



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

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18 Jul 2025

London, July 18, 2025 -- 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 10 July 2025 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.moody.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, are supported by the country's high per-capita income and solid trend growth, balancing the challenges posed by its very small size and limited economic diversification. The country's strong institutional and governance framework, along with low government debt, also provide significant buffers against contingent liability risks arising from its large banking sector and the absence of a fully-fledged lender of last resort.

In 2024, Andorra's real GDP expanded by 3.4%. We expect growth to moderate to 2.1% in 2025 and 1.6% in 2026. Domestic demand will remain supported by a strong labour market and continued migration inflows. However, the tourism sector, which reached peak levels in 2024, is likely to slow due to capacity constraints. Andorra has recorded solid fiscal surpluses since 2022. Looking ahead, we project surpluses of 1.5% of GDP in 2025 and 1.3% in 2026, and the public debt ratio to decline to 31.0% by 2026 from 32.9% in 2024.

Andorra's "ba1" economic strength score balances high per-capita income levels against constraints posed by the economy's very small size. The "a1" institutions and governance strength score is underpinned by high rankings in the Worldwide Governance Indicators (WGI) and ongoing improvements regarding the fiscal framework and banking supervision, balanced against some institutional constraints for policymakers, such as limitations in statistical coverage and the absence of a fully-fledged lender of last resort, which is partially mitigated by the existence of a liquidity emergency provision mechanism since 2022. Our "aa1" fiscal strength assessment reflects a moderate debt burden, strong debt affordability, and the presence of substantial public sector liquid assets. Andorra's "b" susceptibility to event risk score is driven by banking sector risk. With consolidated banking sector assets amounting to 565% of GDP in 2024, the sector's large size poses a significant credit challenge, given the potential adverse impact of a financial shock on the broader economy and public finances.

The stable outlook reflects balanced risks at the Baa1 rating level and is underpinned by our expectations that Andorra will maintain a solid fiscal position and strong institutional capacity. We expect only gradual progress in economic diversification, which will continue to leave the economy exposed to shocks.

The adoption of further reforms in pensions and healthcare that curb the rise in age-related spending, along with the full implementation of the Association Agreement with the European Union (Aaa stable) resulting in significantly higher economic growth and greater diversification, could exert upward pressure on Andorra's credit rating. Additionally, a reduction in the contingent risks posed by the banking sector would also be credit positive.

A deterioration in Andorra's medium-term growth prospects relative to our baseline scenario, negatively affecting public finances and potentially prompting government intervention that could raise borrowing needs and public debt, would put downward pressure on the rating. Increased economic volatility would also be credit negative. The absence of a credible reform plan to address pressures on the pension system and public finances due to adverse demographic trends could weigh on the rating, particularly if we conclude that the institutional framework is weaker than assumed. Finally, a sharp deterioration in the Andorran banking sector that undermines economic growth and fiscal stability would also exert downward pressure 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 November 2022. 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.

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