SAN MARINO COMPANY REPORT - 2010

Presentation

We are passing through an extraordinary stage of our history. Since 2007, when the first signs of a crisis appeared in the construction industry, up until today, numerous negative events have occurred which have seriously affected our economy.

The analyses contained in this Report indicate that the manufacturing system of our Republic has withstood the pressure of a long sequence of negative factors. A company selection process has begun which has for the time being only involved companies in financial difficulties and those with weak ties with our country. Only a very few economically and financially sound companies have so far decided to shut shop. Thanks to widespread use of the Cassa Integrazione Guadagni (Redundancy payments), the manufacturing world has managed to limit the possible negative social effects and maintain job levels.

I nevertheless fear that the worst has not yet passed. The absolute need by the Italian State to rebalance its public accounts points to a future, at least in the short term, no less difficult than the period we have just gone through. The demand from our major markets is and will remain weak for many quarters still. Competitive tensions, already very high, are likely to further increase.

The manufacturing system of our Republic is able to withstand the difficulties of coming years. Most of our companies, including in 2010, have increased their business and achieved positive economic results, able to remunerate the investments made and produce resources to fund new growth processes. In the context of a two-speed world, a crucial role will be played by the manufacturing industry, which must be able to promptly look beyond Europe and find new business opportunities on distant markets. No less important will be the services to companies sector, which provides fundamental backing for the competitiveness of companies operating on international markets. All this will be hard, if not impossible to achieve, unless our society is able to produce and, if necessary, attract the professional skills crucial for sustaining intense processes of innovation.

The experience of the intensity of the crisis under way and the clear awareness of the absence of a possible “external” solution will, I hope, instil courage and strength in all those who have the instruments to imagine and realise new development paths.

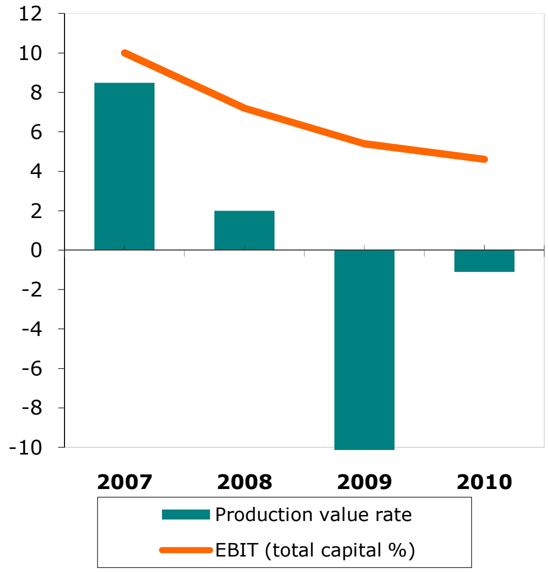
Simona Michelotti

President of the Chamber of Commerce
of the Republic of San Marino

1. Executive Summary

The economy of the Republic of San Marino is passing through a strong crisis, the intensity of which is unequalled by any other period, from the post-war years to the present. During the 2009-2010 two-year period, the Republic’s Gross Domestic Product plummeted by 15%. To the effects of the international financial crisis of 2008 were added, firstly, those caused by the worsening of institutional relations with Italy and, afterwards, those produced by the weak growth of the economies of the industrialised countries. In more recent months, a further factor of hardship appeared. The international speculation which hit and reduced the value of Italian state bonds and which caused a slowdown in Italian domestic demand, the major export outlet for San Marino goods. In this context, it is very likely that the economy of the Republic of San Marino will not record any significant improvement of its GDP until 2013.

Graph 1.1: Economic situation of non-financial San Marino companies



The fall in GDP was matched by the drop in production values of San Marino companies and in a worsening profitability situation. The value of production of all the San Marino companies did in fact fall in 2010 by 1.1% after the 11% crash of 2009. At the same time, productivity (measured in terms of EBIT – *Earnings Before Interests and Taxes*) dropped in 2010 to 4.6%, continuing along the downward incline begun in 2008.

Among the different industrial sectors must be highlighted the strong difficulties of the **engineering** industry. The recovery of production value in 2010 did not in any way make up for the fall of 2009. Less intense are the negative effects of the crisis on the **food** sector and other San Marino industries. In 2010, the period of crisis affecting **construction** companies continued and worsened. Production value levels did in fact drop by 7%, accentuating the fall already suffered in 2009. Productivity (in terms of EBIT) dropped to 4.2%, just half what it was in 2007.

The **trade** sectors seem able to face up to this serious economic crisis and to curb its negative effects. Production in this case has dropped less than in other sectors and production levels have held their own, especially as regards the wholesale sector.

On the other hand, the current crisis appears to have completely cancelled out the capacity of the **transport** sector, already structurally weak, to produce income. Among the service sectors, the difficulties continue of **services to companies**. For the second consecutive year, the sector has suffered a significant drop in activity levels, and this is accompanied by the gradual weakening of the ability of companies to generate income. Less intense are the negative effects on the **services to people** sector, among the few which continue to maintain fairly good levels of profitability. From the point of view of the ability to generate operating income, the most negative situations of all are recorded among the companies of the **hotel and restaurant** industry, which have been complaining of a drop in earnings for some years now.

Until 2010, the economic crisis had failed to make itself felt to any great extent. Thanks to the use of the Cassa Integrazione Guadagni (Redundancy payments) and of the Indennità Economica Speciale, only 250 jobs were lost in the Republic of San Marino between 2008 and 2010[1]. If we consider that, from the outset of the crisis, the Cassa Integrazione Guadagni has involved a number of monthly hours corresponding to over 800 workers, it is obvious what a safety net this represents against the effects of the economic crisis under way.

More serious have been the effects of the crisis as regards the closing down of companies. In 2009, 192 companies stopped operating in the Republic while the figure for 2010 was 324, bringing the company mortality rate close to 10%[2]. In other words during the course of 2010, one company out of ten closed down. In this respect, the Report includes a detailed account of the characteristics and the effects of the company expulsion process, highlighting how most of such companies were of a **marginal nature** with only shallow roots in the country. Another big slice consists instead of **companies in difficulty** whose income statements deteriorated to such an extent as to produce a reduction in available resources. Furthermore, the survey goes to show that companies which have stopped operating despite being in **good economic shape** and **rooted** in the country are still very few. Nevertheless, the number of such companies is rising and the value added subtracted from the economy totals 12 million euro, equivalent to 1.1% of the GDP. A figure that clearly outweighs that lost due to company closures.

The process of adjustment triggered by the current crisis would therefore seem to produce its greatest effects on the number of companies, expelling the marginal ones and those in difficulty, rather than on the labour market, thus making it possible to curb social costs. In the event of any economic recovery being postponed until after 2012, the adjustment under way will have to find support in a parallel process whereby positive conditions are recreated to attract companies from abroad and for the setting up of new companies. Unless this happens, it is very likely that the current crisis will also start producing significant social effects.

[1] Sources: Statistics Bulletins, Office of Economic Programming and Data and Statistics Processing Centre

[2] As will be better explained later on, deemed as having closed are those companies which have not presented financial statements to the Chamber of Commerce.