

Andorra

Key Rating Drivers

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

Fiscal Surpluses: Fitch Ratings forecasts Andorra's general government balance to reach a surplus of 2.1% of GDP by end-2023. This is in contrast to the 'A' category, where a median deficit ratio of 3.6% of GDP is projected. Although the government has yet to present its 2024 budget, we expect measures supporting the higher cost of living to remain in place for our forecast period. This includes subsidies for rental housing, free public transportation, and inflation-linked increases in pension payments and public-sector salaries.

Moderate Government Debt: Andorra's general government debt ratio is set to decline to 37.1% of GDP this year, having peaked at 48.6% in 2021. The government has no financing requirements until 2027 (EUR500 million Eurobond 1.25% maturing February 2027), with plans to meet domestic financial obligations through budget surpluses. 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).

Banking Sector Resilience: Andorran banks maintain satisfactory capital and liquidity buffers over requirements. Profitability has been resilient and in 2022 improved to above pre-Covid-19 pandemic levels. The banks' loan portfolio is concentrated and has a large exposure to the real estate sector. However, risks from this segment should be contained, as population growth and limited housing supply are supporting demand in the domestic real estate market.

In September, as a precautionary measure, the financial authority (AFA) announced an increase in the sector's countercyclical buffer (CCyB) to 0.5% starting 4Q23, with it fully effective from 4Q24. Progressive 0.5% increases are then expected until the buffer reaches 1.5% at end-2026.

EU Association Agreement: The authorities continue to make progress in their negotiation of an Association Agreement with the EU. The European Commission is encouraging negotiations to close by end-2023, for an agreement to be formally reached before EU parliamentary elections take place in June 2024. In Fitch's opinion, this is an ambitious timeline. Still under negotiation is the annexe related to freedom of movement, which could be complex, based on the government's preference to maintain a system of quotas for migrant worker flows.

Country Ceiling Upgrade: Fitch has revised Andorra's Country Ceiling to 'AAA' from 'AA-', in line with its recently updated *Country Ceiling Criteria*. The updated criteria consider that euroisation reduces the risk of capital controls being imposed. Andorra's six-notch uplift from the Issuer Default Rating (IDR) reflects Fitch's view that risks of foreign-exchange controls are mitigated by its fully entrenched euroisation, which has supported macroeconomic stability and shields public and private balance sheets from foreign-exchange risk.

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	AAA
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Outlook

Long-Term Foreign-Currency IDR	Stable
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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

	2023F
GDP (USDbn)	3.7
Population (m)	0.1
Source: Fitch Ratings	

Applicable Criteria

[Country Ceiling Criteria \(July 2023\)](#)
[Sovereign Rating Criteria \(April 2023\)](#)

Related Research

[Fitch Affirms Andorra at 'A-'; Outlook Stable \(October 2023\)](#)
[Global Economic Outlook \(September 2023\)](#)
[Interactive Sovereign Rating Model](#)
[Fitch Fiscal Index - Analytical Tool](#)
[Click here for more Fitch Ratings content on Andorra](#)

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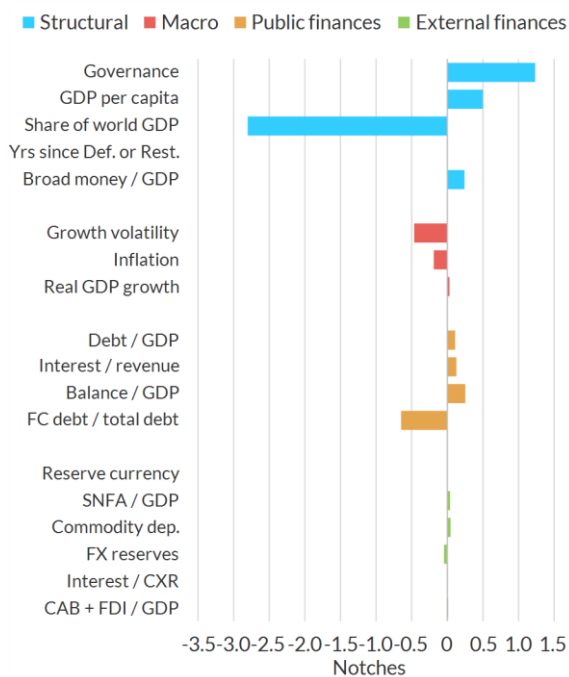
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Rating Summary

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.

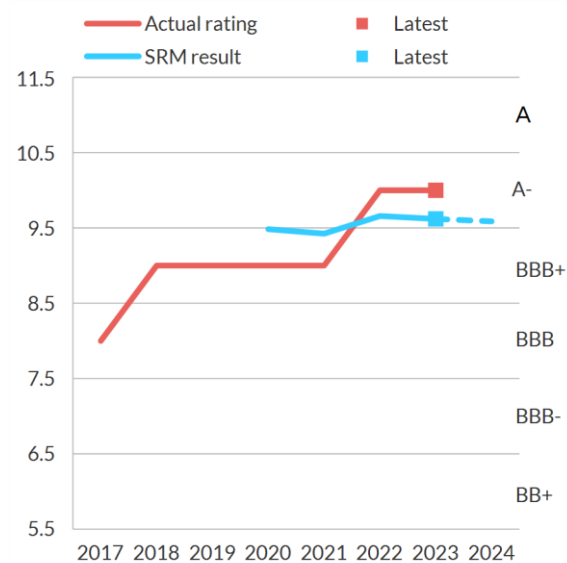
Macroeconomic outlook, policies and prospects: No adjustment.

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	QO M	QO PF	QO EF
Latest	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
2 Aug 19	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

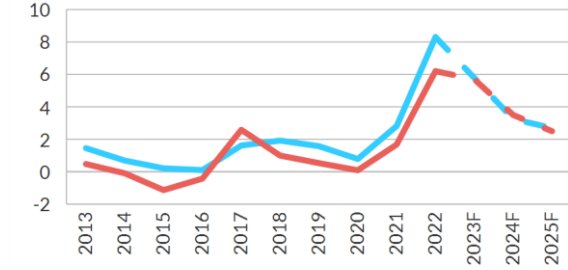
Peer Analysis

— Andorra

— A Median

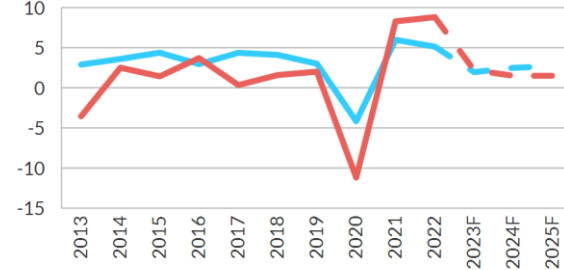
Consumer Price Inflation

(annual avg. %)



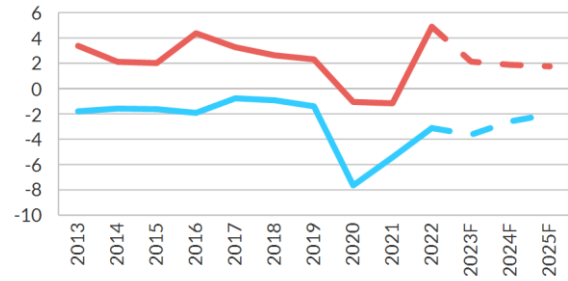
Real GDP Growth

(%)



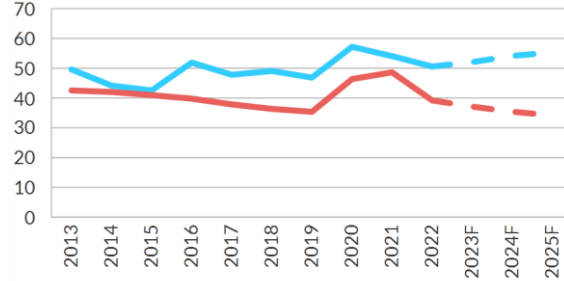
General Government Balance

(% GDP)



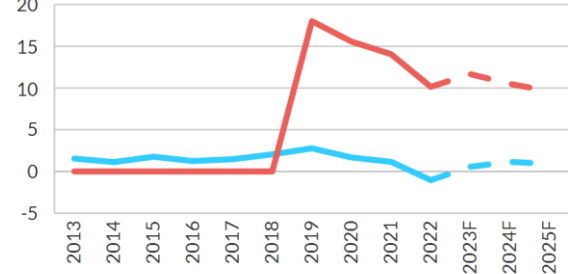
Gross General Government Debt

(% GDP)



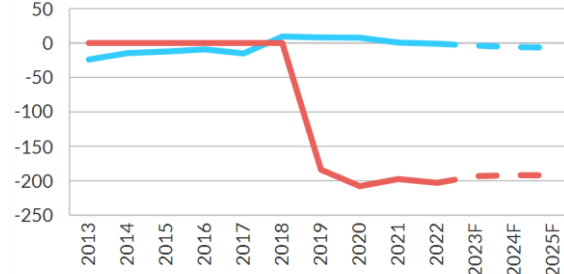
Current Account Balance

(% GDP)



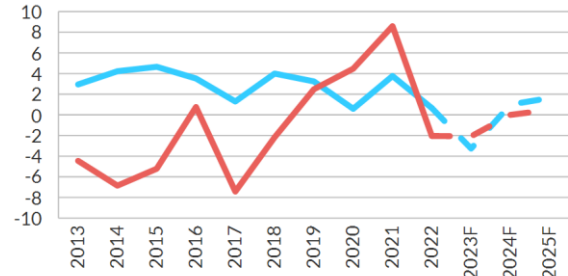
Net External Debt

(% GDP)



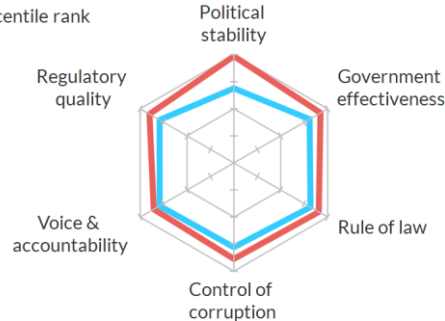
Real Private-Sector Credit Growth

(%)



Governance Indicators

Percentile rank



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

Peer Analysis

2023F ^a	Andorra	A median	AA median	AAA median
Structural features				
GDP per capita (USD) [SRM]	43,960	30,369	52,385	65,303
Share in world GDP (%) [SRM]	0.0	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM]^b	91.0	75.1	84.1	93.9
Human development index (percentile, latest)	78.9	82.4	89.4	94.7
Broad money (% GDP) [SRM]	409.0	88.9	98.4	93.4
Private credit (% GDP, 3-year average)	224.5	73.5	103.0	122.6
Dollarisation ratio (% bank deposits, latest)	100.0	10.5	12.8	16.7
Bank system capital ratio (% assets, latest)	20.7	15.9	16.4	15.0
Macroeconomic performance and policies				
Real GDP growth (% , 3-year average) [SRM]	4.2	3.7	2.2	2.0
Real GDP growth volatility (complex standard deviation) [SRM]	5.6	3.0	2.4	1.9
Consumer price inflation (% , 3-year average) [SRM]	5.1	2.3	2.1	1.8
Unemployment rate (%)	2.2	6.4	5.1	5.4
Public finances (general government)^c				
Balance (% GDP, 3-year average) [SRM]	3.0	-2.4	-0.9	-0.2
Primary balance (% GDP, 3-year average)	3.5	-0.6	0.5	1.1
Interest payments (% revenue, 3-year average) [SRM]	1.5	4.4	3.5	3.6
Gross debt (% revenue, 3-year average)	98.6	133.9	139.5	113.5
Gross debt (% GDP, 3-year average) [SRM]	37.2	42.1	40.5	43.9
Net debt (% GDP, 3-year average)	25.2	36.6	34.1	37.2
FC debt (% gross debt, 3-year average) [SRM]	100.0	9.8	0.8	0.0
External finances^c				
Current account balance (% GDP, 3-year average)	10.8	0.9	1.2	4.9
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	18.2	2.4	0.6	2.1
Commodity dependence (% CXR) [SRM]	0.8	11.5	15.0	14.4
Gross external debt (% GDP, 3-year average)	179.2	65.9	119.9	178.1
Net external debt (% GDP, 3-year average)	-196.1	-8.1	-2.3	13.5
Gross sovereign external debt (% GXD, 3-year average)	20.1	19.0	17.8	12.2
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	15.5	11.9	8.7	-4.6
External interest service (% CXR, 3-year average) [SRM]	1.3	2.3	4.1	7.3
Foreign-exchange reserves (months of CXP) [SRM]	1.7	4.4	2.9	1.4
Liquidity ratio	-	102.8	59.9	51.5

^a Three-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 (USD43,960) is about 1.4x the 'A' median.
- Andorra's gross government debt/GDP ratio, which ended 2022 at 39.2%, is below the current median of 'A' category sovereigns (50.6%).
- 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 1.4% (estimated 2023), is half the current projected median of 'A' category sovereigns (3.6%).
- A large net external creditor position, reflecting Andorra's large banking sector.
- Andorra's World Bank governance score at the 91st percentile is high, and is above the median percentile of 'A' (75.1).

Weaknesses

- A very large banking sector (assets equivalent to 563.9% of GDP at end-2022) poses a contingent liability risk to the government's balance sheet.
- Small economy, which limits economic diversification.
- Low growth potential at around 1.5%, reflecting low levels of human capital and low investment.
- Unsustainable pension system, projected to start running deficits from 2026.

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 sizeable 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 Eurosystem liquidity facilities.

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

Source: Fitch Ratings

Forecast Summary

	2020	2021	2022	2023F	2024F	2025F
Macroeconomic indicators and policy						
Real GDP growth (%)	-11.2	8.3	8.8	2.2	1.5	1.5
Unemployment (%)	3.0	3.2	2.1	2.2	2.2	2.2
Consumer price inflation (annual average % change)	0.1	1.7	6.2	5.7	3.5	2.5
Policy interest rate (annual average, %)	0.0	0.0	0.7	3.9	4.2	3.3
General government balance (% GDP)	-1.1	-1.2	4.9	3.2	2.1	1.2
Gross general government debt (% GDP)	46.4	48.6	39.2	37.1	35.4	34.2
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	-2.1	0.0	0.5
External finance						
Merchandise trade balance (USDbn)	-1.1	-1.3	-1.6	-1.6	-1.6	-1.7
Current account balance (% GDP)	15.6	14.1	10.1	11.7	10.5	9.6
Gross external debt (% GDP)	219.7	178.4	193.5	176.5	167.6	163.1
Net external debt (% GDP)	-207.8	-197.6	-203.0	-193.3	-191.9	-192.1
External debt service (principal + interest, USDbn)	-	-	-	-	-	-
Official international reserves including gold (USDbn)	0.1	0.2	0.3	0.3	0.3	0.3
Gross external financing requirement (% int. reserves)	-	-	-	-	-	-
Real GDP growth (%)						
US	-2.8	5.9	2.1	2.0	0.3	2.1
China	2.2	8.4	3.0	4.8	4.6	4.8
Eurozone	-6.4	5.4	3.5	0.6	1.1	1.7
World	-3.0	6.2	2.7	2.5	1.9	2.8
Oil (USD/barrel)	43.3	70.6	98.6	80.0	75.0	70.0

Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(EURm)	2023	2024
Uses	99.9	106.3
Budget deficit	-72.0	-66.7
MLT amortisation	171.9	173.0
Domestic	171.9	173.0
External	0.0	0.0
Sources	99.9	106.3
Gross borrowing	179.7	173.0
Domestic	179.7	173.0
External	0.0	0.0
Privatisation	0.0	0.0
Other	-79.8	-66.7
Change in deposits	0.0	0.0

Source: Fitch Ratings

External Finances

(USDbn)	2023	2024
Uses	-0.4	-0.4
Current account deficit	-0.4	-0.4
MLT amortisation	0.0	0.0
Sovereign	0.0	0.0
Non-sovereign	0.0	0.0
Sources	-0.4	-0.4
Gross MLT borrowing	0.0	0.0
Sovereign	0.0	0.0
Non-sovereign	0.0	0.0
FDI	0.2	0.3
Other	-0.7	-0.7
Change in FX reserves	0.0	0.0

Source: Fitch Ratings

Credit Developments

Economic Resilience; Strong Performance in Tourism Sector

Andorra's economy in 1H23 performed better than Fitch expected. Annual real GDP growth averaged 2.7% in 1H23, according to official data, of which the non-financial sector (that accounts for around 87% of total gross value added, and consisting predominately of services) expanded at an average 3.3% in 1H23. Growth has been board-based across most economic sectors, though remains largely driven by strong activity in both the construction and tourism sectors. In January to September, tourists numbers rose 17% above the year-earlier level. We expect another strong tourism season this year, with activity already surpassing its 2019 performance in 2022.

Fitch has raised its 2023 real GDP forecast for the Andorran economy to 2.2%, from 1.2% six months earlier. This revision also reflects the resilience of the Spanish economy, which we forecast to grow 2.2%. This compares to a forecast of 0.8% for France, where economic activity has been weaker, particularly in private consumption (based on Fitch's Global Sovereign Outlook, September 2023).

For 2024-2025, we forecast Andorra's small economy to grow at about 1.5%, close to potential. High concentration in a few sectors (notably tourism and banking) and capacity constraints in the labour market limits growth potential. Public investment has increased significantly to address the country's limited and affordable housing supply, but private-sector investment in high-value sectors remains low.

Strong Recovery in Tourism

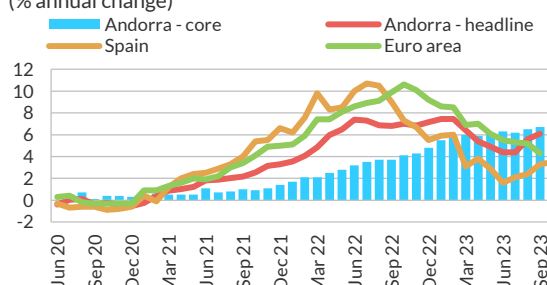
(Thousands of people)



Source: Fitch Ratings, Andorra National Statistics

Elevated Inflation

(% annual change)



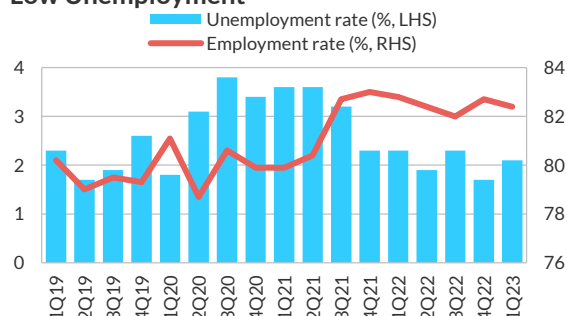
Source: Fitch Ratings, Eurostat, Andorra National Statistics

Challenges from High Inflation

Headline inflation remains high, posing a potential risk to the economic outlook. Inflation slowed from a peak of 7.5% in January 2023 to 4.4% at end-July, but has since increased to 6.1% at end-September. The pick-up reflects higher prices in subgroups of energy (electricity, gas and other fuels) and transport. Meanwhile, annual inflation in food and non-alcoholic beverages (22% of the CPI basket weight) persist in double-digit growth.

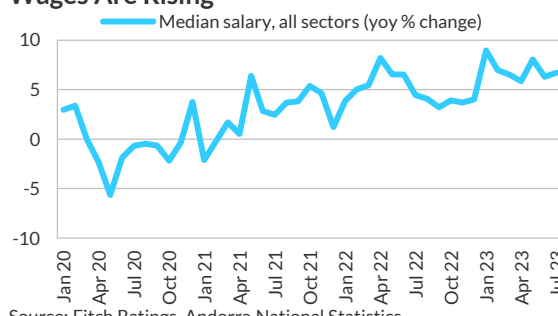
Our baseline assumption is for inflation to gradually ease, with some degree of lag. Andorra's high import dependency leaves domestic inflation highly vulnerable to price developments of its main trading partners. Spain, which accounts for around 70% of Andorra's imported trade in goods, has experienced a significant easing in its headline inflation this year, and subsequently imported prices from Spain have also declined. Our baseline is for inflation to average 5.7% this year, 3.5% in 2024 and 2.5% in 2025.

Low Unemployment



Source: Fitch Ratings, Andorra National Statistics

Wages Are Rising



Source: Fitch Ratings, Andorra National Statistics

EU Association Agreement

Authorities continue to make progress in their negotiation of an Association Agreement with the EU. Across 25 annexes, three have been fully agreed, which includes the annexe relating to the free movement of capital. Progress has also been made in the most sensitive annexes, relating to Andorra's financial services and fully state-owned telecom company. The EU and Andorra have agreed to end Andorra Telecom's monopoly, and a transition period is being negotiated.

The European Commission is encouraging negotiations to close by end-2023, for an agreement to be formally reached before EU parliamentary elections take place in June 2024. In Fitch's opinion, this is an ambitious timeline. Still under negotiation is the annexe related to freedom of movement, which could be complex, based on the government's preference to maintain a system of quotas for migrant workers.

Fiscal Surpluses

In 2022, Andorra achieved a central government fiscal surplus of 2.9% of GDP, up from after a deficit of 2.8% of GDP the previous year. Revenue came in much higher than expected compared to budget expectations (central government) that conservatively targets a 1.0% fiscal deficit. Direct taxes increased 28.7% year-on-year (yoy) reflecting the robust economic environment (nominal GDP growth at 13.4% in 2022), and indirect taxes rose by 34.5%. Expenditure was lower than budgeted, reflecting lower spending in current transfers and public investment.

For 2023, we forecast a lower central government surplus, at 0.9% of GDP. This largely reflects lower economic growth compared to 2022. We expect the intake of consumption taxes to be significantly lower yoy, starting from a high base. The government also expects some shortfall in tourism tax receipts compared to what was budgeted. Some expenses are expected to be higher due to high inflation, for example public-sector salaries, subsidies for affordable rent, and increases in social transfers.

The government has yet to present its 2024 budget, but measures supporting the higher cost of living are expected to remain in place for our forecast period. This includes subsidies for rental housing, free public transportation, as well as inflation-linked increases in pension payments and public-sector salaries. We forecast Andorra to maintain a budget surplus next year.

Moderate Government Debt

We forecast general government debt to decline to 37.1% of GDP this year, having peaked at 48.6% in 2021. Lower economic growth, GDP deflators and primary fiscal surpluses will mean a moderation in debt reduction in the medium term; according to our debt dynamics model, general government debt will fall towards 34.2% of GDP by end-2025.

In 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 2027 (previously 2024). As of end-2022, assets held under the fund were relatively sizeable (48% of GDP) and will help absorb potential deficits in the future. Nonetheless, pension and healthcare system reform remain priorities for the government. According to the IMF, Andorra faces one of the largest increases in public pension expenditure in the EU over 2019-2045.

Currently, the government faces no financing requirements until 2027 (EUR500 million Eurobond 1.25% maturing February 2027), with plans to meet domestic financial obligations through budget surpluses. Debt affordability remains strong. Andorra's interest-to-revenue ratio is projected to fall to 1.4% in 2024 from 1.7% in 2022, well below the 'A' median (3.7% in 2024).

Banking Sector Resilience

Credit growth has remained fairly subdued amid high interest rates. The AFA has assessed the credit-to-GDP gap as below-trend, but in September it announced a precautionary measure to increase the CCyB to 0.5% starting in 4Q23, with it fully effective from 4Q24. Progressive 0.5% increases are then to be expected, until the CCyB 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. As of end-2022, the sector's average liquidity coverage ratio (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 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-2022, 10.8% of GDP).

Public Debt Dynamics

General government debt/GDP peaked in 2021. We expect the ratio to gradually decline 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.

Debt Dynamics - Fitch's Baseline Assumptions

	2021	2022	2023	2024	2025	2026	2027
Gross general government debt (% of GDP)	48.6	39.2	37.1	35.4	34.2	32.1	30.2
Primary balance (% of GDP)	-0.5	5.6	2.6	2.4	2.2	1.5	1.5
Real GDP growth (%)	8.3	8.8	2.2	1.5	1.5	1.5	1.5
Average nominal effective interest rate (%)	1.5	1.6	1.5	1.7	1.8	1.9	2.1
EUR/USD (annual average)	0.8	1.0	0.9	0.9	0.9	0.9	0.9
GDP deflator (%)	2.6	4.2	4.0	3.3	2.0	2.0	2.0
Stock-flow adjustments (% of GDP)	0.0	0.0	3.0	1.8	1.6	0.0	0.0

Source: Fitch Ratings

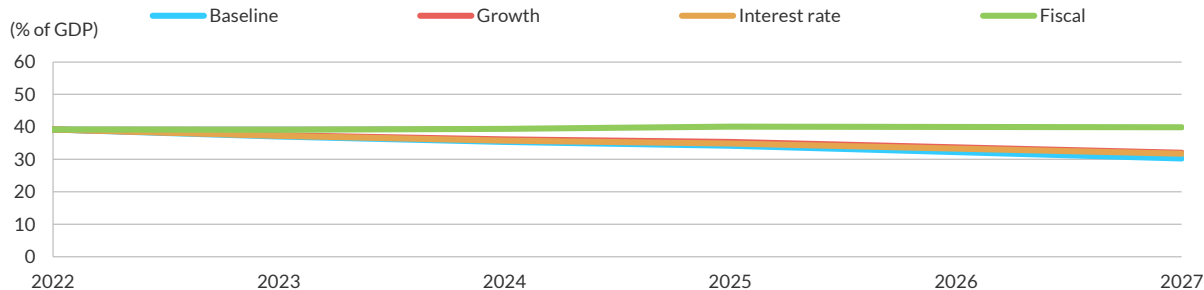
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

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

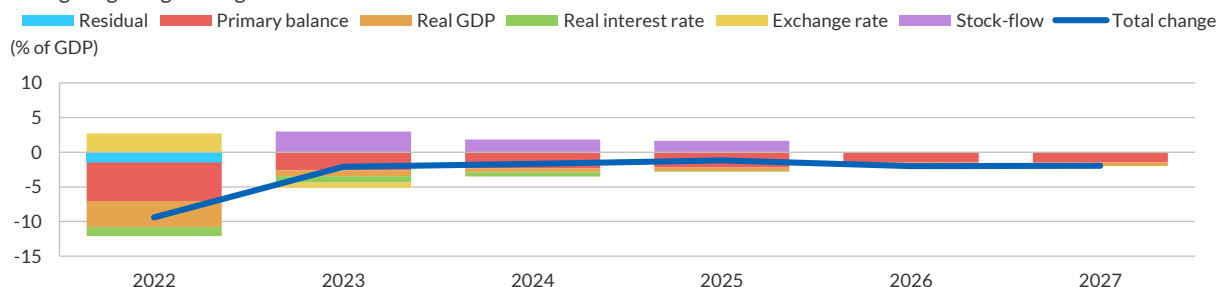
Gross general government debt



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	2023F	2024F	2025F
Revenue	38.2	38.6	38.2	41.3	37.9	40.0	37.0	36.3	35.9
Expenditure	34.9	35.9	35.8	42.3	39.0	35.1	34.9	34.4	34.2
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	1.4	1.3
Primary balance	3.8	3.1	2.8	-0.6	-0.5	5.6	2.6	2.4	2.2
Overall balance	3.3	2.6	2.3	-1.1	-1.2	4.9	2.1	1.9	1.8
Gross government debt	37.9	36.3	35.4	46.4	48.6	39.2	37.1	35.4	34.2
% of government revenue	99.1	94.2	92.7	112.3	128.3	97.9	100.3	97.5	95.1
Issued in domestic market	37.9	36.3	35.4	43.0	24.2	1.9	2.0	1.9	1.8
Issued in foreign markets	0.0	0.0	0.0	3.4	24.4	37.3	35.1	33.5	32.4
Local currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency	37.9	36.3	35.4	46.4	48.6	39.2	37.1	35.4	34.2
Central government deposits	3.9	4.0	3.7	9.1	15.8	12.7	12.0	11.4	11.1
Net government debt	33.9	32.3	31.6	37.2	32.8	26.4	25.1	23.9	23.1
Financing		-2.6	-2.3	1.1	1.2	-4.9	-2.1	-1.9	-1.8
Domestic borrowing		-0.5	0.2	3.6	-14.5	-19.5	0.2	0.0	0.0
External borrowing		0.0	0.0	3.7	20.2	14.7	0.7	0.0	0.0
Other financing		-2.1	-2.5	-6.2	-4.6	-0.1	-3.0	-1.9	-1.8
Change in deposits (- = increase)		-0.2	0.2	-5.0	-7.6	1.2	0.0	0.0	0.0
Privatisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		-1.9	-2.7	-1.2	3.0	-1.3	-3.0	-1.9	-1.8

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F
Current account	-	-	0.6	0.4	0.5	0.3	0.4	0.4	0.4
% GDP	-	-	18.0	15.6	14.1	10.1	11.7	10.5	9.6
Goods	-	-	-1.3	-1.1	-1.3	-1.6	-1.6	-1.6	-1.7
Services	-	-	1.6	1.2	1.6	1.7	1.8	1.8	1.8
Primary income	-	-	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Secondary income	-	-	0.0	0.0	-0.1	-0.1	-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	0.3	0.4	0.4	0.4
Direct investment	-	-	-0.3	-0.1	-0.3	-0.3	-0.2	-0.3	-0.3
Portfolio investment	-	-	0.1	-0.2	0.6	0.3	0.6	0.6	0.6
Derivatives	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	-	-	0.8	0.8	0.1	0.2	0.1	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	0.1	0.0	0.0	0.0
International reserves, incl. gold	-	-	-	0.1	0.2	0.3	0.3	0.3	0.3
Liquidity ratio (%)	-	-	-	-	-	-	-	-	-
Memo									
Current external receipts (CXR)	-	-	-	1.8	2.4	2.6	2.7	2.8	2.8
Current external payments (CXP)	-	-	-	1.7	2.1	2.5	2.5	2.6	2.7
CXR growth (%)	-	-	-	-37.6	31.1	6.5	5.0	2.3	2.3
CXP growth (%)	-	-	-	-27.6	24.1	14.9	2.4	3.4	3.2
Gross external financing requirement	-	-	-	-	-	-	-	-	-
% International reserves	-	-	-	-	-	-	-	-	-
Net external borrowing	-	-	-	0.2	0.4	0.6	0.0	0.0	0.0

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F
Gross external debt	-	-	5.5	6.3	5.9	6.5	6.5	6.5	6.5
% GDP	-	-	173.4	219.7	178.4	193.5	176.5	167.6	163.1
% CXR	-	-	185.3	344.0	245.7	252.2	240.1	234.3	230.8
Short-term debt (% GXD)	-	-	88.6	87.5	79.8	79.8	79.8	79.8	79.8
By debtor									
Sovereign	-	-	0.1	0.3	0.8	1.3	1.3	1.3	1.3
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	4.2	4.2	4.2	4.2
Other sectors	-	-	1.0	1.0	0.9	1.0	1.0	1.0	1.0
Gross external assets (non-equity)	-	-	11.3	12.3	12.5	13.3	13.6	13.9	14.2
Sovereign	-	-	0.7	0.8	1.3	1.4	1.4	1.4	1.4
International reserves, incl. gold	-	-	0.0	0.1	0.2	0.3	0.3	0.3	0.3
Other sovereign assets	-	-	0.7	0.7	1.1	1.0	1.0	1.0	1.0
Banks	-	-	7.1	7.7	7.6	8.3	8.6	8.9	9.2
Other sectors	-	-	3.5	3.9	3.6	3.6	3.6	3.6	3.6
Net external debt	-	-	-5.8	-6.0	-6.6	-6.8	-7.1	-7.4	-7.7
% GDP	-	-	-183.9	-207.8	-197.6	-203.0	-193.3	-191.9	-192.1
Sovereign	-	-	-0.6	-0.5	-0.5	-0.1	-0.1	-0.1	-0.1
Banks	-	-	-2.6	-2.6	-3.4	-4.1	-4.4	-4.7	-5.0
Other sectors	-	-	-2.6	-2.9	-2.7	-2.6	-2.6	-2.6	-2.6
International investment position									
Assets	-	-	17.2	19.6	20.3	-	-	-	-
Liabilities	-	-	7.3	8.4	7.8	-	-	-	-
Net	-	-	9.9	11.2	12.4	-	-	-	-
Net sovereign	-	-	1.1	1.1	1.0	0.5	0.6	0.6	0.6
% GDP	-	-	34.7	36.8	31.3	16.0	15.7	14.9	14.4
External debt service (principal + interest)	-	-	-	-	-	-	-	-	-
Interest (% CXR)	-	-	2.2	1.7	1.5	1.3	1.3	1.2	1.2

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							A-
Input Indicator	Weight (%)	2022	2023	2024	Model Result and Predicted Rating			9.60 = A-	
					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.	43,960	n.a.	Percentile	77.8	0.038	2.98	
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.	409.0	n.a.	Natural log	6.0	0.158	0.95	
Macroeconomic performance, policies and prospects								-1.33	
Real GDP growth volatility	4.6	n.a.	5.6	n.a.	Natural log	1.7	-0.728	-1.26	
Consumer price inflation	3.4	6.2	5.7	3.5	3-yr avg. ^b	5.1	-0.067	-0.35	
Real GDP growth	2.0	8.8	2.2	1.5	3-yr avg.	4.2	0.065	0.27	
Public finances								-1.46	
Gross general govt debt (% GDP)	8.9	39.2	37.1	35.4	3-yr avg.	37.2	-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	4.9	3.2	2.1	3-yr avg.	3.4	0.044	0.15	
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								0.22	
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	16.0	15.7	14.9	3-yr avg.	15.5	0.011	0.17	
Commodity dependence	1.2	n.a.	0.8	n.a.	Latest	0.8	-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	1.3	1.3	1.2	3-yr avg.	1.3	-0.007	-0.01	
CAB + net FDI (% GDP)	0.1	18.1	18.4	18.0	3-yr avg.	18.2	0.001	0.01	
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 Long-Term Foreign-Currency (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 LT FC 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 three notches above the IDR. Fitch's rating committee applied a further three-notch qualitative adjustment under the Long-Term Institutional Characteristics, reflecting Andorra's fully dollarised 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	72.2	+3
Volatility of change in CXR (across 10yrs)	2023	22.1	0
Export share to FTA partners	2019-23 avg	99.3	+3
International financial integration^a	2019-23 avg	259.7	+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	-266.6	+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

Date	Foreign-Currency Rating			Local-Currency Rating			Country Ceiling
	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	
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 organisations, 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 Worldwide Governance Indicators (WBG I) 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 WBG I 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 WBG I 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

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 (WBI), 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.

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.

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