INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/92

PRINCIPALITY OF ANDORRA

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

April 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Principality of Andorra, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on February 11, 2025, with the officials of Principality of Andorra on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 12, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.

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

Selected Issues

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

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International Monetary Fund
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PRESS RELEASE

PR25/096

IMF Executive Board Concludes 2025 Article IV Consultation with the Principality of Andorra

FOR IMMEDIATE RELEASE

Washington, DC – April 11, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Principality of Andorra. The Board considered and endorsed the staff appraisal on a lapse of time basis.

The Andorra economy continues to be resilient and to grow above its long-term potential. Growth in 2024 surprised on the upside at 2.1 percent, driven by the service, banking and construction sectors. Inflation is subsiding gradually, reaching 2.6 percent at the end of 2024, despite limited economic slack and a tight labor market. The current account surplus remains very large, estimated at 15.1 percent of GDP in 2024. The strong performance of banks continued in 2024 supported by high interest margins and increased fees and commissions.

Going forward, GDP is expected to converge and stabilize at its long-term potential of 1.5 percent. Inflation is projected to decline to 2 percent by the end of 2025, in line with price developments in neighboring countries. In the short term, risks to the outlook are balanced. Downside risks are largely related to uncertainty in the global economy. On the upside, Andorra, like other service-oriented economies in Europe, could benefit from stronger demand, and grow faster than projected. Solid buffers mitigate risks, notably a strong fiscal position, a large current account surplus, and well-capitalized and liquid banks.

Challenges are concentrated over the medium term, as stagnating GDP per capita makes it challenging to address the impact of population aging and climate change. Bottlenecks in the housing and labor markets could have a negative impact on growth. However, greater economic diversification, higher investment and productivity would support growth over the medium term. The adoption of the EU Association Agreement could offer an opportunity to support the reform momentum and contribute to diversification, but would also bring challenges.

Executive Board Assessment[2]

The Andorra economy continues to show resilience and to grow above its potential. Growth in 2024 surprised slightly on the upside, at an estimated 2.1 percent, driven by the service, banking and construction sectors. Inflation is subsiding gradually, having reached 2.6 percent at the end of 2024, despite limited economic slack and a still tight labor market. The current account surplus remains very large, estimated at 15.1 percent of GDP in 2024, an external

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

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

position that is assessed to be stronger than implied by fundamentals and desirable policies, supported by the services sector and net income. The strong performance of banks continued in 2024 supported by high interest margins and increased fees and commissions. Over the medium term, GDP is expected to slow to the level of potential growth at around 1.5 percent. Short-term risks are balanced: greater uncertainty in the global economy on the downside and stronger demand for the services sector on the upside. Solid buffers mitigate risks.

Challenges are arising over the medium-term, as stagnating GDP per capita lowers growth and makes it challenging to address the impact of population aging and climate change. With long life expectancy and low fertility rates, Andorra's population is expected to age rapidly—removing an engine for GDP growth and creating fiscal liabilities over the long term. Fiscal costs from pensions and healthcare will be substantial. More frequent climate shocks can affect the economic cycle in an economy largely reliant on winter tourism, and structurally warmer temperatures will require extensive adaptation.

The authorities should maintain a disciplined fiscal policy to protect fiscal space and provide room for needed public investment. In the absence of monetary policy tools, maintaining fiscal policy space and reducing public sector liabilities is warranted for a microstate vulnerable to external shocks. The 2025 budget finds a welcome balance between maintaining a conservative fiscal stance while building on the authorities' structural priorities, with a focus on housing. The fiscal framework provides room for higher public spending focused on the structural needs of the economy, including social and affordable housing, upskilling the workforce and addressing labor shortages, connectivity to support economic diversification, and investments to lift potential growth.

Early fiscal reform is paramount. Pension expenditures will increase by 6.7 percentage points while healthcare expenditures will increase by 2 percentage points by 20250. Concluding the pension reform in an expeditious and comprehensive manner is needed to ensure the sustainability of the social security fund in the long run. A reform of the healthcare system should aim to contain long-term costs while raising healthcare revenues, drawing on the experience from other advanced economies. Fiscal space will be increasingly needed to buffer the negative impact of climate shocks.

During periods of high profitability, the supervisor should continue to strengthen the resilience of the banking system. The changing financial landscape, notably with the continued international expansion of banks and a possible EUAA, brings opportunities and challenges for Andorran banks. While the banking sector displays solid fundamentals, the supervisor should remain vigilant given the large size of the banking sector. Available supervisory tools should complement each other, including by supporting the lender of last resort facility introduced in 2022 and the countercyclical capital buffer activated in 2024.

Ambitious structural reforms can help unlock investment and lift productivity, support the diversification of the economy, and help mitigate climate change. A comprehensive set of reforms should first address frictions, notably labor and housing shortages. To tackle housing affordability, it is essential for the government to focus on well-targeted measures that avoid distortions in the housing market, restore proper market incentives to invest in rental property development, and ensure consistency with other economic priorities, such as attracting foreign investment. Establishing a business environment conducive to higher investment is key, notably by reducing administrative rigidities associated with doing business in Andorra. Finally, the authorities should support the development of higher value-added services and sectors, including the digital economy. With limited space for manufacturing, Andorra can look at the experience of peer countries that have successfully diversified towards the digital economy and experienced fast income growth. The climate adaptation strategy also needs to be accelerated given the macrocriticality of rising temperatures for Andorra's tourism sector.

The EUAA could provide further momentum for reforms towards diversification, unlocking investment, and raising productivity in Andorra but is not without challenges. The agreement signals a strong commitment to deeper integration with the EU and to strengthen Andorran institutions in their coherence with EU standards. Previous experience suggests that Andorra will maximize the benefits of association with well-designed domestic reforms during the accession period, which could support greater capital accumulation, notably FDI, and higher productivity. Transition periods for key sectors such as telecom and banking mitigate the risks of disruption and fiscal space can cover transition costs. Preparedness is essential to realize the benefits of association and reduce potential downsides, such as greater regional competition.Directors commended Andorra's resilience to external headwinds and the authorities' sound macroeconomic management, that allowed to rebuild solid buffers. While risks to the outlook are balanced, Directors noted challenges stemming from persistently high inflation, a tight labor market, and housing affordability. They emphasized the importance of preserving prudent policies and advancing structural reforms to promote economic diversification and lift medium-term growth.

Andorra: Selected Social Economic Indicators, 2021–30

I. Social Indicators

Population (2023)	85101	Population at risk of poverty (percent, 2020)	13
Per capita income (2023, euros)	41134	Human Development Index Rank (2021)	40 (out of 189)
Gini Index (2020)	32	Life expectancy at birth (2024)	83.9

II. Economic Indicators

					Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
NATIONAL ACCOUNTS AND PRICES	(annual change, percent, unless otherwise indicated)									
Real GDP	8.3	9.6	2.6	2.1	1.7	1.6	1.5	1.5	1.5	1.5
Nominal GDP	11.1	14.2	9.0	5.0	3.7	3.4	3.3	3.2	3.2	3.2
GDP deflator	2.6	4.2	6.3	2.9	1.9	1.8	1.7	1.7	1.7	1.7
	(contribution to nominal GDP growth, percentage points)									
Consumption	8.4	6.5	7.0	3.7	2.4	2.4	2.6	2.5	2.4	2.4
Private	7.4	6.2	3.5	1.8	1.5	1.5	1.5	1.5	1.4	1.4
Public	0.9	0.3	3.4	1.9	0.9	1.0	1.1	1.0	1.0	1.0
Investment	-3.5	6.8	-2.2	0.8	0.6	0.6	0.3	0.3	0.4	0.5
Private 1/	-3.3	6.4	-3.1	0.3	0.0	0.4	0.1	0.2	0.2	0.3
Public	-0.2	0.4	0.9	0.5	0.6	0.2	0.2	0.2	0.2	0.2
Net exports of goods and services	6.2	0.9	4.3	0.7	0.6	0.4	0.4	0.4	0.4	0.4
Exports	18.0	18.8	10.4	4.2	3.3	2.8	2.8	2.9	2.9	2.8
Imports	11.8	18.0	6.1	3.5	2.7	2.5	2.4	2.5	2.5	2.4
Prices										
Inflation (percent, period average)	1.7	6.2	5.6	3.1	2.2	1.8	1.7	1.7	1.7	1.7
Inflation (percent, end of period)	3.3	7.2	4.6	2.6	2.0	1.7	1.7	1.7	1.7	1.7
Unemployment rate (percent)	3.3	2.1	1.6	1.6	1.6	1.8	1.8	1.9	2.0	2.0
EXTERNAL SECTOR	(percent of GDP, unless otherwise indicated)									
Current account	15.0	11.6	14.2	15.1	17.0	17.0	17.0	17.0	17.0	17.0
Balance on goods and services	9.1	8.8	12.0	12.0	12.2	12.1	12.1	12.1	12.1	12.1
Exports of goods and services	73.6	80.9	83.7	83.7	83.9	83.8	83.9	84.1	84.2	84.3
Imports of goods and services	64.5	72.2	71.8	71.6	71.7	71.7	71.8	71.9	72.1	72.2
Primary income, net	7.6	4.3	3.5	4.3	6.1	6.1	6.1	6.1	6.1	6.1
Secondary income, net	-1.7	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Capital account	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	17.1	12.7	13.5	15.1	17.0	17.0	17.0	17.0	17.0	17.0
Errors and omissions	2.1	1.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (millions of euros) 2/	138.1	338.4	338.7	399.0	399.0	399.0	399.0	399.0	399.0	399.0
FISCAL SECTOR	(percent of GDP, unless otherwise indicated)									
General Government 3/										
Revenue	37.9	39.7	38.0	39.0	37.7	37.6	37.6	37.7	37.6	37.7
Expenditure	39.0	34.9	35.9	36.8	36.5	36.4	36.7	36.7	36.8	36.8
Interest	0.7	0.7	0.6	0.5	0.6	0.6	0.8	0.8	0.8	0.8
Primary balance	-0.4	5.6	2.7	2.8	1.8	1.7	1.7	1.8	1.6	1.6
Net lending/borrowing (overall balance)	-1.2	4.8	2.1	2.2	1.2	1.2	0.9	1.0	0.8	0.8
Public debt	48.6	38.9	35.5	33.7	32.5	31.5	30.5	30.0	29.5	29.0
Central Government 4/										
Revenue	19.4	21.7	19.8	21.7	20.8	20.8	20.8	20.8	20.8	20.9
Expenditure	22.0	18.7	19.1	20.1	20.5	20.5	20.6	20.7	20.6	20.7
Interest	0.7	0.7	0.5	0.5	0.5	0.5	0.7	0.7	0.7	0.7
Primary balance	-1.9	3.6	1.2	2.2	0.8	0.8	0.9	0.8	0.9	0.9
Net lending/borrowing (overall balance)	-2.6	2.9	0.7	1.7	0.3	0.3	0.2	0.1	0.2	0.2
Public debt	46.3	37.1	34.0	32.3	31.2	30.1	29.2	28.7	28.3	27.9
BANKING SECTOR 5/	(percent, unless otherwise indicated)									
Regulatory capital to risk-weighted assets	21.5	20.3	21.7	21.2	…	…	…	…	…	…
Nonperforming loans to total gross loans	5.2	3.3	2.2	2.1	…	…	…	…	…	…
Credit to nonfinancial private sector										
Level (percent of GDP)	135.2	116.4	101.3	94.5	…	…	…	…	…	…
Corporates	68.8	61.8	55.1	51.1	…	…	…	…	…	…
Households	66.4	54.6	46.2	43.4	…	…	…	…	…	…
Growth (nominal)	-0.1	-1.7	-5.2	-2.0	…	…	…	…	…	…
Corporates	-0.6	2.6	-2.8	-2.5	…	…	…	…	…	…
Households	0.4	-6.1	-7.8	-1.3	…	…	…	…	…	…
Credit to public sector										
Level (percent of GDP)	2.1	2.2	1.8	1.5	…	…	…	…	…	…
Growth (nominal)	-50.2	-8.4	-10.0	-13.0	…	…	…	…	…	…
Memorandum Items										
Exchange rate (€/USD, period average) 6/	0.85	0.95	0.92	0.92	0.97	0.97	0.97	0.97	0.97	0.97
Nominal GDP (millions of euros)	2,811	3,210	3,501	3,676	3,811	3,942	4,070	4,202	4,338	4,478

Sources: Andorran authorities, Eurostat, and IMF staff calculations.
1/ The contribution of private investment is derived as a residual and includes investments of state-owned enterprises.
2/ The increase of gross international reserves in 2022 is due to €100 million deposited at the Bank of Spain, €40 million at the Banque de France, and €60 million at the Nederlandsche Bank as gross international reserves. In 2024, additional €60 million reserves were accounted, mainly deposited at the Bank of Spain.
3/ The general government comprises the central government, local governments and the social security fund.
4/ The central government comprises Govern d'Andorra, as well as nonmarket, nonprofit institutional units.
5/ 2024 data corresponds to 2024Q3.
6/ The table reports the exchange rate €/USD because Andorra is a euroized economy.

INTERNATIONAL MONETARY FUND

PRINCIPALITY OF ANDORRA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

March 12, 2025

KEY ISSUES

Context. Andorra is a small economy exposed to external shocks and volatility. Following the pandemic, the authorities consolidated the country's macro-financial framework and reinforced buffers. However, Andorra's real GDP per capita—while high in absolute terms—has remained flat over the last 50 years, with growth largely driven by population increases. As climate change challenges an economic model dependent on winter tourism and significant population aging builds up contingent liabilities, ambitious structural reforms are needed. A recently negotiated EU Association Agreement (EUAA), if approved by referendum, could provide the needed momentum for reforms.

Outlook and risks. While the economy remains resilient, thanks to a buoyant service sector, solid bank performance, and strong construction activities, it is gradually converging to its lower long-term growth potential. Headline inflation, at 2.6 percent at the end of 2024, has subsided despite a still-tight labor market. In the short term, risks to the outlook are balanced and the economy has solid macroeconomic buffers—a fiscal surplus, low public debt, a large current account surplus, and solid prudential buffers for banks. Challenges are concentrated over the medium term, as population aging and climate change are downside risks, compounding an already low growth outlook.

Policy priorities. The current position of strength is an opportunity for implementing far-reaching structural reforms. Diversifying the economy to enhance resilience, unlocking investment and productivity to raise income levels, and addressing the costs of aging and climate change should be driving the policy agenda. To reap the benefits from the EUAA, managing the transition period well will be important.

- On the fiscal side, maintaining a tight fiscal policy is welcome, especially for a microstate that needs fiscal buffers in case of external shocks. However, the credibility of the fiscal framework and the primary surplus provide fiscal space for higher public investment to support potential growth and mitigate structural bottlenecks. Reforming the pension and healthcare systems is paramount given the magnitude of contingent liabilities associated with aging.

- Bank performance and prudential buffers are strong. The supervisor should stay vigilant as banks are a systemic risk given their size. The financial landscape is evolving, as banks are consolidating and expanding internationally and as the EUAA might open the domestic market to greater competition.

- Ambitious structural reforms should unlock investment and productivity and support the diversification of the economy—the EUAA, if adopted, would provide an impetus for such reforms. Policies should promote a conducive business environment, build on the opportunities brought by digitalization to increase value-added and productivity, address emerging bottlenecks in the labor and housing markets, and tackle the long-term challenge of adapting to climate change.

Approved By
Helge Berger (EUR) and Niamh Sheridan (SPR)

Discussions were held in Andorra during January 29 – February 11, 2025. The Staff team comprised Rodolphe Blavy (mission chief), Aidyn Bibolov, and Mariarosaria Comunale (all EUR). Jeroen Clicq (Executive Director) and Cristina Camp (OED) participated. Yueshu Zhao, Miguel De Asis, and Emily Fisher (all EUR) supported the mission. The team met with the Minister of Finance, the Minister of Presidency, Economy, Labor and Housing, the Minister of Foreign Affairs, the Minister of Health, the Minister of Tourism, the Secretary of State for International Financial Affairs, the Secretary of State for the Economy, Labor and Housing, the Secretary of State for Relations with the European Union, the Secretary of State for Energy Transition, Transport and Mobility, the Secretary of State for Business, Economic Diversification and Innovation, the Director of the Andorran Financial Authority, the Mayor of Canillo, and other senior officials. The mission also met with parliamentarians, private sector representatives, and local economists.

CONTENTS

ANNEXES

CONTEXT: A WINDOW OF OPPORTUNITY FOR AMBITIOUS REFORMS

1. **A painful economic contraction during the pandemic exposed the vulnerabilities of the Andorran economy.** An euroized economy, Andorra is a microstate tightly linked to economic developments in neighboring countries (Spain and France) and dependent on a few sectors (tourism, banking, and construction)—and hence vulnerable to external shocks. Diversification, away from the seasonality of winter tourism and beyond a very small domestic market, is desirable but constrained by geography and size.

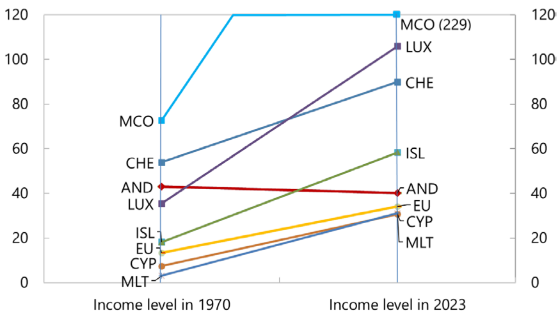
2. **Andorra has consolidated its macro-financial position**. Building on the remarkable recovery after the pandemic, the authorities consolidated fiscal accounts, returning to an overall surplus and reducing public debt substantially. External accounts show a large current account surplus, while bank balance sheets are solid. The authorities added tools to their policy toolkit (e.g., international reserves, a lender of last resort facility). The economy has performed well and is well-equipped to meet short-term risks.

3. **However, the country faces major challenges over the long-term—stagnating income levels and population aging, compounded by the direct impact of climate change on its economy**. Andorra's real GDP per capita has stayed flat over the last 50 years. The ability of the country to absorb a large population increase while keeping high income levels is notable. However, this performance pales in comparison with European peers. They experienced significant improvements in income in the same 50 years, ranging from about a 70 percent increase for Switzerland to a ninefold increase for Malta (starting from a significantly lower base). The divergence between Andorra and its peers is explained by the lagging investment and productivity contributions, as growth in Andorra was largely driven by population increases, mostly thanks to inward migration (see Selected Issues Paper). Going forward, Andorra faces the major demographic challenge of a shrinking and aging population. The population is rapidly aging with one of the longest life expectancies and the lowest fertility rate in Europe. Using conservative assumptions on migration,[1] the UN projects that Andorra's population could fall by 20 percent by 2070 while the share of people over 65 would reach 44 percent. This has drastic implications for the economy—removing an important lever for growth, accentuating the constraints of a microstate by making it even smaller and imposing significant adjustment costs. It also creates significant contingent liabilities. Climate change adds important risks to this long-term outlook in an economy dependent on winter tourism.

[1] The UN projections may underestimate recent, and forthcoming, immigration flows.

Income stagnated in Andorra since the 1970s while peers experienced significant growth…

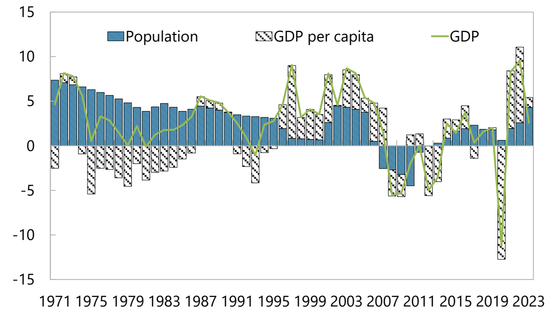
Income Growth in the Long-Run
(Real GDP per capita, constant 2015 thousand US$)



Source: World Bank.
Note: Cyprus data are available since 1976.

…as GDP was largely driven by population growth rather than capital and productivity gains.

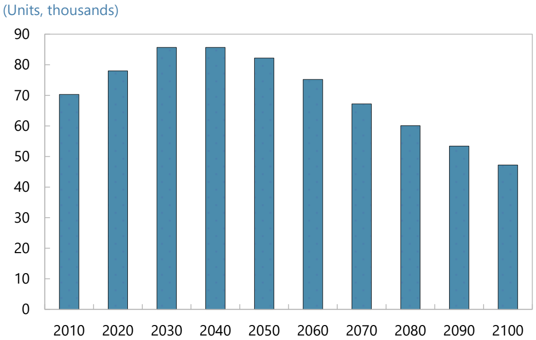
Growth in Real GDP and Components
(Percentage change, y/y)



Sources: World Bank and IMF staff calculations.
Note: GDP data is in constant 2015 US$.

Demographic changes will alter these trends going forward as population is projected to decline significantly…

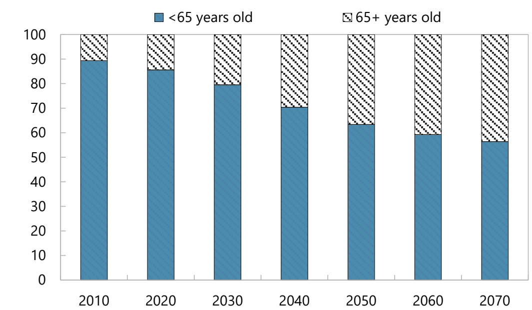
Population, 2010-2100
(Units, thousands)



Sources: Andorran authorities and UN Population Department.

…and as the country will face rapid population aging.

Population Structure, 2010-70
(Percentage)



Sources: Andorran authorities, UN Population Department, and IMF staff calculations.

4. **The solid macroeconomic position and the credibility of the policy framework provide a window of opportunity for implementing far-reaching structural reforms**. The authorities should give priority to an ambitious reform agenda that addresses the many implications of stagnating income, population aging and long-term risks to the economy. These include contingent liabilities for the public sector on pensions and healthcare and downside risks to potential growth.

5. **The recently negotiated EUAA, if approved by referendum, would offer an opportunity to support the reform momentum, but would also bring challenges**. The agreement signals a strong commitment to deeper integration with the EU and to reinforce Andorran institutions as they further their coherence with EU standards. The agreement also marks the continued integration of the country into the global economy, after becoming a member of the IMF in 2020. By providing opportunities to expand to the larger EU single market, the EUAA has the potential to unlock investment and productivity and support the much-needed economic diversification. However, realizing these benefits implies engaging accompanying domestic reforms and bearing the fiscal and administrative costs associated with the transition. Preparedness will be key for the private sector to face greater competition going forward and expand through the EU single market, including by putting in place the appropriate safety nets to mitigate negative distributional effects.

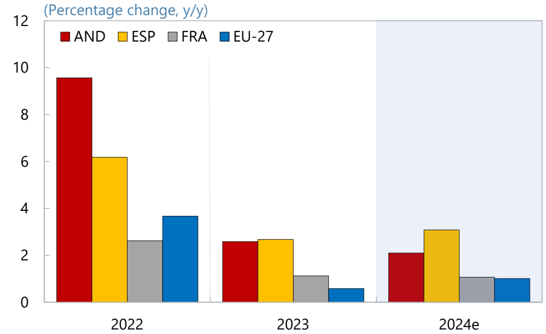
RECENT DEVELOPMENTS

6. The Andorra economy continues to be resilient. Estimated at 2.1 percent, growth surprised on the upside again in 2024. This was driven by solid bank performance, a dynamic tourism and service sector, and still buoyant construction activities. The economy is still growing slightly above potential, estimated at 1.5 percent.

Andorra's economic growth has declined but remains resilient, despite a deteriorating European environment.

Real GDP Growth

(Percentage change, y/y)

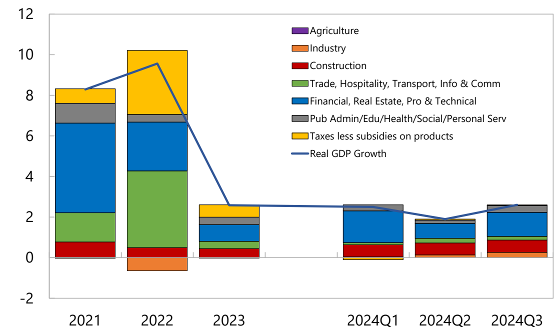


Sources: Andorran authorities, Haver Analytics, WEO database, and IMF staff calculations.

Financial sector and construction are the main drivers of growth.

Contributions to Real GDP Growth

(Percentage)



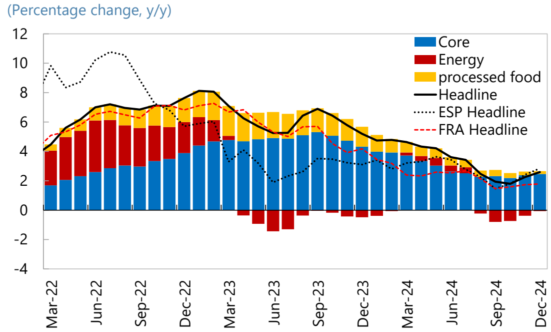
Sources: Andorran authorities, Haver Analytics and, IMF staff calculations.

7. Headline inflation is gradually subsiding despite an improvement in real incomes and sticky core inflation. A decline in imported food and energy prices brought inflation down from 5.6 percent in 2023 to 3.1 percent in 2024 on average, closing the year at 2.6 percent. However, core inflation was stickier due to transport and rental prices. Wages also continued to grow faster than inflation, supporting real income and domestic demand.

As in neighboring countries, inflation has been subsiding since early 2023, despite stickier core inflation…

Contributions to Headline Inflation

(Percentage change, y/y)

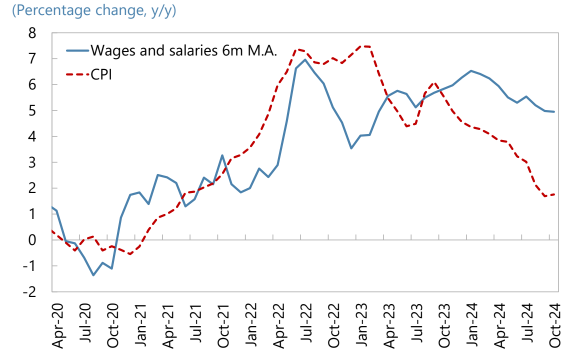


Sources: Andorran authorities, Haver Analytics, and IMF staff calculations.

…and despite higher wages to protect purchasing power and attractiveness to foreign workers.

Wages and Salaries

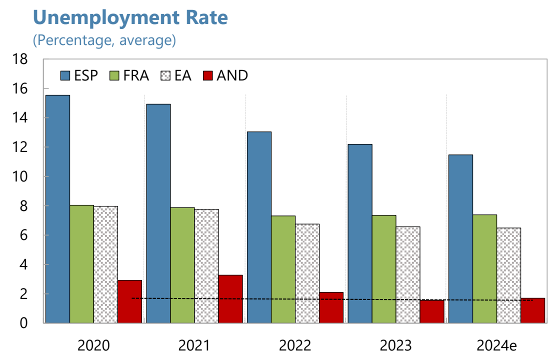
(Percentage change, y/y)



Sources: Andorran authorities, Haver Analytics, and IMF staff calculations.

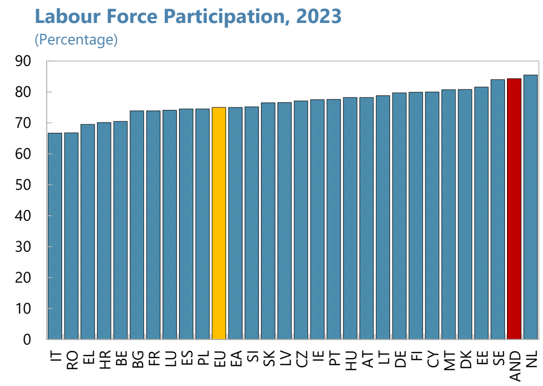
8. The labor market remains tight. With economic resilience, unemployment remained low, at 1.6 percent in 2024. Labor force participation is high at 84.3 percent, below only the Netherlands when compared to EU countries.

Unemployment in Andorra is at record lows….



Sources: Andorran authorities and WEO database.
Note: The number for 2024 is an estimate from WEO database.

… while labor participation is high.



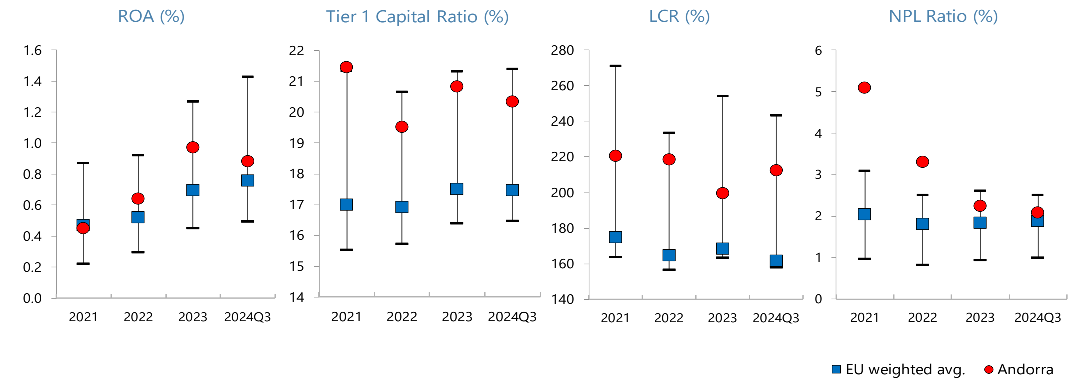
Sources: Andorran authorities and Eurostat.

9. Fiscal policy continued its course of consolidation and entrenched fiscal space. After achieving a 1.2 percent of GDP primary surplus in 2023 and a 0.7 percent of GDP overall surplus, fiscal performance in 2024 is estimated to translate into a primary surplus of 2.2 percent of GDP, and, with interest costs still limited, an estimated overall surplus of 1.7 percent of GDP in 2024. Overperformance in income taxes, due to better-than-expected growth, resulted in an increase in the fiscal surplus in 2024 even as public investment increased, primarily to address the shortage in affordable housing. Public debt, with no new bond issuances, continued to decline, reaching 32.3 percent of GDP in 2024 from 34 percent in 2023 thanks to a strong nominal GDP growth and to the primary surplus.

10. The banking sector performed strongly as profitability was sustained by wider interest margins. While the share of private banking is substantial, commercial banking activities drove bank profitability to record levels. Banks benefited from the higher interest rates during the monetary policy tightening in the euro area as their net interest income overtook normally more important net fees as the main contributor to net income. Importantly, Andorran banks that generally have high expenses due to their private banking activities were able to increase efficiency through consolidation and use of technology to lower their noninterest expense ratio to below 70 percent. Rebalancing of activities towards commercial banking was achieved while lowering credit risk as asset quality improved with the NPL ratio falling to 2 percent, about the EU average in 2024Q3. Capitalization (above 21 percent of risk-weighted assets) and LCR (above 200 percent) remained above regulatory requirements and European averages. Overall, the banking sector remains large and systemic. Assets of the three Andorran banks remained large, amounting to about 5.35 times of

GDP. Assets under management grew by 16 percent in 2023 to 21 times GDP. Andorran banks continued their expansion by growing their overseas presence.

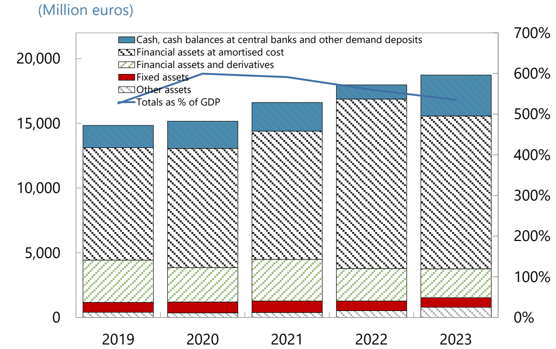
Banking Sector Profitability, Capitalization, Liquidity and Nonperforming Loans



Sources: Andorran authorities, EBA Risk Dashboard 2024Q3, and IMF staff calculations.
Note: The whiskers correspond to the 25th and 75th percentiles. Data for 2024 for Andorra are preliminary and unaudited, and subject to revisions.

Andorra banks are large, with assets amounting to more than 5 times GDP….

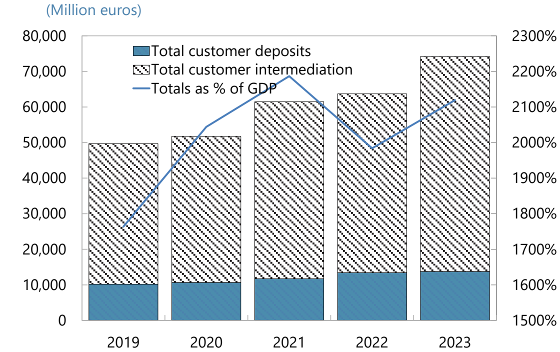
Aggregate Assets
(Million euros)



Source: Andorran Banking Annual Report 2023.

…and even larger when taking into account private banking activities.

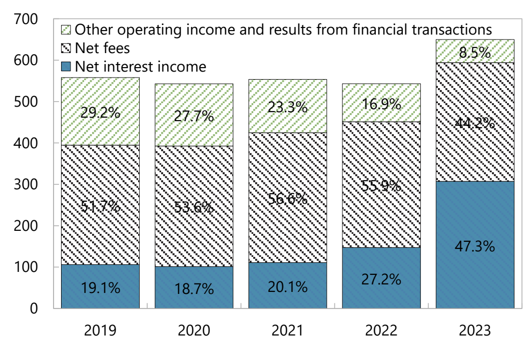
Aggregate Assets Under Management
(Million euros)



Source: Andorran Banking Annual Report 2023.

Profitability rose in 2023 as interest income overtook revenues from private banking activities…

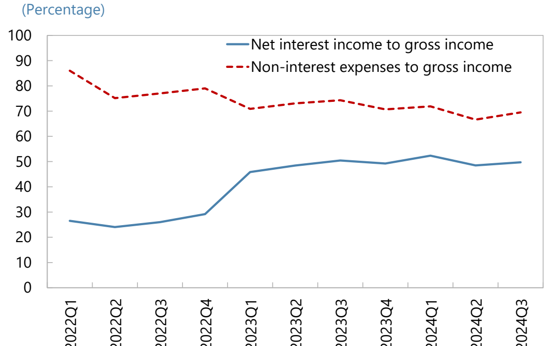
Andorran Banks Net Income Composition
(Million euros)



Source: Andorran Banking Annual Report 2023.

…and continued in 2024 as operating expenses declined and interest income was sustained.

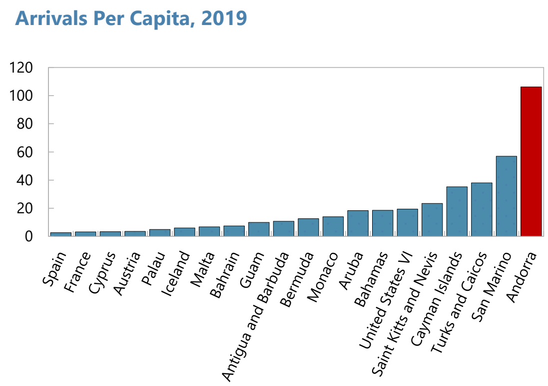
Net Interest Income and Non-interest Expenses
(Percentage)



Source: Andorran authorities.

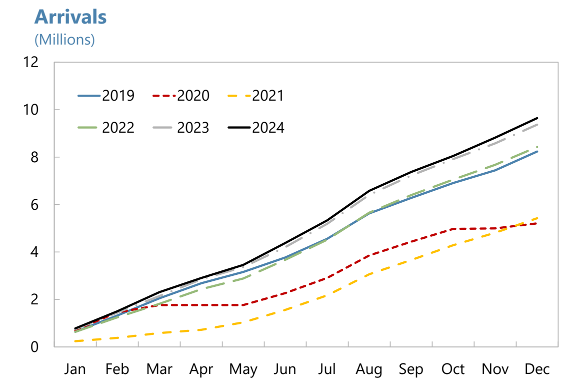
11. The external position is stronger than implied by fundamentals and desirable policies, supported by the services sector and net income. The current account surplus reached 14.2 percent of GDP in 2023 and is estimated at 15.1 percent in 2024. The dynamic tourism industry kept exports of services high at about 80 percent of GDP. This was driven by both a volume effect—arrivals reached a record high in 2024—and a quality effect—more overnight stays and higher spending per tourist. Andorra, a microstate with a population of 87,000 people, is the world's busiest tourist destination, with arrivals per capita exceeding 100. The strong banking performance also translated into a large net income position, accounting for an estimated 4.3 percent of GDP in 2024. Staff assesses the Andorra's external position to be stronger than the level implied by fundamentals and desirable policies (Annex I)—suggesting an imbalance in the savings-investment balance, consistent with the limited contribution of investment to growth observed in Andorra.

Per capita, Andorra is the world's busiest tourist destination…



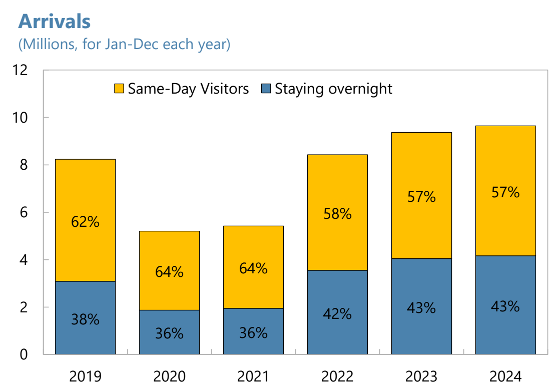
Sources: UN World Tourism Organization, WEO, and IMF staff calculations.

…reaching record levels in 2024.



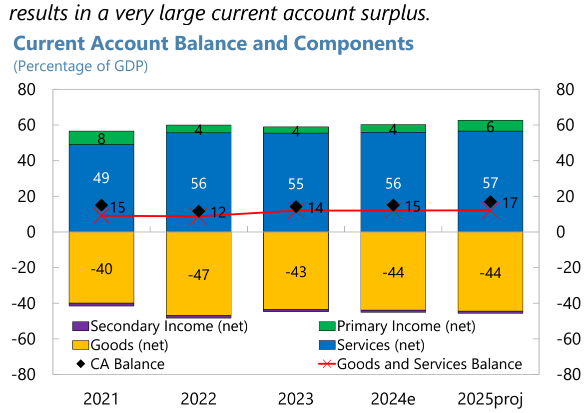
Sources: Andorran authorities, and IMF staff calculations.

The quality of incoming tourists is improving gradually.



Sources: Andorran authorities, Haver Analytics, and IMF staff calculations.

Strong tourist inflows together with substantial net income, results in a very large current account surplus.

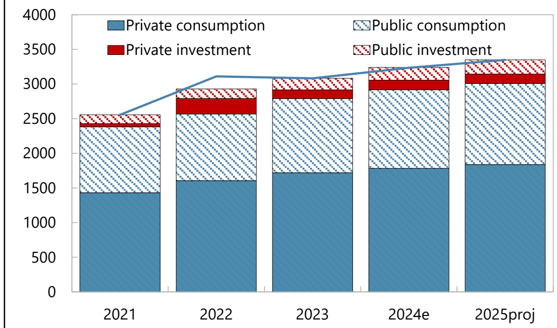


Sources: Andorran authorities and IMF staff calculations.

OUTLOOK AND RISKS

12. Growth and inflation are converging to their long-term levels. Previous wage increases are projected to continue to support incomes, while external demand will slow as the number of arrivals stabilizes. Real GDP is projected to grow at 1.7 percent in 2025 mainly supported by consumption and to come down to its long-term potential of 1.5 percent after that. Inflation is projected to subside in line with developments in neighboring countries and stabilize at 1.7 percent over the medium term.

Decomposition of Total Domestic Demand
(Million euros)



Sources: Andorran authorities, Haver Analytics, and IMF staff calculations.

13. Short-term risks are mostly balanced and related to uncertainty in the global economy. Andorra is a small open economy exposed to external shocks. Greater uncertainty in the global economy, in Europe in particular (see Box 1), and the potential for adverse shocks such as deepening geoeconomic fragmentation, supply disruptions, recurrent commodity price fluctuations or escalation of conflicts, and a reversal of monetary policy loosening are downside risks to growth and inflation. On the upside, Andorra, like other service-oriented economies in Europe, could benefit from stronger domestic and external demand.

Text Table 1. Andorra: Macroeconomic Projections, 2021–2030

					Projections					
	2021	2022	2023	2024e	2025	2026	2027	2028	2029	2030
Real GDP growth (percent)	8.3	9.6	2.6	2.1	1.7	1.6	1.5	1.5	1.5	1.5
Nominal GDP growth (percent)	11.1	14.2	9.0	5.0	3.7	3.4	3.3	3.2	3.2	3.2
	(contribution to nominal GDP growth, percent)									
Consumption	8.4	6.5	7.0	3.7	2.4	2.4	2.6	2.5	2.4	2.4
Private	7.4	6.2	3.5	1.8	1.5	1.5	1.5	1.5	1.4	1.4
Public	0.9	0.3	3.4	1.9	0.9	1.0	1.1	1.0	1.0	1.0
Investment	-3.5	6.8	-2.2	0.8	0.6	0.6	0.3	0.3	0.4	0.5
Private 1/	-3.3	6.4	-3.1	0.3	0.0	0.4	0.1	0.2	0.2	0.3
Public	-0.2	0.4	0.9	0.5	0.6	0.2	0.2	0.2	0.2	0.2
Net exports of goods and services	6.2	0.9	4.3	0.7	0.6	0.4	0.4	0.4	0.4	0.4
Exports	18.0	18.8	10.4	4.2	3.3	2.8	2.8	2.9	2.9	2.8
Imports	11.8	18.0	6.1	3.5	2.7	2.5	2.4	2.5	2.5	2.4
CPI inflation (percent, period average)	1.7	6.2	5.6	3.1	2.2	1.8	1.7	1.7	1.7	1.7
Unemployment rate (percent)	3.3	2.1	1.6	1.6	1.6	1.8	1.8	1.9	2.0	2.0
Central government overall balance (percent of GDP) 2/	-2.6	2.9	0.7	1.7	0.3	0.3	0.2	0.1	0.2	0.2
Central government debt (percent of GDP) 2/	46.3	37.1	34.0	32.3	31.2	30.1	29.2	28.7	28.3	27.9
Current account balance (percent of GDP)	15.0	11.6	14.2	15.1	17.0	17.0	17.0	17.0	17.0	17.0
Memorandum items										
Euro Area real GDP growth (percent)	6.3	3.5	0.4	0.8	1.0	1.4	1.3	1.2	1.1	1.1
Euro Area inflation (percent, period average)	2.6	8.4	5.4	2.3	2.1	2.0	2.0	2.0	2.0	2.0
Spain real GDP growth (percent)	6.7	6.2	2.7	3.1	2.3	1.8	1.6	1.6	1.6	1.6
Spain inflation (percent, period average)	3.0	8.3	3.4	2.8	1.9	2.0	2.0	2.0	2.0	2.0

Sources: Andorran authorities, World Economic Outlook database, and IMF staff calculations.

1/ The contribution of private investment is derived as a residual and includes investments of state-owned enterprises.

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

Box 1. The Impact of Euro Area Uncertainty Shocks on the Andorran Economy

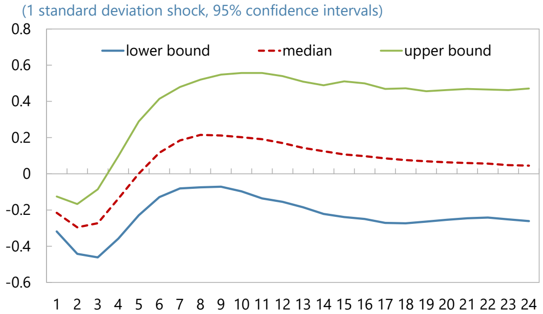
As a microstate with a very open economy,[1] Andorra is particularly exposed to exogenous shocks from its trading partners. Using a euro area uncertainty index developed by Comunale and Nguyen (2023), we compute the impact of a one standard deviation macroeconomic uncertainty shock in the euro area (as an increase in uncertainty measured by the MEU index)[2] on the Andorran economy.

Euro area macroeconomic uncertainty shocks have a sizeable, immediate impact on the Andorran economy. This is consistent with the close economic linkages between Andorra and its neighbors (Spain and, to a lesser extent, France). The model finds that an increase in euro area uncertainty by 1 percent can decrease Andorra's GDP by up to 0.45 p.p. in the short run, with the effect completely tapering off only after a year. The model also allows to quantify empirically the impact of other euro area macroeconomic shocks—including trade and monetary policy—that affect the Andorran economy. Surprises in euro area inflation or interest rates also spillover to the Andorran economy. Unexpected negative shocks in euro area industrial production or unemployment have negative spillovers to the Andorran economy. This may be expected given the country's reliance on external demand and imports of goods, and its use of the euro as a legal tender.[3]

Uncertainty in the euro area has negative effects on GDP growth in Andorra.

IRF of GDP to a Shock in Euro Area Uncertainty

(1 standard deviation shock, 95% confidence intervals)

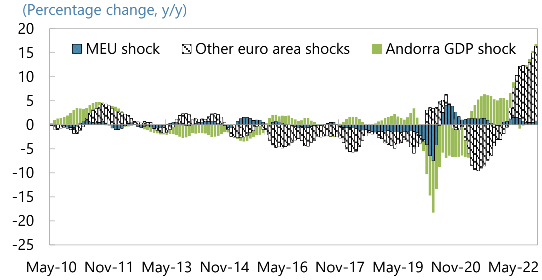


Sources: Comunale and Nguyen (2023), Eurostat, ECB DW, Andorran authorities, and IMF staff calculations.
Note: On x-axis are the months after the shock.

Other euro area shocks can also substantially impact growth as well.

Historical Decomposition of GDP Growth

(Percentage change, y/y)



Sources: Comunale and Nguyen (2023), Eurostat, ECB SDW, Andorran authorities, and IMF staff calculations.
Note: BVAR with block exogeneity. MEU is the MacroEconomic Uncertainty index. Other euro area shocks include stock prices, inflation, euribor, unemployment and industrial production.

[1] Andorra's trade openness (measured as imports and exports to GDP) is approximately 150% of GDP (Chinn and Prasad, 2003).

[2] Comunale and Nguyen (2023) "A Comprehensive Macroeconomic Uncertainty Measure for the Euro Area and its Implications to COVID-19". The MEU index directly follows the method as in Jurado et al. (2015) and has been proven better in capturing *macroeconomic* uncertainty in the euro area, compared to alternatives such as the Economic Policy Uncertainty or other more financially driven measures.

[3] We apply a Bayesian VAR with block exogeneity, controlling for the COVID-19 periods as in Ng (2021). The identification is as in Bloom (2009). In this model, a euro area macroeconomic uncertainty shock can affect other variables contemporaneously to Andorran GDP, while the latter does not influence euro area variables. Other shocks from the euro area economy include stock prices, interest rates, HICP, unemployment, and industrial production. This model allows us to look on how all these shocks can interact with each other and ultimately impact Andorran GDP.

14. **Risks are concentrated over the long-term, as stagnating income growth makes it challenging to address the impact of population aging and climate change.** Weak investment and low productivity growth, combined with population aging, imply that raising, or even maintaining, potential growth may be difficult going forward. Global risks, such as cyberthreats,

housing affordability and labor shortages, are salient in Andorra, and are bottlenecks to higher growth in the medium-term. With weaker long-term growth, the higher costs of pensions and healthcare will become more problematic and may exhaust fiscal buffers faster. Furthermore, the costs of adaptation policies to fight climate change will add to the medium-term burden, as the high reliance on winter tourism exposes the economy to climate-related risks. On the upside, the recently negotiated EUAA, if approved, could unlock investment and productivity, and provide an avenue for economic diversification—hence supporting higher potential growth and greater resilience.

Authorities' Views

15. The authorities broadly agreed with the staff's assessment of the economic outlook and balance of risks. While their short-term growth projection is slightly higher than staff's, on the expectation of a strong performance of the tourism sector, they agreed that the economy is gradually converging to a lower growth potential. The authorities highlighted the substantial upsides from the ongoing diversification of the economy—mitigating the seasonality of tourism, diversifying towards the digital sector, but agreed that long-term challenges are significant and will continue to be granted great attention.

POLICY DISCUSSIONS

Policies need to focus on lifting real incomes and sustaining growth and living standards in the long-term. The current position of strength is an opportunity for implementing far-reaching structural reforms and tackling medium-term challenges—notably to address the impact of population aging and climate change. On the fiscal side, this means boosting public investment while reforming the pension and healthcare systems. On the structural side, unlocking investment and productivity and diversifying the economy towards higher value-added sectors is crucial. The EUAA, by enhancing access to the single market, provides an impetus for such reforms. Vulnerability to climate change calls for an active adaptation strategy.

A. Fiscal Policy

16. Keeping a neutral fiscal stance is appropriate and provides room within the fiscal framework for strengthening investment execution.

- *A balanced 2025 budget focused on economic priorities*. The 2025 budget maintains a conservative fiscal stance but builds on the authorities' priorities, with a focus on health, housing, maintaining purchasing power, and education. Andorra maintains a competitive taxation regime with a flat income tax and thus relies on a mix of direct and indirect taxes for its revenues. Overall, the 2025 budget foresees a deficit of 1 percent of GDP. Given well established past practice of adjusting expenditures in line with incoming revenues, staff forecasts a small surplus of about 0.3 percent of GDP. Revenues are projected to grow by 8 percent compared to the 2024 budget. The public wage bill is projected to increase by 11 percent as the authorities continue their policy of restoring the purchasing power of incomes. With higher investment in affordable housing and infrastructure, capital expenditures are set to increase by 9 percent. Other major spending categories include education and healthcare, in line with government priorities. The staff assesses the neutral fiscal stance as appropriate, given that the economy is converging to its steady state.

- *Entrenching fiscal space and credibility*. Rapid fiscal consolidation after the pandemic and the safeguarding of appropriate fiscal discipline since—the primary surplus over the medium-term is projected around 0.9 percent for the central government—provide the fiscal space warranted for a microstate vulnerable to external shocks, especially in the absence of monetary policy tools in a euroized economy. The authorities' plans to consolidate local tax administrations and streamline revenue collection are welcome. Automatic stabilizers have worked effectively in the past and remain a first line of defense against an unforeseen shock to growth.

- *Room for growth-enhancing public spending.* The fiscal framework, which prescribes an overall deficit limit of 1 percent of GDP and a central government debt ceiling of 40 percent of GDP,[2] provides room for higher public spending targeted towards growth-enhancing investment. Spending should be focused on the structural needs of the economy: social and affordable housing, upskilling the workforce and addressing labor shortages, connectivity to support economic diversification, and investments to lift potential growth as per staff's past policy recommendations.[3] The greater focus on capital expenditures in the 2025 budget is welcome. As under-execution of budgeted public investment is customary (as an implicit policy objective to maintain balanced fiscal accounts), delivering on investment plans should be a policy objective.

17. Andorra's overall risk of sovereign stress is low (Annex III). The authorities are reaping the benefits of a precautionary borrowing strategy that is projected to bring public debt down to 30 percent of GDP by 2026, lengthened maturity to 6.3 years and keeps public debt service low until 2027 when public bonds in the amount of $500 million (worth about 12 percent of GDP) will be maturing. The authorities should continue to monitor market conditions, including for further diversifying debt and extending its maturity to decrease rollover risks and mitigate consequences from potential increases in interest rates. Fiscal surpluses projected over the medium-term provide an additional buffer against potentially higher interest rates on new borrowing.

18. Over the medium term, Andorra faces rising spending pressures from aging, as well as a need to expand public investment in the green transition—engaging pension and healthcare reforms early is paramount.

- Aging will have a substantial impact on the fiscal position of Andorra. Based on analysis in the 2025 selected issues paper, staff estimates that by 2050, pension system expenditures

[2] For details on fiscal rules, see IMF Country Report No. 22/179.

[3] 2021 Selected Issues paper, "Public Investment to Catalyze Andorra's Recovery," IMF Country Report No. 21/108 provides an assessment of the potential growth impact of public investment.

will rise by 6.6 percentage points[4] while healthcare expenditures will increase by 2 percentage points compared to 2022. Acting early on pension and healthcare reforms is needed to anticipate and mitigate the fiscal impact of aging.

- Pension reform has been on the government's agenda for some time and is overdue. Past IMF policy advice insisted on the importance of a comprehensive pension reform. The menu of options to put the system on the sustainable path is well understood, from increasing contribution rates and reducing conversion rates to increasing the retirement age. The recent fast population growth, driven in part by inward migration of working age adults, and the strong performance of the Pension Reserve Fund have improved the actuarial position of the pension system. However, concluding the reform in an expeditious and comprehensive manner is needed to ensure the sustainability of the social security fund in the long run.

- In the healthcare area, a reform should aim to contain long-term costs while raising healthcare revenues. The National Health Pact that brought together stakeholders to discuss potential reform options is a welcome start. Experience from other advanced economies[5] provides a blueprint for potential measures, in 4 areas: (i) measures to enhance cost efficiency (e.g., promote the use of generic medication, of digital tools, and adopt value-based models for proper incentives), (ii) strengthen preventive care, (iii) increase revenues for healthcare (e.g., contributions or co-payments by the insured), while preserving equity, and (iv) improve governance, including through performance-based contracts. Policy options should be guided by the specific nature of the Andorran system, including the large use of healthcare providers abroad.

- Beyond direct policies in the pension and healthcare areas, broader measures would be helpful to buffer the additional long-term fiscal costs of aging. Domestic revenue mobilization and migration policies can help. A rapid population increase over the last few years, driven by inward migration directly absorbed into the workforce, contributed to offsetting the impact of aging. At 67 percent, Andorra tops European countries in its share of foreign-born population. Inward migration policies should be part of the government policy toolkit to counter demographic trends.

- Climate change also exposes the government to future contingent liabilities. Public investment needs to increase to meet Andorra's climate-change mitigation targets and to provide adequate support to the adaptation of the private sector. Fiscal space will be increasingly needed to buffer climate shocks on an economy exposed to winter tourism.

[4] In the absence of policy actions, the pension system will start experiencing deficits around 2027 and the pension reserve fund will be depleted by 2043 (see the 2022 and 2025 Andorra Selected Issues Paper for more details).

[5] See, for example, OECD, Fiscal challenges and inclusive growth in ageing societies, 2019.

Authorities' Views

19. The authorities broadly agreed with the staff's assessment of fiscal policy. They underscored the need to maintain prudent fiscal policy while addressing key priorities, notably affordable housing. The authorities agreed with the pressing need to reform the pension system though noting that population growth and the strong performance of the pension reform fund provide time to build a political consensus. They agreed with the importance of a healthcare reform and noted that involvement of all stakeholders should allow them to move the process in a coherent and mutually agreeable way.

B. Financial Sector Policies

20. Strengthening further the resilience of the banking system during periods of high profitability is appropriate. The ongoing monetary policy normalization is reverting conditions supportive to bank profitability, notably by tightening the interest rate margin. The recent decrease in noninterest expenses should help banks buffer this tightening. From October 2024, the supervisor activated a countercyclical capital buffer of 0.5 percent to gradually increase to 1.5 percent by October 2026. This will help build banking system resilience which is appropriate during high bank profitability. The banking sector displays solid fundamentals, with large capital and liquidity buffers (as discussed above). This self-insurance is important given the systemic risks associated with the large size of the banking system with respect to the Andorran economy as well as the large share of foreign deposits (above 100 percent of GDP when including deposits both from non-resident clients as well as deposits held by foreign credit institutions, mostly subsidiaries of Andorran banks). The prevalence of private banking activities, especially custodian services, mitigates risks, but the Andorran Financial Authority (AFA) should continue to subject banks to comprehensive stress tests including on liquidity risks. It is also important for available supervisory tools to complement each other, i.e., for the lender of last resort facility introduced in 2022 to be supported by continued close supervision and a well-designed resolution framework[6] to ensure that critical problems are identified and addressed early.

21. The changing financial landscape, notably with a possible EUAA, brings opportunities and challenges for Andorran banks. The Agreement could make it easier for banks to expand in the Single Market and offer new products and services, especially in the asset management business where Andorran banks would have a competitive advantage. Andorran banks have been growing in the EU where they run independent subsidiaries focused on private banking services—the EUAA would facilitate this expansion. Such banking strategy diversifies revenues and profits but subjects banks to additional country and reputational risks. Domestically, the EUAA has the potential to create a more dynamic domestic market but also open Andorra to greater competition. If adopted, the EUAA will provide a 15-year transition period for the financial sector. The authorities should work closely with banks to prepare for the transition, ensure the continuation of financial stability and help develop the financial sector in Andorra further. Given the length of the transition period and the good standing of banks, achieving regulatory equivalence with the EU on financial services would be an adequate intermediate step. Ensuring that the AFA is an autonomous, fully resourced

[6] The authorities are working on full implementation of the Bank Recovery and Resolution Directive.

supervisor that has the power to conduct in-depth, risk-based assessments, enforce its findings, and deploy a solid crisis management capacity if needed, is important.

Authorities' Views

22. The authorities agreed with the staff's assessment of the financial sector. They highlighted the continued strong performance of Andorran banks in 2024. They also noted that their improved efficiency will help them buffer less favorable conditions, i.e., tighter interest rate margins, going forward. They underscored that they continue to closely supervise the financial system and work with their foreign counterparts to help develop the Andorran banking system, notably with the prospect of a forthcoming EUAA. The authorities noted that the financial sector is well positioned to benefit from the Agreement.

C. Structural Policies

23. A comprehensive set of structural measures is needed to raise real income growth. Diversifying the economy and moving towards higher value-added activities should drive the policy agenda. Given the window of opportunity for Andorra to engage early in response to long-term challenges, acting on a comprehensive structural reform agenda is important. The immediate priority given to addressing emerging bottlenecks should not delay action on longer-term concerns and objectives. In particular:

- **Addressing frictions, notably labor and housing shortages.** On labor, public investment in education and well-designed immigration policies can improve knowledge capital in Andorra and raise labor productivity. On housing and housing affordability (an issue addressed in detail in the 2023 article IV consultation),[7] the authorities have taken multiple measures. They include extension of existing rental contracts until 2027, creation of a public affordable housing park, providing tax incentives for owners who offer affordable housing, suspension of tourist accommodation licenses, assessing fees on empty houses, and a temporary suspension of real estate investments by nonresidents subsequently replaced by the tax on foreign investment in the real estate.[8] Use of administrative controls, such as rental contracts extension, may provide temporary short-term relief but may also distort the market and increase imbalances. The authorities should aim to provide market-based incentives for investing in affordable housing to increase its stock while minimizing

[7] See the 2023 Andorra Article IV Staff Report, IMF Country Report No. 24/57, and the 2023 Selected Issues Paper, "Housing Affordability in Andorra", IMF Country Report No. 24/58.

[8] The temporary suspension was in place between September 2023 and February 2024 and was replaced by a 3 to 10 percent tax on purchases by foreigners depending on the number of properties. The tax is assessed as a residency-based inflow capital flow management measure (CFMs) and represents a relaxation of the stricter inflow CFM initially implemented through the temporary ban. In line with the Fund's Institutional View on the Liberalization and Management of Capital Flows (IV), this measure was assessed as an appropriate CFM measure because the country has been facing a capital inflow surge and the measure does not substitute for appropriate macroeconomic policies. Consistent with the IV, staff recommends that the authorities should phase out the measure once the inflow surge subsides.

distortions and to use the existing housing stock more efficiently—by continued efforts on mobilizing vacant properties, increasing residential mobility, and reducing under-occupation of homes. The authorities may consider the potential benefits of a broad-based tax measure that targets housing purchases for investment or speculative purposes by applying it equally to both residents and non-residents to eliminate residency-based discrimination. More efficient use of zoning restrictions and land allocation for real estate development, notably with closer coordination among parishes, would help increase housing supply and reduce its cost.

- **Creating a business environment conducive to higher investment.** Past recommendations in this area encompass the reduction in administrative rigidities associated with doing business in Andorra, promoting access to financing, and implementing measures to attract and retain talent. Administrative hurdles could be alleviated by harmonizing processes across parishes and developing the use of digitalization for central and local governments.

- **Supporting the development of higher value-added sectors, including the digital economy**. With limited room for the manufacturing sector to develop, Andorra can look at the experience of peer countries that have successfully diversified towards digital economy (see Selected Issues Paper). This includes developing a comprehensive national growth strategy together in collaboration with the private sector.[9] Government policies, including the 2022 Law on the digital economy, entrepreneurship, and innovation and the Digitalization Strategy 2020-2030 are welcome initial steps. Attracting talent to Andorra will be key, and rests upon the resolution of bottlenecks such as housing shortages.

24. The EUAA could provide the momentum for reforms towards diversification and unlock investment and productivity in Andorra but is not without its own challenges. Empirical evidence on the benefits of EU membership or association suggests that while the impact can be significant and positive, it builds up over time and is conditional on well-designed domestic reforms during the accession period (see Box 2). However, the magnitude of the positive impact is difficult to assess and varies with country-specific circumstances. The impact materializes through a few channels: structural reforms in the period preceding accession/association, greater capital accumulation, notably FDI, and higher productivity. Transposition of EU regulations, which will require new electronic/digital procedures and more cooperation among administrations, could help simplify some administrative activities, enhance digitalization and intra-administrations' cooperation. However, Andorra has already embedded many EU regulations in its framework and regulations, limiting the potential impact of early reforms in a number of areas. Room for increasing investment and productivity is substantial. Transition periods for key sectors such as telecom and banking mitigate the risks of disruption and fiscal space can cover transition costs. Transition costs could be significant, notably for the public sector, estimated for each of the next five years at around 0.5

[9] Malta, for example, experienced one of the highest real GDP and real income growth amongst peers with the expansion of the digital sector.

percent of public revenues. Anticipating and budgeting for the upcoming fiscal costs, hiring public sector workers, would be required, especially as the costs may be relatively high compared to the size of the economy. Preparedness is essential to realize the benefits of association, and reduce potential downsides, such as greater regional competition. The EUAA would lower barriers to entry into the domestic market and expose domestic companies to greater competition from new potential entrants. Reinforcing safety nets for workers negatively affected by increased competition, notably new training programs and vocational education, could foster mobility and mitigate the potential negative distributional effects of the agreement. It is also important to ensure that political capital spent on the EUAA's adoption is not at the expense of key reforms such as the pension reform. Once final approval at the EU level is reached, with notably a decision on whether the EUAA contains sections that need to be approved by each EU national parliament ("mixity"), a prompt approval at the domestic level will help lower the cost of uncertainty around the agreement.

Box 2. The EU Association Agreement with Andorra and its Possible Implications

The EUAA is a treaty that would deepen Andorra's relationships with the EU. Negotiations successfully concluded in 2023, after almost a decade, between Andorra (together with San Marino) and the EU. After approval by the Council of the EU and the European Parliament (and, possibly, by the national parliaments of EU member countries for items that may be considered of mixed competency between the EU and member states), the EUAA will need to be ratified by a referendum in Andorra. The timing of this sequence remains uncertain, though the authorities plan for the referendum to take place in late 2025-early 2026.

The Agreement establishes the basic principles for the four freedoms of movement within the EU: people, goods, services, and capital. Important exceptions have been included on taxation, foreign policy, border control, and free movement of people (keeping a quota system). The Agreement also involves transition periods for the sensitive sectors of telecom, tobacco, and finance.[1]

The main benefit from an EUAA would be economic diversification, with the potential to both raise long term growth and reduce the country's vulnerability to exogenous shocks. Though there is considerable uncertainty and significant idiosyncrasies around estimates of the potential impact of an EUAA, improved access to the EU single market, harmonization with EU regulatory standards and market confidence effects could foster domestic and foreign investment in Andorra while supporting net exports—both helping economic diversification towards sectors with higher value-added and the digital and climate transition.[2]

- A report commissioned by the government (Andorra Recerca report, 2024)[3] estimates that the impact of the EUAA could be significant, increasing economic growth by about 0.2 percentage points a year, both in the short term (1 Percent of GDP in 2030) and in the long term (cumulatively by 5 Percent by 2050).
- Recent IMF studies looking at a broad range of former EU accession countries find a positive growth impact from the accession process, though heterogenous across countries. The Fall 2024 European Regional Economic Outlook shows that EU accession regions experienced substantial real GDP per capita gains compared to pre-EU trends (20 percent gains for the median region compared to the pre-EU trend over a 15-year period). Another finding is that benefits grow over time. The sample includes many Central and Eastern European countries with economic characteristics that differ significantly from Andorra's.

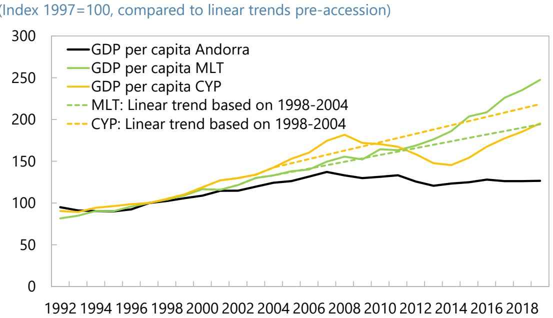
Box 2. The EU Association Agreement with Andorra and its Possible Implications (concluded)

- Amongst advanced economies that joined the EU since 2000, Malta experienced a 28 percent increase in its pre-EU trend GDP per capita. The impact of EU accession was more muted for Cyprus, which was severely hit by the great financial crisis due to its exposed banking sector (-11 percent), highlighting the importance of mitigating country-specific risks.
- EEA-EFTA agreements[4] provide an additional benchmark for assessing the potential impact of association with the EU—with less evident benefits. The median region in EEA-EFTA countries did not experience a positive growth effect, possibly reflecting exogenous changes in the European and global economy at the time of agreement. In addition, compared with full membership, associated countries do not benefit from fiscal transfers from the EU budget.
- Past experiences also shed light on the channels through which EU accession/association raises incomes domestically (see the Fall 2024 European REO). Productivity gains and capital accumulation, notably through higher foreign direct investment, are instrumental. Productivity gains tend to materialize early after accession, supported by a structural reform momentum, including before actual accession.

Among AEs new members, Malta has benefitted the most from the EU accession.

Real GDP Per Capita and EU Accession

(Index 1997=100, compared to linear trends pre-accession)

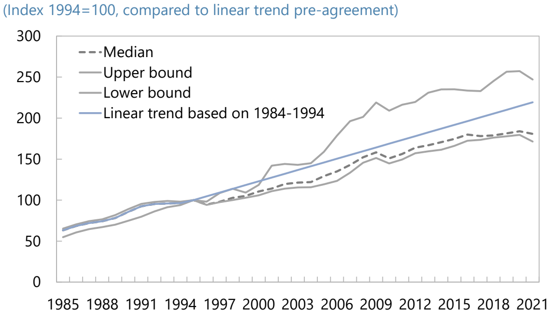


Sources: IMF staff calculations based on October 2024 REO Fig. 2.8 and data from the World Bank.
Note: Malta and Cyprus accession was in 2004. Those are the medians across regions.

Countries have benefited from joining the EEA and EFTA, though the impact varied.

Real GDP Per Capita in EEA-EFTA Countries

(Index 1994=100, compared to linear trend pre-agreement)



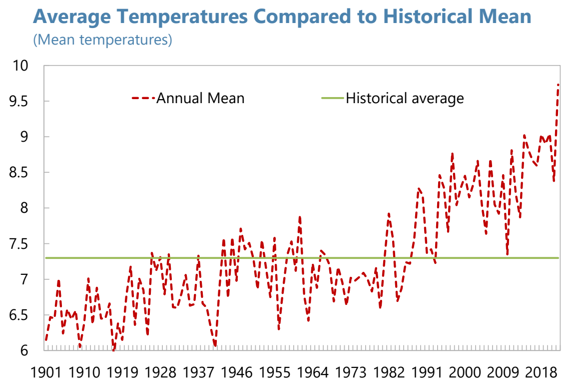
Sources: IMF staff calculations based on October 2024 REO Fig. 2.8.
Note: For EEA countries the data of the agreement is 1995. We include Switzerland (EFTA), Norway and Iceland (EEA).

The Agreement would also bring challenges to the economy. Transition costs would be significant, notably for the public sector, estimated at 0.5 percent of the total budget each year for the first 5 years.[5] Implementing the EUAA would notably require hiring public sector workers. The EUAA would also lower barriers to entry into the domestic market and expose domestic companies to greater competition from new potential entrants. While competition typically brings benefits to the final consumer, it may challenge some local businesses.

[1] See 2023 Andorra Selected Issues Paper, "Andorra's Banking Sector: Opportunities and Risks, IMF Country Report No. 24/58 for more details on the possible impact of the agreement on the financial sector.
[2] Provisions in Annex XX of the EUAA point to better data reporting on climate issues and to better public access to environmental information. In general, the EUAA will require adaptation of the EU climate acquis, with accompanying administrative and reporting adjustments. The EUAA would also necessitate an improvement in the mobility within the Internal Market in the context of the EU transportation policy (see Andorra Recerca report, 2024). The proposed "omnibus law" goes in this direction, listing some current barriers and promoting energy transition.
[3] Andorra Recerca (2024), "Anàlisi De L'impacte De L'acord D'associació Andorra-Unió Europea", KSNET.
[4] The EEA agreement was signed in 1992 and entered into force in 1994 with Liechtenstein joining in May 1995. The EEA-EFTA countries include Norway, Iceland, and Liechtenstein (EEA) and Switzerland (EFTA).
[5] This corresponds to 3.1 million euros in the 2025 budget. Those expenses include new personnel to be hired, creating a common regulator for six key sectors, translations, and IT requirements to connect to EU systems.

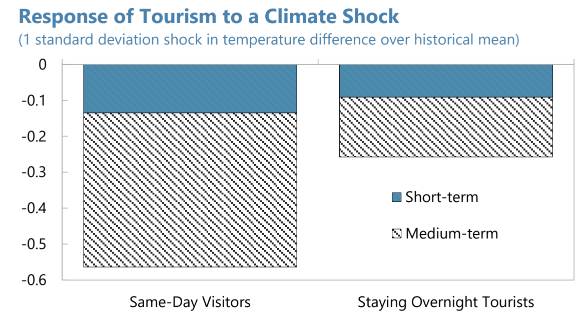
25. Climate adaptation strategy needs to be accelerated given the macrocriticality of global warming for Andorra. Winter tourism is key to the Andorran economy. Yet, temperatures have been rising steadily since 2000. The average annual temperature in 2022 in Andorra has been 2 degrees Celsius higher than the historical mean, continuing a 30-year trend. Artificial snowmaking can partially offset the impact of warmer weather during the winter season but is costly and conditional on actual snowfall.[10] Because of its higher altitude, Andorra is more resilient than other winter tourism locations in the region and should use this window of opportunity to enact needed policies, support the development of higher value-added service sectors and diversifying away from winter tourism. The authorities should expedite development and execution of the climate adaptation strategy to help the economy to deal with warming climate, including an estimate of the fiscal costs of adaptation going forward.[11]

Temperature in Andorra has rapidly increased in the last decades.



Sources: World Bank climate knowledge portal and IMF staff calculations.

Further warming can negatively impact tourism in Andorra.



Sources: Andorran authorities, Servei Meteorològic Nacional, World Bank climate knowledge portal and IMF staff calculations.
Note: Local Projections a la Jorda (2005). Historical mean 1901-2022. Climate shock built as in Mohaddes, Ng, Pesaran, Raissi, and Yang (2023).

Authorities' Views

26. The authorities agreed on the importance of structural measures to address both bottlenecks in the short term and support economic potential in the medium term. They noted that addressing housing shortages took centerstage in 2024 and significant progress was made. On the assessment that the suspension of foreign purchases of real estate constituted a capital flow management measure, the authorities insisted that the measure was not targeted at restricting the movement of capital but rather at addressing housing affordability issues and was temporary. Going forward, the authorities underscored their readiness to tackle other structural impediments to growth. They noted that improving the business environment by simplifying administrative processes is important but that this requires involving local governments. Measures to support economic diversification and bring high value-added foreign investment to the country are expected. The authorities noted that they are discussing further actions to address climate change, both on mitigation and adaptation. They presented the EUAA as an important driver of future

[10] Steiger et al. ("Impacts of climate change on mountain tourism: a review," 2024) presents an extensive literature review on the impact of climate change on winter tourism.

[11] For more details, see the 2023 Andorra Selected Issues Papers, "Climate Change in Small Open Economies: The Case of Andorra", IMF Country Report No. 24/58.

growth that would help transform the economy. The authorities recognized the need to communicate well the implications of the agreement, and to prepare the economy for a smooth transition.

D. AML/CFT and Data Issues

27. Andorra should maintain a robust understanding and management of ML/TF risks for an effective AML/CFT framework, ahead of its 2026 AML/CFT mutual evaluation by MONEYVAL.[12] An assessment of the risk of misuse of legal persons for ML/TF purposes is being conducted. The UIFAND and AFA's analysis of cross-border flows, including nonresident deposits, continues, and should be supported by the exchange of information with foreign counterparts as necessary to further develop the understanding and management of related risks. New AML/CFT obligations were imposed on Virtual assets service providers (VASPs). Andorra should finalize its assessment of the ML/TF risks related to virtual assets and, based on its findings, ensure a more effective risk-based implementation of AML/CFT measures by VASPs. It should also enhance the implementation of a risk-based approach to AML/CFT supervision through better allocation of its resources and more appropriate imposition of sanctions for breach of regulatory requirements to ensure more effective implementation of AML/CFT preventive measures by banks.

28. Furthering the progress on closing data gaps is important for surveillance and for guiding policy making. Andorra has made significant progress in improving its data reporting since joining the IMF, but recent large data revisions—to headline numbers such as growth and external sector statistics —highlight the need to continue improving data.[13] Recent progress includes preparing draft reporting of standardized fiscal and monetary and financial statistics and improving the timeliness and frequency of the International Investments Position and the balance of payment statistics. In the monetary sector, forthcoming technical assistance will support the production of the monetary and financial statistics. The IMF stands ready to continue working with Andorra on strengthening its data reporting to enhance transparency and improve inputs for the decision makers. Limited staffing is a constraint to further progress. Staff welcomes the authorities plan to hire an additional person in the statistics office to increase capacity and strengthen data reporting.

Authorities' Views

29. The authorities stressed the good standing of Andorra on governance and AML/CFT framework issues, and on their commitment to continue improving economic statistics. They noted their active collaboration with foreign counterparts and the high rankings obtained by the country on various international evaluation tools. The authorities underscored their dedication to

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[12] MONEYVAL is the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism: a FATF-Style Regional Body.

[13] The authorities made large revisions to historical Balance of Payments data, which have slightly changed our external sector assessment compared to previous years (see Annex I). The revisions were due to improved trade balance data for 2021 and to reported corrections in primary income data for 2022.

strengthening macroeconomic statistics in all areas and noted that recent revisions reflect corrections and improvements to the data framework. They appreciated the IMF technical assistance in helping them to close data gaps and build capacity.

STAFF APPRAISAL

30. The Andorra economy continues to show resilience and to grow above its potential. Growth in 2024 surprised slightly on the upside, at an estimated 2.1 percent, driven by the service, banking and construction sectors. Inflation is subsiding gradually, having reached 2.6 percent at the end of 2024, despite limited economic slack and a still tight labor market. The current account surplus remains very large, estimated at 15.1 percent of GDP in 2024, an external position that is assessed to be stronger than implied by fundamentals and desirable policies, supported by the services sector and net income. The strong performance of banks continued in 2024 supported by high interest margins and increased fees and commissions. Over the medium term, GDP is expected to slow to the level of potential growth at around 1.5 percent. Short-term risks are balanced: greater uncertainty in the global economy on the downside and stronger demand for the services sector on the upside. Solid buffers mitigate risks.

31. Challenges are arising over the medium-term, as stagnating GDP per capita lowers growth and makes it challenging to address the impact of population aging and climate change. With long life expectancy and low fertility rates, Andorra's population is expected to age rapidly—removing an engine for GDP growth and creating fiscal liabilities over the long term. Fiscal costs from pensions and healthcare will be substantial. More frequent climate shocks can affect the economic cycle in an economy largely reliant on winter tourism, and structurally warmer temperatures will require extensive adaptation.

32. The authorities should maintain a disciplined fiscal policy to protect fiscal space and provide room for needed public investment. In the absence of monetary policy tools, maintaining fiscal policy space and reducing public sector liabilities is warranted for a microstate vulnerable to external shocks. The 2025 budget finds a welcome balance between maintaining a conservative fiscal stance while building on the authorities' structural priorities, with a focus on housing. The fiscal framework provides room for higher public spending focused on the structural needs of the economy, including social and affordable housing, upskilling the workforce and addressing labor shortages, connectivity to support economic diversification, and investments to lift potential growth.

33. Early fiscal reform is paramount. Pension expenditures will increase by 6.7 percentage points while healthcare expenditures will increase by 2 percentage points by 2025. Concluding the pension reform in an expeditious and comprehensive manner is needed to ensure the sustainability of the social security fund in the long run. A reform of the healthcare system should aim to contain long-term costs while raising healthcare revenues, drawing on the experience from other advanced economies. Fiscal space will be increasingly needed to buffer the negative impact of climate shocks.

34. During periods of high profitability, the supervisor should continue to strengthen the resilience of the banking system. The changing financial landscape, notably with the continued international expansion of banks and a possible EUAA, brings opportunities and challenges for Andorran banks. While the banking sector displays solid fundamentals, the supervisor should remain vigilant given the large size of the banking sector. Available supervisory tools should complement each other, including by supporting the lender of last resort facility introduced in 2022 and the countercyclical capital buffer activated in 2024.

35. Ambitious structural reforms can help unlock investment and lift productivity, support the diversification of the economy, and help mitigate climate change. A comprehensive set of reforms should first address frictions, notably labor and housing shortages. To tackle housing affordability, it is essential for the government to focus on well-targeted measures that avoid distortions in the housing market, restore proper market incentives to invest in rental property development, and ensure consistency with other economic priorities, such as attracting foreign investment. Establishing a business environment conducive to higher investment is key, notably by reducing administrative rigidities associated with doing business in Andorra. Finally, the authorities should support the development of higher value-added services and sectors, including the digital economy. With limited space for manufacturing, Andorra can look at the experience of peer countries that have successfully diversified towards the digital economy and experienced fast income growth. The climate adaptation strategy also needs to be accelerated given the macrocriticality of rising temperatures for Andorra's tourism sector.

36. The EUAA could provide further momentum for reforms towards diversification, unlocking investment, and raising productivity in Andorra but is not without challenges. The agreement signals a strong commitment to deeper integration with the EU and to strengthen Andorran institutions in their coherence with EU standards. Previous experience suggests that Andorra will maximize the benefits of association with well-designed domestic reforms during the accession period, which could support greater capital accumulation, notably FDI, and higher productivity. Transition periods for key sectors such as telecom and banking mitigate the risks of disruption and fiscal space can cover transition costs. Preparedness is essential to realize the benefits of association and reduce potential downsides, such as greater regional competition.

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

Table 1. Andorra: Selected Economic and Financial Indicators

I. Social Indicators

Population (2023)	85101	Population at risk of poverty (percent, 2020)	13
Per capita income (2023, euros)	41134	Human Development Index Rank (2021)	40 (out of 189)
Gini Index (2020)	32	Life expectancy at birth (2024)	83.9

II. Economic Indicators

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections						
NATIONAL ACCOUNTS AND PRICES	(annual change, percent, unless otherwise indicated)									
Real GDP	8.3	9.6	2.6	2.1	1.7	1.6	1.5	1.5	1.5	1.5
Nominal GDP	11.1	14.2	9.0	5.0	3.7	3.4	3.3	3.2	3.2	3.2
GDP deflator	2.6	4.2	6.3	2.9	1.9	1.8	1.7	1.7	1.7	1.7
	(contribution to nominal GDP growth, percentage points)									
Consumption	8.4	6.5	7.0	3.7	2.4	2.4	2.6	2.5	2.4	2.4
Private	7.4	6.2	3.5	1.8	1.5	1.5	1.5	1.5	1.4	1.4
Public	0.9	0.3	3.4	1.9	0.9	1.0	1.1	1.0	1.0	1.0
Investment	-3.5	6.8	-2.2	0.8	0.6	0.6	0.3	0.3	0.4	0.5
Private 1/	-3.3	6.4	-3.1	0.3	0.0	0.4	0.1	0.2	0.2	0.3
Public	-0.2	0.4	0.9	0.5	0.6	0.2	0.2	0.2	0.2	0.2
Net exports of goods and services	6.2	0.9	4.3	0.7	0.6	0.4	0.4	0.4	0.4	0.4
Exports	18.0	18.8	10.4	4.2	3.3	2.8	2.8	2.9	2.9	2.8
Imports	11.8	18.0	6.1	3.5	2.7	2.5	2.4	2.5	2.5	2.4
Prices										
Inflation (percent, period average)	1.7	6.2	5.6	3.1	2.2	1.8	1.7	1.7	1.7	1.7
Inflation (percent, end of period)	3.3	7.2	4.6	2.6	2.0	1.7	1.7	1.7	1.7	1.7
Unemployment rate (percent)	3.3	2.1	1.6	1.6	1.6	1.8	1.8	1.9	2.0	2.0
EXTERNAL SECTOR	(percent of GDP, unless otherwise indicated)									
Current account	15.0	11.6	14.2	15.1	17.0	17.0	17.0	17.0	17.0	17.0
Balance on goods and services	9.1	8.8	12.0	12.0	12.2	12.1	12.1	12.1	12.1	12.1
Exports of goods and services	73.6	80.9	83.7	83.7	83.9	83.8	83.9	84.1	84.2	84.3
Imports of goods and services	64.5	72.2	71.8	71.6	71.7	71.7	71.8	71.9	72.1	72.2
Primary income, net	7.6	4.3	3.5	4.3	6.1	6.1	6.1	6.1	6.1	6.1
Secondary income, net	-1.7	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Capital account	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	17.1	12.7	13.5	15.1	17.0	17.0	17.0	17.0	17.0	17.0
Errors and omissions	2.1	1.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (millions of euros) 2/	138.1	338.4	338.7	399.0	399.0	399.0	399.0	399.0	399.0	399.0
FISCAL SECTOR	(percent of GDP, unless otherwise indicated)									
General Government 3/										
Revenue	37.9	39.7	38.0	39.0	37.7	37.6	37.6	37.7	37.6	37.7
Expenditure	39.0	34.9	35.9	36.8	36.5	36.4	36.7	36.7	36.8	36.8
Interest	0.7	0.7	0.6	0.5	0.6	0.6	0.8	0.8	0.8	0.8
Primary balance	-0.4	5.6	2.7	2.8	1.8	1.7	1.7	1.8	1.6	1.6
Net lending/borrowing (overall balance)	-1.2	4.8	2.1	2.2	1.2	1.2	0.9	1.0	0.8	0.8
Public debt	48.6	38.9	35.5	33.7	32.5	31.5	30.5	30.0	29.5	29.0
Central Government 4/										
Revenue	19.4	21.7	19.8	21.7	20.8	20.8	20.8	20.8	20.8	20.9
Expenditure	22.0	18.7	19.1	20.1	20.5	20.5	20.6	20.7	20.6	20.7
Interest	0.7	0.7	0.5	0.5	0.5	0.5	0.7	0.7	0.7	0.7
Primary balance	-1.9	3.6	1.2	2.2	0.8	0.8	0.9	0.8	0.9	0.9
Net lending/borrowing (overall balance)	-2.6	2.9	0.7	1.7	0.3	0.3	0.2	0.1	0.2	0.2
Public debt	46.3	37.1	34.0	32.3	31.2	30.1	29.2	28.7	28.3	27.9
BANKING SECTOR 5/	(percent, unless otherwise indicated)									
Regulatory capital to risk-weighted assets	21.5	20.3	21.7	21.2	...	...	...	...	...	...
Nonperforming loans to total gross loans	5.2	3.3	2.2	2.1	...	...	...	...	...	...
Credit to nonfinancial private sector										
Level (percent of GDP)	135.2	116.4	101.3	94.5	...	...	...	...	...	...
Corporates	68.8	61.8	55.1	51.1	...	...	...	...	...	...
Households	66.4	54.6	46.2	43.4	...	...	...	...	...	...
Growth (nominal)	-0.1	-1.7	-5.2	-2.0	...	...	...	...	...	...
Corporates	-0.6	2.6	-2.8	-2.5	...	...	...	...	...	...
Households	0.4	-6.1	-7.8	-1.3	...	...	...	...	...	...
Credit to public sector										
Level (percent of GDP)	2.7	2.2	1.8	1.5	...	...	...	...	...	...
Growth (nominal)	-50.2	-8.4	-10.0	-13.0	...	...	...	...	...	...
Memorandum items										
Exchange rate (€/USD, period average) 6/	0.85	0.95	0.92	0.92	0.97	0.97	0.97	0.97	0.97	0.97
Nominal GDP (millions of euros)	2,811	3,210	3,501	3,676	3,811	3,942	4,070	4,202	4,338	4,478

Sources: Andorran authorities, Eurostat, and IMF staff calculations.

1/ The contribution of private investment is derived as a residual and includes investments of state-owned enterprises.

2/ The increase of gross international reserves in 2022 is due to €100 million deposited at the Bank of Spain, €40 million at the Banque de France, and €60 million at the Nederlandsche Bank as gross international reserves. In 2024, additional €60 million reserves were accounted, mainly deposited at the Bank of Spain.

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

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

5/ 2024 data corresponds to 2024Q3.

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

Table 2. Andorra: General Government Operations[1]

			Projections							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(millions of euros)									
Revenue	1,064.7	1,275.6	1,331.3	1,435.6	1,437.2	1,482.0	1,531.4	1,583.9	1,630.9	1,686.5
Tax Revenue	402.1	523.1	537.8	588.8	588.6	606.7	627.3	650.4	667.3	691.7
Income	117.1	150.7	170.0	181.9	189.8	196.6	203.1	209.7	216.5	223.5
Goods and services	118.7	164.0	175.2	151.4	160.0	162.6	167.9	174.5	181.2	188.3
International trade	113.6	149.9	127.8	165.0	174.2	180.4	186.4	193.7	197.2	204.8
Other	52.7	58.5	64.8	90.6	64.5	67.2	69.8	72.5	72.4	75.2
Social Contributions	276.9	312.5	351.9	384.2	365.9	378.4	390.7	403.4	416.4	429.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 2/	385.5	439.8	441.5	462.6	482.7	496.8	513.4	530.1	547.2	564.9
Expenditure	1,097.5	1,120.1	1,256.1	1,353.4	1,390.4	1,435.6	1,494.1	1,542.2	1,594.7	1,648.7
Current expenditure	970.9	982.5	1,089.2	1,170.3	1,186.9	1,225.0	1,276.4	1,317.0	1,361.8	1,407.9
Wages and salaries	236.0	246.7	276.4	295.2	304.9	315.4	325.6	336.2	347.0	358.2
Goods and services	151.0	161.8	176.5	185.2	190.1	195.1	203.5	210.1	216.9	223.9
Subsidies and transfers	563.3	551.2	616.6	669.8	669.7	692.9	714.7	737.1	763.2	790.0
Interest	20.5	22.7	19.7	20.1	22.1	21.7	32.6	33.6	34.7	35.8
Net acquisition of non-financial assets	126.6	137.6	166.9	183.0	203.5	210.6	217.8	225.2	232.8	240.8
Net acquisition of fixed assets	68.7	72.3	100.7	123.0	127.3	131.8	136.4	141.1	146.1	151.2
Capital transfers	57.9	65.3	66.2	60.0	76.2	78.8	81.4	84.0	86.8	89.6
Primary balance	-12.2	178.2	94.9	102.3	68.9	68.0	69.8	75.3	71.0	73.6
Net lending/borrowing	-32.7	155.5	75.2	82.2	46.8	46.3	37.3	41.7	36.3	37.8
Financing										
Net acquisition of financial assets	160.4	38.2	79.7	81.1	46.8	46.3	37.3	61.7	56.3	57.8
Domestic	160.4	38.2	79.7	81.1	46.8	46.3	37.3	61.7	56.3	57.8
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	193.0	-117.2	4.5	-1.1	0.0	0.0	0.0	20.0	20.0	20.0
Domestic	-180.6	-621.2	4.5	-1.1	0.0	0.0	0.0	20.0	20.0	20.0
New Issuances	15.5	9.9	5.6	0.0	0.0	0.0	0.0	20.0	20.0	20.0
Amortization	196.1	631.2	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
External	373.6	504.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Issuances	678.6	504.0	0.0	0.0	0.0	0.0	500.0	0.0	0.0	0.0
Amortization	305.0	0.0	0.0	0.0	0.0	0.0	500.0	0.0	0.0	0.0
	(percent of GDP)									
Revenue	37.9	39.7	38.0	39.0	37.7	37.6	37.6	37.7	37.6	37.7
Tax Revenue	14.3	16.3	15.4	16.0	15.4	15.4	15.4	15.5	15.4	15.4
Income	4.2	4.7	4.9	4.9	5.0	5.0	5.0	5.0	5.0	5.0
Goods and services	4.2	5.1	5.0	4.1	4.2	4.1	4.1	4.2	4.2	4.2
International trade	4.0	4.7	3.7	4.5	4.6	4.6	4.6	4.6	4.5	4.6
Other	1.9	1.8	1.9	2.5	1.7	1.7	1.7	1.7	1.7	1.7
Social Contributions	9.9	9.7	10.1	10.5	9.6	9.6	9.6	9.6	9.6	9.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 2/	13.7	13.7	12.6	12.6	12.7	12.6	12.6	12.6	12.6	12.6
Expenditure	39.0	34.9	35.9	36.8	36.5	36.4	36.7	36.7	36.8	36.8
Current expenditure	34.5	30.6	31.1	31.8	31.1	31.1	31.4	31.3	31.4	31.4
Wages and salaries	8.4	7.7	7.9	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Goods and services	5.4	5.0	5.0	5.0	5.0	4.9	5.0	5.0	5.0	5.0
Subsidies and transfers	20.0	17.2	17.6	18.2	17.6	17.6	17.6	17.5	17.6	17.6
Interest	0.7	0.7	0.6	0.5	0.6	0.6	0.8	0.8	0.8	0.8
Net acquisition of non-financial assets	4.5	4.3	4.8	5.0	5.3	5.3	5.4	5.4	5.4	5.4
Net acquisition of fixed assets	2.4	2.3	2.9	3.3	3.3	3.3	3.4	3.4	3.4	3.4
Capital transfers	2.1	2.0	1.9	1.6	2.0	2.0	2.0	2.0	2.0	2.0
Primary balance	-0.4	5.6	2.7	2.8	1.8	1.7	1.7	1.8	1.6	1.6
Net lending/borrowing	-1.2	4.8	2.1	2.2	1.2	1.2	0.9	1.0	0.8	0.8
Financing										
Net acquisition of financial assets	5.7	1.2	2.3	2.2	1.2	1.2	0.9	1.5	1.3	1.3
Domestic	5.7	1.2	2.3	2.2	1.2	1.2	0.9	1.5	1.3	1.3
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.9	-3.7	0.1	0.0	0.0	0.0	0.0	0.5	0.5	0.4
Domestic	-6.4	-19.4	0.1	0.0	0.0	0.0	0.0	0.5	0.5	0.4
New Issuances	0.6	0.3	0.2	0.0	0.0	0.0	0.0	0.5	0.5	0.4
Amortization	7.0	19.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	13.3	15.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Issuances	24.1	15.7	0.0	0.0	0.0	0.0	12.3	0.0	0.0	0.0
Amortization	10.9	0.0	0.0	0.0	0.0	0.0	12.3	0.0	0.0	0.0
Memorandum items										
Gross Financing Needs (millions, euros)	533.8	475.7	0.0	0.0	0.0	0.0	462.7	0.0	0.0	0.0
Percent of GDP	19.0	14.8	0.0	0.0	0.0	0.0	11.4	0.0	0.0	0.0
Public Debt (millions of euros)	1,366.5	1,249.1	1,241.5	1,240.4	1,240.4	1,240.4	1,240.4	1,260.4	1,280.4	1,300.4
Percent of GDP	48.6	38.9	35.5	33.7	32.5	31.5	30.5	30.0	29.5	29.0
Nominal GDP (millions, euros)	2,811.0	3,210.3	3,500.6	3,676.5	3,811.3	3,941.9	4,070.0	4,202.1	4,337.8	4,477.7

Sources: Andorran authorities and IMF staff calculations.

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

2/ Other revenue includes property income, sales of goods and services, voluntary transfers other than grants, and fines, penalties, and forfeits.

Table 3. Andorra: Central Government Operations[1]

			Projections							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(millions of euros)									
Revenue	544.0	695.5	694.0	799.2	794.2	818.4	845.8	875.8	902.7	934.4
Tax Revenue	353.3	468.5	478.1	564.1	548.3	564.8	583.7	605.1	623.3	646.0
Income	117.1	150.8	170.0	209.7	188.8	195.4	202.0	208.5	215.3	222.2
Goods and services	118.7	164.0	175.2	151.4	160.0	162.6	167.9	174.5	181.2	188.3
International trade	113.6	149.9	127.8	165.0	174.2	180.4	186.4	193.7	197.2	204.8
Other	3.9	3.8	5.2	38.0	25.3	26.4	27.4	28.5	29.6	30.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 2/	190.4	226.9	215.8	235.1	245.9	253.7	262.1	270.6	279.4	288.4
Expenditure	618.2	600.9	670.1	737.1	782.7	806.6	839.2	869.5	895.6	926.5
Current expenditure	556.4	540.8	597.6	637.8	676.1	697.6	726.5	753.0	775.1	802.0
Wages and salaries	177.3	185.3	208.9	218.0	233.9	245.1	253.4	260.7	264.6	273.1
Goods and services	103.8	108.0	115.4	120.9	128.3	132.0	135.6	139.3	143.1	152.7
Subsidies and transfers	255.7	225.8	255.7	281.7	296.6	300.8	309.0	323.5	337.0	344.8
Interest	19.7	21.6	17.5	17.2	17.2	19.7	28.5	29.4	30.4	31.3
Net acquisition of non-financial assets	61.8	60.1	72.5	99.4	106.6	109.0	112.7	116.5	120.4	124.5
Net acquisition of fixed assets	29.1	26.9	33.9	57.3	59.6	61.7	63.8	66.1	68.4	70.8
Capital transfers	32.7	33.2	38.6	42.1	47.0	47.3	48.8	50.4	52.1	53.7
Primary balance	-54.6	116.2	41.4	79.2	28.8	31.6	35.1	35.7	37.4	39.3
Net lending/borrowing	-74.2	94.6	23.9	62.0	11.5	11.9	6.6	6.3	7.1	7.9
Financing										
Net acquisition of financial assets	121.8	-17.0	22.8	60.9	11.5	11.9	6.6	26.3	27.1	27.9
Domestic	121.8	-17.0	22.8	60.9	11.5	11.9	6.6	26.3	27.1	27.9
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	196.0	-111.6	-1.1	-1.1	0.0	0.0	0.0	20.0	20.0	20.0
Domestic	-177.6	-615.6	-1.1	-1.1	0.0	0.0	0.0	20.0	20.0	20.0
New Issuances	15.5	15.5	0.0	0.0	0.0	0.0	0.0	20.0	20.0	20.0
Amortization	193.1	631.2	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
External	373.6	504.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Issuances	678.6	504.0	0.0	0.0	0.0	0.0	500.0	0.0	0.0	0.0
Amortization	305.0	0.0	0.0	0.0	0.0	0.0	500.0	0.0	0.0	0.0
	(percent of GDP)									
Revenue	19.4	21.7	19.8	21.7	20.8	20.8	20.8	20.8	20.8	20.9
Tax Revenue	12.6	14.6	13.7	15.3	14.4	14.3	14.3	14.4	14.4	14.4
Income	4.2	4.7	4.9	5.7	5.0	5.0	5.0	5.0	5.0	5.0
Goods and services	4.2	5.1	5.0	4.1	4.2	4.1	4.1	4.2	4.2	4.2
International trade	4.0	4.7	3.7	4.5	4.6	4.6	4.6	4.6	4.5	4.6
Other	0.1	0.1	0.1	1.0	0.7	0.7	0.7	0.7	0.7	0.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 2/	6.8	7.1	6.2	6.4	6.5	6.4	6.4	6.4	6.4	6.4
Expenditure	22.0	18.7	19.1	20.1	20.5	20.5	20.6	20.7	20.6	20.7
Current expenditure	19.8	16.8	17.1	17.3	17.7	17.7	17.9	17.9	17.9	17.9
Wages and salaries	6.3	5.8	6.0	5.9	6.1	6.2	6.2	6.2	6.1	6.1
Goods and services	3.7	3.4	3.3	3.3	3.4	3.3	3.3	3.3	3.3	3.4
Subsidies and transfers	9.1	7.0	7.3	7.7	7.8	7.6	7.6	7.7	7.8	7.7
Interest	0.7	0.7	0.5	0.5	0.5	0.5	0.7	0.7	0.7	0.7
Net acquisition of non-financial assets	2.2	1.9	2.1	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Net acquisition of fixed assets	1.0	0.8	1.0	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Capital transfers	1.2	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Primary balance	-1.9	3.6	1.2	2.2	0.8	0.8	0.9	0.8	0.9	0.9
Net lending/borrowing	-2.6	2.9	0.7	1.7	0.3	0.3	0.2	0.1	0.2	0.2
Financing										
Net acquisition of financial assets	4.3	-0.5	0.7	1.7	0.3	0.3	0.2	0.6	0.6	0.6
Domestic	4.3	-0.5	0.7	1.7	0.3	0.3	0.2	0.6	0.6	0.6
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	7.0	-3.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.4
Domestic	-6.3	-19.2	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.4
New Issuances	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.4
Amortization	6.9	19.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	13.3	15.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Issuances	24.1	15.7	0.0	0.0	0.0	0.0	12.3	0.0	0.0	0.0
Amortization	10.9	0.0	0.0	0.0	0.0	0.0	12.3	0.0	0.0	0.0
Memorandum items										
Gross Financing Needs (millions, euros)	572.3	536.6	0.0	0.0	0.0	0.0	493.4	0.0	0.0	0.0
Percent of GDP	20.4	16.7	0.0	0.0	0.0	0.0	12.1	0.0	0.0	0.0
Public Debt (millions of euros)	1,302.0	1,190.4	1,189.2	1,188.1	1,188.1	1,188.1	1,188.1	1,208.1	1,228.1	1,248.1
Percent of GDP	46.3	37.1	34.0	32.3	31.2	30.1	29.2	28.7	28.3	27.9
Nominal GDP (millions, euros)	2,811.0	3,210.3	3,500.6	3,676.5	3,811.3	3,941.9	4,070.0	4,202.1	4,337.8	4,477.7

Sources: Andorran authorities and IMF staff calculations.

1/ The central government comprises Govern d'Andorra, as well as non-market public corporations and nonprofits.

2/ Other revenue includes property income, sales of goods and services, voluntary transfers other than grants, and fines, penalties, and forfeits.

Table 4. Andorra: Balance of Payments[1]

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections						
				(millions of euros)						
Current account	422.3	373.8	497.8	555.1	648.6	668.4	690.3	713.4	735.8	759.7
Balance of goods and services	256.1	281.3	418.7	442.6	463.4	476.8	492.5	509.2	524.9	542.1
Imports of goods	1,271.5	1,694.5	1,740.9	1,838.4	1,924.8	1,990.2	2,055.9	2,125.8	2,195.9	2,264.0
Exports of goods	149.5	188.6	218.3	224.3	230.9	237.1	245.1	251.0	259.0	267.1
Imports of services	540.6	622.3	771.0	795.2	808.7	837.8	867.1	897.5	933.4	968.8
Exports of services	1,918.8	2,409.4	2,712.3	2,851.8	2,965.9	3,067.8	3,170.4	3,281.5	3,395.3	3,507.8
Primary income, net	213.0	138.0	122.9	158.5	232.9	240.9	248.7	256.8	265.1	273.6
Secondary income, net	-46.9	-45.4	-43.8	-46.0	-47.7	-49.3	-50.9	-52.5	-54.2	-56.0
Capital account	0.3	-0.5	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	480.3	407.2	472.9	555.1	648.6	668.4	690.3	713.4	735.8	759.7
Direct investment, net	-291.9	-427.9	-50.1	…	…	…	…	…	…	…
Portfolio investment, net	560.2	1,087.8	343.9	…	…	…	…	…	…	…
Financial derivatives, net	-11.0	-39.3	-91.5	…	…	…	…	…	…	…
Other investment, net	126.8	-413.4	270.7	…	…	…	…	…	…	…
Reserve assets	96.2	200.0	0.0	…	…	…	…	…	…	…
Errors and omissions	57.7	33.9	-21.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(in percent of GDP)						
Current account	15.0	11.6	14.2	15.1	17.0	17.0	17.0	17.0	17.0	17.0
Balance of goods and services	9.1	8.8	12.0	12.0	12.2	12.1	12.1	12.1	12.1	12.1
Exports of goods and services	73.6	80.9	83.7	83.7	83.9	83.8	83.9	84.1	84.2	84.3
Exports of goods	5.3	5.9	6.2	6.1	6.1	6.0	6.0	6.0	6.0	6.0
Exports of services	68.3	75.1	77.5	77.6	77.8	77.8	77.9	78.1	78.3	78.3
Imports of goods and services	64.5	72.2	71.8	71.6	71.7	71.7	71.8	71.9	72.1	72.2
Imports of goods	45.2	52.8	49.7	50.0	50.5	50.5	50.5	50.6	50.6	50.6
Imports of services	19.2	19.4	22.0	21.6	21.2	21.3	21.3	21.4	21.5	21.6
Primary income, net	7.6	4.3	3.5	4.3	6.1	6.1	6.1	6.1	6.1	6.1
Secondary income, net	-1.7	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Capital account	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	17.1	12.7	13.5	15.1	17.0	17.0	17.0	17.0	17.0	17.0
Direct investment, net	-10.4	-13.3	-1.4	…	…	…	…	…	…	…
Portfolio investment, net	19.9	33.9	9.8	…	…	…	…	…	…	…
Financial derivatives, net	-0.4	-1.2	-2.6	…	…	…	…	…	…	…
Other investment, net	4.5	-12.9	7.7	…	…	…	…	…	…	…
Reserve assets	3.4	6.2	0.0	…	…	…	…	…	…	…
Errors and omissions	2.1	1.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Nominal GDP (millions, euros)	2,811	3,210	3,501	3,676	3,811	3,942	4,070	4,202	4,338	4,478
Gross international reserves (millions, euros) 1/	138.1	338.4	338.7	399.0	399.0	399.0	399.0	399.0	399.0	399.0
Gross international reserves (months of imports)	0.9	1.8	1.6	1.8	1.8	1.7	1.6	1.6	1.5	1.5
Total external debt (millions, euros)	5,013	5,252	5,106	…	…	…	…	…	…	…
of which: Short term (millions, euros)	2,953	2,882	2,692	…	…	…	…	…	…	…

Sources: Andorran authorities and IMF staff calculations.

1/ The increase of gross international reserves in 2022 is due to €100 million deposited at the Bank of Spain, €40 million at the Banque de France, and €60 million at the Nederlandsche Bank as gross international reserves. In 2024, additional €60 million reserves were accounted, mainly deposited at the Bank of Spain.

Table 5. Andorra: Financial Soundness Indicators

	2021	2022	2023	2024Q1	2024Q2	2024Q3
	(percent)					
Core FSIs for Deposit takers						
Regulatory capital to risk-weighted assets	22.2	20.3	21.7	21.3	21.0	21.2
Regulatory Tier 1 capital to risk-weighted assets	21.5	19.5	20.8	20.5	20.2	20.3
Nonperforming loans net of provisions to capital	15.4	10.3	6.8	6.9	6.5	6.9
Nonperforming loans to total gross loans	5.1	3.3	2.2	2.2	2.0	2.1
Sectoral distribution of loans to total loans						
Residents	55.3	58.6	56.1	56.0	55.7	55.1
Deposit-takers	0.4	0.3	0.2	1.0	1.2	0.3
Central bank	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	2.5	3.2	2.9	3.0	3.6	3.6
General government	1.0	1.0	0.9	0.9	1.1	0.8
Nonfinancial corporations	26.3	28.7	28.3	27.2	26.5	27.2
Other domestic sectors	25.1	25.4	23.8	23.9	23.3	23.1
Nonresidents	44.7	41.4	43.9	44.0	44.3	44.9
Return on assets	0.5	0.6	1.0	0.2	0.5	0.7
Return on equity	4.0	6.6	9.0	1.9	4.6	6.1
Interest margin to gross income	22.2	29.2	49.2	52.3	48.5	49.7
Noninterest expenses to gross income	77.4	79.0	70.7	71.9	66.6	69.5
Liquidity coverage ratio (LCR) 1/	220.3	218.3	199.4	203.3	204.6	212.5
Liquid assets to short-term liabilities	11.9	11.7	9.5	13.5	11.5	13.1
Net open position in foreign exchange to capital	0.0	0.0	0.1	0.1	0.1	0.0
Encouraged FSIs for Deposit takers						
Capital to assets	11.2	9.6	10.9	10.8	10.6	10.9
Large exposures to capital	138.7	173.4	149.4	154.9	142.3	140.8
Gross asset position in financial derivatives to capital	12.9	23.0	17.0	14.6	14.7	14.9
Gross liability position in financial derivatives to capital	9.6	13.8	12.0	9.7	8.9	9.9
Trading income to total income	10.3	9.7	4.7	1.6	1.8	4.3
Personnel expenses to noninterest expenses	49.8	47.8	47.8	47.0	46.6	45.3
Customer deposits to total (noninterbank) loans	159.2	181.2	160.8	161.0	160.3	163.5
Foreign-currency-denominated loans to total loans	0.0	0.0	0.0	0.0	0.0	0.0
Foreign-currency-denominated liabilities to total liabilities	20.8	20.4	20.3	20.5	18.1	16.6

Source: Andorran authorities.

Note: Data for 2024 are preliminary and unaudited, and subject to revisions.

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

Annex I. External Sector Assessment

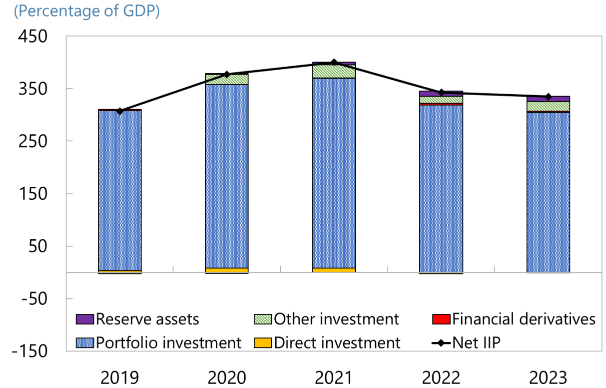
Overall Assessment: *The external position of Andorra in 2024 was stronger than the level implied by fundamentals and desirable policies.* With one of the world's largest current account surpluses, this result is in line with expectations. Yet, data limitations suggest caution in interpreting it: Andorra started producing Balance of Payment (BOP) and International Investment Position (IIP) data only in recent years with technical assistance from the IMF; and BOP and IIP data is only available from 2017 and 2018, respectively and the latest data available until 2023. Substantial revisions to historical data concerned service trade for 2021 and primary income for 2022. IMF staff projects current account data but do not project the financial account and IIP.

Potential Policy Responses: Having one of the highest current account surpluses in the world shields the economy against balance of payments financing risks—a welcome self-insurance for a microstate open economy. However, it also calls for rebalancing the economy towards greater investment. A direct implication of a current account surplus above the level suggested by fundamentals and desirable policies is that the savings-investment gap is larger than desirable. While some level of savings is desirable as a protection against population aging and external shocks, especially for a microstate like Andorra, excess savings and/or low investment limit potential growth in the medium- to long- term and can slow down liquidity directable to innovation and diversification. This suggests that Andorra has room to increase investment and would benefit from policies conducive to higher private and public investment. Creating an environment favorable to higher investment is important to raise potential growth. Higher investment could support policy goals such as economic diversification, resilience of the tourism sector and help address structural bottlenecks such as the lack of affordable housing.

Foreign Assets and Liabilities: Position and Trajectory

Background. Andorra's strong net asset position is consistent with its large and steady current account surplus and the sizable financial sector. The large net asset position in portfolio investment is held mostly in euro area countries and a net asset position in other investment (currency and deposits), albeit smaller. The IIP position peaked at 400 percent of GDP in 2021 and declined to 334.8 percent of GDP in 2023. The assets and liabilities in FDI were broadly balanced. Almost half of the total liabilities owed by Andorra were concentrated in currency and deposits from non-residents (estimated at 90.8 percent of GDP), which can pose liquidity risk.

International Investment Position
(Percentage of GDP)



Sources: Andorran authorities and IMF staff calculations.

Assessment. Andorra has a large net asset IIP. However, high gross other investment liabilities stemming from dependence of the banking sector on foreign depositors warrants attention. Andorra passed into law a Lender of Last Resort facility in December 2022 to provide emergency liquidity assistance to distressed but solvent banks—a welcome additional safety net, to complement the comfortable capital and liquidity positions of the 3 domestic banks. Effective supervision to address any emerging banking risks is essential to ensure the stability of the domestic banking sector.

Andorra: International Investment Position, 2020–23
(In percent of GDP)

ASSETS	2020	2021	2022	2023
Total	635.9	642.7	579.9	553.6
Direct investment	49.7	52.6	51.8	55.5
Equity	49.8	52.6	51.8	55.4
Debt	-0.2	0.0	0.0	0.1
Portfolio investment	369.6	397.2	365.5	350.8
Equity	182.6	203.1	147.3	142.7
Debt	186.9	194.0	218.2	208.1
Financial derivatives	5.1	5.4	8.1	6.1
Other investment	209.9	182.6	144.0	131.5
o/w Currency and deposits	173.2	146.6	115.4	102.3

LIABILITIES	2020	2021	2022	2023
Total	258.8	242.8	237.4	218.8
Direct investment	42.0	44.8	54.9	55.7
Equity	42.2	44.7	54.7	54.0
Debt	-0.2	0.1	0.1	1.7
Portfolio investment	19.5	35.1	46.5	46.0
Equity	13.7	15.0	14.3	15.1
Debt	5.8	20.1	32.2	30.9
Financial derivatives	7.1	4.7	4.8	3.8
Other investment	190.3	158.1	131.3	113.3
o/w Currency and deposits	156.4	125.8	106.9	90.8

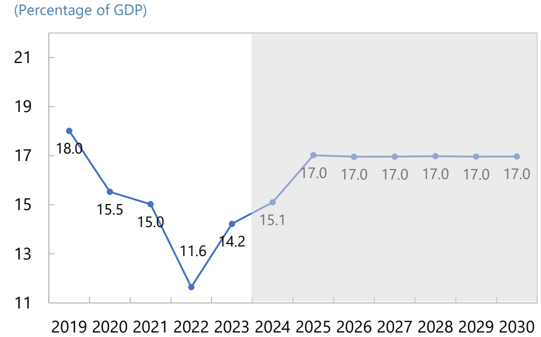
Source: Andorran authorities and IMF staff calculations.

2023 (% GDP)	NIIP: 334.8	Gross Assets: 553.6	Debt Assets: 208.1	Gross Liab.: 218.8	Debt Liab.: 30.9

Current Account

Background. Andorra has one of the largest current account surpluses in the world and it is projected to remain high—largely driven by net exports (85 percent of the current account surplus in 2023). Driven primarily by tourism exports, Andorra maintains a larger trade surplus in services than its trade deficit in goods, resulting in a positive overall trade balance.

Current Account Balance
(Percentage of GDP)



Sources: Andorran authorities and IMF staff calculations.

After deteriorating amid the COVID crisis, the current account balance recovered with the resumption of tourism and a contained rise in energy prices due to long-term supply contracts, despite a decline in primary income. The current account balance is projected to increase in 2024, with the good performance of the tourism sector compensating the increase in the value of imported goods. The number of visitors slightly increased in 2024 compared to 2023, stabilizing around 9 million visitors. The CA surplus is projected to increase to 17 percent of GDP from 2025 onwards.

Assessment. The CA model suggests that the external position of Andorra, at 15.1 percent of GDP in 2024 is stronger than the level implied by fundamentals and desirable policies, estimated at 11.8 percent of GDP. Structural factors, such as Andorra's status as a financial center and private banking model, the size of the tourism sector, a historically strong fiscal position, and demographic trends are the main drivers of Andorra's strong external position and large current account norm. Beyond this norm, the current account gap is estimated at 3.8 percent of GDP and the corresponding REER undervaluation at 8.2 percent of GDP. The current account relative policy gap is estimated at 4.2 percent of GDP (relative to policy gaps across the world), mostly reflecting a looser world average fiscal and monetary stance and lower than desirable credit level in Andorra, which contributes to the large savings-investment gap.

Andorra: Model Estimates for 2024

(In percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**15.1**	
Cyclical contributions (from model) (-)	-0.1	
Natural disasters and conflicts (-)	-0.4	
Adjusted CA	**15.5**	
CA Norm (from model) 2/	**11.8**	
Adjusted CA Norm	**11.8**	
CA Gap	**3.8**	**5.5**
o/w Relative policy gap	4.2	
Elasticity	-0.5	
REER Gap (in percent)	**-8.2**	**-12.0**

1/ Based on the EBA-lite 3.0 methodology

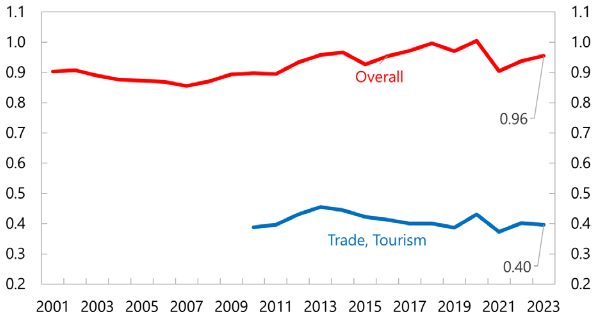
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Data limitations, including the fact that the existing measures of REER do not include services that are data sensitive, makes the REER model less reliable for Andorra. The assessment is therefore complemented with an array of measures of price competitiveness, which corroborate the assessment of the CA model that Andorra's external position is stronger than the level implied by fundamentals and desirable policies. The CPI-based REER depreciated further by 4 percent between the beginning of 2023 and the end of 2024, partly because headline inflation in the main Andorra's partners remained above Andorra's level in 2024. Measures of Unit Labor Costs (ULC) show that Andorra's ULC are about 40 percent of Spain's in trade and tourism. Moreover, the "1-week Cost of Ski Vacation" index shows that Andorra is an inexpensive destination compared with other European ski destinations including closer Spanish competitors, especially in hotel cost comparisons. These price competitiveness measures suggest that Andorra's REER is undervalued, corroborating the overall results of both the CA and the REER models.

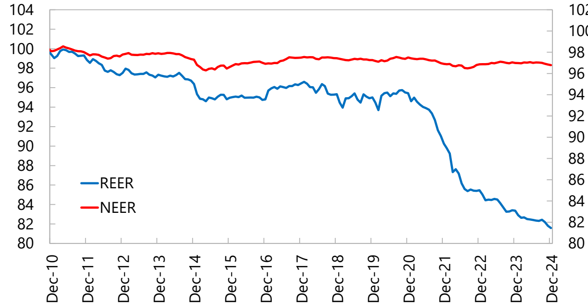
Assessment. Staff assess the REER to be undervalued based on the CA model. The REER gap suggested by the CA gap model and the one indicated by the REER index model suggest an undervaluation of 8.2 and 12 percent respectively with a current account gap of 3.8 and 5.5 percent of GDP.

Unit Labor Cost (ULC)
(In ratio to Spain's ULC)



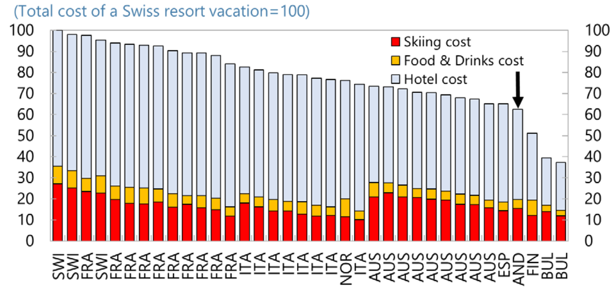
Sources: Andorran authorities, Eurostat, Haver Analytics, and IMF staff calculations.
Note: ULC is unit labor cost =nominal wages*employment/real gross value added.

REER and NEER
(Index: 2010M6=100; increase = appreciation)



Sources: Andorran authorities and IMF staff calculations.
Note: REER: Real Effective Exchange Rate; NEER: Nominal Effective Exchange Rate. The weights for trading partners are based on goods trade only.

"1-Week Cost of Ski Vacation" Index, 2024
(Total cost of a Swiss resort vacation=100)

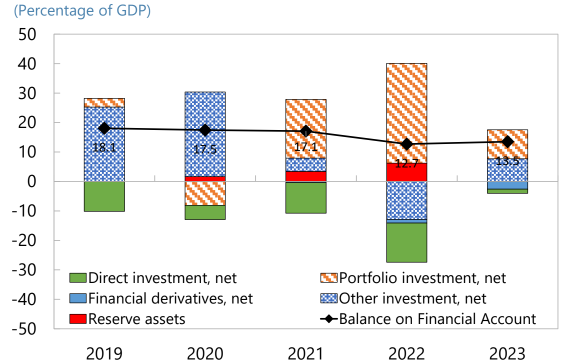


Sources: U.K. Post Office Travel Money Ski Resort Report 2024, US Department of State, and IMF staff calculations.
Note: The "1-Week Cost of Skiing Vacation" is inspired by the "A Week@Beach Index (Laframboise et al., 2014). Each bar represents a ski resort, and total cost of a week's ski vacation in one of Switzerland's resorts is indexed to 100. The costs are based on options for a UK-based traveler. "Skiing cost" includes cost of ski equipment rentals/lessons/pass. Hotel cost is based on US State Department rates for hourly nightly rates. Air travel cost and taxi costs are not included.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account position declined in the last two years, at 13.5 percent of GDP in 2023. After increasing significantly in 2021 and 2022 (reaching 33.9 percent of GDP in 2022), net portfolio investment shrank in 2023 to 9.8 percent of GDP. Other investment over GDP turned positive again in 2023, reaching 7.7 percent.

Financial Account Balance and Components
(Percentage of GDP)



Sources: Andorran authorities and IMF staff calculations.

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

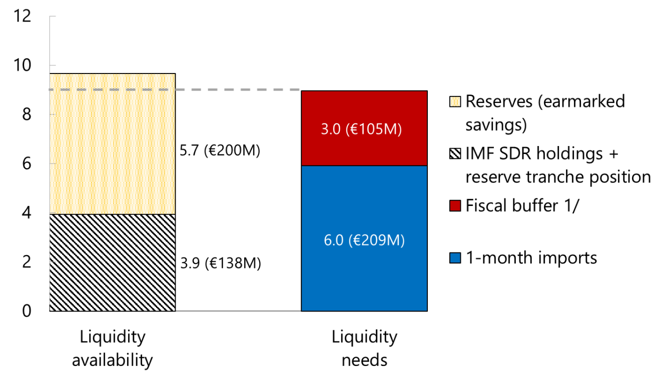
FX Intervention and Reserves Level

Background. The 2021 allocation of IMF Special Drawing Rights (SDRs) increased international reserves to about 5 percent of GDP. An additional €100 million (equivalent to 3.7 percent of GDP) from the debt issued in 2021 were deposited in a euro system reserve management account at the Bank of Spain in March 2022, bringing the reserves up to the reference level calculated by IMF staff. In addition, €40 million were deposited at the Banque de France, and €60 million at the Nederlandsche Bank as gross international reserves in 2022. In 2023, the total level of international reserves amounted to approximately 10 percent of GDP. Additional international reserves of around €60 million were accounted for in 2024, mostly deposited to the Bank of Spain, increasing the total level to 11 percent of GDP.

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

Assessment. The authorities have taken steps to build up international reserves on a precautionary basis. Staff assess that the reserves should amount to 9 percent of GDP in 2023 under the assumption that banks have enough high-quality liquid assets to cover their liquidity needs (See 2022 Article IV Staff Report - Annex IV for calculations). They have already accumulated this amount. In addition, they are exploring additional funding sources to continue expanding the stock of reserves.

Government Liquidity Needs and Availability
(Percent of 2023 GDP)



Sources: Andorran authorities and IMF staff calculations.
1/ The fiscal buffer is equivalent to one month of total government spending.

Annex II. Risk Assessment Matrix[1]

Sources of Risk	Likelihood of Risk (High, Medium, Low)	Expected Impact of Risk (High, Medium, Low)	Policy Responses
Global Risks			
Commodity price volatility	**High.** Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures, cross-border spillovers, and social and economic instability.	**Medium.** Inflation has receded thanks to a decline in imported food and energy prices. Domestically, the exposure to energy price volatility is partially mitigated by long-term contracts with energy suppliers. However, core inflation is stickier, and wages continued to grow faster than inflation.	• Implement policies to cope with rising and volatile food and energy prices, including consumption moderation. • Continue setting long-term contracts with energy suppliers, to the extent possible. • Accelerate planned reforms to reduce the share of imported energy and boost domestic energy production.
Global growth surprises: Slowdown	**Medium.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels.	**High.** A slowdown or recession in the region could create disruptions in the services sector and weaken economic growth.	• Accelerate policies to diversify the economy and increase the resilience of the tourism sector. • Stand ready with targeted fiscal and financial support measures.
Monetary policy calibration	**Medium.** Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth.	**Medium.** Andorra uses the euro as legal tender. Hence, euro area monetary policy and inflation influence the country directly but also indirectly via imported prices, as the euro area is its first trading partner.	• In the absence of monetary policy tools, an effective fiscal policy, together with adequate financial supervision and structural reforms, will be the line of defense against monetary shocks.
Deepening geoeconomic fragmentation	**High.** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**Medium.** Rising shipping cost can impact the country negatively, as it is heavily dependent on goods imports. As a microstate, Andorra is directly impacted through imported quantities and prices.	• Given the importance of imported inflation, maintaining fiscal policy flexibility, close financial supervision, and structural reforms could smooth spillover effects.
Cyberthreats	**High.** Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High.** Andorra has recently experienced cyberattacks, resulting in disrupted internet and 4G service, and increased malware incidents. The country has only 1 internet provider, making it more prone to shutdowns.	• The country should continue testing possible responses to cybersecurity incidents, preparing strategies and alternatives.

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

Sources of Risk	Likelihood of Risk (High, Medium, Low)	Expected Impact of Risk (High, Medium, Low)	Policy Responses
Climate change	Medium. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	High. In the long run climate change will affect Andorra primarily via its impact on ski tourism (shorter ski seasons and higher costs of operations). This is partly mitigated by Andorra's relatively high altitudes in the Pyrenees and its early investments in artificial snow-making equipment, which give it a comparative advantage over its competitors.	• Develop adaptation policies to respond to climate change. • Provide targeted and temporary support to ski-related businesses, as needed.
Domestic Risks			
Labor shortages	Medium. Andorra's service sector relies heavily on foreign seasonal workers. Labor shortages are amplified by shortages of affordable housing for these temporary workers and by the difficulty in attracting workers from traditional workers.	Medium. Labor shortages could impact output, efficiency, and profitability of firms, particularly in the tourism sector which relies heavily on seasonal workers. It could also affect foreign investment decisions for companies that cannot secure the necessary skilled workforce, thus limiting potential growth. The labor market remains tight, though frictions have lessened.	• Policies to reduce administrative rigidities and implementing measures to attract and retain talent. • Public investment in education and well-designed immigration policies.
Housing affordability worsens	High / Medium. Real estate and rent prices continue increasing and the supply of affordable housing does not keep up with the demand.	High / Medium. The lack of affordable housing increases inequality and makes the labor market less attractive, especially for foreign and seasonal workers. At worst, it may affect foreign investment decisions for companies that cannot secure housing for their workers, thus limiting potential growth. Inequality increases as affordability is mostly an issue among low-skilled and low-income households.	• Policies should focus on improving affordability for tenants. • Income support programs, rent controls, and landlord-tenant regulation could provide temporary relief. • Implement measures to boost rental availability from the existing housing stock. • Raising the low stock of rental housing and access to it is essential.
A reputational shock to the banking sector	Low. Reputational shocks—including due to ML/TF risks—can affect large banks focused on private banking and dependent on large foreign deposits. Progress in addressing ML/TF concerns since the 2015 crisis has contained this risk.	High / Medium. With large banks focused on private banking and dependent on large foreign deposits, including deposits by credit institutions, mostly subsidiaries of Andorran banks, Andorra could be subject to deposit flight. A banking failure would have a considerable economic impact. Mitigating factors include well capitalized and liquid banks and limited sovereign-bank nexus.	• Further improve the effectiveness of the ML/TF framework and continue to effectively monitor cross border flows. • Keep fiscal and external buffers to mitigate a potential effect on the economy.
Low growth in the long-term	High. With continued low investment and productivity, growth potential could remain low—especially if structural reforms are lacking and if compounded by negative demographics.	High. Low growth will make it difficult to address long-term challenges, including from population aging, climate change, and the need to diversify the economy.	• Increase investment to lift potential growth; undertake structural reforms to support creation of higher value-added businesses. • Climate adaptation strategy needs to be developed and implemented.

Annex III. Sovereign Risk and Debt Sustainability Annex

Andorra's overall risk of sovereign stress is low. Public debt is projected to decrease to around 30 percent of GDP, supported by primary surpluses over the medium term. Pre-emptive borrowing has reduced debt servicing costs and lengthened its average maturity. One concern is the large rollover expected in 2027 but the risk associated with gross financing needs remains low. Maintaining fiscal buffers is important to maintain resilience against exogenous shocks given the microstate's status as a small, open, euroized economy,

1. Public debt is declining. After a temporary increase during the pandemic, Andorra's public debt has been on a downward trajectory, driven by strong economic growth, primary surpluses, and an effective pre-financing strategy.[1] In 2024, public debt is projected to decline to below 34 percent of GDP, reflecting fiscal consolidation during the rapid post-pandemic economic recovery.

2. Debt reduction over the medium term is expected. Public debt is projected to decline further with no new issuances and continuing nominal GDP growth. Projected primary surpluses should enable the government to decrease public debt further to below 30 percent of GDP over the medium term. The government plans to roll over maturing €500 million notes into similar instruments in 2027. Additionally, authorities are leveraging favorable long-term funding from the European Investment Bank to finance infrastructure projects.

3. Risks to the debt profile are low. The risks to the public debt trajectory are low at all time horizons in the Sovereign Risk and Debt Sustainability Framework. The most significant risk comes from refinancing of notes in 2027 and 2031 at potentially higher rates than when borrowed in 2021-22. However, interest rates are projected to decline under the baseline macroeconomic assumptions over the medium term, which should mitigate refinancing risks in 2027. The credibility of fiscal policy and the government's commitment to fiscal discipline, supported by an established fiscal framework reinforce these projections. In the longer term, the Andorran social security fund faces the risk of depletion due to an aging population, which could impact the fiscal position and borrowing needs. Timely pension reform approval is essential to mitigate this risk and maintain a solid debt profile for the country.

[1] In 2021-2022, the government borrowed €1.2 billion in Euro Medium-Term Notes. The opportune debt strategy allowed to lock in favorable rates and reduce debt service. Additionally, authorities are leveraging favorable long-term funding from the European Investment Bank to finance infrastructure projects. This allowed the authorities to substitute short-term debt for longer term notes with 5 to 20 years maturity and extend average debt maturity from 2.7 years in 2019 to 6.3 years at the end of 2024.

Annex III. Figure 1. Andorra: Risk of Sovereign Stress

Andorra: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a low level of vulnerability across all time horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low, consistent with the declining debt-to-GDP ratio supported by primary balance surpluses.
Fanchart	Low	...	
GFN	Low	...	
Stress test		...	
Long term	...	Low	Long-term risks are assessed as low.
Sustainability assessment 2/			
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Andorra is at a low risk of sovereign stress. Prompt fiscal consolidation during the post-pandemic recovery and continued fiscal discipline since returned to debt ratio to 35 percent of GDP, below the 40 percent predicated in the fiscal framework. Primary balances are projected to support a reduction in the debt-to-GDP ratio over the medium-term.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Figure 2. Andorra: Debt Coverage and Disclosures

Andorra: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	No	Not applicable
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

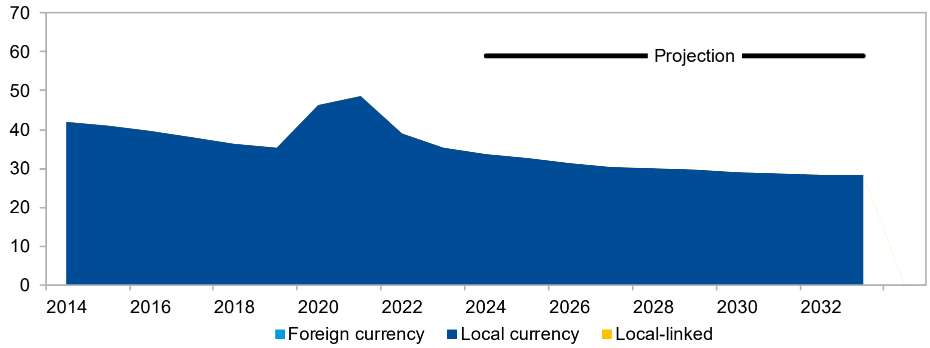
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: 95 percent of debt is issued at the central government level.

Annex III. Figure 3. Andorra: Public Debt Structure Indicators

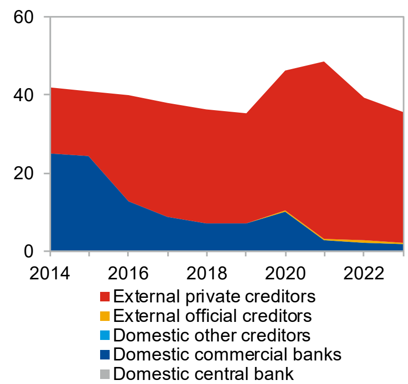
Andorra: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



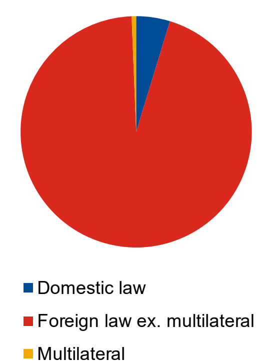
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



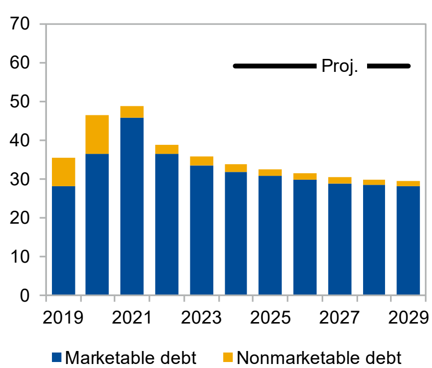
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



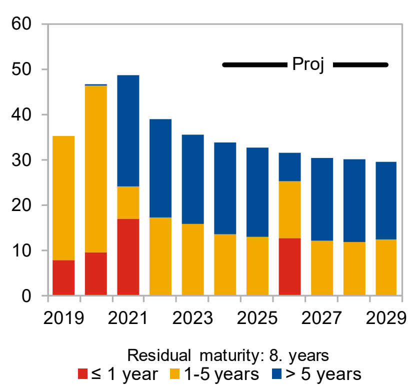
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Andorra has replaced short-term domestic issuances with longer maturity external bond issuance, for most of its financing needs. The average maturity of debt lengthened substantially as a result.

Annex III. Figure 4. Andorra: Baseline Scenario

(Percent of GDP unless indicated otherwise)

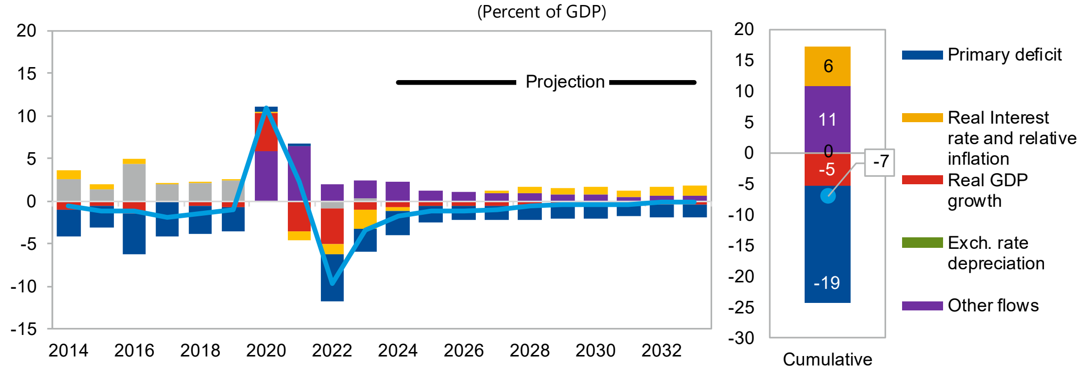
Andorra: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	35.5	33.8	32.6	31.5	30.5	30.0	29.6	29.1	28.7	28.5	28.4
Change in public debt	-3.4	-1.7	-1.2	-1.1	-1.0	-0.5	-0.5	-0.5	-0.4	-0.1	-0.1
Contribution of identified flows	-3.8	-1.7	-1.2	-1.1	-1.0	-0.5	-0.5	-0.5	-0.4	-0.1	-0.1
Primary deficit	-2.7	-2.8	-1.8	-1.7	-1.7	-1.8	-1.6	-1.6	-1.3	-1.4	-1.5
Noninterest revenues	38.0	39.0	37.7	37.6	37.6	37.7	37.6	37.7	37.7	37.8	37.9
Noninterest expenditures	35.3	36.3	35.9	35.9	35.9	35.9	36.0	36.0	36.4	36.4	36.4
Automatic debt dynamics	-3.2	-1.2	-0.6	-0.5	-0.2	0.3	0.3	0.3	0.4	0.7	0.7
Real interest rate and relative inflation	-2.2	-0.4	0.0	0.0	0.3	0.8	0.8	0.8	0.8	1.1	1.1
Real interest rate	-2.2	-0.4	0.0	0.0	0.3	0.8	0.8	0.8	0.8	1.1	1.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.0	-0.7	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	2.1	2.2	1.2	1.2	0.9	1.0	0.8	0.8	0.5	0.6	0.7
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	2.1	2.2	1.2	1.2	0.9	1.0	0.8	0.8	0.5	0.6	0.7
Contribution of residual	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	-2.7	-2.2	-1.2	-1.2	11.4	0.1	0.2	0.4	11.7	2.3	2.5
of which: debt service	0.0	0.5	0.6	0.6	13.1	1.9	1.9	2.0	13.0	3.8	4.0
Local currency	0.0	0.5	0.6	0.6	13.1	1.9	1.9	2.0	13.0	3.8	4.0
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	2.6	2.1	1.7	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator; percent)	6.3	2.9	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Nominal GDP growth (percent)	9.0	5.0	3.7	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Effective interest rate (percent)	0.0	1.6	1.8	1.7	2.6	4.3	4.4	4.4	4.5	5.7	5.8

Contribution to Change in Public Debt

(Percent of GDP)

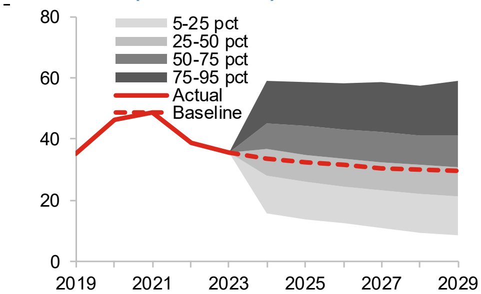


Commentary: Public debt will gradually decline on the back of primary balance surpluses and growth. Other flows reflect accumulation of asset buffers by the government not explicitly dedicated to a particular purpose. Historical data on net acquisition of financial assets and other debt-creating flows prior to 2020 are not included, resulting in a relatively large residual.

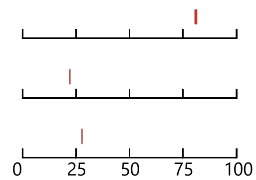
Annex III. Figure 5. Andorra: Medium-Term Risk Assessment

Andorra: Medium-Term Risk Assessment

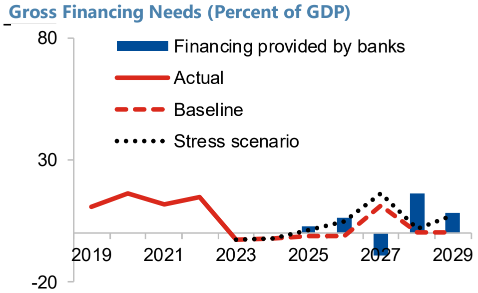
Final Fanchart (Percent of GDP)



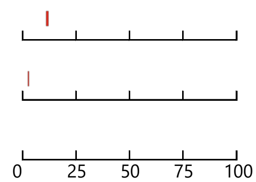
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	50.7	0.7	
Probability of debt non-stabilizaiton *(percent)*	0.0	0.0	
Terminal debt-to-GDP x institutions index	5.4	0.1	
Debt fanchart index (DFI)		0.9	
Risk signal: 3/		Low	



Gross Financing Needs (Percent of GDP)



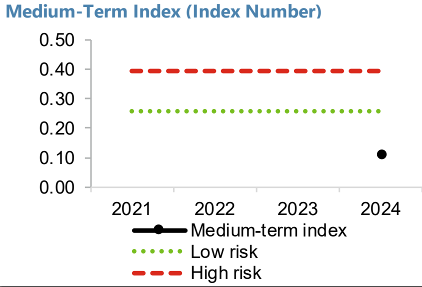
	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	1.2	0.4	
Initial Banks' claims on the gen. govt *(pct bank assets)*	0.4	0.1	
Chg. In banks' claims in stress *(pct banks' assets)*	4.3	1.5	
GFN financeability index (GFI)		2.0	
Risk signal: 4/		Low	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	0.9	0.2	0.5	0.1
GFN finaceability index	2.0	0.0	0.5	0.0
Medium-term index		0.1		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2024-2029, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 87.5 pct.

Commentary: Medium-term risks are assessed as low, consistent with the mechanical signal. Lack of historical data magnifies the impact of debt fluctuations during the pandemic (including due to debt pre-financing by the authorities in 2020-22), resulting in a wide fan chart.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Figure 6. Andorra: Realism of Baseline Assumptions

Andorra: Realism of Baseline Assumptions

Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			

	real-time	t+3	t+5
Historical Output Gap Revisions 2/			

Comparator Group:

Advanced Economies, Non-Commodity Exporter, Surveillance

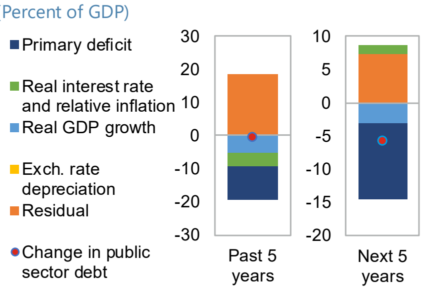
Color Code:

Optimistic: > 75th percentile; 50-75th percentile

Pessimistic: 25-50th percentile; < 25th percentile

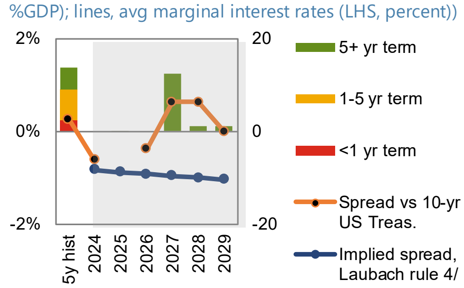
Public Debt Creating Flows

(Percent of GDP)



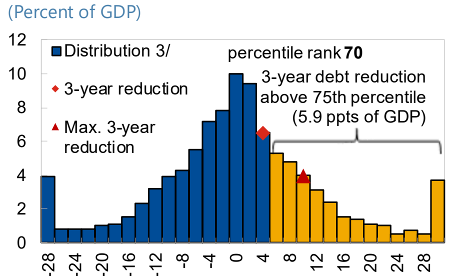
Bond Issuances

(Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



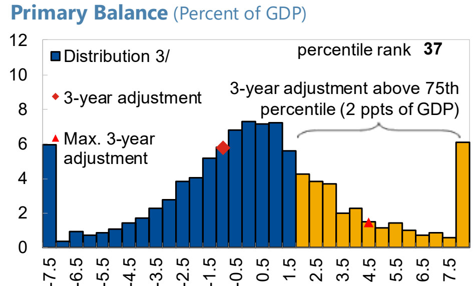
3-Year Debt Reduction

(Percent of GDP)



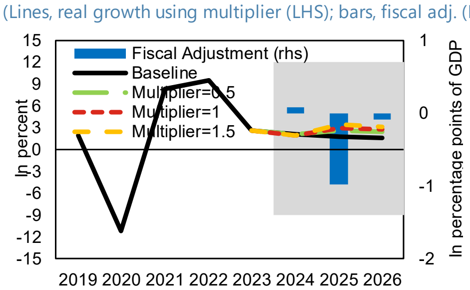
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)



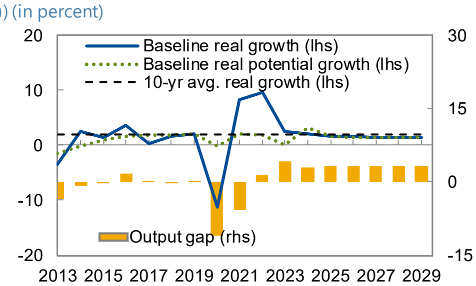
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(in percent)



Commentary: Rapid recovery from the pandemic enabled swift reduction in debt. Realism analysis does not reveal any systematic biases and the projected fiscal adjustment is within norms. Residuals reflect accumulation of asset buffers by the government. Future bond issuances are projected to roll over existing bonds.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage. Program status not used in creating comparator group due to lack of data.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 7. Andorra: Triggered Modules

Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

Long-Term Risk Assessment: Large Amortization

Projection	**Variable**	**Risk Indication**
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Annex IV. Authorities' Response to Past IMF Policy Recommendations

IMF 2023 Article IV Recommendations	Policy Actions
Fiscal Policy	
The authorities should use available fiscal space to address structural bottlenecks.	Recent developments suggest an increase in public investment in 2024, primarily to address shortages in affordable housing.
Reform the pension system to ensure its sustainability.	Pension reform has been on the government's agenda for some time and is overdue.
The authorities should continue to strengthen the public sector balance sheet through debt and reserve management.	The authorities are projected to bring public debt down to 30 percent of GDP by 2026.
Financial Sector	
Monitor private banking size and international exposure.	The supervisor is monitoring banking sector and is using stress testing and other tools to check its resilience. The lender of the last resort facility put in place in 2022 allows the AFA to provide emergency liquidity assistance to viable and solvent banks against adequate collateral.
Structural Policies	
Improve country connectivity and infrastructure to boost and diversify tourism.	The authorities are investing in a heliport to be completed by 2025, projects are ongoing for tram and cable transportation and the construction of a multi-purpose arena. Measures (notably for foreign seasonal workers) support diversification of the tourism sector.
Create a favorable environment for investment in high value-added sectors.	The government adopted a program to help private businesses with digitalization efforts. The new law on digital economy, entrepreneurship and innovation provides for creation of a special economic zone to develop and test digital and innovative products.
Improve housing supply—tax empty properties more heavily and increase the social housing stock to expand the supply of rental housing.	The authorities have taken multiple measures: extension of existing rental contracts until 2027, creation of a public affordable housing park, provision of tax incentives to owners who offer affordable housing, suspension of tourist accommodation licenses, fees on empty houses, and a temporary suspension of real estate purchases by nonresidents subsequently replaced by a tax on foreign investment in the real estate. The tax is assessed as a residency-based inflow capital flow management measure (see #23 in the main text).
Build resilience to climate change.	A comprehensive adaptation strategy still needs to be drawn out. Measures to foster mitigation are being adopted.

IMF 2023 Article IV Recommendations	Policy Actions
Governance and Transparency	
Further align Andorra's anti-corruption framework to international standards: ratify the United Nations Convention Against Corruption, develop an anti-corruption strategy, advance the reform of the public procurement framework, and publish beneficial ownership information.	The reform of the public procurement framework introduced a new contracting platform and electronic invoicing for the entire public sector, in line with European standards. In September 2022, the government launched a website, open to the public, with information on the procurement contracts made by the public sector. United Nations Convention Against Corruption has yet to be ratified as of 2024.
Further improving the effectiveness of the AML/CFT framework to ensure financial stability.	Efforts underway to develop the understanding of risks associated with cross border flows, the misuse of legal persons, and the provision of services related to virtual assets are critical to make supervision more effective. The UIFAND and AFA's has enhanced the monitoring of cross-border flows by introducing a new quarterly reporting requirement for cross-border transactions of the supervised Andorran entities and their subsidiaries.
Continue efforts to close data gaps to enhance transparency and improve surveillance.	The authorities have been making progress in improving data quality across all sectors supported by IMF technical assistance. Recent revisions to historical data suggest that further progress is needed.

Annex V. Data Issues

Annex V. Table 1. Andorra: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	A	B	B	C	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	D	A	B	B	C		
Granularity 3/	C		B	B	C		
			A		A		
Consistency			B	B		B	
Frequency and Timeliness	B	A	C	D	C		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is broadly adequate for surveillance but, despite substantial progress, gaps still remain. Capacity constraints, typical for a microstate, limit the ability to make fast progress despite a noted commitment by the authorities to reducing data gaps. Significant progress has been made since Andorra's membership to the IMF, particularly regarding Balance of Payments (BoP) statistics, but weaknesses remain. The authorities made substantial revisions to historical BoP data in December 2024 reflecting improved data collection. GDP statistics are reported with lags and historical data—including real and nominal GDP—can be subject to substantial revisions with up to a one-year lag. The disaggregation by expenditure components is not available. Major revisions in national account statistics have occurred in recent years up to a year after the reference period, due to limitations in the statistical model used to project real GDP growth. No Producer Price Index is available, but given the absence of a manufacturing sector, this does not compromise surveillance. Fiscal data are adequate for surveillance, but do not yet follow international dissemination standards. Government gross debt statistics reported to staff are adequate. Financial Soundness Indicators (FSIs) reported to staff are granular and adequate. Monetary statistics does not yet follow international dissemination standards.

Changes since the last Article IV consultation. The Andorran authorities have been receiving technical assistance missions to strengthen data reporting in the fiscal, external, and monetary sectors. Following the missions, the fiscal and the monetary and financial statistics data has been provided by the authorities and after the checks will be used for surveillance purposes. The authorities plan to increase human capacity in data reporting by hiring an additional person to the statistics office.

Corrective actions and capacity development priorities. The authorities need to continue strengthening data collection and reporting building on the progress since joining the IMF in 2020. The progress is needed in all areas, including more frequent real and external sectors reporting. Several IMF technical assistance missions are planned to assist the authorities. Increasing the staffing at the statistics office should help in this regard.

Other data gaps. N/A

Annex V. Table 2. Andorra: Data Standards Initiatives

Andorra participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since May 2022.

Annex V. Table 3. Andorra: Table of Common Indicators Required for Surveillance

As of February 3, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Andorra[8]	Expected Timeliness[6,7]	Andorra[8]
Exchange Rates	2025M2	Feb-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2023	Jan-25	M	M	M	...	1M	...
Reserve/Base Money	NA	NA	NA	NA	M	...	2M	...
Broad Money	NA	NA	NA	NA	M	A	1Q	6M
Central Bank Balance Sheet	NA	NA	NA	NA	M	...	2M	...
Consolidated Balance Sheet of the Banking System	2023	Dec-24	A	A	M	A	1Q	6M
Interest Rates[2]	NA	NA	NA	NA	M	...	...	...
Consumer Price Index	2024M12	Jan-25	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2023	Oct-24	A	A	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2023	Oct-24	A	A	Q	A	1Q	9M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2023	Oct-24	A	A	Q	A	2Q	9M
External Current Account Balance	2023	Jan-25	A	A	Q	A	1Q	13M
Exports and Imports of Goods and Services	2023	Jan-25	A	A	M	M	12W	1M
GDP/GNP	2024Q3	Dec-24	Q	Q	Q	Q	1Q	3M
Gross External Debt	2023	Jan-25	A	A	Q	A	2Q	9M
International Investment Position	2023	Jan-25	A	A	A	A	3Q	13M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

PRINCIPALITY OF ANDORRA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 12, 2025

Prepared By European Department

CONTENTS

FUND RELATIONS

(As of January 31, 2025)

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

General Resources Account:	SDR Million	Percent of Quota
Quota	82.50	100.00
IMF's holdings of currency	61.88	75.00
Reserve tranche position	20.63	25.00

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	114.44	100.00
Holdings	93.69	81.87

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2024	**2025**	**2026**	**2027**	**2028**
Principal					
Charges/Interest		0.67	0.67	0.67	0.67
Total		0.67	0.67	0.67	0.67

2025 Article IV Consultation: This is Andorra's fourth Article IV consultation. Discussions were held on January 29-February 11, 2025, in Andorra.

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

Technical Assistance:

Year	**Department/Purpose**
2020–23	STA External Sector Statistics
2021	MCM Bank Supervision
2021	STA e-GDDS
2022	MCM Systemic Liquidity Management: lender of last resort framework
2023	STA Government Finance and Public Sector Debt Statistics, External Sector Statistics
2024	STA Monetary and Financial Statistics, Government Finance Statistics and Public Sector Debt Statistics
2025	STA Real Sector Statistics

Resident Representative: None

INTERNATIONAL MONETARY FUND

PRINCIPALITY OF ANDORRA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION —SUPPLEMENTARY INFORMATION

April 4, 2025

Prepared By EUROPEAN DEPARTMENT

This statement provides information that has become available since the staff report was issued to the Executive Board on March 17, 2025. The Thrust of the staff appraisal remains unchanged

1. **Growth in 2024 turned out better than estimated during the Article IV consultation, with a recently published growth rate of 3.4 percent.** This outturn, compared to the estimated 2.1 percent in the Staff Report, further confirms the staff's assessment that the Andorran economy continues to be resilient and to grow above the potential, estimated at 1.5 percent. The labor market remains tight, with unemployment at 1.4 percent. This performance is driven by the dynamic construction sector and continued growth in services—with a higher-than-expected contribution from private investment.

2. **Andorra's macroframework and outlook remain in line with projections in the Staff Report.** The return of growth to its long-term level will be slightly more protracted, with growth projected at 1.9 percent in 2025, compared to a 1.7 percent in the Staff Report. Fiscal accounts improve marginally due to the base effect of a higher GDP, and the public debt of the general government is expected to reach 30 percent GDP by 2027. These developments do not change the thrust of the staff appraisal.

Table 1: Selected Social and Economic Indicators

I. Social Indicators

Population (2024)	87,097	Population at risk of poverty (percent, 2023)	14
Per capita income (2024, euros)	42,853	Human Development Index Rank (2022)	35 (out of 193)
Gini Index (2020)	32	Life expectancy at birth (2024)	83.9

II. Economic Indicators

				Projections						
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
NATIONAL ACCOUNTS AND PRICES	(annual change, percent, unless otherwise indicated)									
Real GDP	8.3	9.6	2.6	3.4	1.9	1.6	1.5	1.5	1.5	1.5
Nominal GDP	11.1	14.2	9.0	6.6	3.9	3.4	3.3	3.2	3.2	3.2
GDP deflator	2.6	4.2	6.3	3.1	1.9	1.8	1.7	1.7	1.7	1.7
	(contribution to nominal GDP growth, percentage points)									
Consumption	8.4	6.5	7.0	4.7	2.7	2.7	2.2	2.2	2.3	2.3
Private	7.4	6.2	3.5	2.8	1.8	1.6	1.3	1.3	1.3	1.3
Public	0.9	0.3	3.4	1.9	0.9	1.1	1.0	1.0	1.0	1.0
Investment	-3.5	6.8	-2.2	1.1	0.7	0.3	0.6	0.6	0.5	0.5
Private 1/	-3.3	6.4	-3.1	0.7	0.1	0.1	0.4	0.4	0.3	0.3
Public	-0.2	0.4	0.9	0.5	0.6	0.2	0.2	0.2	0.2	0.2
Net exports of goods and services	6.2	0.9	4.3	0.8	0.5	0.5	0.4	0.4	0.4	0.4
Exports	18.0	18.8	10.4	5.4	3.3	2.9	2.9	2.9	2.9	2.8
Imports	11.8	18.0	6.1	4.5	2.9	2.5	2.5	2.5	2.5	2.4
Prices										
Inflation (percent, period average)	1.7	6.2	5.6	3.1	2.2	1.8	1.7	1.7	1.7	1.7
Inflation (percent, end of period)	3.3	7.2	4.6	2.6	2.0	1.7	1.7	1.7	1.7	1.7
Unemployment rate (percent)	3.3	2.1	1.6	1.4	1.6	1.8	1.8	1.9	2.0	2.0
EXTERNAL SECTOR	(percent of GDP, unless otherwise indicated)									
Current account	15.0	11.6	14.2	15.1	16.9	16.9	17.0	17.0	17.0	17.0
Balance on goods and services	9.1	8.8	12.0	12.0	12.0	12.1	12.1	12.1	12.2	12.2
Exports of goods and services	73.6	80.9	83.7	83.6	83.7	83.7	83.9	84.1	84.3	84.4
Imports of goods and services	64.5	72.2	71.8	71.5	71.6	71.7	71.8	72.0	72.1	72.2
Primary income, net	7.6	4.3	3.5	4.3	6.1	6.1	6.1	6.1	6.1	6.1
Secondary income, net	-1.7	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Capital account	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	17.1	12.7	13.5	15.1	16.9	16.9	17.0	17.0	17.0	17.0
Errors and omissions	2.1	1.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (millions of euros) 2/	138.1	338.4	338.7	399.0	399.0	399.0	399.0	399.0	399.0	399.0
FISCAL SECTOR	(percent of GDP, unless otherwise indicated)									
General Government 3/										
Revenue	37.9	39.7	38.0	38.7	37.5	37.4	37.4	37.6	37.5	37.6
Expenditure	39.0	34.9	35.9	36.5	36.2	36.3	36.6	36.6	36.7	36.8
Interest	0.7	0.7	0.6	0.5	0.6	0.5	0.8	0.8	0.8	0.8
Primary balance	-0.4	5.6	2.7	2.8	1.8	1.7	1.7	1.8	1.6	1.6
Net lending/borrowing (overall balance)	-1.2	4.8	2.1	2.2	1.3	1.1	0.9	1.0	0.8	0.8
Public debt	48.6	38.9	35.5	33.2	32.0	30.9	30.0	29.5	29.0	28.6
Central Government 4/										
Revenue	19.4	21.7	19.8	21.4	20.5	20.4	20.4	20.5	20.5	20.5
Expenditure	22.0	18.7	19.1	19.7	20.2	20.1	20.3	20.4	20.3	20.4
Interest	0.7	0.7	0.5	0.5	0.4	0.5	0.7	0.7	0.7	0.7
Primary balance	-1.9	3.6	1.2	2.1	0.7	0.8	0.9	0.8	0.9	0.9
Net lending/borrowing (overall balance)	-2.6	2.9	0.7	1.7	0.3	0.3	0.2	0.1	0.2	0.2
Public debt	46.3	37.1	34.0	31.8	30.6	29.6	28.7	28.3	27.8	27.4
BANKING SECTOR 5/	(percent, unless otherwise indicated)									
Regulatory capital to risk-weighted assets	21.5	20.3	21.7	21.2	...	...	...	...	...	...
Nonperforming loans to total gross loans	5.2	3.3	2.2	2.1	...	...	...	...	...	...
Credit to nonfinancial private sector										
Level (percent of GDP)	135.2	116.4	101.3	93.1	...	...	...	...	...	...
Corporates	68.8	61.8	55.1	50.3	...	...	...	...	...	...
Households	66.4	54.6	46.2	42.8	...	...	...	...	...	...
Growth (nominal)	-0.1	-1.7	-5.2	-2.0	...	...	...	...	...	...
Corporates	-0.6	2.6	-2.8	-2.5	...	...	...	...	...	...
Households	0.4	-6.1	-7.8	-1.3	...	...	...	...	...	...
Credit to public sector										
Level (percent of GDP)	2.7	2.2	1.8	1.5	...	...	...	...	...	...
Growth (nominal)	-50.2	-8.4	-10.0	-13.0	...	...	...	...	...	...
Memorandum items										
Exchange rate (€/USD, period average) 6/	0.85	0.95	0.92	0.92	0.96	0.96	0.96	0.96	0.96	0.96
Nominal GDP (millions of euros)	2,811	3,210	3,501	3,732	3,877	4,010	4,140	4,274	4,412	4,555

Sources: Andorran authorities, Eurostat, and IMF staff calculations.

1/ The contribution of private investment is derived as a residual and includes investments of state-owned enterprises.

2/ The increase of gross international reserves in 2022 is due to €100 million deposited at the Bank of Spain, €40 million at the Banque de France, and €60 million at the Nederlandsche Bank as gross international reserves. In 2024, additional €60 million reserves were accounted, mainly deposited at the Bank of Spain.

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

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

5/ 2024 data corresponds to 2024Q3.

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