FitchRatings

Andorra

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Country Ceiling	AA-
Outlooks	
Long-Term Foreign-Currency IDR	Stable

Rating Derivation

Component	
Sovereign Rating Model (SRM)	A-
Qualitative Overlay (QO)	0
Structural features	0
Macroeconomic	0
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	A-

Source: Fitch Ratings

Data

	2022
GDP (USDbn)	3
Population (m)	0.1

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2023)
Country Ceilings Criteria (July 2020)

Related Research

Fitch Affirms Andorra at 'A-'; Outlook Stable (April 2023)
Global Economic Outlook (March 2023)
Interactive Sovereign Rating Model
Fitch Fiscal Index – Analytical Tool
Click here for more Fitch Ratings content on Andorra

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Key Rating Drivers

Strong Structural Fundamentals: Andorra's credit profile is supported by GDP per capita levels and governance indicators that stand well above the median of 'A' rated category peers. Prudent fiscal policy has helped build-up fiscal buffers and debt/GDP is low. These strengths are set against Andorra's small sized economy and limited diversification. A large banking sector, more than 5x GDP, exposes the economy and government balance sheet to risks in case of a severe adverse shock, risks that are compounded by the absence of a lender of last resort.

Fiscal Surplus: Fitch Ratings forecasts a fiscal surplus of close to 3.0% of GDP in 2022, after a moderate general government fiscal deficit of 1.2% of GDP in 2021. Lower economic growth and an increase in expenditures due to high inflation will lead to a fall in the surplus to 1.7% of GDP in 2023. This compares with a projected median fiscal deficit of 4.2% across 'A' category sovereigns.

Moderate Government Debt: General government debt is forecast to have declined to 39.4% of GDP at end-2022, after peaking at 48.5% of GDP in 2021, and below the current median debt ratio of 'A' peers (50.8%, 2022). Andorra has significant public sector assets, including social security fund assets equivalent to about 55% of GDP and central government deposits of 13.5% of GDP (Fitch estimate) at end-2022.

Low Financing Costs: With no large external refinancing needs before 2027 and government plans to use some of its accumulated surplus for upcoming bond buybacks, Andorra's financing costs are likely to remain fairly stable over the near term. Andorra's interest payments to revenue ratio was 1.5% in 2022, half the current median ratio of 'A' category sovereigns (3.0%).

Banking Sector Resilience: Recent market turmoil has not materially affected the Andorran banks due to their limited reliance on capital markets. Banks' funding structures comprise mostly of deposits. Excess liquidity in the sector (liquidity coverage ratio (LCR) above 200%, end-2022) and Andorra's building-up of foreign-exchange (FX) reserves under a recent scheme, support banking sector resilience to liquidity shocks.

Net External Creditor: Andorra is a large net external creditor (194.2% of GDP, end-2021; current median external debtor position of 'A' peers at 7.6% of GDP). Current account surpluses averaged 15.9% of GDP between 2019 and 2021. The sovereign's net foreign asset position has deteriorated since 2021, turning negative in 2022. However, this reflects Eurobond issuances as part of the government's strategy to build up FX reserves, cash deposits and improving the maturity and financing profile of government debt.

Policy Continuity Post Election: Following parliamentary elections on 2 April 2023, the incumbent coalition government led by Democrats for Andorra (DA) won an absolute majority, with 16 seats out of 28. This is the fourth consecutive DA-led administration since 2011, which strongly supports continuation of existing economic and fiscal policies. We expect the new government to maintain its key priorities on affordable housing, pension reform, economic diversification and negotiations for an EU Association Agreement.

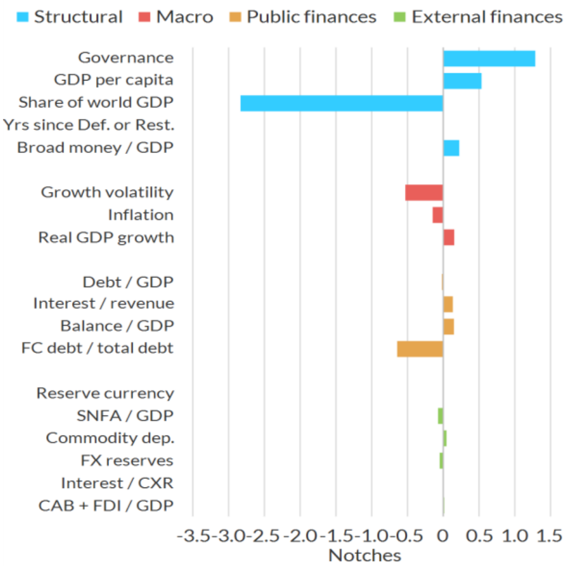
Economic Slowdown: After two years of robust economic growth (8.3% in 2021 and 8.8% in 2022), Andorra's level of GDP in 2022 surpassed its pre-pandemic 2019 level. Activity in both the tourism and construction sectors having been key drivers of growth. Andorra's economy is set to slow in 2023, with Fitch forecasting real GDP growth of 1.2% against a backdrop of high inflation and lower economic growth of its main trading partners.

Rating Summary

Long-Term Foreign-Currency Issuer Default Rating: A-

Sovereign Rating Model: BBB+

Contribution of variables, relative to A median



Qualitative Overlay: +1

Adjustments relative to SRM data and output

Structural features: No adjustment.

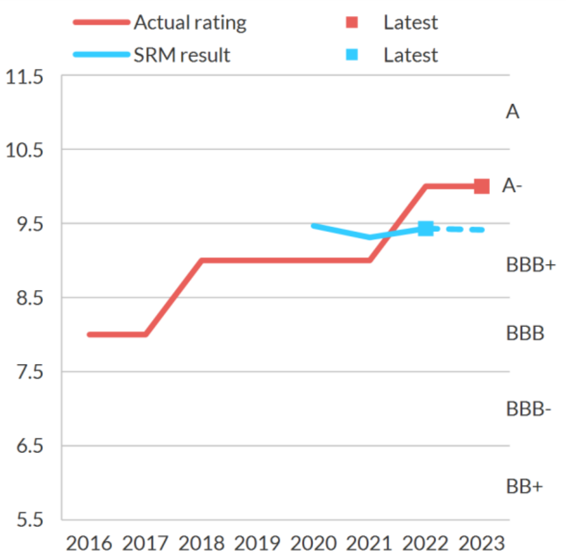
Macroeconomic outlook, policies and prospects: No adjustment.

Public finances: No adjustment.

External finances: No adjustment.

Note: See Peer Analysis table for summary data, including rating category medians; see the Full Rating Derivation table for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Recent Rating Derivation History

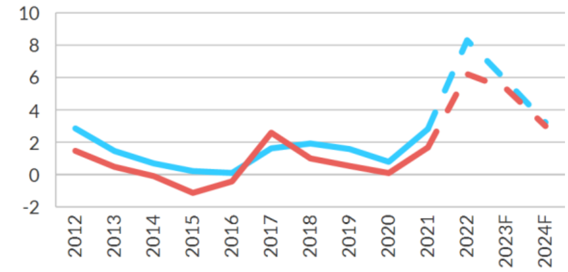
Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	A-	BBB+	0	+1	0	0
9 Dec 22	A-	A-	0	0	0	0
8 Jul 22	A-	A-	0	0	0	0
14 Jan 22	BBB+	BBB+	-1	+1	0	0
23 Jul 21	BBB+	BBB+	-1	+1	0	0
29 Jan 21	BBB+	BBB+	-1	+1	0	0
31 Jul 20	BBB+	BBB+	-1	+1	0	0
31 Jan 20	BBB+	A-	-1	0	0	0
2 Aug 19	BBB+	A-	-1	0	0	0
8 Feb 19	BBB+	A-	-1	0	0	0

[a] The latest rating uses the SRM result for 2022 from the chart. This will roll forward to 2023 in July 2023.
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

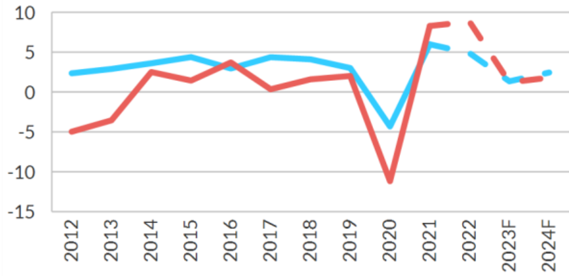
Peer Analysis

Andorra A Median

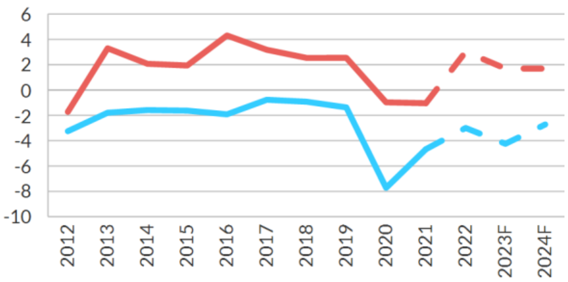
Consumer Price Inflation
(annual avg, %)



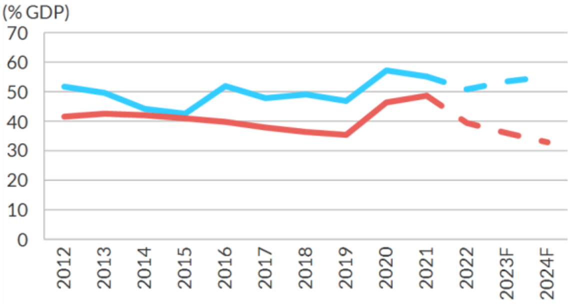
Real GDP Growth
(%)



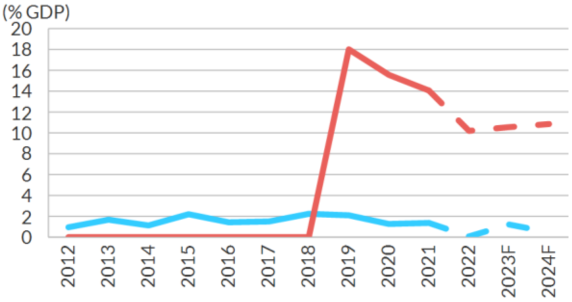
General Government Balance
(% GDP)



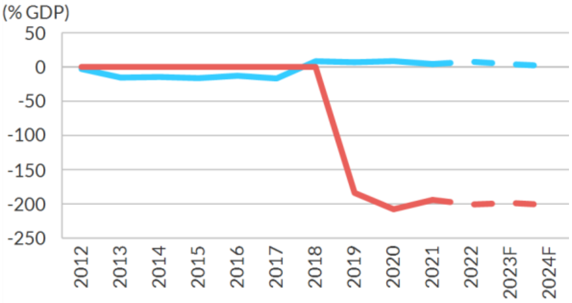
Gross General Government Debt
(% GDP)



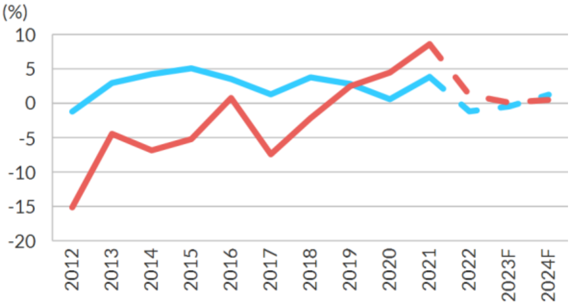
Current Account Balance
(% GDP)



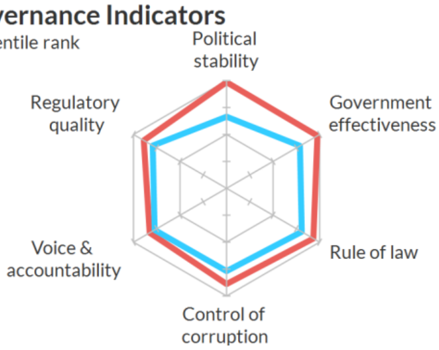
Net External Debt
(% GDP)



Real Private-Sector Credit Growth
(%)



Governance Indicators
Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2022[a]	Andorra	A median	BBB median	AA median
Structural features				
GDP per capita (USD) [SRM]	41,085	29,474	13,118	48,072
Share in world GDP (%) [SRM]	0.0	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	91.7	75.0	58.2	84.3
Human development index (percentile, latest)	78.9	82.2	67.2	89.4
Broad money (% GDP) [SRM]	384.5	93.1	62.8	98.3
Private credit (% GDP, 3-year average)	242.0	76.1	57.3	104.2
Dollarisation ratio (% bank deposits, latest)	100.0	10.3	16.3	12.6
Bank system capital ratio (% assets, latest)	20.7	15.7	15.6	16.1
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	6.1	3.7	3.3	2.2
Real GDP growth volatility (complex standard deviation) [SRM]	6.1	2.9	3.3	2.3
Consumer price inflation (%, 3-year average) [SRM]	4.4	2.3	3.2	2.2
Unemployment rate (%)	2.1	6.4	7.8	5.0
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	1.2	-2.3	-2.4	-0.8
Primary balance (% GDP, 3-year average)	1.7	-0.5	-0.5	0.8
Interest payments (% revenue, 3-year average) [SRM]	1.5	4.6	7.5	3.7
Gross debt (% revenue, 3-year average)	110.6	134.0	146.1	138.1
Gross debt (% GDP, 3-year average) [SRM]	41.3	40.9	36.6	39.6
Net debt (% GDP, 3-year average)	27.2	35.9	31.0	35.0
FC debt (% gross debt, 3-year average) [SRM]	100.0	10.4	36.4	0.5
External finances[c]				
Current account balance (% GDP, 3-year average)	11.6	0.9	-1.8	1.0
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	20.1	2.4	0.7	0.6
Commodity dependence (% CXR) [SRM]	0.8	11.5	19.6	15.0
Gross external debt (% GDP, 3-year average)	210.0	64.6	52.9	117.8
Net external debt (% GDP, 3-year average)	-197.9	-8.6	8.9	-13.6
Gross sovereign external debt (% GXD, 3-year average)	19.5	17.7	29.7	16.3
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	5.0	11.7	2.5	4.9
External interest service (% CXR, 3-year average) [SRM]	1.7	2.4	4.1	4.0
Foreign-exchange reserves (months of CXP) [SRM]	1.8	4.6	5.0	3.1
Liquidity ratio	-	105.1	141.6	61.6

[a] 3-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).
[c] See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances.
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI / MPI = bbb / 2*. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch's most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange-rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'No separate legal tender'.

Rating Factors

Strengths

- Andorra's high GDP per capita levels, estimated at USD41,085, about 1.4x the 'A' median.
- Andorra's estimated gross government debt/GDP ratio end 2022 at 39.4%, is below the current median debt ratio of 'A' category sovereigns (50.8%).
- A favourable debt repayment schedule (next bond refinancing due in 2027), helps mitigate Andorra's balance sheet from the increasing borrowing cost. Interest payments to revenues at 1.5%, end 2022, is half the current median ratio of 'A' category sovereigns (3.0%).
- A large net external creditor position, reflecting Andorra's large banking sector.
- Andorra's World Bank governance score at the 91.7 percentile is high, and stands above both the median percentile of 'A' (75.6).

Weaknesses

- A very large banking sector (assets equivalent to 590% of GDP in 2021, including domestic banking assets at 458% of GDP), poses a contingent liability risk to the government's balance sheet.
- Small size of the economy, which limits economic diversification.
- Low growth potential, at about 1.5%, reflecting low levels of human capital and low investment.
- Unsustainable pension system, which is projected to start running deficits from 2024.

Rating	Sovereign
A	Iceland
	Japan
	Lithuania
	Ras Al Khaimah
	Slovakia
	Slovenia
A-	**Andorra**
	Chile
	Latvia
	Poland
	Spain
BBB+	Croatia
	Malaysia
	Portugal
	Thailand

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Structural Features:** A severe shock to the banking sector that would result in sizable spillovers to Andorra's economic performance and public finances given the large size of the banking sector.
- **Public Finances:** Resumption of an upward trajectory in the government debt ratio, for example, due to a macroeconomic shock or erosion of international competitiveness resulting from changes in tax policy.

Factors that could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Structural Features/Macro:** An improvement in growth potential, for example, via the implementation of structural reforms to improve the business environment, progress on economic diversification and/or further integration with the EU.
- **Structural Features:** Further improvement of the resilience of the banking sector and associated vulnerabilities of the sovereign balance sheet, evidenced for example through tangible improvements to the banking supervision framework and access to unlimited emergency liquidity facility.

Forecast Summary

	2019	2020	2021	2022	2023F	2024F
Macroeconomic indicators and policy						
Real GDP growth (%)	2.0	-11.2	8.3	8.8	1.2	1.8
Unemployment (%)	2.1	3.0	3.2	2.1	2.2	2.3
Consumer price inflation (annual average % change)	0.5	0.1	1.7	6.2	5.3	3.0
Policy interest rate (annual average, %)	0.0	0.0	0.0	0.7	3.7	3.8
General government balance (% GDP)	2.5	-1.0	-1.0	3.0	1.7	1.7
Gross general government debt (% GDP)	35.4	46.4	48.5	39.4	35.9	32.8
EUR per USD (annual average)	0.9	0.9	0.8	1.0	0.9	1.0
Real private credit growth (%)	2.5	4.5	8.6	1.2	0.1	0.5
External finance						
Merchandise trade balance (USDbn)	-1.3	-1.1	-1.3	-1.6	-1.6	-1.7
Current account balance (% GDP)	18.0	15.5	14.1	10.2	10.6	10.8
Gross external debt (% GDP)	173.4	219.7	202.1	219.1	208.8	203.1
Net external debt (% GDP)	-183.9	-207.8	-194.2	-200.9	-198.6	-201.7
External debt service (principal + interest, USDbn)	-	-	-	-	-	-
Official international reserves including gold (USDbn)	0.0	0.1	0.1	0.4	0.4	0.4
Gross external financing requirement (% int. reserves)	-	-	-	-	-	-
Real GDP growth (%)						
US	2.3	-2.8	5.9	1.9	1.0	0.8
China	6.0	2.2	8.4	3.0	5.2	4.8
Eurozone	1.3	-6.4	5.4	3.5	0.8	1.4
World	2.6	-3.3	6.1	2.7	2.0	2.4
Oil (USD/barrel)	64.1	43.3	70.6	98.6	85.0	75.0

Source: Fitch Ratings

Sources and Uses

Public Finances (Central Government)

(EURm)	2022	2023
Uses	**518.7**	**56.3**
Budget deficit	-96.3	-56.6
MLT amortisation	615.0	112.9
Domestic	615.0	112.9
External	0.0	0.0
Sources	**518.7**	**56.3**
Gross borrowing	468.7	37.6
Domestic	-15.6	56.3
External	484.3	-18.7
Privatisation	0.0	0.0
Other	35.0	18.7
Change in deposits (- = increase)	15.0	0.0

Source: Fitch Ratings

External Finances

(USDbn)	2022	2023
Uses	**-0.3**	**-0.4**
Current account deficit	-0.3	-0.4
MLT amortisation	0.0	0.0
Sovereign	0.0	0.0
Non-sovereign	0.0	0.0
Sources	**-0.3**	**-0.4**
Gross MLT borrowing	0.6	0.0
Sovereign	0.6	0.0
Non-sovereign	0.0	0.0
FDI	0.3	0.2
Other	-1.1	-0.6
Change in FX reserves (- = increase)	-0.1	0.0

Source: Fitch Ratings

Credit Developments

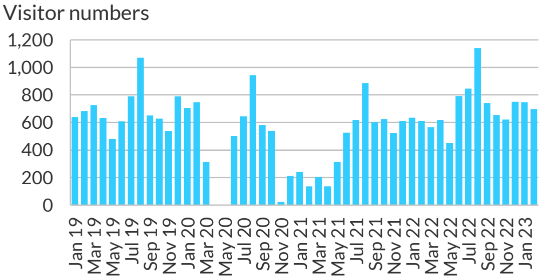
Slowdown in Economic Growth

In 2022, Andorra's level of GDP surpassed its pre-pandemic 2019 level. Real GDP expanded 8.8% of GDP in 2022, further strengthening an already robust post-pandemic economic recovery after real growth of 8.3% in 2021. Andorra's non-financial sector (87% of total gross value added in 2022) registered annual real growth of 7.8% – driven by strong activity in both tourism and construction sectors. The number of visitors in 2022 was 2.3% higher than in 2019, according to national statistics. Construction activity is estimated to have increased 7.4% in 2022, compared with a 10.1% rise in 2021.

Fitch forecasts economic growth to slow this year, with real GDP growth of 1.2%. This forecast was lowered by 1.3pp from 2.5% six months before. The revision mainly reflects the impact from higher-than-expected inflation and its lagged negative effect on private consumption. Tighter financial conditions will constrain consumption and private-sector investment activity. Lower economic activity across its key trading partners, Spain and France, is also expected to have a negative impact on Andorra's small and open economy.

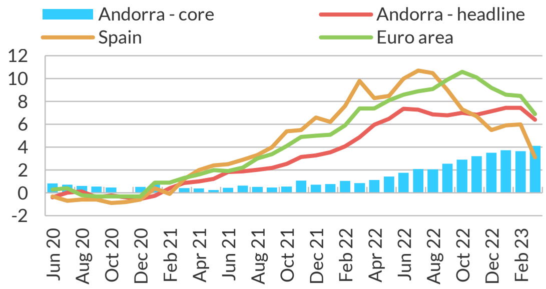
In the March 2023 Global Economic Outlook, we forecast Spain's real GDP growth to slow to 1.2% in 2023 from 5.5% in 2022. Real GDP growth in France is set to slow to 0.8% from 2.6%.

Strong Recovery in Tourism
(in thousands persons)



Source: Fitch Ratings, Andorra National Statistics

Elevated Inflation
(% annual change)



Source: Fitch Ratings, Eurostat, Andorra National Statistics

Imported Inflation Remains High

Headline inflation remains at elevated levels, but eased to 6.4% in March from 7.5% the previous month. Although pressures from high energy prices have started to lessen, strong price growth in food, housing rents, and services (including hotels and restaurants and entertainment) have persisted. Andorra's high import dependency, illustrated by persistently large structural goods trade deficit (five-year average deficit at 41% of GDP to end-2021), leaves inflation susceptible to price developments of its main trading partners. Spain accounts for 70% of Andorra's imported trade in goods. Headline inflation in Spain peaked in July 2022 at 10.7%, but slowed significantly to 3.1% in March.

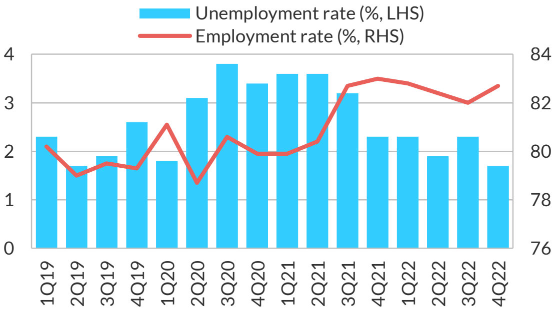
Inflation in Andorra should gradually start to ease in 2H23. Fitch expects inflation in Andorra to start declining from 2H23. After average inflation of 6.2% in 2022, we forecast inflation to average 5.3% in 2023. This compares to a previous 2023 forecast of 5.9% six months ago.

Inflationary risks remain on the upside. Core inflation (headline less unprocessed food and energy) remains stubbornly high; with annual growth in March reaching 6.0% from 5.8% the previous month. If higher wage growth and tightness in the labour market persist, this could contribute to larger-than-expected second-round effects.

Labour Market Tightness Risks High Wage Growth

With the robust economic recovery, labour market conditions have also tightened. Despite high employment levels, total job vacancies across most sectors remain above pre-pandemic levels – notably in construction, hospitality and trade. Wage growth was above average in these sectors in 2022. According to Andorra National Statistics, the average median salary across all sectors increased by 4.6% in 2022. We except wage growth to remain elevated this year. In addition to an increase in the minimum wage (the third rise since December 2021), the government has set mandatory minimum increases from 0.5% to 7.0% at various income thresholds up to EUR4,000 a month.

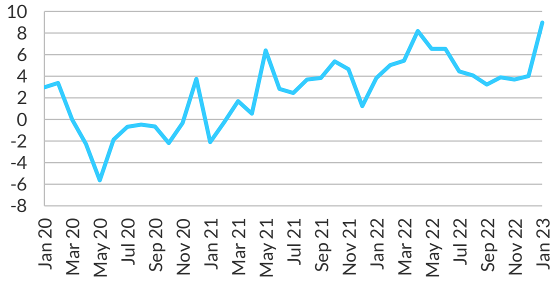
Low Unemployment



Source: Fitch Ratings, Andorra National Statistics

Wages Trending Upwards

Median salary, all sectors (yoy% change)



Source: Fitch Ratings, Andorra National Statistics

Budget Balance Returns to Surplus

A strong fiscal outperformance is expected for 2022. Fitch estimates a central government surplus 2.2% of GDP, much better than the 2022 budget forecast of a deficit of 0.3% of GDP (after a deficit of 2.8% of GDP in 2021), due to the impact from higher-than-expected economic growth and elevated inflation.

Against budget assumptions, 2022 real GDP was 3.6pp higher, and average annual inflation 1.7pp higher. The result has led to robust revenue growth. Official statistics on tax revenue for 1Q22-3Q22, show the value of indirect taxes collected 42.0% higher than the same period in 2021, and for direct taxes a 13.5% increase. Government expenses are expected to have come in less than budgeted. Although expenses related to measures against higher energy costs and cost of living increased, aggregate spending was likely contained due robust labour activity, which meant lower spending on some current transfers (e.g. unemployment benefits, subsidies to self-employed people), and lower Covid-19-related expenses[1].

For 2023, we forecast a lower central government surplus of 0.7% of GDP. This year's expected sharp slowdown in economic activity is likely to lead to lower government revenue receipts, although the net impact will be partially mitigated by high inflation and wages. Government measures introduced to ease the high cost of living have all been extended into this year. Expenditures, including inflation-linked increases in pension payments and salaries, subsidies for rental housing, and free public transportation, are estimated by Fitch to have cost about EUR10 million (0.3% of GDP). Larger expenditure items largely relate to policies addressing affordable housing (EUR13.1 million)[2], and investments under the Renova programme aimed at improving energy efficiency in the private sector. Meanwhile, revenue will be about EUR1.6 million lower due to the extension on reduced VAT on some essential products and lower hydrocarbon tax for company vehicles.

Primary Fiscal Surpluses to Aid Gradual Debt Decline

Fitch forecasts Andorra's general government debt ratio to have declined to 39.4% of GDP end-2022 from a peak of 48.5% of GDP the previous year. The decrease in debt supported by both strong nominal GDP growth and a projected general government primary fiscal surplus (3.6% of GDP at end 2022; -0.6% of GDP at end-2021). A slower pace of debt decline is projected from this year, reflecting lower economic growth, decrease in GDP deflators and lower primary fiscal surpluses. With no refinancing needs before 2027[3] and government plans to use some of its accumulated 2022 fiscal surplus (EUR30 million) for upcoming bond buybacks, Andorra's financing costs are likely to remain stable over the near term.

Incumbent DA-Led Coalition Secures Parliamentary Majority

Following parliamentary elections held on 2 April 2023, the incumbent coalition government led by DA won 16 seats out of 28 seats. Acting head of government and party leader of DA, Xavier Espot, continues to lead discussions with coalition partners over ministerial positions. We expect the formation of government to be smooth in the coming weeks. Election results also mean a fourth consecutive DA-led administration since 2011, which strongly supports a

[1] The 2022 Budget allocated 1.3% of GDP in Covid-19-related measures, this included spending on tests, vaccines, and transfers to healthcare system, in addition to support for households in the form of unemployment benefits and subsidies to self-employed.
[2] Policies include the construction project of social housing in Borda Nova, and government programme to purchase unused buildings to sell or rent at affordable prices.
[3] EUR500 million sustainable bond, coupon rate 1.25%, due 23 February 2027.

continuation in existing economic and fiscal policies. Priorities include affordable housing, pension reform, economic diversification and negotiations for an EU Association Agreement.

Andorra's World Bank governance score at the 91.7 percentile is high and is above both the median percentile of 'A' (75.6) and 'AA' (84.5) category rated sovereigns.

Banking Sector Resilience

Developments in the banking sector remain stable. In spite of robust economic activity, overall credit growth in the sector has remained subdued against the backdrop of higher interest rates. Meanwhile, asset quality of banks' balance sheets continues to improve, with the level of non-performing loans (NPLs) declining even with the withdrawal of Covid-19 support. From end 2019 to end 2022, the average NPL ratio for household lending fell to 3.19%, from 10.65%, and for the non-financial corporate sector 6.2% from 10.4%[4].

The Andorran banking sector is predominately funded by deposits, there has been no need for debt issuances or access to the interbank market, which to a degree limits the sector's exposure to global financial market volatilities. Although, a share of non-resident deposits could present a liquidity risk in times of severe distress. At end-2022, the sector average LCR was 218%, more than double Basel III minimum requirements. Under an adverse scenario conducted by the IMF, which stresses the sector with a deposit outflow rate four times the baseline, the sector LCR would fall below 100%, with a liquidity gap 4.8% of GDP. In such a scenario, the risks to banks and the knock-on effects for the sovereign should be largely absorbed by the emergency liquidity assistance available from the FX reserves (EUR360 million, end-2022, 10.8% of GDP).

Against the backdrop of elevated real estate prices and high interest rates, developments in the commercial and residential real estate sector warrant careful monitoring. On commercial real estate (CRE), about 40% of the banking sector's corporate loan portfolio are backed by CRE assets. It is also a sector where NPLs remain elevated (11.2% at end-2022). On the residential sector, household mortgages at variable rate account for a large share of banks' mortgage portfolio, 85%. The average variable rate on new mortgages increased by 2pp over 2022 to 3.17%. There is certainly a risk on debt servicing should rates move higher. A shortfall in available data on the household sector's balance sheet limits a more thorough assessment of their resilience to interest rate shocks.

[4] Statistics on NPLs are partially affected by the carve out of VallBanc loans to a private equity fund following its acquisition by Crèdit Andorrà.

Public Debt Dynamics

General government debt/GDP peaked in 2021. We expect the ratio to remain on a gradual downward trajectory from 2023. According to our debt dynamics model, the current debt trajectory remains fairly resilient to most individual macroeconomic shocks. There is also no foreign-currency-denominated debt. However, risk of persistent primary fiscal deficits could halt the downward debt trajectory.

Debt Dynamics – Fitch's Baseline Assumptions

	2020	2021	2022	2023	2024	2025	2026
Gross general government debt (% of GDP)	46.4	48.5	39.4	35.9	32.9	30.3	27.8
Primary balance (% of GDP)	-0.6	-0.6	3.6	2.2	2.2	2.0	2.0
Real GDP growth (%)	-11.2	8.3	8.8	1.2	1.8	1.5	1.5
Average nominal effective interest rate (%)	1.0	1.1	1.3	1.3	1.5	1.6	1.8
EUR/USD (annual average)	0.9	0.8	1.0	0.9	1.0	1.0	1.0
GDP deflator (%)	1.1	2.6	4.2	3.4	2.2	2.0	2.0
Stock-flow adjustments (% of GDP)	0.0	0.0	-3.1	-0.6	0.0	0.0	0.0

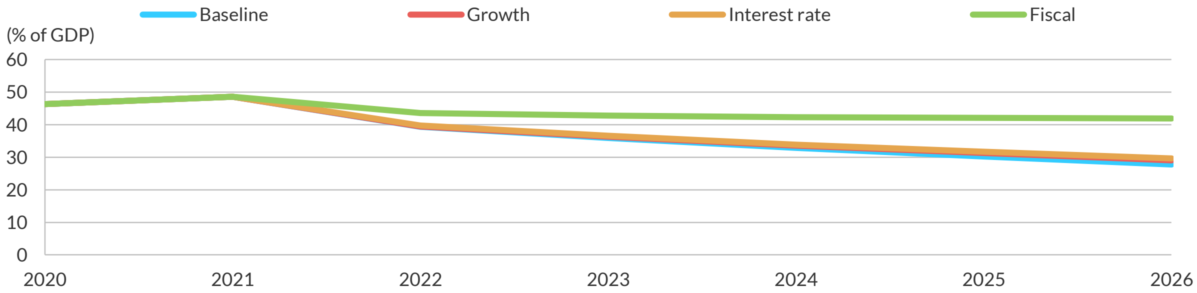
Source: Fitch Ratings

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.0% lower than baseline
Interest rate	Marginal interest rate 250bp higher than baseline
Fiscal	Primary fiscal deficit unchanged from 2021 (0.6% of GDP)
Exchange rate	There is no foreign-currency-denominated debt

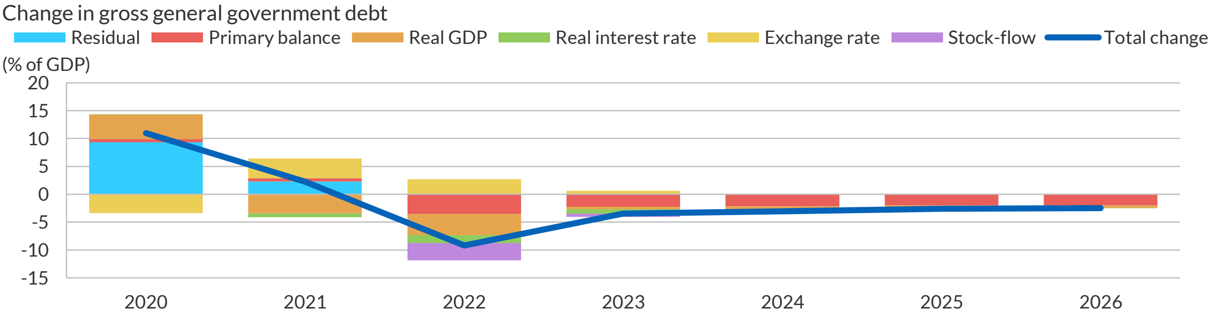
Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows
Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Revenue	38.5	38.0	38.5	38.1	41.2	37.8	37.7	36.4	36.3
Expenditure	34.1	34.7	35.9	35.8	42.3	38.9	34.7	34.7	34.6
o/w interest payments	0.6	0.5	0.5	0.4	0.5	0.6	0.5	0.5	0.5
Interest payments (% revenue)	1.6	1.4	1.2	1.2	1.2	1.6	1.5	1.4	1.4
Primary balance	5.0	3.8	3.1	2.7	-0.6	-0.6	3.6	2.2	2.2
Overall balance	4.3	3.2	2.5	2.5	-1.0	-1.0	3.0	1.7	1.7
Gross government debt	39.8	37.9	36.3	35.4	46.4	48.5	39.4	35.9	32.8
% of government revenue	103.4	99.5	94.3	92.9	112.5	128.6	104.5	98.6	90.4
Domestic debt	39.8	37.9	36.3	35.4	46.4	24.6	-	-	-
External debt	0.0	0.0	0.0	0.0	0.0	24.0	-	-	-
Local currency	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-
Foreign currency	39.8	37.9	36.3	35.4	46.4	48.5	-	-	-
Central government deposits	3.5	3.9	4.0	3.7	9.1	15.8	13.5	12.9	12.4
Net government debt	36.3	33.9	32.3	31.6	37.2	32.8	25.9	23.1	20.5
Financing		-3.2	-2.5	-2.5	1.0	1.0	-3.0	-1.7	-1.7
Domestic borrowing		-1.3	-0.5	0.2	7.0	-17.1	-19.8	-1.7	-1.7
External borrowing		0.0	0.0	0.0	0.0	23.0	15.2	-0.6	0.0
Other financing		-1.8	-2.0	-2.8	-6.0	-4.8	1.6	0.6	0.0
Change in deposits (- = increase)		-0.5	-0.2	0.2	-5.0	-7.6	0.5	0.0	0.0
Privatisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		-1.4	-1.8	-2.9	-1.0	2.8	1.1	0.6	0.0

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Current account	-	-	-	0.6	0.4	0.5	0.3	0.4	0.4
% GDP	-	-	-	18.0	15.5	14.1	10.2	10.6	10.8
Goods	-	-	-	-1.3	-1.1	-1.3	-1.6	-1.6	-1.7
Services	-	-	-	1.6	1.2	1.6	1.7	1.7	1.8
Primary income	-	-	-	0.3	0.4	0.3	0.3	0.3	0.3
Secondary income	-	-	-	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Capital account	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-	-	-	0.6	0.5	0.4	0.2	0.4	0.4
Direct investment	-	-	-	-0.3	-0.1	-0.3	-0.3	-0.2	-0.3
Portfolio investment	-	-	-	0.1	-0.2	0.6	0.4	0.6	0.6
Derivatives	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	-	-	-	0.8	0.8	0.1	0.1	0.0	0.1
Net errors and omissions	-	-	-	-	0.1	0.0	0.0	0.0	0.0
Change in reserves (+ = increase)	-	-	-	-	0.1	0.1	0.1	0.0	0.0
International reserves, incl. gold	-	-	-	-	0.1	0.1	0.4	0.4	0.4
Liquidity ratio (%)	-	-	-	-	-	-	-	-	-
Memo									
Current external receipts (CXR)	-	-	-	-	1.8	2.4	2.6	2.7	2.8
Current external payments (CXP)	-	-	-	-	1.7	2.1	2.5	2.5	2.6
CXR growth (%)	-	-	-	-	-37.6	31.1	7.0	3.0	4.0
CXP growth (%)	-	-	-	-	-27.6	24.1	14.9	2.4	3.4
Gross external financing requirement	-	-	-	-	-	-	-	-	-
% International reserves	-	-	-	-	-	-	-	-	-
Net external borrowing	-	-	-	-	0.2	0.4	0.6	0.0	0.0

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Gross external debt	-	-	-	5.5	6.3	6.7	7.3	7.4	7.4
% GDP	-	-	-	173.4	219.7	202.1	219.1	208.8	203.1
% CXR	-	-	-	185.3	344.0	278.3	284.3	276.9	267.2
Short-term debt (% GXD)	-	-	-	88.6	87.5	87.5	87.5	87.5	87.5
By debtor									
Sovereign	-	-	-	0.1	0.3	1.0	1.6	1.6	1.6
Monetary authorities	-	-	-	0.0	0.1	0.2	0.2	0.2	0.2
General government	-	-	-	0.1	0.2	0.8	1.4	1.4	1.4
Banks	-	-	-	4.5	5.1	4.8	4.8	4.8	4.8
Other sectors	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0
Gross external assets (non-equity)	-	-	-	11.3	12.3	13.2	14.1	14.4	14.7
Sovereign	-	-	-	0.7	0.8	0.9	1.0	1.0	1.0
International reserves, incl. gold	-	-	-	0.0	0.1	0.1	0.4	0.4	0.4
Other sovereign assets	-	-	-	0.7	0.7	0.7	0.6	0.6	0.6
Banks	-	-	-	7.1	7.7	8.7	9.4	9.7	10.0
Other sectors	-	-	-	3.5	3.9	3.6	3.7	3.7	3.8
Net external debt	-	-	-	-5.8	-6.0	-6.5	-6.7	-7.0	-7.3
% GDP	-	-	-	-183.9	-207.8	-194.2	-200.9	-198.6	-201.7
Sovereign	-	-	-	-0.6	-0.5	0.1	0.6	0.6	0.6
Banks	-	-	-	-2.6	-2.6	-3.9	-4.6	-4.9	-5.2
Other sectors	-	-	-	-2.6	-2.9	-2.7	-2.7	-2.7	-2.8
International investment position									
Assets	-	-	-	17.2	19.6	21.2	-	-	-
Liabilities	-	-	-	7.3	8.4	8.2	-	-	-
Net	-	-	-	9.9	11.2	13.0	-	-	-
Net sovereign	-	-	-	1.1	1.1	0.6	0.0	0.0	0.0
% GDP	-	-	-	34.7	36.8	17.1	-1.0	-1.1	-1.1
External debt service (principal + interest)	-	-	-	-	-	-	-	-	-
Interest (% CXR)	-	-	-	2.2	1.7	2.0	1.5	1.7	1.5

Source: Fitch Ratings, central bank, IMF, World Bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)	A-

Sovereign Rating Model					Applied Rating[d]			BBB+
					Model Result and Predicted Rating			9.44 = BBB+
Input Indicator	Weight (%)	2021	2022	2023	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
Structural features								**7.47**
Governance indicators (percentile)	unavailable	n.a.	91.7	n.a.	-	91.7	0.077	7.10
GDP per capita (USD)	unavailable	n.a.	41,085	n.a.	Percentile	78.0	0.038	2.99
Nominal GDP (% world GDP)	unavailable	n.a.	0.00	n.a.	Natural log	-5.7	0.627	-3.55
Most recent default or restructuring	unavailable	n.a.	None	n.a.	**Inverse 0-1[a]**	0.0	-1.822	0
Broad money (% GDP)	unavailable	n.a.	384.5	n.a.	Natural log	6.0	0.158	0.94
Macroeconomic performance, policies and prospects								**-1.22**
Real GDP growth volatility	unavailable	n.a.	6.1	n.a.	Natural log	1.8	-0.728	-1.32
Consumer price inflation	unavailable	1.7	6.2	5.3	**3-yr avg.[b]**	4.5	-0.067	-0.30
Real GDP growth	unavailable	8.3	8.8	1.2	3-yr avg.	6.1	0.065	0.40
Public finances								**-1.67**
Gross general govt debt (% GDP)	unavailable	48.6	39.4	35.9	3-yr avg.	41.3	-0.023	-0.94
General govt interest (% revenue)	unavailable	1.6	1.5	1.4	3-yr avg.	1.5	-0.044	-0.07
General govt fiscal balance (% GDP)	unavailable	-1.0	3.0	1.7	3-yr avg.	1.2	0.044	0.05
FC debt (% of total general govt debt)	unavailable	100.0	100.0	100.0	3-yr avg.	100.0	-0.007	-0.72
External finances								**0.11**
Reserve currency (RC) flexibility	unavailable	n.a.	0.0	n.a.	**RC score 0 - 4.5[c]**	0.0	0.509	0
SNFA (% of GDP)	unavailable	17.1	-1.0	-1.1	3-yr avg.	5.0	0.011	0.05
Commodity dependence	unavailable	n.a.	0.8	n.a.	Latest	0.8	-0.004	-0.00
FX reserves (months of CXP)	unavailable	n.a.	1.8	n.a.	n.a. if RC score> 0	1.8	0.029	0.05
External interest service (% CXR)	unavailable	2.0	1.5	1.7	3-yr avg.	1.7	-0.007	-0.01
CAB + net FDI (% GDP)	unavailable	24.4	18.2	17.6	3-yr avg.	20.1	0.001	0.02
Intercept Term (constant across all sovereigns)								**4.76**

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.
Source: Fitch Ratings

Qualitative Overlay (notch adjustment, range +/-3)	+1
Structural features	0
Macroeconomic outlook, policies and prospects	+1
Public finances	0
External finances	0

Source: Fitch Ratings

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a Long-Term Foreign-Currency Issuer Default Rating (IDR). Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Fitch has not assigned a Long-Term Local-Currency IDR to Andorra. The monetary agreement with the EU allows Andorra to use the euro as its official currency. Andorra's government debt is entirely denominated in euros.

Country Ceiling

The Country Ceiling for Andorra is 'AA-', a three-notch uplift on the Long-Term Foreign-Currency IDR. This reflects the low likelihood of a formal or informal moratorium on private-sector external debt payments due to Andorra's use of the euro, good governance, trade relations with neighboring Spain and France and alignment of interests with the EU.

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook	Long-Term	Short-Term	Outlook	Country Ceiling
08 Jul 22	A-	F2	Stable	-	-	-	AA-
14 Jan 22	BBB+	F2	Positive	-	-	-	A+
10 Aug 18	BBB+	F2	Stable	-	-	-	A+
24 Feb 17	BBB	F3	Positive	-	-	-	A-
22 Jul 16	BBB	F3	Stable	-	-	-	A-
11 Sep 15	BBB	F2	Stable	-	-	-	A-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	2	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or ageing, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geopolitical risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	3	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Andorra has an ESG Relevance Score of ‘5[+]’ for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch’s SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Andorra has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Andorra has an ESG Relevance Score of ‘5[+]’ for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch’s SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Andorra has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Andorra has an ESG Relevance Score of ‘4[+]’ for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Andorra has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Andorra has an ESG Relevance Score of ‘4[+]’ for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Andorra, as for all sovereigns. As Andorra has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of ‘3’. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch’s ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Andorra

All data are on a calendar-year basis. Which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.