San Marino

February 3, 2025

This report does not constitute a rating action.

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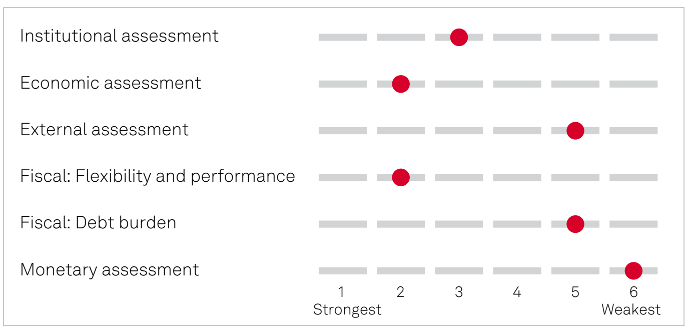
Ratings Score Snapshot



Sovereign credit rating
Foreign currency
BBB-/Stable/A-3
Local currency
BBB-/Stable/A-3

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
San Marino's government is addressing the country's structural economic weaknesses.	Budgetary consolidation should lead to an improvement in debt ratios over the medium term.
--San Marino is a small, open, and wealthy economy, with relatively high diversification for its size, but performance can be volatile.	--We expect net government debt will decline to about 60% of GDP in 2028 from about 67% in 2023, absent additional support to the banking-system.
--The government has enacted labor market and pension reforms, and improved the stability of the banking system by reducing its nonperforming exposures (NPE).	--General government deficits should decline, thanks to high nominal GDP growth and expenditure controls.
--S&P Global Ratings expects real GDP growth to average close to 1.3% over its forecast horizon through 2028.	--As a result of San Marino's 2012 monetary agreement with the EU, it imports its monetary policy settings from the euro area.

San Marino has taken steps to rebalance its economic model and reduce dependency on the financial sector. After the contraction in the banking sector between 2008 and 2019, San Marino has managed to transform its economy, focusing to a greater extent on manufacturing and tourism. This makes San Marino's economy more resilient, in our view, but it is still exposed to some volatility due to its small size and is very dependent on Italy's economic prospects. Although San Marino is one of the smallest sovereigns in Europe, its economy is diversified.

The economic association with the EU should reinforce this trajectory. Once the agreement is ratified and comes into force, Sammarinese should benefit from easier access to EU markets, providing a boost to the manufacturing sector. The agreement could also help to attract foreign investment, particularly in the tourism sector.

Over the medium term, San Marino's fiscal performance is likely to strengthen. The government has put in place several initiatives to control expenditures and achieve better administrative efficiency. These should help put a lid on expenditure growth, while revenues continue to grow in line with the economy.

San Marino's debt is relatively high given the country's size but is on a downward trajectory. Support to the financial sector followed by pandemic support drove a rapid increase of debt between 2017 and 2021, but nominal debt is now stabilizing and debt ratios are steadily declining. This puts San Marino in a better position to absorb future shocks, although any requirements to provide further support to the financial sector could alter this path.

Outlook

The stable outlook balances risks to San Marino's economic performance stemming from weaker external demand against further improvements in the government's budgetary position and resolution of the outstanding challenges in the banking sector.

Downside scenario

We could lower the rating if San Marino's budgetary position significantly deteriorates compared with our current expectations or if the government's funding conditions weaken materially. We could also lower the ratings in case of heightened risks to asset quality or liquidity constraints in San Marino's banking sector.

Upside scenario

We could raise the rating if San Marino's budgetary position improves further, resulting in a sharper decline in the government debt-to-GDP ratio compared with our current projections, potentially supported by a faster reduction in contingent fiscal risks emanating from the banking sector. We may also raise the rating should the data on the country's external financial position, including full data on its international investment position, become available and suggest a strong external financial profile.

Rationale

Institutional and economic profile: The government is addressing structural economic weaknesses

Our sovereign rating on San Marino is supported by the country's wealthy economy, stable and mature institutions. San Marino is a small, open, and wealthy economy, with 2024 GDP per capita estimated at $60,370. Despite its small population of about 34,000, the economy is diverse, with a sizable manufacturing sector closely integrated into the Italian economy.

According to San Marino's statistical office, manufacturing contributed an estimated 36.4% of GDP in 2022, a considerably larger share compared with other micro-sovereigns in Europe, which typically focus on services. For example, a specialization in motor components reflects the economy's close integration with the Italian regions of Lombardy and Emilia-Romagna in this sector. Non-financial (25.6%) and commerce (14.1%) are the other two key sectors, with financial and insurance sectors contributing only 3.8% of GDP in 2022.

That said, the modest size of the economy can make economic performance volatile. Between 2008 and 2019, San Marino suffered a sharp economic downturn, during which its GDP per capita more than halved, most notably because of a considerable contraction in the banking sector. The contraction was driven by international banking-sector regulations focused on increasing transparency and reducing tax avoidance, which triggered the end of offshore banking. This shrinking of the banking sector has weighed on San Marino's economy.

Following the pandemic, the economy recovered rapidly and remained resilient, despite the adverse indirect economic effects of the war in Ukraine and the ECB's rapid monetary policy tightening. Nevertheless, a substantial drop in external demand, in particular from Italy (due to the termination of the Italian superbonus tax credit scheme and tightened monetary conditions) resulted in an economic slowdown in San Marino in 2023.

We expect the economy to gradually strengthen again. Economic growth will likely stem from domestic demand on the back of private consumption, driven by resilient labor market performance and gradual monetary easing, which in turn will also favor investment activity. At the same time, tourism continues to perform strongly. The number of visitors until November of 2024 was almost 13% higher than in the same period in 2023 and almost 10% higher than in the same period pre-pandemic, in 2019. In addition, economic activity is reflected by persistent growth in the number of new companies since 2019, when the trend bottomed out.

As a result of economic growth, we expect the unemployment rate to be below 4% during 2025-2028, a significant decrease from 8% in 2021. After a temporary and slight increase in unemployment in 2024, we expect further favorable dynamics over 2025-2026, albeit at a slower pace, in line with economic growth. The labor market is characterized by the significant number of cross-border workers. The proportion has increased over several years, indicating a tight labor market--it reached about 34% of employees in November 2024 from below 30% in 2019. The government's labor market reform last year has addressed rigidities related to the hiring of cross-border workers and liberalized this market segment, so that the number increased by about 5.1% over the 12 months to end-November 2024 to a total of 8,235. For several years now, the total number of employees has been beating all-time highs, which will help drive consumption, together with easing inflation and real wage growth.

The authorities have been working on expanding the tourism industry by attracting investments in the sector, upgrading accommodation facilities, and targeting the upper middle class, which is an underrepresented category of San Marino's otherwise substantial tourist flows. This would allow an increase in the average stay in San Marino, which has been on an upward trajectory for many years, but is still relatively short, at about 1.8 days so far in 2024. The government's economic policy agenda has been focused on stimulating growth, including by developing technology-based sectors, improving the business environment, and addressing the challenges of economic and social recovery through policies that stimulate growth in employment and business. Given the easing credit conditions, we expect investment activity will pick up in line with the eurozone countries.

Following the June 2024 legislative elections, we don't expect any significant change in the government's economic and budgetary policies. The government coalition is composed of four parties, three of which--Sammarinese Christian Democratic Party; Reform Alliance; and the Party of Socialists and Democrats--were part of the previous government. Besides continuing with budgetary consolidation and further improvement in the banking sector's position, one of the key government priorities will be the implementation of the association agreement with the EU (which also concerns Andorra). We consider that the finalization of the agreement provides an opportunity to foster greater economic diversification, including via increased foreign direct investments, but the impact is unlikely to be felt before 2026-2027. Although the agreement still needs to be ratified, either by the EU Parliament or by all the EU members, it could be in place by 2026. The agreement will allow San Marino to access the EU's internal market, broadening its export opportunities and enabling it to further diversify its economy, while strengthening institutional frameworks and aligning them with the EU.

The relationship between San Marino and the EU is governed by two important agreements, namely the 2012 monetary agreement, which allows San Marino to use the euro as its legal currency, and a customs union agreement for trade. The two agreements will be absorbed into the abovementioned broader association agreement. In addition, San Marino has signed several double-tax agreements with other sovereigns, most importantly with Italy.

Flexibility and performance profile: Budgetary consolidation will lead to a gradual decline in the government debt-to-GDP ratio

After a substantial budgetary performance improvement in 2022, with the general government surplus of about 0.4% of GDP helped by strong revenue growth and lower-than-budgeted government spending, the budget balance worsened in 2023 on the back of the economic slowdown and higher interest payments. During 2025-2028, we expect the government to undertake gradual budgetary consolidation and post modest budget deficits, with persistent primary budget surpluses. The government is planning to continue widening the tax base by reducing tax exemptions and tax incentives. At the same time, legislation on the introduction of a value-added-tax system will be adopted and implemented over the next three years. The government is also committed to contain spending growth. As a result of these measures, we expect general government budget deficits to gradually decline over our forecast horizon through 2028.

The general government balance is characterized by a pension system deficit driven primarily by a demographic shift, with an old-age dependency ratio of 31.3% in 2020. This has heightened budgetary pressures and last year the government implemented a pension reform (approved in 2022), with measures including an increase in the effective retirement age and higher contributions. The reform will reduce the pension system deficit and mitigate budgetary pressures from pension spending beyond 2028.

Over the past decade, San Marino's budgetary performance has been hit by consecutive government decisions to provide direct or indirect budgetary support to the banking sector. The government's support to both Cassa di Risparmio di San Marino (CRSM) and BNS (under its former name, Banca CIS SpA) represented about 25% of total banking sector assets. BNS was renamed after assets were transferred to the special-purpose vehicle AMC and the Central Bank of San Marino withdrew its banking license in mid-2021. The government's remaining explicit commitments in support of the banking sector relate to BNS' liabilities, which we understand are partly serviced from the remaining assets that were transferred to AMC from BNS.

We expect San Marino's net general government debt--including the government's explicit financial commitments--to decline to about 60% in 2028 from about 67% of GDP in 2023, absent any additional direct support to the banking system or slower budgetary consolidation than we currently expect. Government gross financing needs will increase substantially in 2027, given the maturity of its €350 million Eurobond in January 2027. That said, we believe the government maintains access to foreign capital markets. We forecast the government's interest payments will average slightly above 6% of general government revenue over 2025-2027.

Because of insufficient balance of payments and international investment position data, we evaluate San Marino's external position using data on Italy, to which its economy is most closely tied, as a starting point. Italy accounts for about 90% of San Marino's exports and about 79% of its imports. We apply a negative adjustment to our initial external assessment due to the lack of external data. We understand that the Sammarinese authorities are working to address this deficiency in cooperation with the IMF.

Our view of San Marino's creditworthiness is constrained by the country's lack of an independent monetary policy. The Central Bank of San Marino supervises the banking, financial, and insurance sectors, and, among other functions, manages the Treasury and State Tax Department services on behalf of the state. However, it does not have an independent monetary policy role. In 2012, the authorities signed a monetary agreement with the EU, enabling San Marino to use the euro as its official currency. Consequently, San Marino was allowed to issue its own euro coins in limited quantities and grant legal tender status to euro banknotes. In return, San Marino committed to adopting and implementing all appropriate measures for the application of relevant EU banking and financial legislation, including the prevention of money laundering, fraud, and counterfeiting. In this context, Moneyval, the Council of Europe's committee of experts on the evaluation of anti-money laundering measures and the financing of terrorism, in its 2024 follow-up report acknowledged San Marino's progress on policies in these areas. Importantly, in 2020, the Central Bank of San Marino obtained a repo (sale-and-repurchase) line with the ECB worth €100 million, which has been repeatedly renewed. In light of improved liquidity in the banking system, the line has not been drawn down so far.

The banking sector's resilience has gradually strengthened in recent years on the back of the establishment of the AMC, which helped the Sammarinese banks manage their sizable stock of nonperforming assets accumulated during past financial crises. As a result, the gross NPE ratio is now below 24.6% (18.5% net of provisions), compared with 56.2% at year-end 2022 (63.1% in 2020). After the disposal of a large part of NPEs to the AMC, NPE coverage stands above 30%. Despite the recent improvements, we still consider the asset quality of the Sammarinese banking sector to be weaker than that of peer countries, because the banking sector has the largest NPE ratio of all the European sovereigns we rate.

We therefore take a positive view of the authorities' efforts to reduce banks' NPEs, thereby freeing up capital and resources. In addition, since January 2024, banks have been required to gradually fully provision the remaining NPEs on their balance sheets, in line with the EU calendar provisioning. We believe this initiative will reduce incentives for banks, especially the less-capitalized ones, to keep NPEs on their balance sheets for a long time, as banks would need to hold more capital against insufficiently provisioned NPEs.

Beyond large asset-quality problems, we view business stability for San Marino's banks as in need of strengthening. Banks initially based their business models on San Marino's status as an offshore financial center. Although this was successful in the past, increased international cooperation to fight tax avoidance and money laundering, as well as tougher new domestic regulations, have resulted in the failure or merger of several weaker banks and almost all financial-fiduciary companies, with the remaining banks forced to change their business models. Since 2021, the banking system has posted small profits in aggregate. That said, we believe that declining interest rates could exacerbate the banking sector's structural profitability issues, including limited revenue diversification and the high operating cost base. Even though the banking sector has contracted significantly over the past decade, it remains large and exposes the government to contingent fiscal risks, in our view. We estimate total banking-system assets were about 2.3x GDP in 2023, compared with almost 7x in 2008.

Nonresident deposits now represent about 10% of total deposits in our estimate, down from about 60% in 2008, after a fiscal amnesty granted by the Italian authorities in 2009-2010 contributed to deposit outflows of about 45%, mainly by nonresidents, over 2009-2019.

San Marino--Selected Indicators

	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
Economic indicators (%)										
Nominal GDP (bil. EUR)	1.4	1.4	1.6	1.7	1.8	1.9	2.0	2.0	2.1	2.2
Nominal GDP (bil. $)	1.6	1.5	1.9	1.8	2.0	2.1	2.2	2.3	2.4	2.5
GDP per capita (000s $)	48.1	45.9	55.1	54.2	58.7	60.4	63.2	67.3	70.3	72.5
Real GDP growth	2.1	(6.7)	13.9	7.9	0.4	0.7	1.3	1.2	1.2	1.3
Real GDP per capita growth	1.6	(6.8)	13.7	7.5	0.1	0.5	1.1	1.0	1.0	1.1
Real investment growth	17.8	(25.2)	3.8	9.6	0.5	0.1	1.5	2.5	2.6	2.6
Investment/GDP	24.0	18.1	22.2	18.0	17.6	17.6	17.7	17.9	18.1	18.4
Savings/GDP	26.1	20.8	27.6	33.5	N/A	N/A	N/A	N/A	N/A	N/A
Exports/GDP	164.0	164.5	184.3	201.8	194.6	192.7	192.7	192.8	192.7	192.8
Real exports growth	0.5	(7.1)	26.6	15.6	(1.0)	0.1	1.6	1.5	1.4	1.6
Unemployment rate	7.7	7.3	6.4	5.1	4.2	4.3	3.9	3.7	3.7	3.7
External indicators (%)										
Current account balance/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance/CARs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CARs/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Trade balance/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net FDI/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net portfolio equity inflow/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross external financing needs/CARs plus usable reserves	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Narrow net external debt/CARs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Narrow net external debt/CAPs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net external liabilities/CARs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net external liabilities/CAPs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Short-term external debt by remaining maturity/CARs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Usable reserves/CAPs (months)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Usable reserves (Mil. $)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal indicators (general government %)										
Balance/GDP	0.1	(4.5)	(4.3)	0.4	(1.0)	(1.1)	(0.9)	(0.8)	(0.7)	(0.7)

San Marino--Selected Indicators										
Change in net debt/GDP	2.6	4.7	23.0	(4.2)	4.2	1.1	0.4	0.8	0.7	0.7
Primary balance/GDP	0.5	(3.6)	(2.4)	1.7	1.3	1.2	1.3	1.5	1.5	1.5
Revenue/GDP	39.9	38.3	33.3	36.5	35.8	36.3	36.1	35.8	35.5	35.5
Expenditures/GDP	39.8	42.8	37.6	36.1	36.8	37.4	37.0	36.6	36.2	36.2
Interest/revenues	0.9	2.5	5.7	3.5	6.4	6.2	6.0	6.3	6.3	6.1
Debt/GDP	57.4	71.7	81.3	74.5	71.7	68.8	67.0	65.7	64.3	63.0
Debt/revenues	143.9	187.0	244.0	204.1	200.3	189.6	185.6	183.5	181.2	177.4
Net debt/GDP	55.2	63.6	77.9	66.0	66.6	65.7	63.9	62.7	61.5	60.2
Liquid assets/GDP	2.3	8.1	3.4	8.5	5.2	3.2	3.1	3.0	2.9	2.8
Monetary indicators (%)										
CPI growth	0.5	(0.1)	1.6	5.3	5.9	1.3	2.0	2.0	2.0	2.0
GDP deflator growth	0.9	0.3	1.8	2.8	5.3	2.4	2.1	2.0	2.0	2.0
Exchange rate, year-end (EUR/$)	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Banks' claims on resident non-gov't sector growth	(6.8)	(4.2)	(12.0)	(1.7)	(16.9)	(3.0)	1.0	1.0	1.0	1.0
Banks' claims on resident non-gov't sector/GDP	104.7	107.1	81.2	72.0	56.6	53.3	52.0	50.9	49.8	48.7
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. EUR--euro. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

San Marino--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	3	The government's policies have been effectively addressing structural economic weaknesses with respect to the banking sector, public finances, and economic growth that have been weakened by past policy choices. We expect the new government to continue its focus on stability-oriented economic policies, with the focus on improving the budgetary position.
Economic assessment	2	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1.
		Economic performance marked by volatility.
External assessment	5	The sovereign has limited external data. We therefore assign an initial assessment that is the same as the initial assessment applied to Italy, San Marino's largest trading partner.
		The sovereign's external data lack consistency, as there is a lack of sufficient external accounts information.
Fiscal assessment: flexibility and performance	2	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	5	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.

San Marino--Rating Component Scores

Key rating factors	Score	Explanation
		The debt service profile is generally subject to significant variations.
		Contingent liabilities are high, emanating especially from the large banking sector--total assets under management estimated at about 2.4x GDP in 2024.
Monetary assessment	6	San Marino uses the euro but has no direct access to the European Central Bank, beyond the established liquidity line. Consumer price index as per Selected Indicators in Table 1.
		Weak monetary transmission mechanism, reflected, for example, in the large nonperforming exposure ratios.
Indicative rating	bb+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	1	We expect nonperforming exposure ratios in the banking sector to improve further. In addition, although the data gaps regarding the external financial position complicate the assessment of external financing needs, preliminary data point to a strong external position.
Final rating		
Foreign currency	BBB-	
Notches of uplift	0	Default risks do not apply differently to foreign and local currency debt.
Local currency	BBB-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Jan. 13, 2025
- Sovereign Ratings History, Jan. 13, 2025
- Sovereign Ratings Score Snapshot, Jan. 7, 2025
- Economic Outlook Eurozone Q1 2025: Next Year Will Be A Game Changer, Nov. 26, 2024

Ratings Detail (as of February 03, 2025)*

Republic of San Marino	
Sovereign Credit Rating	BBB-/Stable/A-3
Transfer & Convertibility Assessment	AAA

Ratings Detail (as of February 03, 2025)*

Sovereign Credit Ratings History	
12-Nov-2024	BBB-/Stable/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.