

Small States Economic Development

Republic of San Marino

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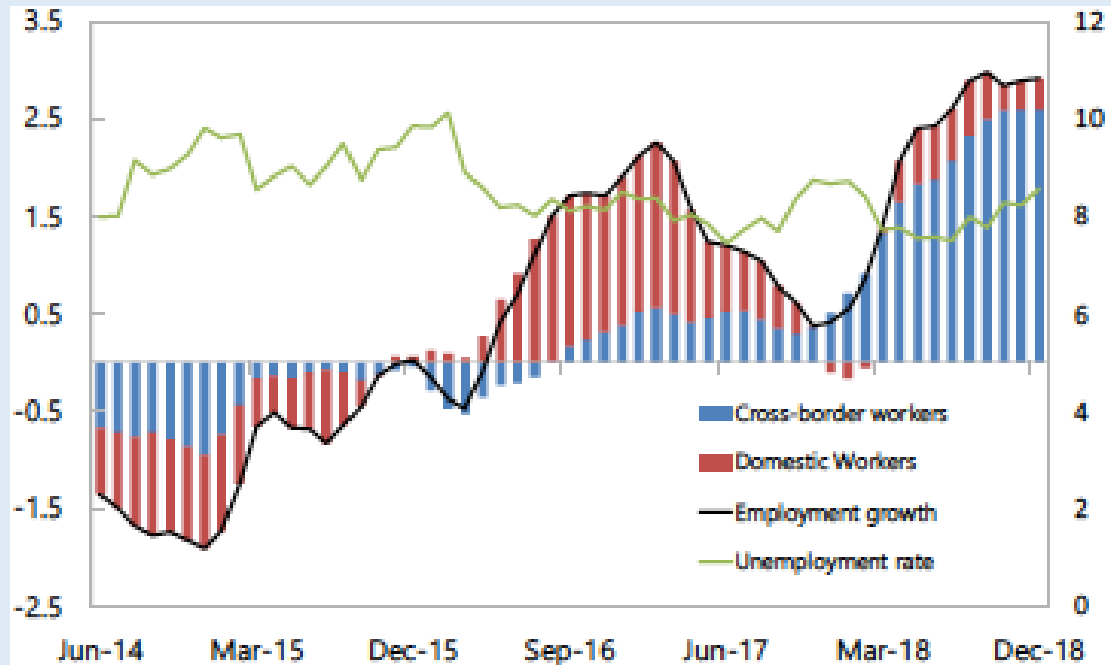
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Economic Development– Historical Background

- San Marino's economy relies heavily on tourism, banking, and the manufacture and export of ceramics, clothing, fabrics, furniture, paints, spirits, tiles, and wine. The manufacturing and financial sectors account for more than half of San Marino's GDP.
- San Marino's economy contracted considerably in the years since 2008, largely due to weakened demand from Italy - which accounts for nearly 90% of its export market - and financial sector consolidation.
- The economy benefits from foreign investments due to its competitive taxation system. Even though the income tax rate is competitive, about one-third the average EU level, San Marino continues to work towards harmonizing its fiscal laws with EU and international standards.

Small States Economic Development– Country overview

Unemployment Rate and Employment Growth*



2018 Key figures

- Unemployment rate: 6.3%
- The total unemployed units: 1,415
- Total workforce: 22,405
- Unemployed graduates: 11.8%
- Unemployment increase: 2.42% (annual)

*3-month average yoy, percent

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Economic Development– Country overview

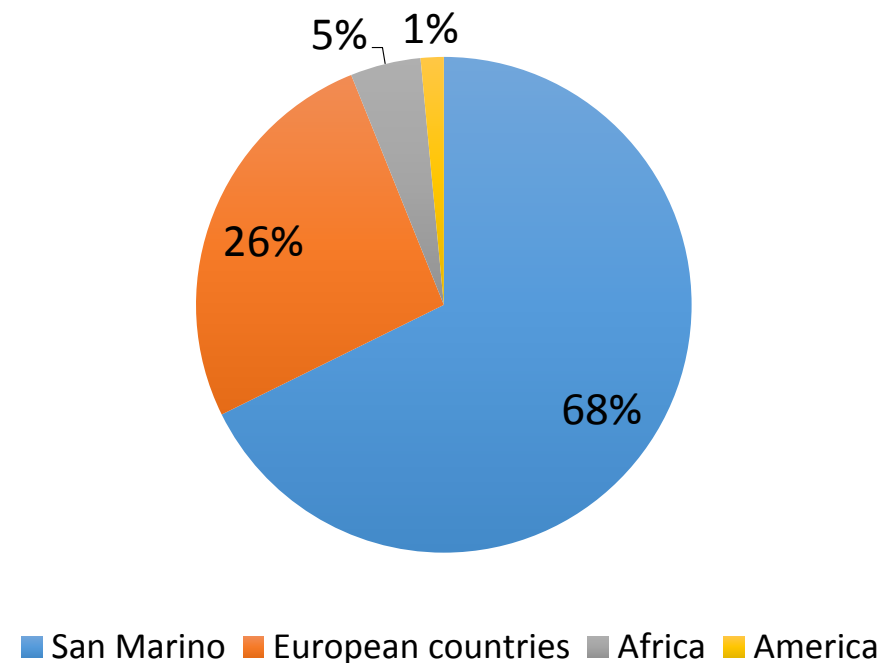
2018 Key figures

- The absolute poverty is absent
- The *relative poverty* for a family of 2 members is € 1,042.70
- Families in a state of difficulties are 2.1%

Social interventions

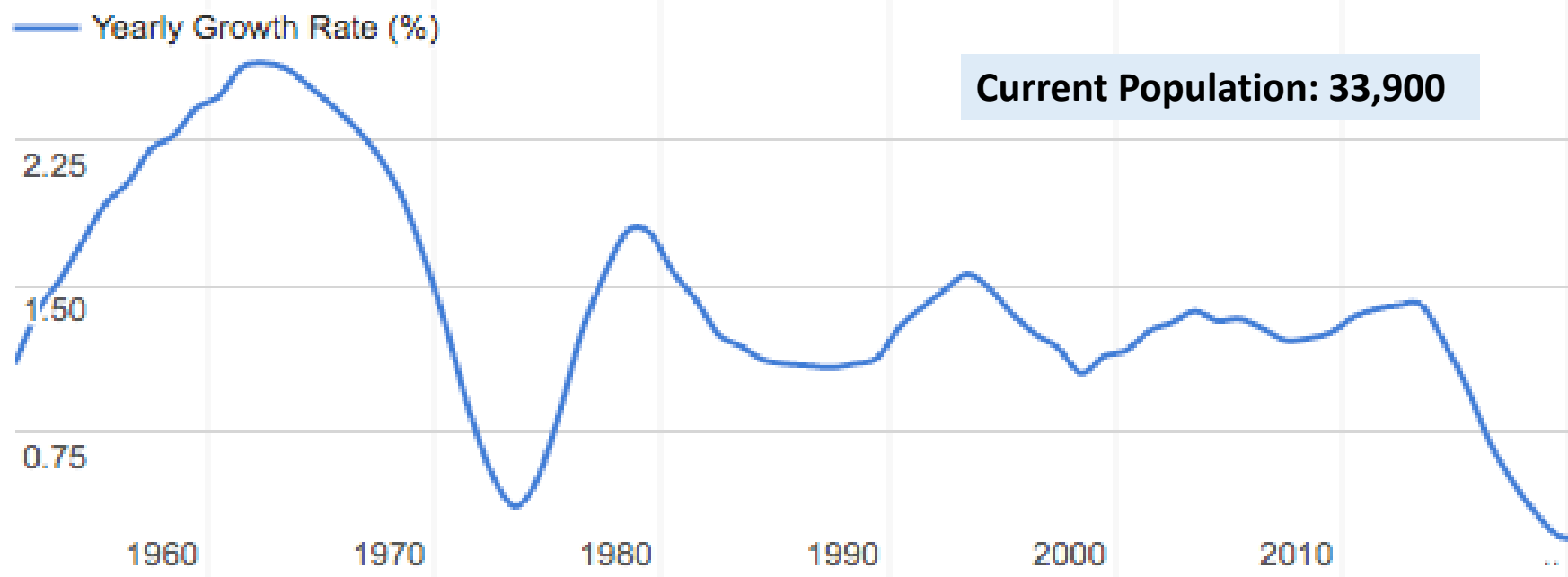
- SUMS solidarity fund
- Social credit certificate and the extraordinary solidarity fund

Family with difficulties by origin



Small States Economic Development– Country overview

Population Growth Rate



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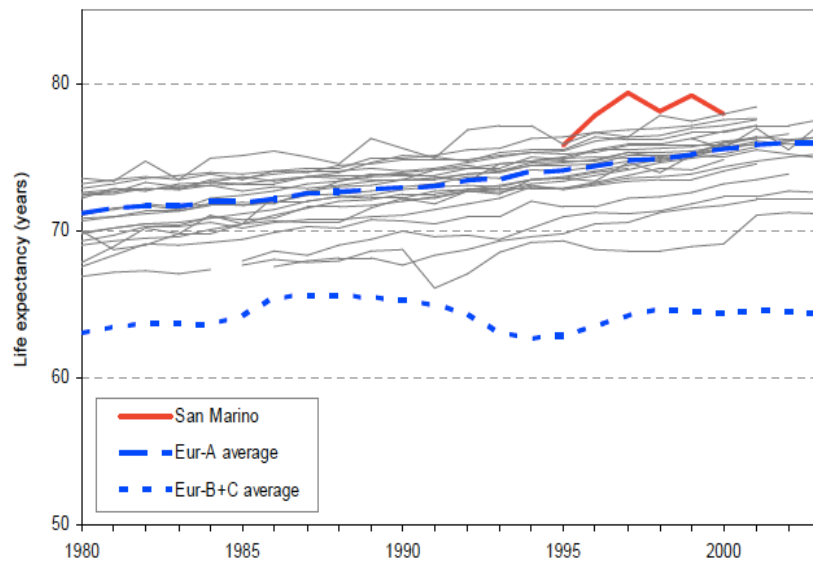
Current expenditure for various school orders in San Marino

	2014	2015	2016	2017	2018	Var. % 2018/2017	Var. % sul 2014
Scuola Infanzia e servizi socio educativi per la prima infanzia	€ 9.818.079,31	€ 9.489.667,07	€ 9.301.439,93	€ 9.260.543,50	€ 10.995.828,14	18,74%	12,00%
Scuola Elementare	€ 15.519.793,05	€ 15.407.305,67	€ 15.614.154,64	€ 15.704.055,93	€ 15.485.612,36	-1,39%	-0,22%
Scuola Media Inferiore	€ 8.474.390,64	€ 8.380.883,44	€ 8.475.368,53	€ 8.765.506,12	€ 8.684.849,24	-0,92%	2,48%
Scuola Secondaria Superiore e Centro Formazione Professionale	€ 6.426.798,13	€ 6.625.353,43	€ 6.762.893,04	€ 6.884.470,58	€ 6.924.212,20	0,58%	7,74%
Costi Totali	€ 40.239.061,13	€ 39.903.209,61	€ 40.153.856,14	€ 40.614.576,13	€ 42.090.501,94	3,63%	4,60%
<i>Variatione della spesa complessiva rispetto all'anno precedente</i>	<i>-2,56%</i>	<i>-0,83%</i>	<i>0,63%</i>	<i>1,15%</i>	<i>3,63%</i>	.	.

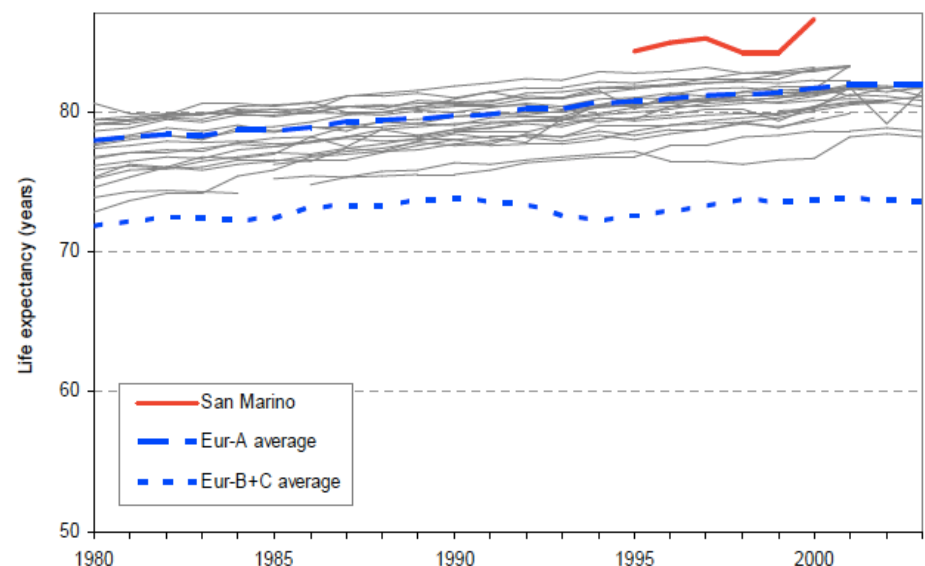
Small States Economic Development– Well-being

Life expectancy from 1980

Males



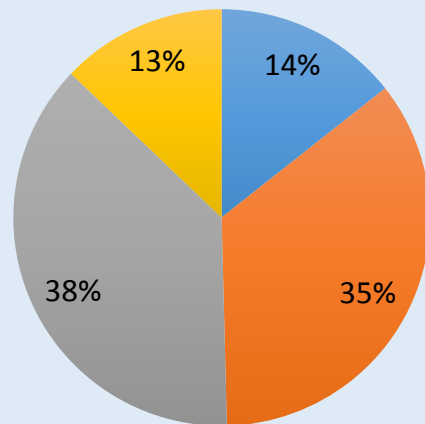
Females



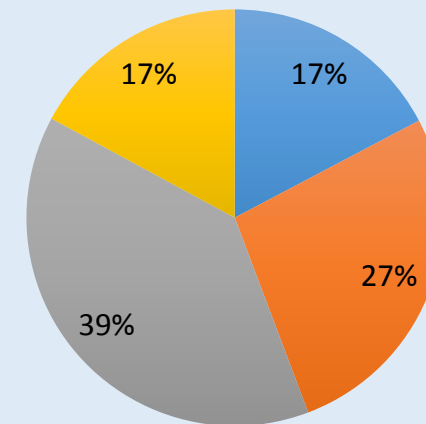
Small States Economic Development– Well-being

2018 Education distribution

Males



Females



■ Elementary school ■ Junior high school ■ High school ■ Bachelor degree

■ Elementary school ■ Junior high school ■ High school ■ Bachelor degree

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Economic Development– Country Comparison

San Marino is not officially part of international rankings

- Strong social activities, which indicates a good level of social wealth according to WHO
- Health services and education are mainly free for everyone
- San Marino is highly ranked for life expectancy and infant mortality

Infant mortality	Life expectancy
<ul style="list-style-type: none">• Rate of number of deaths per 1,000 live births: 4.3• World ranking for World Population Review: 35	<ul style="list-style-type: none">• Males: 81 years Females: 86 years• World ranking: 5

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Economic Development: Challenges ahead

Weak banking sector

- High stocks of bad loans → bad loans/total loans = 26%
- Low return on equity → negative
- Closed and small local market → no memorandum with Bank of Italy

Weak economy

- Highly dependency on the Italian market → 90% exchanges
- Low GDP growth rate over medium term → 0.5% IMF projection
- High public debt → 86% IMF estimation

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Economic Development: Key Recommendations

- **Repair the Banking Sector**

- Strengthen the equity and liquidity levels → Promote recapitalization and align liquidity management with best international practices to improve competitiveness;
- Sell NPLs and real estates → Set up a public financial entity to recover stocks of NPLs and promote the sale of real estates owned by banks to increase liquidity buffers;
- Reduce the cost-to-income ratio → Implement restructuring plans to reduce operating costs, branches and staff salaries to improve profitability;

- **Restructuring the Public Finances**

- Reducing public debt → Implement a pension fund reform and establish access to external financing to reach long-term sustainability;
- Improve efficiency → Replace the single-stage import tax with a VAT and conduct spending reviews across public sector units to improve efficiency;

- **Building a New Competitive Position**

- Finalize the EU association agreement → Expand the market by simplifying import/export procedures;
- Simplify administrative procedures → Implement digital procedures for business;

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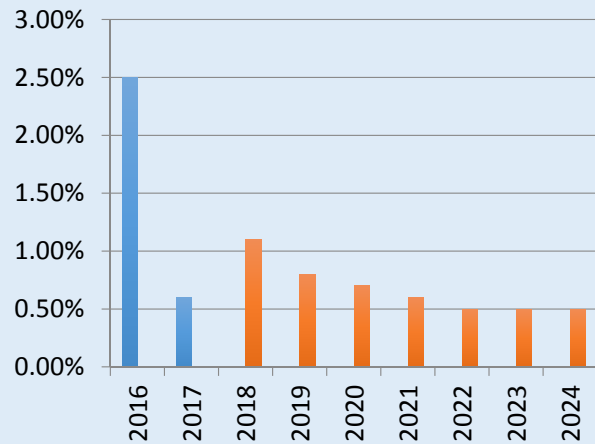
Economic Development: Current Strategies and Policies

Attract Foreign Direct Investments

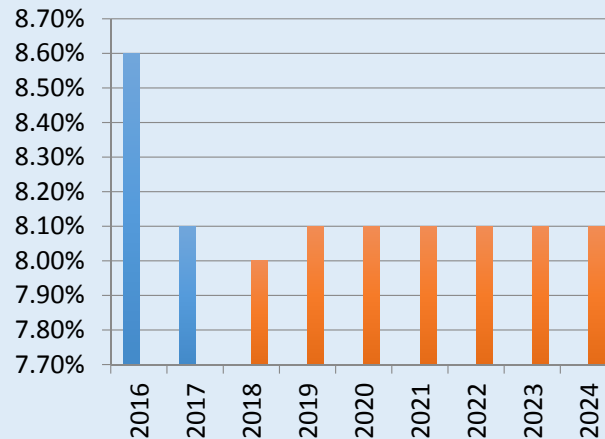
- Tax advantages → Startups pay corporate income tax of 8.5% for the first 5 years, while technological startups can pay from 0% to 8% for the first 3/5 years;
- Low bureaucracy → Startups can operate in the market following a simple on-line request;
- Real estates liberalization → Foreigners can buy real estates to become residents;
- International cooperation → There are 20 DTAs and 29 TIEAs in place;

Small States Economic Development: Forecast

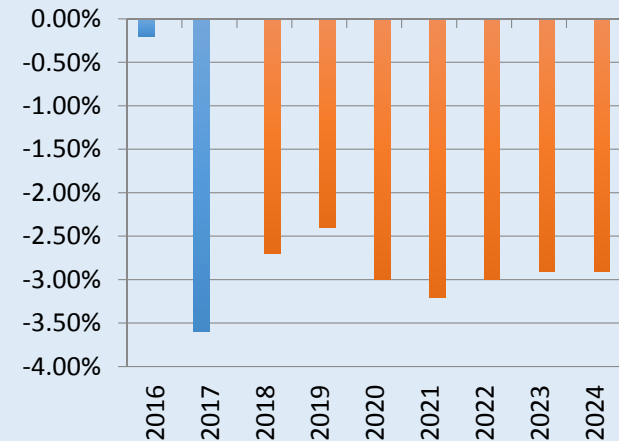
Real GDP (%)



Unemployment Rate



Overall Balance (%GDP)



2020 IMF statements

“Growth prospects are surrounded by significant downside risks elevated financial and fiscal vulnerabilities”

Source: IMF, Article IV Consultation, March 2019