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San Marino – Budget at a Glance

(May 31, 2024)

I. Macro Context

1. **San Marino economy has shifted to a more sustainable growth model.** The global financial crisis and international efforts to address preferential tax regimes (2014) called for leaving behind the old Sammarinese business model based on an oversized financial sector servicing nonresidents. San Marino has transitioned to a growth model led by manufacturing and nonfinancial services —including tourism. These sectors have been supported by cost-competitiveness in labor, strong balance sheets, and the integration into one of the most dynamic industrial regions of Italy.

2. **The economy has shown strong resilience to the COVID pandemic and the War in Ukraine.** After dropping about 6.6 percent in 2020, the economy started to grow strongly and recovered beyond pre-pandemic levels. By 2023 real GDP grew 17 percent relative to 2019. This has been possible due to a combination of government policies (early reopening of the economy from pandemic-related lockdowns and hedging of energy prices), increasing external demand post-pandemic—due to nearshoring and supply disruptions of export competitors—and strong balance sheets from nonfinancial corporations. Prudent responses of the government, unions, and firms were key to keep wage competitiveness and achieve record employment levels.

3. **The economy is slowing down in 2024, following European trends.** Over the medium-term growth is converging to its medium-term growth of 1.3 percent. The deceleration in the Italian economy has tapered off the demand for exports from San Marino. However, exports and employment have stabilized at high levels. Strong employment levels are helping to mitigate the pressures of higher interest rate and inflation on households' disposable income. As a result, the economy continues to grow in 2024.

REPUBBLICA DI SAN MARINO

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Table 1. Key Macroeconomic Indicators

	2019	2020	2021	2022	2023E	2024F	2025F	2026F
					Percent			
Real GDP growth	2.1	-6.6	13.9	7.9	2.3	1.3	1.3	1.3
Inflation – avg	0.5	-0.1	1.6	5.3	5.9	2.3	2.0	2.0
Nominal GDP growth	3.0	-6.3	16.0	10.9	6.5	4.4	3.3	3.3
Unemployment rate	7.7	7.3	6.4	5.1	4.2	3.9	3.9	3.9
					Percent of GDP			
Current account balance	1.9	3.2	7.0	8.3	4.1	3.0	2.1	1.5
Fiscal overall balance (CG)	0.1	-4.5	-4.3	0.4	-1.6	-1.2	-0.8	-0.7
Fiscal primary balance (CG)	0.5	-3.6	-2.4	1.7	0.7	1.0	1.4	1.7
Public debt	25.9	71.6	64.1	70.8	68.7	64.1	62.8	61.4
					Million euros			
Nominal GDP*	1,444	1,352	1,569	1,739	1,853	1,934	1,998	2,065

Source: Sammarinese authorities, and IMF WEO April 2024.

*2023-26 estimated based on nominal GDP growth from IMF WEO April 2024.

II. Fiscal Policy Priorities

4. **The main objective of the government is for San Marino to achieve a balanced growth supported by a sound fiscal position.** To achieve these goals the government's fiscal policy focuses on: i) macro stabilization; ii) ensuring fiscal sustainability, iii) an efficient provision of public services, and iv) protecting vulnerable groups.

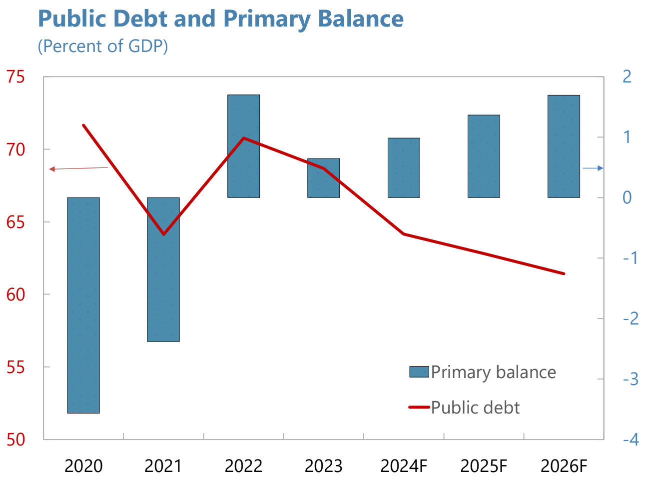
- **Macro stabilization:** San Marino is an euroized small open economy vulnerable to external shocks that could result in a sharp decline in domestic demand and a weaker fiscal position. Therefore, it is critical to have ample fiscal space for macro stabilization purposes. Without independent monetary policy and a financial sector with limited buffers, fiscal policy is the main macroeconomic stabilization policy tool left. Furthermore, euroization calls for strong public sector buffers to support the Central Bank of San Marino (CBSM) emergency liquidity facility.
- **Fiscal sustainability:** Fiscal sustainability is key to reduce uncertainty and foster economic growth, but also to ensure the government has enough fiscal space to perform countercyclical policy. Fiscal sustainability enhances confidence by increasing predictability of taxes and government payments, but also by reducing the government crowding out funding for the private sector.
- **Efficient provision of public services:** To remain competitive and create jobs in San Marino, it is key to keep a competitive tax regime. Therefore, the government spending has to be small and efficient, without compromising the quality of services provided.
- **Protecting vulnerable groups:** Targeted social transfers for vulnerable groups are key to promote social stability, increase resilience to shocks, and strengthen public support for structural reforms.

5. So far, the government has been focused on:

- **Macro stabilization by dealing with the financial sector legacies and reducing pressures on domestic liquidity.** The government has stabilized the banking system by: i) recapitalizing the state-owned bank Cassa di Risparmio di San Marino (CRSM) with a sovereign perpetual bond—to cover legacy losses from the global financial crisis— (34 percent of GDP) and ii) converting the ex-BNS[1] bonds to government bonds with longer maturities (12 percent of GDP). At the same time, an external loan (2020) and the issuance of the first sovereign Eurobond (2021) allowed San Marino to rebuild liquidity buffers, from dangerously low levels, boosting the confidence in the economy. With the external funding the government also repaid an existing loan with the Central Bank (3 percent of GDP) and a bond held by CRSM (6 percent of GDP). This surged the liquidity of the banking system, which was previously largely absorbed by the government.
- **Ensuring Sustainability by:**
  - **Following a prudent fiscal policy to build up of fiscal buffers.** With the economy booming during 2022, the government has prudently saved revenue windfalls to build up government deposits. Spending growth was moderate due to prudent indexation of wages and pensions. As a result of this, debt has fallen and government deposits have increased to comfortable levels. Thus, the country is also in a better position to face adverse shocks.
  - **Advancing on structural reform.** The pension reform approved in 2022 is key to contain pension deficits for the next decade. The reform increased contributions as well as quotas (sum of age and years of contributions), and therefore delayed the depletion of the pension fund's assets by a decade.

III. Fiscal Outlook for 2024

6. As economic growth moderates, the 2024 budget continues a prudent fiscal approach. Tax revenues are expected to grow in line with expected nominal GDP growth in 2024. Primary expenditures are expected to grow marginally, as wages and pensions are expected to grow but not beyond inflation. However, higher global interest rates and the exchange of ex-BNS bonds into government bonds increased interest payments. Building on the fiscal improvement achieved so far, the 2024 budget aims to continue fiscal consolidation.



[1] It is the SPV dealing with liabilities to uninsured depositors from the closed Banca Nazionale di San Marino.

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7. **Without reforms, expenditures are expected to decline faster than revenues to yield fiscal consolidation.** Revenues are expected to marginally decline in terms of GDP, as exceptionally high tax revenue and nontax from booming times decline. As a result, revenue to GDP stabilizes at about 20 percent of GDP in 2026. Similarly, primary expenditures are expected to decline in terms of GDP as the government keeps the growth of wages and pensions moderate. As a result, primary expenditures are expected to converge to around to 18 percent of GDP in 2026.

Table 2. Key Fiscal Indicators

(In percent of GDP unless stated)

	2019	2020	2021	2022	2023E	2024F	2025F	2026F
Revenue	22.3	21.6	20.7	22.1	21.5	20.9	19.9	19.7
Tax revenue	16.1	14.5	16.0	17.0	16.8	16.6	16.6	15.8
Nontax revenue	6.2	7.1	4.7	5.1	4.7	4.3	3.7	3.9
Expenditure	22.2	26.1	25.0	21.7	23.1	22.1	20.6	20.4
Primary expenditure	21.9	25.2	23.1	20.4	20.8	19.9	18.5	18.0
Interest payments	0.3	1.0	1.9	1.3	2.3	2.2	2.1	2.4
Balance	**0.1**	**-4.5**	**-4.3**	**0.4**	**-1.6**	**-1.2**	**-0.8**	**-0.7**
Primary balance	0.5	-3.6	-2.4	1.7	0.7	1.0	1.4	1.7
Gross Financing needs	**1.8**	**6.4**	**24.5**	**12.4**	**21.2**	**7.4**	**5.1**	**22.7**
Primary deficit (surplus= -)	-0.5	3.6	2.4	-1.7	-0.6	-1.0	-1.4	-1.7
Interest	0.3	1.0	1.9	1.3	2.3	2.2	2.1	2.4
Amortizations	1.9	1.9	20.2	12.8	19.5	6.2	4.3	22.0
Stock of gov. debt	**25.9**	**71.6**	**64.1**	**70.8**	**68.7**	**64.1**	**62.8**	**61.4**
Gov. deposits (months of spending)	**1.2**	**3.8**	**1.8**	**3.0**	**4.6**	**3.0**	**3.1**	**3.1**

Main Funding Sources

(In percent of GDP unless stated)

	2019	2020	2021	2022	2023E	2024F	2025F	2026F
Funding Sources	**1.8**	**6.4**	**24.5**	**12.4**	**21.2**	**7.4**	**5.1**	**22.7**
Debt issuance	0.3	11.9	23.2	14.1	21.2	4.6	5.1	22.7
External issuance	0.0	11.1	21.7	0.0	18.9	0.0	0.0	17.0
Domestic issuance	0.3	0.9	1.5	14.1	2.7	4.6	5.0	5.7
Use of gov deposits and others	1.5	-5.5	1.3	-1.7	-0.4	2.8	0.1	0.1

8. **The government plans to cover the 2024 gross financing needs relying on the domestic debt market.** Gross financing needs in 2024 will reach €91 million. This includes €68 million of amortizations and €23 million of government deficits (€42 million of interest payments minus €19 million of primary surplus). The domestic government bond maturing in 2024 (€50 million) is expected to be rolled over and the remaining of the Eurobond maturing in 2024 (€53 million) was repaid using the deposits accumulated in 2023. Public debt is expected to reach €1,241 million and government deposits €96 million (or 3 months of spending) by end of 2024 (See table 3).

IV. Medium-term Fiscal Strategy

9. **The government is targeting to reduce debt below 60 percent of GDP by 2029 in line with the EU fiscal standards.** To operationalize this goal, the government intends to reach a primary surplus of around 2 percent of GDP by 2026.

10. **To continue strengthening the fiscal position during 2025-26, the government is committed to advance on structural reforms.** The reform agenda will mobilize tax revenue and improve the efficiency of spending:

- To strengthen tax revenue, the government is considering to:
    - Replace the current "Single-phase tax on imports"[2] with a value added tax (VAT) to facilitate external trade and competitiveness of Sammarinese firms. VAT will allow Sammarinese firms to operate with the same kind of indirect taxes applied in other countries.
    - Reform of income tax ("IGR") to broaden the tax base and simplify procedures. The reform will rationalize tax exemptions and mobilize revenue from segments that are more prone to tax evasion. The reform will also streamline reporting and control procedures. The government estimates that this reform can increase revenues by €15-20 million.
- To improve public spending efficiency, the government will advance on spending reviews of extra-budgetary funds and improve the social transfers system. Better targeting of social transfers for vulnerable groups will be achieved with a new methodology recently approved (February 2023). This new methodology determines that social benefits will be granted based on an index of economic conditions for equity (ICEE[3]) which provides an objective, simple, and transparent criteria.

11. **The Sammarinese medium-term debt strategy aims to find the right balance between minimizing financing costs while reducing rollover risks.** A key challenge for San Marino is the high gross financing needs that occurs with the rollover of the Eurobond (about 20 percent of GDP in 2026). The government financing plan will combine domestic and international markets issuances to cover the gross financing needs during 2025-26. The financing plan will rely on external markets for the Eurobond rollover and on domestic issuances to fund the remining gross financing needs. To improve the liquidity of domestic bonds, the MoF is analyzing to issue domestic bonds via the Italian local-government debt market.

V. Fiscal risks

12. **The main near-term risk is a downturn in the Italian economy.** This can quickly deteriorate Sammarinese exports and consequently tax revenue. This risk and its impact are mitigated by the robust

[2] Single-phase tax is ad-valorem tax on imports of 17 percent.
[3] Indicatore della condizione economica per l'equità.

performance of the Italian economy in the last few years, the relative diversification of San Marino manufacturing sector, and the reasonable level of government deposits.

13. **San Marino is facing long term risks associated with adverse demographics.** Population aging is expected to impact economic activity and fiscal accounts, by adding downward pressures on potential GDP growth and increasing healthcare and pension spendings. With population aging, the Sammarinese pensions deficit is expected to increase. While the 2022 pension reform has improved the situation by increasing contributions, the government is aware that a new recalibration of the pension parameters is needed.

VI. Statistical Data

Table 3. Key Fiscal Indicators

(Million euros)

	2019	2020	2021	2022	2023E	2024F	2025F	2026F
Revenue	323	292	324	384	398	404	397	406
Tax revenue	233	196	251	295	312	321	323	325
Nontax revenue	90	96	73	89	86	83	74	81
Expenditure	321	353	392	377	428	427	412	421
Primary expenditure	316	340	362	355	386	385	369	371
Interest payments	5	13	30	22	42	42	43	49
Balance	**2**	**-61**	**-67**	**7**	**-30**	**-23**	**-15**	**-14**
Primary balance	7	-48	-37	30	12	19	27	35
Gross Financing needs	**25**	**87**	**384**	**215**	**392**	**143**	**102**	**469**
Primary deficit (surplus= -)	-7	48	37	-30	-12	-19	-27	-35
Interest	5	13	30	22	42	42	43	49
Amortizations	27	25	317	222	362	120	87	455
Stock of gov. debt	**374**	**969**	**1,006**	**1,231**	**1,273**	**1,241**	**1,255**	**1,268**
Gov. deposits (months of spending)	**32**	**109**	**53**	**89**	**148**	**96**	**96**	**96**

Main Funding Sources

(Million euros)

	2019	2020	2021	2022	2023E	2024F	2025F	2026F
Funding Sources	**25**	**87**	**384**	**215**	**392**	**143**	**102**	**469**
Debt issuance	4	162	364	246	400	88	101	468
External issuance	0	150	340	0	350	0	0	350
Domestic issuance	4	12	24	246	50	88	101	118
Use of gov. deposits and others	21	-75	20	-30	-8	55	1	1

Table 4. Public Debt without Contingent Liabilities

(Million euros)

	2017	2018	2019	2020	2021	2022	2023
Short-term advances	25.00	55.00	55.00	55.00	0.00	0.00	0.00
Short-term foreign debt	0.00	0.00	0.00	150.00	0.00	0.00	0.00
Long-term domestic loans	91.75	114.50	108.59	91.28	73.97	56.66	39.23
Long-term foreign loans	3.80	3.17	2.47	8.72	10.43	8.87	8.20
Domestic Bonds	139.98	141.27	176.58	177.91	84.00	329.57	322.57
International Bonds*	0.00	0.00	0.00	0.00	340.00	340.00	402.51
Perpetual bonds	0.00	0.00	0.00	455.00	474.00	474.00	474.00
Total public debt excluding floating debt	260.53	313.94	342.64	937.91	982.40	1209.10	1246.51
Floating debt (Difference between credits and debits**)	29.08	23.50	31.23	31.05	23.73	21.79	26.26
Total public debt	289.61	337.44	373.87	968.96	1,006.13	1,230.89	1,272.77

Public Debt and Contingent Liabilities

(Million euros)

	2017	2018	2019	2020	2021	2022	2023
CARISP management risk provision (5-tier)	475.12	465.12	455.12	0.00	0.00	0.00	0.00
BNS Securities Guaranteed by the State	0.00	0.00	212.73	212.73	203.96	0.00	0.00
Contingent liabilities	475.12	465.12	667.85	212.73	203.96	0.00	0.00
Total Debt and Contingent Liabilities	**764.73**	**802.56**	**1,041.72**	**1,181.69**	**1,210.09**	**1,230.89**	**1,272.77**

* International bonds for 2023 also include the provision of EUR 52.51 million for the Eurobond issued by San Marino in 2021 and redeemed at maturity in February 2024.

** Credits and debits are mostly taxes owed to the government and tax pending to be reimbursed.