MOODY'S
RATINGS

Announcement of Periodic Review: Moody's Ratings announces completion of a periodic review of ratings of Andorra, Government of

10 Jul 2026

London, July 10, 2026 -- Moody's Ratings (Moody's) has completed a periodic review of the ratings of Andorra and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 2 July 2026 in which we reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

Andorra's ratings, including its Baa1 long-term issuer rating, reflect the country's strong fiscal position, characterised by low and highly affordable government debt and substantial public financial assets. These provide sizeable buffers against shocks, particularly those stemming from contingent risks in the large banking sector and the absence of a fully-fledged lender of last resort. High per capita income and a strong institutional and governance framework further underpin the credit profile. The planned EU Association Agreement presents potential medium-term benefits and it is expected to foster greater economic diversification, resilience to shocks and institutional strength.

Andorra's real GDP remains strong, having expanded by 3.9% in 2025. We expect growth to moderate to 2.4% in 2026 and 1.9% in 2027 as key drivers, particularly the tourism and retail sectors, moderate as population growth slows. Inflation has accelerated moderately – 4.2% in June 2026 – driven by higher global fuel prices, though we expect it will average 3.1% in 2026 and 2.5% in 2027. Our baseline scenario also incorporates our estimate that Andorra recorded a general government fiscal surplus of 3.5% of GDP in 2025, driven by continued tax revenue growth. Looking ahead, we expect Andorra to maintain its fiscal strength, albeit with more moderate surpluses of around 1.4% of GDP in 2026, reflecting higher expenditure growth during the remainder of the parliamentary term. The public debt ratio will decline to 29.9% by 2026 from around 31.5% of GDP in 2025. In addition, the ECB's announced changes to its repo facility for central banks may improve Andorra's access to backstop euro liquidity for the Andorran banks, whereas delays in the EU approval process for the Association Agreement risk postponing potential credit benefits from deeper integration.

Andorra's "ba1" economic strength score balances its high per-capita income against the economy's very small scale and more limited economic diversification than larger economies. The "a1" institutions and governance strength score is underpinned by solid government effectiveness and regulatory quality, as reflected in global governance surveys. The country benefits from a robust fiscal framework and improvements in banking supervision over the past decade. Constraints for policymakers include limitations in statistical coverage and the absence of a fully-fledged lender of last resort, although this is partly mitigated by the liquidity emergency provision mechanism introduced in 2022. In addition, changes in the Eurosystem repo facility for central banks expected later this year might increase substantially the liquidity available for Andorran banks. Our "aa1" fiscal strength assessment reflects a moderate debt burden, strong debt affordability, and the presence of substantial public sector financial assets amounting to more than half of Andorra's GDP. We expect the debt-to-GDP ratio to decline only marginally from current levels as the government refinances maturing bonds. Finally, Andorra's "b" susceptibility to event risk score is driven by risks in the banking sector. The very large size of the Andorran banking sector, with total assets amounting to around 550% of GDP in 2025 on a consolidated basis, represents a credit challenge for Andorra given the adverse impact a banking shock could have on the broader economy and public finances.

The positive outlook reflects the prospects of the Association Agreement with the European Union (EU, Aaa stable), which could enter into force in 2027 after the ratification by all EU member states and a successful referendum. If implemented, the Association Agreement is expected to foster economic diversification and improve resilience to shocks and institutional strength. The outlook is also underpinned by a robust economic and fiscal outlook, building on stronger-than-anticipated macroeconomic performance and better-than-expected fiscal outcomes in recent years, including stronger fiscal surpluses and a faster decline in debt than we had anticipated.

The approval of the Association Agreement with the European Union would be a key trigger for a rating upgrade. We expect that over time the Association Agreement will lead to higher economic growth and greater diversification, as well as enhance institutional strength. A reduction in the contingent risks stemming from the banking sector would also be credit positive, for example if the enhanced ECB repo facility for central banks provides more reliable access to backstop euro liquidity.

A rejection of the Association Agreement could result in an outlook change to stable from positive. Moreover, a significant deterioration in Andorra's medium-term growth prospects relative to our baseline scenario resulting in materially weaker public finances could be credit negative. Unaddressed long-term demographic pressures, especially on the pension system, could eventually be credit negative, particularly if they point to a weaker institutional framework than we currently assume. Finally, a sharp deterioration in the banking sector that undermines economic activity and fiscal stability would exert downward pressure on the outlook and, eventually, on the rating.

This document summarizes our view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Sovereigns published in May 2026. Please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non-EU rated, non-UK rated, non-EU endorsed and non-UK endorsed ratings may be referenced herein to the extent necessary, if they are part of the same organization list.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

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