



PRINCIPALITY OF ANDORRA

June 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANDORRA

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 2021 Article IV consultation with the Principality of Andorra, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 7, 2021 consideration of the staff report that concluded the Article IV consultation with the Principality of Andorra.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 7, 2021, following discussions that ended on April 8, 2021, with the officials of the Principality of Andorra on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 18, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Principality of Andorra.

The document 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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IMF Executive Board Concludes 2021 Article IV Consultation with the Principality of Andorra

FOR IMMEDIATE RELEASE

Washington, DC – June 11, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with the Principality of Andorra.

The COVID-19 pandemic has hit Andorra's society and economy severely following a broad-based, job-rich growth in 2019. Tourism and domestic services fell with the stringency of containment measures in the first half of 2020 but rebounded strongly during the summer with the arrival of tourists and a temporary ease of stringency. With French and Spanish borders closed until recently, especially during the height of the ski season in the first quarter of 2021, hotels and ski resorts have already lost a major share of their annual revenue.

Universal testing might have enabled more targeted containment measures compared to the region. Despite the very high prevalence of COVID-19 cases per capita, fatality rates are among the lowest in the world as hospital capacity and protective equipment were quickly scaled up in response to the pandemic. So far, the pace of vaccination has been comparable to that of EU countries, and about 40 percent of the population have received at least one dose so far.

In response to the virus outbreak, the authorities undertook mitigating fiscal and financial sector measures. Expenditure measures worth 2.2 percent of GDP and revenue measures worth 0.4 percent of GDP included healthcare spending and financial support for pandemic-affected sectors and households. In addition, government guarantees worth 9 percent of GDP were made available for bank loans to liquidity-strapped companies. In the financial sector, debt moratoria provided relief to private sector borrowers. The COVID-related measures and lower revenues reduced the central government balance to -4.3 percent of GDP and increased government debt to about 48 percent of GDP in 2020.

Activity is estimated to have fallen by about 12 percent in 2020 and, under a baseline scenario without new widespread containment measures, is projected to partially recover by about 6 percent in 2021. The recovery rests on a strong rebound in private consumption and return of tourism. Government debt is expected to rise further to about 54 percent of GDP in 2021, before descending to the fiscal rule limit of 40 percent of GDP in the medium-term. The outlook is highly uncertain, with risks heavily tilted to the downside in the near-term and will crucially depend on the containment of the waves of infections in Andorra and the region; as well as on the success of policy measures to mitigate the scarring effects of the crisis.

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.

Executive Board Assessment²

Executive Directors noted that the COVID-19 pandemic has hit Andorra severely, and commended the authorities for the preparedness of the healthcare system, the targeted containment measures, and the swift emergency policy support saving lives and livelihoods. With risks to the outlook tilted to the downside, Directors emphasized the need for maintaining emergency lifelines until the pandemic recedes and the recovery is firmly underway.

Directors noted that fiscal policy should remain supportive in the near-term and allow for higher public investment in the medium-term. While fiscal adjustment will eventually be necessary to bring the deficit and debt back to the fiscal rule limits, they considered that there is room for frontloading some of the public investment projects to accelerate the recovery while preserving debt sustainability. In particular, Directors welcomed the authorities' environmental, digitalization, and diversification plans, which should support the recovery and long-term green growth.

Directors underscored the importance of building international reserves on a precautionary basis to cope with future liquidity needs of the government in the event of balance of payments stresses. They commended the authorities for their intention to promptly close existing liquidity gaps and noted that the expected general allocation of SDRs would help in this regard. In the absence of a lender of last resort, Directors called for strong supervision of banks' liquidity risks.

Directors noted that banks have performed well in the past year, albeit with slow credit growth due to low demand. They encouraged the authorities to thoroughly assess the impact of the pandemic on bank capital and to continue monitoring and managing risks stemming from large exposures and related party lending. Directors also encouraged the authorities to further improve compliance with the AML/CFT framework, in particular in the area of the monitoring of cross-border flows to further guard against money-laundering risks.

Directors recognized the authorities' commitment to transparency, commending them for producing balance of payments statistics in record time and for intending to participate in the Enhanced General Data Dissemination System. Directors encouraged further efforts to improve governance, including by ratifying the United Nations convention against corruption.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.



PRINCIPALITY OF ANDORRA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

May 18, 2021

KEY ISSUES

Context. Andorra, the IMF's newest member since October 2020, participated in its first Article IV consultation with a commitment to further enhance transparency. Tourism and banking-related services dominate economic activity in the euroized economy. The country enjoys long-standing political stability, a good track-record of fiscal discipline, a gender-balanced work force, and internationally competitive ski resorts.

COVID-19. The authorities are managing the pandemic well with universal testing and expanded hospital capacity that kept fatality rates very low despite high case-loads. The testing strategy helped Andorra implement more targeted internal restrictions than in neighboring countries. At the same time, emergency fiscal measures stabilized real incomes and supported firms.

Outlook and risks. Real GDP growth is projected to rebound this year in line with the region, amid huge uncertainty, and risks are tilted to the downside in the near-term. Slower than planned vaccination rates in Andorra and neighboring countries is one of the main risks. Over the medium term, GDP growth is expected to converge to regional averages, given comparable per capita incomes.

Policy recommendations aim to support a lasting recovery. Emergency *fiscal* support should remain in place until a recovery has set in. Increasing public investment would strengthen the recovery and contribute to higher long-term growth while maintaining debt at manageable levels. The fiscal authorities would also need to build up international reserves gradually. In the *financial sector*, bank capital appears adequate to absorb the pandemic shock but the full impact of the crisis should be carefully evaluated as the policy measures expire. In the medium-term, bank capital buffers should be re-assessed in light of risks associated with large domestic exposures to a few clients, related party lending, and a sizeable nonresident deposit base. Building on important efforts, further improving the effectiveness of *anti-money laundering* supervision would strengthen financial stability. Disseminating official *statistics* according to international standards will enhance transparency and aid policy-making and surveillance.

Approved By
Mahmood Pradhan
(EUR) and Gavin Gray
(SPR)

Discussions were held virtually on March 19–April 8, 2021. The staff team comprised Srobona Mitra (head), Ana Lariau, Michelle Tejada, Jenny Lee (all EUR), Joji Ishikawa (STA), and Arz Murr (LEG). Maksym Markevych (LEG) attended some meetings. Dries Cools (OED) participated in the discussions. Mahmood Pradhan (EUR) and Paul Hilbers (OED) met with the authorities. Dilcia Noren (EUR) supported the mission. The team met with the Minister of Finance, the Secretary of State for International Financial Affairs, the Minister of Presidency, Economy & Business Affairs, the Minister of Foreign Affairs, the Minister of Tourism, the Minister of Social Affairs, Housing & Youth, and the Minister of Civil Service and Reform of the Administration; the Director of Andorran Financial Authority; banks and various other government and private sector representatives; economists and academia.

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