

Andorra

Key Rating Drivers

Strong Structural Fundamentals: Andorra's credit profile is supported by GDP per capita and governance indicators well above the median for 'A' category peers. Prudent fiscal policy has helped preserve fiscal and macro stability despite external impediments. Public debt-to-GDP below the 'A' category median also supports the rating. These credit strengths balance Andorra's small economy and limited diversification. The large banking sector also exposes the economy and government balance sheet to vulnerabilities in case of a severe adverse shock.

Fiscal Surpluses: Fitch Ratings forecasts general government fiscal surpluses of 1.2% of GDP in 2024, 0.6% in 2025 and 0.1% in 2026. Lower surpluses largely reflect Andorra's high investment needs. The 2025 budget presented on 22 October remains in line with the national agenda of higher public spending for affordable social housing, improving transportation infrastructure and progress in the transition towards renewable energy.

Low Debt Ratio: General government debt at 36.0% of GDP at end-2023 is below the median debt ratio of 'A' category peers (49.6%), and will remain on a gradually declining path, reaching 33.1% by end-2026, by Fitch's estimates. Andorra has no external financing requirements until 2027 (EUR500 million Eurobond maturing February 2027). Domestic debt obligations (averaging 0.6% of GDP in 2024-2026) will be met through budget surpluses and use of the government's fiscal buffer (11.6% of GDP, end-2023).

Ageing Pressures, Pension Reform: Andorra faces one of the largest increases in public pension expenditure in Europe in the medium to longer term, due to its ageing population. The public social security fund is projected to start running deficits from about 2026. For now, fiscal costs of ageing are mitigated by sizeable pension fund assets (approximately 48% of GDP). Pension and healthcare system reform remain priorities for the government. There is political consensus to outline pension system reform by 2025.

Limited Economic Diversity: We forecast Andorra's economy to expand by 1.8% in 2024 and 1.4% in 2025. Steady progress continues diversifying Andorra's tourism-dependent economy, and promoting it as a destination for higher value-added foreign investment. However, a substantial change in its economic model is unlikely in the medium term. Structural limitations remain significant and include Andorra's small domestic market, constraints in labour market capacity, limited connectivity infrastructure to larger neighbouring countries, and limited housing affordability.

Tight Labour Market: Labour market pressures pose a risk to inflation and medium-term growth potential. Strong immigration has helped meet labour demand, but the number of job vacancies across all sectors remains high. To relieve labour market pressures, the government has gradually expanded its work permit quota system. Mandated increases to the regulatory minimum wage (cumulatively 14.5% since end-2022) have also helped keep the labour market attractive to foreign workers.

EU Association Agreement: The Association Agreement is pending approval by the European Council, after Andorra and the EU reached an agreement on its terms in December 2023. We expect that after the Council adopts the agreement, Andorra will take the Association Agreement to a national referendum, which the authorities expect to hold in 2025.

We view the risk that the agreement will not survive a referendum as limited. There seems to be broad support and the authorities have proactively communicated the details to the public. We believe the Association Agreement will facilitate Andorra's further integration into the EU internal market, broadening export opportunities and potentially supporting economic diversification in the medium to long term.

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 |
|-----------------|-----|

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

| | 2024F |
|----------------|-------|
| GDP (USDbn) | 4 |
| 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 \(October 2024\)](#)

[Global Economic Outlook \(September 2024\)](#)

[Interactive Sovereign Rating Model](#)

[Fitch Fiscal Index - Analytical Tool](#)

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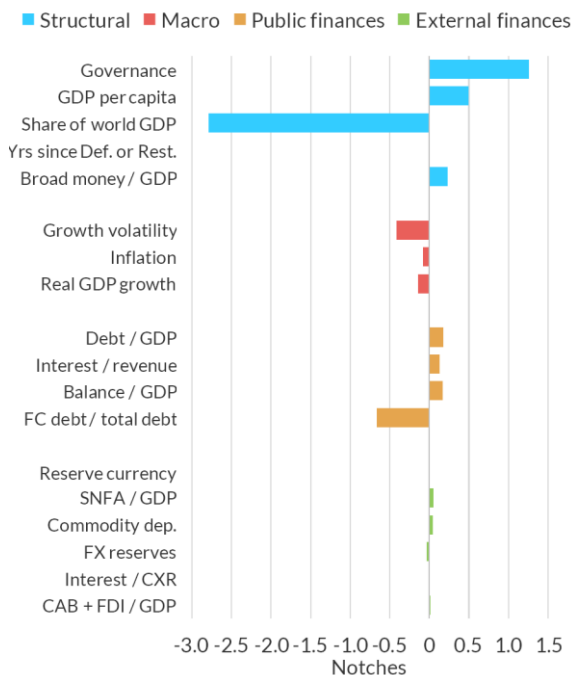
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Rating Summary

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.

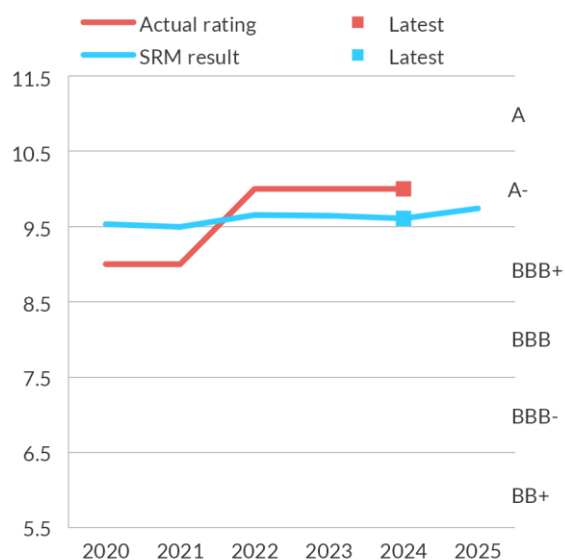
Macroeconomic outlook, policies and prospects: No adjustment.

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 ^{a,b} | QO | | | |
|-------------|-----------|---------------------------|----|----|----|----|
| | | | S | M | PF | EF |
| Latest | A- | A- | 0 | 0 | 0 | 0 |
| 26 Apr 2024 | A- | A- | 0 | 0 | 0 | 0 |
| 27 Oct 2023 | A- | A- | 0 | 0 | 0 | 0 |
| 28 Apr 2023 | A- | A- | 0 | 0 | 0 | 0 |
| 9 Dec 2022 | A- | A- | 0 | 0 | 0 | 0 |
| 8 Jul 2022 | A- | A- | 0 | 0 | 0 | 0 |
| 14 Jan 2022 | BBB+ | BBB+ | -1 | +1 | 0 | 0 |
| 23 Jul 2021 | BBB+ | BBB+ | -1 | +1 | 0 | 0 |
| 29 Jan 2021 | BBB+ | BBB+ | -1 | +1 | 0 | 0 |
| 31 Jul 2020 | BBB+ | BBB+ | -1 | +1 | 0 | 0 |

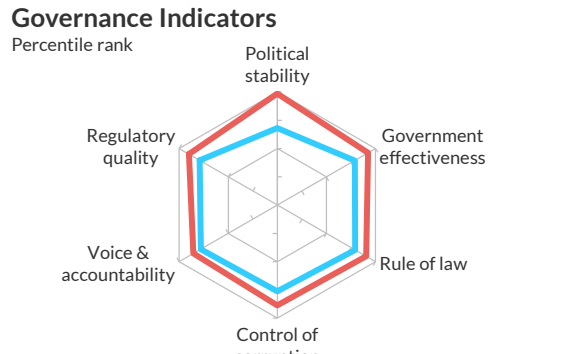
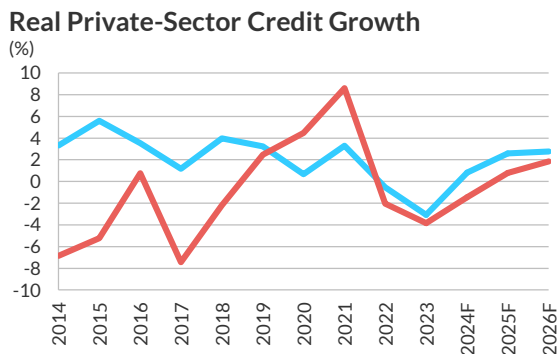
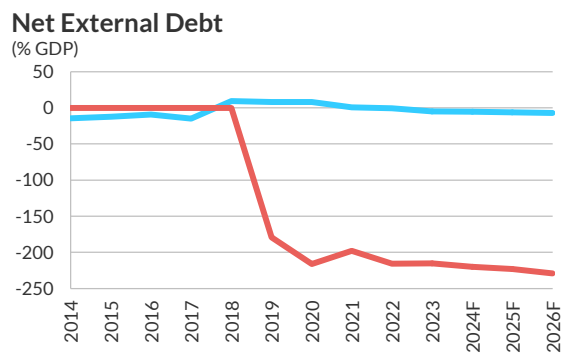
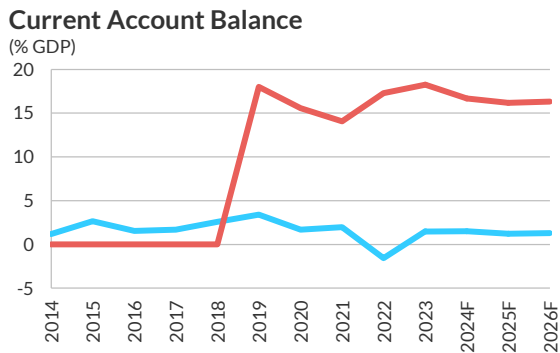
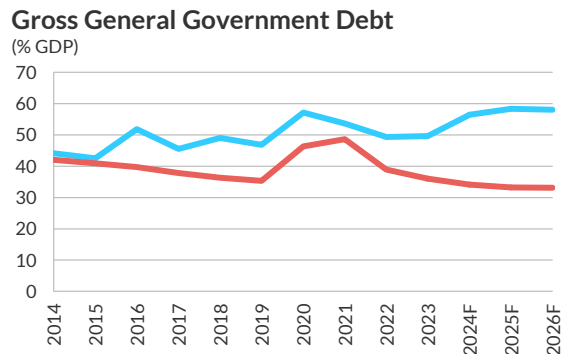
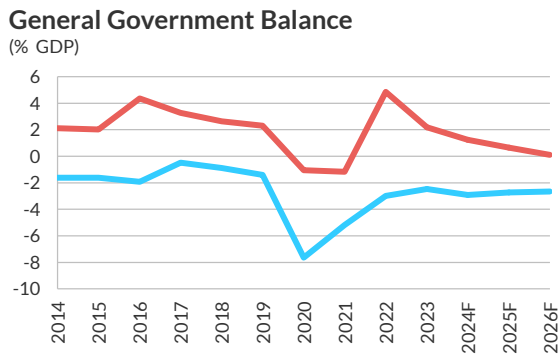
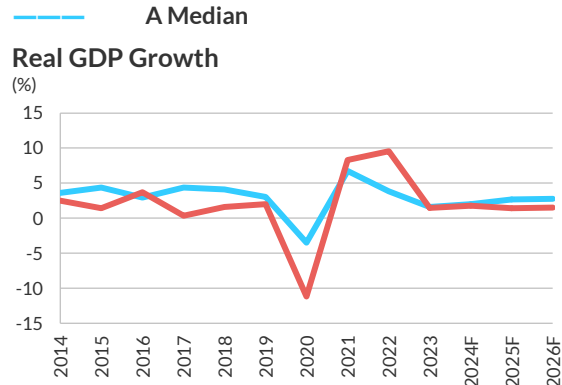
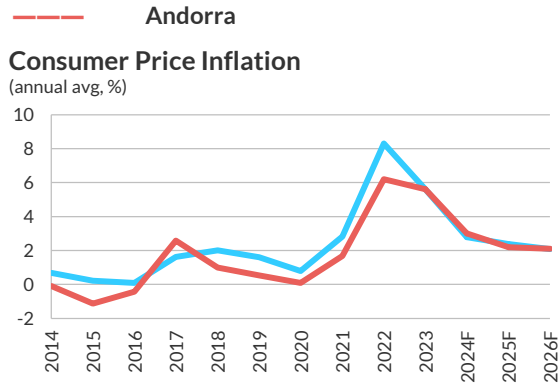
^a The latest rating uses the SRM result for 2024 from the chart. This will roll forward to 2025 in July 2025.

^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



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

Peer Analysis

| 2024F ^a | Andorra | A median | AA median | BBB median |
|--|---------|----------|-----------|------------|
| Structural features | | | | |
| GDP per capita (USD) [SRM] | 45,315 | 31,307 | 53,037 | 14,460 |
| Share in world GDP (%) [SRM] | 0.0 | 0.0 | 0.0 | 0.0 |
| Composite governance indicator (percentile, latest) [SRM] ^b | 91.0 | 74.7 | 84.3 | 58.1 |
| Human development index (percentile, latest) | 82.2 | 82.2 | 89.7 | 66.3 |
| Broad money (% GDP) [SRM] | 391.8 | 89.0 | 100.4 | 60.9 |
| Private credit (% GDP, 3-year average) | 210.3 | 73.1 | 103.1 | 56.2 |
| Dollarisation ratio (% bank deposits, latest) | - | 10.3 | 12.5 | 15.9 |
| Bank system capital ratio (% assets, latest) | 19.9 | 16.0 | 16.8 | 15.9 |
| Macroeconomic performance and policies | | | | |
| Real GDP growth (% , 3-year average) [SRM] | 1.5 | 3.8 | 2.2 | 3.3 |
| Real GDP growth volatility (complex standard deviation) [SRM] | 5.3 | 3.0 | 2.4 | 3.4 |
| Consumer price inflation (% , 3-year average) [SRM] | 3.6 | 2.4 | 2.2 | 3.2 |
| Unemployment rate (%) | 1.7 | 6.4 | 5.1 | 7.6 |
| Public finances (general government)^c | | | | |
| Balance (% GDP, 3-year average) [SRM] | 1.4 | -2.5 | -0.9 | -2.6 |
| Primary balance (% GDP, 3-year average) | 1.9 | -0.7 | 0.4 | -0.7 |
| Interest payments (% revenue, 3-year average) [SRM] | 1.3 | 4.3 | 3.4 | 7.5 |
| Gross debt (% revenue, 3-year average) | 88.6 | 135.4 | 140.1 | 157.0 |
| Gross debt (% GDP, 3-year average) [SRM] | 34.5 | 42.2 | 41.3 | 38.0 |
| Net debt (% GDP, 3-year average) | 24.4 | 36.6 | 33.7 | 31.9 |
| FC debt (% gross debt, 3-year average) [SRM] | 0.0 | 8.2 | 0.5 | 33.7 |
| External finances^c | | | | |
| Current account balance (% GDP, 3-year average) | 17.0 | 1.2 | 1.6 | -1.6 |
| Current account balance + net FDI (% GDP, 3-year avg.) [SRM] | 20.9 | 2.5 | 0.9 | 0.7 |
| Commodity dependence (% CXR) [SRM] | 0.6 | 11.8 | 16.6 | 18.9 |
| Gross external debt (% GDP, 3-year average) | 143.6 | 66.0 | 120.1 | 55.2 |
| Net external debt (% GDP, 3-year average) | -219.4 | -7.7 | -10.1 | 11.4 |
| Gross sovereign external debt (% GXD, 3-year average) | 21.7 | 21.4 | 17.7 | 29.7 |
| Sovereign net foreign assets (% GDP, 3-year average) [SRM] | 16.6 | 11.7 | 8.7 | 2.0 |
| External interest service (% CXR, 3-year average) [SRM] | 0.9 | 2.3 | 3.9 | 4.1 |
| Foreign-exchange reserves (months of CXP) [SRM] | 1.9 | 4.4 | 2.7 | 4.9 |
| Liquidity ratio | - | 95.2 | 54.5 | 133.5 |

^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 (USD45,315) is about 1.4x the 'A' median, but remains below the 'AA' median (USD 53,037).
- Andorra's debt/GDP ratio, at 36.0% of GDP at end-2023, is below the current median of 'A' category sovereigns (49.6%).
- 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% (2023) is lower than the current projected median of 'A' category sovereigns (3.3%).
- 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' rated peers (74.7).

Weaknesses

- The very large banking sector (consolidated assets equivalent to 543.5% of GDP at end-2023) could pose a contingent liability risk to the government's balance sheet.
- The small economy limits economic diversification.
- Low growth potential at about 1.5% reflects low levels of human capital and low investment.
- We project the unsustainable pension system 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:** A material increase 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:** A material decline in general government debt or reduction in contingent liability risks, for example given improved resilience of the banking sector including access to Eurosystem liquidity facilities.

| Rating | Sovereign | |
|----------|----------------|----------|
| A | Iceland | |
| | Israel | |
| | Japan | |
| | Lithuania | |
| | Slovenia | |
| A- | Andorra | |
| | Chile | |
| | Croatia | |
| | Latvia | |
| | Poland | |
| | Portugal | |
| | Slovakia | |
| | Spain | |
| | BBB+ | Cyprus |
| | | Malaysia |
| Thailand | | |

Source: Fitch Ratings

Forecast Summary

| | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F |
|--|--------|--------|--------|--------|--------|--------|
| Macroeconomic indicators and policy | | | | | | |
| Real GDP growth (%) | 8.3 | 9.6 | 1.4 | 1.8 | 1.4 | 1.5 |
| Unemployment (%) | 3.3 | 2.1 | 1.6 | 1.7 | 1.7 | 1.7 |
| Consumer price inflation (annual average % change) | 1.7 | 6.2 | 5.6 | 3.0 | 2.2 | 2.1 |
| Policy interest rate (annual average, %) | -0.5 | 0.2 | 3.4 | 3.8 | 2.8 | 2.1 |
| General government balance (% GDP) | -1.2 | 4.8 | 2.2 | 1.2 | 0.6 | 0.1 |
| Gross general government debt (% GDP) | 48.6 | 38.9 | 36.0 | 34.1 | 33.2 | 33.1 |
| EUR per USD (annual average) | 0.8 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| Real private credit growth (%) | 8.6 | -2.0 | -3.8 | -1.5 | 0.8 | 1.9 |
| External finance | | | | | | |
| Merchandise trade balance (USDbn) | -1.3 | -1.6 | -1.6 | -1.7 | -1.7 | -1.8 |
| Current account balance (% GDP) | 14.1 | 17.2 | 18.3 | 16.7 | 16.2 | 16.3 |
| Gross external debt (% GDP) | 178.1 | 170.9 | 152.7 | 142.8 | 135.2 | 129.3 |
| Net external debt (% GDP) | -198.1 | -215.6 | -215.1 | -220.1 | -223.0 | -229.3 |
| External debt service (principal + interest, USDbn) | - | - | - | - | - | - |
| Official international reserves including gold (USDbn) | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Gross external financing requirement (% int. reserves) | - | - | - | - | - | - |
| Real GDP growth (%) | | | | | | |
| US | 5.8 | 1.9 | 2.5 | 2.5 | 1.6 | 1.6 |
| China | 8.4 | 3.0 | 5.2 | 4.8 | 4.5 | 4.3 |
| Eurozone | 5.4 | 3.5 | 0.4 | 0.8 | 1.5 | 1.4 |
| World | 6.3 | 2.7 | 2.9 | 2.7 | 2.5 | 2.4 |
| Oil (USD/barrel) | 70.6 | 98.6 | 82.1 | 80.0 | 70.0 | 65.0 |

Source: Fitch Ratings

Sources and Uses

Public Finances (General government)

| (EURm) | 2024 | 2025 |
|--------------------|--------------|--------------|
| Uses | | |
| Budget deficit | -45.1 | -24.1 |
| MLT amortisation | 8.3 | 9.9 |
| Domestic | 8.3 | 9.9 |
| External | 0.0 | 0.0 |
| Sources | -36.8 | -14.2 |
| Gross borrowing | -5.8 | 24.6 |
| Domestic | 8.3 | 9.9 |
| External | -14.1 | 14.7 |
| Privatisation | 0.0 | 0.0 |
| Other | -67.7 | -77.6 |
| Change in deposits | 36.6 | 38.8 |
| (- = increase) | | |

Source: Fitch Ratings

External Finances

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

Source: Fitch Ratings

Credit Developments

Economic Resilience; Challenges to Higher Growth Potential

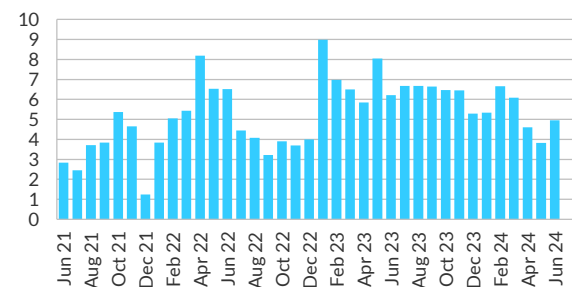
Andorra’s economy expanded by 1.8% annually in 1H24, accelerating from growth of 0.9% in 2H23. As of 2Q24, real output in Andorra’s large services sector (87% of gross value-added) was 9.1% above its end-2019 level, driven by strong activity in the financial and real estate sectors. In contrast, performance in sectors of commerce, hospitality and ICT (28% of gross value-added) have been weaker, with real output only modestly surpassing end-2019 level in 1Q24. Despite a robust recovery in the tourism, the impact from high inflation (high imported prices and high wages) have weighed on non-financial services.

Fitch raised its 2024 real GDP forecast to 1.8% from 1.5% on the positive GDP outturns in 1H24. For 2025-2026, we expect growth to remain close to potential (1.5%). Continued disinflation will support domestic consumption and stronger net external demand from tourism. Strong construction activity will also persist, underpinned by the government’s national strategy to expand infrastructure in affordable housing, transportation links and building of a heliport. This is in addition to the construction of residential properties in a growing luxury market targeted at foreign buyers.

Economic diversification remains an important government priority, with both the authorities and the private sector making steady progress reducing the seasonality of Andorra’s winter-dependent tourism sector, as well as promoting Andorra as a destination for higher value-added FDI. However, a substantial change in Andorra’s economic model is unlikely over the medium term. Structural limitations remain significant and include Andorra’s small domestic market, constraints in labour market capacity, limited connectivity infrastructure to larger neighbouring countries, and limited housing affordability.

Wage Inflation

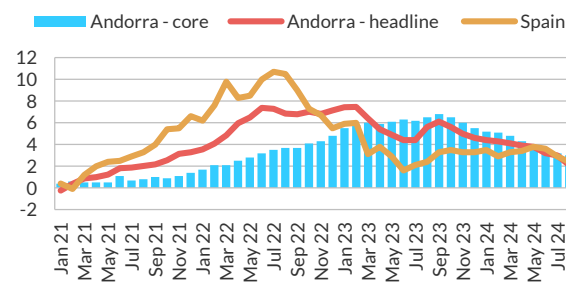
Median salary, all sectors (yoy% change)



Source: Fitch Ratings, Andorra National Statistics

Inflation Eases

(% annual change)



Source: Fitch Ratings, Eurostat, Andorra National Statistics

Inflation Eases

Headline inflation slowed to 1.7% (advanced estimate) in September, from 2.1% the previous month and 4.6% in December 2023. Core inflation is also declining, but has remained above headline inflation since April 2023, registering 3.0% in the August figures. Energy inflation has eased significantly, but inflationary pressures related to housing, (non-fresh) food products and services have persisted. In particular, housing inflation mainly reflects higher rental costs and assumes a weight 18.6% of Andorra’s CPI basket.

We expect headline inflation to average 3.0% in 2024, easing towards 2.2% in 2025 and 2.2% in 2026. Andorra’s high import dependence leaves domestic inflation highly vulnerable to price developments in its main trading partners. Spain, which accounts for about 70% of Andorra’s imported trade in goods, has experienced significant easing in its headline inflation, which will continue to gradually feed into Andorra’s domestic prices. However, increased labour market tightness and high wage growth pose an inflationary risk.

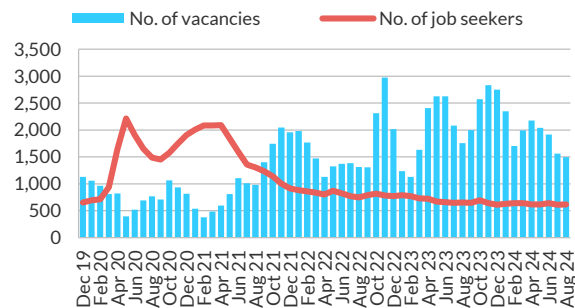
Labour Market Challenges

Andorra has a tight labour market. Andorra’s employment rate of 83.8% at end-2Q24 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 in 2021-2023 contributed to a 7% increase in Andorra’s population. However, increased labour supply has only partially met demand. Vacancies remain high across all sectors, notably in hospitality, manufacturing and construction.

To relieve labour market pressures, the government has found itself gradually expanding its work permit quota system. This year, regulation for employment of non-EU seasonal workers also eased. Meanwhile, mandated increases

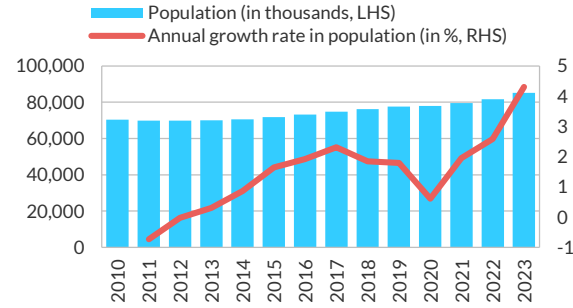
to the regulatory minimum wage (cumulatively 14.5% since end-2022) have partly helped keep the labour market attractive to foreign workers.

Labour Market Tightness



Source: Fitch Ratings, Andorra National Statistics

Population Growth



Source: Fitch Ratings, Andorra National Statistics

High Investment Spending Needs; Fiscal Prudence

Strong economic activity has resulted in a solid revenue intake. Data for 1Q24 show direct taxes rising by a robust 26% compared to 1Q23. In the same period, indirect taxes increased 15%. The 1Q24 outturn is a positive indication that total revenue for this year will likely come in above the government’s budgeted estimate (EUR585.9 million, central government). Additionally, there is potential for upside, as the 1Q24 tax statistics do not fully capture the recently imposed tax on foreign investment in real estate¹, which the authorities project will yield revenues of 0.1%-0.2% of GDP this year.

We now project Andorra’s central government balance to reach a modest surplus of 0.1% of GDP, compared to an initial forecast for a deficit of 0.8%. The revision reflects the high intake of tax receipts. Additionally, we expect total expenditure to remain within budget, assuming some underspending in the government’s investment budget, given that higher costs due to inflation continue to affect public investment execution. Total expenditures have remained fairly restrained, increasing only 1.6% year on year in 1Q24.

The government presented its 2025 Budget on 22 October, with no major changes to current tax and expenditure policies. The government will maintain high public investment into increasing affordable social housing, improving transportation infrastructure and progress in renewable energy transition. Meanwhile, government revenue should benefit from the resumption of dividend payments from state-owned energy company FEDA (Forces Elèctriques d’Andorra), payments that were temporary suspended due to high energy costs negatively affecting profits.

Andorra has a strong record of fiscal prudence. We expect fiscal execution to remain underpinned by its national fiscal framework, a central government debt ceiling of 40% of GDP and fiscal deficit limit of 1.0% of GDP.

Low Government Debt Ratio; Long-Term Cost Pressure from Ageing

Projected primary fiscal surpluses will underpin a gradual downward path of general government debt towards 33.1% of GDP by end-2026, from 36.0% 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).

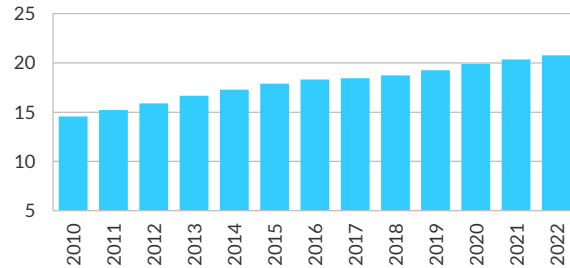
Over the medium to longer term, debt sustainability faces challenges from demographic pressures and increased age-related spending. Strong population growth has so far delayed the public social security fund from running deficits, projected by the government to occur about 2026 (previously 2024).

According to the IMF, Andorra faces one of the largest increases in public pension expenditure in Europe in 2019-2045. These expenditure pressures are mitigated by Andorra’s large pension fund, with assets of about 48% of GDP. At the same time, pension and healthcare system reform remain government priorities. There is a political consensus to outline reform of the pension system by 2025.

¹ Applicable from 29 February 2024, a progressive tax for foreign investors in Andorra’s real estate market. This tax ranges between 3% and 10% of the real value of the property, depending on the number of properties and the type of investment.

Old Age Dependency Ratio

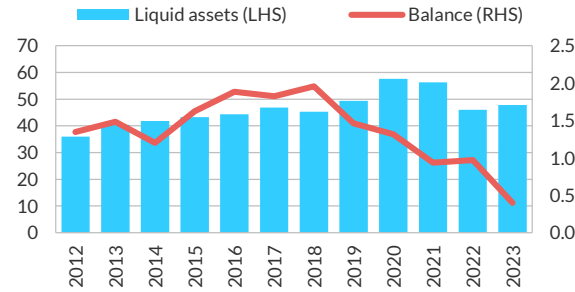
(Index, population over 65yrs per 100 inhabitants)
Old age dependency ratio



Source: Fitch Ratings, Andorra National Statistics

Social Security Fund

(in % of GDP)



Source: Fitch Ratings, Andorra National Statistics

Banking Sector Resilience

Banking sector performance is strong. Banks are well-capitalised (CET 1 capital ratio above 15%) with significant liquidity (liquidity coverage ratio of above 200%). Increased interest margins have supported robust profitability growth. While early repayment of loans and deleveraging by the private sector have supported a declining trend in non-performing loans (2.2% at end-2023, down from 6.0% at end-2020²).

The Andorran Financial Authority (AFA) has assessed the credit-to-GDP gap as below-trend. High interest rates continue to weigh on credit growth in the corporate and household sectors, and while the construction sector has seen significant growth, loans in construction and real estate remain stable. Nonetheless, the AFA took precautionary measures to increase the banking sector’s countercyclical buffer (September 2023) to 0.5% in 4Q23, with it fully effective from 4Q24. Progressive 0.5% increases will be implemented until the buffer reaches 1.5% at end-2026.

The Andorran banking sector is predominately deposit-funded. Under an adverse scenario conducted by the IMF, which stresses the banking sector with a deposit outflow rate four times the baseline, the sector’s 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 (EUR398 million, as of September 2024, 11.5% of GDP). To date, deposits have proven to be sticky, a significant share (approximately one-third) related to foreign banks (and tied to investment assets).

EU Association Agreement

The Association Agreement is pending approval by the European Council, after Andorra and the EU reached an agreement on its terms in December 2023. It is expected that once the agreement is adopted, Andorra will take it to a national referendum, which the authorities are expecting to hold in 2025.

Fitch believes that the risk that the Association Agreement will not survive a referendum vote is limited. There is broad support for the agreement and the authorities have campaigned to the public concerning its details. In Fitch’s assessment, the agreement will help facilitate Andorra’s further integration into the EU internal market, broadening export opportunities and potentially supporting economic diversification over the medium to long term.

² Source: IMF and Andorran Banking (ABA).

Public Debt Dynamics

General government debt/GDP peaked in 2021 at 48.6% of GDP. 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

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|------|------|------|------|------|------|------|
| Gross general government debt (% of GDP) | 38.9 | 36.0 | 34.1 | 33.2 | 33.1 | 31.9 | 30.8 |
| Primary balance (% of GDP) | 5.6 | 2.7 | 1.7 | 1.1 | 0.5 | 0.5 | 0.5 |
| Real GDP growth (%) | 9.6 | 1.4 | 1.8 | 1.4 | 1.5 | 1.5 | 1.5 |
| Average nominal effective interest rate (%) | 1.5 | 1.5 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| EUR/USD (annual avg) | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| GDP deflator (%) | 4.2 | 5.9 | 3.0 | 2.4 | 1.8 | 1.8 | 1.8 |
| Stock-flow adjustments (% of GDP) | 0.0 | 0.0 | 0.8 | 1.0 | 1.1 | 0.0 | 0.0 |

Source: Fitch Ratings

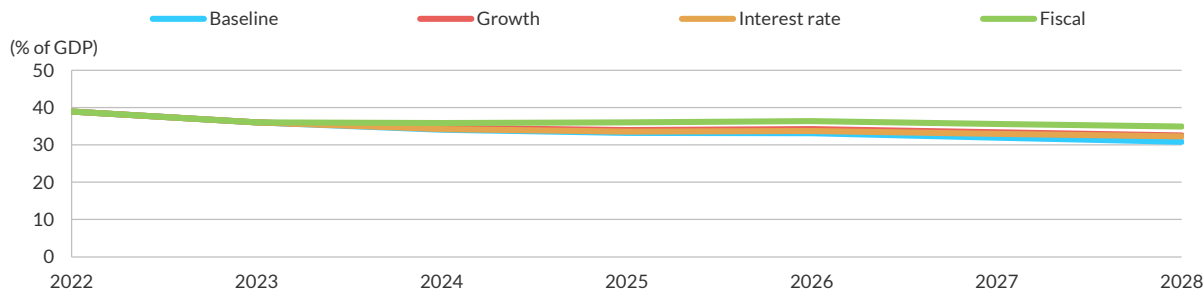
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

| | |
|---------------|--|
| Growth | GDP growth below potential (1.5%), averaging 0.5% over the medium to long term |
| Interest rate | Marginal interest rate 250bp higher |
| Fiscal | Balanced primary fiscal balance |

Source: Fitch Ratings

Sensitivity Analysis

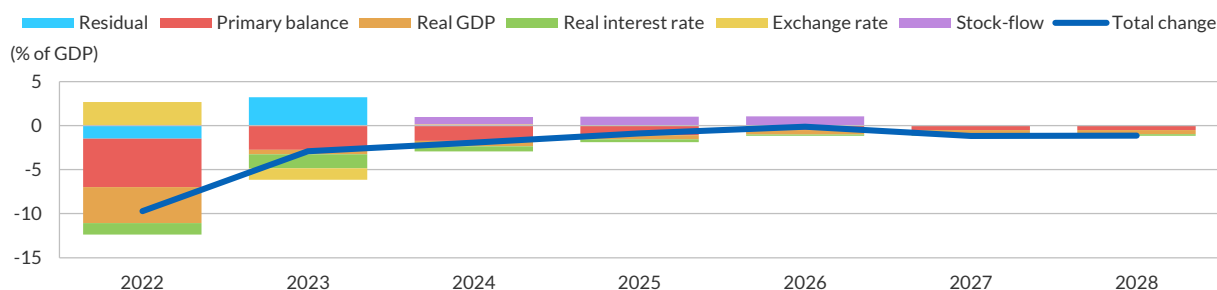
Gross general government debt



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) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F |
|-----------------------------------|------|------|-------|-------|-------|------|-------|-------|-------|
| Revenue | 38.6 | 38.2 | 41.3 | 37.9 | 39.7 | 38.6 | 39.1 | 39.0 | 39.0 |
| Expenditure | 35.9 | 35.8 | 42.3 | 39.0 | 34.9 | 36.4 | 37.8 | 38.3 | 38.9 |
| o/w interest payments | 0.5 | 0.4 | 0.5 | 0.6 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 |
| Interest payments (% revenue) | 1.2 | 1.2 | 1.2 | 1.6 | 1.7 | 1.4 | 1.2 | 1.2 | 1.2 |
| Primary balance | 3.1 | 2.8 | -0.6 | -0.5 | 5.5 | 2.7 | 1.7 | 1.1 | 0.6 |
| Overall balance | 2.6 | 2.3 | -1.1 | -1.2 | 4.8 | 2.2 | 1.2 | 0.6 | 0.1 |
| Gross government debt | 36.3 | 35.4 | 46.4 | 48.6 | 38.9 | 36.0 | 34.1 | 33.2 | 33.1 |
| % of government revenue | 94.2 | 92.7 | 112.3 | 128.3 | 97.9 | 93.3 | 87.3 | 85.3 | 84.9 |
| Issued in domestic market | 36.3 | 35.4 | 42.1 | 24.2 | 1.8 | 1.5 | 1.4 | 1.4 | 1.3 |
| Issued in foreign markets | 0.0 | 0.0 | 4.3 | 24.4 | 37.1 | 34.5 | 32.7 | 31.8 | 31.8 |
| Local currency | 36.3 | 35.4 | 46.4 | 48.6 | 38.9 | 36.0 | 34.1 | 33.2 | 33.1 |
| Foreign currency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Central government deposits | 4.0 | 3.7 | 9.1 | 15.9 | 13.2 | 11.6 | 10.0 | 8.6 | 7.3 |
| Net government debt | 32.3 | 31.6 | 37.2 | 32.7 | 25.7 | 24.4 | 24.1 | 24.6 | 25.8 |
| Financing | | -2.3 | 1.1 | 1.2 | -4.8 | -2.2 | -1.2 | -0.6 | -0.1 |
| Domestic borrowing | | 0.2 | 2.7 | -13.7 | -19.3 | -0.2 | 0.0 | 0.0 | 0.0 |
| External borrowing | | 0.0 | 4.6 | 19.4 | 14.6 | 1.2 | -0.4 | 0.4 | 0.9 |
| Other financing | | -2.5 | -6.2 | -4.5 | -0.1 | -3.2 | -0.9 | -1.0 | -1.1 |
| Change in deposits (- = increase) | | 0.2 | -5.0 | -7.6 | 0.7 | 0.7 | 1.0 | 1.0 | 1.1 |
| Privatisation | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | | -2.7 | -1.3 | 3.1 | -0.7 | -3.9 | -1.9 | -2.1 | -2.1 |

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

| (USDbn) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F |
|--------------------------------------|------|------|-------|------|------|------|-------|-------|-------|
| Current account | - | 0.6 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| % GDP | - | 18.0 | 15.5 | 14.1 | 17.2 | 18.3 | 16.7 | 16.2 | 16.3 |
| Goods | - | -1.3 | -1.1 | -1.3 | -1.6 | -1.6 | -1.7 | -1.7 | -1.8 |
| Services | - | 1.6 | 1.2 | 1.6 | 1.9 | 2.0 | 2.0 | 2.1 | 2.2 |
| Primary income | - | 0.3 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 | 0.4 |
| Secondary income | - | 0.0 | 0.0 | -0.1 | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 |
| Capital account | - | 0.0 | 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 | 0.7 | 0.7 |
| Direct investment | - | -0.3 | -0.1 | -0.3 | -0.5 | -0.2 | -0.1 | -0.1 | -0.1 |
| Portfolio investment | - | 0.1 | -0.2 | 0.6 | 1.4 | 0.9 | 0.7 | 0.7 | 0.7 |
| Derivatives | - | 0.0 | 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 | 0.1 |
| Net errors and omissions | - | - | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Change in reserves (+ = increase) | - | - | 0.1 | 0.1 | 0.2 | 0.0 | 0.1 | 0.0 | 0.0 |
| International reserves, incl. gold | - | - | 0.1 | 0.2 | 0.4 | 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 | 3.1 |
| Current external payments (CXP) | - | - | 1.7 | 2.1 | 2.4 | 2.5 | 2.6 | 2.7 | 2.7 |
| CXR growth (%) | - | - | -37.6 | 31.1 | 13.3 | 5.0 | 2.2 | 3.1 | 3.3 |
| CXP growth (%) | - | - | -27.6 | 24.1 | 13.8 | 2.4 | 3.4 | 3.2 | 3.2 |
| Gross external financing requirement | - | - | - | - | - | - | - | - | - |
| % International reserves | - | - | - | - | - | - | - | - | - |
| Net external borrowing | - | - | 0.2 | 0.4 | 0.4 | -0.1 | -0.1 | 0.0 | -0.1 |

Source: Fitch Ratings, IMF

External Debt and Assets

| (USDbn) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F |
|--|------|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross external debt | - | 5.4 | 6.3 | 5.9 | 5.8 | 5.7 | 5.6 | 5.6 | 5.5 |
| % GDP | - | 172.4 | 218.4 | 178.1 | 170.9 | 152.7 | 142.8 | 135.2 | 129.3 |
| % CXR | - | 184.3 | 342.1 | 245.2 | 210.9 | 198.2 | 191.4 | 184.3 | 176.4 |
| Short-term debt (% GXD) | - | 89.1 | 88.0 | 79.9 | 74.6 | 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 | 1.2 |
| Monetary authorities | - | 0.0 | 0.1 | 0.2 | 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 | 1.1 |
| Banks | - | 4.5 | 5.1 | 4.2 | 3.8 | 3.7 | 3.6 | 3.6 | 3.5 |
| Other sectors | - | 0.9 | 1.0 | 0.9 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Gross external assets (non-equity) | - | 11.1 | 12.5 | 12.5 | 13.0 | 13.7 | 14.3 | 14.8 | 15.3 |
| Sovereign | - | 1.0 | 1.2 | 1.3 | 1.4 | 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 | 0.4 |
| Other sovereign assets | - | 1.0 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Banks | - | 7.1 | 7.7 | 7.6 | 7.9 | 8.3 | 8.5 | 8.7 | 8.8 |
| Other sectors | - | 3.0 | 3.7 | 3.6 | 3.7 | 4.0 | 4.3 | 4.7 | 5.0 |
| Net external debt | - | -5.7 | -6.2 | -6.6 | -7.3 | -8.0 | -8.7 | -9.2 | -9.8 |
| % GDP | - | -179.2 | -216.0 | -198.1 | -215.6 | -215.1 | -220.1 | -223.0 | -229.3 |
| Sovereign | - | -1.0 | -0.9 | -0.5 | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 |
| Banks | - | -2.6 | -2.6 | -3.4 | -4.1 | -4.6 | -4.9 | -5.1 | -5.4 |
| Other sectors | - | -2.1 | -2.8 | -2.7 | -3.0 | -3.3 | -3.6 | -3.9 | -4.2 |
| 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 | | | | | Applied Rating ^d | | | | A- |
|--|------------|-------|--------|-------|-----------------------------------|------------|-------------|------------------|----|
| Input Indicator | Weight (%) | 2023 | 2024 | 2025 | Model Result and Predicted Rating | | | 9.61 = 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. | 45,315 | 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 | -3.51 | |
| 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. | 391.8 | n.a. | Natural log | 6.0 | 0.158 | 0.94 | |
| Macroeconomic performance, policies and prospects | | | | | | | | -1.36 | |
| Real GDP growth volatility | 4.6 | n.a. | 5.3 | n.a. | Natural log | 1.7 | -0.728 | -1.21 | |
| Consumer price inflation | 3.4 | 5.6 | 3.0 | 2.2 | 3-yr avg. ^b | 3.6 | -0.067 | -0.24 | |
| Real GDP growth | 2.0 | 1.4 | 1.8 | 1.4 | 3-yr avg. | 1.5 | 0.065 | 0.10 | |
| Public finances | | | | | | | | -1.50 | |
| Gross general govt debt (% GDP) | 8.9 | 36.0 | 34.1 | 33.2 | 3-yr avg. | 34.5 | -0.023 | -0.78 | |
| General govt interest (% revenue) | 4.5 | 1.4 | 1.2 | 1.2 | 3-yr avg. | 1.3 | -0.044 | -0.06 | |
| General govt fiscal balance (% GDP) | 2.4 | 2.2 | 1.2 | 0.6 | 3-yr avg. | 1.4 | 0.044 | 0.06 | |
| 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 | 16.5 | 17.1 | 16.3 | 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. | 1.9 | n.a. | n.a. if RC score > 0 | 1.9 | 0.029 | 0.06 | |
| External interest service (% CXR) | 0.4 | 1.0 | 0.8 | 0.9 | 3-yr avg. | 0.9 | -0.007 | -0.01 | |
| CAB + net FDI (% GDP) | 0.1 | 24.6 | 19.9 | 18.2 | 3-yr avg. | 20.9 | 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 minimal.

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 | 2020-24 avg | 69.8 | | +3 |
| Volatility of change in CXR (across 10yrs) | 2024 | .. | | 0 |
| Export share to FTA partners | 2020-24 avg | 99.4 | | +3 |
| International financial integration^a | 2020-24 avg | 246.7 | | +3 |
| Pillar III = Near-term risks | | | | +2 |
| Macro-financial stability risks | | | | +1 |
| Composite inflation risk score | | | | +2 |
| Volatility of CPI (across 10yrs) | 2024 | 2.5 | | +2 |
| Recent CPI peak | 2020-24 max | 6.2 | | +3 |
| Cumulative broad money growth | 2019-24 chg % | 38.7 | | +2 |
| Volatility of change in REER (across 10yrs) | 2024 | .. | | 0 |
| Dollarisation | Most recent | NSLT | | +3 |
| Exchange rate risks | | | | +3 |
| Net external debt (% of CXR) | 2022-24 avg | -280.0 | | +3 |
| Exchange rate regime | Latest | No separate legal tender | | +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 2023 | A- | F2 | Stable | - | - | - | AAA |
| 08 Jul 2022 | A- | F2 | Stable | - | - | - | AA- |
| 14 Jan 2022 | BBB+ | F2 | Positive | - | - | - | A+ |
| 10 Aug 2018 | BBB+ | F2 | Stable | - | - | - | A+ |
| 24 Feb 2017 | BBB | F3 | Positive | - | - | - | A- |
| 22 Jul 2016 | BBB | F3 | Stable | - | - | - | A- |
| 11 Sep 2015 | 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/topics/esg/products#esg-relevance-scores.

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.

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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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