



PRINCIPALITY OF ANDORRA

May 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE PRINCIPALITY OF 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 2026 Article IV consultation with 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 April 27, 2026 consideration of the staff report that concluded the Article IV consultation with Andorra.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 27, 2026, following discussions that ended on March 9, 2026 with the officials of Andorra on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 9, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Principality of Andorra

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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IMF Executive Board Concludes 2026 Article IV Consultation with Andorra

FOR IMMEDIATE RELEASE

- *The Andorran economy continued to outperform expectations with growth surprising on the upside in 2025.*
- *Growth is projected to moderate and inflation will remain elevated in 2026 due to the war in the Middle East.*
- *In the absence of policy action, growth could be lower over the medium term and population aging will increase public expenditures on pensions and healthcare.*

Washington, DC – May 4, 2026: On April 27, 2026, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Andorra.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.² The Andorran economy continued to outperform expectations. Growth in 2025 surprised on the upside for the second consecutive year, at an estimated 3.9 percent, driven by strong activity in financial services, real estate, and construction. Inflation eased to 2.4 percent in 2025 but is on an upward trend, while labor market is operating at near full employment. The current account surplus remains very large, estimated at 15.9 percent of GDP in 2025.

Growth is projected to slow to 2.1 percent in 2026 and then steadily converge to its long run potential of 1.5 percent by 2030. Inflation is projected at around 3 percent in 2026 before converging to the euro area inflation target of 2 percent by the end of 2027. Staff's baseline assumes oil and gas prices that are broadly consistent with closing future prices as of mid-March 2026 and incorporates the impact on main trading partners. Risks to the growth outlook are tilted to the downside with short-term risks mainly stemming from external factors. Weaker growth among trading partners due to prolonged war in the Middle East or new trade tensions could weigh on foreign demand and push inflation higher through import prices. Recent temporary road closures underscore Andorra's vulnerability to disruptions in cross-border infrastructure.

Absent timely reforms, medium-term growth could be lower. In the absence of policy action, population aging will increase public expenditure on pensions and healthcare, placing growing

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 Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/en/countries/and page.

pressure on public finances. Labor shortages could worsen if housing affordability is not improved. Climate change poses additional risks, as rising temperatures and more frequent extreme weather events may cause more frequent disruptions in the tourism sector and infrastructure, putting additional emphasis on continuing diversification efforts. Approval of the EU Association Agreement represents an upside risk by supporting economic diversification and enhancing resilience to shocks.

Executive Board Assessment³

Directors agreed with the thrust of the staff appraisal. They welcomed Andorra's continued economic resilience and prudent fiscal management, which supported growth and allowed rebuilding of solid buffers. Directors noted, however, that near-term risks stemming from the war in the Middle East are expected to moderate near-term growth and exert upward pressure on inflation. They also emphasized that medium- to long-term challenges could additionally weigh on growth and fiscal sustainability. In this context, Directors encourage the authorities to maintain a balance between prudent fiscal management and growth-enhancing reforms while keeping continued vigilance over the financial system.

Directors welcomed the authorities' prudent fiscal management, which has resulted in sustained surpluses and a declining public debt ratio. They agreed that the looser fiscal stance in 2026 is broadly appropriate against the backdrop of slowing growth, while stressing the importance of standing ready to tighten the stance if price pressures persist. Over the medium term, Directors emphasized that maintaining prudent fiscal policy remains essential in a euroized economy. They encouraged the authorities to make effective use of available fiscal space for well-targeted, growth-enhancing public investment. Directors underscored the importance and urgency of timely pension and healthcare reforms to address population aging and safeguard long-term fiscal sustainability.

Directors welcomed the assessment that the financial sector remains strong, noting banks' solid profitability, capitalization, and liquidity. They looked forward to the upcoming Financial Sector Assessment Program as an opportunity to assess vulnerabilities and reinforce financial sector resilience. They commended the efforts to make AML/CFT supervision increasingly risk-based.

Directors emphasized the importance of advancing structural reforms to lift potential growth, enhance productivity, and diversify the economy. They welcomed the authorities' efforts to deepen regional integration and highlighted the potential benefits of the European Union Association Agreement in supporting diversification, improving market access, and attracting investment, while noting associated transition costs requiring close monitoring. Directors encouraged continued progress in implementing the National Plan for Innovation and Diversification and strengthening public-private collaboration.

Directors welcomed recent improvements in data compilation, timeliness, and dissemination, including progress on external sector statistics and tourists flow data. They encouraged further efforts to close remaining data gaps to strengthen policy analysis and decision-making.

³ At the conclusion of the discussion, the Managing Director, as Chair 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>.

Andorra: Selected Economic Indicators, 2022–31

I. Social Indicators											
Population (2025)	89,058		Population at risk of poverty (percent, 2024)							16.4	
Per capita income (2025, euros)	44,726		Human Development Index Rank (2023)							32 (out of 193)	
Gini Index (2024)	38.4		Life expectancy at birth (2024)							84.1	
II. Economic Indicators											
Projections											
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
(annual change, percent, unless otherwise indicated)											
NATIONAL ACCOUNTS AND PRICES											
Real GDP	9.6	2.6	3.8	3.9	2.1	1.8	1.7	1.6	1.5	1.5	
Nominal GDP	14.2	9.0	6.7	6.6	5.0	4.1	3.7	3.6	3.5	3.5	
GDP deflator	4.2	6.3	2.8	2.6	2.8	2.2	2.0	2.0	2.0	2.0	
Prices											
Inflation (percent, period average)	6.2	5.6	3.1	2.4	3.0	2.3	2.0	2.0	2.0	2.0	
Inflation (percent, end of period)	7.2	4.6	2.6	2.7	2.5	2.0	2.0	2.0	2.0	2.0	
Unemployment rate (percent, period average)	2.1	1.5	1.5	1.1	1.1	1.1	1.2	1.3	1.3	1.5	
EXTERNAL SECTOR											
(percent of GDP, unless otherwise indicated)											
Current account	11.6	14.2	15.9	15.9	16.0	16.0	16.1	16.2	16.2	16.2	
Balance on goods and services	8.8	12.0	15.8	15.6	15.7	15.7	15.8	15.9	15.9	15.9	
Exports of goods and services	80.9	83.7	89.8	89.7	88.8	88.6	88.7	88.8	88.9	89.0	
Imports of goods and services	72.2	71.8	73.9	74.1	73.2	72.9	72.9	73.0	73.0	73.1	
Primary income, net	4.3	3.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7	1.7	
Secondary income, net	-1.4	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	
Capital account	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account	12.7	13.5	17.0	15.9	16.0	16.0	16.1	16.2	16.2	16.2	
Errors and omissions	1.1	-0.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gross international reserves (millions of euros) 1/	338.4	338.7	402.1	397.2	397.2	397.2	397.2	397.2	397.2	397.2	
FISCAL SECTOR											
(percent of GDP, unless otherwise indicated)											
General Government 2/											
Revenue	39.7	38.0	39.9	40.7	40.1	40.2	40.2	40.2	40.2	40.2	
Expenditure	34.9	35.9	37.1	37.2	37.8	38.4	38.3	38.3	38.3	38.5	
Interest	0.7	0.6	0.5	0.5	0.5	0.7	0.7	0.6	0.7	0.8	
Primary balance	5.6	2.7	3.3	4.0	2.7	2.5	2.5	2.5	2.5	2.5	
Net lending/borrowing (overall balance)	4.8	2.2	2.8	3.5	2.2	1.9	1.9	1.9	1.9	1.7	
Public debt	38.9	35.4	32.9	30.3	28.0	26.9	26.3	25.7	25.1	24.5	
Held by domestic banking sector											
Central Government 3/											
Revenue	21.7	19.8	21.4	22.6	21.3	21.5	21.5	21.5	21.5	21.5	
Expenditure	18.7	19.1	20.2	20.2	21.0	21.4	21.4	21.4	21.4	21.6	
Interest	0.7	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.7	
Primary balance	3.6	1.2	1.7	2.9	0.7	0.6	0.6	0.6	0.6	0.6	
Net lending/borrowing (overall balance)	2.9	0.7	1.2	2.4	0.3	0.1	0.1	0.1	0.1	-0.1	
Public debt	37.1	34.0	31.8	29.4	27.4	26.3	25.6	25.0	24.4	23.8	
BANKING SECTOR 4/											
(percent, unless otherwise indicated)											
Regulatory capital to risk-weighted assets	20.3	21.7	21.7	20.5	...	...	...	...	...	...
Nonperforming loans to total gross loans	3.3	2.2	1.9	2.0	...	...	...	...	...	...
Credit to nonfinancial private sector											
Level (percent of GDP)	116.4	101.3	95.5	90.5	...	...	...	...	...	...
Corporates	61.8	55.1	51.8	48.8	...	...	...	...	...	...
Households	54.6	46.2	43.7	41.7	...	...	...	...	...	...
Growth (nominal)	-1.7	-5.2	0.7	3.7	...	...	...	...	...	...
Corporates	2.6	-2.8	0.4	3.4	...	...	...	...	...	...
Households	-6.1	-7.8	1.0	4.0	...	...	...	...	...	...
Credit to public sector											
Level (percent of GDP)	2.2	1.8	1.3	1.0	...	...	...	...	...	...
Growth (nominal)	-8.4	-10.0	-23.8	-26.7	...	...	...	...	...	...
Memorandum items											
Exchange rate (€/USD, period average) 5/	0.95	0.92	0.92	0.89	0.86	0.86	0.86	0.86	0.86	0.85	
Nominal GDP (millions of euros)	3,210	3,501	3,736	3,983	4,181	4,351	4,514	4,678	4,843	5,014	
Output gap	7.0	1.5	2.9	2.4	0.8	0.7	0.5	0.3	0.0	0.0	

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

1/ Gross international reserves in 2022 include €100 million deposited at the Bank of Spain, €40 million at the Banque de France, and €60 million at the Nederlandsche Bank. In 2024, additional €60 million reserves were accounted, mainly deposited at the Bank of Spain.

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

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

4/ Data for 2025 is as of Q3 and are preliminary, unaudited, and subject to revisions.

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



PRINCIPALITY OF ANDORRA

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

April 9, 2026

KEY ISSUES

Context. Andorra's small open economy continues to grow above potential driven by external demand and a prospering financial services industry. Inflation is edging upwards after a period of moderation amidst a labor market operating near full employment. Cautious fiscal management continues to drive overall budget surpluses and reinforce fiscal buffers. Banks are profitable with ample capital, however, the size of their consolidated assets – at more than 5 times GDP – presents a systemic risk. The war in the Middle East will weigh on growth and put upward pressure on inflation in the near term while challenges including low productivity, lack of affordable housing, capacity limitations, and impact of climate change on winter tourism will put downward pressure on growth over the medium term and aging will strain public finances. The European Union Association Agreement (EUAA) offers the opportunity to deepen the integration into the EU's single market and diversify Andorra's sources of growth, but there will be transition costs and the exact timeframe for ratification remains uncertain. Reforms to the public pension and healthcare systems are needed to make them sustainable.

Outlook and risks. Growth is expected to be restrained in 2026 due to the war in the Middle East and then slow to its long-term potential, reaching 1.5 percent by 2030 as momentum from inbound immigration and related construction moderates, and tourism growth eases given Andorra's already high number of visitors per capita. Inflation edged upward at the end of 2025 due to temporary shocks and higher prices of rent and utilities, hotels, and restaurants, and is projected to remain high at around 3 percent in 2026 following the impact of war in the Middle East. As these shocks fade, inflation is projected to go back to the euro area target by the end of 2027. The authorities are expected to maintain their prudent fiscal stance with overall surpluses and a declining debt ratio projected over the medium term. Weaker external demand presents the main downside risk as tourism and immigration could fall short of the baseline making diversification more urgent.

Policy priorities. With the right policies, Andorra can sustain growth and address looming challenges. While policymakers are focused on ratifying the EUAA which could allow Andorran firms to scale up, other elements of the reform agenda including

improving productivity should not be neglected. Enhancing data quality would strengthen these decisions.

- Against the backdrop of slowing growth, the looser fiscal stance in 2026 is broadly appropriate. Nonetheless, the authorities should remain vigilant for signs of overheating and stand ready to tighten the fiscal stance if inflation remains elevated for longer than expected. Looking ahead, public sector wage dynamics should be calibrated so as not to add to inflationary pressures. Over the medium term, euroization and the vulnerability to external shocks call for prudent fiscal policy. However, with public debt expected to be declining from already low levels and refinancing risks manageable, there is fiscal space for additional growth-enhancing public investment in the areas of affordable housing, workforce upskilling, and transport connectivity to advance the diversification agenda. To address aging pressures, the authorities need to implement the well-developed policy options for pension reform and consider changes to healthcare financing while the cost of adjustment is manageable.
- The financial sector continues to be a driver of growth but also represents a systemic risk given the size of assets in three banks. Prudential buffers are strong, but the supervisor should continue to implement regulations aligned with EU standards as this has the added benefit of easing adjustment should the EUAA be adopted. The upcoming Financial Sector Assessment Program (FSAP) will provide a valuable opportunity to identify remaining vulnerabilities.
- Andorra should complement necessary domestic reforms by strengthening ties with neighboring regions allowing it to capitalize on positive spillovers, labor mobility, shared infrastructure, and best practices. Full adoption or provisional implementation of the EUAA would expand the benefits of the structural agenda but is not without transition costs. The recently announced National Plan for Innovation and Diversification could represent a first step towards advancing policies that could lift potential growth.
- All of the policies under consideration by the authorities would benefit from more comprehensive and timely information on the economy. Significant progress has been made on releasing data sooner, improving communication with the public, and hiring additional staff, but gaps remain. A comprehensive expenditure-based GDP, would allow policymakers to understand private investment – a key requirement when implementing policies meant to encourage it. The IMF continues to support Andorran statistics compilation with a broad range of capacity development.

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

Discussions were held in Andorra during February 24 – March 9, 2026. The Staff team comprised Jeff Danforth (mission chief), Aidyn Bibolov, Mariarosaria Comunale (all EUR), and Nick Carroll (FAD). Jeroen Clicq and Tom Englaro (OED) participated. Ashwini Arulrajhan, Miguel Antonio Encinas De Asis, and Emily Fisher (all EUR) and Arz Murr (LEG) supported the mission. The team met with the Minister of Finance, the Minister of Presidency, Economy, Labor and Housing, the Minister of Tourism and Commerce, the Minister of Health, the Mayor of Ordino, the Secretary of State for International Financial Affairs, the Secretary of State for Relations with the European Union, the Secretary of State for Business, Economic Diversification and Innovation, the Secretary of State for Civil Service, Ambassador for Cross-Border Cooperation, the Director of the Andorran Financial Authority, and other senior officials. The mission also met with parliamentarians, private sector representatives, and students and faculty at the University of Andorra.

CONTENTS

CONTEXT	5
RECENT DEVELOPMENTS	6
OUTLOOK AND RISKS	10
POLICY DISCUSSIONS	12
A. Fiscal Policy	12
B. Financial Sector Policies	17
C. Structural Policies	18
D. Statistical Capacity and Data Quality	23
STAFF APPRAISAL	24
BOXES	
1. Andorra's Budget Execution	16
2. The EUAA with Andorra: Pathways and Implications of Adoption	20
FIGURE	
1. High Frequency Indicators	26
TABLES	
1. Selected Economic and Financial Indicators	28

2. Balance of Payments	29
3. General Government Operations	30
4. Central Government Operations	31
5. Financial Soundness Indicators	32

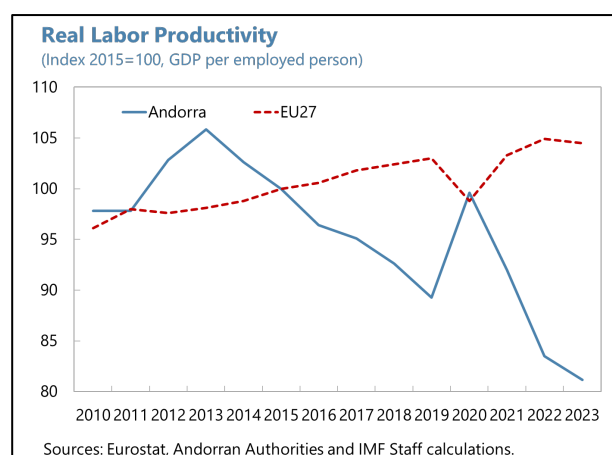
ANNEXES

I. External Sector Assessment	33
II. Risk Assessment Matrix	38
III. Sovereign Risk and Debt Sustainability Annex	40
IV. Authorities' Response to Past IMF Policy Recommendations	48
V. Data Issues	50

CONTEXT

1. While growth has been strong over the past few years, the war in the Middle East will weigh on near-term output before it steadily converges toward its potential. Andorra remains an attractive destination for tourism and real estate investment, supporting growth above potential in recent years, while the government increased public investment and maintained fiscal surpluses. The banking sector remains solid, and the current account surplus stayed elevated. The war in the Middle East will weigh on growth and put upward pressure on inflation in the near term. Over the medium term, growth is expected to slow toward its potential as momentum from inbound immigration and related construction moderates, and tourism growth eases given Andorra's already high number of visitors per capita.

2. Long-term challenges persist. Over the medium to long term, labor supply constraints, and shortages of affordable housing are expected to weigh on potential growth and productivity which is below EU peers. Climate change poses additional risks to the tourism sector, beyond capacity limitations, as rising temperatures could reduce snowfall and shorten the ski season. Population aging will also increase public expenditures on pensions and healthcare, placing growing pressure on public finances and underscoring the need for timely reforms to safeguard fiscal sustainability.



3. Andorra has the means and the opportunity to broaden its sources of growth and strengthen resilience. The prospective approval of the EUAA could deepen integration with the EU, improve market access, increase productivity, and support diversification. Advancing the standing reform agenda—including affordable housing policies and diversification initiatives could help lift potential growth. Improving the quality and timeliness of economic data would strengthen analytical underpinning of policymaking and monitoring.

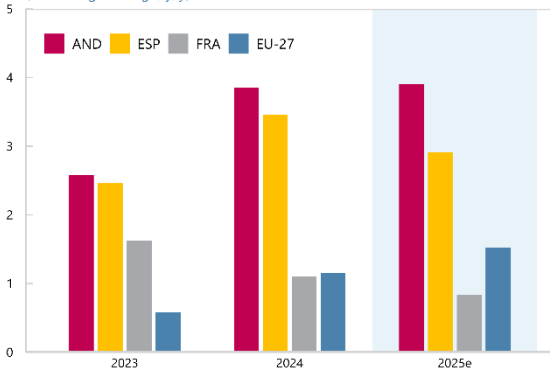
4. Government has a busy agenda ahead of elections planned in 2027. No date has been set for the referendum on the EUAA, with the process still pending at the EU level and elections approaching. Long-pending pension system reform is overdue. The authorities are tackling affordable housing shortages through the construction of public housing and have put forward an innovation and diversification plan, though further details are needed to assess its potential impact.

RECENT DEVELOPMENTS

5. Growth remains above its potential, and inflation has begun to edge upward again after a period of moderation. The Andorran economy expanded by 3.8 percent in 2024 and surprised on the upside again in 2025, growing by 3.9 percent, supported by financial services, real estate, and construction activity, notwithstanding uncertainty surrounding GDP estimates (see Section D). The level of output remained above potential in 2025, with the output gap narrowing slightly. Headline inflation eased from an average of 3.1 percent in 2024 to 2.4 percent in 2025, moving closer to the euro area target of 2 percent. However, since September 2025, headline inflation has edged up to around 2.8 percent y/y on average with a persistent large contribution from housing and utility prices, and with core inflation remaining sticky above 3 percent, also driven by higher prices of hotels and restaurants. Wages continued to grow faster than inflation, particularly in construction and financial services, but this gap is narrowing.

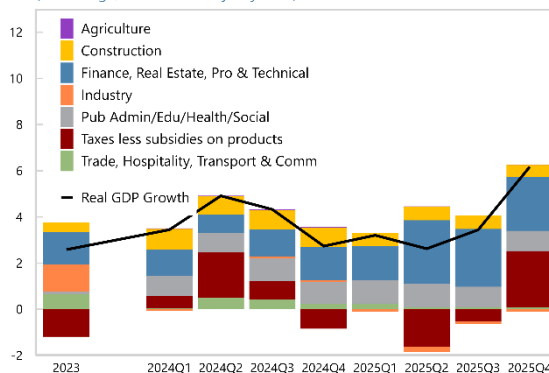
Andorra has grown faster than the EU and neighboring countries over the last three years.

Real GDP Growth
(Percentage change, y/y)



Financial sector, construction and public services are the main drivers of growth.

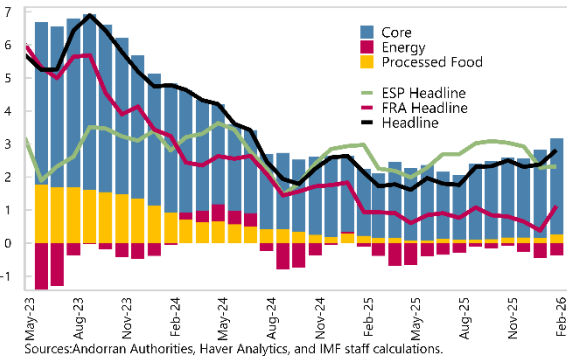
Contributions to Real GDP Growth
(Percentage, Non-Seasonally Adjusted)



Sources: Andorran Authorities, Haver Analytics, WEO Database, and IMF Staff Calculations.

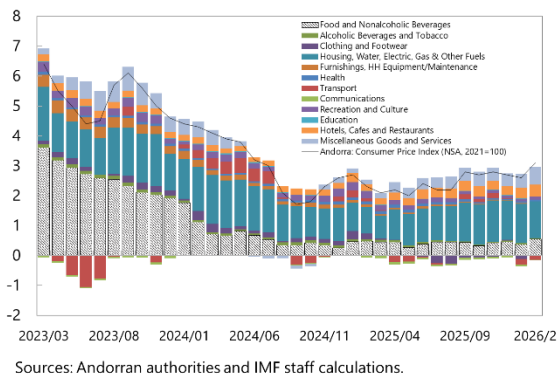
Inflation has increased since late 2025 with stickier core and a headline inflation around 3 percent.

Contributions to Headline Inflation
(Percentage change, y/y)



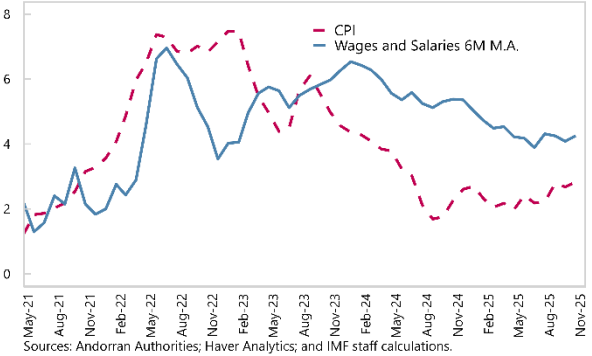
Housing, utility and tourism-related prices consistently drive inflation.

Contributions to CPI inflation
(Percentage change, year-on-year)



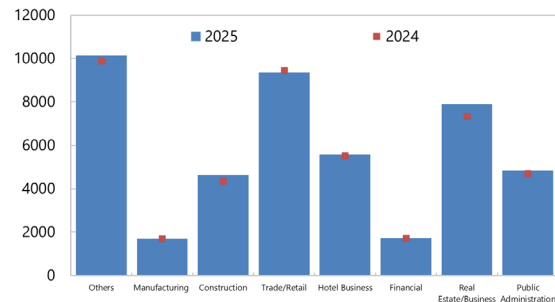
Wage growth moderated but remains above consumer inflation.

Wages and Salaries
(Percentage change, y/y)

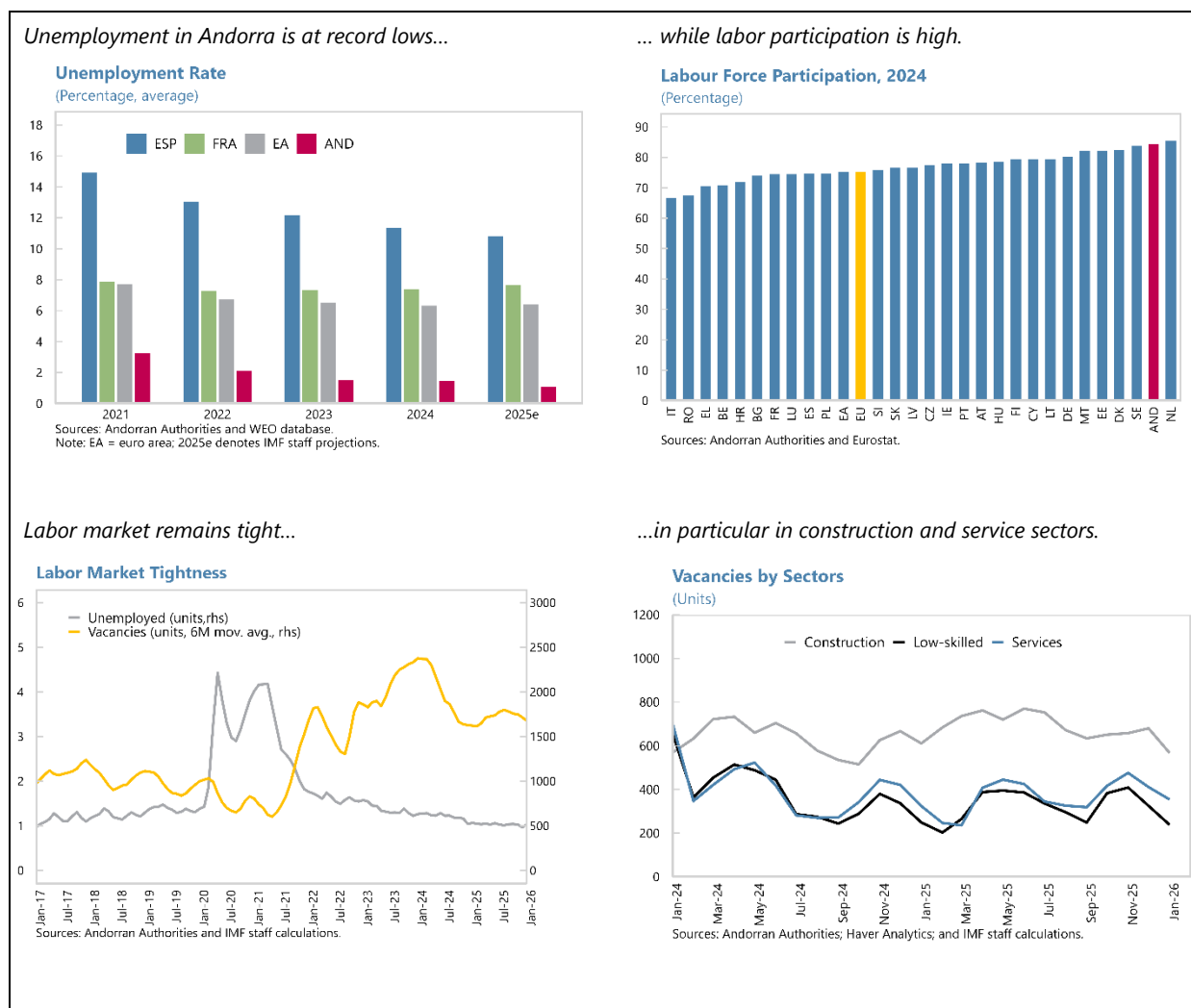


Construction, real estate, and the public sector saw largest increase in employment in the first 3 quarters of 2025.

Employment by Sectors
(number of persons)



6. The labor market remains tight, operating at near full employment. The unemployment rate fell further, from already low levels to 1.1 percent on average in 2025Q1-Q3, considerably below its historical average (3 percent) and its natural rate (1.5 percent). The number of job vacancies increased in the second half of the year compared to the same period in 2024, despite an active net immigration. The construction sector saw the largest increase in employment but still experienced labor shortages with the number of vacancies greater than total unemployed. Labor force participation remained slightly above 83 percent of the working age population in 2025Q3, among the highest in Europe.



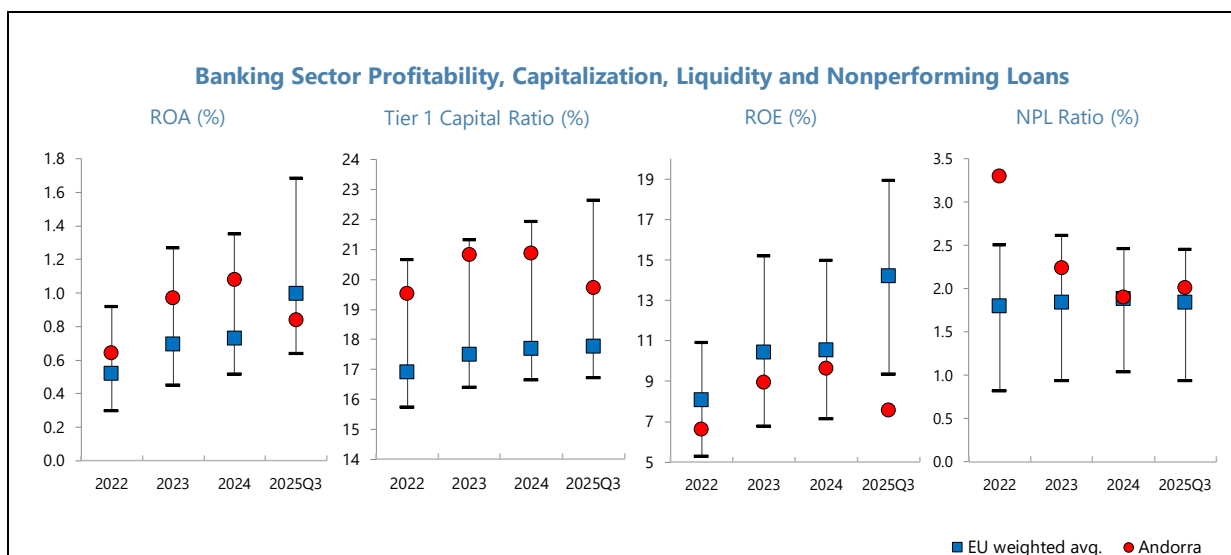
7. Strong fiscal performance led to sustained surpluses and a reduction in the debt ratio.

Central government achieved a primary surplus of 1.7 percent of GDP in 2024, driven by strong tax revenues—particularly income taxes—reflecting robust economic activity. The strong fiscal performance continued in 2025, with further gains in corporate and personal income tax receipts, while the government increased investments in infrastructure and affordable housing. The overall balance in 2025 is estimated at 2.4 percent of GDP, significantly stronger than expected, boosted by higher growth of the economy, buoyant tax collection, and introduction of a minimum corporate tax. The authorities repurchased €16.4 million of 2031 notes in December 2025 to ease the €500 million refinancing. With no new issuance, this reduced central government debt to below 30 percent of GDP in 2025.

8. The financial sector remained sound.

Andorran banks finished 2024 (the latest year for which data are available) with strong profitability, supported by robust performance in both lending and asset management activities. While net interest margins moderated amid declining interest rates, it was offset by higher net fees and other operating income. Consolidated banking sector

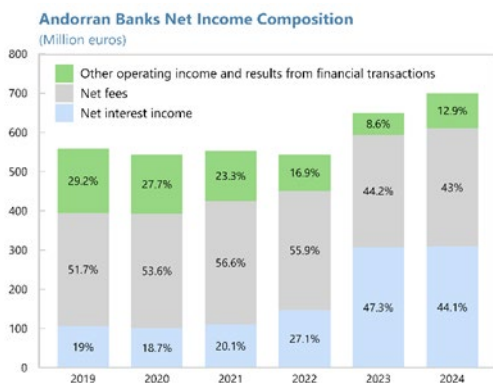
assets continued to expand, reaching over €21 billion (about 5.6 times GDP) driven by a 17 percent increase in customer deposits. Private banking activity strengthened further, with assets under management rising by about 23 percent to €91 billion (around 24.4 times GDP). Banks are expected to have similarly strong results in 2025 as shrinking interest rate margins are offset by rising income from asset management activities. Asset quality is stable, with the NPL ratio at 2 percent in 2025Q3, broadly in line with the EU average, while regulatory capital remained strong at 20.5 percent, well above prudential requirements.



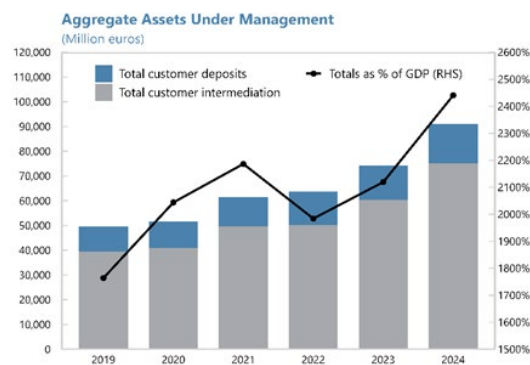
Sources: Andorran authorities, EBA Risk Dashboard 2025Q3, and IMF staff calculations.

Note: The whiskers correspond to the 25th and 75th percentiles. Data for 2025Q3 for Andorra are preliminary and unaudited, and subject to revisions.

Andorran banks' profit increased further in 2024...



... supported by the continued expansion of wealth management activities



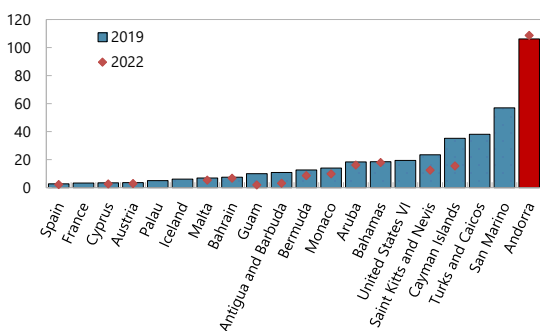
Sources: Andorran Banking Annual Report 2024 and Andorran Authorities.

9. The external position is assessed as substantially stronger than the level implied by fundamentals and desirable policies (Annex I). The current account surplus is expected to remain at 15.9 percent of GDP in 2025, increasing by almost 2 ppts in two years, driven by a substantial

increase in exports of services only partially offset by imports of goods. Net portfolio investment is expected to remain stable compared to 2024 at around 23 percent of GDP, reflecting the use of the current account surplus to finance outward investments. Net primary income remained positive in 2025, as earnings by Andorrans abroad continued to exceed payments to foreign workers and the payments made to nonresidents for returns on investments in Andorra (especially in equity and investment funds) have doubled. This surplus was partly offset in the current account by stable but negative net remittances.

Andorra is the world's busiest tourist destination in per capita terms...

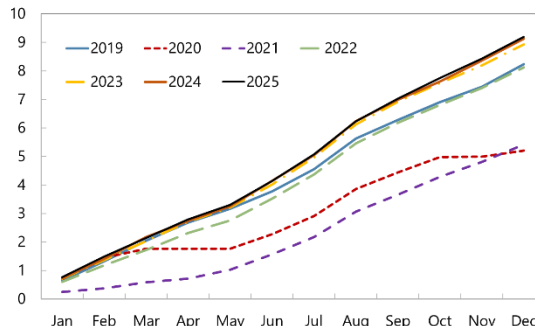
Arrivals Per Capita



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

...reaching record levels in 2024 and following a similar trend in 2025.

Arrivals (Millions)



Sources: Andorran authorities, and IMF staff calculations. Note: The series since 2022 follows an improved methodology to calculate tourist flows.

The share of higher-spending overnight tourists is increasing.

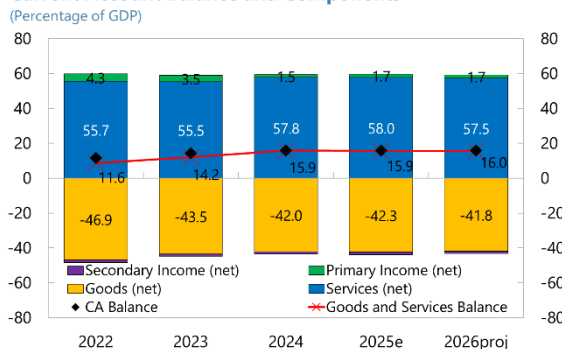
Arrivals (Millions, for Jan-Dec each year)



Sources: Andorran authorities, Haver Analytics, and IMF staff calculations. Note: The series since 2022 follows an improved methodology to calculate tourist flows.

Strong tourist inflows result in a very large current account surplus, despite high imports of goods.

Current Account Balance and Components (Percentage of GDP)



Sources: Andorran authorities and IMF staff calculations.

OUTLOOK AND RISKS

10. Staff projects growth to slow, and inflation to increase in response to the war in the Middle East. Under the baseline – which assumes oil and gas prices that are broadly consistent with closing future prices as of mid-March 2026 and incorporates the impact on main trading partners – growth is expected to moderate to around 2 percent on average in 2026-27, as the war in the

Middle East negatively impacts retail, hotel and restaurant sectors. Inflation is projected at 3 percent in 2026, with higher prices in the first two months driven by a temporary increase in food prices and a one-time adjustment in professional fees and elevated prices in the remainder of the year driven by higher commodity and other import prices stemming from the war. The central government fiscal balance is expected to be 0.3 percent of GDP in 2026, including a small impact from a one-month road closure from a landslide, but no anticipated fiscal impact from the war. The unemployment rate remains low at the end of 2025 but is expected to slowly increase towards its equilibrium. While impacts from the war are not yet present in available high frequency indicators, a new nowcasting model developed by staff should bolster analysis and provide a strong anchor for projections (See AIV 2026 SIP on nowcasting).

11. Risks to the growth outlook are tilted to the downside with risks mainly stemming from external factors. As a micro-state with a highly open economy that is fully euroized, dependent on tourism and retail, Andorra is particularly exposed to external shocks and global uncertainty (see IMF AIV 2025, Box 1). An intensification or continuation of the war in the Middle East would reduce trading partner growth, affecting foreign demand, particularly in tourism, and push inflation higher through import prices. Under such an alternate scenario growth would be weaker, and inflation higher, than the baseline with majority of the impact likely in 2026. Cyberthreats can result in disrupted internet and cellular service with potential widespread impact given the single provider present in the country, though its investment in cybersecurity mitigates the risk. The country is also highly dependent on only two roads to Spain and France with the recent road closure highlighting potential implication for growth and budget balances.

Text Table 1. Andorra: Macroeconomic Projections, 2026-2031

	2022	2023	2024	2025e	Projections					
					2026	2027	2028	2029	2030	2031
Real GDP growth (percent)	9.6	2.6	3.8	3.9	2.1	1.8	1.7	1.6	1.5	1.5
Nominal GDP growth (percent)	14.2	9.0	6.7	6.6	5.0	4.1	3.7	3.6	3.5	3.5
Output gap	7.0	1.5	2.9	2.4	0.8	0.7	0.5	0.3	0.0	0.0
CPI inflation (percent, period average)	6.2	5.6	3.1	2.4	3.0	2.3	2.0	2.0	2.0	2.0
Unemployment rate (percent, period average)	2.1	1.5	1.5	1.1	1.1	1.1	1.2	1.3	1.3	1.5
Central government overall balance (percent of GDP) 1/	2.9	0.7	1.2	2.4	0.3	0.1	0.1	0.1	0.1	-0.1
Central government debt (percent of GDP) 1/	37.1	34.0	31.8	29.4	27.4	26.3	25.6	25.0	24.4	23.8
Current account balance (percent of GDP)	11.6	14.2	15.9	15.9	16.0	16.0	16.1	16.2	16.2	16.2

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

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

12. The output gap is expected to close over the medium term, as the main drivers of growth moderate while inflation is expected to converge to the euro area target. The momentum from inbound immigration and related construction is expected to ease, and tourism growth should slow given Andorra's already high number of visitors per capita and climate-related risks. Growth is expected to converge toward its potential rate of about 1.5 percent, broadly in line with that of its main trading partners, Spain and France. Similarly, inflation is expected to converge to the euro area inflation target of 2 percent by the end of 2027. Small central government overall

surpluses are projected to narrow toward balance reflecting higher interest payments on refinanced debt.

13. Long term risks are tilted to the downside. The baseline scenario assumes that the authorities will implement timely pension and healthcare reforms, consistent with their track record of prudent fiscal management. Should the reforms not be undertaken, population aging will increasingly weigh on growth and public finances, raising pension and healthcare spending.¹ Labor shortages could worsen if additional workers are not attracted or housing affordability is not improved, negatively affecting output and potentially reducing investment. Climate change poses additional risks, as rising temperatures and more frequent extreme weather events may result in tail risks with disruptions in the tourism sector and infrastructure. Approval of the EUAA would represent an upside risk by supporting economic diversification and enhancing resilience to shocks.

Authorities' Views

14. Authorities broadly agreed with the staff's assessment of the economic outlook and the balance of risks. They noted that their growth projections, based on external projections of Andorra's main trading partners, are more conservative than staff's, and converge quicker to the same growth potential in medium term. The authorities expected disinflation to continue, pointing to import price normalization passing-through from main trading partners. They stressed the potential upsides from redirection of tourist flows toward safer and closer destinations, diversification of the economy and from deeper integration with neighbors and the EU also from the possible EUAA ratification.

POLICY DISCUSSIONS

With growth projected to slow toward its long-term potential, Andorra will need a well-calibrated policy mix to lift productivity and address mounting aging-related pressures. Fiscal policy should remain prudent and responsive to cyclical conditions, while utilizing space for growth-friendly public investment to ease structural bottlenecks and support economic diversification. The forthcoming FSAP offers an opportunity to take stock of progress and further strengthen the resilience of the financial sector. As the authorities develop their diversification strategy, deepening ties with neighboring regions can help boost productivity and broaden growth engines. Continued efforts to strengthen data quality and coverage will be critical to underpin sound policy design and monitoring.

A. Fiscal Policy

15. Staff consider a looser fiscal stance in 2026 broadly appropriate given slowing growth.

- Staff projects a small central government surplus of about 0.3 percent of GDP—a better outcome than the 2026 budget projection of a deficit of 1 percent of GDP, reflecting historical

¹ In the absence of reforms staff project exhaustion of pension fund reserves by 2043, and a projected increase in healthcare expenditures of 2 percentage points of GDP by 2050 – see IMF [Selected Issues Paper No. 2025/052](#).

execution patterns, including likely under-execution of non-wage expenditures. The projected decline in the surplus relative to 2025 is driven by lower tax revenues, higher spending, and the fiscal impact of the temporary closure of the road at Pas de la Casa in 2026. Tax revenues are expected to normalize following unusually strong buoyancy in 2025, while expenditure growth reflects increases in public investment and wages. Capital spending is set to rise, supported by planned investments in digitalization, infrastructure, and affordable housing. Higher spending on wages reflects, in part, the government's two-year plan to increase public sector wages (around 0.7 percent of GDP over two years). This plan is grounded in a comprehensive civil service pay study, commissioned by the authorities, which identified remuneration gaps on a position-by-position basis.

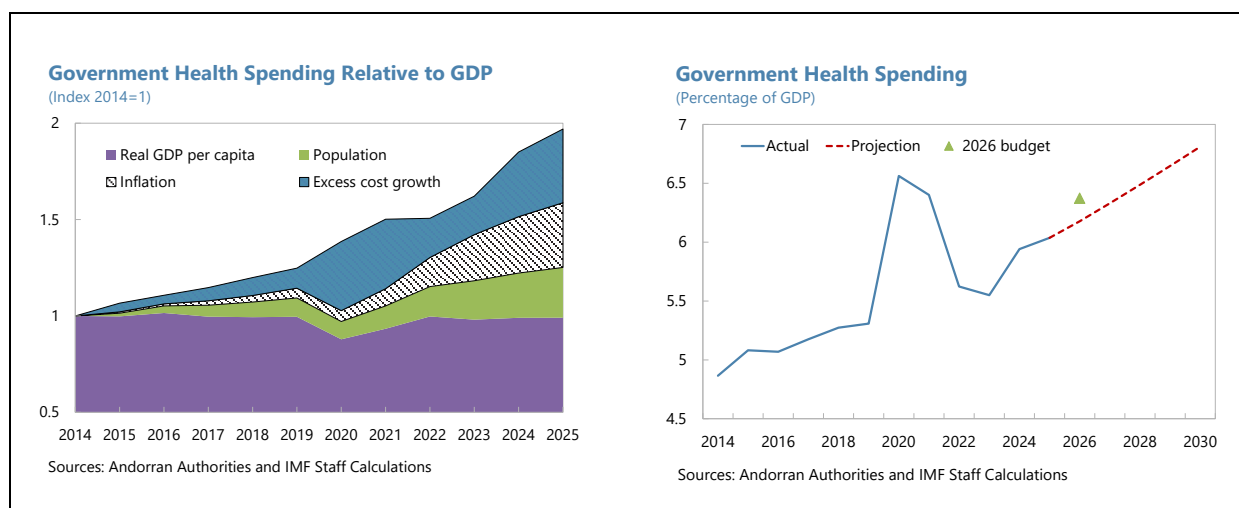
- Against the backdrop of slowing growth and the narrowing positive output gap, the looser fiscal stance is broadly appropriate. The magnitude of the change in balance partly reflects the unwinding of an exceptionally large surplus in 2025 and is modest—at 0.5 percentage points—when calculated on a cyclically adjusted basis. The inflationary impact from the projected wage increases is expected to be limited, reflecting the openness of the economy, the high import intensity of consumption, and inflation largely anchored by external developments. Nonetheless, the authorities should remain vigilant for signs of overheating and stand ready to tighten the fiscal stance if inflation remains elevated for longer than expected. Looking ahead, public sector wage dynamics should be calibrated so as not to add to inflationary pressures.
- In the event of downside risks—such as a more prolonged or severe war in the Middle East—staff recommends allowing automatic stabilizers to operate as the first line of response. If additional support is needed, it should be delivered through temporary and well-targeted cash transfers.

16. Andorra's overall risk of sovereign stress is low (Annex III). The precautionary issuance of notes during the pandemic allowed authorities to lock in low interest rates. Refinancing of €500 million notes maturing in 2027 and 2031 is likely to be done at higher interest rates than those when initial borrowing took place in 2021–22, pushing up debt servicing costs although accumulated fiscal surpluses should partially mitigate refinancing risks. The authorities' plans to repurchase outstanding debt—targeting approximately €50 million total in 2025–26 using fiscal surpluses—would help mitigate refinancing pressures. Going forward, the authorities should continue monitoring market conditions and aim to extend debt maturity.

17. Over the medium term, fiscal policy should balance buffer accumulation with more growth-enhancing use of fiscal space, while preserving debt sustainability. With public debt low and declining and refinancing risks manageable, Andorra is well placed to deploy part of its fiscal space to address the structural constraints that are weighing on potential growth. Fiscal policy should increasingly prioritize additional growth-enhancing public investment, relative to the baseline, that alleviates binding constraints on labor supply, productivity, connectivity, and climate resilience—notably in workforce upskilling, transport infrastructure, and public administration digitalization. This investment can be undertaken within existing overall balance and debt rules which together provide a fiscal anchor. To safeguard fiscal sustainability, this more growth-oriented

policy should be accompanied by timely pension and healthcare reforms that contain aging-related spending pressures to preserve fiscal space over the long term. To support this strategy and build on the authorities’ ongoing reform agenda, staff’s policy advice in this consultation focuses on three areas: healthcare reform, stronger budget formulation and execution, and a more integrated approach to asset and liability management.²

- a. **Addressing rising healthcare costs.** While the Andorra’s health system provides strong health outcomes at average spending (relative to comparable countries), government health-related spending has been rising by 5.8 percent average per year since 2014, well above standard health cost drivers (e.g. population growth and inflation). If recent trends continue, spending could rise by 0.8 percentage points of GDP between 2025 and 2030 with aging contributing an additional 0.6 percentage points over 2025-35. To reduce healthcare expenditures and make the system more sustainable, staff recommends:³ i) strengthening the management of medium-term government health spending, including through setting clear expectations for sustainable growth, ii) building on the draft health sustainability action plan, identifying potential savings and adopting measures in the budget process, including supporting increased treatment at the primary and community care level, tighter policies and processes governing sickness benefits, and reforming the payment structure for health providers to have less reliance on fee-for-service, and iii) continuing proactive development of services such as the aging unit at the public hospital that are efficient and support quality of life.



- b. **Closer budget execution.** Central government budgets have been characterized by systematic revenue underestimation and persistent under-execution of public investment (see Box 1). Anchoring revenue forecasts to current-year outturns (as was done for the 2026

² Staff has covered pension reform, housing affordability, and climate change in previous consultations – see selected issues papers for 2023-2025.

³ For details, see the 2026 Selected Issues Paper on the healthcare system in Andorra.

budget) would better align budget projections with realized revenues. Closer execution of investment to budgeted amounts using available fiscal space would help unlock growth-enhancing opportunities. Strengthening GDP forecasting would help improve revenue estimation and budget planning.

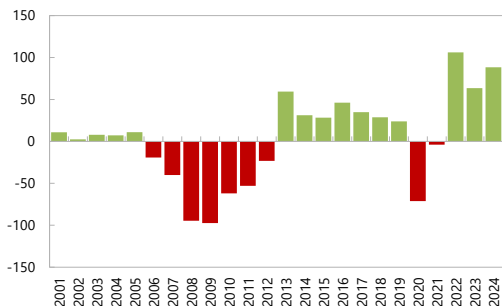
- c. **Strengthening asset management framework and accounting.** Prudent fiscal management has enabled Andorra to accumulate fiscal buffers, complemented by sizable pension fund reserves. Establishing an overarching framework for asset and liability management could help ensure adequate liquidity and strengthen coordination across asset types. Accounting for fiscal assets, and liabilities, following a balance sheet approach would allow policymakers and the public to track buffers and react accordingly. In this context, advancing pension reform is important to help bring the investment strategy of the pension reserve fund in line with its long-term liabilities.

Box 1. Andorra’s Budget Execution

Andorra’s central government has consistently outperformed its budget since 2013 (except during the COVID-19 years of 2021–22) reflecting both revenue overperformance and expenditure underspending. On the revenue side, direct taxes have been the main driver of positive surprises, while on the expenditure side, savings have largely stemmed from persistent under-execution of investment and spending on goods and services.

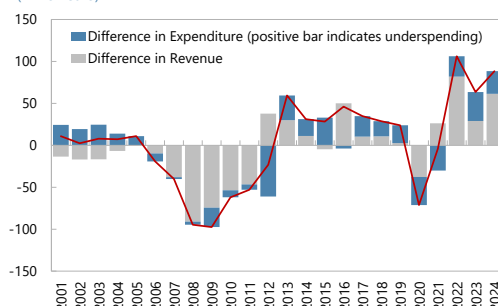
Enhancing the fiscal processes could improve predictability and help Andorra better leverage its fiscal space for growth. While cautious fiscal planning is appropriate for a microstate that has faced repeated shocks over the past two decades and has successfully rebuilt its buffers, there is scope to strengthen budget formulation and execution. Basing revenue projections more systematically on current-year outturns rather than budgeted amounts could help narrow revenue gaps; in this regard, the 2026 budget’s reliance on the 2025 revenue outturns is a welcome step. On the expenditure side, improving investment execution—where budgets have remained persistently under-implemented since 2013—would help translate fiscal space into higher public capital formation and support stronger potential growth. In this context, the estimated execution of more than 90 percent of the 2025 budgeted investments is a notable improvement.

Budget Execution Net Result Gap (Actual - Budget)
(million euro)



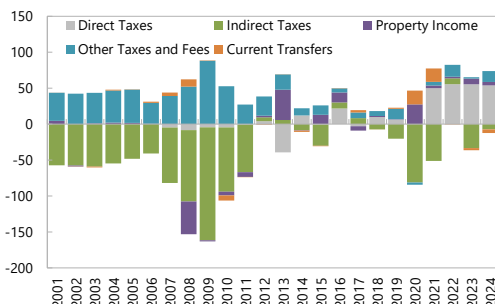
Sources: Andorran authorities and IMF staff calculations.

Budget Execution Net Result Gap Decomposition
(million euro)



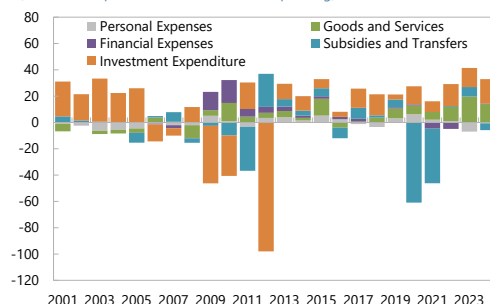
Sources: Andorran authorities and IMF staff calculations.

Revenue Gap Decomposition
(million euro)



Sources: Andorran authorities and IMF staff calculations.

Expenditure Gap Decomposition
(million euro, positive bar indicates underspending)



Sources: Andorran authorities and IMF staff calculations.

Authorities' Views

18. The authorities broadly agreed with the staff's assessment of fiscal policy. They noted that the public wage structure has not been updated for the past 15 years and their inability to fill vacant positions. While acknowledging persistent budget overperformance, they noted recent improvements in revenue planning and investment execution should allow them to adhere more closely to the budget. They emphasized the importance of keeping a cautious approach given the vulnerability of a microstate. The authorities concurred with staff's analysis of healthcare expenditures and stated their commitment to improve collaboration between Ministries of Health and Finance and ensure sustainable growth in healthcare spending in the medium term. They agreed that pension reform would create the conditions for a more optimized pension fund investment strategy. A draft pension law is being discussed without a specific timeline for its adoption.

B. Financial Sector Policies

19. While recent financial results have been strong, consolidated banking assets remain large relative to the economy, creating a systemic risk. The Andorran banking sector has delivered consistently sound results in recent years, supported by a regulatory and supervisory framework increasingly aligned with EU standards under the Andorran Financial Authority (AFA). Banks have continued to expand their asset management activities, strengthening income diversification. Andorran banks are focused on private banking and wealth management, activities that have been profitable, but involve reliance on nonresident funding and add reputational risk as an important factor for them.⁴ The banking system remains very large relative to the domestic economy creating a systemic risk. Staff assess this risk as low, unchanged from the previous assessment, given banks' sizable capital and liquidity buffers. Nonetheless, it remains important for the AFA to continue its close supervision and for banks to maintain buffers commensurate with their risk profiles and cross-border activities. Approval of the EUAA could create further opportunities for banks to expand product offerings within the EU and enhance supervisory convergence by AFA through the adoption of EU rules and good practices. The risk of increased domestic competition from foreign banks appears limited given the strong market position of incumbents, although it cannot be ruled out. Preparations are underway for the FSAP in 2026—Andorra's first since joining the IMF—and early capacity-building efforts by the AFA are welcome. The forthcoming FSAP will provide a valuable opportunity to assess progress and identify remaining vulnerabilities in the financial sector.

20. Andorra is stepping up efforts to enhance the effectiveness of the AML/CFT framework. The authorities intend to conclude the updating of the ML/TF national risk assessment, including the assessment of risks of misuse of legal persons and arrangements and virtual assets, by end 2026. Preliminary results are already informing mitigation measures, such as draft legal amendments to address vulnerabilities with respect to entity transparency and improving the

⁴ For more on the Andorran banking system, see Selected Issues Paper No. 2025/152.

monitoring of foreign investment through legal entities. The Financial Intelligence Unit of Andorra (UIFAND) updated the list of high-risk jurisdictions, however, the understanding of the risk of cross-border flows should be further strengthened, including through the exchange of information with main foreign counterparts. AML/CFT supervision is becoming increasingly risk-based thanks to the focus on higher risk areas and institutions when allocating supervisory resources, and more effective sanctions against breaches of regulatory requirements.

Authorities' Views

21. The authorities broadly agreed with staff's views. They noted that Andorran banks hold substantial capital and liquidity buffers above regulatory requirements. They stressed their continued close supervision of banks. The authorities are looking forward the upcoming FSAP to reflect on the progress in the development of the financial system of Andorra.

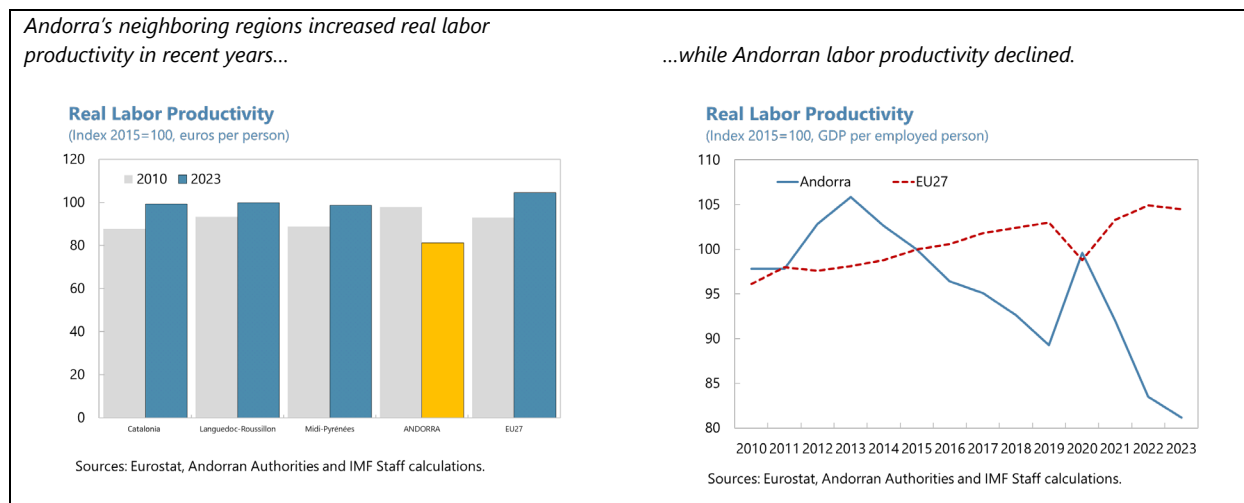
C. Structural Policies

22. Structural reforms are needed to lift potential growth and build resilience. Andorra's small market size and reliance on low productivity sectors such as tourism and retail trade limit potential growth. The traditional sectors are also more susceptible to changes in external demand and exogenous shocks, including extreme weather events and climate change. Strengthening Andorra's integration with regional neighbors – also one of the objectives of the EUAA – could help Andorran firms scale up and become more productive while encouraging capital inflows. Continuing to specialize in areas where Andorra has a comparative advantage, while diversifying the economic base and improving labor market flexibility and reducing skills mismatches, could help enhance resilience and free up space for future spending pressures (see Europe REO Note 1, November 2025). Higher value-added service sectors are a prime target for diversification given the country's limited size and geography, building on already strong internet connectivity. Similarly, opportunities for large manufacturing may be limited but stronger relationships with neighbors, for instance via the ongoing closer cross-border project with Catalunya, would allow products designed in Andorra to be produced abroad. This should also help Andorran companies integrate into regional and global value chains and increase productivity.

Policies to increase integration and enhance productivity

- **Deepen Andorra's integration with neighboring regions.** Over the past two decades, real labor productivity in adjacent regions of France and Spain has risen, while Andorra's real labor productivity has shown a downward trend since mid-2010s and has been persistently below the EU average. The gains in neighboring regions enhance regional competitiveness and cost-efficiency, forcing Andorra to keep pace or see an erosion in its relative attractiveness for investment and trade. At the same time, this trend offers opportunities: Andorra can capitalize on regional momentum by aligning its reforms with best practices, leveraging shared infrastructure, production, digitalization initiatives and labor mobility. Such integration would not only mitigate risks but also position Andorra to benefit from positive spillovers in a dynamic regional environment potentially attracting skilled workers from other regions and fostering

investment and productivity gains (see Europe REO Note 2, November 2025). Additional public investment in transportation and infrastructure would increase physical connectivity.⁵



- **Implement the EUAA to enhance market access and attract capital inflows (Box 2).**

Maximizing the benefits of the association depends on well-designed domestic reforms during the accession period. However, the benefits come with challenges: the agreement would require a higher skilled workforce and could intensify competitive pressures (see IMF AIV 2025, Box 2). The path to ratification of the EUAA remains uncertain, as the EU Council needs to confirm its mixed legal nature and then the text must be signed by all parties. Andorra could *provisionally* apply most of the agreement, also pending a successful referendum and ratification by the Parliament, while the voting by all 27 member states proceeds. If the referendum is unsuccessful, existing relations with the EU will remain unchanged.

⁵ For instance, Tramvalira is a proposed cross-border tramway project currently in the feasibility-study phase.

Box 2. The EUAA with Andorra: Pathways and Implications of Adoption

The EUAA, whose negotiations concluded in 2023, aims to strengthen the integration with the EU by enhancing the four freedoms of movement: people, goods, services, and capital.¹ The harmonization with EU regulatory standards and market confidence effects could foster domestic and foreign investment in Andorra while supporting net exports. Long transitional periods for telecom, tobacco, and finance sector recognize the time needed for small states to adapt to changes. Andorra will need to develop expertise in EU regulations and laws as well as adopting horizontal provisions related to competition, social policy and corporate law. There will be transition costs, likely requiring additional public-service workers.² Potential impacts across the four freedoms of movement include:

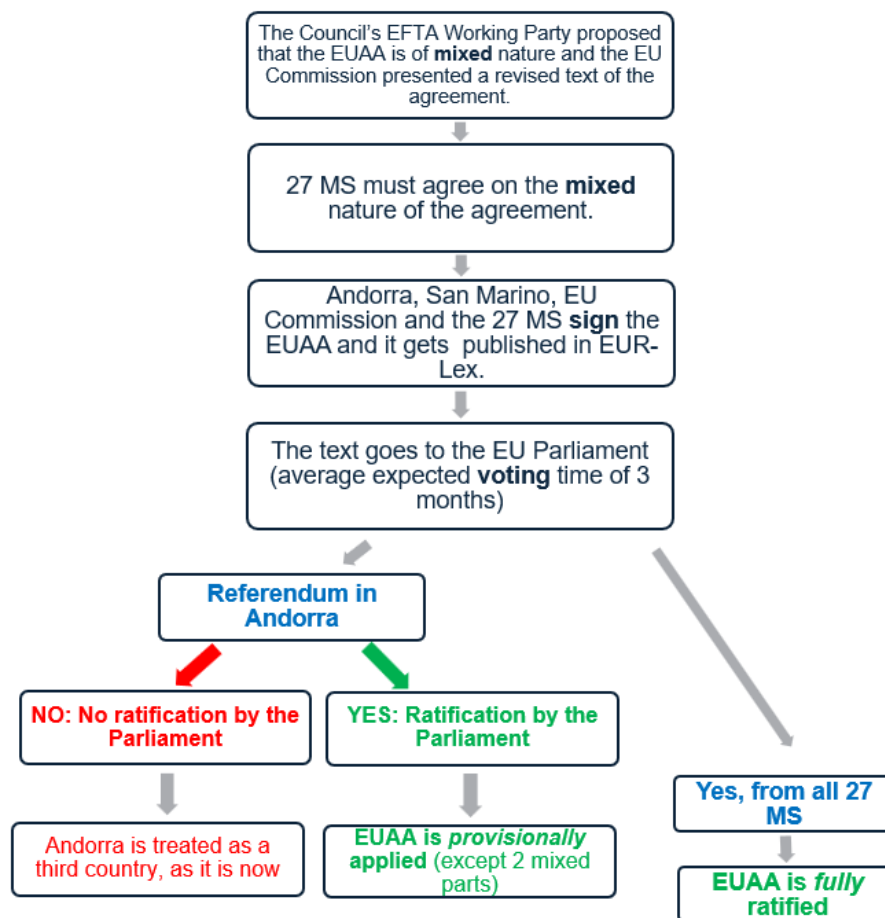
- *People.* Andorrans can settle in the EU, and their professional qualifications will be recognized, while foreign national residents can only increase gradually due to the agreement adaptation that maintains the foreign resident quota system. Temporary foreign-worker flows should remain stable.
- *Goods.* Andorran exports will circulate freely within the EU, and Andorrans already consume imported EU goods which will continue to be taxed according to domestic law.
- *Services.* Andorran companies will be able to operate more freely in the EU and vice versa for EU companies. Integration of financial services will require adoption of EU financial services regulation and supervision practices. The financial sector has a 15-year transition period, and the adoption process will begin after the EUAA is ratified.
- *Capital.* Has the potential to stimulate FDI inflows to Andorra.

Path to ratification remains uncertain (see flowchart). Following the proposal on the agreement's *mixed* legal nature by the Council's European Free Trade Association (EFTA) Working Party on 15 December 2025, the EU Commission presented its counter-proposal for the text adapted to a mixed nature. The Council is preparing the decision to authorize the signing of the agreement, following the European Parliament's strong political endorsement in plenary session on 11 February 2026, confirming the earlier positive vote in the Committee on Foreign Affairs (AFET). The Council of the EU has almost reached consensus that the EUAA is a "mixed" agreement. After reaching consensus on the mixed nature of the EUAA, the text goes to COREPER at the Council (the Committee of Permanent Representatives of the Governments of the Member States to the European Union) and then to the General Affairs Council within an average expected time of 8 weeks to sign. This process concludes with Andorra, San Marino, EU Commission and the 27 member states signing the EUAA and the text being published in EUR-Lex.³ The mixed nature of the EUAA means that it must be ratified unanimously by all member states, involving national parliaments and, in some countries, judicial review which could take a substantial amount of time.⁴

Andorra could apply the EUAA on a *provisional* basis after a successful ratification by the Parliament.⁵

The EU Parliament also needs to approve the text within an average expected time of three months from publication in EUR-Lex but the initial vote had an overwhelming support (552/651 voted in favor) and only a simple majority is needed. The provisional application of the EUAA with Andorra is expected to take place once the legal internal procedures have been completed, namely following a successful ratification by the Parliament of Andorra. However, this remains subject to a referendum to be held prior to ratification in line with the Government's political commitment. Should the referendum be unsuccessful, Andorra will be treated as a third country to the EU, as it is now, but could explore alternatives for its approval in the future. The provisional application would cover most of the EUAA but does not include the two mixed competencies: good governance rules and some specific operations included in the free movement of capital. If all the 27 member states vote positively on the EUAA, the agreement can be signed by Council of EU and Andorra at which point it is *fully* ratified and enters into force.

Box 2. The EUAA with Andorra: Pathways and Implications of Adoption (Concluded)
EUAA Flowchart as of February 2026



¹ See Andorra AIV 2025 Box 2 for more details.

² Transition costs for the budget are estimated to be 3 million euros for the first 5 years, but this excludes public companies with own budgets (1.6 million euros are expected for social security, for instance), and the cost of creating a committee to help companies to navigate the EUAA opportunities.

³ EUR-Lex is the official, free-access website for European Union law and related documents, this includes the Official Journal of the EU, treaties, legislation, case-law, etc.

⁴ For reference the Canada – EU trade agreement has been in place provisionally since 2017 while full ratification by all EU members is ongoing.

⁵ The EUAA negotiation concluded in 2023 was between Andorra and the Republic of San Marino, and the EU. Andorra has decided, as a statement of political will of the Government of Andorra, to subject the agreement to referendum, whereas San Marino has not. If Andorra does not ratify the EUAA, it will be required to notify to both San Marino and the EU. San Marino can instead provisionally apply the EUAA simply depositing the text to the Council.

Policies facilitating diversification

- **Foster greater digitalization to stimulate diverse sources of growth.** Stepping up ICT-oriented education (e.g., STEM), investing in professional and vocational training, would help alleviate skill shortages and foster higher digital intensity, especially among SMEs. Ongoing or planned measures now include trade schools with apprenticeships partially subsidized by the Government, collaborations with foreign universities, and support for research projects.
- **Ensure that diversification strategy involves public and private sectors and includes clear objectives.**⁶ Public policy can play a catalytic role by creating an enabling environment while the private sector drives technological adoption and commercialization. The government recently introduced the “National Plan for Innovation and Diversification”, focusing on four pillars: health, sports, construction, and technology.⁷ The plan includes: the establishment of an innovation hub to foster synergies between public sector, private companies, start-ups and researchers, educational programs, and bootcamps. The overall public investment is expected to increase in 2026, with 6.7 million euros devoted to innovation, digitalization, and research, and 5 million euros directed to the Innovation plan and the hub (excluding its building’s renovation).

Policies to alleviate labor supply bottlenecks

- **Increase housing supply to improve affordability and reduce shortages of skilled workers.** Andorra has many positive qualities including low crime and competitive taxation regimes but this might be not sufficient to attract talent. Housing affordability remains a significant bottleneck to current and potential growth, driven primarily by pressures in the rental market. The presence of regulatory bottlenecks, i.e., lengthy building-permit processes, scarce land availability, and incentives that constrain new construction and keep prices elevated (see [2024 AIV SIP “Housing Affordability in Andorra”](#)). The authorities have been increasing investment in affordable housing, but uptake outside central locations is limited. Removing distortions in the housing market to foster a balance between supply and demand while supporting the vulnerable population could be a more efficient use of public resources to boost stock of affordable housing. In this regard, authorities’ plans to remove the rent freeze are welcome. The introduction of a new subsidized mortgage program for first-time buyers can provide valid help in shifting from renting to buying houses. Further improving coordination between parishes to have a consistent system of permits and fees could further promote housing investment.⁸

⁶ The [2025 AIV SIP “Andorra: analysis of income and drivers in a long-term perspective”](#) has a deeper analysis of sectoral diversification of Andorra and GVA decomposition compared to peers.

⁷ <https://www.ari.ad/en/news/the-government-presents-national-plan-innovation>

⁸ Among the measures, the authorities introduced a 3 to 10 percent tax on purchases by foreigners depending on the number of properties. The tax was assessed as a residency-based inflow capital flow management measure (CFMs). 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.

Authorities' Views

23. The authorities supported the need for structural reforms, especially towards diversification, further integration, and affordable housing. The authorities confirmed their commitment to the ratification of the EUAA, but they stressed that this is dependent on processes at the EU level, which have been slower than they expected. They view the transition costs related to the EUAA adoption as transitory and limited. They agreed on actions needed to diversify and strengthen regional integration. The authorities are working to improve connectivity with neighboring regions and initiatives—such as the heliport—are already at a very advanced stage. They agreed on the importance of deeper public-private collaborations, especially on innovative projects. The authorities acknowledged that allowing market forces to work while protecting the most vulnerable could help alleviate housing affordability shortages.

D. Statistical Capacity and Data Quality

24. Progress has been made to strengthen statistical data, but there is scope to improve further. The International Investment Position and Balance of Payments data for 2024 were published in July 2025 – 5 months sooner than the previous year – quarterly series have been released at the end of January 2026 for the period 2024Q1 to 2025Q2 (see Annex V). In addition, the Statistics Office released an “Andorra in Figures” publication for the first time— a dynamic visualization tool that facilitates broader dissemination of data to the public. Tourist flows and spending data have been improved in collaboration with Andorra Telecom and Andorran Banking Association. In 2025, new positions have been allocated or made permanent in the Department of Statistics to address the increasing variety and complexity of tasks, and more are planned over the next two years. Recent data revisions of headline national accounts numbers highlight the need to continue improving compilation and explaining when and why revisions occur.

25. A survey of available high-frequency indicators suggests they can be effective in understanding short-term trends. Goods imports (which are available monthly with a two-month lag) can provide insights into the gross value added (GVA) of construction, retail, and hospitality sectors, given that nearly all goods consumed or used as inputs of production in Andorra are imported. In the trade and hospitality sector, imports and GVA tend to grow at similar rates, reflecting the sector’s reliance on imported inputs (see Figure 1). GVA of construction is less correlated with imports of materials instead, as other components, such as labor inputs and inventories, are not captured. In line with these considerations, staff have combined the available high-frequency data with National Accounts to develop a nowcasting model of quarterly GDP growth. The model drawing on several series available at higher frequency, i.e., quarterly or monthly, can estimate GDP growth a few periods ahead (see 2026 AIV SIP on nowcasting).⁹

⁹ The full list of variables and descriptions are available in the 2026 Selected Issues Paper on nowcasting.

26. Improving data quality and timeliness would strengthen the analytical foundation for policy decisions and improve the credibility of economic assessments (Annex V). More timely and comprehensive expenditure-based GDP would help policymakers understand private investment better, which is an area being targeted by innovation policies. The IMF stands ready to continue to support Andorra in strengthening data compilation and reporting practices, to enhance transparency and provide more robust inputs for policymaking.

Authorities' Views

27. The authorities recognized the value of timely, sound statistics and of the nowcasting approach. They highlighted the recent increase in the number of staff at the Department of Statistics which increased its capacity and enabled faster data production. The authorities noted their increased focus on communication with the public, providing easier access to data via APIs, and improving information sharing. They plan to work with IMF on adapting the nowcasting model and are looking forward to continuing engaging with the IMF on statistical capacity building.

STAFF APPRAISAL

28. The Andorran economy continued to outperform expectations, but the war in the Middle East will weigh on growth and exert pressure on inflation in the near term. Growth in 2025 surprised on the upside for the second consecutive year driven by strong activity in financial services, real estate, and construction. Inflation projections for 2026–27 have been revised upward and growth reduced, reflecting higher import prices linked to the war in the Middle East and the potential reduced demand in tourism-dependent sectors. Inflation is expected to decline only gradually by end-2027, broadly in line with the developments in trading partners. A further escalation of the conflict and increased commodity price volatility pose a risk of higher inflation and lower output. The labor market is operating at near full employment, while the external position is assessed to be substantially larger than the level implied by fundamentals and desirable policies. Fiscal performance has remained robust, with continued surpluses supported by strong economic activity and conservative budget formulation, contributing to a further decline in public debt. While interest payments are expected to rise as debt is refinanced, the increase following the rollover of the 2027 notes is projected to be contained. Banks have continued to deliver solid profits while maintaining strong capital and liquidity buffers. Over the medium term, growth is projected to moderate and steadily converge towards its potential, as momentum from inbound immigration and related construction subsidies and tourism growth eases.

29. The authorities should maintain a balance between prudent fiscal management and growth-enhancing reforms. The looser fiscal stance in 2026 is broadly appropriate against the backdrop of slowing growth, however, the authorities should remain vigilant for signs of overheating and stand ready to tighten the fiscal stance if inflation remains elevated for longer than expected. Prudent fiscal management helps Andorra accumulate fiscal buffers important for a fully euroized microstate that is susceptible to external shocks. If the war in the Middle East is prolonged, or intensifies, automatic stabilizers should be allowed to operate as the first line of response and if

additional support is needed it should be delivered through temporary and well-targeted cash transfers. At the same time, closer budget execution would help increase public investment and advance the diversification agenda while adhering to the fiscal rule. Taking a holistic view of assets and liabilities can help the authorities keep interest costs low while managing their assets more efficiently.

30. The main challenges are medium-to long-term. Without timely reforms, population aging will put increasing strains on public finances through higher expenditures on pensions and healthcare. Pension reform is overdue and needs to be undertaken to pave the way for other reforms and enable efficient asset allocation. Tackling sources of growth in public healthcare expenditures can help make the system more sustainable while preserving its services and reach. Climate change already affects Andorra and poses additional risks, elevating the importance of developing a mitigation strategy and continuing diversification efforts. Approval of the EUAA would support alternative sources of growth, encourage foreign investment, and enhance resilience to shocks.

31. The upcoming FSAP is an important milestone for Andorra’s financial sector. While banks have continued to exhibit solid performance, their large size warrants continued close supervision. The upcoming FSAP provides an opportunity to assess progress in financial sector development and identify remaining vulnerabilities.

32. Structural reforms are needed to lift potential growth and broaden its sources. Reform momentum should be maintained, with a focus on improving housing affordability, deepening regional integration, strengthening digital adoption, and advancing diversification. Reducing housing market distortions and improving coordination across parishes would support labor mobility and investment. Further integration with neighboring economies, including through the EUAA, would enhance market access and attract investments, although transition costs will need to be carefully managed. Expanding vocational training, research and IT skills, and ensuring effective public-private coordination will be key to fostering a more diversified growth.

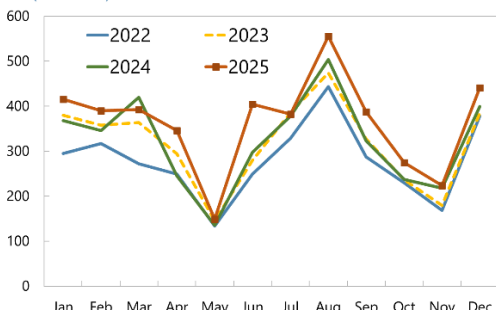
33. Continuing to strengthen data quality and coverage would help underpin sound policy design and monitoring. Recent progress, including more timely external sector statistics and enhanced tourism data is welcome but further efforts are needed, including clearer communication around revisions and filling vacant statisticians’ positions. Greater use of high-frequency indicators alongside national accounts data would improve near-term growth projections and enable more agile policy responses.

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

Figure 1. Andorra: High Frequency Indicators

The number of overnight tourists has increased in 2025...

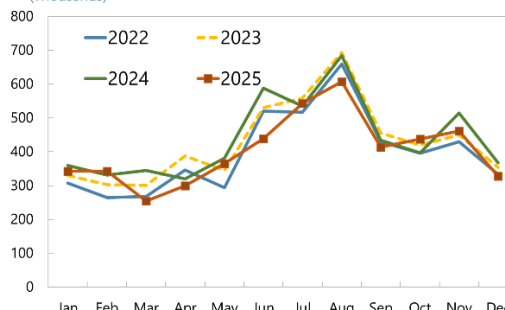
Number of Overnight Tourists
(Thousands)



Source: Andorran Authorities

... but with a lower number of same-day visitors.

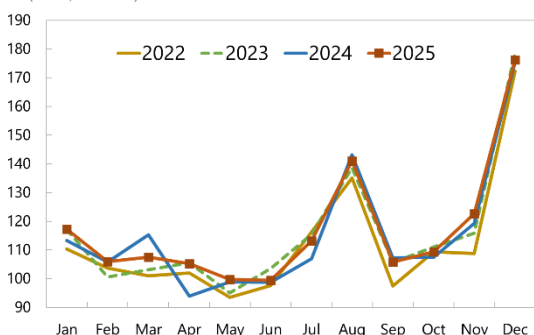
Number of Same-day Visitors
(Thousands)



Source: Andorran Authorities

Nominal retail sales in 2025 to date are broadly in line with past data.

Retail Sales
(Index, Nominal)



Source: Andorran Authorities

Imports related to retail trade and hospitality point to continued strength in GVA through the end of 2025.

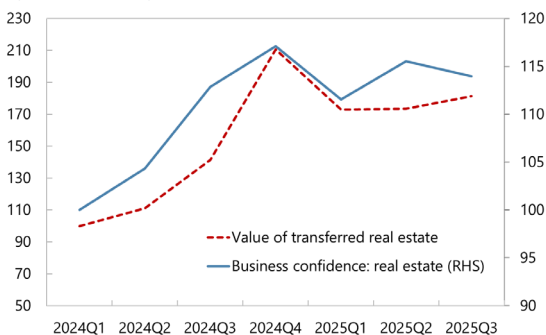
Trade and Hospitality: Imports and GVA



Note: 2025Q4 refers to the period October-November.
Sources: Andorran authorities and IMF Staff calculations.

The growth in real estate transactions stabilized in 2025 following a strong 2024, combined with sustained business confidence...

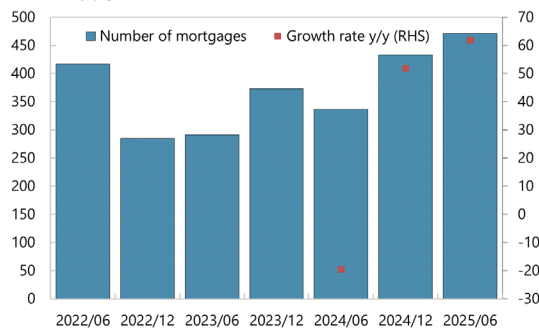
Real Estate: Transfers and Confidence
(Index 2024Q1=100)



Sources: Andorran authorities and IMF Staff calculations.

...and an increase in the number of mortgages granted.

Mortgages Granted
(number, y/y growth rates)

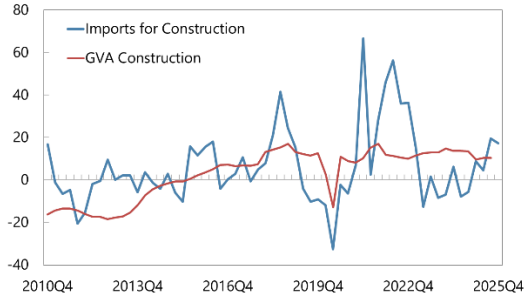


Sources: Andorran authorities and IMF Staff calculations.

Figure 1. Andorra High Frequency Indicators (concluded)

Strong imports of construction goods in the second half of 2025 have not translated into higher GVA growth before...

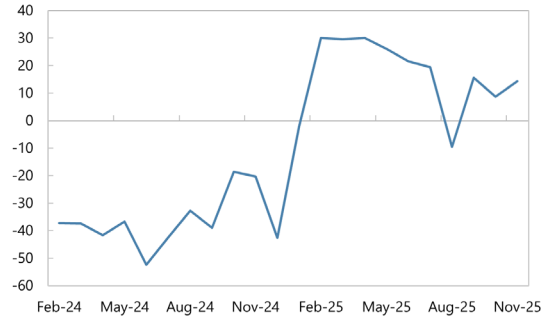
Construction: Imports and GVA
(y/y growth rates)



Note: 2025Q4 refers to the period October-November.
Sources: Andorran authorities and IMF Staff calculations.

...but energy consumption in the sector suggests activity remained robust.

Energy Consumption in the Construction Sector
(y/y growth rates)



Sources: Andorran authorities and IMF Staff calculations.

Table 1. Andorra: Selected Economic and Financial Indicators

I. Social Indicators										
Population (2025)	89,058		Population at risk of poverty (percent, 2024)		16.4					
Per capita income (2025, euros)	44,726		Human Development Index Rank (2023)		32 (out of 193)					
Gini Index (2024)	38.4		Life expectancy at birth (2024)		84.1					
II. Economic Indicators										
	2022	2023	2024	Projections						
				2025	2026	2027	2028	2029	2030	2031
(annual change, percent, unless otherwise indicated)										
NATIONAL ACCOUNTS AND PRICES										
Real GDP	9.6	2.6	3.8	3.9	2.1	1.8	1.7	1.6	1.5	1.5
Nominal GDP	14.2	9.0	6.7	6.6	5.0	4.1	3.7	3.6	3.5	3.5
GDP deflator	4.2	6.3	2.8	2.6	2.8	2.2	2.0	2.0	2.0	2.0
Prices										
Inflation (percent, period average)	6.2	5.6	3.1	2.4	3.0	2.3	2.0	2.0	2.0	2.0
Inflation (percent, end of period)	7.2	4.6	2.6	2.7	2.5	2.0	2.0	2.0	2.0	2.0
Unemployment rate (percent, period average)	2.1	1.5	1.5	1.1	1.1	1.1	1.2	1.3	1.3	1.5
EXTERNAL SECTOR										
(percent of GDP, unless otherwise indicated)										
Current account	11.6	14.2	15.9	15.9	16.0	16.0	16.1	16.2	16.2	16.2
Balance on goods and services	8.8	12.0	15.8	15.6	15.7	15.7	15.8	15.9	15.9	15.9
Exports of goods and services	80.9	83.7	89.8	89.7	88.8	88.6	88.7	88.8	88.9	89.0
Imports of goods and services	72.2	71.8	73.9	74.1	73.2	72.9	72.9	73.0	73.0	73.1
Primary income, net	4.3	3.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Secondary income, net	-1.4	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Capital account	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	12.7	13.5	17.0	15.9	16.0	16.0	16.1	16.2	16.2	16.2
Errors and omissions	1.1	-0.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves (millions of euros) 1/	338.4	338.7	402.1	397.2	397.2	397.2	397.2	397.2	397.2	397.2
FISCAL SECTOR										
(percent of GDP, unless otherwise indicated)										
General Government 2/										
Revenue	39.7	38.0	39.9	40.7	40.1	40.2	40.2	40.2	40.2	40.2
Expenditure	34.9	35.9	37.1	37.2	37.8	38.4	38.3	38.3	38.3	38.5
Interest	0.7	0.6	0.5	0.5	0.5	0.7	0.7	0.6	0.7	0.8
Primary balance	5.6	2.7	3.3	4.0	2.7	2.5	2.5	2.5	2.5	2.5
Net lending/borrowing (overall balance)	4.8	2.2	2.8	3.5	2.2	1.9	1.9	1.9	1.9	1.7
Public debt	38.9	35.4	32.9	30.3	28.0	26.9	26.3	25.7	25.1	24.5
Central Government 3/										
Revenue	21.7	19.8	21.4	22.6	21.3	21.5	21.5	21.5	21.5	21.5
Expenditure	18.7	19.1	20.2	20.2	21.0	21.4	21.4	21.4	21.4	21.6
Interest	0.7	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.7
Primary balance	3.6	1.2	1.7	2.9	0.7	0.6	0.6	0.6	0.6	0.6
Net lending/borrowing (overall balance)	2.9	0.7	1.2	2.4	0.3	0.1	0.1	0.1	0.1	-0.1
Public debt	37.1	34.0	31.8	29.4	27.4	26.3	25.6	25.0	24.4	23.8
BANKING SECTOR 4/										
(percent, unless otherwise indicated)										
Regulatory capital to risk-weighted assets	20.3	21.7	21.7	20.5	...	...	...	...	...	...
Nonperforming loans to total gross loans	3.3	2.2	1.9	2.0	...	...	...	...	...	...
Credit to nonfinancial private sector										
Level (percent of GDP)	116.4	101.3	95.5	90.5	...	...	...	...	...	...
Corporates	61.8	55.1	51.8	48.8	...	...	...	...	...	...
Households	54.6	46.2	43.7	41.7	...	...	...	...	...	...
Growth (nominal)	-1.7	-5.2	0.7	3.7	...	...	...	...	...	...
Corporates	2.6	-2.8	0.4	3.4	...	...	...	...	...	...
Households	-6.1	-7.8	1.0	4.0	...	...	...	...	...	...
Credit to public sector										
Level (percent of GDP)	2.2	1.8	1.3	1.0	...	...	...	...	...	...
Growth (nominal)	-8.4	-10.0	-23.8	-26.7	...	...	...	...	...	...
Memorandum items										
Exchange rate (€/USD, period average) 5/	0.95	0.92	0.92	0.89	0.86	0.86	0.86	0.86	0.86	0.85
Nominal GDP (millions of euros)	3,210	3,501	3,736	3,983	4,181	4,351	4,514	4,678	4,843	5,014
Output gap	7.0	1.5	2.9	2.4	0.8	0.7	0.5	0.3	0.0	0.0

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

1/ Gross international reserves in 2022 include €100 million deposited at the Bank of Spain, €40 million at the Banque de France, and €60 million at the Nederlandsche Bank. In 2024, additional €60 million reserves were accounted, mainly deposited at the Bank of Spain.

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

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

4/ Data for 2025 is as of Q3 and are preliminary, unaudited, and subject to revisions.

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

Table 2. Andorra: Balance of Payments

	2022	2023	2024	Projections						
				2025	2026	2027	2028	2029	2030	2031
	(millions of euros)									
Current account	373.8	497.8	595.6	633.7	667.2	697.0	726.6	756.1	783.7	813.5
Balance of goods and services	281.3	418.7	592.1	621.9	654.8	684.1	713.3	742.2	769.4	798.7
Imports of goods	1,694.5	1,740.9	1,804.7	1,931.8	2,002.1	2,075.0	2,157.6	2,236.0	2,317.6	2,401.7
Exports of goods	188.6	218.3	235.8	245.0	253.5	275.5	283.4	300.7	310.4	320.5
Imports of services	622.3	771.0	957.4	1,019.7	1,057.5	1,098.1	1,133.2	1,177.4	1,218.7	1,261.3
Exports of services	2,409.4	2,712.3	3,118.3	3,328.4	3,461.0	3,581.8	3,720.8	3,855.0	3,995.2	4,141.2
Primary income, net	138.0	122.9	57.4	69.2	72.6	75.6	78.4	81.2	84.1	87.1
Secondary income, net	-45.4	-43.8	-53.8	-57.4	-60.2	-62.7	-65.0	-67.4	-69.8	-72.2
Capital account	-0.5	-3.5	-2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	407.2	472.9	635.4	633.7	667.2	697.0	726.6	756.1	783.7	813.5
Direct investment, net	-427.9	-50.1	-137.5	-131.8	...	...	...	...	...	...
Portfolio investment, net	1,087.8	343.9	909.0	904.0	...	...	...	...	...	...
Financial derivatives, net	-39.3	-91.5	-7.3	-12.6	...	...	...	...	...	...
Other investment, net	-413.4	270.7	-173.4	-175.8	...	...	...	...	...	...
Reserve assets	200.0	0.0	44.5	0.0	...	...	...	...	...	...
Errors and omissions	33.9	-21.4	42.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(in percent of GDP)									
Current account	11.6	14.2	15.9	15.9	16.0	16.0	16.1	16.2	16.2	16.2
Balance of goods and services	8.8	12.0	15.8	15.6	15.7	15.7	15.8	15.9	15.9	15.9
Exports of goods and services	80.9	83.7	89.8	89.7	88.8	88.6	88.7	88.8	88.9	89.0
Exports of goods	5.9	6.2	6.3	6.2	6.1	6.3	6.3	6.4	6.4	6.4
Exports of services	75.1	77.5	83.5	83.6	82.8	82.3	82.4	82.4	82.5	82.6
Imports of goods and services	72.2	71.8	73.9	74.1	73.2	72.9	72.9	73.0	73.0	73.1
Imports of goods	52.8	49.7	48.3	48.5	47.9	47.7	47.8	47.8	47.9	47.9
Imports of services	19.4	22.0	25.6	25.6	25.3	25.2	25.1	25.2	25.2	25.2
Primary income, net	4.3	3.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Secondary income, net	-1.4	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Capital account	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	12.7	13.5	17.0	15.9	16.0	16.0	16.1	16.2	16.2	16.2
Direct investment, net	-13.3	-1.4	-3.7	-3.3	...	...	...	...	...	...
Portfolio investment, net	33.9	9.8	24.3	22.7	...	...	...	...	...	...
Financial derivatives, net	-1.2	-2.6	-0.2	-0.3	...	...	...	...	...	...
Other investment, net	-12.9	7.7	-4.6	-4.4	...	...	...	...	...	...
Reserve assets	6.2	0.0	1.2	0.0	...	...	...	...	...	...
Errors and omissions	1.1	-0.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Nominal GDP (millions, euros)	3,210	3,501	3,736	3,983	4,181	4,351	4,514	4,678	4,843	5,014
Gross international reserves (millions, euros) 1/	338.4	338.7	402.1	397.2	397.2	397.2	397.2	397.2	397.2	397.2
Gross international reserves (months of imports)	1.8	1.6	1.7	1.6	1.6	1.5	1.4	1.4	1.3	1.3
Total external debt (millions, euros)	5,252	5,106	5,422	...	...	...	...	...	...	...
of which: Short term (millions, euros)	2,887	2,676	2,475	...	...	...	...	...	...	...

Sources: Andorran authorities and IMF staff calculations.

1/ Gross international reserves in 2022 include €100 million deposited at the Bank of Spain, €40 million at the Banque de France, and €60 million at the Nederlandsche Bank. In 2024, additional €60 million reserves were accounted, mainly deposited at the Bank of Spain.

Table 3. Andorra: General Government Operations 1/

	2022	2023	2024	Projections						
				2025	2026	2027	2028	2029	2030	2031
	(millions of euros)									
Revenue	1,275.6	1,331.3	1,491.2	1,620.5	1,675.6	1,750.0	1,815.3	1,881.2	1,947.6	2,016.4
Tax Revenue	523.1	537.8	625.0	697.0	706.3	741.1	768.8	796.7	824.8	854.0
Income	150.7	170.0	209.7	273.1	258.1	274.7	284.9	295.3	305.7	316.5
Goods and services	152.1	159.2	169.2	184.6	195.6	203.5	211.1	218.8	226.5	234.5
International trade	149.9	127.8	151.4	138.4	146.6	152.6	158.3	164.0	169.8	175.8
Other	70.4	80.9	94.7	101.0	106.0	110.3	114.4	118.6	122.8	127.1
Social Contributions	312.5	351.9	384.1	409.5	429.8	447.3	464.0	480.9	497.8	515.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 2/	439.9	441.5	482.2	514.0	539.5	561.5	582.5	603.7	625.0	647.0
Expenditure	1,120.1	1,256.0	1,387.2	1,481.2	1,582.0	1,669.0	1,730.6	1,792.7	1,856.5	1,928.7
Current expenditure	982.5	1,089.1	1,198.8	1,278.8	1,363.2	1,441.3	1,494.4	1,548.0	1,603.1	1,666.3
Wages and salaries	246.7	276.4	300.5	325.2	355.1	382.9	397.2	411.6	426.2	441.2
Goods and services	161.8	176.4	193.9	199.9	217.9	226.8	235.3	243.8	252.4	261.3
Subsidies and transfers	551.2	616.6	684.6	734.4	770.8	802.3	832.3	862.5	892.9	924.5
Interest	22.7	19.7	19.7	19.3	19.3	29.3	29.7	30.0	31.6	39.3
Net acquisition of non-financial assets	137.6	166.9	188.4	202.3	218.8	227.7	236.2	244.8	253.4	262.3
Net acquisition of fixed assets	72.3	100.6	115.4	141.0	152.5	158.7	164.6	170.6	176.6	182.8
Capital transfers	65.3	66.3	73.0	61.3	66.3	69.0	71.6	74.2	76.8	79.5
Primary balance	178.2	94.9	123.7	158.6	112.9	110.2	114.4	118.5	122.7	127.0
Net lending/borrowing	155.5	75.3	104.0	139.4	93.6	80.9	84.7	88.5	91.1	87.7
Financing										
Net acquisition of financial assets	38.3	79.7	102.9	116.7	60.0	80.9	99.5	102.4	105.0	101.1
Domestic	38.3	79.7	102.9	116.7	60.0	80.9	99.5	102.4	105.0	101.1
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	-117.2	4.5	-1.1	-22.7	-33.6	0.0	14.9	13.9	13.9	13.4
Domestic	-621.2	4.5	-1.1	-6.3	0.0	0.0	15.0	15.0	13.0	12.5
New Issuances	9.9	5.6	0.0	0.0	0.0	0.0	15.0	15.0	13.0	12.5
Amortization	631.2	1.1	1.1	6.3	0.0	0.0	0.0	0.0	0.0	0.0
External	504.0	0.0	0.0	-16.4	-33.6	0.0	-0.1	-1.1	0.9	0.9
New Issuances	504.0	0.0	0.0	0.0	10.0	500.0	0.0	0.0	0.0	500.0
Amortization	0.0	0.0	0.0	16.4	43.6	500.0	0.1	1.1	-0.9	499.1
	(percent of GDP)									
Revenue	39.7	38.0	39.9	40.7	40.1	40.2	40.2	40.2	40.2	40.2
Tax Revenue	16.3	15.4	16.7	17.5	16.9	17.0	17.0	17.0	17.0	17.0
Income	4.7	4.9	5.6	6.9	6.2	6.3	6.3	6.3	6.3	6.3
Goods and services	4.7	4.5	4.5	4.6	4.7	4.7	4.7	4.7	4.7	4.7
International trade	4.7	3.7	4.1	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Other	2.2	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Social Contributions	9.7	10.1	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
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	12.6	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
Expenditure	34.9	35.9	37.1	37.2	37.8	38.4	38.3	38.3	38.3	38.5
Current expenditure	30.6	31.1	32.1	32.1	32.6	33.1	33.1	33.1	33.1	33.2
Wages and salaries	7.7	7.9	8.0	8.2	8.5	8.8	8.8	8.8	8.8	8.8
Goods and services	5.0	5.0	5.2	5.0	5.2	5.2	5.2	5.2	5.2	5.2
Subsidies and transfers	17.2	17.6	18.3	18.4	18.4	18.4	18.4	18.4	18.4	18.4
Interest	0.7	0.6	0.5	0.5	0.5	0.7	0.7	0.6	0.7	0.8
Net acquisition of non-financial assets	4.3	4.8	5.0	5.1	5.2	5.2	5.2	5.2	5.2	5.2
Net acquisition of fixed assets	2.3	2.9	3.1	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Capital transfers	2.0	1.9	2.0	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Primary balance	5.6	2.7	3.3	4.0	2.7	2.5	2.5	2.5	2.5	2.5
Net lending/borrowing	4.8	2.2	2.8	3.5	2.2	1.9	1.9	1.9	1.9	1.7
Financing										
Net acquisition of financial assets	1.2	2.3	2.8	2.9	1.4	1.9	2.2	2.2	2.2	2.0
Domestic	1.2	2.3	2.8	2.9	1.4	1.9	2.2	2.2	2.2	2.0
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	-3.7	0.1	0.0	-0.6	-0.8	0.0	0.3	0.3	0.3	0.3
Domestic	-19.4	0.1	0.0	-0.2	0.0	0.0	0.3	0.3	0.3	0.2
New Issuances	0.3	0.2	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.2
Amortization	19.7	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
External	15.7	0.0	0.0	-0.4	-0.8	0.0	0.0	0.0	0.0	0.0
New Issuances	15.7	0.0	0.0	0.0	0.2	11.5	0.0	0.0	0.0	10.0
Amortization	0.0	0.0	0.0	0.4	1.0	11.5	0.0	0.0	0.0	10.0
Memorandum items										
Gross Financing Needs (millions, euros)	475.6	0.0	0.0	0.0	0.0	419.1	0.0	0.0	0.0	411.4
Percent of GDP	14.8	0.0	0.0	0.0	0.0	9.6	0.0	0.0	0.0	8.2
Public Debt (millions of euros)	1,249.3	1,240.6	1,228.9	1,206.2	1,172.6	1,172.6	1,187.4	1,201.3	1,215.2	1,228.5
Percent of GDP	38.9	35.4	32.9	30.3	28.0	26.9	26.3	25.7	25.1	24.5
Nominal GDP (millions, euros)	3,210.3	3,500.6	3,736.4	3,983.2	4,180.8	4,351.3	4,513.8	4,677.8	4,842.9	5,013.8

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 4. Andorra: Central Government Operations 1/

	2022	2023	2024	Projections						
				2025	2026	2027	2028	2029	2030	2031
	(millions of euros)									
Revenue	695.5	694.0	801.1	901.4	892.6	935.0	970.4	1,005.8	1,041.5	1,078.2
Tax Revenue	468.5	478.1	564.0	637.9	624.5	655.9	680.4	705.1	730.0	755.8
Income	150.8	170.0	209.7	273.1	258.1	274.7	284.9	295.3	305.7	316.5
Goods and services	164.0	175.2	169.2	184.6	195.6	203.5	211.1	218.8	226.5	234.5
International trade	149.9	127.8	151.4	138.4	146.6	152.6	158.3	164.0	169.8	175.8
Other	3.8	5.2	33.8	41.8	24.1	25.1	26.1	27.0	28.0	28.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 2/	227.0	215.9	237.0	263.5	268.1	279.1	290.0	300.7	311.4	322.4
Expenditure	600.9	670.1	755.5	804.1	878.3	932.0	966.2	1,000.7	1,035.5	1,083.3
Current expenditure	540.8	597.6	656.9	684.8	743.0	791.2	820.2	849.4	878.8	921.1
Wages and salaries	185.3	208.9	228.1	240.6	268.3	290.3	301.1	312.0	323.0	334.4
Goods and services	108.0	115.4	129.1	132.0	144.8	152.3	158.0	163.7	169.5	175.5
Subsidies and transfers	225.8	255.7	282.5	295.4	313.0	325.8	337.9	350.2	362.6	375.4
Interest	21.6	17.5	17.2	16.8	16.9	22.9	23.1	23.4	23.7	35.8
Net acquisition of non-financial assets	60.1	72.5	98.6	119.2	135.3	140.8	146.0	151.3	156.7	162.2
Net acquisition of fixed assets	26.9	33.9	56.5	73.0	81.8	85.2	88.4	91.6	94.8	98.2
Capital transfers	33.2	38.6	42.1	46.3	53.4	55.6	57.7	59.8	61.9	64.1
Primary balance	116.3	41.4	62.7	114.2	31.2	25.9	27.4	28.5	29.7	30.7
Net lending/borrowing	94.6	24.0	45.6	97.4	14.3	3.0	4.2	5.1	6.0	-5.1
Financing										
Net acquisition of financial assets	-17.0	22.8	44.4	79.8	-11.8	1.9	18.1	18.9	17.9	6.2
Domestic	-17.0	22.8	44.4	79.8	-11.8	1.9	18.1	18.9	17.9	6.2
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	-111.6	-1.1	-1.1	-17.5	-26.1	-1.1	13.9	13.9	11.9	11.4
Domestic	-615.6	-1.1	-1.1	-1.1	0.0	0.0	15.0	15.0	13.0	12.5
New Issuances	15.5	0.0	0.0	0.0	0.0	0.0	15.0	15.0	13.0	12.5
Amortization	631.2	1.1	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
External	504.0	0.0	0.0	-16.4	-26.1	-1.1	-1.1	-1.1	-1.1	-1.1
New Issuances	504.0	0.0	0.0	0.0	10.0	500.0	0.0	0.0	0.0	500.0
Amortization	0.0	0.0	0.0	16.4	36.1	501.1	1.1	1.1	1.1	501.1
	(percent of GDP)									
Revenue	21.7	19.8	21.4	22.6	21.3	21.5	21.5	21.5	21.5	21.5
Tax Revenue	14.6	13.7	15.1	16.0	14.9	15.1	15.1	15.1	15.1	15.1
Income	4.7	4.9	5.6	6.9	6.2	6.3	6.3	6.3	6.3	6.3
Goods and services	5.1	5.0	4.5	4.6	4.7	4.7	4.7	4.7	4.7	4.7
International trade	4.7	3.7	4.1	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Other	0.1	0.1	0.9	1.1	0.6	0.6	0.6	0.6	0.6	0.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 2/	7.1	6.2	6.3	6.6	6.4	6.4	6.4	6.4	6.4	6.4
Expenditure	18.7	19.1	20.2	20.2	21.0	21.4	21.4	21.4	21.4	21.6
Current expenditure	16.8	17.1	17.6	17.2	17.8	18.2	18.2	18.2	18.1	18.4
Wages and salaries	5.8	6.0	6.1	6.0	6.4	6.7	6.7	6.7	6.7	6.7
Goods and services	3.4	3.3	3.5	3.3	3.5	3.5	3.5	3.5	3.5	3.5
Subsidies and transfers	7.0	7.3	7.6	7.4	7.5	7.5	7.5	7.5	7.5	7.5
Interest	0.7	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.7
Net acquisition of non-financial assets	1.9	2.1	2.6	3.0	3.2	3.2	3.2	3.2	3.2	3.2
Net acquisition of fixed assets	0.8	1.0	1.5	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Capital transfers	1.0	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Primary balance	3.6	1.2	1.7	2.9	0.7	0.6	0.6	0.6	0.6	0.6
Net lending/borrowing	2.9	0.7	1.2	2.4	0.3	0.1	0.1	0.1	0.1	-0.1
Financing										
Net acquisition of financial assets	-0.5	0.7	1.2	2.0	-0.3	0.0	0.4	0.4	0.4	0.1
Domestic	-0.5	0.7	1.2	2.0	-0.3	0.0	0.4	0.4	0.4	0.1
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	-3.5	0.0	0.0	-0.4	-0.6	0.0	0.3	0.3	0.2	0.2
Domestic	-19.2	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.2
New Issuances	0.5	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.2
Amortization	19.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	15.7	0.0	0.0	-0.4	-0.6	0.0	0.0	0.0	0.0	0.0
New Issuances	15.7	0.0	0.0	0.0	0.2	11.5	0.0	0.0	0.0	10.0
Amortization	0.0	0.0	0.0	0.4	0.9	11.5	0.0	0.0	0.0	10.0
Memorandum items										
Gross Financing Needs (millions, euros)	536.5	0.0	0.0	0.0	21.8	498.1	0.0	0.0	0.0	506.3
Percent of GDP	16.7	0.0	0.0	0.0	0.5	11.4	0.0	0.0	0.0	10.1
Public Debt (millions of euros)	1,190.4	1,189.2	1,188.1	1,170.6	1,144.4	1,143.3	1,157.1	1,171.0	1,182.9	1,194.2
Percent of GDP	37.1	34.0	31.8	29.4	27.4	26.3	25.6	25.0	24.4	23.8
Nominal GDP (millions, euros)	3,210.3	3,500.6	3,736.4	3,983.2	4,180.8	4,351.3	4,513.8	4,677.8	4,842.9	5,013.8

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 5. Andorra: Financial Soundness Indicators

	2021	2022	2023	2024	2025Q1	2025Q2	2025Q3
	(percent)						
Core FSIs for Deposit takers							
Regulatory capital to risk-weighted assets	22.2	20.3	21.7	21.7	21.2	20.7	20.5
Regulatory Tier 1 capital to risk-weighted assets	21.5	19.5	20.8	20.9	20.4	20.0	19.7
Nonperforming loans net of provisions to capital	15.4	10.3	6.8	6.1	5.9	6.2	6.4
Nonperforming loans to total gross loans	5.1	3.3	2.2	1.9	1.8	1.9	2.0
Sectoral distribution of loans to total loans							
Residents	55.3	58.6	56.1	56.1	54.1	56.9	57.8
Deposit-takers	0.4	0.3	0.2	0.2	0.5	0.4	0.3
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	2.5	3.2	2.9	3.5	3.8	4.1	4.2
General government	1.0	1.0	0.9	0.7	0.7	0.8	0.6
Nonfinancial corporations	26.3	28.7	28.3	28.0	26.7	27.9	28.4
Other domestic sectors	25.1	25.4	23.8	23.6	22.5	23.7	24.3
Nonresidents	44.7	41.4	43.9	44.0	45.9	43.1	42.2
Return on assets	0.5	0.6	1.0	1.1	0.2	0.4	0.6
Return on equity	4.0	6.6	9.0	9.6	1.7	3.6	5.7
Interest margin to gross income	22.2	29.2	49.2	47.2	48.6	48.5	47.6
Noninterest expenses to gross income	77.4	79.0	70.7	67.6	72.4	72.3	71.4
Liquidity coverage ratio (LCR)	220.3	218.3	199.4	210.0	185.3	167.6	167.5
Liquid assets to short-term liabilities	11.9	11.7	9.5	11.2	12.8	12.3	14.1
Net open position in foreign exchange to capital	0.0	0.0	0.1	0.0	0.3	0.1	0.3
Encouraged FSIs for Deposit takers							
Capital to assets	11.2	9.6	10.9	11.2	11.2	10.9	11.2
Large exposures to capital	138.7	173.4	149.4	127.9	126.1	119.4	122.1
Gross asset position in financial derivatives to capital	12.9	23.0	17.0	16.1	13.6	16.3	12.7
Gross liability position in financial derivatives to capital	9.6	13.8	12.0	11.9	8.6	10.3	7.6
Trading income to total income	10.3	9.7	4.7	3.8	12.2	11.5	5.2
Personnel expenses to noninterest expenses	49.8	47.8	47.8	45.2	47.1	47.5	48.0
Customer deposits to total (noninterbank) loans	159.2	181.2	160.8	159.0	162.3	153.1	155.3
Foreign-currency-denominated loans to total loans	0.0	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	17.8	18.1	16.2	15.5

Source: Andorran authorities.

Note: Data for 2025Q3 are preliminary and unaudited, and subject to revisions.

Annex I. External Sector Assessment

Overall Assessment: *The external position of Andorra in 2025 was **substantially** 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. IMF staff projects current account data but do not project the financial account and IIP beyond the current year. The first quarterly estimates of the BOP/IIP position by the authorities have been released at the end of January 2026 with the series starting in 2024Q1. The annual data for 2025 are expected to be available in July 2026.

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 well 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.

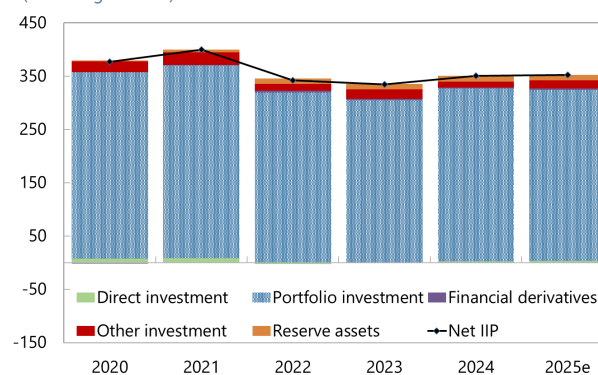
Foreign Assets and Liabilities: Position and Trajectory

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. The net asset position in other investments (currency and deposits) is also positive, albeit smaller, and reflects the cross-border positions between banks and domestic banks being net lenders to the rest of the world. The net IIP position peaked at 400 percent of GDP in 2021 and declined recently, then rebounding to 352.5 percent of GDP in 2025Q2. FDI assets were slightly higher than liabilities in 2025Q2, for a net positive of 125 million euros. Around 35 percent of the total liabilities owed by Andorra in 2025Q2 were concentrated in currency and deposits from non-residents (estimated at 75.3 percent of GDP), which can pose liquidity risk, albeit they are decreasing over time.

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

International Investment Position

(Percentage of GDP)



Sources: Andorran Authorities and IMF Staff Calculations

Lender of Last Resort facility in December 2022 to provide emergency liquidity assistance to distressed but solvent banks. Effective supervision to address any emerging banking risks is essential to ensure the stability of the domestic banking sector.

Andorra: International Investment Position, 2022–25
(In percent of GDP)

ASSETS	2022	2023	2024	2025 1/	LIABILITIES	2022	2023	2024	2025 1/
Total	579.9	553.6	568.2	560.1	Total	237.4	218.8	217.5	207.6
Direct investment	51.8	55.5	56.8	54.8	Direct investment	54.9	55.7	54.7	51.7
Equity	51.8	55.4	56.7	54.7	Equity	54.7	54.0	53.4	50.7
Debt	0.0	0.1	0.1	0.1	Debt	0.1	1.7	1.3	1.0
Portfolio investment	365.5	350.8	369.1	368.4	Portfolio investment	46.5	46.0	44.0	47.0
Equity	147.3	142.7	153.7	155.7	Equity	14.3	15.1	15.2	15.9
Debt	218.2	208.1	215.3	212.7	Debt	32.2	30.9	28.8	31.1
Financial derivatives	8.1	6.1	5.2	5.3	Financial derivatives	4.8	3.8	3.8	2.8
Other investment	144.0	131.5	126.4	121.6	Other investment	131.3	113.3	115.0	106.1
o/w Currency and deposit	115.4	102.3	95.9	78.5	o/w Currency and deposit	106.9	90.8	85.1	75.3

Source: Andorran authorities and IMF staff calculations.
1/ Preliminary data based on 2025Q2

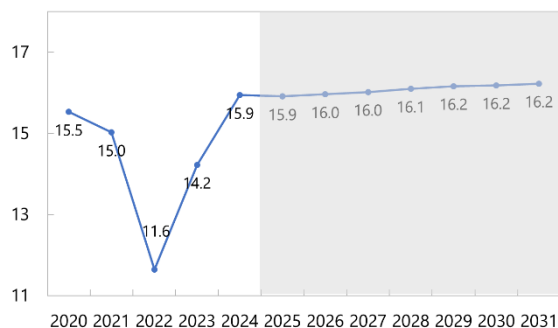
2025Q2 (% GDP)	NIIP: 352.5	Gross Assets: 560.1	Debt Assets: 212.8	Gross Liab.: 207.6	Debt Liab.: 32.1
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Current Account

Background. Andorra has one of the largest current account surpluses in the world and it is projected to remain high—largely driven by trade balance related to tourism.

After deteriorating in 2022, the current account balance rebounded in 2023 and is expected to strengthen further in 2025 with the full resumption of tourism and a contained rise in energy prices under long-term supply contracts, despite a small decline in primary income (-5 percent projected in 2025 compared to 2024). The previous sharp decline in primary income in 2024 was driven by a surge in investment income outflows—mainly higher returns paid to foreign investors—while receipts from Andorran investments abroad remained broadly unchanged. The balance is projected to remain stable in 2026, as tourism offsets the increase in the value of imported goods. The number of visitors (tourists and same-day visitors) slightly decreased in 2025 is in line with the previous year, stabilizing at around 9 million. The current account surplus is expected to remain slightly above 16 percent of GDP through 2031.

Current Account Balance
(Percentage of GDP)



Sources: Andorran authorities and IMF staff calculations.

Assessment. The CA model suggests that the external position of Andorra in 2025, at 15.9 percent of GDP, is substantially stronger than the level implied by fundamentals and desirable policies, estimated at 11.2 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

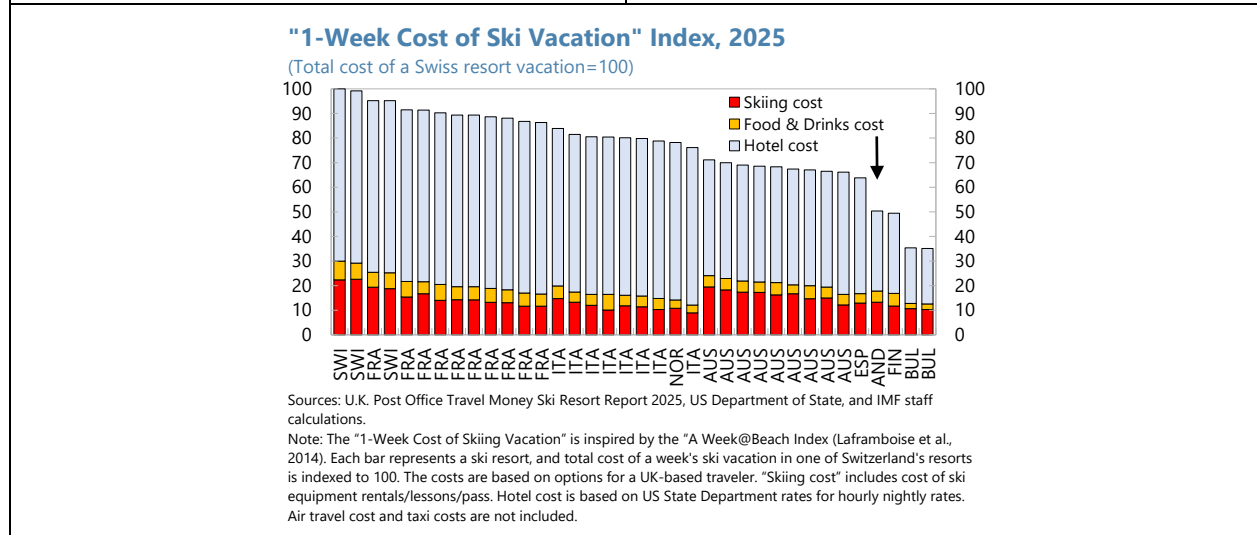
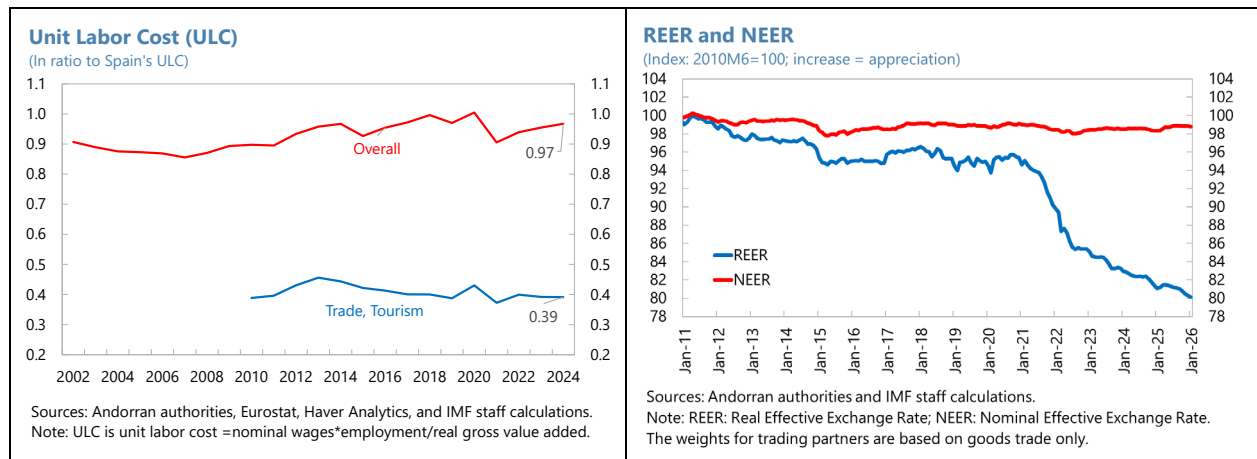
current account gap is estimated at 5.6 percent of GDP and the corresponding REER undervaluation at 10.5 percent of GDP. The current account relative policy gap is estimated at 4.8 percent of GDP (relative to policy gaps across the world), mostly reflecting a looser world average fiscal and monetary stance and lower than desirable credit level in Andorra, which contributes to the large savings-investment gap. The outlook is subject to risks from potential volatility in commodity prices, slower-than-expected tourism demand, and external shocks that could decrease the trade balance.

Andorra: Model Estimates for 2025		
(In percent of GDP)		
	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	15.9	
Cyclical contributions (from model) (-)	-0.4	
Natural disasters and conflicts (-)	-0.4	
Adjusted CA	16.7	
CA Norm (from model) 2/	11.2	
Adjusted CA Norm	11.2	
CA Gap	5.6	6.6
o/w Relative policy gap	4.8	
Elasticity	-0.5	
REER Gap (in percent)	-10.5	-12.5
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 substantially stronger than the level implied by fundamentals and desirable policies. The decline in CPI-based REER moderated and the rate depreciated further but only by 3.5 percent in the last two years. This is partly because the weighted average of trade partners' inflation is still above Andorra CPI, albeit Spain and France inflation slowing down. Measures of Unit Labor Costs (ULC) show that Andorra's ULC are around 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.

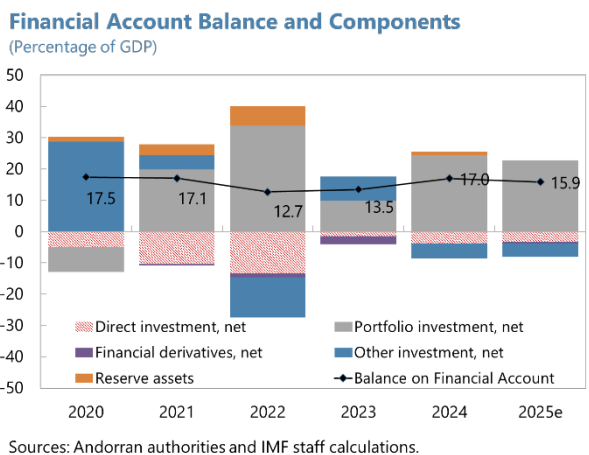
Assessment. Staff assess the REER to be undervalued based on the CA model. The REER gap suggested by the CA gap model and the one indicated by the REER index model suggest an undervaluation of 10.5 and 12.5 percent respectively with a current account gap of 5.6 and 6.6 percent of GDP.



Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account position, after declining to around 13 percent of GDP in last two years, increased back to 17 percent in 2024 and is expected to stay high at 15.9 percent in 2025 as reserve assets have not changed. This recent increase compared to 2023 is mainly due to higher net portfolio investment reaching 22.9 percent in 2025. FDIs and other investments over GDP are expected to stay negative again in 2025.

Assessment. Despite Andorra's strong external position as shown by the large positive financial account, this is very much dependent on net portfolio investments and other investments, mainly large share of non-resident deposits. This makes the country subject to external and balance of payments-related shocks due to trade and financial openness.

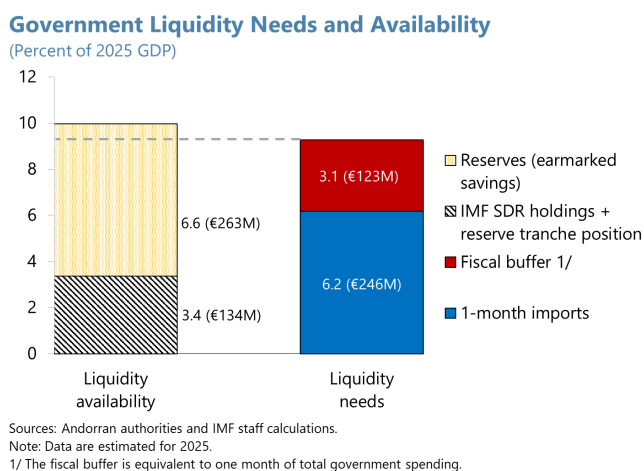


FX Intervention and Reserves Level

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. Additional international reserves of around €60 million were accounted for in 2024, mostly deposited to the Bank of Spain. The total reserve assets (incl. IMF position and SDRs) count for about €400 million, i.e., around 10 percent of GDP in 2025.

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 international reserves on a precautionary basis. Staff assess that the reserves should amount to 9.3 percent of GDP in 2025 under the assumption that banks have enough high-quality liquid assets to cover their liquidity needs based on their Liquidity Coverage Ratio (LCR) which is at 261 percent (See [2022 Article IV Staff Report - Annex IV](#) for calculations). The available liquidity still exceeded the needs by 0.7 percent of GDP (around €30 million). In addition, they are exploring additional funding sources to continue expanding the stock of reserves.



Annex II. Risk Assessment Matrix¹

Sources of Risk	Likelihood of Risk (High, Medium, Low)	Expected Impact of Risk (High, Medium, Low)	Policy Responses
Conjunctural Risks			
Commodity Price Volatility	High. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	Medium/High. Andorra imports commodities from France and Spain so it is naturally exposed to their prices and volatility through its suppliers. This can affect inflation as well as output. However, France and Spain electricity generation is less fossil-fuel dependent and longer-term contract contracts with Andorra act as a partial hedge against commodity price volatility.	<ul style="list-style-type: none"> The country should maintain its strategy of diversifying sources of electricity. Further investments in own (green) production could help improve hedging against stocks.
Geopolitical Tensions and Intensification of Conflicts.	High. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	Medium. Rising costs can impact on the country negatively, as it is heavily dependent on goods imports, including food. As a microstate, Andorra is directly impacted through imported quantities and prices.	<ul style="list-style-type: none"> Maintaining fiscal policy flexibility, close financial supervision, and structural reforms could smooth spillover effects. Implement policies to cope with volatile food prices, including diversification of trade partners.
Structural risks			
Cyberthreats	High. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	Medium. Andorra has experienced cyberattacks in the past, resulting in disrupted internet and cellular service, and increased malware incidents. The country has a single internet provider, making it more prone to shutdowns. The financial system is now better prepared to face cyberthreats, as highlighted in recent stress tests.	<ul style="list-style-type: none"> The country should continue testing possible responses to cybersecurity incidents, preparing strategies and alternatives. Andorra should continue monitoring banks resilience to cyberthreats.
Climate change	Medium. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability	Medium. 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. More frequent extreme climate events could also limit access to infrastructure and disrupt connections with neighboring countries.	<ul style="list-style-type: none"> Develop adaptation policies to respond to climate change. Provide targeted and temporary support to ski-related businesses, as needed. Reduce the economy's dependence on winter tourism.
Labor Shortages and Remittances.	High. Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. Origin countries see depressed remittances and incomes, and worsening external balances, though a larger labor force could partly offset the remittance decline over the medium term.	High/ 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.	<ul style="list-style-type: none"> Policies to reduce administrative rigidity and implement measures to attract and retain talent. Public investment in education, including in trade schools linked to construction and hospitality, and well-

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
			designed immigration policies.
Domestic Risks			
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 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.	<ul style="list-style-type: none"> The authorities should aim to provide market-based incentives for investing in affordable housing to increase stocks while minimizing distortions and to use the existing housing stock more efficiently. 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.
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, limited sovereign-bank nexus, and an emergency liquidity support facility.	<ul style="list-style-type: none"> 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.
Domestic reforms slippage	Medium. Population aging in Andorra can increase public expenditures on pensions and healthcare. The strong track record of prudent fiscal management by the authorities mitigates the risk.	Medium. If structural reforms are not implemented, public pension and healthcare spending in Andorra will be higher, limiting fiscal space and opportunities to invest to increase growth.	<ul style="list-style-type: none"> The authorities need to implement timely pension and healthcare reforms to contain age-related spending pressures.
Dependency on limited road infrastructure	Medium / Low. The country has only two roads connecting it to France and Spain, creating a dependency. Any closure can impact tourism and goods imports, and extreme weather events may increase the likelihood of incidents.	High. The closure of the road to France at Pas de la Casa at the end of January 2026 highlighted the dependency of infrastructure in neighboring countries. A closure of similar duration on the road to Spain would have a much larger impact.	<ul style="list-style-type: none"> The authorities should seek to strengthen cooperation further with neighboring countries to address potential risks. Pursue alternative infrastructure, including train and/or heliport connections.

Annex III. Sovereign Risk and Debt Sustainability Annex

Andorra's overall risk of sovereign stress is low. Public debt is projected to decrease to 29 percent of GDP by 2026, supported by primary surpluses over the medium term. Pre-emptive repurchase of outstanding debt helps mitigate rollover risks while projected fiscal surpluses should further reduce debt. The authorities should undertake timely pension and healthcare reforms to keep low debt risk profile over the longer term.

1. Repurchase of outstanding notes supports debt reduction. Strong economic growth and accumulated primary surpluses enabled the authorities to repurchase €16.4 million of 2031 notes in December 2025. This operation, combined with robust nominal GDP growth, helped bring total public debt to below 31 percent of GDP.

2. Fiscal surpluses and growth will drive further debt reduction over the medium term. Over the medium term, Andorra is projected to continue recording fiscal surpluses, which—together with nominal GDP growth—should support further reductions in public debt. The authorities plan to undertake additional repurchases of outstanding notes, which would help bring total public debt below 30 percent of GDP in 2026. The government plans to refinance the maturing €500 million 2027 notes with similar instruments.

3. Continuation of prudent policies and timely reforms will be important to preserve a solid debt profile over the long term. Risks to the public debt trajectory are assessed as low across all horizons under the Sovereign Risk and Debt Sustainability Framework. Refinancing of notes maturing in 2027 and 2031 is likely to occur at higher interest rates than those when borrowed in 2021–22, increasing debt servicing costs. Pre-emptive debt repurchases by the authorities should help reduce rollover risks. Continued prudent fiscal policy is expected to sustain primary surpluses, mitigating the impact of higher interest costs. Over the longer term, population aging will increase pension and healthcare expenditures. The baseline scenario assumes that the authorities will implement timely pension and healthcare reforms, consistent with their track record of prudent fiscal management. Timely reforms will therefore be essential to contain age-related spending pressures and preserve Andorra's strong debt profile.

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

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/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Andorra is at a low risk of sovereign stress. The debt ratio is projected to fall below 30 percent of GDP in 2026. Sustained primary balances together with nominal GDP growth are projected to support a continued 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

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

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				
<table border="1"> <tr><td>CPS</td></tr> <tr><td>NFPS</td></tr> <tr><td>GG: expected</td></tr> <tr><td>CG</td></tr> </table>	CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
	CPS														
	NFPS														
	GG: expected														
	CG														
	2	Extra-budget. funds									0				
	3	Social security funds									0				
	4	State govt.									0				
5	Local govt.									0					
6	Nonfin pub. corp.									0					
7	Central bank									0					
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.

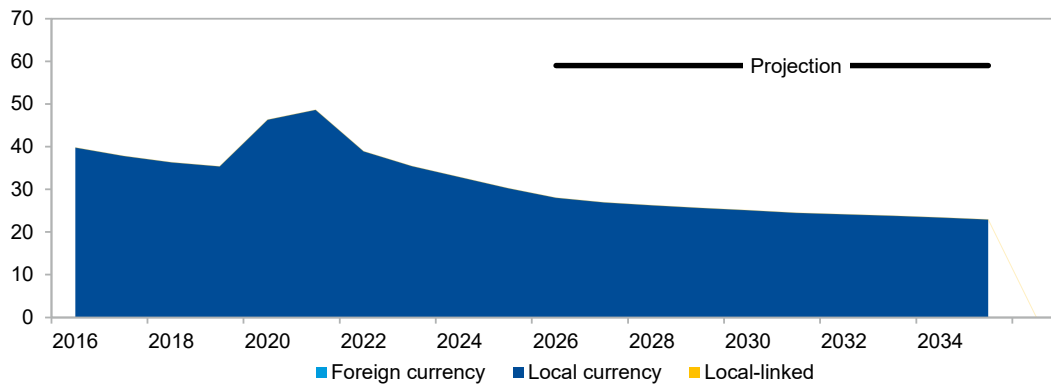
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

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

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

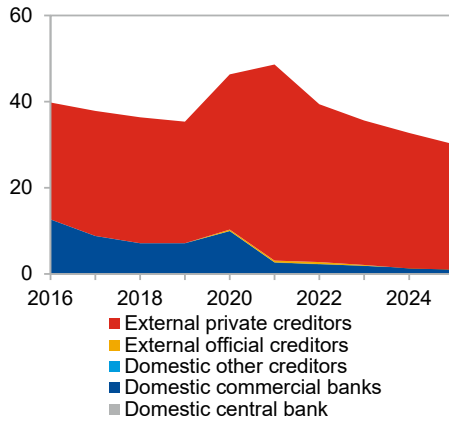
Public Debt Structure Indicators

Debt by currency (percent of GDP)



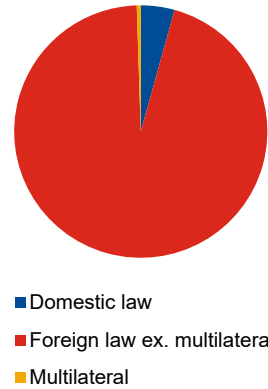
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



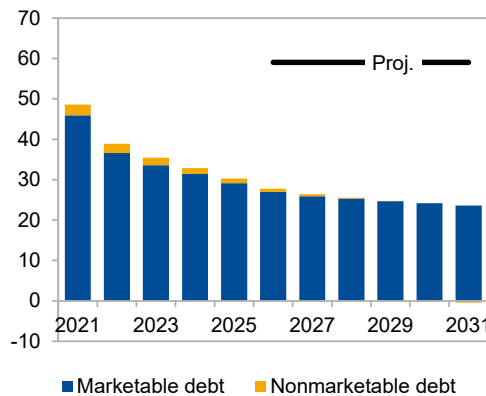
Note: The perimeter shown is general government.

Public debt by governing law, 2025 (percent)



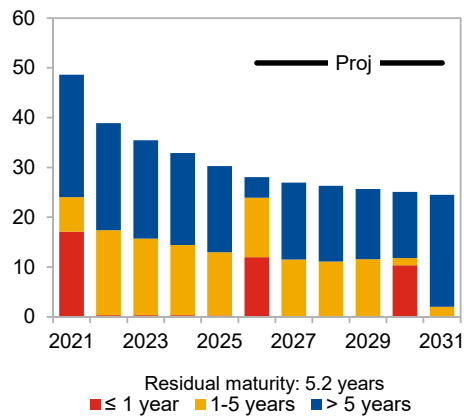
Note: The perimeter shown is general government.

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)

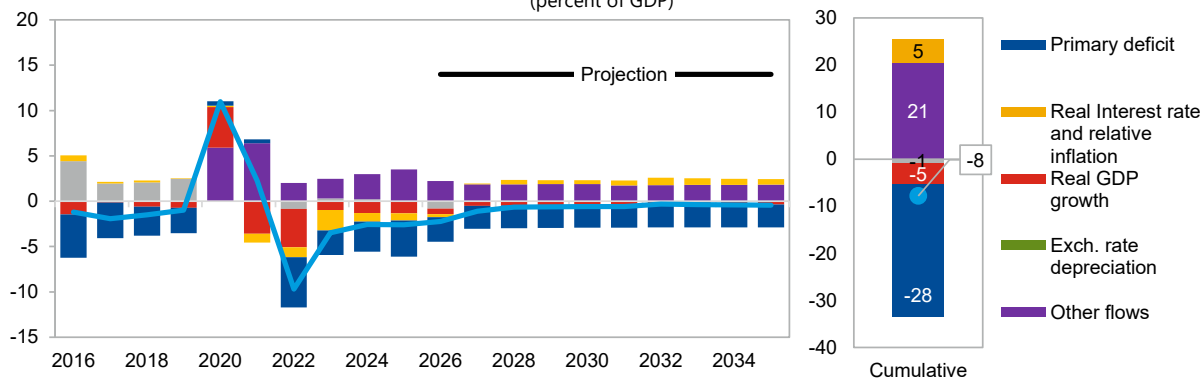
Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	30.3	28.0	26.9	26.3	25.7	25.1	24.5	24.2	23.8	23.4	23.0
Change in public debt	-2.6	-2.2	-1.1	-0.6	-0.6	-0.6	-0.6	-0.3	-0.4	-0.4	-0.4
Contribution of identified flows	-2.5	-1.4	-1.1	-0.6	-0.6	-0.6	-0.6	-0.3	-0.4	-0.4	-0.4
Primary deficit	-4.0	-2.7	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Noninterest revenues	40.7	40.1	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2
Noninterest expenditures	36.7	37.4	37.7	37.7	37.7	37.7	37.7	37.7	37.7	37.7	37.7
Automatic debt dynamics	-2.0	-1.0	-0.4	0.0	0.0	0.1	0.2	0.4	0.4	0.3	0.3
Real interest rate and relative inflation	-0.8	-0.3	0.1	0.5	0.4	0.4	0.6	0.8	0.7	0.7	0.6
Real interest rate	-0.8	-0.3	0.1	0.5	0.4	0.4	0.6	0.8	0.7	0.7	0.6
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	-1.2	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	3.5	2.2	1.9	1.9	1.9	1.9	1.7	1.8	1.8	1.8	1.8
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	3.5	2.2	1.9	1.9	1.9	1.9	1.7	1.8	1.8	1.8	1.8
Contribution of residual	-0.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	-3.6	-1.4	9.6	-1.0	-1.1	-0.9	9.3	0.7	0.7	1.0	1.2
of which: debt service	0.4	1.3	12.2	1.5	1.5	1.6	11.8	3.2	3.3	3.6	3.8
Local currency	0.4	1.3	12.2	1.5	1.5	1.6	11.8	3.2	3.3	3.6	3.8
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)	3.9	2.1	1.8	1.7	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator; percent)	2.6	2.8	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	6.6	5.0	4.1	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Effective interest rate (percent)	0.0	1.6	2.5	3.8	3.7	3.8	4.3	5.4	5.1	4.9	4.7

Contribution to change in public debt

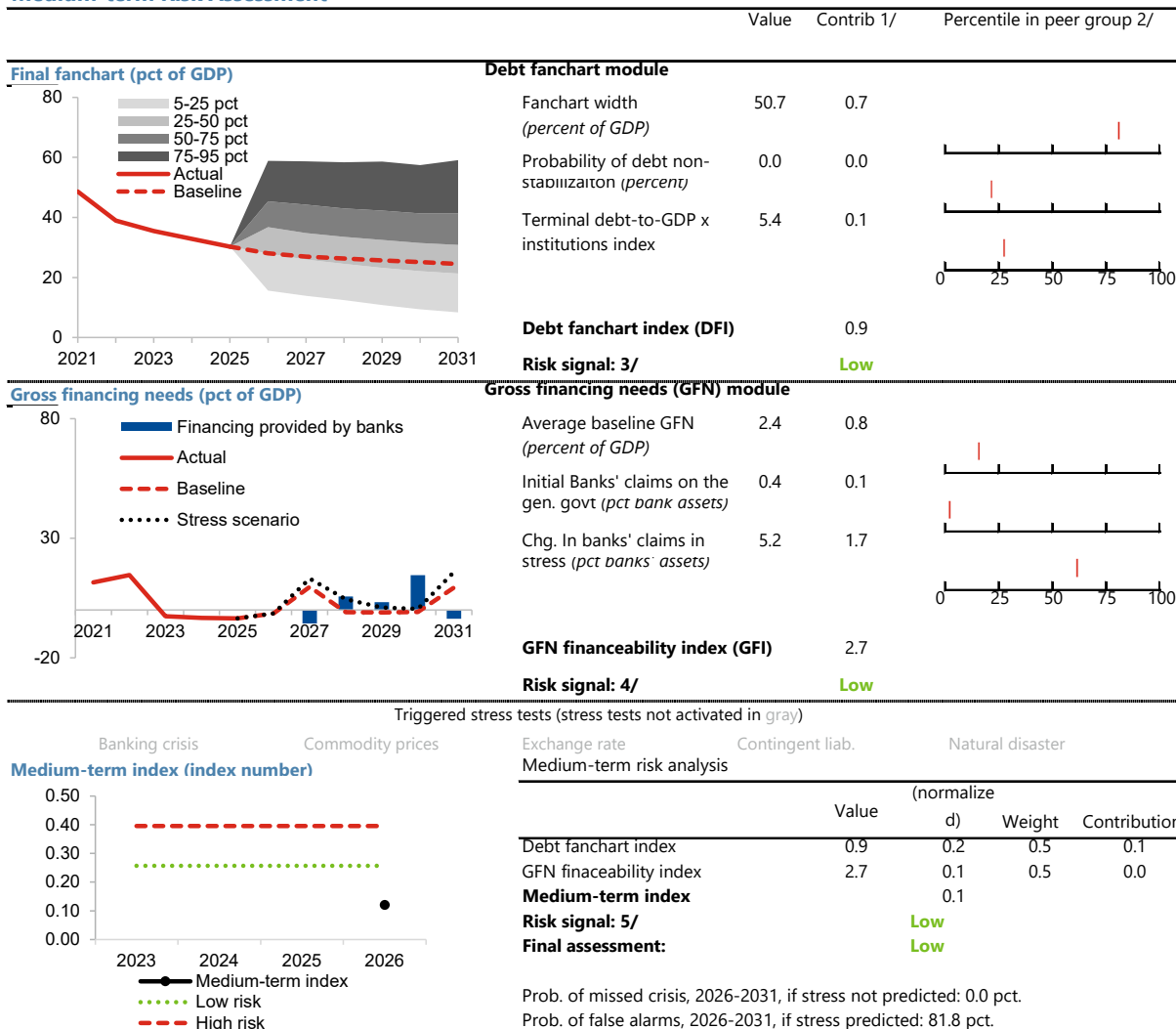
(percent of GDP)



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

Medium-term Risk Assessment



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

Realism of Baseline Assumptions

Forecast track Record 1/

- Public debt to GDP
- Primary deficit
- r - g
- Exchange rate depreciatoin
- SFA

t+1 t+3 t+5

Comparator group:

Advanced Economies, Non-Commodity Exporter, Surveillance

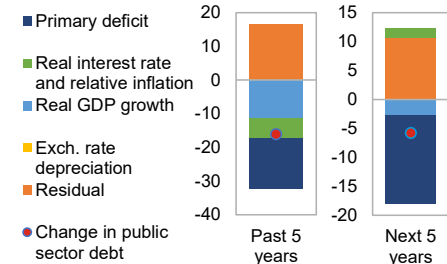
Color code:

- Optimistic ■ > 75th percentile
- 50-75th percentile
- 25-50th percentile
- Pessimistic ■ < 25th percentile

Historical output gap revisions 2/

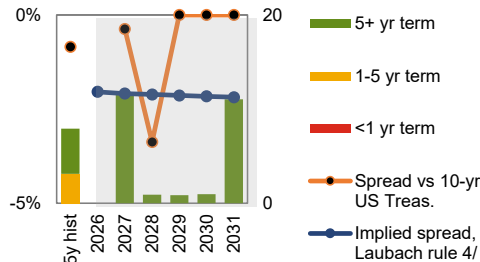
Public Debt Creating Flows

(Percent of GDP)



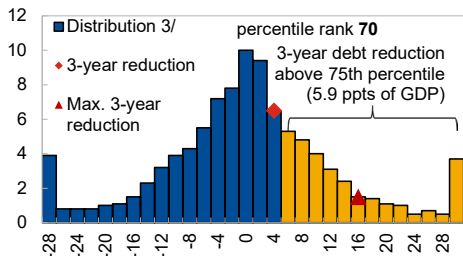
Bond Issuances (bars, debt issuances (RHS,

%GDP); lines, avg marginal interest rates (LHS, percent)



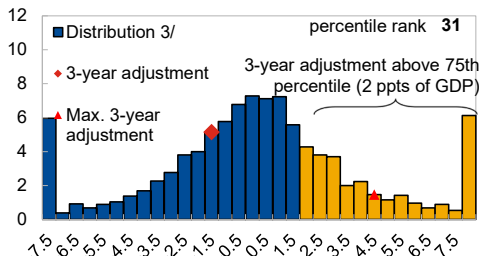
3-Year Debt Reduction

(Percent of GDP)



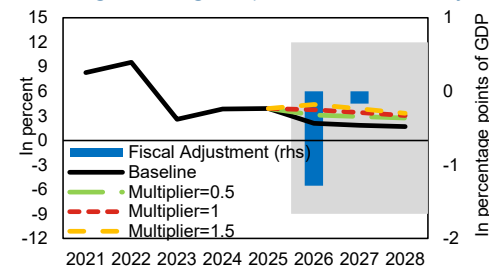
3-Year Adjustment in Cyclically-Adjusted

Primary Balance (percent of GDP)



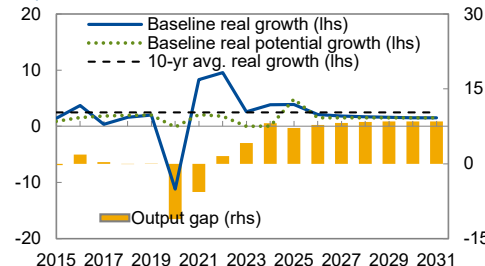
Fiscal Adjustment and Possible Growth Paths

(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 2025 Article IV Recommendations	Policy Actions
Fiscal Policy	
The authorities should maintain a disciplined fiscal policy to protect fiscal space and provide room for needed public investment.	Andorra recorded a fiscal surplus in 2024 and is estimated to post another surplus in 2025, further expanding fiscal space and allowing for a scaling-up of public investment.
The authorities should continue to monitor market conditions, including further diversifying debt and extending its maturity to decrease rollover risks and mitigate consequences from potential increases in interest rates.	Using fiscal surpluses, the authorities undertook their first debt repurchase in 2025 and plan additional repurchases in 2026, helping to mitigate rollover risks.
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.	Pension reform has not yet been implemented.
Financial Sector	
Strengthening further the resilience of the banking system during periods of high profitability.	The countercyclical capital buffer, introduced in October 2024, was raised to 1 percent in 2025, and is scheduled to increase further to 1.5 percent in 2026.
Structural Policies	
Addressing frictions, notably labor and housing shortages.	The authorities have taken multiple measures: extension of existing rental contracts until 2027 but planning a gradual phasing out rental freeze, more investment in affordable housing, subsidies for first home buyers, 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.
Creating a business environment conducive to higher investment.	The government adopted a program to help private businesses with digitalization efforts. The law on digital economy, entrepreneurship and innovation provides for creation of a special economic zone to develop and test digital and innovative products. The National Plan for Diversification and Innovation is a step in the right direction to create an innovative environment for firms.
Supporting the development of higher value-added services and sectors, including the digital economy.	The authorities defined the National Plan for Innovation and Diversification focusing on four pillars: health, sports, construction, and technology. The plan includes the establishment of an innovation hub, educational programs, bootcamps, and startup accelerators. A larger budget has also been allocated.
Accelerating the climate adaptation given the macrocriticality of rising temperatures for Andorra's tourism sector.	An "omnibus law" has been under consideration to further entrench both mitigation and adaptation policies, notably with a focus on energy transition and on the transport sector. Artificial snowmaking can partially offset the impact

	of warmer weather during the winter season but is costly and conditional on actual snowfall.
IMF 2025 Article IV Recommendations	Policy Actions
Governance and Transparency	
Andorra should maintain a robust understanding and management of ML/TF risks for an effective AML/CFT framework.	The assessment of ML/TF risks is being updated. Preliminary results are already being used to inform mitigation measures. More progress is expected in developing the understanding of risks of cross-border flows. The allocation of supervisory resources and sanctioning policy are becoming more effective.
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. Improvements included enhanced timeliness and frequency of International Investment Position and Balance of Payments data, publishing quarterly series starting in January 2026 and the release of "Andorra in Figures" to facilitate broader dissemination of data to the public. Improvements have been made to tourism flows statistics.

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	C	C		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>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.</p> <p>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 <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>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.</p>							
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.						
<p>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. 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 and 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. CPI coverage is adequate as it covers the whole territory. 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.</p>							
<p>Changes since the last Article IV consultation. The Andorran authorities have been receiving technical assistance missions to strengthen data reporting in the national accounts, fiscal, external, and monetary sectors. The authorities plan to increase staff with new hires to the Statistics Office. The authorities have disclosed quarterly BOP/IIP data in January 2026 with series starting in 2024Q1. The annual data for 2025 will be available in July 2026. The Statistics Office published, for the first time, the "Andorra in Figures" statistics, a dynamic way to visualize the main statistical data, which can help disseminate data to a broader audience. The data on tourists flow have been improved and revised backwards since 2022.</p>							
<p>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. Progress is needed in all areas, including more comprehensive National Accounts data. Several IMF technical assistance missions are planned to assist the authorities. Increasing the staffing at the statistics office should help in this regard.</p>							

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 March 26, 2026

	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	2026M3	Mar-26	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2024	Nov-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	2025Q3	Dec-25	A	A	M	A	1Q	6M
Interest Rates ²	NA	NA	NA	NA	M	...	...	...
Consumer Price Index	2026M2	Mar-26	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing ³ –General Government ⁴	2024	Nov-25	A	A	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing ³ –Central Government	2024	Nov-25	A	A	Q	A	1Q	9M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2024	Nov-25	A	A	Q	A	2Q	9M
External Current Account Balance	2025Q2	Jan-26	Q	2Q	Q	A	1Q	13M
Exports and Imports of Goods and Services	2025Q2	Jan-26	Q	2Q	M	M	12W	1M
GDP/GNP	2025Q4	Mar-26	Q	Q	Q	Q	1Q	3M
Gross External Debt	2025Q2	Jan-26	Q	2Q	Q	A	2Q	9M
International Investment Position	2025Q2	Jan-26	Q	2Q	A	A	3Q	13M

¹ Includes net market value of 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 "...".



PRINCIPALITY OF ANDORRA

April 9, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

CONTENTS

FUND RELATIONS	2
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FUND RELATIONS

(As of February 28th, 2026)

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	93.63	81.82
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				
	2026	2027	2028	2029	2030
Principal					
Charges/Interest	0.42	0.56	0.56	0.56	0.56
Total	0.42	0.56	0.56	0.56	0.56

2026 Article IV Consultation: Discussions were held on February 22 to March 9, 2026, 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, 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
2026	STA Government Finance and Public Sector Debt Statistics, STA Real Sector Statistics

Resident Representative: None

**Statement by Mr. Jeroen Clicq and Mr. Tom Englaro on
Principality of Andorra
April 27, 2026**

On behalf of the Andorran authorities, we extend our gratitude to Mr. Danforth and his team for their engagement, the well-drafted report and the insightful Selected Issues Papers. Nestled among the southern peaks of the Pyrenees, life is good in Andorra. Since joining the Fund in October 2020, the authorities have embraced the IMF as a trusted partner in policy dialogue, analysis, and capacity development, making Andorra a model example of how membership can strengthen resilience and support sustainable growth in a small, open economy. The authorities agree with the thrust of the report and will carefully consider the policy recommendations.

The expected conclusion of the European Union Association Agreement (EUAA) constitutes an important economic milestone for Andorra. By embedding the country more deeply into the EU's single market, it will provide stable and predictable access for goods, services, capital, and labor. The proximity with the EU legal framework will enhance legal certainty, which could strengthen the investment climate. The authorities believe that access to larger capital and labor markets will support economic diversification initiatives and productivity-enhancing reforms and help address structural constraints. The agreement would promote financial-sector competitiveness alongside stronger supervisory and governance standards. While the authorities acknowledge the existence of some transition costs, they believe them to be limited and transitory and to pale in comparison to the potential economic dividends the agreement offers. In this context, the absence of a detailed staff impact assessment of the EUAA represents a missed opportunity, especially as the public debate within Andorra will increase in the coming months and demands a well-grounded analysis.

Recent economic developments and macroeconomic outlook

The Andorran economy continues to surpass expectations. Sound fundamentals, a dynamic construction and real estate sector, a solid financial sector with an expanding range of activities, and a booming tourism industry are the main drivers of economic growth, leading to a GDP growth rate of 3.9% in 2025, compared with 1.7% expected in last year's Article IV report, which is above potential. Labor market developments mirrored the economy's strong performance, with the unemployment rate expected to hover around 1% over the 2025-2027 period. Inflation fell by another 0.7 percentage points since 2024, bringing it ever closer to the euro area target as part of a steady normalization after the COVID-19 pandemic. The uptick observed since September 2025 should not be interpreted as a reversal of this trend but rather as a reflection of underlying features of the Andorran economy: a

strong tourism industry which benefitted from late-season arrivals that drove up restaurant and hotel prices, and electricity imports from Spain and France, which suffered from higher wholesale prices in those markets in the second half of 2025.

The authorities have laid the foundation for strong growth prospects in the medium term. The strategy to extend the duration of the average visitor stay – by increasingly targeting tourists outside the neighboring countries – is bearing fruit. Excluding neighboring countries, overnight visitors increased by 74% since 2022, compared to only 10% for day trippers. The authorities stepped up diversification efforts through the National Plan for Innovation and Diversification and promoted deeper ties with the European Union through the conclusion of the negotiations of the EUAA, which offers significant upside potential. Unlike staff, the authorities do not perceive the war in the Middle East to be a large downside risk to the tourism industry. To the contrary, tourists from neighboring countries may substitute a visit to beautiful Andorra for longer trips farther away, especially under a prolonged-war scenario. The authorities consider the closing of the output gap to happen at a faster pace than staff, given the expected economic slowdown in the main trading partner countries due to the war.

Fiscal policy

A clear commitment to fiscal sustainability remains the guidepost for Andorra's fiscal policy.

This commitment is enshrined in the budgetary framework through the budget deficit rule, which legally caps public deficits at 1% of GDP under normal circumstances. Prudent spending, along with substantial increases in fiscal revenues driven by stronger-than-expected economic activity and the 2023 minimum tax, led to another significant surplus of 2.4% of GDP in 2025. The authorities are convinced that the accumulation of substantial buffers is essential to enhance the resilience of a small, open economy in an uncertain and shock-prone world economy. For this reason, they intend to pursue a balanced approach over the medium-term: continue increasing growth-enhancing investments in the areas of innovation, digitalization, and housing, while erring on the side of caution regarding revenue forecasts, despite having aligned the 2026 budget forecasts more closely with 2025 performance, in line with staff advice. In the same cautionary spirit, the authorities took advantage of the limited leeway afforded by law to use the fiscal buffers to launch a debt buyback program to further reduce the already low public debt (28% of GDP) and lighten the debt burden on future generations. The civil servant wage increase comes with a relatively significant one-off cost (0.7% of GDP) over two years, but it is a necessary investment in the attractiveness and capacity building of the public sector which faces increasingly large and complex tasks being carried out by a small number of professionals.

The authorities thank staff for the interesting SIP on healthcare financing and agree on the need to implement pension and healthcare reforms to tackle long-term fiscal challenges.

As the paper notes, Andorra's healthcare system is consistently ranked among the best in the world, delivering high-quality care at lower cost than many other countries. The health sustainability action plan, which is currently being put together, plans to address some of the underlying cost drivers. The SIP provides additional interesting avenues to explore in this regard. The authorities also intend to educate the population on an efficient use of medical services and have already implemented a healthy aging program. Finally, the authorities are committed to reforming the pension system and a draft law to that effect has been submitted to parliament.

Financial Sector

The financial sector is in good shape, on the back of banks' high capital and liquidity buffers.

Banks' profits went up by 1% in 2025 on an annual basis, thereby staying on the upward trajectory from prior years. Although the share of the banking sector in the economy is large, associated risks are very low, as attested to by staff. Banks have substantial buffers, the supervisory framework is solid, and the Andorran Financial Authority set up a close monitoring system. The economy-wide diversification strategy is complemented with internal diversification efforts in the banking sector, as asset management activities were broadened further and assets under management grew by 21%. The EUAA would open new markets for Andorran banks and offer a common rulebook, providing impetus for deeper collaboration and shared practices between supervisory authorities and fostering supervisory convergence. As a fully euroized economy with a limited-in-size lender of last resort, which was created following IMF Technical Assistance, the ECB's recent introduction of the new EUREP repo materially strengthens Andorra's external liquidity safety net, helping mitigate euro-funding stress risks in the banking system, and illustrates how deeper integration into the EU's financial architecture can deliver tangible financial stability benefits for Andorra. The authorities look forward to the 2026 FSAP, which will help further enhance the resilience of the financial sector, and launched capacity building efforts to prepare the exercise well in advance.

Structural policies

An ambitious diversification strategy is at the heart of the authorities' economic agenda. In an effort to reduce the weight of tourism and banking, which make the economy vulnerable to shocks affecting these sectors, such as climate change, the authorities developed the National Plan for Innovation and Diversification. Building on the 2022 Innovation Strategy, the Plan foresees a strategic shift towards innovation, technology and digitalization. Focusing on a few key areas in which Andorra holds a comparative advantage, like sports and nature, health, and construction, the authorities want to position Andorra as an innovation and R&D hub, using financial incentives to promote innovation and talent attraction. These initiatives are flanked with cross-border projects, such as the institution of special economic zones with favorable regulatory and operational conditions for innovation-driven and digital activities. This could facilitate the establishment of companies with a production base abroad but R&D operations in Andorra. The EUAA can support the Plan by increasing the mobility of foreign talent and providing access to EU financing. Taken together, these measures will also address productivity constraints, thereby raising potential growth.

Tackling bottlenecks in the housing market is a key priority. Aside from affordability constraints for residents, high housing prices discourage foreign workers from relocating to Andorra, which creates risks for an economy highly dependent on specialized labor from abroad. The 2026 Sustainable Growth Law lays out a broader strategy for addressing the housing situation. The rent freeze that has been applied on the market since 2019 will be gradually eliminated, which will incentivize property owners to increase rental supply. Conditions for foreign real estate purchases and development will be made more restrictive, including by linking residency permits more explicitly to housing availability and economic substance. The authorities also intensified the construction of public housing. Finally, a new subsidized-mortgage scheme was devised through which the authorities guarantee mortgages for the first seven years, effectively eliminating the banks' risk, and cover interest payments. By removing the biggest hurdle for young first-time homeowners, the down payment, the program has shown initial signs of success.

Data and Statistics

The authorities remain committed to the improvement of Andorra's statistical framework. Since its accession to the Fund, Andorra has benefitted from Fund TA in a variety of areas, including Balance of Payments statistics and National Accounts data. Staff's SIP on nowcasting falls squarely within these efforts and presents an interesting approach to complement the authorities' own forecasts.