

**27**  
number

# | 2021 economic report



CAMBRA  
DE COMERÇ  
INDÚSTRIA I SERVEIS  
D'ANDORRA

With the support of



**Andorran Banking**  
Associació de Bancs Andorrans

**EDITED BY**

The Chamber of Commerce, Industry  
and Services of Andorra

C/ Prat de la Creu, 8  
AD500 Andorra la Vella  
Principality of Andorra  
[www.ccis.ad](http://www.ccis.ad)

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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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# Introduction

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This year, 2022, the Chamber of Commerce, Industry and Services of Andorra presents the twenty-seventh edition of the annual Economic Report of Andorra. This contribution to understanding the economy of the Principality fulfils one of the Chamber's legal duties, and would not be possible without the loyal collaboration of Andorran businesses, who periodically answer the situation surveys; the work of internal and external staff, who compile all the data provided by the institutions and associations of this country and perform a detailed analysis, or the media, who publish the content of this document.

Our report closely examines the most notable events in economic development in 2021, both inside and outside Andorra, with a special section for each of the main sectors of the economy, and offers an opinion on the economic prospects for 2022. Fortunately, we are able to write this year's introduction in a much more favourable context than one year ago, as the pandemic is now almost over.

After a worldwide historic decline in economic activity in 2020, due to the impacts of the COVID-19 pandemic, the process of recovery in the global economy in 2021 was also intense, with 6.1% GDP growth, the highest figure in decades. This strong momentum has enabled the world economy to recover and surpass pre-pandemic GDP levels. In 2021, many of the economic policy measures that had been adopted by governments and economic institutions to tackle the effects of the pandemic were still in place, and this contributed positively to the rapid recovery in economic activity.

However, the degree of recovery in GDP was uneven according to geographical area. In the USA, for example, by the second quarter of 2021, the level of GDP of the fourth quarter of 2019 had already been restored. On the other hand, Eurozone GDP did not reach that level until the fourth quarter of 2021. Equally, some European countries that had been deeply impacted by the crisis due to high exposure to foreign tourism, such as the Spanish economy, will not recover pre-pandemic levels of activity until 2022 or 2023. As a general rule, the countries that initially suffered most from the impact of COVID-19 are also the ones that saw the strongest growth in 2021, something that also applies to Andorra.

In parallel, inflation rates rebounded notably in 2021, a factor that has become the main preoccupation of international economic institutions in 2022 and a major risk of decline in global economic growth over the next few months. The situation can mostly be explained by rising energy prices, but rising prices in other commodities such as basic food and metals have also contributed, and even a negative base effect, since it is compared with the fall in prices that occurred in 2020 due to the economic slowdown at the start of the pandemic.

The Andorran economic context has clearly improved in 2021. The economic recovery took the form of solid GDP growth in real terms, of 8.9% according to the advance figures published by the Government, contrasting with the 11.2% downturn suffered in 2020. Real GDP at the end of 2021 was therefore 3.2% lower than in 2019, before the pandemic. Andorra's recovery was stronger than in Spain, France or the whole of the EU, but note that the downturn in 2020 was also more severe. In parallel, the Andorran population has continued to grow (1.9%), so that per capita GDP in nominal terms increased to €35,399, equal to what it was in 2015-2017.

The economic recovery in 2021 was reflected in the positive trend in the great majority of indicators of activity and demand. In particular, the recorded increases in visitors, electricity consumption, bank lending, imports, the number of establishments and car and industrial vehicle registrations are notable. Equally, the operating costs and real investment of the government as a whole increased, after the cuts implemented in 2020. This economic momentum also led to an improvement in the situation of the job market, with a 2.4% increase in employment figures, according to the Workforce Survey, and virtual stabilisation of the unemployment figures.

By sectors, construction is still the most dynamic sector of the economy, with a rate of activity that has already well exceeded pre-pandemic levels. For their part, industry and non-tourism services, which were less affected by the health restrictions, have already wholly or almost wholly normalised activity in relation to 2019. In contrast, the sectors most linked to tourism and most exposed to social interaction, such as hotels, restaurants, commerce, travel agencies, passenger transport and culture and leisure activities, recovered more slowly and ended 2021 at activity levels still far from pre-pandemic figures.

The primary sector, which only provides 0.5% of total GVA, saw contraction in 2021 for the fourth consecutive year, by 0.6%, which, however, was slower than in 2020 (-4.9%). This decline was accompanied by a reduction in the number of employees, number of establishments and heads of livestock. On the other hand, utilised agricultural area increased 1.8%. As for the tobacco harvest, the trend in 2021 was towards partial recovery, with an increase of 14.6% after two years in an exceptional situation caused by COVID-19.

Growth in real GVA in the construction sector was 23.5%, a trend that continues a consecutive six-year period of growth. The strong momentum in activity in the sector is reflected in high growth in other indicators, such as approved square metres for building, authorised surface area, imports of building materials, property transactions, electricity consumption and public investment expenditure. The results of the Chamber's surveys corroborate the good performance of activity in the construction sector, with a very positive evaluation of the business situation, highly concentrated in the housing segment and with a notable increase in sales figures and investment.

As for industry and manufacturing, the trend in 2021 was also favourable, with real GVA growth of 6.4%, although the number of employees in the sector fell. Equally, the Chamber's surveys depict the improvement in the industrial climate, business activity and production levels, and also a substantial increase in turnover and the investment rate, contrasting with the declines in 2020.

Services, which was the sector most harmed by the COVID-19 pandemic, saw a partial recovery in 2021, with real GVA growth of 7.6% after the 8.6% decline recorded in 2020, but not accompanied by job creation. By subsectors, the recovery in activity was fairly generalised but at very different intensities. The subsector that suffered most from the consequences of the health crisis, Commerce, hotels and catering, transport, information and communications, saw 9% GVA growth. This trend is largely linked to the turning point seen in the number of visitors to the country, which increased 4.1% to 5.4 million, after falling 36.8% in 2020, although the level achieved is still far from pre-pandemic levels (7-8 million visitors). Along the same line, the Chamber's surveys depict an improvement in business opinions on the trend in business activity in the hotel sector in 2021, with slight increases in turnover and investment.

Commerce followed a similar pattern to tourism, with a slow recovery in activity, evident in indicators such as the increases in numbers of establishments and electricity consumption,



among others. Moreover, the Chamber's surveys showed an improvement in business activity and increases in sales figures and investment.

In the case of financial, real estate, professional and technical activities, the recovery was quite strong, with an estimated increase in GVA of 9.1%, after the 3.9% fall in 2020. Remember that this is the most important branch of services in the economy, with almost 36% of total GVA.

In particular, the trend in the banking sector in 2021 was quite favourable, with 16.5% growth in the aggregate profits of all the national entities. This increase was accompanied by notable increases in both gross lending to clients and deposits. Altogether, this put the return on equity at 6.04%, more than the 5.46% in the previous year, while the default rate dropped.

As for the public sector, the improvement in the health sector in 2021 enabled growth in public spending to be contained and favoured a recovery in tax revenue. As a result, the central government reduced the budget deficit to 2.8% of GDP, after the serious deterioration seen in 2020 (-4.1%). On the other hand, the surplus of the Comú governments shrank more than one point, to 0.5% of GDP. Altogether, this resulted in 3.5% GVA growth in the subsector Public administration, education, health, social and personal services in 2021, contrasting with the decline seen in 2020.

Looking towards 2022 as a whole, the prospects of economic growth remain positive. Effective control of the pandemic, with high percentages of vaccinated population in Europe, and the lifting of almost all restrictions on movement and social interaction, were decisive factors behind economic recovery and the reactivation of tourism.

Accordingly, GDP data for the first quarter of 2022 show a very good performance by the economy, with 17.3% growth year on year in real terms, according to the first published estimate, still under review. This percentage represents faster growth when compared with the 12.1% recorded in the fourth quarter of 2021.

Nevertheless, there is still a high level of uncertainty around the forecasts, largely due to the impact of the armed conflict in Ukraine on the price of energy and other commodities. Internationally strong inflationary pressures, rising interest rates and the energy crisis are causing a downward shift in growth forecasts for European countries which, in turn, could lead to a slowdown in economic growth in Andorra in the second half of 2022. Another factor that could limit Andorra's economic momentum are the major imbalances in the labour market, in the form of increasing difficulties in finding qualified workers.

On the positive side, note that Spain is one of the European countries for which forecasts are most positive for 2022, while France is also expected to continue growing, and this, as we know, provides important support for the Andorran economy. Within this context, there is confidence that the Andorran economy will give a good performance throughout 2022, led by the recovery in tourism, and will exceed the expectations of the beginning of the year, so it could recover pre-pandemic levels of activity. The official forecasts of the Department of Statistics published in June are for real GDP growth of 5.2% in 2022, higher than in Spain and France, with a lower average level of inflation than in the neighbouring economies.

Now that the pandemic crisis has been overcome, it is still essential to adopt economic policies that support activity and minimise obstacles, in order to solvently tackle any challenges left by

the new post-COVID scenario. The long-term priorities are still to foster innovation, the digital transformation, the energy transition and the improvement of infrastructure, but equally, in order to facilitate this transition and the professional recycling of workers, the emphasis must be on policies that boost training. The Chamber is committed to these goals and will continue to work alongside businesses to learn what they need and communicate this to the public authorities, as a consultative body. Together, we can strengthen the foundations of a more sustainable economic model with greater added value, improving the competitiveness of the business fabric of our country so that it continues to make a contribution to progress and the social welfare of all Andorrans.

**Josep M. Mas Torres**  
President



# The external environment of the Andorran economy

## I. The international economy

### 1. The main features of economic development in 2021

After a historic fall of 3.1% in global economic activity due to the impact of the pandemic caused by the virus SARS-CoV-2 (COVID-19), the economy began a process of recovery in 2021 that was also strong, with GDP growth of

6.1%, the highest recorded figure in decades. This strong momentum enabled the world economy to easily recover pre-pandemic GDP levels. The recovery in economic activity in 2021 was also helped by the lower mortality rate of the new variants of the virus thanks to the vaccination process; restored confidence of private stakeholders due to the improving health situation; the extension of favourable financial conditions and continuing measures to support growth and workers' income.

***In 2021, the global economy recovered from the fall in GDP caused by the pandemic.***

***In the last part of the year, the supply crisis and climbing inflation lowered growth prospects.***

Nevertheless, this improvement in global activity and world trade suffered a certain loss of impetus in the last part of the year. This was provoked by outbreaks of new variants of the virus in some geographical areas and the appearance of two

phenomena that arose from reopening the economies after the pandemic: tensions in the global supply chains and rising energy prices.

In 2021, many of the economic policy measures adopted by governments and economic institutions to tackle the impact of the pandemic were still in place, which made a positive contribution to rapid recovery in economic activity. Within Europe, note first the actions by the ECB, which enabled states to finance increased public spending without increasing the cost of the debt. Secondly, the European Commission extended the temporary easing of the fiscal rules of the EU Stability and Growth Pact in 2021, enabling member states to take on debt without restrictions. Moreover, the European Commission granted the first Next Generation EU packages to member states, with a fund of €806,900 million<sup>1</sup> for the period 2021-2027, representing the first European fiscal instrument financed by a joint EU debt issue. The goal of this fund is to promote environmental sustainability and the digital transformation and mitigate the economic and social impacts of the pandemic. Added to these European measures were all those adopted by the governments of advanced economies, which were maintained in 2021, with a special focus on guaranteeing business liquidity and maintaining workers' and businesses' incomes.

***Maintaining measures to tackle COVID-19 in 2021 helped the recovery.***

<sup>1</sup> Total at current prices (€750,000M at 2018 prices). The most important part of this package is the Recovery and Resilience Facility, with a budget of €723,800M (at current prices). Of the total amount, €338,000M will be non-returnable transfers and €385,800M will be loans.

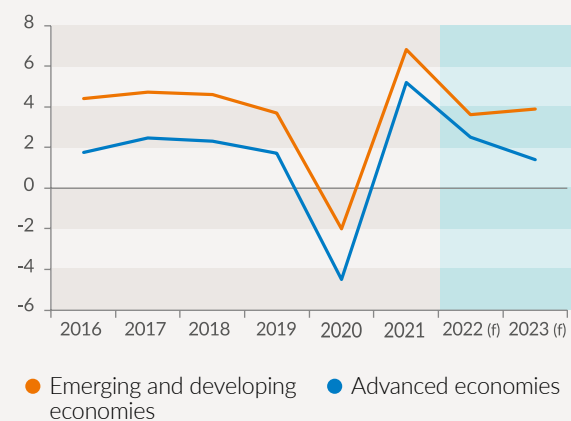
## Developed economies suffered more from the economic effects of the pandemic than emerging economies.

GDP recovery was uneven depending on the geographical area. In the USA, for example, GDP had already recovered the level of the fourth quarter of 2019 by the second quarter of 2021. On the other hand, Eurozone GDP did not reach this level until the fourth quarter of 2021. However, some European countries that were heavily impacted by the crisis due to high exposure to foreign tourism, like Spain, will not recover pre-pandemic levels of economic activity until 2022 or 2023. For their part, emerging economies as a whole regained pre-pandemic levels, since they only lost 2% in 2020 and grew 6.8% in 2021. The low economic impact on developing economies can be explained by the fact that the tertiary sector is smaller and it was services that suffered most from restrictions. This trend contrasts with that of advanced economies, which grew 5.2% in 2021 after falling 4.5% in 2020. So, the special income transfers approved for developed economies were not enough to avoid a significant loss of economic activity, especially when compared to developing economies.

As for developing and emerging economies, those in Asia saw the most positive performance, especially China, which managed to grow 8.1% in 2021 (after +2.2% in 2020), boosted by good management of the pandemic with the “zero-Covid” strategy, and also by the resilience seen in private consumption and foreign trade. It is important to highlight the dynamism of India which, with 8.7% growth in 2021, easily managed to amend the 6.6% contraction of the first year of the pandemic. As for the Middle East and Central Asia, GDP grew 5.8% in 2021 after the slight contraction in the previous year (-2.9%). Some of the countries that saw the strongest growth were the oil exporters, which benefited from rising oil prices, such as Iraq (5.9%), Iran (4.0%) or Saudi Arabia (3.2%). Among the developing economies in Europe was notably Russia, where GDP grew 4.7%, also benefiting from rising oil prices. Finally, the block of Latin America and the Caribbean, with GDP growth of 6.9% in 2021, has managed to fully reverse the steep fall in GDP recorded in 2020 (-6.9%).

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

Chart 1.1



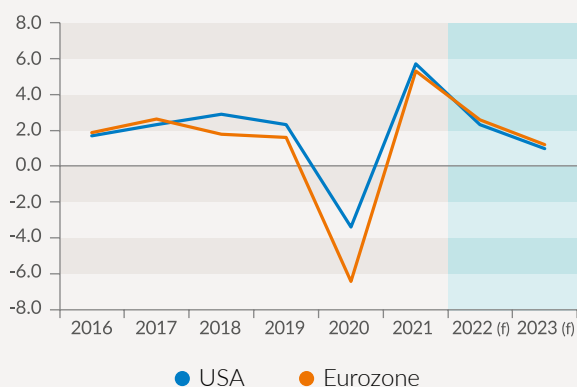
f: IMF forecasts (July 2022).

Source: IMF.

## The Asian economies came out best from the COVID-19 crisis.

**GDP GROWTH - Annual variation rates, in %**

Chart 1.2



f: IMF forecasts (July 2022).

Source: IMF.

In 2020, the pandemic had less impact on the US economy than on the EMU (-3.4% compared with -6.4%) because fewer restrictions were applied there to contain the spread of the virus and more economic aid was approved there. In 2021, the US economy also recovered faster, with growth of 5.7% (four tenths more than in the Eurozone), mainly through very strong growth in private consumption (7.9%). This

resulted in the US unemployment rate falling to 5.4% in 2021, helping to increase inflationary pressure due to the rising trend in wages (5.6%). The strong economic incentives received by businesses and citizens to contain the economic effects of the restrictions, along with falling tax revenue, put the public deficit in 2020 at 15.8% of GDP and, according to the OECD, this only shrank to 11.8% in 2021, largely due to the effect of rising GDP on the ratio.

**The Eurozone suffered the effects of the pandemic more than the USA.**

**The European economies that contracted most in 2020 were also those that grew most in 2021.**

The Eurozone economy was one of the world regions most affected by the pandemic, with GDP contraction of 6.4% in 2020 and 5.3% growth in 2021. Despite the fact that all the Eurozone countries recorded a positive trend in

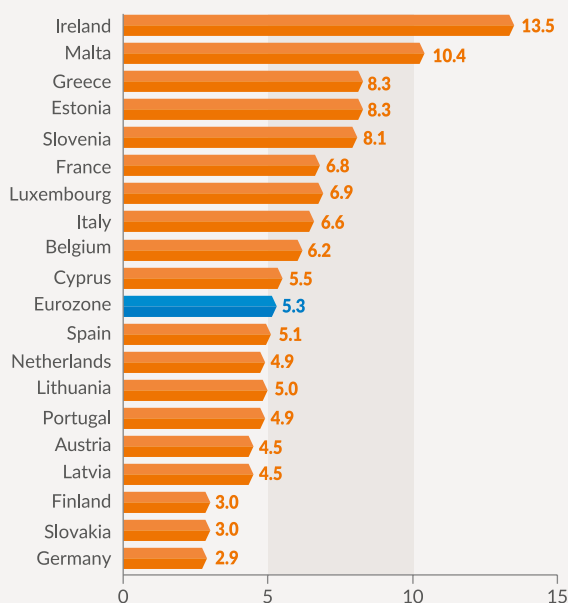
2021, generally speaking the countries that initially suffered most from the impact of COVID-19 were also the ones to grow most strongly in 2021. This can partly be explained by the statistical effect of the fall in the previous year, and also because the economies with larger service sectors benefited most from the gradual withdrawal of restrictions as the health situation improved. In particular, according to Eurostat, growth in 2021 was especially strong in Greece (8.3%), France (6.8%) and Italy (6.6%), a clearly greater improvement than in Germany (2.9%) or Slovakia (3.0%), which are economies with larger industrial sectors. Spain was somewhere in between, with a 5.1% increase in economic activity in 2021, due to the delay in restoring international tourism on which it depends heavily. Outside the Eurozone, the United Kingdom saw high growth (7.4%) but this did not enable it to regain the ground lost in 2020 (-9.3%). In the case of the United Kingdom, the extensive spread of the virus among the population, which required implementation of very restrictive social distancing measures for long periods of time, was added to the impact of Brexit, signed on 24 December 2020 but with the trade agreement coming into force on 01 January 2021.

The European labour market was also affected by the pandemic, but less so than in other crises thanks to the support measures to protect jobs that were adopted by most economies (financed

by the SURE programme). For this reason, the Eurozone unemployment rate only rose four tenths in 2020, to 8%, and fell back in 2021 to 7.7%, a very similar figure to 2019, when the lowest figure in the last decade was reached.

**GDP GROWTH IN EUROZONE COUNTRIES. 2021**  
Annual variation rates, as %

Chart 1.3



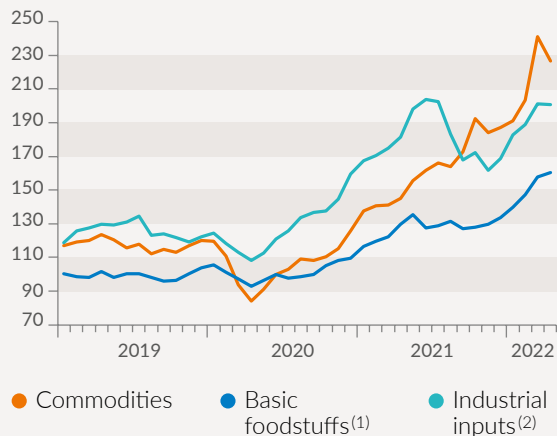
Source: Eurostat.

**Inflation rebounded due to rising prices for energy and other commodities.**

Inflation rates bounced back notably in 2021. The main factor behind this rebound was the increase in energy prices, although rising prices in other commodities also contributed, such as basic foodstuffs (cereals, oils, meat, etc.) and metals (iron, copper, aluminium, nickel, etc.). Another factor that explains the strong rebound in inflation was the negative base effect, because it is compared with the fall in prices that occurred in 2020 due to the economic slowdown at the start of the pandemic. On annual average, Eurozone inflation was 2.6% in 2021, compared with 0.3% in the previous year.

## COMMODITY PRICES (Index 2016=100)

Chart 1.4



(1) Includes the price indexes for cereals, vegetable oils, meat, shellfish, sugar and other foodstuffs.

(2) Includes the price indexes for wood, cotton, wool, rubber and skins (agricultural commodities) and the price indexes for aluminium, cobalt, copper, iron ore, lead, molybdenum, nickel, tin, uranium and zinc (metals).

Source: IMF Commodity Prices.

## The Eurozone public deficit improved from 7.1% GDP in 2020 to 5.1% in 2022.

The underlying inflation rate (excluding volatile components such as energy and unprocessed food) also saw a certain rebound (1.5%), but considerably smaller and always less than the target set by ECB monetary policy (2%). The main Eurozone economies recorded annual inflation rates of close to 2%, such as in France (2.1%) and Italy (1.9%), or 3%, as in Germany (3.2%) and Spain (3.0%).

Public finances have been seriously affected by the health emergency. In the Eurozone as a whole, the public deficit went from 0.7% of GDP in 2019 to 7.1% in 2020, then shrank to 5.1% in 2021. The reduction of the deficit last year was the result of a decrease in expenditure as a percentage of GDP (going from 53.6% to 52.4%), and an increase in income by one point to 47.3% of GDP. Yet again, it was the large European countries with the highest public account deficits (above 6%) that felt the greatest economic impact from the pandemic (Greece, Italy, Spain and France, among others). Remember that the European Commission has extended suspension of the fiscal rules that

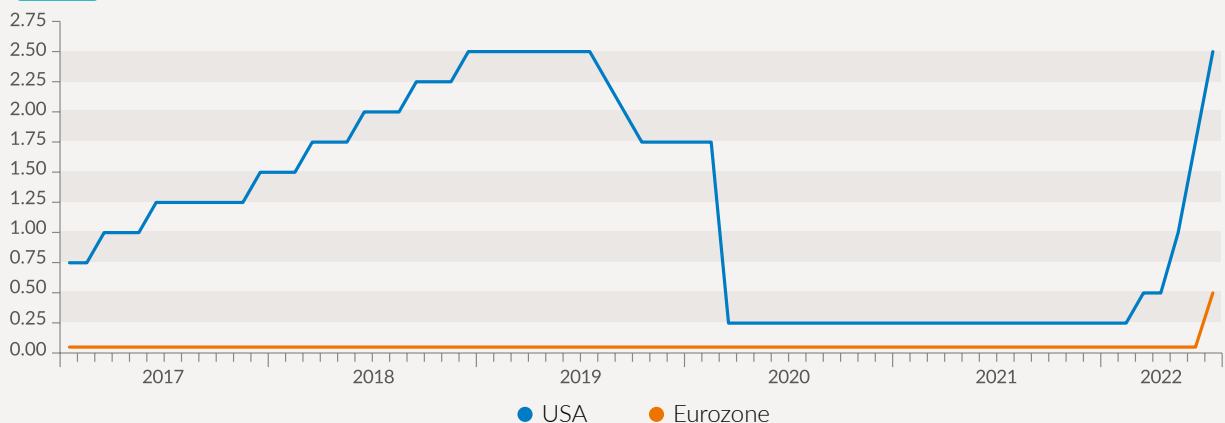
set a public deficit limit of 3% until 2023, since the community's priorities consist of providing continued support to the recovery in growth and employment.

As for monetary policy, throughout 2021 the central banks continued to implement an expansive policy to slow down the economic impact of the coronavirus crisis. The Fed maintained interest rates at a low 0.0-0.25%, and both the ECB and the Bank of Japan kept them stable at historic lows (0%). Equally, the central banks largely maintained the measures to ensure an abundance of liquidity and favourable credit conditions. However, in 2022 the steep rise in inflation caused a turnabout in monetary policy.

**In 2021, monetary policy was still expansive, but changed in 2022 to tackle inflation.**

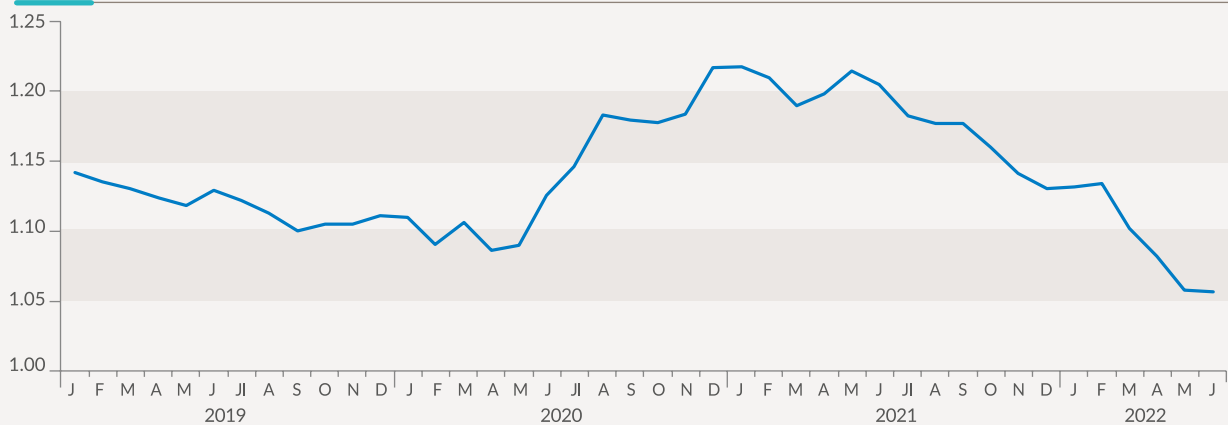
## OFFICIAL INTEREST RATES IN THE USA AND EUROZONE - As %

Chart 1.5



Source: Federal Reserve and ECB.

## \$/€ EXCHANGE RATES



Source: ECB.

Chart 1.6

On the one hand, the Fed began four consecutive hikes in the interest rates from March, reaching the range of 2.25-2.50% in July. The Fed would like to reach “neutral monetary policy” soon, doubling inflation without causing a recession. On the other hand, in March 2022, the ECB ended the mass private and sovereign debt purchasing programme (for a total of €1.85 billion) approved during the pandemic. In addition, in June, the ECB finalised the debt purchasing programme started during the 2008 financial crisis, and in July effected the first interest rate rise in 11 years, of 0.50%.

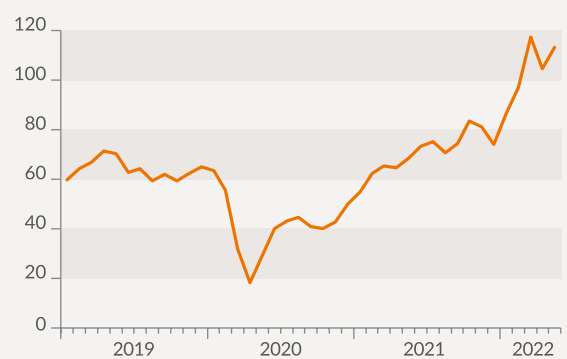
The euro market price has fallen throughout 2021, after the revaluation seen in the first year of the pandemic. At the end of the year, the euro was quoted at \$1.13, which is 7% less than in December 2020 (\$1.217/€). The main reason for this depreciation in the European currency is better economic prospects for the US economy, encouraging investors to seek the higher yield from assets denominated in dollars. With the start of the Ukraine war at the end of February 2022, the euro continued to weaken, as the war is expected to have a greater impact on the Eurozone economy than the US economy. To this is added the higher interest rate hike in the USA, which also encouraged investors to buy US public debt denominated in dollars.

**In 2021 and the first half of 2022, the euro depreciated against the dollar.**

13

Rising oil prices in 2021 were one of the consequences of the strong economic recovery seen around the world. The market price of oil gradually increased from \$50 a barrel in December 2020 to €74.2 in December 2021 (48% higher). As well as the effect of the recovery in global demand, it should also be noted that in 2021, OPEC decided to maintain moderate production levels in order to gradually raise the price of oil and recover part of the losses suffered during the first year of the pandemic (oil prices fell 23% in 2020). Added to these circumstances was the outbreak of war in Ukraine, which continued to drive up oil prices even further, to reach \$113.34 per barrel on average in May, even over \$120 on some days (the highest value since before the 2008 economic crisis).

## OIL PRICES - \$ per barrel of Brent



Source: Energy Information Administration, of the US Government.

Chart 1.7

	FORECASTS			
	2020	2021	2022	2023
<b>Global GDP</b>	<b>-3.1</b>	<b>6.1</b>	<b>3.2</b>	<b>2.9</b>
<b>Advanced economies</b>	<b>-4.5</b>	<b>5.2</b>	<b>2.5</b>	<b>1.4</b>
USA	-3.4	5.7	2.3	1.0
Eurozone	-6.4	5.3	2.6	1.2
Germany	-4.6	2.8	1.2	0.8
France	-8.0	7.0	2.3	1.0
Italy	-9.0	6.6	3.0	0.7
Spain	-10.8	5.1	4.0	2.0
Japan	-4.5	1.7	1.7	1.7
United Kingdom	-9.3	7.4	3.2	0.5
Canada	-5.2	4.5	3.4	1.8
<b>Emerging and developing countries</b>	<b>-2.0</b>	<b>6.8</b>	<b>3.6</b>	<b>3.9</b>
Sub-Saharan Africa	-1.6	4.6	3.8	4.0
Emerging European economies	-1.8	6.7	-1.4	0.9
Russia	-2.7	4.7	-6.0	-3.5
Developing Asia	-0.8	7.3	4.6	5.0
China	2.2	8.1	3.3	4.6
India	-6.6	8.7	7.4	6.1
Middle East and Central Asia	-2.9	5.8	4.8	3.5
Latin America & Caribbean	-6.9	6.9	3.0	2.0
<b>World trade (goods and services)</b>	<b>-7.9</b>	<b>10.1</b>	<b>4.1</b>	<b>3.2</b>

Source: IMF, July 2022.

The capital markets also continued to rise in 2021 after the main indexes had already recovered pre-crisis levels at the end of 2020. Specifically, the US Dow Jones ended 2021 at 27% above the December 2019 value (pre-pandemic), and the European Euro Stoxx, 15% more. The Spanish IBEX-35, one of the most afflicted due to the presence of large hotel and tourism companies in the index, ended 2021 at 9% below the pre-pandemic level. In the first few months of 2022, the stock markets saw falls due to the conflict between Ukraine and Russia, but the situation did not cause them to lose pre-crisis values.

***In 2021, the stock markets continued to rise, but fell again in 2022 due to the conflict in Ukraine.***

## 2. Prospects

The war in Ukraine has set off a serious humanitarian crisis and enormous economic damage, which will cause a significant deceleration in world growth in 2022, as can already be seen. The consequences of the conflict will be a steep two-digit fall in GDP in Ukraine and major contraction in Russia due to economic sanctions. The global secondary effects will be felt in the commodities markets, international trade and financial channels. As well as reducing growth, the war will increase inflation. Russia and Ukraine are major exporters of oil, gas, metals, oils, wheat and corn, so the current predicted fall in supply of these basic products has dramatically pushed up the prices of fuels and basic foodstuffs, a situation that especially affects the most vulnerable segments of the population, especially in countries with lower revenues.

The high level of inflation will complicate the dilemma faced by the central banks, between containing price tensions and protecting growth. Interest rates are expected to increase as the central banks toughen their policies, which will put pressure on emerging and developing economies with high



levels of debt. Moreover, most countries have a limited margin for fiscal manoeuvre to mitigate the impact of the war after the enormous cost of the pandemic on public accounts. To this is added the lockdowns ordered in manufacturing and commercial nuclei in China over the months of April and May 2022, to contain the pandemic, aggravating supply issues to other regions.

According to the IMF report published in July 2022, world GDP will grow 3.2% in 2022 and 2.9% in 2023, representing a major deceleration in relation to the forecasts made in January (4.4% and 3.8%, respectively). This prognosis is founded on the assumption that the conflict in Ukraine will remain limited, that future sanctions against Russia will exempt the energy sector, and that the health and economic impacts of the pandemic will gradually dispel in 2022. Moreover, the impact of the conflict is expected to be more negative for emerging and developing market economies than advanced economies, as support policies in the former are more limited and immunisation against COVID-19 is generally slower. Within the developed economies, a lower impact from the war is expected in the USA than in the Eurozone, as the Eurozone is more dependent on energy and food from the countries in conflict.

The US economy is going through a contradictory moment. GDP has shrunk 0.4% in the first quarter of 2022 compared with the fourth quarter of 2021. The factors that have most influenced this drop in GDP are directly linked to highly volatile elements such as the slowdown in inventories, faced with the speed with which they were built in the previous period, and the widening trade

***The US economy will be less affected by the war in Ukraine than the Eurozone.***

deficit, meaning that the USA has imported more than it exported. Another factor to take into account is that the public stimuli linked to coronavirus have disappeared. Despite the contraction, strong consumer spending (which

has increased 0.7%), continued investment in business – despite weakening – and the strength of the labour market show that the recovery remains resilient. This economic trend has pushed prices up even further, leading the Federal Reserve to quicken the pace of interest rate rises planned for 2022.

The impact of the armed conflict in Ukraine will be lower in the USA than in the Eurozone because the economic ties are weaker and because it is a major energy producer (19% of oil and 24% of gas worldwide in 2020). Nevertheless, the worsening supply problems in the global chains, the lower purchasing capacity of families in the current context of high inflation and the tightening of financial conditions around the withdrawal of the monetary stimuli explain the reduction in economic forecasts for 2022 to 2.5%, according to the OECD (2.3% according to the IMF). Despite the economic slowdown and rebound in inflation, which is expected to reach an average of 5.9% in 2022, the unemployment rate could continue to fall to 3.6%, a historic low. Finally, the public deficit is expected to be reduced to almost half (from 11.8% of GDP in 2021 to 6.7% in 2022).

In the Eurozone, data on economic activity maintained a fairly high rate of progress, with 0.6% growth, thanks to the impact of the strong recovery of the Irish economy (+10.8%). Among the main countries in the area, there are several differences: GDP has grown 0.1%

in Italy and 0.2% in Germany and Spain, but contracted 0.2% in France. The rising energy bill and growing uncertainty generated by the outbreak of war explain why estimated growth for the Eurozone in 2022 was cut 1.1 points to 2.6%, according to the IMF, OECD and the European Commission. By country, growth in 2022 fell most in Germany and Italy, due to their greater exposure to gas imports from Russia and the importance of industry to their economic structure

***The European economy slows down in the first quarter of 2022 but there is no risk of recession if Russian gas supplies continue.***

(22% and 18% of GVA, respectively), a sector that has been especially affected by the bottlenecks and rising cost of a large part of their inputs. Nevertheless, in 2022, public investment as a percentage of GDP is expected to reach the highest level in the last decade thanks to the Next Generation EU programme.

### The economic prospects for 2022-2023 are clouded by the war in Ukraine.

In 2022, inflation is still expected to be high for the Eurozone as a whole, fed by rising commodity prices due to the war and the knock-on effect of energy and food prices on the rest of the consumer basket, and also the possible second-round effects through wages. This is the prediction of OECD forecasts, with 7.0% inflation in 2022, which would only slow to 4.6% in 2023.

Nevertheless, the scale of the economic impact is still uncertain and will largely depend on the length of the conflict, the sanctions on Russia and any economic policies that might be implemented. What seems clear is that the war will cause a major reduction in growth and will increase inflation, impacting unevenly by regions and with Europe as the most affected area.

In summary, the world has suffered another deep, transformative shock. Just when it seemed that a lasting recovery was on the books after the global economic collapse caused by the pandemic, the war between Ukraine and Russia evaporated part of this progress and generated further uncertainties for the future. Such a complex situation requires a suitable, effective response from the economic authorities. On the one hand, the need to consolidate the public deficits should not prevent governments from prioritising spending that is focussed on the vulnerable segments of the population; on the other hand, central banks must act to stop inflationary pressures while avoiding a slowdown in economic growth.

## OECD ECONOMIC PROSPECTS FOR THE MAIN DEVELOPED COUNTRIES

Table 1.2

	GDP % annual variation			INFLATION <sup>(1)</sup> % annual variation			UNEMPLOYMENT RATE <sup>(2)</sup> % active population			CURRENT ACCOUNT BALANCE % of GDP			PUBLIC DEFICIT % of GDP		
	2021	2022f	2023f	2021	2022f	2023f	2021	2022f	2023f	2021	2022f	2023f	2021	2022f	2023f
USA	5.7	2.5	1.2	3.9	5.9	3.5	5.4	3.6	3.8	-3.6	-4.2	-4.3	-11.8	-6.7	-5.3
Japan	1.7	1.7	1.8	-0.2	1.9	1.9	2.8	2.6	2.5	2.8	1.5	1.2	-5.7	-6.9	-4.6
United Kingdom	7.4	3.6	0.0	2.6	8.8	7.4	4.5	3.8	4.3	-2.6	-7.2	-7.6	-8.3	-5.3	-4.1
Eurozone	5.3	2.6	1.6	2.6	7.0	4.6	7.7	7.1	7.4	3.6	2.2	2.0	-5.1	-4.1	-3.0
Germany	2.9	1.9	1.7	3.2	7.2	4.7	3.6	3.1	3.4	7.6	6.2	6.2	-3.8	-3.4	-1.8
France	6.8	2.4	1.4	2.1	5.2	4.5	7.9	7.5	7.8	-0.6	-2.1	-2.8	-6.4	-5.4	-4.7
Spain	5.1	4.1	2.2	3.0	8.1	4.8	14.8	13.6	13.9	0.9	1.0	0.1	-6.9	-5.0	-4.2
OECD	5.5	2.7	1.6	3.7	8.5	6.0	6.2	5.2	5.3	nd	nd	nd	-7.4	-5.0	-3.8

(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, June 2022.

## The French economy

### 1. The main features of economic development in 2021

In 2021, the French economy recorded 6.8% growth, according to the INSEE (French National Statistics Institute), after the historic fall of 7.8% in the previous year due to the pandemic. Both the 2020 fall in activity and the recovery in 2021 were stronger in France than in the Eurozone as a whole (-6.4% and +5.3%, respectively). The success of the mass vaccination campaign enabled the health sector to overcome the successive waves of SARS-CoV-2, implementing only selective restrictions in certain sectors. Moreover, the French economy has shown itself to be more and more resilient to further outbreaks of the pandemic thanks to the strong recovery in household consumption, to renewed investment due to improved business expectations and to the dynamism of international trade, despite disruptions in the supply chains. But this clear rebound in activity was not complete, nor was the improvement in the health situation to which it is largely linked. So, on average, French GDP in 2021 stood at about 1.5% below the 2019 average.

Regarding the quarterly behaviour of French GDP, the year-on-year rate of growth continued a hat-shaped trend. In the first quarter of 2021, despite the impact of the third coronavirus

wave, year-on-year change was positive for the first time since the start of the pandemic (1.8%). The more specific nature of the restrictions introduced and the ability of businesses and households to adapt to the restrictive environment helped to mitigate the economic impact of the second wave in comparison with the first. In the second quarter of 2021, year-on-year GDP moved towards 19.2% due to a statistical effect, as economic activity had fallen 18.9% in the same quarter of the previous year. Finally, the rapid vaccination process from the third quarter and the decreasing mortality of the virus allowed for social distancing measures to be eased and strongly drove the recovery in economic activity in the second half of the year. So, year-on-year GDP growth in the third and fourth quarters of 2021 reached 3.0% and 4.9%, respectively.

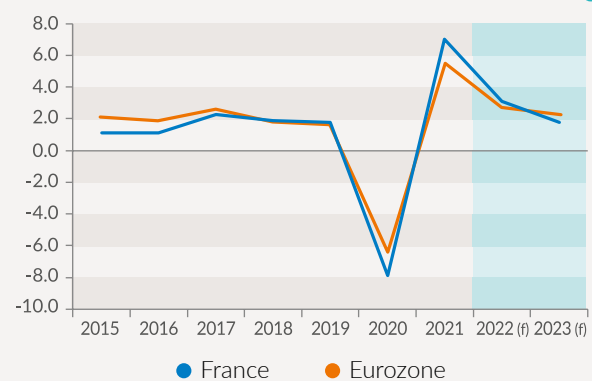
Regarding the contribution to variations in French GDP in 2021 from different components, expansion in domestic demand was the main explanation, with a contribution of 7 percentage points (p.p.), after a negative contribution of 6.4 p.p. in the previous year. Domestic demand therefore completely recovered pre-pandemic levels. All components of domestic demand contributed to the increase in GDP in 2021.

***There was a strong recovery in consumption, especially public, and investment.***

Private consumption – representing 52% of GDP – grew 6.0%, and public consumption – which is 23% of GDP – by 2.8%. With the rebound in consumer spending, the savings rate fell but is still at a historically high level (18.7%). Investment is the component of

***The French economy starts to recover in the second half of the year.***

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



Source: Eurostat.

domestic demand that saw the most important rise (11.5%), although it also suffered the greatest decline in 2020 (-8.2%). On the other hand, foreign demand made a positive contribution to the rise in GDP of 0.1 points (a clearly positive dynamic in comparison with the negative contribution of 1.2 points in 2020). This trend can be explained by the slightly stronger recovery in exports (8.8%) than in imports (8.0%). In Europe, the recovery in exports was generalised and the result of both normalising trade flows and a partial recovery in foreign tourism (exports of services). The good behaviour of the services balance and also the trade balance helped to lower the deficit in the current account balance, from 1.9% of GDP in 2020 to 0.6% in 2021, according to the OECD.

As for supply, in 2021 all the major economic sectors saw a positive trend in Gross Value Added (GVA) except agriculture (-0.6%), although the greatest increases were seen in the activities that had suffered most from pandemic restrictions, i.e. construction (13.7% in 2021 compared with -14% in 2020) and cultural and recreational activities (12.3% in 2021 compared with -26% in 2020). Other sectors, such as commerce, transport and hotels and catering only recovered part of the activity lost in the previous year (8.8% compared with -13.2%) and the same happened with industry (4.5% compared with -10.7%). The other sectors saw increases in 2021 that were higher than the decreases suffered in the previous year (ICT, financial sector, real estate and public administration), so in most cases they were able to regain pre-pandemic activity levels.

**The labour market remains in good form after a minor impact from the pandemic, thanks to the adopted measures.**

The relative resilience of the labour market, thanks to the aid approved by the French Government to support businesses and workers' income, helped to contain the rise in unemployment and preserve household purchasing power during the worst year of the pandemic, so it was possible to rapidly revive the rising trend in the labour market in 2021. These circumstances explain why the unemployment rate fell in 2020 (from 8.4% in 2019 to 8% in 2020) despite the steep fall in GDP.

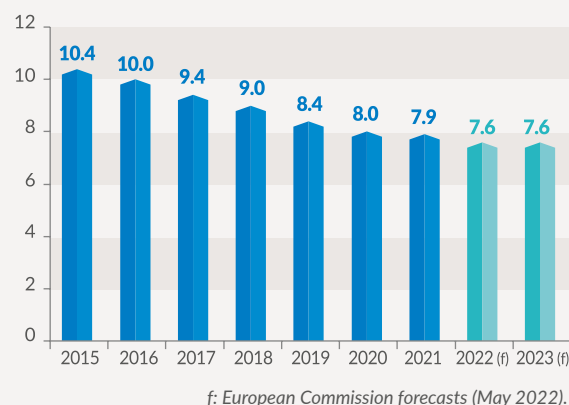
In 2021, the unemployment rate continued to fall, but more slowly (7.9%), and employment also saw quite positive behaviour, with a 1.8% increase in jobs, after falling only 0.9% in the previous year. The fact that adjustment to the activity shock was made through hours worked rather than the number of staff, unlike in previous crises, explains this labour market resilience.

Despite the rise in prices in the second half of the year, workers' purchasing power increased. Wages per worker saw an increase of 3.2% in real terms, much higher than the European average of 1.7%. This increase is lower than for labour productivity in businesses (5.1%), leading to a gain in competitiveness for French businesses (in terms of real unit labour costs).

In France, as in the member states as a whole, there was a rising trend in inflation as 2021 progressed. Although inflation was very low in the first two months of the year (0.08%), influenced by a context of plummeting global aggregate demand and a dramatic fall in oil prices, it

**Some economic sectors, such as construction, leisure, commerce, transport and hotels and catering have grown but not regained pre-crisis levels.**

**UNEMPLOYMENT RATE IN FRANCE**  
As % of active population



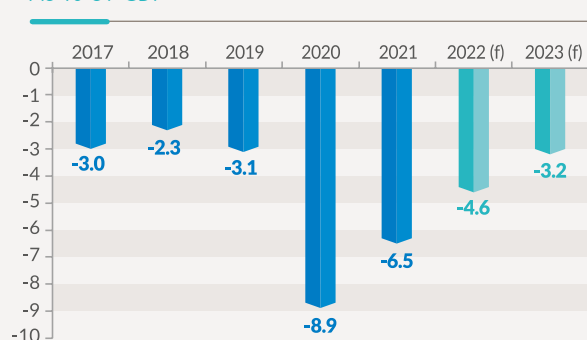
Source: Eurostat.

Chart 2.2

crept towards 3.4% in December 2021 due to rebounding energy prices. On annual average, inflation stood at 2.1% compared with 0.5% in 2020. Underlying inflation, which better reflects the trend in core prices by excluding volatile components (unprocessed food and energy), saw a slower trend (1.3% on annual average and 1.9% in December).

Both the extension of the emergency support measures due to continued health restrictions for a large part of the year and a certain delay in commencing the recovery plan kept the public deficit high in 2021, at 6.5% of GDP – after reaching 8.9% in 2020 – an unprecedented figure in France, according to the European Commission. The percentage of GDP of revenue remained quite stable compared with 2020, while the expenditure percentage fell from 61.4% to 59.2% as some special expenditure was stopped due to the pandemic, although France is still the Eurozone country with the highest public expenditure percentage of GDP. On the other hand, at the end of 2021, the public debt, according to the Maastricht definition, remained at very high levels, specifically 112.6% of GDP.

THE FRENCH PUBLIC DEFICIT  
As % of GDP



f: European Commission forecasts (May 2022).

Source: Eurostat.

**In 2021, the public deficit remained high due to continued support measures.**

## 2. Prospects

The French economy started 2022 with good economic prospects, but the outbreak of the war in Ukraine brought a change in the macroeconomic situation with still uncertain consequences. There are three transmission channels for the effects of the conflict on the French economy. First, probably the most important at this stage, is rising prices of commodities and energy. The second transmission channel is financial tensions and, more generally, the uncertainty weighing down investment and consumption. The third channel is foreign trade. If imports of basic products are excluded, the value of direct trade between France and Ukraine and Russia is low. However, the price shocks from commodities will affect all economies, especially in Europe and, therefore, foreign demand for French goods and services is expected to be affected as neighbouring countries experience the same shock.

The economic effects of the armed conflict have already been felt. The French economy saw 0.2% contraction in the first quarter of 2022, contrasting with the 0.4% growth in the fourth quarter of 2021. Moreover, in June, the harmonised inflation rate climbed to 6.5%, alerting to the risk

**The French economy shrank in the first quarter of 2022 due to falling private consumption.**

of stagflation in the second largest economy in the European Union. The worsening trend in GDP in the first three months of the year reflects weak household consumption, with 1.5% contraction, compared with the 0.3% rise in the previous quarter. In contrast, total

Gross Fixed Capital Formation (GFCF) increased again (+0.6% after -0.3%), driven especially by investment in computer services and capital goods (machine tools, computer equipment, etc.). In total, the final domestic demand without inventories contributed negatively to the trend in GDP by -0.6 points (after +0.2 points in the previous quarter). In the first quarter of 2022, foreign trade continued to progress but at a slower rate. The increase in exports was more notable than

in imports (1.2% compared with 0.5%) and this meant that the contribution from foreign trade to the trend in GDP was slightly positive (0.2 points).

As a result of the inertia in the recovery of the French economy at the end of 2021, the reference scenario for the Bank of France before the outbreak of war in Ukraine was for GDP to increase 3.9% in 2022. But, based on the new conflict, the main international bodies revised their forecasts downwards. This summer, 2022, the OECD and the European Commission forecast French GDP growth of 2.4% in 2022 and 1.4% in 2023 (the IMF, 2.3% and 1%), much lower than the forecasts published at the start of the year. These downward revisions demonstrate the drawn-out impact of the high inflation rates and supply problems. In fact, the consequences of the Ukraine conflict for French activity will be especially notable from the second quarter of 2022. All the components of demand are expected to be affected to different degrees: household consumption will slow due to the impact of energy prices on purchasing power; increasing uncertainty about the future will discourage investment and the negative impact on world trade will also hurt French exports.

**In 2022, an increase in GDP of 2.4% is expected, much lower than the forecast before the outbreak of the war in Ukraine.**

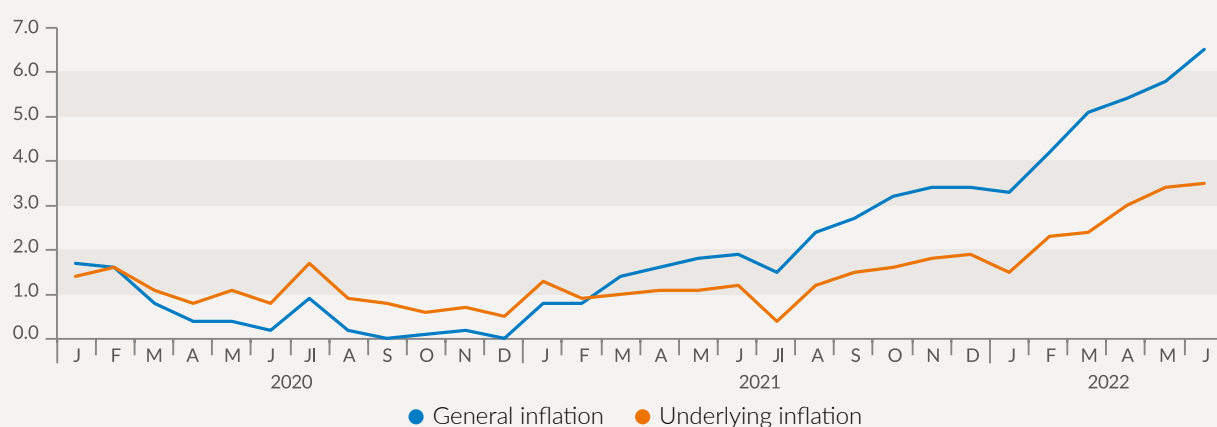
**High inflation is forecast for 2022 and 2023.**

Although France's direct exposure to energy supplies from Russia is limited, bulk energy prices have risen even more since the start of the war. The spillover from high energy prices

to the rest of the consumer basket, with renewed pressure due to the impact of the European embargo on Russian oil in 2023, the major workforce shortage and indexing of the minimum wage will push up underlying inflation and wages over the next few months. The European Commission forecasts published in July indicate that inflation will reach 5.9% in 2022 and 4.1% in 2023.

To respond to the current peaks in prices of basic products and energy, the French government has temporarily limited gas and electricity tariffs, increased energy consumption coupons for the poorest households and made a single additional means-tested transfer to 38 million individuals. The Government has also temporarily cut fuel taxes, increased special conditional subsidies for businesses and extended the state-guaranteed loans through the resilience plan. The direct support measures have reached €27,000M (1.1% of GDP) and will be gradually removed at the start of 2023. In July, faced with persistently high inflation rates, the French government approved another package of €20,000M to protect people's purchasing power, including measures such

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



Source: Eurostat.

Chart 2.4

as revaluation of pensions and other benefits by 4%, and €100 food cheques for vulnerable families. On the other hand, implementation of the Next Generation EU programme is providing support to growth in France, which will receive €40,000M in European subsidies. The 2022 resilience plan backed finance for renovating and insulating homes. Moreover, grants for investment in automobiles and household energy focus on ecological alternatives and will increase the consumption of durable goods and investment in housing. Finally, more public investment is expected in infrastructure and digitalisation, plus additional finance for training programmes.

***In 2022, economic prospects are highly uncertain due to the Ukraine crisis and inflation.***

After the extraordinary increase in the public deficit from rising expenditure to deal with the COVID-19 crisis, the public deficit is expected to slow in 2022 to 4.6% of GDP, while still remaining high, then gradually fall again from 2023 as activity returns to normal, according to European Commission forecasts.

However, note that the stated forecast scenarios are subject to great uncertainty due to the geopolitical situation around the Ukraine war, which is very unstable and changeable, with a more or less serious risk of impacting Europe. A sudden halt in energy imports from Russia would probably have very serious economic consequences, but these are difficult to quantify at this moment. In contrast, the easing of geopolitical tension, whether partial or gradual, would have positive effects on activity and push inflation down. Finally, these forecasts do not consider any new sanctions that could be imposed on Russia or the response of the Russian government to further sanctions.

## FRANCE. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 2.1

	2019	2020	2021
<b>Components of demand</b>			
Private consumption	1.9	-6.5	6.0
Public consumption	1.0	-0.8	2.8
Gross fixed capital formation	4.1	-8.2	11.5
Domestic demand without inventories (a)	2.1	-6.4	7.0
Inventories (a)	0.0	-0.2	-0.3
Exports of goods & services	1.5	16.8	8.8
Imports of goods & services	2.4	-12.8	8.0
<b>Components of supply</b>			
Agriculture	-2.3	-6.3	-0.6
Industry	1.7	-10.7	4.5
Construction	2.6	-14.0	13.7
Commerce, transport, hotels & catering	2.4	-13.2	8.8
Information & communications	4.8	-0.3	8.8
Financial activities	1.7	-4.0	9.2
Real estate activities	1.9	-1.2	1.5
Scientific activities & prof. services	2.8	-5.9	6.3
Public admin., health & social serv.	0.6	-5.5	6.5
Cultural, recreational & other activities	2.3	-26.0	12.3
<b>GDP at market prices</b>	<b>1.8</b>	<b>-7.8</b>	<b>6.8</b>

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

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

## III. The Spanish economy

### 1. The main features of economic development in 2021

In 2021, Spanish GDP increased 5.1%, which is considerable growth but must be contextualised as a comparison with a year with a historic fall in activity (-10.8% in 2020), due to the COVID-19 pandemic which caused a crisis without precedents in recent history. The first step was taken in 2021 to return to a certain normality in social and economic activity, as before the outbreak of



the pandemic, but there have been periods of high uncertainty due to the various waves of the virus.

**In 2021, GDP grew 5.1% but did not regain pre-pandemic levels.**

Since the spring of 2021, progress in the vaccination process has helped to contain the spread of the virus and reduce the number of serious cases especially. This change enabled gradual easing of pandemic containment measures and progressive normalisation of activity, especially in the branches that require a greater level of social interaction. In effect, after the 0.5% reduction in the economy in the first quarter and 1.1% growth between April and June, GDP dynamism increased in the third and fourth quarters of the year, to 2.6% and 2.2% quarter on quarter, respectively.

**In 2021, services led the recovery of the Spanish economy.**

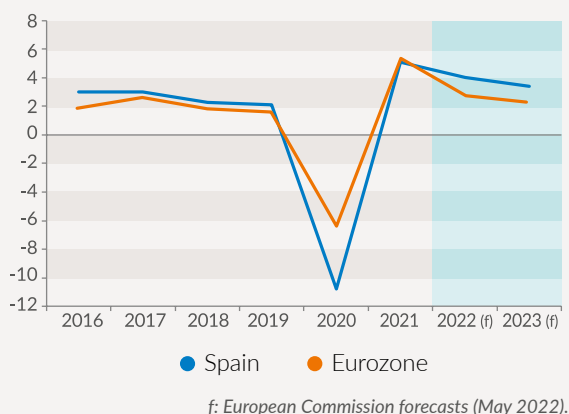
The economic recovery impacted all economic sectors, but to different degrees. In 2021, the services sector led the economic recovery due to its relative importance (67% of GDP) and the

strong rebound that occurred (6%). Within services, those that saw the strongest growth were those that require social contact, as they benefited from the gradual removal of restrictions as the health situation improved. Specifically, GVA in commerce, transport and hotels and catering increased 14.2% year on year (after a fall of 25.7% in 2020), while in activities related to public services (administration, health, education and social services) and professional activities, it grew 3.1% and 4.7%, respectively. Industry also saw positive behaviour but less strong (5.2%), while construction and agriculture saw downturns (-3.4% and -3.7%, respectively).

**Spain saw slower GDP recover than in the Eurozone.**

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

Chart 3.1



Source: Eurostat.

In 2021, the Spanish economy grew at a slower rate than the Eurozone average (5.3%), even though the EMU had fallen less in 2020 (-6.4%). So, on comparing Spain's economic growth data with those of its European counterparts, the evaluation is not so positive, since the process of economic recovery in Spain is slower. In 2021, Spanish GDP reached 93.8% of the level it had in 2019; on the other hand, Eurozone GDP was 98.6% of the 2019 level. The delay in economic recovery compared with other European members can be explained not only by the predominance of tourism in the economy

but also because the Spanish economy contains a series of internal vulnerabilities that make it less resilient, such as a high degree of temporary work in the labour market, a large proportion of small and medium-sized businesses (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 household income and the production network.

Both domestic and foreign demand had a positive impact on the trend in GDP in 2021, but the former was more important. On the one hand, national demand contributed 4.6 points to GDP growth, after a negative contribution of 8.6 points in the previous year. On the other hand, foreign demand made a positive contribution of 0.5 points (-2.2 points in 2020), thanks to the recovery in exports of both goods and services (tourism). Specifically, the inflow of foreign tourists went from 18.9 million in 2020 to 31.2 million in 2021, with 64.7% growth. Although this figure is clearly



***In 2021, domestic demand made a more positive contribution to GDP recovery than foreign demand.***

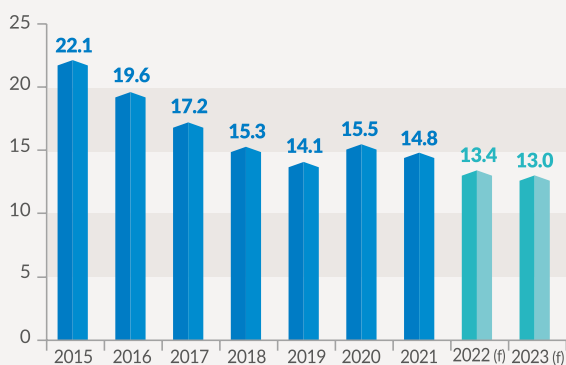
positive, it has to be considered alongside the fact that foreign tourism is still far from pre-pandemic figures (Spain received 83.5 million foreign tourists in 2019). Finally, the Spanish economy ended the year with a surplus in the current account balance of 0.9%, a figure that continues a positive trend in comparison with 2020, when the surplus was 0.8% of GDP.

Within domestic demand, private consumption was behind the economic recovery in 2021, especially in the second half of the year, thanks to easing of the restrictive measures on economic activity and also the high level of savings amassed during the pandemic. Nevertheless, household consumption in 2021 was still about 6.3% lower than in 2019. Although in year-on-year terms, growth in private consumption was lower than in GDP (4.7% compared with 5.1%), the significance of this component (which represented 55% of GDP in 2021) meant that its contribution to GDP growth was 2.6 percentage points (practically half of the growth in the Spanish economy in that year). In contrast, growth in public administration consumption was two tenths lower than the figure in 2020, being 3.1%. It is important to note that, from the start of the pandemic, public consumption grew due to increased procurement in the public sector (health, education and public administration) and the aid to the most affected groups.

***In 2021, private consumption and investment grew strongly, but did not regain pre-pandemic levels.***

**UNEMPLOYMENT RATE IN SPAIN**  
As % of active population

Chart 3.2



f: European Commission forecasts (May 2022).

Source: Eurostat.

***The unemployment rate at the end of 2021 fell to the lowest level since the 2008 crisis.***

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. Remember that at the end of April 2020, this reached a historic high of 3.5 million workers under the ERTE scheme (19% of the employed population). As the health situation improved and restrictions were raised, the number of workers under ERTE fell progressively and significantly, ending 2021 at 120,000 (only 0.6% of the employed population).

Investment also saw a very positive trend in 2021, with growth of 6.8%, a clearly higher rate to that of overall GDP. This dynamic is a clear sign of economic recovery, as investment reflects increasing confidence in economic development and in future business profits, although it also benefited from the ECB's expansive monetary policy. Moreover, the arrival of €9,000 million from the Next Generation EU fund in 2021 meant an additional input of funds, although the multiplier effect on private investment was very small this year.

The labour market saw a positive trend in 2021, in line with the gradual normalisation of production. However, the trend was also influenced by the successive waves of COVID-19, especially in the first few months of the year (third and fourth waves). Nevertheless, implementation of the furlough scheme (ERTE/ERTO) softened the impact of the crisis on the labour market. This scheme, implemented in most European countries during the pandemic,

Accordingly, the fall in full-time equivalent jobs was 7.6% in 2020 and the recovery was 6.6% in 2021, so by 2022, only 1.4% of the jobs existing in 2019 are still to be recovered. But, if the actual number of hours worked is considered, the trend is very similar to that of GDP (a drop of 10.6% in 2020 and increase of 7% in 2021), and in this case 4.3% of the hours worked before the pandemic are yet to be recovered. Finally, the unemployment rate also fell from 15.5% in 2020 to 14.8% in 2021. In fact, in the fourth quarter of 2021, the unemployment rate had already reached the lowest level (13.3%) since 2008, just before the financial crisis.

In 2021, real wages decreased 2.5% due to the effect of rising prices, while productivity saw a downturn of 1.4%. Consequently, real unit labour costs (ULC) shrank, something that had not happened for years, and businesses were able to regain foreign competitiveness.

2021 featured gradual price growth, from very mild general inflation at the start of the year (0.5% in January) to a record increase in December (6.5%). This rebound in inflation must be blamed on higher commodity prices (food, metals, etc.) and energy prices. The strong recovery in consumption and investment around the world in 2021 meant that the productive capacity of the global economy could not keep up, and this therefore caused bottlenecks in commodity supplies and an increase in energy prices. In 2021, this situation had not yet affected other components in the consumer basket, as demonstrated by the fact that underlying inflation in Spain ended the year slightly above 2%.

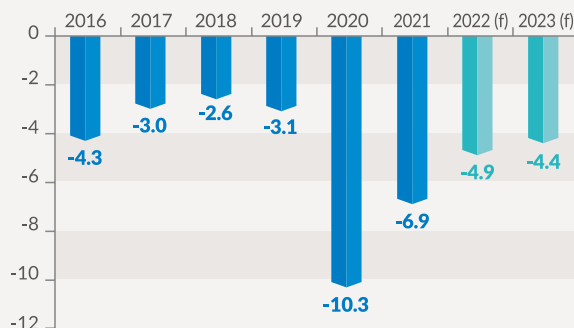
### **Inflation rebounded due to rising energy and commodity prices.**

### **Spain acquired a record public debt of 120% of GDP.**

In the context of public finance, the Spanish economy managed to reduce the public deficit to 6.9% of GDP in 2021, after climbing to 10.3% in 2020 as a result of the enormous budget effort made to tackle the economic effects of the pandemic (ERTE - furlough, support for the self-employed, minimum income scheme, etc.). Part of this decrease can be explained by the strong growth in GDP in 2021 (unlike in 2020), and the other part can basically be explained by the increase in tax revenue linked to economic activity (revenue increased 13.2% and expenditure 5.2%). All in all, the trend in the public deficit was more positive than the goal set by the European Union (8.4%) thanks to the strong recovery in the labour market, which allowed for a notable increase in tax collection.

Nevertheless, the public debt of the Spanish authorities as a whole continued to rise to €1.43 billion by the end of 2021, 5.8% more than the previous year, equalling 118.4% of GDP in the fourth quarter of 2021, 1.6 points less than in the same quarter of the previous year, when it reached the highest figure in the historic series. The major increase in nominal GDP (8.5%) made the debt-to-GDP ratio shrink despite the nominal increase in debt.

**SPAIN'S PUBLIC DEFICIT \***  
As % of GDP



f: European Commission forecasts (May 2022).  
\*Includes aid to the financial sector.

Source: Eurostat.

Chart 3.3

## 2. Prospects

The outbreak of the war in Ukraine lowered the very positive economic forecasts anticipated for the Spanish economy in 2022. After the impact of the Omicron variant that began at the end of 2021 was lower than feared, and the percentage of the fully vaccinated population in Spain passed 85%, it was hoped that inflationary pressure would ease off over the first few months of 2022 and the recovery in tourism would enable the Spanish economy to recover pre-pandemic GDP levels in 2022. However, these forecasts were reduced due to the effects of the war in Ukraine. Although a recession is not expected over the next few months, an economic slowdown is expected due to the context of global deceleration and the impact of high inflation, which has reached the highest levels in three decades and will weaken private consumption.

The Spanish economy maintained its momentum until the start of 2022, but the supply interruptions and rising inflation in the context of the war slowed economic activity from the end of February. As a result, real GDP grew 0.2% in the first quarter (compared with 2.2% in the last quarter of 2021), dragged down by strong contraction in private consumption due to the

***The recovery slows in the first quarter of 2022 due to the effects of the war and inflation.***

loss of household purchasing power. GDP is still 3.5% below the pre-pandemic level in this quarter. Harmonised inflation reached a high in June (10%) and underlying inflation rebounded 5.4%. Wage growth will accelerate but at a slower rate than prices, which will result in a

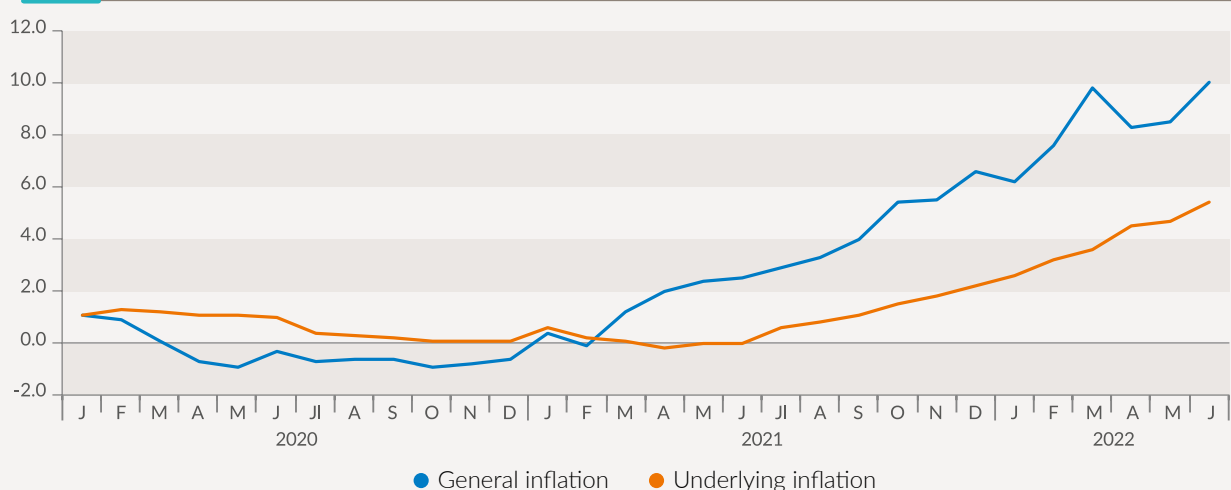
loss of household purchasing power and a fall in the household savings rate in future. However, although consumer and business confidence has deteriorated, job creation is performing well and a record level of employment was reached, with more than 20 million workers. Added to this figure are the positive effects of the labour reform passed at the end of 2021, which led to an increase in permanent employment.

In 2022, the growth rate of the Spanish economy will slow to around 4%, according to the European Commission, the OECD and the IMF, although it will still be among those to grow most in the Eurozone (alongside Portugal and Ireland).

High inflation and uncertainty will reduce household consumption. Supply bottlenecks will also limit private investment, while the

***Spain will be one of the countries to grow most in 2022, despite high uncertainty.***

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



Source: Eurostat.

## SPAIN. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 3.1

	2019	2020	2021
<b>Components of demand</b>			
Private consumption	0.9	-12.2	4.7
Public consumption	2.0	3.3	3.1
Gross fixed capital formation	3.2	-11.4	6.8
Domestic demand (a)	1.6	-8.6	4.6
Exports of goods and services	2.5	-20.1	14.7
Imports of goods and services	1.2	-15.2	13.9
<b>Components of supply</b>			
Agriculture, livestock and fishing	-2.5	4.3	-3.7
Industry	1.4	-10.1	5.2
Construction	5.3	-11.3	-3.4
Commerce, transport and hotels & catering	2.3	-25.7	14.2
Information and communications	4.9	-6.5	5.1
Financial and insurance activities	-3.5	6.1	7.1
Real estate activities	2.7	1.6	0.9
Professional activities	6.4	-16.3	4.7
Public admin., health and education	1.3	-0.1	3.1
Artistic, recreational & other activities	0.6	-24.7	0.4
<b>GDP at market prices</b>	<b>2.1</b>	<b>-10.8</b>	<b>5.1</b>

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

Source: National Institute of Statistics (INE).

execution of Next Generation investment projects and recovery of tourism will stimulate growth. There is the risk that higher inflation will become established if more upsets in the energy market or a more fluid transfer to final wages occur. On the other hand, the Brussels agreement to limit the price of gas on the Iberian peninsula, which came into force mid-June, could help to contain rising energy prices. For the year as a whole, inflation forecasts are close to 7-8%, while the unemployment rate could fall from 14.8% in 2021 to 13.4% in 2022, according to the European Commission.

**The public deficit will continue to decrease but much more slowly due to the new measures to tackle the effects of inflation.**

Due to the strong growth in revenue and gradual removal of expenditure related to COVID-19, the European Commission predicts that the public deficit will shrink two points in 2022 and reach 4.9% of GDP. To offset the negative impact of the war, the Spanish government passed a €6000 million plan in March (0.4% of GDP, to be extended until September) which includes a €0.2/litre fuel subsidy, an extension of the existing energy tax rebates and direct support to the most affected sectors. Moreover, a new line of

credit of €10,000 million (0.6% of GDP) has been set up for vulnerable businesses. In July, the Spanish government passed new measures, such as free transport on trains, and announced the creation of new taxes on financial institutions and electricity companies to finance them. The effectiveness of all the measures adopted to contain inflation and their indirect effects will partly depend on how dynamic activity is over the next few years in Spain.

In such a volatile context, risks point predominantly to a downturn in the case of economic activity and a rise in inflation. The degree of uncertainty in the economic forecasts is particularly high and will basically depend on several factors: the duration and intensity of the Russia-Ukraine conflict; any future trend in energy prices; the second-round effects between prices and wages; the strength of the recovery in tourism, and the rate of execution of European funds. The response from economic policies will also influence the dimension of the economic impact of the war.

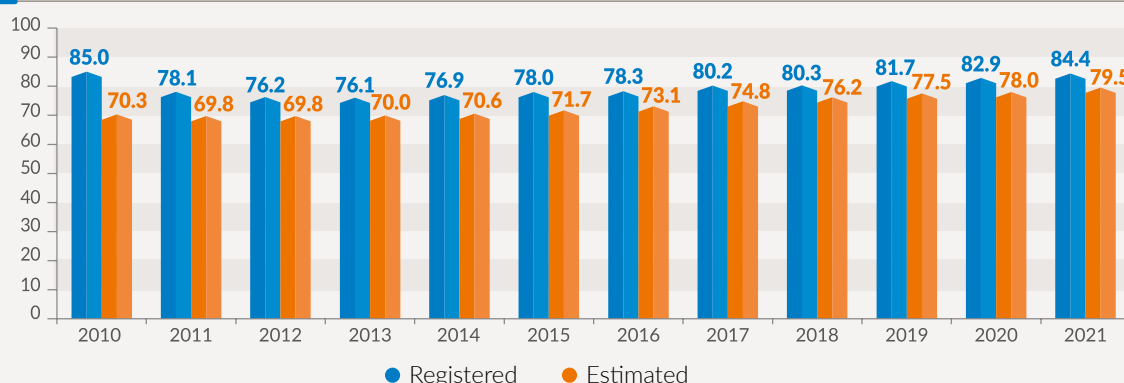
# The Andorran economy: general developments

## IV. Population, employment and education

### 1. Population and migratory flows

In 2021, the estimated population of Andorra rose to 79,535, the highest figure in the historical series that is available since 2009. This was an increase of 1.9% since the previous year, the strongest in the last four years. The figures for population registered with the local Comú authorities (a different concept to the cited estimated population), reflect a similar dynamic, with an increase of 1.8%, to 84,383, the highest level since 2010. As a result, the difference between the two population data sources remains at 4,900.

REGISTERED AND ESTIMATED POPULATION - In thousands



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

The increase in the estimated population of Andorra was headed by the rising number of foreigners (2.7%), much greater than in the previous year (0.6%), although growth in the Andorran population also accelerated (1.1%). So, the tendency renewed for the foreign population to grow faster than the Andorran population, which had stopped in 2020 due to the pandemic. Consequently, the foreign population reached a total of 41,106 people, or 2,677 more individuals than the Andorran population and representing 51.7% of the total, close to the maximum in the available historical series of estimated population (52.1% in 2010), but still far from the 72.5% of the registered population it had reached in 1986. These data confirm the attractiveness of the Andorran market to foreign workers, after a loss of momentum recorded in 2020 due to the health crisis.

***In 2021, Andorra saw strong population dynamics.***

The distribution by nationalities shows that the increase in foreigners was spread, with an especially notable contribution from the group of other nationalities (7.9%), followed by the French (3.7%) and Spanish (2.6%). The only group that saw a decline was the Portuguese (-2.2%), falling for the second consecutive year to the lowest figure in the available historical series for estimated population. The

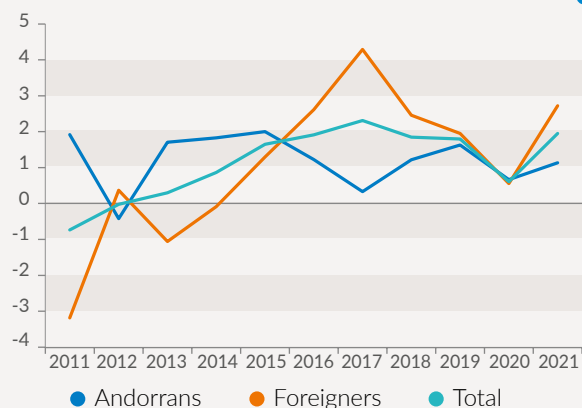
Chart 4.1

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## ESTIMATED POPULATION BY NATIONALITIES

### Interannual variation rate (%)

Chart 4.2



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

**The foreign population gains in percentage, with higher growth than in the Andorran population.**

Spanish are still by far the largest foreign group, with 24.8% of the total national population, followed by foreigners of other nationalities (11.3%), which overtook the Portuguese for the first time (11.2%), and more than double the French (4.5%). We can therefore state that in 2021, the trend continued towards the diversification of labour sourcing.

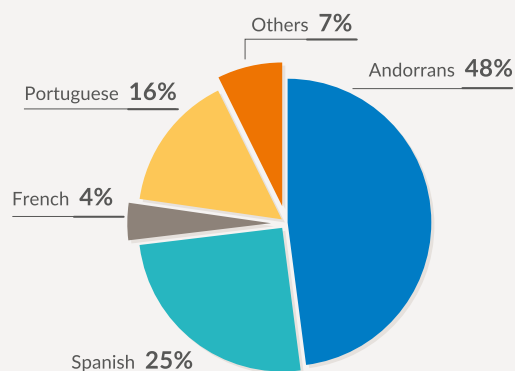
The inflow of foreigners into the country is also reflected in the strong increase in the number of valid immigration permits, driven by the economic recovery, after the steep downturn recorded in 2020 (-7.4%), caused by the pandemic. On 31 December 2021, there were 50,820 permits (including seasonal), 8.6% more than the previous year and the highest figure in the available historical series since 2007. This strong growth can be explained above all by the recovery in seasonal permits, which have more than tripled but have still not reached the pre-pandemic levels of 2019. Note also the 2.5% increase in working residence permits, which are the majority (71%), followed by non-working residence permits, which grew 1.8% to 8,550. On the other hand, cross-border and work without residence permits declined (-0.8% and -17.9%, respectively).

By parish, the increase in estimated population in 2021 was fairly well spread throughout the territory, in line with the trend of recent years.

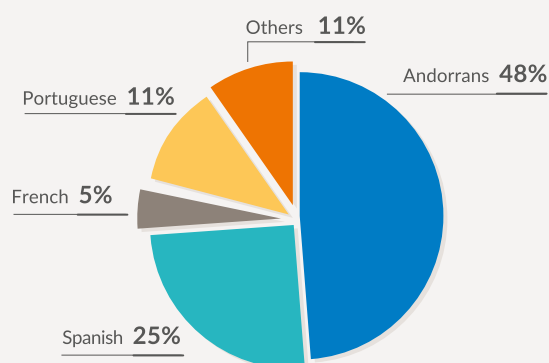
## ESTIMATED POPULATION BY NATIONALITIES - As % of total

Chart 4.3

2010



2021

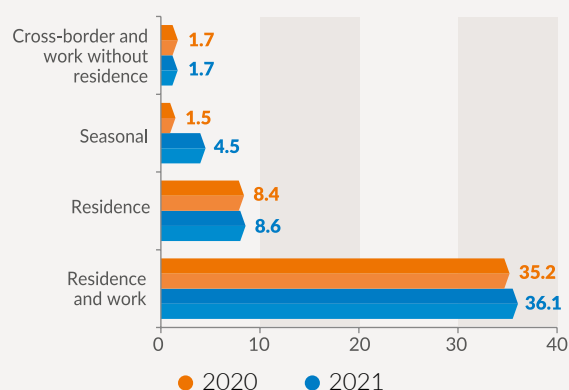


Source: Parish censuses of the Comú governments / Department of Statistics.

**The strong growth in other nationalities stands out, higher than in the Spanish.**

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

Chart 4.4

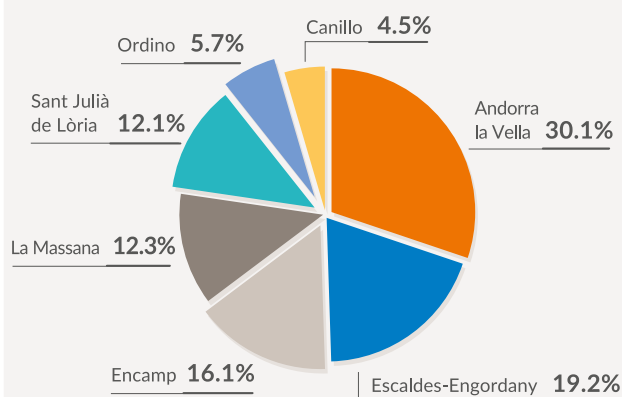


Source: Department of Immigration / Department of Statistics.

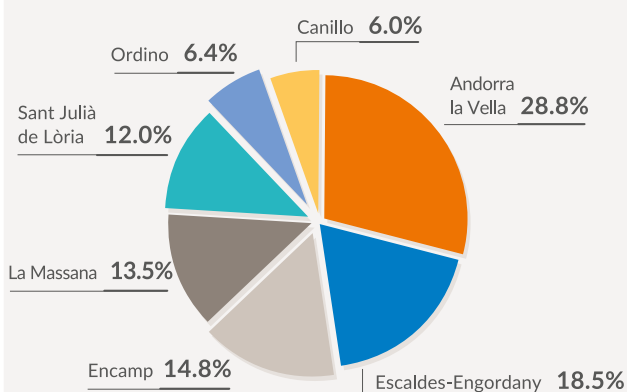
## ESTIMATED POPULATION BY PARISH As % of total

Chart 4.5

2010



2021



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

**The number of seasonal immigration permits more than tripled, but have still not reached pre-pandemic levels.**

Note the population increases in Canillo (7.9%) and La Massana (3.9%), above the average, while the other parishes saw more modest increases, lower than overall. Encamp is the parish where the population grew least (0.5%).

In Andorra la Vella, the most populated parish in the Principality, population growth was 1.5%, so its percentage of the total estimated population of Andorra continues to decline, slowly but constantly, as recorded since 2014, to reach 28.8%, the lowest level in the available historical series. In contrast, Canillo is still the parish with the smallest population (6%), despite the population dynamics it has seen in recent years, but the difference with Ordino, the second least populated parish, is already small (less than 300 inhabitants, according to estimated population figures).

**Canillo and La Massana are the parishes where the population grew most in 2021.**

As for population change, the natural population increase in Andorra in 2021 was only 117 individuals, similar to the previous year, due to the surge in deaths from the COVID-19 pandemic. This trend is the result of a downturn in births, accompanied by a greater reduction in the number of deaths, after these reached a historic high in 2020. So, the population dynamics seen in Andorra in 2021 can be explained above all by the positive balance of migration (1,403 individuals), calculated on the basis of estimated population. In total, the estimated population saw a net increase of 1,520, more than triple the 2020 figure.

## VARIATIONS IN THE ESTIMATED POPULATION

Table 4.1

	2020	2021
Births	539	503
Deaths	419	386
Natural increase	120	117
Birth rate (per thousand)	6.909	6.324
Death rate (per thousand)	5.371	4.853
Rate of natural increase (per thousand)	1.538	1.471
Increase from migration or census regularisation	352	1,403
Total population increase*	472	1,520
Marriages	226	355

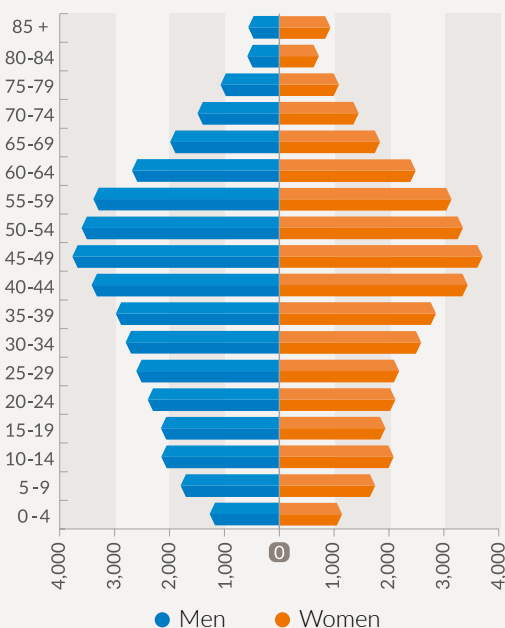
\* Natural increase plus increase from migration.

Source: Department of Statistics.



## STRUCTURE OF THE ESTIMATED POPULATION BY AGE AND GENDER. 2021

Chart 4.6



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

### *The number of deaths falls after the historic high in 2020 due to COVID-19.*

As for the structure of the estimated population by age and gender, men still outnumber women in all working age brackets except the 40-44 age bracket (slightly) and, outside the working age, in the over-75 bracket. In 2021, the difference between the percentages of male and female populations increased six tenths to 2.4 percentage points – there are 1,927 more men – a difference that can be explained by the size of the foreign workforce, which is traditionally mostly male and which also increased in 2021.

### *The population aged 65 and over already represents 14.7% of the total, a historic high and larger than the group of under-15s.*

In parallel, 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 (72.3%), contrasting with the low proportion of Andorrans in the over-65s group (38.9%).

To complete the analysis of the population of Andorra, the distribution by ages in 2021 shows that the Andorran population continues to age progressively. Specifically, the falling trend in the estimated population of under-15s in recent years has continued, so its percentage of the total fell to 12.8%, 3.6 points less than in 2010. In contrast, the over-65s group grew faster in 2021 (4.4%), raising its share of the total to a new historic high of 14.7%, higher than the percentage of the population under the age of 15. In between, the working age population (ages 15-64) increased 2.1% and its percentage of the total remained at 72.4%. As a result, the average age of the Andorran population continued to rise in 2021, to 42.

## 2. Employment and unemployment

According to data from the Workforce Survey (EFT), the number of unemployed in Andorra remained practically stable, at 1,410, the highest figure in the last six years. Along the same line, the unemployment rate remained stuck at 2.9%, the figure it reached in 2020, although this is still much lower than in neighbouring countries.

### *Unemployment did not decline in 2021 despite the economic improvement.*

So, despite the improvement in the economic environment in 2021, the Andorran job market continued to be influenced by the impact of the COVID-19 pandemic, so the two programmes to encourage employment that were started in 2020 were also continued, one aimed at the private sector and the other at the public sector. Moreover, a special programme was added to encourage recruiting and practical training within businesses, for the group of active youth aged 16-25.



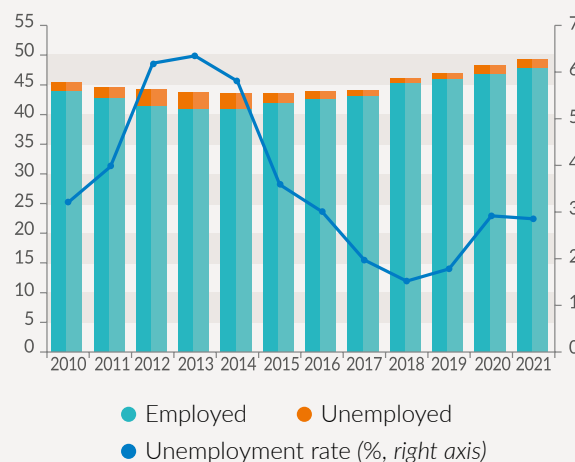
Note that 92% of the unemployed are short-term and that 45.6% have been looking for work for less than three months. Only 8% of the unemployed have been looking for work for more than a year, although this percentage increased four tenths in comparison with 2020.

Unemployment continues to affect women more, with the unemployment rate remaining at 3.4%, whereas the unemployment rate for men fell one tenth to 2.4%. By ages, unemployment in the youngest bracket (ages 15-24) did see an improvement in 2021, falling almost three points to 14.6%. In contrast the unemployment rate of the eldest bracket (ages 55-64) almost doubled to reach 3.8%, while it shrank slightly in the 25-54 age bracket, from 2.1% to 1.9%.

In parallel, within the context of a growing active population, the number of employed aged 15-64 increased 2.4%, according to the Workforce Survey, to 46,297, the strongest rate in the last three years. Moreover, note that by the end of 2021, the number of people on furlough, whether temporary suspension of the employment contract (STCT) or a reduction in working hours (RJL), who are counted as employed, fell to zero, contrasting with the 4,445 people in December 2020 and the more than 9,200 who found themselves in this situation in May of that year.

#### EMPLOYED AND UNEMPLOYED POPULATION - In thousands and %

Chart 4.7



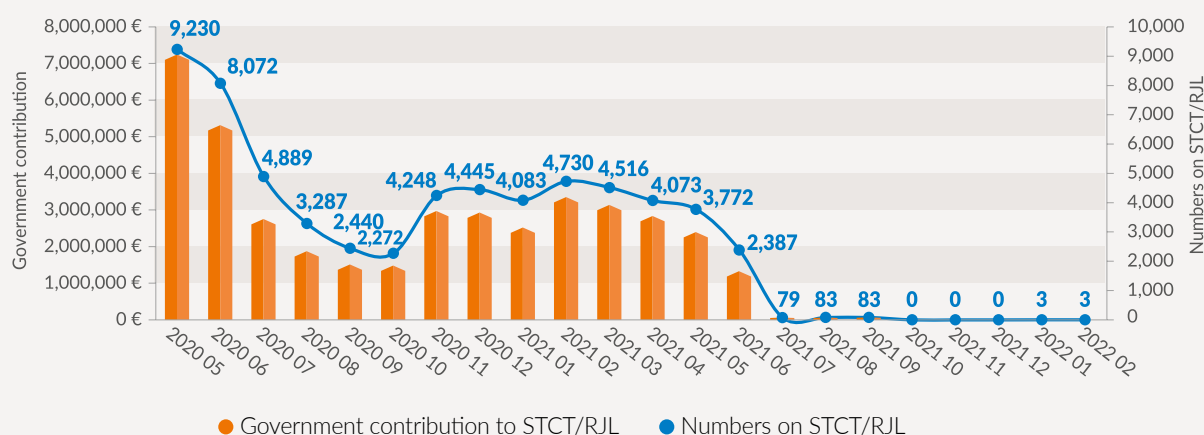
Source: Workforce Survey. Department of Statistics.

**The employed population increased at a rate of 2.4%, the strongest in the last three years.**

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#### NUMBERS OF PEOPLE ON STCT/RJL AND GOVERNMENT CONTRIBUTION

Chart 4.8



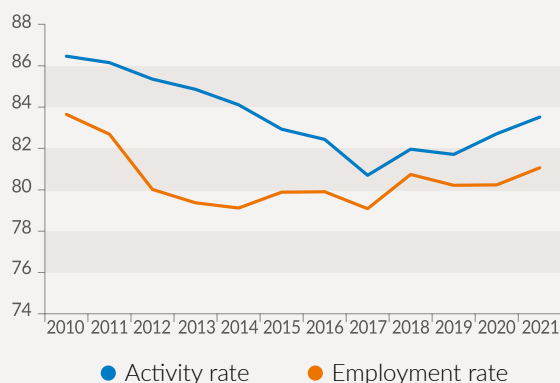
Source: CASS (Andorran Social Security System) / Department of Statistics.

**By the end of 2021, there was no one on furlough.**

Consequently, the employment rate calculated from the population aged 15-64 increased nine tenths, to 81.1%, and is still clearly above the European Union average (68.4%). Equally, the activity rate increased eight tenths to 83.5%, which easily exceeds the EU average (73.6%).

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

Chart 4.9



Source: Workforce Survey, Department of Statistics.

Of the total employed population aged 15 and above, 15.5% are self-employed and the rest are employees divided between the private sector (66.8% of total employed) and the public sector (17.1%). As for the level of education, 65.7% of the employed have at least secondary education, and in relation to working hours, 91.4% of the employed work full time and work an effective average of 34.8 hours per week, while part-time workers work an average of 16.9 hours per week. In global terms, the employed work 33.4 effective hours per week, a figure that represents 6.9% more hours worked than in 2020 thanks to the post-lockdown reactivation of the economy.

Data from the Andorran Social Security System (CASS) for 2021 still do not show the reactivation in the labour market, unlike the Workforce Survey. Specifically, they show that the number of employees fell for the second consecutive year and at a rate of 2%, to 37,683, the lowest level since 2016, although the rate of descent decelerated in relation to 2020 (-3%). Equally, the average number of jobs in Andorra decreased (-0.7%), also for the second consecutive time, to 45,600 jobs.

**The number of employees has fallen for the second consecutive year.**

The fall in numbers of employees recorded in 2021 was spread between the main sectors except construction, an activity where, in contrast, the positive dynamic has accelerated with an increase in the number of employees of 6.9%, compared with 4.3% recorded in the previous year. The construction sector has seen seven consecutive years of job creation, raising the number of employees to over 3,700, the highest figure since 2011, but still about 45% less than at the end of the previous cycle of expansion (2006).

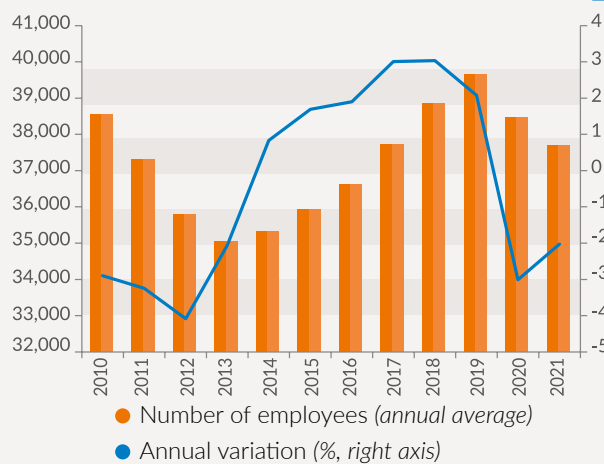
**The number of employees in the services sector fell close to the 2016 level.**

In industry, the trend in employees in 2021 was negative, with a decline of 3.3% to 1,693 employees, after reaching the highest level of the last decade in 2020. The primary sector also saw a reduction in employees, for the fifth consecutive year, although the behaviour of this sector has a much smaller effect on the economy, since its activity represents a very small percentage of the Andorran labour market, with only 154 employees.

In 2021, services – the sector in Andorra with the greatest percentage of employees – continued to feel the most direct impact from the restrictive measures adopted to control the COVID-19 pandemic. Specifically, the number of employees fell 2.9%, added to the fall of 4.1% recorded in

## TREND IN THE NUMBER OF EMPLOYEES As annual average and %

Chart 4.10



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

## NUMBER OF EMPLOYEES

Table 4.2

	2021	% var. 21/20	% total 2021
Agriculture, livestock, hunting & forestry	154	-1.5	0.4
Industry	1,693	-3.3	4.5
Construction	3,717	6.9	9.9
Services	32,118	-2.9	85.2
Commerce & motor vehicle repairs (etc.)	8,174	-5.8	21.7
Hotels & catering	3,640	-15.9	9.7
Financial system	1,765	0.4	4.7
Public administration, defence & mandatory social security	4,675	3.4	12.4
Others	13,865	0.5	36.8
<b>Total</b>	<b>37,683</b>	<b>-2.0</b>	<b>100.0</b>

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

2020 and putting the level close to that of 2016. As a result, the percentage of total employees of the service sector fell one point to 85.2%, the lowest level since 2011. In contrast, construction increased to 9.9%. Lastly, agriculture and industry stayed at 0.4% and 4.5%, respectively.

Among tertiary activities, there was a notably strong decline in employment in hotels and catering, by 15.9%, reducing this subsector's percentage to a new historic low of 9.7%. Employment also fell significantly in commerce, transport and other social activities and services to the community. In contrast, there were notable increases in the number of employees in health activities, education, public administration and real estate and rental activities. In any case, commerce and motor vehicle repairs are still the most important services subsector, with 21.7% of total employees in Andorra. These are followed by real estate and rental activities and business services (14.9% of total employees) and public administration, defence and mandatory social security (12.4%).

**Within services, hotels and catering was the sector in which employment shrank most, due to the relatively greater impact of the pandemic.**

Within this context, the number of job seekers fell by 10.1%, to 886. In contrast, the number of people looking for a better job grew significantly, reaching a new historic high of 640 applicants.

**The number of job seekers fell below the number of jobs offered.**

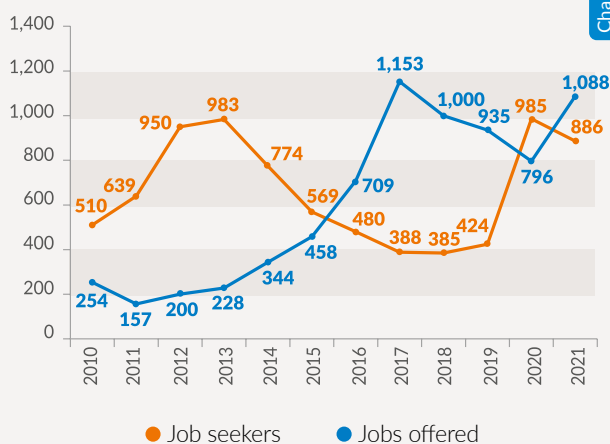
In parallel, the number of jobs offered at the Job Service increased significantly (36.7%), breaking the trend of three consecutive years of decline and raising the figure to more than

one thousand jobs, higher therefore than the number of job seekers. This trend reflects the reactivation of recruitment plans by businesses as the pandemic came under control. So, the ratio of number of applicants per job has fallen to 1.4 and the job market has begun to tighten as certain sectors appear to struggle to find workers again.

The continued impact of the pandemic on the labour market in 2021 led to an increase in the number of people on unemployment benefits, which went from 54 to 134, the highest level since these benefits were first offered in 2009. This meant that the coverage rate for job seekers almost tripled to 15.1%. In any case, the coverage rate is still very low when compared to our European neighbours.

## JOB SEEKERS AND JOBS OFFERED

Chart 4.11

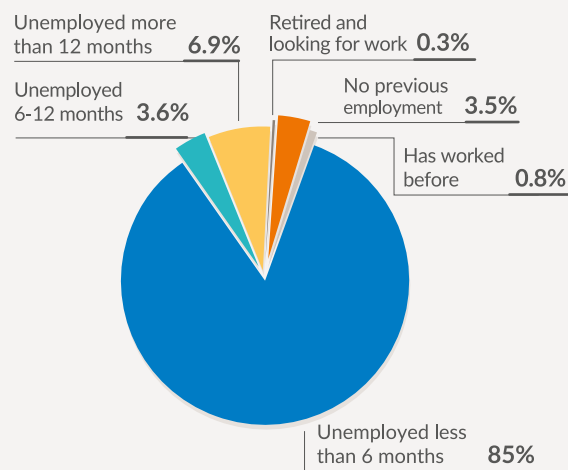


Source: Department of Employment &amp; Work / Department of Statistics.

By ages, the fall in numbers of job seekers was mostly among those aged 18-25 (-8.2%) and 26-39 (-27.6%), representing 23.3% and 24.9% of the total, respectively. In the other age brackets, the number of job seekers remained practically stable. As a result, most job seekers are still aged between 40-59 (42.2% of the total).

## JOB SEEKERS BY EMPLOYMENT SITUATION. 2021 - % of total

Chart 4.12



Source: Department of Employment &amp; Work / Department of Statistics.

**The fall in the numbers of job seekers is mostly between the ages 18-39.**

Another notable feature of job seekers in Andorra is that 8 of every 10 have been unemployed for less than six months, although this figure has fallen a little in comparison with 2020. For its part, the percentage of structural unemployment (unemployed for more than one year) increased in 2021 although it is still at very low levels (6.9%). According to data from the Workforce Survey, structural unemployment was slightly higher in 2021, at 8%. All in all, this stems from a fairly flexible and dynamic labour market that does not create major structural imbalances.

To complete the analysis of job seekers, the distribution by nationalities demonstrates that the reduction recorded in 2021 was general. Note, however, that the decline was greater among foreigners (-12.3%) than Andorrans (-6.4%). Among the foreigners, the Spanish are still the largest group of applicants (279 individuals).

Consequently, overall, the percentage of foreigners in the total number of job seekers has shrunk to 60.7%. Nevertheless, this is still a higher percentage than their percentage of the total estimated population of working age (55.3%). However, the Workforce Survey reflects the

**The number of foreign job seeker has risen more than the number of Andorran job seekers.**

fact that in 2021 the unemployment rate of Andorrans increased four tenths to 3.9%, while the unemployment rate of foreigners fell half a point to 2.1%, contrasting with 2019, when the unemployment rates of both groups were very similar. Note also that this situation was also accompanied by significant differences in the inactivity rate of both groups. Specifically, the inactivity rate of Andorrans (33.6%) is more than ten points higher than that of foreigners (23.9%). 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 2020-2021 academic year, the student population of Andorra, including the school and non-university population abroad, was 11,019. The data for the university population for the same period is not available on the date of preparing this report so a comparison cannot be made with the total student population of the previous year. By subgroups, a reduction can be seen in both the school population and the number of non-university students abroad, which is much greater in the latter (-0.6% and -38.8%, respectively).

#### 3.1. School population

In the 2020-2021 academic year, there were 10,910 students at school level, 69 less than in the previous year and the lowest level in the last seven years. These data put the schooling rate – calculated as the proportion of the school population in the global population at this level – at 46.8%.

***A seventh annual consecutive fall was recorded in the number of kindergarten pupils.***

By levels, 84.9% of school students are in kindergarten, primary and secondary education. The other 15.1% are baccalaureate and vocational training students. The trend last year was again marked by the reduction in kindergarten students (-4.8%). This is the seventh consecutive decline, 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, baccalaureate and vocational training.

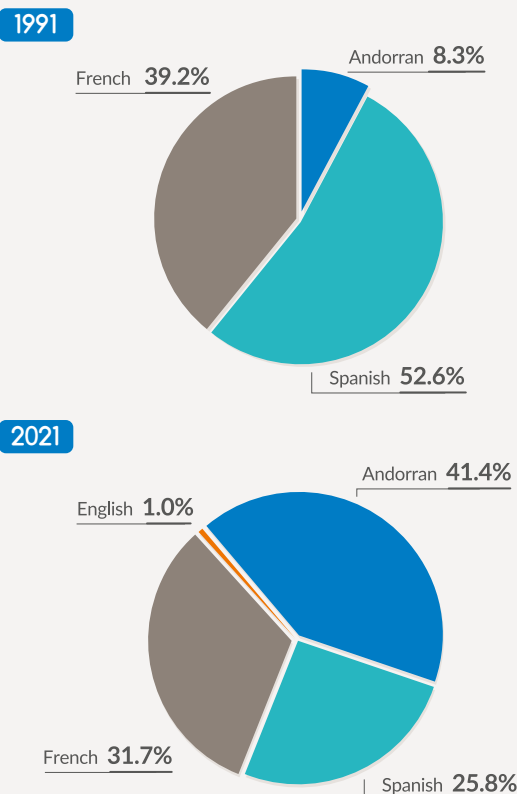
Distribution by type of education shows that the Andorran educational system recorded a slight decline in the number of students (-0.2%), the first in five years but smaller than that of the total, so its percentage of the total school population continued to increase to 41.4%, a new historic high. The fall in the number of students in the Spanish educational system was deeper, around 1%, a trend that continues the progressive loss of importance of this system, observed since the beginning of the nineties. So, the Spanish educational system's percentage of the total fell to 25.8%, a figure that sets a new historic low and

#### STUDENT POPULATION BY LEVELS

	2020-2021	% variation 20-21/19-20	% 2020-2021
Kindergarten	1,997	-4.8	18.3
Primary education	4,110	-3.2	37.7
Secondary education	3,158	2.4	28.9
Baccalaureate	1,122	6.9	10.3
Vocational training	523	4.0	4.8
<b>Total</b>	<b>10,910</b>	<b>-0.6</b>	<b>100.0</b>

Source: Ministry of Education and Higher Education.

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



Source: Ministry of Education and Higher Education.

***The English educational system is the only one in which the number of students increased, reaching 1% of the total.***

contrasts with the 52.6% it represented in 1991. For its part, the number of students in the French educational system also fell (-1.8%); as a result, its share of the total school population shrank four tenths to 31.7%. Finally,

note that the English educational system, which started to operate in the 2018-2019 academic year, has continued to attract new students, with a 31.8% increase, raising its share of the total to 1% of the total school population.

### 3.2. University population

At the time of preparing this report there are no data about the university population of Andorra. There are data from the University of Andorra (UdA) for the 2021-2022 academic year that show a notable increase in students in formal training, which passed the figure of 600 for the first time.

Specifically, the 2021-2022 academic year started with 629 students, a figure that is 15% higher than the previous year, when it was 547. This increase is due to the nearly 240 new students who registered on some of the

15 formal training programmes offered by the UdA. The numbers of students grew in most of the programmes, especially law and education. Moreover, during the 2021-2022 academic year, 1,194 students registered on the 98 continuous training programmes.

***The University of Andorra crossed the threshold of 600 students in formal training for the first time.***

## V. Activity and demand

### 1. Developments in economic activity in 2021

After activity in 2020 was deeply affected by the COVID-19 pandemic and the measures restricting movement and social activity, the Andorran economic context in 2021 visibly improved, despite the successive waves of the pandemic which continued to influence economic progress.

***In 2021, the Andorran economy started a strong recovery, though unevenly by sectors.***

The increase in infections at the start of the year led to heavy restrictions on international movement between countries, which beleaguered the tourism sector during the skiing season. From the summer, in a context of better control of the epidemic and easing of restrictions, the demand for tourism reactivated, especially proximity tourism, and contributed to a gradual improvement in business that also extended to the branches most affected by COVID-19, such as commerce and hotels and catering. This improvement in economic activity, which was quite strong in comparison with 2020, increased business confidence and improved business prospects.

However, the economic recovery was not complete by the end of 2021 and, moreover, was marked by major sectoral differences. Construction was still the most dynamic sector of the economy, with a rate of activity that already easily outmatched pre-pandemic levels. Industry and non-tourism services, which were less affected by the health restrictions, have already almost

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

Table 5.1

Activity	2020	2021
Establishments <sup>(1)</sup>	4.0	7.9
Employment	1.0	2.4
Employees	-3.0	-2.0
Industry	5.2	-3.3
Construction	4.3	6.9
Services	-4.1	-2.9
Unemployment	68.4	0.1
Job seekers	132.2	-10.1
Number of visitors	-36.8	4.1
Electricity consumption <sup>(2)</sup>	-17.5	8.1
Imports	-5.0	1.0
Demand		
Average wage	0.7	1.8
Car registrations	-19.9	23.5
Industrial vehicle registrations	-37.5	12.1
Imports of capital goods <sup>(3)</sup>	-14.8	10.0
Imports of building materials <sup>(4)</sup>	-16.6	48.7
Credit from banking entities <sup>(5)</sup>	4.5	10.4
Government operating expenses <sup>(6)</sup>	-2.2	3.2
Government real investment <sup>(6)</sup>	-32.4	6.2

(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) In 2021, the definition of building materials was expanded and now includes chapters 25, 68-70, 72-76 and 78-81, under the Andorran Customs classification. The 2020 data have been revised under this new definition.

(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.

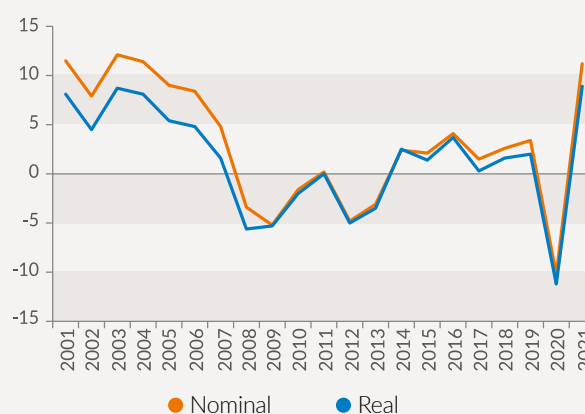
completely normalised business in relation to 2019, while the sectors most linked to tourism and more exposed to social interaction, such as hotels, restaurants, commerce, travel agencies, passenger transport and cultural and leisure activities have recovered more slowly and ended the year at business levels that were still far from pre-pandemic figures

The economic reactivation in 2021 was reflected in the positive trend in the great majority of indicators of activity and demand. Particularly notable were the increases seen in visitors, electricity consumption, bank credit, imports, the number of establishments and car and industrial vehicle registrations. Equally, operating costs and real investment by the public authorities as a whole increased, after the cuts implemented in 2020.

This economic momentum also led to an improvement in the job market situation, with an increase in employment, according to the Workforce Survey (EFT), of 2.4%, and virtual stabilisation in the number of unemployed (0.1%), after the increase of 68.4% in 2020. In terms of employees, the

### TREND IN GDP IN ANDORRA Interannual variation rate (%)

Chart 5.1

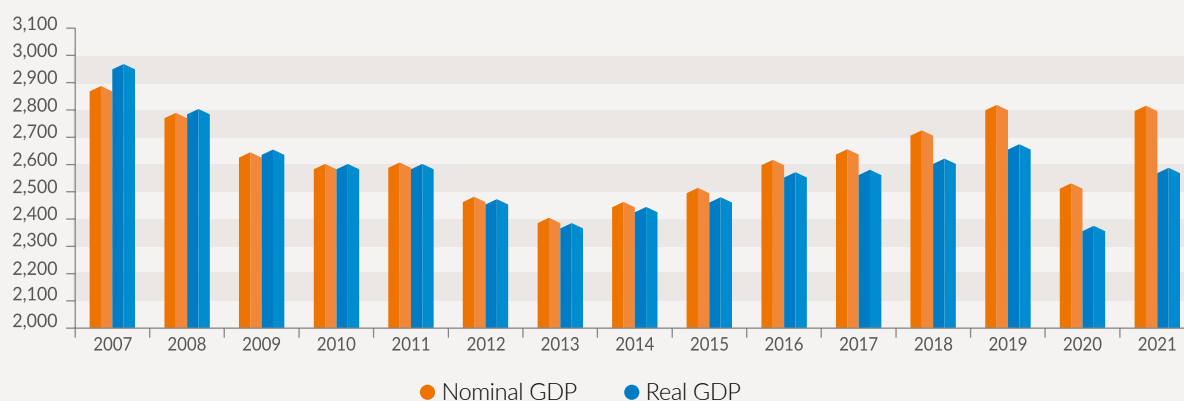


Source: Department of Statistics.



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

Chart 5.2



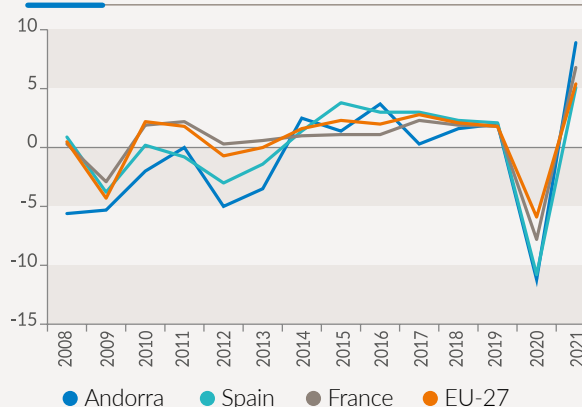
Source: Department of Statistics.

**Andorra's real GDP revived in 2021, with 8.9% growth, still below the pre-pandemic level.**

data do not show such a favourable trend, as there was a 2% decline, although this is slower than the 3% fall recorded in 2020. Moreover, the number of job seekers fell 10.1% and immigration permits increased 8.6%, contrasting with the reduction seen in 2020 (-7.4%). Within this context, implementation of the ERTO scheme (furlough), which greatly softened the impact of the pandemic in 2020, continued in place in 2021, although the number of workers receiving it gradually fell over the year to minimal levels over the summer months and then to zero from October. Altogether, along with wage growth, this boosted income from work and therefore more favourable consumption conditions for Andorran residents.

**TREND IN ANDORRAN GDP COMPARED WITH NEIGHBOURING ECONOMIES**  
Interannual variation rate (%)

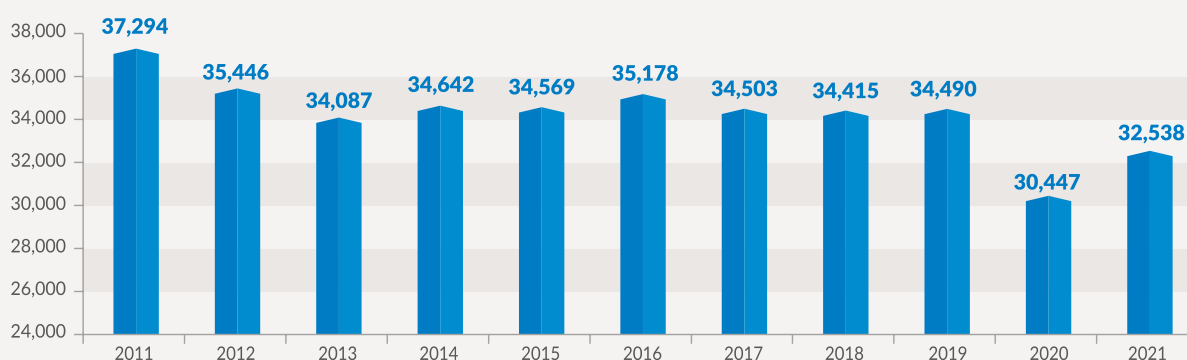
Chart 5.3



Source: Eurostat and Department of Statistics.

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

Chart 5.4



Source: Department of Statistics.



## Box 5.1

### INCOME DISTRIBUTION, LIVING CONDITIONS AND RISK OF POVERTY IN ANDORRA

In 2020 (income data for 2019), the Andorran population had an average income per consumption unit of €28,502. By gender, the average of men (€30,360) was 14.3% higher than that of women (€26,573).

Income distribution also presents differences by age groups. The highest figure is that of the population between the ages of 16-64 (€29,366), which coincides

with the working age. People aged 65 and above have a slightly lower average income (€28,653) and the lowest level is that of under-16s (€24,412 on average).

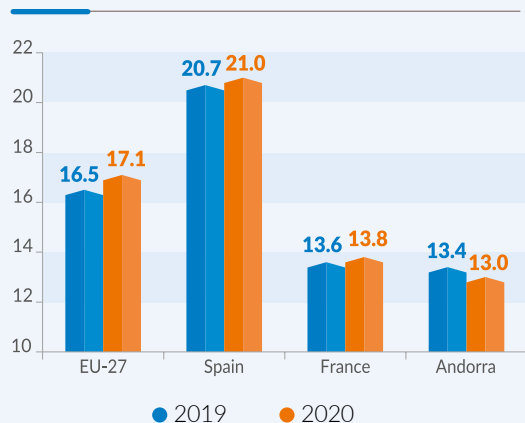
As for the housing regime, the income of those who live in rented housing (€25,545) is, on average, 23.7% lower than those who own their main residence (€33,499).

Regarding income distribution, in 2020, 20% of the population with lower incomes had 9.1% of total income, whereas 20% of the population with higher income had 38.0% of the income.

Within this context, in 2020, 13.0% of the Andorran population was at risk of poverty (below the threshold of €14,388, 60% of the median income per consumption unit), a percentage that rises to 20.8% when social benefits and pensions are discounted.

The percentage of the population that states that it has problems reaching the end of the month is 39.6%, while the other 60.4% says it manages easily. Those who stated that they had problems (some or many) have income per consumption unit of €21,176 on average. This value increases to €33,302 when they indicated that they manage easily (some or many).

#### AT-RISK-OF-POVERTY RATE IN ANDORRA COMPARED WITH EUROPE As % of population



Source: Living conditions survey. Department of Statistics. Government of Andorra.

The economic recovery seen in Andorra in 2021 took the shape of strong GDP growth in real terms, 8.9% according to advance figures published by the Government, and contrasting with the 11.2% downturn suffered in 2020. Real GDP is therefore 3.2% lower than in 2019, before the pandemic. The revival was led by construction and, to a lesser extent, by services and industry, while the primary sector still saw a slight contraction of 0.6% which, nevertheless, was smaller than in 2020.

By quarters, 2021 started negative, with a drop in GDP in the first quarter due to persistent major restrictions on movement and a knock-on effect, since the pandemic had still not started in the first two months of 2020. Unlike the second quarter, when data show a recovery and can be compared year on year with the months of the first wave of the pandemic, when the restrictions were tougher. The year-on-year growth rate weakened in the third quarter, affected by the appearance of new variants of COVID-19, but accelerated again in the fourth quarter, fluctuations that were largely influenced by the waves of pandemic.

In nominal terms, the increase in GDP for 2021 as a whole was 11.2%, compared with the 10.2% fall recorded in 2020. As a result, total nominal GDP for 2021 was €2,815.4 million, a value that is very close to that of 2019 (-0.1%), whereas in real terms, the value of GDP (€2,587.9 million in base year 2010) has increased to a slightly higher level than in 2017.

From an international point of view, Andorra's economic recovery in 2021 was stronger than in Spain, France and the EU as a whole, although the decline in 2020 was also stronger. In parallel, the Andorran population continued to grow (1.9%), so that per capita GDP in real terms increased 6.9%, to reach €32,538 (base year 2010), a level that is still well below the figure recorded in the last decade. Equally, in nominal terms, per capita GDP in Andorra increased 9.1% to €35,399, a level that is equal to that of between 2015-2017.

**Andorra's economic recovery was stronger than that of its European neighbours.**

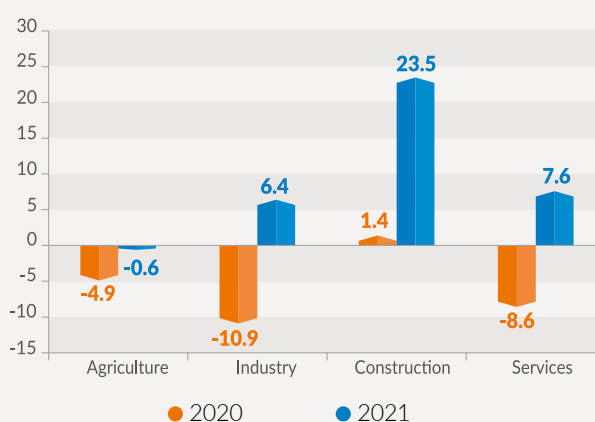
## 2. Developments in activity by sector

All the main sectors, except the primary sector, have helped to drive economic recovery in 2021. Firstly, the high momentum seen in construction, the second most important sector of the economy, is notable. Services, which are the main driving force behind the Andorran economy, with about 85% of GVA, also revived strongly. Along the same line, the contribution from industry was positive, if limited, as this and the primary sector are the activities with the smallest percentages of total GVA.

**Construction was the most dynamic sector in 2021, with GVA growth of 23.5%.**

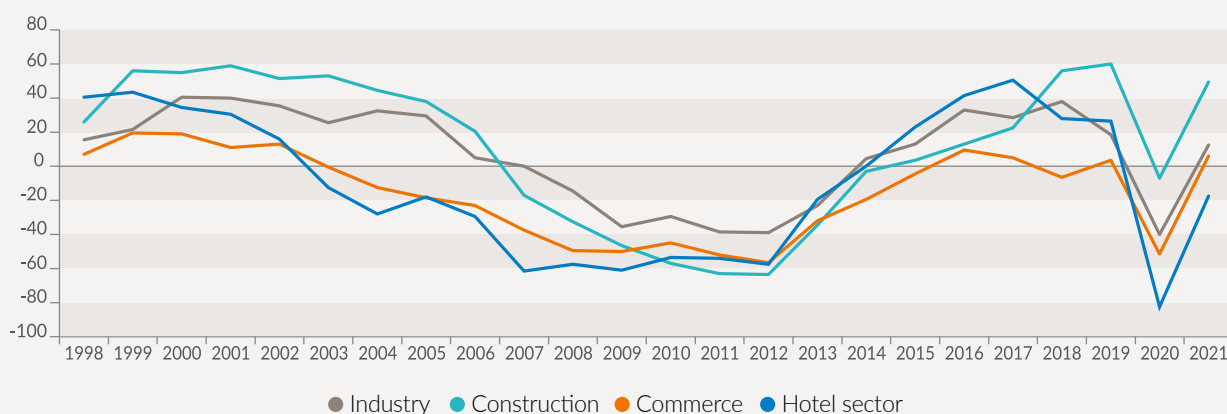
Growth in real GVA in the construction sector was 23.5%, a trend that contrasts with the minimal progress seen in 2020 (1.4%), continuing a consecutive six-year period of growth. As the increase was more than double that of the total, its percentage of GVA increased to 9.3%, although this is still less than the high it represented just before the property and financial crisis (13% in 2006).

**TREND IN GVA BY SECTOR**  
Interannual variation rate in real terms (%)



Source: Department of Statistics.

**TREND IN BUSINESS ACTIVITY BY SECTOR**  
Balance between the percentage of positive and negative replies



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

## BUSINESSES' OPINIONS ABOUT ECONOMIC DEVELOPMENTS IN 2021

Table 5.2

### Results of the situation survey in industry

#### 2021 COMPARED WITH 2020 (as % of businesses)

Turnover	Higher	42
	Same	46
	Lower	12
	Average variation (%)	10.9
Volume of investment	Higher	25
	Same	66
	Lower	9
	Average variation (%)	7.1
Number of employees	More	22
	Same	70
	Less	8

#### Prospects for 2022 (as % of businesses)

Trend in turnover	Upward	46
	Stable	50
	Downward	4
Trend in volume of investment	Upward	34
	Stable	58
	Downward	8

### Results of situation survey in construction

#### 2021 COMPARED WITH 2020 (as % of businesses)

Turnover	Higher	55
	Same	45
	Lower	0
	Average variation (%)	29.0
Volume of investment	Higher	39
	Same	58
	Lower	3
	Average variation (%)	23.8
Number of employees	More	32
	Same	65
	Less	3

#### Prospects for 2022 (as % of businesses)

Trend in turnover	Upward	56
	Stable	44
	Downward	0
Trend in volume of investment	Upward	33
	Stable	67
	Downward	0

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

The strong momentum in business activity in the construction sector is reflected in high growth in other indicators, such as approved square metres (168.2%), imports of building materials (48.7%), authorised surface area (50.8%), property transactions (47.8%), electricity consumption (12.5%) and public investment expenditure (6.2%). Altogether, this favoured job creation in construction (6.9% increase in employees compared with 4.3% in 2020), and accelerated apartment price growth, encouraged by the lively demand for property.

The results of the Chamber's surveys corroborate the good business performance in the construction sector, with a very positive evaluation of the business situation, highly focussed on the housing segment. Moreover, businesses have stated that the volume of works, both executed and contracted, has improved significantly. Altogether, this has led to a notable increase in sales (29%) and investment (23.8%) figures.

**Industry also made a positive contribution to economic growth in 2021, unlike GVA in the primary sector, which fell slightly.**

As for manufacturing and industry, the trend in 2021 was also favourable, if we look at the real GVA data, which show growth of 6.4% compared with the downturn of 10.9% recorded in 2020. Despite increasing activity, the sector reduced the number of employees 3.3%, contrasting with the increase in the previous year (5.2%). Note that industrial activity consists of basic industry, on the one hand, especially energy production and distribution, and on the other, manufacturing, which is the most important activity – 74% of the GVA from industrial activities. Overall, industry represents a little more than 5% of total GVA, meaning that any trend has a limited effect on the economy as a whole.

The replies to the Chamber's surveys from businesses also depict the improving industrial climate and business activity. Specifically, the annual average confidence indicator increased and regained positive levels, after it plunged to an eight-year low in 2020. Evaluations of production levels revived and the level of capacity utilisation increased, although this is still below pre-pandemic levels. Within this context,

## BUSINESSES' OPINIONS OF ECONOMIC DEVELOPMENTS IN 2021

Table 5.3

### Results of the situation survey in retail commerce

2021 COMPARED WITH 2020 (as % of businesses)		Total retail commerce	Food	Clothing & footwear	Household equipment	Health & hygiene	IT & electronics	Vehicles & accessories	Other commerce	Large commercial establishments
Sales figures	Higher	46	33	54	41	50	50	50	42	100
	Same	33	26	25	44	36	36	37	32	0
	Lower	21	42	21	15	14	14	13	26	0
	Average variation (%)	10.0	-1.2	8.1	5.9	17.3	19.3	16.1	8.6	13.6
Volume of investment	Higher	27	28	42	23	33	15	23	30	40
	Same	64	67	50	72	46	80	67	59	40
	Lower	9	5	8	5	21	5	10	11	20
	Average variation (%)	6.8	6.2	11.9	4.2	9.0	6.0	4.0	7.0	18.6
Number of employees	More	11	2	23	16	0	17	10	8	25
	Same	81	91	69	74	100	68	79	90	50
	Less	8	7	8	9	0	15	10	2	25
PROSPECTS FOR 2022 (as % of businesses)										
Trend in sales figures	Upward	47	52	54	37	46	48	41	49	60
	Stable	42	25	46	61	46	43	41	38	40
	Downward	11	23	0	2	8	10	17	13	0
Trend in volume of investment	Upward	31	30	27	23	52	25	27	32	100
	Stable	63	59	65	75	48	70	70	58	0
	Downward	6	11	8	2	0	5	3	11	0

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

industrial companies indicated a major increase in turnover (10.9%) and the investment rate (7.1%), contrasting with declines in 2020.

***There was a turning point in the trend in visitors' numbers, which increased 4.1%.***

In 2021, services, the sector most damaged by the pandemic, saw a partial recovery, with real GVA growth of 7.6%, after the 8.6% fall recorded in 2020. Nevertheless, the recovery was not accompanied by job creation (the number of employees shrank 2.9%).

By subsectors, the renewal of activity was fairly general, although the intensity varied immensely, as happened in the declines in 2020. The subsector that suffered most from the consequences of the health crisis, Commerce, health, hotels & catering, transport, information and communications, saw GVA growth of 9% (contrasting with the 15.9% fall in 2020) and maintained its contribution to total GVA at 28.2%. This trend is largely linked to the turning point seen in the number of visitors to the country, which increased 4.1% to 5.4 million, after falling 36.8% in 2020, although the level reached is still far from pre-pandemic levels (7-8 million visitors).

***Commerce and hotels and catering joined the recovery but at a slower pace.***

In 2021, the other indicators linked to activity in the tourism sector show signs of recovery, but are still on negative ground. So, in 2021, declines were recorded in the numbers of

accommodations and beds, the number of employees and total and average numbers of overnight stays. In contrast, electricity consumption in hotels and catering increased and ski days sold in the 2021-2022 season multiplied by almost eight in comparison with the previous season.

Along the same line, the Chamber's surveys have seen an improvement in businesses' opinions about the trend in business activity in the hotel sector in 2021, but still at low levels. So, hotels

indicated a year-on-year increase of 7.9% in average turnover and 2.8% in investment, contrasting with the steep reductions seen in 2020. The level of occupancy, level of reservations and prices also improved.

Commerce followed a similar pattern to tourism, with a still gentle recovery in business activity. The positive trend can be seen in the increase in the number of establishments and electricity consumption and slower decline in the volume of imports without fuels. Moreover, the Chamber's surveys showed an improvement in business activity and increases in sales figures (10%) and investment (6.8%). However, the sector has continued to reduce the number of employees.

In the case of financial, real estate, professional and technical activities, the recovery was quite strong, with an estimated increase in GVA of 9.1%, after the 3.9% decline recorded in 2020. Remember that this branch of services is the most important in the economy, with almost 36% of total GVA.

The trend in the banking sector in 2021 was quite favourable, with aggregate growth in profits of all the national institutions of 16.5%. This increase was accompanied by notable increases in both gross lending to clients (10.4%) and deposits (9.8%). The banking sector profits were favoured by the strong recovery seen in the economy, in a context that was still marked by low interest rates in 2021. Altogether, this put return on equity (ROE) of the banking sector at 6.04% in 2021, higher than the 5.46% of the previous year, while the default rate dipped to 3.74% and solvency levels were maintained (17.0% CET1 phase-in).

Despite the improvement in profits, the number of employees in the banking sector shrank 2.9%, according to data provided by Andorran Banking, and the number of branches also shrank 5.1%. Now, in the Andorran financial sector as a whole, the number of employees saw a slight increase of 0.4% and the average monthly wage rose 1.2% after two years of decline.

To complete the sectoral analysis, in 2021, the primary sector – which only contributes 0.5% of total GVA – saw contraction for the fourth consecutive year, of 0.6% which, nevertheless, was smaller than that of 2020 (-4.9%). This decline was accompanied by a fall in the number of employees (-1.5%), number of establishments (-3.4%) and numbers of livestock (-2.8%). In contrast, the utilised agricultural area increased 1.8%, interrupting four consecutive years of downward trend. As for the tobacco harvest, the trend in 2021 was for partial recovery, with an increase of 14.6%, after two years in an exceptional situation caused by COVID-19.

## BUSINESSES' OPINIONS OF ECONOMIC DEVELOPMENTS IN 2021

Table 5.4

### Results of the situation survey in hotel sector

#### 2021 COMPARED WITH 2020 (as % of businesses)

Turnover	Higher	51
	Same	15
	Lower	34
	Average variation (%)	7.9
Volume of investment	Higher	28
	Same	55
	Lower	18
	Average variation (%)	2.8
Number of employees	More	41
	Same	56
	Less	3
Source of clients per sales channel (as %)	Direct client / own web	26.0
	Internet / booking sites	53.2
	TO & travel agencies	15.5
	Others	5.3
Average stay of clients (nights)		2.6

#### Prospects for 2022 (as % of businesses)

Trend in turnover	Upward	72
	Stable	21
	Downward	7
Trend in volume of investment	Upward	59
	Stable	37
	Downward	5

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

**Andorra's banking sector recovered strongly, with double-digit growth in lending and profits.**

### 3. Developments in demand by components

The improvement in the Andorran economy in 2021 is also reflected in the data about demand, with upward trends in the great majority of available indicators. Consumption was driven by the rising numbers of employees and wages, and also by the progressive lifting of restrictions on movement and social activity. This dynamic consumption was evident, for example, in a strong increase in car registrations (23.5%).

As for investment, all indicators show a positive trend, such as lorry and van registrations (12.1%) or capital goods imports (10%). Moreover, the Chamber's surveys relating to 2021 reflect increased investment in all the main sectors of the economy, especially intense in the construction sector, in a context of favourable financial conditions and continued support measures from the Government and from banks in the form of lending.

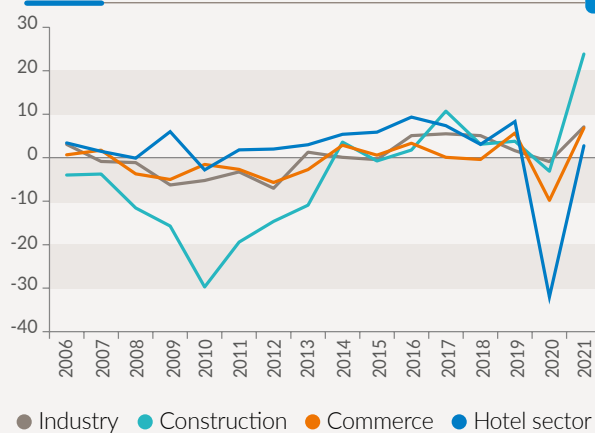
As for the public sector, the improvement in the health sector in 2021 in relation to 2020 enabled growth in public spending by the authorities to be contained. The actions by the public sector took the form of a gentle reduction in current transfers from the Government and the Comú authorities, after the strong increase in 2020 to counter the economic effects of the pandemic on businesses and individuals. On the other hand, public administration increased operating costs (3.2%) and real investment (6.2%), in contrast with the reductions in 2020. In parallel, tax revenue recovered. As a result, the central government reduced the budget deficit to 2.8% of GDP, after the serious deterioration seen in 2020 (-4.1%). On the other hand, the Comú authorities reduced their surplus more than one point, to 0.5% of GDP. All in all, this led to GVA growth in 2021 in the subsector of Public administration, education, health, social and personal services, of 3.5%, contrasting with the decline recorded in 2020.

***The economic recovery could also be seen in an increase in imports and the trade deficit.***

recovery in both domestic demand and the demand generated by foreign visitors. Contrasting with these data, exports in 2021 saw a decline of 1.8%, after reaching a historic high in 2020, although if works of art and antiques are excluded, this variation becomes very positive (24.6%). All in all, this meant an increase in the trade deficit of 1.4%, and the traditionally negative contribution from the trade balance to Andorran GDP.

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 started to recover in 2021 after plummeting in 2020, but with still much lower values than before the pandemic.

**TRENDS IN INVESTMENT BY SECTORS**  
Interannual variation rate (%)



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

***Consumption and investment showed clear signs of recovery while growth in public spending slowed.***

## 4. Prospects

The prospects for economic growth remain positive regarding 2022 as a whole, thanks to the fact that the pandemic had a limited impact in the first few months of the year and is fading as the year progresses. The effective control of the pandemic, with high percentages of vaccinated populations in Europe, and the lifting of almost all restrictions on movement and social interaction were decisive factors in driving the economic recovery and reactivation of tourism.

GDP data for the first quarter of 2022 indicate very good behaviour in the economy, with 17.3% growth year on year in real terms (according to the first published estimate, still subject to review), which predicts faster progress than the 12.1% noted in the fourth quarter of 2021.

**In the first quarter of 2022, growth in Andorran GDP accelerated to 17.3% year on year.**

By sectors, a notable recovery can be seen in services (15.2%), favoured by a very positive winter season at the ski resorts. Next is the growth in construction (6%) and industrial activity (3.9%) which, in both cases, slowed

in comparison with the fourth quarter of 2021. The only sector that stayed negative is agriculture, with a downturn of 0.5% year on year.

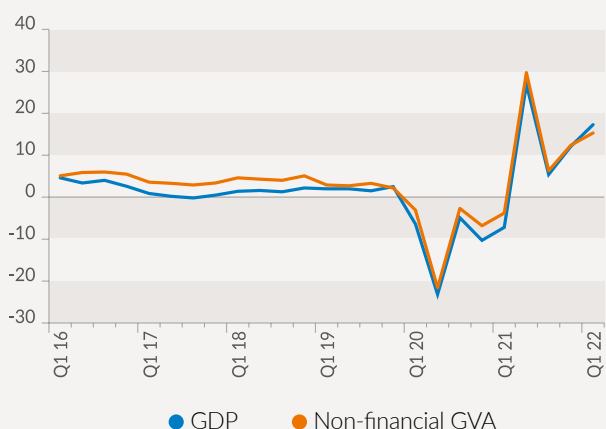
Within services, the subsector of Commerce, hotels and catering, transport, information and communications presented the steepest growth in GVA (28.9%), accelerating in relation to the fourth quarter of 2021. The rate of growth was also notable in the subsector of Financial, property, professional and technical services (9.1%) and the branch of Public administrations, education, health, social and personal services (9%).

The growing momentum in Andorran economic activity can also be seen in the trend in the main indicators of activity available for the first few months of 2022. In particular, the number of visitors saw a strong cumulative year-on-year increase of 136% in the first half of the year, which was even stronger in the case of tourists, who spend the night in the country and spend more. Equally, the number of employees increased 18.2% up to April, growth that was led by

**Note the strong growth in the number of visitors in the first half of 2022.**

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

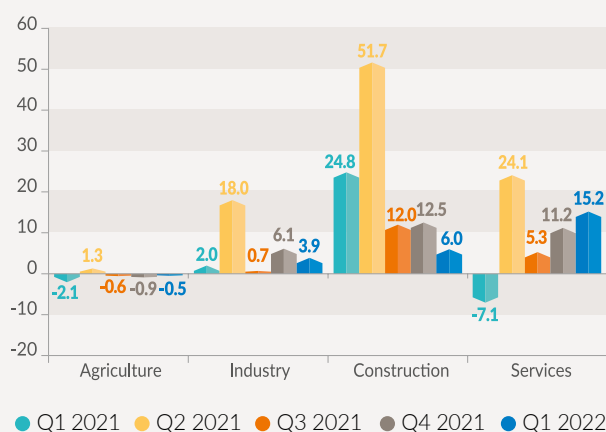
Chart 5.8



Source: Department of Statistics.

**QUARTERLY TREND IN ANDORRAN GVA BY SECTORS**  
Interannual variation rate (%)

Chart 5.9



Source: Department of Statistics.



## SUMMARY OF FORECASTS FOR THE ANDORRAN ECONOMY 2022-2023

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	December	Annual average
2022	7.2	5.2	7.0	4.9	6.3	3.2	19.5	148.1	4.5	3.9
2023	4.5	3.3	4.4	3.2	4.3	3.6	5.7	4.8	0.6	0.4

Source: Department of Statistics.

hotels and catering and, to a lesser extent, commerce; while the number of job seekers continued to fall significantly in the first half. Along the same line, imports increased a spectacular 47.3% in the first half. There were notable increases in imports of building materials (value) and fuels (litres). This indicator, together with others like the increase in car registrations to June and electricity consumption to May suggest a very positive trend in demand and economic activity during the first half of 2022.

However, the level of uncertainty around forecasts is still high, largely due to the impact of the armed conflict in Ukraine on prices of energy and other commodities. The strong inflationary pressures internationally (reaching two-digit rates in neighbouring Spain this summer), rising interest rates, the energy crisis and the continuing problems in product and commodity supplies, aggravated by the war in Ukraine, are causing downward revisions of growth forecasts for European countries, which could in turn lead to a slowdown in economic growth in Andorra in the second half of 2022. Another potentially limiting factor on Andorra's economic momentum are the major adjustments in the labour market, leading to growing problems in finding qualified workers.

The Chamber's business climate survey shows the major preoccupation of businesses relating to this focus of concern. Specifically, 3 of every 4 businesses feel affected by rising prices of supplies and materials, which push businesses' operating costs up and could contribute to a significant reduction in business margins if they cannot pass them on to sales prices. Also notable is the fact that 49% of all the surveyed businesses state that they have supply problems or stock shortages. And in the labour sphere, 40% of all businesses have problems finding qualified staff, a problem that is especially evident in construction, where 8 of every 10 businesses declare that they have problems filling jobs, and also in hotels and catering, where 57% of hotels state their concern about finding qualified staff.

On a positive note, we would highlight that Spain is one of the European countries with the most positive forecasts for 2022 (the IMF predicts GDP growth of 4%), and France is also expected to continue to grow (2.3% according to the IMF), which, as is well known, represents a major factor of support for the Andorran economy.

In this context, there is confidence that the Andorran economy will see a good performance throughout 2022, thanks to the recovery in tourism, and will exceed the expectations from the start of the year, so it could manage to regain pre-COVID levels of activity. The official forecasts published in June by the Department of Statistics are for real GDP growth of 5.2% in 2022, higher than in Spain or France, with a lower average inflation rate than in the neighbouring countries. Note also that in July, Fitch rating agency revised its growth forecast for Andorra upwards, from 5.2% to 7.6%. S&P also revised it in July, but more modestly (from 4.5% to 4.7%).

***The good performance in services, especially tourism, will drive economic growth in Andorra throughout 2022.***



For its part, the IMF is more cautious and predicts 4.5% economic growth in Andorra in 2022, which would enable it to recover the pre-crisis level during the second half of 2022. Equally, the institution states that the downward risks in these forecasts are significant and are related to the economic impact on Europe of the war in Ukraine, the marked rise in commodity prices, an unfavourable trend in the pandemic, weaker recoveries than expected in the neighbouring economies and more restrictive financial conditions. The IMF highlights as positive factors to tackle these risks, the fiscal margin still held by the government, the current account surplus, the accumulated foreign reserves and a banking system with good levels of liquidity and capitalisation.

In the mid-term, the IMF predicts that growth will converge towards its potential of 1.5%, while in relation to prices, it considers that inflationary pressures will persist in 2022 and early 2023 due to high energy prices, as in the neighbouring economies, and that the pressures will then gradually ease.

## VI. Prices and costs

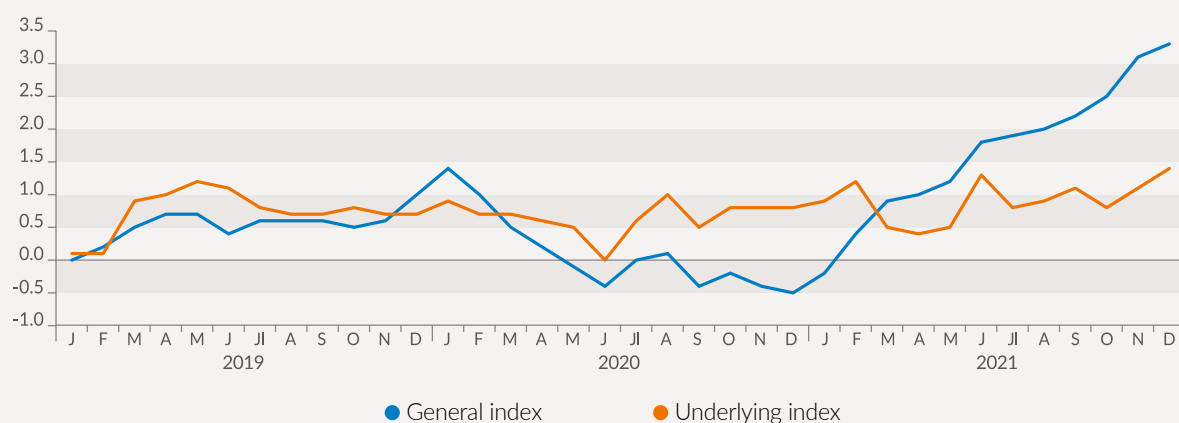
### 1. Consumer prices

2021 saw an international turning point in the behaviour of inflation, with a knock-on effect on inflation in the Principality. After ending 2020 in negative figures (-0.5%), prices in the Andorran economy saw a sustained upward trend throughout 2021, with progressive acceleration in growth rates, ending the year with a 3.3% year on year change, the highest since 2007. The main cause of this growing inflationary pressure is rising energy prices, but there was also a contribution from rising commodity prices, of both basic foodstuffs and metals, as well as the unfavourable base effect on comparison with the fall in prices in 2020, due to the Covid-19 pandemic.

Compared internationally, the trend in prices in Andorra was much more contained than in Spain (6.6%), where most consumer goods come from, and also remained below price increase in France and the Eurozone as a whole (3.4% and 5% harmonised inflation at the end of the year, respectively). The more contained price trend in Andorra

***There was a turning point in the trend in inflation, which saw the highest rate since 2007.***

ANDORRAN CONSUMER PRICE INDEX - Interannual variation rate (%)



Source: Department of Statistics.

was favoured by the existence of long-term contracts with foreign energy suppliers, which mitigated the impact from the energy shock that is affecting the whole of Europe.

The most notable price rises were in the components of transport (8.3%), due to energy prices; clothing and footwear (5.6%) and hotels and catering (3.3%). The other groups saw smaller-than-average increases or declines. In the latter case, the only components that saw year-on-year price declines were leisure, events and culture (-1.3%), for the fourth consecutive year; alcoholic beverages and tobacco (-0.9%), contrasting with 2020, when they were the component in which prices rose most, and health (-0.2%), where prices fell slightly for the first time in nine years.

The analysis by special groups shows a strong revival in oil product prices (31%), contrasting with the strong decline seen in 2020 (-14.6%) and a result of the lifting of restrictions on movement and geopolitical tensions that have pushed gas prices up. This factor led to a 23.1% increase in the energy component, which was not offset through other channels, as fresh products also saw a significant increase, specifically 5.4%. Only services showed a slower trend, with a small increase of 0.5%. 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 1.4%, compared with 0.8% one year earlier. In comparison with neighbouring economies, underlying inflation in Andorra in 2021 was lower than that of the Eurozone as a whole (2.7%), and also Spain (2.2%) and France (1.9%), a positive factor for the competitiveness of the Andorran economy.

The progress of underlying inflation was more contained than that of overall inflation, unlike in 2020, and demonstrates that price rises are influenced more by the overall situation than structural factors, although over time, as seen in the first half of 2022, this could lead to wage increases and second-round effects, with the risk of inflation becoming established at higher levels. In 2022, this risk is one of the main concerns of the western governments and central banks, which have already started to tighten monetary policies through interest rate increases.

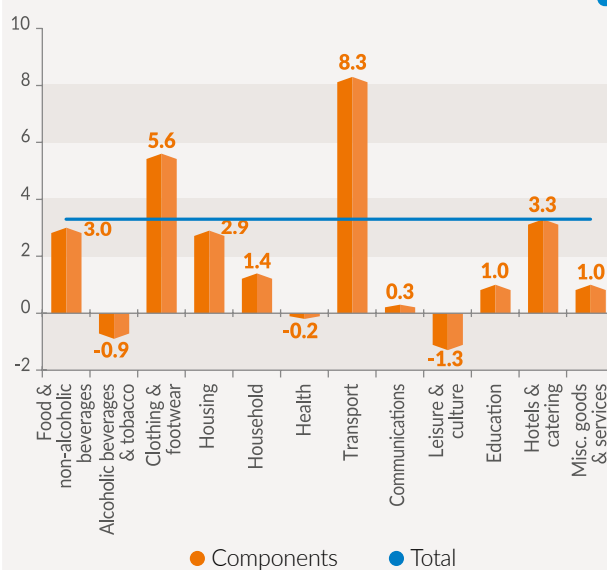
## 2. Wages

In 2021, the trend in wages in Andorra was slower than in prices. Specifically, the average wage in Andorra increased 1.8%, after two years of growing at a rate of 0.7%, to reach the figure of €2,200, 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 increase is lower than in general inflation (3.3%), unlike in 2020, when wages rose more. From a longer historical perspective, it can be seen that average cumulative wage growth in Andorra in the last decade (2011-2021) was 9%, higher than cumulative inflation in the same period (7.5%), implying an improvement in purchasing power.

CONSUMER PRICE INDEX. DECEMBER 2021  
(base year 2018) Interannual variation rate (%)

Chart 6.2



Source: Department of Statistics.

**Transport and clothing and footwear led price rises in 2021.**

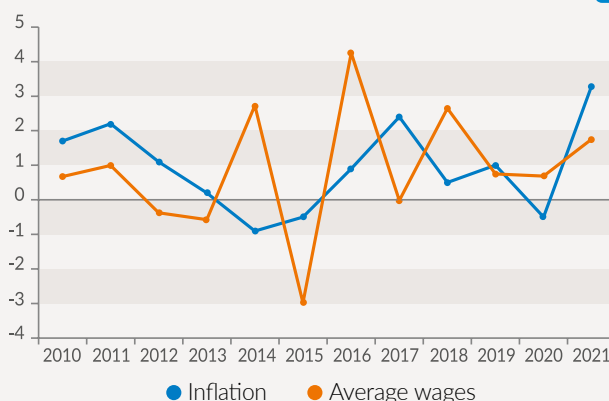
## Wage growth accelerated but the increase was lower than for inflation in 2021.

The data from the Workforce Survey reflect a slightly stronger wage dynamic than shown in the CASS data, with a 2.1% increase in the average monthly pay of employees, to €2,174 net. According to this source, in 2021 about 24% of employees in the private sector earned more than €2,460, a percentage that rises to 54.3% in the public and semi-public sector. In contrast, this is reversed in the case of the lowest wages (under €1,545), which are concentrated in the private sector (34.2% of the total) more than in the public sector (11.6%). 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.

In the case of the national minimum wage, a new rise was introduced for the sixth consecutive year in 2021, of 3.5%, which easily exceeds the average wage, as also occurred in 2019 and 2020. As a result, the minimum hourly wage rose to €6.47 (for workers aged 15 and over), the equivalent of €1,121.47 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 €2,200, 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 which, after the important rise implemented from

### AVERAGE WAGES AND INFLATION Interannual variation rate (%)

Chart 6.3



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

## The national minimum wage rose for the sixth consecutive year, to reach €1,121 per month.

### AVERAGE WAGES BY SECTORS (euros)

Table 6.1

	2021	% var. 21/20	Average index in Andorra = 100
Agriculture, livestock, hunting and forestry	1,604.70	-0.2	72.9
Manufacturing industries (including extraction)	2,243.10	5.1	102.0
Production and distribution of electricity, gas and water	3,419.33	1.0	155.4
Construction	2,222.46	5.1	101.0
Commerce and motor vehicle repairs (etc.)	1,875.89	-0.8	85.3
Hotels and catering	1,551.09	-0.9	70.5
Transport, storage and communications	2,368.68	2.6	107.7
Financial system	4,759.92	1.2	216.4
Real estate & rental activities; business services	2,120.29	2.9	96.4
Public administration, defence & compulsory social security	2,665.71	0.1	121.2
Education	2,296.85	-0.2	104.4
Health & veterinary activities, social services	2,369.41	2.1	107.7
Other social activities & community services, personal services	1,764.40	-5.9	80.2
Households employing domestic staff	1,440.80	1.6	65.5
Extraterritorial bodies	2,775.43	3.0	126.2
Domestic work for the community	1,393.35	0.3	63.3
<b>Average</b>	<b>2,199.92</b>	<b>1.8</b>	<b>100.0</b>

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

2019, reached €965 per month from September 2021, but with 14 yearly payments for a 40-hour working week (the equivalent of 12 monthly payments of €1,126). For this reason, Andorra is seeing heavy competition when recruiting workers from its neighbouring country.

### **Construction and the manufacturing industries are the sectors that most raised wages.**

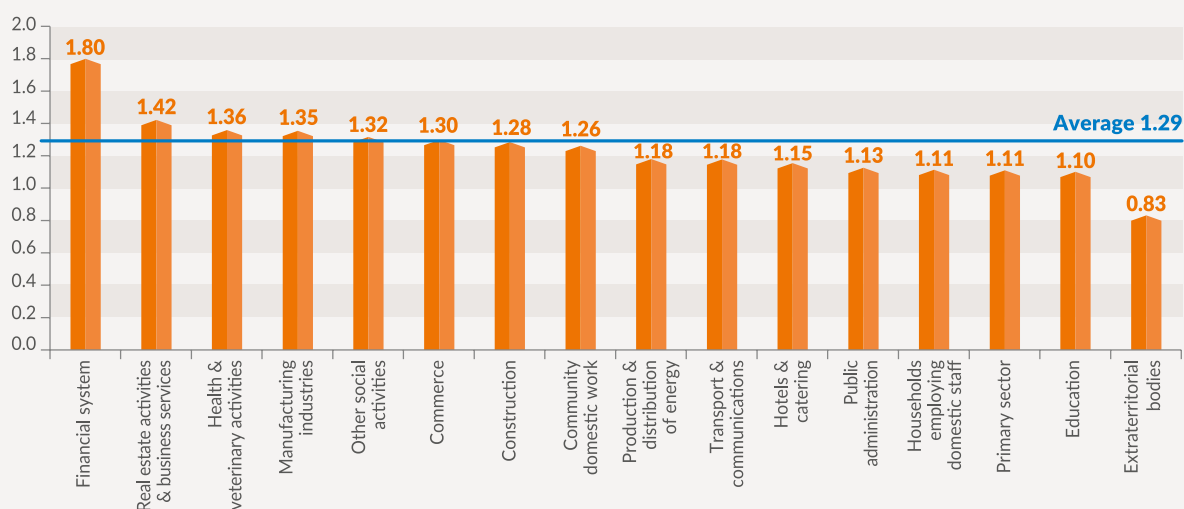
The wage trend by sector was diverse in 2021. On the one hand, there were notable wage rises in construction (5.1%), manufacturing industries (5.1%), extraterritorial bodies (3%), real estate activities and business services (2.9%), health and veterinary activities (2.1%) and transport, storage and communications (2.6%).

At the other extreme, wage decreases were seen in Other social activities and community services (-5.9%), hotels and catering (-0.9%), commerce (-0.8%) and education (-0.2%). In the other activities, the wage trend was positive but lower than average. In this group, there was a notable slowdown in wage growth in Public administration (0.1%).

Consequently, in 2020, the difference between sectors remained virtually the same. So, the highest wage is 3.4 times higher than the lowest wage (as in 2019 and 2020). Specifically, the highest remunerations are still historically 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 37% 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 55% higher than the average, followed by extraterritorial bodies – with wages 26% higher than the average - and public administration – paying 21% more. Note the trend in construction in 2021, in which wages went to 1% over the average after 11 years of being below, coming close to their relative level before the financial crisis. Among the sectors with below-average wages are notably commerce and hotels and catering, two sectors that employ a large part of Andorra's population (31.3% of total employees), in which the relative position worsened, with wages 15% and 29% lower than the average, respectively.

Finally, in the wage breakdown by gender, the average wage for women, according to CASS data, remains below the average wage for men (€1,920 against €2,467), a gap that widened in 2021 to 28.5%. This circumstance occurs in all the sectors, with the sole exception of extraterritorial

**WAGE QUOTIENT MEN/WOMEN BY SECTORS. 2021**



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

Chart 6.4

bodies, where women's wages exceed men's, but this is a much less significant branch of employment in Andorra.

**The gender pay gap widened to 28.5%.**

The major differences are still to be found in the financial sector, where the average wages of men are 80% higher than women's; in real estate activities, where they are 42% higher, and in health & veterinary activities, where they are 36% higher. 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 10%-11% higher than women's).

The gender pay gap is also reflected in the Workforce Survey, according to which women employees earn an average of €1,932 net per month, compared with €2,412 net for men, a figure that represents a 19.9% difference, higher than in 2020 (-18.7%), 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

2021 was marked by a decline in exports and a rise in imports, the opposite to the previous year when the data was greatly affected by extraordinary increases in the branch of works of art and antiques. Specifically, in 2021, total Andorran imports of goods grew 1.0% and exports shrank 1.8%. The coverage rate (exports/imports) reached 10.6%, the highest level in the historical series if the atypical data from 2020 is ignored.

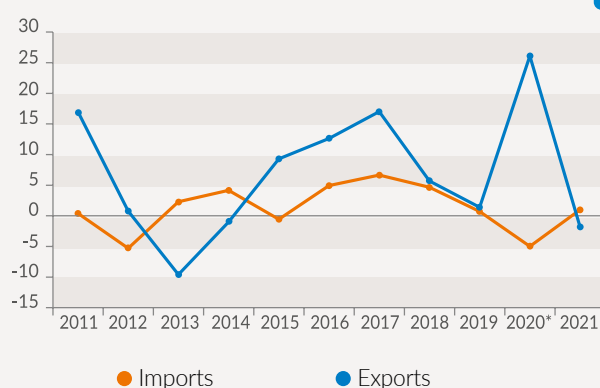
In absolute terms, exports reached €140.9 million, the highest figure in the historical series (excluding the 2020 data affected by an extraordinary increase in the entry for works of art and antiques) and 24% above the 2019 level. In the case of imports, the total value was €1,323.1 million, which is 4% lower than the pre-pandemic figure.

**In 2021, the trade deficit shrank in relation to 2019.**

As can be seen, the volume of imports is traditionally much greater than exports. This explains why the Andorran economy presents a high trade deficit, due to the important demand for imported consumer products (both domestically and for tourism) and investment, which easily exceeds the value of Andorran exports. In 2021, the trade deficit reached

**Exports are 24% higher than the 2019 figure whereas imports are still 4% lower.**

**FOREIGN TRADE**  
Interannual variation rate (%)

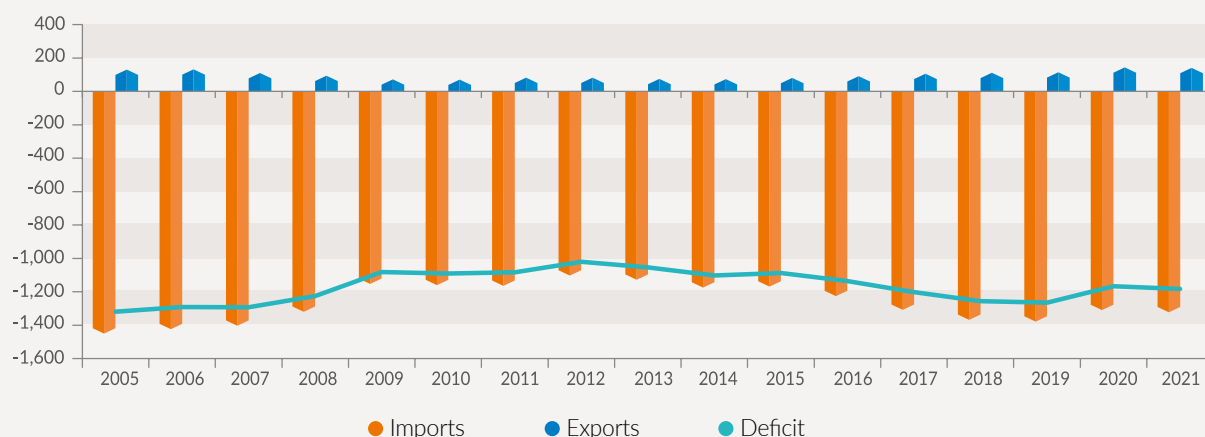


(\*) The 2020 data are affected by an extraordinary increase in the entry of works of art and antiques. If this chapter is excluded, imports would be 19.6% lower (instead of -5%) and exports would vary by 0% (instead of +26.1%).

Source: Department of Tax and Frontiers.

## TRADE DEFICIT - Millions of euros

Chart 7.2



Source: Department of Tax and Frontiers and own preparation.

€1,182.3 million, higher than in 2020 but 6.5% less than in 2019, before the outbreak of the pandemic.

The described trend in trade flows led to a fall in the trade openness ratio (trade-to-GDP-ratio, the combined value of goods exports and imports expressed as a percentage of GDP), as foreign trade flows increased less than nominal GDP (+11.2%). In 2021, the trade openness ratio reached 52%, similar to the ratio in 2019 but lower than the 57.4% of 2020 (47.4% if works of art and antiques are excluded).

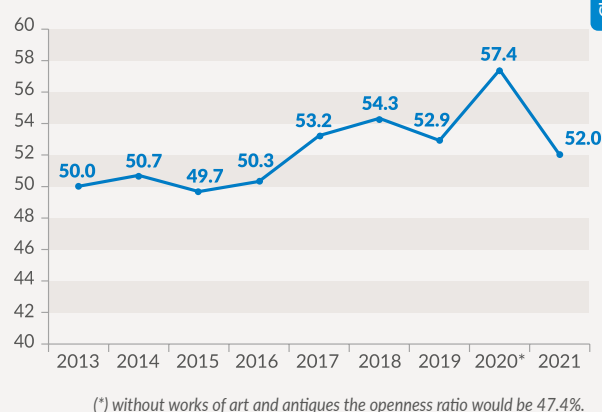
From a sectoral point of view, the degree of concentration of Andorran imports remained high in 2021. The four sectoral groups that are historically most important (food, transport material, machinery and electrical equipment, and products of the chemical industries) represent 53.1% of Andorran imports, demonstrating the high concentration in Andorran imports. For their part, exports are traditionally concentrated in three main sectors (machinery and electrical equipment, transport material and optical, photographic and precision apparatus) which, in 2021, together represented 60.5% of total 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 five matches: “motor vehicles”, “perfumery”, “electrical machinery and equipment”, “mechanical apparatus” and “articles of apparel and clothing accessories, not knitted or crocheted”. This overlap is considered to indicate so-called intra-industry trade or bidirectional trade (one country is both exporter and importer of the same types 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 international commercial trading with significant differences in value between countries, which an intermediary can use to his advantage,

## TRADE OPENNESS (% of GDP)

Chart 7.3



(\*) without works of art and antiques the openness ratio would be 47.4%.

Source: Department of Tax and Frontiers and own preparation.

**Imports and exports are still highly concentrated in a few sectors.**

or the creation of activities linked to coupling and the creation of an added value in Andorra that takes advantage of a market niche.

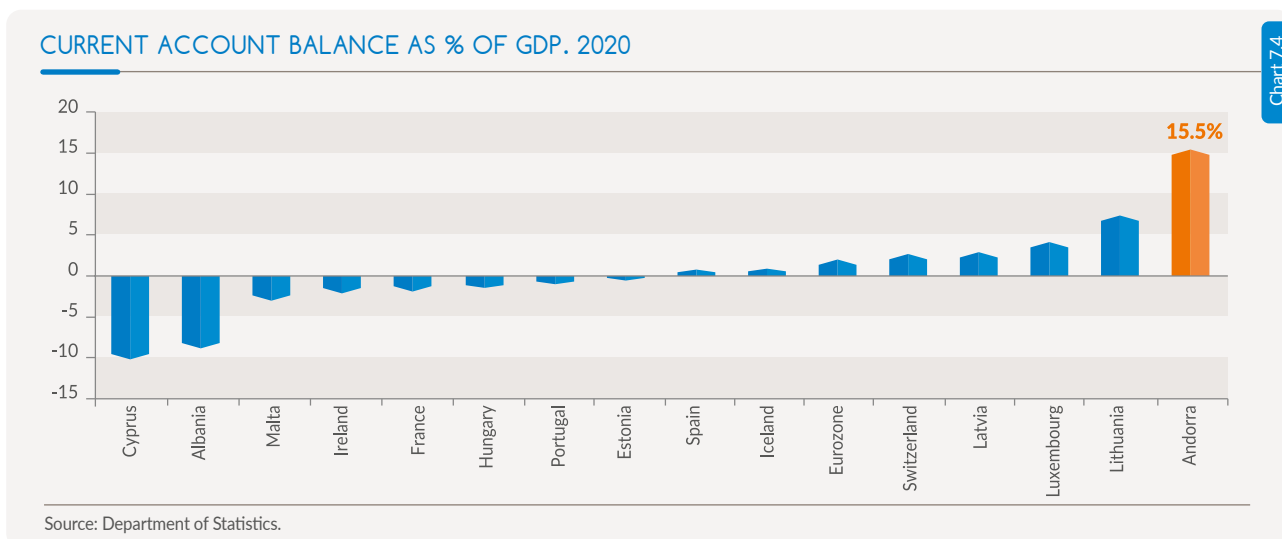
Both exchange rate trends and changes in international trade regulations are major factors influencing the re-exportation of products. In 2021, the euro depreciated 7%, favouring Andorran exports outside the Eurozone but at the same time creating less favourable conditions for importing products from 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 by the effects of Brexit and the pandemic, but the Government has already announced that the referendum on the association agreement will be at the end of 2023 or beginning of 2024. 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 reduced financing capacity in 2020 can be explained by declining tourism.

For the second consecutive year, the Balance of Payments and International Investment Position of the Andorran economy is available, which quantifies the economic relationship between

the residents of this economy and the residents of the rest of the world, according to the principles set out in the International Monetary Fund's (IMF) sixth *Balance of Payments and International Investment Position Manual* (BPM6). The 2020 balance of payments (latest available) shows that the Andorran economy has a financing capacity (current account + capital account) of €393.23 million, lower than the €507.86 million of the previous year. Of the total current account, the entry of goods and services shows a positive balance of €100.3 million; primary income (from work and investments), a positive balance of €330.6 million, and secondary income a negative balance of -€37.9 million. The importance of the goods and services account clearly demonstrates that the Principality of Andorra is an exporter of services (with a balance of €1,022 million) and importer of goods (with a balance of -€922 million). The reduction in financing capacity in 2020 can basically be explained by the reduction in the positive balance of services due to the drop in foreign tourism caused by the pandemic. For its part, the ratio of the current account balance as a percentage of GDP was 15.5% in 2020, lower than the 18% in the previous year but still 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 2021, imports saw a slight increase of 1%, linked to the recovery in demand after the COVID-19 crisis. Imports from Europe stagnated, and consequently, their percentage of total Andorran purchases from abroad remained at about 93%, but is still the main geographical source of Andorra's purchases from abroad and one of the highest percentages in the historical series that started in 1991.

In 2021, the trend in imports from all continents was positive, but especially the increase in purchases from America (14.8%) - driven by the increase in imports from the USA (6.1%), despite the fact that its percentage of the total is only 0.9% - and from Asia (9.7%) - representing 5% of the total. Finally, imports from Africa saw a slight increase of 1.6%, but they are only 0.2% of the total.

**Imports from Spain fell 9.5% while imports from France increased 15.9%.**

Within the European Union, purchases from Spain, Andorra's main supplier, fell 9.5%, so Spain was one of the few countries that recorded a negative rate last year. Due to this decline, Spain's percentage of total purchases fell from 72.6% in 2020 to 65.0% in 2021. Equally, part of this decline can be explained by the strong increase recorded last year (7.3%), which was an unusual year, making the percentage of Spanish imports the highest in the historical series if we ignore 2020.

In contrast, the trend in imports from France was positive (15.9%), breaking the downward trend of the last four years. Consequently, their percentage of the total rose one and a half points to 10.7%, although this figure is still far from what they represented in the 1990s (30%). Nevertheless, France is still the second largest supplier to Andorra, well above the third and fourth, Germany and Italy, with 5.4% and 3.8% of the total, respectively. These latter two countries saw significant increases in Andorran imports in 2021 (58.7% and 55.1%, respectively), which raised their overall percentage. Note that in 2021, Spain was the country that made the most negative contribution to import variation (-6.9 percentage points), partially offset by the combined positive contributions from France, Germany and Italy (4.9 percentage points).

**Outside the EU, imports from the United Kingdom, Switzerland, the USA and China increased, among others.**

In relation to countries outside the EU-27 but inside Europe, the United Kingdom and Switzerland stand out. Imports from the United Kingdom saw an increase of almost 72% and reached 1.8% of the total, the highest

percentage since 2005. In the case of imports from Switzerland, the increase was also important, by 67.1%, raising its percentage of total imports to 1.7%. 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 noticeable from 2021, and was not negative.

As for imports from Asia, those from China are the most significant. The trend in purchases from China was quite positive (9.5%), so its share of the total increased to 2.7%. Due to this trend, China became the fifth most important supplier to Andorra in 2021, behind Spain, France, Germany and Italy. Japan also stands out within the Asian context. However, purchases from Japan suffered a 0.3% reduction in 2021, reducing its share of the total to 0.4%, far from the 6.2% it represented in the early nineties. This change is greatly related to the loss of attractiveness suffered by the Andorran sector of electronics commerce over recent years. A large part of these purchases



## FOREIGN TRADE BY GEOGRAPHICAL AREAS

Table 7.1

	IMPORTS			EXPORTS		
	Meuros 2021	% var. 2021/20	% total 2021	Meuros 2021	% var. 2021/20	% total 2021
Spain	860.4	-9.5	65.0	74.5	-25.9	52.9
France	141.4	15.9	10.7	20.4	43.1	14.5
Germany	71.6	58.7	5.4	2.8	6.2	2.0
Italy	50.8	55.1	3.8	1.6	17.5	1.1
Netherlands	10.7	24.0	0.8	3.5	73.2	2.5
Portugal	10.2	20.3	0.8	0.2	-24.0	0.1
<b>EU-27</b>	<b>1,176.0</b>	<b>-1.5</b>	<b>88.9</b>	<b>106.9</b>	<b>-12.7</b>	<b>75.9</b>
United Kingdom	24.3	71.6	1.8	7.9	1,051.4	5.6
Switzerland	22.0	67.1	1.7	1.0	-19.5	0.7
<b>Europe</b>	<b>1,229.0</b>	<b>0.2</b>	<b>92.9</b>	<b>120.6</b>	<b>-6.4</b>	<b>85.6</b>
USA	12.2	6.1	0.9	4.5	96.9	3.2
<b>America</b>	<b>17.6</b>	<b>14.8</b>	<b>1.3</b>	<b>6.2</b>	<b>24.5</b>	<b>4.4</b>
China	35.9	9.5	2.7	0.3	24.8	0.2
Vietnam	5.5	33.7	0.4	0.0	-97.0	0.0
<b>Asia</b>	<b>66.2</b>	<b>9.7</b>	<b>5.0</b>	<b>3.4</b>	<b>-5.4</b>	<b>2.4</b>
<b>World total</b>	<b>1,323.1</b>	<b>1.0</b>	<b>100.0</b>	<b>140.9</b>	<b>-1.8</b>	<b>100.0</b>

Source: Department of Tax and Frontiers.

have been substituted by those from Vietnam, Taiwan and Bangladesh, countries that have each gone from a concentration of about 0.1% of Andorran purchases before the 2008 crisis to representing 0.4% in 2021 (the same percentage currently held by Japan).

**Spain's percentage of the total fell but it is still the main supplier to Andorra, with a percentage of 65%.**

In summary, Spain's percentage of the total as the main supplier shrank, but it still provides 65% of the total, while France, Germany and Italy have gained importance. A major decline was also seen in purchases from the Netherlands, Portugal, the United Kingdom and Switzerland, and more distant countries such as China, Vietnam, Taiwan and Bangladesh, the Asian continent, or the USA on the American continent.

### 2.2. Exports

In 2021, only exports to the American continents and Africa saw a positive trend; exports to the others shrank, with a notable fall in exports to Europe (-6.4%). However, the European continent is still the main destination for Andorran exports, with 85.6% of the total.

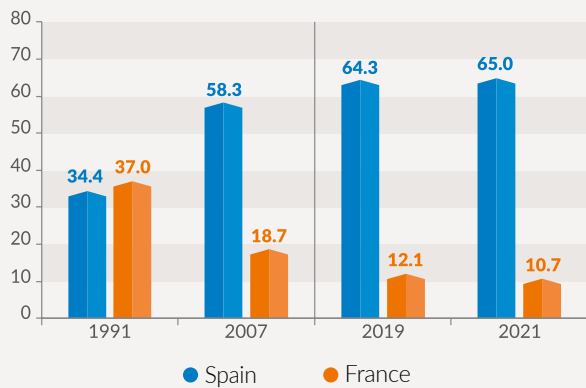
**In 2021, exports to Spain shrank 26%, while exports to France increased 43%.**

Sales to Spain, the main consumer of products from Andorra, shrank 25.9% (after the 42% increase recorded in the previous year). As a result of this very negative trend, Spain's

percentage of total exports fell from 70% in 2020 to 52.9% in 2021, interrupting the rising trend seen since 2017. Exports to France, on the other hand, grew an extraordinary 43.1%, so its percentage of the total increased from 9.9% to 14.5%. Together, these two countries on the

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

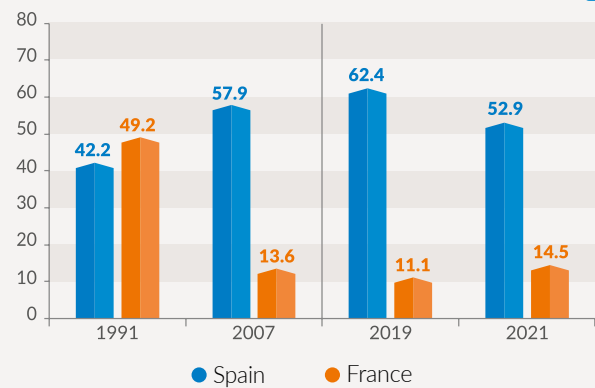
Chart 7.5



Source: Department of Tax and Frontiers.

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

Chart 7.6



Source: Department of Tax and Frontiers.

borders of Andorra represent 67.4% of exports, but in 2021, the balance between the two main partners tipped towards France, although the gap with Spain is still very wide, contrasting with the similar shares that both countries had in the early nineties.

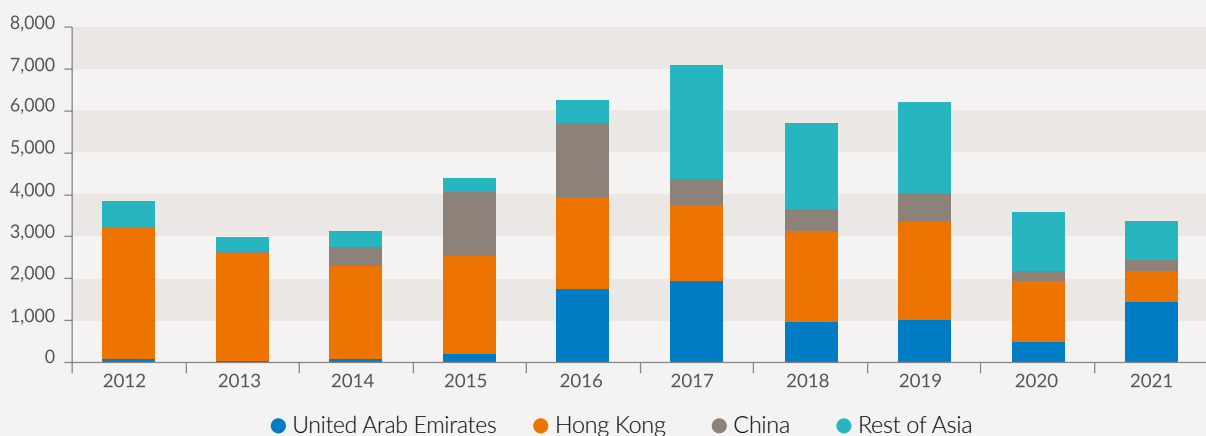
Exports to Andorra's three next most important partners in the EU-27 (Netherlands, Germany and Italy) also saw a very positive trend. The Netherlands saw the greatest growth, by 73.2%, making the country the third market within the EU with 2.5% of the total. Germany, with a 6.2% increase in exports, increased its percentage to 2%, and finally Italy, with a 17.5% increase in 2021, reached 1.1%.

Inside the European continent but outside the European Union is notably the United Kingdom, which saw an extraordinary increase in 2021 (Andorran exports to this country multiplied by 11), so it raised its share of the total from 0.5% in 2020 to 5.6% in 2021 and took third place in Andorra's global export ranks, after Spain and France. For their part, exports to Norway shrank 23.6% and its share fell to 2.2%. The percentages of the other European countries are less than 1% and therefore their contribution is insignificant.

Outside the European continent, the increase in exports to the American continent is notable (24.5%). This increase can mainly be explained by the positive contribution from sales to the

### ANDORRAN EXPORTS TO ASIA - Thousands of euros

Chart 7.7



Source: Department of Tax and Frontiers.

## Exports to Asia fell while exports to America rose.

USA, which grew 96.9% and already represent 3.2% of total foreign sales, the highest in the historical series which started in 1991.

In contrast, the contribution from the Asian continent was negative, with a decline in total exports of 5.4%, reducing the importance of this market to 2.4% of total foreign sales. In this case, the negative trend can basically be explained by the fall in sales to Hong Kong (-50.3%) and Japan (-41.5%). In contrast, exports to China and the United Arab Emirates grew 24.8% and 191.2%, respectively. These four countries are the most important in the Asian continent for Andorran exports, as they jointly constitute 1.9% of the total.

To end, note the strong increase in exports to Africa (158% in 2021) for the second consecutive year, allowing it to position itself as an important market for the Andorran economy, as in only two years it has gone from representing 0.05% of total exports to 2.4%.

In summary, the major focus of Andorran exports on the Spanish economy decreased, although this country still represents more than half the total. Exports outside the European continent benefited from euro depreciation, as shown by the increase in sales to the USA, the United Kingdom or China, specifically three markets that also saw an increase in imports.

### 3. Sectoral composition of foreign trade

#### 3.1. Imports

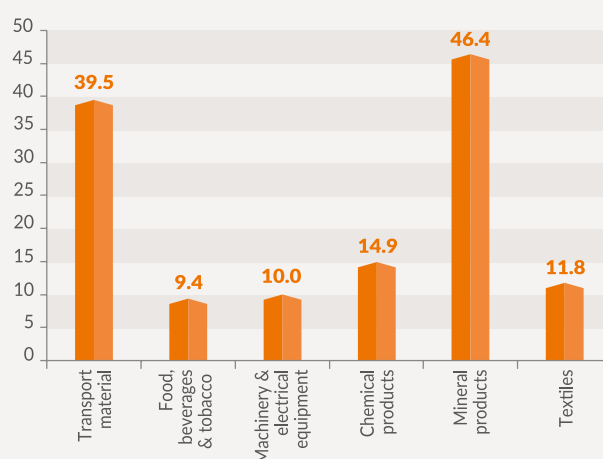
In 2021, most sectoral branches made a positive contribution to the trend in Andorran imports, except vegetable products and works of art and antiques. In fact, these two chapters are the only ones with a positive trend in 2020. Among the most positive contributions were notably transport material (4.7 points) and mineral products (2.8 points). The other branches made positive contributions of less than two points. Note that these positive contributions were able to offset the negative contribution from the chapter of works of art and antiques, which was -16.7 points, due to the major increase in 2020 that was corrected in 2021.

More detailed analysis shows that in 2021, imports of transport materials, the group with the highest share, increased 39.5%. Due to this steep increase, its percentage of the total rose from 11.9% to 16.4% and the group went from second place to first place in the sectoral ranks. This trend can mainly be explained by the increase in imports in the chapter of motor vehicles, tractors, motorcycles and bicycles (42.6%) which were favoured this year by the increase in vehicle registrations.

The second most important group in the imports ranks is food, beverages and tobacco, which rose 9.4% in 2021. Consequently, its percentage of total foreign purchases increased

## Imports of transport material rose 39% due to increased registrations.

### ANDORRA'S MAIN IMPORT SECTORS. 2021 - Interannual variation rate (%)



Source: Department of Tax and Frontiers.

a little more than one point, to 13.9%. The most important chapter within this group is beverages, alcoholic liquids and vinegars, with 5.4% of total imports, the result of a 14.1% increase compared with the previous year. The second most important chapter is tobacco, with 1.8% of the total, which saw an increase of 6.1%, notably greater than for imports as a whole.

**Imports of food, beverages and tobacco increased 9.4% due to the recovery in private consumption.**

Next are two branches with equal percentages of 11.4% - machinery and electrical equipment and chemical products. Imports of machinery and electrical equipment saw a 10% increase compared with 2020. This behaviour can be explained by the major increase in purchases of electrical machinery and equipment (14.8%), together with a smaller increase in purchases of mechanical apparatus (4.5%).

As for imports of chemical products, the trend was quite positive (14.9%), so its percentage of the total increased from 10% in 2020 to 11.4% in 2021. The two most important chapters in the group saw rising trends: the chapter of perfumery, with 5.9% of the total, rose 21.4%, and pharmaceutical products, with 2.8% of the total, grew 14.3%.

The following groups of important products all have percentages of less than 10% of the total. Specifically, the first is mineral products, with 8.8% and an increase of 46.4% in 2021. This trend

## FOREIGN TRADE BY SECTORS

	IMPORTS			EXPORTS		
	Meuros 2021	% var. 2021/20	% total 2021	Meuros 2021	% var. 2021/20	% total 2021
Live animals & animal products	62.8	3.8	4.7	0.2	84.8	0.1
Vegetable products	30.3	-2.1	2.3	0.0	-67.8	0.0
Fats & oils	5.5	16.7	0.4	0.1	71.6	0.1
Food products, beverages & tobacco	183.8	9.4	13.9	0.6	-54.6	0.4
Mineral products	116.3	46.4	8.8	0.3	3.0	0.2
Products of the chemical industries	150.8	14.9	11.4	5.4	56.1	3.8
Plastics, rubber & articles thereof	29.0	13.4	2.2	0.7	-32.9	0.5
Fur, leather & articles thereof	10.0	14.7	0.8	2.3	18.2	1.6
Wood, cork & articles thereof	11.9	19.2	0.9	1.3	1.2	0.9
Paper & graphic arts	29.5	9.0	2.2	11.0	26.7	7.8
Textiles	87.2	11.8	6.6	8.8	12.4	6.3
Footwear, headgear, umbrellas, etc.	27.8	14.5	2.1	5.9	33.1	4.2
Stone, cement & ceramic articles	17.7	25.8	1.3	0.3	-32.8	0.2
Pearls, precious stones & metals	25.9	148.9	2.0	9.2	70.1	6.6
Base metals & articles thereof	57.8	56.5	4.4	5.5	53.6	3.9
Machinery & electrical equipment	150.6	10.0	11.4	34.7	-1.7	24.6
Transport material	217.6	39.5	16.4	33.2	67.2	23.6
Optical, photographic, precision app.	53.0	32.4	4.0	17.3	17.6	12.3
Arms & ammunition	1.0	56.0	0.1	0.2	119.8	0.1
Miscellaneous manufactured articles	51.2	16.0	3.9	1.8	-3.4	1.3
Works of art, antiques	2.8	-98.7	0.2	1.4	-95.5	1.0
Others	0.8	13.0	0.1	0.7	115.0	0.5
<b>Total</b>	<b>1,323.1</b>	<b>1.0</b>	<b>100.0</b>	<b>140.9</b>	<b>-1.8</b>	<b>100.0</b>

Source: Department of Tax and Frontiers.

Table 7.2

can be explained by both rising oil prices and the recovery in construction, which drove purchases of salt, sulphur, earth and stone, plastering materials, lime and cement (35.1%). The next group is textiles which, with 6.6% of the total, increased 11.8% due to the recovery in private consumption. Then, the branch of live animals and animal products, with 4.7%, a variation of 3.8% in 2021, mostly explained by the rise in imports of meat and edible offal and fish. Finally, the branch of base metals and articles thereof, with 4.4%, saw an increase of 56.5% compared with 2020.

***There was a major increase in imports of minerals due to rising oil prices and the recovery in construction.***

The other groups of products have percentages of less than 4% of total foreign purchases and have generally seen positive trends, except the group of vegetable products, which shrank 2.1%, and the group of works of art and antiques, which shrank 98.7% (contrasting with the 778.7% increase in the previous year).

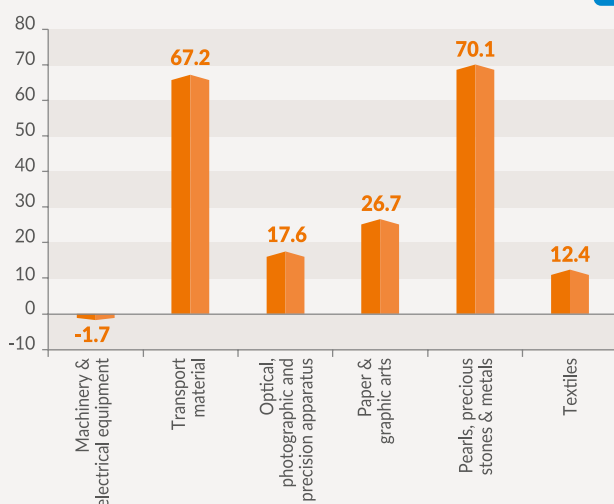
### 3.2. Exports

In 2021, Andorran exports shrank 1.8%, with an even trend according to sector. Of the 22 branches, exports shrank in 7 and increased in the other 15. The most important positive contributions were in the group of transport material (9.3 points) and pearls, precious stones and metals (2.7 points). Much further behind these branches were the positive contributions from the groups of optical and photographic products (1.8 points), paper and graphic arts (1.6 points), metals (1.3 points), chemical products (1.3 points) and footwear, headwear and umbrellas (1 point). The other sectors made a positive or negative contribution of less than one point, except the branch of works of art and antiques, which made a negative contribution of 21 points due to the major increase in the previous year. Note that in this year, practically all the sectors increased their percentage of the total due to the major decrease in the group of works of art and antiques, the opposite of what occurred in 2020.

***In 2021, exports of machinery and electrical equipment are still 25% of the total, despite falling slightly.***

**ANDORRA'S MAIN EXPORT SECTORS.**  
2021 - Interannual variation rate (%)

Chart 7.9



Source: Department of Tax and Frontiers.

The largest export group is still, since 2003, machinery and electrical equipment. Its percentage of the total is 24.6%, due to a 1.7% reduction since 2020, similar to that of exports as a whole. By chapters, this trend can be explained by the fact that the increase in exports of electrical machinery and equipment (4.7%) – the largest chapter in the group, with almost 20% of total foreign sales – did not offset the decline in foreign sales of mechanical apparatus (-21.8%), which represent 4.7% of total exports.

Second in the exports ranks is the branch of transport material, which saw an increase of 67.2% in 2021. This strong increase led to this branch's percentage of the total rising from 13.8% in 2020 to 23.6% in 2021. The chapter that determines this positive trend is motor vehicles, which represents 23.3% of total exports and saw an increase of 67.1%.

## Exports of transport material grew 67.2% and their percentage of the total increased to 24%.

Foreign sales of optical, photographic and precision apparatus, the third chapter by volume of exports, increased 17.6% in 2021, so its share of the total rose to 12.3%. By chapters, the trend was positive in both the segment of optical and photographic products (14.3%), the most important chapter in the group, with 10.1% of total exports, and clocks and watches (34.7%), with a much smaller share of only 1.9%.

Far behind these three groups in the exports ranks by volume are the sectors of paper and graphic arts, textiles, and pearls, precious stones and metals. The trend in the group of paper and graphic arts was quite favourable, with export growth of 26.7%. As a result, its share of the total reached 7.8%. The most important subgroup is paper and cardboard (5.5% of the total), which saw an increase of 18.6% year on year, and products of the printing or graphic industries (1.6% of the total), which increased 35.6%. Exports from the textiles sector saw year-on-year growth of 12.4%, with 6.3% of the total. Within this group are notably the chapter of articles of apparel and clothing accessories, not knitted or crocheted, with 3.9% of total exports, increasing by 3.2% since 2020. Finally, the branch of pearls, precious stones and metals saw extraordinary growth of 70.1%, enabling it to reach 6.6% and even overtake the group of textiles.

The other groups represent proportions of less than 5% of total exports. Among these groups are notably footwear, headwear, umbrellas, with 4.2% of the total and an increase of 33.1%; base metals, with 3.9% and a positive variation of 53.6%, and chemical products, with 3.8% and an increase of 56.1%.

## 4. Foreign investment flows

In 2021, Andorra re-emerged as an attractive destination for foreign investment, after the negative impact of the pandemic on 2020 results. In 2021, 916 investment transactions were formalised before a notary, more than double those of the previous year, when 433 were formalised (+111.5% increase). The investment volume associated with these transactions increased 289.7% against 2020, from €138.4 million in 2020 to €539.5 million, the highest figure in the available historical series.

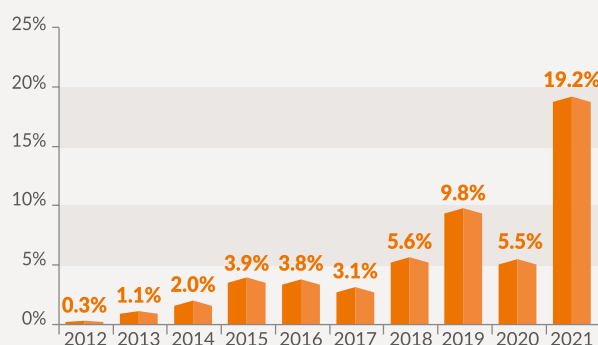
This important increase in foreign investment in 2021 raised its percentage of Andorran GDP from 5.5% in 2020 to 19.2% in 2021, the highest figure in the historical series.

By geographical origin of formalised investment in 2021, Spain concentrates 23% of total investment, followed at a distance by Ireland with 4.7% of total investment and practically insignificant in other years. Investment from France represents 4.2% of the total, compared with the 16.1% it represented in 2020, and investment from Andorra, which had been the main source of foreign investment until 2020, has fallen to 3.9% of total received investment. This latter figure relates to investments made by Andorran businesses in which more than

Foreign sales of optical, photographic and precision apparatus, the third chapter by volume of exports, increased 17.6% in 2021, so its share of the total rose to 12.3%. By chapters, the trend was positive in both the

## Foreign investment grew 290% in 2021 and its percentage of GDP reached a historic high of 19.2%.

### TOTAL VOLUME OF FOREIGN INVESTMENT IN RELATION TO GDP



Source: Ministry of the Presidency, Economy and Enterprise.

***In 2021, Spain concentrates 23% of foreign investment in Andorra, whereas France only represents 4%.***

50% is held by non-resident shareholders who are making a new investment. Denmark is the fourth foreign country with most investment in Andorra (with only 1.5% of the total figure), almost the same as the United Kingdom (also with 1.5%), followed by Russia (which represented 1.1% of total investment in 2021). The rest is divided between various geographical locations and of little significance.

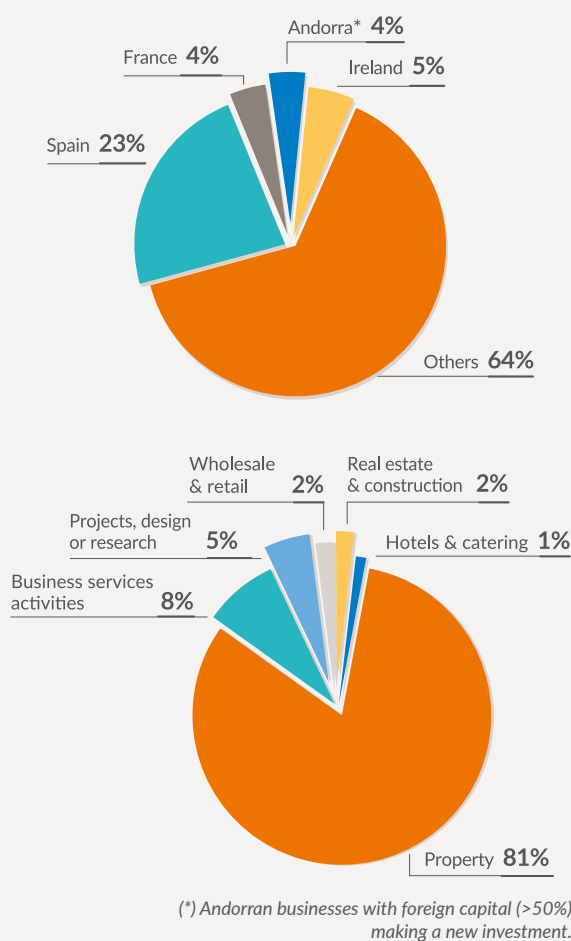
Globally, since the current Foreign Investment Law came into force in 2012, Spain has had an average concentration of 32.9% of the total value of investments formalised in Andorra, and France 13.6%. The rest is divided between many countries, notably Luxembourg (3%), Russia (1.9), Belgium (1.7%) and Ireland (1.7%). Investments where "Andorra" is identified as the country of origin represent an average of 15.3% of the total over the period 2012-2021.

By sectors, formalised foreign investment in 2021 was notable in property (from €75.6 million in 2020 to €436.4 million in 2021), representing 81% of total investment. The next most important sectors were business services activities (8% of the total) and projects, design or research (5%). The other sectors are only 2% or less of total investment in this year. Nevertheless, the 2021 investment data saw very significant growth in all kinds of activity, except in real estate and construction (-58.7% since 2020). On analysing the period 2012-2021, the four sectors that received most investment were property (50.5% of the total), business services activities (17.4%), real estate and construction (12.1%) and the commercial sector (8.4%).

At the beginning of July 2022, the Bill to amend Law 10/2012 on foreign investment entered into parliament with the aim of improving the attractiveness of Andorra for new sectors and businesses and also to provide appropriate protection for strategic sectors. The legislative reform is based on four pillars. Firstly, the bill introduces a system for liberalising certain investments to facilitate foreign investment. Secondly, all foreign investments must file a declaration to the Foreign Investment Register once they are realised. Thirdly, an effective control mechanism is installed, and finally, a disciplinary system is established. Investments from countries with a double taxation agreement or countries sharing a collaboration agreement on foreign investment can start the process without prior authorisation from the Government, but controls will subsequently be carried out to verify compliance with the necessary requirements. Excluded from this procedure are investments in sectors under special protection, such as critical infrastructure or technologies, including those related to energy, transport, media, A.I. or robotics.

**FOREIGN INVESTMENT BY COUNTRIES AND SECTORS. 2021 - As % of total**

Chart 7.11



Source: Ministry of the Presidency, Economy and Enterprise.

***In 2021, foreign investment saw significant growth in all sectors, except property development and construction.***

## VIII. The public sector

The trend in the public administration accounts in 2021 varied according to the levels of government. Specifically, the central Government is the only level of public administration to record a deficit, but is also the one that improved most in relation to 2020, by reducing the imbalance to 2.8% of GDP, 1.4 points less than in the previous year. This correction was possible thanks to the recovery in tax revenue after the major downturn caused by the health crisis in 2020, together with a more contained trend in expenditure. In contrast, the Comú governments have the highest surplus, although this shrank by more than one point in 2021, to 0.5% of GDP, due to a fall in non-financial revenue combined with a two-digit increase in expenditure. Finally, the Andorran Social Security System (CASS) obtained a slight surplus, equal to 0.1% of GDP, in comparison with the virtual financial equilibrium at the end of the previous year.

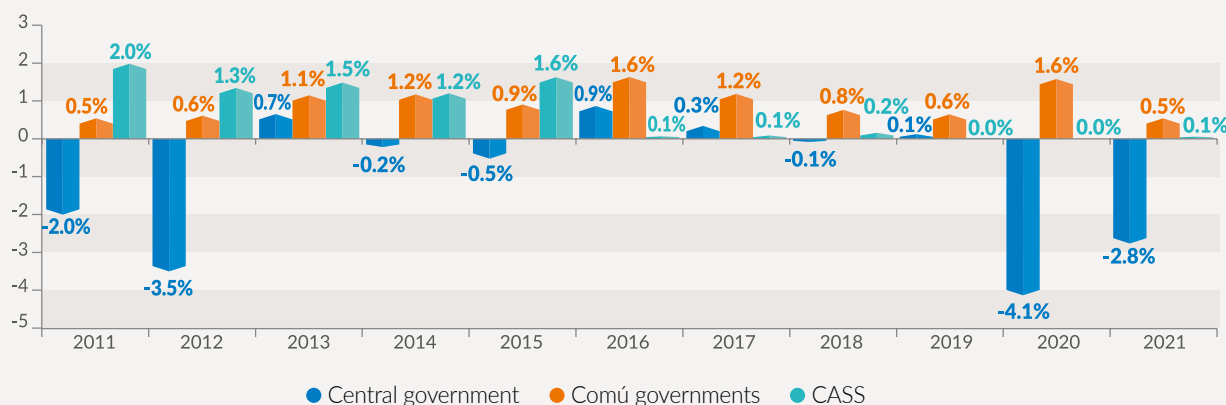
**The central Government reduced the deficit in 2021, and the Comú governments and CASS ended the year with small surpluses.**

The official statistics have not yet published the consolidated budget balance for all the administrations, which would enable a better evaluation of the net economic impact of the performance of the whole Andorran public sector, although the positive trend in GVA in the branch of Public administration, education, health, social and personal services (3.5%) indicates that the impact was expansionary, contrasting with the negative contribution to GDP growth in 2020.

The budget imbalance recorded by the Government in 2021 was accompanied by another increase in its level of debt, along with the Comú governments. So, the total debt of Andorra (central and Comú governments combined) reached €1,419 million, 17% more than in 2020. This amount is equal to 50.4% of GDP, 2.6 points more than the previous year, a figure that sets a new historic high. Moreover, this level exceeds the 50% limit set by the Law on Public Finance Sustainability for the first time, although it does meet the revised debt target set in June 2021 (59.8%), which considered the impact on public spending

**Public debt reached a new historic high of 50.4% of GDP.**

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

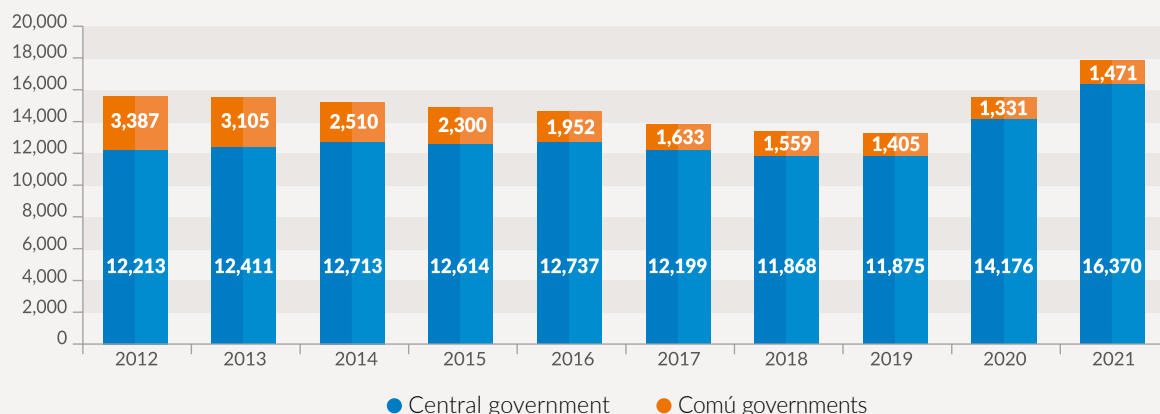


Source: Ministry of Finance, Comú governments, CASS, Department of Statistics of the Government and own preparation.



## PER CAPITA DEBT (€/person)

Chart 8.2



Notes: (1) Data published by the Comú governments for 2021 and data reviewed by the Court of Audit for the other years, except in the cases of Canillo and Escaldes-Engordany, for which the debt data for 2020 reviewed by the Court of Audit is not available, so the data published by the respective Comú governments are used. (2) Calculated on the basis of the estimated population.

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

of the pandemic. Per inhabitant, the per capita debt (calculated using the estimated population) rose to €17,841, 15.1% more than in 2020, representing two years of two-digit growth and reaching the highest nominal value in the available historical series.

**The tax burden fell seven tenths to 24.6%, thanks to GDP growth not reduced taxes.**

As for the tax burden, it is estimated that in 2021, according to the accrual principle, it fell seven tenths to 24.6%, after hitting a historic high in 2020. Now, this downward trend is not the result of a reduction in taxes or revenue;

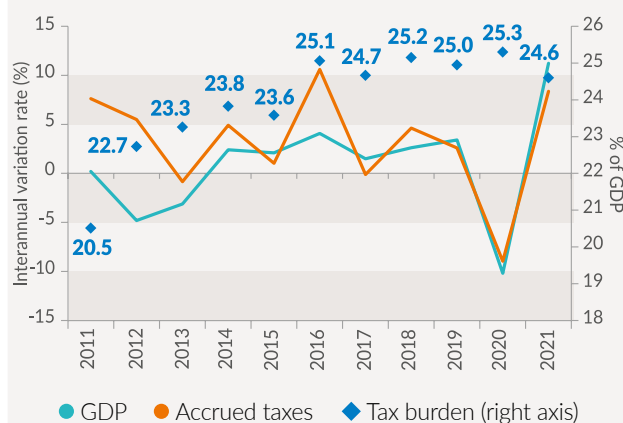
on the contrary, total tax revenue rose 8.4% but the tax burden denominator, nominal GDP, grew even more (11.2%), causing the indicator to fall.

From a European perspective, Andorra's tax burden is much lower than the 41.3% European average (according to 2020 data for the EU-27) or the levels of our closest European neighbours: France (47.5%) and Spain (37.5%), so Andorra is still 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 (20.8%). Not far behind Andorra but slightly higher is Switzerland (27.7%).

Among the tax figures, growth was notable in direct revenue (current taxes on income and property) at 23.5%, much higher than in indirect revenue (8.6%), i.e. taxes on production and imports. This trend can be explained by the restrictions on economic activities implemented during the pandemic, which undermined consumption more than income, as the Government took measures to offset losses of income, such as the ERTO furlough scheme to sustain income from employment. In this way, a slight increase in social contributions was also achieved, the result of two counterbalanced trends – the reduction in employment and wage growth.

## GDP, ACCRUED TAXES AND TAX BURDEN

Chart 8.3



Source: Department of Statistics.

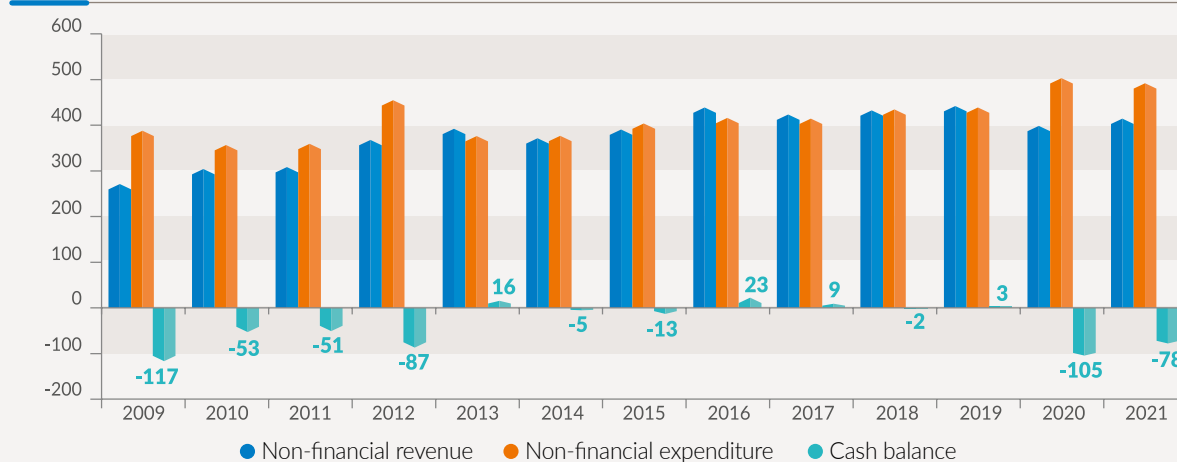
In 2021, social contributions were still the most important component of the tax burden, at 39.9%, although this was lower than the 42.8% they represented in 2020. Indirect taxation is the second component, with a 36.8%, contribution to the total, the same as in 2020. Finally, direct taxation increased in importance in 2021 by 2.9 percentage points, to represent 23.3%, thanks to the increase in revenue from taxes on income, especially corporate tax (IS), personal income tax (IRPF), non-resident's income tax (IRNR) and capital gains tax on property.

Below is an analysis of the public sector performance in 2021, according to each level of administration.

## 1. Central Government

The central Government closed the accounts for 2021 with a non-financial cash deficit of €77.8 million, a figure that represents 2.8% of GDP and a reduction of 25.6% in comparison with 2020. This correction can be explained by the combination of an increase in revenue (4.0%) and a decrease in expenditure (-2.2%), movements that contrasted with those in 2020, when the extraordinary situation of the pandemic required a major budgetary effort by the Government. The impact of the health crisis on the public budgets continued into 2021, but was more limited. In the last 30 years (from 1992 to 2021 included) there were twenty-four years in which the Government ended the year with a deficit and only six in which it recorded a surplus.

GOVERNMENT BUDGET EXECUTION - Millions of euros



Source: Ministry of Finance.

If we add the financial transactions (changes in financial assets and liabilities) that were carried out in 2021, a positive budget result of €8.1 million is obtained, which also represents an improvement on the previous year, when the surplus was much smaller (€1.7 million). The increase in revenue from changes in financial assets and liabilities can mainly be explained by the new debt authorised to finance the effects of the crisis caused by the pandemic, and also to raise money to refinance part of the debt transactions due to mature in 2022, since the situation created by the pandemic generated liquidity in the markets that the Government used to overborrow.

**The central Government deficit fell to 2.8% of GDP.**

As for the breakdown of these financial transactions, the most notable movements were two debt transactions with issue dates on 6 May and 13 October (for the amounts of €500 million and €175 million, respectively). The issue funds from May 2021 are mainly intended to refinance (i) the

bond issue that matured on 2 June 2021, for the amount of €125 million; (ii) early cancellation of the pending loan for the amount of €77.6 million to finance road infrastructure works, maturing on 6 July 2032, and (iii) early redemption of the bond issue of 14 October 2020, for the amount of €180 million. In total, the Government's debt issues in 2021 added up to €675 million.

***The global debt of the central government continued to grow and passed the threshold of €1,300 million.***

The upward trend in the central government's global debt continued, which had marked the period 2002-2016 and was interrupted for only two years (2017 and 2018) before resuming in 2019. So, it reached a historic high of €1,302 million in 2021, 17.7% more than in 2020. Within the structure of this debt is notably the increase in the outstanding balance of public debt by €370 million, to reach €1,290 million. To this is only added the line of credit of €12 million with the Council of Europe Development Bank (CEB). The other sources of finance that the Government had active in 2020 are no longer active.

In proportion to GDP, this debt volume represents 46.2%, 2.6 points more than in 2020. So, exceptionally and for the second consecutive year, the debt ratio exceeded the 40% limit established in the Law on Public Finance Sustainability for the central government, although it does not reach the revised target established for 2021 (53.7%). Remember that this situation derives from the special measures that the Government approved to finance the health emergency caused by COVID-19. To deal with this deviation, the Government presented a Financial Balance Plan to restore budget stability before the end of the 2025 budget year.

The deterioration of the public accounts is a pattern also seen by other developed economies, so Andorra still has lower levels of public debt than most of the European governments. As for the term structure of Andorran debt, in 2021, the percentage of long-term debt was reduced to 64%, while the short-term debt increased to 36%, compared with the 79%-21% division in 2020. In this context, the IMF has expressed confidence that the consolidation process will continue in 2022 and that fiscal discipline will help to reduce Andorra's public debt and meet the fiscal targets for 2023.

## 1.1. Revenue

In 2021, non-financial revenue settled by the Government saw an increase of 4%, contrasting with the major decline of 9.9% suffered in 2020 due to the impact of COVID-19. So, non-financial revenue reached the figure of €414.3 million, still far from the pre-pandemic levels. The increase extended to all the major entries, with the sole exception of investment income which was, in fact, the entry that rose most in 2020.

***In 2021, revenue from direct taxes reached a historic high.***

More specifically, revenue from direct taxes increased 33.6%, contrasting with the 0.4% fall in 2020, to reach €117.1 million, a figure that sets a new historic high. So, the percentage of

this chapter increased to 28.3% of total non-financial revenue – when only eleven years ago it was practically zero – to represent 33.2% of total direct and indirect taxes, still lower than the 40% limit set by the Law on Public Finance Sustainability passed in 2014.

By tax forms, the rise in revenue from direct taxes can be explained by the positive trend of 13.1% in personal income tax (IRPF), and also a 38.2% increase in corporate tax (IS) and 106.1% in non-residents' income tax (IRNR). Note that the changes relating to the increase in the IRPF on economic

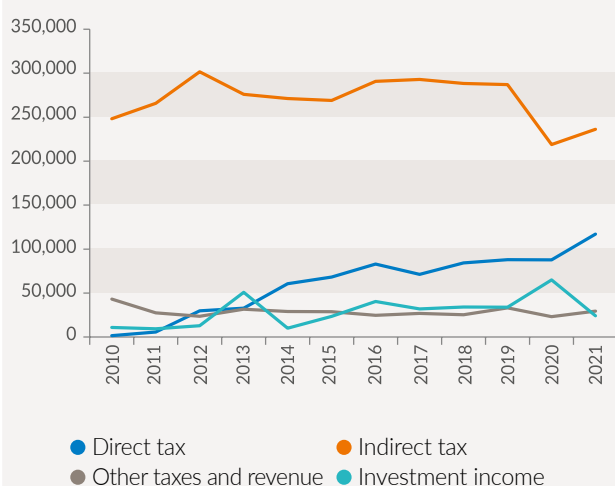
activities and IS are also related to the decision to reduce advance payments in 2020 from 50% to 20% of profits, which increased the proportion of tax settled in 2021. This change was made to help protect the cashflow of businesses during the health crisis. Other factors that pushed up revenue from corporate tax were the reduction in deductions applied by companies and the Government's support measures to mitigate the impacts of the health crisis to help the business network, creating a positive effect on the taxable profits of companies.

Finally, among the direct taxes, the contribution from capital gains tax on property was also positive (48.1%). This is a tax that is directly related to property transactions carried out within the country (on the increase in value of real property that appears in transfers). This data highlights the fact that activity in the property sector is still quite busy in 2021.

***There was notably strong growth in revenue from IRPF, IS and IRNR taxes.***

### GOVERNMENT NON-FINANCIAL REVENUE Thousands of euros

Chart 8.5



Source: Ministry of Finance.

***Income from indirect taxes also grew strongly in 2021 but has still not regained pre-pandemic levels.***

Regarding indirect taxes, revenue obtained in 2021 also saw a positive dynamic, with an increase of 7.9% to €236.2 million, leaving behind three years of decline. This entry is still by far the most important source of finance for the Government, with a percentage of total non-financial income of 57%, 2.1 points more than in 2020 when its percentage fell to a historic low due to the extraordinary situation of the pandemic.

Growth in 2021 can be explained by the positive contribution from the main indirect tax forms, especially value added tax (IGI), special taxes and the property transfer tax (ITP), which are in fact among those most impacted in 2020 by the restrictions on economic activity and movement.

Specifically, the increase in revenue from IGI, the tax on consumption in force since 2013 and the most important tax form by volume of revenue, was 10.3%, to a net settled figure of €115.2 million, which is still, however, well below pre-pandemic levels.

As for consumption tax, a customs duty that is applied to agricultural products imported into Andorra (import chapters 1-24), with a notable percentage of imports of beverages and tobacco, the increase was very slight (0.1%), after the steep decline in 2020, leaving revenue at €73.5 million, although it is still the second most important tax form.

In the case of special taxes, the fifth most important tax form by volume of revenue (after corporate tax and the IRPF), revenue increased 15% to €39.3 million. These taxes are applied to the importation and manufacture of certain products, such as alcohol, tobacco and hydrocarbons, so growth in 2021 is linked to the positive trend in imports of these products. Nevertheless, the amount collected is also lower than in 2019. Within this sphere, note that in July 2021, an amendment to the Law on special taxes was passed, applying a green tax on hydrocarbons from 1 January 2022. The green tax is a targeted tax form for the purpose of reducing, mitigating and repairing the effects of CO2 emissions.

## EXECUTION OF THE GOVERNMENT BUDGET <sup>(1)</sup> (Millions of euros)

Table 8.1

	Settlement 2021	% variation 2021/2020	% execution 2021 <sup>(2)</sup>
Direct taxes	117.1	33.6	174
On capital gains on property	7.6	48.1	190
On personal income (IRPF)	39.3	13.1	127
On companies	57.5	38.2	230
On non-residents' income	12.7	106.1	179
Indirect taxes	236.2	7.9	83
On property transfers	3.7	34.9	177
On consumption of goods (IGI)	115.2	10.3	92
On consumption of services (ISI)	3.5	8.0	109
Special taxes	39.3	15.0	93
On foreign trade	74.3	0.5	74
On gambling	0.2	-31.4	10
Other taxes and revenue	29.4	26.2	109
Current transfers	6.8	86.3	12,815
Investment income	24.1	-62.9	120
Real investment sales	0.0	234.5	182
Capital transfers	0.6	--	--
<b>Non-financial revenue</b>	<b>414.3</b>	<b>4.0</b>	<b>104</b>
Current expenditure	434.1	-0.9	94
Personnel costs	116.8	-1.0	99
Consumption of goods and services	45.4	-0.2	81
Financial expenditure	19.4	48.1	95
Current transfers	252.5	-3.5	95
Capital expenditure	58.0	-10.7	71
Real investments	25.3	-24.6	60
Capital transfers	32.6	4.3	82
<b>Non-financial expenditure</b>	<b>492.1</b>	<b>-2.2</b>	<b>91</b>

(1) The 2021 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 for 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.

The other indirect taxes, with lower percentages of total revenue, also showed mostly positive trends. Of note are the increases in revenue from the ITP tax on property transfers (34.9%), a sign of the dynamism in this sector of activity; from the ISI tax on consumption of services (8%), and from the common tariff on foreign trade (60.1%). In contrast, taxes on gambling suffered a major decline of 31.4%.

In parallel, the trend in the chapter of other taxes and revenue was also favourable, with an increase in revenue of 26.2%, to €29.4 million (7.1% of total settled non-financial revenue). This growth was mainly driven by three types of revenue: "taxes", "withdrawals" and "other income".

In contrast, in 2021, investment income suffered a major downturn (-62.9%), to €24.1 million, mainly associated with the steep decline in the amount settled as dividends from Andorra Telecom and the electricity company Forces Elèctriques d'Andorra. Remember that in 2020, both FEDA and Andorra Telecom made distributions from special reserves of €10 million and €20 million, respectively, to contribute to the financial effort of the State to finance expenditure arising from the health crisis.

To complete the analysis of revenue, we must add that in 2021, €6.8 million were obtained in revenue from current transfers, mainly relating to the contributions from the Comú governments to the central Government's solidarity fund to tackle the pandemic. In the case of real investments and capital transfers, the contributions obtained were insignificant.

## 1.2. Expenditure

In 2021, settled non-financial expenditure saw an adjustment that reached €492.1 million, 2.2% less than in the previous year, after a two-digit increase in 2020 (14.7%). This containment affected both current expenditure and capital expenditure. The reduction in non-financial expenditure contrasted with the strong growth in revenue, the opposite of the previous year and the result of the improving health situation and consequent progressive reduction in the temporary measures that the central government had adopted to offset the effects of the pandemic on income.

### *The Government's real investment fell to the lowest level in the last 26 years.*

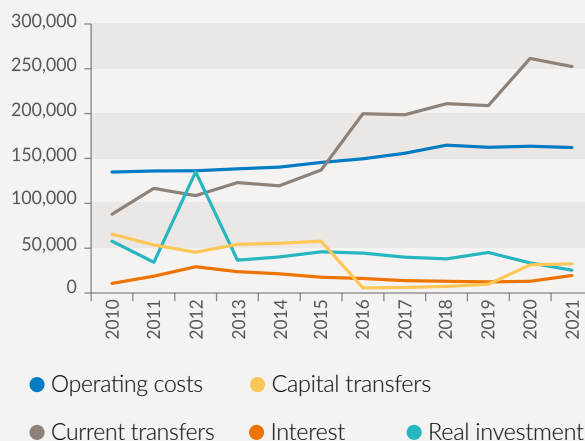
Total capital expenditure was €58 million, 10.7% less than the previous year, after reaching the highest level in five years in 2020. So, the investment effort both in absolute and relative terms (11.8% of total non-financial expenditure) is far from the levels of the previous expansive phase. By chapters, the reduction in capital expenditure can be explained by the cut in real investment (-24.6%) to €25.3 million, the lowest figure in nominal terms since 1995. In contrast, capital transfers increased slowly (4.3%) to €32.6 million.

In the case of current expenditure, the decline recorded in 2021 was shared by all chapters except financial expenditure, which saw a strong increase of 48.1%. The reasons for this can be found in the rise in expenditure on public debt interest, associated with the greater volume of issued debt, and also in expenditure on fees for bank services, related to the new issues seen in 2021. In contrast, the decrease in interest on loans continued to play in favour of containing expenditure, if in a limited way. Altogether, this led to an increase in the chapter of financial expenditure's percentage of total non-financial expenditure, to 3.9%, the highest level since 2015.

The greatest reduction in current expenditure was concentrated in the chapter of transfers, with a decline of 3.5%, to €252.5 million, which can largely be explained by the progressive easing of the special measures adopted by the Government to tackle the economic effects of COVID-19 (temporary suspension of the employment contract and reduced working hours, aid towards rent and mortgage payments for business premises, etc.). As a result, current transfers' percentage

### 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 onwards, it was decided to segregate the Comú transfers, between current and capital transfers, according to the proportion executed by the Comú governments in the last financial years.*

Source: Ministry of Finance.

### *Debt growth drove up financial expenditure.*

of total non-financial expenditure fell seven tenths to 51.3%, but they are still by far the largest chapter of budget expenditure in comparison with the second, which is personnel costs.

Operating costs also saw containment in 2021 (-0.8%). The most important fall was in the chapter of personnel costs (-1%) to €116.8 million, while there was a slight reduction of 0.2% in consumption of goods and services.

## 2. Comú governments

According to the data from the settled budgets of the Comú governments, including financial assets and liabilities, the total volume of Comú revenue reached the figure of €165.9 million in 2021, higher than the €162 million of settled expenditure. As a result, the combined balance of the Comú governments was positive (€3.9 million) for the second consecutive year, but much lower than in 2020. This is the result of a combination of high growth in total expenditure and a very small increase in revenue.

**The Comú governments' surplus fell to 0.5% of GDP, the lowest level in a decade.**

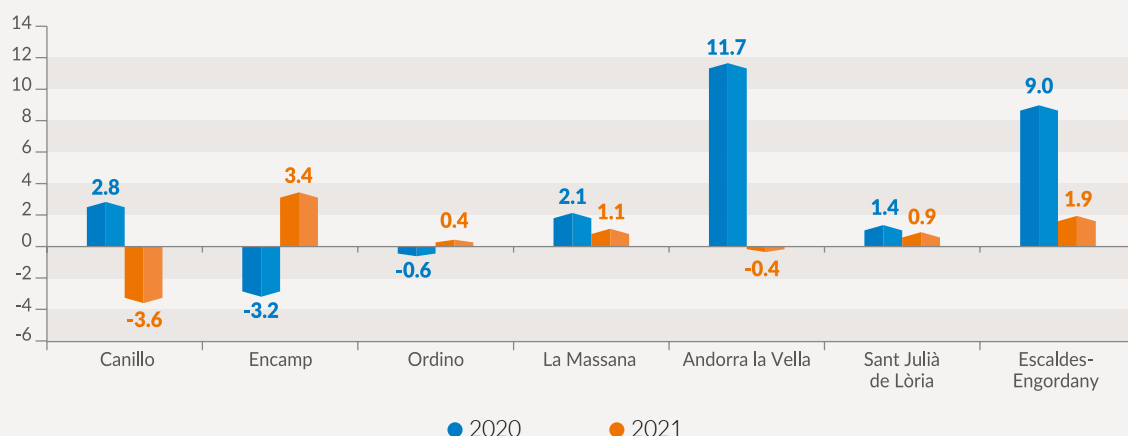
If the analysis is limited to non-financial revenue and expenditure, the total settled volume obtained was €157.9 million and €142.6 million, respectively, resulting in a non-financial cash

surplus of €15.3 million. This surplus represents 0.5% of GDP, 1 point less than in 2020 and the lowest level in the last decade.

In detail, it can be seen that two Comú governments went from a surplus situation in 2020 to a public deficit in 2021 (Canillo and Andorra la Vella). Canillo is the Comú that ended 2021 with the most negative balance (-€3.6 million), while the imbalance recorded by Andorra la Vella was much smaller (€0.4 million). The others settled their budgets with a surplus. Specifically, Encamp became the Comú with the largest surplus (€3.4 million), noting that this was the one with the highest deficit in 2020. Ordino also went from a deficit to a surplus (€0.4 million). In contrast, the positive balances of Escaldes-Engordany (€1.9 million), La Massana (€1.1 million) and Sant Julià de Lòria (€0.9 million) were smaller than in 2020, especially that of the Comú of Escaldes-Engordany.

As for the trend in debt, 2021 ended with a cumulative, consolidated Comú debt of €117 million, according to provisional data published by the corporations. This figure represents an increase of

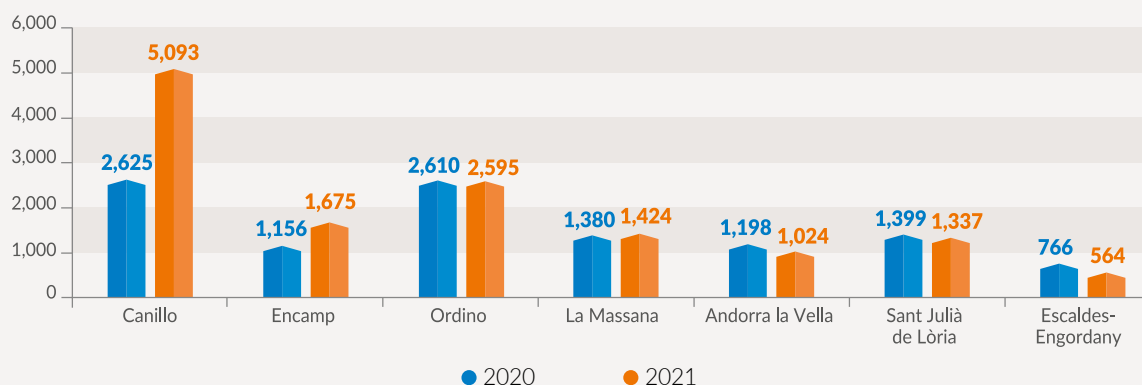
SETTLED BUDGET BALANCE OF THE COMÚ GOVERNMENTS - Millions of euros



Source: Comú governments / Department of Statistics.

## COMÚ DEBT - Euros per capita

Chart 8.8



Note: Calculations made using data published by the Comú governments in 2021 and data reviewed by the Court of Audit for 2020, except in the cases of Canillo and Escaldes-Engordany, for which the 2020 debt data reviewed by the Court of Audit is unavailable, so the data published by the respective Comú governments were used.

Source: Court of Audit (2020), Comú governments (2021) and Department of Statistics.

12.7% on the aggregate data for 2020, already reviewed by the Court of Audit (except Canillo and Escaldes-Engordany) and ends the consecutive eleven-year period of falling Comú debt which had reached a historic low in 2020. Equally, all the Comú governments are below the legal debt limit (200% of average settled income in the last three years) for the eighth consecutive year, with percentages that vary between 163% for Canillo and 28% for Escaldes-Engordany, according to still provisional data for 2021.

Within the context of the whole Andorran public sector, the Comú governments reduced their share of the total public debt (combined central government debt and Comú debt) to a historic low of 8.2%. This figure is well below the Comú proportion of non-financial public expenditure (22.5%) and represents only 4.2% of Andorran GDP. All in all, this means that, in relative terms, they are much less indebted than the central government, the reverse of the situation before 2013, thanks to the fiscal consolidation efforts in recent years and improvements in their financing system.

**There was a turning point in the trend in total Comú debt, with an increase of 12.7% after 11 years of decline.**

By parish, the trend varied, with debt increases in the case of Canillo, Encamp, Ordino and La Massana, and decreases in the rest. The largest reduction was in Escaldes-Engordany (-25.6%) and the smallest in Sant Julià de Lòria (-2.7%). In contrast, the most notable debt increase was recorded by Canillo (109.4%), followed by Encamp (45.5%). Canillo is the Comú with the highest concentration of debt in absolute terms, followed by Andorra la Vella (20% of the total for Comú governments), which cut its debt by 13.2% in 2021. At the other extreme, the Comú that achieved the lowest volume of public debt was Escaldes-Engordany (7.1% of the total). Equally, in relative terms to the population, the highest level of debt is found in Canillo, with €5,093 debt per capita, followed at a distance by Ordino, with €2,595 per capita. At the other extreme, the least indebted are Escaldes-Engordany and Andorra la Vella, with €564 and €1,024 per capita, respectively.

## 2.1. Revenue

In 2021, the total settled revenue of the Comú governments saw an increase of 1.4%, similar to growth in 2020 (1.3%). As a result, revenue reached a figure of €165.9 million, the highest level since 2009. Equally, settled revenue was slightly below the budgeted figure (98%), putting its percentage of total public sector revenue (combined central and Comú governments) at 13.1%, 1.4 points less



than in 2020. Remember, however, that this percentage is distorted by the volume of financial liabilities of the central Government, due to its debt requirements. In fact, if we only consider non-financial revenue, the Comú governments' share rises to 27.6%, 1.5 points less than in 2020 and a much higher percentage than their share of total non-financial expenditure (22.5%).

By chapters, the increase in revenue was the result of an €8 million increase in financial liabilities, which easily offsets the fall in non-financial revenue (-3.5%). Within the latter, the

**Comú revenue grew slowly in 2021, driven especially by growth in indirect taxes.**

decline was more notable in the case of capital income (-6.2%) than current income (-2.8%). The breakdown of current income by tax forms shows disparate trends, with a notable double-digit increase in revenue from indirect taxes (27.7%) and, to a lesser extent, from direct taxes (2.4%), favoured by the improvement in the economic context. These increases were more than offset by the downturn in investment income (-23.9%), current transfers (-9.8%) and the entry of other taxes and revenue (-3.5%) which, even so, is still the largest component by volume.

Consequently, the percentage of other taxes and revenue was still 28.5% of total non-financial revenue. These are followed in importance by direct taxes (24%), which has gained since 2020, and current transfers (15.7%), which made a smaller contribution.

Moreover, capital income saw a decline of 6.2% due to a cut in real investment (-14.9%) and capital transfers (-6%). Nevertheless, capital transfers are still the third most important chapter in Comú non-financial revenue, with the percentage dropping to 19.5%. Income from transfers of real investments is a very small percentage (0.3%), making their contribution to the total insignificant.

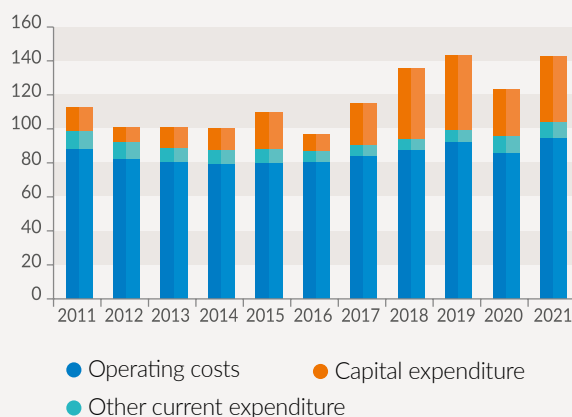
The distribution by parish again shows an uneven trend. In 2021, there were very different increases in Encamp (28.8%), La Massana (7.7%), Sant Julià de Lòria (2%), Ordino (1.6%) and Andorra la Vella (0.2%). On the other hand, important declines were recorded in Canillo (-22.7%) and Escaldes-Engordany (-10.9%). Following this trend, Andorra la Vella is still at the top of the Comú ranks by volume of total income, with €46.4 million (28% of the total), whereas Ordino is still the Comú with the least revenue, with 7.6% of the total, equal to €12.5 million.

## 2.2. Expenditure

In 2021, the settled expenditure of the Comú governments saw growth of 15.4%, reaching €162 million, a trend that contrasts with the steep downturn in 2020 (-13.8%), and practically recovering the level they had in 2019. Equally, non-financial expenditure saw an increase of 15.3% and financial transactions increased 15.7% due, above all, to the increase in expenditure on financial assets, to which was added a small increase in financial liabilities. Altogether, this put the percentage of execution of total budgeted expenditure for 2021 at 95.5%, slightly lower than the level of execution for revenue.

Moreover, the Comú governments' percentage of total public sector expenditure (combined

**COMÚ GOVERNMENTS' NON-FINANCIAL EXPENDITURE - Millions of euros**



Source: Comú governments / Department of Statistics.

## The expenditure of the Comú governments saw double-digit growth to practically recover pre-pandemic levels.

central and Comú governments) increased to 13%, a percentage that comes close to their proportion of revenue. However, if we only consider non-financial expenditure, the Comú percentage of total public administration costs

risks to 22.5%, which, however, remains lower than their percentage of non-financial revenue.

The analysis by chapters shows that the growth in Comú expenditure was concentrated only in operating costs and real investment. Specifically, the chapter of personnel costs, the most important of all with 37% of the total, increased 4.6%, and consumption of goods and services, the second most important, rose 19.6%. In contrast, current transfers saw a decline of 12.7%, after being the chapter that increased most in 2020 due to the support measures through transfers to mitigate the effects of the health crisis. Equally, financial expenditure also shrank (-9%), for the tenth consecutive year, favoured by the context of still low interest rates. As a result, current expenditure as a whole rose 8.4%. Growth in capital expenditure was much higher (39.7%) due to the recovery in real investment (45.5%), while capital transfers shrank 87% after the exceptional increase in 2020 from the impact of the measures to tackle the effects of the pandemic.

To complete the analysis of Comú finances, note that the trend in expenditure rose for all Comú governments except Ordino, where expenditure fell 6.7%. The most notable increase was for Andorra la Vella (34.9%), followed by Canillo (18.7%), and these were the only two Comú governments to see a budget deficit in 2021. So,

Andorra la Vella is still in first place in the Comú ranks by volume of expenditure, at 28.9%, while Ordino regained the position of Comú with the lowest absolute level of expenditure (7.5% of the total), which it had held between 2016-2019 and lost momentarily to Sant Julià de Lòria in 2020.

**Growth in Comú expenditure was concentrated in operating costs and real investment.**

### COMÚ BUDGET SETTLEMENTS (thousands of euros)

	REVENUE			EXPENDITURE		
	2021	% var. 21/20	% total 2021	2021	% var. 21/20	% total 2021
Canillo	12,995	-22.7	7.8	16,603	18.7	10.3
Encamp	33,705	28.8	20.3	30,266	3.1	18.7
Ordino	12,533	1.6	7.6	12,097	-6.7	7.5
La Massana	18,841	7.7	11.4	17,714	15.4	10.9
Andorra la Vella	46,389	0.2	28.0	46,742	34.9	28.9
Sant Julià de Lòria	14,529	2.0	8.8	13,621	5.7	8.4
Escaldes-Engordany	26,868	-10.9	16.2	24,925	17.7	15.4
<b>Total</b>	<b>165,860</b>	<b>1.4</b>	<b>100.0</b>	<b>161,969</b>	<b>15.4</b>	<b>100.0</b>

Source: Comú governments / Department of Statistics.

Table 8.2

### 3. The Andorran Social Security System (CASS)

The settled budget of the CASS in 2021, including financial assets and liabilities, reached a total volume of revenue of €335.7 million, slightly lower than the €335.8 million of settled expenditure. So, the CASS obtained a small deficit of just over €100,000. Now, if only non-financial revenue

and expenditure are counted, the CASS non-financial cash balance was a surplus of €1.7 million (0.1% of GDP), compared with €1.2 million in 2020, due to slightly higher growth in revenue than in expenditure.

**The CASS non-financial budget surplus grew slightly, but is still very small.**

### 3.1. Revenue

The settled non-financial revenue of the CASS saw growth of 3.3% in 2021, higher than the percentage in the previous year (2.5%), reaching the figure of €335 million.

By chapters, social contributions, the most important source of revenue for the CASS, amounted to €276.9 million, representing 82.7% of total non-financial revenue. This figure includes employers' contributions, employees' contributions, self-employed contributions and settled contributions allocated to CASS financial benefits (retirement and widows' life pensions, permanent and temporary disability benefits). In 2021, social contributions saw an increase of 1%, having virtually stagnated in 2020, in a context of falling average numbers of employees (-0.7%), an increased

wage bill (3.4%), and faster growth in the number of self-employed (6.7% on average).

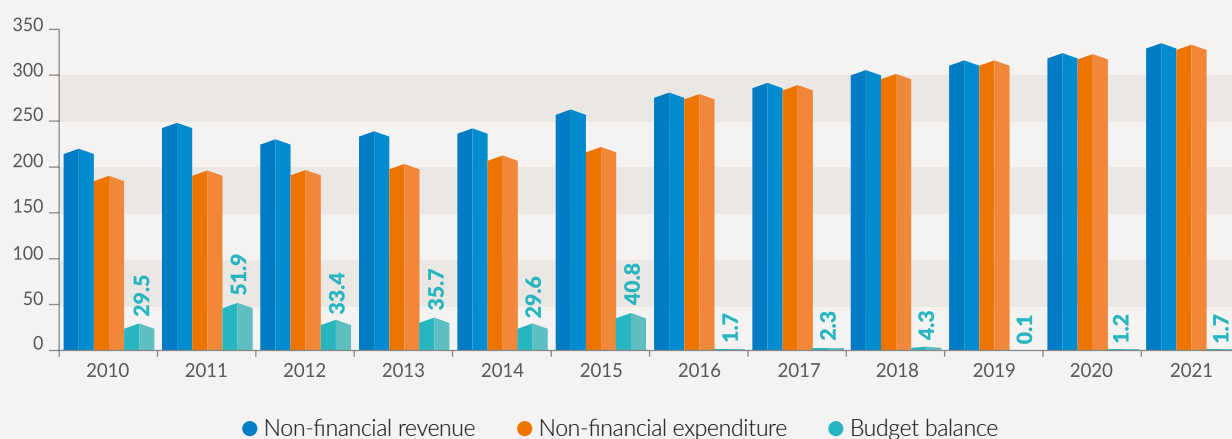
**Social contributions began to rise again, after stagnating in 2020 due to the pandemic.**

The second most important chapter in CASS revenue is current transfers from the central Government, which rose 16.2% to €55.5 million,

16.6% of the total, thanks to the transfers received to finance the measures to mitigate the pandemic. The non-financial revenue of the CASS is completed by a small contribution from other taxes and revenue, which increased by 19.4% in 2021 after three consecutive years of decline, and investment income, which fell 59%, so these were 0.7% and 0.01% of the total, respectively.

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CASS BUDGET SETTLEMENT - Millions of euros



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

### 3.2. Expenditure

Growth in non-financial expenditure settled by the CASS accelerated in 2021 (3.2% vs 2.2% in 2020), to reach the total amount of €333 million.

The distribution by chapters shows that current transfers, where benefits are accounted for, reached a total of €299.5 million, 6.2% more than in 2020, a trend that raised its percentage of the total to 89.9%. This growth is higher than in contributions, for the third 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.

The second most important entry in CASS expenditure is capital transfers (7.5% of the total), with five consecutive years of decline (-22.4% in 2021). The other expenditure, of lesser importance, is divided between personnel costs, which increased 3.6% (contrasting with the decline in this entry for the central Government) and represent 1.7% of the total, and consumption of basic goods and services, which fell 14.3% and only represents 0.5%. Expenditure on real investment is insignificant, and there was no financial expenditure, as the CASS has no debt.

**CASS expenditure through current transfers grew more than revenue from contributions, for the third consecutive year.**

### 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, the trend in revenue growth from contributions continued to slow significantly, with an increase of only 1%, to €134.7 million. This deceleration can be explained by the persistence of the health crisis for a large part of 2021, leading to a drop in numbers of employees. On the other hand, the numbers of self-employed showed a more positive trend.

#### Box 8.1

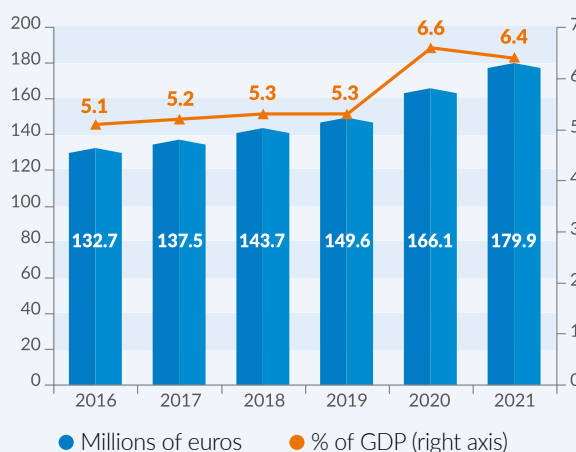
#### PUBLIC SPENDING ON HEALTH

Public spending on health includes the health spending financed by the Andorran Social Security System (CASS) with the provision of repayments in the general branch, health spending on the Andorran Health Service (SAAS) and the other expenditure on public health by the central and local governments.

In 2021, public spending on health reached €179.9 million, 8.3% more than in 2020. This figure represents 20.3% of the total settled amount in public administration (not counting financial assets or liabilities or Government transfers to public entities), 1.4 percentage points more than the previous year. In turn, it represents 6.4% of Andorran GDP and per capita spending of €2,262.

More than half of health spending goes on hospital services (52.2%), while outpatient services absorb 26.6% of funds. The third largest entry in health spending is medical products, instruments and

#### PUBLIC SPENDING ON HEALTH IN ANDORRA



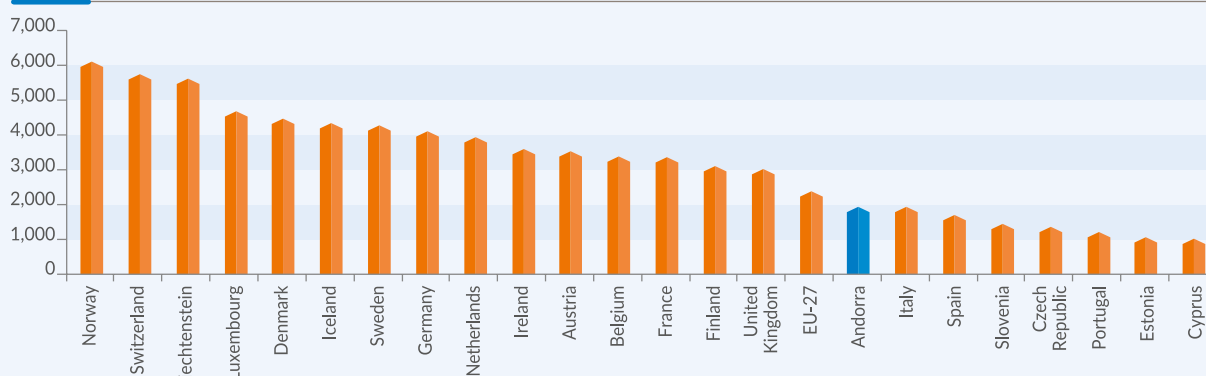
Source: Department of Statistics. Government of Andorra.

equipment (11.2% of the total), while funds for research and development related to health are limited to 0.5% of the total, a percentage that has remained quite stable over the last few years.

In comparison with Europe and according to 2019 data, the latest available, i.e. from before the pandemic, public spending on health as a percentage of GDP (5.3%) is below that of Spain (6.5%), France (9.3%) and the European average (7.9% in 2018). In contrast, per

inhabitant, Andorra outstrips Spain, with per capita spending of €1,929 in 2019, compared with a figure of €1,703 in Spain. Now, Andorra's expenditure is still far from France's (€3,355 per capita) and the European average (€2,377 per capita in 2018).

#### PUBLIC SPENDING ON HEALTH IN EUROPEAN COUNTRIES (Euros per capita)



Note: 2019 data for all countries except the EU-27 (2018).

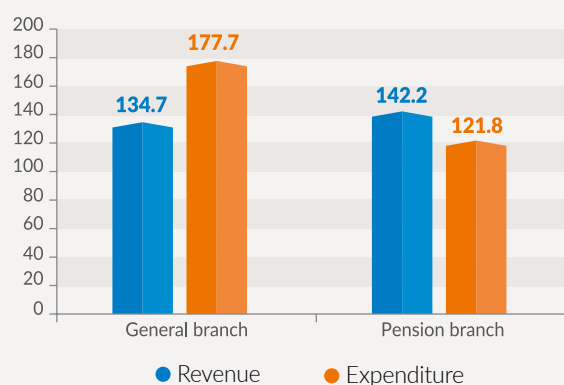
Source: Eurostat and Government of Andorra.

#### *The deficit in the general branch continues to increase, while the surplus in the pension branch decreases.*

Growth in expenditure on general branch benefits (5%) was much stronger than in revenue from contributions, to €177.7 million. Consequently, the budget deficit in this branch increased to €45.8 million, a historic high. The imbalance between revenue from contributions and expenditure on benefits in the general branch is a problem that began in 2007 and deepened during the years of economic crisis to reach a high in 2015. During the period 2016-2018, the situation improved but the deficit increased again over the last three years.

This imbalance is financed by contributions from the Government budget, according to Article 86.3 of Law 17/2008, a situation 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.

#### CASS REVENUE AND EXPENDITURE BY BRANCHES. 2021 (millions of euros)



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

Source: CASS (Andorran Social Security System).

### 3.4. Pension branch of the CASS

Revenue from contributions in the pension branch saw a slight increase of 0.9% in 2021, to €142.2 million, representing a recovery from the decline in the previous year. In parallel, growth in expenditure on benefits accelerated, with an increase of 7.9%, bringing the total to €121.8 million. As a result, the surplus in this branch shrank to a historic low of €24.8 million.

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 people who have contributed to the CASS. At the end of 2021, the fund's reserves were €1,586 million, 8.4% more than in the previous year, a variation that includes the contribution from the CASS and the return obtained from management of the fund.

***In 2021, the number of retirees collecting a pension increased 5.9%, to 13,350.***

The rise in expenditure on benefits in 2021 can partly be explained by a 5.9% increase in the number of retirement pensions (compared with 4.8% in 2020), reaching a total of 13,350 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. On the other hand, the dependency ratio (active/passive ratio) reached 3.33 in December 2021, representing an improvement from the 3.12 recorded one year earlier.

Finally, a study of the pensions system commissioned by the CASS and prepared in 2021, with data at the end of 2020, concludes that there are insufficient funds in the pension branch for 2024. As soon as the technical balance of the pension branch becomes negative, the government will have to start to finance the deficit and use the reserves, which would run out in 2039.



# 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 0.5% 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 positive over the period 2016-2017, but began a recessive phase in 2018 that has lasted until 2021. Specifically, GVA in the agricultural sector saw a decline of 0.6% in 2021, although this was the smallest decline in the last four years.

In line with the gentle decline in activity, the number of employees in the sector also saw a relatively slight decline in 2021, from 157 in 2020 to 154 in 2021. The number of establishments dedicated to the primary sector also fell slightly, from 29 to 28.

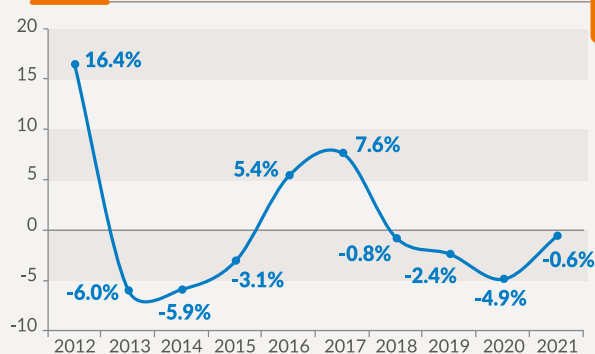
Note that the entry of agricultural products into the customs union is opening up new opportunities in the primary sector, as it will be able to access new markets and benefit from European quality labels. This opportunity has spurred crop and livestock farmers to make investments to improve the production process, in order 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 grew cumulatively 14.4% over the period 2016-2020, and practically stabilised in 2021 at about €1,605 on average, the highest level in the series.

***The number of crop farms has remained fairly stable since 2014.***

In 2021, there were 312 crop farms in the Principality, one less than in 2020. 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. Over time, the number of farms has remained quite stable, around 312-316 since 2014, whereas the total land area under cultivation decreased over the period 2017-2020 then increased again in 2021. Specifically, the total area under cultivation (UAA) went from 19.6 km<sup>2</sup> in 2020 to 19.9 km<sup>2</sup> in 2021.

By type of crop, 64% of the total farmed area is used for pasture, 24% for hay and 6% for tobacco. Over the last three years, the area used for pasture has increased whereas the area used for hay and tobacco has decreased. Also the area used for fallow, market gardening, potatoes, vines

**PRIMARY SECTOR GVA**  
Variation rate in real terms



Source: Department of Statistics.

Chart 9.1

***In 2021, the GVA of the agricultural sector shrank for the fourth consecutive year, but less than in previous years.***

## FARMS AND UTILISED AGRICULTURAL AREA (UAA) BY PARISH. 2021

Table 9.1

	Farms	UAA (m <sup>2</sup> )	% total UAA
Canillo	46	4,150,926	21
Encamp	44	1,929,035	10
Ordino	38	2,885,997	14
La Massana	54	3,239,174	16
Andorra la Vella	38	376,213	2
Sant Julià de Lòria	64	6,635,443	33
Escaldes-Engordany	28	698,045	4
<b>Total</b>	<b>312</b>	<b>19,914,834</b>	<b>100</b>

UAA: Utilised Agricultural Area.

Source: Department of Agriculture.

**Due to the situation caused by COVID-19, the tobacco harvest was 50% smaller in 2021 than in 2019.**

data for before and after payment adjustment. Due to the situation caused by COVID-19, the 2021 harvest was 50% smaller than in 2019 and only 15% larger than in 2020, also an unusual year due to the pandemic. Remember that the tobacco harvest in 2019 was almost 245,000 kg, whereas the figure fell in 2021 to 122,352 kg. However, the 2021 harvest was good and did not suffer from fungus as it did in 2020. Finally, sales of tobacco to Andorran establishments were 25%-30% lower in 2021 than before the pandemic (2019) due to restricted movement between Andorra and neighbouring countries.

and forage has diminished, whereas the area dedicated to miscellaneous crops (fruit trees, raspberries, beet and aromatic and medicinal plants) has almost quadrupled.

Remember that the quality seal for Andorran wines has existed since 2017, and the Government offers subsidies to vineyards that undertake the extra effort to be 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 producers to obtain the DO Andorra denomination, to guarantee the origin and quality of wines produced in Andorra, which they hope will become a tourist attraction.

As for the tobacco harvest, this was paid in 2021 according to the relevant category, i.e. not at a single fixed price, as in the previous two years, but at a different price according to the category. For this reason, unlike the harvests of 2019 and 2020, we again have different

## AGRICULTURAL AREA BY TYPE OF CROP (in m<sup>2</sup>)

Table 9.2

	2018	2021	% variation 2018-2021	% total 2021
Pasture	12,666,389	13,331,537	5.3	63.8
Hay	5,427,116	4,903,361	-9.7	23.5
Tobacco	1,482,169	1,213,053	-18.2	5.8
Fallow	634,822	506,395	-20.2	2.4
Market gardening	163,100	137,903	-15.4	0.7
Potatoes	146,679	128,679	-12.3	0.6
Miscellaneous <sup>(1)</sup>	26,487	97,369	267.6	0.5
Vines	95,032	85,944	-9.6	0.4
Forage <sup>(2)</sup>	21,622	16,988	-21.4	0.1
Others	405,300	472,154	16.5	2.3
<b>Total</b>	<b>21,068,717</b>	<b>20,893,382</b>	<b>-0.8</b>	<b>100</b>
<b>Utilised Agricultural Area (UAA) - in m<sup>2</sup></b>	<b>20,028,595</b>	<b>19,914,834</b>	<b>-0.6</b>	<b>-</b>

(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

	2020	2021	% var. 21/20	% total 2021
Canillo	7,324	7,909	8.0	6.5
Encamp	14,401	14,728	2.3	12.0
Ordino	11,761	15,835	34.6	12.9
La Massana	19,263	22,771	18.2	18.6
Andorra la Vella	14,426	15,040	4.3	12.3
Sant Julià de Lòria	34,591	40,370	16.7	33.0
Escaldes-Engordany	5,034	5,699	13.2	4.7
<b>Total</b>	<b>106,799</b>	<b>122,352</b>	<b>14.6</b>	<b>100.0</b>

\* Kilogrammes adjusted to the agreed quotas, after payment adjustment. Due to the situation caused by COVID-19, the annual tobacco harvest fell to half the normal quantity in 2020 and 2021.

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

The customs integration process agreed by Andorra with the European Union establishes a 30-year transition period for the tobacco sector before inclusion in the customs union, from entry into force of the association agreement. From the seventh year, Andorra would have to start gradually waiving the current customs duties while gradually adopting the EU acquis with the goal of completely removing customs duties. In exchange for approving the period of preferential treatment, Andorra must demonstrate that it is diversifying the economy to reduce its economic dependence on tobacco; that it is combatting fraud and smuggling (through periodical reports to be sent to the EU with data on quantities produced, imported, marketed and exported), and that it undertakes not to increase the price difference between the EU and Andorra of tobacco, especially with its neighbouring states.

As for apiaries, in 2021 there were 48, three more than in the previous year, with a total of 528 hives, eighty more than in 2020. Of these apiaries, 26 are dedicated exclusively to beekeeping while 22 carry out apiculture as a side-line.

In 2021, the numbers of livestock fell 2.8% - 4,822 heads were recorded, 137 less than in 2020 - the second lowest figure in the last twenty years (after 2019). The 2021 decline

**In 2021, the number of livestock fell as the number of sheep declined.**

can basically be explained by the category of sheep, which is the largest category and represents 50% of total livestock, which fell 6.6% after increasing 6.3% in the previous year. Accordingly, the number of sheep was practically the same as in 2019. On the other hand, the number of goats increased (6.3%), but are less important as they only represent 7.7% of total livestock. The number of horses also increased, 2.5%, representing 11% of the total. Finally, the number of cattle, the second largest category with 31% of the total, remained stable.

The Government wishes to promote organic (ecological) certification with the help of the direct and indirect subsidies that were put in place in 2021 to assist the agricultural sector during the process of conversion to local, high quality, organic production. The subsidies are intended to compensate the effort and additional costs associated with this kind of production. Specifically, direct aid is offered exclusively to crop and livestock farmers for cultivating crops and developing livestock activities intended to produce organic agricultural and food products (the subsidy is €3,000/hectare/year for conversion to organic and €2,000/hectare/year for continued organic production). The indirect subsidies are offered to the owners of farms and businesses that carry out activities related to the production, transformation and subsequent marketing of organic agricultural and food products. In the case of indirect aid, the Government is responsible for

## LIVESTOCK (adult heads)

Table 9.4

	2020	2021	% var. 21/20	% total 2021
Total cattle (bulls, cows)	1,502	1,502	0.0	31.1
Total horses (workhorses, studs, mares)	518	531	2.5	11.0
Total sheep (rams, ewes)	2,589	2,417	-6.6	50.1
Total goats (bucks, does)	350	372	6.3	7.7
<b>Total livestock</b>	<b>4,959</b>	<b>4,822</b>	<b>-2.8</b>	<b>100.0</b>

Source: Department of Agriculture.

financing the inspection, control and certification services required for conversion to organic production and continued organic production.

Beyond the drive towards organic certification, the Government is also promoting the brand *Productes agrícoles i artesans d'Andorra* ("Agricultural and Craft Products of Andorra"). Law 31/2022, of 21 July, for the development and diversification of the livestock and agricultural sectors regulates, for example, the introduction of new crops, new infrastructures and innovative initiatives to produce quality products, and considers the search for alternatives that would enable new income sources to be generated through the development of complementary activities.

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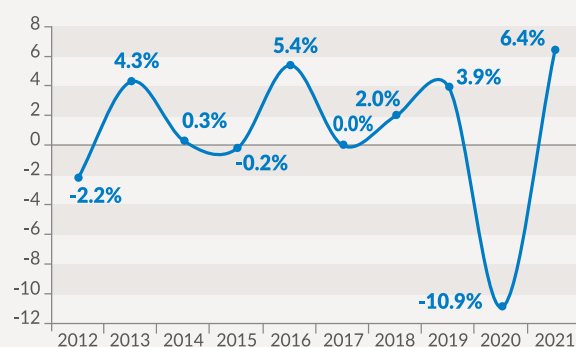
## X. Industry

In 2021, the industry and manufacturing sector recorded a 6.4% increase in GVA, which largely offset the decline seen in 2020 due to COVID-19 (-10.9%). The industry and manufacturing sector as a whole represents a minor part of the Andorran economy when compared with its neighbouring countries, as in 2021, it only represented 5.3% of total GVA and 4.5% of employees. Moreover, it is more volatile than other economic sectors, because one of the main subsectors is energy production and distribution, which has a rather erratic component. In the two years before the coronavirus crisis (2018-2019), the GVA of the industry sector saw positive values.

### GVA IN THE INDUSTRY AND MANUFACTURING SECTOR

Variation rate in real terms

Chart 10.1



Source: Department of Statistics.

This increase in industrial activity was accompanied by an increase in electricity consumption, while business and labour market indicators worsened slightly after the increases of the previous year. In particular, the number of establishments in the sector reached 403, six less than in the previous year and the same number as in 2018. Employment also fell 3.3%, to 1,693 employees, 57 less than in 2020. In contrast, average wages in the sector rose 4.7% and offset the decline seen in 2020 (-3.5%). Specifically, the average wage in 2021 reached €2,362, but there is a major difference between wages in the manufacturing industry branch (including extraction industry), which are €2,243, and wages in the branch of production and distribution of electricity, gas and

## NUMBER OF EMPLOYEES IN THE INDUSTRY SECTOR

Table 10.1

	2020	2021	% var. 21/20	% total 2021
Manufacturing industries (including extraction)	1,580	1,522	-3.7	89.9
Food and beverages	244	238	-2.5	14.1
Tobacco industries	245	239	-2.5	14.1
Textiles	37	33	-8.9	2.0
Wood and cork, basketwork and esparto	133	127	-4.9	7.5
Printing, graphic arts and reproduction of recorded media	214	197	-8.1	11.6
Chemical industries	151	143	-5.2	8.4
Rubber and plastic articles	15	20	31.5	1.2
Other non-metal mineral articles	43	43	1.4	2.6
Articles of metal, except machinery and equipment	138	144	4.9	8.5
Mechanical machinery and equipment	134	140	4.0	8.3
Office machinery and computer equipment	1	1	100.0	0.1
Electrical machinery and equipment	8	9	19.4	0.5
Medico-surgical, precision, optical and clockmaking equipment and instruments	158	134	-15.2	7.9
Motor vehicles, trailers and semi-trailers	3	3	5.9	0.2
Furniture; other manufacturing industries	32	29	-11.1	1.7
Recycling	25	22	-11.7	1.3
Production and distribution of electricity, gas and water	170	171	0.5	10.1
<b>Total</b>	<b>1,751</b>	<b>1,693</b>	<b>-3.3</b>	<b>100</b>

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

water, which are €3,419 - 52% higher than in the manufacturing industry branch. Finally, in 2021, the electricity consumption of industry rose 22.2% from the previous year, so it almost totally reversed the fall in 2020 (-25%) from the slowdown in activity suffered by some factories at the start of the pandemic. In fact, electricity consumption is only 8% below the 2019 figure, which was a record year for consumption.

**In 2021, the GVA of the industry and manufacturing sector grew and regained part of the loss seen in 2020.**

**In 2021, the number of establishments and imports in the tobacco industry increased, but employment fell.**

One of the main industries in Andorra is tobacco. In 2021, this sector saw a decline in the number of employees (from 245 to 239 workers) and an increase in both the number of establishments (from 7 to 8) and tobacco imports (6.1% to €23.2 million). In 2021, the branch of tobacco represented 14% of total employment in industry, a fairly stable percentage since 2016 but 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%.

Electricity production and distribution is the fourth most important subsector in terms of employment – after the tobacco, food and beverages industry, and printing and graphic arts. In 2021, it had 10% of total employees with a slightly positive variation (0.5%).

In 2021, national electricity production (calculated in 110 kV bars) saw a year-on-year decrease of 27.9%, offsetting the 28.3% increase of 2020. The 2021 decline can be explained by the major fall in hydroelectric power (-35%), the lowest figure since 2012. On the other hand, solar energy production increased 30%, reaching the highest figure in the historical series. Thermal power generation increased at a slower rate, 3.5%. Despite these trends, only hydroelectric power is relatively important as an energy source, as it represents 15% of total energy demand in the Principality; thermal power represents only 5% and solar power only 0.5%. The hydroelectric power station of FEDA (Andorran electricity company), which generated nearly 80,000 MWh, is still the main source of national energy, 100% renewable. Although the volume of electricity generated in 2021 was lower than in 2020, the contribution from this infrastructure is

***In 2021, electricity production fell 27.9%, a similar rate to the increase seen in 2020.***

#### Box 10.1

### ENVIRONMENTAL LEGISLATION

Law 21/2018, of 13 September, on the Energy Transition and Climate Change (Litecc), establishes the bases for the future of energy in Andorra and defines climate change goals. More recently, on 23 January 2020, the General Council passed a resolution recognising the climate crisis and declaring a state of climate and environmental emergency, entrusting the Government with various relevant actions.

In response to the commitments and the above-mentioned law, the 2020-2050 National Energy Strategy to combat climate change was passed in February 2021, the roadmap for Andorra to tackle climate change and increase the country's resilience to its impacts. As for emissions, its goal is carbon neutrality by 2050, and to achieve this target, the strategy also sets the reduction of the carbon footprint in the sectors that emit these gases in this country.

Equally, in parallel with participation at the Climate Summit in Glasgow, held in November 2021, Andorra started the process to join the coalition of countries seeking carbon neutrality for 2050 and fulfil the commitments of the Paris Agreement.

With this goal, in January 2022, the Government passed the regulations on electricity production through government concessions, to streamline the granting of concessions to stakeholders in the sector to incentivise the installation of hydroelectric and solar power plants. These regulations allow the construction and exploitation, by the private sector, of electricity generating plants using renewable sources connected to the national electricity network. Remember that Law 21/2018 on the Energy Transition and Climate

Change sets the goal for national production to cover at least 33% of demand and for the percentage to reach 50% by 2050. According to the Government, if the new renewable electricity production plants authorised and developed throughout 2022 are considered, Andorra will be able to produce 26% of its own electricity consumption, more than half the target, and over the following years that percentage will continue to grow thanks to new infrastructures, such as the wind farm that FEDA is studying building. Achievement of the goal will also be helped through solar panels installations on privately-owned land and roofs, an investment that has increased exponentially thanks to the grants and subsidies in the Renova Plan.

As for taxation, the amendment of the Law on special taxes passed in July 2021 set the date for implementation of the green tax on 1 January 2022. The green tax is a targeted tax form intended to reduce, mitigate and repair the effects of CO<sub>2</sub> emissions. The revenue will be destined for financing a green fund to make public transport accessible to everyone and improve home comfort. The green tax is indirect by nature and imposed on imports of hydrocarbons. If the distribution sector decides to wholly pass on the green tax to the consumer, the increase in the final price will be an average of three cents per litre of petrol or diesel. Within the context of the major increase in fuel prices in recent months, temporary partial reductions of the special tax on hydrocarbons were approved, which can be claimed by vehicles used for taxi services, goods transport vehicles with a total loaded weight of between 3,500kg – 7,500kg, and special self-propelled vehicles (tractors) that consume diesel.

invaluable. Added to this are the contributions from the Waste Recovery Plant, Soldeu's combined heat and power plant, the mini hydroelectric plants and solar panels. The other 80% of the energy demand in Andorra is fed by imports from France (38% of the total) and Spain (41%).

The FEDA distribution area has a total of 61 solar installations connected to the network after 13 new installations for self-consumption were added in 2021, representing an increase of 27% since 2020. Remember that in 2018, there were only 27 solar installations. Moreover, in 2021, the mini hydroelectric power plant at Aixovall began to operate, promoted by the renewable electricity company PERSA, formed by Mútua Elèctrica de Sant Julià de Lòria and Nord Andorrà, with a capacity to generate 2.7 kWh per year, the equivalent of consumption for 570 houses. This energy mix means that 63% of energy consumed in Andorra in 2021 was renewable, a much higher percentage than in 2019, when it was only 36%, according to FEDA.

Andorra's total energy demand (also in 110 kV) increased 1.8%, so it corrected a small part of the decline in 2020 (-9.7%). By sectors and according to the relative data only from FEDA, electricity consumption increased, especially in the sectors that have grown most, such as construction (12.5%), industry (22.2%), distribution (10.7%) and public administration (11.7%). Energy consumption also increased in hotels and catering (8.8%) and financial services (2.7%), but at a slower rate. In contrast, consumption fell for households (-2.3%) and ski resorts (-12.3%). As a result of the combination of a slight increase in demand and a major decrease in production, energy imports increased 13.6% in 2021 to represent 80% of total demand.

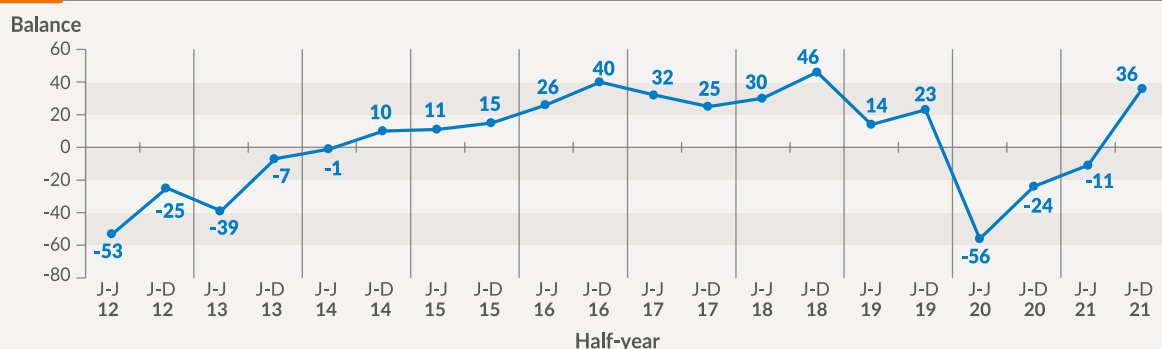
Imports of fuels (in litres) also increased 9.6%, which only partially offset the steep decline in 2020 (-23.3%). The increase in 2021 was the result of restored movement both domestically and from foreign visitors. Specifically, imports of diesel for transport increased 8.9%; unleaded petrol 28.4%, and heating oil 1.7%.

The recovery of the industry sector continued to progress gradually over 2021, reaching fairly normal levels of activity. According to the Chamber's business climate survey, industrial businesses ended 2021 with a year-on-year average increase in turnover of 10.9%, compared with the 21% decrease in 2020. However, note that this more favourable trend did not result in a significant improvement in the indexes of recruitment in the sector.

**Business activity in industry was positive in the second half of 2021, after three negative quarters.**

On the other hand, the good recovery rate in activity was reflected in the industrial production indicator, which managed to gradually normalise activity towards pre-crisis levels. This upward

## BUSINESS ACTIVITY - INDUSTRY SECTOR



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

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

trend in production is based on the fact that the industry sector is benefiting from more dynamic domestic demand and the impetus from goods exports and the recovery in global trade. In parallel, the average productive capacity utilisation also demonstrated the good progress in industry, rebounding to 67.1% in the second half, 15 points higher than the 2020 average and already very close to the 2019 level (69.3%).

Finally, sales prices continued an upward trend, which may suggest that businesses, with their margins being squeezed by rising energy and commodity prices, are starting to pass on part of the higher production cost to their clients.

Among the factors that may limit progress in business activity over the next months, weak demand (quoted by 46% of businesses) remains the main obstacle in the second half of 2021. The most notable of the other factors are rising operating costs, which has become the second most important obstacle cited by businesses (39%), and the shortage of qualified workers (30%).

Business forecasts are the most optimistic in the last five years and indicate that industrial activity will continue to gain momentum throughout the first half of 2022, although the risks are ever higher.

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

Table 10.2

		2019			2020			2021		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
<b>1. Business activity</b> (reviewed half-year)	Good	35	35	35	4	14	9	22	49	36
	Normal	44	53	49	36	49	43	44	39	42
	Bad	21	12	17	60	38	49	33	13	23
	<b>Balance</b>	<b>14</b>	<b>23</b>	<b>19</b>	<b>-56</b>	<b>-24</b>	<b>-40</b>	<b>-11</b>	<b>36</b>	<b>13</b>
<b>2. Orders</b> (reviewed half-year)	High	15	15	15	7	1	4	10	19	15
	Normal	56	61	59	16	41	29	44	54	49
	Low	29	24	27	78	58	68	46	28	37
	<b>Balance</b>	<b>-14</b>	<b>-9</b>	<b>-12</b>	<b>-71</b>	<b>-57</b>	<b>-64</b>	<b>-36</b>	<b>-9</b>	<b>-23</b>
<b>3. Stocks of finished products</b> (reviewed half-year)	Excessive	9	4	7	14	8	11	4	1	3
	Adequate	49	47	48	39	38	39	42	50	46
	Insufficient	0	7	4	14	14	14	15	14	15
	No stocks	42	43	43	34	41	38	39	34	37
	<b>Balance</b>	<b>9</b>	<b>-3</b>	<b>3</b>	<b>0</b>	<b>-6</b>	<b>-3</b>	<b>-11</b>	<b>-13</b>	<b>-12</b>
<b>4. Average production capacity utilisation</b> (in %) (reviewed half-year)		70.0	68.5	69.3	50.1	54.3	52.2	58.8	67.1	62.9
<b>5. Production</b> (compared with same half-year of previous year)	Higher	18	29	24	7	1	4	33	52	43
	Similar	44	43	44	14	35	25	43	39	41
	Lower	38	28	33	79	63	71	24	9	17
	<b>Balance</b>	<b>-20</b>	<b>1</b>	<b>-10</b>	<b>-72</b>	<b>-62</b>	<b>-67</b>	<b>9</b>	<b>43</b>	<b>26</b>
<b>6. Sales prices</b> (compared with previous half-year)	Higher	15	3	9	2	3	3	14	27	21
	Equal	79	91	85	80	77	79	71	66	69
	Lower	6	7	7	18	20	19	15	7	11
	<b>Balance</b>	<b>9</b>	<b>-4</b>	<b>3</b>	<b>-16</b>	<b>-17</b>	<b>-17</b>	<b>-1</b>	<b>20</b>	<b>10</b>
<b>7. Number of employees</b> (compared with previous half-year)	More	15	17	16	5	4	5	4	16	10
	Same	76	77	77	65	78	72	78	79	79
	Less	8	5	7	30	18	24	18	6	12
	<b>Balance</b>	<b>7</b>	<b>12</b>	<b>10</b>	<b>-25</b>	<b>-14</b>	<b>-20</b>	<b>-14</b>	<b>10</b>	<b>-2</b>

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

## XI. Construction and related industries

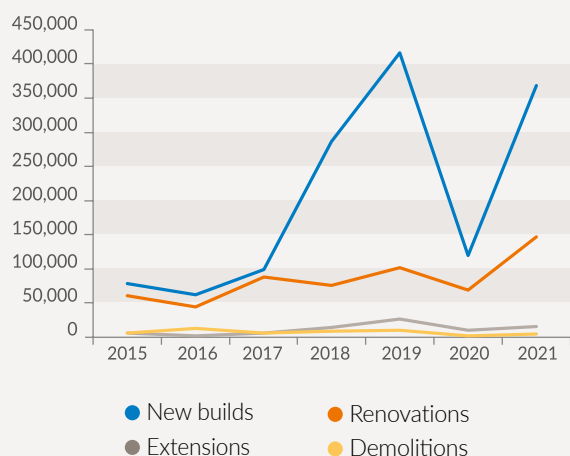
The sector of construction and related industries, which represented 9.3% of GVA in 2021, has seen a period of remarkable, sustained growth over recent years. This recovery began in 2016, after a long period of recession, and has continued until 2021. Throughout this whole period (2016-2021), the average annual growth in GVA has been 10%. Due to the COVID-19 restrictions ordered in 2020, annual growth in the sector slowed to 1.4%, but without falling like the other economic sectors, and growth accelerated again in 2021, to 23.5%, a historically very high variation rate.

This positive trend seen by the construction sector occurred fundamentally in the housing segment, as public investment was limited by the exceptional increase in public current expenditure due to COVID-19.

In parallel with the very dynamic activity, employment in the sector rose 6.9%, to 3,717 employees, an increase that is added to that of 2020 (4.3%), making it the highest figure since 2011. The number of business establishments in the construction sector also increased from 879 in 2020 to 931 in 2021 (5.9%). The good moment that the sector is experiencing resulted in an increase in average wages of 5.1%, reaching €2,222 per month, the highest figure in the historical series (in nominal terms) and exceeding the total average wage, after 11 years below the average. For its part, reactivation of the sector brought a notable rise in imports of building materials -

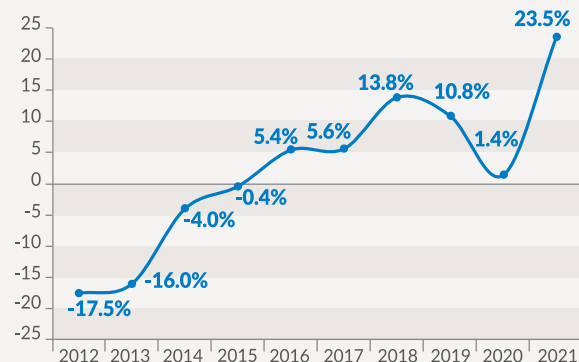
including traditional building products and also products made from ceramic, glass, iron and steel, copper, nickel, aluminium, lead, zinc, tin and other commodities - of 49%, completely reversing the 17% fall recorded in 2020.

### APPROVED SQUARE METRES BY CATEGORY



Source: The Official Association of Architects of Andorra.

### GVA IN THE CONSTRUCTION SECTOR Variation rate in real terms



Source: Department of Statistics.

**GVA in construction saw an extraordinary increase of 23.5% in 2021, after slowing but not falling in 2020.**

**The approved surface area for building grew an extraordinary 168% in 2021.**

In 2021, the area surface of approved projects grew strongly (168%), to 536,241 m<sup>2</sup>. This is the highest figure in the last thirteen years, after that of 2019, which was an unusual year because many approvals were brought forward before the entry into force of the 2020 Law on the Energy Transition and Climate Change, which establishes that new buildings must have virtually zero energy consumption, obliging



buildings to be well insulated and weatherproofed. The data shows that the sector is experiencing a major period of growth and investor confidence.

The increase in approved surface area in 2021 was generalised by categories, with three-digit rates. 69% of the approved surface area relates to new builds, increasing 209% since 2020; 28% relates to renovations, with 115% growth, and the other 4% relates to demolition or extensions. In 2021, the approved surface area for renovation saw a record figure, which can be attributed to the energy efficiency regulations and the Renova Plan, and mainly the Law 15/2020, of 26 November, on urgent measures regarding urban leases and to improve purchasing power, which allows for the renovation of housing that is outside the regulations.

On the other hand, in 2021, 215,964 m<sup>2</sup> of new building was authorised. This figure represents an increase of 50.8% compared with 2020, which saw a steep downward trend (-39.6%). In parallel, the number of authorised permits increased from 58 in 2020 to 83 in 2021, reaching the highest figure since 2004, when the highest number of authorised square metres of new building in the whole available historical series was also recorded.

Strong activity in the sector was matched by very dynamic demand. According to the statistics for property transactions and for housing and land prices, 1,948 property transactions were carried out in 2021, the highest number in the historical series, and 48% more than in the previous year. After the declines seen in 2019 and 2020, the number of transactions regained the positive trend of the period 2013-2018. In 2021, many foreign investors, mostly from Spain and France, decided to buy a residence in the Principality, taking advantage of the low interest rates and savings amassed over the pandemic. To this was added the attraction of professional residents with high purchasing power, encouraging the construction of luxury housing.

**In 2021, property sales increased 48%.**

There were two-digit increases in property sales in all the parishes. The most important increases were in Sant Julià de Lòria (77%), Encamp (62%), and Canillo and La Massana (around 50% in both cases). Regarding the type of transferred property, sales increased especially in land (71%), parking spaces (43%) and apartments (37%).

As for the price per m<sup>2</sup> of the transactions, this increased 10.1% in the case of apartments and also rose for single-family houses, parking spaces and warehouses. In contrast, the price per m<sup>2</sup> of

## PROPERTY TRANSACTIONS AND AVERAGE PRICE PER M<sup>2</sup> FOR APARTMENTS, BY PARISH

	PROPERTY TRANSACTIONS				M <sup>2</sup> PRICE FOR APARTMENT TRANSACTIONS (EUROS)		
	2020	2021	Absolute variation	Relative variation (%)	2020	2021	Relative variation (%)
Canillo	240	358	118	49.2%	2,375.0	2,515.6	5.9
Encamp	250	404	154	61.6%	2,110.0	2,322.0	10.0
Ordino	110	153	43	39.1%	2,255.3	2,839.7	25.9
La Massana	245	367	122	49.8%	2,419.8	2,737.6	13.1
Andorra la Vella	206	275	69	33.5%	2,867.6	3,367.3	17.4
Sant Julià de Lòria	106	188	82	77.4%	2,181.3	2,310.1	5.9
Escaldes-Engordany	161	203	42	26.1%	3,160.4	3,203.7	1.4
<b>Total</b>	<b>1,318</b>	<b>1,948</b>	<b>630</b>	<b>47.8%</b>	<b>2,520.4</b>	<b>2,775.1</b>	<b>10.1</b>

Source: Department of Statistics.



land, commercial premises and whole buildings fell. As for apartments, in 2021, the parishes that saw two-digit increases in the price per m<sup>2</sup> were Ordino (26%), Andorra la Vella (17%), La Massana (13%) and Encamp (10%).

***The number of new mortgages increases but the average value of mortgages falls in comparison with 2020 due to amassed savings.***

The total number of new mortgages signed in the Principality of Andorra in 2021 was 884, with a 38% positive variation compared with 2020. Of these, 775 mortgages were for residential property (43% more than the previous year). In relation to distribution by

parish, La Massana and Encamp stand out, where 42% of the total mortgages for residential property were realised. The other 109 mortgages were for other uses, such as hotels, premises, developments and land, and increased by 12.4% since 2020. The average value of all the mortgages signed in 2021 was €359,159, 20% less than the average in 2020. The savings amassed during the pandemic might explain this fact.

The analysis of the property sector is completed by two new sets of statistics this year, published for the first time by the Department of Statistics. The first are the statistics on the characteristics of housing with reference to the period 2016-2020. According to this source, prepared from the data associated with the household budget survey, the trend in the total number of homes of resident households in Andorra shows continued growth over the last five years. Over this period, the total increase in housing was 3,703, of which 2,954 were owned properties, whereas the other 749 were rental properties. The second are the statistics about buildings and housing units in 2021, prepared from the Land Statistics Register, which concludes that of the 10,648 total buildings in the country, 69% are buildings and/or houses, and detached houses. Finally, the Department of Statistics estimated, from electricity consumption, that in 2021 there were at least 6,238 empty apartments in the country, almost 15% of the total number of properties. The reasons for this “underutilised” housing are varied (second and third homes, apartments for sale, inheritances and other circumstances), as shown by the low revenue from the tax on empty housing, with only 14 voluntary registrations on 31 December 2021. This tax is charged on housing that has been unoccupied for at least two years without justification.

**Box 11.1**

**THE RENOVA PLAN**

The Renova Plan is the main scheme for promoting energy saving and efficiency and introducing renewable energies into buildings.

Since it has been in operation (2011-2021), the Renova Plan has received 2,332 applications, €13.2 M for grants and €16.6 M for loans, of which €11.5 M and €13.7 M have been granted, respectively.

The 2021 Renova Plan opened with a budget of €1,500,000, with a later addition of €300,000. In total, €1,800,000, which is 48% more than the 2020 funds (€1,215,000). The 2021 Renova included a specific grant for installing more efficient heating

systems, an increase of 10%-15% to the grant to renovate housing to be included in the rental market, and another additional grant of 10% in the case of small buildings built before 1980 which have not undergone energy efficiency improvements. Apart from these funds, the Government has continued to push grants for installing solar panels (with 41 new applications in 2021), a line that started in 2018 to promote solar power installations. In total, 404 applications were entered for the Renova Plan in 2021 (41% more than in 2020), with a requested total of €3,057,628 as subsidies and €710,932 as loans. The total authorised amount matched the budgeted funds of €1,800,000.

As for the subsector of public works, in 2021 the Comú governments invested much more than in 2020 and largely reversed the major contraction seen in 2020. In contrast, the central Government continued to reduce investment for the second consecutive year, as it bore the bulk of the increased expenditure for the pandemic. The settled aggregate real investment of the central and Comú governments (chapter 6 of the budget) is €63.6 million, 6.2% more than in 2020 (close to 60 million). This increase contrasts with the 32% decline seen in 2020 and regains the expansionary path of the three years prior to the pandemic (12% in 2019, 25% in 2018 and 19% in 2017).

In relation to the Government, in 2021 settled investment (chapter 6) rose to €25.3 million, a figure that represents a significant decline of 24.6% from 2020 which, in turn, had fallen another 25.6% since 2019. This meant that the figure for investment by the Government in 2021 is the lowest since 1995. If we add capital transfers (chapter 7 of the budget) which saw an increase in 2021 (to €32.6 million), the total investment effort of the Government rises to almost €58 million, an amount that represents a decline of 10.7% since 2020. A major part of this investment relates to

**Real investment by the Comú governments increases but that of the central Government decreases.**

the Ministry of Land and Housing, specifically €23.9 million; this amount represents a decline of 26% since 2020, added to the -27% in 2019.

The table 11.2 details the public works settled in 2020 and 2021 by the Ministry of Land and Housing, by programmes. These last two years, the higher current expenditure requirements associated with the pandemic affected investment in infrastructure. The categories that saw the most important reductions in the monetary value of investment in 2021 were administrative infrastructure (€2.4 million less), road maintenance (€2.4 million less) and judicial infrastructure (€2.2 million less, on finalising the new Justice headquarters). In 2021, investment in school infrastructure also decreased and for river and stream treatment. In contrast, the programme that saw the greatest increase in absolute value was health and social infrastructure (€2.6 million more), in response to the pressure on hospitals from COVID-19.

As for the Comú governments, settled real investment increased 45.5% and was €38.3 million, only 12% below the 2019 investment figure, being one of the years of greatest investment by the Comú governments. By parishes, the most important investment expenditure was in Andorra la Vella, with €10.2 million: Encamp, with €9.1 million, and Canillo, with €7.2 million. Next, but with much lower volumes are Escaldes-Engordany, with €3.9 million; La Massana, with €3.2 million; Ordino,

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

Table 11.2

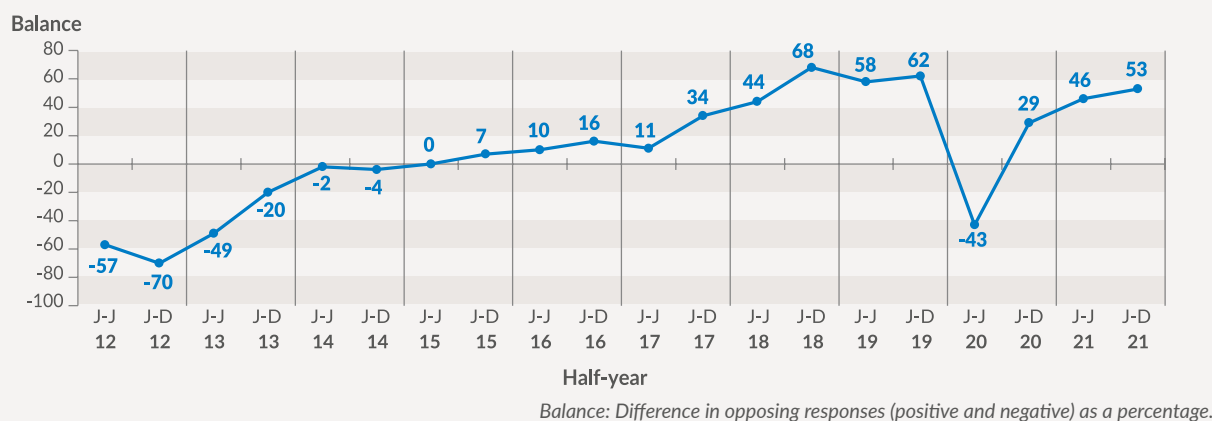
Description	2020	2021
Administrative infrastructure	3,454,683 €	1,040,175 €
Judicial infrastructure	2,295,012 €	86,307 €
Infrastructure - Fire Station	-	-
Prison building	2,111 €	-
Health & social infrastructure	754,322 €	3,314,033 €
School infrastructure	5,157,941 €	4,219,821 €
Education	1,843 €	---
Sports infrastructure	17,612 €	359,708 €
Sanitation	94,702 €	79,293 €
Natural Heritage management & conservation	78,223 €	145,604 €
Cultural infrastructure	1,369,972 €	1,588,412 €
Central government	530,997 €	487,912 €
Main roads, road infrastructure	5,850,146 €	4,515,156 €
Other roads	415,650 €	231,469 €
Road maintenance	8,865,398 €	6,495,339 €
Natural risks. Protective infrastructure	615,901 €	553,164 €
Sectoral plan. New road infrastructure	1,266,746 €	6,875 €
River & stream treatment	1,037,243 €	179,979 €
Cartography & topography	67,054 €	158,379 €
Road surfacing - CG, CS & streets	-	-
Industrial infrastructure	260,930 €	264,554 €
Strategic & transport projects	275,055 €	193,464 €
<b>Total</b>	<b>32,411,541 €</b>	<b>23,919,644 €</b>

\*Amount of settled public works relating to investment by the Ministry of Land and Housing.

Source: Ministry of Land and Housing.

## BUSINESS ACTIVITY - CONSTRUCTION SECTOR

Chart 11.3



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

**Business activity in construction continued to improve in 2021, and the prospects for 2022 are very positive.**

As is evident from the results of the Chamber's business climate survey, construction is still the most dynamic sector of the Andorran economy, with a very lively rate of expansion, clearly higher than in the other branches of

activity. Construction companies that took part in the situation survey indicated a very high year-on-year increase in turnover in 2021, by 29% on average, contrasting with the 17.3% fall seen in 2020, and they also signalled faster growth in job creation in the sector.

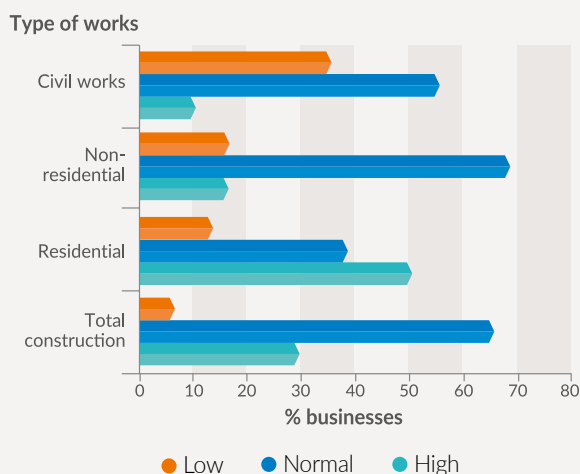
In parallel, the analysis of the volume of contracted works in the second half of 2021 also allows for optimism about future levels of activity. On the one hand, businesses indicated major growth in contracts in the subsector of residential building, in a context where low interest rates, savings

amassed by households during the pandemic and uncertainty about the trend in the variable income markets help to make property purchases and investment more attractive. On the other hand, non-residential building and civil works also show a clear improvement in the rate of contracts compared with the three previous half years. However, both non-residential building and civil works remained within an unsatisfactory range, especially public works, in which activity slowed due to the major impact of the pandemic on the public accounts.

In most cases, the activity figures achieved are already higher than the levels observed in the same period in 2019. However, many businesses are concerned about the problems of meeting demand due to supply problems for

## CONTRACTED WORKS - CONSTRUCTION SECTOR (half-year July-December 2021)

Chart 11.4



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

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

Table 11.3

		2019			2020			2021		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
<b>1. Business activity</b> (reviewed half-year)	Good	63	62	63	0	47	24	52	53	53
	Normal	32	38	35	57	35	46	42	47	45
	Bad	5	0	3	43	18	31	6	0	3
	<b>Balance</b>	<b>58</b>	<b>62</b>	<b>60</b>	<b>-43</b>	<b>29</b>	<b>-7</b>	<b>46</b>	<b>53</b>	<b>50</b>
<b>2. Volume of executed works</b> (compared with same half-year of previous year)	Higher	46	42	44	8	13	11	55	64	60
	Equal	41	40	41	12	39	26	24	33	29
	Lower	14	18	16	81	48	65	21	3	12
	<b>Balance</b>	<b>32</b>	<b>24</b>	<b>28</b>	<b>-73</b>	<b>-35</b>	<b>-54</b>	<b>34</b>	<b>61</b>	<b>48</b>
<b>3. Contract unit prices</b> (compared with previous half-year)	Higher	29	18	24	4	12	8	44	36	40
	Equal	68	80	74	89	74	82	44	64	54
	Lower	3	3	3	7	15	11	13	0	7
	<b>Balance</b>	<b>26</b>	<b>15</b>	<b>21</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>31</b>	<b>36</b>	<b>34</b>
<b>4. Number of employees</b> (compared with previous half-year)	More	34	28	31	11	12	12	27	17	22
	Same	53	73	63	89	82	86	64	83	74
	Lower	13	0	7	0	6	3	9	0	5
	<b>Balance</b>	<b>21</b>	<b>28</b>	<b>25</b>	<b>11</b>	<b>6</b>	<b>9</b>	<b>18</b>	<b>17</b>	<b>18</b>

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

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some materials, rising prices for many of these materials (such as wood, aluminium or steel), and also the serious shortage of specialised workers to work in the sector. In this context, the sector has been warning for months of delays in works and significant rises in production costs, leading to increases in the final contract sale prices. In fact, in the survey, 7 of every 10 businesses already predict an increase in sale prices in the first half of 2022.

The prospects for 2022 are still very positive and support the idea that construction will continue to be an important pillar of growth over the next few months.

## XII. Services

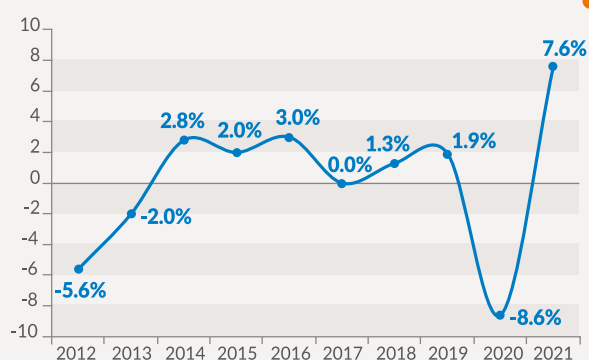
The services sector is at the core of the Andorran economy, representing 84.9% of global GVA and 85.2% of total employees. The predominance of this sector means that its trend largely determines the performance of Andorran GDP. After six consecutive years of positive variations between 2014-2019, with average annual growth of 1.8%, there was a sudden drop of 8.6% in 2020, due to the restrictions adopted to contain the spread of the pandemic. In 2021, however, the sector saw real growth of 7.6%, thanks to the recovery in the sectors most affected by the restrictions, such as hotels and catering, transport and commerce.

***In 2021, services GVA grew 7.6%, thanks to the recovery in the sectors most affected by the 2020 restrictions.***

In terms of GVA, the balance for 2021 was very favourable in the three largest subsectors of services. On the one hand, commerce, hotels and catering, transport, information and

## SERVICES SECTOR GVA Variation rate in real terms

Chart 12.1



Source: Department of Statistics.

**Hotels and catering and commerce are the sectors that will take longer to recover the pre-pandemic level of activity.**

communications, which had seen a record downturn of 15.9% in 2020, grew 9% in 2021, allowing it to partially recover its pre-pandemic volume of activity. On the other hand, the subsector of financial, real estate, professional and technical activities, which suffered the least in this crisis, saw an increase of 9.1% in 2021 and only fell 3.9% in 2020. Finally, the subsector of public administration, education, health, social and personal services grew 3.5% in 2021, contrasting with the fall of -5.5% in 2020.

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 throughout 2020 and 2021. The most important of these were the ERT0 furlough scheme and direct support to the self-

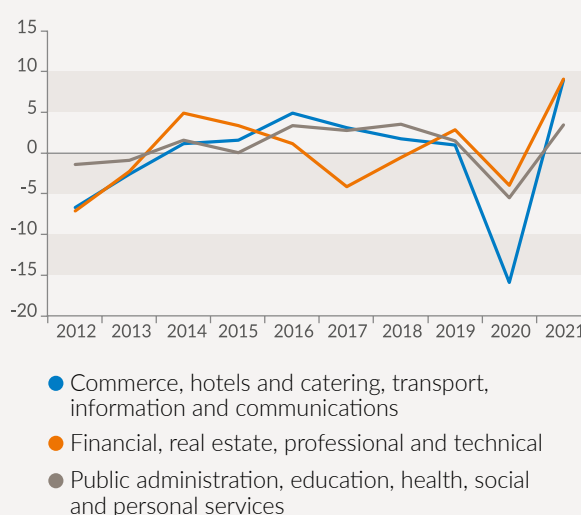
employed; the guaranteed loan scheme for businesses; the deferment and payment in instalments of tax; the aid towards rent or mortgage payments of businesses affected by the restrictions, and the discounts on electricity and telecommunications bills. This aid had different criteria for application over the two years based on the gravity of the health and economic situation.

Indeed, according to the responses to the questions included in the business climate survey in the second half of 2021 (answered in January-February 2022) to find out the level of impact of the pandemic on Andorran businesses, the time required to return to pre-pandemic levels is better overall in all branches of activity compared with one year earlier, although major differences can be seen between sectors.

Hotels businesses continue to show more pessimistic expectations, since a large number of businesses in the sector, 45.2% of the total, indicate that they will not recover a volume of turnover like that of before the pandemic until at least a year has passed. Moreover, in parallel, only a very small percentage of hotel businesses, 7.1% of the total, state that they have managed to obtain similar income to 2019. In the retail trade, expectations are also comparatively lower than in industry and construction, with 33.3% of retailers expecting they will need more than a year to completely recover activity, and 21.9% of commercial establishments indicating that they have already completely returned to normal. The most optimistic results can be seen in construction, which has the largest proportion of businesses that have managed to recover pre-pandemic levels of income or

## SERVICES SECTOR GVA BY BRANCHES OF ACTIVITY Interannual real variation rate (%)

Chart 12.2



Source: Department of Statistics.

## NUMBER OF ESTABLISHMENTS IN THE SERVICES SECTOR

Table 12.1

	2020	2021	% var. 21/20	% total 2021
Commerce and motor vehicle repairs	2,958	3,037	2.7	32.4
Transport & storage	259	256	-1.2	2.7
Hotels & catering	1,034	1,031	-0.3	11.0
Information & communications	533	712	33.6	7.6
Financial & insurance activities	202	201	-0.5	2.1
Real estate activities	447	496	11.0	5.3
Professional, scientific & technical activities	1,656	1,994	20.4	21.3
Administrative activities & ancillary services	511	520	1.8	5.6
Education	222	244	9.9	2.6
Health activities & social services	226	234	3.5	2.5
Artistic, recreational & entertainment activities	179	203	13.4	2.2
Other services	399	436	9.3	4.7
<b>Total</b>	<b>8,626</b>	<b>9,364</b>	<b>8.6</b>	<b>100.0</b>

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.

**The total number of service sector establishments increases, in line with the recovery in activity.**

have not seen their turnover affected (30.3% and 33.3% of total businesses in the sector, respectively).

In parallel with the increase in global activity of the services sector, the number of establishments grew 8.6%, to 9,364. By subsectors, the economic activity with most establishments is commerce, representing 32% of the total and an increase of 2.7%. The second most important branch is professional, scientific and technical activities, the focus of 21% of total businesses in the service sector, which saw a 20% increase in 2021. The third most important subsector in terms of establishments registered with the Registry of Commerce and Industry is hotels and catering, representing 11% of total establishments in the services sector, with a decrease of 0.3% since 2020.

**Employment continues to fall in hotels and catering, commerce and transport, and grows in the health sector, education and public administration.**

In 2021, the number of employees in the services sector fell 2.9% to 32,118, which are spread as follows between the four main subsectors: 25% work in the commerce sector; 18% in real estate and business services; 15%

### Box 12.1

#### RECYCLING AND WASTE MANAGEMENT

The current 2001-2020 National Waste Plan (PNR) has reached its end, so the Government is working on a new national waste plan with the horizon in 2035. In the middle of 2022, Law 25/2022 on the Circular Economy was passed. This law establishes the creation of the Circular Economy Strategy, which contains the new National Waste Plan. The new plan must take into

account the latest European waste directives, which set a 65% waste collection target.

As for waste figures, in Andorra in 2021, more than 137,731 tonnes (t) were generated in Andorra: 28% were treated inside the country and 72% were exported for final management outside the country. This amount

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 to recovery and/or disposal plants. Not included is earth and stone waste from construction, of which 220,007 t were exported for recovery, a figure that represents an increase of 43% since 2020 (when 153,791 t were exported). In relation to 2020, 4,395 t more waste were generated. Note that 2021, like 2020, was characterised by the special measures taken during the emergency health situation caused by coronavirus. Although in 2021 there was no lockdown of the population, some restrictions were maintained that prevented economic activity from reverting to pre-pandemic conditions. Notably, the decrease in some types of municipal waste, such as municipal solid waste (MSW), which fell 3.1%, or paper and card, which fell 7.3%; and there were also falls in glass and organic matter of 4.2% and 3.4%, respectively. In the case of light packaging, there was a slight increase of 1.6%, and the collection of bulky waste grew significantly, by 47%. On the other hand, in the case of non-municipal waste, there were also slight decreases in all types of waste except construction-related waste. Finally, the amount of sanitary waste generated was quite similar to 2020.

In the last review of the National Waste Plan (PNR) for the period 2017-2020, the recycling target set for 2020 was 50% (including preparation for reuse), in keeping with the criteria in Directive 2008/98/EC 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 result of global recycling obtained in 2021, despite the slight decrease in generated amounts, was 47%, a similar value to 2020 and close to the established target for 2020 (50%).

Specifically, in 2021, a total of 46,409 t of municipal waste was managed (compared with 51,331 t in 2020), of which 15,419 t were recycled, while 30,352 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 decline in total recycled amounts in 2021, although the trend by type was not uniform: light packaging increased 1.6%; while glass decreased 4.2%, and paper and cardboard -7.3%. The decreased recycling in glass and paper and cardboard but not in light packaging could be caused by two factors: on the one hand, the partial closure of hotel and catering and commercial establishments and, on the other hand, the increase in packaged products produced during the pandemic. Moreover, in 2021, the amount collected from major producers, such as large supermarkets, hotels, restaurants and schools, saw a slight decline, related to the partial or total closure of some establishments voluntarily taking part in this scheme. So, it went from 1,198 t in 2019 to 795 t in 2020 and 768 t in 2021, below the set goal of 1,000 t per year.

As for energy recovery, household waste and waste treated as municipal 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 2021, 38,172 t of Andorran waste were received at the plant, a lower figure than the 40,009 t in 2020. To this waste must be added the 8,683 t of pre-treated solid municipal waste from Cerdanya (Spain), under the Government authorisation to import a maximum of 10,000 t per year, representing 18.9% of the total waste recovered by the CTR. The energy recovered from all the waste generated 16,889 MWh of electricity, which was injected into the FEDA electricity network, and 5,115 MWh of thermal power, 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 carrier bags with bags made of other materials. In 2021, a saving of more than 136,000 plastic bags was made at large stores and supermarkets, meaning that the use of plastic bags in this kind of centre is marginal. Remember that in 2017, more than 3 million plastic bags were being used every year in these establishments.



## NUMBER OF EMPLOYEES IN THE SERVICES SECTOR (annual average)

Table 12.2

	2020	2021	% var. 21/20	% total 2021
Commerce and motor vehicle repairs (etc.)	8,681	8,174	-5.8	25.4
Hotels & catering	4,327	3,640	-15.9	11.3
Transport, storage & communications	1,272	1,164	-8.5	3.6
Financial system	1,758	1,765	0.4	5.5
Real estate & rental activities; business services	5,482	5,630	2.7	17.5
Public administration, defence & mandatory social security	4,521	4,675	3.4	14.6
Education	604	622	3.1	1.9
Health & veterinary activities, social services	2,247	2,405	7.1	7.5
Other social activities & community services; personal services	2,900	2,765	-4.6	8.6
Households employing domestic staff	1,076	1,071	-0.5	3.3
Extraterritorial bodies	13	12	-5.3	0.0
Domestic work for the community	200	196	-1.8	0.6
<b>Total</b>	<b>33,079</b>	<b>32,118</b>	<b>-2.9</b>	<b>100.0</b>

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

in public administration, and 11% in hotels and catering. Overall, these four branches account for about 70% of total employees in the services sector. In 2021, the total number of employees in some branches shrank but increased in others. Among the former is notably the reduction in hotels and catering (-16%), added to the fall in 2020 (-15%). Employment also fell, for the second consecutive year, in commerce, in transport, storage and communications, and in the sector of social activities and community services, activities which suffered heavily from the effects of COVID-19. In contrast, employment basically increased in the branches of health activities and social services (7.1%), public administration (3.4%), education (3.1%) and real estate activities and business services (2.7%).

In 2021, the monthly wages of the whole services sector increased 1.3% to reach an average of €2,192, a moderate increase that is added to the increases of the previous three

**The trend in wages by subsectors is very similar.**

years. The trend is very similar by subsector. The average wage increased more than 2% in real estate and business services, in the transport and communications sector, and in health and veterinary services; whereas it decreased 5.9% in social activities and community services (which include recreational, sports and cultural activities), greatly affected by the COVID-19 crisis. In the other branches, the variations were insignificant, whether upward or downward.

### 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 16.3% of GVA (2020) and 21.7% of employment (2021) - less than in 2005, when it was 26.7% of the labour market. This structural change is due to the economic crisis of 2008 and the transformation of consumption patterns that affects traditional commerce.

The retail sector has been dealing with a transformation of its business model for many years, due to a structural change in the behaviour of consumers who, with the same budget, value 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. Alongside the depletion of some business models are the loss of product price differentials, the smaller presence of commerce in tourist spending and the lower purchasing power of the average client, as some of the weak points in Andorran commerce.

To meet all these challenges, the Government presented the Strategic Plan for Commerce in January 2022, continuing on the Strategic Plan for Shopping Tourism presented in 2016, 46% of which was achieved. Among the

actions were notably aspects such as making the urban area peaceful, merging commercial associations, creating the brand The Shopping Mile, and working on the commercial model in some parishes. The 2022 new Strategic Plan for Commerce identifies as major areas for action: improving competitiveness; innovation and digitalisation, and the creation and promotion of a shopping experience, to develop trading conditions and access new markets and new clients. So, the goal of this action plan is for the shopping experience to be as satisfying, innovative and different as possible, which means that the quality of the service must be improved. To achieve this, a key aspect is to make the sector more professional which means, among other things, improving employee training and living conditions. The new plan also poses other challenges, such as attracting new brands, sustainability and improved communication. From the point of view of communications, the fact that the Andorra-La Seu airport is now in operation represents an opportunity.

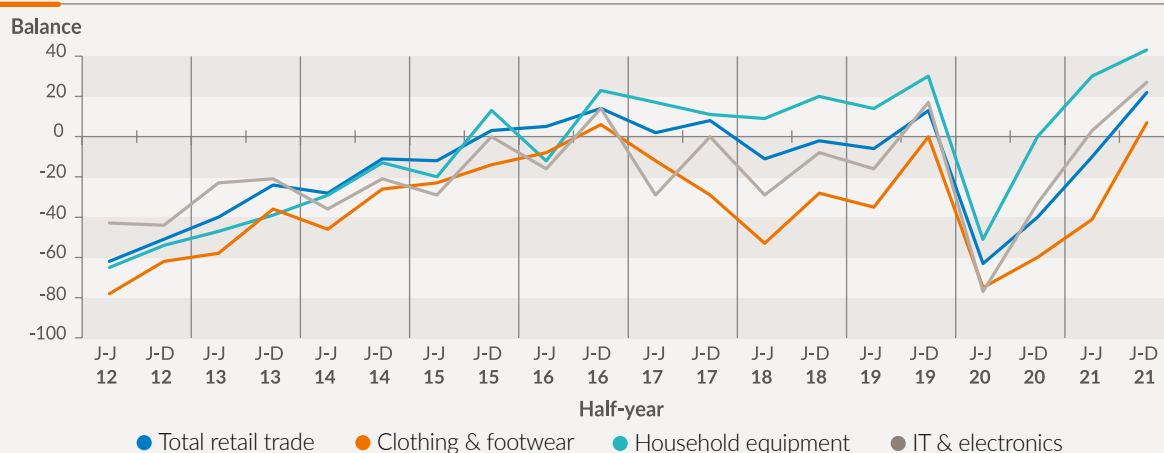
**The new Strategic Plan for Commerce aims to improve the shopping experience, among other goals.**

As for events to promote the commercial attractiveness of Andorra, the Andorra Shopping Festival was held in November 2021 after being suspended in 2020 due to the pandemic. The balance was positive and even exceeded sector expectations thanks to a good influx of French and Spanish visitors. Also remarkable was the campaign carried out by Andorra Turisme to promote the country to the local markets of France and Spain, as a safe destination for short trips.

**In 2021, the number of employees in the retail sector fell 9% and reached a historic low.**

In 2021, there are three factors that caused a reduction in employee numbers in the retail sector for the second consecutive year: structural changes felt by the sector; the

## BUSINESS ACTIVITY - RETAIL TRADE

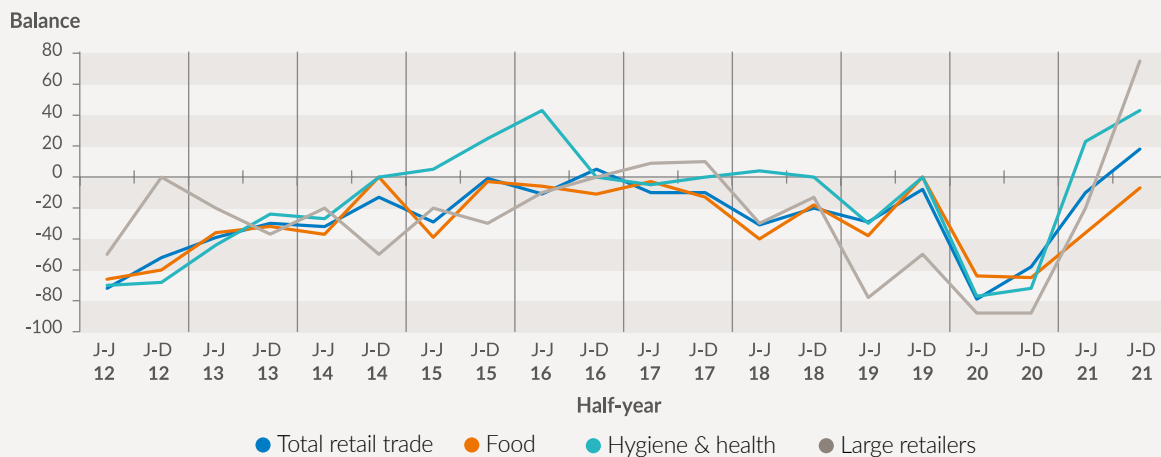


Balance: Difference in opposing responses (positive and negative), as a percentage.

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

## 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.

increase in online sales that was encouraged by the pandemic, and only partial recovery in the numbers of foreign visitors buying in Andorra. Specifically, the number of employees in the retail sector shrank 9.0%, to 4,652, the lowest figure in the historical series which started in 1991. On the other hand, a positive figure for the sector is the increase in the number of retail establishments, which reached 1,423 (24 establishments more than in 2020). The fact that there are more establishments but less employees means that the establishments are more digitalised and need fewer workers and/or they are smaller establishments on average. As well as the fall in employment, in 2021 the average wage of employees in the retail sector also fell 4.2%, to around €1,732.

Electricity consumption in the commercial distribution sector saw an increase of 10.7% (solely FEDA data), which partially offset the decrease in 2020 (-17.1%) caused by closures and restrictions in some establishments. Another benchmark indicator for analysing the trend in commerce is imports of goods, because most products sold by Andorran retailers are imported. All in all, imports are still 4% lower than the level in 2019, a figure that reflects that the sector has not completely recovered pre-pandemic levels of activity.

Data from the Chamber's business climate survey confirm that retail trade showed clear signs of improvement in 2021, especially from the second quarter, in which it entered a new phase of fewer restrictions and progressive reactivation of tourist activity, but still at very modest rates and below pre-pandemic figures, with a volume of sales that was clearly not enough to offset the exceptional fall in revenue in 2020. So, retailers indicated a year-on-year average increase in turnover of 10%, contrasting with the 25% decline in 2020, accompanied by a fairly stable trend in numbers of employees in most businesses in the sector.

**Despite the improvement, retail trade is below pre-pandemic figures.**

The results of the survey in the second half of 2021 confirm this gradual improvement. In fact, the number of businesses that qualified business activity as good was larger than those who stated the opposite (39% vs 17% of the total), a dynamic that had not been seen in the previous three half years and which denotes a moderate recovery in activity.

By subsectors, the improvement in business was general to all branches of commerce in the second half of 2021 (not on annual average). However, note the comparatively more optimistic

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

Table 12.3

1. Business activity (Reviewed half-year)		2019			2020			2021		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Good	23	32	28	8	13	11	25	39	32
	Normal	48	49	49	21	34	28	40	44	42
	Bad	29	19	24	71	53	62	35	17	26
	Balance	-6	13	4	-63	-40	-52	-10	22	6
Food	Good	24	39	32	12	3	8	10	34	22
	Normal	52	39	46	12	36	24	60	47	54
	Bad	24	22	23	76	61	69	30	19	25
	Balance	0	17	9	-64	-58	-61	-20	15	-3
Clothing & footwear	Good	6	31	19	5	4	5	15	26	21
	Normal	53	38	46	15	32	24	30	56	43
	Bad	41	31	36	80	64	72	56	19	38
	Balance	-35	0	-18	-75	-60	-68	-41	7	-17
Household equipment	Good	31	33	32	10	28	19	51	50	51
	Normal	53	64	59	29	44	37	28	43	36
	Bad	17	3	10	61	28	45	21	7	14
	Balance	14	30	22	-51	0	-26	30	43	37
Health & Hygiene	Good	31	39	35	13	5	9	22	41	32
	Normal	46	42	44	13	36	25	57	44	51
	Bad	23	19	21	73	59	66	22	15	19
	Balance	8	20	14	-60	-54	-57	0	26	13
IT & electronics*	Good	26	29	28	8	20	14	27	43	35
	Normal	32	59	46	8	27	18	49	41	45
	Bad	42	12	27	85	53	69	24	16	20
	Balance	-16	17	1	-77	-33	-55	3	27	15
Vehicles & accessories	Good	19	24	22	0	15	8	13	31	22
	Normal	52	52	52	39	12	26	45	41	43
	Bad	30	24	27	61	73	67	42	28	35
	Balance	-11	0	-6	-61	-58	-60	-29	3	-13
Other trade	Good	28	30	29	7	13	10	27	37	32
	Normal	44	52	48	23	34	29	24	43	34
	Bad	28	18	23	70	53	62	49	20	35
	Balance	0	12	6	-63	-40	-52	-22	17	-3
Large commercial establishments**	Good	0	25	13	13	0	7	20	100	60
	Normal	44	38	41	13	63	38	60	0	30
	Bad	56	38	47	75	38	57	20	0	10
	Balance	-56	-13	-35	-62	-38	-50	0	100	50

\*From the first half of 2021, on adaptation of the sample to the new classification of economic activities (CAEA-19), this subsector, as well as electronics, also includes retail sales of computers, peripheral equipment and computer programmes, and is called "IT & electronics".

\*\*From the first half of 2021, on adaptation of the sample to the new classification of economic activities (CAEA-19), supermarkets are included in the subsector "Food" and this branch only includes "Large commercial establishments".

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

perceptions of large stores and also the more enthusiastic climate among retailers specialising in furniture and household equipment which, with a stronger rebound in activity than the other subsectors, confirms that it is the most dynamic branch of commerce. In a more moderate but also favourable context, note the good results in the subsector of IT and electronics and the branch of hygiene and health. Finally, a slight recovery was also noted in the segment of clothing and footwear, one of the sectors that suffered most from the downturn in consumption caused by the pandemic, although the improvement was very modest and still below sector expectations.

In parallel, in the second half of 2021, the global sales figure broke the downward trend of the preceding half years and followed a more favourable trend in most types of commerce. By

## 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)		2019			2020			2021		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Higher	19	28	24	5	14	10	30	47	39
	Similar	33	36	35	12	15	14	30	24	27
	Lower	48	36	42	84	72	78	40	29	35
	Balance	-29	-8	-19	-79	-58	-69	-10	18	4
Food	Higher	10	31	21	12	13	13	18	37	28
	Similar	41	39	40	12	9	11	28	19	24
	Lower	48	31	40	76	78	77	54	44	49
	Balance	-38	0	-19	-64	-65	-65	-36	-7	-22
Clothing & footwear	Higher	16	38	27	5	17	11	8	40	24
	Similar	16	22	19	11	8	10	28	24	26
	Lower	68	41	55	84	75	80	64	36	50
	Balance	-52	-3	-28	-79	-58	-69	-56	4	-26
Household equipment	Higher	31	31	31	3	18	11	45	39	42
	Similar	50	46	48	17	25	21	29	30	30
	Lower	19	23	21	79	58	69	26	30	28
	Balance	12	8	10	-76	-40	-58	19	9	14
Health & Hygiene	Higher	13	28	21	0	5	3	41	58	50
	Similar	43	44	44	23	18	21	41	27	34
	Lower	43	28	36	77	77	77	18	15	17
	Balance	-30	0	-15	-77	-72	-75	23	43	33
IT & electronics*	Higher	21	33	27	8	29	19	50	53	52
	Similar	26	33	30	8	0	4	21	33	27
	Lower	53	33	43	85	71	78	29	14	22
	Balance	-32	0	-16	-77	-42	-60	21	39	30
Vehicles & accessories	Higher	15	19	17	0	4	2	33	45	39
	Similar	27	30	29	0	13	7	27	23	25
	Lower	58	52	55	100	83	92	40	32	36
	Balance	-43	-33	-38	-100	-79	-90	-7	13	3
Other trade	Higher	22	24	23	5	15	10	19	52	36
	Similar	31	40	36	10	17	14	36	18	27
	Lower	47	37	42	85	68	77	45	30	38
	Balance	-25	-13	-19	-80	-53	-67	-26	22	-2
Large commercial establishments**	Higher	0	25	13	0	0	0	20	75	48
	Similar	22	0	11	13	13	13	40	25	33
	Lower	78	75	77	88	88	88	40	0	20
	Balance	-78	-50	-64	-88	-88	-88	-20	75	28

\*From the first half of 2021, on adaptation of the sample to the new classification of economic activities (CAEA-19), this subsector, as well as electronics, also includes retail sales of computers, peripheral equipment and computer programmes, and is called "IT & electronics".

\*\*From the first half of 2021, on adaptation of the sample to the new classification of economic activities (CAEA-19), supermarkets are included in the subsector "Food" and this branch only includes "Large commercial establishments".

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

### Sales figures grew again in commerce in the second half of 2021, especially in large stores.

subsectors, large stores saw a more generalised increase in sales (3 of every 4 large commercial establishments saw higher turnover volumes than one year earlier).

Among the factors limiting business activity, rising operating costs are an ever greater worry for businesses, indicated by 45% of retailers, compared with 20% in the previous half.

The trend in prices continued upwards, driven by the impact of limitations on supplies and rising commodity and transport prices. As for the labour market, the rate of decline in employment slowed in comparison with previous half-years despite the generalised removal of the ERTD

furlough scheme. Remember that from July 2021, these temporary employment support measures only focussed on a few sectors directly affected by restrictions or impediments to normal activity.

Businesses' views about the first half of 2022, expressed in the survey, maintain an optimistic stance. Retailers predict that business activity will continue to improve and anticipate an increase in the volume of sales in all branches of commerce.

## 2. The financial system

The sector of financial activities and insurance, with the banking system at its core, represents 12.3% of Andorran GVA, according to 2020 data. In the last year, this sector's value to the economy increased because it was not as affected by the pandemic as other activities in the services sector.

Financial activities and insurance are an important sector of the economy in terms of GVA, while in terms of employment they represent 4.7% of total employees (2021). The main business areas in the financial sector are private banking and asset management; retail banking, both for individuals and for businesses, and insurance.

According to official GDP data published by the Government, in 2021, financial, real estate, professional and technical activities saw an increase in GVA of 9.1%, contrasting with the 3.9% decline in 2020, which means that they exceeded pre-pandemic figures.

### AGGREGATE DATA FOR THE ANDORRAN BANKS

Table 12.5

Thousands of euros	2020	2021
Total assets	15,169,956	16,611,905
Gross lending	6,367,736	7,031,054
Assets under management	51,735,224	61,461,234
Profit/(loss)	83,609	97,419
ROE	5.46%	6.04%
ROA	0.55%	0.60%
Efficiency ratio (Cost to income ratio)	66.78%	68.35%
Default rate	4.49%	3.74%
CET 1 solvency ratio (phase-in)	18.00%	17.00%*
Liquidity ratio (Liquidity Coverage Ratio)	187.12%	206.06%**

\* European bank average according to EBA data: 15.40%.

\*\* European bank average according to EBA data: 174.70%.

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

In the last decade, the sector has had to address constant changes in regulations to adapt to international standards, both on tax transparency and in the sphere of combatting money laundering and terrorism financing, payment methods, and banking regulations in general. To these efforts is added their collaboration with the Government in the process of implementing measures to tackle the consequences of the pandemic, providing the necessary liquidity to guarantee the sustainability and development of the national economy.

Despite the change in business model seen in the banking sector over recent years, in 2021 the number of employees for the whole of the financial sector remained fairly stable at 1,765. The average wage in this sector, which is the highest for all sectors of the Andorran economy, reached about €4,760. As for the business network, there were 201

establishments, practically the same number as in 2019.

If we consider only the national banking institutions, the number of employees in 2021 for the whole Andorran banking system was 2,579, of which 1,337 work in Andorra (1,378 in 2020).

2021 was a year of recovery for the financial sector, leaving behind the economic consequences of the pandemic. Andorran banks ended 2021 with an aggregate profit of €97.4 million, close to the pre-pandemic level, and a volume of assets under management of €61,461 million, 18.8%

more than in 2020. Credit investment grew 10.4% to €7,031 million. This field of business includes 884 new mortgages which amount to a formalised total of €317.5 million, a figure that is well above the 2019 levels. Banking activity accelerated thanks to the reactivation

of tourism. The volume and number of transactions using national and International debit and credit cards reached values in the second half of 2021 that were higher than in 2019.

***In 2021, Andorran banks obtained pre-pandemic levels of profits and maintain good solvency and profitability ratios.***

2021 featured the acquisitions of BancSabadell d'Andorra by MoraBanc and Vall Banc by Crèdit Andorrà. On the one hand, MoraBanc acquired 50.97% of BancSabadell d'Andorra, now BSABanc, from Banc Sabadell for €68 million, and made an offer in 2022 to buy the shares of minority shareholders to complete the merger at the end of 2022. On the other hand, Crèdit Andorrà formalised the acquisition of 100% of Vall Banc on 11 February 2022. So, the core of the Andorran financial system, which is the banking system, will finally consist of three banking groups, Andbank, MoraBanc and Crèdit Andorrà. This concentration of the Andorran banks and the increase in average size of the entities should lead to a system that is more efficient, more internationally competitive and with a greater responsiveness to clients.

The sector has always been committed to the business fabric of this country, which became even more evident at the start of the health crisis, when the sector provided a programme of soft loans and loan deferments for the amount of €152 million and €122 million, respectively. On 31 July 2022, 30% of the soft loans had already been returned and the loan deferment period ended.

Andorran banks remain sound through the strong capitalisation of the institutions, with a CET1 (phase-in) solvency ratio of 17.0% on 31 December 2021, slightly below the previous year, when it was 18.0%, but above the average for European banks, which is 15.4% according to data from the EBA (European Banking Authority).

In 2021, the financial profitability of the institutions, measured by return on equity (ROE), recovered and presented a consolidated figure of 6.04% (5.46% in 2020), despite continued low interest rates. The liquidity coverage ratio (LCR) is 206%, also higher than the average for European banks, which was 174.7% at the end of the fourth quarter of 2021, and close to the 223% recorded in Andorra in 2019. Finally, the default rate dropped to 3.74% in 2021, down from 4.49% in 2020.

Overall, the figures confirm the strength of the banking sector when faced with the crisis, and the successful culmination of a highly demanding process of adopting European and international regulations which require greater provisions, among other matters, within the economic context of low interest rates and major investments in technology over recent years. This major investment in ICT was accompanied by increases in users of Andorran digital banking, by 18% in the period 2020-2021, and spectacular growth in users of mobile apps over the same period, by 24%.

The Moneyval reports, which highlight the great advances made by this country in anti-money laundering, acknowledge Andorra's commitment to combatting money laundering and terrorism financing.

***San Marino and Hungary sign agreements with Andorra to avoid double taxation and prevent tax evasion.***

Also 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.

Today, Andorra exchanges information with 95 jurisdictions.

## AGGREGATE - CONSOLIDATED BALANCE SHEETS OF ANDORRAN BANKS (thousands of euros)

Table 12.6

	2021	2020*
<b>Assets</b>		
Cash, cash balances at central banks and other demand deposits	2,214,663	2,111,218
Financial assets held for trading	335,068	348,424
Financial assets not held for trading that must be valued at fair value with changes in income	556,096	587,582
Financial assets at fair value with changes in the income statement	435,150	78,551
Financial assets at fair value with changes in the other comprehensive income	1,683,120	1,423,599
Financial assets at amortised cost	9,908,657	9,200,220
Derivatives - Hedge accounting	5,709	4,237
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	17,728	27,962
Investments in jointly-controlled businesses and associates	155,325	82,894
Assets covered under insurance and reinsurance contracts	38,404	36,827
Tangible assets	472,598	498,367
Intangible assets	417,172	425,468
Tax assets	56,813	48,374
Other assets	154,754	147,894
Non-current assets & disposal groups classified as held for sale	160,648	148,339
<b>TOTAL ASSETS</b>	<b>16,611,905</b>	<b>15,169,956</b>
<b>LIABILITIES</b>		
Financial liabilities held for trading	121,487	157,892
Financial liabilities at fair value with changes in the income statement	490,607	449,227
Financial liabilities at amortised cost	13,682,150	12,315,815
Derivatives - Hedge accounting	23,569	40,134
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	171	676
Liabilities covered under insurance and reinsurance contracts	339,306	339,681
Provisions	70,872	65,492
Tax liabilities	25,130	26,467
Other liabilities	188,607	188,778
Liabilities in groups of disposable items held for sale	1,508	-
<b>TOTAL LIABILITIES</b>	<b>14,943,408</b>	<b>13,584,160</b>
<b>NET EQUITY</b>		
Capital	250,069	245,470
Issue premium	172,792	142,391
Issued equity instruments other than capital	34,700	34,800
Other cumulative global profit/loss	(52,082)	(34,994)
Accumulated earnings	835,756	819,686
Revaluation reserves	2,288	2,288
Other reserves	316,548	275,893
Own shares (-)	(3,202)	(2,767)
Profit or loss attributable to owners of the Parent	97,419	83,609
Interim dividend (-)	-	-
<b>Shareholders' equity</b>	<b>1,654,288</b>	<b>1,566,375</b>
<b>Minority interests</b>	<b>14,210</b>	<b>19,421</b>
<b>TOTAL NET EQUITY</b>	<b>1,668,498</b>	<b>1,585,796</b>
<b>TOTAL LIABILITIES AND NET EQUITY</b>	<b>16,611,905</b>	<b>15,169,956</b>

\* The figures for 2020 are given for comparative purposes only.

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

In recent years, the Principality of Andorra has signed a series of double taxation agreements (DTA) with different countries, on income and corporate tax and to prevent tax evasion. In 2021, it signed agreements with the Republic of San Marino and Hungary. These two countries join the



other eight with which Andorra already signed DTAs: France, Spain, Luxembourg, Liechtenstein, Portugal, the United Arab Emirates, Malta and Cyprus.

On the other hand, on 4 December 2018, ECOFIN decided to consider Andorra a cooperative country. This was a milestone because the EU considers Andorra to be fully cooperative regarding tax matters.

In 2019, the 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, on the same conditions and irrespective of their location.

Moreover, in 2020, Andorra became a full member of the Council of Europe Development Bank (CEB), giving it access to a line of sovereign debt and various lines of finance for aspects such as health, education, environment or job protection.

***The IMF makes a positive evaluation of the capitalisation of Andorran banks.***

In 2020, Andorra became the 190th member of the International Monetary Fund (IMF), providing credibility and improving the country's rating, offering a safety net in extreme circumstances where there is a lack of funding in the market, and providing the support of specialist expert advisers in areas as diverse as macroeconomic statistics and financial supervision.

In the IMF's declaration, published on 20 June 2022, the body highlighted that Andorran banks are well capitalised, have a high level of liquidity and have reduced the default rate. Equally, as in many other small countries with a large banking sector, the vulnerabilities associated with the private banking model and internationalisation strategy, including excessive dependence on foreign finance and major assets off the balance sheet under management, require close supervision. Reinforcing liquidity supervision and providing the Andorran Financial Authority (AFA) with greater financing and funds would help towards this. The institution also highlighted that the ongoing consolidation of the banking system could improve the profitability of the system, but should not lead to less competition.

***Standard & Poor's and Fitch improve their ratings for Andorra to BBB+ and A-, respectively.***

As for Andorra's sovereign rating, the rating agencies Standard & Poor's and Fitch Ratings revised their outlooks from stable to positive in their respective notes published in January 2022. Equally, in July 2022, Fitch Ratings

reassessed the country with the best rating since it started to rate the Principality in 2015. The agency rated it as A- with a stable outlook, higher than the last rating of BBB+. The factors that lead to this improvement are the resilience of public finances and the strong economic recovery through the rebound in tourism. Moreover, the agency predicts that from 2022, the Government's fiscal balance will become a surplus, and rates positively the financial diversification of Andorra's debt and the task carried out since joining the IMF in October 2020, with new statistical data and the publication of the balance of payments. Moreover, it considers that the Andorran economy has been well insulated from the effects of the war in Ukraine, so the inflation forecast is lower than for the Eurozone countries.

For its part, Standard & Poor's rating agency (S&P) also improved its assessment of Andorra and put it at BBB+/A-2 with a stable outlook, the best rating from the agency for Andorra since 2014. In the July 2022 report, the assessors highlighted that the improvement reflects Andorra's economic and budgetary recovery since 2021 and the strong momentum in growth over the



## AGGREGATE - CONSOLIDATED PROFIT AND LOSS ACCOUNTS OF ANDORRAN BANKS (thousands of euros)

Table 12.7

	2021	2020*	% var. 21/20
Interest income	145,400	149,776	(2.92%)
Interest expenses	(38,116)	(48,851)	(21.98%)
Dividend income	3,727	455	N/A
<b>INTEREST MARGIN</b>	<b>111,012</b>	<b>101,379</b>	<b>9.50%</b>
Commissions earned	439,576	400,447	9.77%
Commissions paid	(125,935)	(109,203)	15.32%
<b>BASE MARGIN</b>	<b>424,652</b>	<b>392,623</b>	<b>8.16%</b>
Gains or losses on derecognition of financial assets and liabilities not measured at fair value with changes in income (net)	10,482	49,924	(79.00%)
Profit or loss from entities valued by the equity method	-	486	-
Profit or loss from financial transactions	104,168	81,447	27.90%
Profit or loss on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	29,378	27,432	7.10%
Other operating expenses	(15,997)	(9,935)	61.01%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	982	899	9.23%
<b>OPERATING PROFIT OR LOSS (NET)</b>	<b>553,665</b>	<b>542,874</b>	<b>1.99%</b>
Administrative expenses	(378,427)	(362,512)	4.39%
Staff costs	(233,507)	(221,283)	5.52%
Other general administrative expenses	(144,920)	(141,230)	2.61%
Amortisation	(65,686)	(63,963)	2.69%
Provisions funded (net)	(24,729)	2,606	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	11,438	(1,390)	N/A
Net impairment of investments in joint ventures or associates	(47)	140	N/A
Net impairment of non-financial assets	(9,551)	(20,854)	(54.20%)
Negative goodwill recognised in profit or loss	11,794	-	-
Share of the profit or loss of investments in subsidiaries, joint ventures and associates	4,743	3,220	47.32%
Profit or loss from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	788	2,546	(69.03%)
<b>PROFIT OR LOSS BEFORE TAX</b>	<b>103,989</b>	<b>102,667</b>	<b>1.29%</b>
Corporate tax	(5,683)	(15,711)	(63.83%)
<b>PROFIT OR LOSS FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>98,306</b>	<b>86,956</b>	<b>13.05%</b>
Profit or loss from discontinued operations (net)	143	(735)	N/A
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>98,449</b>	<b>86,221</b>	<b>14.18%</b>
Attributable to owners of the parent entity	97,419	83,609	16.52%
Attributable to minority interests	1,030	2,612	(60.57%)

\* The figures for 2020 are given for comparative purposes only.

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

first half of 2022, especially in tourism. The report also evaluated positively the creation of international reserves by the Andorran Government and highlighted the importance of achieving the Association Agreement with the European Union.

Finally, we should add that Moody's evaluated the Principality of Andorra for the first time on 4 February 2022, with a Baa2 rating and stable outlook.

### 3. Tourism

According to the official GDP figures, in 2020 (latest available data) the hotels and catering sector represented 6.3% of Andorran GVA, two points less than in 2019, due to the health crisis caused by SARS-CoV-2. Despite the fact that tourism's direct percentage of GVA is not high, its indirect impact is much higher, as it strongly influences other sectors, such as commerce and leisure and sporting activities, which greatly depend on foreign visitors.

The tourism sector, having played a major role in Andorran economic growth over recent years, faced an especially complicated situation in 2020 and 2021 due to the health crisis. In 2020, the number of visitors plummeted 37% and only recovered 4.1% in 2021, to 5.4 million, so the number of visitors is still 34% lower than in 2019 (when it was 8.2 million). As international restrictions on movement were lifted in 2021, activity revived to some extent over the summer and winter 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 due to the various waves of the virus.

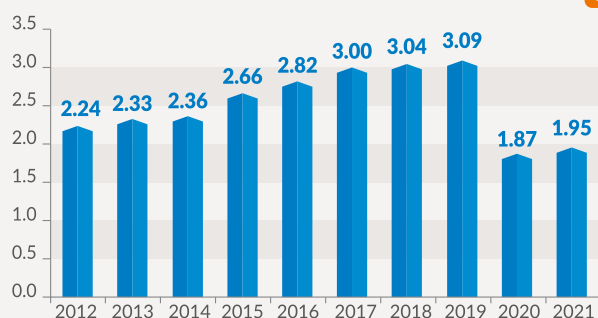
**Despite the increase in numbers of visitors in 2021, the figure is still 34% smaller than in 2019.**

By types of visit, variation rates in 2021 were very similar. So, the number of same-day visitors, who only spend a day in the country without staying the night, increased 4.2% since 2020, to 3,473,567; while the number of tourists, who spend at least one night, saw a similar increase, of 4.1%, reaching 1,948,848. These data represent a very small recovery from the steep falls in 2020. In the case of same-day visitors, the figure is far from the 5.1 million who came in 2019, and the figure for tourists is also far from the more than 3 million who travelled to Andorra in 2019.

As for nationalities, the numbers of French tourists increased much more than the Spanish (23% compared with 5%). The percentage of French tourists has therefore grown, from 16% of the total in 2020 to 19% in 2021. The major restrictions adopted in France during the pandemic may partly explain this trend. For its part, the percentage of Spanish tourists remained around 71% of the total, while tourism from other countries fell from 13% to 9%. Restrictions on movement and health controls meant that in 2021, the number of tourists from afar continued to fall (-26%). In contrast, in the case of same-day visitors, the trends by nationality were the opposite. Those of Spanish nationality increased 7.5%, those from other countries almost doubled, whereas French same-day visitors decreased 1.7%, while still being the source of most same-day visitors with 60% of the total. Note that the French market is characterised by a remarkably high level of seasonality, with a predominance of same-day visitors 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.

**TREND IN TOURISTS 2012-2021**  
(millions)



Source: Department of Statistics.

**In 2021, the numbers of French tourists increased more than the Spanish.**

The final balance by nationalities shows a stronger recovery in total Spanish visitors (6.2%) than French visitors (1.5%), so the number of Spanish again exceeded the number of French, according to tradition, after equalling in the previous year.

## TOTAL VISITORS BY NATIONALITY

Table 128

		2020	2021	% var. 21/20	% total 2021
Total visitors	Spanish	2,425,757	2,576,379	6.2	47.5
	French	2,426,615	2,462,957	1.5	45.4
	Others	354,260	383,079	8.1	7.1
Tourists	Spanish	1,326,519	1,394,313	5.1	71.5
	French	307,528	379,042	23.3	19.4
	Others	237,536	175,493	-26.1	9.0
Same-day visitors	Spanish	1,099,238	1,182,066	7.5	34.0
	French	2,119,087	2,083,915	-1.7	60.0
	Others	116,724	207,586	77.8	6.0
TOTAL VISITORS		5,206,632	5,422,415	4.1	100.0

Source: Department of Statistics.

Despite the small increase in tourists recorded in 2021, the number of overnight stays continued to shrink for the second consecutive year (-12.8% in 2021 and -34.8% in 2020), resulting in a historic low of just over 5 million overnight stays in 2021, far from the more than 8 million on average counted in the five years before the pandemic. This means that the average overnight stay has shrunk from 3.1 days in 2020 to 2.6 days in 2021. The number of overnight stays decreased in all types of accommodation except campsites, where they increased 49%. The steepest falls were in hotels (-12%) and aparthotels (-23%) – a category that includes holiday apartments. Although this trend was negative, hotels and aparthotels are the types of establishment with the highest percentage of overnight stays, 55% and 16%, respectively. In the case of friends' or family's homes, the decline was 14%, and in the case of own homes or rented homes the fall was 38%.

**The number of overnight stays continued to shrink despite the small increase in tourists recorded in 2021.**

**In 2021, the number of employees in hotels and catering was 29% lower than in 2019.**

The moderately positive trend in tourism did not prevent the decline in employment for the second consecutive year. Specifically, the number of employees in this sector decreased 15.9%, to 3,640, the lowest figure since 1993.

The fall is added to that of 2020, of a similar size, making employment in 2021 29% lower than the figure in 2019. This trend highlights the fact that the ERTO furlough scheme, despite being a key instrument to contain the negative impact of the pandemic on employment, was not enough to prevent a significant decline in jobs in the sector. Wages also fell slightly (-0.9%) due to the context of crisis in the sector. The number of accommodation establishments remained stable at 363 and the number of catering establishments only fell by three, to 668. In line with the different rate of recovery in the two fields of tourism, electricity consumption (only FEDA data) increased 8.8% in hotels and catering, but fell 12.3% in the ski resorts due to the bad 2020-2021 season.

The number of passes sold (ski days) and days that ski resorts are open are good indicators for calculating activity linked to skiing during the winter months. The 2021-2022 season was positive despite the difficulties, and this enabled the ski resorts to obtain results comparable with the pre-pandemic seasons. The Andorran ski resorts opened 137 days (compared with 93 days in the previous season), with a total of 2,362,482 ski days sold (contrasting with the meagre 304,438 in the 2020-2021 season). This figure represents only 3% fewer ski days than in the 2018-2019 season, the last that was unaffected by COVID-19. As for the different markets, the resorts

**The number of ski days in the 2021-2022 season more or less regained the levels of the 2018-2019 season.**

coinciding with the easing of some restrictions on international travel, a recovery in the British market was noted, which reacted very quickly and exceeded expectations. In contrast, the armed conflict in Ukraine led to cancellations by Ukrainian tourists and also Polish. Russian tourism was already virtually non-existent in the last couple of years.

In this context, the rate of investment in improvements to equipment and installations at the ski resorts also recovered. In 2021, investment was €11.2 million, a higher figure than the €8.85 million in 2020 but still lower than the €16 million invested in 2019.

At Grandvalira Resorts, the final balance for the 2021-2022 season was very positive. On the one hand, Grandvalira sold 1,722,991 ski days, only 1.6% less than in the 2018-2019 season, and saw the average client profile improve. On the other hand, Ordino Arcalís achieved 148,000 ski days but did not regain 2018-2019 figures because it was affected by closures due to the weather at key moments in the season. Grandvalira Resorts' revenue was also greatly impacted by the new dynamic price strategy implemented this season, which boosted the resort's own online channels and rewarded advance bookings with discounts. As a consequence, sales on the website and apps increased 137% in the case of Grandvalira and 123% in the case of Ordino Arcalís, compared with the 2018-2019 season.

The season at Vallnord-Pal Arinsal closed with 491,491 ski days sold and an increase in revenue of 2% compared with 2018-2019. Direct client sales offset the 20% decrease in tour operator turnover. Equally, the restaurants achieved record results at this resort.

Among the novelties of the 2021-2022 season was notably the new L'Abasset at Grandvalira, which opened on 28 December 2021 with the aim of becoming the benchmark in European apres-ski for lovers of electronic music. On the other hand, the big international competitions returned to the Andorran ski resorts this season, notably the alpine skiing Europa Cup Finals at Grandvalira, held between 14-20 March, in which more than 200 competitors from 34 countries took part. Moreover, this event served as a test for the finals of the 2023 World Cup, to be held from 13-19 March in the Principality. For its part, Ordino Arcalís also experienced some great moments in international competitions with the Freeride World Tour, the most important international off-piste circuit which has made a stop at the Andorran resort for the last eight years,

are very pleased with nearby markets such as Spain and France, especially the excellent behaviour of the Spanish market, which partly offset the shortage of international clients. On the other hand, after the Christmas period and

**PASSES/DAY SOLD BY SEASON**

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
2021 - 2022	2,362,482	676.0

(\*) 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.

Table 12.9

and the Borrufa Trophy. At Vallnord-Pal Arinsal, the most notable sports event was the ISMF Comapedrosa Andorra World Cup.

Among the developments in business, note the process of integrating the Vallnord-Pal Arinsal resort into Grandvalira Resorts. To achieve this goal, the new company SETAP365 was officially incorporated on 30 December 2021, combining EMAP and ENSISA. This transaction is the first step towards marketing a single national ski pass for the 2022-2023 season. This alliance unifies Andorra's offering as a country of snow and mountain activities for 365 days a year and gives access to a total of 303 km of ski pistes, placing the country among the top European destinations for ski area.

The spa, Caldea, after a successful five-year trend of constant growth in the main business indicators and celebrating its 25 years in 2019, has experienced its most complex moments over

***In 2021, Caldea saw negative results for the second consecutive year, but expects a total recovery in 2022.***

the last two years. In the first half of 2021, the strict rules to contain the spread of the virus stopped all movement of tourists into Andorra and forced it to close a many of the areas; but by the second half and as restrictions were eased, business already revived fast and to the point

that the company exceeded pre-pandemic revenue in this period. Nevertheless, the impact of the pandemic on 2021 results was very significant. In 2021, there were 233,794 visitors, 13% more than in 2020, but still far from the 400,808 visitors in 2019. This steep decline in tickets affected turnover, which went from €15.8 million in 2019 to little more than €9 million in 2020 and €11.4 million in 2021. Faced with the loss of turnover due to the pandemic, the company implemented cost containment, suspended its investment plan and implemented the ERT0 furlough scheme, allowing it to slightly reduce the negative impact on net profits (losses of €2.3 million in 2020 and also in 2021, contrasting with the profits of nearly €650,000 in 2019).

2022 could be the year that the COVID-19 crisis is finally overcome as, since the summer of 2021, activity at Caldea has been very similar to before the pandemic. In fact, the company ended the 2021-2022 winter season with an increase in sales of nearly 8% compared with the 2018-2019 season, and expects to surpass the 2019 figures with a positive result of more than one million euros by the end of 2022. For the next few years, Caldea will assume a new dynamic, with an ambitious roadmap to renovate the most outdated installations and to build a hotel in the tower, designed to offer long-stay retreats.

The Ice Palace also presented a recovery in volumes of turnover in 2021, with better figures than in 2020. Operating income increased 43% against 2020, to reach turnover of €751,109, and operating expenditure increased 22%. All activities saw a significant rise in turnover, but the ice rink is what generated most income (€424,576, 23% more than in 2020). However, the notable increase in operating expenditure due to rising energy costs and taking on the management of the restaurant and its costs caused it to end 2021 with a deficit of €725,913. On the positive side, note that self-financing grew to 52% (of every €100 spent by the Ice Palace, 52 could be paid from the revenue generated), when this percentage was only 44% in 2019. To attract new visitors and make the installation viable, the Ice Palace is working on a proposal to convert the swimming pool into an aquatic park, and also to build a padel tennis court, an indoor climbing wall and a climbable tree outside.

Naturland, the ecological theme park at Camp de la Rabassa, obtained record income in both the summer and winter seasons. For the summer season, the best figures recorded until now were those in 2019, and turnover in 2021 exceeded these by 1.5%. In relation to the same figures for 2020, the difference is even greater, as they rose 27%. Average spending per client rose 45%

in comparison with 2020 and 68% compared to 2019. This meant the best summer revenue in the history of Camprabassa. Remember that the summer season (July, August and up to mid-September) represents 53% of turnover for the whole year.

**Naturland achieved record income in the summer and winter seasons.**

As for the winter season, Naturland's figures show that the benchmark season, 2018-2019, was surpassed by 41%. This is the best winter in terms of turnover in the history of the company, and was achieved thanks to the diversification and better promotion of the products. The result was an increase in the price of the average client ticket, which went from €21.59 (2018-2019 season) to the current €49.98, 131% more. However, the number of visitors was smaller, specifically 38%, although at some weekends, Christmas days and Easter Week, the installations were full. This was also linked to the strategy to limit the number of people in order to improve the service, which helped reassure clients that they would have a better experience in the activities. La Rabassa-Naturland ski resort opened for a total of 134 days (compared with 118 days in the previous season). The ski resort (ski hire, school, tickets) saw 62% more turnover than the 2018-2019 season. The number of skiers practically doubled as did the ski days, going from 2,345 to 4,730 in the latter case. Finally, note that from 2022, Naturland will be the headquarters of La Granja Andorra Pirineus, a centre for training emotional skills in students, either children or adults, through the La Granja© method.

As for the events that were held in Andorra in 2021 to attract tourism, we would highlight the Tour de France, the Spartan Race Andorra, the Jambo Street Music and the Ironman 70.3, among others. In the summer of 2021, the first Andorra Mountain Music festival was held at the foot of the Avet de Grandvalira slope, and another was held in winter with a line-up of well-known artists. On the other hand, the Cirque de Soleil show could not be held, for the second consecutive year, but returned in July 2022 with the show MŪV.

Finally, we must mention the construction of the new casino in Andorra, which will open its doors in January 2023 under the name Unnic and offer 20% gambling and 80% leisure (music, art, gastronomy, shows, etc.). With an investment of €33 million, it is expected to create 200 direct and 500 indirect jobs. This project aims to attract tourists from neighbouring countries and also from further afield, such as the Asian market.

## The supply of accommodation shrank due to falling demand.

### NUMBER OF BEDS IN TOURIST ACCOMMODATION BY TYPE

Table 12.10

	2020	2021	% var. 21/20	% total 2021
Hotels	26,564	26,190	-1.4	83.9
Hostals / residencies	381	295	-22.6	0.9
Pensions	250	213	-14.8	0.7
Aparthotels	2,554	2,537	-0.7	8.1
Holiday apartments	1,768	1,976	11.8	6.3
<b>Total</b>	<b>31,517</b>	<b>31,211</b>	<b>-1.0</b>	<b>100</b>

Source: Department of Tourism / Department of Statistics.

The impact of COVID-19 on the tourism sector resulted in a reduction in the accommodation supply. The number of tourist accommodation establishments went from 230 in 2019 to 225 in 2020 and 216 in 2021, and the number of beds has decreased cumulatively by 3.4% since 2019; in 2021, there were 31,211 total beds. Of these tourist accommodations, 159 are hotels, 19 apart-hotels, 9 hostals or residencies, 5 pensions and 24 holiday apartments. On the other hand, there are also 129 establishments in the other tourist accommodation category, notably 83 companies managing housing used for tourism (EGHUT), representing 2,593 units of housing used for tourism (HUT), 28 mountain huts, 5 campsites, 1 camping area, 1 summer camp, 2 hostels and 9 rural accommodations.

## TOURIST ACCOMMODATION SUPPLY BY PARISHES

Table 12.11

	2020		2021		% var. 21/20		% total 2021	
	Estab.	Beds	Estab.	Beds	Estab.	Beds	Estab.	Beds
Canillo	44	6,814	43	6,742	-2.3	-1.1	19.9	21.6
Encamp	49	5,440	47	5,343	-4.1	-1.8	21.8	17.1
Ordino	24	1,819	24	1,920	0.0	5.6	11.1	6.2
La Massana	36	5,228	35	5,110	-2.8	-2.3	16.2	16.4
Andorra la Vella	32	5,798	31	5,901	-3.1	1.8	14.4	18.9
Sant Julià de Lòria	8	776	8	771	0.0	-0.6	3.7	2.5
Escaldes-Engordany	32	5,642	28	5,424	-12.5	-3.9	13.0	17.4
<b>Total</b>	<b>225</b>	<b>31,517</b>	<b>216</b>	<b>31,211</b>	<b>-4.0</b>	<b>-1.0</b>	<b>100</b>	<b>100</b>

Note: Data on 31 December of relevant year.

Source: Department of Tourism / Department of Statistics.

**In 2021, there are nine fewer tourist accommodations, of which seven are hotels.**

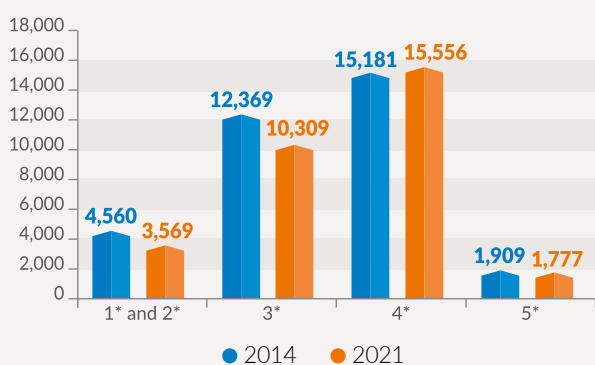
In 2021, there was a reduction of seven hotel establishments, one aparthotel building, one hostel and one *pension*, but a new holiday apartment building was opened. In total, there are 216 tourist accommodations, nine less than

in 2020. 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 (26,190 in 2021). The number of beds in aparthotels reached 2,537, and 1,976 in holiday apartments. Among the other types of accommodation, beds in housing used for tourism predominate, 12,323 in 2021 (12% less than in 2020). 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. Moreover, the Law on urgent measures for urban leases in 2020 approved exemptions for renovating housing when put on the rental market. This meant that several hotels, aparthotel buildings and holiday apartments are converted into rental flats.

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.

### TREND IN THE NUMBER OF BEDS BY CATEGORY OF TOURIST ACCOMMODATION

Chart 12.6



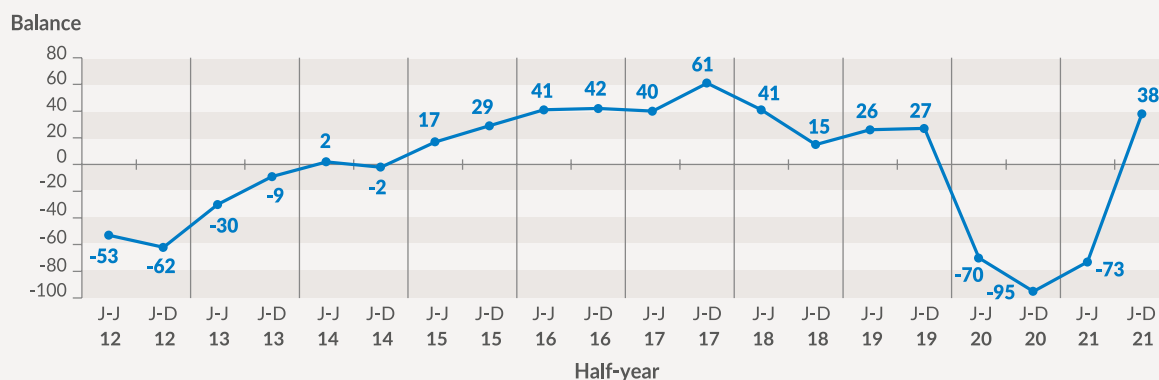
Source: Department of Tourism / Department of Statistics.

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 16%), and also in the central parishes (Andorra la Vella 19% and Escaldes-Engordany 17%). In Sant Julià de Lòria (2.5%) and Ordino (6.2%), despite having important infrastructures, the distance between the town centres and the infrastructures reduces the “foot of the slopes” effect. In 2021, the number of beds decreased in most parishes except Ordino and Andorra la Vella. The most significant declines were seen in Escaldes-Engordany (-3.9%) and La Massana (-2.3%). As



## 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.

for the number of establishments, the reduction was spread throughout the parishes, but the most affected was Escaldes-Engordany with four fewer establishments.

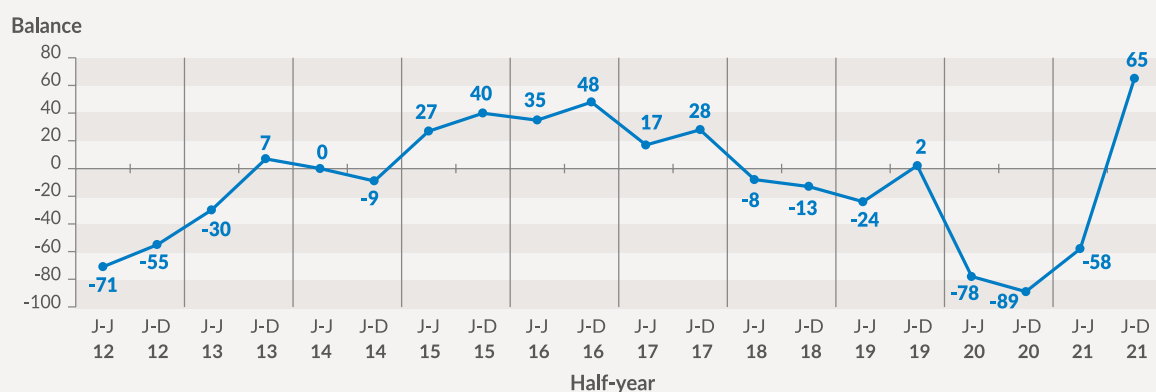
As for categories of tourist accommodation, the only category that increased the number of beds in 2021 was 4-star (1.2% more than in 2019). If a long-term analysis is made, it indicates that the beds included in the higher category (4 and 5 stars) went from 50% of beds offered in 2014 to 56% in 2021, an unmistakable 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 lower categories (1 and 2 stars) has lost importance in recent years and they only represent 11% of total beds.

**The number of beds in 4-star establishments increased.**

As for activity in the hotel sector, the results of the Chamber's business climate surveys show an appreciable recovery in activity in 2021, in the form of a year-on-year increase in turnover per establishment of 7.9% on average, a rate of growth that, despite being the most moderate of the four analysed sectors, represents a major improvement after the unusual downturn recorded in 2020 (-50.8%).

## 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.



In this context, businesses' opinions about business activity in the second half of 2021 show the most optimistic scenario since the start of the pandemic, with 48% of businesses defining business as good, compared with 10% of hotels that gave a negative assessment.

Geographically speaking, the improvement in business activity was noted in the central parts of the country - with a higher concentration of commerce - but also more strongly in outlying parishes that are more oriented towards nature and mountain tourism. The only exception was the parish of Encamp with slightly lower results.

The average level of occupancy saw a major rebound in the second half of 2021, in interannual terms. Now, it cannot be ignored that such a notable correction can largely be explained by the fact that the sector started at very low levels, after accumulating three consecutive half-years of steep falls.

### The level of hotel occupancy rebounded in the second half of 2021.

Hotel businesses also indicate that sales prices increased overall and the number of employees followed an upward trend after two half years

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

Table 12.12

		2019			2020			2021		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
<b>1. Business activity</b> (reviewed half-year)	Good	40	36	38	13	0	7	8	48	28
	Normal	46	55	51	4	5	5	11	43	27
	Bad	14	9	12	83	95	89	81	10	46
	<b>Balance</b>	<b>26</b>	<b>27</b>	<b>27</b>	<b>-70</b>	<b>-95</b>	<b>-83</b>	<b>-73</b>	<b>38</b>	<b>-18</b>
<b>2. Average distribution of clients (%)</b> (reviewed half-year)	Catalonia	36	40	38	37	32	35	34	44	39
	Rest of Spain	22	25	24	24	16	20	26	23	25
	France	22	19	21	24	36	30	30	22	26
	Others	20	16	18	15	16	16	10	11	11
<b>3. Level of reservations</b> (reviewed half-year)	High	6	11	9	4	0	2	3	19	11
	Adequate for period	50	66	58	13	0	7	9	56	33
	Low	38	21	30	83	100	92	80	23	52
	Reservations not taken	6	2	4	0	0	0	9	2	6
	<b>Balance</b>	<b>-32</b>	<b>-10</b>	<b>-21</b>	<b>-79</b>	<b>-100</b>	<b>-90</b>	<b>-77</b>	<b>-4</b>	<b>-41</b>
<b>4. Average level of occupancy</b> (compared with same half-year in previous year)	Higher	16	31	24	9	3	6	11	75	43
	Equal	44	40	42	4	6	5	20	15	18
	Lower	40	29	35	87	92	90	69	10	40
	<b>Balance</b>	<b>-24</b>	<b>2</b>	<b>-11</b>	<b>-78</b>	<b>-89</b>	<b>-84</b>	<b>-58</b>	<b>65</b>	<b>4</b>
<b>5. Prices paid by clients</b> (compared with previous half-year)	Higher	18	11	15	25	0	13	22	60	41
	Equal	61	64	63	50	23	37	42	28	35
	Lower	20	25	23	25	77	51	36	12	24
	<b>Balance</b>	<b>-2</b>	<b>-14</b>	<b>-8</b>	<b>0</b>	<b>-77</b>	<b>-39</b>	<b>-14</b>	<b>48</b>	<b>17</b>
<b>6. Number of employees</b> (compared with same half-year in previous year)	More	11	19	15	13	6	10	8	40	24
	Same	78	77	78	50	25	38	42	43	43
	Less	11	5	8	38	69	54	50	18	34
	<b>Balance</b>	<b>0</b>	<b>14</b>	<b>7</b>	<b>-25</b>	<b>-63</b>	<b>-44</b>	<b>-42</b>	<b>22</b>	<b>-10</b>

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

of steep decline. As for the factors limiting business activity, increased operating costs became the main obstacle – 7 of every 10 establishments quoted this – followed by the shortage of qualified workers – a problem that has been on the up and concerns almost 6 of every 10 hotels.

***Catalonia is still the main source of visitors, with 44% of travellers in the second half of 2021.***

As for the distribution of clients per country of origin, Catalans are still the main clients, representing 44% of the total in the second half of 2021, followed by clients from the rest of Spain, representing 23%. For their part,

French travellers went to third place in the ranks, with 22% of total clients, ahead of clients from other more distant destinations, which represented 11% of the total.

In relation to the first half of 2022, the hotel sector's predictions for the trend in business activity and the average level of occupancy are fairly optimistic and suggest a continued reactivation of tourism, which will continue to receive an impetus from its traditional markets, Spain and France.

As for legislation, on 9 June 2022 the General Council passed Law 19/2022 regulating the tax on stays in tourist accommodation. This tax is charged on stays, by day or parts thereof, overnight or not, made by taxpayers at any tourist accommodation regulated by current tourist accommodation legislation, for an amount of between 1 and 3 euros per day and person, based on the type of tourist accommodation, except campervan sites. Revenue from the tax is destined for the Tourism Promotion Fund, with goals that include promoting tourism in the Principality of Andorra, protecting and improving tourism resources and developing infrastructure and services related to tourism. The new tax will come into force on 1 July 2022.

#### 4. Transport and communications

This sector is divided into two branches of activity. The first is transport and storage, representing 1.8% of Andorran GVA (2020), and the second is information and communications, with 3.8% of GVA (also in 2020). In terms of employment, the transport sector (including overland and air transport and related activities, including travel agencies) represents 2.3% of total employees, with 858 people, and the sector of telecommunications and mail only 0.8%, with 306 people (2021 data).

Employment in the sector of transport and communications as a whole fell for the second consecutive year after reaching the highest figure in the historical series in 2019. In 2021, there were 1,164 employees in this sector, 8.5% fewer than in 2020, when the decline was 4.2%. The 2021 decline can be explained, on the one hand, by the branch of transport, which saw a reduction of 10.9%, greatly affected by falling tourism and, on the other hand, by the branch of telecommunications and mail, which saw a decline of only 1.1%. In the latter sectoral branch, this is the fourth consecutive year in which the number of workers fell.

***The number of employees in the sector of transport and communications fell 8.5% in 2021.***

The rapid recovery in the sector of overland transport and the shortage of staff have pushed the average wage up in this branch (5.4%), while the average wage shrank in the other activities in the sector of transport and telecommunications, the opposite of what happened in 2020.

In 2021, the number of establishments in the sector of transport and storage remained practically stable at 256. In contrast, the number of establishments dedicated to information and communications increased from 533 in 2020 to 712 in 2021. These 179 new establishments are basically engaged in

## VEHICLE REGISTRATIONS (units)

Table 12.13

	2018	2019	2020	2021	% var. 21/20	% total 2021
Cars	3,265	3,117	2,496	3,083	23.5	70.5
Motorcycles	751	788	767	854	11.3	19.5
Vans	332	330	208	254	22.1	5.8
Lorries <sup>(1)</sup>	85	107	65	52	-20.0	1.2
Special vehicles	54	52	37	46	24.3	1.1
Mopeds	14	11	6	7	16.7	0.2
Snow bikes	18	39	14	9	-35.7	0.2
Others <sup>(2)</sup>	89	75	83	71	-14.5	1.6
<b>Total</b>	<b>4,608</b>	<b>4,519</b>	<b>3,676</b>	<b>4,376</b>	<b>19.0</b>	<b>100.0</b>

(1) Also includes buses, semi-trailers and industrial trailers. (2) Consisting of private trailers and farm tractors.

Source: Department of Transport.

information technology services (147 more) and, to a lesser extent, activities in cinematography, video and television programmes, or sound recording and music editing activities (34 more establishments than in 2020).

**In 2021, there were 147 more establishments dedicated to ICT than in 2020.**

### The number of vehicle registrations practically regained 2019 figures.

In 2021, vehicle registrations recovered after a pretty negative year in 2020. In total, 4,376 vehicles were registered, a figure that is only 3.2% lower than that of 2019. By type of

vehicle, car registrations, which are 70.5% of total registered units, increased 23.5% compared with 2020. Motorcycles are the second largest category of vehicle registrations (19.5%) and these increased 11.3% in 2021, exceeding the pre-pandemic figures. Among the vehicle categories related to economic activity and business investment plans, van registrations increased (22%) and special vehicles (24%), but lorries decreased (-20%). The number of snow bike registrations also fell (-36%) due to the poor 2020-2021 ski season.

This increase in registrations meant that the total number of registered vehicles increased 2.3%. Per 1,000 inhabitants (estimated population), there are 1,171 units including all vehicles, and 790 counting only cars. This means that on average there are more vehicles than residents of this country.

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). In 2021, registrations of eco-friendly vehicles greatly increased, added to the increase in 2020 after the decline in 2019 due to the reduction in Engega Plan grants. Specifically, 130 100% electric vehicles were registered (in contrast with the 82 in 2020 and 53 in 2019) and 519 plug-in and non-plug-in hybrid vehicles (a much higher figure than the 276 in 2020 and 77 in 2019). These two categories of vehicle already represent 15% of total registrations, while in the period 2016-2019 they did not reach 5% on average. The Government aims for 20% of cars to be run on renewable energy by 2030, and 50% by 2050, according to the document containing Andorra's nationally determined contributions (NDCs) to combat climate change, which Andorra

**In 2021, the number of electric and hybrid vehicle registrations took off, already 15% of registered units.**

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## Box 12.2

## ENGEA PLAN

The first Engega Plan 2016-2018 produced very good results. Investment rose to a total of €3.1 million and already in the first year, registrations of electric and hybrid cars shot up to 211 units, with a continuing trend in 2017 (215 registrations) and 2018 (222 registrations).

The second cycle of the Engega Plan 2019-2021 had total funds of €750,000 for 2019, €500,000 for 2020 and €750,000 for 2021. The total of authorised grants in the 2019-2021 Engega Plan was €1,634,986.

The grant conditions within the 2021 Engega Plan were:

- **Grants to purchase electric vehicles:** €8,000 for a pure electric vehicle with extended autonomy; €4,000 for a plug-in hybrid vehicle; €1,500 for a pure electric motorcycle, and €13,000 for a pure electric van or truck. The maximum grant is 35% of the vehicle value. Maximum price requirements for accessing the grant to import the vehicle are established: €50,000 for a pure electric vehicle with extended autonomy or a plug-in hybrid vehicle; €7,000 for a pure electric motorcycle, and €65,000 for a pure electric van or truck.
- **Scrappage grants:** €1,000 for car scrappage and €1,500 for scrappage of a van or truck (at least 15

years old) associated with the purchase of an electric or energy-efficient car. Grants are also offered for scrappage of a vehicle without a purchase (€500 for a car and €750 for a van or truck).

- **Grants offered at the sale point:** for the purchase of a four-wheeled vehicle the grant is €1,000 and €250 for a motorcycle. For the scrappage of a vehicle associated with the purchase of an energy-efficient vehicle, the grant is €1,000 for either a car or a van or truck.

The balance of the 2021 Engega Plan was quite positive: 197 grants were awarded (94 more than the previous year), 115 to purchase electric cars and 82 scrappage grants, of which 54 were for the new line of scrappage without a vehicle purchase and 28 more were associated with the purchase of electric or energy-efficient vehicles. The amount granted exhausted the available €750,000.

The call for applications for the 2022 Engega Plan increases the budget to €800,000 due to strong demand. As a new feature since the 2021 Engega Plan, categories of vehicles are added and the grant to purchase of a plug-in hybrid car which will be based on the CO2 emissions of the engine.

sent to the United Nations to comply with the commitments undertaken in the Paris Agreement. After six years of implementing the Engega Plan, Andorra stands among the top 5 European countries for sales of electric vehicles, according to the Government.

In the field of international transport, note the arrival of the first regular commercial flight to Andorra-La Seu d'Urgell airport from Madrid on 17 December 2021, by the regional company Iberia Air Nostrum, which makes two journeys each week (Fridays and Sundays).

As for the communications branch, in 2021, the number of mobile phone subscriptions increased greatly (9.8%), reaching a historic high of 93,792 and recovering the positive dynamic that had been interrupted in 2020. The number of land line subscriptions also increased 2.4%, to 49,769 lines. On the other hand, there are 39,399 fibre optic lines, representing an increase of 4.6% compared with 2020 and also the highest in the historical series. The ratio of broadband internet lines per 100 inhabitants grew slightly to 50 and the ratio of mobile phones per 100 inhabitants rose to 118, meaning that there are more mobiles than inhabitants in Andorra.

***In 2021, there was a record number of mobile phone subscriptions and fibre optic connections.***

As for the trend in telephone traffic, in 2021, unlike in 2020, national land line traffic minutes decreased (-17%), as did mobile network traffic (-3.3%). Equally, international incoming and outgoing traffic continues to decrease, following the pattern of recent years. For its part, fibre optic internet telephone traffic maintains high rates of growth (5.5% national and 22% international), and national mobile internet traffic also grew significantly (56%).

The Council of Europe Development Bank has granted a loan of eight million euros to Andorra to promote the digital transformation of the public administration and national businesses. The business plan consist of three stages: digital assessment platform at no cost to the companies; followed by a personalised assessment with non-returnable grants, and finally, the concession of soft loans to introduce digital solutions. The Chamber of Commerce, Industry and Services will collaborate in the deployment of the plan together with Andorra Business and Andorra Digital.

### Box 12.3

## THE MAIN ACTIONS TAKEN BY ANDORRA TELECOM IN 2021

Andorra Telecom ended 2021 with notably better results than in 2020 and better budgetary provisions for the year. The positive trend in activity in the last half offset part of the impact of the entry restrictions for tourists due to the COVID-19 pandemic in the first four months of the year. The increase in domestic turnover and the reduction in expenditure brought operating revenue up to €22.8 million, much higher figures than in 2020.

Revenue from roaming was greatly affected by the downturn in tourism in the first few months of the year and saw a cumulative decline of €0.7 million in relation to 2020 (-4.1%). In contrast, turnover from domestic business grew 4.1% (+€2.3 million) since 2020, thanks to the good trend in commercial activity in the land line and mobile segments and the gradual reduction of special discounts to mitigate the economic and social effects of the pandemic on businesses and

families in a vulnerable situation. These discounts were implemented until July 2021 and resulted in a reduction in revenue for that year of €0.4 million (-€1.4 million in 2020).

The good trend in domestic business offset the fall in turnover from roaming, as there was a net increase in revenue of €3.3 million since 2020 (+4.3%). However, the total figure achieved was well below expectations, leading the company to make a significant effort to contain expenditure to mitigate the downturn in revenue.

In the last year, Andorra Telecom has continued to enhance the supply of fibre optic internet connectivity for both homes and businesses, expanding speeds to 1 Gbps and 10 Gbps, respectively. Moreover, it brought forward the introduction of national 5G coverage, which will be fully operational with all features in 2024.

Source: Andorra Telecom.

# Timeline of the most significant economic developments in 2021

## January

- 2 January, an atypical ski season begins, marked by COVID-19. The Government and Ski Andorra agree to open only for Andorran residents.
- 15 January, Standard & Poor's rating agency confirms Andorra's rating of BBB/A-2 with a stable outlook, despite the effects of the SARS-CoV-2 pandemic.
- 20 January, the Government authorises the creation and opening of the private online and semi-presential university, Humanium International University.
- 27 January, the Government approves, by Decree 25/2021, amending the Decree of 20 May 2020, a second special guarantee scheme for companies and businesses during the health emergency caused by SARS-CoV-2. Decree 25/2021 expands the list of concepts for applying for the Government guarantee and includes financial leasing transactions.
- Law 1/2021, of 28 January, is passed, amending Law 16/2020, of 4 December, on further special, urgent measures during the health emergency caused by the SARS-CoV-2 pandemic. The new law introduces mechanisms to ease certain requirements applicable to temporary suspension of employment contracts and reductions in working hours.
- 29 January, Fitch Ratings international ratings agency confirms Andorra's rating as BBB+ with a stable outlook despite the pandemic situation.

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## February

- 3 February, the Government approves and publishes the 2020-2050 national energy strategy to tackle climate change.
- 17 February, the Government issues Decree 44/2021 on temporary, partial easing of the special requirements to access one-off financial aid for involuntary employment.
- 17 February, the Government issues Decree 54/2021 amending the Decree of 20 May 2020 approving a second special guarantee scheme for companies and businesses, modifying and extending the list of concepts for applying for the Government guarantee, and repeals Decree 25/2021. Decree 54/2021 includes fuel expenses and substitutes the employer contribution to ERTO furlough with staff costs.
- 24 February, the Government issues Decree 60/2021, approving certain International Financial Reporting Standards adopted by the European Union (IFRS-EU) and amending 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 accordance with the IFRS-EU, which were adopted at the same time by Andorra (IFRS-Andorra).

## March

- 6 March, the vaccination campaign against COVID-19 starts among the general population.
- Approval of Law 3/2021, of 18 March, amending Law 16/2020, of 4 December, on further special, urgent measures during the health emergency caused by the SARS-CoV-2 pandemic. This amendment extends by one month the period of reduced rent on business premises and in contracts whereby a landlord assigns the management of holiday accommodation to a company for a fixed price, until 30 April 2021.
- 29 March, it is announced that Andorra Turisme and Cirque du Soleil have agreed to move the show planned for summer 2021 to July 2022.
- 31 March, the Government approves by Decree 101/2021 a special aid scheme toward rents and mortgage payments for businesses engaged in renting and selling ski equipment.

## April

- ▶ 1 April, movement across the Spanish-Andorran border is normalised for both entry and exit and the lockdown of Catalonia that affected tourists entering Andorra is removed.
- ▶ 9 April, the IMF publishes the preliminary conclusions of its technical staff after the meetings held within the framework of Article IV of the IMF Articles of Agreement. In its publication, it gives a positive assessment of the management of the pandemic and highlights the good prospects for economic recovery in Andorra.
- ▶ 13 April, the Government and the Israel Innovation Institute sign a collaboration agreement to foster development of Andorra's innovation and start-up ecosystem.
- ▶ Approval of Law 6/2021, of 15 April, on further special, urgent measures during the health emergency caused by the SARS-CoV-2 pandemic. The law extends by one month, until 31 May 2021, the period of reduced rent on business premises and in contracts whereby a landlord assigns the management of holiday accommodation to a company for a fixed price.
- ▶ 21 April, the XXVII Ibero-American Summit of Heads of State and Government is held in Andorra. On the two preceding days, 19 and 20 April, the XIII Ibero-American Business Meeting is held.
- ▶ 23 April, the Government approves by Decree 132/2021 the Base Prospectus for a public debt issue scheme for the Principality of Andorra, on international markets, for a maximum of €1,200 million.
- ▶ 28 April, the Government approves the first international issue of Andorran green, social and sustainable bonds, for the amount of €500 million, according to the Base Prospectus of 23 April 2021.
- ▶ 28 April, the Government and the multinational pharmaceutical company Grifols agree to work together to set up a centre dedicated to immunology research in Andorra.
- ▶ Approval of Law 7/2021, of 29 April, on recovery and resolution of banking institutions and investment companies.
- ▶ Approval of Law 8/2021, of 29 April, on electronic sports (eSports).
- ▶ Approval of Law 9/2021, of 29 April, amending Law 35/2014, of 27 November, on electronic trust services.

## May

- ▶ 7 May, the balance of payments for Andorra is published for the first time, an important event which enhances detailed knowledge of economic relations between the Principality and the rest of the world.
- ▶ 11 May, the Government and Actua Empresa present a strategic plan to position Andorra as an international benchmark in the sector of electronic sports (eSports). The Principality becomes the second country in Europe and the fifth in the world to pass a law regulating this sector, and the first to approve the development of a strategic plan on this matter.
- ▶ 12 May, the Government approves by Decree 148/2021 a new special aid scheme for rents and mortgage payments of authorised establishments such as indoor playgrounds or amusement arcades and the operation of arcade games.
- ▶ Approval of Law 11/2021, of 13 May, on the creation of the public sector private foundation, Andorra Recerca i Innovació.
- ▶ 19 May, the Government approves the opening of the Court of Arbitration of the Principality of Andorra (TAPA).
- ▶ 19 May, the Government approves by Decree 166/2021 a new special aid scheme for rents and mortgage payments of authorised establishments such as bars and cafeterias.
- ▶ 25 May, Andorra signs the Double Taxation Agreement (DTA) with the Republic of San Marino.

## June

- » 8 June, the Chamber of Commerce, Industry and Services of Andorra joins Eurochambres, the European association of chambers of commerce and industry, to promote the internationalisation of businesses and work together with other similar institutions.
- » 8 June, presentation of the brands Andorra Business, Andorra Recerca + Innovació and Andorra Digital, to attract businesspeople and investors. These brands are created with the goal of positioning Andorra on three fundamental pillars – the economic model and its business sector, knowledge and digitalisation.
- » 11 June, the Government and the IMF present the final conclusions of the Article IV mission for 2021, which the IMF prepared on the Principality.
- » Approval of Law 15/2021, of 17 June, to create the National Housing Institute.
- » Approval of Law 17/2021, of 17 June, on further special, urgent measures during the health emergency caused by the SARS-CoV-2 pandemic. Law 17/2021 regulates temporary suspension of employment contracts, reduced working hours and support for self-employed people. From 1 July to 31 December 2021, these measures focus only on a few sectors directly affected by restrictions or impediments to normal activity under the relevant Government decree.
- » 23 June, approval of an extension until 31 December 2021 of Decree 44/2021, of 17 February 2021, on temporary, partial easing of the special requirements to access one-off financial aid for involuntary employment.
- » 26 June to 31 July, the Andorra Mountain Music festival is held. The festival was due to be held for the first time in 2020 but had to be suspended due to the COVID-19 pandemic.
- » 30 June, the Government approves by Decree 214/2021 a new special aid scheme toward rents and mortgage payments of authorised establishments such as pubs, discotheques, nightclubs or similar and travel agencies for the month of July.

## July

- » 1 July, the mini hydroelectric power station in Aixovall is put into operation (on Ós river).
- » 1 July, Naturlàndia becomes Naturland and starts a new stage focussing on altitude-based activities, the creation of competitive products and boosting outdoor activities.
- » 8 July, approval of the amendment of Law 27/2008, of 20 November, on special taxes, supporting the creation of the so-called green tax on hydrocarbons.
- » 11 July, the Tour de France arrives in Andorra.
- » Approval of Law 21/2021, of 15 July, amending Law 17/2018, of 26 July, regulating the Andorran educational system.
- » 20 July, Standard & Poor's rating agency confirms Andorra's rating as BBB/A-2 with a stable outlook.
- » 23 July, Fitch Ratings rating agency confirms Andorra's rating as BBB+ with a stable outlook.

## September

- » 1 September, the Government approves by Decree 271/2021 a new special aid scheme toward rents and mortgage payments of authorised establishments such as pubs, discotheques, nightclubs or similar and travel agencies for the month of September.
- » 10 September, publication in the Official Gazette (BOPA) of the amendment to the annex to the Monetary Agreement between the Principality of Andorra and the European Union, signed in Brussels on 30 June 2011.
- » 22 September, the Government approves Decree 301/2021 repealing Decree 44/2021, of 17 February 2021, on temporary, partial easing of the special requirements to access one-off financial aid for involuntary employment.
- » 26 September, Crèdit Andorrà closes an agreement to acquire 100% of Vall Banc, owned by the fund J.C Flowers & Co.
- » 29 September, the Government approves by Decree 304/2021 a new special aid scheme toward rents and mortgage payments of authorised establishments such as pubs, discotheques, nightclubs or similar.
- » 29 September, the Government approves Decree 323/2021 regulating the return or conversion into a loan of the pending debt for the first and second special guarantee schemes for companies and businesses during the health emergency caused by SARS-CoV-2.
- » 30 September, official presentation of the Court of Arbitration of Andorra (TAPA), intended to become an international benchmark in resolving conflicts out of court. The Bar Association of Andorra (Col·legi d'Advocats) and the Chamber of Commerce, Industry and Services of Andorra are its promoters and members of the Plenum.



## October

- 5 October, approval of a public debt issue for the amount of €175 million, according to the Base Prospectus of 23 April 2021.
- 5 October, MoraBanc and Banc Sabadell formalise the purchase of 50.97% of the share capital of BancSabadell d'Andorra (BSA), owned by Banc Sabadell (51.61% taking into account the proportion of treasury shares). Through this transaction, MoraBanc becomes the majority shareholder of BSA and the entity becomes part of the MoraBanc group.
- 8 October, Andorra signs a Double Taxation Agreement (DTA) with Hungary.
- Approval of Law 24/2021, of 14 October, on exchange rates applied to card payment transactions.
- 18 October, Andorra Business and GSIC by Microsoft expand their collaboration agreement to continue working to position Andorra internationally, as a benchmark in the start-up, innovation and digital transformation ecosystem in the sector of mountains, winter sports and cycling.
- Approval of qualified Law 29/2021, of 28 October, on personal data protection.
- From 29 October to 14 November, Andorra Shopping Festival returns with the aim of strengthening Andorra's position as a shopping destination, after the hiatus in 2020 due to COVID-19.

## November

- Andorra takes part in the United Nations Climate Change Conference (COP26), held in Glasgow from 31 October to 12 November
- Approval of Law 30/2021, of 11 November, on measures to protect and streamline the housing rental market, on the essential conditions for affordable housing and on improving purchasing power.

## December

- 1 December, the Government approves by Decree 399/2021 a new special aid scheme for rents and mortgage payments of authorised establishments such as pubs, discotheques, nightclubs or similar.
- 15 December, the Government issues Decree 420/2021, approving specific International Financial Reporting Standards adopted by the European Union (IFRS-EU) and amends the Decree of 22 December 2016, approving the accounting framework applicable to entities operating within the Andorran financial system and to collective investment schemes under Andorran law, according to the IFRS-EU, which are also adopted by Andorra (IFRS-Andorra).
- Approval of Law 37/2021, of 16 December, amending Law 14/2017, of 22 June, on preventing and combatting the laundering of money or securities and terrorism financing.
- 17 December, regular flights begin between Andorra-La Seu airport and Adolfo Suárez Madrid-Barajas airport.
- 20 December, the Government announces that the Council of Europe Development Bank (CEB) has decided to grant a loan of €8 million towards the digital transformation of Andorra's government and businesses. This is the first loan granted by the European body for this purpose.
- 22 December, the Government approves by Decree 424/2021 a new special aid scheme for rents and mortgage payments of authorised establishments such as pubs, discotheques, nightclubs or similar. The new scheme increases the amount of aid towards rent to up to 100% and raises the cap on the monthly amount granted as aid towards the rent or mortgage repayment to €3,000.
- 30 December, the new company SETAP365 is officially set up by combining EMAP and ENSISA. This paves the way for marketing a single national ski pass giving access to a total of 303 km of ski pistes.
- 31 December, entry into force of the Double Taxation Agreement (DTA) with the Republic of San Marino.

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