



PRINCIPALITY OF ANDORRA

2022 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

June 2022

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV Consultation with the Principality of Andorra, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on April 8, 2022, with the officials of the Principality of Andorra on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 25, 2022.
- An **Informational Annex** prepared by the IMF staff.

The document listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Washington, D.C.



IMF Executive Board Concludes 2022 Article IV Consultation with the Principality of Andorra

FOR IMMEDIATE RELEASE

Washington, DC – June 20, 2022: On June 10, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with the Principality of Andorra and endorsed the staff appraisal without a meeting.

The Andorran economy rebounded strongly from the large contraction caused by the COVID-19 pandemic. Growth in 2021 (8.9 percent) was supported by a recovery in tourism, retail trade, construction, and professional services. Headline inflation rose to 4.9 percent in March 2022, the highest reading in the last 10 years. However, price pressures were more limited than in neighboring countries thanks to long-term contracts with foreign energy suppliers that mitigated the rise in electricity prices. Labor market conditions tightened due to declining unemployment and a sharp rise in job vacancies but did not create significant wage pressures. Despite the roll back of most COVID-related measures, the overall policy mix remained supportive in 2021.

With growth projected at 4.5 percent in 2022, activity is expected to return to pre-crisis levels in the second half of 2022. However, downside risks to the outlook are significant, related to the economic impact in Europe of the war in Ukraine, the sharp increase in commodity prices, an unfavorable evolution of the pandemic, weaker recoveries in neighboring countries, and tighter financial conditions. Strong fiscal buffers, a large current account surplus, newly accumulated external reserves, and liquid and well-capitalized banks, will help in this highly uncertain environment. In the medium term, real GDP growth is expected to converge to its 1.5 percent potential. Still, the missed 2020–21 winter season and the sharp contraction in investment during the pandemic caused an estimated permanent income loss of about 3 percent. As in neighboring countries, high inflation will likely persist in 2022 and early 2023 due to still high energy prices but should ease thereafter.

Executive Board Assessment²

In concluding the Article IV consultation with the Principality of Andorra, Executive Directors endorsed the staff's appraisal as follows:

The Andorran economy is recovering strongly from a deep pandemic-related recession. Growth surprised on the upside in 2021 and is expected to remain strong in 2022. Labor market conditions improved, with unemployment amongst the lowest in Europe. Headline inflation accelerated, but less so than in neighboring countries, and pressures are expected to recede in the second half of 2023. Despite the gradual withdrawal of COVID measures, the policy mix remained supportive in 2021. Over the medium term, output is projected to

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

converge to the pre-pandemic trend with limited scarring. Risks to the outlook are tilted to the downside, notably related to the war in Ukraine.

Rapid fiscal consolidation should be balanced with growth-enhancing spending.

Considering the strong economic recovery, the focus adequately shifted from providing emergency support to rebuilding policy space. Fast consolidation will continue in 2022. Fiscal discipline and an active debt management strategy will quickly bring down the public debt ratio, which is projected to meet the fiscal rule target by 2023. Given low potential growth and ample evidence of an investment gap across all sectors, it is important to balance fiscal prudence with growth-enhancing spending.

Pension reform is imperative to restore the system's sustainability while ensuring adequacy of pensions. The social security system will accumulate rising deficits of 9 percent of GDP per year by 2040. Given the magnitude of the assessed shortfall in the system and specific measures still under discussion, it is critical to act early with a comprehensive set of measures, including increases in the contribution rate, the conversion factor, and in the retirement age.

Close monitoring and stronger supervision of the banking sector are needed to ensure continued resilience. Andorran banks are well capitalized and highly liquid. However, vulnerabilities associated with the private banking model and the internationalization strategy, including overreliance on foreign funding and large off-balance-sheet assets under management, require close supervision. Strengthening liquidity supervision and endowing AFA with more solid funding and staffing would help in this direction. Enforcement of new measures to limit the risks associated with related party lending and large exposures is also critical. The ongoing consolidation of the banking system could improve bank profitability, but it should not result in lower competition.

Raising potential growth calls for a multi-pronged approach focused on diversifying the economy, boosting investment, and building human capital. Reducing red tape and administrative rigidities and improving access to credit would support diversification and boost investment. Expanding the supply of affordable housing and easing immigration requirements will help attract the needed high-skilled workers, while training will improve human capital. Andorra's vulnerability to natural events calls for continuing building resilience to climate change, including by greening transportation and energy, and reducing dependency on imported energy. Current negotiations on an EU Association Agreement have the potential to unlock substantial benefits.

Persevering with rapid progress in improving the governance framework and enhancing transparency will help consolidate Andorra's presence in international markets. The rapid advances made so far in closing data gaps and strengthening the AML/CFT framework should continue. Further efforts are needed to improve the quality and comprehensiveness of data and to align Andorra's anti-corruption framework to international standards. This encompasses ratifying the United Nations Convention Against Corruption, developing an anti-corruption strategy, advancing the reform of the public procurement framework, and publishing beneficial ownership information. Andorra should also persist in its efforts to address capacity issues and close data gaps, including by refining the recently created Balance of Payments data, and developing other real, financial, and external sector statistics that are needed for effective surveillance.

Andorra: Selected Economic Indicators, 2017–27											
	2017	2018	2019	Projections							
				2020	2021	2022	2023	2024	2025	2026	2027
NATIONAL ACCOUNTS AND PRICES											
	(annual change, percent, unless otherwise indicated)										
Real GDP	0.3	1.6	2.0	-11.2	8.9	4.5	2.7	2.2	1.6	1.5	1.5
Nominal GDP	1.5	2.6	3.4	-10.2	11.2	8.2	4.7	3.7	3.2	3.2	3.3
GDP deflator	1.1	1.0	1.4	1.1	2.1	3.5	1.9	1.4	1.6	1.7	1.7
	(contribution to nominal GDP growth, percentage points)										
Consumption	...	3.2	2.4	-0.7	7.6	5.4	3.1	2.4	2.0	2.1	2.1
Private	...	1.5	1.5	-3.3	6.4	4.3	2.2	1.5	1.5	1.7	1.7
Public	...	1.7	0.9	2.6	1.2	1.0	0.9	0.9	0.6	0.4	0.4
Investment	...	2.4	2.0	-3.5	1.8	1.4	0.8	0.6	0.5	0.5	0.5
Private 1/	...	1.9	1.7	-3.0	1.5	0.7	0.5	0.4	0.2	0.3	0.3
Public	...	0.6	0.3	-0.4	0.3	0.7	0.3	0.2	0.2	0.2	0.2
Net exports of G&S	...	-3.0	-1.0	-6.0	1.9	1.4	0.7	0.7	0.7	0.7	0.7
Exports	...	0.8	1.1	-16.8	10.1	6.0	4.1	3.6	3.3	3.3	3.2
Imports	...	3.8	2.0	-10.7	8.2	4.6	3.3	2.9	2.6	2.6	2.5
Inflation (percent, p.a.)	2.6	1.3	0.7	0.3	1.7	3.9	2.0	1.3	1.6	1.7	1.7
Inflation (percent, e.o.p.)	2.4	0.8	1.0	-0.2	3.3	2.0	1.1	1.5	1.7	1.7	1.7
Unemployment rate (percent)	1.7	1.5	1.8	2.9	2.9	2.0	1.8	1.7	1.7	1.7	1.7
EXTERNAL SECTOR 2/											
	(percent of GDP, unless otherwise indicated)										
Current account	...	...	18.0	14.6	15.9	16.8	17.3	17.7	18.1	18.5	19.0
Balance of G&S	14.2	10.9	9.6	4.0	5.3	6.2	6.6	7.0	7.5	7.9	8.3
Exports of G&S	76.6	75.4	74.0	63.7	66.3	66.9	67.8	68.9	70.0	71.0	71.9
Imports of G&S	62.4	64.6	64.4	59.8	61.1	60.7	61.2	61.9	62.6	63.1	63.6
Primary income, net	...	...	9.7	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Secondary income, net	...	...	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Capital account	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	...	...	17.6	15.1	15.9	16.8	17.3	17.7	18.1	18.5	19.0
Errors and omissions	...	...	-0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross intl. reserves (mill. euros) 3/	...	...	0.0	41.9	138.1	238.1	238.1	238.1	238.1	238.1	238.1
FISCAL SECTOR											
	(percent of GDP, unless otherwise indicated)										
General Government 4/											
Revenue	38.0	38.5	38.0	40.4	38.9	38.3	38.9	39.1	39.2	39.3	39.3
Expenditure	34.6	35.8	35.7	43.2	39.5	36.8	36.7	36.4	36.0	35.7	35.5
of which: Interest	0.7	0.5	0.5	0.6	0.7	0.6	0.9	0.8	0.8	0.8	0.8
Primary balance	4.0	3.2	2.8	-2.2	0.2	2.1	3.1	3.6	4.0	4.3	4.6
Net lending/borrowing	3.3	2.7	2.3	-2.8	-0.5	1.5	2.2	2.7	3.2	3.5	3.8
Public debt 5/	37.8	36.3	35.4	46.3	48.5	44.3	42.0	39.9	38.6	37.4	36.2
Central Government 6/											
Revenue	...	...	...	...	...	...	...	...	...	...	...
Expenditure	19.6	19.6	19.5	20.2	20.3	19.2	19.4	19.5	19.5	19.6	19.7
of which: Interest	19.3	19.7	19.3	24.4	21.7	19.6	19.2	19.1	18.9	18.8	18.7
Primary balance	0.5	0.5	0.4	0.5	0.7	0.5	0.7	0.7	0.7	0.6	0.6
Net lending/borrowing	0.8	0.4	0.6	-3.7	-0.7	0.2	0.9	1.0	1.3	1.5	1.6
Public debt 5/	0.3	-0.1	0.2	-4.2	-1.4	-0.3	0.2	0.4	0.7	0.8	1.0
BANKING SECTOR											
	(percent, unless otherwise indicated)										
Regulatory capital to risk-weighted assets	...	20.4	21.8	22.5	21.5	...	...	...	...	...	...
Nonperforming loans to total gross loans	...	7.1	7.3	6.1	5.2	...	...	...	...	...	...
Credit to nonfinancial private sector											
Level (percent of GDP)	...	147.9	135.9	150.3	135.0	...	...	...	...	...	...
Corporates	...	72.0	70.3	76.8	68.7	...	...	...	...	...	...
Households	...	75.9	65.6	73.5	66.3	...	...	...	...	...	...
Growth (nominal)	...	...	-5.0	-0.7	-0.1	...	...	...	...	...	...
Corporates	...	...	0.9	-1.8	-0.6	...	...	...	...	...	...
Households	...	...	-10.6	0.6	0.4	...	...	...	...	...	...
Credit to public sector											
Level (percent of GDP)	...	7.5	7.5	6.1	2.7	...	...	...	...	...	...
Growth (nominal)	...	...	3.0	-27.2	-50.2	...	...	...	...	...	...
Memorandum items											
Exchange rate (€/USD, period average) 7/	0.89	0.85	0.89	0.88	0.85	...	...	...	...	...	...
Nominal GDP (millions, euros)	2,65	2,725	2,818	2,531	2,815	3,045	3,187	3,303	3,408	3,518	3,633
Sources: Govern d'Andorra Department of Statistics, Andorran authorities, Eurostat, and IMF staff calculations.											
1/ The contribution of private investment is derived as a residual. Since the fiscal accounts are covered at the general government level, investments of state-owned enterprises are subsumed under private investment.											
2/ Balance of Payments data are only available starting from 2019, except the goods and services balance, which are available starting from 2017. Data for 2021 are an estimate.											
3/ The increase of gross international reserves in 2021 is due to the general SDR allocation made in August 2021 to all IMF members (SDR 79.1 million to Andorra).											
4/ The general government comprises the central government, local governments and the social security fund.											
5/ The sharp increases of debt in 2020-21 are partly explained by a pre-financing strategy to cover large amortization due in 2021-22.											
6/ The central government comprises Govern d'Andorra, as well as nonmarket, nonprofit institutional units.											
7/ The table reports the exchange rate €/USD because Andorra is a euroized economy.											



PRINCIPALITY OF ANDORRA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

May 25, 2022

KEY ISSUES

Background. The Andorran economy is recovering strongly from the pandemic, supported by a rebound in tourism, retail trade, construction, and professional services. Real GDP is expected to reach pre-crisis levels in the second half of 2022. While the unemployment rate is amongst the lowest in Europe and continues to decline, pockets of vulnerability remain. Notwithstanding significant policy buffers, there are still substantial downside risks, notably the impact in Europe of the war in Ukraine, higher than expected inflation, and a resurgence of infection rates.

Policy priorities. As health conditions allow, policy priorities should shift from providing emergency support towards securing the recovery and investing in longer-term structural goals.

- With fiscal space being rebuilt and recent improvements in public debt management, a more gradual fiscal adjustment would allow for more investment to support medium-term growth.
- Banks emerged from the crisis in a relatively strong position, but close monitoring is needed to ensure continued resilience. Further enhancing supervision is important to adequately manage risks associated with related party lending and large exposures, sizeable nonresident deposits, and very large off-balance-sheet assets under management.
- Policies aimed at diversifying the economy, creating a favorable investment environment, improving human capital, and building resilience to climate change would reduce structural vulnerabilities of the Andorran economy and boost potential growth.
- Persevering with rapid progress in closing data gaps and enhancing the anti-money laundering framework, as well as strengthening the anti-corruption framework, would address governance weaknesses in Andorra.

Approved By
Mahmood Pradhan
(EUR) and Gavin Gray
(SPR)

The hybrid mission took place virtually (March 28–April 1, 2022) and in Andorra (April 4–8, 2022). The staff team comprised Rodolphe Blavy (mission chief), Ana Lariau, and Michelle Tejada (all EUR). Arz Murr (LEG) and Joji Ishikawa (STA) attended some meetings. Ms. Eijking (OEDNE) joined the mission. Paul Hilbers (OEDNE) participated in the closing meeting. Yueshu Zhao and Dilcia Noren (EUR) supported the mission. The team met with the Minister of Finance, the Secretary of State for International Financial Affairs, the Minister of Presidency, Economy & Business Affairs, the Minister of Education, the Director of the Andorran Financial Authority, and other senior officials. The mission also met with parliamentarians, representatives of the financial sector, unions and business organizations, civil society, and local economists.

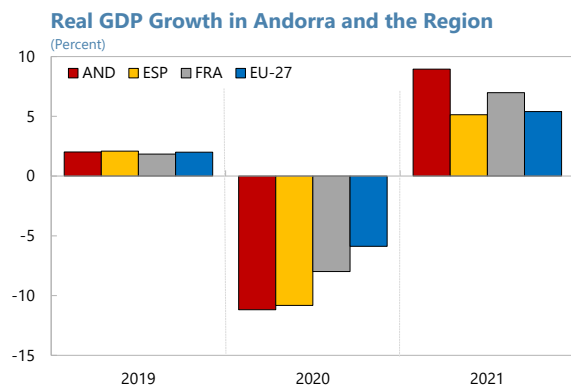
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RECENT DEVELOPMENTS

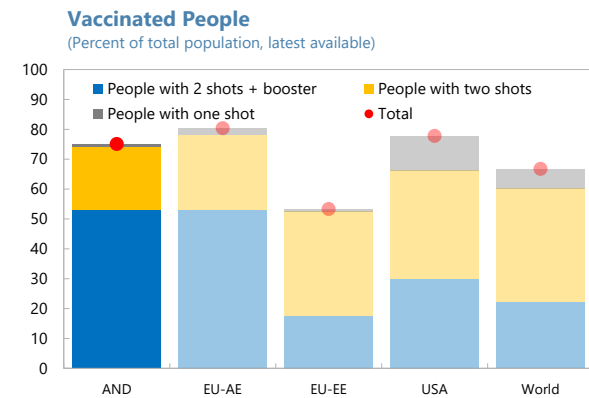
1. The Andorran economy is recovering strongly from the pandemic, but GDP remains below pre-crisis levels. Andorra faced the largest GDP contraction in Europe in 2020 (-11.2 percent), due to its high dependence on tourism. Decisive policy support and well-targeted containment measures prevented a deeper fallout. With the reopening of borders by neighbors in April 2021 and the implementation of a successful vaccination campaign, the economy rebounded sharply, growing at 8.9 percent in 2021. The improvement in the health situation allowed a relaxation of containment measures and a resumption in tourism flows, driving the strong recovery. However, GDP is estimated to have remained 2.2 percent below pre-crisis levels by the end of 2021 with some headline labor market indicators not fully recovering either.

After a deep fallout in 2020, real GDP rebounded strongly in 2021...



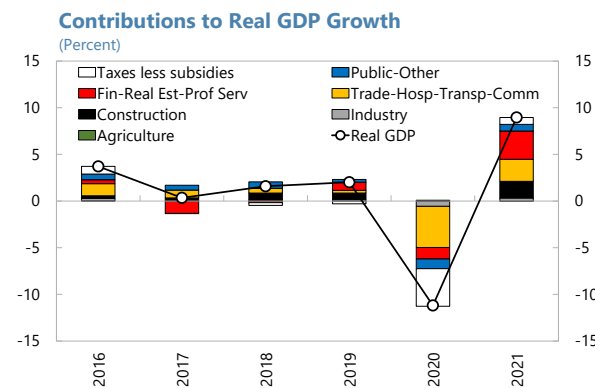
Sources: Govern d'Andorra Department of Statistics, Haver Analytics, WEO database, and IMF staff calculations.

... as a successful vaccination campaign helped improve the health situation and allowed the relaxation of containment measures.



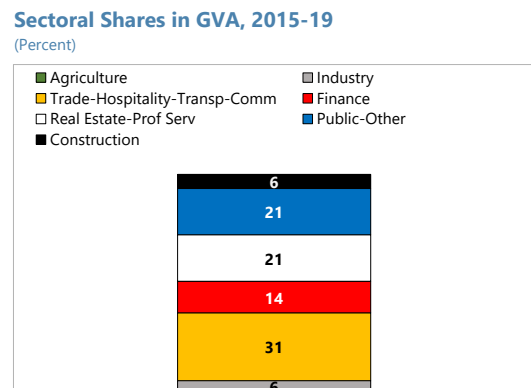
Sources: Andorran authorities, Our World in Data and IMF staff calculations.

The recovery in large sectors—tourism and finance, real estate, and professional services—led the economic rebound...



Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.

... while construction also boomed in 2021, explaining its large contribution albeit a relatively low share in GVA.

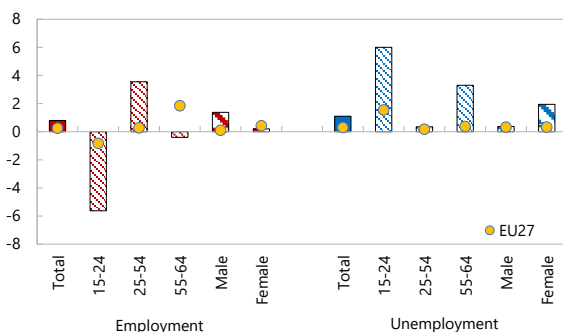


Sources: Govern d'Andorra Statistics Department and IMF staff calculations.

2. Growth in 2021 was supported by a rebound in tourism, retail trade, construction, and professional services. These (and related) sectors accounted for about 80 percent of the GDP recovery. Tourism benefited from an increase in the number of tourists, which converged to pre-crisis levels towards the end of 2021, but also from higher spending per visitor and longer stays. The exceptional boom in construction is expected to be temporary since it was partly due to the postponement of projects that were originally planned for 2020 and to favorable financial conditions. While data on expenditure components is not available, the recovery of nominal GDP seems to have been broad-based. The rebound of private consumption was facilitated by the successful vaccination campaign, which resulted in higher mobility. The recovery in net exports of goods and services was largely driven by the resumption of tourism. Investment increased with the boom in construction and large FDI inflows, with the latter also underpinning a large growth in professional services.

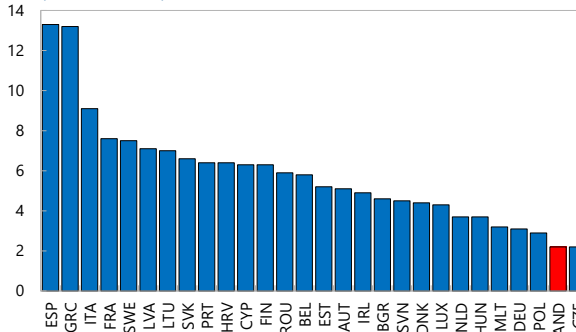
The labor market recovered but with some heterogeneity and unemployment, amongst the lowest in Europe, is still above pre-crisis levels.

Employment and Unemployment Rates
(Difference between 2021 and 2019, percentage points)



Sources: Haver Analytics, Eurostat and IMF staff calculations.

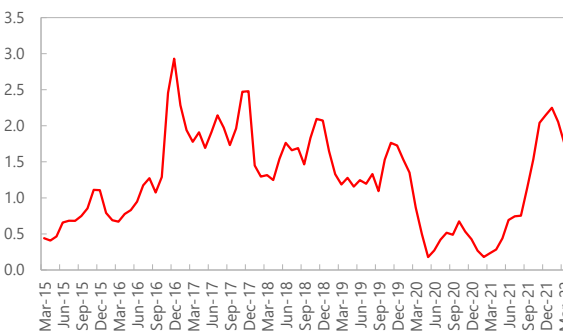
Unemployment Rate
(Percent, 2021Q4)



Sources: Haver Analytics and IMF staff calculations.

Vacancies increased sharply after the trough of the pandemic, which tightened labor market conditions...

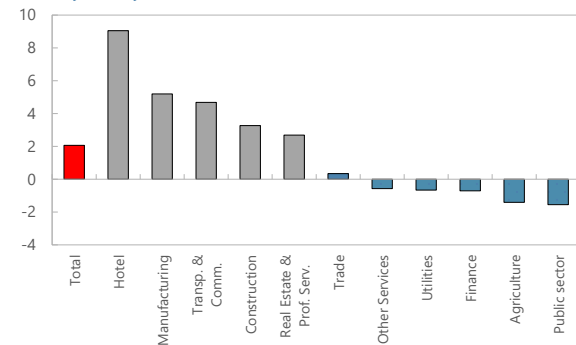
Labor Market Tightness



Sources: Govern d'Andorra Statistics Department and IMF staff calculations. Note: Market tightness is calculated as the ratio between the number of vacancies posted at the Public Employment Service (PES) and the number of job searchers registered at the PES.

...but did not yet create significant wage pressures.

Growth of Real Compensation per Worker, 2021
(Percent, year-on-year)



Sources: Haver Analytics and IMF staff calculations.

3. Labor market conditions have improved, and unemployment is amongst the lowest in Europe—though it has yet to return to pre-crisis levels, especially for some groups. The specific nature of the Andorran labor market, which relies extensively on seasonal and foreign workers and provides limited unemployment benefits, suggests interpreting traditional labor market metrics with caution. In particular, inward and outward movements of workers can be an important adjustment mechanism. Yet, the employment rate has fully recovered from low crisis levels, though with some heterogeneity; and unemployment, which almost doubled in 2020 from traditionally low levels, was still above the 2019 level at end-2021 for all population groups, especially among the young. The improvement in the labor market has been associated with tighter conditions due to an unprecedented rise in vacancies. However, this has not created significant wage pressures so far, with real wage growth at about 2 percent in 2021.

4. Inflation accelerated amid higher energy prices. Headline inflation rose to 4.9 percent in March 2022, the highest reading in the last 10 years. However, price pressures have been more limited than in neighboring countries (9.8 percent in Spain and 5.1 percent in France in March 2022 because long-term contracts with foreign energy suppliers partly mitigated the rise in electricity prices. After several months of not passing the higher cost of electricity to its clients, the electricity public provider increased tariffs by 15–25 percent at end-March 2022. Core inflation was 2.1 percent in March 2022, slightly above the historical average but still consistent with contained wage growth. In May 2022, the government adopted measures to preserve households' purchasing power, including increasing the minimum wage, making public transportation free for all Andorrans, making requirements for housing and education support more flexible, reducing indirect taxes on certain products, and reducing the hydrocarbon tax for companies.

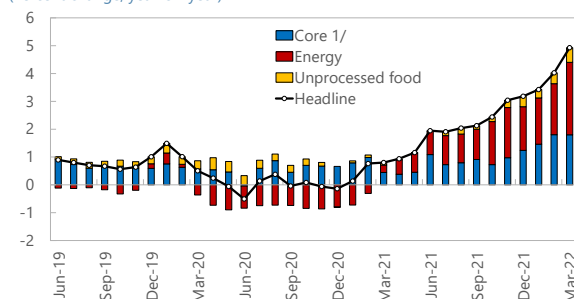
5. Despite the roll back of most COVID-related measures, the overall policy mix remained supportive in 2021 and consistent with the country's policy framework.

In addition to accommodative monetary conditions from the euro area, fiscal spending was expanded, even if most COVID-related measures were rolled back by end-2021. Strong revenue performance—primarily driven by a recovery-induced increase in tax collection—partially compensated higher-than-budgeted spending on emergency support. This resulted in an estimated

Rising energy prices pushed up inflation, particularly since mid-2021.

Contributions to Headline Inflation

(Percent change, year-on-year)

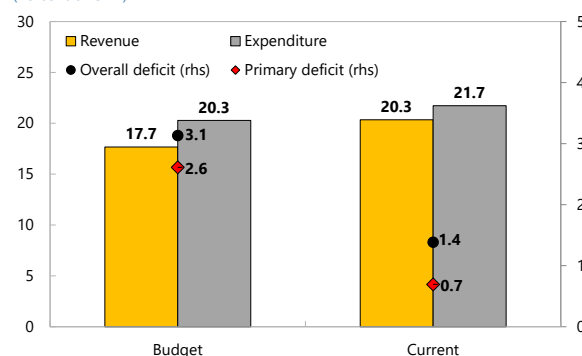


Sources: Govern d'Andorra, Haver Analytics and IMF staff calculations. 1/ Core inflation is computed by removing from headline inflation the most volatile items (e.g., unprocessed food and energy).

Higher spending was partially offset by strong revenue resulting from the recovery of economic activity.

Central Government Fiscal Stance, 2021

(Percent of GDP)



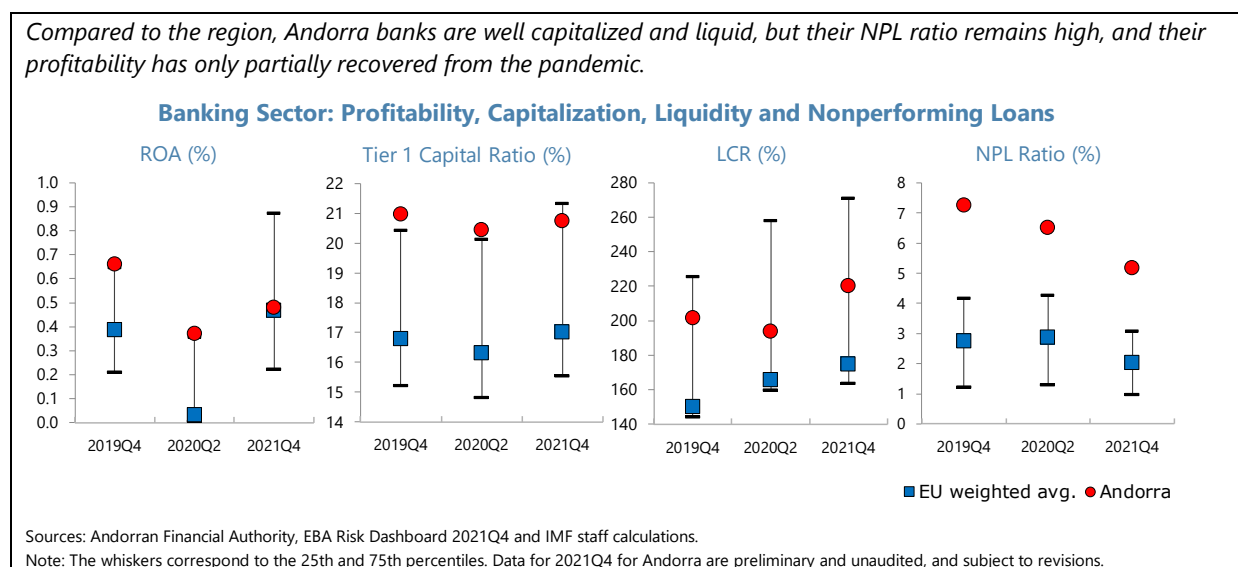
Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.

central government overall deficit of 1.4 percent of GDP in 2021, with central government debt peaking at 46.2 percent of GDP by end-year. As part of their pre-financing strategy, the authorities issued Eurobonds worth €675 million in 2021, lengthening maturity and diversifying financing sources.

Andorra: Policy Framework	
Fiscal Rule	<ul style="list-style-type: none"> ▪ Imposes limits to debt, deficit, current spending, and revenue. <ul style="list-style-type: none"> • Debt (general govt.): 55 percent of GDP. • Debt (central govt.): 40 percent of GDP. • Overall deficit (central govt.): 1 percent of GDP. • Growth of current primary spending (general govt.): Up to the nominal GDP growth if positive, or zero otherwise. • Direct taxes: 40 percent of total tax collection (excluding taxes from international trade). ▪ Includes an escape clause, which was activated in 2020 due to the fiscal impact of the COVID-19 pandemic.
Monetary Agreement with the EU	<ul style="list-style-type: none"> ▪ The euro is the legal tender in Andorra. ▪ <i>Banque de France</i> and <i>Banco de España</i> issue low-denomination euro coins on Andorra's behalf. ▪ Andorra commits to adopt strict laws against counterfeiting and money-laundering. ▪ Andorra commits to adopt all EU banking and financial sector directives and regulations before 2022.
Association Agreement with the EU	<ul style="list-style-type: none"> ▪ Enables small states such as Andorra to participate in the EU's single market while respecting their specificities. ▪ The level of market access should, in due course, be comparable to that enjoyed by the European Economic Area Members (EU member states, Iceland, Liechtenstein and Norway). ▪ Negotiations are ongoing.

Note: For details see the [Staff Report for the 2021 Article IV Consultation with Andorra](#).

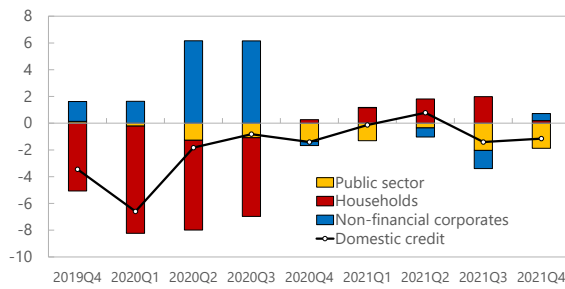
6. Andorran banks have been resilient, but credit growth was negative, and profitability only partially recovered in 2021. Capital and liquidity buffers remained solid through the pandemic. While still high due to legacy reasons,¹ the nonperforming loan (NPL) ratio declined in all services sectors, particularly wholesale and retail trade. Profitability recovered in 2021, in line with European peers, but not enough to offset the decline in 2020. Furthermore, even though the banking sector seems well-positioned to support economic activity, domestic bank credit has been trending down. Tighter lending conditions may be restricting demand for credit by corporates.



¹ The high ratio of NPLs is partly due to legacy loans from *Banca Privada d'Andorra*, which is under resolution since 2015 after an AML/CFT breach. When adjusted for these legacy assets, the NPL ratio is close to the regional average.

Domestic bank lending has been declining despite relatively solid bank balance sheets...

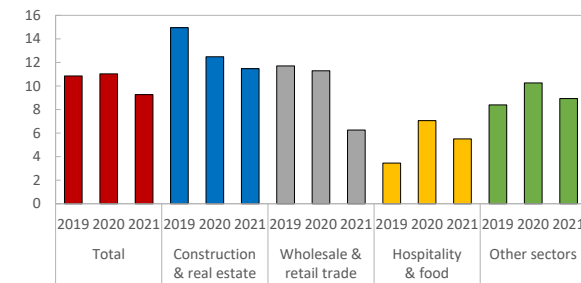
Contributions to Domestic Credit Growth
(Percent, year-on-year)



Sources: Andorran Financial Authority and IMF staff calculations.
Note: The share of households in total domestic credit is 46 percent, of corporates is 52 percent and of the public sector is 2 percent. Data for 2021Q4 are preliminary and unaudited, and subject to revisions.

...and nonperforming loans show important differences across sectors.

NFC Non-Performing Loan Ratio by Sector
(Percent of total loans)

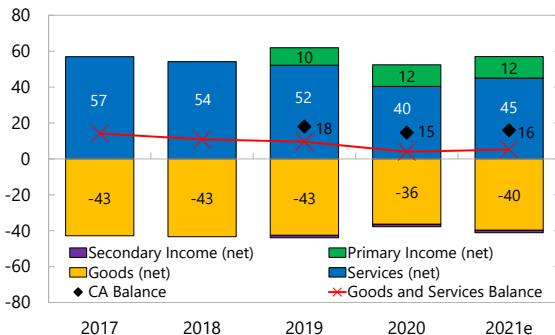


Sources: Andorran Financial Authorities and IMF staff calculations.
Note: Data for 2021 are preliminary and unaudited, and subject to revisions. NFC = Non-financial corporates.

7. The current account surplus is estimated to have recovered in 2021 after a significant contraction in 2020. The current account surplus contracted by 3.4 percentage points of GDP in 2020 to 14.6 percent of GDP, primarily driven by a deterioration of the goods and services trade balance due to the collapse in tourism. In 2021, the recovery in the tourism sector, combined with a limited impact from the rise in energy prices, is expected to have improved the current account to an estimated 15.9 percent of GDP. The reliance on tourism and imported energy is a key vulnerability, even if the latter is partially mitigated by the long-term contracts with foreign energy suppliers negotiated by the authorities. While having one of the highest current account surpluses in the world shields the economy against balance of payments financing risks, the external position is assessed to be stronger than the level implied by fundamentals and desirable policies (Annex I)—suggesting an imbalance in the savings-investment balance.

The CA surplus declined in 2020 as the collapse in tourism more than offset the contraction in imports.

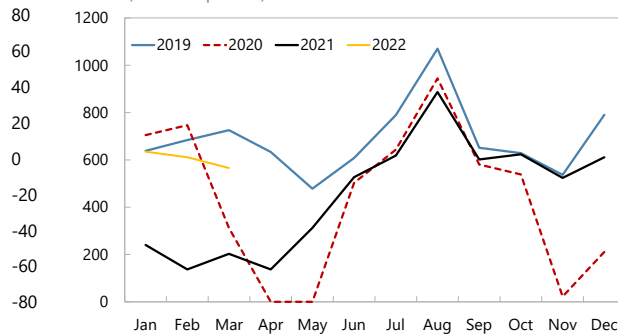
Current Account Balance and Components
(Percent of GDP)



Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.
Note: Primary and secondary income not available for 2017-2018.

In 2021, the rebound in tourism is estimated to have driven a recovery in the current account.

Number of Visitors
(Thousand persons)



Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.

OUTLOOK AND RISKS

8. Activity is projected to return to pre-crisis levels in the second half of this year, amid a better-than-expected winter season. High frequency indicators are suggesting strong growth in early 2022. Even though the Omicron wave led to a tenfold increase in new cases compared to the infection peak in 2020, the COVID-related hospitalization and deaths remained contained and Andorra benefited from a strong increase in proximity tourism. The number of visitors in January–March was close to 2019 levels and the new dynamic pricing strategy adopted by hotels and ski resorts allowed them to improve their profitability. Customs revenues above pre-crisis levels also point to strong trade flows. Under staff's baseline, real GDP growth is projected to remain strong at 4.5 percent in 2022 supported by a recovery of tourism. Consumption is expected to continue to be the main growth driver, supported by the normalization of households' savings and by minimum wage increases planned for 2022. As construction activity is expected to moderate, including due to tighter financial conditions, private investment should also slow down. Like in neighboring countries, high inflation is projected to persist in 2022 and the first half of 2023 due to still high energy prices and a slow resolution of supply bottlenecks, but to ease thereafter.

	2019	2020	2021	Projections					
				2022	2023	2024	2025	2026	2027
Real GDP growth (percent)	2.0	-11.2	8.9	4.5	2.7	2.2	1.6	1.5	1.5
Nominal GDP growth (percent)	3.4	-10.2	11.2	8.2	4.7	3.7	3.2	3.2	3.3
	(contribution to nominal GDP growth, percent)								
Consumption	2.4	-0.7	7.6	5.4	3.1	2.4	2.0	2.1	2.1
Private	1.5	-3.3	6.4	4.3	2.2	1.5	1.5	1.7	1.7
Public	0.9	2.6	1.2	1.0	0.9	0.9	0.6	0.4	0.4
Investment	2.0	-3.5	1.8	1.4	0.8	0.6	0.5	0.5	0.5
Private 1/	1.7	-3.0	1.5	0.7	0.5	0.4	0.2	0.3	0.3
Public	0.3	-0.4	0.3	0.7	0.3	0.2	0.2	0.2	0.2
Net exports of goods and services	-1.0	-6.0	1.9	1.4	0.7	0.7	0.7	0.7	0.7
Exports	1.1	-16.8	10.1	6.0	4.1	3.6	3.3	3.3	3.2
Imports	2.0	-10.7	8.2	4.6	3.3	2.9	2.6	2.6	2.5
CPI inflation (percent, period average)	0.7	0.3	1.7	3.9	2.0	1.3	1.6	1.7	1.7
Unemployment rate (percent)	1.8	2.9	2.9	2.0	1.8	1.7	1.7	1.7	1.7
Central government overall balance (percent of GDP) 2/	0.2	-4.2	-1.4	-0.3	0.2	0.4	0.7	0.8	1.0
Central government debt (percent of GDP) 2/ 3/	32.7	43.7	46.2	42.2	40.0	38.0	36.7	35.6	34.4
Current account balance (percent of GDP)	18.0	14.6	15.9	16.8	17.3	17.7	18.1	18.5	19.0
<i>Memorandum items</i>									
Euro Area real GDP growth (percent)	1.6	-6.4	5.3	2.8	2.3	1.8	1.6	1.5	1.3
Euro Area inflation (percent, period average)	1.2	0.3	2.6	5.3	2.3	1.8	1.8	1.8	1.9
Spain real GDP growth (percent)	2.1	-10.8	5.1	4.8	3.3	3.1	2.0	1.7	1.6
Spain inflation (percent, period average)	0.7	-0.3	3.1	5.3	1.3	1.4	1.6	1.7	1.7

Sources: Govern d'Andorra Department of Statistics, World Economic Outlook database, and IMF staff calculations.

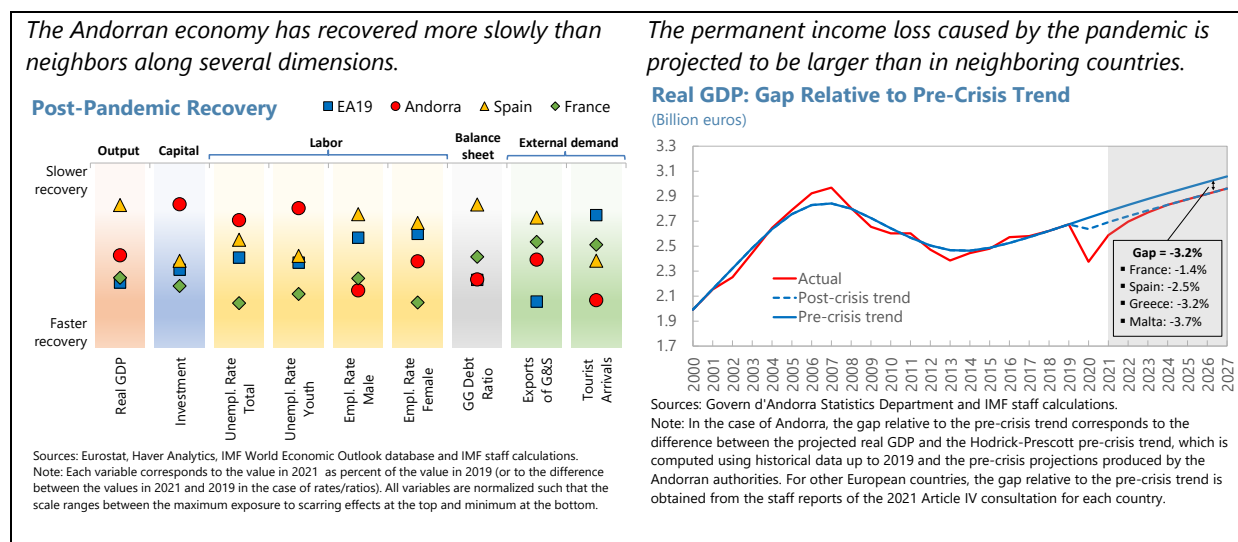
1/ The contribution of private investment is derived as a residual. Since the fiscal accounts are covered at the general government level, investments of state-owned enterprises are subsumed under private investment.

2/ The central government comprises Govern d'Andorra, as well as nonmarket, nonprofit institutional units.

3/ The sharp increases of debt in 2020-21 are partly explained by a pre-financing strategy to cover large amortization due in 2021-22.

9. Over the medium-term, Andorra is projected to return to a stable but relatively low potential growth, with limited scarring from the pandemic. Output growth should converge to its potential of 1.5 percent, in line with the euro area's medium-term growth. Scarring effects from the pandemic are expected to be limited, anticipating a complete return to pre-crisis real GDP levels

and full labor market recovery once tourism normalizes. However, the missed 2020/21 winter season and the sharp contraction in investment during the pandemic may have lingering effects in the medium-term, especially as investment is only partially recovering through the boom in construction and increased FDI flows. The permanent income loss from the pandemic is estimated to be 3.2 percent of the pre-crisis potential GDP.



10. Risks are tilted to the downside, although existing buffers should help Andorra navigate a highly uncertain environment (Annex II). Downside risks are significant. Key risks include a potentially substantial economic impact in Europe of the war in Ukraine. A prolonged period of high energy prices and global supply disruptions could lead to persistently high inflation. This would be amplified if tight labor markets lead to second-round effects on inflation. Higher inflation in the region could negatively affect tourism flows by lowering real incomes in neighboring countries. A global resurgence of the virus would dampen growth and result in a reinstatement of containment measures. Furthermore, the high reliance on winter tourism exposes the economy to climate-related risks. Upside risks include a faster-than-expected improvement of the health situation, a more rapid recovery in neighboring countries and thus in tourism flows, and a faster drawdown of precautionary savings that would strengthen further private consumption. Significant buffers—including fiscal space, well capitalized and highly liquid banks, a large current account surplus and growing international reserves, and relatively low unemployment—are welcome given Andorra’s exposure to downside risks.

Authorities’ Views

11. The authorities agreed with staff’s assessment of the economic outlook and the main risks. They project real GDP growth to be 4.4 percent in 2022, broadly in line with staff’s forecast, and to slow down gradually thereafter, reaching 1.7 percent in the medium term. They foresee a full recovery from the pandemic at end-2022 or early 2023 and expect limited scarring. The authorities shared staff’s views on the key risks to the outlook, highlighting the negative effect of the war in Ukraine as the main downside risk. Nevertheless, they noted that the war in Ukraine would only have

indirect effects on the Andorran economy, through higher inflation and lower tourism flows, due to the limited direct linkages with Russia and Ukraine. Regarding the external sector assessment, the authorities see Andorra's large current account surplus as a direct consequence of the country's economic structure and stressed the need to diversify the economy to remain competitive.

POLICY DISCUSSIONS

As health conditions allow, policy priorities should shift toward measures that secure the recovery and invest in longer-term structural goals. The authorities made progress implementing past Fund advice (see Annex V), but longer-term challenges and vulnerabilities persist. With some fiscal space available and recent improvements in public debt management, a more gradual fiscal adjustment could support medium-term growth and investment. Similarly, a solid and well-monitored financial sector could provide the credit needed for faster potential growth. Finally, it is important to address Andorra's structural vulnerabilities and facilitate new growth opportunities related to the diversification and greening of the Andorran economy.

Andorra: 2020–22 COVID-Related Measures 1/																		
	2020		2021		2022		2020			2021			2022					
	€ million	% of GDP	€ million	% of GDP	€ million	% of GDP	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
FISCAL	230.9	9.1	101.3	3.6	35.7	1.3												
Central Government	90.0	3.6	78.5	2.8	35.7	1.3												
<i>Revenue</i>																		
Relaxation of tax obligations for households and corporations	9.1	0.4	1.0	0.0	0.0	0.0												
<i>Expenditure</i>																		
Increased healthcare spending <i>Acquisition of tests, vaccines, and medical supplies, and transfers to the healthcare system</i>	35.5	1.4	41.1	1.5	26.9	1.0												
Financial assistance to households <i>Unemployment benefits, subsidies to self-employed</i>	11.7	0.5	8.9	0.3	8.7	0.3												
Financial assistance to corporations <i>ERTO, social security contributions, rent/mortgage support 2/</i>	33.7	1.3	27.5	1.0	0.2	0.0												
Public Enterprises																		
Direct support and discounts on the telecommunications and electricity bills of firms	5.1	0.2	6.0	0.2	0.0	0.0												
Loan Guarantees																		
Take up of government guarantees for new bank loans to businesses 3/	135.8	5.4	16.8	0.6	0.0	0.0												
Moratoria to provide repayment relief 4/	122.0	4.8	15.0	0.6	0.0	0.0												

1/ Color coding reflects announced, implicit or likely end dates. Color coding is subjective and reflects (i) episodes of full availability of measure (green), (ii) adjusted / more restricted availability of measures (yellow), (iii) no (planned/announced) availability of measures (white).

2/ ERTO stands for 'temporary employment regulation' and comprises the temporary suspension of work contracts and the reduction of working hours.

3/ In 2020, the government made available €230 million (equivalent to 9 percent of GDP) of loan guarantees to businesses. The table shows the amount taken up per year.

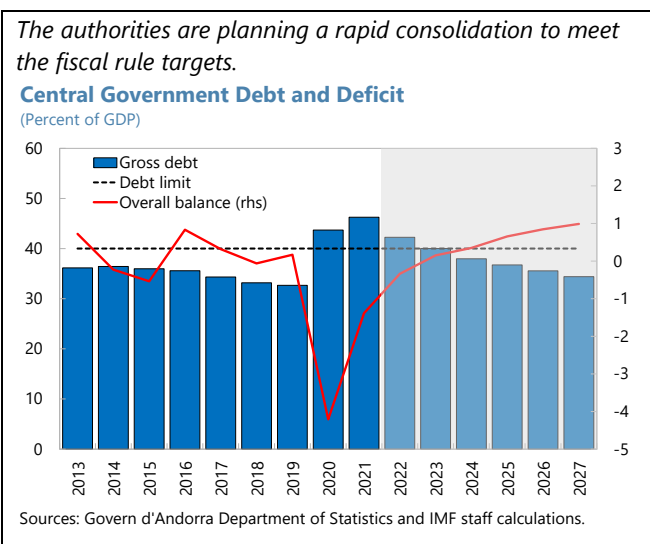
4/ Includes legislative moratoria approved by the government and a sector-wide moratoria adopted by Andorran banks.

A. Fiscal Policy

12. With the recovery well-entrenched, most support measures have been adequately withdrawn to rebuild policy space but should be flexibly reinstated if economic conditions deteriorate. Adequate emergency lifelines supported households and firms at the peak of the crisis and limited permanent scarring. Fiscal COVID-related measures declined from 9.1 percent of GDP in 2020 to 3.6 percent of GDP in 2021 as the demand for support waned and most measures were rolled back. By end-2021, only the soft loans program remained in place, with nearly €130 million outstanding loans and €5 million in provisions in the government budget.² The authorities should stand ready to reinstate support measures if the recovery falters. If warranted, they should provide targeted support to sectors that are still emerging from the pandemic to prevent long-term scarring.

13. The right balance needs to be found between consolidation to meet the fiscal rule targets and allowing for growth-enhancing spending. The 2022 budget foresees a rapid consolidation, with a projected central government deficit of 0.3 percent of GDP, close to pre-pandemic levels. Higher growth will yield higher revenues, together with the introduction of the new carbon and tourist taxes. The debt ratio is set to decline rapidly to pre-pandemic levels after 2022 and to reach the fiscal rule target of 40 percent of GDP by 2023 (Annex III). While such a strategy is

prudent and anchored in a medium-term fiscal framework, available fiscal space could be wisely used for additional growth-enhancing spending. More resources devoted to upskilling the workforce would ease labor shortages and support the development of high-value-added sectors. Boosting central government investment, which remains below pre-COVID levels, would strengthen long-term growth and reduce potential scarring—even if multipliers may be dampened by the high propensity to import. It will also help reduce external imbalances while preserving debt sustainability. The near-term focus could be on reassessing the implementation of the existing pipeline of projects, advancing digital transformation, and diversifying the tourism sector. In the medium term, adapting to climate change could include expanding the coverage of artificial snowmaking to help keep ski resorts open during warmer winters, and advancing the energy transition initiatives.



² By the end of September 2021, the government approved a decree that gave borrowers, upon expiration of the soft loans, the option to convert them into traditional loans, guaranteed by the government and with a duration of up to seven years. The authorities expect that 50 percent of the outstanding soft loans will be converted and the rest paid back upon expiration. As of mid-March 2022, almost 25 percent of the outstanding soft loans had already been converted.

14. The government has strengthened its balance sheet with an improved debt management strategy but should remain attentive to changing global financial conditions.

The authorities have upgraded their debt management strategy from one focused on covering high annual gross financing needs with short-term domestic debt to one focused on reducing costs and lengthening maturities by tapping the international market. The government issued Eurobonds worth €675 million in 2021—€500 million in April and €175 million in October, with maturities of 10 and 20 years, respectively—as part of a program totaling nearly €1.3 billion over 2021–22. This has reduced interest costs and increased the average maturity of debt from 2.7 years in 2019 to about 8 years by end-2022. As interest rates rise, the authorities should continue to diversify Andorra’s debt in both the international and domestic markets, with a focus on maintaining low gross financing needs.

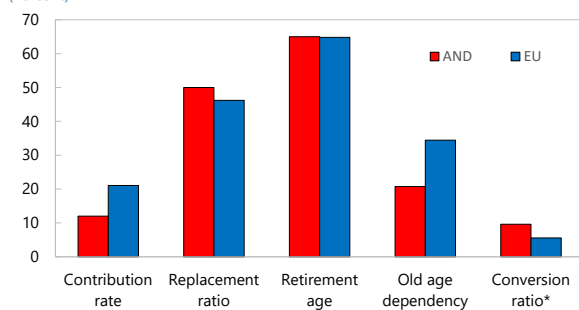
15. Reforming the pension system should be a priority to ensure sustainability and reduce contingent liabilities.

The Andorran social security fund—under the mandatory “first pillar” defined contribution pension system—is projected to have annual deficits starting in 2024 and to deplete its reserve funds by 2039. This trend is partly driven by the combination of an aging population and a generous pension system, featuring low contribution rates and a relatively high replacement rate. Under the law, deficits are covered by the *Fons de Reserva de Jubilació* up to the amount of its previous year gains on investments and by the central government for the rest. In the absence of reform, this will lead to large contingent liabilities since public pension expenditure as a share of GDP is expected to see one of the largest increases in the region. The Andorran social security system will accumulate deficits starting in 2024, rising to 9 percent of GDP per year by 2040. To restore the sustainability of the system and ensure pension adequacy, the Andorran Parliament has appointed a special commission to elaborate a reform plan before end-2022. Measures will need to be comprehensive, including increases in the contribution rate, the conversion factor, and in the retirement age. Expanding the “second pillar” pension scheme, currently mandatory only for government employees, is also being discussed and could help achieve pension adequacy. However, it should not supplant the measures needed to achieve financial sustainability of the “first pillar” scheme.

An imbalanced pension system is adding to the pension fund’s budgetary pressures.

Key Features of the Pension System

(Percent)

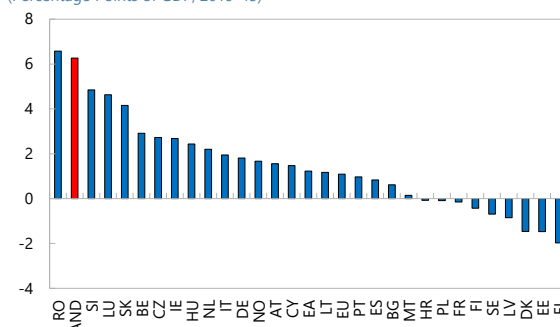


Sources: European Commission’s 2021 Ageing Report, Andorran authorities, and IMF staff calculations.
*Data for EU not available; data shown corresponds to Switzerland.

Public pension expenditure is expected to have one of the largest increases in the region.

Change in Gross Public Pensions Expenditure

(Percentage Points of GDP, 2019–45)



Sources: European Commission’s 2021 Ageing Report, Andorran authorities, and IMF staff calculations.

16. The authorities are taking steps to continue building up international reserves on a precautionary basis. The 2021 allocation of IMF Special Drawing Rights (SDRs) increased international reserves to about 5 percent of GDP. An additional €100 million (equivalent to 3.7 percent of GDP) from the debt issued in 2021 were deposited in a euro system reserve management account at the Bank of Spain, bringing reserves up to the reference level estimated by IMF staff of 8.7 percent of GDP (Annex IV).³ The authorities are currently holding all their reserves in cash. A national committee has been appointed to decide how the international reserves should be invested, under what circumstances they could be used, and how they should be replenished. The authorities are planning to further expand the stock of reserves and are negotiating opening additional accounts at central banks of other euro area member countries.

Authorities' Views

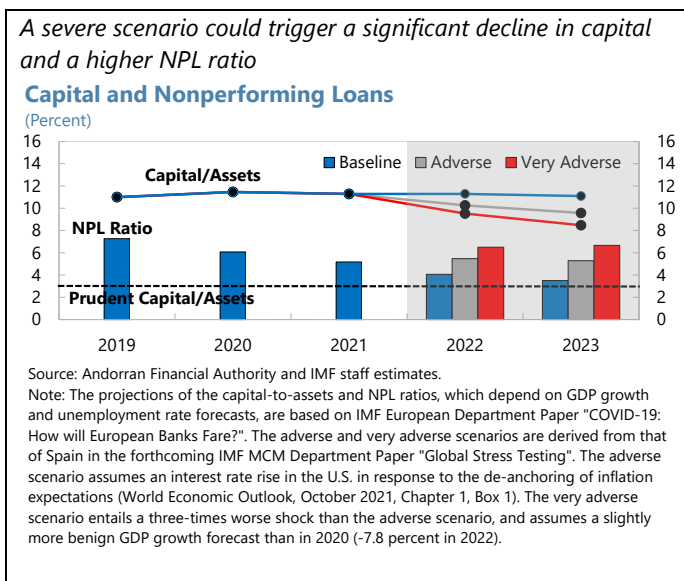
17. The authorities reiterated their commitment to fiscal discipline and agreed on the pressing need of ensuring the pensions system's sustainability. They highlighted the strong fiscal performance in 2021 supported by higher-than-expected revenue outturn and the withdrawal of COVID measures. The authorities indicated that they can quickly reinstate support measures if the economic recovery falters but, given the strong recovery, they believe that it will not be needed. As staff stressed the need to balance prudence with growth-enhancing spending, the authorities argued that fiscal multipliers tend to be lower in Andorra, limiting the gains from higher public spending and investment. Moreover, they highlighted the benefits of their improved debt management strategy—which is in line with the government's environmental, social and governance objectives—and believe that fiscal discipline has been key to their success in borrowing in the international market. The authorities acknowledged the pressing need to reform the pension system. They are considering several parametric reforms, complemented with the expansion of the “second pillar” pension scheme, to achieve financial sustainability while ensuring pension adequacy.

B. Financial Sector Policies

18. The private banking model and the internationalization strategy of Andorran banks, while profitable, can be a source of vulnerability. The internationalization strategy has allowed banks to expand their business through diversification and to limit exposure to the volatility of the local economy. However, this has brought other sources of risk, especially when operating in countries with low regulatory standards. Furthermore, the private banking model has resulted in higher cost-to-income ratios and overreliance on foreign funding, particularly cash and deposits from nonresidents, which amounted to 148 percent of GDP in 2020. The large size of the banking sector, with consolidated assets of about 600 percent of GDP in 2021 and sizeable off-balance-sheet assets under management amounting 23 times Andorra's GDP, also warrants attention, especially in the absence of lender of last resort facilities.

³ The estimated reserves need reported in the [2021 Article IV Staff Report](#) was higher (12.0 percent of GDP) because it included a short-term loan of €100 million, which was fully amortized in 2021.

19. After the full withdrawal of COVID-related support, close monitoring of the banking sector is called for. Banks emerged from the crisis in a relatively strong position but subject to high uncertainty. With the phaseout of support measures at end-2021, asset quality could deteriorate, particularly in those segments where economic activity remains subdued (e.g., tourism services). Even though the loans under the public guarantee program represent a small share of the total loan portfolio (about 3 percent) and were subject to strict eligibility criteria and screening, close monitoring is still warranted to detect early any signs of deterioration. A severe adverse scenario would induce a significant decline in capitalization and increases in nonperforming loans.



20. Measures were adopted to reduce related party lending and large exposures, but enforcement will be critical to keep risks at bay. The Andorran Financial Authority (AFA) encouraged banks to reduce their related party exposure to less than 15 percent of capital. Two out of the three Andorran banking groups are already in compliance. In addition, the AFA conducted on-site inspections of related party lending in 2021:Q4 and related party risk is now included as an input in determining Pillar 2 capital requirements. Regarding large exposures, Andorra has already transposed into its legal framework the EU regulation limiting large exposures to a given client to be less than 25 percent of the bank's capital. The AFA also reinforced reporting requirements on large exposures.

21. Supervision could be further strengthened to adequately manage significant liquidity risks. Andorran banks remained highly liquid through the pandemic, with the liquidity coverage ratio (LCR) at 220 percent by end-2021, well above the 100 percent LCR limit established in the EU regulation on bank liquidity. However, the high dependence on foreign funding exposes the banking system to significant liquidity risk. The staff's liquidity stress test shows that a liquidity gap of 4.8 percent of GDP could emerge in an extreme adverse scenario where liquidity outflows of stable and unstable deposits occur at up to four times the rate assumed in the baseline. The AFA could further reinforce the supervision of liquidity risk including by enhancing the monitoring and stress testing of net liquidity outflows, undertaking analysis of liquidity risks for longer horizons (the LCR considers only a 30-day horizon), including onsite liquidity inspections in supervisory planning, and accelerating the development and review of liquidity contingency plans by banks. A strengthening of the AFA more broadly, including by more solid funding and staffing, would also be welcome.

22. The ongoing consolidation process should help reduce the cost-to-income ratio, but the AFA should ensure that it does not significantly hinder competition. With three banking groups now operating in Andorra, the mergers are expected to improve profitability in a context of low interest rates, subdued activity, and large provisioning needs. Economies of scale could help reduce the high cost-to-income ratio. While three banking groups should be enough to cover the financial services needs in Andorra, the AFA should be vigilant about a potential negative impact of lower competition on clients.

Authorities' Views

23. The authorities broadly concurred with staff's assessment of financial sector risks, though they highlighted the existence of mitigating factors and strong supervision. There is broad agreement about the resilience and large buffers of the Andorran banks. The recent consolidation in the banking sector was presented as a positive development, highlighting that the risk of lower competition is mitigated by the lack of monopolistic power by any one bank. The AFA indicated that credit risks are alleviated by the private banking model and that NPLs are expected to decline in 2022. It also acknowledged the relevance of liquidity risks related to deposit funding, though noting the close monitoring of the LCR and the fact that deposits, including from nonresidents, have been very stable despite several stress episodes in recent years. The AFA emphasized the effectiveness of recent measures in reducing related party lending and indicated that large exposures are well identified and subject to strict controls. The authorities do not consider large assets under management a significant source of financial stability risk due to their off-balance-sheet nature, in which the clients take all the losses should they occur. Regarding the war in Ukraine, the AFA highlighted the adoption of sanctions in line with those at the EU level and the very limited exposure of the Andorran banking system to Russia and Belarus.

C. Structural Policies

24. Structural vulnerabilities have curbed potential growth in Andorra. The country faces multiple structural challenges, such as difficult geographic accessibility, a limited stock of affordable housing and a small internal market. The economy is concentrated in a few sectors, notably tourism and banking, and hence is vulnerable to shocks specific to those sectors. In addition, activity is highly correlated with developments in neighboring countries, particularly Spain. Investment has been lackluster, including due to red tape, limited financing options, and difficulties to attract talent and build human capital. As a result, potential growth has remained weak, at around 1.5 percent.

25. Diversifying and improving the quality of the tourism sector would mitigate the exposure of the economy to strong seasonality. The high cost of a missed winter season in 2020/21 highlighted the need for a more diversified offer of tourism activities, including cultural and sport experiences, throughout the year. To enhance its attractiveness beyond the immediate neighbors, Andorra needs to improve connectivity, including through more flight and possibly train connections. Better infrastructure, notably the new heliport, the addition of tram and cable transportation, and the construction of a multi-purpose arena, will facilitate this process. Improving

the standard of tourism services would generate higher revenues while staying competitive since Andorra is currently among the cheapest ski destinations in Europe (see Annex I).

26. Creating a favorable environment for investment in high value-added sectors would support medium term growth and help reduce external imbalances. To attract investments, especially from nonresidents, measures will be needed to reduce administrative rigidities associated with starting a business in Andorra, to favor access to alternative sources of financing, and to attract and retain talent. The average number of days to open a company was reduced from 200 to 90 days in 2021, a welcome but insufficient progress that should be followed by more measures, including removing duplicate processes and fostering coordination between the central and local governments.⁴ The ongoing digitalization of public administration will help in this direction. In 2021, the government approved a draft law establishing a legal framework and incentives for digitalization, entrepreneurship, and innovation. The draft law regulates crowdfunding as an alternative financing option and eases the immigration process for foreign entrepreneurs and workers in the areas of digital technologies and innovation. The authorities also plan to digitalize and diversify the economy, promoting investments in new sectors—including e-sports, fintech and biotechnology. In 2021 they started developing the needed legal frameworks for these activities and have secured financing from the Council of Europe Development Bank for the digital transformation program. Their plan to develop an innovation ecosystem in Andorra, including through the establishment of innovation labs and sandbox environments and the creation of special economic zones, should facilitate this process. These efforts to boost investment would also help the current account be more closely in line with fundamentals by reducing the savings-investment gap.

27. An increasing demand for higher-skilled workers calls for a coordinated adjustment of education, active labor market and migration policies, and for addressing the lack of affordable housing. The pandemic-induced automation and technology adoption, as well as the government's plans to develop new high-value-added sectors, will likely shift labor demand towards workers with higher skills. Past education reforms introduced a competency-based model, which should provide the flexibility to develop the needed skills. The expansion of the curriculum contemplated in the ongoing reform of the vocational training system should be done in consultation with the corporate sector to adequately capture the skills and occupations that are in most demand. Expanding reskilling and upskilling programs and adapting them to the new demands of the labor market (e.g., digital skills) would increase employability and facilitate reallocation towards higher value-added sectors. This would require strengthening the relevant institutions—e.g., the Public Employment Service and the Center for Lifelong Training—to adequately manage such programs. The streamlined immigration requirements in the context of the national strategy for innovation should also help attract foreign talent. Regarding housing affordability, the creation of the Housing Institute is a step in the right direction to make a systematic assessment of the problem and design comprehensive solutions. Taxing more heavily

⁴ In the EU, all countries are encouraged to meet the following targets to help set up new companies: (i) set up in no more than three working days; (ii) cost less than € 100; (iii) complete all procedures through a single administrative body; (iv) complete all registration formalities online; (v) register a company in another EU country online ([European Commission](#)).

empty properties, coupled with the planned increase of the social housing stock, would help expand the supply of rental housing.

28. Building resilience to climate change is paramount given Andorra’s exposure to natural events. The tourism sector is particularly exposed to climate change. The authorities have developed an ambitious plan for mitigation, aimed at greening transportation and energy, as well as reducing dependency on imported energy by diversifying energy production and consumption. The plan projects an increase in local production from about 20 percent to 33 percent by 2030 and to 50 percent by 2050.⁵ The government’s “National Strategy on Energy to Address Climate Change 2020–2050” aims to neutralize greenhouse emissions by 2050. Ski resorts have already taken steps to adapt to climate change and remain competitive—with 65 percent of ski areas equipped for artificial snow. A comprehensive adaptation strategy from the government would usefully complement efforts on mitigation.

Authorities’ Views

29. The authorities acknowledged the existence of structural vulnerabilities and highlighted their multi-pronged approach to boost growth in the medium term. Their reform agenda is focused notably on digitalization, diversification and promotion of innovation and investment in sectors with high value added. This includes a wide range of measures. On human capital, the authorities expect the new law on entrepreneurship and innovation to help attract and retain talent and address a significant “brain drain”, through simplified migration procedures and new housing regulations. The education authorities stressed the need to improve skills and highlighted that a framework for vocational and lifelong training will help match evolving needs. Recognizing the importance of improving connectivity, and due to the success of the flight connection with Madrid, new flight routes with Lisbon, London, and Paris are being considered. On adaptation to climate change, the authorities are in the process of developing a comprehensive climate adaptation strategy. They recognized the efforts made by the ski resorts to invest in artificial snowmaking and to progressively reduce their dependence on electricity for snow production.

D. Governance

30. Strengthening economic governance is key to boost investor confidence and lower borrowing costs. Improving transparency and accountability is needed as Andorra continues to integrate into the international financial community. Since Andorra’s accession to the IMF in October 2020, the authorities have made rapid strides, notably in closing data gaps despite existing capacity constraints. However, the significant progress made so far should not abate momentum, and efforts to further develop the statistical system and to align Andorra’s anti-corruption and AML/CFT frameworks to international standards should continue over time.

⁵ The Law 21/18 on the promotion of energy transition and climate change aims to promote energy transition and energy efficiency, with a goal of reducing greenhouse gas emissions by 37 percent by 2030.

31. Measures to counter corruption and to strengthen the transparency and accountability of public spending are critical to improve economic governance.

Ratifying the United Nations Convention Against Corruption (UNCAC) and developing an anti-corruption strategy that systematizes the efforts to combat corruption should be key priorities. The reform of the public procurement framework, which is going through legislative approval and is expected to be in place in September, will introduce a new contracting platform and electronic invoicing for the entire public sector. This will streamline and modernize public procurement in Andorra, in line with European standards. In September 2022, the government will also launch a website, open to the public, with information on the procurement contracts made by the public sector. While this is a step in the right direction, more efforts are needed to increase transparency and accountability of public spending, notably the publication of beneficial ownership information of companies awarded procurement contracts. This information is only available for Andorran companies from the Registry of Commerce and is disclosed upon justified request. It is recommended that beneficial ownership information is requested directly to the bidding companies (including foreigners) and made publicly available.

32. Further improving the effectiveness of the AML/CFT framework is necessary to ensure financial stability.

Building on significant progress made in recent years, Andorra should persevere in its efforts to align the AML/CFT framework to FATF standards, particularly in the area of virtual assets. A better understanding of the key threats and vulnerabilities associated with the provision of services related to virtual assets and the development of the necessary regulatory framework are critical to ensure an adequate supervision. It would also be important to continue refining the national risk assessment, building on the improvements introduced in 2020, and to act upon the findings of the 2020 assessment to mitigate risks and make supervision more effective. The AFA has enhanced the monitoring of cross-border flows by introducing a new quarterly reporting requirement for cross-border transactions of the supervised Andorran entities and their subsidiaries. The supervisor should continue to carefully analyze data reported by supervised entities, including on nonresident deposits, and exchange information with counterparts in relevant originating countries so as to further improve its understanding of ML/TF risks. Resources for AML/CFT supervision should be increasingly focused on higher risk areas, and sanctions for breach of regulatory requirements should be effectively imposed.

33. Existing data is broadly adequate but continued efforts to close data gaps would enhance transparency and improve surveillance (Informational Annex).

The Andorran authorities implemented the Enhanced General Data Dissemination System (e-GDDS) by launching a National Summary Data Page—a one-stop shop for data dissemination—on May 6, 2022. The production of an advance release calendar containing release dates for major macroeconomic statistics would also improve data transparency. The authorities continue to make progress refining the recently developed Balance of Payments (BoP) statistics and International Investment Position (IIP) statistics. However, data gaps due to capacity constraints persist and there is still ample room to improve Andorra's statistics system, including by developing other real, financial, and external sector statistics that are needed for effective surveillance. The authorities will start producing a monthly value unit index of goods exports and imports (expected in 2022:Q3), a quarterly business

confidence index (expected in 2023), and expenditure and income components of GDP (expected in 2024). They will also extend backwards the series of GDP growth at quarterly frequency to start in 2002 and are exploring the possibility of improving the frequency of producing BoP statistics from annual to quarterly. The IMF stands ready to provide assistance upon request to close the remaining data gaps.

Authorities' Views

34. The authorities agreed on the importance of improving economic governance and are committed to further enhancing transparency. They assess the risk of corruption in the country to be low and are planning to sign and ratify the United Nations Convention Against Corruption in 2022. The authorities highlighted the strength of their AML/CFT framework and preventive measures, as evidenced by Andorra's top position in the Basel Institute of Governance's AML Index. Still, they expressed interest in receiving technical assistance from the IMF to continue enhancing the AML/CFT supervision. On virtual assets, they indicated that the relevant laws will be passed in due time in line with the EU legislative requirements. The authorities are planning to continue closing data gaps and indicated that technical assistance from the IMF would be helpful to construct the level of quarterly GDP and to improve IIP statistics.

STAFF APPRAISAL

35. The Andorran economy is recovering strongly from a deep pandemic-related recession. Growth surprised on the upside in 2021 and is expected to remain strong in 2022. Labor market conditions improved, with unemployment amongst the lowest in Europe. Headline inflation accelerated, but less so than in neighboring countries, and pressures are expected to recede in the second half of 2023. Despite the gradual withdrawal of COVID measures, the policy mix remained supportive in 2021. Over the medium term, output is projected to converge to the pre-pandemic trend with limited scarring. Risks to the outlook are tilted to the downside, notably related to the war in Ukraine.

36. Rapid fiscal consolidation should be balanced with growth-enhancing spending. Considering the strong economic recovery, the focus adequately shifted from providing emergency support to rebuilding policy space. Fast consolidation will continue in 2022. Fiscal discipline and an active debt management strategy will quickly bring down the public debt ratio, which is projected to meet the fiscal rule target by 2023. Given low potential growth and ample evidence of an investment gap across all sectors, it is important to balance fiscal prudence with growth-enhancing spending.

37. Pension reform is imperative to restore the system's sustainability while ensuring adequacy of pensions. The social security system will accumulate rising deficits of 9 percent of GDP per year by 2040. Given the magnitude of the assessed shortfall in the system and specific measures still under discussion, it is critical to act early with a comprehensive set of measures, including increases in the contribution rate, the conversion factor, and in the retirement age.

38. Close monitoring and stronger supervision of the banking sector are needed to ensure continued resilience. Andorran banks are well capitalized and highly liquid. However, vulnerabilities associated with the private banking model and the internationalization strategy, including overreliance on foreign funding and large off-balance-sheet assets under management, require close supervision. Strengthening liquidity supervision and endowing AFA with more solid funding and staffing would help in this direction. Enforcement of new measures to limit the risks associated with related party lending and large exposures is also critical. The ongoing consolidation of the banking system could improve bank profitability, but it should not result in lower competition.

39. Raising potential growth calls for a multi-pronged approach focused on diversifying the economy, boosting investment, and building human capital. Reducing red tape and administrative rigidities and improving access to credit would support diversification and boost investment. Expanding the supply of affordable housing and easing immigration requirements will help attract the needed high-skilled workers, while training will improve human capital. Andorra's vulnerability to natural events calls for continuing building resilience to climate change, including by greening transportation and energy, and reducing dependency on imported energy. Current negotiations on an EU Association Agreement have the potential to unlock substantial benefits.

40. Persevering with rapid progress in improving the governance framework and enhancing transparency will help consolidate Andorra's presence in international markets. The rapid advances made so far in closing data gaps and strengthening the AML/CFT framework should continue. Further efforts are needed to improve the quality and comprehensiveness of data and to align Andorra's anti-corruption framework to international standards. This encompasses ratifying the United Nations Convention Against Corruption, developing an anti-corruption strategy, advancing the reform of the public procurement framework, and publishing beneficial ownership information. Andorra should also persist in its efforts to address capacity issues and close data gaps, including by refining the recently created Balance of Payments data, and developing other real, financial, and external sector statistics that are needed for effective surveillance.

41. It is recommended that the next Article IV consultation with the Principality of Andorra take place on the standard 12-month cycle.

Table 1. Andorra: Selected Economic and Financial Indicators

I. Social Indicators											
Population (2020)	78,015									Population at risk of poverty (percent, 2020)	13
Per capita income (2020, euros)	32,444									Human Development Index Rank (2019)	36 (out of 189)
Gini Index (2020)	32									Life expectancy at birth (2020)	82.5
II. Economic Indicators											
	2017	2018	2019	2020	2021	2022	2023	Projections			
								2024	2025	2026	2027
NATIONAL ACCOUNTS AND PRICES (annual change, percent, unless otherwise indicated)											
Real GDP	0.3	1.6	2.0	-11.2	8.9	4.5	2.7	2.2	1.6	1.5	1.5
Nominal GDP	1.5	2.6	3.4	-10.2	11.2	8.2	4.7	3.7	3.2	3.2	3.3
GDP deflator	1.1	1.0	1.4	1.1	2.1	3.5	1.9	1.4	1.6	1.7	1.7
(contribution to nominal GDP growth, percentage points)											
Consumption	...	3.2	2.4	-0.7	7.6	5.4	3.1	2.4	2.0	2.1	2.1
Private	...	1.5	1.5	-3.3	6.4	4.3	2.2	1.5	1.5	1.7	1.7
Public	...	1.7	0.9	2.6	1.2	1.0	0.9	0.9	0.6	0.4	0.4
Investment	...	2.4	2.0	-3.5	1.8	1.4	0.8	0.6	0.5	0.5	0.5
Private 1/	...	1.9	1.7	-3.0	1.5	0.7	0.5	0.4	0.2	0.3	0.3
Public	...	0.6	0.3	-0.4	0.3	0.7	0.3	0.2	0.2	0.2	0.2
Net exports of goods and services	...	-3.0	-1.0	-6.0	1.9	1.4	0.7	0.7	0.7	0.7	0.7
Exports	...	0.8	1.1	-16.8	10.1	6.0	4.1	3.6	3.3	3.3	3.2
Imports	...	3.8	2.0	-10.7	8.2	4.6	3.3	2.9	2.6	2.6	2.5
Prices											
Inflation (percent, period average)	2.6	1.3	0.7	0.3	1.7	3.9	2.0	1.3	1.6	1.7	1.7
Inflation (percent, end of period)	2.4	0.8	1.0	-0.2	3.3	2.0	1.1	1.5	1.7	1.7	1.7
Unemployment rate (percent)	1.7	1.5	1.8	2.9	2.9	2.0	1.8	1.7	1.7	1.7	1.7
EXTERNAL SECTOR 2/ (percent of GDP, unless otherwise indicated)											
Current account	...	...	18.0	14.6	15.9	16.8	17.3	17.7	18.1	18.5	19.0
Balance on goods and services	14.2	10.9	9.6	4.0	5.3	6.2	6.6	7.0	7.5	7.9	8.3
Exports of goods and services	76.6	75.4	74.0	63.7	66.3	66.9	67.8	68.9	70.0	71.0	71.9
Imports of goods and services	62.4	64.6	64.4	59.8	61.1	60.7	61.2	61.9	62.6	63.1	63.6
Primary income, net	...	...	9.7	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Secondary income, net	...	...	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Capital account	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	...	...	17.6	15.1	15.9	16.8	17.3	17.7	18.1	18.5	19.0
Errors and omissions	...	...	-0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (millions of euros) 3/	...	...	0.0	41.9	138.1	238.1	238.1	238.1	238.1	238.1	238.1
FISCAL SECTOR (percent of GDP, unless otherwise indicated)											
General Government 4/											
Revenue	38.0	38.5	38.0	40.4	38.9	38.3	38.9	39.1	39.2	39.3	39.3
Expenditure	34.6	35.8	35.7	43.2	39.5	36.8	36.7	36.4	36.0	35.7	35.5
Interest	0.7	0.5	0.5	0.6	0.7	0.6	0.9	0.8	0.8	0.8	0.8
Primary balance	4.0	3.2	2.8	-2.2	0.2	2.1	3.1	3.6	4.0	4.3	4.6
Net lending/borrowing (overall balance)	3.3	2.7	2.3	-2.8	-0.5	1.5	2.2	2.7	3.2	3.5	3.8
Public debt 5/	37.8	36.3	35.4	46.3	48.5	44.3	42.0	39.9	38.6	37.4	36.2
Central Government 6/											
Revenue	19.6	19.6	19.5	20.2	20.3	19.2	19.4	19.5	19.5	19.6	19.7
Expenditure	19.3	19.7	19.3	24.4	21.7	19.6	19.2	19.1	18.9	18.8	18.7
Interest	0.5	0.5	0.4	0.5	0.7	0.5	0.7	0.7	0.7	0.6	0.6
Primary balance	0.8	0.4	0.6	-3.7	-0.7	0.2	0.9	1.0	1.3	1.5	1.6
Net lending/borrowing (overall balance)	0.3	-0.1	0.2	-4.2	-1.4	-0.3	0.2	0.4	0.7	0.8	1.0
Public debt 5/	34.3	33.2	32.7	43.7	46.2	42.2	40.0	38.0	36.7	35.6	34.4
BANKING SECTOR (percent, unless otherwise indicated)											
Regulatory capital to risk-weighted assets	...	20.4	21.8	22.5	21.5	...	...	...	...	...	...
Nonperforming loans to total gross loans	...	7.1	7.3	6.1	5.2	...	...	...	...	...	...
Credit to nonfinancial private sector	...	147.9	135.9	150.3	135.0	...	...	...	...	...	...
Level (percent of GDP)	...	72.0	70.3	76.8	68.7	...	...	...	...	...	...
Corporates	...	75.9	65.6	73.5	66.3	...	...	...	...	...	...
Households	...	...	...	...	...	...	...	...	...	...	...
Growth (nominal)	...	...	-5.0	-0.7	-0.1	...	...	...	...	...	...
Corporates	...	...	0.9	-1.8	-0.6	...	...	...	...	...	...
Households	...	...	-10.6	0.6	0.4	...	...	...	...	...	...
Credit to public sector	...	7.5	7.5	6.1	2.7	...	...	...	...	...	...
Level (percent of GDP)	...	...	3.0	-27.2	-50.2	...	...	...	...	...	...
Growth (nominal)	...	...	...	...	...	...	...	...	...	...	...
Memorandum items											
Exchange rate (€/USD, period average) 7/	0.89	0.85	0.89	0.88	0.85	...	...	...	...	...	...
Nominal GDP (millions of euros)	2,656	2,725	2,818	2,531	2,815	3,045	3,187	3,303	3,408	3,518	3,633

Sources: Govern d'Andorra Department of Statistics, Andorran authorities, Eurostat, and IMF staff calculations.

1/ The contribution of private investment is derived as a residual. Since the fiscal accounts are covered at the general government level, investments of state-owned enterprises are subsumed under private investment.

2/ Balance of Payments data are only available starting from 2019, with the exception of the goods and services balance, which are available starting from 2017. Data for 2021 are an estimate.

3/ The increase of gross international reserves in 2021 is due to the general SDR allocation made in August 2021 to all IMF members. The 2021 SDR allocation for Andorra was of SDR 79.1 million.

4/ The general government comprises the central government, local governments and the social security fund.

5/ The sharp increases of debt in 2020-21 are partly explained by a pre-financing strategy to cover large amortization due in 2021-22.

6/ The central government comprises Govern d'Andorra, as well as nonmarket, nonprofit institutional units.

7/ The table reports the exchange rate €/USD because Andorra is a euroized economy.

Table 4. Andorra: Balance of Payments 1/

	2017	2018	2019	2020	Est. 2021	Projections					
						2022	2023	2024	2025	2026	2027
	(millions, national currency)										
Current account	...	...	507.6	370.4	448.7	513.1	549.9	584.5	618.1	652.5	688.9
Balance of goods and services	376.7	296.6	270.5	100.5	148.5	188.4	210.1	232.3	254.7	277.4	301.5
Imports of goods	1,242.7	1,292.6	1,316.5	1,070.3	1,237.4	1,335.5	1,414.3	1,486.7	1,554.4	1,622.8	1,690.1
Exports of goods	106.3	112.3	116.1	148.6	119.0	127.1	133.4	138.0	142.8	147.6	152.4
Imports of services	415.5	466.8	498.8	442.1	481.6	512.9	536.0	557.6	577.4	597.6	618.5
Exports of services	1,928.5	1,943.7	1,969.6	1,464.2	1,748.6	1,909.7	2,027.1	2,138.6	2,243.7	2,350.2	2,457.8
Primary income, net	...	...	274.4	304.5	338.7	366.3	383.4	397.4	410.0	423.2	437.0
Secondary income, net	...	...	-37.3	-34.6	-38.5	-41.6	-43.6	-45.2	-46.6	-48.1	-49.7
Capital account	...	...	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	...	...	496.0	381.0	448.7	513.1	549.9	584.5	618.1	652.5	688.9
Direct investment, net	...	...	-286.1	-122.3	...	...	...	...	...	...	...
Portfolio investment, net	...	...	70.5	-243.1	...	...	...	...	...	...	...
Financial derivatives, net	...	...	0.0	0.0	...	...	...	...	...	...	...
Other investment, net	...	...	711.6	705.8	...	...	...	...	...	...	...
Reserve assets	...	...	0.0	41.9	...	...	...	...	...	...	...
Errors and omissions	...	...	-11.8	10.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(in percent of GDP)										
Current account	...	...	18.0	14.6	15.9	16.8	17.3	17.7	18.1	18.5	19.0
Balance of goods and services	14.2	10.9	9.6	4.0	5.3	6.2	6.6	7.0	7.5	7.9	8.3
Exports of goods and services	76.6	75.4	74.0	63.7	66.3	66.9	67.8	68.9	70.0	71.0	71.9
Exports of goods	4.0	4.1	4.1	5.9	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Exports of services	72.6	71.3	69.9	57.8	62.1	62.7	63.6	64.7	65.8	66.8	67.7
Imports of goods and services	62.4	64.6	64.4	59.8	61.1	60.7	61.2	61.9	62.6	63.1	63.6
Imports of goods	46.8	47.4	46.7	42.3	44.0	43.9	44.4	45.0	45.6	46.1	46.5
Imports of services	15.6	17.1	17.7	17.5	17.1	16.8	16.8	16.9	16.9	17.0	17.0
Primary income, net	...	...	9.7	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Secondary income, net	...	...	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Capital account	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	...	...	17.6	15.1	15.9	16.8	17.3	17.7	18.1	18.5	19.0
Direct investment, net	...	...	-10.2	-4.3	...	...	...	...	...	...	...
Portfolio investment, net	...	...	2.5	-8.6	...	...	...	...	...	...	...
Financial derivatives, net	...	...	0.0	0.0	...	...	...	...	...	...	...
Other investment, net	...	...	25.2	25.0	...	...	...	...	...	...	...
Reserve assets	...	...	0.0	1.5	...	...	...	...	...	...	...
Errors and omissions	...	...	-0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items											
Nominal GDP (millions, euros)	2,656	2,725	2,818	2,531	2,815	3,045	3,187	3,303	3,408	3,518	3,633
Gross international reserves (millions, euros) 2/	...	...	0.0	41.9	138.1	238.1	238.1	238.1	238.1	238.1	238.1
Gross international reserves (months of imports)	...	...	0.0	0.3	1.0	1.5	1.5	1.4	1.3	1.3	...
Total external debt (millions, euros)	5,343	4,977	5,611	5,543	...	...	...	...	...	...	...
of which: Short term (millions, euros)	3,511	3,364	3,157	3,133	...	...	...	...	...	...	...

Source: Andorran authorities and IMF staff calculations.

1/ Balance of Payments data are only available starting from 2019, with the exception of the goods and services balance, which are available starting from 2017. Data for 2021 are an estimate.

2/ The increase of gross international reserves in 2021 is due to the general SDR allocation made in August 2021 to all IMF members. The 2021 SDR allocation for Andorra was of SDR 79.1 million.

Table 5. Andorra: Financial Soundness Indicators

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
	(percent, unless otherwise indicated)												
Core FSIs for Deposit takers													
Regulatory capital to risk-weighted assets	20.4	20.1	20.4	19.9	21.8	20.3	21.3	20.9	22.5	20.1	20.3	21.4	21.5
Regulatory Tier 1 capital to risk-weighted assets	20.1	19.8	20.0	19.1	21.0	19.4	20.4	20.0	21.6	19.4	19.5	20.6	20.7
Nonperforming loans net of provisions to capital	21.6	21.2	23.4	23.2	21.4	20.7	19.6	19.7	17.7	17.7	17.5	16.7	16.3
Nonperforming loans to total gross loans	7.1	7.1	7.6	7.0	7.3	6.3	6.5	5.9	6.1	6.1	5.8	5.5	5.2
Sectoral distribution of loans to total loans													
Residents	62.0	63.7	59.4	58.3	61.8	55.3	58.3	52.7	55.8	57.7	57.9	55.7	55.3
Deposit-takers	1.0	1.6	1.6	3.7	3.0	2.2	2.0	3.1	1.8	1.9	1.6	1.4	0.4
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	1.2	1.4	1.2	1.2	1.8	1.5	2.0	1.6	2.0	2.2	2.4	2.3	2.5
General government	2.9	3.0	3.0	2.7	3.0	2.7	2.3	1.9	2.0	2.1	2.1	1.0	1.0
Nonfinancial corporations	27.8	27.0	24.8	23.9	28.0	25.4	27.4	24.4	25.6	26.2	26.3	25.9	26.1
Other domestic sectors	29.2	30.6	28.8	26.9	26.1	23.5	24.7	21.7	24.5	25.4	25.5	25.2	25.3
Nonresidents	35.4	36.0	39.6	41.7	38.2	44.7	41.7	47.3	44.2	42.3	42.1	44.3	44.7
Return on assets	0.7	0.2	0.3	0.3	0.7	0.2	0.4	0.5	0.5	0.1	0.2	0.3	0.5
Return on equity	7.1	2.1	2.6	3.3	6.0	2.2	3.3	4.3	4.5	1.2	2.1	3.0	4.3
Interest margin to gross income	22.9	20.4	22.2	23.5	21.6	19.9	21.2	22.0	21.2	23.1	24.5	24.5	22.1
Noninterest expenses to gross income	76.1	71.1	78.4	80.6	74.6	65.8	71.0	76.2	75.0	76.8	79.4	81.3	76.3
Liquidity coverage ratio (LCR) 1/ 2/	205.3	162.9	157.3	160.3	201.7	178.2	193.9	205.5	198.7	189.3	174.1	207.7	220.3
Liquid assets to short-term liabilities 2/	23.2	24.2	21.6	21.8	15.0	22.4	17.5	20.0	14.4	15.3	15.4	15.4	11.9
Net open position in foreign exchange to capital	0.0	73.0	5.3	13.5	0.9	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Encouraged FSIs for Deposit takers													
Capital to assets	10.3	10.6	10.4	10.5	11.0	10.7	11.2	10.8	11.5	11.0	10.7	11.1	11.3
Large exposures to capital	137.0	133.7	140.1	140.0	131.1	143.9	133.8	146.9	118.2	129.0	150.4	151.7	143.1
Gross asset position in financial derivatives to capital	8.9	8.1	8.9	9.3	8.7	16.5	14.6	14.2	13.5	12.3	11.3	12.6	12.8
Gross liability position in financial derivatives to capital	12.7	12.3	12.3	13.3	10.9	18.7	16.6	16.7	13.4	11.6	10.2	10.5	9.6
Trading income to total income	10.2	12.3	10.0	11.4	10.8	4.0	14.7	14.2	13.9	14.8	14.0	11.9	10.2
Personnel expenses to noninterest expenses	48.1	46.5	46.3	46.1	48.8	49.6	47.8	48.4	48.9	51.5	51.2	50.9	49.8
Customer deposits to total (noninterbank) loans	146.5	149.0	148.2	149.3	149.2	154.7	152.8	153.8	150.7	149.9	153.0	158.0	159.2
Foreign-currency-denominated loans to total loans	0.0	0.1	0.0	1.2	0.1	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign-currency-denominated liabilities to total liabilities	18.2	16.0	21.4	23.8	22.6	23.8	24.5	24.0	21.6	21.6	20.7	19.9	20.8

Source: Andorran authorities.

Note: Data for 2021Q4 are preliminary and unaudited, and subject to revisions.

1/ The LCR is defined as the ratio between high-quality liquid assets and net liquidity outflows in a 30-day stress period.

2/ The definition of liquid assets has changed in 2019 from including all exchange-traded securities to including only those financial assets that are held for trading.

Annex I. External Sector Assessment

Overall Assessment: *The external position of Andorra in 2021 was stronger than the level implied by fundamentals and desirable policies.* Using the EBA-lite methodology, the current account (CA) model suggests that the country's external position is stronger than implied by fundamentals. This result is in line with expectations, as Andorra has one of the world's largest current account surpluses. However, data limitations suggest caution in interpreting the results: Andorra started producing Balance of Payment (BOP) and International Investment Position (IIP) data only recently with technical assistance from the IMF. Current BOP data is available from 2017 to 2020 and estimated by the IMF from 2021 onward, and IIP data is only available for 2018 to 2020. Given these limitations judgment has been applied, guided also by other measures of external competitiveness that corroborate that Andorra is attractive compared to peer countries, especially in services.

Potential Policy Responses: Having one of the highest current account surpluses in the world shields the economy against balance of payments financing risks but calls for rebalancing the economy towards greater investment. A direct implication of a current account surplus above the level suggested by fundamentals is that the savings-investment gap is larger than desirable. While some level of savings is desirable as a protection against, for example, population aging and external shocks, excess savings and/or low investment affect potential growth in the medium-term. This suggests that Andorra has room to increase investment and would benefit from policies conducive to higher private and public investment. Improving the business environment would help to create a favorable environment to attract investment. Higher investment could support policy goals such as economic diversification and resilience – notably by diversifying and improving the quality of the services sector, adapting to climate change, and developing the digital sector.

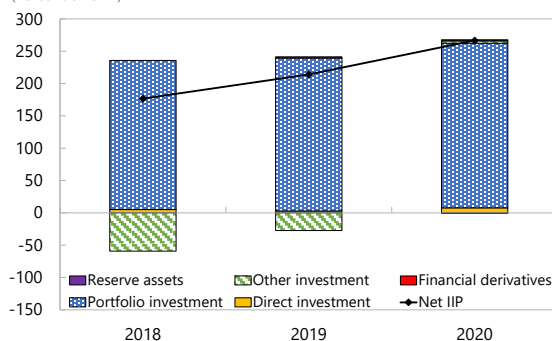
Foreign Assets and Liabilities: Position and Trajectory

Background. International Investment Position (IIP) data for Andorra is only available for 2018 to 2020. The authorities have recently received TA assistance from the IMF and are ready to start compiling IIP data on a regular basis. Andorra's net asset position is consistent with its large and steady current account surplus and the sizable financial sector. The position strengthened in 2019 and further in 2020. Andorra had a net asset position in portfolio investment held mostly in euro area countries but a net liability position in other investment (currency and deposits). The assets and liabilities in Foreign Direct Investment (FDI) were broadly balanced. More than half of the total liabilities owed by Andorra were concentrated in currency and deposits from non-residents (estimated at 148 percent of GDP), which can pose risks.

Assessment. Andorra has a large net asset IIP but with fairly high gross other investment liabilities stemming from dependence of the banking sector on foreign depositors.

International Investment Position

(Percent of GDP)



Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.

Andorra: International Investment Position, 2018-2020

(In percent of GDP)

ASSETS	2018	2019	2020	LIABILITIES	2018	2019	2020
Total	488.2	501.4	581.6	Total	311.6	287.3	316.6
Direct investment	41.7	38.1	49.7	Direct investment	36.6	35.2	42.0
Equity	41.6	38.0	49.8	Equity	36.3	35.5	42.2
Debt	0.1	0.1	-0.2	Debt	0.3	-0.3	-0.2
Portfolio investment	313.8	321.4	343.1	Portfolio investment	83.1	84.8	88.4
Equity	134.2	137.2	164.9	Equity	45.6	48.0	49.4
Debt	179.6	184.2	178.2	Debt	37.4	36.8	39.0
Financial derivatives	0.0	6.7	4.9	Financial derivatives	0.0	4.7	6.0
Other investment	132.7	135.2	183.8	Other investment	191.9	162.6	180.2
o/w Currency and deposits	100.1	101.1	149.4	o/w Currency and deposits	144.3	135.9	148.1

Source: Andorran authorities and IMF staff calculations.

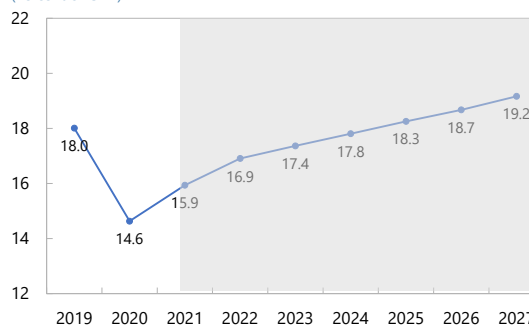
2020 (% GDP)	NIIP: 265	Gross Assets: 581.6	Debt Assets: 178	Gross Liab.: 316.6	Debt Liab.: 38.8
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Current Account

Background. Andorra's current account surplus deteriorated at the onset of the COVID crisis but is expected to return to pre-pandemic levels by 2025. Driven primarily by tourism exports, which represent 60 percent of GDP, Andorra maintains a trade surplus in services and a trade deficit in goods, resulting in a positive balance of goods and services. Prior to the pandemic, net exports and net primary income contributed almost equally to Andorra's current account surplus, and net exports declined at the onset of the crisis. With the collapse in tourist arrivals in 2020 and an increase in imports of medical supplies, the current account surplus declined from 18 percent of GDP pre-COVID to 14.6 percent of GDP in 2020 and is estimated to have recovered to 15.9 percent of GDP in 2021 with the resumption in tourism. The CA surplus is projected to increase to 19.2 percent of GDP by 2027.

Current Account Balance

(Percent of GDP)



Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.

Assessment. The CA model suggests that the external position of Andorra, at 15.8 percent of GDP in 2021 is stronger than the level implied by fundamentals, estimated at 12.3 percent of GDP. Structural factors, such as Andorra's status as a financial center and private banking model, the size of the tourism sector, a historically strong fiscal position, and demographic trends are the main drivers of Andorra's strong external position and large current account norm. Beyond this norm, the current account gap is estimated at 3.5 percent of GDP and the corresponding REER undervaluation at 7.1 percent of GDP. The current account relative policy gap is estimated at 0.9 percent of GDP (relative to policy gaps across the world), mostly reflecting a looser world average fiscal stance and lower than desirable credit level in Andorra.

Andorra: Model Estimates for 2021 (in percent of GDP)		
	CA model	REER model
CA-Actual	15.9	
Cyclical contributions (from model) (-)	0.7	
COVID-19 adjustor (+) 1/	0.5	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	15.8	
CA Norm (from model) 2/	11.3	
Adjustments to the norm (+)	1.0	
Adjusted CA Norm	12.3	
CA Gap	3.5	-2.6
o/w Relative policy gap	0.9	
Elasticity	-0.49	
REER Gap (in percent)	-7.1	5.2
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.5 percent of GDP).		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

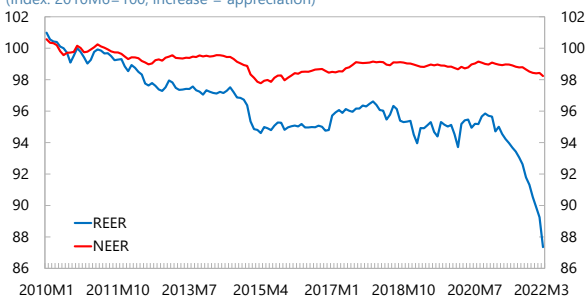
Real Exchange Rate

Background. Data limitations, including the fact that the existing measures of REER do not include services, makes the REER model less reliable for Andorra. While the real exchange rate model suggests that the actual current account in 2021 would be 2.6 percentage points lower than expected, this result is counterintuitive and may be driven by model limitations, notably by the fact that the REER measure excludes services that are data sensitive. The assessment is therefore complemented with an array of measures of price competitiveness, which corroborate the assessment of the CA model that Andorra's external position is stronger than the level implied by fundamentals and desirable policies. The CPI-based REER has been depreciating since 2018, as headline inflation in the euro area remained above Andorra's level. Measures of Unit Labor Costs (ULC) also show that Andorra's ULC are about 40 percent of Spain's in trade and tourism. Moreover, the "1-week Cost of Ski Vacation" index shows that Andorra is a fairly inexpensive destination compared with other European ski destinations, especially in hotel cost comparisons. An increase in the export market share since 2014, based on tourist arrivals, is testament to the high competitiveness enjoyed by the country. Contrary to the results of the REER model, these price competitiveness measures suggest that Andorra's REER is undervalued.

Assessment. The REER index model suggests that Andorra's external position is weaker than the level implied by fundamentals. The current account gap is estimated at -2.6 percent of GDP with an overvaluation of 5.2 percent. This counterintuitive result does not hold against other measures of price competitiveness.

REER and NEER

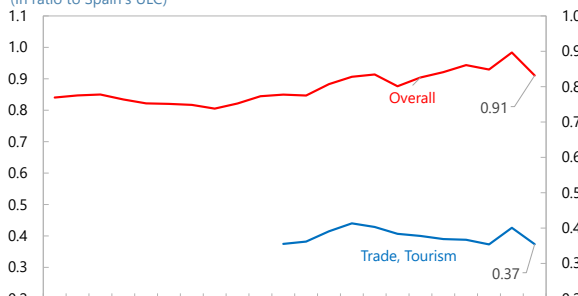
(Index: 2010M6=100; increase = appreciation)



Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.
 Note: REER: Real Effective Exchange Rate; NEER: Nominal Effective Exchange Rate.
 The weights for trading partners are based on goods trade only.

Unit Labor Cost (ULC)

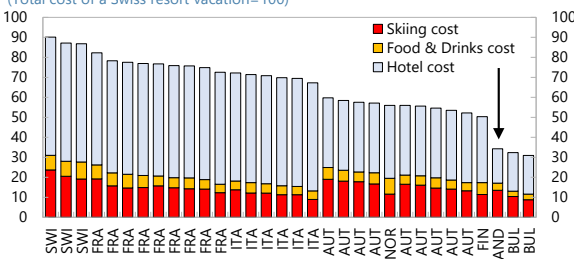
(In ratio to Spain's ULC)



Sources: Govern d'Andorra, Eurostat, Haver Analytics, and IMF staff calculations.
 Note: ULC=nominal wages*employment/real gross value added.

"1-Week Cost of Ski Vacation" Index, 2022

(Total cost of a Swiss resort vacation=100)



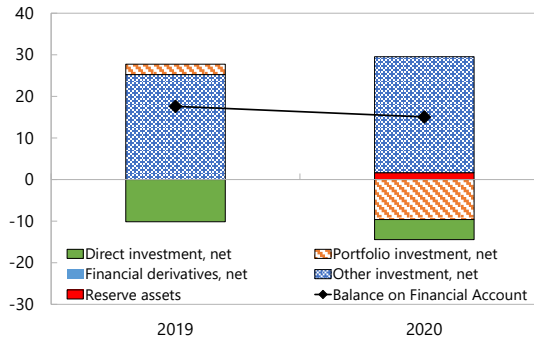
Sources: U.K. Post Office Travel Money Ski Resort Report 2022, US Department of State, and IMF staff calculations.
 Note: The "1-Week Cost of Skiing Vacation" is inspired by the "A Week@Beach Index (Laframboise et al., 2014). Each bar represents a ski resort, and total cost of a week's ski vacation in one of Switzerland's resorts is indexed to 100. The costs are based on options for a UK-based traveler. "Skiing cost" includes cost of ski equipment rentals/lessons/pass. Hotel cost is based on US State Department rates for hourly nightly rates. Air travel cost and taxi costs are not included.

Capital and Financial Accounts: Flows and Policy Measures

Background. The balance of payments data for 2019 indicated that the CA surplus resulted in strengthening Andorra's external position through the financial account transactions and slightly deteriorated in 2020. In 2019, the financial account showed that Andorran households and enterprises repaid loans received from banks abroad, and that Andorran banks purchased debt securities issued by non-residents. These transactions increased Andorra's net asset international investment position further. In 2020, the balance in the financial account declined driven mostly by a decline in net portfolio investment and FDI inflows. Other investment increased only slightly from 25.2 to 27.9 percent of GDP between 2019 and 2020 as the large share of non-resident deposits remained relatively stable.

Financial Account Balance and Components

(Percent of GDP)



Sources: Govern d'Andorra Department of Statistics and IMF staff calculations.

Assessment. Despite Andorra's strong external position as shown by the large positive financial account, it could still be subject to balance of payments-related shocks given the openness of the economy, large off-balance-sheet assets under management, and the large share of non-resident deposits which leaves the banking sector subject to liquidity shocks in the event of a capital flight.

FX Intervention and Reserves Level

Background. The 2021 allocation of IMF Special Drawing Rights (SDRs) increased international reserves to about 5 percent of GDP. An additional €100 million (equivalent to 3.7 percent of GDP) from the debt issued in 2021 were deposited in a euro system reserve management account at the Bank of Spain in March 2022, bringing the reserves up to the reference level calculated by IMF staff.

Andorra's legal tender is the euro, and the current classifications of Andorra's de jure and de facto exchange rate arrangements are "no separate legal tender".

Assessment. The authorities are taking steps to build up international reserves on a precautionary basis. Staff assess that the reserves should amount to 8.7 percent of GDP assuming that the banks have enough high-quality liquid assets to cover their liquidity needs (Annex IV). They have already accumulated this amount. In addition, they are exploring additional funding sources to continue expanding the stock of reserves and are negotiating opening additional accounts at central banks of other euro area member.

Annex II. Risk Assessment Matrix¹

Sources of Risk	Likelihood of Risk (High, Medium, Low)	Expected Impact of Risk (High, Medium, Low)	Policy Responses
Conjunctural Risks			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions.	High. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	Medium. The war in Ukraine would only have indirect effects on the Andorran economy, through higher inflation and lower tourism flows, due to the limited direct linkages with Russia and Ukraine.	<ul style="list-style-type: none"> • Implement policies to cope with rising and volatile food and energy prices (see below). • Implement policies to diversify and improve the standard of the tourism sector while remaining competitive.
Rising and volatile food and energy prices	High. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	Medium. Higher energy prices are pushing up inflation in the region and could weigh on tourism from neighboring countries and growth. Domestically, the exposure to energy price volatility is mitigated by long-term contracts with energy suppliers, while they are in place. Nevertheless, higher inflation would disproportionately affect low-income households, with a negative social impact, including higher inequality.	<ul style="list-style-type: none"> • Continue setting long-term contracts with energy suppliers, to the extent possible. • Accelerate planned reforms to reduce the share of imported energy and boost domestic energy production. • Introduce measures to support real incomes, especially amongst low-income households.
Outbreaks of lethal and highly contagious Covid-19 variants.	Medium. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	High. Reinstatement of containment measures and new disruptions in the tourism sector would reverse the recovery and produce scarring effects. Deterioration in banks' asset quality would lead to capital shortfalls and limit the lending channel. Prolonged fiscal support and lower revenues would put pressure on fiscal accounts and debt.	<ul style="list-style-type: none"> • Reinstatement of containment measures as needed to lower the risk of infection and mortality. • Stand ready to scale up pandemic support measures, targeted to the sectors in most need. • Ensure the financial sector's capacity to support the real economy.
De-anchoring of inflation expectations in the U.S. and/or advanced European economies	Medium / Low. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	Medium. Rising rates in the U.S. and the EU could lead to a tightening effect on Andorra's financial conditions. Higher risk premia could generate financing difficulties for Andorran firms and households, and a wave of bankruptcies could erode banks' capital buffers. Bank profitability could come under pressure.	<ul style="list-style-type: none"> • Continue to diversify Andorra's debt in both the international and domestic markets, with a focus on maintaining low gross financing needs. • Build reserve assets to cushion for possible liquidity shortages faced by the government.

¹ The Risk Assessment Matrix shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of the staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. "Low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more.

Sources of Risk	Likelihood of Risk (High, Medium, Low)	Expected Impact of Risk (High, Medium, Low)	Policy Responses
Structural Risks			
Natural disasters related to climate change	Medium. Higher frequency of natural disasters causes severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	Medium. Climate change is affecting Andorra's ski slopes. An increase in temperatures reduces the amount of snow, leading to shorter ski seasons and negatively impacting the Andorran tourism-based economy. This is mitigated by Andorra's higher slopes, which gives it a comparative advantage over its competitors.	<ul style="list-style-type: none"> • Adopt policies to adapt to climate change. • Provide targeted support to ski-related businesses, as needed.
Domestic Risks			
Uncertain pace of normalization of savings	Medium. The normalization of households' excess savings may be faster or slower than expected depending on the evolution of the health situation and the pace of recovery of economic activity.	High. Given the large share of private consumption in GDP, the pace of normalization of savings is critical to growth in the near term.	<ul style="list-style-type: none"> • Reinforce automatic stabilizers and act with countercyclical policies in case of an unexpected setback in the recovery of economic activity.
Higher-than-expected call on government guarantees	Low. Stress in the real sector could impose a larger call on government guarantees. This risk is mitigated by the fact that the economy is recovering strongly and that default on the publicly guaranteed loans granted during the pandemic has been significantly lower than expected so far.	Low. A sudden increase of the government's gross financing needs due to a higher-than-expected call on government guarantees could require temporary stops to government social programs and growth-enhancing spending. This is mitigated by significant provisions put in place by the government to cope with this extraordinary expense if the risk materializes.	<ul style="list-style-type: none"> • Maintain provisions in place while the balance of risks for the economy remains negative. • Continue building fiscal buffers and maintaining low gross financing needs.
Excessive stress on the banking sector	Medium. The lifting of loan and insolvency moratoria, as well as the expiration of fiscal measures in the corporate sector, may reveal large loan losses for banks. The impact of a deterioration in growth prospects, and associated loan losses, would be amplified by significant large exposures and related party lending. Sizeable gross external liabilities would pose systemic liquidity risks. Due to the private banking model, banks' assets are largely off-balance sheet, mitigating the risks (if they do not have spillovers on the bank's balance sheets during periods of stress).	Medium. Increase in capital needs of banks. Due to the size and systemic nature of banks, this could increase contingent liabilities of the government and lead to higher funding costs for the private and public sectors. This risk is mitigated by existing buffers, with banks well capitalized and highly liquid.	<ul style="list-style-type: none"> • Closely monitor bank capital after expiration of support measures. • Strengthen bank supervision to reduce risks associated with related party lending and large exposures, as well as liquidity risks.
Setbacks in closing AML/CFT gaps	Medium. Delays in aligning the Andorran AML/CFT legal framework with FATF standards.	High. Reputational damage, reduced external funding and access to international financial services, higher borrowing costs, and increased scrutiny of Andorran entities.	<ul style="list-style-type: none"> • Strengthen AML/CFT risk-based supervision, the sanctioning of ML activities and the recovery of proceeds of crime.

Annex III. Debt Sustainability Analysis

Andorran public debt remains sustainable under the baseline scenario and adverse scenarios. An improved debt management strategy has strengthened the government's balance sheet. Debt increased in 2020 and 2021 reflecting the deterioration of the primary balance, the accumulation of debt repayments, and the authorities pre-financing strategy which takes advantage of favorable international financial conditions. Starting in 2022, the debt ratio is set to decline rapidly to pre-pandemic levels, thanks to a sizable but realistic consolidation effort supported by the authorities track-record of prioritizing fiscal discipline. Growth being a key driver of lower debt ratios, the authorities should give careful consideration to the possibility to use fiscal space to increase investment and other growth-enhancing spending beyond the baseline levels, strengthening long-term growth and reducing potential scarring. As interest rates rise, the authorities should continue to diversify Andorra's debt in both the international and domestic markets, with a focus on maintaining low gross financing needs.

A. Background and Baseline

1. **Definitions and coverage.** The DSA covers the general government debt, encompassing the central government debt, and the local government debt, and social security funds. Over 90 percent of the public debt is owed by the central government. The Law 32/2014, and subsequent modifications, aimed at ensuring fiscal discipline in Andorra, sets limits to the debt of general government (excluding pension fund) and the central government at 55 and 40 percent of GDP, respectively. An escape clause allows the government to exceed these limits under extraordinary circumstances. It was activated in 2020 due to the fiscal impact of the COVID-19 pandemic and the authorities aim to be below the limits faster than required under the rule.
2. **Public debt developments.** Reflecting Andorra's strong fiscal position, public debt levels prior to the pandemic remained well below the debt limits imposed by the fiscal rule. The general government debt stock averaged 39.2 percent of GDP in 2011–19, peaking at 42.5 percent of GDP in 2013 and gradually declining to 35.4 percent of GDP in 2019. However, amidst the COVID-19 crisis, debt rose sharply in 2020 and peaked at 48.5 percent of GDP in 2021, reflecting not only the deterioration of the primary balance but also the authorities' pre-financing strategy that led to a large but temporary increase in debt and also in financial assets to be used for future debt service. As part of a Eurobond issuance program totaling nearly €1.3 billion over 2021–22, the authorities issued debt worth €500 million in April 2021 (10-year maturity, 1.25 percent), €175 million in October 2021 (20-year maturity, 1.70 percent), and €500 million in February 2022 (5-year maturity, 1.3 percent). The government's plan is to issue additional debt in the domestic market by end-2022.
3. **Financing conditions developments.** Due to the short maturity of the pre-COVID-19 debt, gross financing needs have been relatively high historically, despite the government efforts to persistently sustain primary surpluses. Historical debt stocks consisted primarily of domestic bonds, with average maturity ranging between 1.2 in 2011 and 2.7 in 2019, which were typically rolled over at the time of maturity. These dynamics, while not substantially increasing public debt over time, resulted in average annual gross financing needs of 13.7 percent of GDP in 2011–19. The

international issuances in 2021 and 2022 are expected to shift the composition of debt from fully domestic to almost 90 percent international.

4. Baseline. While debt increased sharply to 48.5 percent of GDP in 2021, it is set to decline rapidly starting in 2022 reaching 36.2 percent in 2027. The successful debt management strategy has helped diversify funding sources and lower annual gross financing needs in coming years, while taking advantage of favorable market conditions. The decline in debt service—from an average of 16.7 percent of GDP between 2011–22, the bulk of which was typically rolled over every year, to about 3 percent of GDP in 2023–2027—stemming from the lengthening of maturities (averaging about eight years in 2022) would free fiscal resources for other needs. Moreover, the improvements in revenue resulting from the economic recovery, coupled with the rollback of the COVID-19 related measures, led to general government primary surpluses starting from 2021, and central government primary surpluses starting from 2022. The combined effect of improved fiscal balances and lower debt service is expected to put general and central government debt on a declining path, reaching 40 percent (which is the fiscal rule target) of the central government by 2023.

5. Assumptions. The Andorran economy is recovering strongly from the pandemic. Andorra faced the largest GDP contraction in Europe in 2020 (-11.2 percent) followed by a strong rebound in 2021. Under staff's baseline, real GDP growth is projected to slow from 8.9 percent in 2021 to 4.5 percent in 2022. Amid high uncertainty, activity is projected to return to pre-crisis levels by mid-2022, with growth reaching its potential in the medium term, with limited scarring. The rollback of COVID-support measures and an increase in revenue resulted in primary surpluses from 2021 in line with the authorities' plan to rapidly consolidate and reduce its public debt stock. Average inflation is projected at 3.9 percent in 2022 before declining in the short-term, and eventually rising toward euro area levels in the medium-term. Sovereign borrowing spreads are assumed to be uniformly 188 bps above German yields for all maturities in line with the actual yield on privately placed external bonds in February 2022.

6. Realism of projections. Cross-country experience suggests that Andorra's projected adjustment, while sizable, is credible. The projected adjustment and the level of the cyclically-adjusted primary balance (CAPB) are below the threshold that would cast doubt on the feasibility of the adjustment, based on high-debt country experiences. The near-term adjustment in the CAPB is large compared with other countries but reflects the rollback of COVID-19 measures and the recovery in revenue, which are followed by a rapid consolidation and decline in gross financing needs. The credibility of the consolidation effort is also supported by the authorities track-record of staying within the broad parameters of their medium-term fiscal framework, which prioritizes debt sustainability.

B. Shocks and Stress Tests Through the Medium Term

7. Stress Tests. Standard stress test scenarios suggest that the fiscal and public debt position is solid, with some vulnerability to a real GDP and primary balance shocks but no exposure to exchange rate and interest rate shocks.

- **Growth shock:** a shock to real GDP growth would significantly worsen debt dynamics, slowing debt consolidation and increasing gross financing needs.¹ Under this scenario: (i) public debt rises again to 54.4 percent of GDP in 2024 and declines only to 51.7 percent of GDP by 2027 (compared to 36.2 percent of GDP under the baseline); (ii) gross debt in percent of revenue increases from 115.7 in 2022 to 139.2 in 2024, and subsequently declines to 131.5, instead of 91.9 percent under the baseline; and (iii) gross financing needs become substantially higher than the baseline in the years where debt is due.
- **Primary balance shock:** this scenario assumes a deterioration in the primary balance by a total of 2.3 percent of GDP in 2022–24, driven by lower revenues and a rise in interest rates. The shock results in a modest deterioration of debt dynamics, with debt about 2.2 percentage points of GDP higher throughout the projection horizon.
- **Other shocks:** shocks to the real exchange rate or to the real interest rate do not lead to significant deviations from the baseline. All public debt (foreign and domestic) is denominated in euros, therefore insulating the government from exchange rate movements. The government's pre-financing strategy and absence of a financing gap also limits its vulnerability to interest rate shocks.

8. Alternative scenario. A sizable contingent liability shock would result in higher debt ratios and gross financing needs. The contingent liability shock assumes a one-time increase in non-interest expenditures equivalent to 0.82 percent of banking sector assets leading to a real GDP growth shock. This represents a call on 25 percent of €130 million worth of outstanding public guarantees by end-2021, which were provided for bank loans to liquidity-strapped companies as part of the COVID-19 related measures. Under this scenario, public debt remains significantly higher than under the baseline scenario, declining only to 47.9 percent of GDP by 2027, instead of the estimated 36.2 projected under the baseline. Annual gross financing needs are also higher throughout the horizon period. This is considered a severe scenario, as very few companies have declared bankruptcies and the authorities expect that not more than 10 percent of the outstanding loans will be called.

9. Heat map. Risk associated with public debt remain relatively low as the debt level is well below the threshold for Advanced Economies of 85 percent of GDP. Gross financing needs, while lower thanks to the lengthening of maturities, are close to the threshold of 20 percent of GDP in 2022 under the baseline and the shock scenarios, but do not cross it. Regarding the debt profile, risks stem from the still high share of short-term debt in 2021, which is expected to decline in the future with the lengthening of maturities.

¹ This shock assumes that real GDP growth in 2022 and 2023 is lower than in the baseline by one standard deviation (computed 2011–2020); which in turn leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth), and the deterioration in primary balance leads to higher interest rate.

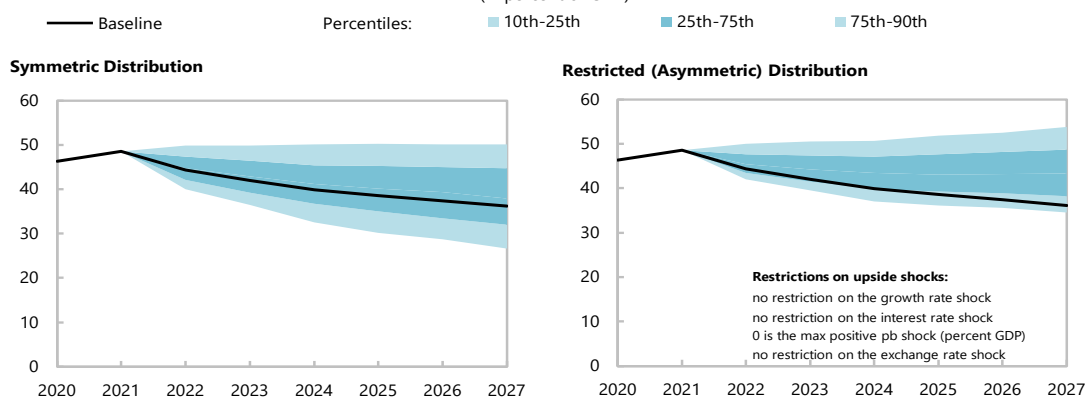
Annex Figure III.1. Andorra: Public Debt Sustainability Analysis Risk Assessment

Heat Map

Debt level ^{1/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs ^{2/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile ^{3/}	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

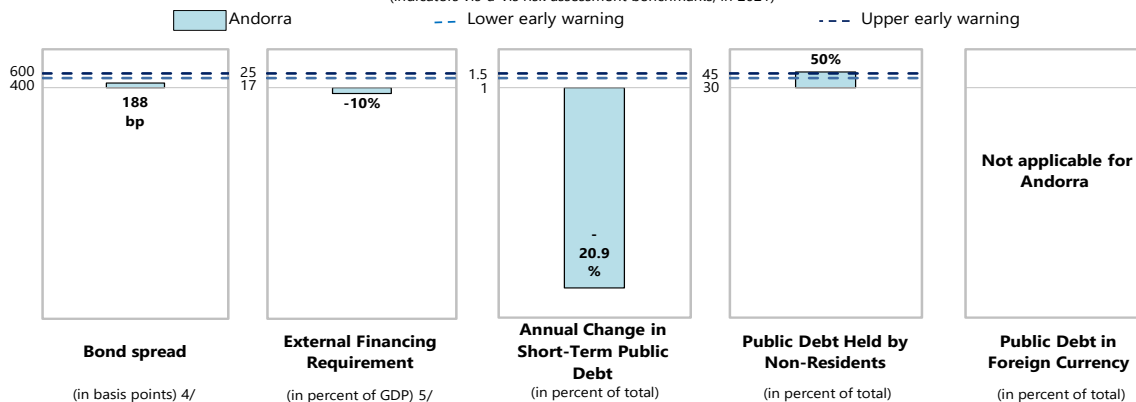
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

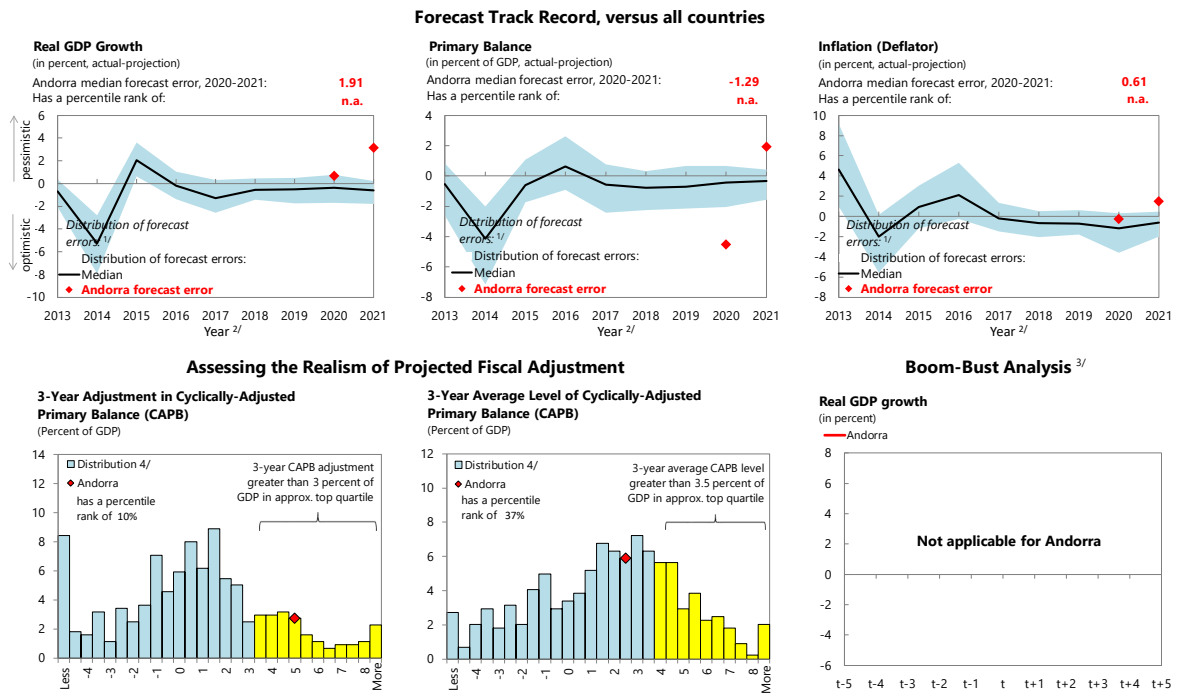
Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 19-Nov-21 through 17-Feb-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex Figure III.2. Andorra: Public Debt Sustainability Analysis—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year. For Andorra, based on projections at the time of membership in October 2020 and July 2021 WEO vintage.

3/ Not applicable for Andorra, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

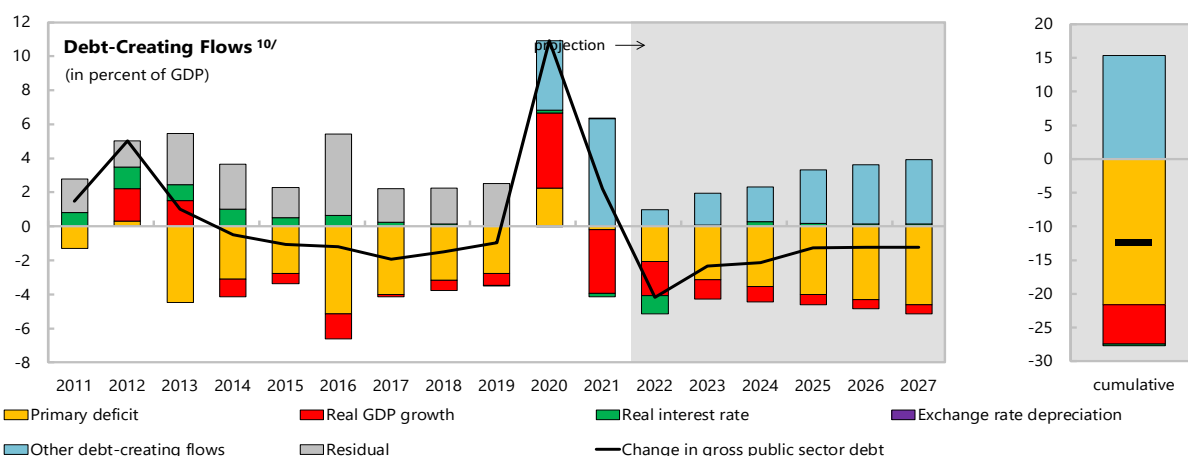
Annex Figure III.3. Andorra: Public Sector Debt Sustainability Analysis—Baseline Scenario (in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of May 06, 2022		
	2011-2019 ^{2/}	2020	2021	2022	2023	2024	2025	2026	2027	Sovereign Spreads		
Nominal gross public debt	39.2	46.3	48.5	44.3	42.0	39.9	38.6	37.4	36.2	EMBIG (bp) ^{3/}	188	
Public gross financing needs	13.7	17.9	18.3	19.2	-1.4	0.9	-2.7	-0.7	10.4	5Y CDS (bp)	75	
Real GDP growth (in percent)	0.3	-11.2	8.9	4.5	2.7	2.2	1.6	1.5	1.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	0.6	1.1	2.1	3.5	1.9	1.4	1.6	1.7	1.7	Moody's	Baa2	Baa2
Nominal GDP growth (in percent)	0.9	-10.2	11.2	8.2	4.7	3.7	3.2	3.2	3.3	S&Ps	BBB	BBB
Effective interest rate (in percent) ^{4/}	2.2	1.5	1.8	1.3	2.1	2.1	2.1	2.1	2.1	Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027		
Change in gross public sector debt	0.0	10.9	2.2	-4.2	-2.3	-2.1	-1.3	-1.2	-1.2	-12.4	
Identified debt-creating flows	-2.4	10.9	2.2	-4.2	-2.3	-2.1	-1.3	-1.2	-1.2	-12.4	
Primary deficit	-2.9	2.2	-0.2	-2.1	-3.1	-3.6	-4.0	-4.3	-4.6	-21.7	3.4
Primary (noninterest) revenue and grants	35.4	40.4	38.9	38.3	38.9	39.1	39.2	39.3	39.3	234.1	
Primary (noninterest) expenditure	32.5	42.6	38.7	36.3	35.8	35.5	35.2	35.0	34.7	212.4	
Automatic debt dynamics ^{5/}	0.5	4.6	-3.9	-3.1	-1.1	-0.6	-0.4	-0.4	-0.4	-6.1	
Interest rate/growth differential ^{6/}	0.5	4.6	-3.9	-3.1	-1.1	-0.6	-0.4	-0.4	-0.4	-6.1	
Of which: real interest rate	0.6	0.2	-0.2	-1.1	0.1	0.3	0.2	0.1	0.1	-0.3	
Of which: real GDP growth	-0.1	4.4	-3.7	-2.0	-1.1	-0.9	-0.6	-0.6	-0.5	-5.8	
Exchange rate depreciation ^{7/}	0.0	0.0	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	4.1	6.3	1.0	1.9	2.1	3.2	3.5	3.8	15.4	
Net acquisition of financial assets (negative)	0.0	4.1	6.3	1.0	1.9	2.1	3.2	3.5	3.8	15.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;

a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

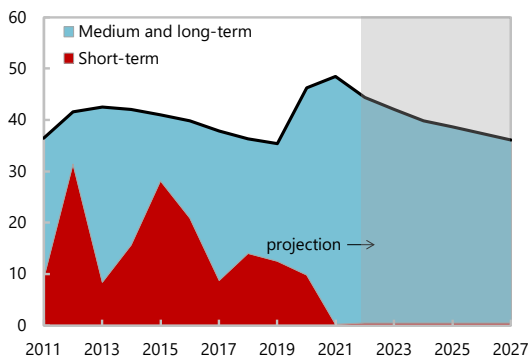
10/ Historical data on net acquisition of financial assets and other debt-creating flows prior to 2020 are not included, resulting in a relatively large residual.

Annex Figure III.4. Andorra: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

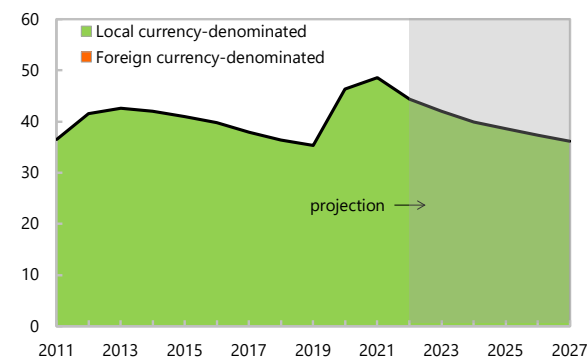
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

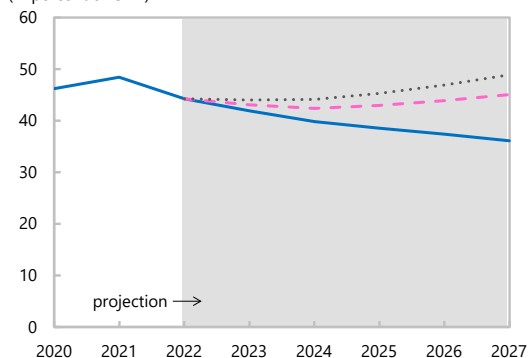
— Baseline

..... Historical

- - - Constant Primary Balance

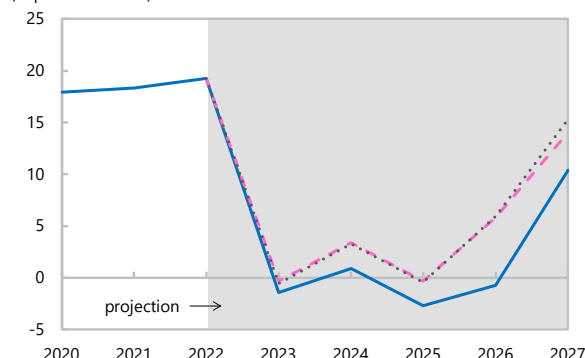
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario

	2022	2023	2024	2025	2026	2027
Real GDP growth	4.5	2.7	2.2	1.6	1.5	1.5
Inflation	3.5	1.9	1.4	1.6	1.7	1.7
Primary Balance	2.1	3.1	3.6	4.0	4.3	4.6
Effective interest rate	1.3	2.1	2.1	2.1	2.1	2.1

Constant Primary Balance Scenario

Real GDP growth	4.5	2.7	2.2	1.6	1.5	1.5
Inflation	3.5	1.9	1.4	1.6	1.7	1.7
Primary Balance	2.1	2.1	2.1	2.1	2.1	2.1
Effective interest rate	1.3	2.1	2.0	2.0	2.0	2.0

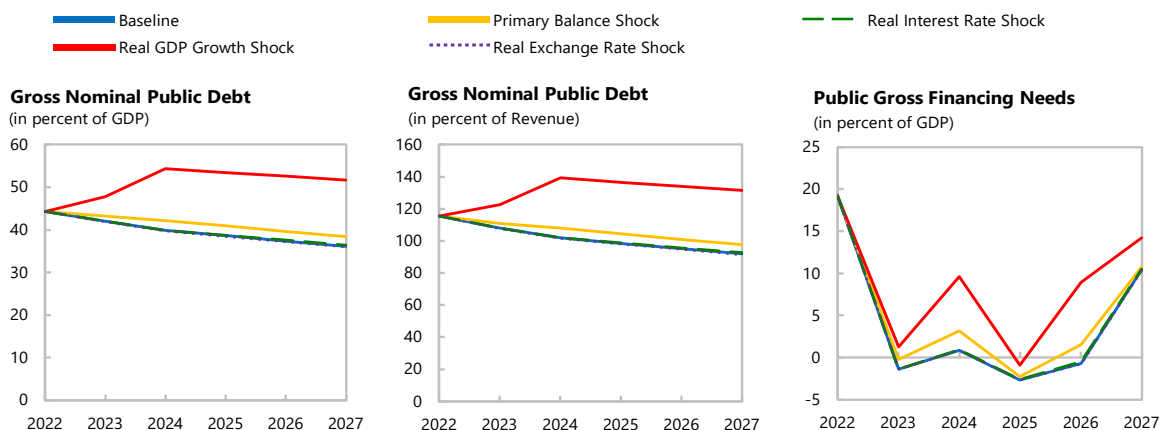
Historical Scenario

	2022	2023	2024	2025	2026	2027
Real GDP growth	4.5	0.1	0.1	0.1	0.1	0.1
Inflation	3.5	1.9	1.4	1.6	1.7	1.7
Primary Balance	2.1	2.3	2.3	2.3	2.3	2.3
Effective interest rate	1.3	2.1	2.1	2.2	2.1	2.2

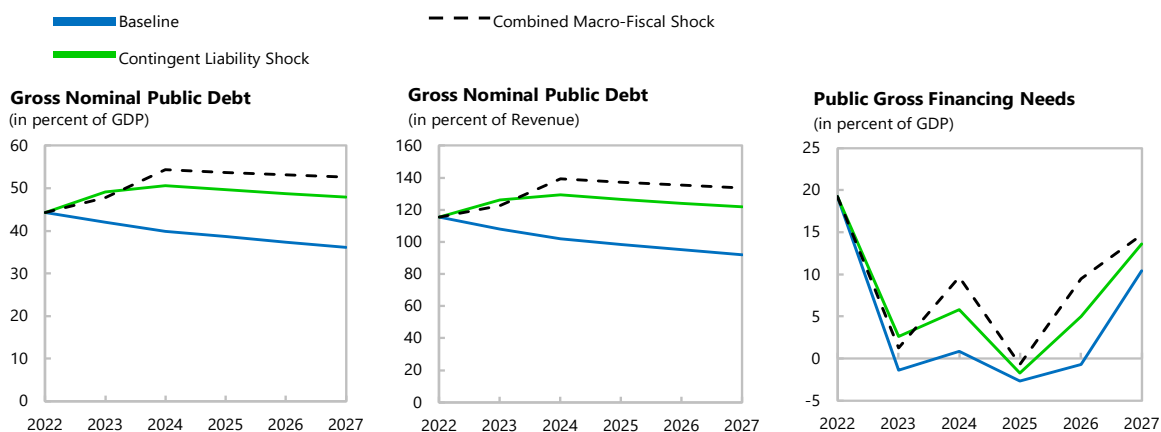
Source: IMF staff.

Annex Figure III.5. Andorra: Public Debt Sustainability Analysis—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions (in percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	4.5	2.7	2.2	1.6	1.5	1.5
Inflation	3.5	1.9	1.4	1.6	1.7	1.7
Primary balance	2.1	2.0	2.4	4.0	4.3	4.6
Effective interest rate	1.3	2.1	2.0	2.1	2.1	2.1
Real Interest Rate Shock						
Real GDP growth	4.5	2.7	2.2	1.6	1.5	1.5
Inflation	3.5	1.9	1.4	1.6	1.7	1.7
Primary balance	2.1	3.1	3.6	4.0	4.3	4.6
Effective interest rate	1.3	2.1	2.1	2.3	2.3	2.4
Combined Shock						
Real GDP growth	4.5	-2.8	-3.3	1.6	1.5	1.5
Inflation	3.5	0.5	0.0	1.6	1.7	1.7
Primary balance	2.1	0.6	-1.7	4.0	4.3	4.6
Effective interest rate	1.3	2.1	2.1	2.6	2.6	2.7
Real GDP Growth Shock						
Real GDP growth	4.5	-2.8	-3.3	1.6	1.5	1.5
Inflation	3.5	0.5	0.0	1.6	1.7	1.7
Primary balance	2.1	0.6	-1.7	4.0	4.3	4.6
Effective interest rate	1.3	2.1	2.0	2.2	2.2	2.0
Real Exchange Rate Shock						
Real GDP growth	4.5	2.7	2.2	1.6	1.5	1.5
Inflation	3.5	2.3	1.4	1.6	1.7	1.7
Primary balance	2.1	3.1	3.6	4.0	4.3	4.6
Effective interest rate	1.3	2.1	2.1	2.1	2.1	2.1
Contingent Liability Shock						
Real GDP growth	4.5	-2.8	-3.3	1.6	1.5	1.5
Inflation	3.5	0.5	0.0	1.6	1.7	1.7
Primary balance	2.1	-0.7	3.6	4.0	4.3	4.6
Effective interest rate	1.3	2.1	2.0	2.0	2.0	2.0

Source: IMF staff.

Annex IV. Estimate of Gross International Reserve Needs¹

The authorities are taking steps to continue building up international reserves on a precautionary basis. In addition to being an open euroized economy, Andorra does not have a lender of last resort for its large banking sector with sizeable nonresident deposits. Its available reserve assets comprise the reserve tranche position and the SDR holdings at the Fund, which amount to 5 percent of GDP, and a deposit of €100 million (equivalent to 3.7 percent of GDP) in cash at the Bank of Spain. IMF staff estimate the government's potential liquidity needs at 8.7 percent of GDP, assuming that the banks have enough high-quality liquid assets to cover their potential liquidity needs. Therefore, the government does not currently have a liquidity gap but could have one should the banks face a liquidity gap in a stress scenario.

1. **Despite sizable current account surpluses, Andorra could still be subject to external shocks and precautionary reserve assets would be useful to cushion against liquidity shocks.**

This is particularly true as Andorra is fully euroized economy without a lender of last resort and is exposed to balance of payments-related shocks given its high degree of openness. On the current account side, Andorra relies heavily on goods imports, which are close to 50 percent of GDP. On the financial account side, a large share of the funding for the banking sector—with assets amounting 590 percent of GDP in 2021—comes from nonresident deposits, which makes the Andorran banking sector vulnerable to liquidity shocks in the event of a capital flight. So, even though there is a positive net international investment position, other investment (currency and deposits) liabilities of banks are estimated at 148 percent of GDP in 2020.

2. **Euroization and the absence of a lender of last resort call for an assessment of Andorra's reserve adequacy focused on potential liquidity needs of the government.**

The government may wish to maintain additional fiscal savings to smooth unexpected fluctuations in revenue or spending, particularly when financing may become more difficult or costly.

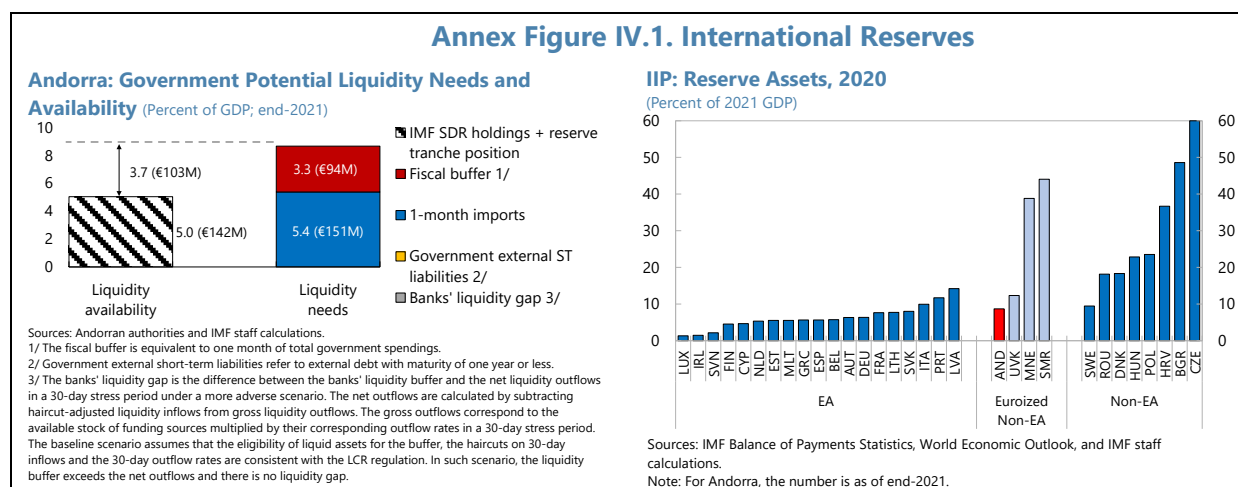
3. IMF staff constructed a measure of potential liquidity needs of the government. In the absence of a lender of last resort, the Andorran government is responsible for using reserve assets to cover for any liquidity shortages faced by the government itself, and any liquidity gap faced by the banks. The measure of 'potential liquidity needs' constructed by IMF staff accounts for: (i) the government's BoP-related needs; (ii) a fiscal buffer; and (iii) the banks' liquidity gap.

- **The BoP-related needs include 1 month of imports of goods and services and the short-term external public debt.** The rationale for including imports in a measure of the government's potential liquidity needs is that the government is the ultimately responsible for providing necessity goods to its population, including imported goods. The inclusion of the short-term external public debt captures rollover risks. Andorra's government did not have any short-term external debt as of end-2021.

¹ This Annex summarizes the methodology used to calculate Andorra's reserve needs described in [2021 Selected Issues – Gross International Reserves: Qualifications and Quantities](#).

- **The fiscal buffer is proxied by one month of total public spending, based on the analysis by IMF (2013).** Given the fiscal discipline imposed by the fiscal rule, the government of Andorra has not had the need to build large fiscal buffers in the past. However, the challenges posed by the pandemic highlighted the importance of having large enough fiscal buffers in the event of a crisis.
- **The assessment of the banks’ liquidity gap is based on Basel III’s Liquidity Coverage Ratio (LCR).** The LCR is defined as the ratio between high-quality liquid assets and net liquidity outflows over a 30-day stress period, which needs to be at least 100 percent since January 2021.² In the baseline scenario, under outflow assumptions that are consistent with the LCR regulation and more pessimistic than those experienced in comparable countries, the liquidity buffer exceeds the net outflows. The LCR of the system was over 200 percent in 2021, well above the 100 percent requirement. Thus, there is no liquidity gap in the banking system that needs to be taken into account as part of the international reserves calculation.

4. Potential liquidity needs of the government are estimated to be €244 million, equivalent to 8.7 percent of GDP (Figure 1, left), provided the banking system liquidity risk is well-supervised. Around 62 percent of the potential liquidity needs correspond to BOP-related needs. The fiscal buffer adds to the remaining 38 percent. The banks’ liquidity gap is zero in the baseline, in compliance with the LCR regulation. However, this may not necessarily be the case if the outflow rates in a more adverse scenario turn out to be larger than those assumed in our baseline calculation. The amount of reserves implied by the ‘potential liquidity needs’ metric for Andorra in the baseline scenario is consistent with the levels of international reserves observed in some euroized economies.



² The LCR requirement was adopted by Andorra in 2018, by transposition of EU CRDIV/CRR regulation. This adoption was done in phases, requiring banks to have an LCR of at least 60 percent by January 2019, of at least 80 percent by January 2020 and of at least 100 percent starting from January 2021.

Annex V. Authorities' Response to Past IMF Policy Recommendations

IMF 2021 Article IV Recommendations	Authorities' Response
Fiscal Policy	
In the near-term, fiscal policy should evolve in line with the demands of the pandemic, and the authorities should not prematurely withdraw stimulus.	With the recovery well-entrenched, most support measures were withdrawn in 2021 as demand for them waned and the authorities focused on rebuilding policy space. Fiscal COVID-related measures declined from 9.1 percent of GDP in 2020 to 3.6 percent of GDP in 2021, and by end-2021, only the soft loans program remained in place.
In the medium-term, increase infrastructure spending to support long-term growth.	Public investment declined (as percent of GDP) in 2021. The authorities argued that fiscal multipliers tend to be lower in Andorra, limiting the gains from higher public spending.
Continue diversifying funding sources and lengthening debt maturities.	The government issued Eurobonds worth €675 million in 2021—€500 million in April and €175 million in October, with maturities of 10 and 20 years, respectively—as part of a program totaling nearly €1.3 billion over 2021–22. This reduced interest costs and increased the average maturity of debt from 2.7 years in 2019 to about 8 years by end-2022.
Over time, build international reserves to cover liquidity needs on a precautionary basis.	The 2021 allocation of IMF Special Drawing Rights (SDRs) increased international reserves to about 5 percent of GDP. An additional €100 million (equivalent to 3.7 percent of GDP) from the debt issued in 2021 were deposited in a euro system reserve management account at the Bank of Spain, bringing reserves up to the reference level estimated by IMF staff of 8.7 percent of GDP.
Financial Sector	
In the near-term, assess the impact of the pandemic on bank capital.	Banks emerged from the crisis in a relatively strong position, while support measures were in place. Such measures were phased out in end-2021. The AFA has been vigilant to the evolution of asset quality and capital, with no signs of deterioration so far.
Strengthen rules on related party lending aiming to disincentivize banks from such loans. It could consider additional capital in the form of "Pillar II" on related party exposures of specific banks.	The Andorran Financial Authority (AFA) encouraged banks to reduce their related party exposure to less than 15 percent of capital. Two out of the three Andorran banks are already in compliance. In addition, the AFA conducted on-site inspections of related party lending in 2021:Q4 and related party risk is now included as an input in determining Pillar 2 capital requirements.

IMF 2021 Article IV Recommendations	Authorities' Response
Continued vigilance on liquidity risks to ensure an adequate level of liquid assets to meet short-term runs from foreign depositors.	There is a system of reporting on liquidity in place, and AFA monitors closely the LCR and its components.
Governance and Transparency	
Collect and publish information on the beneficial ownership of entities that were awarded contracts, including COVID-related ones, to increase transparency and accountability of public spending.	The authorities collect information on beneficial ownership in the Commercial Registry, for domestic companies (not foreigners). Such information is not publicly available, though it is shared with any Andorran citizen upon request.
In the absence of an anti-corruption strategy, further strengthen the coordination of measures to combat corruption and identify areas for priority action.	Ongoing efforts to combat corruption (e.g., adoption of GRECO recommendations) are not coordinated due to the absence of an anti-corruption strategy.
Ratify the United Nations Convention against Corruption (UNCAC).	There is political commitment to ratify the UNCAC. The authorities are analyzing the implications of its implementation in Andorra's legislative framework.
Further develop the monitoring of cross-border flows, including through cooperation with foreign counterparts, deepen the understanding of ML risks.	The AFA has enhanced the monitoring of cross-border flows by introducing a new quarterly reporting requirement for cross-border transactions of the supervised Andorran entities and their subsidiaries.
Focus the allocation of resources to higher risk areas to increase the effectiveness of AML/CFT supervision.	Resources for AML/CFT supervision are already allocated to high-risk areas.
Close various data gaps, including developing other real, financial, and external sector statistics that are needed for effective surveillance.	The authorities continue to make progress refining the recently developed BoP and IIP statistics with technical assistance from the IMF. The authorities will start producing a monthly value unit index of goods exports and imports (expected in 2022:Q3), a quarterly business confidence index (expected in 2023), and expenditure and income components of GDP (expected in 2024). They will also extend backwards the series of GDP growth at quarterly frequency to start in 2002 and are exploring the possibility of improving the frequency of producing BoP statistics from annual to quarterly.
Prepare an advance release calendar containing release dates for major macroeconomic statistics.	The advance release calendar is expected to be published later in 2022.
Adopt the Enhanced General Data Dissemination System (e-GDDS).	The e-GDDS was adopted on May 6, 2022.



PRINCIPALITY OF ANDORRA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 25, 2022

Prepared By

European Department

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FUND RELATIONS	2
STATISTICAL ISSUES	4

FUND RELATIONS

(As of April 30, 2022)

Membership Status: Joined October 16, 2020, Article VIII.

General Resources Account:	SDR Million	Percent of Quota
Quota	82.50	100.00
IMF's holdings of currency	61.88	75.00
Reserve tranche position	20.63	25.00
SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	114.44	100.00
Holdings	93.82	81.98
Outstanding Purchases and Loans:	None	
Latest Financial Arrangements:	None	

Projected Payments to Fund					
(SDR Million; based on present holdings of SDRs)					
	Forthcoming				
	2022	2023	2024	2025	2026
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.06	0.10	0.10	0.10	0.10
Total	0.06	0.10	0.10	0.10	0.10

2022 Article IV Consultation: This is Andorra's second Article IV consultation. Discussions were held virtually on March 28–April 8, 2022.

Exchange Rate Arrangements: Andorra's legal tender is the euro. There is no central monetary institution. On June 30, 2011, Andorra signed a monetary agreement with the EU (in effect on April 1, 2012) which authorizes Andorra to use the euro as its official currency, grants legal tender status to euro banknotes and coins, and as of July 1, 2013, authorizes Andorra to issue limited quantities of euro coins. Andorra is not permitted to issue euro banknotes. The monetary agreement does not prejudice the right of Andorra to continue issuing collector coins denominated in diners, permitting the *Banque de France* and *Banca de España* to do so on Andorra's behalf in the absence a central bank. Andorra has accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for those measures imposed solely for security reasons which have been notified to the Fund pursuant to Executive Board Decision No. 144 (52/51). The current classifications of Andorra's de jure and de facto exchange rate arrangements are "no separate legal tender."

Technical Assistance:

Year	Department/Purpose
2020–22	STA External Sector Statistics
2021	MCM Bank Supervision
2021	STA e-GDDS
2022	MCM Systemic Liquidity Management (not yet started)

Resident Representative: None

STATISTICAL ISSUES

(as of April 26, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision is broadly adequate for surveillance, but widespread data gaps exist. Significant progress has been made since Andorra's membership to the IMF, particularly regarding Balance of Payments (BoP) statistics, but important weaknesses remain. GDP statistics are reported with lags, and the disaggregation by expenditure components is not available. Fiscal and monetary statistics are available with delays, at low frequency and level of disaggregation, and do not follow international dissemination standards as yet. While the reporting of Financial Soundness Indicators (FSIs) is adequate, there are inconsistencies with monetary statistics. An advance release calendar containing release dates for major macroeconomic statistics is not published.</p>
<p>National Accounts: The level of annual GDP disaggregated by economic activities is only available in nominal terms and published with a one-year lag. For the real GDP by economic activities only growth rates (not levels) are published, at quarterly frequency, with a lower level of disaggregation than the annual nominal series and with a three-month lag. Series of GDP by expenditure components are not available, neither in nominal nor in real terms. The Andorran Statistics Department will extend backwards the series of GDP growth at quarterly frequency to start in 2002 (and not in 2010). It is also planning to publish expenditure and income components of GDP starting from 2024. The authorities will start producing a monthly value unit index of goods exports and imports in 2022:Q3.</p>
<p>Price Statistics: The consumer price index (CPI) and components are published at a monthly frequency within two weeks after the reference period. The weights are updated annually based on household budget surveys. Owner-occupied housing is included in the CPI using the rental equivalence approach. A producer price index is not compiled.</p>
<p>Government Finance Statistics: Fiscal data, at annual frequency, is reported with a three-to-six-month delay once the audit of the public sector accounts is complete. Detailed reports on monthly revenue collection and expenditure execution are not available, and quarterly fiscal data can be provided by the authorities only upon request and with a three-month delay. Periodic reports on scheduled future debt service, distinguishing between amortization and interest payments, for both the central and the general government, are also needed; the authorities only shared future debt service data for the central government.</p>
<p>Monetary Statistics: The authorities shared balance sheet data of banks for 2016–21, but with a low level of disaggregation. More granularity would be needed to produce the Other Depository Corporation survey according to international standards. The monetary and financial statistics (MFS) are not reported to IMF's Statistics Department.</p>
<p>Financial Sector Surveillance: The authorities provided FSIs at quarterly frequency for the period 2018:Q4–2021:Q4; pre-2018 FSIs are not available due to significant changes in reporting.</p>

Staff identified inconsistencies on reporting of credit growth between the FSI data and monetary statistics. FSIs are not directly reported to IMF's Statistics Department. Data on the financial health of corporates and households is not available yet; the authorities will start publishing aggregate company financial statistics and financial ratios, at annual frequency, starting from 2022:Q3. Real estate prices, residential and commercial, are available at quarterly frequency.

External Sector Statistics: The Andorran Statistics Department successfully disseminated its first annual BoP statistics in May 2021 (with 2019 data). In 2022, the BoP data was extended to 2020 and the coverage and quality were improved with support from IMF's Statistics Department. The recently published International Investment Position (IIP) statistics remain work in progress, pending the implementation of the recommendations from IMF's Statistics Department's most recent technical assistance mission. The authorities are exploring the possibility of improving the frequency of producing BoP statistics from annual to quarterly.

II. Data Standards and Quality

The Andorran authorities implemented the Enhanced General Data Dissemination System (e-GDDS) by launching a National Summary Data Page, a one-stop shop for data dissemination, on May 6, 2022.

No data ROSC available.

Andorra: Common Indicators Required for Surveillance

(As of April 26, 2021)

	Date of latest observation	Date received	Frequency of Data⁷	Frequency of Reporting⁷	Frequency of publication⁷
Exchange Rates	NA	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	March 31, 2022	April 2022	M	M	M
Reserve/Base Money	NA	NA	NA	NA	NA
Broad Money	NA	NA	NA	NA	NA
Central Bank Balance Sheet	NA	NA	NA	NA	NA
Consolidated Balance Sheet of the Banking System	2021	January 2022	A	A	A
Interest Rates ²	NA	NA	NA	NA	NA
Consumer Price Index	2022:M3	April 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2020	January 2022	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2021	April 2022	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2021	April 2022	A	A	A
External Current Account Balance	2020	April 2022	A	A	A
Exports and Imports of Goods and Services	2020	April 2022	A	A	A
GDP/GNP	2021	March 2022	A	A	A
Gross External Debt	NA	NA	NA	NA	NA
International Investment Position ⁶	2019	April 2021	A	A	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions—update definition.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis a vis nonresidents.

⁷Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).