Date of Release: 15 November 2024

Morningstar DBRS Confirms Republic of San Marino at BBB (low), Stable Trend

Industry: Governments
Subindustry: Sovereigns
Region: Europe

DBRS Ratings GmbH (Morningstar DBRS) confirmed the Republic of San Marino's (San Marino) Long-Term Foreign and Local Currency Issuer Ratings at BBB (low). Morningstar DBRS also confirmed San Marino's Short-Term Foreign and Local Currency Issuer Ratings at R-2 (middle). The trends on all ratings are Stable.

KEY CREDIT RATING CONSIDERATIONS

The Stable trend reflects Morningstar DBRS' view that risks to San Marino's credit ratings are balanced. The new government will likely continue to implement a prudent fiscal strategy, which will facilitate a decline in the public debt-to-GDP ratio in coming years. Despite the rise in interest costs, the budget deficit is projected to remain moderate at 1.0% of GDP and 1.3% in 2024 and 2025, respectively, after the 1.0% registered last year. Moreover, the new government is likely to make progress with a tax reform, which would bode well for public accounts in the medium term. Against this background, the debt-to-GDP ratio is projected to fall to 65.3% in 2026 from 72.2% in 2023, according to the International Monetary Fund (IMF). However, public sector debt redemptions, amounting to around 17% of GDP, will remain elevated in 2027, even though Morningstar DBRS expects the government to reduce rollover risk through a proactive approach. In addition, legacy contingent liability risks could still put pressure on fiscal accounts, but the banking sector's credit quality has improved, after a sharp reduction in the nonperforming loan (NPL) ratio, and further declines are expected.

San Marino's credit ratings are underpinned by a relatively high GDP per-capita income, a sizable net external asset position that benefits from the country's dynamic export performance and a large amount of commercial bank assets abroad. Moreover, policymaking is supported by a stable political system. On the other hand, the credit ratings are constrained by a high level of public debt; a large, although declining, amount of NPLs; low structural GDP growth; and weak administrative capacity, leading to poor data availability. Moreover, San Marino's small and open economy exposes the country to external shocks.

CREDIT RATING DRIVERS

Morningstar DBRS could upgrade San Marino's credit ratings if one or a combination of the following factors occurs: (1) a significant and sustained decline in the public-debt-to-GDP ratio, potentially as a result of an improvement in the economic outlook or the fiscal position over the medium term; (2) a significant improvement in the debt profile; and (3) a continued effort to substantially reduce vulnerabilities in its financial sector.

Morningstar DBRS could downgrade San Marino's credit ratings if one or a combination of the following factors occurs: (1) a worsening macroeconomic performance leading to a material deterioration in public finances; (2) a sizable crystallisation of contingent liabilities, likely stemming from the banking system, causing a significant rise in the public debt-to-GDP ratio.

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CREDIT RATING RATIONALE

New Government Well-Positioned to Implement the Tax Reform

Snap political elections held in June 2024 saw the two main coalitions, "Democrazia e Liberta'" and "Coalizione libera/PS-PSD," rapidly forming a government that benefits from an ample majority. This leads to policy continuity, which reduces regulatory uncertainty as well as makes more likely the implementation of the tax reform in 2025. On the other hand, the country's overall policy towards reform effort appears to be slow. As a result, Morningstar DBRS applied a negative adjustment to the "Political Environment" building block assessment.

Morningstar DBRS views positively the upcoming Association Agreement between San Marino and the European Union (EU), expected to be effective in 2025. This would improve economic integration with the EU by enabling the country to have access to the EU internal market. Moreover, while the industry sector will benefit mainly from less red tape and trade barriers, the financial sector, whose integration is likely to be gradual and subject to an audit of its regulatory and supervisory framework, could attract foreign investors and enable San Marino's financial companies to expand business in the EU.

Weak Structural Growth and High Vulnerability to Shocks Are Mitigated by a Resilient Manufacturing Sector and Improved Labour Market

San Marino is a microstate but enjoys a relatively high GDP per-capita income, which the IMF estimated at around USD 58,500 in 2023. In recent years, the country's economic model has shifted to a more stable manufacturing and tertiary one from an offshore banking system. This has contributed to enhancing the country's resilience, which has recovered swiftly after the pandemic. However, economic diversification remains limited as it is largely concentrated in the manufacturing sector, which currently accounts for one third of gross value added and 30% of employees. Moreover, one third of employees in San Marino are foreign workers, and the country's small size makes it vulnerable to external shocks. This factor together with weak structural growth underpins a negative adjustment in the "Economic Structure and Performance" building block assessment.

After two years of strong economic growth, when real GDP expanded on average by 11%, San Marino's economic performance slowed significantly in 2023. Weaker imports from Italy weighed on the country's growth, with real GDP expanding only by 0.4% last year. Low inflation, which has remained below 2% since February, along with the recovery in the industrial sector performance, is likely to support growth this year. San Marino's real GDP is projected to grow by 0.7% in 2024 before accelerating to 1.3% in 2025 according to the IMF. Over the medium term, real GDP growth is expected to remain above 1.0% on average but a stronger economic environment in Italy could provide upside to economic growth along with the EU association agreement.

The pandemic and the energy crisis did not constrain the steady improvement in the country's labour market or the rapid recovery in its tourism sector. Also, benefitting from easy access of cross border workers, the labour market improved. San Marino's total employment is almost back to pre-global financial crisis levels while the unemployment rate since the second half of 2023 has hovered at around 4% among the lowest levels over the last 12 years—compared to a peak of 10.1% in February 2016. Moreover, the easing of pandemic-related restrictions led to a fast recovery in tourist arrivals, which have now exceeded 2019 levels.

Interest Costs Are Weighing on Public Finances, but the Expected Fiscal Reform Would Bode Well for More Moderate Deficits Going Forward

San Marino's public finance accounts have improved considerably after the impact of the pandemic. Fiscal revenue windfalls from high inflation, along with a conservative indexation of public sector wages and pensions below inflation, eased pressure on the budget balance, which returned to a surplus position in 2022. But this improvement was temporary as weaker economic activity and high interest costs led the budget balance to shift again to a modest deficit of 1.0% of GDP in 2023 similar to this year, in Morningstar DBRS' view.

The 2022 pension reform will reduce the social security deficit, as by increasing the contributions and marginally raising the retirement age, it will delay the depletion of pension fund assets. Although a potential further increase in employment could provide additional social contributions to the pension funds, further measures to strengthen the pension system might be required over the medium term. Morningstar DBRS also views positively the planned fiscal reform. This is expected to be effective from 2026 and could further reinforce public accounts by overhauling tax expenditures and recalibrating the tax base. This should deliver around EUR 20 million (1.0% of 2023 GDP) of additional revenues each year. Moreover, the government plans to reform indirect taxes on imports, which would align San Marino's tax system to other countries. Morningstar DBRS views positively the publication of the government's fiscal strategy, which improves predictability. However, San Marino's public finances remain vulnerable to the need to provide further support to the financial system, which could be still sizable and hamper the government's capacity to build a fiscal buffer. This weighs on the "Fiscal Management and Performance" building block assessment.

Banking Sector Vulnerabilities Are Declining Reflecting Disposal of NPLs; Calendar Provisioning Bodes Well for Better NPL Management

Weaknesses in the banking sector are gradually declining thanks to a reduction in NPLs and an improvement in capitalisation and liquidity. Moreover, on the back of high interest margins, banks have increased their profitability, while the introduction of the calendar provisioning is a strong incentive to accelerate recoveries and deal with NPLs.

After setting up Asset Management Company, a securitisation programme, along with the write-off of a large amount of impaired assets, the gross NPL ratio almost halved to 23.2% in December 2023 compared with 56.2% in the same period in 2022. The senior note of the NPL securitization, which benefits from a government guarantee, has started to amortise and now the government guarantee has declined to EUR 44.5 million from EUR 70 million. Moreover, fiscal risks are further mitigated by a 20% escrow account. Morningstar DBRS does not rule out further transactions and does not anticipate a material increase in impaired assets over the medium term, despite the recent shocks. However, NPLs remain very high placing banks in a more vulnerable situation. Moreover, the impact of the calendar provisioning could lead to potential losses, requiring further recapitalisations. This could be further exacerbated by the expected more moderate profitability as interest rates normalise.

Liquidity in the banking system has improved, with the liquidity position, up to seven days, above EUR 1 billion (25% of total assets) at end of 2023, which is almost twice what it was in June 2018. Moreover, in the event of liquidity pressure, the banking system could benefit from a EUR 100 million repo credit line to the Central Bank of San Marino from the European Central Bank. Although asset quality in the banking system has improved, Morningstar DBRS continues to view the capacity of the central bank to act as lender of last resort to some extent hindered by the fact that San Marino has adopted the euro as its national currency but is not a member of the euro system. This factor, including weaker statistics availability related to the real estate market, the large amount of deferred tax credits, which hampers the quality of the banking system capital, and the fact that the bank resolution framework is not still aligned with

European standards contributed to Morningstar DBRS' negative adjustment to the "Monetary Policy and Financial Stability" building block assessment.

High Stock of Debt and Sizable Rollover Amounts Make Public Debt Vulnerable, Despite Low Sensitivity to Interest Rate Increases

Strong nominal growth and the improvement in public finance contributed to a material decline in the public debt ratio, which at 72.2% in 2023, was more than 9.0 percentage points lower than the peak in 2021. However, it remains elevated constraining the government's fiscal space and therefore leaving the economy vulnerable to shocks. Despite modest economic growth, a prudent fiscal stance will facilitate a further decline in the public debt ratio, which is expected to fall to 65.3% of GDP by 2026. This would make achieving the goal of 60% by 2029 feasible, although challenging. Morningstar DBRS does not anticipate further sizable bank support in the near term, but it does not rule out the materialisation of contingent liabilities stemming from the financial system in the future. This could negatively affect the public debt trajectory.

San Marino's government debt profile mitigates the risks associated with higher interest rates, but it is highly exposed to rollover risks. The country's public sector debt has relatively long maturities, and only about 6.0% was at a variable rate by the end of 2023. Moreover, around 42% of the country's debt is nonmarketable with low funding costs and long maturities, which makes public debt largely resilient to volatile interest rates. Morningstar DBRS also views positively the increase in government deposits, which since 2023 have averaged above EUR 110 million (5.9% of GDP), more than twice the average registered in the 2013–19 period. However, public debt redemptions are concentrated, particularly in 2027. This is further exacerbated by the fact that the domestic debt market is relatively illiquid, even though the government aims to improve liquidity in the secondary market by tapping the Italian public debt market and reducing the amount of perpetual debt. These factors lead to a negative adjustment to the "Debt and Liquidity" building block assessment.

A Sound External Position Supports the Credit Ratings

San Marino's credit ratings benefit from a sound external position, reflecting dynamic exports and a sizable net foreign asset position. On the other hand, a high reliance on Italy's import demand, accounting for almost 84% of San Marino's total goods exports, makes geographical export diversification limited and the country highly dependent on Italy's economic performance.

The export-oriented manufacturing sector has shown resilience, despite the impact of the pandemic and the energy crisis, while tourist arrivals have recovered swiftly, with almost 13% more tourists in the first nine months of 2024 compared with the same period in 2019. The improvement in its cost competitiveness as well some supply disruptions affecting export competitors has led San Marino to register sizable surpluses amounting to around 15% of GDP on average over the last two years. Although the country's export performance is expected to remain solid, leading to a projected current account surplus above 4% of GDP in the 2024–26 period, weaker growth in Italy might affect the country's export demand.

Despite falling significantly by more than 20 percentage points in 2023, because of the securitization and the large cancellations of an amount of NPLs fully provisioned, the net foreign asset position remains very high at 96.8% of GDP. This reflects a large amount of commercial bank assets abroad underpinned by a positive export performance. However, higher interest rates in Europe led local banks to transfer part of their deposits abroad from the central bank, which reduced the amount of foreign exchange reserves in 2022, but now this amount has increased again strengthening the buffer. According to the IMF, gross international reserves declined from their peak of USD 842 million in 2021 to EUR 553 million before increasing again to around USD 740 million at the end of 2023.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

There were no Environmental or Social factors that had a significant or relevant effect on the credit analysis.

Governance (G) Factors

The following Governance factor had a relevant effect on the credit analysis: Institutional Strength, Governance, and Transparency. Compared with other peers, San Marino shows a weaker data availability, particularly in real estate prices, reflecting weak administrative capacity, while the reform effort remains slow. Moreover, the banking system lacks a resolution framework. This factor has been considered in the Monetary Policy and Financial Stability and Political Environment building blocks.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) https://dbrs.morningstar.com/research/437781.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

Notes:
All figures are in euros unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments (15 July 2024) https://dbrs.morningstar.com/research/436000. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings https://dbrs.morningstar.com/research/437781 in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

The sources of information used for these credit ratings include IMF (WEO - October 2024, Article IV - November 2023, San Marino: Staff Concluding Statement of the 2024 Article IV Mission - October 2024), "Segreteria di Stato per le Finanze e il Bilancio" (Programma Economico 2025 - October 2024, Bilancio in breve - May 2024), World Bank, BIS, "Ufficio infromatica, tecnologia, dati e statistica", Central Bank of San Marino ("Bollettino Informativo Trimestrale" - June 2024), Macrobond and Haver Analytics. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, these are unsolicited credit ratings. These credit ratings were not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES
With Access to Internal Documents: YES
With Access to Management: YES

Morningstar DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://www.dbrsmorningstar.com/research/443038.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: 1 December 2023
Last Rating Date: 31 May 2024

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Issuer	Debt Rated	Credit Rating Action	Credit Rating	Trend
San Marino, Republic of	Long-Term Foreign Currency - Issuer Rating	Confirmed	BBB (low)	Stable
San Marino, Republic of	Long-Term Local Currency - Issuer Rating	Confirmed	BBB (low)	Stable
San Marino, Republic of	Short-Term Foreign Currency - Issuer Rating	Confirmed	R-2 (middle)	Stable
San Marino, Republic of	Short-Term Local Currency - Issuer Rating	Confirmed	R-2 (middle)	Stable

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San Marino

Scorecard Indicators

Scorecard Indicators										Source	Current Scorecard Input	
Fiscal Management and Policy	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Overall Fiscal Balance (% of GDP)	-1.6%	-0.1%	-37.6%	-16.4%	0.4%	-1.6%	-1.8%	-1.5%	-1.3%	IMF WEO	13 year average	-5.2%
Government Effectiveness (Percentile Rank)	92.9	93.3	95.7	97.1	97.2	87.3	-	-	-	World Bank	5 year average	94.1
Debt and Liquidity	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
General Government Gross Debt (% of GDP)	57.2%	57.4%	71.7%	81.3%	74.5%	72.3%	68.3%	67.1%	65.9%	IMF WEO	5 year projection	62.5%
Interest Costs (% of GDP)	0.4%	0.3%	0.9%	1.9%	1.3%	2.2%	2.2%	2.1%	2.0%	IMF WEO	5 year average	2.0%
Economic Structure and Performance	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
GDP per Capita (USD thousands)	50.2	47.5	45.4	54.6	53.9	58.5	60.3	62.1	64.4	IMF WEO	10 year average	49.5
Output Volatility (%)	5.8%	5.7%	5.7%	5.6%	5.6%	5.6%	5.5%	5.5%	5.4%	IMF WEO	Latest	5.6%
Economic Size (USD billions)	1.7	1.6	1.5	1.9	1.8	2.0	2.0	2.1	2.2	IMF WEO	5 year average	2
Monetary Policy and Financial Stability	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Rate of Inflation (%, EOP)	0.8%	0.5%	-0.4%	3.2%	7.3%	5.9%	1.3%	2.0%	2.0%	IMF WEO	13 year average	1.9%
Total Domestic Savings (% of GDP)	187%	171%	193%	175%	160%	152%	-	-	-	IFS/IMF	Latest[1]	152%
Change in Domestic Credit (% of GDP)	-15.0%	-1.8%	-7.9%	-20.7%	-6.4%	-20.8%	-	-	-	IFS/IMF	7 year average[1]	-13.9%
Net Non-Performing Loans (% of Capital)	260.7%	362.2%	340.4%	212.3%	140.9%	65.6%	-	-	-	IMF IFS	Latest[1]	65.6%
Change in Property Price/GDP Index (%)[2]	N/A	N/A	N/A	N/A	N/A	N/A	-	-	-		7 year average[1]	-
Balance of Payments	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Current Account Balance (% of GDP)	-1.9%	2.0%	2.8%	5.4%	15.5%	13.9%	6.2%	4.2%	2.3%	IMF WEO	8 year average	6.5%
International Investment Position (% of GDP)[3]	124.8%	123.4%	141.5%	137.3%	119.6%	96.8%	-	-	-	IMF	5 year average[1]	123.7%
Share of Global Foreign Exchange Turnover (Ratio)	198.0%	205.2%	206.4%	209.7%	203.9%	206.8%	-	-	-	BIS/IMF	Latest	206.8%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Voice and Accountability (Percentile Rank)	86.4	86.5	85.5	84.1	88.9	89.7	-	-	-	World Bank	5 year average	86.9
Rule of Law (Percentile Rank)	91.0	91.0	92.9	93.3	97.2	91.5	-	-	-	World Bank	5 year average	93.2

See Morningstar DBRS Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

1 Scores for 2023 have been computed using the most recent data when year-end data is not available.

2 NA: Property prices index data is not available for San Marino.

3 Net Foreign Asset Position.

Rating Committee Date: 12-Nov-2024

San Marino

Building Block Assessments and Rating Committee Summary

12-Nov-2024

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	13.51	Good	- 1 Category	Good/Moderate
Debt and Liquidity	12.25	Good/Moderate	- 2 Categories	Poor/Moderate
Economic Structure and Performance	7.08	Poor/Moderate	- 1 Category	Poor
Monetary Policy and Financial Stability	16.76	Strong/Good	- 2 Categories	Good/Moderate
Balance of Payments	14.56	Good	N/A	Good
Political Environment	20.00	Very Strong	- 2 Categories	Strong/Good

Overall Assessment	Composite Scorecard Result	Scorecard Rating Range	Composite Building Block Assessment	Indicative Rating Range
	70.1	AA (low) - A	56.8	BBB (high) - BBB (low)

San Marino's Long-Term Foreign Currency - Issuer Rating BBB (low)

Main topics discussed in the Rating Committee include: EU association agreement, San Marino's economic performance, banking sector vlnerabilities, San Marino's export performance, fiscal outlook. For additional details on Morningstar DBRS analysis and opinions, please see the accompanying rating report.

Morningstar DBRS Scorecard: Scoring Ranges and Associated Assessment Categories

Lower Bound	0.00	1.00	3.00	5.00	7.00	9.00	11.00	13.00	15.00	17.00	19.00
Upper Bound	0.99	2.99	4.99	6.99	8.99	10.99	12.99	14.99	16.99	18.99	20.00
Assessment Category	Very Weak	Weak	Weak/ Poor	Poor	Poor/ Moderate	Moderate	Good/ Moderate	Good	Strong/ Good	Strong	Very Strong

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San Marino, Republic of

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		Overall:	N	N
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
		Carbon and GHG Costs	N	N
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N
		Resource and Energy Management	N	N
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Under key IPCC climate scenarios will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		Overall:	N	N
	Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible and productive?	N	N
		Are labour or social conflicts a key source of economic volatility?	N	N
		Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights	N	N
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		Overall:	Y	R
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
	Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	Y	R
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency	Y	R
	Peace and Security	Is the government likely to initiate or respond to hostilities with neighbouring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
		Peace and Security	N	N
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	Y	R

* A Relevant Effect means that the impact of the applicable ESG Factors has not changed the rating or rating trend on the issuer.

A Significant Effect means that the impact of the applicable ESG Factors has changed the rating or trend on the issuer.

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San Marino, Republic of: ESG Considerations

15 November 2024

Environmental

There were no Environmental factors that had a significant or relevant effect on the credit analysis. There is no evidence that environmental policies and the related investment to reach climate targets are weighing significantly on public finances. Public subsidies to improve the adoption of renewable energies are expected to remain an important tool to reduce San Marino's reliance of fossil fuels but are not expected to put material pressure on public accounts. The government ratified the most important environmental treaties including the United Nation's development goals for 2030 and the Paris agreement, and it is expected to reduce greenhouse gas emissions by 20% compared with the 2005 level by 2030. This would likely require additional investment, but it is unlikely to weigh materially on public finances in the medium term.

Social

There were no Social factors that had a significant or relevant effect on the credit analysis. Despite weak potential growth, San Marino's real GDP per-capita was relatively high at about USD 58,500 in 2023, according to the IMF, compared with its peers. This reflects a relatively wealthy economy and a declining unemployment rate. Morningstar DBRS views the respect of fundamental human rights as sound. This reflects also the adoption of some legislations that are in line with both the Italian and EU regulations.

Governance

The following Governance factor had a relevant effect on the credit analysis: Institutional Strength, Governance, and Transparency. This reflects the weak administrative capacity, the lack of a banking resolution framework as well as the slow effort to implement reforms. However, the country benefits from stable and independent institutions and ranked well for Voice and Accountability (89.7 percentile) and the Rule of Law (91.5 percentile) in 2023 according to the World Bank's worldwide governance indicators. Moreover, Morningstar DBRS views positively the country's decision to abandon its offshore banking model. This benefited transparency and quality of governance. The country has also been making significant progress with the recommendations of Moneyval to improve its anti-money laundering framework.