

26
number

| 2020 economic report



CAMBRA
DE COMERÇ
INDÚSTRIA I SERVEIS
D'ANDORRA

With the support of



Andorran Banking
Associació de Bancs Andorrans

EDITED BY

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and Services of Andorra

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PRELIMINARY NOTE

In accordance with Article 16 of the Law of the Andorran Chamber of Commerce, Industry and Services, the Chamber is obliged to prepare, publish and transmit annually to the Andorran government an economic report that describes the development in and prospects for economic activities inside Andorran territory.

The preparation and collection of the data that appear in this report has involved contributions from companies, which collaborate with the Chamber by answering the periodical overall surveys, and also from the central government, Comu governments and other institutions and business associations which, through their provision of information, make our work possible and simpler. To all these, we would express our thanks, in the confidence that our work will be of use for understanding the economic reality of our country.

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The Andorran economy: developments in the main sectors

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Introduction

This twenty-sixth edition of the annual Economic Report of Andorra has been prepared in what is still a fragile context for business and the national economy. The pandemic caused by the COVID-19 virus, which was declared in March 2020, marked a turning point that year in the economic trends of all countries within our environment, including Andorra. The health crisis led to historic falls in business activity throughout the world, which has partly begun to pick up again in 2021, although doubts remain about the strength and continuity of the recovery.

This report offers a detailed analysis of the economic events that shaped the trends in 2020, both inside and outside Andorra, with a special focus on sectoral trends, and provides an overview of economic prospects for 2021. Among the notable events in the last year, besides the pandemic, was Andorra becoming the 190th member of the International Monetary Fund, raising our country's credibility and offering a safety net when exceptional times lead to a lack of funding in the market.

On a global scale, 2020 will be remembered as the worst economic year in peacetime history, due to the COVID-19 pandemic. The health emergency paralysed the global economy for weeks and caused the greatest economic losses since World War II. Faced with this situation, the measures taken by governments and economic institutions to mitigate the impact of the crisis were rapid and robust, attenuating falls in income, allowing moratoriums on payments, guaranteeing ample liquidity and favourable access to credit, and anchoring the low interest rates.

The impact of the crisis was more extensive in economies that are based predominantly on services, especially activities that require greater social contact, such as tourism, restaurants, commerce and leisure. This explains why the GDP of advanced economies shrank more than that of developing countries.

Nor was the impact of the pandemic uniform among the developed countries. The Eurozone was the most affected region, with a 6.5% average decline in GDP in 2020, contrasting with the 3.5% decline in the USA, which implemented less restrictive measures to contain the spread of the virus and more robust policies to combat the economic effects of the crisis. Note that the measures adopted to deal with the health emergency caused the public deficit of the Eurozone to rise from 0.5% of GDP in 2019 to 7.2% in 2020.

Within the Eurozone, the economies of Spain and France are among those most impacted by the pandemic crisis, with falls in GDP of 10.8% and 7.9%, respectively, largely due to the greater influence of tourism on GDP.

The trend in the Andorran economy followed a similar profile to that of neighbouring countries, although the downturn in activity was steeper due to the relatively higher importance of tertiary activities to the economy, especially commerce and tourism. In 2020, Andorran GDP shrank 12% in real terms, a downturn that ends six consecutive years of upward growth. In parallel, the Andorran population has continued to grow (0.6%), so per capita GDP in nominal terms fell to €32,145.

The supply and demand shock caused by the COVID-19 pandemic was reflected in the negative trend in the great majority of economic indicators. In particular, the dramatic declines in numbers of visitors, electricity consumption, car and industrial vehicle registrations, imports of capital goods and building materials, and public investment. The only exceptions to this negative trend

were the number of establishments, continuing a seven-year upward trend, and bank credit, which saw higher growth than in 2019, signalling our financial system's key role in facilitating liquidity during the pandemic. The economic downturn also caused a downturn in the labour market, although the special measures taken by the Government, such as the ERTA scheme to support employment, partly mitigated this.

By sector, services were most harmed by the restrictions on movement, especially tourism and commerce, leading to a record fall in activity. The trend in the other sectors (primary, industry and construction) also worsened in 2020 in comparison with the previous financial year.

In 2020, the primary sector – which provides only 0.6% of total GVA – shrank 2.4%, as much as in 2019. This decline was accompanied by a drop in the number of employees and utilised agricultural area. In contrast, the number of livestock increased, after the important reduction seen in 2019. As for the tobacco harvest, the farmers only produced 50% of their assigned quota in 2020 and, faced with the impossibility of exporting the tobacco, proceeded to destroy the whole harvest, as in 2019.

The fall in real GVA in the construction sector was 5.8%, a trend that contrasts with the strong growth seen in 2019. The negative trend in activity in the sector is reflected in other indicators such as the decrease in authorised square metres for building, authorised surface area, new build permits, property transactions, imports of building materials and public investment expenditure. The results of the surveys by the Cambra corroborate this decline in activity in the construction sector, with a drop in sales figures and volume of investment. However, note that after lockdown, in the second half of 2020, there was a significant sectoral recovery, as the works in progress were resumed fairly rapidly, especially in the housing segment.

As for manufacturing and industry, the trend in 2020 was also negative, if we observe the data on real GVA which show a decline of 2.1%. The surveys by the Cambra also depict the worsening industrial climate, with a confidence indicator that fell to the lowest level in eight years and a capacity utilisation rate that fell to a record low. Moreover, industrial businesses indicated a steep reduction in turnover and a falling rate of investment.

In services, the effects of the COVID-19 pandemic took the shape of a historic dip in real GVA of 9.5% and a serious reduction in the number of workers, despite the mitigation measures adopted by the Government. The subsector that suffered most from the consequences of the health crisis was commerce, hotels and catering, transport, information and communications, with a 16.5% drop in GVA. Such a negative trend can be explained by the steep dip in numbers of visitors to the country (-36.8%), the result of the restrictions on movement imposed in neighbouring countries.

The major impact of the pandemic on tourism sector activity was reflected in all the associated indicators, with serious reductions in the number of total recorded overnight stays, ski days sold, energy consumption and number of employees in the sector. Along the same line, the surveys by the Cambra show a business perspective of the hotel sector that has greatly deteriorated in 2020, with the historically worst valuation of business activity. So, hotels indicated an average year-on-year fall in turnover of 50.8% and 32% in the case of investment.

As for commerce, activity also saw a very pronounced decline, which was reflected in major reductions in the numbers of employees and energy consumption in the sector. Equally, the surveys by the Cambra show a serious decline in business activity and notable falls in sales and investment figures.

The impact of the pandemic on financial, real estate, professional and technical activities was also significant, but not as hard as in the case of tourism and commerce, with an estimated reduction in GVA of 7.5%. In particular, the banking sector saw a 25.3% fall in the aggregate profits of all the national institutions in 2020. These results were hit by the increased provisions to cover the effects of the pandemic. Despite the impact of COVID-19, the Andorran financial market showed a solid position with a 5.46% return on equity, compared with the 2% of the European Banks, although this figure was lower than the 7.70% in 2019. The solvency ratio was also higher than the European bank average.

With regard to the public sector, the special measures taken to support economic activity, which resulted in major increases in public spending, had a positive effect on the economy but were not enough to offset the whole impact of the health crisis. In parallel, tax revenue saw a steep downturn, which raised the budgetary deficit of the central government to 4.2% of GDP. In contrast, the Comú governments increased their surplus by one point, to 1.6% of GDP. All in all, this made GVA shrink 2.6% in the subsector of public administration, education, health, social and personal services in 2020, the least drastic of the three main services branches.

Having lived through such a negative year in 2020, the economic prospects for 2021 are positive but still veiled in great uncertainty. The discovery of several vaccines to fight COVID-19 was a decisive factor in halting the health crisis. Vaccination enabled the progressive easing of measures restricting movement and social activity so that the indicators of economic activity started to turn around, and these should improve over the next few months. As the year progressed and the percentages of vaccinated increased, the economic forecasts have gradually been revised upwards.

GDP data for the first quarter of 2021 already indicate a change in trend, with a slowdown, as yet slight, in the rate of fall in activity. Specifically, GDP saw a year-on-year downturn of 9.3% in real terms (according to the first published estimate), compared with the 10.4% decline noted in the fourth quarter of 2020.

However, the appearance of more resistant, contagious variants of the virus also raised doubts about the capacity for economic recovery throughout 2021. Other worrying factors to consider mid-term are, on the one hand, the timetable for removal of the public policies which, if done too early, could undermine the recovery, and on the other hand, a potential toughening of financial conditions if inflation rises faster than expected.

In any case, the trend in the Andorran economy continues to depend greatly on how vaccination progresses in our neighbouring economies, which would enable the remaining restrictions on activity to be lifted, especially in tourism and commerce. On a positive note, Spain and France are among the countries with the best prospects for 2021. One of the key factors in the recovery will be good management of the NextGenerationEU fund. All in all, the Andorran economy is expected to see an important revival in GDP in the second half of 2021, although we will have to wait until 2022 or 2023 to regain pre-pandemic levels of activity.

In this especially difficult context which we have been living through since March 2020, the Cambra has supported and will continue to support businesses, more than ever, constantly reading the situation and speaking up for their needs, to try to reverse the decline in activity as soon as possible and reboot business momentum within this country. The Cambra will continue to perform its role as an advisory body to the public authorities, responsibly and with the ultimate goal of fostering competitiveness in Andorra, which is key to the progress and well-being of all citizens of this country.

Finally, we should remember that this report fulfils one of the legal duties of the Cambra, with the aim of providing a useful contribution to the economy of Andorra. This contribution would not be possible without the constant collaboration of Andorran businesses, which periodically provide important information about the business climate and business trends to the Cambra, and also about the needs and challenges those Andorran businesses believe should be tackled first to strengthen the pillars of our economy.

This report would also not be possible without the data, especially statistics, provided by all the institutions and associations of this country, or the work of internal and external staff who compile and analyse all the data in detail. We would also highlight, once again, the role of the media who disseminate the content of this document. The Cambra offers its thanks to all of them.

Josep M. Mas Torres
President

The external environment of the Andorran economy

I. The international economy

1. The main features of economic development in 2020

2020 will be remembered as the worst economic year in peacetime due to the global pandemic caused by the SARS-CoV-2 virus (COVID-19).

The COVID-19 health emergency, which started

in China at the end of 2019, became a global pandemic in March 2020, paralysing the global economy for weeks and incurring the highest economic losses since World War II.

2020 saw the sharpest fall in world GDP since World War II.

The financial markets were the first to feel the negative impact, in February and early March. Investors suffered from the major surge in risk aversion and volatility, which set off a chain of historic falls in the stock markets and in commodities. Faced with this situation, the main central banks acted rapidly and robustly to ensure abundant liquidity and favourable access to credit, while anchoring the low interest rates. There was then a sudden drop in the indicators of business activity, consumption and investment, due to the lockdown measures that governments were forced to impose, restricting the movements of the population and stopping non-essential activities in order to contain the spread of the pandemic. Although social distancing policies were absolutely essential to avoid a higher mortality rate, they caused the worst decline in economic activity since World War II.

Rapid, robust response from the economic authorities to combat the COVID-19 crisis.

There are three features of the economic crisis caused by COVID-19 that distinguish it from the 2008 global financial crisis. Firstly, the shock was not the result of accumulated macroeconomic imbalances (excess credit and

a property bubble) but a double shock, the combination of a drop in productive capacity (supply shock) and an unprecedented fall in aggregate demand as businesses and consumers stopped investing and consuming during lockdown (demand shock). The second difference is that, in this crisis, health factors determined how business activity and policies developed, leading to a zigzag trend in GDP based on the waves of virus. Finally, the third difference is that this time the measures taken by all the governments and economic institutions to soften the impact of the crisis were rapid and robust. Firstly, in Europe, the remarkable actions of the ECB that enabled states to finance the increase in public spending without increasing the cost of the debt. Secondly, the European Commission announced on 20 March that it was temporarily easing the fiscal rules of the EU Stability and Growth Pact so that member states could take on debt without restrictions. In addition, for the first time in EU history, the European Council managed to pass a European fiscal instrument on 21 July 2020 that was financed by a joint debt issue, called NextGenerationEU. Added to these European measures, also taken in other regions of the world, are those adopted by the governments of advanced economies, focussing especially on guaranteeing liquidity for businesses and maintaining workers' and businesses' income. According to IMF estimates, the economic collapse could have been at least three times worse without these support policies that were set up rapidly around the world.

World GDP shrank 3.2%, but there was major uncertainty throughout 2020.

economic forecasts. Whereas on 20 January 2020, before the pandemic became global, the IMF predicted global GDP growth of 3.3% for 2020, it made a historic update in April to -3.0% for the same year. In October 2020, the same institution lowered the forecasts further and announced that global GDP would shrink 4.4%. In the end, global GDP shrank 3.2% in 2020. This revision of forecasts occurred in practically all economies, including Andorra, and demonstrates the major uncertainty that marked this crisis.

Although all world economies have been deeply impacted by COVID-19, there are differences in how far GDP has fallen, mostly for two reasons. Firstly, it depends how each country managed the health crisis (health spending, restrictions on movement, testing, etc.) and the economic crisis (financial support for businesses and the self-employed, protecting workers' incomes, etc.). The second factor concerns the prominence of the service sector within each economy, as it requires substantial social contact, such as tourism, hospitality, commerce and leisure. In contrast, economies in which industry represents a higher ratio of GDP were better able to survive the onslaught of the crisis.

These factors explain why the impact of COVID-19 was greater in developed economies, with a larger service sector. Specifically, the GDP of the advanced economies hit -4.6% in 2020, compared with -2.1% in developing economies.

As for developing and emerging economies, significant differences can be seen between the region of Latin America and the Caribbean, where the impact of the pandemic was very high and, for example, China, which, despite being the country where the virus originated, ended the year with a positive GDP variation rate. Specifically, in 2020, the Chinese economy grew 2.3%, because

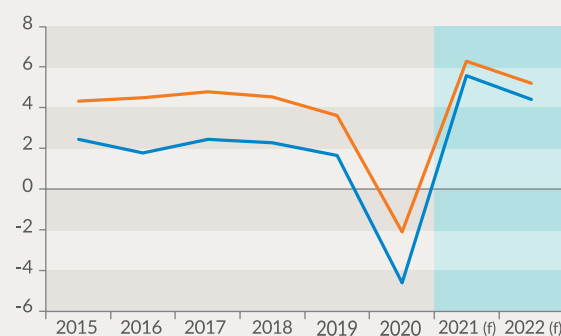
The Latin American economies were heavily impacted by the COVID-19 crisis, while China ended the year with positive GDP rates.

it managed to rapidly contain the spread of the virus and supplied the rest of the world at a time when industry was closed in many countries. On the other hand, the contraction in economic activity in Latin America and the Caribbean was among the most significant in the world, as it hit -7.0%. In the case of the Middle East and Central Asia region, the decline in GDP was 2.6% in 2020. The countries most affected by the pandemic were those that most depend on oil exports (Iraq, United Arab Emirates and Saudi Arabia), as oil prices plummeted in the first few months of the pandemic. Among the developing countries of Europe is notably Russia, with a 3.0% fall in GDP, also greatly affected by falling oil prices.

The major complexity and huge uncertainty in predicting how the virus would spread, with the subsequent response from institutions and economic agents, led to constant updating of

Developed countries suffer more from the effects of COVID-19, due to the prominence of the service sector.

GLOBAL GDP GROWTH
Annual variation rates at constant prices, in %



● Emerging and developing market economies ● Advanced economies

f: IMF forecasts (July 2021).

Source: IMF.

Chart 1.1

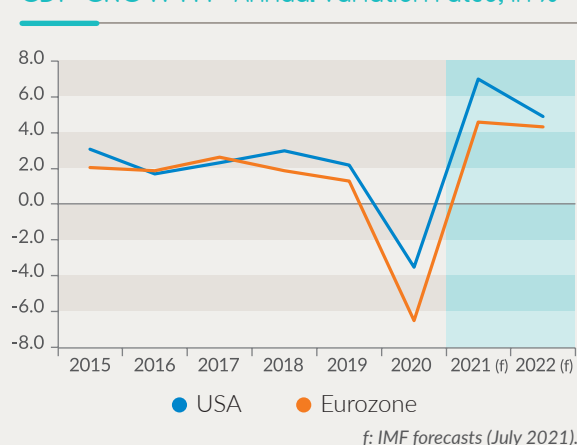
Nor was the impact of the pandemic uniform among the developed countries. In 2020, the Eurozone was the most affected region, with an average decline of 6.5%. On the other hand, the fall in GDP in the USA was 3.5% and in Japan 4.7%, much closer to the global decline in GDP (-3.2%).

The Eurozone economy shrank almost twice as much as the US economy due to the pandemic.

Outside the Eurozone, the steep downturn in the UK economy stands out, where GDP plummeted 9.8% in 2020, one of the worst falls to be seen among the advanced economies. There are two main reasons to explain the severity of the fall. On the one hand, the extent to which the virus spread among the population, forcing the government to impose very restrictive social isolation measures for long periods of time. On the other hand, the impact of Brexit in the last few months of the year. Remember that the United Kingdom formally left the European Union on 31 January 2020, but it was not until 24 December 2020 that a trade agreement was finally signed that came into force on 1st January 2021.

The impact of the pandemic was lower on the US economy than on Europe because it implemented less restrictive measures to contain the spread of the virus, and also due to more vigorous implementation of policies to combat the economic effects of the crisis. However, the impact on the labour market was significant at the start of the pandemic, as the unemployment rate went from a historic low of 3.5% in February 2020 to 14.8% in April, the highest level since World War II (8.1% on annual average in 2020). Note that the strong economic incentives given to businesses and citizens and the decline in tax revenue explain why the public deficit more than doubled in one year, going from 6.7% of GDP in 2019 to 15.8% in 2020, according to the OECD.

GDP GROWTH - Annual variation rates, in %



The European economies that most depend on tourism saw the greatest falls in GDP.

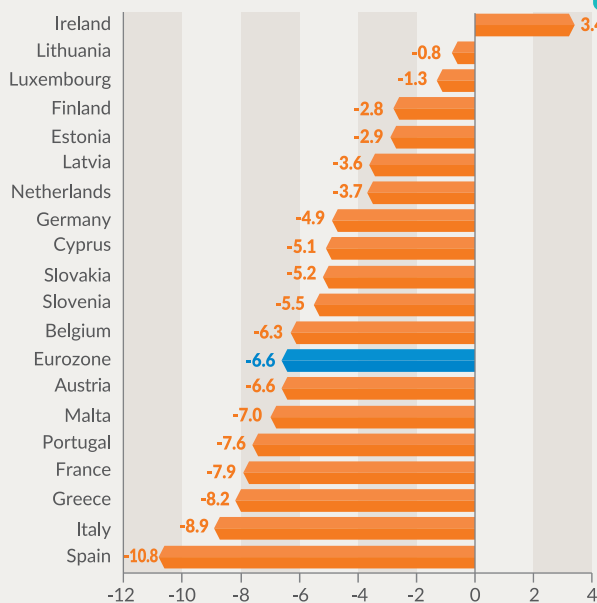
The Eurozone economy was one of the areas that suffered most from the consequences of COVID-19. According to Eurostat, GDP went from growing 1.3% in 2019 to declining 6.6% in 2020, especially due to the steep fall in domestic demand. Although all countries entered into recession this year, the severity of the impact of the crisis was not uniform. The economies that were most affected were those situated in southern Europe, where the tourist sector has a major influence on GDP. This was the case in Spain (-10.8%), Italy (-8.9%), Greece (-8.2%), France (-7.9%) and Portugal (-7.6%). On the other hand, more industrialised economies, such as Germany (-4.9%) and other countries outside the EMU, such as Poland (-2.7%) and the Czech Republic (-5.6%), saw smaller falls in GDP. Another difference between countries is the level of fiscal effort made by governments to combat the economic consequences of the pandemic. According to the IMF¹, among the ranks of European economies that mobilised most public resources in the way of public spending or a reduction of the tax burden to deal with COVID-19, were Germany (11% of GDP), Italy (8.5%), Belgium (8.0%), France (7.6%) and Spain (7.6%).

¹ Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. IMF (April 2021)
<https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

GDP GROWTH IN EMU COUNTRIES. 2020

Annual variation rates, as %

Chart 1.3



Source: Eurostat.

The European labour market was also seriously affected by the pandemic, but less so than in other crises, due to the support measures to protect jobs that were adopted by most European economies (financed through the SURE programme). For this reason, the Eurozone unemployment rate in 2020 only rose four tenths, to 7.9%, after achieving the lowest unemployment rate in more than a decade in 2019.

Inflation fell due to the dramatic decline in consumption and oil prices.

In 2020, there was a major slowdown in inflation due to the dramatic decline in domestic demand and the major contraction in oil prices. On annual average, Eurozone inflation was 0.3%, compared with 1.2% in the previous year. Underlying inflation (which

Box 1.1

THE EU RESPONSE TO THE ECONOMIC CRISIS CAUSED BY COVID-19

The measures adopted by the European institutions to combat the effects of the pandemic can be grouped into three blocks: those of the European Central Bank, those of the Eurogroup and those of the European Commission.

The European Central Bank decided, on 18 March, to buy up to €750 billion (thousand million) of public debt from member states to stop the risk premiums of the most vulnerable countries rising. On 4 July, as the crisis extended, the ECB increased this amount by €600 billion and, on 10 December 2020, by another €500 billion, so the total amount was €1.85 trillion (million million). This action by the ECB guaranteed financial stability in Europe and avoided a rise in risk premiums in countries with higher levels of debt.

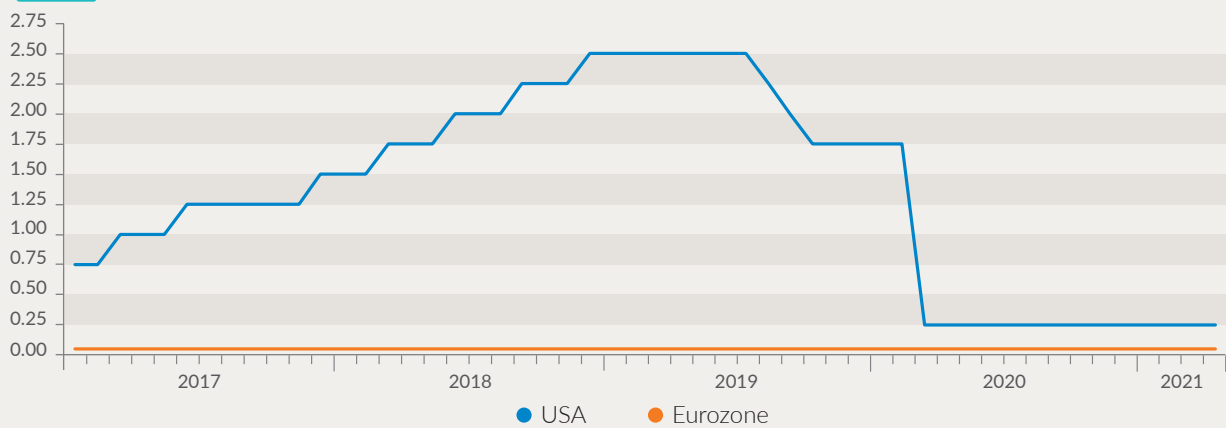
Secondly, the Eurogroup agreed a three-pronged liquidity package on 9 April: 1) the European Investment Bank (EIB) guarantee fund to finance SMEs; 2) the SURE fund to help countries combat unemployment, and 3) the European Stability Mechanism credit facility (ESM, the Eurozone's

bailout fund), which removes any conditions if the money is used to combat the consequences of the health crisis.

For its part, the European Council approved the European recovery fund (NextGenerationEU) on 21 July 2020, endowed with €750 billion for the 2021-2026 period, the largest European funding package in the history of Europe, with the goal of fostering environmental sustainability, promoting the digital transformation and mitigating the economic and social impact of the pandemic. The most important part of this package is the Recovery and Resilience Facility with a budget of €672.5 billion. Of the total, €312.5 billion will be non-repayable transfers and €360 billion, loans. For the first time, the finance will come from issuing European bonds. Moreover, from 1st January 2021, a new European tax on waste from unrecycled plastic packaging will be introduced as a source of finance for the community budget, and the Commission is studying three new sources of income: a Carbon Border Adjustment Mechanism, a digital tax and an EU Emissions Trading System.

OFFICIAL INTEREST RATES IN THE USA AND EUROZONE - As %

Chart 1.4



Source: Federal Reserve and ECB.

The Eurozone public deficit shot up to 7.2% of GDP due to increased expenditure.

excludes volatile components such as energy and unprocessed food) reached 0.9%, below the targets set by the ECB's monetary policy. All Eurozone economies saw annual inflation rates close to zero, as in the case of France (0.5%) or Germany (0.4%), or even slightly negative rates, as occurred in Spain (-0.3%), Italy (-0.1%) or Portugal (-0.1%).

Public finance was seriously affected by the health emergency. For the Eurozone as a whole, the public deficit went from 0.5% of GDP in 2019 to 7.2% in 2020. This sudden rise in the deficit is the result of a major increase in the spending-to-GDP ratio (going from 47% to 54%), while the percentage of revenue remained stable at about 46% of GDP. Once again, it was the countries with the highest public deficits (above 9%) that saw their economies more severely impacted by the pandemic (Spain, Italy, Greece and France, among others).

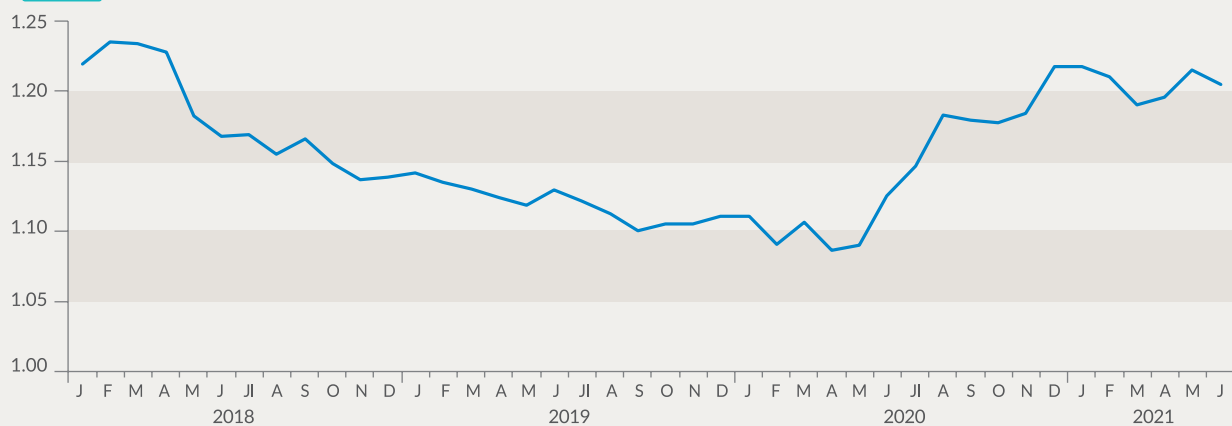
As for monetary policy, the central banks initiated a broad range of measures to halt the economic impact of the crisis caused by COVID-19. On the one hand, the banks that had leeway cut interest rates, such as the Fed, which lowered them from 1.5%-1.75% in January to 0.0-0.25% in March, and the Bank of England, which also had leeway to lower interest rates. In contrast, the ECB and the Bank of Japan kept them stable because they were already at historic lows (0%). On the other hand, all the central banks enhanced measures to ensure abundant liquidity and favourable credit terms.

Monetary policy becomes expansionary in all countries to combat the effects of the pandemic.

The falling trend in the euro ends as it appreciates against the dollar.

The pandemic reversed the trend for the euro to depreciate against the dollar, which occurred in 2018 and 2019. Due to the Fed cutting interest rates in the first quarter of 2020, the dollar lost value as a safe haven currency. Added to this was the positive evaluation by the markets of the rapid, decisive action by the European economic and monetary authorities. All in all, this meant that the euro began to clearly appreciate from June onwards and, with the exception of the period from September to November, maintained this trend until December, when it reached a high of \$1.22/€ - 9.5% above the price in December 2019 (\$1.11/€).

\$/€ EXCHANGE RATES

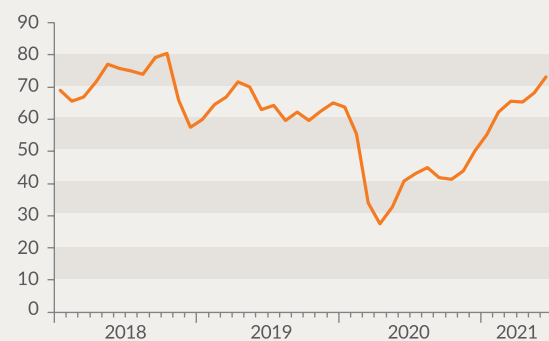


Source: ECB.

Chart 1.5

One of the consequences of the steep downturn in economic activity was the sudden fall in oil prices in the first few months of the year, to reach a low of \$18.4/barrel in April, representing a drop of 71% in comparison with the price of \$63 at the start of the year. The main cause of this downturn was the impact of restrictions on movement on the demand for fuel, plus a price war between the OPEC and allied countries such as Russia. To stop the prices falling, OPEC and another ten oil-producing countries agreed, on 9 April, to lower oil production by 10 million barrels per day for three months, from May to July, and another 7.7 million barrels per day from August to December. The price of oil ended the year at about \$50 the barrel, 23% less than in December 2019. Note that over the first six months of 2021, oil prices have continued to recover to reach over \$73 in June, a higher price than before the pandemic.

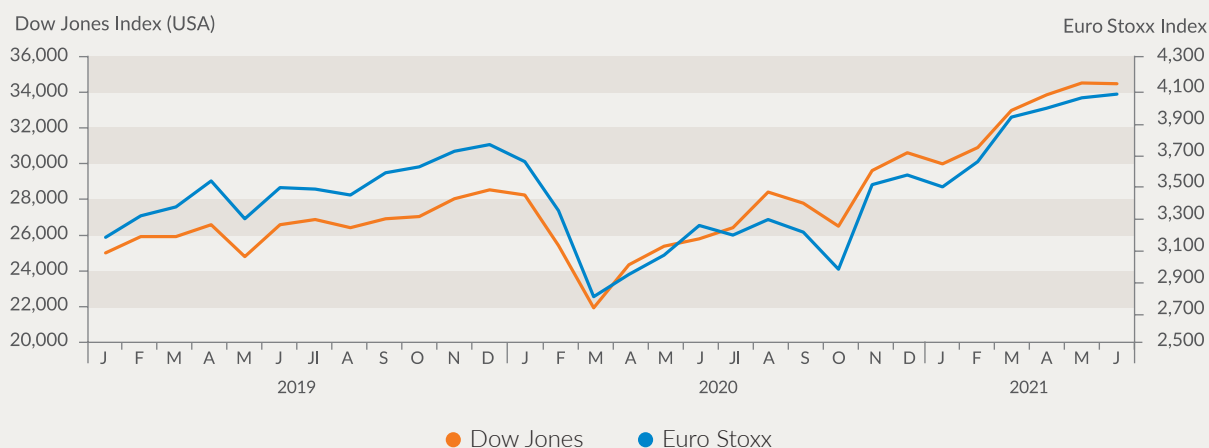
OIL PRICES - \$ per barrel of Brent



Source: Energy Information Administration, of the US Government.

Chart 1.6

STOCK MARKET INDEX IN THE USA AND EUROZONE



Source: ECB and Federal Reserve.

Chart 1.7

	FORECASTS			
	2019	2020	2021	2022
Global GDP	2.8	-3.2	6.0	4.9
Advanced economies	1.6	-4.6	5.6	4.4
USA	2.2	-3.5	7.0	4.9
Eurozone	1.3	-6.5	4.6	4.3
Germany	0.6	-4.8	3.6	4.1
France	1.5	-8.0	5.8	4.2
Italy	0.3	-8.9	4.9	4.2
Spain	2.0	-10.8	6.2	5.8
Japan	0.3	-4.7	2.8	3.0
United Kingdom	1.4	-9.8	7.0	4.8
Canada	1.9	-5.3	6.3	4.5
Emerging and developing countries	3.6	-2.1	6.3	5.2
Sub-Saharan Africa	3.2	-1.8	3.4	4.1
Emerging European economies	2.4	-2.0	4.9	3.6
Russia	2.0	-3.0	4.4	3.1
Developing Asia	5.3	-0.9	7.5	6.4
China	5.8	2.3	8.1	5.7
India	4.0	-7.3	9.5	8.5
Middle East and Central Asia	1.4	-2.6	4.0	3.7
Latin America & Caribbean	0.2	-7.0	5.8	3.2
World trade (goods and services)	0.9	-8.3	9.7	7.0

Source: IMF, July 2021.

The capital markets also underwent historic contraction due to the coronavirus crisis, concentrated in February and March of 2020. However, the stock markets began to recover from April onwards and, apart from a downturn in October due to the virulence of the second wave, the trend has generally moved upwards, so that by December 2020 some market indicators had already returned to pre-crisis levels and continued the positive trend in the first six months of 2021. This was the case for the US Dow Jones which was 7% up on the December 2019 value by the end of 2020, and the Japanese Nikkei, which ended 16% up. The European Euro Stoxx recovered pre-pandemic levels in February 2021 and the Spanish IBEX-35, one of those most punished by the presence of large hotel and tourism companies in the index, did so in May 2021.

After historic falls in the first few months of 2020, the stock markets rose to well above pre-pandemic levels.

2. Prospects

Right now, the global economic recovery is expected to be strong and fast, thanks to vaccination, but less certain than a few months ago due to the Delta variant and the widening gap between the recovery rate of developed countries and developing countries based on the disparities in access to the vaccines.

According to the IMF's July report, global GDP could grow 6% in 2021 and 4.9% in 2022. Despite the forecasts of recovery, major challenges still need to be met relating to the differing speed of recovery between countries and between different income groups in each country, and there is still the possibility of a persistent economic impact from the crisis. In point of fact, the IMF has lowered the prospects for emerging and developing countries, especially Asia, while raising the projections for advanced economies, especially the USA.

The differences between countries relate to the different rate of vaccination, to the scope of the implemented economic support policies, and to structural factors such as dependence on tourism. Among the advanced economies, the USA already regained the level of GDP it had before the crisis during the second quarter of 2021, and the Eurozone will do so within the second half of 2022. Similarly, among the emerging and developing economies, China already reached pre-pandemic levels of activity at the end of 2020, while many other economies will not get there until well into 2023.

The disparity can also be seen in the fact that the crisis affected some sectors more than others: more jobs were destroyed in sectors with younger, less-qualified workers with greater job insecurity, and also in sectors more prone to automation. This situation will require a major effort to retrain part of the population and reallocate workers between sectors. The differences between countries and also between income levels and sectors (the so-called K-shaped recovery) will significantly increase the inequality and wipe out some of the advances made in reducing poverty over recent years.

The unprecedented economic policy measures that were deployed to combat the effects of the pandemic averted a more drastic fall in GDP in 2020. But it is also true that today, many countries have a narrower margin for manoeuvre and higher levels of debt than before the pandemic. For this reason, the IMF recommends that policies focus, for as long as the pandemic lasts, on prioritising health expenditure and support for affected households and businesses. As the recovery progresses and labour market conditions return to normal, the support measures should be gradually withdrawn to avoid sudden cuts. Once the health crisis has been overcome, policies should focus on building resilient, inclusive, digital, more sustainable economies, the very goals that are defined in the European programme, NextGenerationEU.

In 2021, the US economy overtakes Europe on the road to recovery.

The US economy expanded 1.6% in the first three months of 2021, compared with 1.1% in the last quarter of 2020. This demonstrates the arrival of strong expansion, driven by the recovery in consumption and employment. The falling numbers of COVID-19 cases, the progressive increase in vaccinations, and the billions of dollars in public spending plans to rescue businesses and families are some of the reasons why the economic recovery in the USA is stronger than in the Eurozone. Nevertheless, the labour market will not recover all the lost ground until well into 2022. For the whole of 2021, the IMF predicts GDP growth of 7% and for 2022, 4.9% (according to the OECD, it will be 6.9% and 3.6%). In 2021, the public deficit is expected to remain high (higher than 15% of GDP); on the other hand, the unemployment rate could fall to 5.6%, although this would still be higher than the 3.7% reached in 2019. Finally, inflation will rebound, especially due to the impact of the rise prices of oil and some commodities.

Public investment in the Eurozone will reach a historic high in 2022, thanks to the NextGenerationEU fund.

According to the forecasts of the European Commission and the OECD, presented in May 2021, the Eurozone economy will grow 4.3% in 2021 and 4.4% in 2022, forecasts that are considerably better than those published at

the beginning of the year. The recovery of the European economy, which began in the summer of 2020, slowed down in the last quarter of 2020 and the first quarter of 2021 due to the imposition of new restrictions to contain the pandemic. However, from the second quarter of this year and especially in the third quarter, in line with rising numbers of vaccinations and the holiday season, Eurozone growth is expected to rebound, driven by consumption, investment and exports.

According to the European Commission, public investment in 2022 as a percentage of GDP will reach the highest level of the last decade thanks to the NextGenerationEU programme.

Growth rates will continue to vary within the

EMU but the most damaged economies are expected to see the steepest growth and, in general, by the end of 2022, Eurozone economies should return to the GDP levels they had in 2019. The improving labour market will need time to wholly recover, as businesses still have leeway to increase working hours before taking on workers. Finally, inflation will vary significantly over the year due to expected fluctuations in energy prices and the effect of changes in VAT rates in some countries but, on annual average, these could reach about 2% this year and around 1.5% in 2022.

To sum up, the prospects are positive but still clouded by great uncertainty, with risks of falling (if new variants of the virus appear that cannot be prevented by current vaccines, or if the structural impact on the labour market and financial sector is worse than expected) or rising (greater progress in global vaccinations or a higher rise in household consumption than expected). Other worrying factors to be considered are, on the one hand, the timetable for withdrawing public policies; if they are withdrawn too soon, the recovery could be jeopardised, and if too late, they might distort the markets and make it hard for unviable businesses to survive. On the other hand, a potential toughening of financial conditions should be considered if inflation forecasts rise faster than expected.

The economic prospects for 2021-2022 are positive overall but with many uncertainties.

OECD ECONOMIC PROSPECTS FOR THE MAIN DEVELOPED COUNTRIES

Table 1.2

	GDP % annual variation			INFLATION ⁽¹⁾ % annual variation			UNEMPLOYMENT RATE ⁽²⁾ % active population			CURRENT ACCOUNT BALANCE % of GDP			PUBLIC DEFICIT % of GDP		
	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f
USA	-3.5	6.9	3.6	1.2	3.0	2.4	8.1	5.6	4.3	-3.1	-3.6	-4.0	-15.8	-15.9	-9.4
Japan	-4.7	2.6	2.0	0.0	0.1	0.6	2.8	3.0	2.9	3.2	3.6	3.7	-10.1	-6.7	-4.0
United Kingdom	-9.8	7.2	5.5	0.9	1.3	1.7	4.5	5.4	5.8	-3.5	-3.1	-3.0	-12.4	-9.1	-6.4
Eurozone	-6.7	4.3	4.4	0.3	1.8	1.3	7.9	8.2	7.9	2.9	3.3	3.2	-7.2	-7.2	-3.7
Germany	-5.1	3.3	4.4	0.4	2.6	1.6	4.2	4.2	3.6	7.0	7.5	6.9	-4.2	-4.5	-1.6
France	-8.2	5.8	4.0	0.5	1.4	0.8	8.0	8.8	8.7	-2.3	-2.4	-2.2	-9.3	-8.4	-4.8
Spain	-10.8	5.9	6.3	-0.3	1.6	1.1	15.5	14.5	14.7	0.7	0.6	1.0	-11.0	-8.6	-5.4
OECD	-4.8	5.3	3.8	1.5	2.7	2.4	7.1	6.5	6.0	nd	nd	nd	-10.8	-10.1	-6.0

(1) For the OECD and the USA, the private consumption deflator was used.

(2) Unemployment rate calculated using national definitions, not harmonised.

nd: data not available.

f: forecasts.

Source: OECD, May 2021.

The French economy

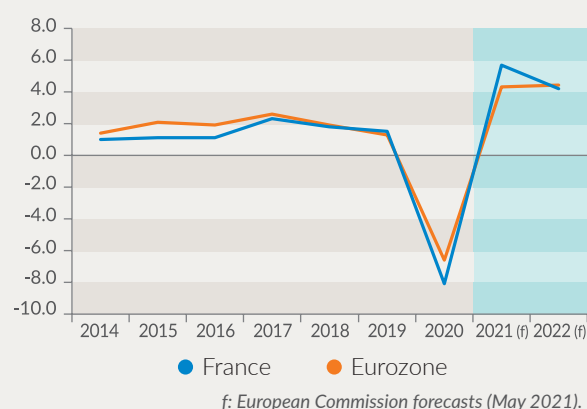
1. The main features of economic development in 2020

In 2020, the French economy saw a historic decline of 7.9%, according to the French National Institute of Statistics (INSEE), over one point more than for the whole of the Eurozone (-6.6%). After 2019, in which the French economy grew 1.8% and began to feel the positive effects of the economic measures to increase household disposable income, put in place throughout 2018 and 2019, the outbreak of the pandemic caused the worst dip in French GDP since World War II.

French GDP fell 5.9% in the first quarter and 13.7% in the second, the steepest fall in the historical series since 1949. The negative trend in GDP in the first half of 2020 was related to the closure of non-essential activities within the context of the lockdown, imposed mid-March to stop the spread of the pandemic. This decline is the result of major losses seen especially in the sectors of construction, commerce, transport, hotels and catering. In the third quarter, the economy began to recover but in the fourth, GDP fell again due to the second wave of the virus (-1.4%). The fall in activity in this quarter was framed by the lockdown running from the end of October to mid-December and the curfews that were imposed. The more specific restrictions introduced in November-December and the capacity of businesses and households to adapt to the limitations of their environment helped to offset the economic impact of the second wave better than the first. Although consumption fell significantly in the fourth quarter, household and business investment appeared more resilient and exports continued to recover.

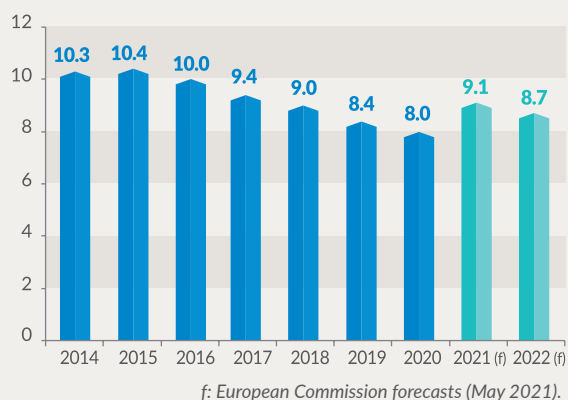
In 2020, the French economy suffered a shock from the impact of COVID-19.

GDP GROWTH IN FRANCE AND THE EUROZONE - Interannual variation rates, as %



Source: Eurostat.

UNEMPLOYMENT RATE IN FRANCE
As % of active population



Source: Eurostat.

The labour market was relatively resilient thanks to public aid.

The relative resilience of the labour market and the scale of the aid approved by the French government to support businesses and worker's income helped to contain the rise in unemployment and protect household purchasing power in 2020, though this overall situation conceals major disparities depending on the category of household.

As for the labour market, by the end of 2020 unemployment had fallen 1.4% year on year.

This figure represents a net loss of 400,000 jobs (measured in terms of national accounts). Finally, the fall was not as severe as expected because the adjustment by business to the shock was made through working hours rather than the number of employees, unlike in previous crises. For this reason, the unemployment rate fell four tenths in 2020, to 8%, in the midst of the economic crisis.

Wages per worker saw a decline of 3.2% in real terms, the steepest fall in the Eurozone. This is much smaller than that of labour productivity in businesses (-7.2%), which led to a loss of competitiveness among French businesses (in terms of real unit labour costs).

Inflation also saw a downward trend throughout 2020, except in July, when there was a significant rebound. On annual average, inflation stood at 0.5%, lower than the 1.3% recorded in 2019. Underlying inflation, which better reflects the trend in core prices by excluding volatile components (unprocessed food and energy) saw slightly higher growth (1%).

There was a steep drop in private consumption and investment.

All components of demand, both domestic and external, contributed to the drop in GDP in 2020. The decline in domestic demand, with a negative contribution to GDP of 6.6 points, featured a steep fall in private consumption (-7.1%) and, to a lesser extent, public consumption (-4.9%). Investment was the component of domestic demand that saw the greatest downturn (-8.6%). For its part, the negative contribution from external demand increased from three tenths in 2019 to 1.1 points in 2020, due to a steeper downturn in exports (-15.8%) than in imports (-11.9%). The fall in exports was generalised throughout Europe and the world, while the decline in imports reflected the negative trend in domestic and external demand. The bad performance in the trade balance and services caused the deficit in the current account balance to increase slightly from -0.7% of GDP in 2019 to -2.3% in 2020, according to the OECD. Finally, the change in stocks had a negative impact of 0.2 points.

As for the supply, in 2020 all of the major economic sectors recorded a negative trend in Gross Value Added (GVA), although the most significant falls were seen in cultural and recreational activities (-22.7%), commerce, transport and hotels & catering (-16.2%), construction (-16.0%) and industry (-9.4%).

GVA in commerce, transport and hotels & catering fell 16.2% in 2020.

The public deficit rose from 3.1% of GDP in 2019 to 9.2% in 2020, according to the European Commission, an unprecedented figure in France. Revenue fell €63.1 billion (-5.0%), slightly less pronounced than nominal GDP (-6.1%). Accordingly, the ratio of revenue to GDP rose 0.6 points, from 52.3% in 2019 to 52.9% in 2020. Public expenditure rose €73.6 billion to reach 62.1% of GDP, up from 55.4% in 2019. Government debt, according to the Maastricht definition, reached 115.7% of GDP at the end of 2020.

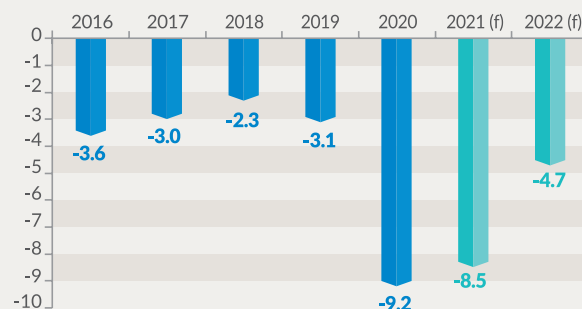
The direct fiscal measures adopted to deal with the pandemic and combat the adverse macroeconomic effects are reckoned to have represented 7.6% of GDP (€174 billion), according to IMF estimates using data up to March 2021.² This calculation includes expenditure on health, transfers to cover “partial unemployment” schemes (chômage partiel), the sectoral support fund for SMEs, the creation of an emergency fund and the adoption of support plans for the automobile sector and tourism sector. The public liquidity and guarantee measures to support businesses must also be considered, reaching 15.6% of GDP (€355.6 billion), which will not have an immediate impact on the budget.

² Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. IMF (April 2021)
<https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

The public deficit shot up to 9.2% due to the impact of COVID-19 on revenue and expenditure.

Other measures not related to COVID-19 that had an impact on the public deficit in 2020 are, on the one hand, the transformation of tax credits for competitiveness and employment (CICE) into a permanent reduction in tax contributions from businesses in 2019, with an estimated impact of 0.9% on GDP in 2020, and, on the other hand, the measures to improve household purchasing power, adopted after the Great National Debate, with an impact of 0.3% on GDP.

THE FRENCH PUBLIC DEFICIT As % of GDP



f: European Commission forecasts (May 2021).

Source: Eurostat.

2. Prospects

The French economy started 2021 in stagnation due to the major restrictions imposed under the health recommendations to deal with the third wave of the virus. However, economic activity will recover from the second half of 2021, when the vaccination campaign will enable all restrictions to be lifted and household consumption to rebound. At the same time, the arrival of European funds should stimulate business investment. Nevertheless, the appearance of the fifth wave at the start of the summer may delay the total lifting of restrictions for a few months.

In the first quarter of 2021, GDP grew again (0.4%) after the downturn in the fourth quarter of 2020. Nevertheless, GDP is still 4.4% below the level in the fourth quarter of 2019. Domestic demand (excluding stocks) makes a positive contribution to the trend in GDP (+0.9 points, after the -3.0 points in the previous quarter). Over this first quarter, gross fixed capital formation accentuated this dynamic (2.2%) and household expenditure recovered slightly (0.3%), after a steep fall in the previous quarter. Exports fell more drastically than imports in this first quarter (-1.5% compared with -0.1%). For this reason, foreign trade had a negative effect on GDP of four tenths; the change in stocks, however, made no contribution at all.

The economy grew 0.4% in the first quarter of 2021, but has still shrunk 4.4% in comparison with the previous year.

In 2021, GDP is expected to recover 5.5%, driven by consumption.

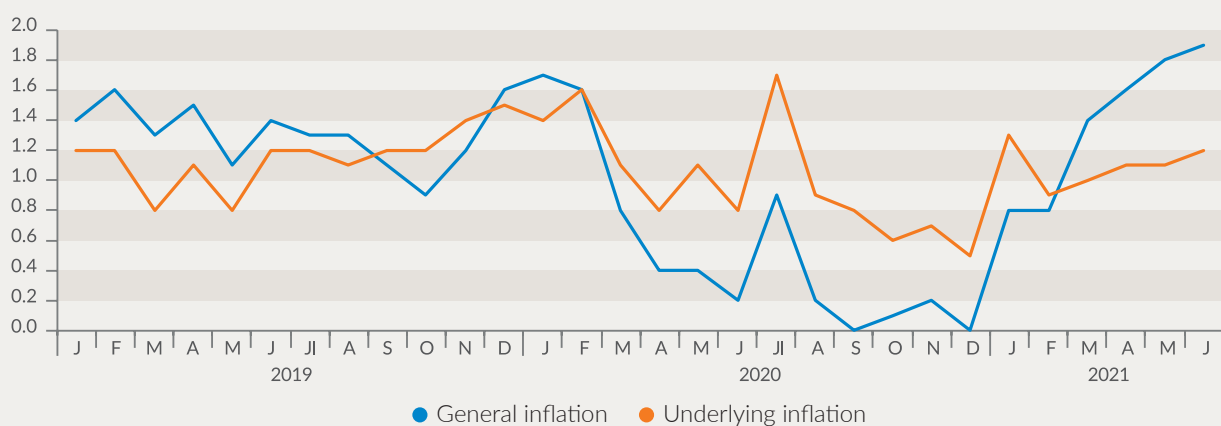
According to the Bank of France, GDP is expected to grow by 5.5% in 2021, driven by a strong recovery in household consumption, the support from public demand and investment

resilience. The rebound in activity will continue until 2022, with vigorous growth of about 4%, and activity is predicted to return to its pre-pandemic level by mid-2022. These forecasts are very similar to those published by international institutions such as the European Commission, the IMF and the OECD, which predict that French GDP will grow at about 5.7% in 2021 and about 4.2% in 2022.

The expected rebound in household consumption is very likely in the second half of 2021, since household income has mostly remained stable during the crisis, thanks to the income support measures and the remarkable resilience of the labour market, which led to an increase in the savings rate which could be converted into consumption once the health situation is resolved.

THE CONSUMER PRICE TREND IN FRANCE - Interannual variation rates, as %

Chart 2.4



Source: Eurostat.

In 2021 and 2022, the unemployment rate is expected to fall while prices slowly rise.

Public demand should also encourage business activity in 2021, thanks to the combined effect of the return to normal of public sector activity and the rebound in public investment linked to the recovery plan. This plan will provide support to business investment, which appeared less sensitive than expected to the fall in activity in 2020; this does mean, however, that it may react less strongly to the rebound in 2021. The improvement in investment will be helped by the recovery in the business margin over the next two years: on the one hand, the total payroll burden is expected to ease with the recovery in activity, while on the other hand, the business support measures included in the recovery plan, such as the reduction in taxes on production and the introduction of specific investment support, will help to boost margins.

As for the labour market, the unemployment rate is expected to remain slightly above 9% in 2021 and drop to 8.7% in 2022. However, unemployment could also be negatively influenced by the expiry of a series of public aid schemes and a "recovery" effect on bankruptcies of businesses that was avoided by many in 2020.

FRANCE. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 2.1

	2018	2019	2020
Components of demand			
Private consumption	1.0	1.8	-7.1
Public consumption	0.7	0.6	-4.9
Gross fixed capital formation	3.3	4.0	-8.6
Domestic demand without inventories (a)	1.5	2.1	-6.6
Inventories (a)	0.0	0.0	-0.2
Exports of goods & services	4.5	1.6	-15.8
Imports of goods & services	3.1	2.3	-11.9
Components of supply			
Agriculture	3.9	-2.3	-0.1
Industry	2.2	1.7	-9.4
Construction	1.0	2.6	-16.0
Commerce, transport, hotels & catering	0.2	2.4	-16.2
Information & communications	5.5	4.8	1.0
Financial activities	7.2	1.7	-6.2
Real estate activities	1.3	1.9	-1.3
Scientific activities & prof. services	3.5	2.8	-6.2
Public admin., health & social serv.	0.7	0.6	-4.7
Cultural, recreational & other activities	1.8	2.3	-22.7
GDP at market prices	1.9	1.8	-7.9

(a) Contribution to growth of GDP at market prices.

Source: INSEE (demand) and Eurostat (supply).

was contained, in line with the trend for the whole of 2020 (about 1% on average) due to the gap between negative production and the relatively high unemployment rate. In 2021, inflation is expected to be quite volatile, fluctuating between 0.5% and 1.5% year on year, and staying a few tenths above 1% on annual average. This rise in inflation can be explained by rising oil prices, after the major decline over the first few months of 2020, and by the pressure that may be exerted by rising prices in certain raw materials and semiconductors.

The public deficit will remain high in 2021.

After increasing significantly in 2020, the public deficit is expected to continue to be high in 2021 before gradually falling again as activity recovers. The extension of emergency support

measures due to continued health restrictions for a good part of the year, and the somewhat delayed implementation of the recovery plan, will keep the public deficit around 8.5% of GDP in 2021, starting to fall rapidly in 2022 to 4.7%, according to European Commission projections.

Globally, these forecasts are still subject to major risks, linked in particular to great uncertainty about public health. There are also various upward and downward macroeconomic risks. On the one hand, businesses have had to take on significant debt during the crisis to cover liquidity requirements, which could hamper future investments or recruitment of staff. On the other hand, households could spend the surplus savings they have accumulated to a greater or lesser extent than estimated in the forecasts. On the international scene, the stimulus measures announced by the US government could also boost demand and global confidence, though they will probably have a limited indirect impact on France.

The Spanish economy

1. The main features of economic development in 2020

Spanish GDP saw a historic decline of 10.8% in 2020, due to the Covid-19 pandemic, which provoked an unprecedented crisis in the recent history of the country. After the downturn in the first two months of the year, there was a notable recovery in the third, but this did not continue into the fourth quarter due to the appearance of the second wave of the virus.

The impact of the crisis on different sectors was very uneven. The only sectors to see a positive change were the primary sector and public administration, education and health. In

the others, the impact of the crisis was negative and varied immensely. So, while the fall in GVA was 24% in the most affected branches – commerce, transport, hotels and catering, and artistic and leisure activities – it was 8.5% in the other sectors. This means that 70% of the GDP lost in 2020 was in the first group.

In 2020, the services most affected by the pandemic brought down GVA by 24%.

One of the main ways the health crisis crossed over to the economy was through consumption, which saw significant falls in March, April and May. As general uncertainty rose due to the worsening economic prospects, the reaction of economic actors was to increasingly favour savings. Investment was also seriously affected by the delay – and in some cases, cancellation – of projects, due to this rising uncertainty. Exports, for their part, felt the negative effects on services of the dramatic fall in international tourism.

GDP follows an asymmetric V shape, because the waves of virus have slowed the rate of recovery.

As for the quarterly trend in economic activity, year-on-year growth followed an asymmetric V-shaped trend. While economic activity fell 4.3% year on year in the first quarter of 2020, the decline in the second quarter was historic (-21.6%) and was followed by two quarters with similarly negative year-on-year rates (-8.6% in the third quarter and -8.9% in the fourth). Effectively, in interannual variation rates, after the strong rebound in activity in the third quarter (17.1%), the economy stagnated in the fourth quarter due to the resurgence of coronavirus and the introduction of restrictions to contain the spread of the virus, a similar trend to the one in the first quarter of 2021 due to the third wave of the virus.

The decline in Spanish GDP was the most significant of all of the Eurozone countries. It was followed by Italy (-8.9%), Greece (-8.2%), France (-7.9%) and Portugal (-7.6%). The hugely negative effect of the crisis in Spain is partly explained by the predominance of tourism in the economy, but also by the fact that the Spanish economy contains a series of internal vulnerabilities that make it less resilient, such as the high degree of temporary work in the labour market; the large proportion of small and medium-sized enterprises (with less capacity to withstand a sudden drop in income), and high public debt, which limited the approval of more robust fiscal policies to protect the income of families and the production network.

As has been said, Spanish GDP suffered a historic decline of 10.8%, which was much greater than that of the crisis in 2009, when the property bubble burst (-3.8%). Both domestic demand and external demand had a negative impact on the variation in GDP in 2020, but the first was more important. Accordingly, domestic demand explains 8.8 points of the total drop in GDP, which was, as we said, 10.8%; the other 2 points came from external demand, mainly due to a major reduction in exports of services (tourism), added to the fall in exports of goods.

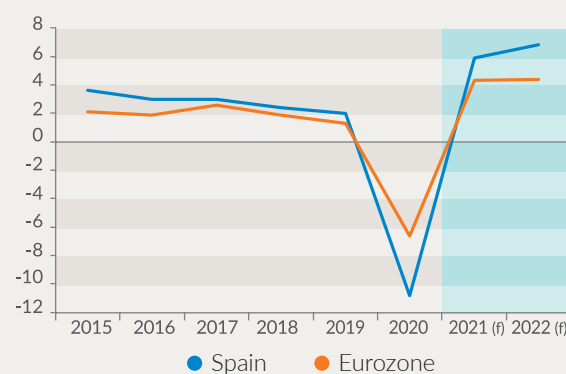
The Spanish economy still has a positive external balance despite the pandemic.

Despite the pandemic, the Spanish economy has continued to see a positive balance in the current account in 2020, of 0.7% of GDP, although this is lower than the 2% in the previous year. This surplus enabled it to continue to reduce the foreign debt for the ninth consecutive year.

As for domestic demand, note the major decline in private consumption (-12.4%) which, to a large extent, was caused by the lockdowns and restrictions on movement that were imposed over the year. Household consumption is 56% of GDP, accounting for a significant 7 points of a total decline of 10.8% in global GDP this year. In contrast, public consumption was the only component of GDP that saw a positive variation in 2020 (3.8%), largely due to extraordinary expenditure on health and support for employees, the self-employed and businesses. Investment decreased at the same rate as consumption (-12.4%), but its lower percentage of GDP means that it made a smaller contribution to the decline (-2.6 points). Among the main factors explaining the downturn

Spain saw the greatest decline in GDP of all the Eurozone countries.

GDP GROWTH IN SPAIN AND THE EUROZONE - Annual variation rates, as %



Source: Eurostat.

in investment was the major drop in industrial activity and the increased uncertainty about the trends in the economy and future business profits.

The impact of the crisis on the labour market was softened by the ERTE scheme.

The labour market suffered a downturn in 2020, despite the introduction of the furlough scheme (ERTE or ERTO), which softened the impact. This scheme, introduced in most European countries during the pandemic, allowed businesses to reduce their workforce without destroying jobs, as they continued to be registered with social security and received a benefit from the state. At the height of the pandemic, at the end of April, there was a historic high of 3.62 million workers under the ERTE scheme, falling to 750,000 by the end of the year. This meant that the drop in employment was only 4.2% but, if we consider the number of hours that were actually worked, the decline is closer to that of GDP, -10.4%. Spain was the country that suffered the most significant fall in employment in the Eurozone due to the high rate of temporary work and the predominance of the tourism sector, although both these factors are closely related. If we include workers under the ERTE scheme, people who lost their jobs and the self-employed who requested support, more than one fourth of all workers were affected to some extent by the impact of the crisis at some time during 2020. The first workers to be dismissed were those with temporary contracts, which is why the rate of temporary work fell this year, from 26.3% to 24.1%, still one of the highest rates in Europe and a major weakness in the Spanish economy when faced with this crisis.

In line with the job destruction, the unemployment rate also rose, from 14.1% in 2019 to 15.5% in 2020. Real wages grew about 1.2% due, in part, to the 2% rise in wages of public employees, while productivity saw a downturn of 3.6%. As a result, real unit labour costs (ULC) increased by more than 4%, undermining business competitiveness.

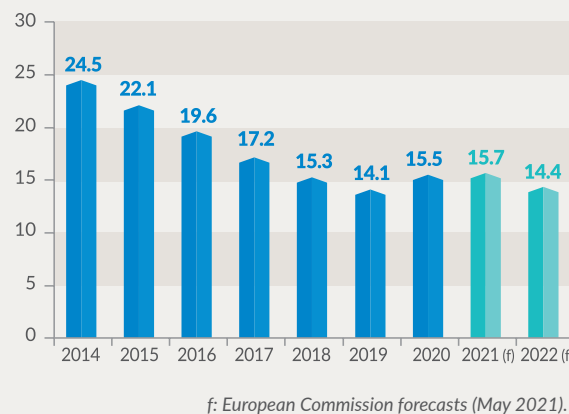
The sudden drop in consumption and investment, together with the falling prices of oil and commodities meant that consumer prices saw a small decline of 0.3% in 2020.

In the area of public finance, the Spanish economy went from a deficit of 2.9% of GDP in 2019 to 10.1% in 2020 (11% if the aid to the financial sector is considered), the combined result of both the budgetary effort to contain the economic impact of the pandemic and the reduction in tax revenue due to falling economic activity. Public administration debt as a whole rose to €1.35 trillion (million million) by the end of 2020, 13.2% more than the previous year. This is the equivalent of 120% of GDP in the fourth quarter of 2020, 24.5 points more than in the same quarter of the previous year, the highest figure in the historical series. The major contraction in nominal GDP made the debt-to-GDP ratio grow faster than the nominal debt increase.

The public measures adopted to mitigate the impact of Covid-19 (both in expenditure and tax reduction) represented a fiscal boost of 85 billion euros, equal to 7.6% of Spanish GDP, according

UNEMPLOYMENT RATE IN SPAIN As % of active population

Chart 3.2



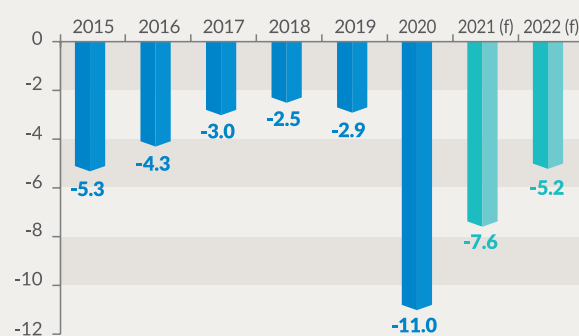
f: European Commission forecasts (May 2021).

Source: Eurostat.

Spain reached a record public debt of 120% of GDP.

to data up to March published by the IMF.³ These measures can be grouped into three blocks: those for the health system, those to protect workers' income (ERTE and support for the self-employed), and social protection measures for struggling groups (for example, the new minimum income scheme approved in May 2020). Spain made a similar fiscal effort to countries such as France, but was still well behind the European countries at the forefront of fiscal stimulus policies (Germany dedicated 11% of GDP, and Italy 8.5%). Consider that these calculations do not include the measures adopted by the autonomous communities or municipalities. In addition, states also approved loans with public guarantees to temporarily offset the lack of liquidity in businesses due to restrictions on activity. Spain dedicated €161.3 billion to this, 14.4% of Spanish GDP, fairly similar to the French figure but far from that of Italy and Germany (35% and 28% of GDP, respectively).

SPAIN'S PUBLIC DEFICIT *
As % of GDP



f: European Commission forecasts (May 2021).
*Includes aid to the financial sector.

Source: Eurostat.

2. Prospects

The economic prospects for 2021 and 2022 are positive but still subject to great uncertainty. The rate of recovery in GDP largely depends on the performance of tourism, especially in relation to the fifth wave of coronavirus, the receipt of the NextGenerationEU funds, and recovering confidence that could turn accumulated household savings into a major rebound in consumption.

In the first quarter of the year, Spanish GDP saw a downturn of 0.5% in comparison with the previous quarter, according to the first estimates from the National Institute of Statistics. The third wave of the virus, Storm Filomena and the slow progress in vaccination over the first three months of the year explain this trend. The recovery is not expected to advance significantly or on a sustained basis until after the summer, when the percentage of the vaccinated population will be high and restrictions on movement between countries will be removed.

The strong, sustained recovery is held back until the second half of 2021.

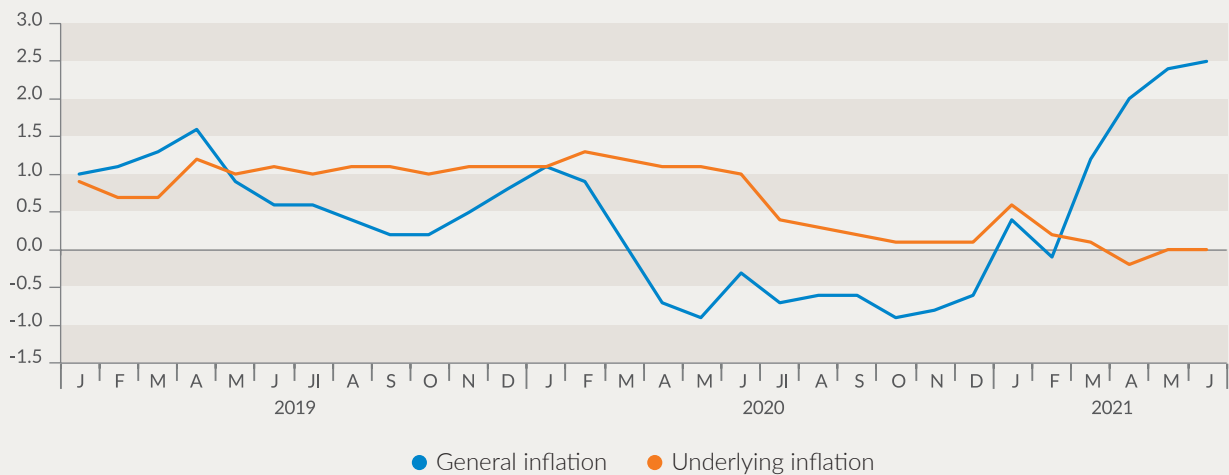
In 2021, Spain's economy will grow the most and will recover pre-pandemic levels by the end of 2022.

According to the Spanish government's forecasts, included in the 2021-2024 Stability Programme sent to the European Commission at the end of April, the Spanish economy will experience especially strong growth this year and the next, with predicted GDP growth of 6.5% and 7.0% respectively, confirming the asymmetric V-shaped recovery pattern. The European Commission's forecasts for Spain generally match those presented by the Spanish Government, but are a little more pessimistic (with 5.9% in 2020 and 6.8% in 2022), similar to those of the OECD. So, it will not be until the end of 2022 that the Spanish economy will recover the level of GDP it had in 2019, before the outburst of the coronavirus crisis.

³ Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. IMF (April 2021)
<https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

TREND IN CONSUMER PRICES IN SPAIN - Interannual variation rate, as %

Chart 3.4



Source: Eurostat.

According to the government's forecasts, private consumption will be the main driver of economic recovery, with predicted annual growth close to 7%, thanks to the improvement in the labour market and the use of the enforced pool of savings from 2020. Equally, investment is expected to grow over 10% per year in 2021 and 2022, boosted by the execution of projects with high leverage set out in the Recovery, Transformation and Resilience Plan sent to the Commission, which defines the Spanish strategy and will enable access to NextGenerationEU funds (€69.5 billion in public expenditure from European transfers over the period 2020-2026, €27 billion of them in 2021). For its part, the progressive recovery in tourism and the growth of the main trade partners will enable reactivation of the foreign sector, which will already make a positive contribution to GDP growth in 2021.

As for the labour market, the economic recovery is expected to enable the reincorporation of most of the workers affected by activity restrictions, but other workers could end up unemployed. For this reason, the recovery of the labour market is expected to be only partial in 2021. For its part, the reactivation of domestic demand marks a rising trend in prices and wages. So, harmonised inflation rates were positive again from the start of the year and had already reached 2.5% by June, although underlying inflation, which shows the background trend in economic prices, has stayed close to zero.

SPAIN. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 3.1

	2018	2019	2020
Components of demand			
Private consumption	1.8	0.9	-12.4
Public consumption	2.6	2.3	3.8
Gross fixed capital formation	7.4	2.0	-12.4
Domestic demand (a)	2.9	1.4	-8.8
Exports of goods and services	2.3	2.3	-20.2
Imports of goods and services	4.2	0.7	-15.8
Components of supply			
Agriculture, livestock and fishing	7.5	-2.3	5.3
Industry	0.6	1.7	-9.6
Construction	4.1	4.3	-14.5
Commerce, transport and hotels & catering	1.7	2.8	-24.4
Information and communications	5.6	2.5	-7.6
Financial and insurance activities	6.3	-0.1	3.3
Real estate activities	3.4	2.6	-2.0
Professional activities	5.1	4.6	-13.7
Public admin., health and education	1.0	1.2	1.5
Artistic, recreational & other activities	0.6	0.1	-24.9
GDP at market prices	2.4	2.0	-10.8

(a) Contribution to growth of GDP at market prices.

Source: National Institute of Statistics (INE).

The Stability Programme of the Spanish Government predicts that public debt will fall five tenths in 2021, to reach 119.5% of GDP. Between 2022 and 2024, the expected reduction of the public deficit and growth in GDP will enable the continued scaling down of public debt, but

***The public deficit could
halve in two years.***

at a very slow pace. According to the European Commission, the deficit could fall to 7.6% of GDP in 2021, while in 2022, the downward trend would continue and reach 5.2%, half of the level reached during the pandemic in 2020.

Remember that, for the 2020, 2021 and 2022 financial years, the European Commission has suspended the fiscal rules that set the limit of public debt at 3%, since its priorities are to continue providing support to encourage the recovery in growth and employment.

In summary, Spain will be the Eurozone country that grows most in 2021 and 2022, but it was also the country that suffered most from the economic impact of COVID-19 in 2020, not only in terms of GDP but also in the labour market. The success of the recovery and improvement in potential long-term growth in the Spanish economy will depend on the health situation, on suitable use of the NextGenerationEU funds – considering that Spain will be the EU country to receive most subsidies from the recovery fund – and on the approval of major structural reforms to accompany this plan (such as labour, pensions, tax and public administration reforms), to enable improvements in competitiveness, sustainability and equality. On the other hand, if stimuli are removed too soon, this could unleash a wave of bankruptcies of overindebted but viable businesses, which could lead to job losses and present a risk to the banking sector and financial stability.

The Andorran economy: general developments

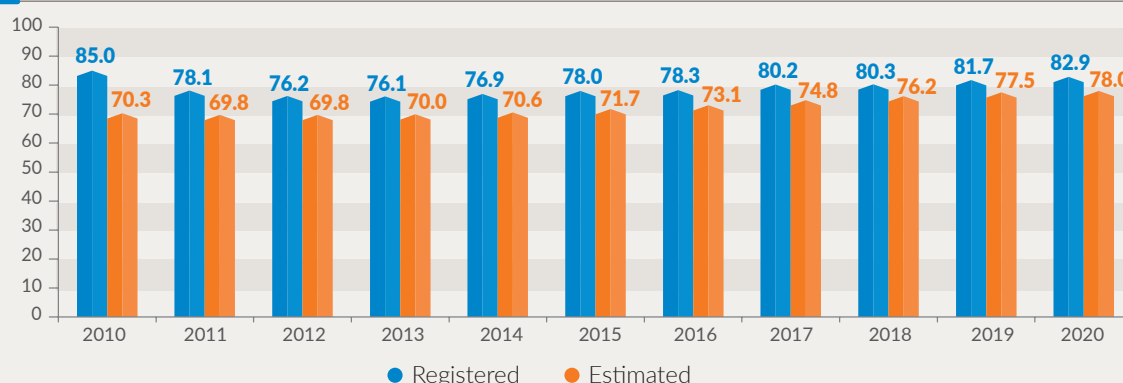
IV. Population, employment and education

1. Population and migratory flows

In 2020, the Andorran population grew for the eighth consecutive year, to reach an estimated population of 78,105, an increase of 0.6% from 2019, and the highest figure in the historical series since 2009. In terms of the population registered with the local Comú authorities (a different concept to the cited estimated population), the increase was higher, 1.4%, to reach 82,887, the highest figure in the last ten years. So, the difference between both sources continues to be significant, almost 4,900 people – increasing, moreover, in 2020 – which hampers analysis of the real situation of the Andorran population.

The estimated population of Andorra grows for the eighth consecutive year to over 78,000 people.

REGISTERED AND ESTIMATED POPULATION - In thousands



Source: Parish censuses of the Comú governments / Department of Statistics.

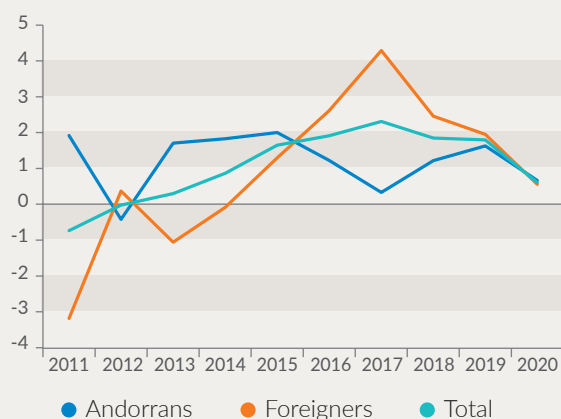
The growth in the estimated population of Andorra can be explained by both the increase in the number of Andorran nationals (0.7%) and the increase in the foreign population (0.6%), although both have slowed since 2019. Note that this is the first time in five years that the foreign population has grown less than the Andorran population, so the gap between the two figures has narrowed slightly, but the foreign population still outnumbers the Andorran population by 2,017 (40,016 vs 37,999). These data confirm that the Andorran market is still attractive to foreign workers despite the context of economic and health problems that marked 2020. So, the proportion of foreigners in the total estimated population remains 51.3%, close to the maximum in the available historical series (52.1% in 2010), but keeping in mind that, in terms of registered population, the percentage of foreign population reached a maximum of 72.5% in 1986, a much higher percentage than today.

By nationalities, the increase in foreigners was concentrated in the group of French (0.9%) and other nationalities (4.3%). In contrast, the Spanish and Portuguese saw falls of 0.1% and 1.4%, respectively. However, the Spanish are still by far the largest group of foreigners, with 24.6%

ESTIMATED POPULATION BY NATIONALITIES

Interannual variation rate (%)

Chart 4.2



Source: Parish censuses of the Comú governments / Department of Statistics.

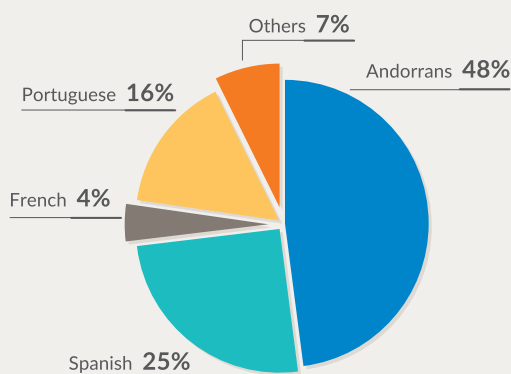
In 2020, foreigners still represent more than half of the population of Andorra, despite numbers growing less than Andorran nationals.

of the total population of Andorra, followed by the Portuguese (11.6%), and foreigners of other nationalities, which reached a historic high of 10.6%. This figure is more than double that of the French (4.4%), contrasting with the similar percentages for both groups in 1999 (in terms of registered population). In conclusion, the trend towards the diversification of labour sourcing continued in 2020.

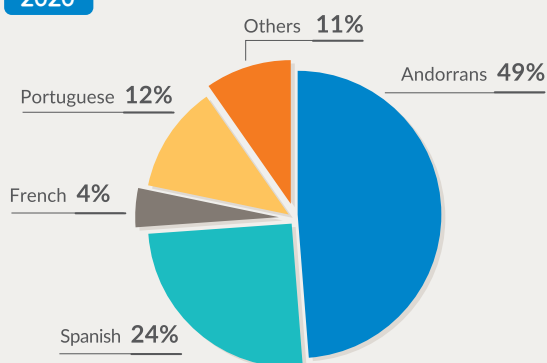
ESTIMATED POPULATION BY NATIONALITIES - As % of total

Chart 4.3

2010



2020



Source: Parish censuses of the Comú governments / Department of Statistics.

In 2020, the number of Portuguese and Spanish in Andorra fell, and the numbers of French and other nationalities rose.

In the context of the pandemic, which marked almost the whole of 2020, there was a major impact on the Andorran labour market, resulting in a serious reduction in the number of valid immigration permits. On 31 December 2020, there were 46,639 permits (including seasonal), 7.7% less than in the previous year and the lowest figure since 2016. This decrease can be explained, basically, by the major reduction in seasonal permits (-69.6%), together with a 1.8% drop in working residence permits, which are the majority (75.3%), and cross-border work and work without residence permits (-0.8%). The only permits that increased in number in 2020 were those for residence only (1.5%), which reached 8,334.

The number of seasonal immigration permits fell almost 70%, impacted by the pandemic.

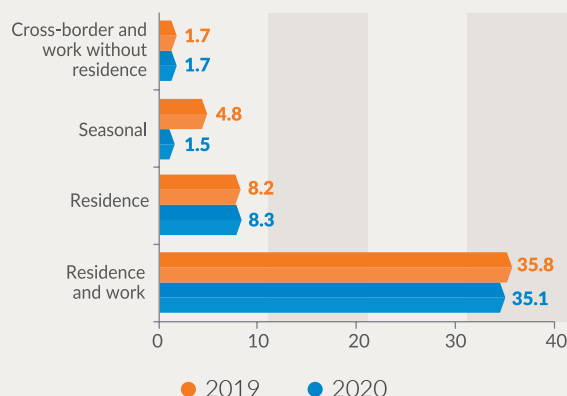
The population distribution by parish shows that the increase in estimated population in 2020 was fairly generalised, following the

pattern of recent years, with the sole exception of Escaldes-Engordany, where the population fell slightly (0.1%). Note the increase recorded in the high parishes of Canillo (2.2%), Ordino (1.2%) and La Massana (1.7%), all three with higher-than-total growth. The other parishes saw slower growth.

In the case of Andorra, by far the most populated parish, the increase in population was 0.4%, so its percentage of the total estimated population of Andorra continued to decline slowly and

VALID IMMIGRATION PERMITS BY TYPE, AT THE END OF THE YEAR - In thousands

Chart 4.4



Source: Department of Immigration / Department of Statistics.

In 2020, all the parishes gained in population except Escaldes-Engordany.

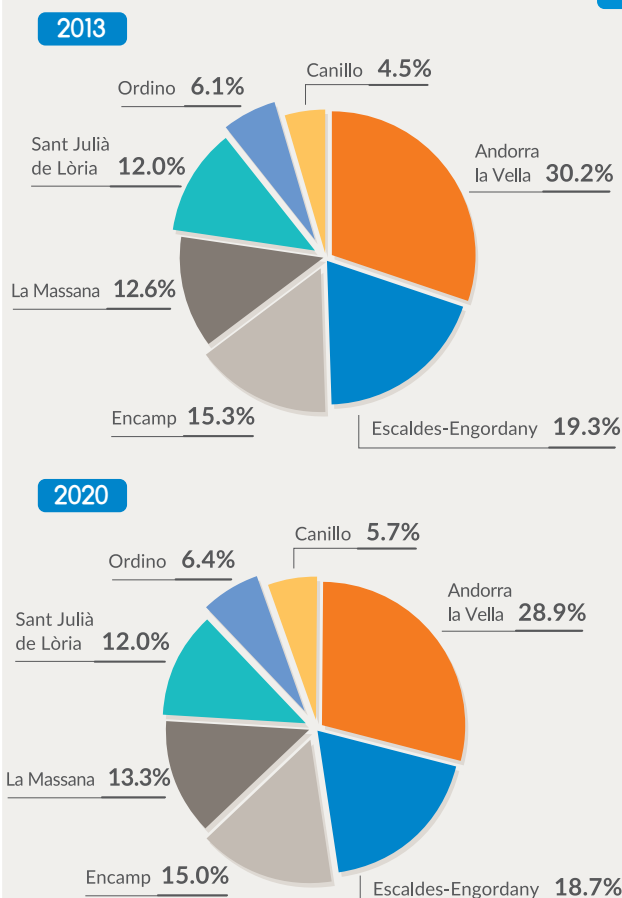
steadily, as noted since 2014, to reach 28.9%, the lowest level in the available historical series. In contrast, Canillo is still the least populated parish (5.7%), despite the population growth seen in recent years.

As for population change, the natural increase in Andorra in 2020 was only 120 people, practically half that of the previous year. This data is influenced by the surge in deaths associated with the COVID-19 pandemic, which crept above the threshold of 400 – setting a historic high – while the number of births remained stable. Moreover, the positive balance of migration fell to 352, calculated on the basis of the estimated population. In total, the estimated population saw a net increase of 472 people, 65.4% less than in 2019.

Regarding the structure of the estimated population by age and gender, men outnumber women in all working age brackets, except in the 40-44 age bracket (slightly) and, outside the working

ESTIMATED POPULATION BY PARISH As % of total

Chart 4.5



Source: Parish censuses of the Comú governments / Department of Statistics.

VARIATIONS IN THE ESTIMATED POPULATION

Table 4.1

	2019	2020
Births	539	539
Deaths	301	419
Natural increase	238	120
Birth rate (per thousand)	6.951	6.909
Death rate (per thousand)	3.882	5.371
Rate of natural increase (per thousand)	3.069	1.538
Increase from migration or census regularisation	1,128	352
Total population increase*	1,366	472
Marriages	325	226

* Natural increase plus increase from migration.

Source: Department of Statistics.

Andorra sees a historic number of deaths due to the COVID-19 pandemic.

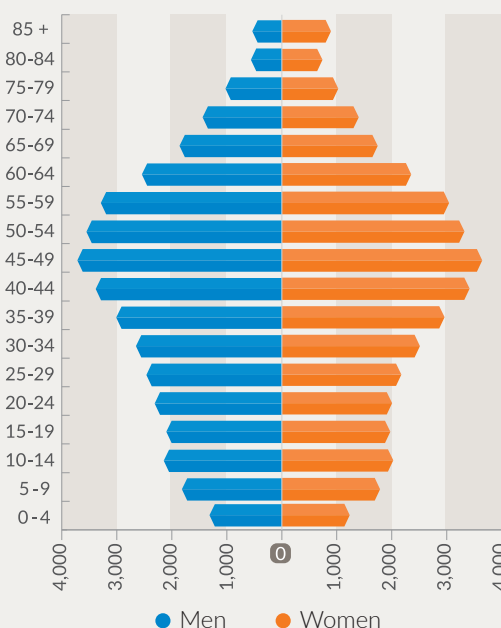
age, in the over-75 bracket. All in all, the difference in 2020 between the percentages of the male and female populations was still 1.8 percentage points – there are 1,465 more men – a difference that can be explained by the size of the foreign workforce, which has traditionally been mostly male.

In turn, the estimated population distribution by age and nationality shows that the presence of foreigners clearly exceeds that of Andorrans in all age brackets above the age of 30. In contrast, the proportion of Andorrans in the under-30s bracket is much higher (73.3%), contrasting with the low proportion of Andorrans in the over-65s group (38.6%).

To complete the analysis of the population of Andorra, the distribution by ages in 2020 shows that the Andorran population continues to age progressively, following the pattern of many other developed economies. Specifically, the falling trend in the estimated population of under-15s in recent years has become more marked, so its percentage of the total has fallen to 13.2%, 3.1 points less than in 2010. In contrast, the over-65s group grew strongly in 2020, by 3.8%, raising its share of the total to a new historic high of 14.4%, higher than the percentage of the population under the age of 15. In between, the working age population (ages 15-64) increased a modest 0.4% and its percentage of the total fell to 72.4%. As a result, the average age of the Andorran population in 2020 continued to rise, to 41.7.

STRUCTURE OF THE ESTIMATED POPULATION BY AGE AND GENDER. 2020

Chart 4.6



Source: Parish censuses of the Comú governments / Department of Statistics.

The average age of the Andorran population continues to rise, to 41.7.

31

2. Employment and unemployment

In 2020, the Andorran labour market was hit hard by the restrictions imposed during the COVID-19 pandemic. According to data from the Workforce Survey (EFT), the number of unemployed in Andorra increased 69.9%, to 1,407, the highest figure in the last five years. The 2020 data shows double the unemployment there was in 2018. Moreover, not everyone who lost their job in 2020 was classified as unemployed; some were classified as inactive, since lockdown and the closure of businesses prevented people from looking for work despite being available for work. So, the unemployment rate rose from 1.8% in 2019 to 2.9% in 2020, but is still much lower than in neighbouring countries.

Unemployment rose to the highest level in the last five years.

By gender, the rise in unemployment affected women more than men. Specifically, the unemployment rate for women went from 1.6% to 3.7%, while for men it increased only three tenths, to 2.6%. By ages, the bracket most impacted by the rise in unemployment during the pandemic was the youngest, as the unemployment rate among the population aged 15-24 climbed to 18% on average in 2020, compared with 10.2% in the

Box 4.1

ERTO: MEASURES TO DEAL WITH THE IMPACT OF COVID-19 ON THE ANDORRAN LABOUR MARKET

In the first phase of the pandemic, the Andorran Government passed Law 3/2020, of 23 March, on special, urgent measures for the health emergency caused by the SARS-CoV-2 pandemic, prohibiting the suspension of employment contracts even though businesses had temporarily suspended activities, so that employees would continue to receive their full salary.

This Law established measures to share the burden of this obligation between the two parties and therefore introduced schemes for employees to reimburse the business, through work, half of the credited unworked hours generated by this measure. The other half of this time had to be paid by the business without any direct compensation from the employee but, on the other hand, could be offset by the possibility of receiving aid and other miscellaneous measures.

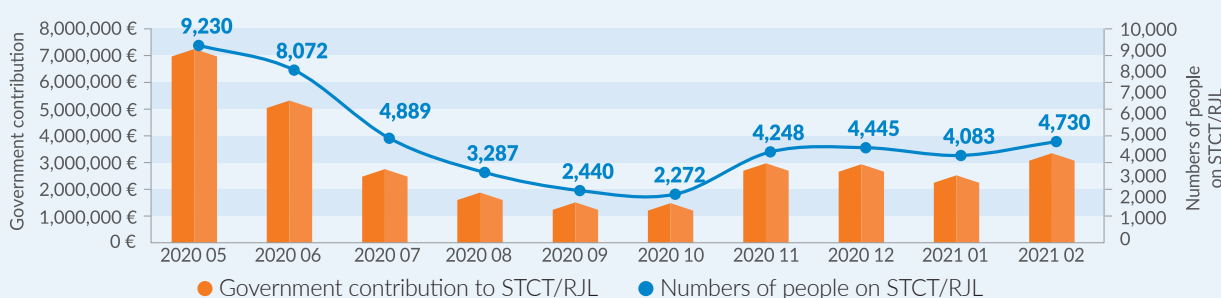
A few weeks later, the Government passed Law 5/2020, of 18 April, on further special, urgent measures for the health emergency caused by the SARS-CoV-2 pandemic, regulating, for the first time in the Andorran legal system, the temporary suspension of employment contracts (STCT) and the reduction of working hours (RJL), also known as ERT0 (furlough scheme). The objective of these schemes was – and is – to avoid the dismissal of employees as far as possible and the destruction of the Andorra's productive network, despite the suspension of activity of many businesses until the end of the health emergency, and to support

those businesses and their workers in the period of subsequent reactivation of business activity through fair, equitable schemes. The temporary period of implementation of this measure was initially set until 31 December 2020, although the prolongation of the pandemic led to several extensions. On the date of completing this report, the duration is set for up to 90 days after the declaration of the end of the health emergency, with the date of 31 December 2021 as the final deadline.

The temporary suspension of the employment contract and reduction of working hours mean that the employee receives a benefit guaranteeing the equivalent of the interprofessional minimum wage. Several tranches are established, up to double the average wage, in which the percentage of reduction increases gradually. The reduction is percentually smaller for low wages than for high wages. The benefit is paid by the business and the Government, with a much higher effort from the latter (25% and 75%, respectively).

When these measures were introduced in May 2020, the number of workers on STCT/RJL crossed the threshold of 9,200, a figure that represented 25.9% of total employees at the time. This level fell progressively during the mid-year months, as the first wave of infections dropped off, to a low of 2,272 in October, but the number of workers on ERT0 subsequently bounced back up in February 2021, to over 4,700 (12.6% of total employees).

NUMBERS OF PEOPLE ON STCT/RJL AND GOVERNMENT CONTRIBUTION



Source: CASS (Andorran Social Security System) / Department of Statistics.

previous year. The unemployment rate of the oldest group (ages 55-64) and the 25-54 age bracket also increased, but much more slowly, up to 2.1% in both cases. In this context, due to the health emergency and the major increase in the group of unemployed, the Government launched two specific schemes to foster employment, one aimed at the private sector and the other at the public sector, to simplify the recruitment of unemployed jobseekers registered with the Job Service.

The increase in unemployment in 2020 affected women and young people most.

To complete the analysis of unemployment, the impact of the health crisis on unemployment in 2020 led to a drop in the relative percentage of long-term unemployed, i.e. people looking for work for more than a year, by almost four points, to 6.2%. The other 93.8% are people who have been unemployed short term, while 49.1% of these have been looking for work for less than three months.

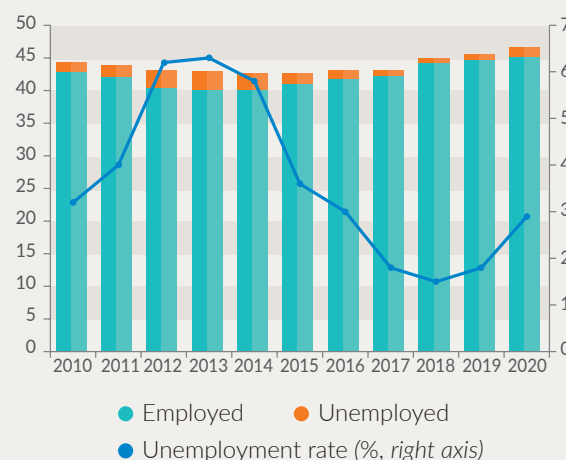
In parallel to the rise in unemployment, and in a context of a rising active population, the number of employed also increased, according to the EFT, at a rate of 0.8%, to 45,136 people, although this is the smallest increase in the last six years. Note that these data include those affected by a temporary suspension of the employment contract (STCT) or a reduction in working hours (RJL), who are counted as employed, according to the methodology of the Statistical Office of the European Union (Eurostat) and the International Labour Organisation (ILO), applied in the Workforce Survey. On this basis, by the end of 2020, there were 4,445 people on STCT/RJL in Andorra, a figure that had reached more than 9,200 in May 2020.

Of the total number of employed, 13.9% are self-employed and the others are employees divided between the private sector (68.2% of total employees) and the public and semi-public sector (17.3%). As for the level of education, 63.2% of the employed have at least secondary education, and in relation to working hours, 91.4% of the employed work full time and effectively work an average of 32.5 hours per week, while those employed part-time work an average of 15.9 hours per week. In global terms, the employed population works 31.1 effective hours per week, a figure that represents 10.9% less worked hours than in 2019 due to the COVID-19 lockdown and reductions in working hours.

The data from CASS (the Andorran Social Security System) also reflect a downturn in the labour market, with employment falling 3% after six consecutive years of growth, to 38,463 employees,

EMPLOYED AND UNEMPLOYED POPULATION - In thousands and %

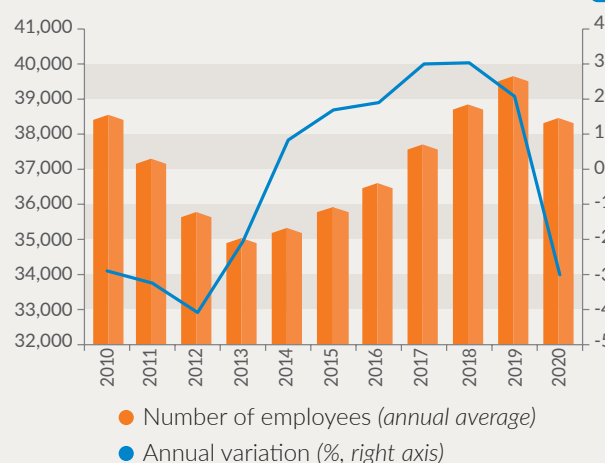
Chart 4.7



Source: Workforce Survey, Department of Statistics.

TREND IN THE NUMBER OF EMPLOYEES As annual average and %

Chart 4.8



Source: CASS (Andorran Social Security System) / Department of Statistics.

the lowest level since 2017. Equally, the average number of jobs in Andorra fell (-4.5%) for the first time since 2013, to 45,940 jobs.

Consequently, the employment rate calculated on the basis of the population aged 15-64 fell one tenth, to 80.1%, but is still clearly above the average for the European Union (67.6%). On the other hand, the activity rate increased almost one point to 82.6%, clearly higher than the EU average (72.9%).

The main reduction in employment was in the services sector, except public administration.

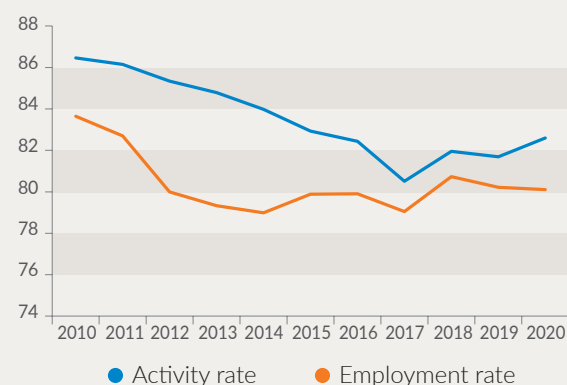
The main reduction in employment in 2020 was in the services sector, except public administration and, to a lesser extent, the primary sector. In contrast, employment rose in construction at quite a significant rate, 4.3%, although slower than the 8.8% recorded in the previous year. So, the construction sector has had six consecutive years of job creation, raising the number of employees to nearly 3,500, the highest figure since 2011, but still about half that of the previous cycle of expansion (2005-2006).

Industry was the other major sector that managed to increase employment in 2020, despite the context of crisis. Specifically, the number of employees grew at a very dynamic rate of 5.2% - faster than in 2019 - to reach the highest rate in the last decade (1,751 employees). On the other hand, the primary sector saw four consecutive years of declining employment. In any case, the performance of this sector has a minor effect on the economy because it is an activity that represents a very small percentage of the Andorran labour market, with only 157 workers.

Services – the sector in Andorra with the highest level of employment – was the sector most directly impacted by the restrictive measures adopted to control the COVID-19 pandemic. This

Employment fell to the lowest level since 2017.

ACTIVITY RATE AND EMPLOYMENT RATE, AGES 15-64 - As %



Source: Workforce Survey, Department of Statistics.

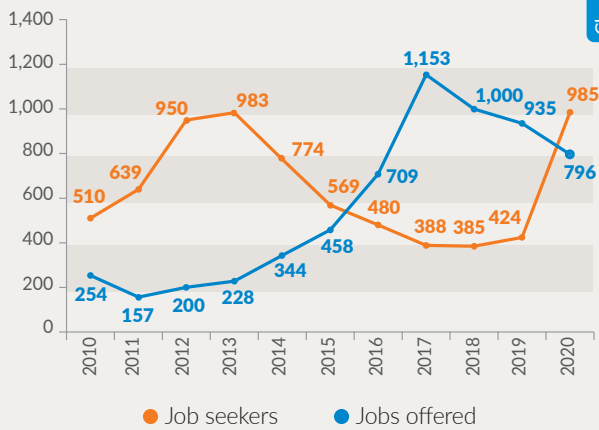
NUMBER OF EMPLOYEES

	2020	% var. 20/19	% total 2020
Agriculture, livestock, hunting & forestry	157	-2.1	0.4
Industry	1,751	5.2	4.6
Manufacturing industries (including extraction)	1,580	5.9	4.1
Production & distribution of electricity, gas & water	170	-0.7	0.4
Construction	3,477	4.3	9.0
Services	33,079	-4.1	86.0
Commerce & motor vehicle repairs (etc.)	8,681	-2.9	22.6
Hotels & catering	4,327	-15.3	11.3
Financial system	1,758	-1.1	4.6
Public administration, defence & mandatory social security	4,521	1.6	11.8
Others	13,792	-3.0	35.9
Total	38,463	-3.0	100.0

Source: CASS (Andorran Social Security System) / Department of Statistics.

JOB SEEKERS AND JOBS OFFERED

Chart 4.10



Source: Department of Labour / Department of Statistics.

Within the services sector, employment fell most in hotels and catering, due to the relatively stronger impact from the pandemic.

impact led to a 4.1% fall in the number of employees, breaking the upward trend of six consecutive years so that levels returned to those of 2017. As a result, the services sector's percentage of total employment fell one point, to 86%, the lowest level since 2012. In contrast, industry and construction increased theirs to 4.6% and 9%, respectively, and lastly, agriculture remained stable at 0.4%.

The number of job seekers more than doubled

In the tertiary sector, there was a notably steep decline in employment in hotels and catering, by 15.3%, which brought down the relative share of this subsector to a historic low of 11.3%.

Employment also fell significantly in commerce, transport, the financial sector and real estate activities. Commerce and motor vehicle repairs are still the most important subsector of services, with 22.6% of total employees in Andorra. These are followed by Real estate activities, rentals and business services (14.3% of total employees) and Public administration, defence & mandatory social security (11.8%). Jobs were created in public administration and health and educational services.

By gender, the decline in employment in 2020 was slightly more for women (-3.1%) than men (-2.9%). As a result, 51.1% of employees are men and 48.9% are women.

In this context of a downturn in the labour market, the number of job seekers more than doubled to reach 985, a level that had not been seen since 2013. The number of those looking for a better job also grew significantly to reach a historic high of 487.

In parallel, the number of jobs offered by the Job Service fell (-14.9%) for the third consecutive year, to a figure of 796 job offers. This trend reflects the cuts in companies' recruitment plans, largely in response to the economic problems caused by the pandemic, which marked 2020. In effect, the ratio of numbers of job seekers per job shot up to 1.8, easing the difficulties of finding workers that many Andorran companies had experienced in recent years.

The increase in unemployment recorded in 2020 led to an increase in the number of people on unemployment benefits, from 20 to 48, the highest level in the last four years. This meant that the coverage rate for job seekers rose three tenths, to 4.9%, the second consecutive rise, after reaching the lowest level in 2018 (3.6%) since these benefits were first offered in 2009. In any case, the coverage rate is still very low compared to our neighbours in Europe.

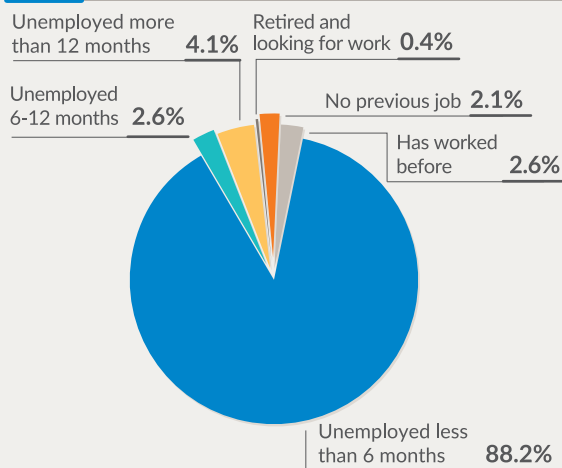
Most job seekers are aged between 40-59.

By ages, the increase in unemployment affected all age brackets, except the youngest group (up to 17), in which it remained stable. The age groups in which the number of job seekers rose most in comparison with 2019 are 18-25 and 26-39, representing 22.8% and 30.9% of the total, respectively. In any case, most job seekers are still among those aged 40-59 (37.7% of the total), a bracket in which job seekers have more than doubled.

Another notable feature of job seekers in Andorra is that almost 9 out of every 10 have been unemployed for more than six months, a proportion that, despite having risen in 2020, cannot be attributed to general circumstances as it has historically been high. For its part, the percentage of structural unemployment (unemployed for more than one year) reached very low levels (4.1%), even though, according to data from the Workforce Survey, structural unemployment was slightly higher in 2020, above 6%. All in all, this stems from a fairly flexible and dynamic labour market that does not create major structural imbalances.

JOB SEEKERS BY EMPLOYMENT SITUATION. 2020 - % of total

Chart 4.11



Source: Department of Labour / Department of Statistics.

The number of foreign job seekers has risen more than Andorrans.

Finally, the distribution of job seekers by nationalities displayed a general, upwards trend. The increase was greater for foreigners (162.3%) than Andorrans (95.3%). Among the former, the Spanish are still the most numerous group of foreign job seekers (295 people).

The percentage of the group of foreign nationals among total job seekers increased to 62.2%, after reaching the lowest level in the available historical series (since 2007) in 2019. This is a higher percentage than they represent in the total estimated population of working age (55.2%). In contrast, these percentages were similar last year, a sign that

the effects of the pandemic on the Andorran labour market were more negative for foreigners than for Andorrans. For its part, the Workforce Survey reflects that the unemployment rate of Andorrans doubled in 2020, to 3.5%, while the rise in the unemployment rate of foreigners was more contained, by eight tenths to 2.6%, a situation that contrasts with 2019 when the unemployment rates of both groups were very similar. Note that this situation is also accompanied by significant differences in the inactivity rate between both groups. Specifically, the inactivity rate of Andorrans (24.5%) is more than double that of foreigners (12%). This can be explained by the fact that part of the foreign population returns to their home countries when their work in Andorra ends or they reach retirement.

3. Education

In the 2019-2020 academic year, the student population of Andorra, including the school, university and non-university population abroad, was 12,718, 2.3% more than the previous year. All of this increase can be explained by the rise in the university population (28.5%) – including students in higher vocational education – after a steep fall in 2019. For its part, the school population and the number of non-university students abroad fell (-0.3% and -10.6%, respectively). University students represent 12.3% of the total student population. Now, it must be specified that the rebound in university students does not necessarily reflect the true situation, as there were technical problems in 2019 that changed the system for data collection. This means that conclusions cannot be drawn from the historical comparison.

From a geographical point of view, 91.6% of the total student population studies in Andorra and the rest abroad (8.4%), and university students are the largest population group pursuing any

8.4% of the student population of Andorra studies abroad and most are university students studying in Spain.

kind of studies outside Andorra. Andorrans who study in other countries still do so mostly in Spain (6.8% of the total student population), although this destination has lost importance over time. The percentage of France is limited to 1.4% and the others (17 students) are divided between other countries.

3.1. School population

In the 2019-2020 academic year, there were 10,979 students at school level, 33 less than the previous year and the lowest level in the last six years. These data put the schooling rate – calculated as the proportion of the school population in the global population at this level – at 46.4%.

By levels, 85.9% of school students are in kindergarten, primary and secondary education. The other 14.1% are baccalaureate and vocational training students. The trend in the last year was again marked by the reduction in kindergarten students (-1.2%). This is the sixth consecutive reduction, a trend related to the falling numbers of births in recent years. The number of students in primary education also fell, but rose in the higher levels of secondary education and vocational training. As for the group of baccalaureate students, there was a fall of 2.1% in 2019-2020, compared with the 3.2% increase in the previous year.

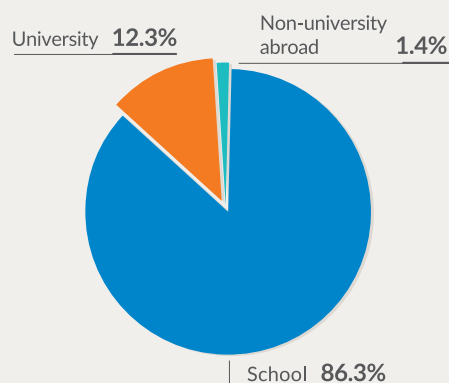
By type of education, the Andorran educational system continued to gain ground, with a 0.2% increase in numbers of students, raising its

STUDENT POPULATION BY LEVELS

	2019-2020	% variation 19-20/18-19	% 2019-2020
Kindergarten	2,097	-1.2	19.1
Primary education	4,246	-1.8	38.7
Secondary education	3,083	2.2	28.1
Baccalaureate	1,050	-2.1	9.6
Vocational training	503	5.2	4.6
Total	10,979	-0.3	100.0

Source: Ministry of Education and Higher Education.

STUDENT POPULATION BY EDUCATIONAL LEVELS. 2020 - As a percentage of the total

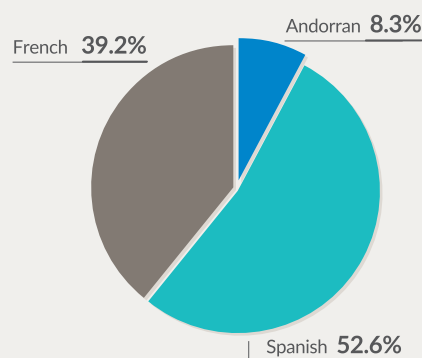


Source: Ministry of Education and Higher Education / Institute of Andorran Studies.

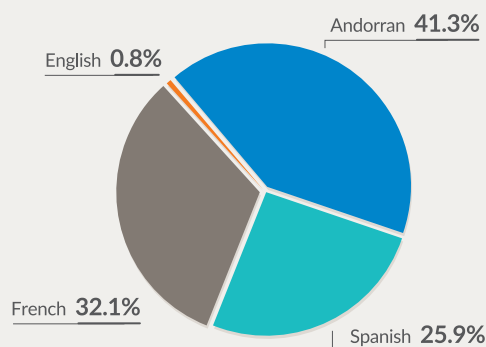
The number of students in kindergarten fell for the sixth consecutive year, due to the decline in births in recent years.

THE ANDORRAN SCHOOL POPULATION BY EDUCATIONAL SYSTEM - As % of total

1991



2020



Source: Ministry of Education and Higher Education.

percentage of the total student population to 41.3%, a new historic high. In contrast, the number of students in the Spanish educational system shrank 1%, a trend that continues the progressive loss of importance of this system since the early 1990s. So, the Spanish educational system's share of the total fell to 25.9%, setting a new historic low and contrasting with the 52.6% it represented in 1991. For their part, the number of students in the French educational system also fell (-1.6%); their share of the total school population fell four tenths to 32.1%, slowing the widening gap between the French and Spanish educational systems in recent years. Finally, note that the English educational system, which opened in the 2018-2019 academic year, has more than doubled its numbers of students, raising its share of the total to 0.8% of the total school population.

41.3% of the school population is in the Andorran educational system, a historic high.

3.2. University population

In the 2019-2020 academic year, the university population of Andorra was 1,561 students, a figure that represents an increase of 28.5% in comparison with the 2018-2019 year. Note that this comparison is not uniform, as technical problems prevented the updating of data for the 2018-2019 year on equivalent terms. Therefore, any analysis to be made of the trend in this last academic year is limited.

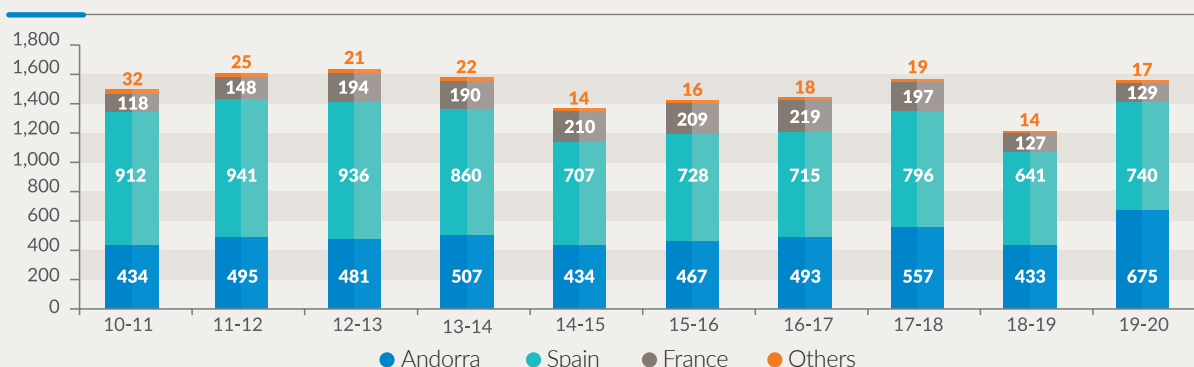
Andorran university students are divided mostly between Spain and Andorra.

By gender, women are the majority, representing 55.7% of the total university population, contrasting with their lower percentage of the population in comparison with men. By

country of study, Spain is the top destination for Andorran university students, with 47.4%, less than the previous year. On the other hand, Andorra has made gains in second position (43.2%), which also meant a loss for France (8.3%) and is probably related to restrictions on movement due to the health crisis. The 1.1% of other students (17 students) are divided between other countries (United Kingdom, Portugal, Argentina, Denmark, Netherlands, USA and Switzerland).

Finally, the distribution by fields of study shows that the field with most Andorran university students is still social sciences, business studies and law, with 47.1% of total university students. Next are health sciences and social services (15.4%); engineering, industry and construction (12.7%), and arts & humanities (8.5%). With a lower percentage are education, science and services, and agriculture comes last with just 4 students.

UNIVERSITY POPULATION BY COUNTRY OF STUDY



Note: The 2018-2019 data do not wholly match the rest of the data in the series due to technical changes in the data collection process.

Source: Institute of Andorran Studies.

V. Activity and demand

1. Developments in economic activity in 2020

As we all know, economic activity in 2020 was determined by the COVID-19 pandemic which affected the whole world and had hugely negative impacts on all economies. The imposition of severe restrictions on movement and social activity from mid-March, to prevent the spread of the virus, caused a downturn in the economic trend for that year, with steep falls in activity that ended a six-year period of expansion in Andorra. The Andorran economic trend followed a similar profile to those of neighbouring economies, although the drop in activity was more dramatic due to the greater economic importance of tertiary activities. By sectors, services, especially tourism and commerce, were those most damaged by the restrictions on movement, leading to historic declines in activity. In 2020, the trends in the other sectors (primary, industry and construction) also worsened in comparison with the previous year.

The supply and demand shock provoked by the COVID-19 pandemic was reflected in the negative trend in most indicators of activity and demand. In particular, major declines were

The COVID-19 pandemic ended a six-year period of expansion in the Andorran economy.

SUMMARY OF INDICATORS OF ACTIVITY AND DEMAND (interannual variation rates, %)

Table 5.1

	2019	2020
Activity		
Establishments ⁽¹⁾	4.3	4.0
Employment	1.0	0.8
Employees	2.1	-3.0
Industry	3.0	5.2
Construction	8.8	4.3
Services	1.4	-4.1
Unemployment	18.3	69.9
Job seekers	10.2	132.2
Number of visitors	-1.1	-36.8
Electricity consumption ⁽²⁾	-7.4	-17.5
Imports	0.7	-4.9
Demand		
Average wage	0.7	0.7
Car registrations	-4.5	-19.9
Industrial vehicle registrations	4.8	-37.5
Imports of capital goods ⁽³⁾	0.3	-14.8
Imports of building materials ⁽⁴⁾	-16.0	-14.9
Credit from banking entities ⁽⁵⁾	3.1	4.5
Government operating expenses ⁽⁶⁾	0.9	-2.2
Government real investment ⁽⁶⁾	11.7	-32.4

(1) Establishments registered with the Registry of Commerce and Industry that carry out a commercial, industrial or service activity.

(2) Except domestic use, public lighting and other distributors.

(3) Includes chapters 84 and 85 under the Andorran Customs classification.

(4) Includes chapters 25, 68, 72 and 73 under the Andorran Customs classification.

(5) Gross lending to customers.

(6) Settled figures, includes Central and Comú governments.

Source: own preparation, using data provided by the Department of Statistics, Central and Comú governments, CASS, FEDA and Andorran Banking.

Box 5.1

THE MAIN GOVERNMENT MEASURES TO MITIGATE THE IMPACT OF COVID-19

Faced with the seriousness of the COVID-19 pandemic and the severe restrictions on movement and social interaction (lockdowns, closure of non-essential activities, restrictions on capacity, social distancing, etc.) which had to be introduced from March 2020 to stop the contagion, the Government adopted special economic measures to mitigate the impact on the Andorran economy, with the goal of preserving jobs as far as possible and protecting the production sector and self-employed.

The measures were mainly established through three laws: Law 3/2020, of 23 March, later substituted by Law 5/2020, of 18 April, on special, urgent measures for the health emergency caused by the SARS-CoV-2 pandemic, and Law 16/2020, of 4 December.

The IMF estimates that the measures adopted with regards to expenditure represented 2.4% of GDP, and the measures relating to income, 0.4% of GDP. Moreover, public guarantees were offered on bank loans to businesses with liquidity problems, which were worth 9% of GDP. According to the IMF, these measures contained the rise in unemployment, stabilised real household income and helped to cover businesses' operating costs, to avoid them closing down. Separately, debt and insolvency moratoriums limited defaults with banks and company bankruptcies.

Specifically, the main measures adopted were the following:

For employees:

- Wage benefits, where the employment contract is temporarily suspended or working hours reduced.
- Paid leave to care for children.
- Possibility of offsetting time not worked, due to total or partial suspension of business activity, under the joint responsibility of business and worker.
- Economic benefits for temporary leave from work due to self-isolation or a diagnosis of SARS-CoV-2 (measure also available to the self-employed).

- Option to recover private pension plans (measure also available to the self-employed).
- Possibility of applying for a 20% reduction on the cost of housing rent (measure also available to the self-employed).
- Possibility of obtaining a deferment or extension of the repayment time for a mortgage or a personal loan for buying own vehicle (measures also available to the self-employed).
- Deferment and payments in instalments of taxes, rates, tax debts and penalties without the requirement to provide a guarantee and without accrual of default interest.
- Reduction of the percentage of instalments for personal income tax.

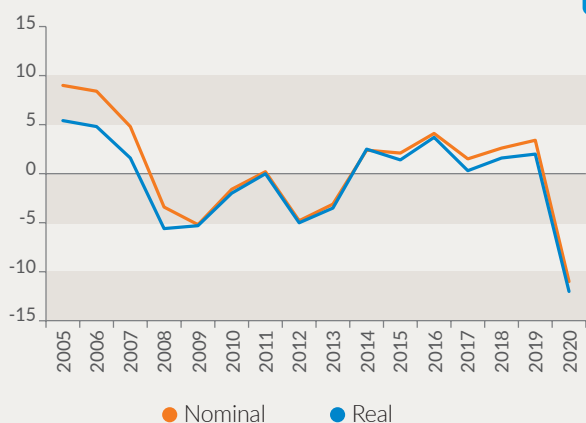
For the self-employed and businesses:

- Where activity is suspended or reduced, possibility for the self-employed to request a reduction or suspension of contributions, and the right to receive a monthly financial benefit; possibility for businesses to request financing of the business' quota of the workers' contributions.
- Reductions on lease payments for commercial premises.
- Deferment and payment in instalments of taxes, rates, tax debts and penalties, with no requirement to provide a guarantee and without accruing default interest.
- Reduction of the percentage of the payment on account for corporate tax and personal income tax.
- Reduction of the tax base for direct and indirect taxes on income not received due to the measures introduced on leases.
- Special soft loan schemes guaranteed by the Government, at 0% interest, for companies and businesses (worth €230 million) to refinance loans and pay operating costs.
- Deferments, payments by instalment and discounts on utilities (Andorra Telecom, FEDA and private suppliers).

TREND IN GDP IN ANDORRA

Interannual variation rate (%)

Chart 5.1



Source: Department of Statistics.

In 2020, Andorra's real GDP fell 12.0%, to levels close to those of 2013.

more than doubled. In this context, the number of immigration permits also fell significantly (-7.7%). All in all, in combination with the restrictions on movement and slow wage growth, this meant that income from employment slowed and, consequently, conditions were not favourable for consumption by residents inside Andorra.

Overall, Andorra experienced a GDP contraction of 12.0% in real terms, according to the advance figures published by the Government, ending six consecutive years of positive growth. The decline was general to all sectors, but services suffered the greatest impact.

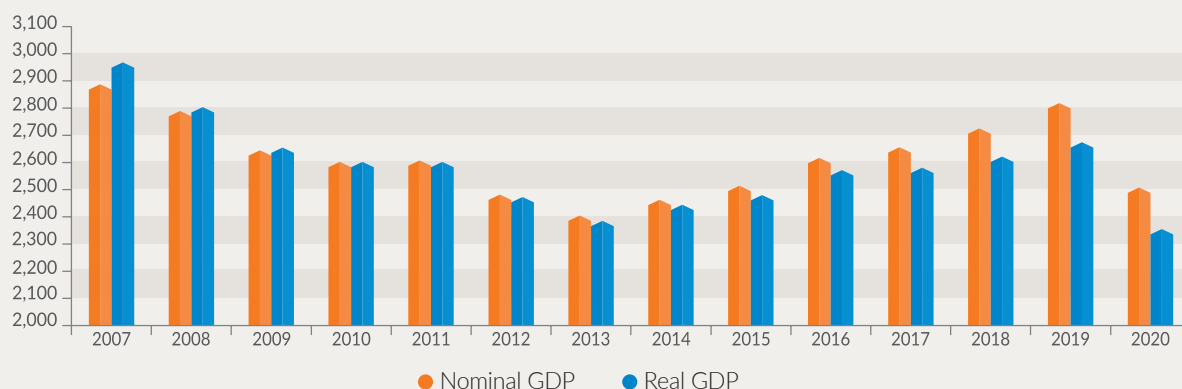
By quarters, the most negative trend was seen in the second quarter (-24.7% interannual variation) with the first wave of the pandemic, when the restrictive measures were tougher. On partially reopening in the third quarter, the rate of decline in activity slowed, but the waves of infections from autumn onwards pushed the economy down again. In nominal terms, GDP contraction for the whole year was 11%, compared with the 3.4% increase recorded in 2019. As a result, the total

recorded in the numbers of visitors, electricity consumption, car and industrial vehicle registrations and imports of capital goods and building materials, among others. Moreover, government operating costs and real investment shrank in comparison with the growth of the previous year. Only bank lending contrasts with this negative trend, with higher growth than in 2019, and also the number of establishments, which continued their upward trend for the seventh consecutive year.

The economic decline also caused the labour market to deteriorate, though this was partially offset by the special measures taken by the Government to deal with the pandemic, such as the ERTA (furlough scheme). In 2020, the number of employees fell 3%, although total employment rose 0.8%, according to the Workforce Survey. Equally, the number of unemployed increased 69.9% and job seekers

NOMINAL AND REAL GDP - Millions of euros (base year 2010)

Chart 5.2

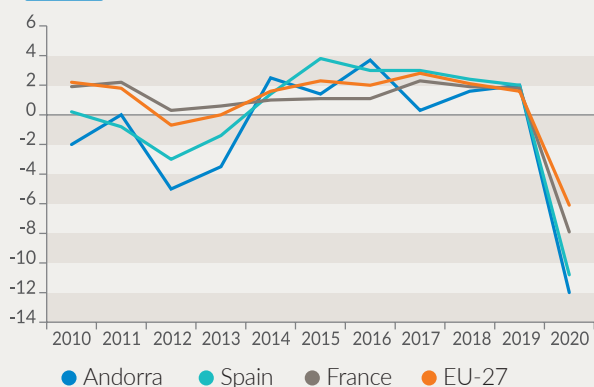


Source: Department of Statistics.

TREND IN ANDORRAN GDP COMPARED WITH NEIGHBOURING ECONOMIES

Interannual variation rate (%)

Chart 5.3



Source: Eurostat and Department of Statistics.

nominal GDP for 2020 was €2,507.8 million, the lowest value in the last six years, while in real terms, the value of the GDP (€2,354.8 million using base year 2010) fell to levels similar to 2013.

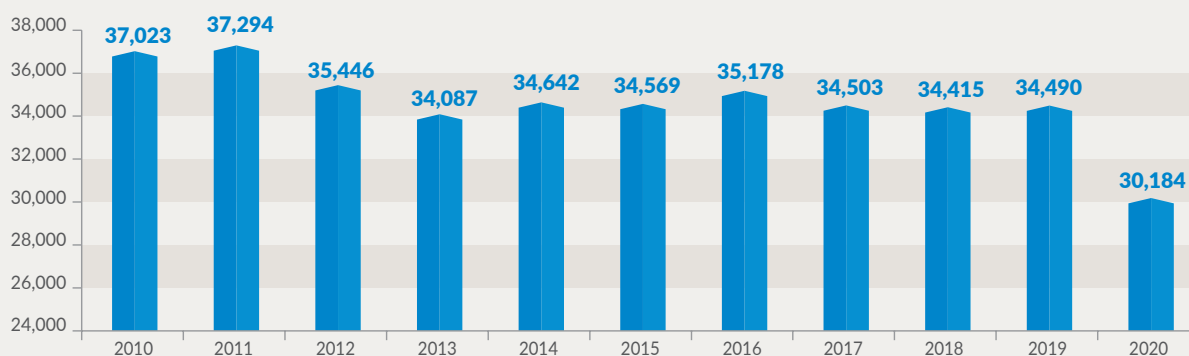
Andorra's per capita GDP fell to the levels of years ago.

From an international perspective, the decline in the Andorran economy in 2020 was more intense than in Spain, France and the whole of the EU. In parallel, the Andorran population continued to grow (0.6%), so that per capita GDP in real terms fell 12.5% to reach €30,184 (base year 2010), a level from years back.

Equally, in nominal terms, Andorra's per capita GDP shrank to €32,145, the worst in years and 11.6% lower than in the previous year.

REAL GDP PER CAPITA. IN EUROS (base year 2010)

Chart 5.4



Source: Department of Statistics.

Box 5.2

ANDORRA: 190TH MEMBER OF THE INTERNATIONAL MONETARY FUND

On 3 January 2020, the Government began the formal process for Andorra to join the International Monetary Fund. After a period of negotiation, Andorra formally joined the international body as the 190th member on 16 October 2020.

Between 19 March and 8 April 2021, Andorra participated in its first consultation under article IV of the IMF's Articles of Agreement, under which the IMF conducts various bilateral conversations with

its members, usually every year. Once the visit had ended, the mission published a statement which included the following notable observations:

"The country enjoys long-standing political stability, a good track-record of fiscal discipline, a gender-balanced work force, and internationally competitive ski resorts. The authorities managed the pandemic well with universal testing and expanded hospital capacity that kept fatality rates very low. This



strategy helped Andorra implement more targeted internal restrictions than the neighbouring countries. At the same time, emergency fiscal measures stabilized real incomes and supported firms. The authorities are highly engaged in transitioning to a green and digitalized economy and more diversified tourism services. They are negotiating an Association Agreement with the European Union (EU), having transposed almost all the financial sector regulations in the EU as part of the Monetary Agreement. The authorities successfully started producing balance of payments data, in record time, working closely with the IMF.

The pandemic has taken a considerable economic toll and policy discussions focused on securing a lasting recovery. Emergency fiscal support should remain in place until a recovery has set in and a sufficient share of the population have been vaccinated in both

Andorra and the region. Increasing public investment, and diversifying government funding sources, could contribute to higher long-term growth while maintaining debt at manageable levels. The fiscal authorities would also need to build up international reserves gradually. In the financial sector, bank capital appears adequate to absorb the pandemic shock but the full impact of the crisis should be carefully evaluated as the policy support measures expire. In the medium-term, bank capital buffers should be assessed in light of risks associated with large domestic exposures to a few clients, related party lending, and a sizeable non-resident deposit base. Building on significant efforts over the last few years, further improving the effectiveness of anti-money laundering supervision would strengthen financial stability. Disseminating official statistics according to international standards will enhance transparency and aid surveillance."

2. Developments in activity by sector

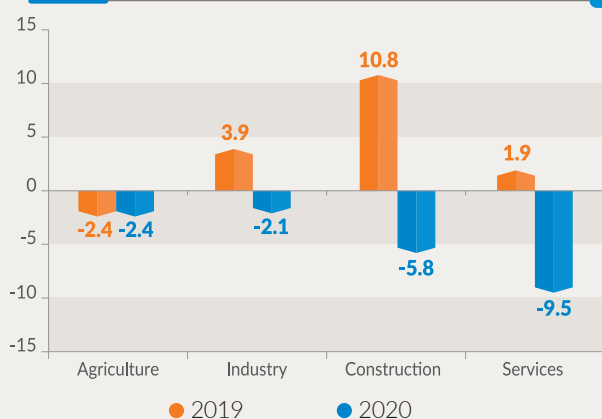
The economic earthquake in 2020 affected all sectors, especially services, which are the main driving force of the Andorran economy. Services represent about 86% of GVA, and their results are decisive in explaining the trend in Andorra's economy. The second most important sector, construction, also saw a significant downturn in activity, while the decline was slower in the case of industry and the primary sector, activities that have a much lower impact on total GVA.

Services were the sector that suffered most from the economic downturn.

TREND IN GVA BY SECTOR

Interannual variation rate in real terms (%)

Chart 5.5

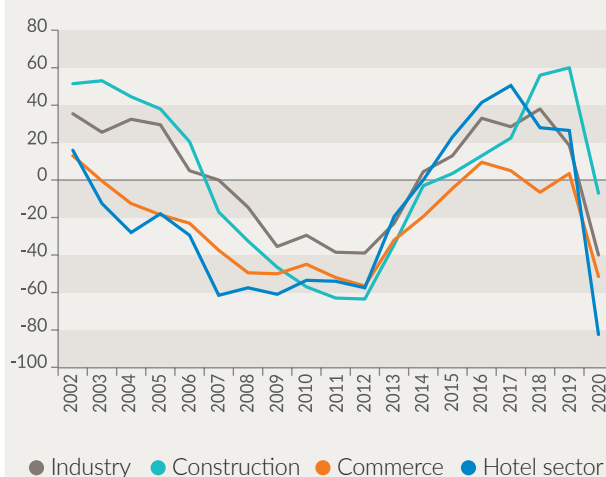


Source: Department of Statistics.

TREND IN BUSINESS ACTIVITY BY SECTOR

Balance between the percentage of positive and negative replies

Chart 5.6



Source: Chamber of Commerce, Industry and Services of Andorra.

BUSINESSES' OPINIONS ABOUT ECONOMIC DEVELOPMENTS IN 2020

Table 5.2

Results of the situation survey in industry

2020 COMPARED WITH 2019 (as % of businesses)

Turnover	Higher	7
	Same	27
	Lower	67
	Average variation (%)	-21.0
Volume of investment	Higher	19
	Same	50
	Lower	31
	Average variation (%)	-0.9
Number of employees	More	6
	Same	78
	Less	16

Prospects for 2021 (as % of businesses)

Trend in turnover	Upward	23
	Stable	48
	Downward	29
Trend in volume of investment	Upward	20
	Stable	49
	Downward	31

Results of situation survey in construction

2020 COMPARED WITH 2019 (as % of businesses)

Turnover	Higher	9
	Same	25
	Lower	66
	Average variation (%)	-17.3
Volume of investment	Higher	19
	Same	55
	Lower	26
	Average variation (%)	-3.1
Number of employees	More	25
	Same	75
	Less	0

Prospects for 2021 (as % of businesses)

Trend in turnover	Upward	21
	Stable	55
	Downward	24
Trend in volume of investment	Upward	16
	Stable	63
	Downward	22

Source: Chamber of Commerce, Industry and Services of Andorra.

The fall in real GVA in the construction sector was 5.8%, a trend that contrasts with the strong growth seen in 2019 (10.8%) and signals the end of a four-year period of expansion. As the fall was slower than in total GVA, its percentage of the total increased to 7.7%, although this is still far from the high it represented just before the crisis (13% in 2006).

The negative trend in activity in the sector is reflected in other indicators, such as the reduction in authorised square metres (-64%), the decrease in authorised surface area (-39.6%), the drop in new building permits (-20.5%), the decrease in property transactions (-18.7%), or the decrease in imports of building materials (-14.9%) and public investment expenditure (-32.4%). All in all, this led to a slowdown in the rate of job creation in construction (4.3% compared with 8.8% in 2019). The loss of momentum in the sector and in the demand for property was accompanied by a slowdown in the growth in apartment prices.

Building activity underwent a decline, after four consecutive years of growth.

The results of the Cambra's surveys corroborate this downturn in activity in the construction sector, with a negative assessment of the business situation, which affected all segments. Moreover, businesses declared that the volumes of executed and contracted work had both worsened significantly. All in all, this led to a reduction in sales figures (-17.3%) and investment (-3.1%).

As for manufacturing and industry, the trend in 2020 was also negative, if we look at the real GVA data, which show a decline of 2.1% compared with the increase of 3.9% recorded in 2019. Despite falling activity, the sector continued to create jobs at a rate of 5.2%, which was even higher than in the previous year (3%). Note that industrial activity consists

of, on the one hand, basic industry, especially energy production and distribution, and on the other hand, manufacturing, the most important activity - 73% of the GVA from industrial activities. Overall, industry represents about 6% of total GVA, meaning that any trend has a limited effect on the economy as a whole.

BUSINESSES' OPINIONS OF ECONOMIC DEVELOPMENTS IN 2020

Table 5.3

Results of the situation survey in retail commerce

2020 COMPARED WITH 2019 (as % of businesses)		Total retail commerce	Food	Clothing & footwear	Household equipment	Health & hygiene	Electronics	Vehicles & accessories	Other commerce	Superm. & dept. stores
Sales figures	Higher	11	6	8	17	5	20	4	15	0
	Same	14	9	4	24	10	7	12	20	13
	Lower	75	84	88	60	86	73	85	66	88
	Average variation (%)	-25.0	-29.2	-32.4	-10.2	-34.6	-20.7	-31.7	-23.3	-16.3
Volume of investment	Higher	14	13	4	21	0	20	8	18	25
	Same	50	47	52	51	74	33	50	50	63
	Lower	36	41	44	28	26	47	42	36	13
	Average variation (%)	-9.8	-18.2	-8.5	-3.3	-10.0	-5.0	-15.8	-10.0	-
Number of employees	More	8	3	0	2	9	7	8	14	38
	Same	71	71	76	84	73	73	65	64	50
	Less	21	26	24	14	18	20	27	22	13
PROSPECTS FOR 2021 (as % of businesses)										
Trend in sales figures	Upward	17	19	8	19	0	33	16	23	13
	Stable	45	47	52	42	65	20	52	41	38
	Downward	38	34	40	40	35	47	32	36	50
Trend in volume of investment	Upward	13	6	12	7	5	20	15	16	57
	Stable	51	64	52	63	48	33	50	47	14
	Downward	36	30	36	30	48	47	35	37	29

Source: Chamber of Commerce, Industry and Services of Andorra.

The replies from businesses to the Cambra's surveys also depict the worsening industrial climate. Specifically, the annual average confidence indicator fell to the lowest level in eight years and opinions about how business was progressing were clearly negative. Moreover, the level of capacity utilisation fell to a historic low and assessments of production levels plummeted. In this context, industrial companies indicated a major reduction in turnover (-21%) and stagnation in the investment rate (-0.9%).

Industrial GVA fell 2.1% in 2020.

Services, as has been pointed out, was the sector most undermined by the COVID-19 pandemic, leading to a historic dip in real GVA, of 9.5%, and a major reduction in the number of employees, of 4.1%, despite the measures adopted by the Government to mitigate this.

By subsectors, the decline in activity was fairly generalised, but at different rates. The subsector that has suffered most from the consequences of the health crisis is commerce, hotels and catering, transport, information and communications, with a drop in GVA of 16.5%, reducing its contribution to total Andorran GVA by 2.6 points, to 28.2%. This very negative trend can be explained by the major decline in numbers of visitors to the country (-36.8%), due to the restrictions on movement imposed in neighbouring countries, and also by the fact that the principal factors that encourage residents to consume (jobs and wages) could not help the situation.

The major impact of the pandemic on activity in the tourism sector was reflected in all the associated indicators, with major declines in the total number of overnight stays, ski days sold, energy consumption and the number of employees in the sector. In parallel, the Cambra's surveys show a greatly deteriorated view of the hotel sector in 2020, with the historically worst assessment

BUSINESSES' OPINIONS OF ECONOMIC DEVELOPMENTS IN 2020

Table 5.4

Results of the situation survey in hotel sector

2020 COMPARED WITH 2019 (as % of businesses)

Turnover	Higher	0
	Same	0
	Lower	100
	Average variation (%)	-50.8
Volume of investment	Higher	14
	Same	16
	Lower	70
	Average variation (%)	-32.0
Number of employees	More	3
	Same	24
	Less	73
Source of clients per sales channel (as %)	Direct client / own web	27.9
	Internet / booking sites	53.6
	TO & travel agencies	17.4
	Others	1.1
Average stay of clients (nights)		2.6

Prospects for 2021 (as % of businesses)

Trend in turnover	Upward	17
	Stable	17
	Downward	67
Trend in volume of investment	Upward	11
	Stable	25
	Downward	64

Source: Chamber of Commerce, Industry and Services of Andorra.

Commerce and hotels and catering are the sectors that were most affected by the dramatic fall in visitors to this country.

of business activity. So, hotels indicated a year-on-year drop in turnover of 50.8% on average, and 32% in the case of investment, with steep declines in occupancy, levels of reservations and prices.

In the case of commerce, activity also underwent a very pronounced decline, reflected in steep falls in the number of employees and electricity consumption in the sector. Equally, the Cambra's surveys showed a dramatic downturn in business activity and notable falls in sales figures (-25%) and investment (-9.8%).

The impact of the pandemic on financial, real estate, professional and technical activities was also significant, but not as tough as in the case of tourism and commerce, with an estimated reduction in GVA of 7.5%. Remember that this branch of services is the most important in the economy, representing almost 35% of total GVA.

In the particular case of the banking sector, the trend in 2020 was quite unfavourable, with the aggregate profits of all the entities inside the country falling 25.3%. This decline occurred despite the increase in both gross lending to clients (4.5%) and deposits (4.7%). Banking sector profits were hammered by the increased provisions to cover the effects of the pandemic, in an economic context of low interest rates, continuous adaptation to international banking standards and strong

Andorra's banking sector profits fell 25%, punished by the provisions to cover the effects of the health crisis.

investment in technology. All in all, this put the return on equity (ROE) of the banking sector at 5.5% in 2020, below the 7.7% of the previous year, but still higher than the average for European Banks (2% according to the EBA). Within this context, the number of employees in the banking sector increased 3.6%, according to data provided by Andorran Banking, while the number of branches remained stable. On the other hand, in the Andorran financial sector as a whole, the number of employees fell 1.1%, and the average monthly wage saw a slight drop of 0.1%, added to the cut of 6.2% in 2019.

To complete the sectoral analysis, in 2020, the primary sector – which only contributes 0.6% of total GVA – saw contraction of 2.4%, the same as in 2019. This decline was accompanied by a fall in the number of employees (-2.1%) and utilised agricultural area (-0.8%). On the other hand, the numbers of livestock increased 3.5%, after the important reduction in 2019. As for the tobacco harvest, the farmers only produced 50% of their allocated quota in 2020. Added to this was the exceptional situation caused by COVID-19, which made it physically impossible to export the

tobacco, so it was necessary to destroy the whole harvest in 2020, as in 2019, and a single sale price for the tobacco was agreed, irrespective of the quality of the harvested leaves.

3. Developments in demand by components

In relation to demand, available indicators also show a notable downturn in 2020, which would have been worse without the measures adopted by the Government to deal with the health crisis. Consumption was undermined by falling employment and restrictions on movement and social activity, although this was partly offset by the rising population and wage growth. The weakness in consumption was visible, for example, in the steep fall in numbers of vehicle registrations (-19.9%).

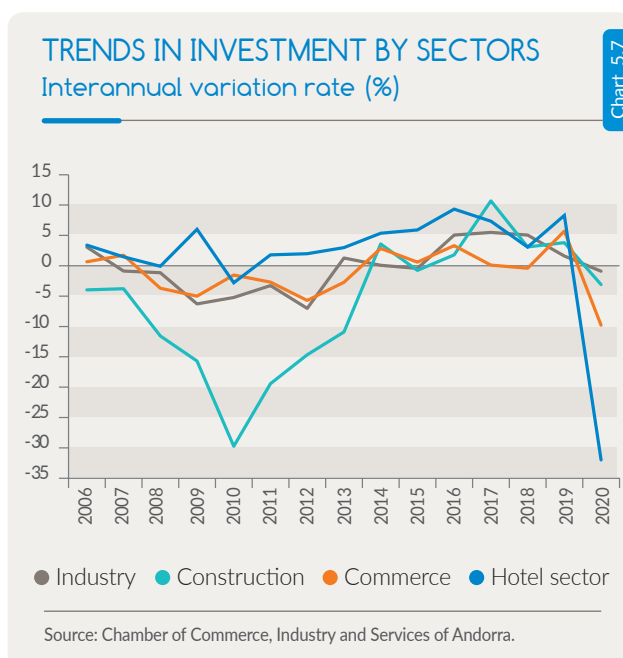
As for investment, all indicators show a negative trend, such as in registrations of lorries and vans (-37.5%) or imports of capital goods (-14.8%). Moreover, the Cambra's surveys for 2020 reflect downturns in investment in all the main sectors of the economy, especially intense in the hotel sector, despite the context of favourable financial conditions and the special lending support provided by the Government and banks.

As for the public sector, the special measures adopted to support economic activity, which resulted in major increases in public expenditure, had a positive effect on the economy which, however, was not enough to offset the whole impact of the health crisis. The actions by the public sector took the form of major increases in current and capital transfers to counter the economic effects of the pandemic on businesses and individuals. On the other hand, public administration lowered operating costs (-2.2%) and real investment (-32.4%), contrasting with the increases in 2019. In parallel, tax revenue saw a major downturn. As a result, the central government recorded a budget deficit of 4.2% of GDP, a level that had not been seen since 2009 (-4.4%) and which puts an end to three consecutive years of being effectively balanced. In contrast, the Comú governments increased their surplus by one point, to 1.6% of GDP. All in all, the result in 2020 was a 2.6% contraction in GVA in the subsector Public administrations, education, health, social and personal services, the smallest of the three main branches of services.

Andorran exports shot up to a historic high.

Finally, analysis of the indicators for the foreign sector show that in 2020, imports fell 4.9% year on year, the worst trend recorded since 2012. If we exclude works of art and antiques, the reduction is 19.5%. On the other hand, if we exclude fuels, demand for which was heavily hit by restrictions on movement, the decline shrinks to 2.3%. This trend reflects the weakness of domestic demand and the drop in demand due to the major decline in visitors to the country. Contrasting with these data, exports in 2020 were very dynamic, with growth of 26.1%, lifting them to a historic high, although if works of art and

Falling consumption and private investment were partially offset by rising public expenditure.



antiques are ignored, this variation disappears. As a consequence, the trade deficit fell 7.7%, as did the traditionally negative contribution from the trade balance to Andorran GDP.

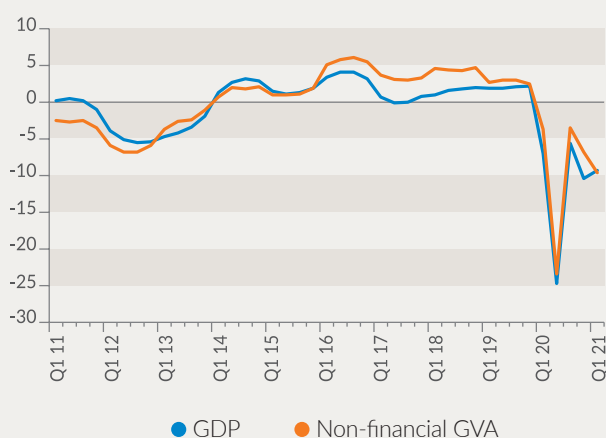
However, the most relevant contribution from the foreign sector to the Andorran economy is revenue from tourism services – the most important source of income to the country – which plummeted in 2020 due to the health crisis and the restrictions on movement adopted by the neighbouring countries, Spain and France, the sources of most visitors to Andorra.

4. Prospects

The discovery of several vaccines to combat COVID-19 since the end of 2020 was a decisive factor in tackling the health crisis; it allowed for the measures restricting movement and social activity to be gradually eased, so that the indicators of economic activity started to turn around. The appearance of more resistant and contagious variants of the virus, plus initial doubts about the effectiveness and speed of government vaccination plans, caused some uncertainty about the capacity for economic recovery throughout 2021. With the French and Spanish borders closed in the first few months of this year, notably during the skiing high season, hotels and ski resorts lost an important part of their annual revenue. However, as the year progressed and the percentage of the vaccinated population increased, economic forecasts were gradually revised upwards.

**QUARTERLY TREND IN GDP AND
NON-FINANCIAL GVA IN REAL TERMS**
Interannual variation rate (%)

Chart 5.8



Source: Department of Statistics.

GDP data for the first quarter of 2021 already indicate a change in trend, with the rate of decline in activity easing slightly. Specifically, GDP recorded a year-on-year downturn of 9.3% in real terms (according to the first published estimate, still subject to review), compared with the 10.4% decline seen in the fourth quarter of 2020.

In the first quarter of 2020, the rate of decline in Andorran GDP eased slightly.

By sectors, a notable recovery can be seen in industrial activity (1.8%) and construction (23.4%). On the other hand, the decline in services deepened, which can be explained by the fact that January and February 2020 were still fairly normal, whereas this year, the

situation in the whole quarter was marked by COVID-19, with a very limited winter campaign in the ski resorts due to restrictions on movement.

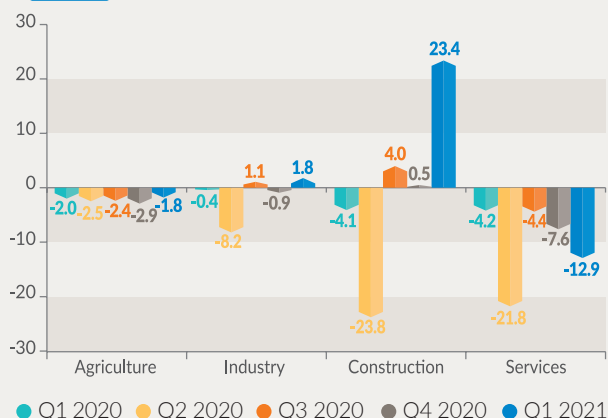
Within services, the subsector of Commerce, hotels and catering, transport, information and communications presented the steepest fall in GVA (-26.7%), which accelerated in relation to the fourth quarter of 2020. The decline also deepened in the case of the subsector of Public administrations, education, health, social and personal services (-12.3%). In contrast, the rate of decline in GVA slowed in the branch of Financial, real estate, professional and technical services (-0.6%).

The downturn in Andorran economic activity is also evident in the trend in the main indicators of activity available for the first few months of 2021. In particular, the number of visitors saw

QUARTERLY TREND IN ANDORRAN GVA BY SECTORS

Interannual variation rate (%)

Chart 5.9



Source: Department of Statistics.

The rate of activity will see gradual recovery in the second half of the year.

a cumulative year-on-year decline in the first half of 31.3%, affecting tourists most, as they spend the night in the country and spend more. Equally, the number of employees fell 8.9% up to April, mostly in hotels and catering and commerce, while the number of job seekers continued to rise in the first half. In contrast, imports, excluding works of art, collectables or antiques, which saw an unusual increase in June 2020, rose a remarkable 18.2% in the first half of the year. Within imports, we would highlight the increases in imports of building materials (in value) and fuels (in litres). Both the latter indicator and the rebound in car registrations up to June (72%) suggest a partial recovery in demand.

The significant progress in the percentages of vaccinated members of the population recorded since April in the whole of the European Union, has slowed infections and enabled a gradual easing of the restrictive measures. We must

hope that this less restrictive context will be reflected in an improvement in the indicators of economic activity in the next few quarters. Specifically, the percentages of vaccinated population with at least one dose in Spain and France reached 61% and 54%, respectively, in mid-July, and are expected to cross the hurdle of 70% by the end of the summer. In Andorra, the vaccination campaign has also progressed well, with more than 64% of the vaccinatable population, i.e. over the age of 16, having had at least one dose at the beginning of July (43% both doses). Equally, the appearance of the more contagious Delta variant generated a new wave of infections in July, which forced several European countries to reintroduce some restrictive measures, which will hamper the recovery in the tourism sector, contrary to the expectations that had been created. In this context, the experts indicate that higher vaccination rates will be needed (close to 90%) before herd immunity can be achieved and total normality restored.

So, the development of the Andorran economy still depends greatly on the progress in vaccination by the neighbouring economies, to allow lifting of the restrictions that still limit activities, especially in tourism and commerce. On the positive side, note that Spain and France are among the countries with the most positive forecasts for 2021 (the IMF has predicted GDP increases of 6.2% and 5.8%, respectively). All in all, this suggests that the Andorran economy will see a major revival in GDP in the second half of 2021, although we will have to wait until at least 2022 or

SUMMARY OF FORECASTS FOR THE ANDORRAN ECONOMY 2021-2022

Interannual variation rate (%)

Table 5.5

Year	GDP		GVA		TOTAL WAGE BILL	NUMBER OF EMPLOYEES	INTERNATIONAL GOODS TRADE (NOMINAL)		CONSUMER PRICE INDEX
	Nominal	Real	Nominal	Real	Nominal		Imports	Exports	
2021	6.0	5.3	5.6	5.0	6.0	2.1	7.7	16.7	1.1
2022	7.1	5.7	6.7	5.3	7.0	2.3	4.1	13.4	1.4

Source: Department of Statistics.

2023 to recover pre-pandemic levels of activity. In this respect, according to the results of the survey that we carried out to assess the economic situation of businesses confronting the health crisis, published in spring of 2021, most businesses, 61.6% of the total, state that it will take more than a year to restore pre-pandemic volumes of revenue and, moreover, 7.7% of businesses believe it unlikely they will be able to recover and will have to close down their business. On the other hand, only 16.5% of all businesses believe they will be able to achieve similar income to 2019 in less than one year, and a low 6.1% of surveyed businesses state that they have already returned to full normal activity and pre-pandemic levels of turnover.

The official forecasts of the Department of Statistics of Andorra, published in May, are for real GDP growth of 5.3% in 2021, close to that of Spain and France.

For its part, the IMF predicts that Andorra's recovery in 2021 will be 5.8%, allowing it to return to the pre-crisis level between now and 2023. Equally, the institution states that the risks in these forecasts are high. A slower than expected rate of vaccination in Andorra and the neighbouring countries could force lockdowns to be extended in 2021 if the waves of infections are not brought under control, as occurred in Spain in July. Bank capitalisation, although adequate in this scenario, could come under pressure from potentially unrecoverable loans once the tax measures and other support measures are removed. Extensive claims on public guarantees could result in a significant rise in both public debt and the costs of refinancing the public and private sectors. On the other hand, a satisfactory distribution of vaccines leading to the immunisation of the whole adult population of Andorra and the neighbouring countries would offer more favourable prospects.

The IMF concludes that the risk of further lockdowns and the uncertainty about the various strains of the virus require emergency support to be maintained. Withdrawal of such aid must be gradual, progressively reducing the coverage and generosity of the schemes when local infections are low and activity starts to normalise.

VI. Prices and costs

1. Consumer prices

The trend in Andorran economic prices was very contained for almost the whole of 2020, given the context of weak demand. The year began with interannual rates of over 1% but, from March, with the imposition of restrictions on activity to control the COVID-19 pandemic, inflation plummeted to a yearly minimum in June (-0.5%).

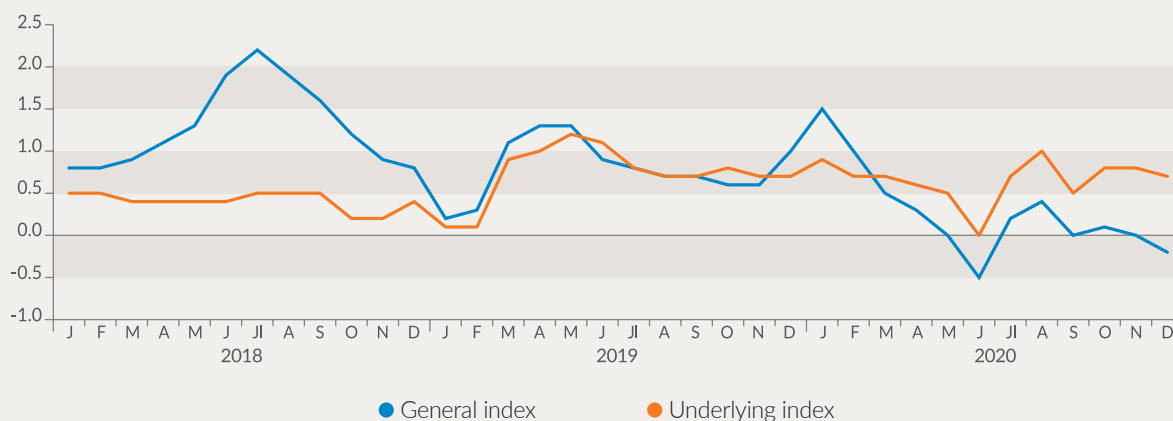
In the second half, the rates recovered a little and fluctuated around zero, until they ended the year with a slight year-on-year decline of -0.2%, something that had not happened since 2015, and contrasting with the 1% increase recorded in December 2019. In this way, the trend in prices in Andorra was more contained than in France and the Eurozone as a whole (0% and 0.2% harmonised inflation respectively, by the end of the year), but less so than in Spain (-0.6%), the source of most of the consumer goods.

Inflation ended 2020 below zero, which had not happened since 2015.

The most notable rises in prices were in the components of clothing and footwear (2.4%), alcoholic beverages and tobacco (2.2%), and education (1.5%). The increases were closer to 1% in the case of the components of housing, household, health and food. At the other extreme were year-on-

ANDORRAN CONSUMER PRICE INDEX - Interannual variation rate (%)

Chart 6.1



Source: Department of Statistics.

year declines in the prices of the components of transport (-5.2%) – due to the impact on oil prices of the restrictions on movement – events and culture, and communications.

Transport was the component in which prices fell most.

The analysis by special groups shows a steep downturn in the prices of oil products (-14.6%), which can be explained by the impact of COVID-19 on mobility around the world. This factor was counterbalanced by the prices of food excluding fresh produce, and services (1.5% and 1.1%, respectively). As a result, underlying inflation – which excludes energy and food and measures the trend in core prices – ended the year with a year-on-year increase of 0.7%, the same rate as one year before. This is faster than that of general inflation, after four years in which the situation was reversed and underlying inflation rose slower than general inflation.

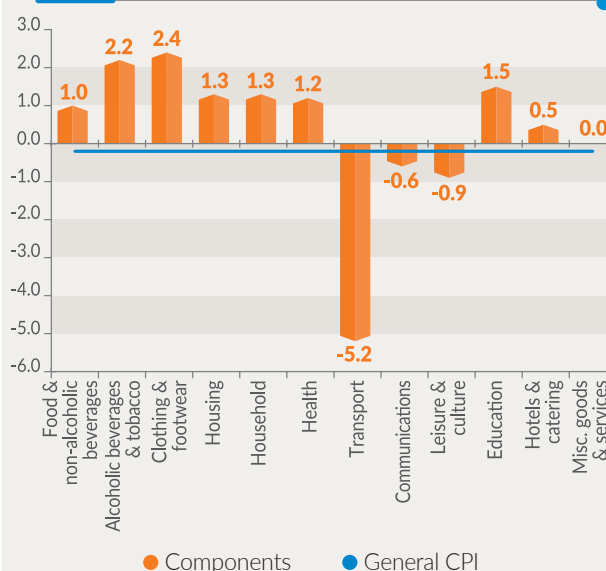
In comparison with the neighbouring economies, underlying inflation in Andorra in 2020 was lower than the Eurozone as a whole (0.9%), but higher than that of Spain (0.1%) and France (0.5%). Nevertheless, this is quite a slow increase, with no signs of worrying inflationary pressures for the economy.

2. Wages

The trend in wages in Andorra in 2020 was more positive than in prices. Specifically, the average wage in Andorra increased 0.7%, at the same rate as it did in the previous year, to reach the figure of €2,162, the highest in the available historical series (in nominal terms), according to the data from the CASS (Andorran Social Security System) and the Department of Statistics. This

CONSUMER PRICE INDEX. DECEMBER 2020 Interannual variation rate (%)

Chart 6.2



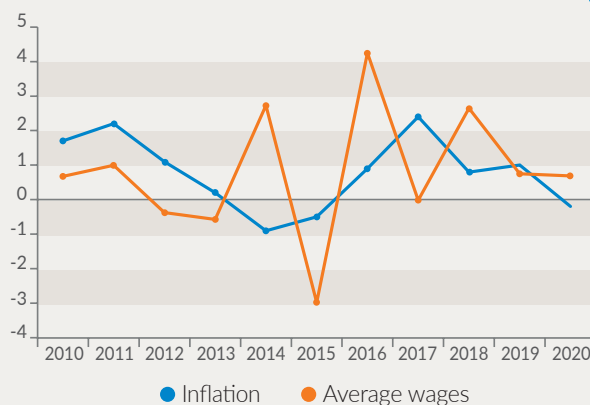
Source: Department of Statistics.

increase is higher than in general inflation (-0.2%), unlike in 2019, when wages rose less than general inflation. From a longer historical perspective, it can be seen that average cumulative wage growth in Andorra since the start of the economic recovery in 2014 has been 8.2%, higher than cumulative inflation in the same period (3.7%), implying an improvement in purchasing power.

In 2020, wages grew more than prices, unlike the previous year.

The data from the Workforce Survey reflect a slightly stronger wage dynamic than shown in the CASS data, with a 1.1% increase in the average monthly pay of employees, to €2,130 net, for an average regular working week of 39.4 hours and an average effective working week of 31.1 hours. According to this source, in 2020 about 25% of employees in the private sector earned more than €2,402, rising to 52% in the public and semi-public sector. In contrast, this is inverted in the case of the lowest wages (under €1,497), which are concentrated in the private sector (35% of the total) more than in the public sector (9%). The Survey also reflects that the average wages of employees increase with age to reach a maximum in the 45-54 age bracket, whereas they tend to decrease in older ages.

AVERAGE WAGES AND INFLATION Interannual variation rate (%)



Source: CASS (Andorran Social Security System) / Department of Statistics.

The minimum interprofessional wage rose for the fifth consecutive year and passed the goalpost of half the average wage.

In the case of the minimum interprofessional wage, a new rise was introduced in 2020, for the fifth consecutive year, of 3.1%, so it easily exceeds the average wage, as occurred in 2019. As a

AVERAGE WAGES BY SECTORS (euros)

	2020	% var. 20/19	Average index in Andorra = 100
Agriculture, livestock, hunting and forestry	1,608.29	0.6	74.4
Manufacturing industries (including extraction)	2,133.86	-3.5	98.7
Production and distribution of electricity, gas and water	3,385.74	-2.0	156.6
Construction	2,115.05	-0.2	97.8
Commerce and motor vehicle repairs (etc.)	1,890.88	1.7	87.5
Hotels and catering	1,565.51	-4.0	72.4
Transport, storage and communications	2,307.97	-1.8	106.8
Financial system	4,702.43	-0.1	217.5
Real estate & rental activities; business services	2,061.20	2.4	95.3
Public administration, defence & compulsory social security	2,661.90	-0.5	123.1
Education	2,301.01	1.2	106.4
Health & veterinary activities, social services	2,319.56	-0.2	107.3
Other social activities & community services, personal services	1,874.98	-0.2	86.7
Households employing domestic staff	1,417.77	-0.2	65.6
Extraterritorial bodies	2,694.56	2.7	124.6
Domestic work for the community	1,389.55	0.6	64.3
Average	2,161.91	0.7	100.0

Source: CASS (Andorran Social Security System) / Department of Statistics.

result, the minimum hourly wage rose to €6.25 (for workers aged 18 and over), the equivalent of €1,083.33 per month for a working week of 40 hours. This trend responds to the commitment for the minimum wage to be half the average wage which, as said, is around €2,162, following the recommendations of the European Committee on Social Rights, a goal that was first achieved in 2020. However, this amount is slightly below the minimum wage in Spain where, after the major rise implemented since 2019, it became €950 per month in 2020, with 14 monthly payments for a working week of 40 hours (the equivalent of €1,108 in 12 monthly payments). This resulted in heavy competition to attract workers from the neighbouring country.

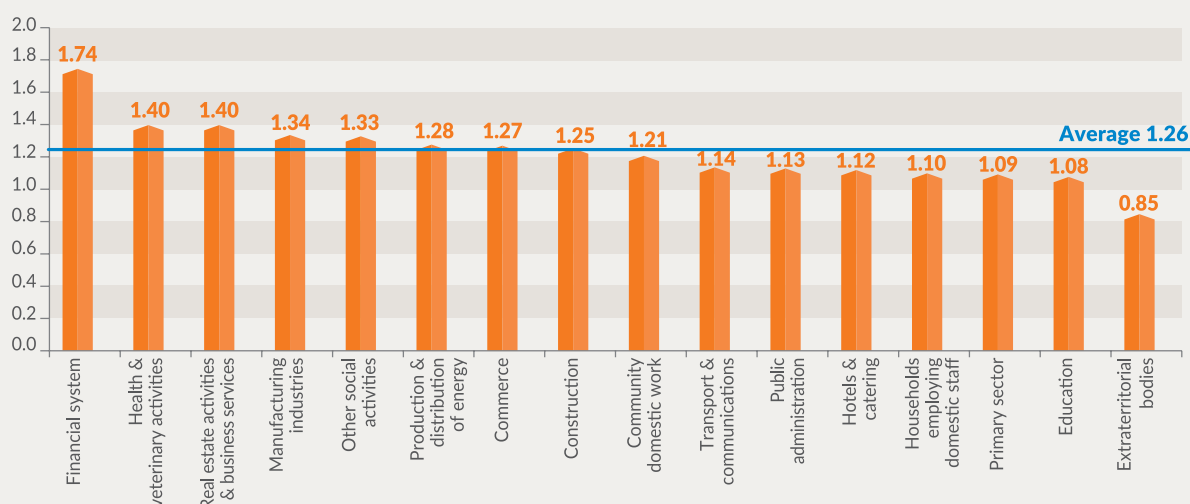
The trend in sectoral wages in 2020 shows that wages grew in very few sectors. In particular, wage increases were only recorded in extraterritorial bodies (2.7%), real estate activities and business services (2.4%), commerce (1.7%), education (1.2%) and domestic work (0.6%). In the other activities,

Wages rose in commerce but fell steeply in hotels and catering.

the trend in wages was negative. Firstly, there is the notable decline in hotels and catering (-4%), the sector that was most negatively impacted by the pandemic. Significant falls were also seen in the manufacturing industry (-3.5%), energy production and distribution (-2%) and transport (-1.8%). In all the other sectors, the decline was much more contained - between -0.5% (public administration) and -0.1% (financial system).

All in all, the result was that in 2020, the gap between sectors remained virtually the same, after narrowing in 2019. So, the highest wage is 3.4 times higher than the lowest wage (as in 2019). Specifically, the highest remunerations are still found in the financial sector, where wages are 2.2 times higher than the average. This level contrasts with that of domestic work for the community which - with wages 36% below the average - is the worst paid sector. The second sector in the wage ranks is production and distribution of electricity, gas and water, with wages 57% higher than the average, followed by extraterritorial bodies - with wages 25% higher than the average - and public administration - paying 23% more. Among the sectors with below-average wages are notably construction, a sector that is below the average for the eleventh consecutive year, whereas before the crisis it had traditionally been above, and commerce and hotels and catering, two sectors that employ a large part of the Andorran population (33.8% of total employees), with wages 13% and 28% below the average, respectively.

WAGE QUOTIENT MEN/WOMEN BY SECTORS. 2020



Source: CASS (Andorran Social Security System) / Department of Statistics.

Finally, in the wage breakdown by gender, the average wage for women, according to CASS data, remains below the average wage for men (€1,906 against €2,407), despite the fact that the difference fell to 26.3%. This circumstance occurs in all the sectors, with the sole exception of extraterritorial bodies, where women's wages exceed men's, but this is a much less significant branch of employment in Andorra.

The major differences are still to be found in the financial sector, where the average wages of men are 74% higher than women's, and in health & veterinary activities, where they are 40% higher. Moreover, in real estate activities, the gap has widened in the last year and also reached 40%. These data reflect the fact that men occupy most of the higher-level jobs in these sectors. On the other hand, the smallest differences are in education, agriculture and households employing domestic staff (where men's wages are 8-10% higher than women's).

The gender pay gap narrows slowly, but is still 26%.

The gender pay gap is also reflected in the Workforce Survey, according to which women employees earn an average of €1,903 net per month, compared with €2,340 net for men, a figure that represents a 18.7% difference, although this is a smaller gap than in the CASS data. One of the main reasons for these inequalities is that there are more women working part-time and in less well-paid sectors of activity than men.

VII. The foreign sector

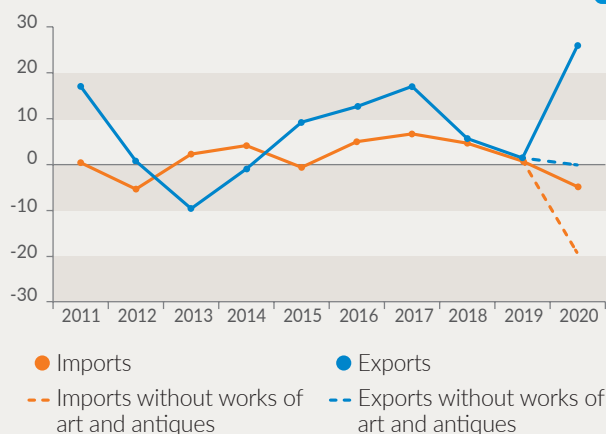
1. Foreign trade flows

2020 was marked by a decline in imports and stagnation in exports, with the exception in both cases of the trade in works of art and antiques, which rose dramatically in 2020 and distorted the total figures. Specifically, total exports of goods from Andorra grew 26.1%, but if we remove works of art and antiques from the equation, growth is nil. Total imports, on the other hand, declined 4.9%, but if we exclude works of art and antiques the fall is 19.5%, a variation that is more in line with the fall in internal demand. In 2020, the coverage rate (exports/imports) rose to 10.9%, the highest level in the historical series (10.3% if the chapter of works of art and antiques is ignored).

Imports shrank due to falling domestic demand, while exports slowed.

In absolute terms, the volume of exports was €143.5 million, the highest figure in the historical series (or €111.9 million if the chapter of works of art and antiques is excluded). As for imports, the total value was €1,310.6 million (€1,089.1 million without the chapter of works of art, the lowest figure since 1999).

FOREIGN TRADE
Interannual variation rate (%)



Source: Department of Tax and Frontiers.

From a sectoral point of view, the degree of concentration of Andorran imports remained high in 2020. The four sectoral groups that are historically most important (food, transport

material, machinery and electrical equipment, and products of the chemical industries) concentrate 45.2% of Andorran imports, to which is added the group of works of art and antiques in 2020, with a 17% share. The combined percentage of these top five sectoral groups reached 62.2%, demonstrating the high degree of concentration in Andorran imports.

Imports and exports were concentrated in a few sectors.

Exports are also mostly concentrated in a few sectors. The three traditionally largest export groups (machinery and electrical equipment, transport material and optical, photographic and precision apparatus) concentrate 48.7% of total exports, to which this year the group of works of art and antiques is also added, representing 22.2% of the total. So, these four sectors together concentrate almost 71% of total Andorran exports, a considerably high percentage.

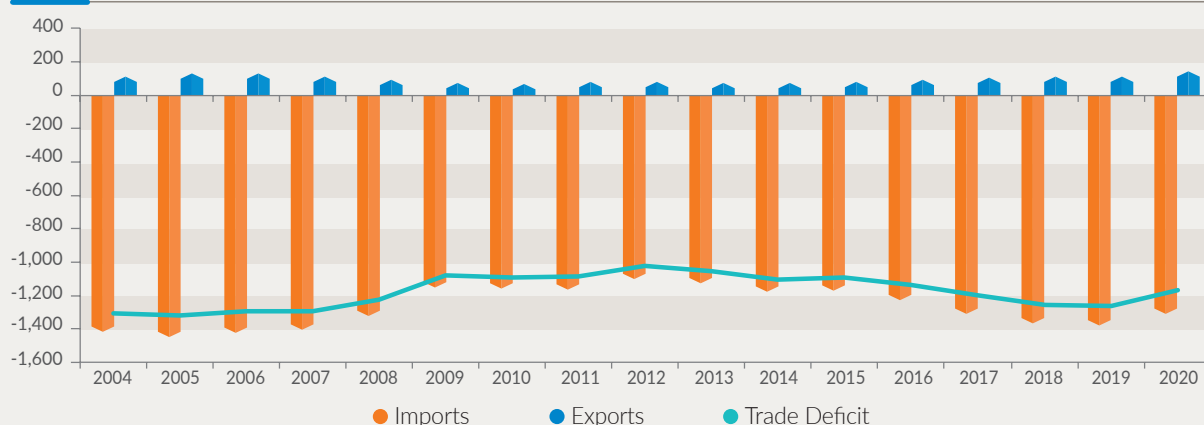
Note that part of the Andorran imports are subsequently re-exported. In fact, looking at the top ten import and export chapters, there are six matches: “motor vehicles”, “perfumery”, “machines and electrical apparatus”, “mechanical apparatus”, “articles of apparel and clothing accessories, not knitted or crocheted” and “works of art and antiques”. This seems to indicate so-called intra-industry trade or bidirectional trade (one country is both exporter and importer of one type of product), in which the added value generated in the national economy or opportunism in commercial trading become essential factors and assets.

In the case of Andorra, this means products that allow commercial trading on an international scale, with significant differences in value between countries which an intermediary can use to his advantage, or the creation of activities linked to coupling and the creation of an added value in Andorra that takes advantage of a market niche

Both exchange rate trends and changes in international trade regulations are major factors influencing the re-exportation of products. The pandemic inverted the trend for the euro to depreciate against the dollar, seen in 2018 and 2019, with the euro appreciating 9.5% in 2020. This produced favourable conditions for importing products from countries outside the monetary union for subsequent re-exportation to the Eurozone.

As for regulation, Andorra is in the process of negotiating an association agreement with the EU. These negotiations, which started in 2015, were delayed in 2019-2020 by Brexit and the

TRADE DEFICIT - Millions of euros



Source: Department of Tax and Frontiers and own preparation.

Chart 7.2

TRADE OPENNESS (% of GDP)

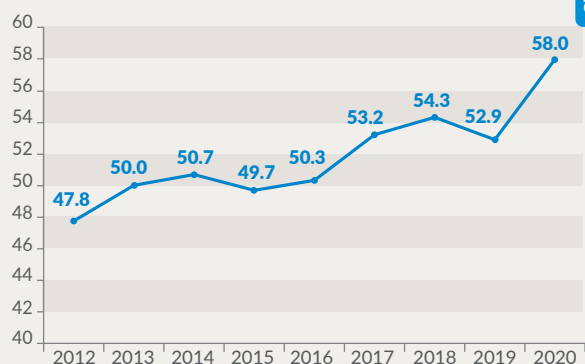


Chart 7.3

Source: Department of Tax and Frontiers and own preparation.

In 2020 the trade deficit shrinks.

which greatly exceeds the value of exports. However, in 2020, total exports increased while total imports decreased due to the steep fall in domestic demand, so the trade deficit shrank 7.7% to €1,167 million.

The trend in trade flows in 2020 resulted in an increase in the trade openness of the economy (expressed as the combined value of exports and imports of goods as a percentage of GDP), as foreign trade flows shrank less than nominal GDP (-11%). In 2020, the trade openness ratio reached 58%, much higher than the 52.9% in 2019, although if works of art and antiques are ignored, this rate falls to 48%.

Note that, in 2020, the balance of payments and the international investment position of the Andorran economy were published for the first time, for 2019, quantifying the economic relationship between the residents of one economy and the residents of the rest of the world. The 2019 balance of payments shows that the Andorran economy has a financing capacity (current account + capital account) of €507.86 million. Of the total current account, the entry for Goods and Services presents a positive balance of €270.5 million; Primary Income a positive balance of

pandemic, and it looks like the agreement will not be concluded for two to three years. Among other aspects, this agreement would allow for the free circulation of goods in chapters 1 - 23 of the harmonised system while continuing to exclude tobacco from the customs union for a transition period of 30 years, to allow for conversion of the sector. This could open up new opportunities for trade between Andorra and the EU, especially since the EU has been putting legislative obstacles in place in recent years that limit the opportunities for re-exportation from Andorra.

The volume of imports is traditionally much larger than exports. This explains why the Andorran economy presents a high trade deficit, due to the size of the demand for imported products for consumption (both domestic and for tourism) and investment,

CURRENT ACCOUNT BALANCE AS % OF GDP. 2019

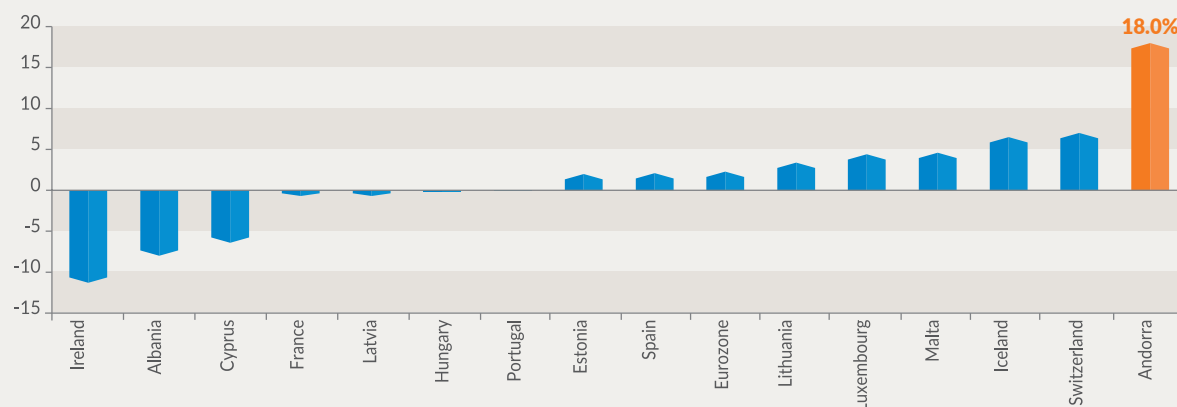


Chart 7.4

Source: Department of Statistics.

€274.4 million, and Secondary Income a negative balance of -€37.3 million. The importance of the Goods and Services account clearly demonstrates that the Principality of Andorra is an exporter of services (balance of €1,471 million) and importer of goods (balance of -€1,200 million). For 2019, the balance of payments as a percentage of GDP equals 18%, the highest of the European countries and one of the highest in comparison with other demographically similar countries.

2. Geographical distribution of foreign trade

2.1. Imports

In 2020, imports saw a major decline, linked to the fall in domestic demand caused by the COVID-19 crisis. Imports from Europe, the main geographical source of Andorra's purchases from abroad, reached 93.6% of the total, the highest percentage in the historical series that started in 1991. This trend is the result of a decline in imports from Europe, of -3.0% in 2020, slightly less than the global decline in imports (-4.9%).

The trend in imports from all continents was negative, except imports from the American continent, which grew 7.0%, driven by the increase in imports from the USA (19.2%), although their percentage of the total is only 0.9%. Imports from Asia, which represent 4.6% of the total, fell 29.3%, while those from Africa saw a fall of 15.6%, although they only represent 0.2% of the total.

Imports from Spain grow 7.3% while imports from France fall 26.3%.

Within the EU, purchases from Spain, Andorra's main supplier, increased 7.3%, so Spain was one of the few countries that recorded a positive rate last year. For this reason, Spain's percentage of total purchases increased from 64.3% in 2019 to 72.6% in 2020. In contrast, the trend in imports from France was negative (-26.3%), for the fourth consecutive year. Consequently, their percentage of the total fell almost three points to 9.4%, a historic low and far from the 30% they represented in the 1990s. Nevertheless, France is still the second largest supplier to Andorra, well above the third and fourth, Germany and Italy, with a relative proportion of 3.4% and 2.5%, respectively. There were major falls in Andorran imports from the latter two countries in 2020 (-17.6% and -38.3%, respectively). Note that in 2020, Spain was the country that contributed most to import growth (4.7 percentage points), almost offsetting the joint negative contributions from France, Germany and Italy (5.4 percentage points), the next three countries in the ranks of Andorran imports.

Outside the EU, imports from the USA and Japan increase, while imports from China fall.

As for countries outside the EU-27 but inside Europe, the United Kingdom and Switzerland stand out. The former recorded a fall of almost 30% in Andorran imports, reaching 1.1% of the total, the lowest percentage in the historical series. In the case of Switzerland, the decline was slower, at -8.1%, Switzerland representing 1% of total imports. Remember that the United Kingdom left the EU at the start of 2020, although a transition period was planned until 31 December 2020, so the impact of Brexit on trade became more apparent from 1 January 2021.

In relation to imports from countries outside Europe, those from the USA and China are the most significant. The trend in purchases from the USA was quite positive (19.2%), partly driven by the euro appreciating against the dollar in 2020, breaking the trend of depreciation that occurred in 2018 and 2019. In contrast, imports from China in 2020 fell 30.9% and their percentage shrank

FOREIGN TRADE BY GEOGRAPHICAL AREAS

Table 7.1

	IMPORTS			EXPORTS		
	Meuros 2020	% var. 2020/19	% total 2020	Meuros 2020	% var. 2020/19	% total 2020
Spain	951.0	7.3	72.6	100.5	41.6	70.0
France	122.7	-26.3	9.4	14.2	13.2	9.9
Germany	45.1	-17.6	3.4	2.6	127.3	1.8
Italy	32.7	-38.3	2.5	1.3	-20.2	0.9
Netherlands	8.6	-41.1	0.7	2.0	-30.8	1.4
Portugal	8.5	-31.9	0.6	0.2	145.9	0.2
EU-27	1,194.9	-3.9	91.2	122.5	32.4	85.4
United Kingdom	14.2	-29.9	1.1	0.7	-61.5	0.5
Switzerland	13.2	-8.1	1.0	1.2	558.5	0.8
Europe	1,227.4	-3.0	93.6	128.9	33.2	89.9
USA	11.5	19.2	0.9	2.3	15.2	1.6
America	15.3	7.0	1.2	5.0	31.4	3.5
China	32.8	-30.9	2.5	0.2	-68.9	0.2
Vietnam	4.1	-45.1	0.3	0.01	572.9	0.0
Asia	60.4	-29.3	4.6	3.6	-42.4	2.5
World total	1,310.6	-4.9	100.0	143.5	26.1	100.0

Source: Department of Tax and Frontiers.

58

Spain reaffirms its position as main supplier to Andorra with 72.6% of imports.

continent, the increase in purchases from Japan is notable (9.9%), putting its share of the total at 0.4%, still far from the 6.2% it represented in the early 1990s. This change is closely related to the loss of attractiveness of the Andorran electronics trade sector over recent years. A large part of these purchases have been substituted by those from Vietnam and Taiwan, countries which went from each representing 0.1% of Andorran purchases before the 2008 crisis to 0.3%-0.4% in 2020.

In summary, Spain greatly increased its percentage as the main national supplier in 2020, to 72.6% of the total, while France continued to lose importance, following the background trend observed over the last thirty years. There was also a steep decrease in purchases from Germany, Italy, the Netherlands, Portugal and the United Kingdom, and more distant countries such as China and Vietnam, while imports from the USA and Japan increased, partly favoured by the effect of euro appreciation.

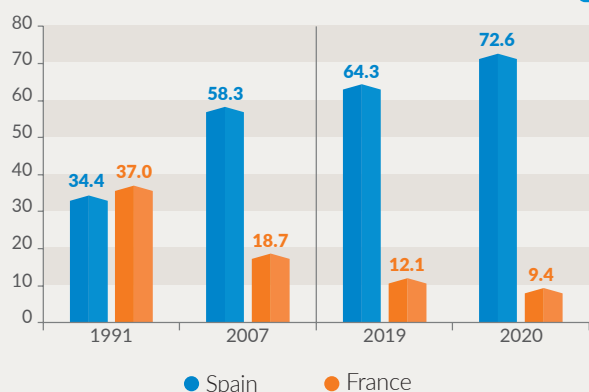
2.2. Exports

In 2020, exports to all continents except Asia saw a positive trend. Still, the European continent is still the main destination for Andorran exports, since it is the focus of almost 90% of the total and, moreover, these exports saw an increase of 33.2% in 2020.

In 2020, sales to Spain, the largest consumer of products from Andorra, grew 41.6% and made a 25.9 point contribution to global export growth. As a result of this positive trend, Spain's

IMPORTS FROM ANDORRA'S NEIGHBOURING COUNTRIES - Percentage of total (%)

Chart 7.5



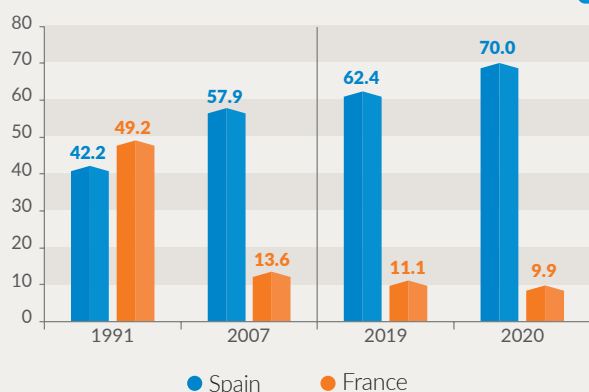
Source: Department of Tax and Frontiers.

In 2020, exports to Spain grew 42% and are already 70% of the total.

percentage of total exports increased from 62.4% in 2019 to 70.0% in 2020, the highest figure in the historical series that began in 1991. Exports to France also grew, but less than the average (13.2%), so their percentage fell to 9.9%. So, the balance between Andorra's two main partners still tips clearly towards Spain, contrasting with the similar percentages they both had in the early 1990s. The two countries together concentrate nearly 80% of Andorran exports, meaning that the other global markets are of little significance.

EXPORTS TO ANDORRA'S NEIGHBOURING COUNTRIES - Percentage of total (%)

Chart 7.6



Source: Department of Tax and Frontiers.

Nevertheless, the trend was uneven for the rest of the EU-27 countries. On the one hand, there were steep increases in the German and Portuguese markets, to which exports grew 127% and 146%, respectively. This growth raised the percentages of the two countries to 1.8% and 0.2%, respectively. On the other hand, sales to Italy and the Netherlands saw a steep decline (-20.2% and -30.8%) limiting their percentages to 0.9% and 1.4%, respectively.

Within the European continent but outside the European Union, the contribution from Norway is notable, with a 2.9% share and occupying third place in the ranks of Andorran exports, after Spain and France, with a very

positive trend in 2020 (23.2%). For their part, exports to Switzerland rebounded 558% and its share increased to 0.8% of the total, while exports to the United Kingdom fell 61.5%, lowering its share to 0.5%. The other European countries represent less than 1%, so their contribution is insignificant.

Exports to Asia fell while exports to America rises.

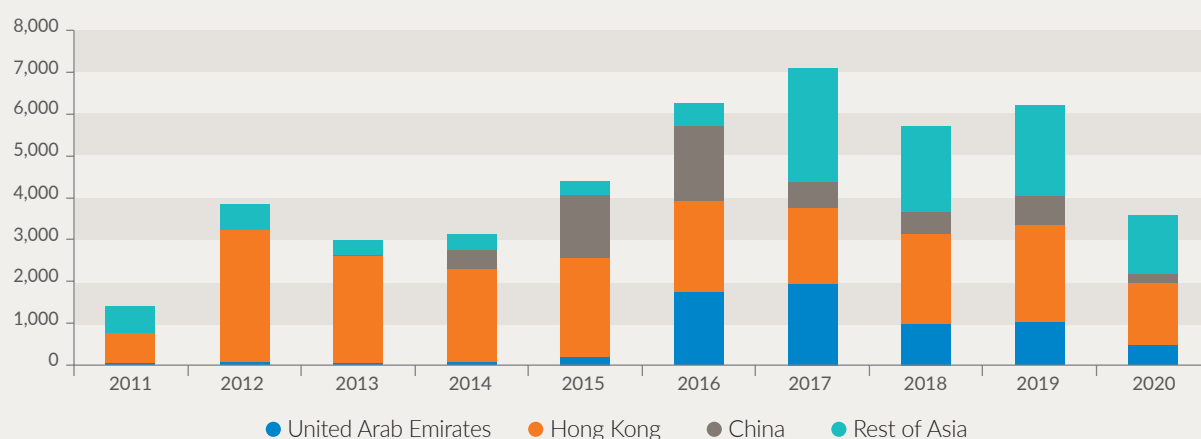
basically be explained by the fall in sales to China (-68.9%), Hong Kong (-37.3%) and the United Arab Emirates (-50.8%). In contrast, exports to Japan grew 24.6%. These four countries are the most important on the Asian continent for Andorran exports, as together they represent 1.8% of the total.

In contrast, the contribution from the American continent was positive, with a 31.4% increase in total exports, putting the percentage of this market at 3.5% of total foreign sales. This increase can mainly be explained by the positive contribution from sales to the USA – which grew 15.2% and already represent 1.6% of total foreign sales – and Argentina, which went from an insignificant share to 0.9% of the total in 2020. Finally, note the strong increase in exports to Africa (2,249.7%),

Outside the European continent, the decline in exports to the Asian continent is notable (-42.4%): Asia's share of exports fell to 2.5% in 2020. In this case, the negative trend can

ANDORRAN EXPORTS TO ASIA - Thousands of euros

Chart 7.7



Source: Department of Tax and Frontiers.

although the continent is still a fairly insignificant market for the Andorran economy, as it only represents 0.9% of exports.

In summary, Andorran exports are ever more focussed on the Spanish economy. Developments outside that economy are quite erratic and influenced by one-off transactions and the trend in imports for re-export. In 2020, exports outside the European continent were undermined by euro appreciation, but even so, sales to the USA and Japan increased, the same two markets that saw imports increase.

3. Sectoral composition of foreign trade

3.1. Imports

As mentioned, the fact that the fall in imports was smaller than in GDP in 2020 is mostly due to the major increase in imports of works of art and antiques, which went from €25.2 million in 2019 to €221.5 million in 2020, making it the main imports sector with a 16.9% share. If we ignore this sector, Andorran imports saw a decline of 19.5%, rather than the recorded -4.9%. With the exception of that sector and vegetable products, all the other branches made a negative contribution to the trend in Andorran imports and also reduced their share of total foreign sales. The most significant negative contributions were from food, beverages and tobacco (-3.0 percentage points), mineral products (-2.8 points), chemical industries (-2.5 points) and transport material (-2.0 points).

Closer analysis shows that imports of food, beverages and tobacco, the largest group after works of art and antiques, shrank almost 20% in 2020. As a result, its share of the total fell to 12.8%. The most important chapter in this

group is beverages, alcoholic liquids and vinegars, with 4.7% of the total, in which there was a decline of 23.8% against the previous year. The second most important chapter is tobacco, with 1.7% of the total, which saw a downturn of 27.8%, much greater than for imports as a whole.

Imports of food, beverages and tobacco shrank 19.9% due to falling private consumption.

The second most important group in the imports ranks is transport material, which saw a 14.8% decline in 2020, ending the strong upward trend that started in 2013. Consequently, its share

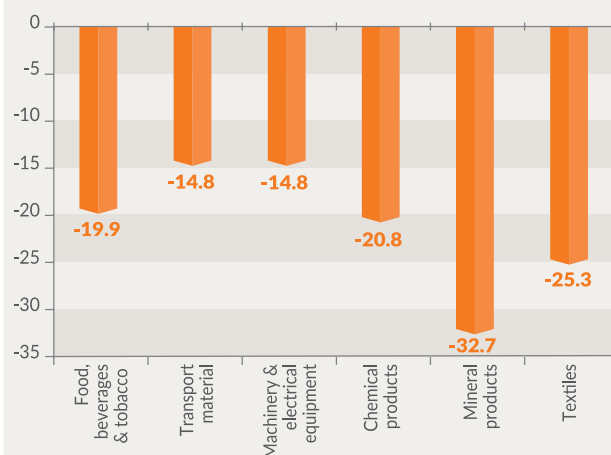
Vehicle imports fell 15% due to fewer registrations.

of total foreign purchases fell from 13.3% in 2019 to 11.9% in 2020. The explanation for this trend can mainly be found in the decline in imports in the chapter of motor vehicles, tractors, motorcycles and bicycles (-14.8%), which was seriously affected by the decline in vehicle registrations this year.

In 2020, the trend in imports of machinery and electrical equipment, the fourth group in the ranks this year after overtaking chemical products, was also negative (-14.8%). Consequently, its share of the total fell to 10.5%. This behaviour can be explained by the steep decline in purchases of machines and electrical apparatus (-20%) together with a smaller drop in mechanical apparatus (-8.2%). Note that the

ANDORRA'S MAIN IMPORT SECTORS. 2020 - Interannual variation rate (%)

Chart 7.8



(*) Not including the sector of Works of art and antiques, which saw an increase of 779% in 2020.

Source: Department of Tax and Frontiers.

FOREIGN TRADE BY SECTORS

Table 7.2

	IMPORTS			EXPORTS		
	Meuros 2020	% var. 2020/19	% total 2020	Meuros 2020	% var. 2020/19	% total 2020
Live animals & animal products	60.5	-12.0	4.6	0.1	-29.4	0.1
Vegetable products	30.9	4.2	2.4	0.0	-56.7	0.0
Fats & oils	4.7	-8.1	0.4	0.1	-24.3	0.0
Food products, beverages & tobacco	167.9	-19.9	12.8	1.3	195.9	0.9
Mineral products	80.5	-32.7	6.1	0.3	-79.7	0.2
Products of the chemical industries	131.2	-20.8	10.0	3.4	-5.7	2.4
Plastics, rubber & articles thereof	25.6	-16.0	2.0	1.0	72.6	0.7
Fur, leather & articles thereof	8.7	-33.0	0.7	1.9	63.9	1.3
Wood, cork & articles thereof	9.9	-14.1	0.8	1.2	-12.2	0.9
Paper & graphic arts	27.0	-12.3	2.1	8.7	13.7	6.1
Textiles	78.0	-25.3	5.9	7.9	-6.6	5.5
Footwear, headgear, umbrellas, etc.	24.2	-30.0	1.8	4.4	26.2	3.1
Stone, cement & ceramic articles	14.1	-23.8	1.1	0.4	29.9	0.3
Pearls, precious stones & metals	10.4	-29.1	0.8	5.4	-17.9	3.8
Base metals & articles thereof	36.9	-14.7	2.8	3.6	-2.7	2.5
Machinery & electrical equipment	137.0	-14.8	10.5	35.3	-9.2	24.6
Transport material	155.9	-14.8	11.9	19.8	17.3	13.8
Optical, photographic, precision app.	40.0	-15.1	3.1	14.7	0.6	10.3
Arms & ammunition	0.6	-34.1	0.0	0.1	-27.8	0.1
Miscellaneous manufactured articles	44.2	-26.9	3.4	1.9	4.7	1.3
Works of art, antiques	221.5	778.7	16.9	31.6	1,587.7	22.0
Others	0.7	46.3	0.1	0.3	8.4	0.2
Total	1,310.6	-4.9	100.0	143.5	26.1	100.0

Source: Department of Tax and Frontiers.

trend in these products is related to the negative behaviour in exports in the same branch, as they are re-exportable products.

The downturn in imports of chemical products was quite significant (-20.8%), reducing its share of the total to 10%, making it the fifth most important sector for foreign purchases. The two most important chapters in the group had opposing trends: in 2020, the chapter of perfumery, with a share of 4.9%, shrank 37.2%, while pharmaceutical products, with a share of 2.5%, increased 1.6%.

There was a steep decline in imports of minerals due to falling oil prices.

The next groups of important products all have percentages below 10% of the total. Specifically, the first is mineral products, with 6.1% and a decline of 32.7%, largely due to the

drop in oil prices that occurred in 2020, although the decline in purchases of salt, sulphur, earth and stone, plastering materials, lime and cement, closely linked to the construction sector, was less pronounced (-6.8%). The second group is textiles which, with 5.9% of the total, shrank 25.3% due to falling private consumption. Finally, the branch of live animals and animal products, with 4.6%, dropped -12% in 2020, mostly explained by the downturn in imports of meat and edible offal and fish (2.1% of the total and -12.5% compared with 2019).

Finally, we should mention the groups of products with a share of less than 4% of total foreign purchases, which generally experienced negative trends, except for the group of vegetable products which saw a 4.2% increase from 2019.

3.2. Exports

In 2020, Andorran exports rose 26.1%, mostly due to the steep increase in foreign sales in the chapter of works of art and antiques (from €1.9 million in 2019 to €31.6 million in 2020), making it the second most important export sector (with 22% of the total), after machinery and electrical equipment.

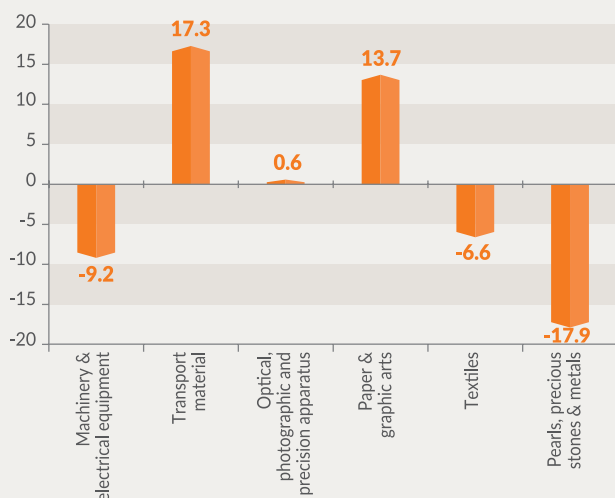
However, there were major sectoral differences in the trends in exports. Of the 22 branches, exports fell in 11 and rose in the other 11. The largest positive contributions were from the group of works of art and antiques (26.1 percentage points) and transport material (2.6 points). Much further behind was the positive contribution from the groups paper and graphic arts (0.9 points), footwear (0.8 points), fur and leather (0.7 points) and food products, beverages and tobacco (0.7 points). In contrast, there was a notably negative contribution from the sector of machinery and electrical equipment (-3.1 percentage points), mineral products (-1.2 points), and pearls, precious stones and metals (-1 point). The other sectors made a positive or negative contribution of less than five tenths and therefore had no significant impact on the total trend in Andorran exports. Note that the total share of practically all sectors shrank this year due to the major increase in the proportion of the group works of art and antiques, except in three cases: food products, beverages and tobacco; fur and leather, and plastic and rubber articles. These three groups saw a relatively positive trend that increased their percentage of the total.

The largest export group is still, since 2003, machinery and electrical equipment. After five consecutive years of increases, the COVID-19 crisis caused exports from this branch to fall 9.2%, lowering its percentage of the total to 24.6%. By chapters, this trend can be explained by both the downturn in exports of machines and electrical

Exports of machinery and electrical equipment are 25% of the total, falling 9.2% in 2020.

ANDORRA'S MAIN EXPORT SECTORS. 2020 - Interannual variation rate (%)

Chart 7.9



(*) Not including the sector of Works of art and antiques, which saw an increase of 1,588% in 2020.

Source: Department of Tax and Frontiers.

apparatus (-10.6%), the most important chapter in the group with 18.7% of total foreign sales, and the bad performance of mechanical apparatus (-4.1%), which represents 5.9% of total exports.

In second place in the ranks, as mentioned, is the sector of works of art and antiques, which saw incredible growth in 2020 of 1,587.7% to reach 22% of total exports. Next is the branch of transport material, which saw an increase of 17.3% in 2020, after two years of downturn, so that its percentage of total exports rose to 13.8%. The chapter that determines this positive trend is motor vehicles, which represents 14% of total exports and saw an increase of 22.9% in 2020.

Exports of optical, photographic and precision apparatus, the fourth export chapter by volume, remained practically stable compared with the

previous year (+0.6%), so its share of the total reached 10.3%. By chapters, the trend was positive in the segment of optical and photographic products (15.4%) – the most important chapter in the group, with 8.7% of total exports – and negative in clocks and watches (-43.1%) – much less important, with only 1.4% of the total.

Far behind in the export ranks by volume are the sectors of paper and graphic arts and textiles. The trend in the group of paper and graphic arts was quite favourable, with export growth of 13.7%. As a result, its share of the total rose to 6.1%. The most important subgroup is paper and cardboard (4.6% of the total), which saw a year-on-year increase of 40.5%, while products of the printing or graphic industries (1.1% of the total) suffered a decline of 32%.

Exports of transport material and paper and graphic arts grew in 2020.

Exports in the textile sector saw a year-on-year decline of 6.6%, with a 5.5% share of the total exports. Within this group, the chapter of articles of apparel and clothing accessories, not knitted or crocheted, stands out with 3.7% of total exports, falling 1.5% since 2019.

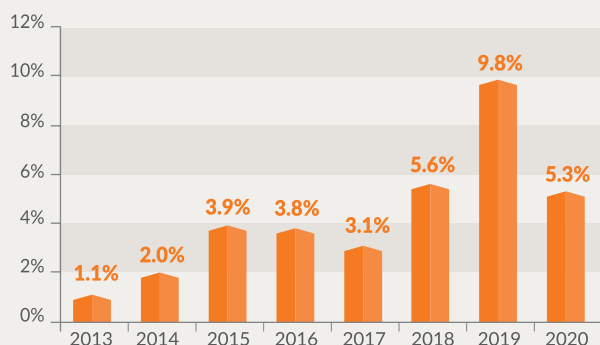
The other groups represent proportions of less than 5% of total exports. Among these groups are notably pearls, precious stones and metals, forming 3.8% of total exports and falling almost 18% in 2020. Next are the groups of footwear, headwear, umbrellas, etc. with 3.1% of the total and an increase of 26.2%; base metals, with 2.5% of the total and a negative variation of 2.7%, and chemical products, with 2.4% of the total and a fall of 5.7%.

4. Foreign investment flows

In 2020, Andorra is still an attractive destination for foreign investment, despite the negative impact of the pandemic. Last year saw the formalisation of 41 fewer investment transactions than the previous year (417 transactions in 2020 compared with 458 in 2019) and the volume of investment associated with these transactions fell 51.6%, to €133.8 million, still the third highest figure after the highs reached in 2018 (€152.1 million) and 2019 (€276.8 million).

TOTAL VOLUME OF FOREIGN INVESTMENT IN RELATION TO GDP

Chart 7.10



Source: Ministry of the Presidency, Economy and Enterprise.

Foreign investment decreased 52% in 2020 to represent 5.3% of Andorran GDP.

This major decline in foreign investment, after the strong rebound in 2019, reduced its percentage of Andorran GDP from 9.8% in 2019 to 5.3% in 2020, although it is still one of the highest values in the historical series.

The geographical distribution of investment formalised in 2020 shows a major concentration from two countries, Spain (25% of total investment) and France (17%). However, the source of most foreign investment is Andorra, with 54%, reaffirming its dominant position (in

2019, it was 34% of the total). This figure relates to investments made by Andorran companies that are more than 50% owned by non-resident shareholders. Belgium is the third most important foreign investor (with only 0.6%), equal with the United Kingdom (also 0.6%) followed by the Netherlands (representing 0.4% of total investment). The rest is divided between various geographical locations, of little significance.

In 2020, 41% of foreign investment in Andorra is from Spain and France.

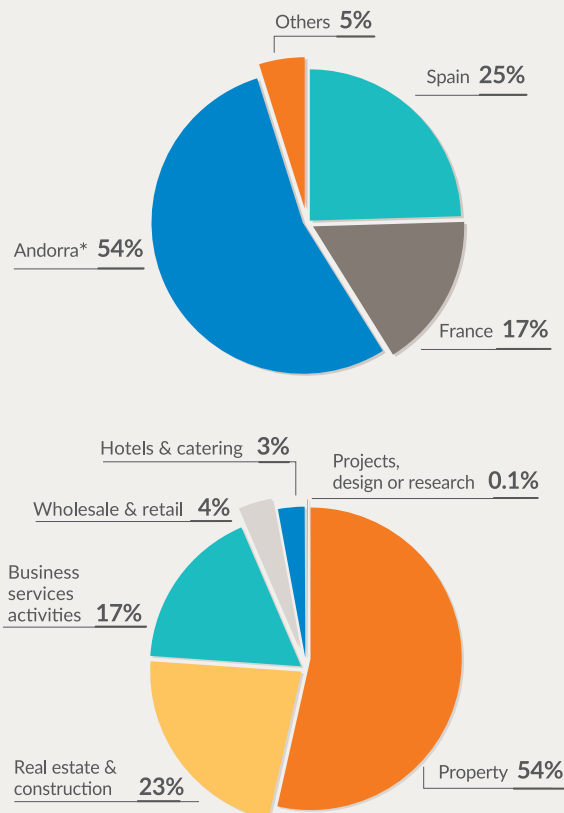
Globally, since the current Foreign Investment Law came into force in 2012, Spain has had an average concentration of 38.5% of the total value of investments formalised in Andorra, and France 19.1%. The rest is divided between many countries, notably Luxembourg (4.7%), Belgium (2.7%) and Russia (2.4%). Investments where "Andorra" is identified as the country of origin represent 22% of the total over the period 2012-2020.

In 2020, foreign investment only increased in property and real estate and construction.

By sectors, formalised foreign investment in 2020 was notable in property (54% of the total), real estate and construction (23%) and business services activities (17%). In contrast, portfolio investment and investment in industrial manufacturing and in projects, design or research were almost non-existent, and investment in the commercial sector and hotels and catering together only represented 6% of the total. On analysing the period 2012-2020, the three

FOREIGN INVESTMENT BY COUNTRIES AND SECTORS. 2020 - As % of total

Chart 7.11



(*) Andorran businesses with foreign capital (>50%) making a new investment.

Source: Ministry of the Presidency, Economy and Enterprise.

sectors that received most investment were also property (33% of the total), business services activities (23%) and real estate and construction (18%), with the commercial sector dragging behind (12%). In 2020, only investment in real estate and construction (34%) and property (6%) increased, while it shrank in the other economic areas.

VIII. The public sector

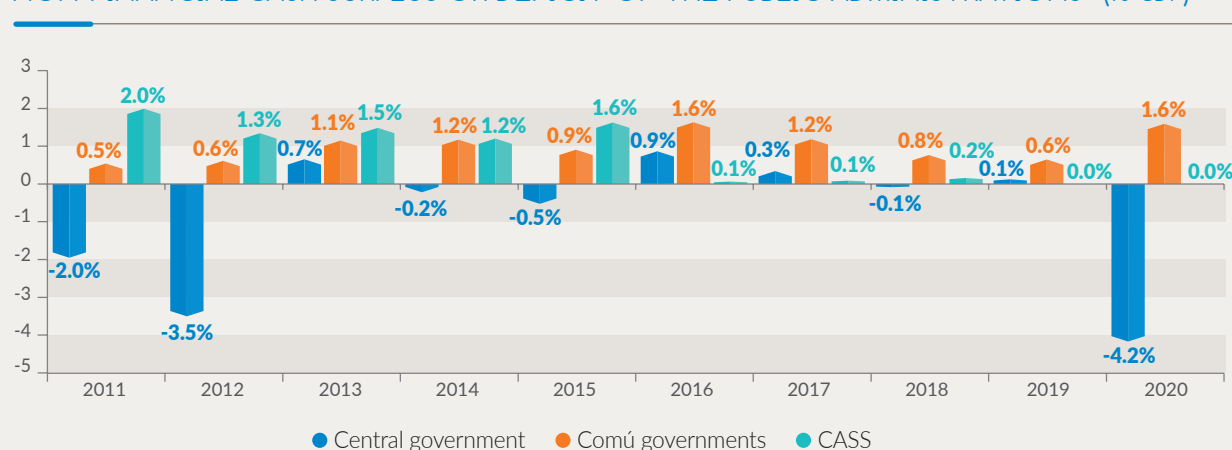
The trend in the Andorran public administration accounts in 2020 varied according to the levels of government. Specifically, the budget surpluses of both the Comú governments and CASS (Andorran Social Security) rose in comparison with 2019, to 1.6% and 0.05% of GDP, respectively, thanks to an increase in non-financial revenue and contained expenditure. However, the increase in the CASS surplus was slight and follows on from the lowest level in the available historical series, in 2019. For its part, the central Government is the only level of government that suffered a decline in the public accounts, going from a small surplus in 2019 to a deficit of 4.2% in 2020, the largest since 2009. This deficit can be explained by the steep increase in expenditure associated with the measures adopted to deal with the economic consequences of the health crisis.

The official statistics do not publish, for now, the consolidated budget balance of all the administrations, which would enable better assessment of the net economic impact of the Andorran public sector performance as a whole, although the negative trend in GVA in the branch of Public administration, education, health, social and personal services indicates that the impact was contractionary, compared with its positive contribution to GDP growth in 2019.

The pandemic triggered a high public deficit in the central Government, contrasting with the surpluses in the Comú governments and CASS.

The budget imbalance recorded by the Government in 2020 was accompanied by a significant increase in its debt level, unlike the Comú governments, which reduced it. So, the total debt of Andorra (central and Comú governments combined) reached €1,210 million, 17% more than in 2019. This amount is equal to 48.2% of GDP, 11.7 points more than the previous year, a figure that sets a historic high. Moreover, this level is close to the 50% limit set by the Law on Public Finance

NON-FINANCIAL CASH SURPLUS OR DEFICIT OF THE PUBLIC ADMINISTRATIONS (% GDP)



Source: Ministry of Finance, Comú governments, CASS, Department of Statistics of the Government and own preparation.

PER CAPITA DEBT (€/person)

Chart 8.2



Notes: (1) Data published by the Comú governments for 2020 and data reviewed by the Court of Accounts for the other years, except in the case of Canillo, for which the debt data for 2019 reviewed by the Court of Accounts is not available, so the data published by the Comú itself is used.
(2) Calculated on the basis of the estimated population.

Source: Ministry of Finance, Comú governments, Court of Accounts and own preparation.

Sustainability, although it meets the revised debt target set in September 2020 (49.7%), because it takes into account the impact of the pandemic on public spending. Per inhabitant, the per capita debt (calculated from the estimated population) rose to €15,508, 16.8% more than in 2019. This increase represents a turning point in the sustained trend of declining per capita debt, which characterised the last seven years, and brings it back to the 2013 level.

The public debt rose to a historic high of 48.2% of GDP.

In parallel, it is estimated that the tax burden increased half a point in 2020, according to the accrual principle, to 25.5%, which represents a historic high. Now, this upward trend is not the result of an increase in taxes or revenue; on the contrary, total tax revenue sank 9%, but the tax burden denominator, nominal GDP, fell even further (-11%), which caused the indicator to fly upwards.

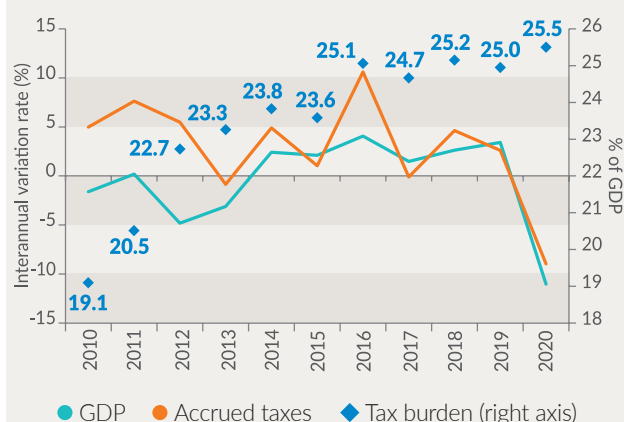
The steep fall in nominal GDP caused the tax burden to rise to a historic high of 25.5%.

From a European perspective, Andorra's tax burden is much lower than the 41.1% European average (according to 2019 data for the EU-27) or the levels of our closest European neighbours: France (47.4%) and Spain (35.4%), making Andorra a tax-friendly country. In fact, within the context of the EU-27, the only country with a lower tax burden than Andorra is Ireland (22.7%). Closer to Andorra but slightly higher is notably Switzerland (27.4%).

Among the tax figures, the growth was notable in direct revenue (current taxes on income and property) at 2.5%, contrasting with the steep downturn in indirect revenue (-22%) (taxes on production and imports). This trend can be explained by the restrictions on economic activities

GDP, ACCRUED TAXES AND TAX BURDEN

Chart 8.3



Source: Department of Statistics.

implemented during the pandemic, which undermined consumption more than income, as the Government took measures to offset losses of income, such as the ERTA to support income from employment. In this way, it was also possible to keep social contributions practically equal, on the basis of two counterbalancing trends – the reduction in employment and wage growth.

Box 8.1

THE COMPETITIVENESS OF THE ANDORRAN TAX SYSTEM: PAYING TAXES METHODOLOGY

The Government commissioned the consultancy PWC to make an analysis of the Andorran tax system using the Paying Taxes methodology, developed by the World Bank as part of its study Doing Business, in order to find out what position Andorra would have if it formed part of this international ranking, and to publicise the competitiveness of the Andorran tax system internationally.

The object of the study is to compare the taxation borne by an average company in different countries in a specific year¹, the administrative burden from the payment of taxes and contributions, and the procedures after filing, i.e., it not only measures the tax burden but also the associated administrative complexity.

The main results of the study were as follows:

- Andorra would be in position 20 in relation to the ease of paying taxes, compared with the 190 economies in the study *Paying Taxes 2020*.

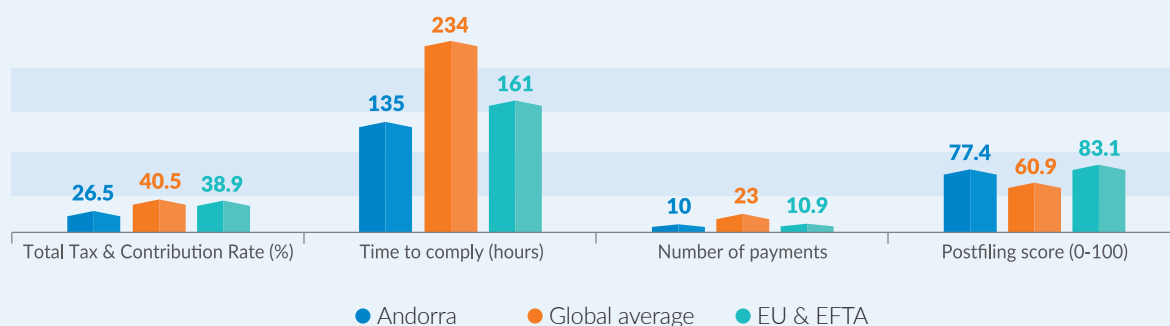
- It would have a *Total Tax and Contribution Rate (TTCR)*² of 26.5%, at the lower end of the EU and EFTA economies (38.9%). Both France and Spain have a much higher TTCR than Andorra and the European average.

- The time dedicated to tax compliance (*time to comply*) would be approximately 135 hours, lower than the average for the EU and EFTA economies (161 hours). Spain and France are higher than Andorra but lower than the European average.

- The indicator for the *number of payments* would be 10, lower than the average 10.9 payments in the EU and EFTA. In this case, France and Spain are lower than Andorra.

- It would have a global *postfiling index* score of 77.4 out of 100 (the higher the score, the more efficient the postfiling processes), which is lower than the average of 83.1 in the EU and EFTA and higher than the global average of 60.9. Spain and France are among the 10 European countries with the highest scores. This is therefore an area in which Andorra should make improvements.

COMPARISON OF THE ESTIMATED EASE OF PAYING TAXES ACCORDING TO THE PAYING TAXES METHODOLOGY



Source: "Analysis of the Andorran tax system using the Paying Taxes methodology", PWC.

¹ The reference year for the study is 2018.

² The TTCR measures the amount of taxes and contributions borne by a company, expressed as a part of its commercial profit. The TTCR only includes taxes that represent a cost to the company, such as corporate tax, property tax or social security contributions charged to the company. It does not include any taxes that the company withholds from third parties, such as VAT/IGI, IRPF or the employees' social security contributions.

In 2020, social contributions became the most important component of the tax burden, at 42.8%, compared with the 39% they represented in 2019. Indirect taxation became the second component due to a relative loss of importance, with a contribution to the total of 36.8%, six points less than in 2019. Finally, direct taxation, especially income tax, increased in importance by 2.3 percentage points in 2020, to represent 20.4%, due to the increase in revenue from almost all direct tax forms, especially corporate tax and the taxes applied by the Comú governments.

Below, we analyse the performance of the public sector in 2020, with a breakdown for each level of government.

1. Central Government

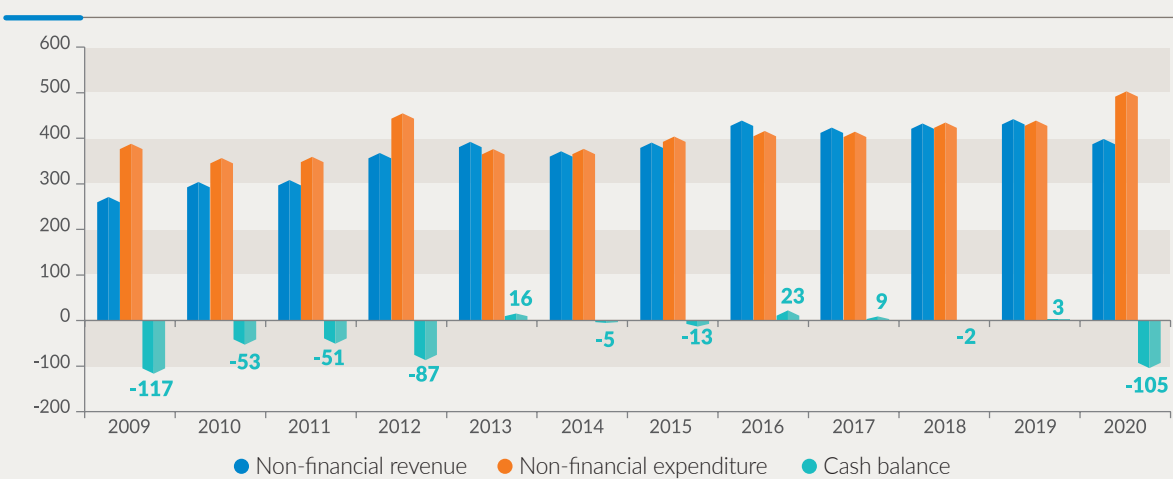
The central Government closed the accounts for 2020 with a non-financial cash deficit of 104.6 million, a figure that represents 4.2% of GDP and the highest deficit since the record €116.6 million in 2009. This major imbalance contrasts with the surplus recorded in the previous year and can be explained by the combination of a steep rise in expenditure (14.7%) and a steep fall in revenue (-9.9%), which is, in turn, the result of the extraordinary pandemic situation, which influenced many budget decisions for a large part of 2020. In this respect, over the last 30 years (1991-2020 included) there have been twenty-four financial years in which the Government closed the accounts with a deficit and only six in which it recorded a surplus.

If we add the financial transactions (changes in financial assets and liabilities) carried out in 2020, a positive budget result of €1.7 million is obtained. However, this result also reflects a downturn since the previous year when the surplus was much higher (€19.8 million). The increase in revenue from changes in financial assets and liabilities can mainly be explained by the new debt that the Government issued to combat the effects of the crisis caused by the pandemic.

In 2020, the deficit in the public accounts of the central Government exceeded €100 million, equal to 4.2% of GDP.

As for the breakdown of these financial transactions, the most notable movements were, on the one hand, two debt transactions approved in March and October, to renew the issues that matured in 2020 (for the amounts of €125 million and €180 million, respectively) and, on the other hand, two additional debt transactions approved in April and June (for the amounts of

GOVERNMENT BUDGET EXECUTION - Millions of euros



Source: Ministry of Finance.

€125 million and €20 million, respectively), to finance the special, urgent measures taken within the employment, social, economic and health fields, to deal with the COVID-19 pandemic. These measures were regulated by three laws developed by the Government and approved by the General Council, and several decrees. In total, the Government's debt issues in 2020 added up to €450 million.

All in all, the global debt of the central government continued the upward trend that marked the period 2002-2016; broken only for two years (2017 and 2018) and resumed in 2019, until

The central government's overall debt climbs to a historic high of €1,106 million.

it reached a historic high of €1,106 million in 2020, 20.1% more than in 2019. Within the structure of this debt is notably the increase in the outstanding balance of public debt, by €125 million to reach €920 million. To this amount must be added the line of credit of

€100 million, while the balance drawn down on credit facilities was reduced to zero, compared with the €43 million drawn down a year earlier. The rest are various loans, whose total also grew slightly in 2020.

In proportion to GDP, this debt volume represents 44.1%, 11.4 points more than in 2019, an increase that is due to the combination of a notable rise in debt and a steep fall in nominal GDP. As a result, for once, the debt ratio exceeded the 40% limit established in the Law on Public Finance Sustainability for the central government and is far from the debt target set for 2020 (33.7%), when there was no sign of the pandemic on the horizon.

The deterioration of the public accounts was a pattern common to other developed economies, so Andorra still has lower levels of public debt than most of the European governments. On the positive side, we should add that the term structure of Andorran debt improved in 2020, with 79% long-term and 21% short-term, compared with the 62%-38% division in 2019. Moreover, the IMF has evaluated the Andorran public debt as still sustainable, even though it temporarily crossed the limit established by the fiscal stability rule, and is in favour of continuing the emergency fiscal stimulus until the recovery is consolidated and a sufficient percentage of the population has been vaccinated, both in Andorra and the region.

1.1. Revenue

The trend in settled non-financial revenue in 2020 was clearly marked by the unusual situation caused by COVID-19 throughout the financial year, which led to a steep decline of 9.9%, the worst performance since 2009. So, non-financial income reached a figure of €398.5 million, the lowest in the last five years. Among the larger entries, the decline especially affected revenue from indirect tax and other taxes and revenue, while the decline in direct taxes was much more limited. On a positive note, the growth in investment income was notable. Some revenue was also obtained from current transfers and the sale of investments, although the contribution from these entries is very small in absolute terms.

In particular, revenue from direct taxes fell 0.4%, to €87.7 million, after hitting a historic high in 2019. So, the percentage of this chapter increased to 22% of total non-financial revenue, when it had been practically zero only ten years earlier, to represent 28.6% of total direct and indirect taxes, lower than the 40% limit set by the Law on Public Finance Sustainability passed in 2014.

The pandemic upset revenue from indirect taxes much more than direct taxes.

GOVERNMENT NON-FINANCIAL REVENUE

Thousands of euros

Chart 8.5



Source: Ministry of Finance.

Revenue from income tax (IRPF and IRNR) fell, but revenue from corporate tax and capital gains on property transfers rose.

By tax forms, the decline in revenue from direct tax can mainly be explained by the negative performance of income tax (IRPF) and non-residents' income tax (IRNR), with a drop in revenue of 5.9% and 17.4%, respectively, related to the pandemic. Note that the measures adopted to combat the health crisis brought a reduction in the tax base for income from employment affected by the temporary suspension of employment contracts and reduction in working hours, and a reduction of the tax obligations in the payments on account towards the IRPF (income tax) on economic activities, a measure adopted to help protect businesses' cashflow during the

crisis. Moreover, in the case of the IRNR, several double taxation agreements that were signed, especially those with Spain and France, meant that the volume of generated revenue stabilised along with slowing imports.

In contrast with these declines, revenue from corporate tax grew 5.7%, despite the reduction in payments on account, demonstrating the improved efficiency in management, collection and inspection of this tax, and the good results achieved by businesses in this country. This positive data also derives from the system for collection of this tax, which uses the payment on account in September to calculate the profit from the previous financial year, so it reports any economic impacts late and the impact of the pandemic on collection of this tax is expected to be revealed in 2021. Another source of revenue that increased is the tax on capital gains on property (20.1%), despite the drop in property transactions in 2020, linked to the increase in value of the transferred properties.

The restrictions on economic activity and movement had a negative impact on consumption tax, IGI (VAT) and special taxes.

As for indirect taxes, the income obtained in 2020 fell for the third consecutive year (-23.8%), to €219 million. However, this entry is still by far the most important source of finance for the Government, representing 55% of total non-financial revenue, although it is also true that it

has progressively lost ground to direct taxes in recent years, a trend that was accentuated in 2020 by the unusual situation.

The decline in 2020 can be explained by the impact of the restrictions on economic activity and movement on the three main tax forms: consumption tax, IGI (VAT) and special taxes. Specifically, consumption tax, a customs duty that is applied to agricultural products imported into Andorra (import chapters 1-24), with a notable percentage in beverages and tobacco, plummeted 28.3%, to €73,4 million.

The decline in IGI (VAT), a consumption tax in place since 2013 and the leading tax form by volume of revenue, was 19.4%, to a net settled figure of €104.5 million, demonstrating the major impact of the pandemic on national economic activity.

In parallel, revenue from special taxes, the third largest tax form in volume of revenue, saw a decline of 27.8%, to €34.2 million. These taxes are applied to the imports and manufacture of certain products, such as alcohol, tobacco and hydrocarbons, so the drop in 2020 is linked to the trend in imports of those products.

The other indirect taxes, with lower percentages of total revenue, showed mostly negative trends, especially declines in revenue from ISI (-1.3%) and from gambling (-70.3%). The only indirect tax that has moved upwards was the ITP (21.5%), on property transfers, demonstrating the dynamism in this sector of activity.

To conclude the analysis of revenue, note that the chapter of other taxes and revenue also suffered the effects of the pandemic, with a drop in revenue of 29.6%, to €23.3 million (5.8% of total settled revenue). This decline is especially associated with withdrawals and sanctions. Specifically, the bulk of the settled amounts in 2019 was from withdrawals of remaining 2018 cash balances from the CASS, which did not happen in 2020. The downturn in revenue from sanctions (-70.6%) was due to fewer confiscations by the justice system.

EXECUTION OF THE GOVERNMENT BUDGET ⁽¹⁾ (Millions of euros)

Table 8.1

	Settlement 2020	% variation 2020/2019	% execution 2020 ⁽²⁾
Direct taxes	87.7	-0.4	100
On capital gains on property	5.1	20.1	186
On personal income (IRPF)	34.7	-5.9	89
On companies	41.6	5.7	107
On non-residents' income	6.2	-17.4	88
Indirect taxes	218.8	-23.8	74
On property transfers	2.8	21.5	111
On consumption of goods (IGI)	104.5	-19.4	80
On consumption of services (ISI)	3.2	-1.3	95
Special taxes	34.2	-27.8	71
On foreign trade	73.9	-28.6	67
On gambling	0.3	-70.3	29
Other taxes and revenue	23.3	-29.6	89
Current transfers	3.6	3,338.2	--
Investment income	65.0	91.7	179
Real investment sales	0.0	-45.6	--
Non-financial revenue	398.5	-9.9	89
Current expenditure	438.2	14.2	93
Personnel costs	118.0	0.2	95
Consumption of goods and services	45.5	2.2	77
Financial expenditure	13.1	5.5	90
Current transfers	261.6	25.2	96
Capital expenditure	64.9	17.9	66
Real investments	33.6	-25.6	60
Capital transfers	31.3	217.5	74
Non-financial expenditure	503.1	14.7	89

(1) The 2020 budget settlement is provisional.

(2) In the case of expenditure, this is calculated from the final budget, achieved by incorporating into the budget passed by the General Council the credit from obligations undertaken during the previous financial year relating to expenses postponed to the following financial year, and the modifications and increases in budgetary credit.

Source: Ministry of Finance.

In contrast, in 2020, investment income almost doubled, to €65 million. This trend can mostly be explained by increased liquidity from dividends and the distribution of reserves from Andorra Telecom and the electricity company FEDA (€48 million and €14.5 million, respectively), contributions that were made to assist the state's financial effort to deal with the economic situation caused by the health crisis, which enabled it to offset some of the decline in revenue from other entries.

Finally, we should add that in 2020, €3.6 million in revenue were obtained through current transfers, relating to the contributions made by citizens and businesses to the solidarity fund set up by the Government to fight the pandemic, an initiative that is expected to be deactivated once the health crisis ends. In the case of sales of real investments, the contributions obtained were insignificant.

1.2. Expenditure

In 2020, settled non-financial expenditure passed the threshold of €503 million, 14.7% more than in the previous financial year. This trend can be explained by the increase in both current expenditure and capital expenditure. The steep increase in non-financial expenditure contrasted with the downturn in revenue, highlighting the effort made by the central government to counteract the pandemic's impact on revenue.

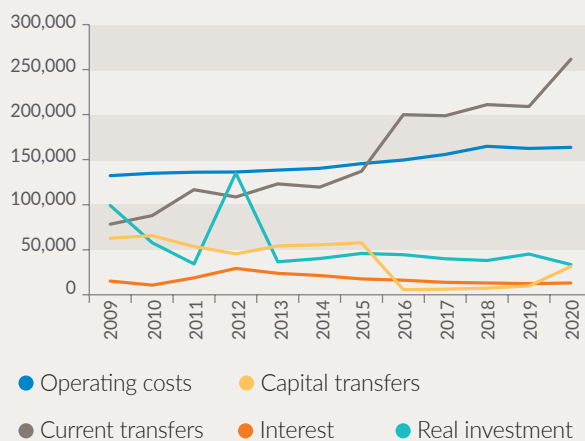
In 2020, Government expenditure saw strong growth, of 14.7%.

Total settled capital expenditure was €64.9 million, 17.9% more than in the previous financial year and the highest figure in the last five years. This is an accumulation of two consecutive years of growth after some years of contained investment, although the level achieved in both absolute and relative terms (12.9% of total non-financial expenditure) is still far from the levels of the previous period of expansion. By chapters, the growth in capital expenditure can be explained by the strong momentum in capital transfers, which more than tripled to €31.3 million. The main reason for this was the change in budget criteria for distributing the transfer to the Comú governments, between current transfers and capital transfers. From the 2020 budget, it was decided to segregate the Comú transfers according to the proportion executed by the Comú governments in the last financial years. On the other hand, real investments fell 25.6%, to €33.6 million.

As for current expenditure, the growth recorded in 2020 was basically concentrated in the chapter of transfers, with a major increase of 25.2% to nearly €262 million, which can largely be explained by the special measures adopted by the Government to deal with the economic

GOVERNMENT NON-FINANCIAL EXPENDITURE - Thousands of euros

Chart 8.6



Note: In 2016, transfers to the Comú governments were no longer considered capital transfers (according to previous legislation, it was considered that the bulk of the transfers had to be allocated to investment by the Comú governments) and became current transfers (Comú governments may allocate these transfers to both current expenditure and capital expenditure and to reducing debt). From the 2020 budget, it was decided to segregate the Comú transfers, between current and capital, according to the proportion executed by the Comú governments in the last few financial years.

Source: Ministry of Finance.

impacts of COVID-19 (temporary suspension of employment contracts and reduction of working hours, aid towards rent and mortgage payments, etc.). This factor was partly offset by the decrease resulting from the change in the budget criteria for distributing the transfer to the Comú governments, between current and capital transfers, as mentioned. As a result, the percentage of current transfers of total non-financial expenditure rose more than four points, to 52%, reaffirming it as the largest chapter of budget expenditure.

The increase in central government spending was concentrated in current and capital transfers.

In contrast, the increase in operating expenses was very slight (0.7%), divided between a 2.2% rise in expenditure on consumption of goods and services, in which the most notable increase was in Pharmaceutical and health products (acquisition of rapid antigen tests, masks, gels, gloves, etc.), and the 0.2% in the case of personnel costs (€118 million), which remains the second most important chapter. The reduction in training costs and staff allowances helped to contain operating expenditure.

The trend in the chapter of financial expenditure was upward, with a 5.5% increase, ending a period of seven consecutive years of reductions. The reasons can be found in the increased

expenditure under the concept of public debt interest, associated with the larger volume of issued debt, and also the costs of bank service fees related to the new issuances registered in 2020. On the other hand, the trend in the

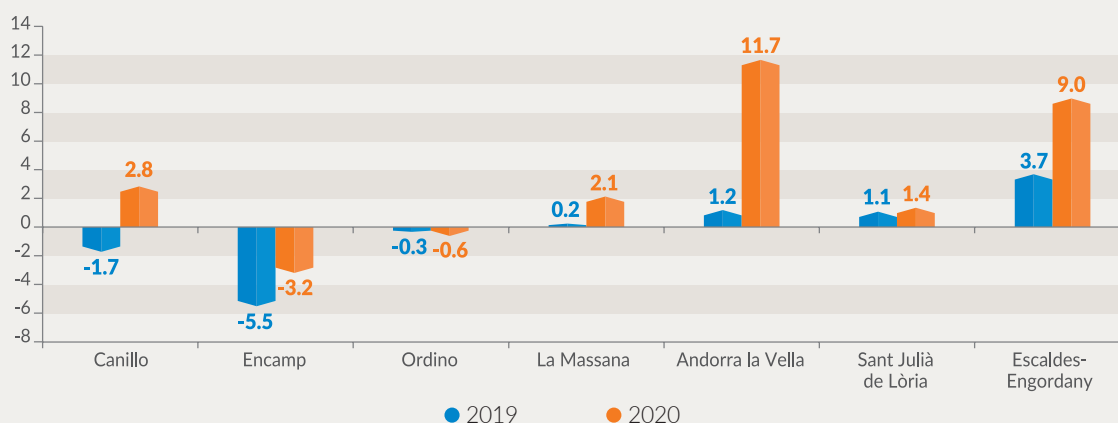
The Government's financial expenditure increased for the first time in eight years.

interest rates continued to favour containment, with a decrease in loan interest. All in all, this meant that the financial expenditure percentage of total non-financial expenditure continued to fall to 2.6%, the lowest level in the last fourteen years.

2. Comú governments

The settled budgets of the Comú governments, including financial assets and liabilities, shows that in 2020 their total volume of revenue reached the figure of €163.5 million, easily exceeding the €140.4 million settled expenditure. Consequently, the combined balance of the Comú governments became positive again (€23.1 million), after a small deficit recorded in 2019. This was the result of a combination of growth in revenue and a reduction in total expenditure. If we

SETTLED BUDGET BALANCE OF THE COMÚ GOVERNMENTS - Millions of euros



Source: Comú governments / Department of Statistics.

restrict the analysis to non-financial income and expenditure, the total settled volume obtained was €163.5 million and €123.6 million, respectively, leading to a non-financial cash surplus of €39.9 million, part of which was dedicated to reducing the debt. This surplus represents 1.6% of GDP, one point more than in 2019 and the highest level in the last four years.

More specifically, it can be seen that only two Comú governments recorded a public deficit (Encamp and Ordino), the same as in 2019. The others settled the budget with a surplus. Specifically, Canillo goes from a deficit to a surplus, and the others, Escaldes-Engordany, La Massana, Sant Julià de Lòria and Andorra la Vella increased their surpluses since 2019, especially Andorra la Vella.

The Comú governments increased their surplus to 1.6% of GDP, the highest level in the last four years.

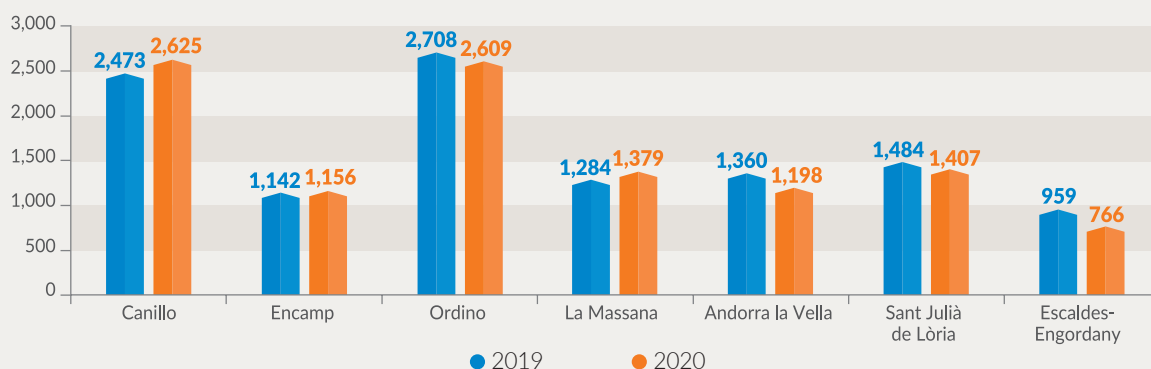
In effect, Andorra la Vella became the Comú with the largest surplus (€11.7 million), followed closely by Escaldes-Engordany (€9 million), while La Massana and Sant Julià de Lòria obtained a much smaller surplus (€2.1 million and €1.4 million, respectively). In contrast, Encamp ended 2020 with the most negative balance (–€3.2 million), as occurred in 2019. This can be explained by the major investment effort made by Encamp, the Comú that made the largest real investment in 2020 (€7.4 million).

Regarding the trend in the debt, 2020 ended with a cumulative, consolidated Comú debt of €103.9 million, according to provisional data published by the corporations, a figure that sets a new historic low. This figure represents a reduction in relation to the aggregate data for 2019, already reviewed by the Court of Accounts (except Canillo). So, all the Comú governments are below the debt limit set by the Law (200% of average settled income in the last three financial years), for the seventh consecutive year, with percentages that range from 115% for Ordino to 40% for Escaldes-Engordany, according to still provisional data for 2020.

Within the context of the whole Andorran public sector, the Comú governments reduced their share of the total public debt (i.e. the sum of the central government debt and the Comú debt) to a historic low of 8.6%. This figure is well below the Comú proportion of government non-financial public expenditure (19.7%) and represents only 4.1% of Andorran GDP. All in all, this means that, in relative terms, they are much less indebted than the central government, the

The total debt of the Comú governments fell to a new historic low.

COMÚ DEBT - Euros per capita



Note: On the date of completing this publication, there is no available data about the 2019 debt of the Comú of Canillo from the Court of Accounts; therefore, for that Comú, the data relates to the debt statement presented by the Comú on 31 December 2019.

Source: Court of Accounts (to 2019), Comú governments (2020) and Department of Statistics.

reverse of the situation before 2013, thanks to the fiscal consolidation efforts in recent years and improvements in their financing system.

By parish, the trend varied, with increases in debt in the case of Canillo, Encamp and La Massana, and decreases in the rest. The largest reduction was in Escaldes-Engordany (-20.2%) and the smallest in Ordino (-2.5%). In contrast, the most notable increase in debt was recorded in La Massana (9.2%), followed closely by Canillo (8.5%). The Comú with the highest concentration of debt in absolute terms is still Andorra la Vella (26% of all Comú governments), in keeping with its greater economic weight, despite having reduced the debt 11.6% in 2020. At the other extreme, the Comú that achieved the lowest volume of public debt was Escaldes-Engordany (10.7% of the total). Equally, in relative terms to the population, the highest level of debt is found in Canillo, with €2,625 debt per capita, followed closely by Ordino, with €2,609 per capita. At the other end, the least indebted are Escaldes-Engordany and Encamp, with €766 and €1,156 per capita, respectively.

2.1. Revenue

In 2020, the total settled revenue of the Comú governments recorded an increase of 1.3%, an improvement in comparison with the slight decrease recorded in 2019 (-0.3%). As a result, revenue reached a figure of 163.5 million euros, the highest level since 2009. Equally, settled revenue was below the budgeted figure (94%), putting its percentage of total revenue of the Andorran public sector (combined central and Comú governments) at 14.5%, two points less than in 2019. Remember, however, that this percentage is distorted by the volume of financial liabilities of the central Government, due to debt requirements. In fact, if we only consider non-financial revenue, the Comú share rises to 29.1%, 2.4 points more than in 2019 and a much higher percentage than their share of total non-financial expenditure (19.7%).

The revenue of the Comú governments reached the highest figure since 2009, boosted by growth in taxes and current transfers.

By chapters, the increase in revenue can be explained by the growth in current income (3.5%), partly offset by a reduction in capital income (-6.6%), for the second consecutive year. Within current income, the increase by chapters was especially notable in indirect taxes

(21.9%) and current transfers (11.3%), together with an increase in direct taxes (8.3%). In contrast, other taxes and revenue, the most important entry by volume, also dropped 3.3%, reflecting the decline in economic activity, and investment income also saw a significant downturn, of 9.8%.

So, the percentage of other taxes and revenue fell to 28.5% of total non-financial revenue. These are followed by direct taxes (22.6%) and current transfers (16.8%), which have both gained since 2019. In contrast, capital income saw a decline of 6.6% due to a cut in capital transfers (-6.3%), going from being the second most important chapter in Comú non-financial revenue to the third, with the proportion falling to 20%. On the other hand, income from transfers of real investments also fell significantly (-21.2%), but the low importance of this source of income means that its contribution to the total is insignificant.

The analysis by parishes shows varying trends, with increases in revenue for Canillo (14.8%), Ordino (12.4%), La Massana (5.4%) and Escaldes-Engordany (4.4%). In contrast, there were falls in Sant Julià de Lòria (-5%) Andorra la Vella (-4.3%) and Encamp (-2.9%). Consequently, Andorra la Vella remains in first place in the Comú ranks by volume of total revenue, with 46.3 million (28.3% of the total), while Ordino is still the Comú with the lowest revenue, with 7.5% of the total, equal to 12.3 million euros.

2.2. Expenditure

The settled expenditure of the Comú governments shrank by 13.8% in 2020, after three consecutive years with a strong upward trend. So, total expenditure approached the threshold of 140 million euros, the lowest figure in the last three years. Equally, non-financial expenditure saw a drop of 13.7%, and financial transactions fell 14.8%, largely due to falling expenditure on financial assets, together with a small drop in financial liabilities. Altogether, this put the percentage of execution of total budgeted expenditure for 2020 at a relatively low level, 81%.

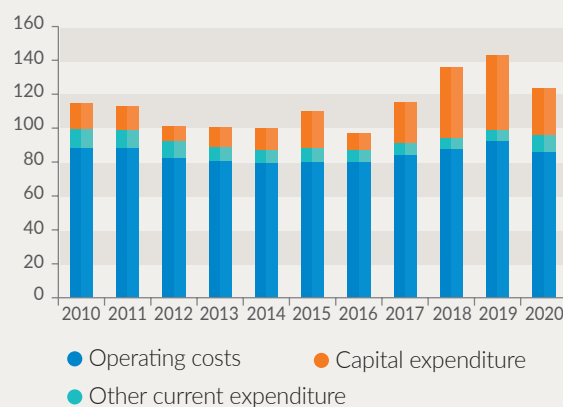
Moreover, the percentage of expenditure of the Comú governments in the total Andorran public sector expenditure (combined central and Comú governments) fell to 12.8%, lower than their share of revenue. However, if we only consider non-financial expenditure, the Comú percentage of total public administration costs rises to 19.7%, but even so, this is also lower than that of non-financial revenue.

The capital expenditure of the Comú governments shrank significantly, due to the major cut in real investment.

The distribution by chapters shows that the fall in Comú government expenditure affected all chapters except current and capital transfers, through which the support measures to mitigate the effects of the health crisis were channelled. Specifically, current transfers saw an increase of nearly 60%, offset by decreases in the other entries in current expenditure. So, the chapter of personnel costs, the most important of all with 40% of the total, fell 1.3%, and consumption of goods and services, the second most important, shrank 14.4%. Moreover, financial expenditure decreased (-11.2%), for the ninth consecutive year, favoured by the reduction in the debt in a

The Comú governments cut expenditure by 13.8%, to €140 million.

COMÚ GOVERNMENTS' NON-FINANCIAL EXPENDITURE - Millions of euros



Source: Comú governments / Department of Statistics.

COMÚ BUDGET SETTLEMENTS (thousands of euros)

	REVENUE			EXPENDITURE		
	2020	% var. 20/19	% total 2020	2020	% var. 20/19	% total 2020
Canillo	16,821	14.8	10.3	13,991	-14.6	10.0
Encamp	26,159	-2.9	16.0	29,357	-9.6	20.9
Ordino	12,337	12.4	7.5	12,960	14.5	9.2
La Massana	17,496	5.4	10.7	15,356	-6.1	10.9
Andorra la Vella	46,301	-4.3	28.3	34,643	-26.6	24.7
Sant Julià de Lòria	14,237	-5.0	8.7	12,882	-7.5	9.2
Escaldes-Engordany	30,161	4.4	18.4	21,182	-16.0	15.1
Total	163,511	1.3	100.0	140,370	-13.8	100.0

Source: Comú governments / Department of Statistics.

context of interest rates remaining at a minimum. As a result, the decrease in current expenditure as a whole was 3.4%. The contraction in capital expenditure was more marked (-37.1%) due to the major cut in real investment (-39.4%), while capital transfers almost quadrupled.

To complete the analysis of Comú finances, note that the trend in expenditure fell in all Comú governments except Ordino, where it increased 14.5%. The most notable decrease was in Andorra la Vella (-26.6%), followed by Escaldes-Engordany (-16%), which helped to give these the two the highest budget surpluses. Despite the major cut in expenditure, Andorra la Vella is still in first place in the Comú ranks by volume of expenditure, at 24.7%, while Sant Julià de Lòria has become the Comú with the lowest absolute level of expenditure (9.2% of the total).

3. The Andorran Social Security System (CASS)

The CASS budget settlement in 2020, including financial assets and liabilities, reached a total volume of revenue of 325.6 million euros, slightly higher than the 325.2 million euros of settled expenditure. So, the CASS obtained a surplus of less than half a million euros, the smallest in the last ten years. Now, if only non-financial revenue and expenditure are counted, the CASS non-financial balance went from a positive balance of only €93,214 in 2019 to a small surplus of €1.2 million in 2020 (0.05% of GDP), due to higher growth in revenue than in expenditure.

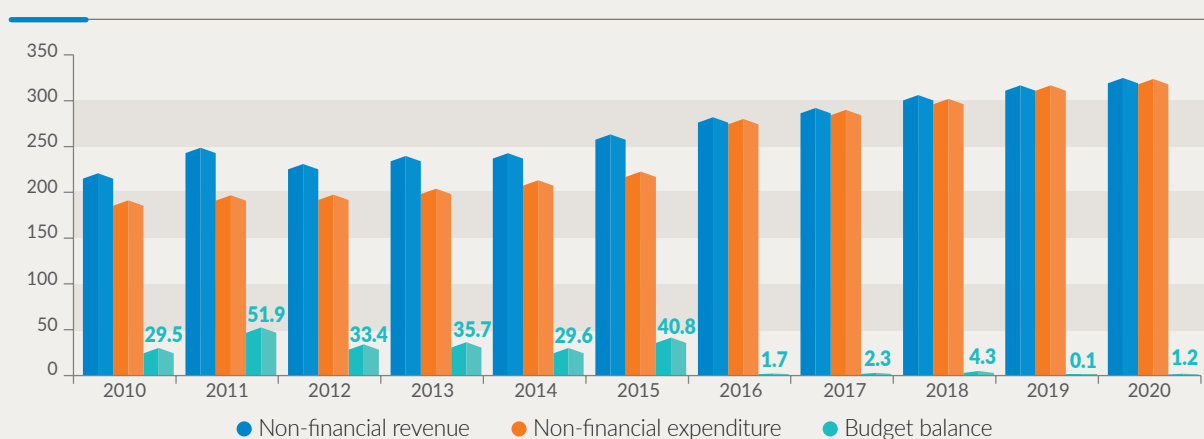
The budget surplus of the CASS increased slightly but is still very small.

3.1. Revenue

Settled non-financial revenue of the CASS in 2020 saw growth of 2.5%, the lowest in the last six years, reaching the figure of €324.2 million.

By chapters, social contributions, the most important source of revenue of the CASS, amounted to 274 million euros, representing 84.6% of total revenue. This figure includes employers' contributions, employees' contributions, self-employed contributions and settled contributions attributable to CASS financial benefits (retirement and widows' life pensions, permanent and temporary disability benefits). In 2020, social contributions saw a minimal increase of 0.04%, after six consecutive years of more or less significant increases. This trend of virtual equilibrium can be explained by the fall in the number of employees (-2.2%) and the wage bill (-5.3%), due to

CASS BUDGET SETTLEMENT - Millions of euros



Source: CASS / Department of Statistics.

Chart 8.10

the impact of the pandemic, which was offset by the increase in the number of self-employed (2.2%), which, unlike employees, displays notable growth in the months most affected by the measures restricting movement. Note that contraction of the wage bill was mitigated by the implementation of special measures such as the ERTO and financial support for employers' contributions from the Government.

The second most important chapter in CASS revenue is current transfers from the central Government, which rose €20.4 million to €47.8 million, 14.8% of the total, thanks to the transfers received to finance the measures to mitigate the pandemic. Non-financial revenue of the CASS is completed by a small contribution from other taxes and revenue, which fell for the third consecutive year, by 11.5% in 2020, and investment income, which increased 4.6%, coming to represent 0.6% and 0.01% of the total, respectively.

In 2020, growth in social contributions slowed, affected by the decline in the wage bill.

3.2. Expenditure

Growth in non-financial expenditure settled by the CASS slowed in 2020 (2.2% vs 4.9% in 2019), to reach the amount of €323 million.

The distribution by chapters shows that current transfers, where benefits are accounted for, totalled €282 million, 5.5% more than in 2019, a trend that raised its percentage of the total to 87.3%. This growth is higher than in contributions, for the second consecutive year, limiting the CASS surplus. Note that this entry also includes the non-contributory benefits financed by the Government through current transfers and contributory expenditure paid by the CASS for authorised financial benefits.

Expenditure through current transfers from the CASS grew more than the revenue from contributions for the second consecutive year.

The second most important entry in CASS expenditure is capital transfers (10% of the total), with four consecutive years of decline (-21.2% in 2020). The other expenditure, of lesser importance, is divided between personnel costs, which increased 5.9% (more than in the

central Government) and represent 1.7% of the total, and consumption of basic goods and services, which fell 0.1% and only represents 0.6%. Expenditure on real investment is insignificant, and there was no financial expenditure, as the CASS has no debt.

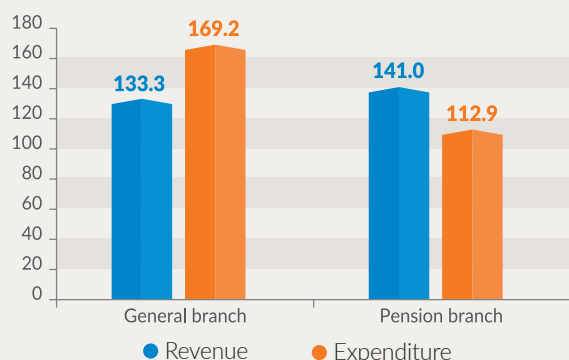
3.3. General branch of the CASS

The distribution of CASS revenue and expenditure by branches shows that, in the case of the general branch, growth in revenue from contributions slowed significantly compared with previous years, with an increase of 1.9%, to €133.3 million. This deceleration can be explained by the negative impact of the pandemic on the labour market, with a drop in numbers of employees and contained average wages. On the other hand, the trend in the numbers of self-employed was more favourable.

Growth in expenditure on general branch benefits was stronger than in revenue from contributions, at 4.3%, reaching €169.2 million, despite the fact that COVID-19 slowed health expenditure by stopping medical appointments and surgery. For this reason, the gap between income and expenditure in this branch increased. Remember that this imbalance between revenue

CASS REVENUE AND EXPENDITURE BY BRANCHES. 2020 (millions of euros)

Chart 8.11



Note: Data relating to revenue from contributions and expenditure on benefits.

Source: CASS (Andorran Social Security System).

The general branch deficit continued to grow in 2020.

from contributions and expenditure through benefits in the general branch is a problem that started in 2007 and worsened during the years of economic crisis to reach a high in 2015 (€42.7 million). In 2020, the budget deficit of this branch was €38.5 million, 13.4% higher than in 2019 and the highest since 2015. This imbalance is financed by contributions from the central Government budget, under the provisions of article 86.3 of Law 17/2008, a situation that has been repeated since 2012, after the cumulative reserves of this branch were depleted in 2011. In future, the prospects

of a progressively aging population and growth in chronic diseases would indicate that health costs will continue to rise, making it difficult to restore financial equilibrium if the current conditions for contributions and coverage are maintained.

3.4. Pension branch of the CASS

Revenue from contributions in the pension branch saw a downturn of 1.6% in 2020, to €141 million, ending six consecutive years of growth. In parallel, the growth in expenditure on benefits eased slightly, but was still strong, 7.5%, bringing the total to €112.9 million. As a result, the surplus in this branch shrank to the lowest level since 2014.

The pension branch surplus shrank.

Any surplus from contributions produced in the pensions branch of the CASS is paid into the pension reserve fund, created in 2015 for management and financial efficiency, with the

sole purpose of covering the future pensions of persons who have contributed to the CASS. At the end of 2020, the fund's reserves were €1,462 million, 5.1% more than in the previous year, a variation that includes the payment from the CASS and the return obtained from management of the fund.

The rise in expenditure on benefits in 2020 can partly be explained by a 4.8% increase in the number of retirement pensions, reaching a total of 12,607 individuals in December. In parallel, the number of pensioners with higher contributions and lengthier times in the system is increasing progressively, as the pension system matures.

Finally, note that the dependency ratio (active vs passive) continued to fall to 3.14 in December 2020, 13.9% lower than in the previous year. In this situation, CASS commissioned an actuarial study of the Andorran pensions system, presented in 2020, which concluded that the pensions branch would have insufficient resources by 2024. Once the technical balance of the pension branch is negative, the central government would have to start to cover the deficit and, if the reserves were used, these would run out in 2038.



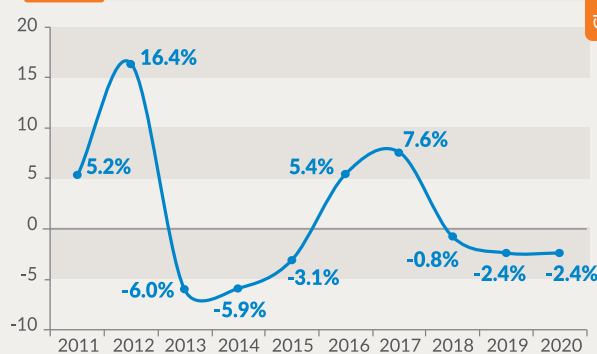
The Andorran economy: developments in the main sectors

IX. The primary sector

The primary sector is the smallest sector of activity in the Andorran economy. It only represents 0.6% of Andorran GVA and 0.4% of employees, so changes in this sector do not significantly influence developments in the economy as a whole. The trend in GVA for the agricultural sector was negative in the period 2013-2015, but then it changed to positive in 2016 and 2017. In 2018, the variation rate returned to slightly negative values (-0.8%), while in both 2019 and 2020 it saw a decline of 2.4%.

In line with the decline in activity, the number of employees in the sector also saw a slight decline, from 160 in 2019 to 157 in 2020. On the other hand, the number of establishments dedicated to the primary sector increased from 28 to 29.

PRIMARY SECTOR GVA
Variation rate in real terms



Source: Department of Statistics.

Chart 9.1

In 2020, the GVA of the agricultural sector shrank 2.4%, as in 2019.

The introduction of agricultural products into the customs union is opening up new opportunities in the primary sector, which will be able to access new markets and benefit from European quality labels. This opportunity has spurred crop and livestock farmers to make investments to improve the production process, to obtain quality seals and increase productivity, especially in the wine and meat sectors. In parallel with the effort to introduce improvements in the production process, the monthly wages of employees in the primary sector have been growing for the last five consecutive years, reaching an average of €1,608. However, the increase in 2020 was smaller than in previous years, 0.6% instead of an average 3.3% in the previous four years.

The area of land under cultivation shrank for the fourth consecutive year.

In 2020, there were 313 crop farms in the Principality, three less than in the previous year (situated in Canillo, Encamp and La Massana). The parish with most activity is still Sant Julià de Lòria, with 64 farms, and at the other extreme, Escaldes-Engordany with only 28 farms. Since 2014, the number of farms has remained quite stable at about 312-316, whereas the total land area under cultivation has decreased over the last four years after reaching a maximum in 2016. In 2020, the total area under cultivation was 19.6 km² (Utilised Agricultural Area), meaning that the average farm size has shrunk slightly in recent years.

By type of crop, 62% of the total farmed area is used for pasture; 24% for hay and 6% for tobacco. Over the last seven years, the area used for fallow and market gardening has increased, but in 2020, it was the area used to grow various crops (fruit trees, raspberries, beet and aromatic

and medicinal plants) that expanded most. On the other hand, the surface area used for forage and potatoes has shrunk significantly, whereas the area for pasture and hay has varied little.

For their part, vineyards occupied an area of 84,138m² in 2020, 6.6% less than in the previous year and a similar area to six years ago. Note that the quality seal for Andorran wines has existed since 2017, and the Government offers subsidies to vineyards that undertake the extra effort involved in this quality control, the first step towards obtaining the Protected Geographical Indication (PGI) awarded by the EU. On the other hand, the Government is working with the producers to obtain the Andorra DO denomination, to guarantee the origin and quality of wines produced in Andorra, which they hope will become a tourist attraction.

Due to the situation caused by Covid-19 and given the physical impossibility of exporting the tobacco, the 2020 harvest was destroyed in 2021, as occurred in the previous year, and a single sale price was agreed for the tobacco, irrespective of the quality of the harvested leaves. For this reason, the produced volumes of tobacco do not match the quotas assigned to the harvesters. The manufacturers who buy the tobacco from the producers cannot export it to France or Italy due to the Covid-19 crisis, so the whole output has to be destroyed. As for the 2020 harvest, the farmers only produced 50% of their assigned quota, which was 106,799 kg, and moreover, this harvest was damaged by fungus. In 2021, the farmers planted half the amount of tobacco as in

FARMS AND UTILISED AGRICULTURAL AREA (UAA) BY PARISH. 2020

Table 9.1

	Farms	UAA (m ²)	% total UAA
Canillo	46	4,142,245	21.2
Encamp	45	1,927,622	9.9
Ordino	39	2,935,890	15.0
La Massana	54	3,176,859	16.2
Andorra la Vella	37	381,667	2.0
Sant Julià de Lòria	64	6,364,182	32.5
Escaldes-Engordany	28	629,343	3.2
Total	313	19,557,809	100

UAA: Utilised Agricultural Area.

Source: Department of Agriculture.

Tobacco production was halved due to the pandemic.

AGRICULTURAL AREA BY TYPE OF CROP (in m²)

Table 9.2

	2013	2020	% variation 2013-2020	% total 2020
Pasture	12,773,491	12,780,014	0.1	62.0
Hay	5,163,754	5,024,387	-2.7	24.4
Tobacco	1,490,809	1,300,244	-12.8	6.3
Fallow	528,074	623,951	18.2	3.0
Market gardening	117,218	125,573	7.1	0.6
Potatoes	200,703	140,439	-30.0	0.7
Vines	90,305	84,138	-6.8	0.4
Miscellaneous ⁽¹⁾	43,721	86,025	96.8	0.4
Forage ⁽²⁾	29,634	16,988	-42.7	0.1
Others	415,051	419,787	1.1	2.0
Total	20,852,760	20,601,547	-1.2	100
Utilised Agricultural Area (UAA) - in m²	19,909,635	19,557,809	-0.8	-

(1) Fruit trees, raspberries, beet and aromatic and medicinal plants / (2) Forage for grazing.
UAA: Utilised Agricultural Area.

Source: Department of Agriculture.

TOBACCO HARVEST BY PARISHES (Kilos) *

Table 9.3

	2019	2020	% var. 20/19	% total 2020
Canillo	16,000.9	7,324.0	-54.2	6.9
Encamp	29,465.1	14,401.0	-51.1	13.5
Ordino	31,671.8	11,761.0	-62.9	11.0
La Massana	45,540.4	19,263.0	-57.7	18.0
Andorra la Vella	30,078.7	14,425.5	-52.0	13.5
Sant Julià de Lòria	80,510.8	34,591.0	-57.0	32.4
Escaldes-Engordany	11,316.6	5,033.7	-55.5	4.7
Total	244,584.3	106,799.0	-56.3	100

* For the 2020 harvest, due to the situation caused by Covid-19, the farmers only produced half of their assigned quota.

Source: Department of Agriculture / Association of Andorran Tobacco Manufacturers (AFPTA).

2019, for the second consecutive year, as a special measure. To grow the same number of plants as in 2019 would mean approximately double the costs and, having been greatly affected by the consequences of the pandemic, the farmers cannot afford these. Remember that in 2019 the tobacco harvest was almost 245,000 kg, 5,000 kg more than in 2018.

Within the customs integration process that Andorra agreed with the EU in 2017, the Andorran Government undertook not to increase the price differential between the EU

In 2020, the WHO Convention came into force, prohibiting tobacco advertising.

and Andorra, especially with the neighbouring states. Remember that in 2019, new regulations were passed on minimum tobacco prices, envisaging sanctions if the current price differential with neighbouring countries were to increase or tobacco were sold below the minimum public prices approved by the Government. On the other hand, in August 2020, the (WHO) Framework Convention on Tobacco Control (WHO FCTC) came into force, to which Andorra is a party and which includes measures such as the prohibition of advertising, promotion or sponsorship of tobacco and the requirement to adopt measures against illegal trade.

The customs integration process extends the preferential treatment for tobacco to 30 years, although from the seventh year, Andorra must start to waive its current customs duties and adopt the EU acquis in order to arrive at zero customs duties. In exchange for approval of the period of preferential treatment, Andorra must show that it is diversifying the economy to reduce its economic dependence on tobacco and also that it is fighting fraud and smuggling, through monthly reports that Andorra must send to the EU with data on quantities produced, imported, marketed and exported.

As for apiaries, in 2020 there were 45, one less than the previous year, with a total of 448 hives, three more than in 2019. 22 of the apiaries only keep bees while 23 also carry out apicultural activities.

In 2020, numbers of livestock increased 3.5% - 4,959 heads were recorded, 170 more than in 2019 - an increase that only partially offsets the major reduction in the previous year (by almost 1,000 heads). The 2020 increase can basically be explained by the numbers of sheep, which are the largest category and represent 52% of the livestock, which increased 6.3% this year (by 154 heads). Goats also increased substantially (15.1%), but are less important as they only represent 7% of total livestock. In contrast, horses, with 10% of the total, fell 3.4%, and the number of cattle, the second largest category with 30% of the total, fell 0.8%.

Livestock numbers increased in 2020, after a major reduction in 2019.

Since the Law on organic production and quality standards for agricultural products and food was passed in 2018, there is an organic certificate and the quality control systems for food production have expanded. Until that year, Andorran legislation included quality control systems for agricultural products, such as meat and wine, but this could not be applied to others made with non-agricultural products, such as cured meats and jams. Under the new legislation, the quality system can be applied to food production, whether agricultural or not. To promote the quality systems and organic production, the Law offers subsidies to offset the increase in production costs from adapting to the requirements. For example, in the case of farmers, the conditions for obtaining the seal are, among others, pesticide-free production and soils that are free of synthetic fertilisers. The period for approval of the seal, which is renewed annually, is between one and three years.

LIVESTOCK (adult heads)

	2019	2020	% var. 20/19	% total 2020
Total cattle (bulls, cows)	1,514	1,502	-0.8	30.3
Total horses (workhorses, studs, mares)	536	518	-3.4	10.4
Total sheep (rams, ewes)	2,435	2,589	6.3	52.2
Total goats (bucks, does)	304	350	15.1	7.1
Total livestock	4,789	4,959	3.5	100

Source: Department of Agriculture.

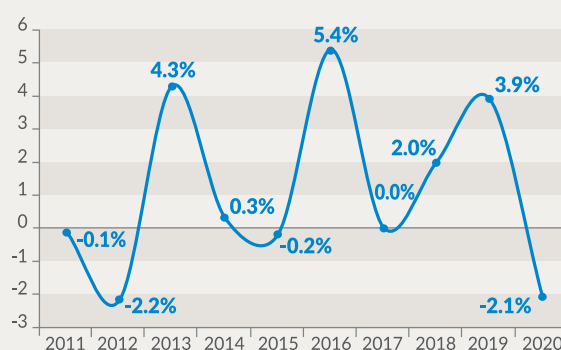
Table 9.4

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X. Industry

In 2020, the industry and manufacturing sector recorded a decline of 2.1%, although this reduction was the smallest of all the economic sectors in the pandemic year. The industry and manufacturing sector as a whole represents a small part of the Andorran economy when compared with its neighbouring countries, only 6% of total GVA and 4.6% of employees in 2020. Moreover, it is more volatile than other economic sectors, because one of the main subsectors is energy production and distribution, which has a fairly erratic component. In the two years before the coronavirus crisis (2018-2019), the industrial sector GVA saw positive values, but declined again in 2020.

GVA IN THE INDUSTRIAL AND MANUFACTURING SECTOR Variation rate in real terms



Source: Department of Statistics.

Chart 10.1

This decline in industrial activity was accompanied by a major reduction in electricity consumption, although the business and labour market indicators had a positive performance over the year, since the sector recovered rapidly from the effects of the Covid-19 crisis. In particular, the number of establishments in the sector grew 1.0%, to 409, four more than in 2019. Employment

In 2020, the GVA of the industrial and manufacturing sector fell, but less than in the other sectors.

three years slowed. Specifically, the average wage in 2020 was around €2,256, representing a decline of 3.5% since 2019. Equally, there is a major difference between the average wages in the manufacturing industry branch (including extraction industry), of €2,134, and those in the branch of production and distribution of electricity, gas and water, which are €3,386, 59% higher than the manufacturing industry branch. Finally, in 2020, electricity consumption in industry fell 25% against the previous year, a sign of the slowdown in activity suffered by some factories, especially at the start of the pandemic.

also increased 5.2%, to 1,751 employees, 87 more than the previous year. This increase is the most important in absolute terms since 2005. On the other hand, the rising trend seen in average wages in the sector over the last

NUMBER OF EMPLOYEES IN THE INDUSTRIAL SECTOR

	2019	2020	% var. 20/19	% total 2020
Manufacturing industries (including extraction)	1,492	1,580	5.9	90.3
Food and beverages	237	244	3.2	14.0
Tobacco industries	245	245	0.0	14.0
Textiles	34	37	8.9	2.1
Clothing and leather articles	-	-	-	-
Wood and cork, basketwork and esparto	131	133	1.3	7.6
Printing, graphic arts and reproduction of recorded media	221	214	-2.9	12.2
Chemical industries	128	151	17.9	8.6
Rubber and plastic articles	14	15	7.2	0.8
Other non-metal mineral articles	44	43	-2.8	2.4
Articles of metal, except machinery and equipment	134	138	3.1	7.9
Mechanical machinery and equipment	138	134	-2.4	7.7
Office machinery and computer equipment	0	1	-	0.0
Electrical machinery and equipment	8	8	0.0	0.4
Medico-surgical, precision, optical and clockmaking equipment and instruments	111	158	42.3	9.0
Motor vehicles, trailers and semi-trailers	3	3	0.0	0.2
Furniture; other manufacturing industries	26	32	23.1	1.9
Recycling	20	25	23.1	1.4
Production and distribution of electricity, gas and water	172	170	-0.7	9.7
Total	1,664	1,751	5.2	100

Source: CASS (Andorran Social Security System) / Department of Statistics.

One of the main industries in Andorra is tobacco. In 2020, this sector showed stability in the number of employees (245 workers) and the number of establishments (7), whereas imports of tobacco fell 27.8%, to €21.8 million. In 2020, the branch of tobacco represented 14% of total employment in industry, far from the figure of nearly one third that it represented in the early 1990s. Remember that between 2013-2016, employment in the sector fell 13%. Currently, the sector's proportion of employment is similar to that of the food and beverage industries, at around 14%.

In 2020, employment and the number of establishments in the tobacco industry were stable.

Electricity production and distribution is the fourth most important subsector in terms of employment – after the tobacco industry, food and beverages, and printing and graphic arts – with 10% of total employees and a negative variation in employment of 0.7% in 2020.

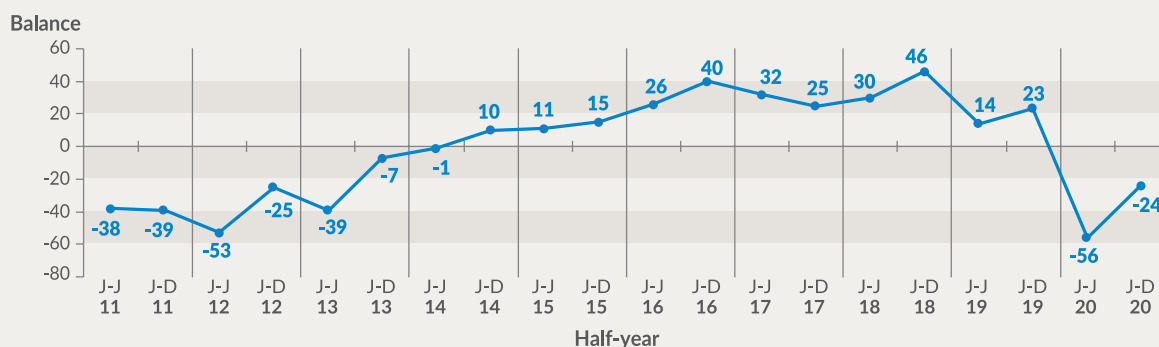
Electricity production increased 28.3% in 2020.

In 2020, national electricity production (calculated in 110 kV bars) saw a year-on-year increase of 28.3%, contrasting with the 18.5% decline in 2019. This growth can be explained by the major increase in hydroelectric power (41.4%) and, to a lesser extent, the increase in solar energy production (12%), contrasting with thermal energy which decreased (-12.8%). However, only hydroelectric power, representing 24% of total demand, is relatively important as an energy source, as thermal energy represents 5% and solar power only 0.4%. The other 72% of the energy demand in Andorra is fed by imports from France (35% of the total) and Spain (37%). With regard to electricity production infrastructure in Andorra, the number of operational solar power installations increased, from 55 in 2019 to 91 in 2020, and the mini hydroelectric power plant in Aixovall began to operate in 2021. This mix of energies means that 53% of the energy consumed in Andorra in 2020 (524,269 MWh) is from renewables, a much higher percentage than in 2019, when it was only 36%, according to FEDA. The factors that contributed to achieving this milestone are, on the one hand, the fact that FEDA's hydroelectric power station achieved a record annual production in 2020 and, on the other hand, the implementation of the energy purchasing agreement signed with the group Électricité de France (EDF), which guarantees that part of the imported energy will be renewable.

Andorra's total energy demand (also in 110 kV) fell 9.7% within the context of decreasing activity in 2020. By sectors, electricity consumption declined generally, in all uses except household and construction. The biggest declines were recorded in the ski resorts (-28%), hotels and catering (-26%), industry (-25%) and the distribution sector (-17%). All these data relate solely to FEDA. As a result of the combination of falling demand and a major increase in production, electricity imports in 2020 fell 19.3% and came to represent 72% of the total demand. Imports of fuels also dropped 23.3%, due to the restrictions on movement inside the country and the major reduction in visitors. Specifically, imports of diesel decreased 30.7%; unleaded petrol 26.1%, and heating oil 7.4%.

In relation to energy, notable events were the approval of the Decision to recognise the Climate Crisis and declare a Climate and Ecological Emergency in January 2020, and the creation of the National Energy and Climate Change Committee (CNECC) in February 2020.

BUSINESS ACTIVITY - INDUSTRIAL SECTOR



Balance: Difference between opposing responses (positive and negative), as a percentage.

Source: Chamber of Commerce, Industry and Services of Andorra.

As for taxation, the amendment of the Law on special taxes, passed in July 2021, established the date for implementation of the green tax on 1 January 2022. The green tax is a hypothecated form of tax for the purpose of reducing, mitigating and repairing the effects of CO2 emissions. Revenue will be destined towards financing a green fund to make public transport universally available and to improve home comfort. The green tax is an indirect tax imposed on imports of hydrocarbons, so the distribution sector can decide not to pass on the resulting increase in fuel prices to the end consumer. If the hydrocarbon sector were to decide to pass on the whole of the green tax to the end consumer, this would raise the average final price by three cents per litre of petrol or diesel, according to Government estimates. In the case of household fuel, the Government has provided for grading in the green tax so that it has no major impact on families.

Business activity in industry improved in the second half of 2020, but is still negative.

After activity plummeted during the lockdown period, progressive easing from May brought a gradual improvement in industrial activity in the second half of 2020. However, the sector

BUSINESSES' OPINIONS OF DEVELOPMENTS IN INDUSTRY (% of businesses)

Table 10.2

		2018			2019			2020		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
1. Business activity (reviewed half-year)	Good	39	53	46	35	35	35	4	14	9
	Normal	52	40	46	44	53	49	36	49	43
	Bad	9	7	8	21	12	17	60	38	49
	Balance	30	46	38	14	23	19	-56	-24	-40
2. Orders (reviewed half-year)	High	19	21	20	15	15	15	7	1	4
	Normal	57	63	60	56	61	59	16	41	29
	Low	24	17	21	29	24	27	78	58	68
	Balance	-5	4	-1	-14	-9	-12	-71	-57	-64
3. Stocks of finished products (reviewed half-year)	Excessive	3	8	6	9	4	7	14	8	11
	Adequate	58	43	51	49	47	48	39	38	39
	Insufficient	3	3	3	0	7	4	14	14	14
	No stocks	36	46	41	42	43	43	34	41	38
	Balance	0	5	3	9	-3	3	0	-6	-3
4. Average production capacity utilisation (in %) (reviewed half-year)		73.2	72.3	72.7	70.0	68.5	69.3	50.1	54.3	52.2
5. Production (compared with same half-year of previous year)	Higher	33	36	35	18	29	24	7	1	4
	Similar	46	47	47	44	43	44	14	35	25
	Lower	21	17	19	38	28	33	79	63	71
	Balance	12	19	16	-20	1	-10	-72	-62	-67
6. Sales prices (compared with previous half-year)	Higher	15	16	16	15	3	9	2	3	3
	Equal	79	77	78	79	91	85	80	77	79
	Lower	6	8	7	6	7	7	18	20	19
	Balance	9	8	9	9	-4	3	-16	-17	-17
7. Number of employees (compared with previous half-year)	More	11	9	10	15	17	16	5	4	5
	Same	79	82	81	76	77	77	65	78	72
	Less	10	9	10	8	5	7	30	18	24
	Balance	1	0	1	7	12	10	-25	-14	-20

Source: Chamber of Commerce, Industry and Services of Andorra.

still has a lower level of production than in 2019, due to the negative impact on demand of the successive outbreaks. So, the results of the business climate survey by the Cambra still reflect a climate of pessimism, but indicate a slowdown in the rate of decline in activity. Specifically, the percentage of businesses that classified business activity as bad was 38% (in the first half of 2020, this percentage reached 60%).

In quantitative terms, in the second half of 2020 the year-on-year average fall in the sales figures in industry was 15.7%, a rate of fall that was over 20 points less than in the previous half (-36.5%).

In parallel, the downturn in industrial production slowed in the second half of 2020, but was still significant in most businesses. Capacity utilisation improved a little in the second half, to 54.3%, but is still far from the average level in 2019 (69.3%).

Finally, sales prices continued their downward trend within the businesses' process of adjustment to falling demand. As for the labour market, the stagnation in job creation continued as businesses resorted to temporary suspension of employment contracts or the reduction of working hours.

Among the factors that may limit an improvement in business activity over the next months, weak demand (quoted by 75% of businesses) remains the main obstacle, followed at some distance by increased competition (25%), which became the second most important factor for businesses that are faced with a shortage of qualified workers (23%) and finance and cashflow difficulties (19%).

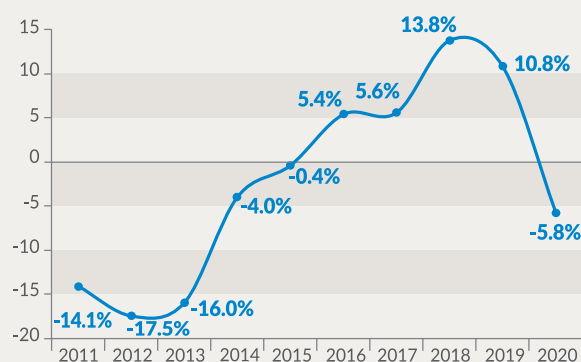
XI. Construction and related industries

The sector of construction and related industries, which represents 7.7% of total Andorran GVA, saw a fall of 5.8% in 2020 due to the restrictions imposed to contain the coronavirus pandemic. This negative trend breaks with the strongly rising trend seen by the sector during the period from 2016-2019 (8.9% annual average growth).

The negative trend seen by the construction sector occurred in both the housing segment and public investment, although the housing segment recovered faster than the public works segment in the second half of 2020.

Employment in the sector increased 4.3%, to 3,477 workers. Considering the bad economic situation, this can be seen as a positive figure, partly facilitated by the provision of the ERTA scheme. The number of business establishments in the construction sector also increased from 859 in 2019 to 879 in 2020. In contrast, average wages saw a decline of 0.2% due to falling activity, reaching €2,115 per month, which is nevertheless still the second highest figure in the historical series. For its part, the downturn in activity resulted in a notable decline in imports of building materials, -15%, added to the 16% decline in 2019.

GVA IN THE CONSTRUCTION SECTOR
Variation rate in real terms



Source: Department of Statistics.

In 2020, construction saw a decline after four years of major expansion.

In 2020, the surface area of approved building works decreased dramatically (-64%) and returned to 2017 figures, after major increases in recent years due to the economic recovery and improvement in investor confidence. Apart from the Covid-19 crisis, another factor are the advance applications

The surface area of approved building works decreased an incredible 64% in 2020.

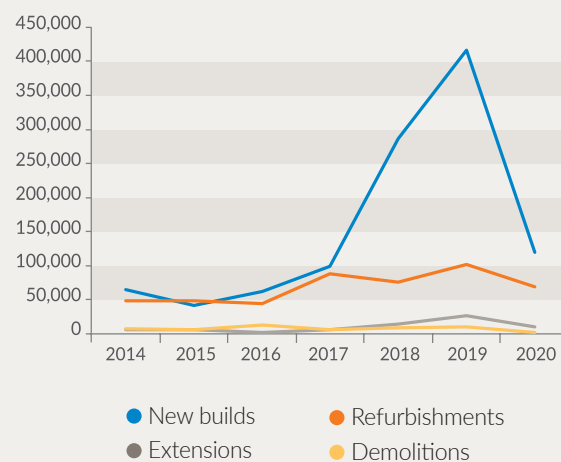
made in the last few months of 2019, before implementation in 2020 of the provision in the Law on the Energy Transition and Climate Change which establishes that new buildings must have virtually zero energy consumption from 2020, and which obliges buildings to be

well-insulated and weatherproofed. The fall in approved surface area was generalised over all categories and with two-figure rates in all cases. Of the 199,919 m² approved in 2020, 60% are new works; 34% refurbishments, and the other 6% demolitions or extensions.

After six years of major consecutive increases in demand for property (16% on annual average), this trend was reversed in 2019 and the negative trend continued into 2020. According to the statistics on property transactions and on housing and land prices, there was an 18.7% reduction in the number of property transactions in 2020, compared with the previous year. Nevertheless, the number of transactions is still high (1,318 sales/year), considering the limited supply. Moreover, in 2020, many foreign investors, mostly from Spain and France, decided to invest and buy housing in Andorra, but many transactions were delayed until 2021 due to the restrictions and uncertainty caused by the pandemic.

In all the parishes except Escaldes-Engordany, there were two-figure rates of decline in property sales. The greatest declines were in La Massana and Andorra la Vella (-27% in both cases) and Sant Julià de Lòria (-25%). By type of works, the total

APPROVED SQUARE METRES BY CATEGORY



Source: The Official Association of Architects of Andorra.

In 2020, property sales fell 18.7%, but were still at high levels.

PROPERTY TRANSACTIONS AND AVERAGE M² PRICE OF APARTMENTS, PER PARISH

	PROPERTY TRANSACTIONS				M ² PRICE FOR APARTMENT TRANSACTIONS (EUROS)			
	2019	2020	Absolute variation	Relative variation (%)	2019	2020	Relative variation (%)	
Canillo	295	240	-55	-18.6	1,937.7	2,375.0	22.6	
Encamp	288	250	-38	-13.2	1,971.8	2,110.0	7.0	
Ordino	126	110	-16	-12.7	2,328.2	2,255.3	-3.1	
La Massana	339	245	-94	-27.7	2,310.6	2,419.8	4.7	
Andorra la Vella	283	206	-77	-27.2	2,956.5	2,867.6	-3.0	
Sant Julià de Lòria	142	106	-36	-25.4	2,030.5	2,181.3	7.4	
Escaldes-Engordany	148	161	13	8.8	3,118.5	3,160.4	1.3	
Total	1,621	1,318	-303	-18.7	2,409.3	2,520.4	4.6	

Source: Department of Statistics.

THE RENOVA PLAN

The Renova Plan is the main scheme for promoting energy saving and efficiency and implementing renewable energies in building. The call for applications for Renova grants has been adapted to Law 21/2018 on the Energy Transition and Climate Change, which aims to encourage building efficiency, as it includes measures such as energy certificates for buildings, which are obligatory in sales transactions from 2020.

Since the Renova Plan has been in place (2011-2020), it has received 1,927 applications, €10.02 million for grants and €15.9 million for loans, of which €7.4 million were awarded as grants and €12.8 million as loans, involving a total associated investment of €73.6 million in energy efficiency (total cost of the actions since the plan was put into operation).

Although the available budget for the Renova Plan has expanded over the years, the amount applied for each time has also grown. In 2020, despite an available budget of €1,215,318 for direct subsidies, applications for the amount of €2,073,165 were received, and

€1,893,447 were awarded this year. The average cost of actions on buildings increased from €195,000 in 2019 to €234,684 in 2020.

The 2020 Renova Plan included an additional bonus of 10% if the refurbished building is introduced into the rental market, a 15% subsidy for improving accessibility, sustainability and industrial security, and a 5% grant for facelifts for façades, patios and roofs. Apart from these grants, the Government continued to promote grants for installing solar power (37 new applications in 2020), a line that emerged in 2018 with the goal of encouraging solar energy installations.

In the 2021 Renova Plan, the budget provision is increased to €1,500,000 and includes a special grant for installing more efficient heating systems; a supplement of 10% to 15% when the dwelling is introduced into the rental market, and another additional subsidy of 10% in the case of small buildings built before 1980 which have never undergone any energy efficiency improvements.

of transferred new build properties (apartments, parking spaces and other constructions) fell 93% in 2020 compared with 2019, and the number of second-hand properties also fell, but less (-13%). Only business premises, warehouses and buildings have increased since 2019.

The value of transferred property in 2020 fell 15.1% in comparison with the previous year. The greatest decline was in land, other constructions and apartments, whereas the greatest increase in value was in buildings, business premises and warehouses.

Despite the unfavourable climate, the m² price of the transactions for apartments increased in 2020, 4.6%, as did the m² price of land, parking spaces and business premises. In contrast, the price of buildings and single-family housing fell. This means that the crisis was expected to be short and has not affected property investment prospects in the mid-term. As for apartments, the parishes that recorded the greatest increases in prices per m² in 2020 were Canillo (22.6%), Sant Julià de Lòria (7.4%) and Encamp (7.0%), whereas the price fell in Ordino and Andorra la Vella (about 3%).

The analysis of the property demand is complemented this year by the mortgage statistics published for the first time by the Government's Department of Statistics. In 2020, the number of new mortgages saw an important decline of 10% since 2019, due to the deferment of sales during the economic uncertainty caused by the Covid-19 crisis. The total

The number of new mortgages fell 10% since 2019.

number of new mortgages signed in the Principality of Andorra in 2020 was 640: 543 mortgages on residential property (-10.2% since 2019) and the other 97 for other uses, such as hotels, premises, developments and land (-8.5% since 2019). The average amount of all mortgages signed in 2020 was €447,161, about 13.1% more than in 2019.

Real investment by both the central and Comú governments fell substantially.

As for the subsector of public works, both the central and Comú governments invested much less in 2020 than in 2019, due to the budget adjustment made by the public authorities for the pandemic. Their aggregate settled real investment (chapter 6 of the budget) gives a total of almost €60 million, 32% less than in 2019, when it was €88.6 million. This decline contrasts with the increase recorded in the three previous years (12% in 2019, 25% in 2018 and 19% in 2017).

Investments (chapter 6) settled by the Government rose to €33,589,007, a figure that represents a significant decline of 25.6% compared with the 2019 figure (€45,173,410). If we add capital transfers (chapter 7 of the budget), which saw a major increase in 2020, to €31,306,605 – especially those for the Ministry of Finance – the total investment effort of the Government rises to €64,895,612, representing an increase of 17.9% compared with 2019. Most of this investment relates to the Ministry of Land Planning, specifically €32,411,541, with a year-on-year decrease of 27% against 2019. The other €32,484,071 of Government investment relates to the other ministries.

GOVERNMENT PUBLIC WORKS. SETTLED PUBLIC INVESTMENT* BY PROGRAMMES (categories)

Table 11.2

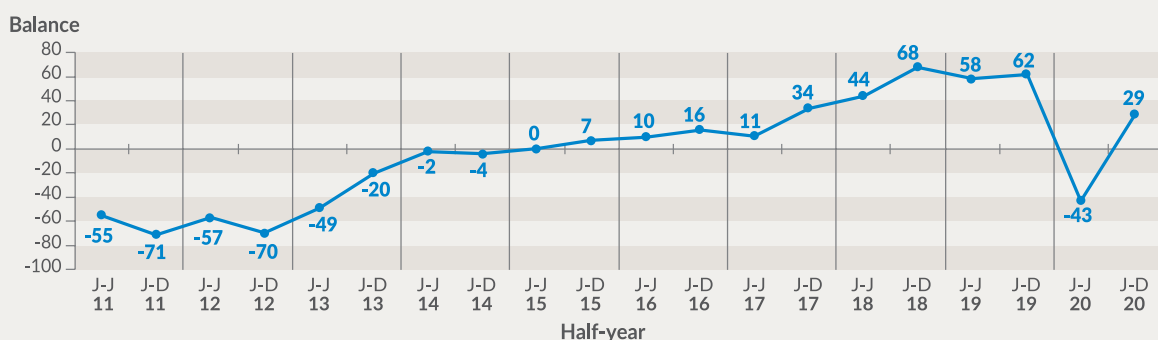
Description	2019	2020
Administrative infrastructure	1,341,474 €	3,454,683 €
Judicial infrastructure	10,092,551 €	2,295,012 €
Infrastructure - Fire Station	103,804 €	-
Prison building	-	2,111 €
Health & social infrastructure	753,217 €	754,322 €
School infrastructure	2,695,786 €	5,157,941 €
Education	3,075 €	1,843 €
Sports infrastructure	238,723 €	17,612 €
Sanitation	293,147 €	94,702 €
Natural Heritage management & conservation	400,538 €	78,223 €
Cultural infrastructure	2,739,855 €	1,369,972 €
Central government	1,303,697 €	530,997 €
Main roads, road infrastructure	11,540,406 €	5,850,146 €
Other roads	8,155 €	415,650 €
Road maintenance	7,416,658 €	8,865,398 €
Natural risks. Protective infrastructure	1,434,012 €	615,901 €
Sectoral plan. New road infrastructure	1,948,933 €	1,266,746 €
River & stream treatment	551,965 €	1,037,243 €
Cartography & topography	163,217 €	67,054 €
Road surfacing - CG, CS & streets	786,639 €	-
Industrial infrastructure	-	260,930 €
Strategic & transport projects	565,359 €	275,055 €
Total	44,381,212 €	32,411,541 €

*Amount of settled public works relating to investment by the Ministry of Land Planning.

Source: Ministry of Land Planning.

BUSINESS ACTIVITY - CONSTRUCTION SECTOR

Chart 11.3



Balance: Difference in opposing responses (positive and negative) as a percentage.

Source: Chamber of Commerce, Industry and Services of Andorra.

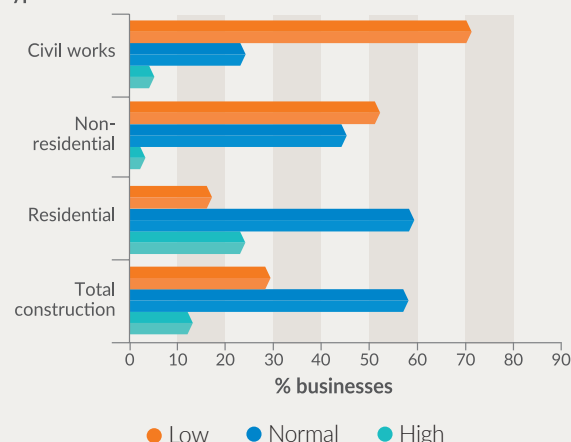
The table 11.2 details the public works settled in 2019 and 2020 by the Ministry of Land Planning, by programmes. Globally, settled investment has fallen but there are some notable increases among the most important investment entries, such as administrative infrastructure (€2.1 million more), school infrastructure (€2.5 million more) and road maintenance (€1.4 million more). In contrast, the projects that saw the largest reductions in absolute value are judicial infrastructure (€7.8 million less), after the building of the new courts inflated the investment entry in 2019; road infrastructure (€5.7 million less) and cultural infrastructure (€1.4 million less).

On the other hand, the settled real investments by the Comú governments fell 39.4%, going from €43.4 million in 2019 to €26.3 million in 2020, after three consecutive years of high rates of increase. By parish, the largest investment spending was by Encamp with €7.4 million; followed by Canillo, with €5.6 million. Next are Andorra la Vella with nearly 4 million; Ordino with €3.5 million, and further behind, La Massana with €2.7 million; Sant Julià de Lòria with €1.6 million and Escaldes-Engordany with €1.5 million. In 2020, real investment fell steeply in all the parishes except Ordino (+47%) and Sant Julià de Lòria (10%). The largest falls in Comú investment were in Andorra la Vella (-70%) and Escaldes-Engordany (-69%).

CONTRACTED WORKS - CONSTRUCTION SECTOR (half-year July-December 2020)

Chart 11.4

Type of works



Source: Chamber of Commerce, Industry and Services of Andorra.

BUSINESSES' OPINIONS OF DEVELOPMENTS IN THE CONSTRUCTION SECTOR (% of businesses)

Table 11.3

		2018			2019			2020		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
1. Business activity (reviewed half-year)	Good	49	68	59	63	62	63	0	47	24
	Normal	46	32	39	32	38	35	57	35	46
	Bad	5	0	3	5	0	3	43	18	31
	Balance	44	68	56	58	62	60	-43	29	-7
2. Volume of executed works (compared with same half-year of previous year)	Higher	54	64	59	46	42	44	8	13	11
	Equal	31	29	30	41	40	41	12	39	26
	Lower	15	7	11	14	18	16	81	48	65
	Balance	39	57	48	32	24	28	-73	-35	-54
3. Contract unit prices (compared with previous half-year)	Higher	27	16	22	29	18	24	4	12	8
	Equal	71	82	77	68	80	74	89	74	82
	Lower	2	2	2	3	3	3	7	15	11
	Balance	25	14	20	26	15	21	-3	-3	-3
4. Number of employees (compared with previous half-year)	More	15	23	19	34	28	31	11	12	12
	Same	71	65	68	53	73	63	89	82	86
	Lower	15	12	14	13	0	7	0	6	3
	Balance	0	11	6	21	28	25	11	6	9

Source: Chamber of Commerce, Industry and Services of Andorra.

Construction is one sector that suffered less from the effects of the health crisis, as once the initial economic shock from the paralysis of business in lockdown passed, it recovered rapidly and more robustly than other sectors.

This is evident in the results of the business climate survey by the Cambra, which reflect a rebound in business activity throughout the second half of 2020, without returning to pre-crisis levels.

This is also confirmed by the data in the survey of businesses' assessment of the impact of Covid-19, prepared by the Cambra and CRES (the Centre for Sociological Research), which show an average interannual decline in turnover in construction of nearly 12% in the second half of 2020, contrasting with the 31.5% fall in the first half.

For its part, the volume of contracted works also shows a significant improvement, driven basically by more dynamic behaviour in the segment of housing. In contrast, the volume of contracts still remained low in the branch of non-residential building and, above all, in the segment of civil works, where activity slowed due to the budget adjustment carried out by the public authorities (central government and Comú governments) when faced with the extraordinary impact of Covid-19 on public finance.

In the opinion of the construction companies, unit contract prices continued to be stable. As for the labour market, the good performance of the sector has allowed for continued job creation, although at a slower rate than in the previous year.

Business activity in construction improved significantly in the second half of 2020.

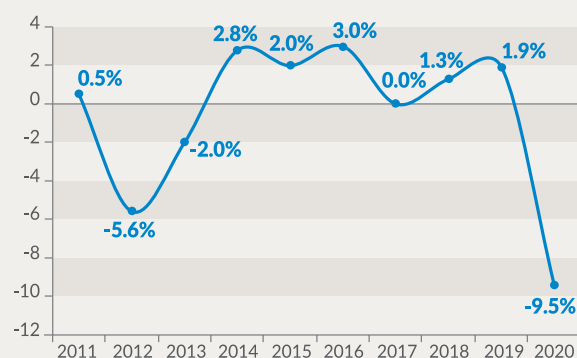
XII. Services

The services sector is the core of the Andorran economy, representing 85.7% of global GVA and 86% of total employees. The predominance of this sector means that its trend largely determines the performance of Andorran GDP. After six consecutive years of positive variations between 2014-2019, and average annual growth of 1.8%, there was a sudden drop of 9.5% in 2020, due to the measures that had to be adopted to contain the spread of the pandemic, which especially affected the sectors that require social contact and mobility, such as hotels and catering, transport and commerce.

In terms of GVA, the balance for 2020 was extremely unfavourable in the three largest subsectors of services, but undoubtedly the branch that suffered most from the consequences of this crisis was commerce, hotels and catering, transport, information and communications, which saw a record downturn of 16.5%. For its part, the subsector of financial, real estate, professional and technical activities contracted 7.5% since 2019. Finally, the subsector of public administration,

In 2020, the GVA for services shrank 9.5%, the steepest fall of all sectors.

SERVICE SECTOR GVA
Variation rate in real terms



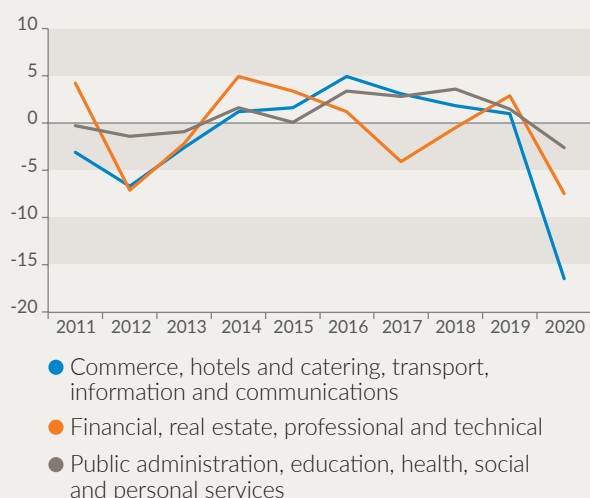
Source: Department of Statistics.

Chart 12.1

SERVICE SECTOR GVA BY BRANCHES OF ACTIVITY

Interannual real variation rate (%)

Chart 12.2



Source: Department of Statistics.

education, health, social and personal services was the least punished by the crisis (-2.6%), due to the increased health spending and public aid destined to contain the economic effects of the pandemic.

Note that the impact on the sectors that suffered most from the restrictions imposed to stop the spread of the virus (commerce, leisure, tourism and hotels and catering) would have been even worse without the measures taken by the Government. The most important of these were the ERTA income support scheme and direct support to the self-employed (€34.4 million in 2020, with the figure rising to €56.6 million in July 2021); the guaranteed credit scheme for businesses (nearly €135 million granted in 2020); the deferment and payment in instalments of tax (€27.6 million on 30 November 2020); the aid towards rent or

mortgage payments of businesses affected by the restrictions, and the discounts on electricity and telecommunications bills (€3.4 million FEDA and €1.6 million Andorra Telecom, in 2020). This aid had different criteria for application over the year based on the gravity of the health and economic situation.

Despite the fall in overall activity in the services sector, the number of business establishments increased 4.3% in 2020, to 8,626, a sign of the resilience of the Andorran business sector and the good financial position of businesses when the pandemic arrived. By subsectors, the economic activity with most establishments is commerce, representing 34% of the total, and commerce expanded 0.9% this year, to almost 3,000 establishments. The next most important branch is professional, scientific and

The total number of service sector establishments increases, despite falling activity.

NUMBER OF BUSINESS ESTABLISHMENTS IN THE SERVICE SECTOR

Table 12.1

	2019	2020	% var. 20/19	% total 2020
Commerce and motor vehicle repairs	2,932	2,958	0.9	34.3
Transport & storage	258	259	0.4	3.0
Hotels & catering	1,040	1,034	-0.6	12.0
Information & communications	454	533	17.4	6.2
Financial & insurance activities	196	202	3.1	2.3
Real estate activities	417	447	7.2	5.2
Professional, scientific & technical activities	1,480	1,656	11.9	19.2
Administrative activities & ancillary services	513	511	-0.4	5.9
Education	199	222	11.6	2.6
Health activities & social services	215	226	5.1	2.6
Artistic, recreational & entertainment activities	174	179	2.9	2.1
Other services	391	399	2.0	4.6
Total	8,269	8,626	4.3	100

Note: Number of establishments registered with the Registry of Commerce and Industry.

Source: Ministry of the Presidency, Economy and Enterprise; Registry of Commerce and Industry.

Box 12.1

URBAN WASTE RECYCLING

In 2020, more than 133,336 tonnes (t) of waste was generated in Andorra. 30% was treated inside the country and 70% was exported for final management outside the country. This includes all waste generated in the country, such as household waste (municipal waste and similar waste from commerce, industry and institutions, including selective collection) and all waste exported directly by waste managers at recovery and/or disposal plants. Not included is earth and stone waste from construction, of which 153,791 t were exported for recovery, a figure that represents an increase of 21% since the previous year (126,837 t exported in 2019).

The data for 2020 show a general decline in generated waste of 2,033 t, i.e. 1.5% less than the previous year. Note that 2020 was marked by the special measures that had to be taken due to the health emergency caused by Covid-19. The decrease in some types of urban waste is notable, such as municipal solid waste (MSW) – 26,908 t in 2020, compared with 28,341 t in 2019; glass, which decreased by 280 t; paper and card, which fell by 788 t; packaging, 106 t less, and organic matter, which fell by 404 t. On the other hand, there was a significant increase in waste treated as urban waste (RAU), sludge from WWTPs, which it has been possible to treat at the plant, and construction-related waste.

In the last review of the National Waste Plan (PNR) for the period 2017-2020, the recycling target set for 2020 is 50% (including preparation for reuse), in keeping with the Directive 2008/98/EC criteria on waste. Selective collection is well-established today in this country which means that, for the main recyclable portions that are collected selectively (paper and cardboard, glass and packaging), the global recycling result obtained in 2020 was 47%. This value is slightly lower than in the previous year (48%), due to a general decrease in selective collection due to the pandemic. However, the value is close to the target set for 2020.

Specifically, in 2020, a total of 51,331 t of urban waste was managed, of which 17,231 t were recycled, while 33,290 t were recovered as energy, the process that minimises the volume of waste through combustion,

The rest went for preparation for reuse or disposal.

As for recycling, there was a general decline in recycled amounts in 2020. The recycled amount of light packaging fell 8.2%; glass -10.8%, and paper and cardboard -10.7%. This greater decrease in the collection of glass and paper and cardboard compared with light packaging could be caused by two factors: on the one hand, the partial or total closure of hotel and catering and commercial establishments and, on the other hand, the increase in packaged products produced during the pandemic. Moreover, in 2020 the amount collected from major producers, such as large supermarkets, hotels, restaurants and schools, saw an important decline, related to partial or total closure of some establishments taking part in this scheme. So, it went from 1,198 t in 2019 to 795 t in 2020, below the set goal of 1,000 t per year.

As for energy recovery, household waste and waste treated as urban waste are burnt at the Waste Treatment Centre (CTR), so that part of the energy can be recovered through combustion as electricity and, from 2020, as heat, which is used in the new district heating system in Andorra la Vella. In 2020, 40,009 t of waste were recovered in Andorra, a very similar amount to the previous year. To this waste should be added the 8,798 t of pre-treated urban solid waste from Cerdanya (Spain), under the Government authorisation to import a maximum of 10,000 t per year, representing 18.3% of the total waste burnt by the CTR. The energy recovered from all the waste generated 19,825 MWh of electricity, which was injected into the FEDA electricity network, and 991 MWh of thermal energy, which was injected into the FEDA-Ecoterm district heating network.

On the other hand, the Regulations to reduce plastic bag consumption that came into force in November 2017 have enabled most large stores and supermarkets to wholly substitute plastic bags for bags made of other materials. As a result, a saving of more than 1,700,000 plastic bags was made at large stores and supermarkets, representing an 80% drop in their consumption since 2019.

NUMBER OF EMPLOYEES IN THE SERVICE SECTOR (annual average)

Table 12.2

	2019	2020	% var. 20/19	% total 2020
Commerce and motor vehicle repairs (etc.)	8,944	8,681	-2.9	26.2
Hotels & catering	5,111	4,327	-15.3	13.1
Transport, storage & communications	1,328	1,272	-4.2	3.8
Financial system	1,777	1,758	-1.1	5.3
Real estate & rental activities; business services	5,727	5,482	-4.3	16.6
Public administration, defence & mandatory social security	4,452	4,521	1.6	13.7
Education	596	604	1.4	1.8
Health & veterinary activities, social services	2,157	2,247	4.2	6.8
Other social activities & community services; personal services	3,091	2,900	-6.2	8.8
Households employing domestic staff	1,102	1,076	-2.4	3.3
Extraterritorial bodies	13	13	0.0	0.0
Domestic work for the community	202	200	-1.0	0.6
Total	34,498	33,079	-4.1	100

Source: CASS (Andorran Social Security System) / Department of Statistics.

technical activities, the focus of 19% of the whole business network of the service sector, which saw a 12% increase in the number of establishments in 2020. The third most important subsector in terms of businesses is hotels and catering, representing 12% of establishments, which decreased 0.6% since 2019.

Employment falls 15% in hotels and catering and grows in the health sector, education and public administration.

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In 2020, the number of employees in the service sector fell 4.1%, to 33,079, distributed as follows between the four main subsectors: 26% work in the commerce sector; 17% in the property sector and business services; 14% in public administration, and 13% in hotels and catering. Globally, these four branches concentrate 70% of total employees in the service sector. In 2020, the total number of employees in most branches shrank, but the reduction in hotels and catering stands out (-15%). On the other hand, employment only increased in the branches of health activities (4.2%), public administration (1.6%) and education (1.4%).

Wage growth is fairly similar in all subsectors.

In 2020, the monthly wages of the whole services sector increased 1% to reach an average of €2,164, added to the increases of the previous two years. The trend is fairly similar by subsector.

Whereas the average wage fell in hotels and catering (-4.0%) and the transport and communications sector (-1.8%), two of the sectors most affected by the Covid-19 crisis, they increased in other branches, including real estate and business services (2.4%), commerce (1.7%) and education (1.2%).

1. Commerce

Commerce is one of the pillars of the Andorran economy, despite losing ground against other sectors in recent years, such as real estate and business services. The commercial sector represents 16.6% of GVA (2019) and 22.6% of employment (2020) - less than in 2005, when it was 26.7%. This structural change is due to the last economic crisis and the transformation of patterns of consumption that affect traditional commerce.

The retail sector is facing a process of transformation of its business model due to a structural change in the behaviour of the consumer who, with the same budget, values the experience (sleeping in a hotel or going to a restaurant) much more than buying products. There is also rapid growth in e-commerce which accelerated further with the arrival of the pandemic, demonstrating the need to change the business model in traditional commerce. In parallel, the consumer expects constant promotions, which reduces the business margins of the sector. Deregulation of the sales period in Spain and the increase in online purchases on large platforms like Amazon are two examples. To these are added other factors that are more particular to Andorra and need improvement, such as the lack of prestige brands, the mix of cheap and luxury shops, the need to improve the image of some shops, and insufficient staff training in the commercial sector. On the positive side, note that in 2019, the Principality of Andorra joined the Single Euro Payments Area (SEPA), enabling the promotion of e-commerce inside the country. Another factor that will help Andorra's economy to recover is the initiative, headed by Andorra Business and the Cambra, to open the doors of international markets to Andorran products via a national online sales platform.

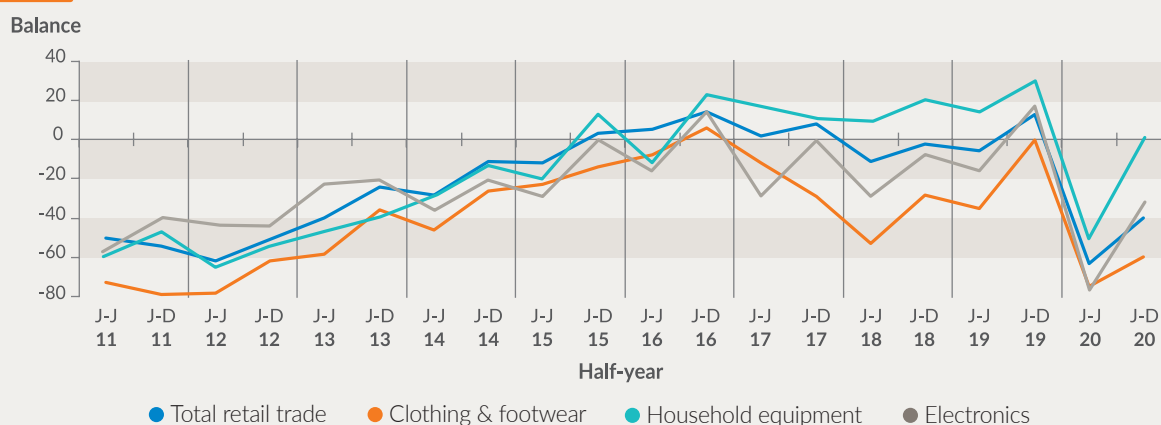
To meet all these challenges, the Government prepared a Strategic Plan for shopping tourism, presented in 2016, which is already underway and could be reformulated in the future. In 2020, the actions were affected by the pandemic but will be relaunched within the next few years.

Added to these structural changes in 2020 was the impact of closures due to the pandemic and the restrictions on movement that stopped foreigners travelling to Andorra to shop. For this

The number of employees in the retail sector fell 4.9% in 2020.

reason, the balance in 2020 for the commercial sector was very negative. The number of employees in the retail sector fell 4.9%, to 5,112 employees, the largest decline recorded since 2008. The downturn could have been worse without the temporary employment measures (ERTO) passed by the Government – temporary suspension of the employment contract (STCT) and reductions in working hours (RJL) – which many commercial establishments used and which helped to avoid dismissals as far as possible. A notable fact is that in December, 1,561 employees in the commercial sector were still covered for temporary suspension of the employment contract or reduction in working hours, i.e. 19% of total employees in the sector, although this figure was much higher in June when 2,923 employees were on STCT/RJL, representing 34% of the total of employees in commerce. A positive data in the labour market is that the average wage of those working in the retail sector increased 4.2% in 2020, to about €1,808, although this is still one of the lowest wages in the services sector.

BUSINESS ACTIVITY - RETAIL TRADE



Source: Chamber of Commerce, Industry and Services of Andorra.

The recovery in the retail trade was slowed by the outbreaks in autumn and winter.

In line with falling activity, electricity consumption in the sector of commercial distribution saw a downturn of 17.1% (solely FEDA data). Another benchmark indicator for analysing the trend in commerce is imports of goods, because most

products sold in Andorran commerce are imported. All in all, imports – excluding works of art and antiques – have fallen 19.5% since 2019, largely due to falling sales in commerce. Finally, a positive detail in the sector is the small increase in the number of retail establishments, to 1,399 (10 more establishments than in 2019).

The data in the business climate survey by the Cambra confirm that, in 2020, after the strict lockdown in the first wave of the pandemic, retail trade saw a limited rebound in activity over the summer, although this remained at very low levels and clearly below those of 2019. From

BUSINESSES' OPINIONS OF DEVELOPMENTS IN THE RETAIL TRADE (% of businesses)

Table 12.3

1. Business activity (Reviewed half-year)		2018			2019			2020		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Good	22	24	23	23	32	28	8	13	11
	Normal	45	51	48	48	49	49	21	34	28
	Bad	33	26	30	29	19	24	71	53	62
	Balance	-11	-2	-7	-6	13	4	-63	-40	-52
Food	Good	9	18	14	24	39	32	12	3	8
	Normal	58	56	57	52	39	46	12	36	24
	Bad	33	26	30	24	22	23	76	61	69
	Balance	-24	-8	-16	0	17	9	-64	-58	-61
Clothing & footwear	Good	6	19	13	6	31	19	5	4	5
	Normal	34	34	34	53	38	46	15	32	24
	Bad	59	47	53	41	31	36	80	64	72
	Balance	-53	-28	-41	-35	0	-18	-75	-60	-68
Household equipment	Good	28	29	29	31	33	32	10	28	19
	Normal	53	62	58	53	64	59	29	44	37
	Bad	19	9	14	17	3	10	61	28	45
	Balance	9	20	15	14	30	22	-51	0	-26
Health & Hygiene	Good	32	30	31	31	39	35	13	5	9
	Normal	45	57	51	46	42	44	13	36	25
	Bad	23	13	18	23	19	21	73	59	66
	Balance	9	17	13	8	20	14	-60	-54	-57
Electronics	Good	21	15	18	26	29	28	8	20	14
	Normal	29	62	46	32	59	46	8	27	18
	Bad	50	23	37	42	12	27	85	53	69
	Balance	-29	-8	-19	-16	17	1	-77	-33	-55
Vehicles & accessories	Good	27	21	24	19	24	22	0	15	8
	Normal	50	52	51	52	52	52	39	12	26
	Bad	23	28	26	30	24	27	61	73	67
	Balance	4	-7	-2	-11	0	-6	-61	-58	-60
Other trade	Good	26	26	26	28	30	29	7	13	10
	Normal	43	47	45	44	52	48	23	34	29
	Bad	31	27	29	28	18	23	70	53	62
	Balance	-5	-1	-3	0	12	6	-63	-40	-52
Supermarkets & department stores	Good	30	25	28	0	25	13	13	0	7
	Normal	40	38	39	44	38	41	13	63	38
	Bad	30	38	34	56	38	47	75	38	57
	Balance	0	-13	-7	-56	-13	-35	-62	-38	-50

Source: Chamber of Commerce, Industry and Services of Andorra.

BUSINESSES' OPINIONS OF DEVELOPMENTS IN THE RETAIL TRADE (% of businesses)

Table 12.4

2. Sales figures (reviewed half-year compared with same half-year of previous year)		2018			2019			2020		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Higher	17	24	21	19	28	24	5	14	10
	Similar	35	32	34	33	36	35	12	15	14
	Lower	48	44	46	48	36	42	84	72	78
	Balance	-31	-20	-26	-29	-8	-19	-79	-58	-69
Food	Higher	17	24	21	10	31	21	12	13	13
	Similar	27	34	31	41	39	40	12	9	11
	Lower	57	42	50	48	31	40	76	78	77
	Balance	-40	-18	-29	-38	0	-19	-64	-65	-65
Clothing & footwear	Higher	0	20	10	16	38	27	5	17	11
	Similar	25	13	19	16	22	19	11	8	10
	Lower	75	67	71	68	41	55	84	75	80
	Balance	-75	-47	-61	-52	-3	-28	-79	-58	-69
Household equipment	Higher	19	18	19	31	31	31	3	18	11
	Similar	42	52	47	50	46	48	17	25	21
	Lower	39	30	35	19	23	21	79	58	69
	Balance	-20	-12	-16	12	8	10	-76	-40	-58
Health & Hygiene	Higher	45	24	35	13	28	21	0	5	3
	Similar	14	52	33	43	44	44	23	18	21
	Lower	41	24	33	43	28	36	77	77	77
	Balance	4	0	2	-30	0	-15	-77	-72	-75
Electronics	Higher	7	15	11	21	33	27	8	29	19
	Similar	36	39	38	26	33	30	8	0	4
	Lower	57	46	52	53	33	43	85	71	78
	Balance	-50	-31	-41	-32	0	-16	-77	-42	-60
Vehicles & accessories	Higher	15	24	20	15	19	17	0	4	2
	Similar	39	28	34	27	30	29	0	13	7
	Lower	46	48	47	58	52	55	100	83	92
	Balance	-31	-24	-28	-43	-33	-38	-100	-79	-90
Other trade	Higher	18	31	25	22	24	23	5	15	10
	Similar	45	22	34	31	40	36	10	17	14
	Lower	37	47	42	47	37	42	85	68	77
	Balance	-19	-16	-18	-25	-13	-19	-80	-53	-67
Supermarkets & department stores	Higher	20	25	23	0	25	13	0	0	0
	Similar	30	38	34	22	0	11	13	13	13
	Lower	50	38	44	78	75	77	88	88	88
	Balance	-30	-13	-22	-78	-50	-64	-88	-88	-88

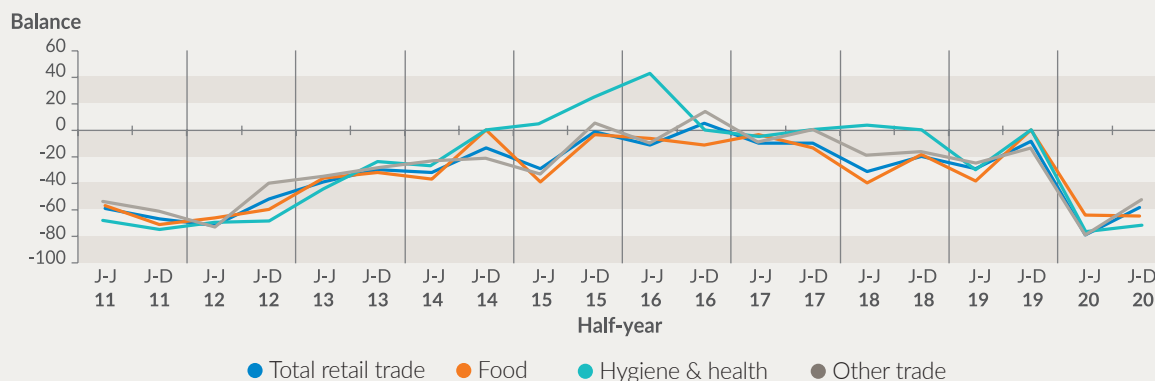
Source: Chamber of Commerce, Industry and Services of Andorra.

the autumn, this timid improvement was impeded by further social distancing measures and limits on cross-border movement due to the worsening health situation. Toughening restrictions on international mobility in the last part of 2020, specifically the closure of Catalonia's borders which stopped Catalan tourists (except from the county of Alt Urgell) from visiting Andorra during the Christmas promotions, totally quashed external demand, and domestic consumption was insufficient to offset the decline in activity.

By subsectors, most branches noted a slower decline in business in the second half than in the first, although this was still fairly intense and varied according to the type of commerce. The worst results were in the branches of clothing and footwear, food, vehicles and accessories, and hygiene and health, which continued to show weakness. In contrast, the climate in the branch of household equipment was comparatively less negative, with improved activity in the second half of 2020, favoured by the dynamic construction sector and, to a large extent, the more intensive use of those products under lockdown and restrictions on movement.

SALES FIGURES COMPARED WITH THE SAME PERIOD IN THE PREVIOUS YEAR - RETAIL TRADE

Chart 12.4



Balance: Difference between opposing responses (positive and negative), as a percentage.

Source: Chamber of Commerce, Industry and Services of Andorra.

Equally, retailers have indicated that, despite the rebound in activity from the summer, the rate of fall in the global volume of sales was still high, with figures far from normal. By subsectors, the decline in turnover since 2019 was significant and general to all branches.

Retail sales figures declined 29.3% in the second half of 2020.

In quantitative terms, according to the data in the survey to assess the impact of Covid-19, prepared by the Cambra and CRES, the average year-on-year decrease in turnover in the retail trade was 29.3% in the second half of 2020, even worse than in the first half of the year (-25.5%).

As for the trend in prices, shops introduced important discounts and sales to encourage people to buy, a practice used throughout the branch of clothing and footwear to offload accumulated stocks.

As for events to promote the attractiveness of commerce in Andorra, the 8th Andorra Shopping Festival did not take place in 2020 due to the health situation at the time. To compensate for this, Andorra Turisme promoted the country in the nearby markets of France and Spain as a safe destination for short escapes in 2020. The goal is for Andorra to be a tourism and commerce destination throughout the year.

2. The financial system

The financial and insurance sector represents 11.7% of Andorran GVA, according to data for 2019. It is an important sector of the economy in terms of GVA, while in terms of employment it represents 4.6% of total employees. The main business areas in the financial sector are private banking and asset management, insurance and retail banking, both for individuals and for businesses.

The core of the Andorran financial system consists of a total of five groups: Andbank, MoraBanc, Crèdit Andorrà, BancSabadell d'Andorra and Vall Banc.

According to official GDP data published by the Government, in 2020, financial, real estate, professional and technical activities saw a 7.5% fall in GVA.

In the last decade, the sector has had to address constant changes in regulations to adapt to international standards, such as the implementation of rules on tax transparency, international

cooperation in criminal matters and the fight against money laundering and terrorism financing, and banking regulations.

The Covid-19 crisis caught the sector in the last stage of this process of transforming and adapting to international standards and strengthening solvency, which meant that it was able to provide support to businesses and citizens to handle the difficulties caused by the pandemic.

The sector has worked with the Government to implement measures to deal with the effects of the crisis, providing the necessary liquidity to guarantee the sustainability and development of the national economy.

The balance is quite positive, because Andorran banks have managed to transform the challenge into an opportunity to internationalise the banking model, take on the digital transformation, and face up to competitors by digitalising the whole banking business.

In 2020, the number of employees in the whole financial sector fell 1.1%, to 1,758, the lowest figure since 2013, although this was also the result of the changing business model in the banking sector in recent years. The average wage in this sector, which is the highest of all sectors in the Andorran economy, stabilised at around €4,700, after the reduction in the previous year due to early retirements of employees with higher-than-average pay. As for the business network and establishments, there were 202 establishments, six more than in 2019, while the number of bank branches remained at 39.

If we consider only the five national banking institutions, the number of employees in 2020 for the whole Andorran banking system was 2,655 (2,563 in 2019), noting that 52% of these work in Andorra, i.e. 1,378 employees (1,359 in 2019).

The impact on the banking sector from the pandemic caused by Covid-19 was significant. The aggregate profit fell 25%, to €84 million in 2020 (€112 million in 2019), after provisions of €33 million were made for the impact of Covid-19, following the recommendations of the supervisor and international institutions. Equally, the Andorran banks' resilience and ability to attract business are evident in the volume of assets under management in the 2020 financial year, €51,735 million, 4% more than in 2019 and the highest figure in the sector's history.

Despite the impact of Covid-19, the solid position of the Andorran market was strengthened by a return on equity (ROE) of 5.46% on 31 December 2020, compared with the 2% of European Banks, although this was lower than the 7.70% in 2019. Equally, the CET1 (phase-in) solvency ratio of Andorran entities was 18.00% (17.48% in 2019), higher than the 15.5% average for European Banks, according to data from the European Banking Authority (EBA), with a liquidity ratio of 187.12% compared with the 173.1% published by the EBA (223.05% in Andorra in 2019).

In 2020, Andorran banks saw profits fall due to the impact of Covid-19, but maintained good ratios of solvency and profitability.

AGGREGATE DATA FOR THE ANDORRAN BANKS

Thousand euros	2019	2020
Total assets	14,840,696	15,169,956
Gross loans and advances	6,094,759	6,367,736
Assets under management	49,713,197	51,735,224
Profit/(loss)	111,883	83,609
ROE	7.70%	5.46%
ROA	0.76%	0.55%
CET 1 solvency ratio (phase-in)	17.48%	18.00%*
Liquidity ratio	223.05%	187.12%**

* European bank average according to EBA data: 15.5%.

** European bank average according to EBA data: 173.1%.

Source: Andorran Banking and the annual reports of banking institutions.

Table 12.5

Overall, the figures confirm the strength of the banking sector in the face of the crisis, and also the successful culmination of a highly demanding process of adopting European and international regulations which require greater provisions, among other matters, in an economic context of low interest rates and major investments in technology over the last five years (more than €120 million). These investments have enabled a rapid adaptation of the Andorran banking system to the new situation deriving from the pandemic.

The banking sector's firm commitment to the national economy can be seen in the fact that, in 2020, Andorran banks provided gross credit investment of €6,368 million, 4.5% more than

Andorran banks increased lending in 2020.

in 2019, to businesses, individuals and government, to which must be added the €135 million in soft loans guaranteed by the Government to businesses and the self-employed, to ensure liquidity to deal with the effects of the crisis, and also the nearly €122 million for loans on which legal and sectoral deferments were granted, in parallel with the economic support provided by the state. Moreover, the five Andorran banks agreed a direct contribution to the Government's solidarity fund to tackle Covid-19, of €430,000. Finally, the banks allocate up to 6% of their profits to corporate social responsibility, giving back to society through various sports, social and other programmes.

In summary, some things have been learnt from the pandemic, such as the importance of having a national, sound, competitive banking sector; the importance of continuing to invest in digitalising the sector; the importance of having a last resort lender like the European Central Bank, and the need for an association agreement with the EU to protect the stability of the Andorran banking sector.

The confidence of the Andorran banking sector is increased by the latest Moneyval reports, which highlight the work done by the country to prevent money laundering, and ECOFIN's consideration of Andorra as a cooperative country.

Remember that on 12 February 2016, the Principality of Andorra and the European Union (EU) signed an agreement for the automatic exchange of information in tax matters (AEOI), which came into force on 1 January 2017. In fulfilment of Law 19/2016, regulating the legal framework needed to achieve this commitment on tax information, Andorra proceeded to make the first exchange of data in September 2018, with 2017 data. This first automatic exchange of tax information was conducted with 41 countries, including the member states of the EU. Throughout 2017 and 2018, the AEOI Law was amended to expand the jurisdictions with which Andorra would exchange tax information, so in 2019 it did this with 73 jurisdictions and in 2020 with 95. This exchange meant that banks, collective investment schemes and insurance firms transmitted the information about taxpayers abroad who have an account in Andorra to the tax authority which, in turn, transmitted it automatically to the tax authority of the country in question. The data to be exchanged include the account number, tax identification number, name, address and date of birth of taxpayers resident abroad with an account in Andorra, any income (interest, dividends, etc.), any income from the sale or transfer of assets and the balance of the accounts. The legislation applies to both natural and legal persons.

Equally, the Principality of Andorra has signed a series of double taxation agreements (DTAs) with ten countries in recent years, relating to tax on income and companies, to prevent tax evasion. The ten countries with which it has signed DTAs are France, Spain, Luxembourg, Liechtenstein, Portugal, United Arab Emirates, Malta, Cyprus, San Marino and Hungary.

On the other hand, remember that on 4 December 2018, ECOFIN agreed to consider Andorra a cooperative country. This is a milestone because the EU removed Andorra from the list of non-cooperative jurisdictions and considers it a fully cooperative country in tax matters.

As for corporate transactions, in 2020 the Andbank Group closed the deal to acquire 100% of the shares in Bank Degroof Petercam Spain, a group with offices in Madrid, Barcelona, Valencia and Bilbao, mainly dedicated to asset management. The Crèdit Andorrà Group also reached an agreement to become a shareholder in the Assegur group and strengthen its leadership in the life and non-life insurance sector in the Principality. In January 2021, the Vall Banc Group entered the Spanish financial market by buying Argenta Patrimonios, a financial consultancy based in Barcelona. Finally, in July 2021, MoraBanc reached an agreement with Banc Sabadell to buy up Banc Sabadell's holding in Banc Sabadell d'Andorra, SA (i.e. 51.61% taking the treasury stock into account) for approximately €67 million. Through this transaction, MoraBanc can become the leader in the Andorran market for the main areas of business in the domestic market and also the profit figure for Andorran Banks.

Andorra joined the IMF in October 2020.

In 2020, Andorra joined two major international institutions. The first at the end of May, when it became a full member of the Council of Europe Development Bank (CEB), allowing it

access to a line of sovereign debt and various lines of finance for aspects such as health, education, environment or job protection. The second occurred in October 2020 when Andorra became the 190th member of the International Monetary Fund (IMF). This brings credibility and improves the country's rating, offers a safety net in extreme circumstances where there is a lack of funding in the market, and provides the support of specialist expert advisers.

In fact, in the declaration published on 8 April 2021, after its mission to Andorra, the IMF confirmed that the banks had sound levels of capital and profits to deal with the pandemic, but warned that the levels of non-performing loans are higher than in other countries – partly the legacy of one bank undergoing resolution – and these could increase once the special policies implemented during the pandemic are relaxed. The IMF also warned that, as happens in many other small countries with a major banking sector, Andorran Banks are exposed to additional risks deriving from high exposure and the granting of loans to related parties, such as shareholders. These factors pose risks, as the bank capital is not fully usable, so adjustments need to be introduced for these positions. Finally, in the same declaration, the IMF experts recommended that the Andorran Financial Authority (AFA) assess the effects of the pandemic on the bank capital and extend the moratoriums, if necessary, only to some qualified clients. The risk that the organisation sees is that temporary moratoriums on debt servicing could have reduced the transparency of the bank balances, so it recommends that the AFA checks that the classification of the loans and the creation of provisions is done according to the regulatory standards.

In 2019, the five banks of the Principality of Andorra became part of the SEPA, after Andorra joined on 1 March 2019. The SEPA (Single Euro Payments Area) is the area where citizens, businesses and other stakeholders can make and receive payments in euros, inside and outside their national borders, with the same basic conditions, rights and obligations, irrespective of their location. For example, from 10 May 2020, receipts generated outside Andorra (for example, electricity and water from a second residence in Spain or France) can be debited from current accounts in the Principality.

**Standard & Poor's and Fitch
confirm Andorra's rating as BBB
with a stable outlook.**

As for Andorra's sovereign rating, Fitch Ratings agency affirmed Andorra's rating as BBB+ with a stable outlook, in the note published on 29 January 2021. The international rating agency especially acknowledged Andorra joining the International Monetary Fund in October 2020, which will create a safety net for the country and allow it to receive technical assistance in several aspects. The agency also rates as positive the capitalisation of the Andorran banks and their

CONSOLIDATED BALANCE SHEETS (Thousands of euros)

Table 12.6

	ANDBANK		MORABANC GROUP		CRÉDIT ANDORRÀ GROUP		BANCSABADELL D'ANDORRA		VALLBANC		TOTAL	
	2020	2019*	2020	2019*	2020	2019*	2020	2019*	2020	2019*	2020	2019*
ASSETS												
Cash, cash balances at central banks and other demand deposits	1,302,133	1,058,885	193,159	177,63	399,792	303,009	89,226	64,658	126,908	280,183	2,111,218	1,724,498
Financial assets held for trading	189,958	174,198	102,841	93,195	27,699	30,047	27,926	25,475	-	-	348,424	322,915
Financial assets not held for trading that must be valued at fair value with changes in income	8,990	10,073	328,930	379,393	178,167	188,299	42,368	49,173	29,127	43,602	587,582	670,540
Financial assets at fair value with changes in the income statement	13,619	-	-	-	17,644	-	46,273	44,496	1,015	14,524	78,551	59,020
Financial assets at fair value with changes in the other comprehensive income	318,276	514,318	725,603	651,443	89,635	330,785	106,432	81,718	183,653	267,451	1,423,599	1,845,715
Financial assets at amortised cost	2,834,770	2,185,554	1,580,621	1,746,815	3,791,512	3,832,281	690,804	594,314	302,513	323,033	9,200,220	8,681,997
Derivatives - Hedge accounting	4,089	822	66	2	-	-	82	113	-	-	4,237	937
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	5,976	4,609	2,998	2,168	18,910	21,890	78	76	-	-	27,962	28,743
Investments in jointly-controlled businesses and associates	3,243	2,862	5,004	4,720	74,350	65,703	265	37	32	17	82,894	73,339
Assets covered under insurance and reinsurance contracts	3,052	4,520	33,775	37,304	-	1	-	-	-	-	36,827	41,825
Tangible assets	131,567	148,987	97,571	102,899	172,619	183,686	23,941	26,374	72,669	75,515	498,367	535,461
Intangible assets	288,876	293,510	13,413	13,505	113,594	122,624	401	406	9,184	23,916	425,468	453,961
Tax assets	25,281	27,499	3,286	4,466	18,395	24,929	462	279	950	621	48,374	57,794
Other assets	77,211	126,002	4,538	4,925	44,145	45,628	7,359	16,998	14,641	13,452	147,894	207,005
Non-current assets & disposal groups classified as held for sale	20,015	24,674	1,142	1,146	98,896	106,151	1,916	4,194	26,370	781	148,339	136,946
TOTAL ASSETS	5,227,056	4,574,513	3,092,947	3,059,744	5,045,358	5,255,033	1,037,533	908,311	767,062	1,043,095	15,169,956	14,840,696
LIABILITIES												
Financial liabilities held for trading	74,299	53,663	57,317	30,708	25,107	16,107	1,107	988	62	153	157,892	101,619
Financial liabilities at fair value with changes in the income statement	-	-	324,601	360,603	78,338	49,331	46,288	44,510	-	-	449,227	454,444
Financial liabilities at amortised cost	4,488,959	3,858,847	2,233,301	2,220,271	4,073,151	4,307,293	876,583	755,674	643,821	894,653	12,315,815	12,036,738
Derivatives - Hedge accounting	6,268	5,224	15,543	10,661	18,318	37,190	5	72	-	-	40,134	53,147
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	676	794	-	-	-	-	-	-	676	794
Liabilities covered under insurance and reinsurance contracts	3,052	4,520	78,507	84,659	258,122	251,815	-	-	-	-	339,681	340,994
Provisions	18,997	22,740	22,189	24,208	19,694	28,563	1,425	1,634	3,187	2,612	65,492	79,757
Tax liabilities	13,247	14,632	4,628	3,864	5,467	5,355	1,604	991	1,521	1,706	26,467	26,548
Other liabilities	84,657	77,728	18,933	17,112	63,267	89,714	7,895	13,281	14,026	22,387	188,778	220,222
Liabilities in groups of disposable items held for sale	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	4,689,479	4,037,354	2,755,695	2,752,880	4,541,464	4,785,368	934,905	817,150	662,617	921,511	13,584,160	13,314,263
NET EQUITY												
Capital	78,842	78,842	42,407	42,407	63,102	63,102	30,069	30,069	31,050	31,050	245,470	245,470
Issue premium	73,441	73,441	-	-	-	-	-	-	68,950	68,950	142,391	142,391
Issued equity instruments other than capital	34,800	35,000	-	-	-	-	-	-	-	-	34,800	35,000
Other cumulative global profit/loss	(34,511)	(2,713)	(1,088)	(1,016)	2,721	2,678	1,168	669	(3,284)	(2,163)	(34,994)	(2,545)
Accumulated earnings	455,963	427,156	289,863	268,217	-	-	69,598	-	4,262	2,174	819,686	697,547
Revaluation reserves	-	-	-	-	-	-	2,288	2,288	-	-	2,288	2,288
Other reserves	(103,855)	(101,496)	(24,024)	(27,876)	393,960	347,002	(9,673)	48,594	19,485	19,485	275,893	285,709
Own shares (-)	(1,927)	(1,927)	-	-	-	-	(840)	(833)	-	-	(2,767)	(2,760)
Profit or loss attributable to owners of the Parent	29,470	28,040	30,098	25,136	30,040	46,244	10,019	10,375	(16,018)	2,088	83,609	111,883
Interim dividend (-)	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' equity	532,223	536,343	337,256	306,868	489,823	459,026	102,628	91,161	104,445	121,584	1,566,376	1,514,982
Minority interests	5,354	816	(4)	(4)	14,071	10,639	-	-	-	-	19,421	11,451
TOTAL NET EQUITY	537,577	537,159	337,252	306,864	503,894	469,665	102,628	91,161	104,445	121,584	1,585,796	1,526,433
TOTAL LIABILITIES AND NET EQUITY	5,227,056	4,574,513	3,092,947	3,059,744	5,045,358	5,255,033	1,037,533	908,311	767,062	1,043,095	15,169,956	14,840,696

Source: Andorran Banking and the annual reports of banking institutions.

* 2019 data presented solely for comparison.

liquidity level, although it foresees an increase in doubtful loans due to effects of the crisis. As for the economic impact of the pandemic, Fitch highlights that the rise in unemployment was small, thanks to the policies adopted by the Government, and that the increase in public expenditure was limited despite the approved aid packages. The agency also valued the diversification of Andorran debt (in 2020, the Andorran banks finance 52% of the Government's public debt) and the internationalisation policies, allowing for the average debt maturity to be extended. In the last note published on 23 July, the agency maintains the rating and rates positively the gradual recovery in the tourism sector in the second quarter of 2021, and agrees with the easing of restrictions on movement, that the same figures were achieved in June as in the same month of 2019. Finally, Fitch Ratings rates positively the gradual decrease in the unemployment rate.

For its part, Standard & Poor's agency reaffirmed Andorra's BBB / A-2 rating in July 2021, maintaining the positive outlook established in April 2020. In its notification of the rating, Standard & Poor's bases its decision on the fact that Andorra has enough fiscal margin to manage the economic consequences of the pandemic and presents good perspectives for recovery in 2021-2024, along the same line as Spain and France (in fact, it expects a rebound of 5% in Andorran GDP in 2021 and an average of 1.4% in 2022-2024). Standard & Poor's highlights that the Andorran economy will receive a positive impact from joining the IMF. Finally, it rates positively the first issuance of international bonds in April of this year and encourages the Government to attain an association agreement with the European Union, and to continue with the efforts made in recent years to adapt to international standards on financial supervision.

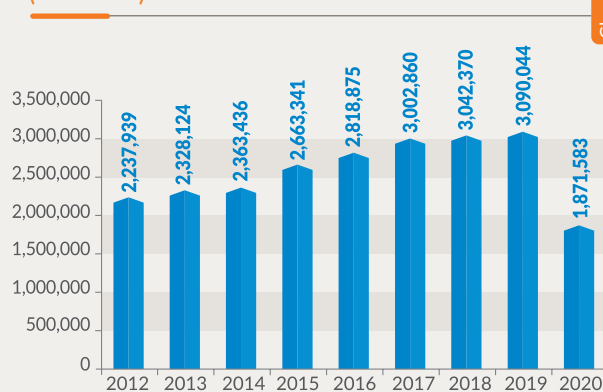
3. Tourism

According to the official GDP figures, the hotels and catering sector represents 8.3% of Andorran GVA (2019). However, the indirect impact of tourism on the whole economy is higher, as it strongly influences other sectors, such as commerce and leisure and sporting activities, which greatly depend on foreign visitors.

In 2020, the tourism sector, having played a major role in Andorran economic growth over the last five years, faced an especially complicated situation as tourism plummeted to record lows due to the health crisis. As the pandemic unfurled, tourism hit rock bottom in April and May, paralysed by the closure of the frontiers to our neighbouring countries which prevented tourists from coming into the country. When the international restrictions on movement were lifted, activity revived to some extent over the summer months, thanks to the good performance of proximity tourism, although sectoral expectations were not generally met and it was far from recovering pre-pandemic levels of activity. The worsening health situation in the fourth quarter and the introduction of further restrictions on cross-border movement caused the tourism indicators - hotel occupancy, entries of visitors, overnight stays, tourist spending, etc. - to plummet again at the end of 2020, to exceptionally low levels.

In 2020, the number of visitors fell 36.8% due to the pandemic.

TREND IN TOURISTS 2012-2020
(Number)



Source: Department of Statistics.

Chart 12.5

Over the whole year, the total number of visitors saw a historic decline of 36.8%, to 5.2 million, far from the figure of 8.2 million visitors received by Andorra in 2019. This decline was general, by the nationality of visitors and type of visit.

So, in 2020, the number of same-day visitors, who only spend a day in the country without staying the night, fell 35.2%, to 3,335,049, and the number of tourists, who spend at least one night, saw a similar fall, of 39.4%, resulting in 1,871,583 visitors. These data are record lows due to the extraordinary situation during the pandemic, although a gradual recovery is expected over the next few years until pre-crisis figures are restored.

In 2020, the number of Spanish visitors fell more than the French .

By nationalities, the decrease in visitors from Spain (-41%) was greater than from France (-28%), practically equalising the numbers of visitors from the two countries (2.4 million of each nationality), something that had not occurred since statistical data came into existence. But the greatest decline was in the number of visitors of other nationalities (-52%) due to the problems of travelling long-distance.

As for the nationalities of the tourists, the decline was general and very similar, at around 40%. This boosted the predominance of Spanish tourism, which represents 71% of the total, whereas the French are 16%, and other nationalities the other 13%. In contrast, in the case of same-day visitors, the number of Spanish fell more than the French (43% compared with 27%), which increased the importance of the French market to 64% of the total, compared with the Spanish market's 33%. Note that the French market is characterised by a remarkably high level of seasonality, with a predominance of same-day visitors who visit in the summer, especially August. In contrast, the behaviour of Spanish visitors is clearly different as there is a notably high influx in August, but at levels that are comparable to other times of the year, such as the skiing months and, secondly, Easter Week.

TOTAL VISITORS BY NATIONALITY

		2019	2020	% var. 20/19	% total 2020
Total visitors	Spanish	4,119,342	2,425,757	-41.1	46.6
	French	3,372,712	2,426,615	-28.1	46.6
	Others	742,939	354,260	-52.3	6.8
Tourists	Spanish	2,197,828	1,326,519	-39.6	70.9
	French	490,050	307,528	-37.2	16.4
	Others	402,166	237,536	-40.9	12.7
Same-day visitors	Spanish	1,921,514	1,099,238	-42.8	33.0
	French	2,882,662	2,119,087	-26.5	63.5
	Others	340,773	116,724	-65.7	3.5
TOTAL VISITORS		8,234,993	5,206,632	-36.8	100

Source: Department of Statistics.

The fall in numbers of tourists resulted in a similar rate of fall in numbers of overnight stays (-34.8%), so that overnight stays reached a record low of 5.8 million, far from the average figure of over 8 million recorded in the last five years. However, the average overnight stay increased from 2.9 to 3.1 days. All types of accommodation saw lower numbers of overnight stays, but the decline was greater in the case of hotels (-44%) and aparthotels (-26%) – which includes holiday apartments since 2017 – partly because some decided to close temporarily. Despite this very negative trend, hotels and aparthotels are the type of establishment with the highest number

of overnight stays, specifically 54% and 18% respectively. In the case of campsites, friends' or family's homes, the decreases were close to 15%, whereas the decline in own homes or rentals was minimal (-2.2%).

The negative trend in tourism is corroborated by other indicators for the sector of hotels and catering. Specifically, the number of employees in this sector fell 15.3%, to 4,327, the lowest figure since 1997. This trend highlights the fact that the ERTO scheme, despite being key in

The number of employees in hotels and catering fell 15.3% in 2020.

containing the negative impact on employment, was not enough to prevent a significant loss of jobs in the sector. Wages also fell 4% due to the economic crisis. The number of accommodation establishments fell, but only 0.8%, to a total of

363, and the number of catering establishments also saw a small decline of 0.4%, to 671. In line with the major fall in activity in these sectors, electricity consumption fell 26% in the case of hotels and catering, and 28% in ski resorts (solely FEDA data).

The number of passes sold and days that ski resorts are open are good indicators for calculating activity linked to skiing during the winter months. The 2020-2021 season was very bad due to the impact of Covid-19. Firstly, from the uncertainty about opening due to the restrictions on movement announced by the neighbouring countries, and then the decision taken by Ski Andorra with the Government to open on 2

January 2021 only for Andorran residents. The Andorran ski resorts opened only 93 days with a total of 304,438 ski days sold. This figure represents an 86.3% decline compared with the previous season, which already ended early due to the arrival of the pandemic. As a

The 2020-2021 ski season was exceptional, short and based on local clients, due to the international restrictions on movement.

commitment to national clients, all ski resorts set a single price of €20 per day pass, which was maintained for practically the whole season. All in all, this resulted in a fall in turnover of close to 90%, with an impact on the aggregate profits of the whole sector that generated losses of approximately €40 million. Note that the ski resorts maintained their commitment to safety, with the Covid-19 measures being certified by internationally-recognised agencies and weekly testing of workers.

In this context, the rate of investment in improvements of equipment and installations at the ski resorts also dropped. In 2020, investment was €8.85 million, lower than the figures of €16 million in 2019 and €25.1 million in 2018.

At Grandvalira Resorts, the final balance was a loss of 91% of global turnover. Nevertheless, all efforts were made to offer the best skiing experience under the circumstances, and in the final part of the season almost 170 km of pistes were opened from Grandvalira to Ordino Arcalís, with connections open between Grandvalira sectors (Pas de la Casa, Grau Roig, Soldeu and El Tarter). The balance for the season was 203,915 ski days sold, 88% less than the previous season. In the case of Ordino Arcalís, the number of passes sold was 42,550, 78% less than the previous season. Note that Ordino Arcalís was the stage for two major international competitions this season: the Borrufa Trophy and the Freeride World Tour. On the other hand, Vallnord Pal Arinsal also showed a very negative balance for the 2020-2021 season. In total, Vallnord Pal Arinsal closed with 57,973 ski days sold, a figure that represents 89% less than the previous season 2018-2019, and a drop in sales of 88%, partly due to the restrictions on the local public. During the season, the resort made an effort to be flexible in the terms for seasonal passes, which was well-received by clients.

Finally, in the mid-term strategy, note that Grandvalira presented its candidacy to the FIS in April 2021 to host the World Championships in 2027. Andorra will promote it next year when it competes against Switzerland and Germany. The decision will be announced in May 2022.

In 2020, Caldea had very negative results and does not expect to recover pre-crisis levels until 2022.

As for the spa, Caldea, after a successful five-year trend of constant growth in the main business indicators and celebrating its 25 years in 2019, the outbreak of the pandemic forced it to stop operating for long periods and, when it was able to restart, under the strict instructions of the health authorities.

The periods of inactivity and limits on capacity in the thermal baths and members' club led to a heavy loss of visitors (going from 400,808 visitors in 2019 to 206,203 in 2020). This affected sales and turnover, which fell 40%, from €15.8 million in 2019 to little more than €9 million in 2020 (nearly €7 million less). Faced with this alarming downturn in turnover, the company implemented cost containment, suspended planned investments and implemented the ERTO scheme, which enabled it to slightly reduce the negative impact on net profits (losses of €2.3 million in 2020, contrasting with the positive result of nearly €651,000 in the previous year). Equally, progress with vaccinations and the recovery in tourism in the second half of 2021 allowed for gradual recovery, but pre-crisis figures are not expected to be restored until 2022. Caldea has approved an immediate action plan with new activities to stimulate demand from the summer. On the other hand, the company predicts that when the new Caldea Hotel is opened in 2023, turnover will rise to over €20 million and the profitability of the business will improve substantially.

The Ice Palace also presented more negative results in 2020 than in previous years, with falling ticket sales due to Covid-19. Current income fell 41%, while expenditure only decreased 11.8%. However, the increase in current subsidies to €468,100 and the reduction in investment enabled it to partly mitigate the negative impact on the accounts. Altogether, this produced a negative result in 2020 of €108,967, more than the figure in 2019 (-77,989).

Nor was Naturlàndia, the ecological theme park of Camp de la Rabassa that became Naturland in the summer of 2021, immune to the negative impact of the pandemic restrictions. In 2020, the number of visitors fell 48% compared with the previous year; sales dropped 35% and income 33%. Among the positive data are notably the 24% increase in average consumption per visitor.

Naturlàndia closed the winter season with a total of 118 days. The La Rabassa - Naturlàndia ski resort closed the ski pistes a few days before, due to a lack of snow, after being open for a total

PASSES/DAY SOLD BY SEASON

Table 12.8

Season	Ski days (Passes/day sold)	Interannual variation (%)
2000 - 2001	2,255,650	-
2001 - 2002	2,482,000	10.0
2002 - 2003	2,458,000	-1.0
2003 - 2004	2,519,333	2.5
2004 - 2005	2,554,000	1.4
2005 - 2006	2,528,000	-1.0
2006 - 2007	1,892,990	-25.1
2007 - 2008	2,282,000	20.6
2008 - 2009	2,342,427	2.6
2009 - 2010	2,331,105	-0.5
2010 - 2011	2,214,342	-5.0
2011 - 2012	1,994,028	-9.9
2012 - 2013	2,181,533	9.4
2013 - 2014	2,356,664	8.0
2014 - 2015	2,344,876	-0.5
2015 - 2016	2,447,112	4.4
2016 - 2017	2,480,000	1.3
2017 - 2018	2,514,049	1.4
2018 - 2019	2,438,148	-3.0
2019 - 2020*	2,227,568	-8.6
2020 - 2021	304,438	-86.3

(*) Early closure of ski resorts on 14 March due to Covid-19, meaning 30 less operating days.
Note: estimated as 20 days use per pass for seasonal passes.

Source: Ski Andorra.

of 109 days without interruption. Winter activities were concentrated at 2000m and extended to 1600m in Easter Week. Despite the reduction in visitors and global turnover (-49%), a notable feature of the final balance sheet is the increase in average consumption per visitor, by 45%, due to the improvements in the restaurant area and increased interest in cross-country skiing. There was a significant surge in the sports aspect, as sales of ski activities increased 30%. The summer season at Naturlàndia was marked by uncertainty, with initial forecasts of occupancy and sales at 50% below those of summer 2019. In the end, there was a gradual increase in visitors after opening and turnover was approximately 20% below that of 2019. The commercial policy which prioritised a single ticket (for all available activities) and the new proposals for packages and eating experiences were well received, leading to a 25% average increase in global consumption per client.

Due to the pandemic, there was no performance by Cirque de Soleil in 2020, initially postponed to 2021 then to 2022 due to the situation of uncertainty. The first Andorra Mountain Music festival could not be held in 2020 either, and was held in summer of 2021 in unique surroundings at the foot the Grandvalira Avet piste, with an internationally-renowned line-up of musicians.

Other events that took place or will do in 2021 to attract tourism include the Spartan Race Andorra, Jambo Street Music, Ironman 70.3 and the Tour de France.

Finally, the project to build a casino in Andorra to boost the country's attractiveness was awarded to JOCS SA, after providing the documentation to correct the architectural differences between the project to be executed and the pre-project selected two years earlier, the reason why the Andorran Gambling Regulator (CRAJ) had refused the licence until now. The casino is expected to be ready in September 2022.

The fall in tourism demand in 2020 was accompanied by a decline in the supply of accommodation. The number of tourist accommodation establishments went from 230 in 2019 to 225 in 2020, and the number of beds decreased 2.4%, to 31,517 total beds. Within the supply of tourist accommodation, there are 166 hotels, 20 aparthotels, 10 *hostals/residencies*, 6 *pensions* and 23 holiday apartments. On the other hand, there are also 48 establishments in the other tourist accommodation category (28 mountain huts, 7 campsites, 1 camping area, 1 summer camp, 2 hostels, 7 rural houses, 2 *bordes*) and 87 companies managing housing used for tourism (EGHUT), with 13,980 beds (a figure that put this niche in the tourism supply well above the other types, except hotels).

In 2020, there were five fewer tourist accommodation establishments, only one being a hotel.

The supply of accommodation shrank due to falling demand.

NUMBER OF BEDS IN TOURIST ACCOMMODATION BY TYPE

Table 12.9

	2019	2020	% var. 20/19	% total 2020
Hotels	27,046	26,564	-1.8	84.3
Hostals / residencies	331	381	15.1	1.2
Pensions	248	250	0.8	0.8
Aparthotels	2,690	2,554	-5.1	8.1
Tourist apartments	1,981	1,768	-10.8	5.6
Total	32,296	31,517	-2.4	100

Source: Department of Tourism / Department of Statistics.

In 2020, there was a reduction of one hotel establishment, one aparthotel building and three holiday apartment buildings. In total, there are 225 tourist accommodation establishments, five less than in 2019. The number of hotel beds also fell, but the hotels maintained almost the same number of beds. 84% of the total supply of beds by type of establishment is concentrated in hotels (26,564 in 2020). The number of beds in aparthotels is 2,554, and 1,768 in holiday apartments. In the other types of accommodation, beds in housing used for tourism predominate, 13,980

TOURIST ACCOMMODATION SUPPLY BY PARISHES

Table 12.10

	2019		2020		% var. 20/19		% total 2020	
	Estab.	Beds	Estab.	Beds	Estab.	Beds	Estab.	Beds
Canillo	47	7,008	44	6,814	-6.4	-2.8	19.6	21.6
Encamp	49	5,652	49	5,440	0.0	-3.8	21.8	17.3
Ordino	25	1,852	24	1,819	-4.0	-1.8	10.7	5.8
La Massana	36	5,165	36	5,228	0.0	1.2	16.0	16.6
Andorra la Vella	33	6,138	32	5,798	-3.0	-5.5	14.2	18.4
Sant Julià de Lòria	8	771	8	776	0.0	0.6	3.6	2.5
Escaldes-Engordany	32	5,710	32	5,642	0.0	-1.2	14.2	17.9
Total	230	32,296	225	31,517	-2.2	-2.4	100	100

Note: Data on 31 December of relevant year.

Source: Department of Tourism / Department of Statistics.

in 2020 (9.6% more than in 2019). Remember that the Government passed new regulations in January 2019 to boost the number of apartments available on the rental market, consisting firstly of a register of empty apartments, and secondly, applying a tax on those dwellings, which came into force on 31 December 2020.

Under the 2018 Law on the Energy Transition and Climate Change (Litecc), hotels can certify their sustainability with an official emblem. This is voluntary and has no tax benefits but enables tourist accommodation establishments to publicly assert their commitment to the environment. The emblem was introduced at the beginning of 2020 and, so far, only a few establishments have adopted it because it requires investment and training for workers at a complex time for the sector.

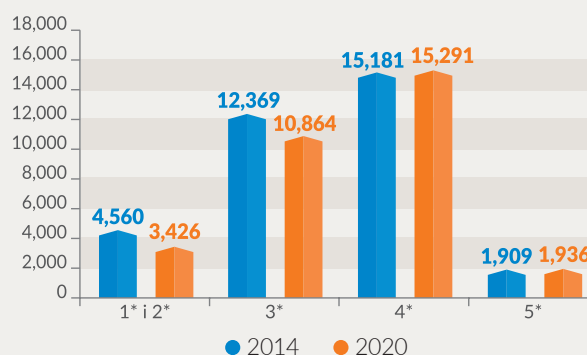
Considering the accommodation supply (beds) per parish, a high concentration can be seen in parishes considered to be at the “foot of the slopes” (Encamp 17%, Canillo 22% and La Massana 17%), and also in the central parishes (Andorra la Vella 18% and Escaldes-Engordany 18%). In Sant Julià de Lòria (2%) and Ordino (6%), despite having important infrastructures, the distance between the town centres and the infrastructures reduces the “foot of the slopes” effect. In 2020, the number of beds decreased in most parishes except La Massana and Sant Julià de Lòria, where small increase were recorded. The most significant declines in the number of beds were seen in Andorra la Vella (-5.5%) and Encamp (-3.8%), and to a lesser extent on Canillo, Ordino and Escaldes-Engordany. As for the number of establishments, the most notable reduction was in Canillo (three establishments less), Ordino and Andorra la Vella (one less in each place).

There was a 12% decrease in the number of beds in 5* establishments.

As for categories of tourist accommodation, 55% of the supply of beds in 2020 are of a higher category (4 and 5 stars), a percentage that has risen from 50% in 2014, an unmistakeable sign of the sector’s bias on quality and the goal to attract clients with higher purchasing power. On the other hand, the number of beds in

TREND IN THE NUMBER OF BEDS BY CATEGORY OF TOURIST ACCOMMODATION

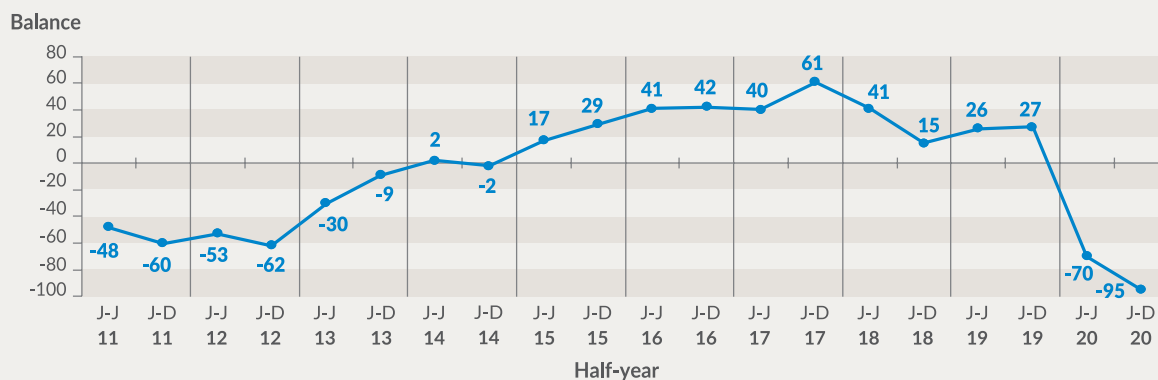
Chart 12.6



Source: Department of Tourism / Department of Statistics.

BUSINESS ACTIVITY - HOTEL SECTOR

Chart 12.7



Balance: Difference between opposing responses (positive and negative), as a percentage.

Source: Chamber of Commerce, Industry and Services of Andorra.

lower categories (1 and 2 stars) has lost importance in recent years and they only represent 11% of total beds.

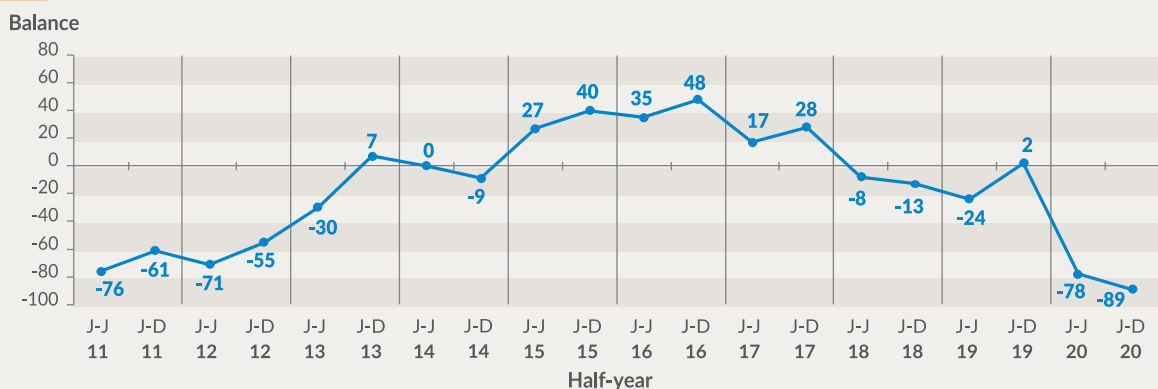
In 2020, the supply of beds underwent a general decline due to the restrictions and temporary closure of establishments. The categories that saw the greatest decline in 2020 were 5* (-12%) and 1* and 2* (-7.1%).

The results of the business climate surveys by the Cambra show how business confidence fell markedly, and detect the high level of concern amongst hoteliers due to the duration and intensity of the economic effects of the crisis on their business. It is clear that this adverse scenario of an unprecedented downturn in tourism demand is weakening the economic and financial position of hotel establishments, and also affecting their capacity to remain solvent and survive, due to the exceptional decline in income.

In this context, businesses' opinions about activity are by far the most negative in the whole series of results of the survey (available since 1997) and confirm that the sector has suffered the worst downturn in activity, to levels never seen before. Specifically, in the second half of 2020, practically all hotels, 95% of the total, classified the business situation as bad – a percentage that represents an all-time record – and, moreover, no hotel establishment gave a positive assessment of their business.

LEVEL OF OCCUPANCY IN COMPARISON WITH THE SAME PERIOD OF THE PREVIOUS YEAR - HOTEL SECTOR

Chart 12.8



Balance: Difference between opposing responses (positive and negative), as a percentage.

Source: Chamber of Commerce, Industry and Services of Andorra.

Geographically, the worsening business situation was generalised, both in the parishes that are more focussed on commerce, such as Andorra la Vella and Escaldes-Engordany, and the other parishes that are mostly dedicated to snow tourism.

This trend was the result of a quiet summer season and a very disappointing balance of tourism in the last part of 2020, due to the tough health restrictions imposed by our neighbouring

countries (Catalonia closed its borders while French tourists arrived but were not allowed to ski), measures that frustrated the Christmas campaign and undermined the ski season.

The level of occupancy in hotels fell to lows in 2020.

Average occupancy levels saw an unprecedented downturn in the second half of 2020, compared with the same period in 2019, in all parishes and also clearly below the already bad levels of the previous half-year.

The data from the survey to assess the impact of Covid-19, prepared by the Cambra and CRES in January 2021, confirm the downturn in the hotel business and the high levels of inactivity in the

BUSINESSES' OPINIONS OF DEVELOPMENTS IN THE HOTEL SECTOR (% of businesses)

Table 12.11

		2018			2019			2020		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
1. Business activity (reviewed half-year)	Good	48	26	37	40	36	38	13	0	7
	Normal	45	64	55	46	55	51	4	5	5
	Bad	7	11	9	14	9	12	83	95	89
	Balance	41	15	28	26	27	27	-70	-95	-83
2. Average distribution of clients (%) (reviewed half-year)	Catalonia	31	42	37	36	40	38	37	32	35
	Rest of Spain	24	25	25	22	25	24	24	16	20
	France	24	22	23	22	19	21	24	36	30
	Others	21	12	17	20	16	18	15	16	16
3. Level of reservations (reviewed half-year)	High	12	13	13	6	11	9	4	0	2
	Adequate for period	70	52	61	50	66	58	13	0	7
	Low	16	35	26	38	21	30	83	100	92
	Reservations not taken	2	0	1	6	2	4	0	0	0
	Balance	-4	-22	-13	-32	-10	-21	-79	-100	-90
4. Average level of occupancy (compared with same half-year in previous year)	Higher	25	26	26	16	31	24	9	3	6
	Equal	43	35	39	44	40	42	4	6	5
	Lower	33	39	36	40	29	35	87	92	90
	Balance	-8	-13	-11	-24	2	-11	-78	-89	-84
5. Prices paid by clients (compared with previous half-year)	Higher	43	23	33	18	11	15	25	0	13
	Equal	50	36	43	61	64	63	50	23	37
	Lower	7	40	24	20	25	23	25	77	51
	Balance	36	-17	10	-2	-14	-8	0	-77	-39
6. Number of employees (compared with same half-year in previous year)	More	10	13	12	11	19	15	13	6	10
	Same	86	66	76	78	77	78	50	25	38
	Less	5	21	13	11	5	8	38	69	54
	Balance	5	-8	-2	0	14	7	-25	-63	-44

Source: Chamber of Commerce, Industry and Services of Andorra.

hotel supply, resulting in an average interannual fall in sales figures of nearly 70% in the fourth quarter of 2020.

Finally, the major weakness in demand caused a notable decline in sales prices and, in relation to the labour market, the hotel sector is still the sector that destroyed most jobs throughout the second half of 2020.

As for the distribution of clients per country of origin, Catalonia is still the most important source of clients for Andorran hotels, with 35% of total clients in 2020. In second place is the French market, which increased its percentage from 21% in 2019 to 30% in 2020. On the other hand, tourism from the rest of Spain fell to represent 20% and went from being the second most important market to third in 2020. Finally, the percentage of clients of other nationalities also fell from 18% to 16%.

Catalonia is the main source of travellers, providing 35%.

4. Transport and communications

This sector is divided into two branches of activity. The first is transport and storage, representing 2.0% of Andorran GDP (2019 data), and the second is information and communications, with 3.9% of GDP, also in 2019. In terms of employment, the transport sector (including overland and air transport and related activities, including travel agencies) represented 2.5% of total employees (963 people), and the sector of telecommunications and mail only 0.8% (309 people), from 2020 data.

In 2020, the number of employees fell 4.2% in the transport and communications sector.

In the whole of the transport and communications sector, there were 1,272 employees in 2020, 4.2% less than the previous year, after reaching the highest figure in the historical series in 2019. This decline can be explained, on the one

hand, by the branch of activities related to transport and travel agency activities, which saw a fall of 13.5%, greatly affected by the reduction in tourism, and on the other hand, by the branch of telecommunications and mail, which saw a downturn of 4.2%. Note that this is the third consecutive year that this second branch has seen a drop in the number of employees.

The recessive economic context in 2020 resulted in a fall in the average wage in the sector of overland transport (-6.8%), whereas the average wage grew or was stable in the other activities in the sector of transport and telecommunications.

In 2020, the number of establishments in the sector of transport and storage remained practically stable at 259. In contrast, the number of establishments dedicated to information and communications increased from 454 in 2019 to 533 in 2020. These 79 new establishments are basically dedicated to IT services (57 more) and the production of film, video and television programmes, or sound recording and music publishing (19 more establishments in 2020).

The number of vehicle registrations fell 18.7% in 2020.

In 2020, the number of new registrations fell 18.7% to 3,676 vehicles, added to the fall of the previous year, after rising for six consecutive years. Note that the new CO2 emissions regulations for EU vehicles, which came into force in Andorra in 2019, had a very negative impact on registrations that year, combined with the impact of falling consumption due to Covid-19.

The second cycle of the Engega Plan 2019-2021 involved a reduction in total subsidies for purchasing electric vehicles, after the success of the first Engega Plan for 2016-2018, but the intention to promote electric mobility and improve the energy efficiency and safety of Andorran vehicles continues.

Note that the new 2019-2021 Engega Plan initially had a fund of €750,000 for 2019, €1,000,000 for 2020 and €1,000,000 for 2021. However, due to the Covid-19 crisis, the budget allowance for Engega 2020 subsidies was reduced to €500,000 (instead of €1,000,000), but has been increased again to €750,000 for 2021.

96 grants were authorised in the 2019 Engega programme (for the amount of €385,250), fewer than the 195 grants in the 2018 Engega programme (for a total of €882,750). Note that the initial budget available in 2019 was €750,000, so the level of execution was only 51%, much lower than the 88% in 2018, the 93% in 2017 and the 99% in 2016 (the programme start year).

In 2020, the aim of the Government was to return to the highest levels of aid and even increase some. Specifically, the subsidies for 2020 were:

- Grants to purchase electric vehicles: €8,000 for a pure electric vehicle with extended autonomy; €4,000 for a plug-in hybrid vehicle; €1,250 for a pure electric motorcycle, and €13,000 for a pure electric van or truck. The maximum grant is still 35% of the vehicle value.
- Scrappage of a vehicle associated with the purchase of an electric vehicle or energy-efficient vehicle: €1000 for car scrappage and €1,500 for scrappage of a van or truck (at least 15 years old).

Moreover, a new maximum price requirement was established in 2020 for access to the grant to buy a vehicle: €50,000 for a pure electric vehicle with extended autonomy and plug-in hybrid car; €4,500 for a pure electric motorcycle, and €65,000 for a pure electric van or lorry.

Finally, the sales points have also increased subsidies for purchasing electric motorcycles and vehicle scrappage, whether cars or vans and trucks. For the purchase of a four-wheeled vehicle, the incentive is €1,000 and for a motorcycle, €250. For scrappage of a vehicle associated with the purchase of an energy-efficient vehicle, the incentive in both cases is €1,000.

The balance of the 2020 Engega Plan has been quite positive: 103 grants have been awarded (76 to buy a non-polluting vehicle and 27 for scrappage) for a total amount of almost €500,000, which ran out on 15 November 2020. The call for applications for the 2021 Engega Plan increases the budget to €750,000 due to strong demand.

Changes to the new 2021 Engega Plan compared with 2020 are:

- Improved conditions of access to grants to buy a motorcycle (the maximum value of the motorcycle rises to €7,000; the sales point covers €250 instead of €500 and the Government provides €1,500 instead of €1,250).
- Grants are also offered for the scrappage of vehicles without a purchase (€500 for a car and €750 for a van or lorry).

Moreover, a new feature in 2021 is the ability to present applications even after the application deadline or when the budget is exhausted, which will have priority in the next call for applications.

By types of vehicles, car registrations, representing 68% of total units, fell almost 20% in 2020, but the categories that saw the greatest falls are largely those related to the economic activities and investment plans of businesses, such as van registrations, which shrank 37%; lorries, which shrank 39.3%, and special vehicles, which fell 28.8% against the previous year. The number of snow bike registrations also fell (-64.1%), as did mopeds (-45.5%). In contrast, motorcycles saw the smallest decline (-2.7%).

Despite the decline in registrations, the number of vehicles in 2020 (with ordinary plates) increased 2.3%, because the scrappage rate fell. The number of vehicles per 1,000 inhabitants (of

VEHICLE REGISTRATIONS (units)

Table 12.12

	2017	2018	2019	2020	% var. 20/19	% total 2020
Cars	3,198	3,265	3,117	2,496	-19.9	67.9
Motorcycles	819	751	788	767	-2.7	20.9
Vans	264	332	330	208	-37.0	5.7
Lorries ⁽¹⁾	86	85	107	65	-39.3	1.8
Special vehicles	45	54	52	37	-28.8	1.0
Mopeds	11	14	11	6	-45.5	0.2
Snow bikes	30	18	39	14	-64.1	0.4
Others ⁽²⁾	99	89	75	83	10.7	2.3
Total	4,552	4,608	4,519	3,676	-18.7	100

(1) Also includes buses, semi-trailers and industrial trailers. (2) Consisting of private trailers and farm tractors.

Source: Department of Transport.

estimated population) grew to 1,171, counting total vehicles, and 790 if only cars are counted. This means that on average there are more vehicles than residents.

In 2020, registrations of electric and hybrid vehicles bounced and are now 10% of registered vehicles.

Over the last few years, the demand for electric and hybrid vehicles benefitted from the incentives to purchase eco-friendly vehicles promoted by the Government (Engega Plan). The first Engega Plan in 2016-2018 gave exceptionally good results. Investment rose to a total of 3.3 million euros and, in the first year, registrations of electric and hybrid vehicles took off, to 211 units, with a continuing trend in 2017 (215 registrations) and 2018 (222 registrations).

However, the Engega Plan grants decreased in 2019 and this was noted in registrations that year, but in 2020, registrations increased again. Specifically, 82 100% electric vehicles were registered (in contrast with the 53 in the previous year) and 276 plug-in and non-plug-in hybrid vehicles (a much higher figure than the 77 in 2019). These two categories of vehicle already represent 10% of total registrations. The Government aims for 20% of cars to be run on renewable energy within a decade, by 2030, and 50% by 2050, according to Andorra's nationally-determined contributions (NDCs) to combat climate change, set out in a document which Andorra sent to the United Nations as part of the commitments undertaken in the Paris Agreement.

As for sustainable mobility, Cicland the shared electric bike scheme has been in operation since the summer of 2018, with stations throughout Andorra and about fifty bikes available to users. In 2020, a pilot scheme was started in Sant Julià de Lòria with electric scooters.

In 2020, fibre optic lines continued to increase but mobile phone lines decreased.

In the communications branch, the dynamic of the last five years was broken in 2020, with a 2.9% reduction in the number of mobile phone contracts, bringing the total figure to 85,382 lines, but partially offset by the 2.1% increase

in the number of land lines, to 48,611. On the other hand, there are 37,659 fibre optic lines, a figure that represents an increase of 3.6% compared with 2019. The ratio of broadband lines per 100 inhabitants grew slightly to 48 and the ratio of mobile lines for the same number of inhabitants fell to 109. Nevertheless, there are still more mobile lines than inhabitants in Andorra.

As for the trend in telephone traffic in 2020, unlike in 2019, national land line traffic increased in minutes (22%), as did mobile network traffic (29%). International incoming and outgoing traffic

continues to decrease, following the pattern of recent years, amplified by the 2020 impact from falling visitors. For its part, internet telephone traffic by fibre optic grew at remarkably high rates (89% national and 37% international), as did national internet traffic by mobile (29%).

Box 12.3

THE MAIN ACTIONS BY ANDORRA TELECOM IN 2020

The coronavirus crisis presents a double challenge to Andorra Telecom: to guarantee connectivity at a critical moment and to use the company's financial muscle to support those families and businesses most affected by the crisis.

Lockdown has been a real test of strength for the telecommunications networks. The internet infrastructure easily coped with the bumper traffic from teleworking, videoconferencing, online classes and recreational audiovisual consumption.

The other major goal is to stand by citizens and businesses. Conscious of the problems that the production sector is going through, it approved discounts on the services supplied for the value of €1.6 million in 2020. Nearly 5,500 businesses and self-employed people benefitted from the discounts which ranged from 80% of the service bill in the case of partial suspension of activity, to 100% if wholly inactive. Payments were also made flexible for clients and, in collaboration with the Ministry of Social Affairs, Youth and Equality, discounts were offered on the basic package to families in need.

One of the lines of support was to students, together with the Ministry of Education and Higher Education, to ensure that all had access to an excellent connection and devices to follow classes from home. Free access to Premium channels on TV at a time when television became an essential tool for leisure and information; the provision of a direct number for charitable donations, and the technological support for the "stop labs" (drop-in Covid testing sites), Government appearances and care homes, are other actions designed to mitigate the effects of the health and social crisis.

The company destined €20 million to financing the special costs associated with the pandemic.

Andorra Telecom, like the rest of the economy, has also had to deal with a drop in activity, and therefore, income. The restrictions on movement over many months of the year resulted in a drop in turnover which, considering the circumstances, was less than expected, thanks to the renegotiation of agreements with international operators. The financial year finally closed with a positive result of €17.1 million, but €3.3 million below the budget.

The improvements in products and services made over the last few years continue into 2020 with the new prepay telephone, offering users lower prices, more features and easier management. The most important novelty this year is the launch of the first monthly payment method with automated prepayments each month. The revision of mobile phone charges also means a qualitative leap involving the doubling or quintupling of the volume of data. The good commercial performance of the 700 mbps Internet access and the Wifi Total solution, guaranteeing wi-fi coverage in homes or establishments, demonstrate the value that users give to connectivity improvements.

In the same spirit, the domestic digital transformation plan, promoted in 2019, continues into 2020 with a whole range of domestic and external projects approaching areas such as the relationship with the client via digital channels, document management and the digitalisation of working environments and business processes. On the other hand, the deployment of 5G Technology is delayed until 2022.

Source: Andorra Telecom.

Timeline of the most significant economic developments in 2020

January

- 1 January, implementation of the Double Taxation Agreement (DTA) with Cyprus.
- 3 January, the Government starts the formal process to join the International Monetary Fund. The application is formally accepted on 10 January 2020.
- 17 January, Standard & Poor's rating agency confirms Andorra's rating of BBB/A-2 with a positive outlook.
- 25-26 January, Arinsal hosts the 11th ISMF Ski Mountaineering World Cup, the Comapedrosa Andorra World Cup.
- 30 January, the WHO declares a Public Health Emergency of International Concern due to the global outbreak of COVID-19.
- 31 January, the international rating agency, Fitch Ratings, confirms Andorra's rating of BBB+ with a stable outlook.

February

- 12 February, approval to create the National Energy and Climate Change Commission.
- 2020 National Budget approved (Law 2/2020, of 27 February).

March

- 2 March, the Government confirms the first case of COVID-19 in Andorra.
- 4 March, the Government authorises the creation and inauguration of the Carlemany University, a new private online university.
- 11 March, the WHO declares the COVID-19 outbreak to be a pandemic.
- 14 March, the Government approves special measures to deal with the health emergency caused by COVID-19: it orders the closure of all leisure and recreational establishments, gyms, bars, restaurants, ski resorts and commercial establishments except those selling essential goods.
- From 16 March, all public and private educational centres close.
- 17 March, the Government orders all non-essential work activities considered of risk or that might encourage the spread of the virus to cease, such as construction and related activities, most industrial activities and professionals. Some activities are required to provide emergency services while public administration activities are reduced to a minimum.
- Approval of the first Omnibus Law (covering diverse areas), Law 3/2020, of 23 March, on special, urgent measures for the health emergency caused by the SARS-CoV-2 pandemic.
- Approval of qualified Law 4/2020, of 23 March, on states of alarm and emergency.
- 24 March, the Government approves a first special guarantee scheme for companies and businesses within the context of the health emergency caused by SARS-CoV-2.
- 25 March, approval of the temporary application of discounts to telecommunications prices and electricity rates.
- 25 March, approval of the Base Prospectus of the fifth public debt issuance programme and, under that programme, an issuance of long-term public debt (bonds) of €125 million.
- Andorra Turisme and Cirque du Soleil agree to move the show planned for summer 2020 to July 2022.

April

- ▶ The fifth round of the Mercedes-Benz UCI Mountain Bike World Cup in Andorra is cancelled. The event was to be held at Vallnord Pal Arinsal from 16-21 June 2020.
- ▶ Approval of a second Omnibus Law, Law 5/2020, of 18 April, on further special, urgent measures for the health emergency caused by the SARS-CoV-2 pandemic. For the first time, this regulates temporary suspension of employment contracts and reduction of working hours.
- ▶ 20 April, phase 1 of the gradual return to activity begins, with the opening of some commercial activities to facilitate lockdown and online sales.
- ▶ 4 April, Standard & Poor's rating agency confirms Andorra's rating of BBB/A-2, but revises the outlook from positive to stable due to the impact of COVID-19.
- ▶ 29 April, approval of a short-term public debt issuance (bonds) of €125 million, under the Base Prospectus of 25 March 2020, to fulfil the fifth public debt issuance programme of the Principality of Andorra.

May

- ▶ 4 May, phase 2 of the reactivation of economic activity begins, with the resumption of activities that do not depend on tourism, such as construction and related industries, much of industry, mechanics' workshops and professionals' offices.
- ▶ 18 May, public and private educational centres reopen – kindergarten, primary education, secondary education, baccalaureate and vocational training – for assessment activities, practical training outside the centre and arranged interviews.
- ▶ 18 May, the first sub-step of phase 3 of the resumption of economic activities begins with the gradual reopening of other activities (including the manufacturing sector, real estate, veterinaries, health professionals).
- ▶ 18 May, Actua presents a new support scheme for businesses with high growth potential, called Programa Growth.
- ▶ 20 May, approval of a second special guarantee scheme for companies and businesses within the context of the health emergency caused by SARS-CoV-2.
- ▶ 26 May, Andorra becomes a full member of the Council of Europe Development Bank.
- ▶ 27 May, publication of the amendment to the annex of the Monetary Agreement between the Principality of Andorra and the European Union, signed in Brussels on 30 June 2011.

June

- ▶ From 1st June, the second sub-step of phase 3 of the resumption of economic activities begins with the opening of almost all sectors that were still suspended or on duty or standby (except night-time leisure and thermal and spa activities).
- ▶ From 2 June, all public and private educational centres reopen completely and resume normal activity.
- ▶ 9 June, the Government declares a partial end to the health emergency, cancelling some of the special, urgent measures that were in place and no longer appear necessary.
- ▶ 11 June, the Andorran Bank Association, Andorran Banking, approves the sectoral agreement allowing businesses and households that have been hurt financially by the pandemic to defer payments of loans or credit (sectoral deferral periods).
- ▶ Approval of Law 9/2020, of 25 June, on measures for economic and human resource rationalisation in the public sector and the reduction of wages for elected representatives and discretionary appointments within the public institutions.

July

- From 1 July, expansion of phase 3 of the resumption of economic activities, with the opening of pubs and thermal and spa activities, with limits on hours and capacity.
- 17 July, Standard & Poor's rating agency confirms Andorra's rating as BBB/A-2 with a stable outlook for the country. Standard & Poor's takes into account the positive effects of progress in the procedure for joining the International Monetary Fund (IMF).
- 27 July, the Government presents the action plan "Horitzó 23", guidelines for the next three years that include a total of 77 actions. This plan is intended to reverse the negative effects of the crisis and make Andorra a more global, sustainable and resilient country.
- 29 July, approval of a long-term public debt issuance (bonds) of €20 million, under the Base Prospectus of 25 March 2020, which fulfils the fifth public debt issuance programme of the Principality of Andorra.
- 29 July, approval of certain International Financial Reporting Standards adopted by the European Union (IFRS-EU) and amendment of the Decree of 22 December 2016, approving the accounting framework applicable to entities operating within the Andorran financial system and collective investment schemes under Andorran law, in compliance with the IFRS-EU, adopted at the same time by Andorra (IFRS-Andorra).
- 31 July, the international ratings agency, Fitch Ratings, confirms Andorra's rating of BBB+ and stable perspective. Fitch Ratings gives a positive assessment of the Andorran debt diversification policy and process of joining the International Monetary Fund (IMF).

August

- 9 August, the WHO Framework Convention on Tobacco Control enters into force.
- 26 August, the Government gives the green light on the final decision to award the casino licence to the company Jocs SA, winner of the tender. The project is expected to be completed in 2022.

October

- The second wave of the pandemic begins; France and Spain and other countries announce new lockdowns and restrictions on movement to contain the spread of the virus.
- 1 October, GSIC by Microsoft and Actua sign an agreement to position Andorra on the international scene as a model for the start-up ecosystem, innovation and digital transformation in the mountain sector, winter sports and cycling.
- Approval of Law 10/2020, of 5 October, on the Principality of Andorra joining the International Monetary Fund (IMF).
- 7 October, a supplement to the Base Prospectus of 25 March 2020 is approved, by which the authorised amount of the public debt issuance is increased to a maximum of €450 million. A long-term public debt issuance (bonds) is also approved for a maximum of €180 million, under the Base Prospectus of 25 March 2020.
- Approval of Law 12/2020, of 8 October, amending Law 17/2018, of 26 July, regulating the Andorran educational system.
- 16 October, Andorra becomes the 190th member country of the International Monetary Fund (IMF).
- 17 October, entry into force of the Articles of Agreement of the International Monetary Fund (IMF).
- 21 October, approval of a special scheme to support the rent and mortgage payments of commercial premises within the context of the health emergency caused by SARS-CoV-2.

November

- 10 November, the Government presents the results of the analysis of the Andorran tax system using the methodology Paying Taxes, a sub-indicator of the World Bank's Doing Business. The conclusions of the study highlight the competitiveness of the Andorran tax system and put Andorra in twentieth place in a ranking of 191 countries.
- 18 November, approval of the amendment to the Decree of 20.05.2020 approving a second special guarantee programme for companies and businesses within the context of the health emergency caused by SARS-CoV-2.
- 18 November, the Government approves another measure to reduce electricity rates, available to businesses that have applied for and obtained a grant to pay the rent or mortgage payments of commercial premises under the programme approved in the Decree of 21 October 2020.
- 25 November, the Government approves another measure to reduce electricity rates for businesses that meet the criteria for temporary suspension of employment contracts or reduction of working hours within the context of the health emergency caused by SARS-CoV-2.
- 25 November, entry into force of the agreement between the Government of Andorra and the Russian Government on the terms for mutual removal of visa formalities for travel by Andorran and Russian citizens.
- Approval of Law 15/2020, of 26 November, on urgent measures for urban leases and improving purchasing power.

December

- 2 December, approval of a special support scheme for rent and mortgage payments of establishments authorised as gambling halls and to operate gaming machines, closed within the context of the health emergency caused by SARS-CoV-2.
- Approval of a third Omnibus Law, Law 16/2020, of 4 December, on new special, urgent measures for the health emergency caused by the SARS-CoV-2 pandemic.
- 14 December, the banks agree to delay the deadline for requesting sectoral deferral periods until 31 March 2021, allowing businesses and households that have been hurt financially by the pandemic to defer principal repayments on loans and credit.
- 16 December, approval of the 2021 annual Statistics Plan.

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