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.

Key Rating Drivers

Strong Structural Fundamentals: Andorra's credit profile is supported by GDP per capita and governance indicators that are well above the median of 'A' category peers. Fiscal prudence has enabled the build-up of large fiscal buffers, and general government debt is low relative to the rating peer group. These credit strengths are set against Andorra's small economy and limited diversification. A large banking sector (5x the level of GDP) also exposes the economy and government balance sheet to vulnerabilities in case of a severe adverse shock.

Fiscal Surpluses: At 2.4% of GDP at end-2023 (Fitch Ratings' estimate), Andorra's general government fiscal surplus stands out against the median deficit ratio (3.0% of GDP) of the 'A' category group. Lower fiscal surpluses are projected for 2024-2025. Government plans to increase affordable housing and improve tourism infrastructure will lead to higher investment spending, while the absence of any significant tax-raising measures limits revenue growth.

Declining Debt Ratio: Underpinned by projected primary fiscal surpluses (averaging 1.5% of GDP), Andorra's debt is set to gradually decline towards 31.6% of GDP by 2026, from 36.5% at end-2023. Andorra has no foreign-currency denominated debt and there are no external financing requirements until 2027 (EUR500 million Eurobond 1.25% maturing February 2027). Debt affordability remains strong. We project Andorra's interest-to-revenue ratio to fall to 1.4% in 2024 from 1.7% in 2022, well below the 'A' median (3.7% in 2024).

Ageing Pressures, Pension Reform: According to the IMF, Andorra faces one of the largest increases in public pension expenditure in Europe over 2019-2045. Pension and healthcare system reform remain key priorities for the government. There is a political consensus to outline reform for the pension system by 2025. Strong population growth has so far delayed the public social security fund from running deficits, projected by the government to occur around 2026 (previously 2024).

Limited Economic Diversity: We forecast the Andorran economy to expand by 1.5% in 2024 and 1.7% in 2025. Limited economic diversification (notably in tourism and banking), with capacity constraints in labour supply, limits medium-term growth potential (at around 1.5%). In Fitch's opinion, further integration with the EU with an Association Agreement should support economic diversification over the medium term.

Inflation Risks: Inflation in Andorra has declined more slowly than in peers, a reflection of its very high dependence on imported goods. As of March, inflation was 4.1%, compared with 3.3% in Spain, Andorra's largest trading partner. We forecast inflation to average 3.8% this year. The risk of persistent inflationary pressures remains, challenged by a tight labour market.

Banking Sector Resilience: Andorran banks maintain satisfactory capital and liquidity buffers over requirements. Profitability has been resilient in past years and stands above pre-pandemic levels. The banks' loan portfolio is concentrated and has large exposure to the real estate sector. However, risks from this segment should be contained despite higher interest rates, as population growth and limited housing supply are supporting the domestic real estate market.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Country Ceiling	AAA
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

	2023
GDP (USDbn)	4
Population (m)	0.1

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2023)
Country Ceiling Criteria (July 2023)

Related Research

Fitch Affirms Andorra at 'A-'; Outlook Stable (April 2024)
Global Economic Outlook (March 2024)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on Andorra

Analysts

Kit Yeung
+49 69 768076 129
kit.yeung@fitchratings.com

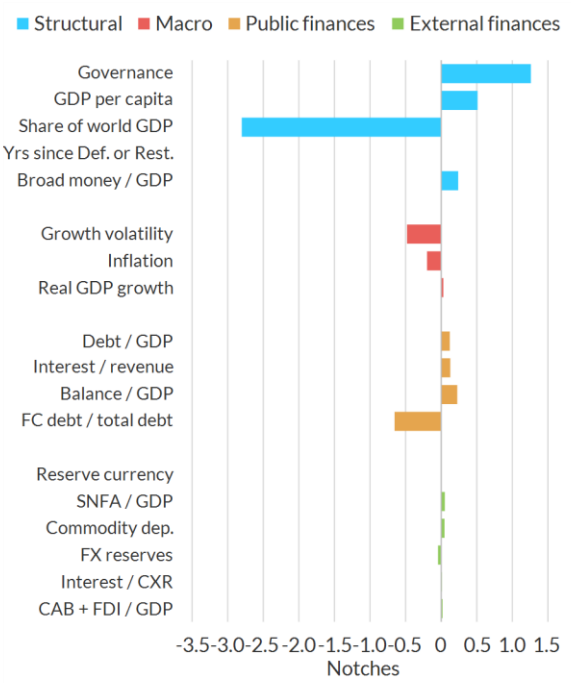
Carlos Masip
+34 91 702 5773
carlos.masip@fitchratings.com

Rating Summary

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

Sovereign Rating Model: A-

Contribution of variables, relative to A Median



Qualitative Overlay: 0

Adjustments relative to SRM data and output

Structural features: No adjustment.

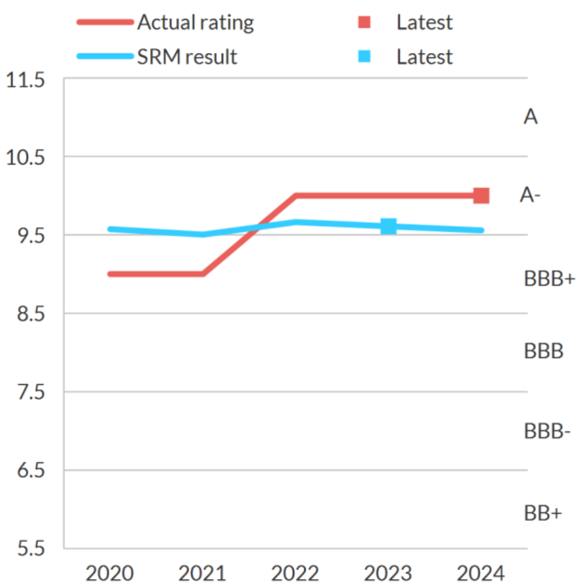
Macroeconomic outlook, policies and prospects: No adjustment.

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

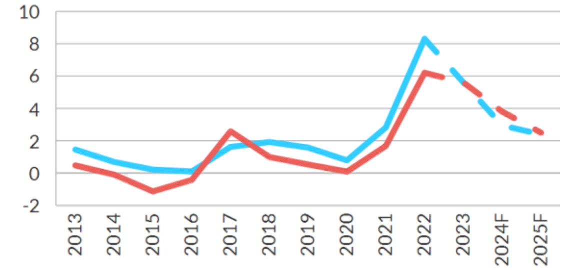
Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	A-	A-	0	0	0	0
27 Oct 23	A-	A-	0	0	0	0
28 Apr 23	A-	A-	0	0	0	0
9 Dec 22	A-	A-	0	0	0	0
8 Jul 22	A-	A-	0	0	0	0
14 Jan 22	BBB+	BBB+	-1	+1	0	0
23 Jul 21	BBB+	BBB+	-1	+1	0	0
29 Jan 21	BBB+	BBB+	-1	+1	0	0
31 Jul 20	BBB+	BBB+	-1	+1	0	0
31 Jan 20	BBB+	A-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

[a] The latest rating uses the SRM result for 2023 from the chart. This will roll forward to 2024 in July 2024).
[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

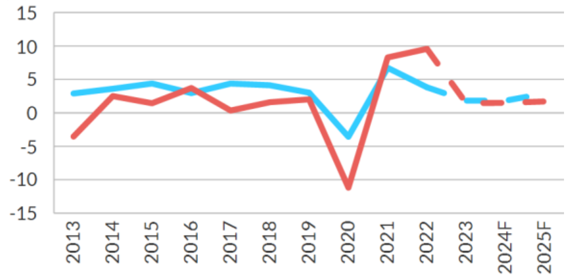
Peer Analysis

Andorra　A Median

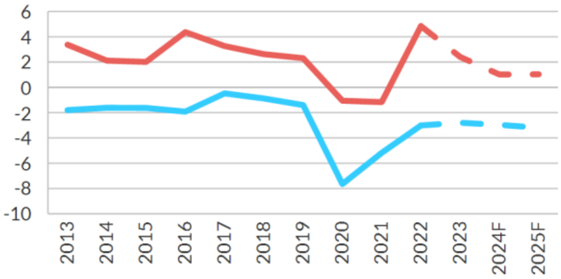
Consumer Price Inflation
(annual avg, %)



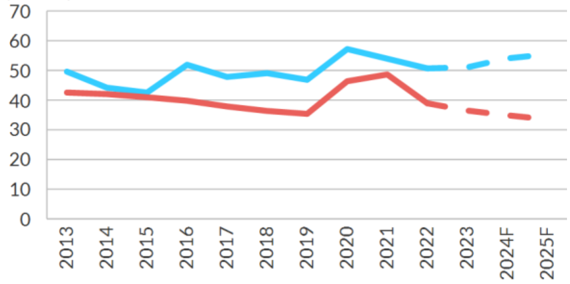
Real GDP Growth
(%)



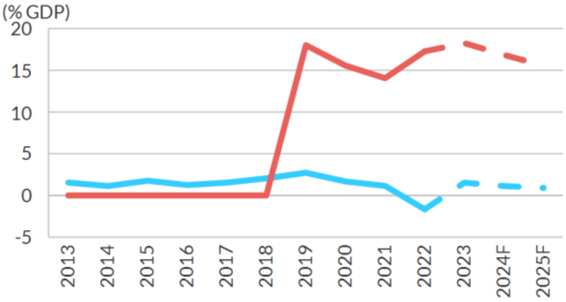
General Government Balance
(% GDP)



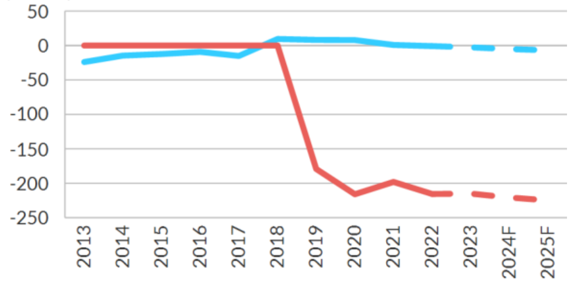
Gross General Government Debt
(% GDP)



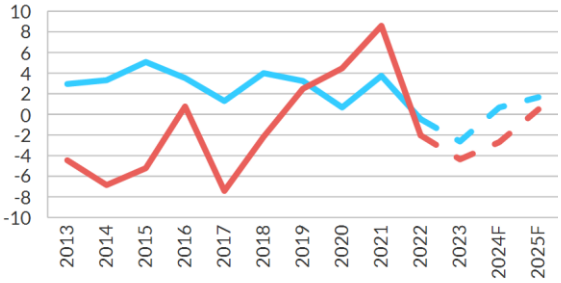
Current Account Balance
(% GDP)



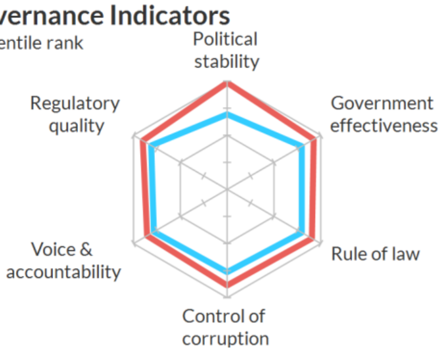
Net External Debt
(% GDP)



Real Private-Sector Credit Growth
(%)



Governance Indicators
Percentile rank



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

Peer Analysis

2023[a]	Andorra	A median	BBB median	AA median
Structural features				
GDP per capita (USD) [SRM]	43,810	29,834	15,822	52,412
Share in world GDP (%) [SRM]	0.0	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	91.0	74.7	58.2	84.2
Human development index (percentile, latest)	82.2	82.4	67.6	89.4
Broad money (% GDP) [SRM]	401.9	88.9	60.8	98.4
Private credit (% GDP, 3-year average)	216.4	73.5	56.2	103.6
Dollarisation ratio (% bank deposits, latest)	-	10.6	16.1	12.5
Bank system capital ratio (% assets, latest)	19.9	15.9	15.8	16.5
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	4.2	3.7	3.2	2.2
Real GDP growth volatility (complex standard deviation) [SRM]	5.8	3.0	3.5	2.4
Consumer price inflation (%, 3-year average) [SRM]	5.2	2.3	3.2	2.1
Unemployment rate (%)	1.5	6.4	7.7	5.1
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	2.8	-2.4	-2.6	-0.9
Primary balance (% GDP, 3-year average)	3.3	-0.6	-0.6	0.5
Interest payments (% revenue, 3-year average) [SRM]	1.5	4.4	7.5	3.4
Gross debt (% revenue, 3-year average)	96.4	133.6	153.4	139.5
Gross debt (% GDP, 3-year average) [SRM]	36.7	42.1	37.3	40.5
Net debt (% GDP, 3-year average)	26.4	36.6	31.5	33.7
FC debt (% gross debt, 3-year average) [SRM]	0.0	8.9	34.1	0.6
External finances[c]				
Current account balance (% GDP, 3-year average)	17.5	0.9	-1.7	1.3
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	26.0	2.3	0.6	0.7
Commodity dependence (% CXR) [SRM]	0.6	11.7	18.8	15.4
Gross external debt (% GDP, 3-year average)	155.9	65.9	55.0	119.9
Net external debt (% GDP, 3-year average)	-217.1	-8.1	11.9	-2.3
Gross sovereign external debt (% GXD, 3-year average)	21.5	19.8	29.6	17.7
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	16.6	11.9	2.0	8.7
External interest service (% CXR, 3-year average) [SRM]	0.9	2.3	4.1	4.1
Foreign-exchange reserves (months of CXP) [SRM]	1.7	4.4	4.9	2.9
Liquidity ratio	-	98.4	134.4	56.3

[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 Ratings' 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 (USD43,810) is about 1.4x the ‘A’ median.
- Andorra’s gross government debt/GDP ratio, estimated by Fitch at 36.5% of GDP at end-2023 is below the current median of ‘A’ category sovereigns (51.0%).
- A favourable debt repayment schedule (next bond refinancing due in 2027), mitigates the effect on Andorra’s balance sheet of increasing borrowing costs. Interest payments to revenues at 1.4% (estimated 2023), is half the current projected median of ‘A’ category sovereigns (3.1%).
- A large net external creditor position reflects Andorra’s large banking sector.
- Andorra’s World Bank governance score at the 91st percentile is high, and above the median percentile of ‘A’ (74.7).

Weaknesses

- The very large banking sector (consolidated assets equivalent to 559.9% of GDP at end-2022) could pose a contingent liability risk to the government’s balance sheet.
- The small economy limits economic diversification.
- Low growth potential at around 1.5% reflects low levels of human capital and low investment.
- We project the unsustainable pension system to start running deficits from 2026.

Rating	Sovereign
A	Iceland
	Japan
	Lithuania
	Ras Al Khaimah
	Slovenia
A-	**Andorra**
	Chile
	Latvia
	Poland
	Portugal
	Slovakia
	Spain
BBB+	Croatia
	Malaysia
	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
- **Public Finances:** Rapid decline in general government debt and reduction in contingent liability risks, for example given improved resilience of the banking sector including access to Eurosystem liquidity facilities

Forecast Summary

	2020	2021	2022	2023	2024F	2025F
Macroeconomic indicators and policy						
Real GDP growth (%)	-11.2	8.3	9.6	1.4	1.5	1.7
Unemployment (%)	3.0	3.3	2.1	1.5	1.7	1.7
Consumer price inflation (annual average % change)	0.1	1.7	6.2	5.6	3.8	2.5
Policy interest rate (annual average, %)	0.0	0.0	0.7	3.9	4.1	3.2
General government balance (% GDP)	-1.1	-1.2	4.8	2.4	1.0	1.0
Gross general government debt (% GDP)	46.4	48.6	38.9	36.5	34.9	33.5
EUR per USD (annual average)	0.9	0.8	1.0	0.9	0.9	0.9
Real private credit growth (%)	4.5	8.6	-2.0	-4.4	-2.7	0.5
External finance						
Merchandise trade balance (USDbn)	-1.1	-1.3	-1.6	-1.6	-1.7	-1.7
Current account balance (% GDP)	15.5	14.1	17.2	18.3	16.8	15.6
Gross external debt (% GDP)	218.4	178.1	170.9	152.7	144.1	138.7
Net external debt (% GDP)	-216.0	-198.1	-215.6	-215.1	-220.8	-224.9
External debt service (principal + interest, USDbn)	-	-	-	-	-	-
Official international reserves including gold (USDbn)	0.1	0.2	0.4	0.4	0.4	0.4
Gross external financing requirement (% int. reserves)	-	-	-	-	-	-
Real GDP growth (%)						
US	-2.2	5.8	1.9	2.5	2.1	1.5
China	2.2	8.4	3.0	5.2	4.5	4.5
Eurozone	-6.4	5.4	3.5	0.4	0.6	1.6
World	-2.8	6.3	2.7	2.9	2.4	2.5
Oil (USD/barrel)	43.3	70.6	98.6	82.1	80.0	70.0

Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(EURm)	2024	2025
Uses	**136.3**	**134.2**
Budget deficit	-36.7	-38.8
MLT amortisation	173.0	173.0
Domestic	173.0	173.0
External	0.0	0.0
Sources	**136.3**	**134.2**
Gross borrowing	66.8	66.8
Domestic	66.8	66.8
External	0.0	0.0
Privatisation	0.0	0.0
Other	32.9	28.6
Change in deposits (- = increase)	36.6	38.8

Source: Fitch Ratings

External Finances

(USDbn)	2024	2025
Uses	**-0.7**	**-0.6**
Current account deficit	-0.7	-0.6
MLT amortisation	0.0	0.0
Sovereign	0.0	0.0
Non-sovereign	0.0	0.0
Sources	**-0.7**	**-0.6**
Gross MLT borrowing	-0.1	0.0
Sovereign	0.0	0.0
Non-sovereign	-0.1	0.0
FDI	0.1	0.1
Other	-0.7	-0.7
Change in FX reserves (- = increase)	0.0	0.0

Source: Fitch Ratings

Credit Developments

Economic Resilience; Challenges to Higher Growth Potential

Andorra's economy expanded by 1.4% in 2023, with growth coming in below Fitch's expectation of 2.2%. Although the economy performed strongly in 1H23 (expanding 2.0% compared to 1H22), activity slowed in 2H23. The impact from high inflation was clearly felt in Andorra's services-dominant economy (87% of gross value added). While activity in financial and real estate sectors have positive growth, sectors in commerce, hospitality, and ICT stagnated in 2H23.

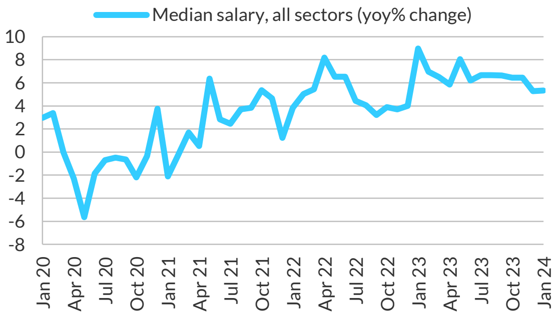
We project economic growth to remain close to potential (1.5%) over Fitch's forecast horizon. There is a strong commitment in government towards increasing economic diversification, such as reducing the seasonality of Andorra's winter-dependent tourism sector, and plans for a strategy more targeted towards attracting high-value foreign direct investment. However, structural limitations remain significant and include Andorra's small domestic market, constraints in labour market capacity and limited connectivity infrastructure to larger neighbouring countries.

Inflationary Pressures Remain High

Inflation remains high, posing a potential risk to the economic outlook. As of March, headline inflation was 4.1%, down slightly from January's 4.4%. Meanwhile, underlying inflation has remained above headline since April 2023, registering 4.8% in the latest March figures. Although energy inflation has come down significantly, inflationary pressures related to housing, goods and services have persisted. Housing inflation mainly reflects higher rental costs. Meanwhile, goods and services inflation remain affected by high wages and imported inflation.

We expect inflation to gradually ease, averaging 3.8% in 2024 and 2.5% in 2025. Andorra's high import dependence leaves domestic inflation highly vulnerable to price developments in its main trading partners. Spain, which accounts for around 70% of Andorra's imported trade in goods, experienced significant easing in its headline inflation last year, although in recent months it has been persistent.

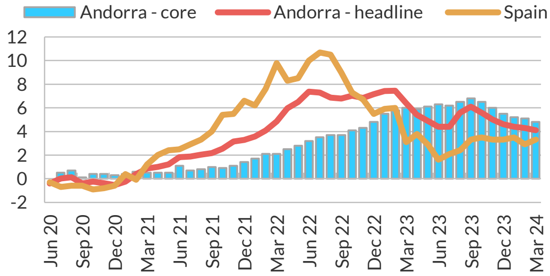
Wage Inflation



Source: Fitch Ratings, Andorra National Statistics

Elevated Inflation

(% annual change)

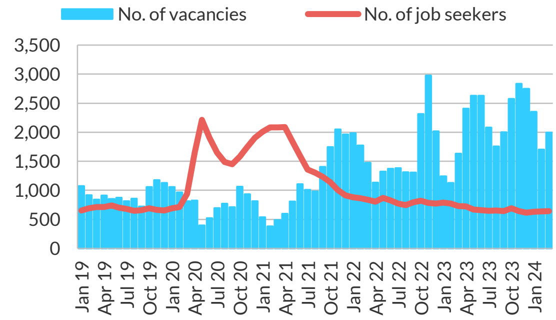


Source: Fitch Ratings, Eurostat, Andorra National Statistics

Labour Market Challenges

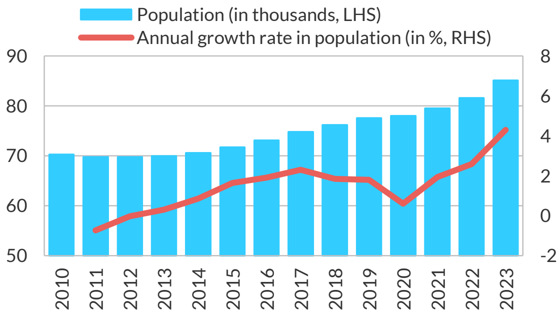
Andorra has a tight labour market. At 83.3% end 2023, Andorra's employment rate is at a historical high, and above a pre-pandemic three-year average rate of 79.9%. Labour market participation has also increased, driven by high immigration, which has contributed to an almost 7.0% population increase in two years. However, increased labour supply has only partially met demand. Vacancies remain high across all sectors, notably in hospitality, manufacturing and construction.

Labour Market Tightness



Source: Fitch Ratings, Andorra National Statistics

Population Growth



Source: Fitch Ratings, Andorra National Statistics

Expenditure Pressures Increase

We estimate the authorities achieved a central government surplus of 0.7% of GDP in 2023, outperforming their conservative target for a deficit 1.0% of GDP.

Available data for the first three quarters of 2023 show revenue intake set to come in higher than expected in spite of the slowdown in economic activity. There was a significant increase in direct taxes, up 25.4% year on year. For the same period, revenues from property taxes also increased, up 22.4%, although the share of such taxes to total revenues is relatively small (about 6.0%). Despite 2023 being an electoral year, expenditure growth is projected to stay in line with nominal GDP (7.4%). Data to 3Q23 show current expenditures increased 6.3% year on year. While capital expenses are projected to have met only 85% of its budget target.

For 2024, we forecast the central government balance to turn to a deficit of 0.8% of GDP. Despite the upward surprise in tax receipts last year, we remain conservative in our expectations for revenue growth this year. Meanwhile, we expect the government to better meet its investment budget, making up for the shortfall in 2023. Higher expenditures in investment will also be accompanied by increased current expenses. Measures to address the higher cost of living remain in 2024. This includes subsidies for rental housing, free public transportation, and inflation-linked increases in pension payments and public-sector salaries.

Declining Debt Ratio

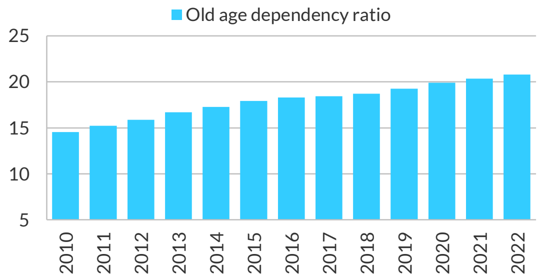
Projected fiscal surpluses at the local government level and Andorra's large social security sector will contribute to general government surpluses in 2024-2025 averaging 1.0% of GDP. The positive snowball effect from primary fiscal surpluses averaging 1.5% of GDP will underpin a gradual downward path of general government debt to 31.6% of GDP by end-2026, from 36.5% of GDP end 2023. Andorra has no foreign currency-denominated debt and there are no external financing requirements until 2027 (EUR500 million Eurobond 1.25% maturing February 2027).

Over the medium to longer term, debt sustainability faces challenges from demographic pressures and increased age-related spending. Strong population growth has so far delayed the public social security fund from running deficits, projected by the government to occur around 2026 (previously 2024).

According to the IMF, Andorra faces one of the largest increases in public pension expenditure in Europe over 2019-2045. These expenditure pressures are mitigated by Andorra's large pension fund, with assets about 42% of GDP. At the same time, pension and healthcare system reform remain key government priorities. There is a political consensus to outline reform for the pension system by 2025.

Old Age Dependency Ratio

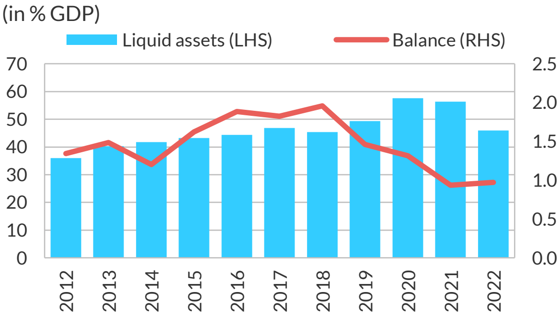
(Index, population over 65yrs per 100 inhabitants)



Source: Fitch Ratings, Andorra National Statistics

Social Security System

(in % GDP)



Source: Fitch Ratings, Andorra National Statistics

Banking Sector Resilience

Credit growth has remained fairly subdued due to high interest rates. The Andorran Financial Authority (AFA) has assessed the credit-to-GDP gap as below trend, but in September 2023 it announced a precautionary measure to increase the sector's countercyclical buffer to 0.5% from 4Q23, with it fully effective from 4Q24. It then expects progressive 0.5% increases, until the countercyclical buffer reaches 1.5% at end-2026.

The Andorran banking sector is predominately deposit funded, so there has been no need for debt issuances or access to the interbank market to obtain financing beyond normal daily operational transactions, which limits the sector's exposure to global financial market volatilities. At end-2023, the sector's average liquidity coverage ratio was 228%, 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, liquidity coverage ratio would fall below 100%, with a liquidity gap of 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-2023, 9.7% of GDP).

Public Debt Dynamics

General government debt/GDP peaked in 2021. We expect the ratio to gradually decline over the medium term outlook. According to our debt dynamics model, the debt trajectory remains fairly resilient to most individual macroeconomic shocks. There is also no foreign currency-denominated debt.

Debt Dynamics - Fitch's Baseline Assumptions

	2021	2022	2023	2024	2025	2026	2027
Gross general government debt (% of GDP)	48.6	38.9	36.5	34.9	33.5	31.6	29.6
Primary balance (% of GDP)	-0.4	5.6	2.9	1.5	1.5	1.5	1.5
Real GDP growth (%)	8.3	9.6	1.4	1.5	1.7	1.5	1.5
Average nominal effective interest rate (%)	1.5	1.6	1.5	1.7	1.8	1.9	2.0
EUR/USD (annual avg)	0.8	1.0	0.9	0.9	0.9	0.9	0.9
GDP deflator (%)	2.6	4.2	5.9	3.0	2.4	1.8	1.8
Stock-flow adjustments (% of GDP)	0.0	0.0	3.9	0.1	0.9	0.0	0.0

Source: Fitch Ratings

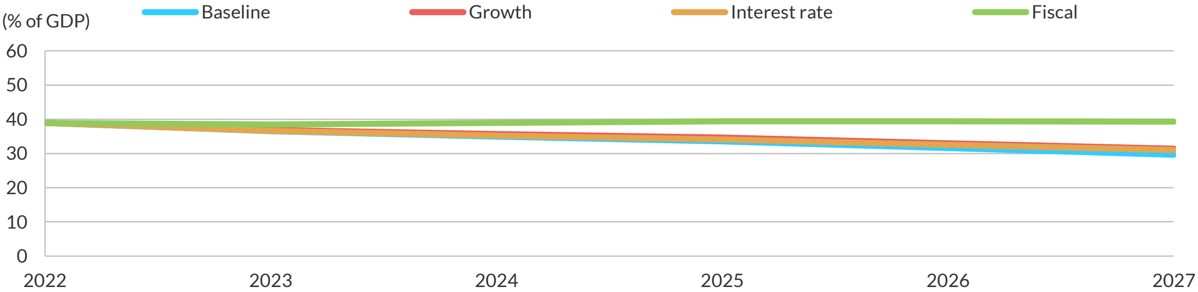
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.0% lower than baseline
Interest rate	Marginal interest rate 250bp higher
Fiscal	Deteriorating primary fiscal balance (2pps below baseline)

Source: Fitch Ratings

Sensitivity Analysis

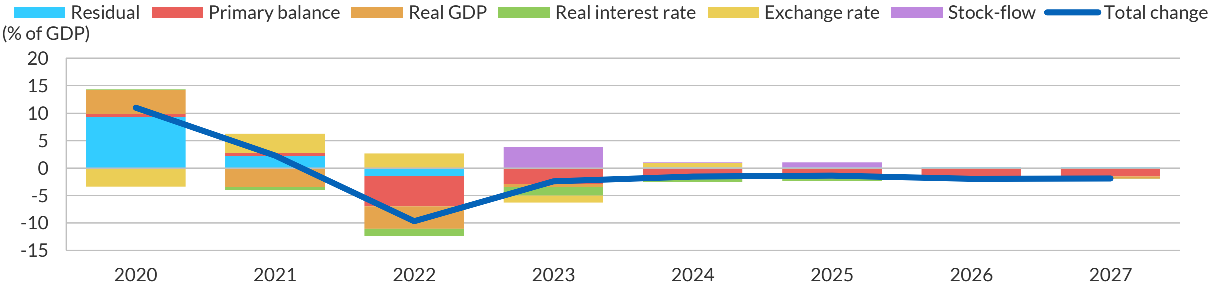
Gross general government debt



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)	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Revenue	38.2	38.6	38.2	41.3	37.9	39.7	37.4	37.2	36.9
Expenditure	34.8	35.9	35.8	42.3	39.0	34.9	35.0	36.2	35.9
o/w interest payments	0.5	0.5	0.4	0.5	0.6	0.7	0.5	0.5	0.5
Interest payments (% revenue)	1.4	1.2	1.2	1.2	1.6	1.7	1.4	1.3	1.3
Primary balance	3.8	3.1	2.8	-0.6	-0.4	5.6	2.9	1.5	1.5
Overall balance	3.3	2.7	2.3	-1.1	-1.2	4.8	2.4	1.0	1.0
Gross government debt	37.9	36.3	35.4	46.4	48.6	38.9	36.5	34.9	33.5
% of government revenue	99.1	94.2	92.7	112.3	128.3	97.9	97.6	93.8	90.7
Issued in domestic market	37.9	36.3	35.4	43.0	24.2	1.8	1.9	1.9	1.8
Issued in foreign markets	0.0	0.0	0.0	3.4	24.4	37.1	34.5	33.0	31.7
Local currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency	35.6	37.5	35.2	43.0	50.8	38.4	35.7	34.9	33.5
Central government deposits	3.9	4.0	3.7	9.1	15.9	13.2	9.7	8.3	6.9
Net government debt	33.9	32.3	31.6	37.2	32.7	25.7	26.8	26.6	26.6
Financing		-2.6	-2.3	1.1	1.2	-4.8	-2.4	-1.0	-1.0
Domestic borrowing		-0.5	0.2	3.6	-14.5	-19.3	0.2	0.0	0.0
External borrowing		0.0	0.0	3.7	20.2	14.6	1.2	-0.8	0.0
Other financing		-2.1	-2.5	-6.2	-4.6	-0.1	-3.9	-0.3	-1.0
Change in deposits (- = increase)		-0.2	0.2	-5.0	-7.6	0.7	2.6	1.0	1.0
Privatisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		-1.9	-2.7	-1.2	3.1	-0.7	-6.5	-1.3	-2.1

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Current account	-	-	0.6	0.4	0.5	0.6	0.7	0.7	0.6
% GDP	-	-	18.0	15.5	14.1	17.2	18.3	16.8	15.6
Goods	-	-	-1.3	-1.1	-1.3	-1.6	-1.6	-1.7	-1.7
Services	-	-	1.6	1.2	1.6	1.9	2.0	2.0	2.1
Primary income	-	-	0.3	0.4	0.3	0.3	0.4	0.4	0.3
Secondary income	-	-	0.0	0.0	-0.1	0.0	-0.1	-0.1	-0.1
Capital account	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-	-	0.6	0.5	0.3	0.4	0.7	0.7	0.6
Direct investment	-	-	-0.3	-0.1	-0.3	-0.5	-0.2	-0.1	-0.1
Portfolio investment	-	-	0.1	-0.2	0.6	1.4	0.9	0.7	0.7
Derivatives	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	-	-	0.8	0.8	0.1	-0.4	0.0	0.1	0.1
Net errors and omissions	-	-	-	0.1	0.0	0.0	0.0	0.0	0.0
Change in reserves (+ = increase)	-	-	-	0.1	0.1	0.2	0.0	0.0	0.0
International reserves, incl. gold	-	-	-	0.1	0.2	0.4	0.4	0.4	0.4
Liquidity ratio (%)	-	-	-	-	-	-	-	-	-
Memo									
Current external receipts (CXR)	-	-	-	1.8	2.4	2.7	2.9	2.9	3.0
Current external payments (CXP)	-	-	-	1.7	2.1	2.4	2.5	2.6	2.7
CXR growth (%)	-	-	-	-37.6	31.1	13.3	5.0	2.2	2.2
CXP growth (%)	-	-	-	-27.6	24.1	13.8	2.4	3.4	3.2
Gross external financing requirement	-	-	-	-	-	-	-	-	-
% International reserves	-	-	-	-	-	-	-	-	-
Net external borrowing	-	-	-	0.2	0.4	0.4	-0.1	-0.1	0.0

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Gross external debt	-	-	5.4	6.3	5.9	5.8	5.7	5.6	5.6
% GDP	-	-	172.4	218.4	178.1	170.9	152.7	144.1	138.7
% CXR	-	-	184.3	342.1	245.2	210.9	198.2	191.4	187.3
Short-term debt (% GXD)	-	-	89.1	88.0	79.9	74.6	74.6	74.6	74.6
By debtor									
Sovereign	-	-	0.1	0.3	0.8	1.2	1.2	1.2	1.2
Monetary authorities	-	-	0.0	0.1	0.2	0.2	0.2	0.2	0.2
General government	-	-	0.1	0.2	0.6	1.1	1.1	1.1	1.1
Banks	-	-	4.5	5.1	4.2	3.8	3.7	3.6	3.6
Other sectors	-	-	0.9	1.0	0.9	0.7	0.8	0.8	0.8
Gross external assets (non-equity)	-	-	11.1	12.5	12.5	13.0	13.7	14.2	14.7
Sovereign	-	-	1.0	1.2	1.3	1.4	1.4	1.4	1.4
International reserves, incl. gold	-	-	0.0	0.1	0.2	0.4	0.4	0.4	0.4
Other sovereign assets	-	-	1.0	1.1	1.1	1.0	1.0	1.0	1.0
Banks	-	-	7.1	7.7	7.6	7.9	8.3	8.5	8.7
Other sectors	-	-	3.0	3.7	3.6	3.7	4.0	4.3	4.7
Net external debt	-	-	-5.7	-6.2	-6.6	-7.3	-8.0	-8.6	-9.1
% GDP	-	-	-179.2	-216.0	-198.1	-215.6	-215.1	-220.8	-224.9
Sovereign	-	-	-1.0	-0.9	-0.5	-0.1	-0.1	-0.1	-0.1
Banks	-	-	-2.6	-2.6	-3.4	-4.1	-4.6	-4.9	-5.1
Other sectors	-	-	-2.1	-2.8	-2.7	-3.0	-3.3	-3.6	-3.8
International investment position									
Assets	-	-	17.0	19.8	20.3	19.8	-	-	-
Liabilities	-	-	7.3	8.0	7.8	8.1	-	-	-
Net	-	-	9.7	11.7	12.4	11.6	-	-	-
Net sovereign	-	-	1.4	1.5	1.0	0.6	-	-	-
% GDP	-	-	45.0	50.8	30.6	17.4	-	-	-
External debt service (principal + interest)	-	-	-	-	-	-	-	-	-
Interest (% CXR)	-	-	2.2	1.7	1.5	0.8	-	-	-

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

Full Rating Derivation

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

Sovereign Rating Model

Sovereign Rating Model							Applied Rating[d]		A-
					Model Result and Predicted Rating				9.61 = A-
Input Indicator	Weight (%)	2022	2023	2024	Adjustment to Final Data	Final Data	Coefficient		Output (notches)
Structural features									**7.46**
Governance indicators (percentile)	21.4	n.a.	91.0	n.a.	-	91.0	0.077		7.04
GDP per capita (USD)	12.4	n.a.	43,810	n.a.	Percentile	78.0	0.038		2.99
Nominal GDP (% world GDP)	13.9	n.a.	0.00	n.a.	Natural log	-5.6	0.627		-3.52
Most recent default or restructuring	4.6	n.a.	None	n.a.	Inverse 0-1[a]	0.0	-1.822		0
Broad money (% GDP)	1.2	n.a.	401.9	n.a.	Natural log	6.0	0.158		0.95
Macroeconomic performance, policies and prospects									**-1.36**
Real GDP growth volatility	4.6	n.a.	5.8	n.a.	Natural log	1.7	-0.728		-1.27
Consumer price inflation	3.4	6.2	5.6	4.0	3-yr avg.[b]	5.3	-0.067		-0.36
Real GDP growth	2.0	9.6	1.4	1.5	3-yr avg.	4.2	0.065		0.27
Public finances									**-1.50**
Gross general govt debt (% GDP)	8.9	38.9	36.5	34.9	3-yr avg.	36.7	-0.023		-0.83
General govt interest (% revenue)	4.5	1.7	1.4	1.3	3-yr avg.	1.5	-0.044		-0.06
General govt fiscal balance (% GDP)	2.4	4.8	2.4	1.0	3-yr avg.	2.8	0.044		0.12
FC debt (% of total general govt debt)	2.7	100.0	100.0	100.0	3-yr avg.	100.0	-0.007		-0.72
External finances									**0.24**
Reserve currency (RC) flexibility	7.3	n.a.	0.0	n.a.	RC score 0 - 4.5[c]	0.0	0.509		0
SNFA (% of GDP)	7.4	17.4	16.5	15.8	3-yr avg.	16.6	0.011		0.18
Commodity dependence	1.2	n.a.	0.6	n.a.	Latest	0.6	-0.004		-0.00
FX reserves (months of CXP)	1.5	n.a.	1.7	n.a.	n.a. if RC score> 0	1.7	0.029		0.05
External interest service (% CXR)	0.4	0.8	1.0	0.8	3-yr avg.	0.9	-0.007		-0.01
CAB + net FDI (% GDP)	0.1	33.3	24.6	20.1	3-yr avg.	26.0	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)	0
Structural features	0
Macroeconomic outlook, policies and prospects	0
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 LT FC 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 'AAA', six notches above the Long-Term Foreign-Currency IDR and at the upper limit of the rating scale. We view the risk of exchange and capital controls as de minimis.

Fitch's Country Ceiling Model produced a starting point uplift of +3 notch above the IDR. Fitch's rating committee applied a further +3 notch qualitative adjustment under the Long-Term Institutional Characteristics, reflecting Andorra's fully euroised economy.

Overall Country Ceiling Uplift (CCM + QA, notches)			**+6**
Country Ceiling Model (CCM, notches)			**+3**
Pillar I = Balance of payments restrictions			**+3**
Current account restrictions (% of 40)	Latest	0.0	+3
Capital account restrictions (% of 69)	Latest	0.0	+3
Combined pillar II & III incentives score			**+3**
Pillar II = Long-term institutional characteristics			**+3**
Governance (WB WGI)	Latest	91.0	+3
International trade			+2
Trade openness	2019-23 avg	72.7	+3
Volatility of change in CXR (across 10yrs)	2023	0.0	0
Export share to FTA partners	2019-23 avg	99.3	+3
International financial integration[a]	2019-23 avg	251.9	+3
Pillar III = Near-term risks			**+2**
Macro-financial stability risks			+1
Composite inflation risk score			+2
Volatility of CPI (across 10yrs)	2023	2.5	+2
Recent CPI peak	2019-23 max	6.2	+3
Cumulative broad money growth	2018-23 chg %	45.4	+2
Volatility of change in REER (across 10yrs)	2023	..	0
Dollarisation	Most recent	NSLT	+3
Exchange rate risks			+3
Net external debt (% of CXR)	2021-23 avg	-272.2	+3
Exchange rate regime	Latest	parate legal t	+3
Qualitative Adjustment (QA, notches)			**+3**
Pillar I = Balance of payments restrictions			0
Pillar II = Long-term institutional characteristics			+3
Pillar III = Near-term macro-financial stability risks			0

[a] Data for international financial integration is the average of private external assets (% of GDP) & private external debt (% GDP).
Source: Fitch Ratings

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
27 Oct 23	A-	F2	Stable	-	-	-	AAA
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 aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political 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 track 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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. 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, in line with 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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.