

RATING ACTION COMMENTARY

Fitch Affirms Andorra at 'A-'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 20 Mar 2026: Fitch Ratings has affirmed Andorra's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'A-' with a Stable Outlook. A full list of rating actions is at the end of this rating action commentary.

Andorra's ratings are underpinned by GDP per capita and governance indicators that exceed the median for 'A' category peers. A prudent fiscal framework has maintained fiscal and macroeconomic stability despite external challenges. Public debt-to-GDP is significantly below the 'A' category median. These strengths are counterbalanced by Andorra's small economy and limited diversification. Medium-term growth prospects are constrained by structural supply-side challenges, notably labour shortages and an ageing population.

KEY RATING DRIVERS

Low Public Debt: Andorra's general government debt of 30.9% of GDP in 2025 (Fitch's estimate) is well below the median for 'A' rated peers (56.4%) and expected to fall further to 28.8% by 2027, underpinned by primary fiscal surpluses and strong nominal GDP growth. Debt affordability is supported by low financing costs, limited refinancing needs and moderate fiscal buffers. The interest-to-revenue ratio is estimated at 1.3% in 2025, well below the 'A' median (4.4%).

Andorra has no external financing needs until February 2027, when a EUR500 million (approximately 12% of GDP) Eurobond matures. The authorities plan to address this maturity proactively in 2026 through the use of cash buffers, planned debt buybacks and a potential pre-financing strategy depending on market conditions. At end-2025, government deposits stood at 11.0% of GDP.

Fiscal Surpluses: Higher public investment in transport infrastructure, public housing and healthcare will lead to lower fiscal surpluses over 2026-2027, with Fitch estimating an average general government surplus of 1.5% of GDP, after a 3.2% surplus in 2025. A

record of fiscal prudence is underpinned by a national fiscal framework that sets a central government deficit limit of 1% of GDP and debt ceiling of 40% of GDP.

Housing Pressures Fiscal Priorities: Fiscal space has enabled the authorities to address housing pressures through public housing investment and targeted measures to support affordability. The 2026 budget allocates approximately EUR21 million (around 0.5% of GDP) to public housing investment. Measures include targeted tax incentives for landlords and a means-tested rent support scheme for tenants. Near-term fiscal risks appear limited. The First-Home programme, which came into force this year, poses a modest contingent liability risk for the government, as it provides a 100% public guarantee on eligible mortgages and a full subsidy of interest payments for up to seven years.

Above Eurozone Growth: Andorra's economy expanded by an estimated 2.8% in 2025, with activity remaining robust in the financial and construction sectors. Growth is expected to converge towards its potential rate of around 1.5% by 2027, supported by strong real wage growth, a stable tourism sector, and ongoing public sector-led infrastructure investment. This forecast compares favourably with Fitch's projected average eurozone growth of 1.3% over 2026-2027.

Inflation Shock Exposure: Andorra has high dependence on energy imports (over 90% of total energy supply) and a large share of oil products in primary energy consumption (around 70%). Fitch's 11 March 2026 baseline assumes oil prices fall to the mid-USD60s in 2H26, implying an annual average oil price of about USD70 in 2026. In a stress scenario in which oil prices remain at USD100 for the full year, eurozone inflation could rise by 1.3pp relative to the baseline. The impact on Andorra would be significant, given that imported products and services account for 45% of the CPI basket.

EU Integration Progress: The EU Association Agreement (EUAA) has moved into the formal approval phase, although the timeline for conclusion remains uncertain. Successful approval would deepen Andorra's integration with the EU single market and could support medium-term growth, with current efforts focused on legal alignment and administrative preparation.

Stable Banking Sector: The banking sector is large, with consolidated assets around 5x GDP. Andorran banks maintain satisfactory capital and liquidity buffers over requirements. Domestic regulatory and supervisory frameworks have become more aligned with EU standards. We expect the EUAA to support further regulatory convergence, enhance financial-sector data reporting, and better facilitate access to EU financial services gradually.

Euro Liquidity Backstops: Andorra's fully euroised framework and absence of a central bank structurally limit lender of last resort capacity. The reserves-based emergency liquidity assistance framework offers temporary, collateralised support funded by international reserves around 10.5% of GDP (2025), which remains modest relative to a very large banking sector.

Additional support is provided via a temporary ECB repo line under the Eurosystem repo facility for central banks. Planned enhancements to this facility from 3Q26— including faster activation and broader collateral eligibility—will strengthen liquidity backstops, although access remains discretionary and outside standard Eurosystem operations.

Ageing Pressures: Andorra has some of the lowest public pension expenditure in Europe, around 5% of GDP, but the IMF projects an increase by almost 6pp over the next two decades. Strong immigration-driven population growth has deferred deficits in the public social security fund until after 2026. The fund's sizeable assets (close to 48% of GDP) will help mitigate the rising fiscal costs of an aging population.

ESG - Governance: Andorra has an ESG Relevance Score of '5[+]' for Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. These scores reflect the high weight that the World Bank Governance Indicators (WBG I) have in our proprietary Sovereign Rating Model (SRM). Andorra has a high WBG I ranking at 86.2 percentile, well above the 'A' median, reflecting strong institutional capacity, very high political stability and effective rule of law.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-Structural Features: A severe shock to the banking sector that would result in sizeable spillovers to Andorra's economic performance and public finances, given the large size of the banking sector.

-Public Finances: A material increase in the government debt ratio, for example, due to a macroeconomic shock or prolonged fiscal easing.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-Public Finances: A material decline in general government debt, for example, driven by sustained fiscal surpluses from prudent fiscal policies or stronger nominal GDP growth.

-Structural Features: Further strengthening of banking sector regulation and supervision, including continued alignment with EU standards, leading to a sustained reduction in sector risks and contingent liabilities for the sovereign.

-Structural Features/Macro: An improvement in growth potential, for example, via the implementation of structural reforms to improve the business environment, progress on economic diversification or further integration with the EU.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Andorra a score equivalent to a rating of 'A-' on the LTFC IDR scale.

Fitch's sovereign rating committee did not adjust the output from the SRM to arrive at the final LTFC IDR.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LTFC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

DEBT INSTRUMENTS: KEY RATING DRIVERS

Senior Unsecured Debt Equalised: The senior unsecured long-term debt ratings are equalised with the applicable Long-Term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's Long-Term IDR is 'BB-' and above. No Recovery Ratings are assigned at this rating level.

COUNTRY CEILING

The Country Ceiling for Andorra is 'AAA', six notches above the LTFC IDR and at the upper limit of the rating scale. We view the risk of exchange and capital controls as minimal.

Fitch's Country Ceiling Model produced a starting point uplift of +3 notches above the IDR. Fitch's rating committee applied a further +3 notches qualitative adjustment under the Long-Term Institutional Characteristics, reflecting Andorra's fully euroised economy.

SUMMARY OF DATA ADJUSTMENTS

Broad money estimates are unavailable. Fitch has used information from the consolidated balance sheets of Andorran banks.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Broad money estimates are unavailable. Ratings has used information from the consolidated balance sheets of Andorran banks.

CLIMATE VULNERABILITY SIGNALS

There is no Climate VS for Andorra due to data limitations.

ESG CONSIDERATIONS

Andorra has an ESG Relevance Score of '5[+]' for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Andorra has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Andorra has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Andorra has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Andorra has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Andorra has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Andorra has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Andorra, as for all sovereigns. As Andorra has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Andorra	LT IDR	A- Rating Outlook Stable		A- Rating Outlook Stable
	Affirmed			
	ST IDR	F2	Affirmed	F2
	Country Ceiling	AAA	Affirmed	AAA
senior unsecured	LT	A-	Affirmed	A-

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Country Ceiling Criteria \(pub. 24 Jul 2023\)](#)

[Sovereign Rating Criteria \(pub. 15 Sep 2025\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Country Ceiling Model, v2.0.3 \(1\)](#)

[Macro-Prudential Indicator Model, v1.5.0 \(1\)](#)

[Sovereign Climate Risk Model, v1.0.0 \(1\)](#)

[Sovereign Rating Model, v3.14.4 \(1\)](#)

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Andorra

EU Issued, UK Endorsed

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