| Total | 0.12 | 0.46 | 0.46 | 0.46 | 0.46 |

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Exchange Rate Arrangements:**
The *de jure* and *de facto* exchange rate arrangements in San Marino are classified as no separate legal tender. Prior to 1999, the currency of San Marino was the Italian lira. Since January 1, 1999, San Marino uses the euro as its official currency. Foreign exchange transactions are conducted through commercial banks without restriction at rates quoted in Italian markets. There are no taxes or subsidies on purchases or sales of foreign exchange. San Marino has accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF’s Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for those maintained solely for the preservation of

national or international security and which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51). [1]

**Latest Article IV Consultation:**
San Marino is on a 12-month cycle. The previous Article IV consultation discussions took place during September 23–October 4, 2024, and the consultation was concluded on December 10, 2024 (IMF Country Report No. 24/330).

**FSAP Participation:**
A review under the Financial Sector Assessment Program (FSAP) was completed in 2010.

**Technical Assistance:**

| **Year** | **Department/Purpose** |
|---|---|
| 1997 | STA Multi-sector assistance |
| 2004 | STA Monetary and financial statistics |
| 2005 | MFD Deposit insurance |
| 2008 | STA GDDS metadata development |
| 2009 | LEG AML/CFT |
| 2011 | STA National accounts statistics |
| 2012 | STA Government finance statistics |
| 2012 | STA Monetary and Financial Statistics |
| 2013 | STA Balance of Payments Statistics |
| 2014 | FAD Expenditure Policy |
| 2016 | MCM Cassa di Risparmio Bank Restructuring |
| 2018 | FAD Foundations for a Value Added Tax |
| 2018 | FAD VAT Administrative Readiness Assessment |
| 2018 | STA Balance of Payments statistics |
| 2019 | LEG Enterprise Restructuring and Individual Over-indebtedness |
| 2019 | STA Enhanced General Data Dissemination System (E-GDDS) |
| 2022 | STA Monetary and Financial Statistics |
| 2023 | STA External Sector Statistics |
| 2024 | STA National Accounts |

**Resident Representative:** None

[1] EU Regulations are not directly applicable to San Marino due to Article 249 of the Treaty Establishing the European Community, but they may well be applied as a result of the legal relationship between San Marino and the EU, including the Monetary Agreement.

**Statement by Riccardo Ercoli, Executive Director for Italy, and Guido De Blasio, Senior Advisor to Executive Director**
**November 21, 2025**

*The authorities of the Republic of San Marino convey their sincere appreciation for the constructive engagement with Fund staff during the Article IV consultation. They broadly endorse the staff's assessment and reaffirm their commitment to drawing upon the Fund's recommendations to promote sustainable economic growth, preserve financial stability, and ensure the soundness of public finances. Furthermore, the authorities welcome the staff's recognition that their policy measures have been pivotal in strengthening long-term growth prospects and enhancing the economy's resilience to external shocks.*

Over the last decade, **San Marino has successfully evolved into a more diversified and resilient economy, marked by robust external balances, stronger fiscal indicators, and successful reforms in the financial sector**. The country shifted away from an oversized banking system while strengthening the already existing growth model driven by manufacturing and non-financial service exports. This transformation was underpinned by competitive labor costs, solid corporate balance sheets, prudent fiscal management, and improved access to international capital markets. It is also conducive to more favorable conditions to attract more sustainable and stable investments. These economic achievements have been recognized by rating agencies, leading to multiple upward revisions of the Republic's sovereign debt rating in recent years. Despite progress, vulnerabilities persist—especially in the financial sector and from demographic pressures—though policies continue to adapt to mitigate risks. Looking ahead, **the EU Association Agreement is expected to have a catalytic role to attract further investments in response to a new momentum for structural reforms in the area of taxation, wider digitalization, labor market liberalization, and alignment of financial regulations with EU standards**.

The Article IV Report provides a broad, up-to-date, and detailed account of the economic developments in the Republic, and we only wish to add a few points to complement an excellent analysis.

*Financial sector*

While San Marino's financial and banking sector has undergone **substantial restructuring over the past decade** transitioning from once among the highest level in Europe of the Nonperforming loans (NPLs) ratio down to approximately 16.9 percent, the forthcoming EU Association Agreement is expected to **broaden business opportunities for banks and enhance the entry of external investors**.

**The determination and strong political commitment to the Association Agreement at the government level brought to a decisive turning point in the negotiations.** The authorities aim to complete the adoption of EU financial sector regulations well ahead of the stipulated 15-year transition period, noting that several areas, such as payment services, are already aligned.

**Moreover, the monetary authorities have consistently reiterated their firm commitment to rigorously vetting new investors** in San Marino's banks, utilizing the expanded international network of supervisory authorities which, thanks to the reciprocal exchange of information, represents a benefit not only for San Marino but also for the authorities of other countries with which cooperation agreements are in place.

**The authorities recognize the need of reducing bank operating expenses and increasing the proportion of income-generating assets**, thereby strengthening profitability and enabling banks to make the investments required for the implementation of the EU Association Agreement, including upgrades to IT systems. Authorities remain also committed to reinforcing the capital position of the state-owned bank through the gradual replacement of perpetual bonds with fixed-term instruments. Furthermore, they have emphasized the importance of **enhancing the financial autonomy of the Central Bank of San Marino** (CBSM) to continue to ensure robust and effective supervision.

**San Marino is strengthening its anti-money laundering (AML) and counter-terrorism financing (CFT) framework as part of broader financial sector reforms**. The authorities are updating the national risk assessment to address cross-border risks and are enhancing the accuracy of the beneficial ownership registry. The Financial Intelligence Agency is expanding risk-based supervision and developing a supervisory framework for virtual asset service providers.

The reforms made since the beginning of this decade, together with the strong political commitments indicated above, show clearly that **San Marino is well settled in a new course to modernize the banking and the financial sector and has long and clearly chosen the European Union standards as trajectory of this new path**.

*Fiscal policy*

**The fiscal position was stronger than expected in 2024 and it is expected to over-perform in 2025 as well.**

In recent years, **San Marino has pursued a prudent fiscal policy aimed at reducing debt vulnerabilities through strengthening public finances and accumulating buffers.** Following the pandemic-related surge in public debt—peaking at around 77 percent of GDP in 2021—the authorities implemented measures to restore fiscal discipline, achieving primary surpluses and gradually lowering debt to below 60 percent of GDP in 2025 according to the most recent estimates. Revenue performance has improved through enhanced compliance and modernization of tax administration, while expenditure control has focused on rationalizing current spending without undermining social protection.

**The income tax reform, which has been approved,** aims to broaden the tax base, strengthen tax administration, and simplify procedures. It addresses the current system's complexity, which features a low effective personal income tax rate due to generous and overlapping deductible expenses and low rates on capital income. Introducing a tax reform is always politically challenging. This is why the approval of the income tax reform demonstrates the authorities' strong ownership in advancing the reform agenda and highlights the significant impact of the IMF advice—particularly in a microstate context.

**Another pillar of the ongoing process of fiscal reforms is the introduction of a value-added tax** (VAT), which will replace the current indirect tax system and align the country with European standards. Preparatory work and analyses of the potential impact of this important reform are underway, and the authorities wish to publicly thank the IMF team responsible for San Marino and the Fiscal Affairs Department for the outstanding technical assistance provided. This is a landmark reform that must be carefully designed and prudently implemented to avoid potential gaps in state revenues and to ensure a high degree of social acceptance. According to the current plan, the preparatory work and analyses will be completed within the current legislature, followed by the approval of the VAT at the beginning of the next legislature.

**Personal income tax and VAT reforms, combined with efforts to digitalize fiscal processes, are expected to increase fairness, efficiency, transparency, and resilience of the tax framework over the medium term**.

**San Marino is also planning to reduce public expenditures.** Advancing government digitalization to improve the supply of public services while ripping the benefits of the technology, prioritizing spending while achieving efficiency dividend, keeping public wages and pensions under control are other actions that clearly show the authorities' ownership of the consolidation path to be further completed.

*Structural reforms*

**San Marino's strategy for broad-based growth is anchored in ambitious structural reforms, with the EU Association Agreement serving as a key catalyst**. The agreement is expected to boost economic confidence, drive domestic reforms, enhance the quality of public administration, and attract foreign investments. To maximize these benefits, the authorities are **prepared to allocate sufficient resources for implementation while maintaining fiscal discipline**. They are also committed to further increasing labor market flexibility—such as by easing restrictions on cross-border hiring and temporary contracts—and to improving energy efficiency through investments in renewables and targeted support for vulnerable groups. In addition, the authorities are keen to pursue real estate market reforms aimed at facilitating the sale of foreclosed properties and increasing market transparency.

While **San Marino is already well-diversified** for its income level, further gains should focus on higher value-added activities within existing sectors such as manufacturing, ICT, and professional services (see the excellent Selected Issues paper). Horizontal measures—including investments in digital and physical infrastructure, simplification of the tax system, and modernization of public administration—are the most effective ways to boost productivity and sustain growth. The public administration will need to evolve by promoting **greater spending efficiency** in certain sectors, such as education, while at the same time **preserving the close relationship between the public and private sectors** that has supported the dynamism of the economy. Indeed, owing to the country's small scale, business needs—whether related to regulatory frameworks, taxation, infrastructure, or other public goods—**are effectively communicated to policymakers and, with greater ease and efficiency than in many other jurisdictions, translated into concrete governmental actions**. This responsiveness, which has fostered a business environment that is both agile and supportive of sustained private sector growth, is a hallmark of San Marino's development model. The authorities are committed to preserving this approach in the future, particularly as the country moves toward association with the European Union, in order to enhance its comparative advantage.

In conclusion, San Marino has started a long journey moving in the right direction of addressing its weaknesses of the past. Most of the ground has been covered but the journey is still ongoing. Authorities own the reform agenda and have a prudent approach to public finance. Consolidation and reforms combined, together with the Authorities' resolute commitment to move forward their agenda, are bearing fruit in terms of economic performance. The IMF advice has been largely considered and embedded in public policy. The engagement with the IMF has never been stronger.

We wish the Authorities to keep the pace and to count on the IMF technical assistance to support their reform efforts

**Statement by the Staff Representative on Republic of San Marino**
**Executive Board Meeting**
**November 21, 2025**

*This staff statement provides updates on developments since the staff report was issued to the Board on November 4, 2025. This information does not change the thrust of the staff appraisal.*

1. **Higher-than-expected non-tax revenue provides a modest one-off boost to the 2025 fiscal outlook.** The recent adjustment of the 2025 central government budget presented in Parliament shows higher non-tax revenues of 13 million euro (0.65 percent of GDP), mainly from asset confiscation. Other updates to revenue and expenditure items of the 2025 budget are broadly in line with staff expectations. Consequently, the projected 2025 public deficit and debt have been revised down to 1 percent and 60.7 percent of GDP, respectively, from 1.6 and 61.3 percent of GDP.

2. **The income tax reform was passed on November 6, 2025 after the second reading in Parliament**. The additional revenue from the reform is estimated to be 16 million (about 0.8 percent of GDP), starting in 2026. The main elements of the reform are in line with those described in the staff report, with several new measures added. Namely, the reform introduces more progressive tax credits, including a €500 credit for individuals earning below €15,000, phased out for income above €80,000. In addition, the finalized reform also grants additional tax credits for families, health expenses, and rents. Tax brackets will be adjusted with inflation biennially (capped at 6%), starting in 2028. And other income of the self-employed will be taxed under the progressive schedule based on total taxable income. The amendment also strengthens enforcement with stricter penalties for noncompliance and mandates IT upgrades for advanced data analytics to improve audit targeting. The additional revenues from the reform are in line with staff's recommended fiscal consolidation efforts, while the temporary component (0.2 percent of GDP expiring in 2030) will need to be replaced in the future with additional measures.