

RATING ACTION COMMENTARY

Fitch Affirms Andorra at 'A-'; Outlook Stable

Fri 18 Sep, 2026 - 17:02 ET

Fitch Ratings - Frankfurt am Main - 18 Sep 2026: Fitch Ratings has affirmed Andorra's Long-Term Issuer Default Ratings (IDRs) 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. Government 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 labor shortages and an ageing population.

KEY RATING DRIVERS

Low Public Debt: Andorra's general government debt-to-GDP ratio is the third lowest among 'A' category sovereigns. After reaching 30.3% in 2025, we expect it to decline to around 27% by end-2028, supported by projected primary fiscal surpluses averaging 2.5% of GDP. The authorities executed their first sovereign liability-management operation in 2025, repurchasing EUR16.4 million of the 2031 Eurobond using surplus cash balances. A similar approach ahead of the EUR500 million Eurobond maturing in February 2027 could result in lower-than-projected public debt.

Refinancing of maturing debt is likely to increase the government's interest costs. However, Andorra's strong fiscal position, low debt, and adequate deposit buffers should enable it to absorb these additional costs without weakening its fiscal profile. We estimate the interest-to-revenue ratio at 1.4% in 2026, well below the 'A' median (4.4%).

Fiscal Surpluses: Fitch does not expect significant changes in the 2027 budget, despite the upcoming legislative elections. Major tax changes are unlikely, and we expect the government to maintain its commitment to high public investment in housing,

healthcare, transport infrastructure, digitalization and the energy transition. Andorra's prudent fiscal framework - including a 1% of GDP deficit limit and a 40% debt ceiling - will continue to anchor fiscal policy. Higher public investment will reduce fiscal surpluses over 2026-2028; Fitch estimates an average general government surplus of 1.9% of GDP, after a 3.5% surplus in 2025.

Resilient Growth: Andorra's economy outperformed expectations in 2025, with real GDP growth of 3.9%, well above Fitch's projection of 2.8% and the authorities' budget assumption of 1.9%. Economic activity remains robust in two key sectors - financial services and construction. We expect growth to moderate to around 2.0% in 2026, converging towards its potential rate of 1.5% by 2029. Domestic demand will be supported by robust wage growth, a stable tourism sector, and ongoing public infrastructure investment. However, persistent labor and housing shortages, and limited economic diversification, constrain productivity gains.

Inflation Shock Exposure: Andorra is highly dependent on energy imports, with oil products accounting for around 70% of primary energy consumption. Higher oil prices following escalation of the US-Iran conflict have raised transport, fuel and energy costs. Headline CPI inflation averaged 4.0% in 1H26 and reached 4.2% in July. The government responded with targeted measures, including an extraordinary 2.8% increase in the effective minimum wage from July 2026. As imported products and services account for 45% of Andorra's CPI basket, persistently higher-than-projected inflation in key trading partners and elevated oil prices could generate further inflationary pressures.

Euro Liquidity Backstop: The ECB's enhanced eurosystem repo facility (EUREP) strengthens Andorra's financial framework regarding emergency liquidity. In 3Q26, Andorra's temporary bilateral repo line of EUR35 million will be replaced by a standing, more flexible facility. The enhanced EUREP will provide non-EU monetary authorities, including Andorra's Financial Authority, access to a maximum repo line of EUR50 billion, subject to eligible high-quality euro-denominated collateral.

Fitch views EUREP as an important emergency liquidity backstop, but it does not fully compensate for the absence of a conventional lender-of-last-resort mechanism, which remains a structural weakness on Andorra's institutional framework and financial-system funding resilience.

Strong External Finances: Andorra's net international investment position reached 371% of GDP at end-2025, among the highest of rated sovereigns. This reflects a sizeable banking sector, with consolidated assets of 5x GDP, cross-border asset holdings and current account surpluses. The current account reached 20.0% of GDP in 2025, versus a five-year average of 15.0%. Ongoing foreign-asset accumulation continues to

strengthen the external balance sheet, providing a substantial buffer against external shocks and partly offsetting the constraints of full euroization without a central bank. External buffers include international reserves around 10% of GDP.

Upcoming Legislative Elections: Parliamentary elections are expected in spring 2027. Fitch does not expect the election to materially alter economic or fiscal policy. Housing affordability, living costs and EU integration, will likely dominate the electoral debate. Against the electoral cycle, the timeline for ratifying Andorra's Association Agreement remains uncertain. Nevertheless, successful ratification would support deeper integration with the EU single market, potentially enhancing investment prospects, economic diversification, and supporting long-term growth.

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, at close to 48% of GDP, will help mitigate the rising fiscal costs of an aging population.

ESG - Governance: Exceptionally strong governance including high political stability and institutional strength, as reflected in the World Bank Governance Indicators (WBGi) ranking of 86.2, support Andorra's rating.

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 Long-Term Foreign-Currency (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 centered 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 equalized 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

Andorra's Country Ceiling is 'AAA', six notches above its 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 three notches above the IDR. Fitch's rating committee applied a further three-notch qualitative adjustment under the Long-Term Institutional Characteristics, reflecting Andorra's fully euroized 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. Fitch 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, as noted above.

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 more than 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 TYPE ⚡	RATING ⚡	RATING ACTION ⚡	PRIOR ⚡
Andorra	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
	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 \(pub. 27 Apr 2026\) \(including rating assumption sensitivity\)](#)

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](#))

Debt Dynamics Model, v1.4.0 ([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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