

**24**  
number

# 2018 economic report



**EDITED BY**

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and Services of Andorra

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# 2018 | economic report



CAMBRA  
DE COMERÇ  
INDÚSTRIA I SERVEIS  
D'ANDORRA

## 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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Once again, it is my pleasure to present the annual economic report for Andorra, now in its twenty-fourth year. This report is a legal obligation of the Chamber of Commerce but, above all, fulfils its desire to encourage awareness of Andorra's economy. The report gathers together key economic data and analyses it in depth, to serve as a reference point for stakeholders in our economy.

This work would not be possible without the collaboration of Andorran businesses which, on a periodical and regular basis, provide the Chamber of Commerce with relevant data about the business climate and developments in business. The information provided by the Government, Comú governments and the CASS (the Andorran Social Security System), especially statistics, and Andorran institutions and associations, is therefore extremely useful. This report is also the fruit of the efforts of internal and external experts who gather all the data and analyse it skilfully. Finally, we would mention the role of the media in disseminating the content of this document. The Chamber of Commerce extends its thanks to all of them.

Below, I will describe the main ideas behind developments in the Andorran economy and the international environment in 2018, and also the Chamber of Commerce's economic forecasts for 2019.

In 2018, growth in the global economy slowed a little, from 3.8% in the previous year to 3.6%, influenced by the trade tensions between the USA and China and weakening activity in some European and emerging economies. On the positive side, there were several factors that boosted growth, such as the expansionary monetary policies of the main central banks, low commodity prices and, for the Eurozone, the depreciation of the euro against the dollar.

2018 was characterised by favourable macroeconomic data for the USA and weak data for Europe, in a context of contained inflation. The Eurozone economy weakened more than expected, due to falling consumer and business confidence, the effects of the new emissions standards on the German automobile industry and finally, the downturn in the Italian economy. Consequently, in 2018, real GDP for the Eurozone grew at an annual rate of 1.9%, five tenths lower than in 2017 and the lowest since 2014.

The neighbouring economies of Spain and France did not avoid the slowdown. In particular, French GDP saw growth of 1.7%, lower than 2017 and the European average. This growth was based on dynamic private investment, which benefitted from the labour reform approved in 2017 and the measures to boost competitiveness, and also the favourable financial conditions. Now, there are transitory factors, such as the social protests in the street by the *gilets jaunes*, which negatively impacted domestic demand, although some tax measures to increase disposable income avoided greater deterioration.

In parallel, the Spanish economy maintained a strong rate of expansion in 2018, boosted by job creation, favourable financial conditions and progress in correcting some macroeconomic imbalances, such as the foreign deficit, public and private debt, and unemployment. However, GDP growth slowed throughout the year in line with the context of progressive deceleration in global activity, reaching 2.6% for the whole year, four tenths lower than growth in 2017. Accordingly, Spain was the major European country whose economy grew the most, much more than France, Germany, the UK and Italy, and also above the European average.

In this context, the trend of recent years continued, of slow growth in the Andorran economy, with another GDP increase that brings it closer to, but still below, the pre-crisis levels of activity. Specifically, GDP grew for the sixth consecutive year, at a rate of 1.6% in real terms, one tenth less than in 2017, according to the first estimate published by the Government. In nominal terms, total GDP rose to 2,742 million euros, the highest value since 2007, although in real terms the value of GDP in 2018 (2,002.8 million euros) is still 15% lower than the high of 2007.

Compared internationally, the Andorran economy progressed at a slower rate than the neighbouring economies of Spain and France and also the EU as a whole. In contrast, the Andorran population continued to grow much faster than the European. Consequently, Andorra continued to lose ground against the neighbouring economies in relation to real per capita wealth. Now, in nominal terms, per capita GDP reached 35,996 euros, the best level since 2010 and 0.7% higher than in the previous year.

The continued expansive trend in the Andorran economy was driven, as in the previous year, by the still favourable international context, especially in Spain. In demand, the trends in the most significant indicators of consumption and investment were positive but limited, while in supply, Andorra's economic growth was led by services and construction, contrasting with the lack of apparent dynamism in industry and the primary sector.

Progress in the Andorran economy is reflected in the rising trend in the great majority of indicators of activity and demand. Among these indicators are notably accelerating growth in total employment, numbers of visitors, government operating costs, public investment, industrial vehicle registrations and imports of building materials. Other major indicators that grew, but at a lower rate than in 2017, are total imports and car registrations. The only indicators that remained negative were energy consumption and credit.

By sectors, Andorran economic growth in 2018 was basically driven by services and construction. Note that services represent about 88% of GVA so their performance tends to be crucial to economic development. For its part, construction was the sector that saw the highest rate of growth, confirming the period of expansion that started timidly in 2015, although its lower value means that the relative contribution of this sector to total growth is much more limited than services. In contrast, the performance of the industry and manufacturing sector detracted from economic growth and lastly, agriculture made a minimal contribution.

In more detail, the primary sector saw slow growth in real GVA in 2018, of 0.4%, representing a slight improvement compared with the stagnation that marked its development in 2017. This trend was accompanied by a slowdown in the rate of decline in the number of employees, number of businesses and usable agricultural surface area. Nevertheless, the tobacco harvest increased significantly and recovered from the downturn in 2017, while numbers of livestock also grew.

As for construction, the real GVA of the sector increased 5.8%, much higher than in 2017. This acceleration consolidates the rising trend in the sector, with four consecutive years of positive growth after nine years of deep crisis. The growing dynamism in construction is also reflected in the behaviour of the main available indicators of activity for the sector. In particular, in 2018, there were notable increases in authorised square metres, imports of building materials and the number of employees and establishments, all higher than in 2017. Along the same line, public investment saw a steep increase for the second consecutive year, reaching the highest level in the last six years. Equally, the results of the Chamber of Commerce's surveys confirm the strong recovery in the sector, although coming from still very low levels.



In contrast, industry and manufacturing was the sector with the worst performance in 2018, with a decline in real GVA of 0.7%, contrasting with the growth seen in the preceding two years. However, the small percentage of this sector greatly limits its negative impact. Despite the negative results in terms of GVA, there are other indicators of industrial and manufacturing activity that show slightly more favourable behaviour. This is the case of the number of employees, businesses and establishments, and also the improving climate of confidence in the sector, reflected in businesses' answers to the Chamber of Commerce's surveys.

As for services, the trend in 2018 was again positive, with an increase in real GVA of 2.1%, the second best in the last ten years. Equally, there are other indicators in the field of services that have also risen, such as the number of employees and businesses. Broken down, it is notable that growth in services was mainly driven by the subsector that includes the activities of commerce, hotels and catering, transport, information and communications (3.6%), which provides 32% of total Andorran GVA. This momentum was partly favoured by the rise in numbers of visitors, of 2.2% in 2018, and the good performance of residents' consumption. Equally, regarding the tourism sector in particular, there are other associated indicators that reflect a slowdown in the rate of activity compared with 2017, such as the total number of overnight stays and the number of employees in this branch, with smaller increases than in 2017. In the case of commerce, activity remains weak, reflected in most indicators of the sector.

This loss of momentum in tourism, added to the stagnation in commerce, was also reflected in the Chamber of Commerce's surveys. So, businesses in the hotel sector gave a less favourable report of business activity, levels of employment and levels of reservations than in 2017. In commerce, businesses' evaluations of the general trend in the sector were also worse, with their opinion of business activity turning negative after two positive years.

The trend in the finance subsector in 2018 was not positive either, as reflected in the great majority of indicators of activity, although the situation has improved a little since 2017. Looking at the official GDP figures, it can be seen that the GVA of the subsector Financial, real estate, professional and technical activities grew slowly (1.1%), in line with 2017. Persistent weakness in the activity, which has been dragging since BPA went into administration in 2015, was reflected in a further reduction in gross lending to customers and deposits, although less than in 2017. Altogether, this resulted in a fall in profits in the banking sector for the fifth consecutive year and virtual stagnation in employment in the whole financial and insurance sector.

In 2018, the public sector made a positive contribution to activity, thanks to the relaxation in fiscal policy by both the central Government and the Comú governments. This was reflected in accelerated growth in operating expenses and real investment. In parallel, the tax burden increased half a point to 25%, close to the historic high recorded in 2016 (25.2%). Consequently, the central Government saw a small budget deficit of 0.1% of GDP, and the Comú governments' surplus fell three tenths to 0.9%.

In relation to 2019, the trend in the Andorran economy is still greatly influenced by the international context, which appears ever more uncertain and influenced by factors of a political origin, such as the US-China trade and technology war or Brexit, with potentially negative effects on the whole European and global economy. In this context, the economic outlooks for Spain and France show a slowdown in growth, a trend that has already been noted in the first half of the year. This situation will limit improvements in the Andorran economy, especially through tourism. All in all, this would suggest that the Principality's economy will lose momentum in 2019, so GDP growth may remain below that of 2018.

The opinions of businesses collected in the Chamber of Commerce's surveys and the GDP data for the first quarter of 2019 suggest this trend. So, Andorra saw real interannual economic growth of 2.2%, three tenths less than in the previous quarter. The loss of momentum in the Andorran economy can also be seen in the main available indicators of activity for the first few months of 2019. In particular, the number of visitors saw an interannual decline in the cumulative figure for the first five months of the year, contrasting with the increase in the same period of the previous year. In parallel, growth in the number of employees slowed up to April, compared with one year earlier, and there was a double-digit increase in the number of job seekers in the first half, contrasting with the fall noted in the same period of 2018.

In conclusion, the Andorran economy is heading towards a more mature phase of the cycle of expansion, after six years of growth, influenced to a large extent by the slowdown in the European economy, especially in the neighbouring economies. So, Andorra will still grow in 2019, but most probably at a slower rate than in 2018.

In this scenario and considering the many challenges to be faced by Andorra in the future, the Chamber of Commerce will continue to collaborate closely with businesses and institutions, to push proposals that encourage economic and social progress in Andorra.

**Miquel Armengol Pons**  
President



# The external environment of the Andorran economy

## The international economy

### 1. The main features of economic development in 2018

In 2018, the global economy saw a 3.6% increase in GDP, according to the International Monetary Fund (IMF), two tenths less than in 2017, the year in which it reached the highest level since 2011. The slowdown in global growth was encouraged by trade tensions between the USA and China and weakening activity in some European and emerging economies. This occurred within the context of a slowdown in world trade and high political uncertainty, provoking a generalised fall in stock markets. In contrast, there were other factors that encouraged growth, such as the expansionary monetary policies of the major central banks, falling commodity prices and, in the case of the Eurozone, depreciation of the euro against the dollar.

**The global economy is slowing because global trade growth is slower than in 2017.**

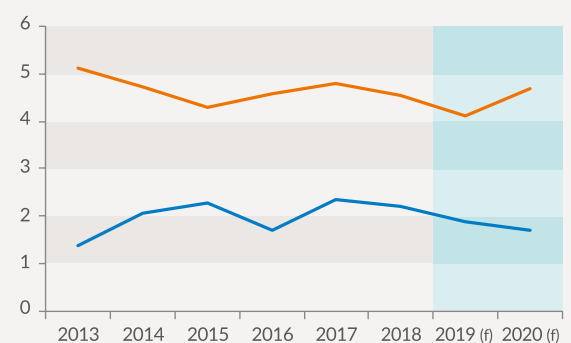
Lower growth in global demand and existing risks had a negative impact on both developed economies, which went from global growth of 2.4% in 2017 to 2.2% in 2018, and emerging and developing economies, which grew at a rate of 4.5% in 2018, three tenths less than in the previous year. This trend contrasts with that of the previous year, when improvements in growth were synchronised in both advanced and emerging economies.

### The Chinese economy slows to its lowest rate in three decades.

In the developing and emerging economies, among the factors that limited growth were global trade tensions; hardening credit policies in China and the deteriorating macroeconomic situation in Argentina, Venezuela and Turkey, along with depreciation of their currencies against the dollar. In contrast, oil-exporting countries benefited from rising oil prices.

Among the Asian emerging economies, China grew 6.6% in 2018, the lowest rate in almost three decades. This slowdown is due to falling investment, resulting from the lending restrictions with which the Chinese government is trying to encourage sustainable growth. In parallel, vehicles sales fell as purchasing incentive programmes ended and tariff measures were imposed by the US. For 2019, the Chinese government has lowered its economic growth target to between 6% and 6.5%, and announced a package of measures to promote growth. For its part, India continued

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



● Emerging and developing markets ● Advanced economies

f: IMF forecasts (July 2019).

Source: IMF.

to see a very high rate of GDP growth (6.8% in 2018) which could even improve in 2019, to be explained by expansionary monetary and tax measures that have encouraged investment and consumption.

In Latin America, the falls in GDP in Argentina and Venezuela are notable (-2.5% and -18% in 2018, respectively), which were much greater than expected, while Mexico and Brazil maintained a similar rate of growth to the previous year (2% and 1.1%, respectively) although the 2019 outlooks for both economies have both been lowered.

European developing economies felt the effects of the slowdown in the main European countries, growing 3.6% globally, compared with 6.1% in 2017. Russia, on the other hand, saw its growth rate accelerate by seven tenths, to 2.3%, thanks to the trend of rising oil prices and the fiscal stimulus policies that were introduced.

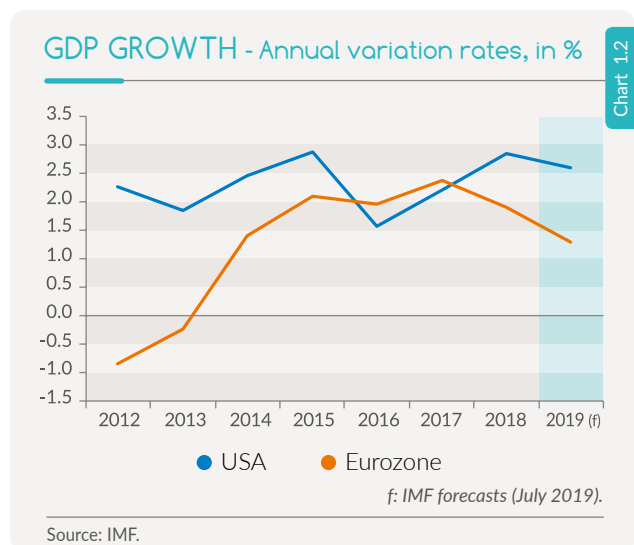
Finally, in the Middle East and North Africa, GDP growth slowed five tenths, to 1.6% in 2018, due to falling commodity prices (except oil) and geopolitical tensions from the civil wars in Syria and Yemen, as well as the impact of the new sanctions on Iran.

As for the advanced countries, the economic trend in 2018 was marked by favourable macroeconomic data in the USA and weak data in Europe. So, the USA saw growth accelerate by seven tenths to 2.9%, while the Eurozone economy slowed half a point to 1.9%. GDP growth in Japan also slowed from 1.9% in 2017 to 0.8% in 2018. Outside the Eurozone, GDP growth in the United Kingdom slowed four tenths to 1.4% in 2018, prolonging the slowdown that started in 2014. According to the IMF, it could grow at a similar rate in 2019 (1.3%), although this outlook is subject to major uncertainty caused by Brexit.

### **US economy on the rise in a context of full employment.**

The US economy has continued to be one of the main drivers of global expansion, and has dispersed any doubts about its sustainability. In 2018, GDP growth was 2.9%, the highest rate since 2015. Growth was supported by a good performance in consumption and investment. In contrast, foreign demand made a negative contribution of two tenths because imports grew more than exports, which slowed due to dollar appreciation and the trade war with China. So, in 2018, the current account deficit stayed at 2.4% of GDP for the fourth consecutive year. The dynamism of the US economy was based on still favourable monetary conditions even after the rises in interest rates, driven by the expansionary fiscal programmes introduced by the Trump administration at the end of 2017 (cuts in corporate taxes and a temporary authorisation to account for investment wholly as expenses under corporate tax). The favourable trend in the US economy led to a continuous improvement in the results of the labour market. The annual rate of growth in employment accelerated to 1.6%, putting the unemployment rate at 3.9% in 2018, a historic low that can be considered full employment.

For its part, inflation followed the trend marked by oil prices throughout the year, characterised by a rising first half and a falling second half, ending at 1.9% in December. Wage rises also contributed to inflation, in a context of full employment, as wages per employee rose on



average 2.7% in nominal terms (0.6% in real terms after discounting price increases). On annual average, consumer prices accelerated from 2.1% in 2017 to 2.4% in 2018. Rising inflation justified the Federal Reserve's monetary policy of gradually raising the interest rates in 2018.

Finally, the tax reform in 2017 and subsequent increases in spending raised the level of fiscal deficit and worsened the profile of US public debt. The negative balance in the public accounts went from 4.3% of GDP in 2017 to 6.6% in 2018, a trend that contrasts with the adjustment of the previous year.

### The Eurozone economy slowed in the second half of 2018.

In 2018, the Eurozone economy weakened more than expected, mainly due to falling consumer and business confidence, the effects of new emissions standards on the German automobile industry, and the decline in the Italian economy. In 2018, real GDP in the Eurozone grew at an annual rate of 1.9%, five tenths less than in 2017 and the lowest rate since 2014. Weakening activity was particularly notable in the second half of the year, especially in Germany and Italy, with quarter-on-quarter growth in Eurozone GDP of 0.1% in the third quarter and 0.2% in the fourth. External factors contributed to this slowdown, such as growing uncertainty associated with trade tensions, and also internal factors, including the weakness of automobile production in Germany, political instability in Italy and social tensions in France.

By components, Eurozone growth was driven by domestic demand, thanks to dynamic investment (going from 2.6% in 2017 to 3.3% in 2018), and the good trend in consumption, especially public consumption, which maintained growth at around 1.1%, while private consumption slowed three tenths to 1.3%. In contrast, foreign demand made a negative contribution to GDP growth. This can be explained by exports slowing more than imports. So, there are two factors that most explain the economic slowdown in the Eurozone: less impetus from exports, affected by the slowdown in world trade, and slowing private consumption, influenced partly by the entry into force of the new regulations on automobile emissions in Europe in early September. This would largely explain the slight decline in the current account surplus for the Eurozone as a whole, from 3.9% of GDP in 2017 to 3.6% in 2018.

Despite weakening activity in the Eurozone, in 2018 the labour market continued to improve. Specifically, the number of employed increased 1.5% for the year, only one tenth less than in 2017. This increase in employment led the unemployment rate to fall from 9.1% in 2017 to 8.2% in 2018. This is the lowest rate since 2008, but still higher than the low reached in 2007 (7.7%). According to European Commission forecasts, the 2019 rate could equal that of 2007. For their part, unit labour costs grew 1.9% due to a nominal wage increase of 2.2% per worker, and a 0.3% increase in productivity. Now, real labour costs, after discounting the GDP deflator, increased 0.4% after several years of constant reductions. This means that in 2018, the Eurozone economy started to lose competitiveness. The European



Commission indicates that one priority is to improve productivity in order to increase wages, and subsequently inflation, without losing competitiveness.

In 2018, Eurozone inflation remained contained, in a context of slowing activity. Specifically, inflation followed a rising phase between May and October, when it hit a high of 2.3%, marked by the trend in oil prices, but slowed in November and December to end the year at 1.5%. On annual average, inflation was 1.8%, three tenths higher than the 1.5% of the previous year. All Eurozone economies saw positive annual inflation rates, but only seven crossed the threshold of 2%. Inflation in the core European countries remained moderate: France (2.1%), Germany (1.9%), Spain (1.7%) and Italy (1.2%). The highest price increases were seen in Eastern countries: Estonia (3.4%), Latvia (2.6%), Lithuania (2.5%) and Slovakia (2.5%).

**Prices remain contained in a context of slowing activity.**

Finally, fiscal policy was less contractionary than in the previous year. The global public deficit of Eurozone members fell from 1% of GDP in 2017 to 0.5% in 2018. The falling deficit can be explained by both a drop in GDP expenditure of two tenths, to 46.8%, and an increase in income of two tenths, to 46.3% of GDP. The EMU countries with the highest deficit are Cyprus (-4.8% of GDP), France (-2.5%), Spain (-2.5%) and Italy (-2.1%). On the other hand, the member states with the highest public account surplus in terms of GDP are Luxembourg (2.4%), Malta (2%), Germany (1.7%) and Netherlands (1.5%).

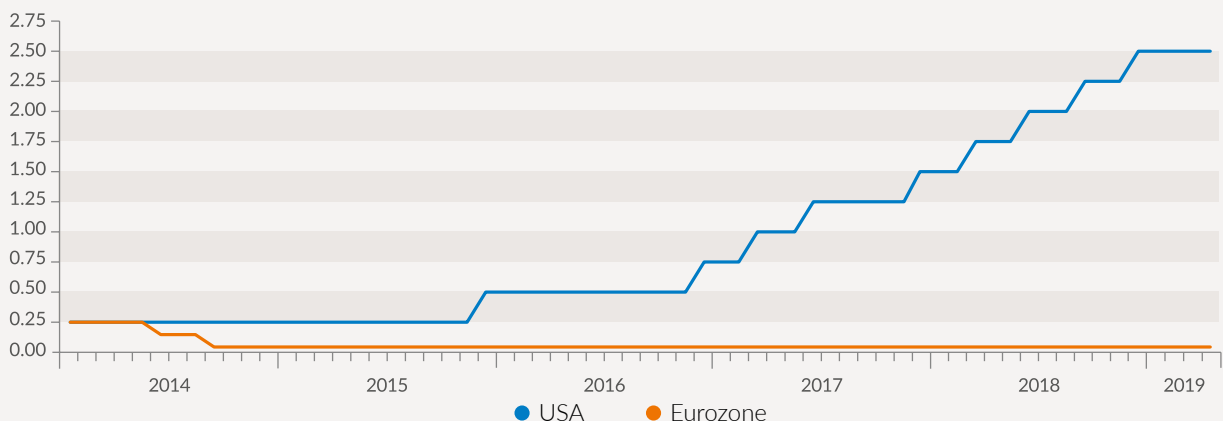
**In 2018, the Eurozone public deficit fell to 0.5% and the debt to 87.1% of GDP.**

The public debt-to-GDP ratio continued its falling trend in 2018, shrinking two percentage points to 87.1%, thanks to both the increase in GDP and the low cost of financing.

As for monetary policy, interest rates in the USA reached a range of 2.25-2.5% at the end of 2018, after four stepped rate rises throughout the year (in March, June, September and December) intended to prevent overheating of the economy in its ninth year of expansion. However, at the beginning of 2019, the Federal Reserve (Fed) announced that it would pause interest rate rises until economic and financial data improved.

In the Eurozone, monetary policy was influenced by the described context of economic slowdown and low inflation. For this reason, the European Central Bank (ECB) kept the official interest rates at 0%, which are not expected to rise until the economic situation improves

OFFICIAL INTEREST RATES IN THE USA AND EUROZONE - As %



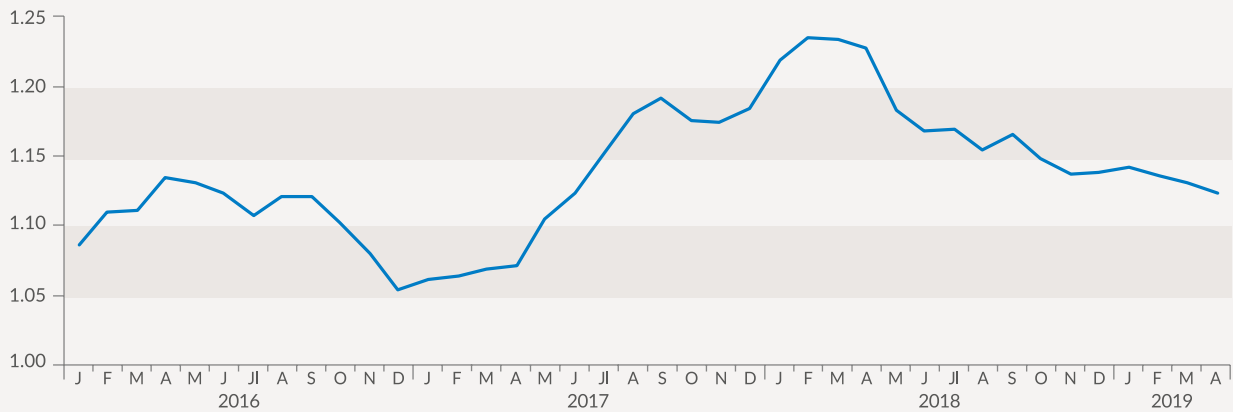
Source: Federal Reserve and ECB.

## Interest rates are rising in the USA and stable in the Eurozone.

throughout the year. However, in March 2019, faced with falling economic prospects in the Eurozone, the ECB decided to approve new measures to inject liquidity into the banking system, in order to encourage lending and boost the economic recovery.

and inflation rebounds. As for unconventional monetary policy, in December 2018 the ECB finally ended the asset purchase programme started in 2015, after gradually reducing it

### \$/€ EXCHANGE RATES



Source: ECB.

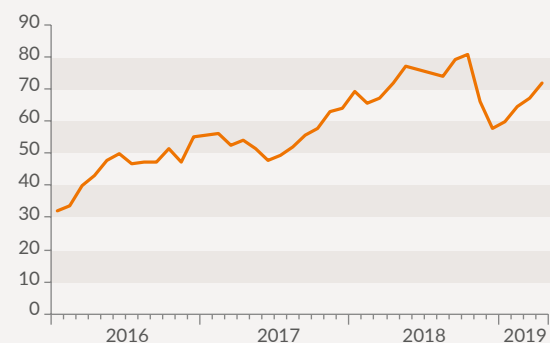
Due to higher interest rates and more favourable economic prospects for the USA than the Eurozone, the dollar started to appreciate against the euro from April 2018, breaking the trend of depreciation in the previous year. So, in December 2018, the euro was trading at \$1.139, 3.8% less than in December 2017 (\$1.184 /€). This value is an average of the last four years (2015-2018). In the Eurozone, euro depreciation raised the cost of energy imports and consequently helped to push up inflation a few tenths (reaching 2.3% in October at the time of the highest rise in oil prices), but also helped to boost exports outside the Eurozone. Equally, a trend can be seen towards euro depreciation against the Japanese yen (-4.5% to a rate of 127.7 yen/euro in December 2018).

Oil prices continued to rise until October 2018 (when it reached the four-year high of \$80/barrel as US sanctions against Iran entered into force). This was followed by two months of significant falls due to oversupply and signs of a slowdown in the global economy (reaching an annual low). This steep fall meant that in December 2018 the average price of a barrel of Brent was \$57, 10.2% less than the \$64 in December 2017.

In 2018, rising oil prices pushed up prices of goods and services in all economic areas, although contracting commodity prices and the slowdown in the world economy partly offset this effect. So, average inflation in developing countries reached 2% (1.7% in 2017),

## 2018 was marked by euro depreciation and contained inflation.

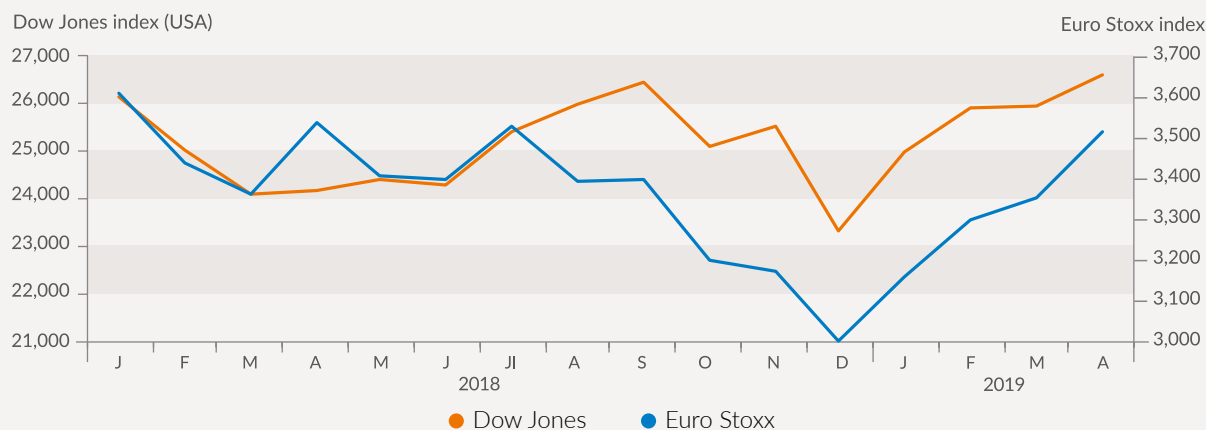
### OIL PRICES - \$ per barrel of Brent



Source: The Energy Information Administration, of the US Government.

## STOCK MARKET INDEX IN THE USA AND EUROZONE

Chart 1.7



Source: ECB and Federal Reserve.

in line with the target of the main central banks, while inflation in emerging and developing economies was higher and tending to rise (4.8% in 2018 compared with 4.3% in 2017) due to the depreciation of the respective currencies of some economies.

### Episodes of instability and generalised falls in the stock markets at the end of 2018.

In 2018, instability returned to the stock markets, especially in the last four months of the year due to Brexit uncertainty and

growing trade tensions. This explains the generalised falls in the major world stock markets between December 2017 and December 2018. The Spanish stock exchange IBEX-35 saw a drop of 15% after three consecutive years of gains, a trend that was very similar to that of

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## IMF ECONOMIC OUTLOOKS FOR THE GLOBAL ECONOMY

Table 1.1

	2017	2018	FORECASTS	
			2019	2020
<b>Global GDP</b>	<b>3.8</b>	<b>3.6</b>	<b>3.2</b>	<b>3.5</b>
<b>Advanced economies</b>	<b>2.4</b>	<b>2.2</b>	<b>1.9</b>	<b>1.7</b>
USA	2.2	2.9	2.6	1.9
Eurozone	2.4	1.9	1.3	1.6
Germany	2.2	1.4	0.7	1.7
France	2.3	1.7	1.3	1.4
Italy	1.7	0.9	0.1	0.8
Spain	3.0	2.6	2.3	1.9
Japan	1.9	0.8	0.9	0.4
United Kingdom	1.8	1.4	1.3	1.4
Canada	3.0	1.9	1.5	1.9
<b>Emerging and developing countries</b>	<b>4.8</b>	<b>4.5</b>	<b>4.1</b>	<b>4.7</b>
Sub-Saharan Africa	2.9	3.0	3.5	3.7
Emerging European economies	6.1	3.6	1.0	2.3
Commonwealth of Independent States	2.2	2.7	1.9	2.4
Russia	1.6	2.3	1.6	1.7
Developing Asia	6.6	6.4	6.3	6.3
China	6.8	6.6	6.2	6.0
India	7.2	6.8	7.0	7.2
Middle East and North Africa	2.1	1.6	1.0	3.0
Latin America & Caribbean	1.2	1.0	0.6	2.3
<b>World trade (goods and services)</b>	<b>5.5</b>	<b>3.7</b>	<b>2.5</b>	<b>3.7</b>

Source: IMF, July 2019.



the European stock market (Eurostoxx shrank 14.3%). Losses were also generalised but smaller in the USA (the Dow Jones fell 5.6% and Nasdaq 3.9%). In Japan, the Nikkei index also lost 12.1% of its value. However, in the first four months of 2019, this trend reversed and the main world stock markets recovered the losses seen in the last quarter of 2018.

## 2. Prospects

In the first few months of 2019, the divergence between rising growth in the USA and the weak Eurozone economy continued, although GDP data were generally better than expected. The first part of the year was also characterised by the upswing in oil prices, euro depreciation against the dollar, the temporary halt in the progressive normalisation of monetary policy, the recovery in the world stock markets and the lack of a Brexit deal delaying the exit date until 31 October 2019.

In this scenario, there are still downside risks, notably the escalation in trade conflicts, geopolitical tensions in the Middle East, greater-than-expected deceleration of the Chinese economy and uncertainty over Brexit. The inclusion of some of these risk factors in the IMF and OECD outlooks, added to the negative impact of weaker activity in the second half of 2018, explain the downward review of predicted world growth for this year by both bodies. Both the IMF and the OECD predict growth of 3.2% for 2019 and a slight recovery in 2020 to rates of 3.4%-3.5%. These prospects are globally positive but also alert to the fact that growth is fragile and seriously prone to risks.

Equally, the IMF predicts that the economy will improve gradually in the second half of 2019 due to the combination of different factors, such as the improvement in global financial markets, the progressive stabilisation of the economic situation in Turkey and Argentina, the economic stimulus policies launched by China and some still dynamic labour markets in the developed economies combined with wage increases, boosting household income and spending.

As a result of this scenario, the IMF predicts that the growth rate of advanced economies will slow by three tenths to reach 1.9% in 2019, and also predicts that the growth rate of the economies of emerging and developing markets will slow by four tenths, to 4.1% in 2019. This slower growth rate in 2019 will occur in a generalised manner in practically all emerging and developing economic areas.

**Surprise in the USA at higher-than-expected growth in the first quarter.**

In the first quarter, interannual growth of 3.2% in the US economy was a surprise, the highest interannual rate since 2015, continuing the progressive acceleration that started mid-2016. It seems, therefore, that the trade tensions with China, the progressive increase in interest rates by the Federal Reserve, the closure of the Administration due to a lack of agreement on the budgets, and the fact that one year has passed since fiscal stimuli were introduced in December 2017, have not as yet undermined the economic trend in the US.

For this reason, the OECD predicts that the US economy will grow 2.8% in 2019, only one tenth less than in 2018, strong growth based on domestic demand. Inflation, on the other hand, rebounded in March, but underlying inflation, more closely linked to economic activity, remained stable. In fact, price growth in 2019 is predicted to be 2% on annual average, four tenths less than in the previous year. This context of contained inflation supports the current Fed strategy of lowering interest rates, such as on 31 July 2019, when they were cut 0.25% to 2-2.25%.

## OECD ECONOMIC PROSPECTS FOR THE MAIN DEVELOPED COUNTRIES

Table 1.2

	GDP			INFLATION <sup>(1)</sup>			UNEMPLOYMENT RATE <sup>(2)</sup>			CURRENT ACCOUNT BALANCE			PUBLIC DEFICIT		
	% annual variation			% annual variation			% active population			% of GDP			% of GDP		
	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f
USA	2.9	2.8	2.3	2.0	1.4	2.1	3.9	3.7	3.6	-2.4	-2.4	-2.6	-6.6	-6.6	-6.7
Japan	0.8	0.7	0.6	1.0	0.8	1.5	2.4	2.4	2.4	3.5	3.0	3.2	-2.5	-2.5	-2.0
United Kingdom	1.4	1.2	1.0	2.5	1.7	1.9	4.1	3.9	3.9	-3.9	-5.6	-5.0	-1.6	-2.1	-2.0
Eurozone	1.9	1.2	1.4	1.8	1.2	1.5	8.2	7.9	7.7	3.6	3.6	3.5	-0.5	-0.9	-0.8
Germany	1.4	0.7	1.2	1.9	1.5	1.7	3.4	3.1	2.8	7.4	7.3	7.0	1.7	0.9	0.8
France	1.7	1.3	1.3	2.1	1.1	1.3	9.1	8.7	8.5	-0.3	0.0	0.1	-2.5	-3.2	-2.3
Spain	2.6	2.2	1.9	1.7	1.0	1.6	15.3	18.8	12.7	0.9	0.8	0.7	-2.5	-2.0	-1.3
OECD	2.3	1.8	1.8	2.3	2.0	2.3	5.3	5.3	5.2	0.3	0.1	0.03	-2.8	-3.0	-2.9

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

(2) Unemployment rate calculated using national not harmonised definitions.  
f: forecasts.

Note: the 2018 GDP data relate to the final data published in July by both the IMF and the European Commission.

Source: OECD, May 2019.

In the case of the Eurozone, all international bodies predict that GDP growth in 2019 will slow to 1.3%-1.2%. By countries, the European Commission, in its report in July 2019, predicts that only growth in Greece will improve in 2019, compared with 2018. In Italy, virtual stagnation is expected (0.1%), and in Germany a very weak increase of 0.7%. In Spain, growth is expected to fall three tenths to 2.3%, although it will still lead growth among the major Eurozone economies. In the case of France, a slowdown in GDP growth will occur, to reach 1.3%.

**In 2019 the Eurozone economy will continue to weaken.**

However, the data on the trend in Eurozone GDP for the first quarter of 2019 was better than expected, with interannual growth of 1.2%, the same rate as the previous quarter. So, the slowdown in recent periods eases to quarter-on-quarter growth of 0.4% in the first quarter of 2019, after 0.1% and 0.2% in the third and fourth quarter of 2018. The particular driving force behind this improvement is Germany which, after a very bad second half of 2018, in which it shifted between contraction and stagnation, it finally grew four tenths in the first three months of 2019. The other good news is that Italy has avoided recession, although in this case the upswing in GDP was smaller (remaining at 0.1%). Note that this country emerged from a technical recession, as it saw GDP falls of 0.1% in the last two quarters of 2018.

In 2019, the Eurozone labour market will continue to recover, leading the unemployment rate to fall half a point to 7.7%, according to the European Commission. The easing of targets for reducing the public deficit (predicted to reach 0.9% of GDP) will also contribute to the economic recovery. For its part, Eurozone inflation remained moderate in the first four months of the year (1.5% on average) and is forecasted to reach about 1.3% for the whole year, due to the interannual drop in oil prices.

In the first few months of 2019, the euro continued its trend of depreciation against the US dollar that was already seen in 2018. Finally, oil prices rose again in the first few months of 2019 due to the OPEC agreements with other oil-producing countries to reduce supply; US sanctions against Iran and the global problems affecting Venezuela. Remember that in April

the price of a barrel reached an average of \$72, 25% higher than the price in December 2018. Despite this situation, the IMF expects a reduction in the dollar oil price in 2019 of 4.1% on annual average.

### **Economic outlooks revised downward as risks increase.**

In summary, despite the fact that economic figures for the main economic areas in the first quarter of 2019 were surprisingly positive, the risks of a potential downturn remain. High uncertainty over Brexit, the impact of the environmental regulations on automobiles and, above all, rising trade tensions between the USA and China explain why the global economic outlooks of the main international bodies were revised downward.

## **The French economy**

### **1. The main features of economic development in 2018**

The French economy slowed in 2018. Real GDP growth was 1.7%, lower than the 2.3% in 2017, when it reached the highest rate since 2007, according to the French National Institute of Statistics (Insee). So, as in previous years, the French economy continued to grow less than the Eurozone as a whole (1.9% in 2018). There were various random factors, such as the social protests on the streets by the *gilets jaunes*, the relatively hot temperatures and school holidays, which negatively affected domestic demand, although certain tax measures designed to increase available income avoided greater deterioration.

### **The French economy slows down, reflecting the impact of street protests.**

GDP growth was bolstered by dynamic private investment, which benefited from the labour reform approved in 2017, measures to boost competitiveness (CICE) and favourable financial conditions. The foreign sector also made a fairly positive contribution to GDP growth, as imports weakened throughout 2018, especially in services. Consumption, on the other hand, did not show positive signs until the fourth quarter of the year, when it was influenced by the increase in household disposable income under the budget measures taken in December 2018, and falling inflation. These positive effects on consumption will continue in 2019.

Note that the increase in the purchasing power of household disposable income (defined as the increase in gross household disposable income after taxes and transfers, after discounting inflation) is a very important concern in France. The insignificant gains in purchasing power over the last decade partly explain the current social unrest, with movements such as the *gilets jaunes*. Consequently, part of the government's response to their demands has been to boost household disposable income through tax cuts.

Specifically, three rounds of measures were pushed: those introduced in the 2018<sup>1</sup> and 2019 budgets; the Emergency Economic and Social Measures (MUES) approved in December 2018, and the additional measures adopted on conclusion of the Great National Debate, in which a million and a half citizens took part, which were announced by Emmanuel Macron on 25 April 2019 (see box). According to some estimates, the first two sets of measures will make

<sup>1</sup> See box published in the 2017 Andorran annual report.

household disposable income grow 2.5% in 2019 (after an increase of 1% in 2018). These measures, together with those presented after the Great National Debate in April 2019, will help to maintain the increase in household disposable income until 2020.

The level of per capita GDP compared with the European average in purchasing power parity (EU=100) has been stable at 104 for three years. This means that GDP per French inhabitant is 4% higher than the European average and, since the start of the French economic recovery, the level of real convergence with the EU has neither improved nor worsened. However, we should remember that in the period 2009-2013 the level of per capita GDP reached 8% higher than for the EU, which means that during the years of adjustments following the economic crisis, France saw a process of divergence between the level of income per inhabitant and the European average.

According to Insee, the GDP components that drove growth in 2018 were those of domestic demand, which added 1.3 points to growth, despite a decrease of eight tenths against the previous year. All components of domestic demand saw positive trends but weaker than in 2017. So, growth in private consumption slowed from 1.4% in 2017 to 0.9% in 2018, and public consumption from 1.6% to 0.8%. Household consumption felt the effect of decreasing job creation but showed more positive signs at the end of the year, following the budget measures approved by the National Assembly on 21 December 2018. For the second consecutive year, the GDP component that most drove activity was investment in 2018. Despite slowing, investment grew 2.8%, especially business investment, which benefitted from the improvement in the economic environment and the reforms introduced by Macron, especially in the labour market. In contrast, family investment in housing slowed dramatically,

### Box 2.1

#### EMERGENCY ECONOMIC AND SOCIAL MEASURES (MUES), APPROVED ON 21 DECEMBER 2018 BY THE FRENCH NATIONAL ASSEMBLY IN RESPONSE TO UNREST ON THE STREETS

The Law that approves them contains three main measures:

- Allowing employers to pay a bonus of up to €1,000, exempt of tax and mandatory social contributions, to employees who earn less than three times the minimum wage. This advantage, called “Exceptional Purchasing Power Bonus” had to be paid before 31 March 2019.
- Exempting extra time from payment of certain social contributions and income tax up to a maximum of €5,000.
- The third measure refers to the Generalised Social Contribution (CSG), which finances social security and unemployment insurance. For retirement pensions of under €22,580 p.a. per person, or €34,636 per couple, the CSG returns to 6.6%, the percentage applicable before being raised on 1 January 2018.

#### MEASURES ANNOUNCED BY PRESIDENT MACRON ON 25 APRIL 2019 AFTER THE GREAT NATIONAL DEBATE

- The commitment to suppress 120,000 civil service jobs in five years is withdrawn. It is announced that there will be no more closures of schools or hospitals, with no more than 24 pupils per class in schools.
- A “significant” cut in income tax is confirmed, to be specified by the government.
- The revaluation of pensions under €2,000 is ratified.
- The suppression of public holidays is rejected and the reform to extend the working day, currently 35 hours per week, is halted and left to collective bargaining in businesses.
- The proposal to delay the age of retirement, currently 62, is not withdrawn.
- The closure of the national school for civil servants (ENA) is announced.

from 6.6% to 2%, partly due to the fall in the number of permits granted for new housing.

### Foreign demand drives growth due to a major slowdown in imports.

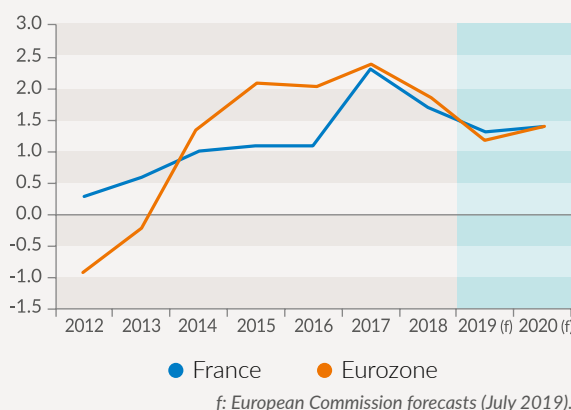
Foreign demand went from an almost neutral contribution in 2017 to a positive contribution of seven tenths in 2018, due to the major slowdown in imports of goods and services, which went from 3.9% growth in 2017 to 1.2% in 2018, exceeding the slowdown in exports (3.9% in 2017 and 3.5% in 2018). For the second consecutive year, French exports of goods and services had a similar or even

more positive trend than the Eurozone, evidence that the loss of competitiveness over previous years had halted. The good performance of the trade balance helped to reduce the current account deficit from -0.6% GDP in 2017 to -0.3% in 2018, according to the OECD.

As for supply, in 2018 the ten sectoral branches saw positive trends in GVA, but all grew at a lower rate than in 2017, except financial activities (which went from falling 6.8% to growing 1%) and cultural, recreational and other activities for which the growth rate doubled in 2018 to 1.5%. The information and communications sector saw the most positive trend (5.2%), followed by scientific and professional activities (3.3%) and commerce, transport, hotels and catering (1.9%). Other activities, including industry and construction, saw variation rates of 1.6% or less.

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

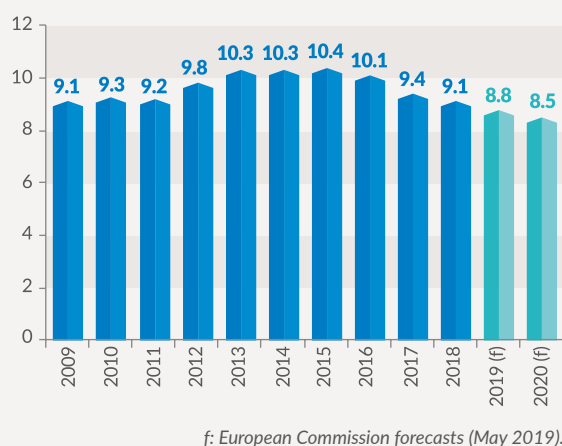
Chart 2.1



Source: Eurostat.

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

Chart 2.2



Source: Eurostat.

In 2018, reactivation of the economy enabled 257,000 jobs to be created, an important figure but lower than the high of the previous year, when the net increase in jobs reached 329,000. In variation rates, employment grew 0.9% year-on-year, and the harmonised unemployment rate fell from 9.4% in 2017 to 9.1% in 2018, according to Eurostat. Although net job creation remained at still high figures on annual average, the variation rate decreased dramatically from the second quarter of 2018 due to the cut in publicly subsidised jobs and the slowdown in economic activity. In contrast,

### Job creation slows in the second half due to the termination of some incentives.

employment benefitted from two reforms in 2018: on the one hand, the transformation of tax credits for employment and competitiveness (CICE), permanently reducing business contributions to social security. On the other hand, employment also benefitted from the labour reform approved at the end of 2017, decentralising collective bargaining and allowing small enterprises to forgo sectoral agreements and adapt to specific business conditions. Moreover, a limit was set on compensation for unfair dismissal.

The progressive improvement in the labour market and reduction in the unemployment rate allowed nominal wage rises to recover for the second consecutive year (1.7% in 2018 and 1.9% in 2017). Labour productivity, on the other hand, increased 0.7%, so unit labour costs (ULCs) – the difference between wage growth and productivity – grew 1% in nominal terms. However, in real terms (after discounting the deflator) ULCs only rose 0.1%, enabling French businesses to remain competitive.

**Nominal wages recover and household disposable income increases.**

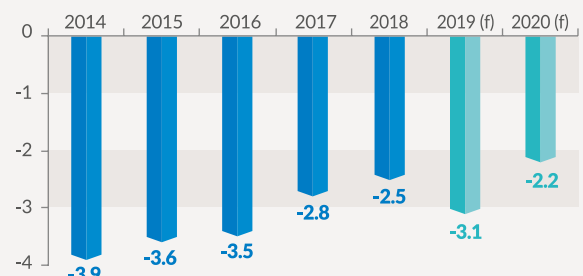
Consumer prices rose until September and fell in the final months of the year, following the trend in oil prices. On annual average, harmonised inflation was 2.1% in 2018, almost one point higher than the previous year. Underlying inflation, which most faithfully reflects the trend in core prices as it excludes volatile components (unprocessed foods and energy) saw a gentler trend, with an increase of 1.3% on annual average.

In 2018, the public sector continued the fiscal consolidation policy. The public administration deficit stood at 2.5% of GDP, 0.3 points less than in 2017. This fall in the deficit was the result of a reduction in the expenditure percentage of GDP (from 56.4% to 56%), while the percentage of income remained practically stable at 53.6%. This stability in income is due to the fact that the increase from the cyclical situation was offset by tax cuts introduced in 2018, estimated to have had an impact of 0.3% on GDP. These measures were the

### The public sector continues reducing the deficit, to 2.5% of GDP.

exemption from housing tax, the substitution of the wealth tax with a property tax and the introduction of a fixed-rate tax on investment income, only partly offset by the increase in environmental taxes, which it is estimated may have had an impact on GDP of about 0.1%. As for expenditure, the austerity policy meant that the impact of refunding the 3% dividend tax (estimated at about 5,500 million euros in 2018) and expenditure on tax credits for competitiveness and employment (CICE) could be offset. Although the public deficit was reduced, the public debt remained constant in GDP terms at 98.4%, due to slowing GDP growth in nominal terms. This level of public debt is higher than the average of the 19 Eurozone members (87.1% of GDP), making the French economy vulnerable to possible changes in investor sentiment and future rises in interest rates.

FRANCE'S PUBLIC DEFICIT  
As % of GDP



f: European Commission forecasts (May 2019).

Source: Eurostat.

Chart 2.3

## 2. Prospects

After the interruption in activity at the end of 2018 due to the street protests by the *gilets jaunes*, economic activity showed signs of improvement at the start of 2019, favoured by the Emergency Economic and Social Measures (MUES) approved by the French government in December 2018, which will have an impact throughout 2019 and 2020. In contrast, it is

**In 2019 increased disposable income will drive consumption.**

expected that the slowdown in global demand due to revived trade tensions will undermine activity, although France is slightly less exposed to the international environment than other large Eurozone economies, such as Germany or Italy.

In this context, the OECD and IMF predict that French GDP growth will reach 1.3% in 2019 and remain close to that figure in 2020, representing virtual stabilisation of growth in the French economy. The indicators of economic sentiment have improved since the beginning of 2019 and remain above the historical average. It is expected that domestic demand will gradually recover and boost GDP growth. Private consumption will benefit from the gradual improvement in nominal wages, contained inflation and, especially, the major fiscal stimulus approved at the end of 2018, which especially affects vulnerable families with a high marginal propensity to consume. It is expected that in 2019 gross household disposable income will increase in real terms (after discounting inflation) to about 2%, the highest rate since 2007. The other component of domestic demand, investment, may see slower growth in 2019 but continue to progress faster than economic activity in general. Growth in public investment is expected to increase in 2019 and weaken in 2020, in line with local investment closely linked to the electoral timetable. In contrast, housing investment will continue to fall in 2019, in keeping with the fall in new construction. Finally, growth in business investment will slow but investment will still be dynamic, as indicated in the surveys.

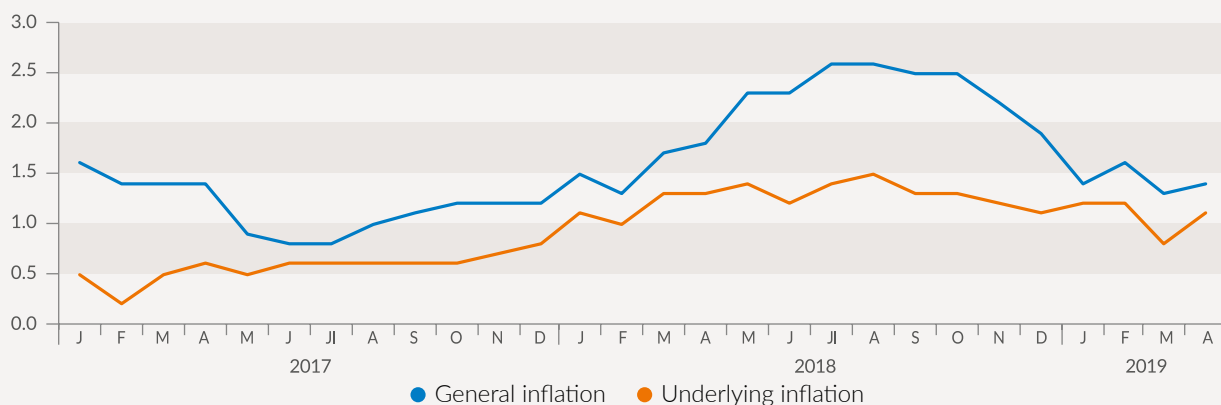
As for foreign demand, this is expected to make a less positive contribution than in the previous year. After major weakening in 2018, import growth will increase in 2019 and 2020, in line with final demand. In 2019, the increase in exports will decrease slightly as growth in foreign demand may lose momentum. As a result, it is expected that net exports in 2019 will make a slightly positive contribution to growth.

### In 2019 growth in the French economy will slow to 1.3%.

In the first quarter of 2019, the economy maintained the same rate of growth as in the fourth quarter of 2018 (0.3% quarterly).

Household consumer spending recovered, while gross fixed capital formation lost momentum. In general, final domestic demand excluding stock variation accelerated slightly and added 0.3 points to GDP growth, one tenth less than in the previous quarter. Exports stagnated and imports slowed in the first few months of the year. Consequently, the foreign sector made a negative contribution of 0.3 points to GDP growth in the first quarter. In contrast, stock variation made a positive contribution to GDP growth (+0.3 points after -0.1 points). As for supply, production increased notably

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



Source: Eurostat.



## FRANCE. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 2.1

	2016	2017	2018
<b>Components of demand</b>			
Private consumption	1.8	1.4	0.9
Public consumption	1.9	1.6	0.8
Gross fixed capital formation	2.7	4.7	2.8
Domestic demand without inventories (a)	1.9	2.1	1.3
Inventories (a)	-0.4	0.2	-0.3
Exports of goods & services	1.8	3.9	3.5
Imports of goods & services	2.9	3.9	1.2
<b>Components of supply</b>			
Agriculture	-12.3	4.8	1.6
Industry	1.1	1.5	0.6
Construction	-1.4	2.4	1.0
Commerce, transport, hotels & catering	1.2	3.6	1.9
Information & communications	3.9	5.4	5.2
Financial activities	0.5	-6.8	1.0
Real estate activities	0.2	1.2	0.9
Scientific activities & prof. services	3.2	4.6	3.3
Public admin., health & social serv.	1.3	0.9	0.7
Cultural, recreational & other activities	2.7	0.7	1.5
<b>GDP at market prices</b>	<b>1.1</b>	<b>2.3</b>	<b>1.7</b>

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

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

in the industrial sector in quarter-on-quarter terms, especially in the refineries sector, which recovered after the social movements in November 2018, and also improved in construction. In contrast, it slowed in the services sector.

The harmonised rate of inflation was 1.4% on average in the first four months of the year, lower than the 2.1% for the whole of 2018. Eurostat predicts that inflation will reach 1.3% in 2019, representing a major slowdown compared with the price increase of the previous year. Falling inflation in 2019 is based on a foreseeable fall in energy prices and also the knock-on effect of the increase in tax on energy consumption, which came into force at the start of 2018. Underlying inflation in 2018 – excluding energy and food – remained close to 1.1% in the first four months of the year, well in line with the average annual increase seen in 2018 (1.3%). These data confirm that the one-off increase in prices seen in the previous year was due to the high oil prices and the impact of the special taxes.

As for the labour market, growth in employment in 2019 will slow, in line with economic activity. According to Eurostat, employment could grow 0.8% and the unemployment rate will continue to fall about 0.3 annual percentage points in 2019-2020. The unemployment rate will reach 8.8% and 8.5% respectively. According

to forecasts from the Bank of France, growth in productivity may have a negative impact on job creation, but will enable wages in the private sector to continue to increase in 2019 and 2020 (it could reach 2.3% each year). In the context of predicted lower inflation for 2019, real wage rises could be particularly significant in 2019 (about 1.2%) and then stay around 0.8% in 2020.

In 2019, a one-off increase in the public deficit is expected, to 3.2% of GDP – due to the impact of 0.9 points on GDP, in accounting terms, from substituting tax credits for employment (CICE)

### The public deficit will increase in 2019 due to measures taken at the end of 2018 and in April 2019.

with a permanent reduction in social security contributions from businesses – but it will fall again in 2020 to 2.2%. The public debt will reach 99% in 2019 and will not come down from this level in 2020. As for expenditure, it is calculated that the measures adopted at

the end of 2018 to tackle the *gilets jaunes* movement, especially relating to income, will mean an increase in the deficit of about 10,000 million euros (i.e. 0.4% of GDP). Moreover, revenue is expected to drop off due to the second cut in housing tax and the reduction in social contributions, and also the predicted slowdown in GDP growth.



Whether the predictions for the next few years are fulfilled depends on the upside and downside risks. On the positive side, the upswing in private consumption may be stronger than expected if most of the increase in household disposable income is allocated to consumption rather than investment. In the longer term, the structural reforms made by Macron's government could potentially increase growth in the French economy through business investment. As for negative risks, a prolonged fall in foreign orders due to trade tensions – or the future Brexit – could result in a steep drop in investments and exports by French businesses.

## III. The Spanish economy

### 1. The main features of economic development in 2018

In 2018, growth in the Spanish economy remained strong despite slowing since 2017. The Spanish economy has had five consecutive years of expansion and grown more than the Eurozone countries as a whole. This expansion exceeded expectations, to a large extent because of the favourable behaviour of domestic demand. In contrast, the foreign sector saw a more negative trend than initially expected, due to weakening world trade, especially from the second half of the year.

The Spanish economy maintains a strong rate of expansion, driven by job creation, favourable financial conditions and progress in correcting some of the macroeconomic imbalances, such as the foreign deficit, public and private debt and unemployment. However, GDP growth slowed throughout the year, in line with the context of a progressive slowdown in global activity, which went from 2.9% in the first quarter to 2.3% in the fourth quarter of 2018. Equally, interannual GDP growth rates remained quite stable throughout the year at about 0.6%-0.7%. All this resulted in high consumer and business confidence, reflected in the good performance of consumption and investment. Equally, the flow of new credit to households and small and medium enterprises continued to grow for the second consecutive year, but within a general framework of debt reduction. Despite the correction of some imbalances, Spain has seen a major increase in income inequality in recent years, partly associated with job insecurity.

#### ***The Spanish economy sees its fifth consecutive year of expansion, but at a slower pace.***

In 2018, Spanish GDP grew 2.6%, according to the National Institute of Statistics, four tenths below the 2017 rate. One of the positive features of growth in the Spanish economy in 2016 and 2017 was that its

composition remained balanced, as both domestic demand and foreign demand made a positive contribution to GDP growth, although this behaviour was interrupted in 2018. On the one hand, national demand was consolidated as the main driving force behind growth, contributing 2.9 percentage points to GDP growth, as in 2017, driven mainly by dynamic investment and private consumption. On the other hand, net foreign demand took 0.3 points off growth, after making a positive contribution of 0.1 points in the previous year, due to exports of goods and services slowing more than imports.

The Spanish economy grew most among the major European countries, much more than France (1.7%), Germany (1.4%), the United Kingdom (1.4%) and Italy (0.9%). Equally, Spanish GDP growth easily exceeded the 1.9% recorded for Eurozone countries as a whole. In contrast, this higher growth has not led to a convergence of Spanish and European per

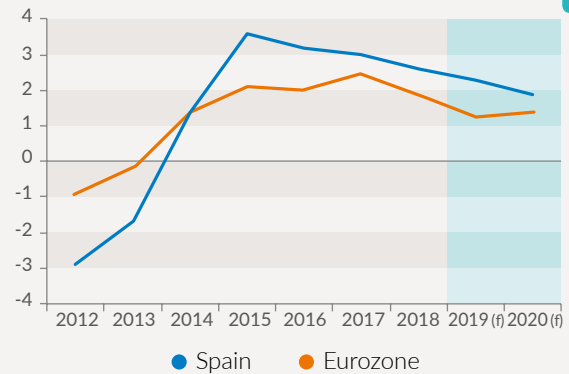
capita GDP. Since the start of the recovery, growth in the Spanish economy has been stronger than in the EU, but since 2012, the Spanish per capita GDP index measured as purchasing power parity compared with the EU-28 average (=100) has stabilised around 91 (the index reached 91 in 2018).

The Spanish economy grew most among the major European countries, much more than France (1.7%), Germany (1.4%), the United Kingdom (1.4%) and Italy (0.9%). Equally, Spanish GDP growth easily exceeded the 1.9% recorded for Eurozone countries as a whole. In contrast, this higher growth has not led to a convergence of Spanish and European per capita GDP. Since the start of the recovery, growth in the Spanish economy has been stronger than in the EU, but since 2012, the Spanish per capita GDP index measured as purchasing power parity compared with the EU-28 average (=100) has stabilised around 91 (the index reached 91 in 2018).

**Spain's economy was the one that grew most among the major European countries.**

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

Chart 3.1



f: European Commission forecasts (July 2019).

Source: Eurostat.

The component of domestic demand with the highest rate of growth was investment in housing and other construction, with an annual rate of 6.2%, followed by equipment investment (5.4%). The determining factors of this upswing in investment are the low interest rates, increased profits, restructuring of balance sheets and high business confidence. However, the strongly expansive profile in equipment investment did not result in a substantial increase in apparent work productivity, probably due to the low investment in human and intangible capital. In a context of very low interest rates and abundant cash, the demand for credit gradually recovered, a key incentive for productive investment.

Growth in final household spending on consumption slowed slightly from 2.5% in 2017 to 2.3% in 2018, but is still holding up thanks to the good performance of the labour market and wage increases in that year. Lastly, public consumption grew 2.1%, two tenths more than in 2017, partly as a result of the social measures approved by the Spanish government after a motion of censure in June, in the last months of the year.

As for foreign demand, the weakening momentum in both exports and imports compared with the previous year is due to a slowdown in world trade flows, the result of the trade war between the USA and China. Real exports of goods and services saw an increase of 2.3% in 2018, 2.9 points less than in 2017, while imports slowed 2.1 points to reach a rate of 3.5%,

**GDP growth was accompanied by a foreign surplus for the seventh consecutive year, but lower than in previous years.**

which explains the negative contribution of foreign demand to GDP growth in 2018. The increase in imports can be explained by the strength of domestic demand, while exports suffered from the weakening momentum in the Eurozone and the main global economies.

The global foreign balance was positive but more moderate than in previous years due to a drop in the current account surplus. According to balance of payments data, as a percentage of GDP the positive current account balance was 0.9%, lower than the 1.9% recorded in the

previous year. However, this surplus enabled a reduction of the volume of foreign debt for the seventh consecutive year, which had not happened in previous periods of expansion.

As for supply, in 2018 growth in gross value added (GVA) was seen in all the main branches of activity. Construction was the sector that saw the highest increase (7.6%), greater than the 6.2% of the previous year, but its contribution to global GDP growth is still small due to its serious fall in percentage during the crisis. Industry was the sector that slowed most, going from an increase of 4.4% in 2017 to an increase of 1.1% in 2018, due to the slowdown in exports and falling numbers of vehicle registrations. Services remained dynamic (2.7% compared with 2.5% in the previous year), especially the branches of professional, scientific and technical activities (6.1%) and information and communications (4.6%). The dynamic investment in construction was reflected in a rise in the real estate sector which continued to see a significant increase in property sales and housing prices throughout 2018.

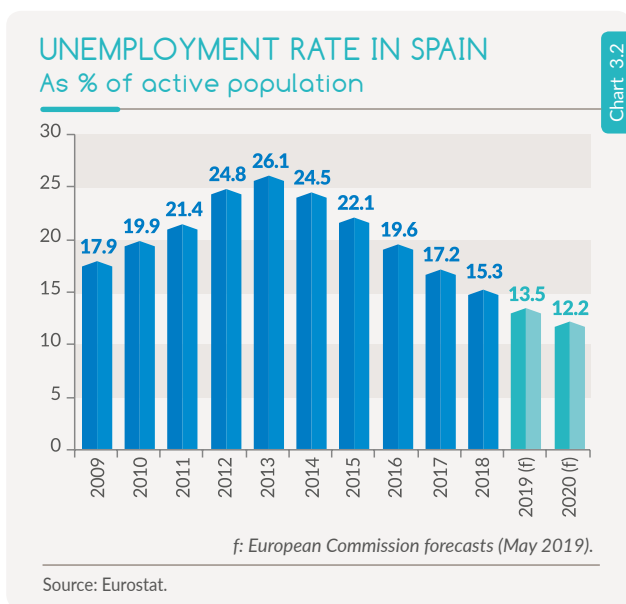
The labour market continued to show quite positive results, considering that the number of employees has grown at a rate close to 3% over the last four years – at the end of 2018, it passed 19.5 million, according to figures in the Active Population Survey of the National Institute of Statistics (INE). Productivity per employee increased slightly, 0.06%, while pay per employee grew more than productivity, by 0.85%. So, unit labour costs increased 0.79%, interrupting the falling trend of recent years. The improvement in unit labour costs from the start of the crisis until 2017 allowed recovery of the accumulated loss of competitiveness in the period of expansion, and was a key factor explaining the dynamism in Spanish exports in that period, although this trend changed in 2018.

Unemployment continued to fall in Spain, but at a lower rate than in previous years. Specifically, in the fourth quarter of 2018 the total number of unemployed was 3,304,300, 12.3% less than at the end of the previous year. In absolute terms, the number of unemployed fell 462,400 in one year, the smallest fourth-quarterly fall in the last four years. The unemployment rate also fell two points last year, reaching 14.5% at the end of 2018, the lowest rate since the fourth quarter of 2008 but still far from the low of 2007 (8.2%). Despite the fall in

the unemployment rate, there are still some very affected groups, such as youths under the age of 25 (the youth unemployment rate is still 34%, the second highest in European countries), those with primary education or less (52% of the unemployed) and those who have been out of work for more than two years (35% of the total unemployed). The persistently high unemployment rate is one of the reasons for the increase in income inequality occurring in Spain in recent years.

The very high rate of temporary employment is still one of the features of the Spanish labour market. However, in 2018 there was, for the second consecutive year, a slowdown in growth in temporary employment compared with the previous three years, so, by the end of 2018, the temporary employment rate was 26.9%, 0.2 points higher than the year before, a rate that is far from the highs seen in the previous period of expansion (33.8%

**Long-term unemployment and temporary contracts are the most concerning elements of the labour market.**



### Box 3.1

## A MOVE TOWARDS HIGHER QUALITY TOURISM<sup>1</sup>

After two years (2016-2017) of exceptional tourism flows, indicators in Spain in 2008 pointed to a notable slowdown, so arrivals of foreign tourists over the year only increased 1.1% and average spending per tourist 2.1%. This is the first year since 2009 in which global growth in tourism in Spain is lower than that of GDP.

One of the reasons explaining this slowdown in arrivals of tourists from the main European countries was the significant recovery in Mediterranean competitors, such as Turkey and Egypt, where political tensions have decreased in recent months.

An interesting fact is that the slowdown in the inflow of foreign tourists was slightly greater than in average spending per tourist. This implies a certain

composition influence in which the low-cost segment saw relative weakening compared with high-cost types, possibly reflecting the fact that the recovery of other Mediterranean destinations was mostly in the low-cost segment of tourism. In any case, the trend towards higher growth in average spending per tourist has been seen throughout the last decade, with a relative gain in the percentage of stays in high range hotels as opposed to low range hotels.

This could indicate a certain transition in Spain towards higher quality tourism, which could be the response of hoteliers faced with saturation in some coastal destinations and certain new phenomena, such as the emergence of digital marketing platforms where competition for demand is more sensitive to price.

<sup>1</sup> Based partly on box 6 in "The slowdown in non-resident tourism in 2018 to date", in Economic Bulletin 3/2018 of the Bank of Spain.

at the end of 2006). However, Spain's temporary employment rate is still much higher than in the Eurozone, where it was 16.2% at the end of 2018.

Economic growth was accompanied by moderate inflation rates, although the profile of the general CPI in 2018 was greatly influenced by the trend in energy prices, which accelerated strongly until October and slowed in the last two months of the year. On annual average, consumer prices rose 1.7%, while underlying inflation remained quite stable throughout the year at close to 1%, indicating that no inflationary pressures occurred from the point of view of demand. The rise in the CPI is higher than for wages per employee, which grew half a point more than the previous year (0.8%), but is still below inflation, representing another loss of household purchasing power. The harmonised inflation differential between Spain and the Eurozone was positive at times of rising inflation rates and negative in slowdown months. This can be explained by the fact that the Spanish economy is more dependent regarding energy and taxes have a lower influence on ultimate fuel prices in Spain. For this reason, fuel prices fluctuate more in Spain than in the Eurozone countries.

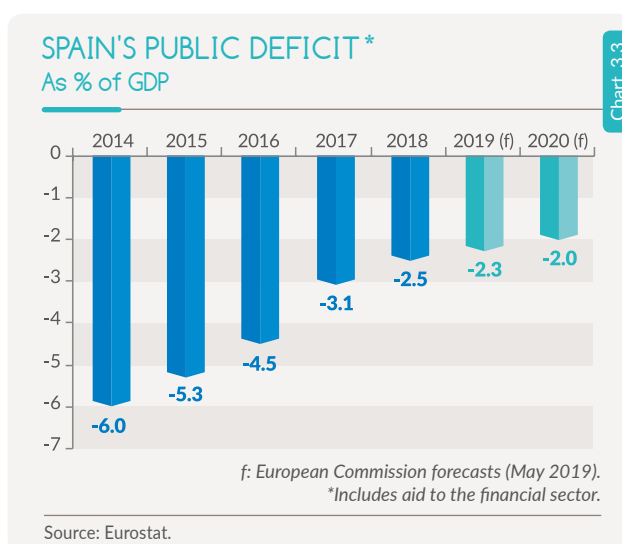
**Loss of household purchasing power as wages again grow less than inflation.**

In the sphere of public finance, the Spanish economy ended 2018 with a deficit of 2.5% of GDP, compared with 3% in 2017. Accordingly, the 2018 deficit fell 15.5%, a reduction that enabled Spain to exit the excessive deficit procedure in which it had been immersed since 2009. The deficit reduction occurred as income grew at a higher rate than expenditure (6.2% and 4.5% respectively). Increased non-financial income comes from the improvement in tax revenue and social contributions, which increased 6.5% and 4.9% respectively. Expenditure,

## Spain reduces its deficit to below 3% of GDP and exits the excessive deficit procedure.

for its part, reflected the decrease in the entries for public wages and social benefits. All in all, this enabled public wages and social benefits to be increased.

By administrative level, the reduction in the public deficit in 2018 can be explained especially by the reduction in the central Government deficit, from 1.85% of GDP in 2017 to 1.35% in 2018 and, to a lesser extent, that of the regional governments. Meanwhile, the level of deficit in the Social Security Fund remained stable and local corporations reduced their surplus. Although the 2018 public accounts showed a negative balance, the debt-to-GDP ratio of public authorities continued to fall, to 97.1% at the end of 2018, thanks to the increase in nominal GDP and the falling cost of financing the Spanish 10-year debt.



## 2. Prospects

The rate of growth in the Spanish economy remained strong in the first quarter of 2019, despite the weakening European context. GDP saw growth of 0.7%, one tenth higher than in the previous quarter. This put the interannual rate of GDP at 2.4%, one tenth more than in the preceding quarter, due to the higher contribution from net foreign demand, partially offset by a lower contribution from domestic demand. Among the components of national demand, growth slows in both public consumption and especially private consumption, while investment accelerates.

The Spanish economy continues to grow more than the Eurozone average. According to the estimate published by Eurostat, Eurozone GDP rose 0.4% in quarter-on-quarter terms, three tenths less than the Spanish economy and 1.2% on interannual terms, half that of Spain.

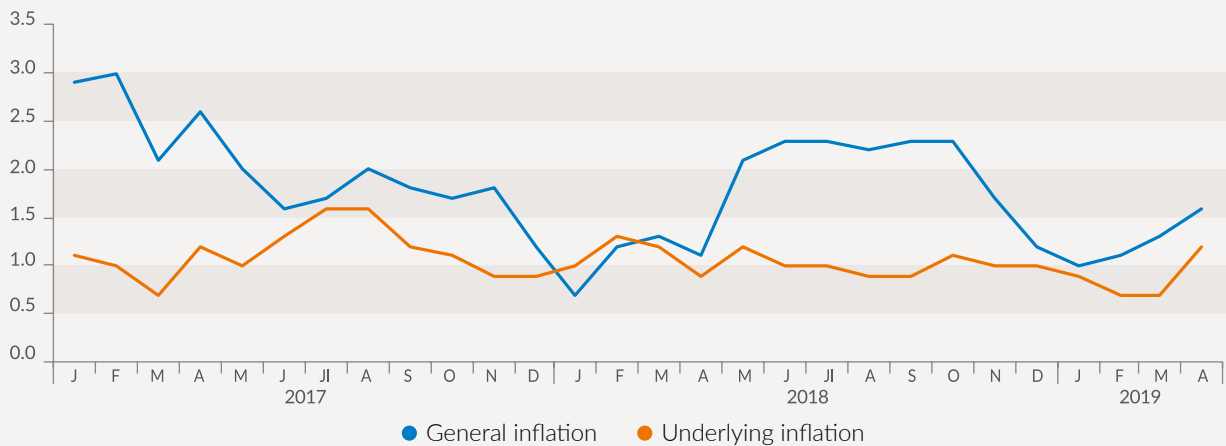
As for the labour market, employment and unemployment figures indicate that the process of recovery in the labour market continued in the first quarter of 2019. Employment shows interannual growth of 3.2%, two tenths higher than in the preceding quarter, while the unemployment rate increased 0.25 points to 14.7%. For the year as a whole, the European Commission predicts that the unemployment rate will fall to 13.5%, and could reach 12.2% in 2020, but it will still be the second highest in Europe after Greece. At the start of 2019, a 22% rise in the minimum interprofessional wage (SMI) was approved, putting it at 900 euros. This significant rise, added to the increases in the two previous years (4% in 2018 and 8% in 2017), which came into force in 2019, does not appear to have had any effect on employment considering the good results seen in the first four months of the year.

**GDP growth in Spain accelerated in the first quarter of 2019, doubling Eurozone growth.**

Consumer prices followed a rising trend in the first four months of the year, contrasting with the fall in the last few months of 2018, so inflation reached 1.6% in April due to the

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

Chart 3.4



Source: Eurostat.

upswing in energy prices. The European Commission forecast for the whole year for Spain is an inflation rate of 0.9%, which would be the lowest in the last three years.

As for the public accounts, the Spanish government includes a deficit target for 2019 that is equal to 2% of GDP in the 2019-2022 Stability Programme that it sent to the European Commission. Fulfilment of this target would require the deficit to be reduced 0.5 percentage points against 2018. It was not possible to approve the national budget plan in 2019, which led to general elections, so the 2018 budget was extended. Non-financial state expenditure for 2019 reaches 157,802 million euros, 0.1% lower than in 2018; on the other

**The budgets for 2019 maintain the reduction in the deficit based on increased tax revenue.**

hand, measures have been taken relating to wage increases for 2019 (2.25% for all public employees), the revaluation of “passive” pensions against the CPI and other social measures. As for revenue, the new government, confirmed by elections, is expected to approve a series of tax rises in 2019 to balance the public accounts, notably the creation of new tax forms (tax on financial transactions and tax on certain digital services) from which it expects to collect around 2,000 million euros.

According to the government Stability Programme, public debt is expected to fall at the end of 2019 to 95.8% of GDP, whereas the European Commission expects it to reach 96.3% due to a greater deficit divergence than expected.

The government has decided to maintain a path of financially stable economic growth to enable the budget to be balanced in 2022, and to make the most of the currently favourable economic situation to establish the bases of inclusive, sustainable mid-term growth from an environmental and social viewpoint. To do this, the National Reform Programme presented with the Stability Programme includes a set of structural reforms and investments to encourage the potential growth of the Spanish economy, within the framework of the UN Sustainable Development Goals of Agenda 2030.

National and international bodies (the IMF and European Commission) agree on the latest growth forecasts for the Spanish economy at 2.3% for 2019 and 1.9% for 2020. This estimate is mainly based on a more favourable trend in activity than expected in the first quarter of the year, and also the return of stability and business confidence globally. In

contrast, there will be a less positive effect from rising oil prices (which reached 72 dollars per barrel in May 2019).

In summary, forecasts indicate that the Spanish economy will maintain growth above the European average, but will gradually converge towards a more moderate potential growth rate. The economy began 2019 in its sixth year of expansion and has corrected the major accumulated imbalances, but still has a very high level of public debt and a labour market with two major structural problems: long-term unemployment, which will not be corrected just by greater economic growth, due to the low qualifications of most of the unemployed, and the high level of temporary employment which seriously undermines social cohesion.

**The unemployment rate still undermines social cohesion because it especially affects those with low qualifications.**

The forecasts have been made based on the assumption of political stability in the central government, after the Socialist party won the elections on 28 April, and also progressive normalisation of the situation in Catalonia. Now, risks loom from the international environment, especially two in particular: first, the instability in the Middle East, which may cause oil prices to rise, with major negative impacts on the Spanish economy which depends greatly on this energy source and second, intensified trade tensions between the USA and China, which could slow down growth in world trade, especially in the most open European economies, such as Germany, which is one of Spain's main trade partners.

## SPAIN. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 3.1

	2016	2017	2018
<b>Components of demand</b>			
Private consumption	2.8	2.5	2.3
Public consumption	1.0	1.9	2.1
Gross fixed capital formation	2.9	4.8	5.3
Domestic demand (a)	2.5	2.9	2.9
Exports of goods and services	5.2	5.2	2.3
Imports of goods and services	2.9	5.6	3.5
<b>Components of supply</b>			
Agriculture, livestock and fishing	8.2	-0.9	2.6
Industry	5.6	4.4	1.1
Construction	3.5	6.2	7.6
Commerce, transport and hotels & catering	3.4	3.4	3.0
Information and communications	5.0	4.1	4.6
Financial and insurance activities	-2.0	0.4	2.3
Real estate activities	1.1	0.1	0.6
Professional activities	3.2	5.3	6.1
Public admin., health and education	1.3	1.7	2.2
Artistic, recreational & other activities	0.3	1.6	-0.2
<b>GDP at market prices</b>	<b>3.2</b>	<b>3.0</b>	<b>2.6</b>

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

Source: National Institute of Statistics (INE).



# The Andorran economy: general developments

## IV. Population, employment and education

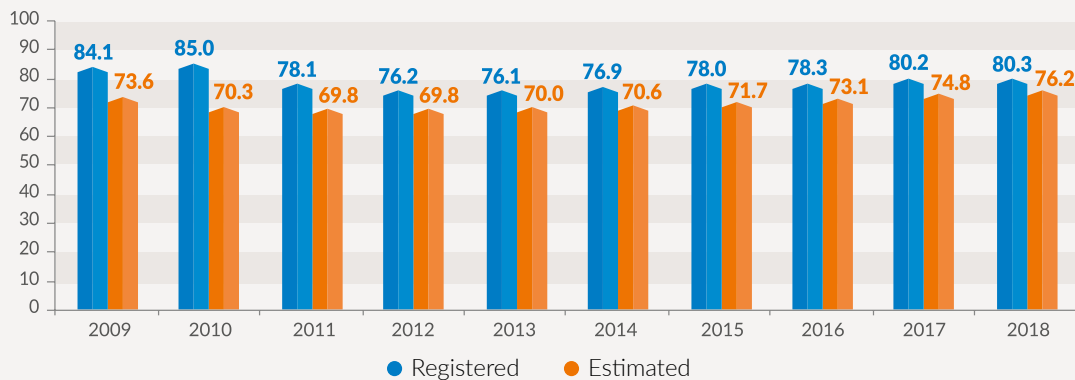
### 1. Population and migratory flows

In 2018, the estimated population of Andorra reached 76,177, according to data published by the Department of Statistics, the highest level in the available historical series (since 2009). This figure represents an increase for the sixth consecutive year, of 1.8%, lower than the 2.3% recorded in 2017.

**The estimated population of Andorra increased for the sixth consecutive year, to 76,177.**

In terms of population registered by the Comú authorities (a different concept to the above-mentioned estimated population), the data also show a rising trend, but one that is more modest at 0.1%, to 80,275 (66 more than a year earlier), the highest figure in the last eight years.

REGISTERED AND ESTIMATED POPULATION - In thousands



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

So the comparison between both sources still shows a difference of more than 4,000, i.e. a registered population that is 5.4% more than the estimated population. Equally, this disparity has fallen appreciably over time, as it was 20.9% in 2010.

The distribution by nationalities reflects that the rise in the estimated population of Andorra is explained more by the increase in numbers of foreigners than Andorrans, although Andorrans contributed more than in 2017. So, the number of foreigners has grown more than Andorrans for three years, reaching the highest figure of the available historical series (from 2010) in 2018.

Specifically, the increase in the estimated indigenous population was 1.2%, higher than the 0.3% recorded in 2017, rising to 37,144. Accordingly, the Andorran population has grown for six consecutive years at an annual average rate of 1.4%. In parallel, the foreign population rose 2.5%, less than the significant 4.3% rise in the previous year. This raised the estimated total number



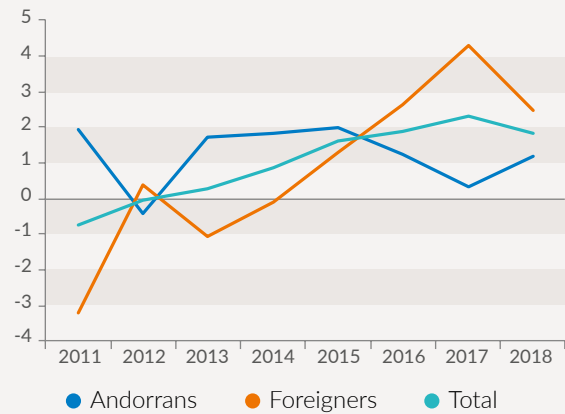
### Three consecutive years in which the number of foreigners has grown more than Andorrans.

of foreigners to 39,033 and demonstrates the attractiveness of the Andorran market to foreign workers, favoured in recent years by a more positive economic context.

By nationalities, the increase in foreigners was well spread. The Spanish, in particular, being the largest group, increased 2.1%, raising their share of the total population by one tenth to 25.1%, the highest figure since 2010. The increase in the numbers of French was smaller (4.4%), following the pattern of the previous four years. In contrast, the number of Portuguese fell slightly to represent 12% of the total population, continuing the falling trend seen since 2011. This trend contrasts with that of foreigners of other nationalities, which grew the most (6%) for the third consecutive year. Consequently, their percentage of the total population rose to 9.7%, the highest level in the available historical series and more than double the percentage of the French, contrasting with

ESTIMATED POPULATION BY NATIONALITIES  
Interannual variation rate (%)

Chart 4.2

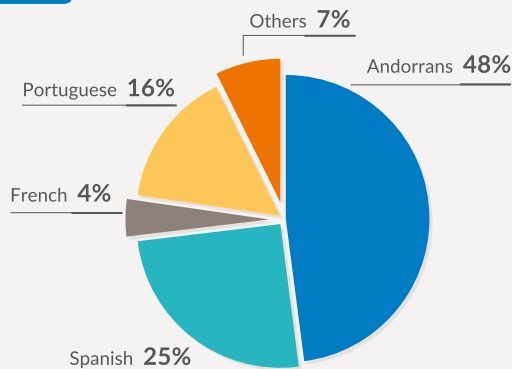


Source: Parish censuses of the Comú governments / Department of Statistics.

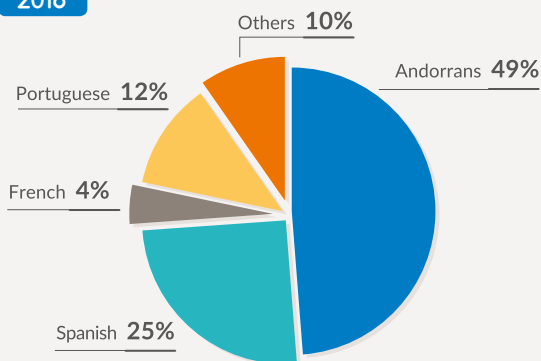
ESTIMATED POPULATION BY NATIONALITIES - As % of total

Chart 4.3

2010



2018



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

the similar percentage held by both groups in 1999 (in terms of registered population). Therefore, in 2018, the slow trend towards labour sourcing diversification continued.

In aggregate terms, the percentage of foreigners in the estimated population increased three tenths to 51.2%, the highest level in the last eight years. Nevertheless, it should be remembered that in terms of registered population, their percentage reached a high of 72.5% in 1986, much higher therefore than the current, more balanced ratio between Andorrans and foreigners.

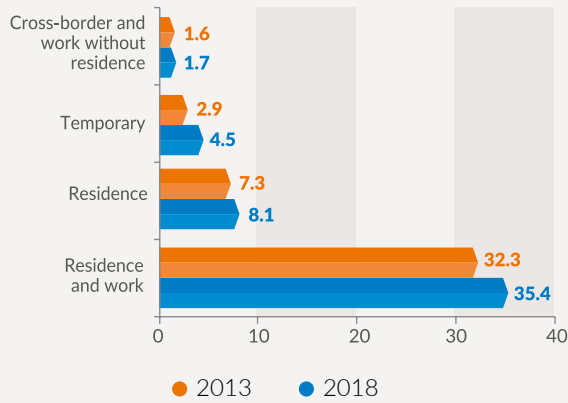
Growth in the number of foreigners in Andorra was also reflected in the increase in current immigration permits, a total of 49,659 on 31 December 2018 (including temporary), 3.2% more than the previous year. So, there have been five consecutive years of increases since the low recorded in 2013. Of the total immigration permits, most are for residence and work (70.4%), which increased 2.6% in 2018, driven by the good performance of the Andorran labour market. This factor also favoured the rise in numbers of cross-border work permits (11.3%) and temporary work permits for foreign companies (52.2% to 175). For their part, residence permits have increased more slowly (1.4%).

By parish, the increase in estimated population in 2018 was also generalised, following the pattern of the previous four years. Of note is the increase in Canillo (4.5%), followed by La Massana, Ordino, Sant Julià de Lòria and Encamp, all with higher growth than the total. The only parishes with lower growth were Escaldes-Engordany (1.3%) and Andorra la Vella (0.7%).

In any case, the latter parish is still by far the most populated, with 29.1% of the total estimated population of Andorra, and Canillo is still the least populated parish (5.4%).

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

Chart 4.4



Source: Department of Immigration / Department of Statistics.

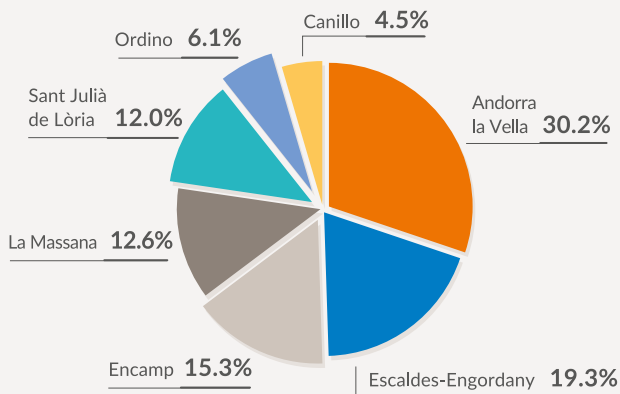
**The number of valid immigration permits at the end of 2018 is 3.2% more than the previous year and most are for residence and work.**

Consequently, the population of the high, less-populated parishes grew more than the low parishes for the fifth consecutive year, so the former regained the rising trend noted from the beginning of the nineties until 2011. The percentage of the high parishes therefore increased to 39.8% of the estimated population, 1.3 points more than five years ago, and well above the 29.1% they represented at the start of the nineties (according to the registered population); in contrast, the low parishes hold 60.2% of the estimated population.

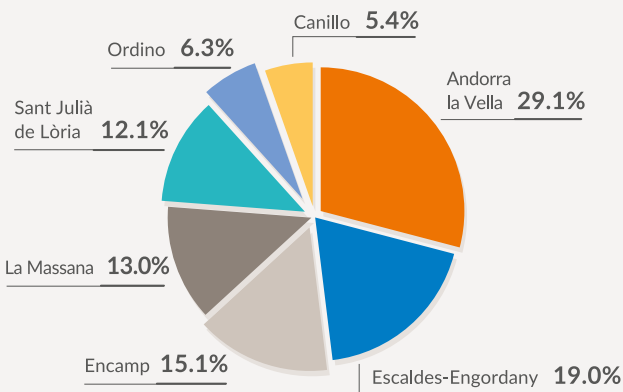
### ESTIMATED POPULATION BY PARISH As % of total

Chart 4.5

2013



2018



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

**The high, less-populated parishes gain against the low parishes for the fifth consecutive year.**

In relation to population change, a natural increase of 208 persons was recorded in 2018, 21.5% less than in the previous year and 2.7 per thousand of estimated population, a trend that is in line with the major decreases in recent years, interrupted only by the occasional year. This trend in the natural increase was the result of a significant fall in the number of births (-7.7%), contrasting with the increase in deaths (3.7%), so the birth rate fell and the death rate rose, to 7.1 and 4.4 per thousand, respectively. To these data must be added the positive balance in migratory movement, of 1,175 persons, calculated from the estimated population, which recorded a total net increase of 1,383, lower than in 2017.

## VARIATIONS IN THE ESTIMATED POPULATION

Table 4.1

	2017	2018
Births	588	543
Deaths	323	335
Natural increase	265	208
Birth rate (per thousand)	7.862	7.128
Death rate (per thousand)	4.319	4.398
Rate of natural increase (per thousand)	3.543	2.730
Increase from migration or census regularisation	1,424	1,175
Total population increase*	1,689	1,383
Marriages	320	293

\* Natural increase plus migratory increase.

Source: Department of Statistics.

### *The predominance of the male population over the female persists, influenced by the significantly male foreign workforce.*

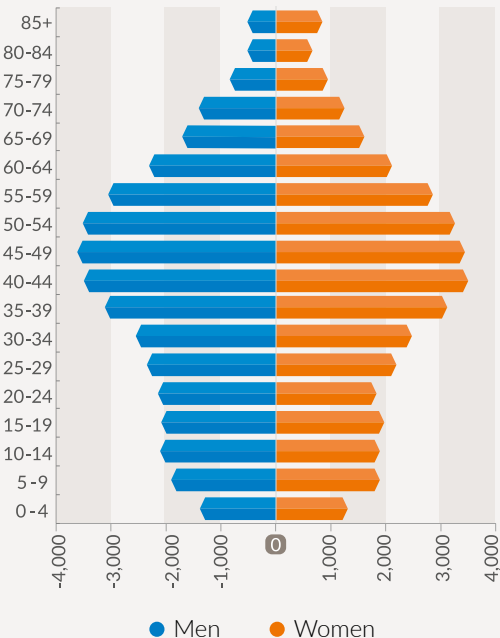
As for the population structure by age and gender, the number of men exceeds the number of women in all working age brackets, except the 35-44 age bracket and the over-75 bracket. So, in 2018, the difference between the percentages of the male and female populations increased 1.8 percentage points. It should be remembered that the greater presence of men can be explained by the size of the foreign workforce, which has traditionally been male.

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 from the age of 30. In contrast, the proportion of Andorrans is much higher in the bracket under the age of 30 (73.7%), contrasting with the low proportion of Andorrans in the group of those over 65 (38.3%).

Finally, the distribution by ages in 2018 shows that the Andorran population continues to age progressively, following the pattern of many other developed economies. In particular, the estimated population of under 15 can be seen to continue the falling trend of recent years, so its percentage of the total has fallen to 13.9%, 2.5 points less than in 2010. On the other hand, the group of 65 and over grew 3.6% in 2018, raising its share to 13.6%, a new historic high. In between, the working age population (15-64) increased 2.1%, raising its share of the total a little, to 72.5%. As a result, the average age of the Andorran population in 2018 reached 41, with notable differences between parishes, with ages ranging from 38.5 in Ordino to 42 in Andorra la Vella.

## STRUCTURE OF THE ESTIMATED POPULATION BY AGE AND GENDER. 2018

Chart 4.6



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

### *The average age of the Andorran estimated population is 41, with notable differences by parish.*

## 2. Employment and unemployment

The trend in the Andorran labour market remained positive in 2018 with a generalised improvement in the main indicators, in a context of continued economic growth and programmes to boost employment.

According to the data from the Workforce Survey, the number of employed in Andorra increased for the fifth consecutive year, at a strong annual rate of 4.2%, to reach 44,375. Of these, 13.3% are self-employed and the rest are employees spread between the private sector (69% of total employees) and the public and semi-public sector (17.7%). As for level of education, 82.4% of the employed have at least secondary education, and in relation to the type of working hours, 92.3% work full time and the other 7.7% part time. Those employed full time work an average of 41.4 hours per week and those working part time work an average of 18.7 hours per week. The percentage of women employed part time is four times greater than that of men.

The rise in employment was accompanied by a further drop in the number of unemployed, 12.9%, continuing the falling trend that started in 2014. This trend left the total number of unemployed at 929, one third of the high it reached in 2013. In this way, the unemployment rate has continued to fall to reach a low of 2%, a much lower level than recorded in the neighbouring economies.

By gender, the unemployment rate for men (1.8% in 2018) fell below that of women (2.2%), something that had not occurred in any of the previous eight years for which data are available. By ages, the bracket most affected by unemployment is still that of youth, with an average unemployment rate in the 15-24 age bracket of 10.9% in 2018. This is, moreover, the only age bracket in which unemployment increased in 2018, although the increase occurs after three years of steep reductions in what is a small, more volatile group. In the case of the 25-54 age bracket, the unemployment rate in 2018 was 1.5%, while for the oldest (55-64) it reached 1.2%.

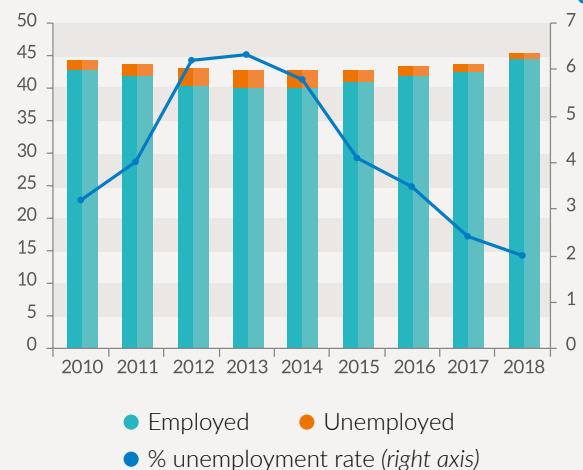
**The number of employees has been growing for five consecutive years.**

To complete the analysis of the unemployed population, it should be noted that 17% of the unemployed are long-term, i.e. have been searching for work for more than one year, and are concentrated in the 55-64 age bracket; 83% are short-term, and 45.1% of the unemployed have been searching for work for less than three months. Altogether, this demonstrates that the labour context in Andorra presents a quite positive global situation which has, moreover, improved since 2017.

The data from the Andorran Social Security System (CASS) support this positive behaviour in the Andorran labour market, with an annual average increase in the number of employees of

**The number of employed grew 4.2% in 2018 and unemployment fell significantly.**

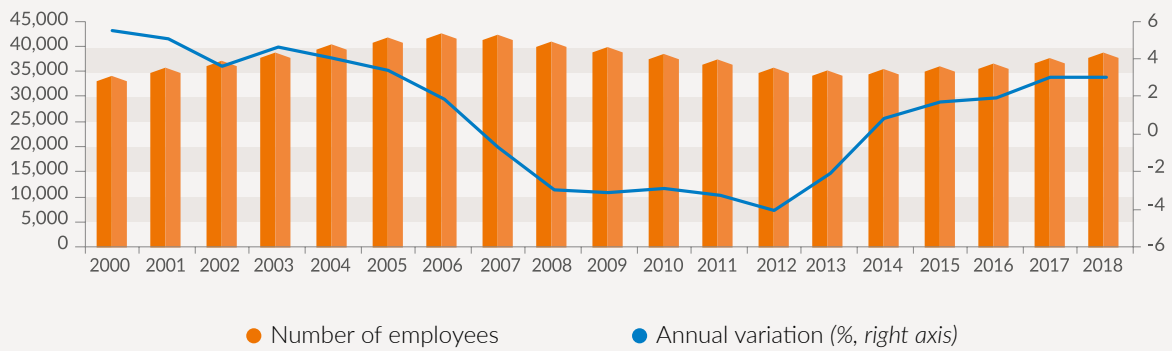
EMPLOYED AND UNEMPLOYED POPULATION - In thousands and %



Source: Workforce Survey, Department of Statistics.

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

Chart 4.8



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

3%, the same as in 2017. This makes five consecutive years of growth, reaching the figure of 38,848 employees, the highest since 2009, although this is lower than the high of more than 42,000 employees seen in 2006. Equally, the average number of jobs in Andorra has increased for the fifth consecutive year, to 47,041, 2.7% more than the previous year.

Accordingly, the employment rate, calculated on the population aged 15-64, increased 1.6 points to 80.3%, the highest level in the last seven years and clearly higher than the average for the European Union (68.6%). Along the same line, the rate of activity increased 1.3 points to 81.9%, and is still above the EU average (73.7%). This clear improvement in the employment and activity rates reflect the positive economic situation experienced by the country and implies a turning point in the falling trend that marked the last few years, partly influenced by factors such as the progressive aging of the population and the growing proportion of youth – and other age brackets – dedicated to studies or continuous training.

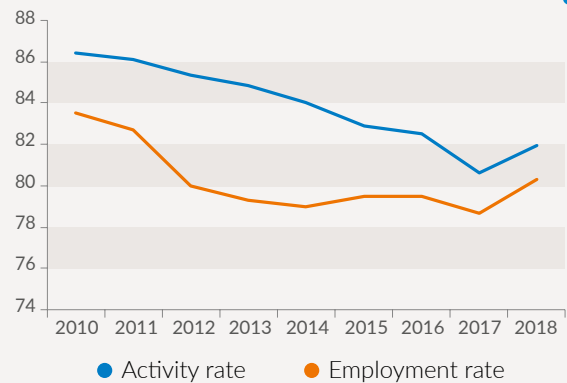
**The rate of job creation in construction accelerated in 2018, but services are still the sector that creates most jobs in absolute terms.**

(this concept does not include households employing domestic staff or voluntary declarants without activity). Consequently, in 2018, the average number of employees per business fell to a new historic low of 4.3 (for parity, employees of households employing domestic staff are also excluded).

Analysis by sectors shows that the trend in employment in 2018 was rising in all the major sectors except the primary. The 6.5% growth in employment in construction especially stands out, much greater than the 2.1% seen in the two previous years. Accordingly, the number of employees in the sector stands above 3,000, a figure that had not been seen since 2012 but is less than half the number at the end of the previous cycle of expansion (2005-2006).

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

Chart 4.9



Source: Workforce Survey, Department of Statistics.

In parallel to the increase in employment was an increase in the number of businesses, for the tenth consecutive year, of 4.4%, to 8,774

## Box 4.1

## NEW LEGISLATIVE FRAMEWORK FOR EMPLOYMENT IN ANDORRA

In December 2018, the General Council passed a labour reform, adopting three new legislative texts: the Labour Relations Law, the qualified Law on Unions and Business Organisations, and the qualified Industrial Action Law. Among the new aspects of this new framework are notably:

- The requirement for all employment contracts to be formalised in writing.
- The introduction of new contractual forms such as remote work or teleworking contracts, relief contracts or replacement contracts to substitute workers who retire, and continued employment contracts to enable those over 65 to continue working.
- The extension of the general trial period from one to two months.
- The extension of maternity leave from sixteen to twenty weeks and paternity leave from two to four weeks; the introduction of leave for family care, and the creation of unpaid leave to care for a child in the case of very serious illness or long-term hospitalisation.
- Unification of the cost of each hour of overtime, established at no less than 40% of the fixed wage.
- The amendment of notice in the case of dismissal (without cause) from 1 day per month worked, with a maximum of 90 days, to 12 days per year worked with a maximum of 30 days.
- Within the framework of collective rights of employees and collective bargaining a whole series of precepts are introduced that facilitate, foster and promote holding elections to appoint employees' delegates, and a new representative body is created – the work council. The minimum number of employees per business for electing representatives is lowered and their duties and guarantees broadened to favour representation as far as possible.
- Regulation of the right to strike, for the first time in Andorra.
- The Government is commissioned to study the possibility of creating a capitalisation fund, with contributions from employers and employees, to form an individual fund for various purposes.

The number of employees in industry also increased, at a much more modest rate than in construction, by 0.8%, contrasting with the fall seen in 2017, so that from a historical perspective, the sector maintains the same number of employees as in the last few years (about 1,600 employees). In contrast, the primary sector has had two consecutive years of falling employment. In any case, the performance of this sector has a much lower impact on the economy as its percentage of the Andorran labour market is very small, with only 164 employees.

### ***The importance of commerce and the financial sector in total employment is still falling.***

As for services – the Andorran sector with the greatest concentration of employees – the numbers increased for the fifth consecutive year, at a rate of 2.9%, four tenths less than the previous year. This was the sector that created most employment in 2018 in absolute terms, although in relative terms its percentage of total employment fell two tenths to 87.5%, after achieving a record in 2017. Industry and agriculture also fell, to 4.2% and 0.4%, respectively. In contrast, construction increased its percentage of the total by three tenths to 7.9%, indicating a turning point after 13 consecutive years of decline.

Within tertiary activities, commerce and motor vehicle repairs is still the most important service subsector, with 22.8% of total employees in Andorra, although it is losing ground compared with the previous year and recorded the lowest level in the available historical series. Real estate activities, rental and business services (14%) were consolidated in second place, followed by hotels and catering with 13.1% of employees, the same as in 2017.

## NUMBER OF EMPLOYEES

Table 4.2

	2018	% var. 18/17	% total 2018
Agriculture, livestock, hunting & forestry	164	-1.4	0.4
Industry	1,616	0.8	4.2
Extraction industries	1	0.0	0.0
Manufacturing industries	1,442	0.6	3.7
Production & distribution of electricity, gas & water	173	2.8	0.4
Construction	3,063	6.5	7.9
Services	34,006	2.9	87.5
Commerce & motor vehicle repairs (etc.)	8,851	0.2	22.8
Hotels & catering	5,092	2.7	13.1
Financial system	1,873	0.3	4.8
Public administration, defence & mandatory social security	4,444	1.5	11.4
Others	13,746	5.6	35.4
<b>Total</b>	<b>38,848</b>	<b>3.0</b>	<b>100.0</b>

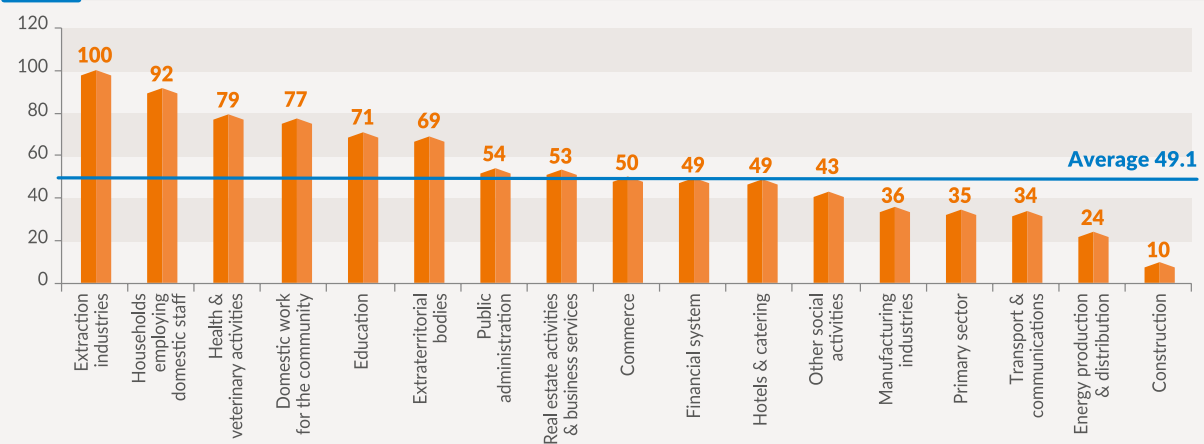
Source: CASS (Andorran Social Security System) / Department of Statistics.

Next comes public administration, defence and mandatory social security, with a drop in percentage for the fourth consecutive year, to 11.4%, and “other social activities and services provided to the community; personal services”, not including health and education (7.7%). After these are health and veterinary services (5.3%) and the financial sector (4.8%), two of the service subsectors in which employment rose least in 2018. The other tertiary activities account for a much lower percentage of employment.

By gender, the increase in employment in 2018 was higher in the case of men (3.5%) than women (2.6%), following the same pattern as 2017. This divided employees between 50.9% for men and 49.1% for women, increasing the disparity between the sexes from the previous year. The breakdown by sectors also reflects very significant differences in the distribution of work by sexes. In particular, the sectors with the largest presence of male employees are construction (9 out of 10 employees are men) and energy (8 out of 10 employees). In contrast, the sectors that employ mostly women are households employing domestic staff (9 out of 10); health and veterinary activities, domestic work for the community (8 out of 10, in both cases), and education (7 out of 10). This gender-based distribution pattern of employees in Andorra is similar to those of developed economies.

## PERCENTAGE OF FEMALE EMPLOYMENT BY SECTORS. 2018 - % women among total employees

Chart 4.10



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



The job creation recorded in 2018 was accompanied by another drop in the number of job seekers (-0.9%), although this drop was much smaller than the two-digit drops in the last four

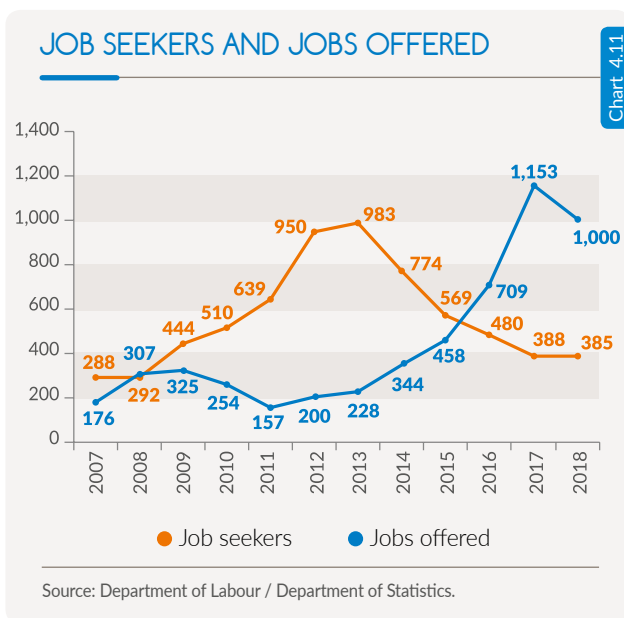
**The number of applicants looking for a better job increases sharply, contrasting with the drop in the numbers of job seekers.**

years. This slowdown is reasonable, insofar as the number of applicants in this situation has fallen (385, the lowest figure in the last ten years). Consequently, the percentage of job seekers among total applicants has shrunk to 62.2%, the lowest percentage since 2008. In contrast, the number of applicants looking for a better job has risen strongly (27.5%), for the second consecutive year, to 234, indicating that workers are more optimistic about labour market conditions and the possibilities of improving their professional situation.

In parallel, the rising trend in jobs offered at the Job Service, occurring since 2012, was interrupted, falling by 13.3% to 1,000 offers, which could indicate moderation in businesses' employment plans, in line with a more advanced phase of the cycle of expansion. Accordingly, the ratio of applicants to offer rose a little to 0.6, but is still at a very low level, indicating a fairly tight labour market. It cannot be ruled out either that discrepancies between the characteristics of the unemployed and businesses' requirements are increasing, as the level of national employment grows.

The good performance of the labour market was also reflected in a further decrease in the number of those receiving unemployment benefit, of 41.3%, to only 14 individuals, an indicator that has seen six years of steep falls. Moreover, the coverage rate for job seekers fell to 3.6%, the lowest level since 2009, when benefits were first offered, and a very low level compared with European neighbours.

years. This slowdown is reasonable, insofar as the number of applicants in this situation has fallen (385, the lowest figure in the last ten years). Consequently, the percentage of job seekers among total applicants has shrunk to 62.2%, the lowest percentage since 2008. In contrast, the number of applicants looking for



**Falling unemployment among those over the age of 40 contrasts with the increase in job seekers in the youngest age brackets.**

By ages, the trend in 2018 was marked by falling unemployment in the age brackets over 40 and an increase among those below this threshold. In particular, two-digit drops were recorded in the age brackets 40-59 (-12.4%) and 60 and above (-14.5%), which is noteworthy considering the historically greater difficulties of older groups to enter the labour market, when compared with the rest. In contrast, increases were seen in the numbers of job seekers in the 26-39 age bracket (11.3%) and the 18-25 age bracket

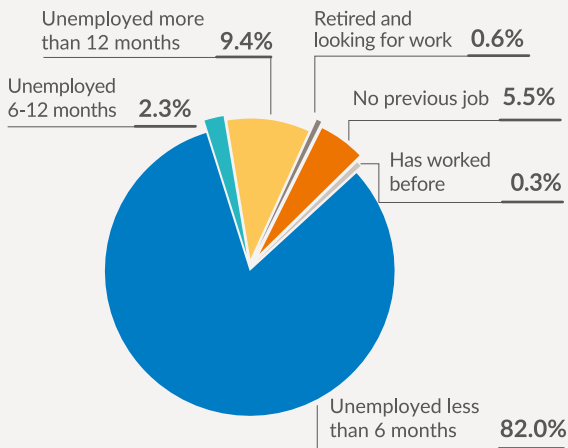
(21.1%), a trend that interrupts four years of steep decline. Added to these groups is the up to 17 bracket, in which the number of job seekers also increased for the second consecutive year.

So, the percentage of total job seekers in the 60 and above age bracket fell to 11.5%, although this is almost four times the figure in 2008, partly explained by the progressive aging of the population. In any case, most job seekers are still clearly concentrated in the



## JOB SEEKERS BY EMPLOYMENT SITUATION. 2018 - % of total

Chart 4.12



Source: Department of Labour / Department of Statistics.

40-59 age bracket (41.3% of the total), followed by the 26-39 age bracket (23.2%) and, to a lesser extent, the 18-25 age bracket (19.8%). On the other hand, applicants aged up to 17 only represent 4.2% of the total.

Another notable characteristic of job seekers in Andorra is that the majority, 82%, have been unemployed for less than 6 months, a percentage that has risen nearly 7 points compared with the previous year. For its part, structural unemployment (unemployed for more than one year) stands at relatively low levels (9.4%) in comparison with European neighbours and, moreover, fell in relation to 2017 (13.1%), a trend that confirms the good performance of the Andorran labour market.

### Box 4.2

## CONTINUOUS TRAINING IN ANDORRAN BUSINESSES AND A COMPARATIVE ANALYSIS WITH THE EUROPEAN CONTEXT

The challenges presented by globalisation of the markets and technological innovation mean that businesses need to introduce modernisation strategies within their organisation, methods and jobs, to boost competitiveness. In this context, continuous training and professional retraining of the work teams are key to helping both businesses and workers be more efficient and increase productivity.

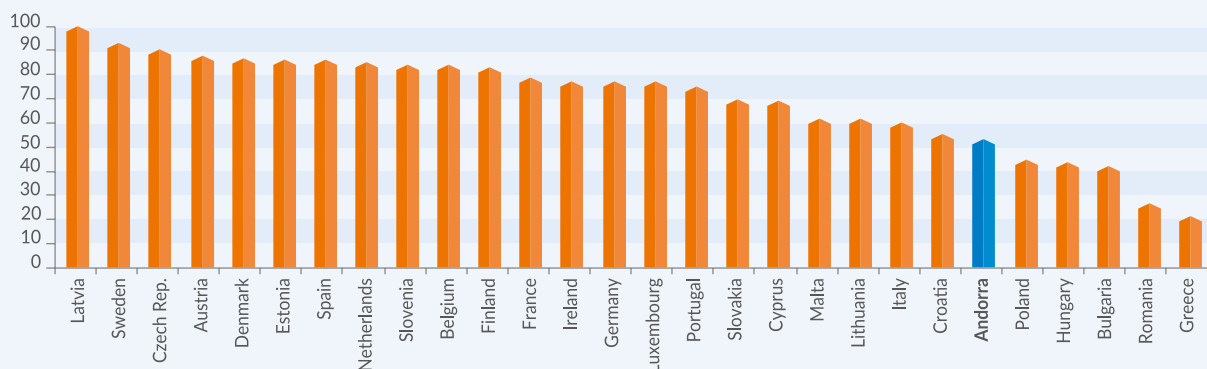
The Chamber of Commerce, aware of the importance of continuous training, prepared a survey in 2018 to assess the effort made by businesses in this field and

to find out about the structural aspects of the training activities that businesses provide to their workers. The main conclusions are:

Almost half of the surveyed businesses, 46.9% of the total, did not invest in training in 2018. In the European context, considering the available data for 2015, Andorra was one of the countries with the lowest percentage of businesses investing in the continuous training of their employees (53% compared with, for example, 93% in Sweden, 86% in Spain or 79% in France).

## BUSINESSES THAT HAVE INVESTED IN TRAINING THEIR EMPLOYEES. 2015

As a percentage of total businesses



Note: The Andorran data relate to 2018 and those for other European countries to 2015.

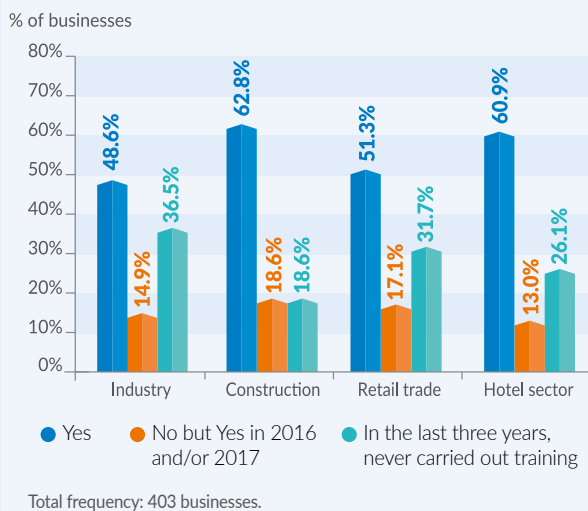
Source: Eurostat and Chamber of Commerce, Industry and Services of Andorra.

Among the Andorran businesses that have not carried out training activities in 2018, 16.4% justify it because they carried out training activities in 2016 and/or 2017. On the other hand, 3 of every 10 businesses state that they provided no training to employees in the last three years.

6 of every 10 businesses do not provide training to their employees regularly, but rather irregularly or almost never, and often only to adapt to and comply with regulatory changes.

By sectors of activity, it is the construction and hotel businesses that have organised or managed most training activities for employees in 2018.

### BUSINESSES THAT HAVE CARRIED OUT TRAINING FOR EMPLOYEES IN 2018 (by sectors of activity)



According to the size of the business, the larger the businesses the higher the percentage that provide continuous training. So, it is notable that all the surveyed businesses with more than 100 employees and nearly 80% of businesses with 11-100 employees carried out training activities in 2018. In contrast, in

the case of microenterprises (up to 5 workers) and small enterprises (6-10 workers) this percentage falls to 40.1% and 58.8%, respectively.

The main reason why businesses did not carry out training in 2018 was because they believe that the initial training of the employee is sufficient for the necessary skills (as stated by 38.5% of total businesses). The second most quoted reason was that the staff do not have time for training (23.7%), and then the fact that training was carried out in previous periods (cited by 21.8% of businesses). On the other hand, 17.9% of businesses indicated that the main reason for not providing continuous training to employees was that the business cannot finance it. Finally, among the other most relevant reasons were the low level of activity and the lack of a stable workforce, a factor that was particularly highlighted in the hotel sector and retail trade.

Only about one third of consulted businesses consider continuous training a strategic factor in their business policy and have an integrated training plan within the business.

Continuous training in businesses is aimed mostly at the core staff – 38.5% of the total training, as a percentage of individuals, is aimed at this group – followed by technical staff (27.1%). Finally, management receives 23.3% of total training and administrative staff 9.2%.

In conclusion, Andorran businesses are making an effort to improve the training of their employees. Now, this effort is not generalised enough if you consider the situation in most European countries, or sufficient to face the challenges posed by the profound transformation seen by markets and competition. Accordingly, the smaller businesses and those in the retail trade have further to go to catch up.

It should however be noted that, according to data from the Workforce Survey, structural unemployment was higher in 2018, by about 17%.

Finally, the distribution of job seekers by nationalities shows different trends in Andorrans and foreigners, with an increase in the former (6%) that contrasts with the decrease in the latter. The group of Portuguese job seekers fell the most (-15.5%), following the same pattern as in the last

four years. This limited the relative importance of this group to 10.7% of the total, the lowest in the available historical series. Also seeing small decreases were French applicants and those grouped under other nationalities, reaching 3.3% and 10.4% of the total, respectively. In the case of the Spanish, the number fell by only 1 person and remains the most numerous group of foreign applicants (124 individuals).

**The unemployment rate is slightly lower for foreigners than Andorrans.**

The percentage of foreigners among total job seekers continued to fall, to 56.5%, the lowest level in the available historical series (since 2007). This percentage is ever closer to

that of the total estimated working-age population (55.6%). In fact, according to the Workforce Survey, the unemployment rates of Andorrans and foreigners are very similar at 2.1% and 1.9%, respectively. It should be stated, however, that this situation comes with significant differences in the inactivity rate between the two groups. So, the inactivity rate of Andorrans (25.4%) is more than double that of foreigners (12.3%). This can be explained by the fact that the foreign population returns to their home country when their work in Andorra ends or they reach the age of retirement.

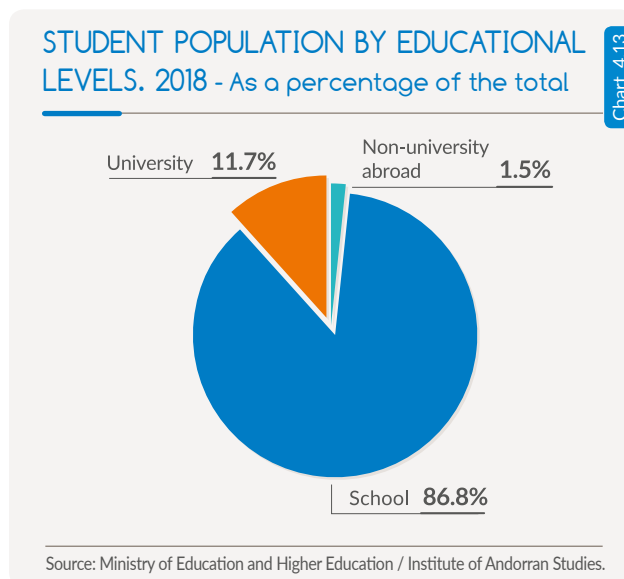
### 3. Education

In the 2017-2018 academic year, the student population in Andorra, including the school, university and non-university population abroad, was 12,716, 0.2% more than in the previous year, and almost equal to the historic figure reached two years ago. This rise can be explained firstly by the increase in the university population – which includes students in higher vocational education – for the third consecutive year, by 2.6%, plus a small increase in the school population (0.2%). In contrast, the non-university population abroad continued its decline of recent years with a steep fall of 15%.

By place of study, the number of students studying in Andorra increased for the fifth consecutive year (0.7%). In 2018, there were 11,586 students, a new record. Accordingly, the percentage of the total student population of students studying in Andorra increased to 91.1%. In contrast, the population studying abroad saw a fall of 4.1%, which reflects the reduction in the number of non-university students abroad (-15%) and university students (-1.5%) - the most important group of the population carrying out any kind of studies outside Andorra.

Andorrans studying abroad still do mostly in Spain, a destination whose percentage of the total student population recovered slightly in 2018, after five years of decline, due to slow growth of 0.9% (to 876 students). Accordingly, students in Spain represented 6.9% compared with 9.1% in 2012. The presence of Andorran students in France is much lower (1.8%), accentuated by the steep fall in the last academic year (-17.1%, to 228 students). The distribution by countries of study is completed

**The number of students studying in Andorra saw a new record.**



by 26 students spread between other countries (0.2% of the total), nine less than in the 2016-2017 academic year and the lowest figure in the last seven years.

### 3.1. School population

In the 2017-2018 academic year, there were 11,042 students at school level, 24 more than in the previous year, a trend that maintained its percentage at 86.8% of the total student population. Moreover, the schooling rate – calculated as the proportion of school population over the global population at that stage – increased 18.5 points, to 68.7%, the highest level in the available historical series in equal terms (since the 2006-2007 academic year).

**Students in vocational training have shown a constantly rising trend since the 2013-2014 academic year.**

By levels, kindergarten and primary and secondary education concentrate 86.2% of the students. The other 13.8% are students of baccalaureate and vocational training. With regards to the trend in the last academic year,

the decrease for the fourth consecutive year in the number of kindergarten pupils stands out (-2.6%), added to falls in numbers of students in secondary and baccalaureate education. In contrast, the group of students in vocational training still appears very dynamic with an increase of 11.2%, continuing the rising trend that began in the 2013-2014 academic year.

By type of education, the Andorran educational system has regained the trend of increasing penetration, after two years of losing ground. Specifically, the increase in students in this system was 3.2%, raising its percentage of the total school population to 40.5%, a new historical high. In contrast, the number of students in the Spanish educational system saw a decline of 3.6%, continuing the progressive loss of importance of this system, observed since the start of the nineties. So, its percentage of the total fell more than one point to 26.9%, a new historic low that contrasts with the 52.6% it represented in 1991. For their part, the number of students in the French educational system fell slightly (-0.1%) so its share of the total school population fell one tenth to 32.6%, ever further from that of the Spanish educational system.

#### STUDENT POPULATION BY LEVELS

Table 4.3

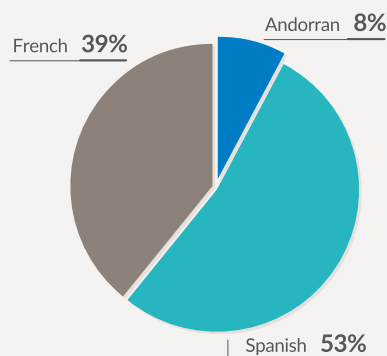
	2017-2018	% variation 17-18/16-17	% 2017-2018
Kindergarten	2,204	-2.6	20.0
Primary education	4,325	1.5	39.2
Secondary education	2,985	-0.3	27.0
Baccalaureate	1,040	-1.7	9.4
Vocational training	488	11.2	4.4
<b>Total</b>	<b>11,042</b>	<b>0.2</b>	<b>100.0</b>

Source: Ministry of Education and Higher Education.

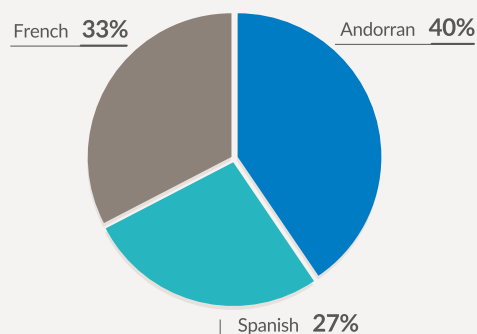
#### ANDORRAN SCHOOL POPULATION BY TYPE OF EDUCATION - As % of total

Chart 4.14

1991



2018



Source: Ministry of Education and Higher Education.

### 3.2. University population

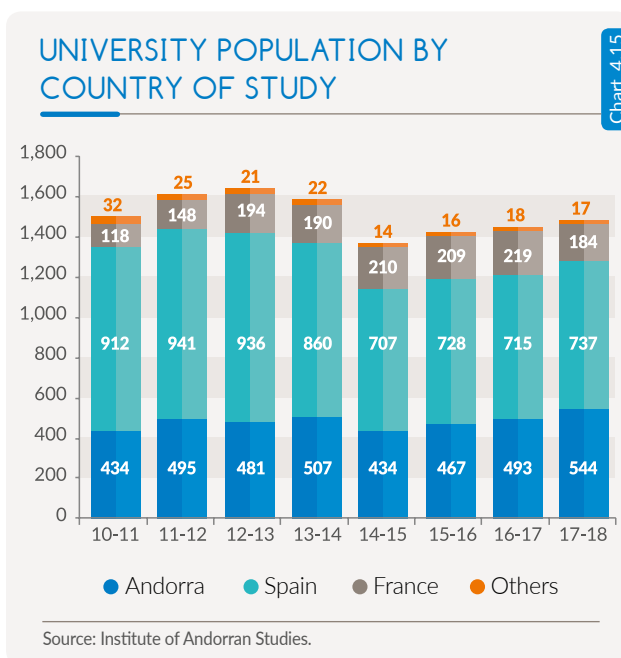
In the 2017-2018 academic year, the university population of Andorra was 1,482 students, 2.6% more than the previous year. By gender, another increase in the percentage of women was observed, from 55.2% in the previous year to 55.9%, so they remain the majority.

**Spain is still the main destination for Andorran university students, with an increase of 3.1% in 2018.**

By countries of study, it can be seen that the increase in students was focussed on Andorra and Spain. In particular, the number of university students in Spain rose 3.1% to 737 students, contrasting with the falls seen in four of the last five years. So, this country's percentage of total Andorran university students rose a little to 49.7%, and it is still the top destination for Andorran university students, easily outstripping the second, Andorra.

It is precisely in Andorra where the greatest increase in university students was seen (10.3%), from 493 to 544, so its percentage of the total rose to 36.7%. In contrast, France saw a decline of 16%, to 12.4% of the total, the lowest percentage in the last four years. To complete the analysis, 1.1% of the other students – 17 individuals, one less than the previous year – are spread among other countries (United Kingdom, Portugal, Russia, Argentina, Canada, Colombia, Netherlands, USA, Italy and Luxembourg).

Finally, the distribution by field of studies reflects that the field with most Andorran university students is still that of social sciences, business studies and law, with 44.4% of total university students. Next are health sciences and social services (15.7%); engineering, industry and construction (11.7%), and arts & humanities (9.6%). With a lower percentage are education, science and services, and agriculture comes last with just 5 students.



## V. Activity and demand

### 1. Developments in economic activity in 2018

In 2018, the Andorran economy followed the same path of moderate growth of recent years, with a new increase in GDP putting it closer to pre-crisis levels of activity, though not quite. The continued expansive trend in the Andorran economy was driven, as in the previous year, by a still favourable international context, especially in Spain, and to a lesser extent, in the rest of the Eurozone. In relation to demand, the trend in the most relevant

**The Andorran economy has had six years of positive growth.**

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

Table 5.1

Activity	2017	2018
Businesses <sup>(1)</sup>	4.4	4.4
Establishments <sup>(2)</sup>	5.9	3.8
Employment	1.7	4.2
Employees	3.0	3.0
Industry	-0.7	0.8
Construction	2.1	6.5
Services	3.3	2.9
Unemployment	-31.2	-12.9
Job seekers	-19.0	-0.9
Number of visitors	1.6	2.2
Electricity consumption <sup>(3)</sup>	-0.3	-3.0
Imports	6.6	4.7
<b>Demand</b>		
Average wage	0.0	2.6
Car registrations	19.1	2.1
Industrial vehicle registrations	15.5	19.1
Imports of capital goods <sup>(4)</sup>	9.2	2.2
Imports of building materials <sup>(5)</sup>	3.1	70.9
Credit from banking entities <sup>(6)</sup>	-5.0	-1.2
Government operating expenses <sup>(7)</sup>	4.3	5.1
Government real investment <sup>(7)</sup>	19.0	21.3

(1) Excluding households employing domestic staff and voluntary declarants (no activity).

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

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

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

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

(6) Gross lending to customers.

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

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

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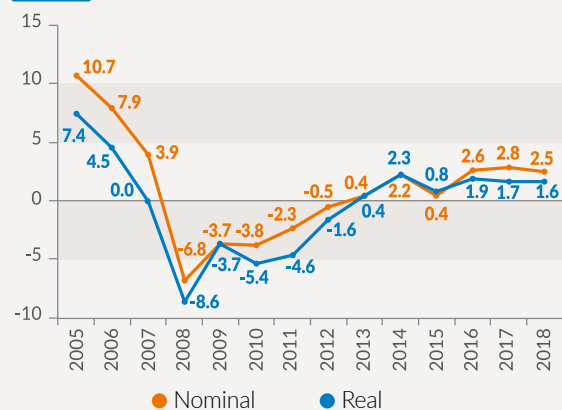
indicators for consumption and investment was positive if moderate. As for supply, Andorran economic growth was headed by services and construction, contrasting with the lack of dynamism shown by industry and the primary sector.

The rate of progress of the Andorran economy is reflected in the rising trend in the great majority of indicators of activity and demand. Among these indicators are notably the accelerated growth in total employment, numbers of visitors, operating expenses of the public authorities, public investment, industrial vehicle registrations and imports of building materials. Other relevant indicators that grew, though less than in 2017, are total imports and car registrations. The only indicators that stayed negative are energy consumption and credit.

The continued path of economic growth resulted in a good performance of the Andorran labour market. Specifically, total employment increased 4.2%, compared with 1.7% in the previous year, according to data from the Workforce Survey. The group of employees

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

Chart 5.1



Source: Department of Statistics.

also saw significant growth of 3%, the same as in 2017, while unemployment and the number of job seekers fell for the fifth consecutive year. This good performance in the labour market, together with wage dynamism, means that conditions are favourable for consumption by residents of Andorra. This situation did not prevent a further fall in credit, but at a slower rate.

**In 2018 GDP growth was 1.6% one tenth less than in 2017.**

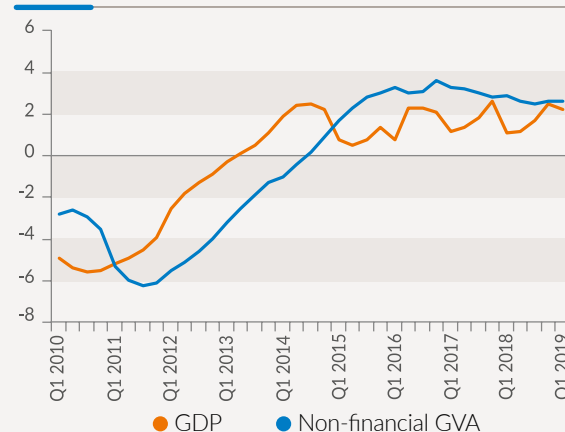
Altogether, this resulted in GDP growth for the sixth consecutive year, of 1.6% in real terms, one tenth less than in 2017, according to the first estimate published by the Government. This positive but moderate trend in Andorran economic activity is still hampered by the problems in the financial sector, marked by the consequences of the BPA affair and the financial crisis, which led to growing regulation and supervision in the sector. So, if we exclude this branch from overall development, the real economic growth rate (non-financial GVA) was much higher (2.7% in 2018).

Considering the trend in quarterly GDP, the economy appeared to progress upwards, with a growth rate in the first quarter of 1.1%, which accelerated progressively over the year to reach 2.5% interannual in the fourth quarter. In nominal terms, the increase in GDP for the whole year was 2.5%, also lower than in 2017 (2.8%). Consequently, nominal GDP rose to 2,742 million euros, the highest value since 2007, but in real terms the value of GDP in 2018 (2,002.8 million euros) is still 15% lower than the high achieved in 2007.

The Andorran economy grew less than the neighbouring economies of Spain and France, and also below the EU as a whole. On the other hand, the Andorran population continued to grow significantly more than the European (1.8% and 0.2%, respectively). Consequently, Andorra has

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

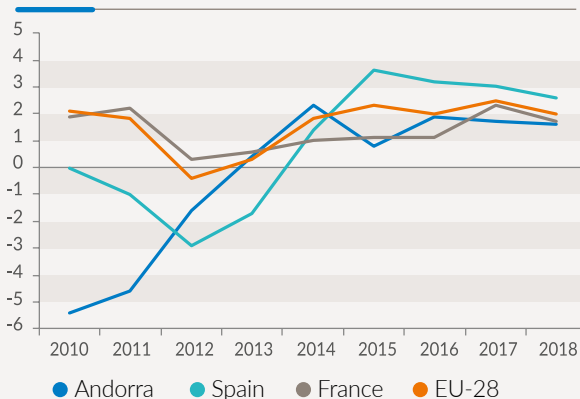
Chart 5.2



Source: Department of Statistics.

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

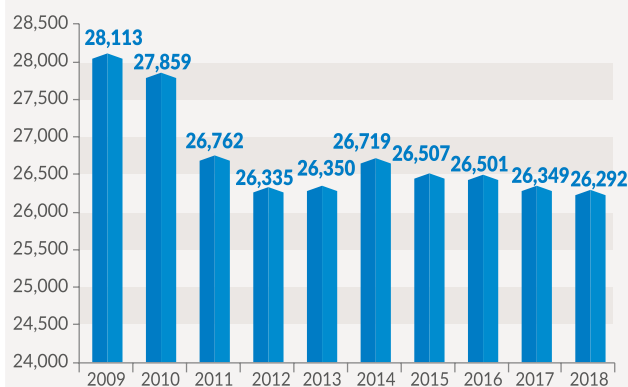
Chart 5.3



Source: Eurostat and Department of Statistics.

REAL GDP PER CAPITA. IN EUROS  
(Base year 2000)

Chart 5.4



Source: Department of Statistics.

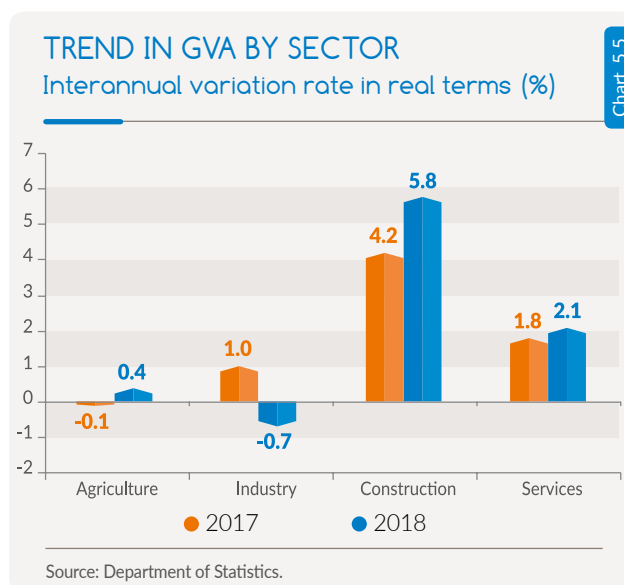


continued to lose relative positions against the neighbouring economies in relation to per capita wealth. According to official figures, per capita GDP fell in real terms (-0.2%) for the fourth consecutive year, to 26,292 euros (base year 2000), the lowest level in the historical series available since 2009. However, in nominal terms, Andorran per capita GDP reached 35,996 euros, the best level since 2010, and 0.7% higher than the previous year.

**For the second consecutive year, the Andorran economy grew less than the neighbouring economies.**

## 2. Developments in activity by sector

Growth in Andorran real GDP in 2018 was headed, basically, by the sectors of services and construction. Note that services represent about 88% of GVA, so their performance is usually a determining factor in the development of the Andorran economy. For its part, construction saw the highest rate of growth, confirming the expansive phase it timidly began in 2015, although its lower importance meant that the relative contribution from this sector to total growth is much more limited than services. In contrast, industry and manufacturing sector detracted from economic growth with a fall in GVA, and agriculture made a minimal contribution, due to its low percentage of GVA and a very moderate increase in activity compared with the previous year.



In more detail, the real GVA of the construction sector increased 5.8%, much more than in 2017 (4.2%). This acceleration represents the consolidation of a rising trend in the sector, already positive for four years, after nine years of deep crisis. Consequently, construction currently represents 6.2% of total GVA, four tenths more than the low recorded in 2014 and about half the high it represented just before the crisis (12.6%).

**Services and construction led Andorran economic growth.**

The growing dynamism in construction is also reflected in the behaviour of the main available indicators of activity in the sector. In particular, in 2018 there were notable increases in authorised square metres (92.3%), imports of building materials (70.9%) and the numbers of employees (6.5%) and establishments (1.8%), all greater than in 2017. Along the same line, public investment saw a strong increase (21.3%) for the second consecutive year, reaching the highest level of the last six years.

**The rising trend in construction is consolidated by four consecutive years of growth.**

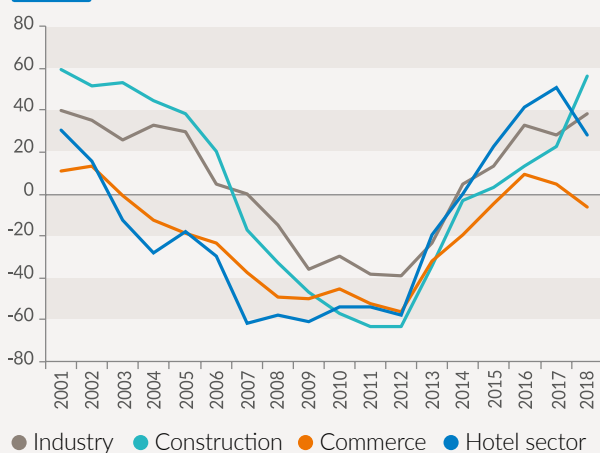
Equally, the results of the Chamber's surveys confirm the strength of the recovery in the sector, although from still low levels. So, business activity saw a sustained rising trend, unlike other sectors, with a string of seven positive half years. Moreover, the rate of growth in the volume of executed works accelerated to reach more acceptable levels, after abnormally low values in recent years. Consequently,



## TREND IN BUSINESS ACTIVITY BY SECTOR

Balance between the percentage of positive and negative replies

Chart 5.6



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

increases were seen in sales figures (9.4%), clearly higher than in other sectors, and investment (3.1%).

Industry and manufacturing was the sector showing the worst performance in 2018, with a fall in real GVA of 0.7%, contrasting with the growth seen in the preceding two years. In any case, the lower value of this sector (5% of total GVA) greatly limits any negative impact. Remember also that industrial activity consists of, on the one hand, basic industry - mostly energy production and distribution - and, on the other hand, manufacturing, the activity with the highest value - 68% of GVA from secondary activities.

Despite the negative results in terms of GVA, there are other indicators of industrial and manufacturing activity that showed slightly more positive behaviour: this is the case of the number of employees (0.8%), businesses (2%) and establishments (4.5%). At the same time, the climate of confidence has improved in the sector, reflected in businesses' replies to the Chamber's survey. Specifically, the confidence indicator on annual average has seen a positive balance for the second consecutive year, higher than in 2017, after 14 years of being negative. Nevertheless, positive opinions from businesses about business activity diminished in comparison with the previous year, while evaluations of production levels remained at similar levels to 2017. Moreover, industrial companies indicated average increases in turnover (2.2%) and investment (5.1%), slightly lower than in the previous year.

## BUSINESSES' OPINIONS ABOUT ECONOMIC DEVELOPMENTS IN 2018

Table 5.2

### Results of the situation survey in industry

#### 2018 COMPARED WITH 2017 (as % of businesses)

Turnover	Higher	40
	Same	43
	Lower	17
	<b>Average variation (%)</b>	<b>2.2</b>
Volume of investment	Higher	31
	Same	58
	Lower	10
	<b>Average variation (%)</b>	<b>5.1</b>
Number of employees	More	15
	Same	77
	Less	8

#### PROSPECTS FOR 2019 (as % of businesses)

Trend in turnover	Upward	35
	Stable	61
	Downward	4
Trend in volume of investment	Upward	25
	Stable	63
	Downward	12

### Results of situation survey in construction

#### 2018 COMPARED WITH 2017 (as % of businesses)

Turnover	Higher	70
	Same	23
	Lower	7
	<b>Average variation (%)</b>	<b>9.4</b>
Volume of investment	Higher	40
	Same	56
	Lower	5
	<b>Average variation (%)</b>	<b>3.1</b>
Number of employees	More	38
	Same	48
	Less	14

#### PROSPECTS FOR 2019 (as % of businesses)

Trend in turnover	Upward	21
	Stable	72
	Downward	7
Trend in volume of investment	Upward	14
	Stable	81
	Downward	5

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

## Results of the situation survey in retail commerce

2018 COMPARED WITH 2017 (as % of businesses)		Total retail commerce	Food	Clothing & footwear	Household equipment	Health & hygiene	Electronics	Vehicles & accessories	Other commerce	Superm. & dept. stores
Sales figures	Higher	27	34	13	33	38	15	15	29	25
	Same	31	29	20	36	38	39	35	28	38
	Lower	42	37	67	30	24	46	50	43	38
	Average variation (%)	-3.4	-3.2	-6.6	3.9	-1.0	-11.5	-4.7	-4.3	-1.9
Volume of investment	Higher	29	37	10	34	24	23	28	34	25
	Same	52	45	57	56	67	54	52	51	38
	Lower	19	18	33	9	10	23	21	15	38
	Average variation (%)	-0.4	0.0	-2.5	2.9	2.5	-7.3	-3.0	1.2	-3.8
Number of employees	More	13	8	4	13	16	0	15	21	13
	Same	74	89	86	63	74	91	73	65	63
	Less	13	3	10	23	11	9	12	15	25
<b>PROSPECTS FOR 2019</b> (as % of businesses)										
Trend in sales figures	Upward	28	29	27	30	36	17	24	25	38
	Stable	53	47	43	58	55	67	59	57	25
	Downward	19	24	30	12	9	17	17	18	38
Trend in volume of investment	Upward	21	18	20	24	43	15	14	20	13
	Stable	62	64	53	67	48	69	79	59	63
	Downward	17	18	27	9	9	15	7	21	25

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

The trend in services in 2018 was again positive, with an increase in real GVA of 2.1%, the second-best level in the last ten years. There are also other indicators from the field of services that have moved upwards, such as the number of employees (2.9%) and businesses (5%). Broken down further, it is notable that growth in services was mainly driven by the

**Tourism loses momentum after reaching record levels, and commerce hangs off the favourable trend in the Andorran economy.**

subsector that includes the activities of commerce, hotels and catering, transport, information and communications (3.6%), which provides 32% of total Andorran GVA. In part, this momentum was favoured by the 2.2% increase in numbers of visitors in 2018, and also by the good performance of residents'

consumption. Equally, in relation to the tourism sector specifically, there are other associated indicators that reflect a slowdown in the rate of activity since 2017, for example, the number of total overnight stays and the number of employees in this branch, with smaller increases than one year earlier. In the case of commerce, activity remains weak, reflected in the majority of indicators for the sector.

This loss of momentum in tourism, added to stagnation in commerce, was also recorded in the Chamber's surveys. So, businesses in the hotel sector evaluated business activity, employment and levels of reservations less favourably than in 2017, and also indicated a drop in sales (-2.2%) and deceleration in investment growth (3.1%). In commerce, businesses' evaluations of the general trend in the sector also worsened, with opinions of business activity turning negative again, after two positive years. To these evaluations must be added a steeper fall in sales (-3.4%) and the prolonged stagnation in investment.

## The financial subsector is still the least dynamic branch of services.

The trend in the financial subsector in 2018 was also not positive, as reflected in the great majority of indicators of activity in the sector, although the situation improved a little compared with one year earlier. According to the official GDP figures, the GVA of the subsector Financial, real estate, professional and technical activities grew modestly (1.1%), in line with the previous year. In any case, this subsector is still the most important in the economy, with 37% of total GVA.

The persistent weakness in activity since BPA went into administration in 2015 was reflected in a further reduction in gross lending to customers (-1.2%) and deposits (-6.2%), though they fell less than in 2017. Altogether, this resulted in a fall in profits in the banking sector for the fifth consecutive year (-24.1%) and virtual stagnation in employment in the whole of the financial and insurance sector (0.3%).

To complete the sectoral analysis, the primary sector saw modest growth in real GVA of 0.4%, representing a slight improvement compared with the stagnation in 2017. This trend was accompanied by a slowdown in the rate of fall in numbers of employees (-1.4%), number of businesses (-0.9%) and usable agricultural surface area (-0.7%). Nevertheless, it is notable that the tobacco harvest increased 9.3%, recovering from the downturn in 2017, while the number of livestock also increased (4%). In any case, considering the primary sector's insignificant percentage of the economy (0.5%), its impact on total GVA was hardly noticeable.

### 3. Developments in demand by components

By components of demand, the available indicators indicate, in general, that the trend in domestic demand continued to rise, within still relatively modest levels. So, residents' private consumption was favoured by the increase in population, employment and wages. So, for example, car registrations rose again (2.1%), even with the already high levels, a trend that was also encouraged by continuation of the Engega Plan with incentives to buy eco-friendly vehicles.

As for investment, the available indicators show that in the field of transport material, the strongly rising trend in lorry and van registrations continued (19.1%), together with the growing trend in investment in capital goods, as seen in the increase in their imports (2.2%). Equally, the Chamber's surveys show positive behaviour in investment in all the main sectors of the economy except commerce, where it still stagnated, following the same pattern as

## BUSINESSES' OPINIONS OF ECONOMIC DEVELOPMENTS IN 2018

Table 5.4

### Results of the situation survey in hotel sector

#### 2018 COMPARED WITH 2017 (as % of businesses)

Turnover	Higher	32
	Same	32
	Lower	36
	<b>Average variation (%)</b>	<b>-2.2</b>
Volume of investment	Higher	44
	Same	41
	Lower	15
	<b>Average variation (%)</b>	<b>3.1</b>
Number of employees	More	15
	Same	71
	Less	15
Source of clients per sales channel (as %)	Direct client / own web	22.2
	Internet / booking sites	50.8
	TO & travel agencies	22.6
	Others	4.4
Average stay of clients (nights)		2.7

#### PROSPECTS FOR 2019 (as % of businesses)

Trend in turnover	Upward	17
	Stable	52
	Downward	31
Trend in volume of investment	Upward	21
	Stable	54
	Downward	25

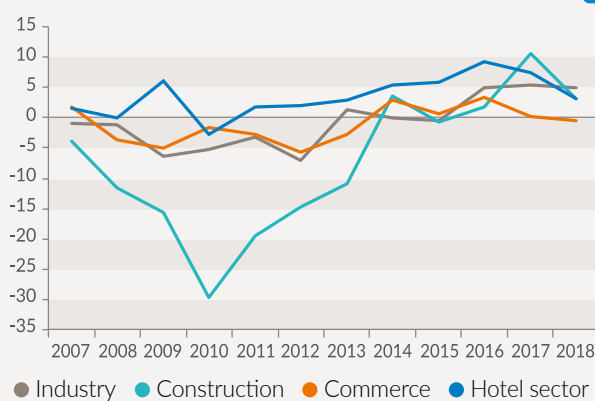
Source: Chamber of Commerce, Industry and Services of Andorra.

in 2017. Altogether, this appears to indicate that investment maintained a moderately positive dynamic in 2018, within a context of favourable financial and economic conditions.

As for the public sector, its contribution to activity in 2018 was positive, due to both the central and Comú governments easing fiscal policy. This was reflected in accelerated growth in operating expenses and real investment, with rises in the cumulative data of both levels of public administration by 5.1% and 21.3%, respectively. In parallel, the fiscal burden increased half a point to 25%, a figure that is close to the historic high seen in 2016 (25.2%). As a result, the central Government saw a small budget deficit of 0.1% of GDP, while the Comú governments' surplus fell three tenths to 0.9%. Despite this easing, in 2018 GVA growth in the subsector Public administration, education, health, social and personal services slowed from 1.9% to 1.5%, which might be explained by the behaviour of the private branch of these activities.

**The increase in population, employment and wages favoured residents' private consumption.**

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



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

Chart 5.7

50

**In 2018, the traditionally negative effect of the trade balance on GDP increased.**

this figure is influenced by rising oil prices in 2018, so if this chapter is excluded, the growth in imports was lower (3.9%). Along the same line, the growth rate in exports slowed to 5.7% after two years of two-digit growth. In any case, considering that the volume of exports is much lower than imports, this increase was not enough to contain the commercial deficit, which increased 4.6%, for the third consecutive year. In short, in 2018, the traditionally negative effect of the trade balance on GDP increased, which correlates with the favourable economic situation.

Analysis of the foreign sector demonstrates that the growth rate of imports slowed in 2018, to 4.7% interannual, compared with 6.6% in the previous year. Now, as in 2017,

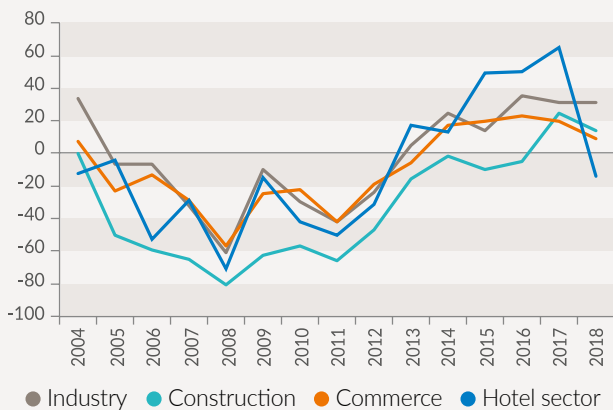
Nevertheless, the foreign sector's most significant contribution to the Andorran economy is income from tourism services – the country's largest source of revenue – which continued to rise, if at a slower rate. Accordingly, the good performance of the neighbouring economies of Spain and France, the source of most visitors to Andorra, is a determining factor, explaining the trend in the Andorran foreign sector.

#### 4. Prospects

Businesses' expectations for 2019, reflected in the Chamber's surveys, are for a slowdown in the rate of activity and the start of a more mature phase in the cycle of expansion. By sectors, the forecast is for a slight increase in turnover in industry, a certain loss of momentum in activity in the hotel sector and quite mediocre results in commerce, while another significant increase in activity is expected in construction, but with a more moderate profile. As for investment, businessmen's forecasts point to a slight increase in investment plans in industry and construction and rather stable behaviour in retail commerce and the hotel sector.

### EXPECTED TREND IN TURNOVER FOR THE NEXT YEAR - Balance between the percentage of positive and negative replies

Chart 5.8



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

In conclusion, Andorran businesses expect a slowdown in the rate of activity, with the construction sector notably positive while tourism will tend to lose momentum and the other sectors will still be rather stagnated.

**Businesses' forecasts indicate a slowdown in the rate of activity, with the economy heading towards a more mature phase of the cycle of expansion.**

In 2019, the trend in the Andorran economy will still be greatly marked by the influence of the international environment, ever more uncertain and predetermined by political factors, such as the trade and technology war between the USA and China, or Brexit,

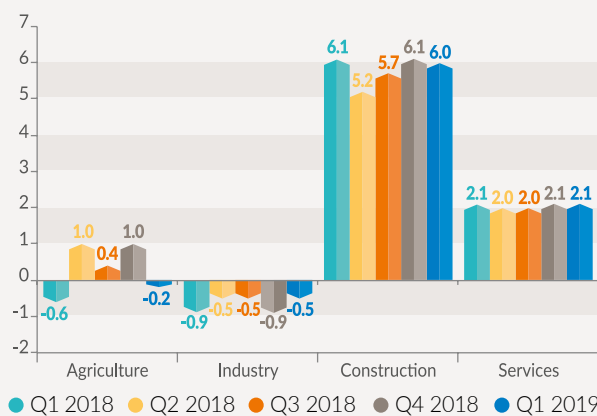
with possibly negative consequences for the whole European and global economy. In this context, the economic forecasts for Spain and France show a slowdown in growth, a trend that was already seen in the first half of the year, limiting the improvement in the Andorran economy, especially through tourism. Altogether, this also implies that the Andorran economy will tend to lose momentum in 2019, so GDP growth will remain below that of 2018.

GDP data for the first quarter of 2019 point this way. Andorra saw real economic growth of 2.2% interannual, three tenths lower than in the previous quarter. By sectors, the differences are still very significant, with notable dynamism in the construction sector (6%), contrasting with the downturn in industrial and primary GVA. For its part, the rate of growth in services was constant in relation to the previous quarter, at 2.1%. Within services, the subsector Commerce, hotels & catering, transport, information and communications still shows the highest rate of growth (3.7%). Second is the subsector Public administration, education, health, social and personal services, with a slight increase in the rate of growth over the last few quarters (to 1.7%), but still slower than in services as a whole. Finally, the branch of Financial, real estate, professional and technical activities lost some momentum and still shows the weakest growth in services (1%).

### THREE-QUARTERLY TREND IN ANDORRAN GVA BY SECTORS

Chart 5.9

Interannual variation rate (%)



Source: Department of Statistics.

**Andorra will continue to grow in 2019 but at a slower rate than in 2018.**

The loss of momentum in the Andorran economy is also evident in the trend in the main available indicators of activity for the first few months of 2019. In particular, a cumulative year-on-year decline in the number of visitors in the first five months of the year, contrasting with the increase seen in the same period of the previous year, which can be explained by the negative behaviour of both tourists and same-day visitors. In parallel, the rate

### Box 5.1

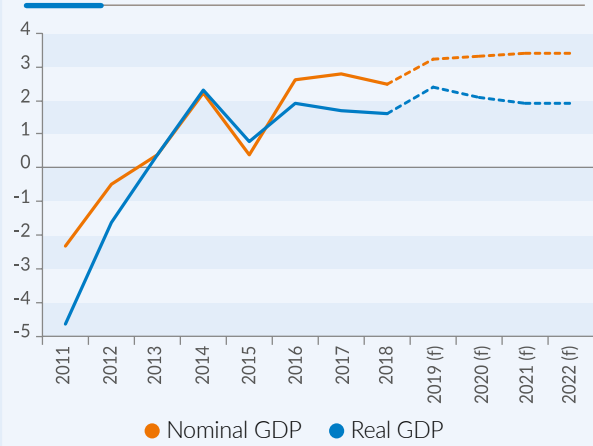
## ECONOMIC FORECASTS FOR ANDORRA FOR THE PERIOD 2019-2022

The Macroeconomic Forecasts for Andorra for the period 2019-2022, published under Law 28/2017 on the 2018-2021 Statistics Plan, and the corresponding Decree of 19.12.2018 approving the annual Statistics Programme for 2019, present a scenario of continued expansion in the Andorran economy. Specifically, the official forecast for 2019 is real economic growth of 2.4% and nominal growth of 3.2%, figures that imply acceleration with respect to the advance figures for 2018. This trend diverges from the expected trend for the other European economies and expected growth also exceeds that of the first quarter of the year. Accordingly, note also that within the framework of macroeconomic forecasts for the period 2018-2021, published last year, growth was also estimated for 2018 at 2.3%, which was higher than the finally observed figure (1.6%).

Another notable element of this new scenario of outlooks is that the figures for the years 2019-2021 were reviewed upwards in relation to those published last year. In any case, from 2020, the forecast chart suggests that growth in Andorran GDP will tend to slow progressively, more in line with the profile of the expected trend for the Spanish economy.

### FORECASTS FOR NOMINAL AND REAL GDP IN ANDORRA 2019-2022

Interannual variation rate (%)



Source: Department of Statistics.

In the case of inflation, the forecasts indicate a slight acceleration towards an annual CPI variation of 0.8% in 2019 and 1.2% in 2020, compared with the 0.7% at which it ended in 2018. Added to this is the fact that inflation reached 1% in June 2019, two tenths higher than expected.

### SUMMARY OF FORECASTS FOR THE ANDORRAN ECONOMY 2019-2022

Interannual variation rate (%)

Year	GDP		GVA		TOTAL WAGE BILL	NUMBER OF EMPLOYEES	INTERNATIONAL GOODS TRADE (NOMINAL)		CONSUMER PRICE INDEX
	Nominal	Real	Nominal	Real	Nominal		Imports	Exports	
2019	3.2	2.4	3.3	2.4	3.8	2.8	3.4	0.9	0.8
2020	3.3	2.1	3.4	2.1	4.4	2.4	2.1	1.0	1.2
2021	3.4	1.9	3.5	2.0	3.9	2.0	1.7	1.1	-
2022	3.4	1.9	3.4	1.9	3.6	1.7	1.4	1.1	-

Source: Department of Statistics.

of growth in the number of employees slowed to April compared with one year earlier, and there was a double-digit increase in the number of job seekers in the first half that contrasted with the fall in the same period of 2018. Other indicators that show a deteriorating trend are electricity consumption to May and car registrations to June. In contrast, the most positive note occurs in imports, which saw a rising trend in the first half, stronger than in the same period of the previous year.

In conclusion, the Andorran economy is heading towards a more mature phase in the cycle of expansion, after six years of growth, largely conditioned by the slowdown in the European

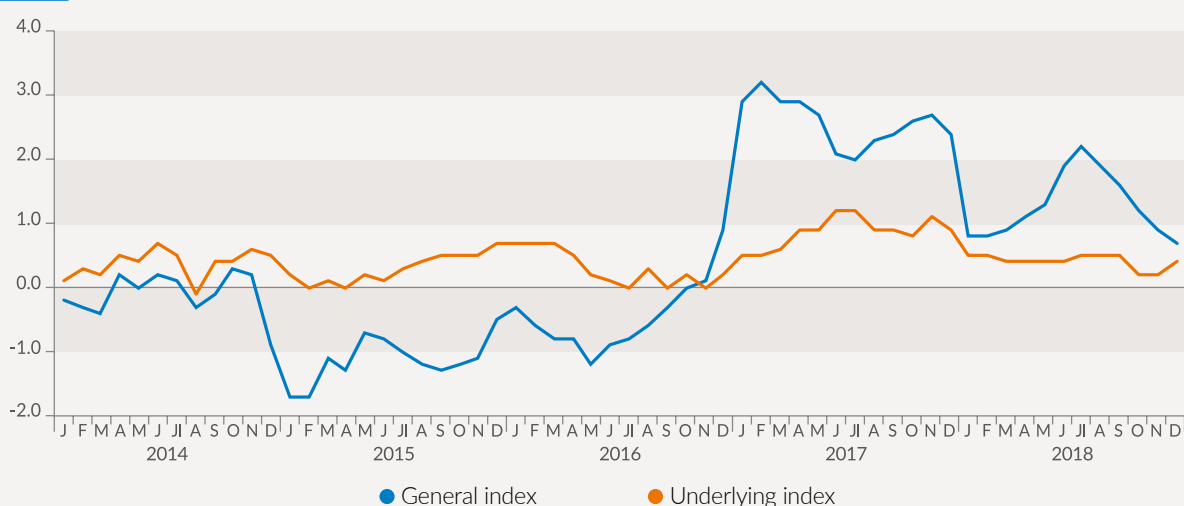
economy and especially the neighbouring economies. So, Andorra will continue to grow in 2019 but very probably at a slower rate than in 2018, which ended with modest growth in GDP of 1.6%.

## VI. Prices and costs

### 1. Consumer prices

In general terms, Andorran consumer prices were moderate in 2018 but also fluctuated, largely due to oil prices. Unusually, this performance was different from that of the European economies, especially Andorra's neighbouring countries and leading trade partners, where the rates of inflation were equal to or higher than in 2017. It should also be mentioned that, in the hope of harmonising the CPI with surrounding countries, a methodological review was made in 2018 (including changes in the basket structure) and a change of base year for the Consumer Price Index, which may have altered this international comparison to some extent.

ANDORRAN CONSUMER PRICE INDEX - Interannual variation rate (%)



Source: Department of Statistics.

***In 2018 the behaviour of inflation was more moderate in Andorra than in the neighbouring countries.***

In Andorra, the year began with small price rises, below 1% interannual, which accelerated to reach a high of 2.2% in July, due to the pressure from rising energy prices. In the second half of the year, inflation slowed to end

the year at a rate of only 0.7%, much lower than the 2.4% of one year earlier. Consequently, the trend in prices in Andorra was more contained than in Spain and France (1.2% and 1.9% harmonised inflation, respectively), the source of most consumer goods, and also the Eurozone as a whole (1.5%), boosting the price competitiveness of the Andorran economy.

By components, the highest price increases were seen in health and hotels and catering (1.7% in both cases). Hotels and catering is the only group that did not see an interannual fall in prices since the historical series became available. They are closely followed by the components of food and non-alcoholic beverages, alcoholic beverages and tobacco, and housing. Another

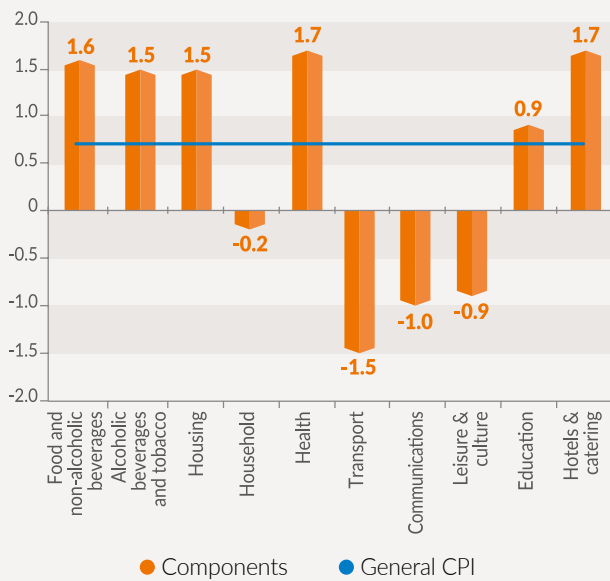
Chart 6.1



## CONSUMER PRICE INDEX. DECEMBER 2018

### Interannual variation rate (%)

Chart 6.2



Source: Department of Statistics.

component where prices rose above average is education, contrasting with the exceptional reduction in 2017. The other groups saw interannual falls in prices, with transport being the most notable (-1.5% interannual). This reflects the downwards trend in energy prices in the last two months of the year.

**Health and hotels and catering are the components with the most significant rises in prices.**

Finally, it should be remarked that due to the change in methodology, this year there are no inflation data available for the components of clothing and footwear or miscellaneous goods and services, whose performance was marked in recent years by stagnating demand in commerce.

The change in methodology also temporarily limited the availability of data on special groups. The only exception is underlying inflation, which excludes energy and food and measures the trend in core prices. At the end of the year, underlying inflation reached 0.4%, half a point below that of December 2017. This makes three consecutive years in which it was lower than general inflation, a situation that demonstrates the absence of background inflationary pressures in the economy.

Moreover, compared internationally, underlying inflation in Andorra in 2018 was also lower than in Spain (1%), France (1.1%) and the whole of the Eurozone (1.1%), following the same pattern as in general inflation. In summary, it can be stated that Andorra continued to show a controlled trend in prices in 2018, more moderate than in the neighbouring economies.

## 2. Wages

According to the data from the Andorran Social Security System (CASS) and the Department of Statistics, in 2018 the average wage in Andorra rose to 2.6%, reaching the figure of 2,131 euros, the highest in the available historical series (in nominal terms). This increase, much higher than inflation, occurs after the stagnation recorded in 2017 and several years of erratic variations (2014-2016), partly influenced by the IRPF (Income Tax) coming into force in 2015, which temporarily influenced the payment incentive policies of some companies.

**The average wage has grown significantly more than inflation.**

The cumulative increase in the average wage in Andorra over the last five years was 6.6%, higher than cumulative inflation for the same period (2.9%), meaning an improvement in purchasing power of 3.7 points. Half of this improvement relates to the gain recorded in 2018 (1.9 points).

According to the Workforce Survey, the wage dynamic in 2018 was even stronger, with an increase in the monthly average wage of 3.2%, to 1,781.42 euros net for an average of



39.7 hours work per week. According to this source, 40% of employees earned between 1,240 and 2,000 euros in 2018; 30% earned 2,000 euros or more and the other 30%, less than 1,240 euros.

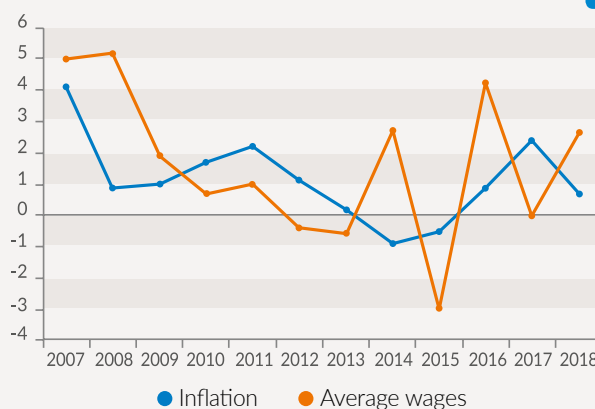
As for the minimum interprofessional wage, in 2018 it saw an increase of 2.6%, the same as the increase in the average wage calculated from CASS data. So, the minimum hourly wage rose to 5.87 euros per hour (for workers aged 18 and above), equal to 1,017.47 euros per month for a 40-hour working week. This trend reflects the commitment for the minimum wage to be half the average wage - which, as stated, is around 2,100 euros - following the recommendations of the European Committee of Social Rights.

From a sectoral point of view, it is notable first that the wage trend was positive in all sectors (ignoring those that are barely represented in the statistics), something that had not happened since 2008. Construction led the wage dynamic for the second consecutive year, with an increase of 5.6%, higher than the 3.2% recorded in 2017. Other sectors that saw notable increases, clearly above inflation, were transport (4.2%), households employing domestic staff (4.1%), education (3.3%) and the financial sector (3%). The rise in the financial sector contrasts with the reduction of 5.6% seen in the previous year. At the other extreme, the smallest increases (below 2%) appeared in other social activities, domestic work for the community and health and veterinary activities.

## AVERAGE WAGES AND INFLATION

Interannual variation rate (%)

Chart 6.3



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

## Construction led the wage dynamic in 2018.

## AVERAGE WAGES BY SECTORS (euros)

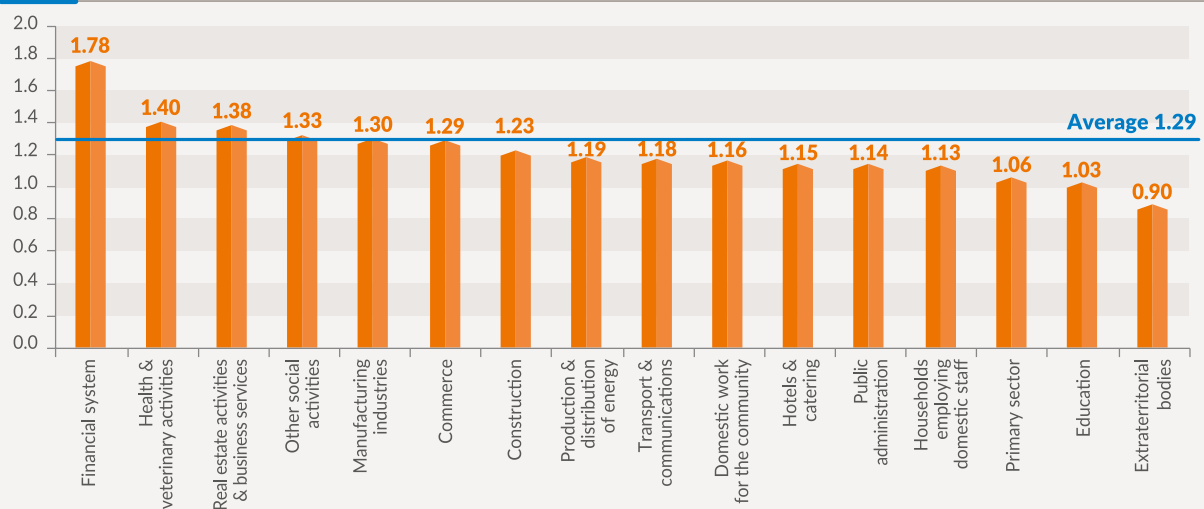
Table 6.1

	2018	% var. 18/17	Average index in Andorra = 100
Agriculture, livestock, hunting and forestry	1,561.50	3.5	73.3
Extraction industries	1,521.38	-16.1	71.4
Manufacturing industries	2,151.66	2.6	101.0
Production and distribution of electricity, gas and water	3,365.19	2.9	157.9
Construction	2,078.40	5.6	97.5
Commerce and motor vehicle repairs (etc.)	1,815.17	2.8	85.2
Hotels and catering	1,587.86	2.4	74.5
Transport, storage and communications	2,378.86	4.2	111.6
Financial system	5,017.60	3.0	235.4
Real estate & rental activities; business services	1,973.30	2.5	92.6
Public administration, defence & compulsory social security	2,623.18	2.6	123.1
Education	2,260.07	3.3	106.0
Health & veterinary activities, social services	2,301.76	1.9	108.0
Other social activities & community services, personal services	1,820.31	0.6	85.4
Households employing domestic staff	1,403.21	4.1	65.8
Extraterritorial bodies	2,506.84	8.0	117.6
Domestic work for the community	1,375.82	1.4	64.6
<b>Average</b>	<b>2,131.31</b>	<b>2.6</b>	<b>100.0</b>

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

The other sectors applied wage increases closer to inflation (between 2.4% and 2.9%). Note commerce (2.8%) and hotels and catering (2.4%), for their significant impact on the Andorran economy. Moreover, this positive trend can be interpreted as an indicator of the fact that the situation in these sectors continues to improve, if slowly. As for the public administration, the wage increase was equal to inflation (2.6%), a figure that represents an acceleration compared with the previous year. Finally, remember that the trend in the extraction industries and extraterritorial bodies needs to be separated from the analysis for statistical reasons, as these sectors employ very few people and therefore the variation in a single wage can make the total vary dramatically.

## WAGE QUOTIENT MEN/WOMEN BY SECTORS. 2018



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

The analysis of wage levels demonstrates that, in 2018, the differences between sectors widened a little, after narrowing in 2017. So, the highest wage is 3.65 times higher than the lowest wage (3.62 in 2017 and 3.9 in 2016). Specifically, the highest wages are again in the financial sector, where wages are 2.4 times higher than the average. This contrasts with domestic work for the community which is the lowest-paid sector, with wages 35% below the average. The second sector in the wage ranks is production and distribution of electricity, gas and water, with wages 58% higher than the average, followed by public administration - 23% more - and extraterritorial bodies - 18% higher than the average. Behind these but above the average are transport, storage and communications; health and veterinary activities and social services; education, and the manufacturing industries.

The other branches lie below the average wage level, with percentages that vary between 2% below in construction, a sector that is below the average for the ninth consecutive year whereas before the crisis it was traditionally higher, and 34% below for households employing domestic staff. Within this group of sectors are notably the cases of commerce and hotels and catering, which employ a large part of the Andorran population (35.9% of total employees), with wages at 15% and 25% below the average, respectively. Between 2004 and 2014, these two sectors cumulatively lost more than 7 points against the average, but in recent years the gap has narrowed a little.

Finally, the breakdown in wages by gender allows us to see that the average wage of women, according to CASS data, was 1,861 euros in 2018, so it remains below that of men (2,392 euros), although the gap has shrunk seven tenths to 28.5%. This occurs in all sectors, with the

**Men's wages were 28.5% higher than women's, a gap that has narrowed since the previous year.**

sole exception of extraterritorial bodies, where women's wages exceed men's, although this is a much less significant branch of Andorran employment.

The greatest differences are still found in the financial sector, where men's average wages are 78% higher than women's, and health and veterinary activities, where they are 40% higher, although the difference has shrunk in both cases since 2017. These data reflect that men occupy most high-level jobs in these sectors. In contrast, the smallest gaps occur in education and the primary sector (where men's average wages are 3%-6% higher than women's).

The gender pay gap is also reflected in the Workforce Survey, according to which women earn on average 1,538.21 euros net per month, compared with 1,987.03 euros net for men, a figure that represents a gap of 29%, in line with data from the CASS. One of the main reasons for these inequalities is that women work part-time more often and in sectors of activity that are less well paid than men.

## VII. The foreign sector

### 1. Foreign trade flows

In 2018, the trend in foreign trade slowed compared with the previous year and was marked by quite similar growth in exports and imports, after three consecutive years of much higher increases in exports. Specifically, Andorran imports of goods grew 4.7%, a trend that brought the total figure to 1,368.6 million euros, and exports grew 5.7% to 112.2 million euros. Consequently, the coverage ratio (exports/imports) rose one tenth to 8.2%, the highest level since 2006.

**Minerals and base metals were the chapters that contributed most to growth in imports in 2018.**

As for imports, the chapters that contributed most to growth were mineral products and base metals (1.2 percentage points each), followed by transport material and works of art (1 percentage point each), while at the other extreme, the most negative contribution was from the chapter of pearls, precious stones and metals (-1.4 percentage points).

Imports of tobacco and tobacco substitutes - another important chapter for the Andorran economy - saw an increase of close to 3%, for the second consecutive year, slightly less than that of imports as a whole.

The degree of sectoral concentration of Andorran imports remained quite stable. The four largest groups (food, transport material, products of the chemical industries, and machinery and electrical equipment) accounted

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

Chart 7.1



Source: Department of Tax and Frontiers.

for 51.6% of the total, only seven tenths less than in the previous year. However, if we take the top six groups (adding mineral products and textiles), the percentage of the total rises to about 68%, highlighting the high level of concentration that is still a feature of Andorran foreign trade.

**Exports recorded the highest value since 2006.**

As in the case of imports, the trend in Andorran exports rose in 2018 but at a slower rate than in the previous year. The rate of variation in exports was 5.7%, compared with 17% in 2017. In absolute terms, the volume of exports was 112.2 million euros, the highest since 2006.

The trend per sectoral groups shows that the increase in exports was quite generalised and was accompanied by increased concentration. Specifically, the top three export groups (machinery and electrical equipment, transport material and optical, photographic and precision apparatus) accounted for 64.7% of total sales, almost two points more than in the previous year. This is a rather high percentage and much higher than that of imports.

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

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

Both the trend in exchange rates and the changes in international trade regulations are major factors influencing the re-export of products. In 2018, there was depreciation in the euro exchange rates – contrasting with the previous year – creating less favourable conditions for importing products from countries outside the monetary union for re-export to the Eurozone.

TRADE DEFICIT - Millions of euros



Chart 7.2

Source: Department of Tax and Frontiers and own preparation.

## OPENNESS RATE (%)

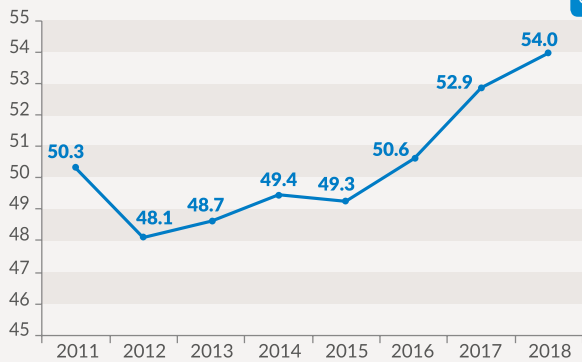


Chart 7.3

Source: Department of Tax and Frontiers and own preparation.

### **The trade deficit increases and reaches the highest figure since 2007.**

to the improvement in the Andorran economic context, which has continued to drive demand for imported consumer products (both domestic and for tourism) and investment, exceeding the increase in exports which is a smaller figure in absolute terms.

Finally, the trend in trade flows also resulted in an increase in the openness rate of the economy (expressed as the combined value of exports and imports of goods as a percentage of GDP), by 1.1 points, to 54%, returning to the values obtained before the crisis.

As for regulation, Andorra is in the process of negotiating an association agreement with the EU which, among other aspects, will allow for the free circulation of goods in chapters 1 to 23 of the harmonised system and also continue 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, since the EU has been putting increasing legislative obstacles in place in recent years that limited the possibilities of re-exportation by Andorra.

As the volume of imports was much larger than exports and since the growth in exports and imports in 2018 was quite similar, the traditional Andorran trade deficit worsened slightly to reach 1,256 million euros, the highest figure since 2007. This trend is due

## 2. Geographical distribution of foreign trade

### 2.1. Imports

In 2018, imports from Europe, the main geographical source of Andorran foreign purchases, were 91.6% of the total, 0.7 points more than the previous year and close to the highest historical percentage, recorded in 2016 (92.1%). This trend was the result of a 5.4% increase in imports from Europe in 2018, greater than global import growth (4.7%).

**Euro depreciation raised the cost of non-European imports so their percentage fell.**

The behaviour of imports from other continents was only positive in the case of those from Asia, which grew 5.2%, raising their percentage to 6.4% of total Andorran imports. In contrast, there were falls in imports from Africa (-33.8%) and America (-23.6%), contrasting with the high increases in the previous year and associated with euro depreciation and consequently, the increased cost of purchases outside the Eurozone. The result was that the percentage of both continents fell, to 0.2% and 1.2%, respectively.

Within the EU, purchases from Spain, Andorra's main supplier, increased 5%, close to the increase of the previous year (5.9%). Their percentage of the total remained almost stable at 63.8%. So, in 2018, Spain was the country that contributed most to import growth (3.2 points of a total of 4.7 points), as occurred in the last few years. In the case of France, the

trend was not so positive, as purchases from this country fell 0.9% in 2018, added to the fall of 5.5% in 2017. Consequently, its share of the total shrank to 13.1%, a historical low and far from the 30% it reached in the nineties. However, France is still the second largest supplier to Andorra, well above the third, Italy, with a percentage of 3.6%. Italy overtook Germany to become the third most important European supplier in 2018, thanks to strong growth in that year (28.9%).

As for the other EU countries, Germany saw an increase of 4.3%, maintaining a stable percentage of 3.4%. Next is the United Kingdom, from which imports also intensified (29.9%) to reach 1.5% of the total.

The other EU countries have a very small share, of less than 1%, so their contribution to total growth is insignificant. Outside the European Union, the recovery in imports from Switzerland stands out (5.2%), after three consecutive years of contraction. As a result, Switzerland's percentage of the total remained constant at 1.3%, in line with historical levels.

In relation to imports from countries outside Europe, only those from the USA and a few Asian countries have any significance. It is true that in some years another particular country may join them but this was not the

**Imports from Italy and the United Kingdom shot up while imports from the USA fell steeply.**

case in 2018. The trend in purchases from the USA was quite negative, as they saw a fall of 35.1%, practically offsetting the increase of 98% seen in 2017, so their percentage of the total stands at around 0.8%, in line with the average of the last decade. In contrast, imports from China grew 3% and maintain their percentage around 3.6%. So, China is still the main Asian supplier to Andorra and the third in the global ranks, only behind Spain and France, and very similar to Italy. Finally, the decline in purchases from Japan also stands out,

## FOREIGN TRADE BY GEOGRAPHICAL AREAS

Table 7.1

	IMPORTS			EXPORTS		
	Meuros 2018	% var. 2018/17	% total 2018	Meuros 2018	% var. 2018/17	% total 2018
Spain	873.7	5.0	63.8	63.4	11.0	56.5
France	178.9	-0.9	13.1	18.9	5.3	16.8
Italy	48.9	28.9	3.6	1.3	-26.6	1.1
Germany	46.3	4.3	3.4	2.0	93.6	1.8
United Kingdom	20.4	29.9	1.5	0.3	4.0	0.2
Portugal	12.4	8.3	0.9	0.1	-25.8	0.1
Netherlands	11.9	0.1	0.9	2.2	76.1	2.0
<b>EU-28</b>	<b>1,228.9</b>	<b>5.3</b>	<b>89.8</b>	<b>92.3</b>	<b>12.9</b>	<b>82.2</b>
Switzerland	17.6	5.2	1.3	0.7	12.8	0.6
<b>Europe</b>	<b>1,253.0</b>	<b>5.4</b>	<b>91.6</b>	<b>97.9</b>	<b>10.5</b>	<b>87.2</b>
USA	10.3	-35.1	0.8	1.4	12.6	1.3
<b>America</b>	<b>16.2</b>	<b>-23.6</b>	<b>1.2</b>	<b>2.3</b>	<b>-14.5</b>	<b>2.1</b>
China	49.8	3.0	3.6	0.5	-12.4	0.5
Vietnam	7.5	7.2	0.5	0.0	-64.0	0.0
<b>Asia</b>	<b>87.3</b>	<b>5.2</b>	<b>6.4</b>	<b>5.7</b>	<b>-19.2</b>	<b>5.1</b>
<b>World total</b>	<b>1,368.6</b>	<b>4.7</b>	<b>100.0</b>	<b>112.2</b>	<b>5.7</b>	<b>100.0</b>

Source: Department of Tax and Frontiers.

## France continued to lose importance as a supplier to Andorra, while Spain consolidates its leading position.

putting its percentage of the total at 0.3%, far from its percentage in the nineties until the last economic crisis, related to the loss of attractiveness suffered by the Andorran electronics trade sector over recent years. A

large part of these purchases were substituted by those from Vietnam, a country that has gone from 0.1% of Andorran purchases before the crisis to 0.5% in 2018.

In summary, the trend towards an increasing concentration of imports from Europe increased in 2018. The strong increase in imports from Italy and the United Kingdom is notable. In contrast, France continued to lose importance as a supplier, in line with the background trend observed in the last twenty-five years. For its part, Spain maintained a stable percentage as the main supplier to Andorra. Outside Europe, imports from the USA fell steeply due to the effect of euro depreciation, and finally, the importance of China and the Asian continent was the same as the previous year.

## 2.2. Exports

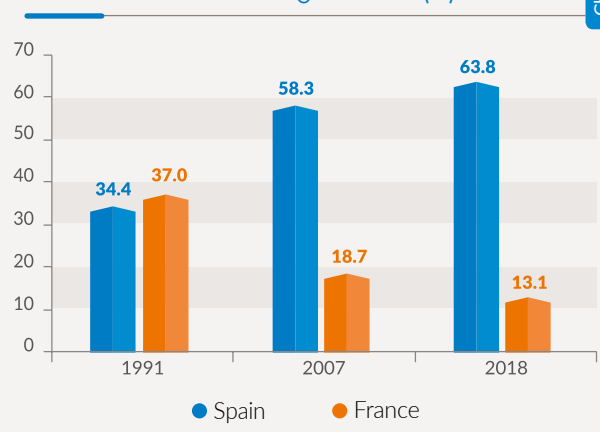
The dynamism in Andorran exports in 2017 slowed in 2018 due to the generalised slowdown in world trade. In 2018, exports to the EU-28 – the main destination of Andorran exports – grew 12.9%, well above total growth in exports, which explains why the EU percentage of Andorran exports went from 77% in 2017 to 82.2% in 2018.

**In 2018 exports to Spain grew well and are now 56.5% of the total.**

In 2018, Spain, the main consumer of products from Andorra, recovered some of the ground lost in 2015-2016, for the second consecutive year, with an increase in exports of 11% and a contribution to growth of 5.9 points, raising its share of total Andorran exports almost three percentage points to 56.5%. France's progress was slower, with an increase of 5.3% and a contribution to growth of 0.9 points, maintaining its share of the total at about 16.8%. So, the balance between Andorra's two main partners is still biased towards Spain, unlike the similar shares held by the two countries at the beginning of the nineties.

As for the other EU-28 countries, the trend was uneven. On the one hand, there were strong increases in the German and Dutch markets, where exports grew 93.6% and 76.1%, respectively. This made their relative percentages rise to 1.8% and 2%, respectively, with Germany rising from eleventh largest destination for Andorran foreign sales to seventh, and Netherlands to fifth. Note the strong increase in exports to Austria (multiplying by 24), reaching fourth in the ranks this year, although this could be the result of a one-off export operation. In contrast, sales to Italy saw a steep decline (-26.6%) limiting its percentage to 1.1%, a percentage that brought it down to ninth in the ranks. The other EU-28 countries have a share of less than 1%, so their contribution is insignificant.

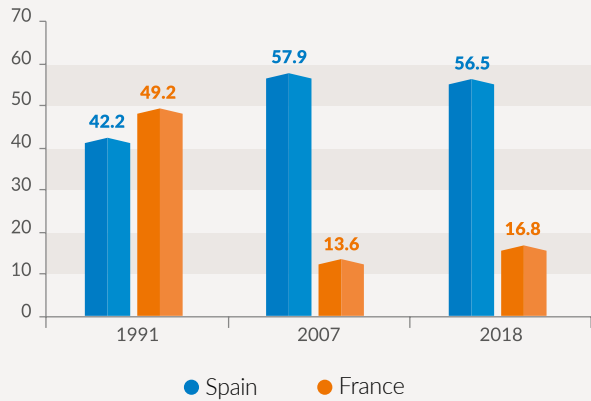
IMPORTS FROM ANDORRA'S NEIGHBOURING COUNTRIES - Percentage of total (%)



Source: Department of Tax and Frontiers.

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

Chart 7.5



Source: Department of Tax and Frontiers.

Within Europe but outside the EU is notably Norway, holding third position in the export ranks with a share of 3.6%, after Spain and France, although the behaviour of sales to this country was negative in 2018 (-29.5%), contrasting with the strong growth in the previous year. For its part, exports to Switzerland grew 12.8% and its share remained close to 0.6% of the total, compared with 4.6% in 2010.

### Strong decline in exports to the rest of the world.

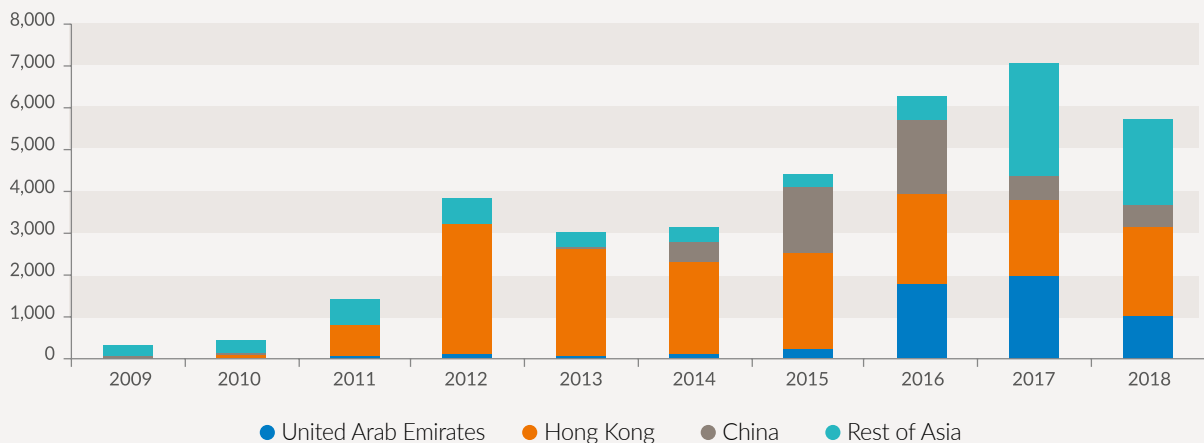
The rest of the world's share of total Andorran sales fell 3.8 points, to 12.8%, a trend that also marked 2017, even though the euro

depreciated and consequently brought down the cost of sales outside the Eurozone. Accordingly, the decline in exports to the American continent is notable (-14.5%), with its share shrinking 0.5 points to 2.1% of the total. This trend can be explained by the steep fall in sales to markets such as Chile, Uruguay, Venezuela and Colombia. On the other hand, sales to the USA showed significant dynamism for the third consecutive year (12.6%), raising its share to 1.3%.

Equally, the contribution from the Asian continent was negative in 2018, with a decline in total exports of 19.2%. This decline can be explained almost exclusively by the negative contribution of sales to China and South Korea, which saw steep falls of 12.4% and 47.9%, respectively. In contrast, the more traditional Asian market of Hong Kong made a positive contribution to export growth, growing 17.2% in 2018. Among the Asian markets, the United Arab Emirates also stands out, with a decline in Andorran exports of 49.2%, halving this market's share (0.9% of the total). As a whole, the Asian continent's percentage fell 1.6 points to 5.1%. Finally, the increase in exports to Africa should be mentioned (2.9%), although this market only represents 0.2% of Andorra's total foreign sales.

### ANDORRAN EXPORTS TO ASIA - Thousands of euros

Chart 7.6



Source: Department of Tax and Frontiers.



In summary, Andorran exports are still focussed on neighbouring economies, especially Spain. Developments outside these economies are inconsistent and influenced by one-off transactions and the trend in imports for re-export which suffered from euro depreciation this year. On a positive note is the rising trend in sales to the USA for the third consecutive year and, on a negative note, the decline in sales to the Asian continent after three years of strong expansion.

### 3. Sectoral composition of foreign trade

#### 3.1. Imports

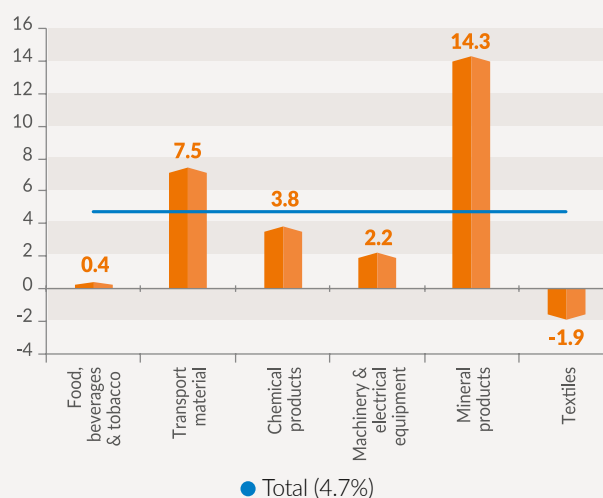
The positive trend in Andorran imports seen in 2018 was the result of almost generalised increases in all sectoral groups. The highest contributions were from mineral products and base metals (1.2 percentage points each) followed by the branches of transport material and works of art and antiques (1 percentage point each). At the opposite extreme, the group that detracted most from import growth was pearls, precious stones and metals (-1.4 percentage points), then textiles, which only detracted 0.2 percentage points.

**Imports of food, beverages and tobacco, the group with the highest share, grew only 0.4%.**

More detailed analysis highlights the fact that, in 2018, growth in imports of food, beverages and tobacco, the group with the highest share, slowed from 3.5% in 2017 to 0.4% in 2018. As a result, its share of the total fell six tenths to 14.8%, but it is still at the top of the ranks for the ninth consecutive year. The most important chapter in this group is beverages, alcoholic liquids and vinegars, although its percentage fell from 6.1% to 5.8% of total Andorran imports after practically zero growth in 2018. The second most important chapter is tobacco, which saw growth of 2.9%, allowing it to maintain its percentage at 2.1%, after four consecutive years of progressive declines.

One of the import groups that made a more positive contribution in 2018 was transport material (1 percentage point), with growth of 7.5%, continuing the strong upward trend started in 2013. So, its percentage of total foreign purchases increased four tenths to 13%, the highest level in the historical series, making it the second most important sector in the import ranks. The explanation for this progress can be found in the strong import growth in the chapter of motor vehicles, tractors, motorcycles and bicycles (11.4%), the sixth consecutive year with a double-digit annual rate of growth, consistent with the increase in vehicle registrations on the Andorran market and also the increase in re-exports of those vehicles.

ANDORRA'S MAIN IMPORT SECTORS.  
2018 - Interannual variation rate (%)



Source: Department of Tax and Frontiers.

**The increase in imports of transport material confirms the dynamism in vehicle registrations and also re-exports.**

## FOREIGN TRADE BY SECTORS

Table 7.2

	IMPORTS			EXPORTS		
	Meuros 2018	% var. 2018/17	% total 2018	Meuros 2018	% var. 2018/17	% total 2018
Live animals & animal products	67.1	2.6	4.9	0.1	-40.0	0.0
Vegetable products	28.8	5.3	2.1	0.0	-83.8	0.0
Fats & oils	5.7	-0.3	0.4	0.1	-20.3	0.1
Food products, beverages & tobacco	202.0	0.4	14.8	0.4	-3.2	0.4
Mineral products	121.5	14.3	8.9	0.4	55.7	0.3
Products of the chemical industries	166.0	3.8	12.1	3.4	99.6	3.0
Plastics, rubber & articles thereof	29.7	7.4	2.2	0.6	-31.0	0.5
Fur, leather & articles thereof	14.6	-6.2	1.1	0.9	-0.7	0.8
Wood, cork & articles thereof	10.4	6.3	0.8	1.4	29.0	1.2
Paper & graphic arts	28.9	2.1	2.1	6.4	11.1	5.7
Textiles	107.0	-1.9	7.8	7.5	10.9	6.7
Footwear, headgear, umbrellas, etc.	36.5	-0.4	2.7	2.9	47.9	2.5
Stone, cement & ceramic articles	19.6	47.4	1.4	0.2	-34.8	0.2
Pearls, precious stones & metals	18.2	-49.5	1.3	7.4	-31.0	6.6
Base metals & articles thereof	50.1	48.1	3.7	4.9	-3.0	4.4
Machinery & electrical equipment	160.4	2.2	11.7	36.5	16.4	32.6
Transport material	177.6	7.5	13.0	20.2	-3.9	18.0
Optical, photographic, precision app.	45.9	-3.3	3.4	15.9	11.3	14.1
Arms & ammunition	0.9	-0.4	0.1	0.1	-1.2	0.1
Miscellaneous manufactured articles	59.1	6.4	4.3	2.2	-14.3	1.9
Works of art, antiques	18.5	240.8	1.4	0.8	-3.1	0.7
<b>Total</b>	<b>1,368.6</b>	<b>4.7</b>	<b>100.0</b>	<b>112.2</b>	<b>5.7</b>	<b>100.0</b>

Source: Department of Tax and Frontiers.

Growth in imports of chemical products, the third most important group, was very similar to the previous year, 3.8% in 2018, and its relative percentage remained almost constant at 12.1%. The chapters that most explain this trend are perfumery - the most important chapter in the group, with a share of 7.7% of total imports - which grew 4.6%, and pharmaceutical products - second in importance, with a share of 2.2% - which, however, declined 1.4%.

The trend in imports of machinery and electrical equipment was positive but less than in the previous year (2.2% in 2018, compared with 9.2% in 2017), so its contribution to global import growth fell 1.1 percentage points to 0.3 points in 2018. This performance slightly reduced its share of the total by three tenths, to 11.7%, but it remains fourth in the ranks of foreign purchases. The increase in imports of this group can be explained by the growth in mechanical apparatus (11.6%), which may be partly related to the increase in re-exports also shown by

**The step increase in imports of iron & steel and minerals for construction indicates a recovery in building activity.**

this chapter. In contrast, imports of machines and electrical apparatus suffered a decline of 4.3%, after seeing an increase of 11% in the previous year, a trend that contrasts with the increase in exports in this branch.

In 2018, mineral products was one of the groups that saw the highest growth in imports (14.3%) and, for the second consecutive year, contributed most to total growth in foreign purchases (1.2 percentage points), together with base metals. As a result, the group's share of total imports rose eight tenths to 8.9%, enabling it to outrank textiles to reach fifth place

in the import ranks. The reason for this strong progress is the significant increase in imports of fuel, oils and mineral wax (13.7%), the most important chapter in the group with a share of 8.4% of total imports. This increase can, in turn, be explained by the average rise in fuel prices associated with rising oil prices. So, if this chapter is discounted from total imports, it appears that the global increase in imports in 2018 was smaller (3.9% instead of 4.7%). In the case of purchases of salt, sulphur, earths and stone, plastering materials, lime and cement, the second most important chapter in the group, the increase was very significant (24.3%) and much stronger than in the previous year (6.5%), in line with the phase of recovery in construction. This is confirmed by the 84.5% increase in imports of iron and steel products, within the group of base metals, adding 1 percentage point to total import growth.

As for textiles, imports saw a decline of 1.9%, reducing its percentage of the total by half a point to 7.8%, falling one place in the exports ranks to sixth. This means that the falling trend that halted in 2017 has resumed, and the bad results in the clothing trade sector in 2018, indicated in the Chamber of Commerce's surveys, are confirmed.

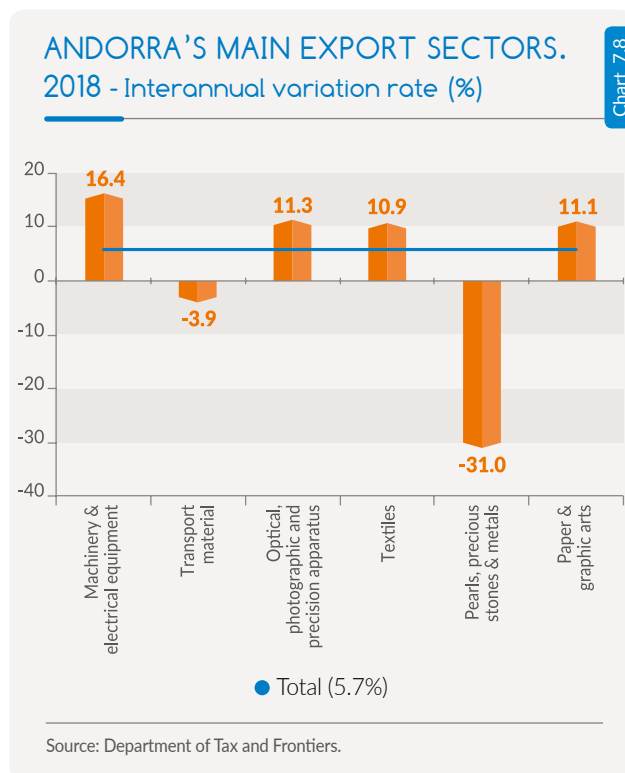
Far behind textiles come imports of live animals and animal products which, in 2018, saw an increase of 2.6%, below average, so their share of the total fell one tenth to 4.9%. This trend can mostly be explained by the increase in imports of meats and edible offal, and milk and dairy produce (4% and 4.7% respectively).

Finally, the trend in groups of products with a share of less than 5% of foreign purchases was varied. The increase in works of art and antiques is notable (241%), but in other cases, variations from the previous year were much slighter. With a negative trend, the decrease in pearls, precious stones and metals (-49.5%), fur, leather & articles thereof (-6.2%) and optical and photographic (-3.3%) appears to indicate unfavourable behaviour in the trade in these types of products.

### 3.2. Exports

In 2018, Andorran exports continued to grow but slower than in 2015, the year when the rising trend began. Specifically, exports increased 5.7%, much less than the 17% seen in 2017. This trend can be explained, to a large extent, by the positive contributions from the groups of machinery and electrical equipment (4.8 percentage points) and, to a lesser extent, chemical products (1.6 percentage points) and optical, photographic and precision apparatus (1.5 percentage points). In contrast, there was a notably negative contribution from the sector of pearls, precious stones and metals (-3.1 percentage points), which is also one of the sectors that contributed most negatively to import growth, probably due to a fall in re-exports.

The largest export group in 2018 is still, as it has been since 2003, machinery and electrical equipment, which saw a significant increase



of 16.4%. This makes four consecutive years of increases, bringing its share of the total to a notable 32.6%. By chapters, this progress can mainly be explained by the increase in machines and electrical apparatus (10.7%), the most important chapter in the group and in all exports, with 25.2% of total foreign sales. Sales of mechanical apparatus also developed positively with an increase of 41.3%, much higher than the increase in imports of those products.

**Machinery and electrical equipment accounts for one third of total exports.**

Transport material is still in second place in the export ranks, but suffered a decline of 3.9%, the first downturn since 2012. So, transport material's share of total foreign sales fell almost two points to 18%. The chapter that determines this behaviour is motor vehicles, which represents 17.4% of total exports and saw a decline of 6.7%, after five consecutive years of very significant growth.

The increase in foreign sales of optical, photographic and precision apparatus, the third largest export chapter, was 11.3%, added to the rise of 7.7% in the previous year. As a result, its share of the total increased to 14.1%. By chapters, the trend was positive in both the segment of optical and photographic products (8.3%), the most important chapter in the group with 10.3% of total exports, and clocks and watches (29.1%), with a much lower percentage of the total, only 3.3%.

In fourth place in the ranks by volume of exports was textiles, with 6.7% of the total and interannual growth of 10.9%. This increase enabled it to rise to fourth place in the ranks in 2018. Within this group are notably the chapter of articles of apparel and clothing accessories, not knitted or crocheted – the most important chapter in the group, with 4.3% of total

exports – which grew 26%, and articles of apparel and clothing accessories, knitted or crocheted (8.5%), putting the share of the total at 1%.

**In 2018 the group pearls, precious stones and metals made the most negative contribution, after strong growth in the period 2014-2017.**

Behind textiles was the group pearls, precious stones and metals, one of the groups that shrank most in 2018 (-31%), after quadrupling between 2014 and 2017. As a result of this negative trend, its percentage fell to 6.6%. This was accompanied by a major decline in imports too, probably as re-exports of these products fell.

The trend in the group paper and graphic arts was quite favourable, with export growth of 11.1%. As a result, its share of the total rose to 5.7%. The most important subgroups are paper and cardboard (3.2% of the total) and products of the printing or graphic industries (1.8% of the total), both of which saw a fairly positive trend in 2018.

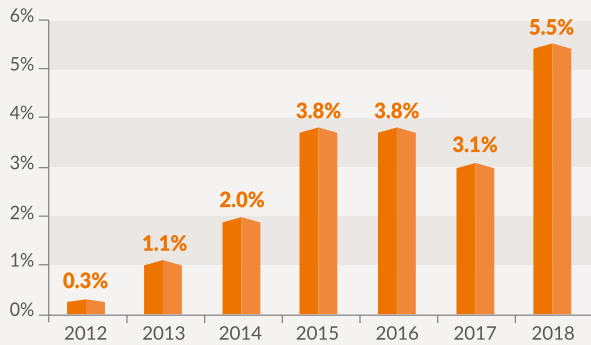
The other groups represent a share of less than 5% of total exports. Base metals stand out, representing 4.4% of total foreign sales, with a decline of 3% in 2018. These are followed by the groups: products of the chemical industries, with a 3% share and an increase of 99.6%, and footwear, headwear, umbrellas, etc., with a 2.5% share and an increase of 47.9%.

#### 4. Foreign investment flows

In 2018, Andorra consolidated its position as an attractive destination for foreign investment. So, in this year, 505 investment applications were formalised, 17.1% less than the previous year. However, the volume of global investment formalised in 2018 reached 152.1 million euros,

## TOTAL VOLUME OF FOREIGN INVESTMENT IN RELATION TO GDP

Chart 7.9



Source: Ministry of the Presidency, Economy and Business.

84.3% higher than the 82.5 million formalised in 2017. This major increase pushed up foreign investment in relation to Andorran GDP from 3.1% in 2017 to 5.5% in 2018, the highest figure since the Foreign Investment Law came into force in 2012.

### Foreign investment increases to represent 5.5% of Andorran GDP in 2018.

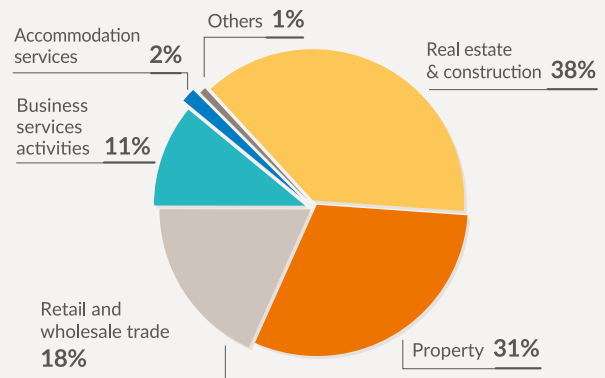
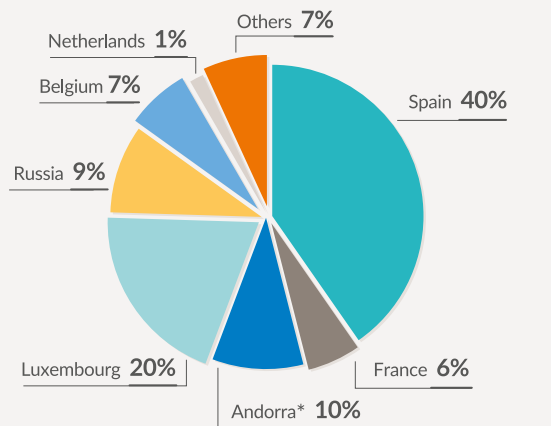
The geographical distribution of formalised investment in 2018 shows that Spain is still by far the largest investor (40%). This year, the strong increase in investment from Luxembourg outstripped France to take second place in the ranks with 20%. Russia is the third most important country (with 9%), followed by Belgium and France. The rest is shared by various geographical locations.

Globally, since 2012, when the current Foreign Investment Law came into force, Spain has concentrated 48.2% of formalised investment in Andorra, and France, 15%. The rest is spread among many countries, notably Luxembourg (8.4%), Belgium (4.6%), Russia (4.1%) and Switzerland (2.7%). Investment whose country of origin is identified as "Andorra" represents 7.4% of the total in the period 2012-2018, and relates to Andorran legal persons with more than 50% shares held by non-residents making a new investment.

By sectors, in 2018, formalised investment was notable in the field of real estate and construction (38%) and property (31%), followed by retail and wholesale trade (18%) and business services activities (11%). Globally, these are the four sectors that have dominated investment since 2012. Specifically, property received 32% of investment in the period 2012-2018, followed by business services activities, real estate and construction and retail and wholesale trade, all three sectors with a relatively similar percentage of the total at about 20%. Other sectors that received foreign investment over the last few years, but at much lower levels, are accommodation services, portfolio investment, projects, design and research activities, and manufacturing.

## FOREIGN INVESTMENT BY COUNTRIES AND SECTORS. 2018 - As % of total

Chart 7.10



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

Source: Ministry of the Presidency, Economy and Business.

## VIII. The public sector

In 2018, the Andorran public sector slightly eased its restraint of recent years. So, after two years in which the three levels of public administration recorded budget surpluses, in 2018, the central Government saw a slight deficit compounded by a fall in the Comú surplus. This can be explained, to a great extent, by increased investment expenditure by the Comú governments, as occurred in 2017, and also the increased growth in operating expenses. For its part, the Andorran Social Security System (CASS) improved its surplus a little, thanks to the good performance of the labour market.

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

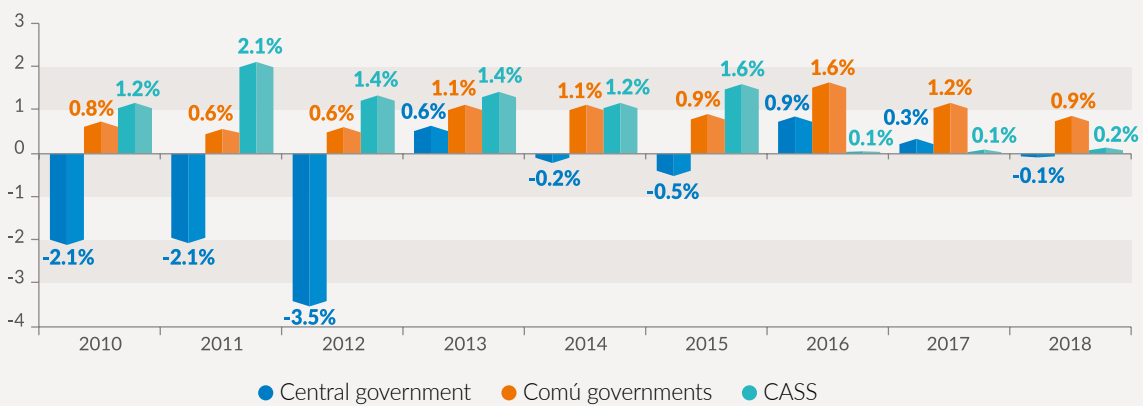


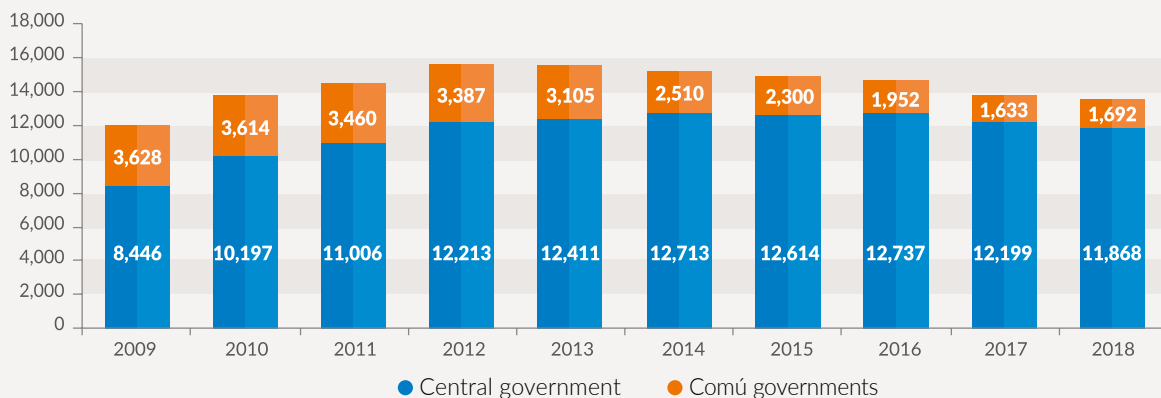
Chart 8.1

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

Specifically, the central Government saw a small deficit, equal to 0.1% of GDP, after two years of surpluses, while the surplus of the Comú governments fell three tenths to 0.9% of GDP, the lowest level in the last six years. The CASS also obtained a surplus of 0.2%, one tenth higher than that of the previous year. Official statistics do not currently publish the consolidated

*The Andorran public sector slightly eased its restraint of recent years.*

PER CAPITA DEBT (€/person)



Note: data published by the Comú governments for 2018 and data reviewed by the Court of Accounts for the other years. Calculated by taking the estimated population as the base.

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

Chart 8.2

## Box 8.1

### TARGETS FOR FINANCIAL SUSTAINABILITY AND FISCAL AND BUDGETARY STABILITY FOR 2019

Under chapter three of Law 32/2014 on Financial Sustainability and Fiscal and Budgetary Stability, the preparation and approval of the annual budgets of the central and Comú governments must be aligned with the general budget framework that covers the term of mandate. It is also stipulated that the Court of Accounts must publish the financial sustainability and fiscal and budgetary stability targets for the central and Comú governments annually, so they can be considered when preparing and monitoring the budget framework.

The set targets for 2019 are as follows:

#### DEBT TARGETS 2019

(as % of GDP)

Debt target for Andorra	40.7%
Debt target for the central Government	34.1%

#### DEBT TARGETS OF COMÚ GOVERNMENTS 2019

(as % of average settled total revenue in the three, immediately-preceding calendar years)

Comú of Canillo debt target	180.0%
Comú of Encamp debt target	140.0%
Comú of Ordino debt target	150.0%
Comú of La Massana debt target	113.6%
Comú of Andorra la Vella debt target	135.0%
Comú of Sant Julià de Lòria debt target	175.0%
Comú of Escaldes-Engordany debt target	82.0%

#### PERMITTED EXPENDITURE TARGET 2019

Central Government permitted expenditure target	€ 457,911,235
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#### CURRENT OR OPERATING EXPENDITURE TARGET 2019

(growth rate)

Central Government current expenditure target	3.2%
Comú of Canillo current expenditure target	6.0%
Comú of Encamp current expenditure target	6.0%
Comú of Ordino current expenditure target	10.0%
Comú of La Massana current expenditure target	2.5%
Comú of Andorra la Vella current expenditure target	9.5%
Comú of Sant Julià de Lòria current expenditure target	12.0%
Comú of Escaldes-Engordany current expenditure target	5.0%

#### DIRECT TAX TARGET PERCENTAGE 2019

Target direct tax percentage of total direct and indirect taxes of the central Government	36.2%
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Compared with the situation in 2018, the most relevant aspects of 2019 are:

The debt targets for 2019 are still much higher than the levels seen in 2018, although they have hardened in the case of Ordino, La Massana and Escaldes-Engordany.

The permitted expenditure target for the central Government exceeds the settled totals in 2018 and therefore leaves a margin for increasing expenditure in 2019.

The current expenditure growth targets have softened for all Comú governments except Canillo, in contrast with the central Government, whose target was lowered by one tenth.

In summary, the less restrictive expenditure targets within an economic context that is expected to continue to rise should enable administrations to stay within the targets set for 2019.

budget balance of all the administrative bodies, so we cannot confirm the net economic effect of the performance of the whole Andorran public sector, although it would appear to be expansive.

The slight deterioration in the Government and Comú budget balances slowed the falling trend of public debt which started in 2013, after it reached a historic high in 2012. So, Andorra's total debt (central and Comú governments) was 1,033 million euros, only 0.2%

**In 2018, the rate of fall in public debt slowed.**

lowest on record since 2009. Moreover, it remains below the 50% limit set by the Law on Public Finance Sustainability and the debt target set for 2018 (43.3%). Per inhabitant, the per capita debt (calculated on the estimated population) was 13,559 euros, 2% less than in 2017. This is the sixth consecutive annual reduction, which can mainly be explained by the increase in the population.

Under the accrual principle, it is estimated that the tax burden increased half a point to 25%, close to the historic high of 2016, when it was 25.2% (see box). This trend was the result of a 4.7% increase in total tax revenue, higher than nominal GDP growth (2.5%), a pattern that has recurred in seven of the last nine years.

lower than in 2017. This amount is equal to 37.7% of GDP, one point less than in 2018. This trend was favoured by the growth in nominal GDP, making the percentage the

**Andorra's tax burden increased half a point, to 25%, a level close to the historic high of 2016.**

**Box 8.2**

**THE ANDORRAN TAX BURDEN: TREND, STRUCTURE AND COMPARISON WITH EUROPE**

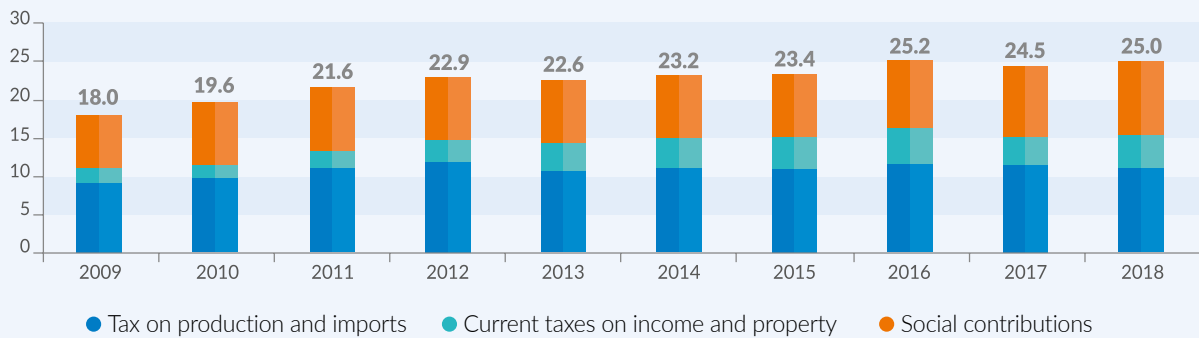
Since 2010, the Andorran tax burden has seen a fairly sustained rising trend, partly linked to the gradual introduction of all the direct forms of tax, which ended in 2015 with the introduction of income tax (IRPF). As a result, the tax burden reached a historic high of 25.2% of GDP in 2016. After a certain decline in 2017, it returned to the threshold of 25% in 2018. So, of the seven GDP points that the tax burden increased between 2009 and 2018, the increase can be explained by 2.3 points from direct tax, 2.7 points from social contributions and the other 2 points from indirect tax.

The distribution by tax forms highlights the fact that the major component of the tax burden is still

indirect tax, despite losing ground in recent years, to reach 44.3% of total accrued revenue. The second largest component is social contributions, comprising 38.5% of total revenue in 2018, practically the same as in 2009. The other income relates to direct tax, on income and property, comprising 17.3% of total revenue, 6.4 points higher than in 2009. So, in relative terms, the percentage lost by indirect tax was gained by direct tax.

From a European perspective, despite the increase in recent years, the Andorran tax burden is still much lower than the 40.1% European average (according to 2017 data) or the level of our closest European neighbours: France (48.4%) and Spain (34.5%), a value

**STRUCTURE OF THE ANDORRAN TAX BURDEN - As % of GDP**



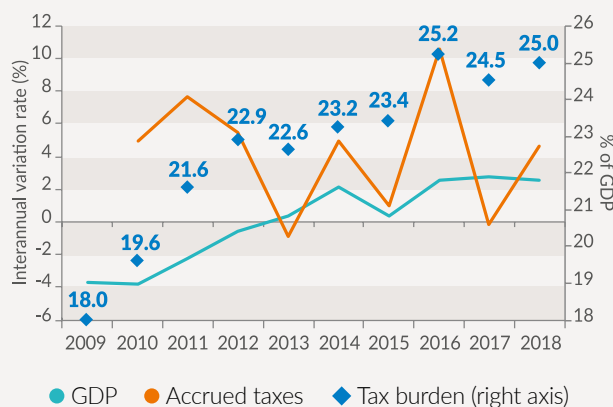
Source: Department of Statistics.



The breakdown by tax figures demonstrates that the rise in the tax burden is due to the strong growth in current taxes on income and property (21.1%), although in 2018 there was no significant regulatory change in the national tax system. This trend can be explained, in turn, by the increase in revenue from corporate tax and income tax (IRPF). The increase reflects a positive trend in economic activity in the year and was favoured by a positive base effect, as both sources of income suffered a serious reduction in 2017. Another factor that also seems to have contributed is the improved management, collection and inspection of these taxes, as part of the gradual consolidation of the Andorran tax system.

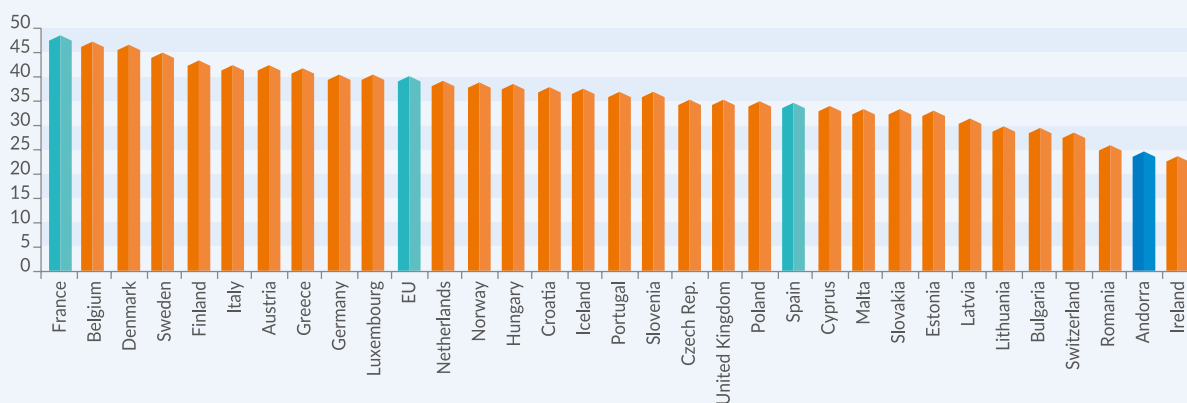
### GDP, ACCRUED TAXES AND TAX BURDEN

Chart 8.3



Source: Department of Statistics.

### TAX BURDEN OF EUROPEAN COUNTRIES. 2017 - As % of GDP

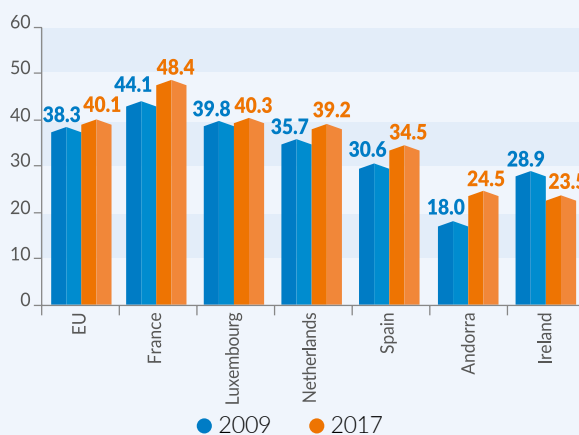


Source: Department of Statistics and Eurostat.

that makes Andorra a tax-friendly country. In fact, within the context of the EU-28, the only country with a lower tax burden than Andorra is Ireland (23.5%).

Moreover, as occurred in Andorra, the average tax burden of the EU and also Spain, France and other countries with low taxation such as Luxembourg and Netherlands, has displayed a rising trend in recent years, from the lows seen in 2009, a situation largely associated with the improvement in the economic situation. As has been said, Ireland is a different case, where the tax burden has fallen more than five GDP points since 2009, which explains why it is the only country in the EU with lower taxation than Andorra.

### TREND IN THE TAX BURDEN OF SOME EU COUNTRIES - As % of GDP



Source: Department of Statistics and Eurostat.

In parallel, an increase was seen in social contributions in 2018 (5.6%), driven by job creation and wage momentum. In contrast, taxes on production and imports fell 1.3% in comparison with 2017, greatly influenced by falling revenue from VAT (IGI).

Below, we analyse the performance of the public sector in 2018, broken down by level of government.

## 1. Central Government

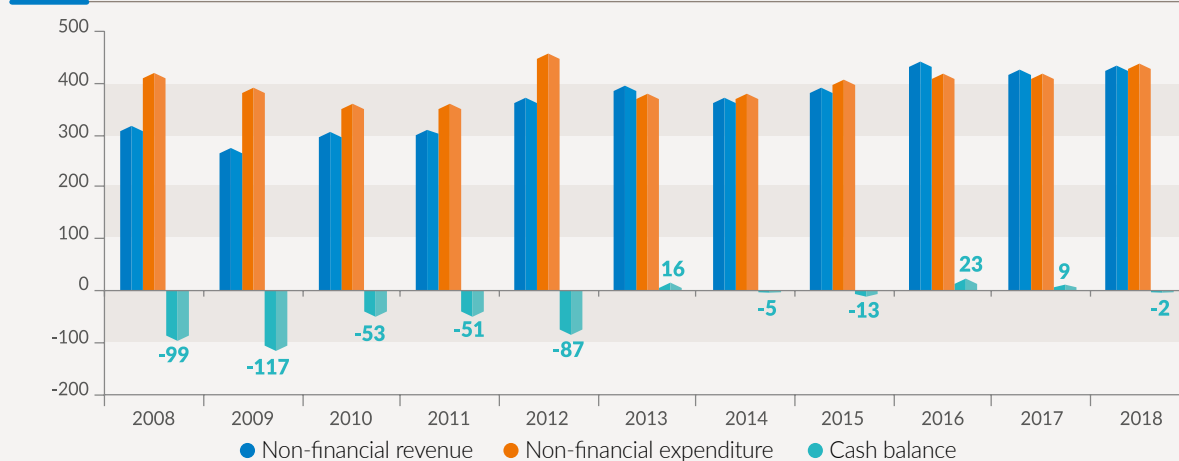
In 2018, the Government closed the accounts with a non-financial deficit of 2.2 million euros, a figure that represents 0.1% of GDP, according to provisional settlement data. This negative balance contrasts with the surpluses seen in the two preceding years and can be explained by a rise in expenditure (4.9%) that was greater than in income (2.1%). Accordingly, the Government resumes the historical tendency to settle budgets with a deficit. So, in the period from 1998 to 2018, there were eighteen financial years that closed with a deficit and only three with a surplus.

Moreover, if the financial transactions carried out over the year are added to this non-financial deficit of 2018, a more negative budget result is obtained, of 4.7 million euros, although this is lower than that of 2017 (5.1 million euros).

**The Government closed the 2018 financial year with a deficit, after two years of surplus.**

Looking at the detail of these financial transactions, the most notable movements relate to two debt transactions carried out in April and October, intended to renew issuances that matured in 2018 (for a total of 225 million euros in bonds). Moreover, the available balance of the loan policies was reduced from 50 to 21 million euros.

GOVERNMENT BUDGET EXECUTION - Millions of euros



Source: Ministry of Finance.

**The global debt of the central Government shrank for the second consecutive year.**

As a whole, the global debt of the central Government shrank for the second consecutive year, after a 15-year uninterrupted period of growth, to reach 904 million euros, 0.9% less than in 2017 and approximately the same amount as in 2015. In the structure of this debt is notably the increase in the outstanding balance of public debt to 795 million euros (the rest are loans and policies), more than triple

that of nine years earlier. In proportion to GDP, this debt volume represents 33%, 1.1 points less than in 2017. This reduction distances it from the 40% limit established for the central Government by the Law on Public Finance Sustainability, easily meeting the debt target set for this year (36.9%) and holds it well below the level of the great majority of European governments. However, the term structure of the debt worsened, with 59% of debt being long-term and 41% short-term, compared with the 76%-24% division in 2017.

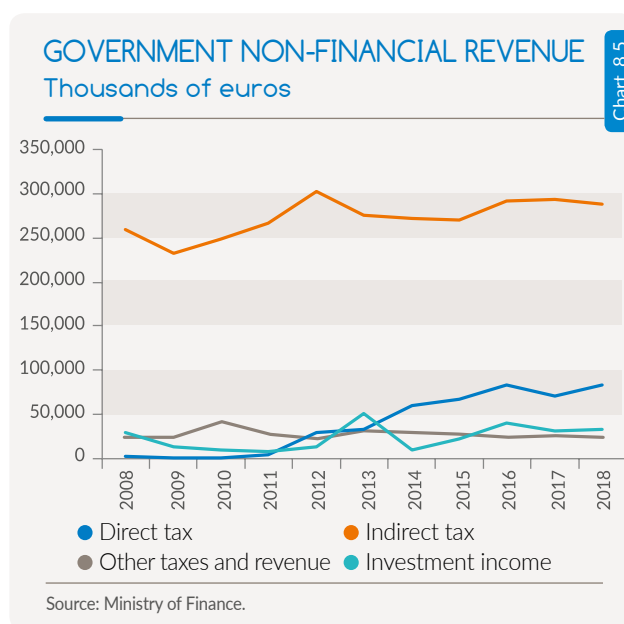
## 1.1. Revenue

Settled non-financial revenue was 432.3 million euros in 2018, 2.1% more than in the previous year, with a budget execution rate of 102%. This increase contrasts with the decrease in 2017 and can mostly be explained by the strong growth in revenue from direct tax, plus the rise in investment income, the same two items that caused the decline in revenue in the previous year. In contrast, income from indirect tax and other taxes and revenue fell, limiting the rising trend in revenue as a whole. Other revenue was also obtained from current transfers and the sale of investments, although they have minimal relevance in absolute terms.

In detail, income from direct taxes increased 18.4%, after the decline of 14.1% in 2017, so total revenue rose to a historic high of 84 million euros. Accordingly, the percentage of this chapter increased to 19.5% of total non-financial revenue and 38.8% of total direct and indirect taxes (excluding the chapter of special taxes and the chapter on foreign trade tax of the central Government). The latter figure is below the 40% limit set by the Law on Public Finance Sustainability passed in 2014, but higher than the 35.6% target set for 2018.

The strong momentum in revenue from direct taxes is mainly the result of the good performance in corporate tax (41.5%). The achieved revenue of 37.4 million euros confirms that this tax form is a major source of finance for the central Government and indicates a positive

**Revenue from direct taxes rose to a historic high, contrasting with the fall in 2017.**



**Unlike in 2017, revenue from corporate tax exceeded that of IRPF.**

trend in economic activity in the financial year. This increase was also helped by the improvement in management, collection and inspection of the tax.

In contrast, revenue from economic activities became insignificant as, since the IRPF (Income Tax) came into force in 2015, income from economic activities is taxed under the IRPF instead of the tax on economic activities.

The trend in other direct tax forms was also positive in 2018. The IRPF brought 35 million euros into the public coffers, as a result of a 17.1% increase, indicating favourable behaviour in family income. However, the IRPF is no longer the main source of revenue in direct taxes as it

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

Table 8.1

	Settlement 2018	% variation 2018/2017	% execution 2018 <sup>(2)</sup>
<b>Direct taxes</b>	84.4	18.4	113
On capital gains on property	5.0	82.5	199
On personal income (IRPF)	35.0	17.1	122
On companies / economic activities	37.4	41.1	103
On non-residents' income	6.9	-43.0	101
<b>Indirect taxes</b>	288.2	-1.6	99
On property transfers	2.5	0.9	104
On consumption of goods (IGI)	125.4	-5.0	97
On consumption of services (ISI)	3.0	-2.4	98
Special taxes	47.5	4.2	101
On foreign trade	108.7	0.2	99
On gambling	1.1	-16.3	79
<b>Other taxes and revenue</b>	25.5	-5.4	99
<b>Current transfers</b>	0.1	76.9	-
<b>Investment income</b>	34.2	6.7	104
<b>Real investment sales</b>	0.0	-81.9	-
<b>Non-financial revenue</b>	<b>432.3</b>	<b>2.1</b>	<b>102</b>
<b>Current expenditure</b>	389.1	5.7	96
Personnel costs	114.9	3.7	100
Consumption of goods and services	50.0	11.0	89
Financial expenditure	13.1	-5.1	99
Current transfers	211.2	6.3	96
<b>Capital expenditure</b>	45.4	-1.3	54
Real investments	38.1	-4.5	54
Capital transfers	7.3	19.4	51
<b>Non-financial expenditure</b>	<b>434.5</b>	<b>4.9</b>	<b>89</b>

(1) Settlement of 2018 budget is provisional.

(2) In the case of expenditure, this is calculated from the final budget, which is the result of incorporating into the budget passed by the General Council the credit obligations undertaken during the previous financial year relating to expenses postponed to the following financial year, and the modifications and increases in budgetary credit. In 2018, these modifications represented an increase of 8.6% on the initial budget for non-financial expenditure.

Source: Ministry of Finance.

has been overtaken by corporate tax, which grew even more. The revenue obtained from the tax on capital gains from property transfers also saw strong growth (82.5%), to 5 million euros, thanks to growing dynamism in the Andorran property market.

The analysis of direct tax is completed by the income tax on non-residents (IRNR), which saw a decrease of 43%, to 6.9 million euros in revenue, contrasting with the increase in the previous year. Note that this tax has been affected by the signing of various double taxation agreements, those with Spain and France being especially relevant as they are the source of most businesses offering services to Andorra, which explains the downturn in revenue.

**The IGI is still the main form of finance for the Government.**

In relation to indirect taxes, revenue obtained in 2018 fell 1.6%, to 288 million euros, a figure that is slightly lower than the budgetary provisions (99%). In any case, this entry is still by far the most important source of finance for the Government, with a total share of non-financial revenue of 66.7%, although it has been losing ground to direct taxes in recent years.

Within this type of revenue, the top tax form by volume of income is the indirect general tax (IGI), a tax on consumption that has been in force since 2013. Revenue from this tax saw a fall of 5%, to net settled revenue of 125 million euros, representing a weakness in the trend in Andorran's economic activity.

The trend in revenue from taxes on foreign trade was more stable (0.2%), at around 109 million euros. The most important concept within this section is consumption tax, a custom duty on agricultural products imported into Andorra (import chapters 1-24), with a notable percentage from beverage and tobacco imports and providing almost 100% of revenue from foreign trade.

Moreover, special taxes, the third largest tax form in volume of revenue, generated almost 47 million euros, based on an increase of 4.2%. These taxes are applied to imports and manufactures of certain products, such as alcohol, tobacco and fuels, so the rising trend in 2018 is linked to the increase in imports of those products, especially fuels.

The other indirect taxes, with a lower share of total revenue, showed diverse trends. On the one hand, revenue from the property transfer tax (ITP) increased 0.9%, to 2.5 million euros, favoured by the positive trend in property transactions carried out in Andorra. On the other hand, there were decreases in revenue from gambling tax (-16.3%) and the indirect tax on insurance services, ISI Assegurances (-2.4%).

Along the same line, revenue from other taxes and revenue saw a fall of 5.4%, to 25.5 million euros. So, the execution rate was 99% and its percentage of total settled income fell half a point to 5.9%. In this chapter, the trends in three types of revenue stand out: firstly, taxes, representing 61% of total income in this chapter, which saw an increase, largely linked to the tax on economic activities and vehicle tax; secondly, service provision (17.7% of the total) and thirdly, those under Other revenue (17.6%). The latter two items saw the largest negative variation. The other items in this chapter have much lower percentages.

Within service provision, the main variable explaining the fall in revenue is income from the withholding tax on savings income. This concept was regulated by Law 11/2005, of 13 June, adapting the Agreement between the Principality of Andorra and the European Community relating to the establishment of measures similar to those provided in Council Directive 2003/48/EC on taxation on savings income in the form of interest payments, under which Andorra carried out a series of retentions of savings which were then shared as follows: 75% to the countries of residence of the beneficial owners and the other 25% as revenue to the Andorran state. Derogation of this law, due to approval of Law 19/2016, of 30 November, on the automatic exchange of information for tax purposes, led to the disappearance of this source of revenue.

Regarding investment income, this increased 6.7% in 2018, to 34 million euros, an amount that exceeded the budget provision (104%) and raised its percentage of total non-financial revenue by three tenths, to 7.9%. This trend is mainly associated with the settled amount for distribution of dividends from Andorra Telecom (4.4%) and marketing of euros to stamp-collectors and other collectors (66.3%). In contrast, revenue from dividends from the Andorran electricity company *Forces Elèctriques d'Andorra* (FEDA) fell 14.8%, directly related to a decrease in its profits, as the distribution criteria have not changed (30% of profits).

To complete the analysis of revenue, it should be added that the contributions obtained from current transfers and the sale of real investments were insignificant, and that there was no income from capital transfers.

## 1.2. Expenditure

The volume of settled non-financial expenditure in 2018 reached the figure of 435 million euros, 4.9% more than the previous year. This trend can be explained by the increase in current expenditure, only partly offset by the reduction in capital expenditure. So, the increase in non-financial expenditure was higher than that of revenue and the fiscal policy implemented by the Government was more relaxed than the previous year. Equally, the rate of execution of non-financial expenditure in the final budget (which includes the initial budget plus amendments and extensions approved during the year) was 89%, lower than execution of revenue.

### The Government relaxed its restrictive fiscal policy in 2018.

The value of settled capital expenditure was only 45.4 million euros, 1.3% less than the previous year, a figure that continues the policy of contained investment that has defined budgets in recent years. As a result, its percentage of the total fell to a historic low of 10.4%, while the rate of budget execution stayed at 54%, a much lower rate than in current expenditure (96%), as usual. By chapters, the decrease in capital expenditure can be explained by the cut in real investment (-4.5%), which was limited to 38 million euros, the lowest level in the last five years.

This drop in investment was partly offset by an increase in capital transfers of 19.4%, although its much lower absolute value (7.3 million euros) has a limited impact on the Government's investment effort.

As for current expenditure, the increase was led by consumption of basic goods and services (11%), with higher growth than the previous year (2.3%), affected by the sub-concept "Jurisdiction and litigation" for the amount of 2.5 million euros. This figure relates to execution of the judicial decision requiring the government to make specific payments to the Comú governments. So, its share of total non-financial expenditure rose six tenths to 11.5%.

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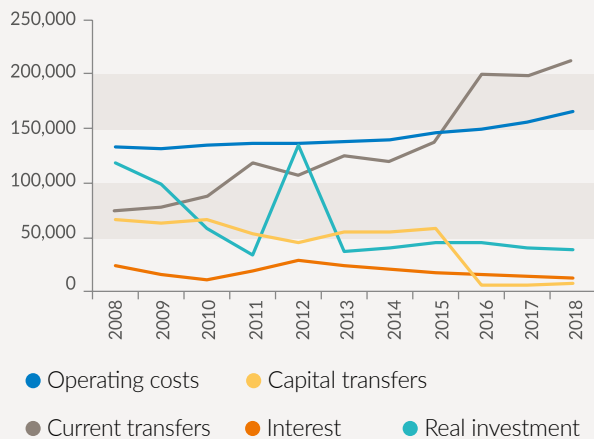
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### GOVERNMENT NON-FINANCIAL EXPENDITURE - Thousands of euros

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).

Source: Ministry of Finance.

### The current account entries that grew most were consumption of basic goods and services and current transfers.

Note also the 6.3% increase in current transfers, reaching the amount of 211 million euros, mainly due to regularisation of Comú transfers in 2017 and 2018 for the value of 7.5 million euros. Another entry that contributed to growth was transfers to semi-public entities (59 million euros in settled expenditure), which includes, on the one hand, the increased subsidy for operating the Nostra Senyora de Meritxell Hospital and, on the other hand, the reduction in finance for primary care. Consequently, the percentage of current transfers in total non-financial expenditure rose seven tenths to 48.6%, so it is still by far the largest chapter in budgetary expenditure.

Personnel costs also grew, 3.7% to 115 million euros, but slower than in 2017. The most important increase in absolute terms was "Base wage of civil servants and Government officials on an undefined basis" due to the impact of the CPI in 2017 (2.6%) and new recruitment. As a result, this chapter remains the second most important expenditure, after current transfers, with a percentage of total non-financial expenditure of 26.4%, three tenths less than the historic high of 2017.

Finally, the financial expenditure chapter continued the downward trend started in 2013 (-5.1%), favoured by the ECB's policy of monetary easing, which maintained interest rates at minimal levels. So, its share of total non-financial expenditure fell three tenths to 3%, the lowest level in the last eight years.

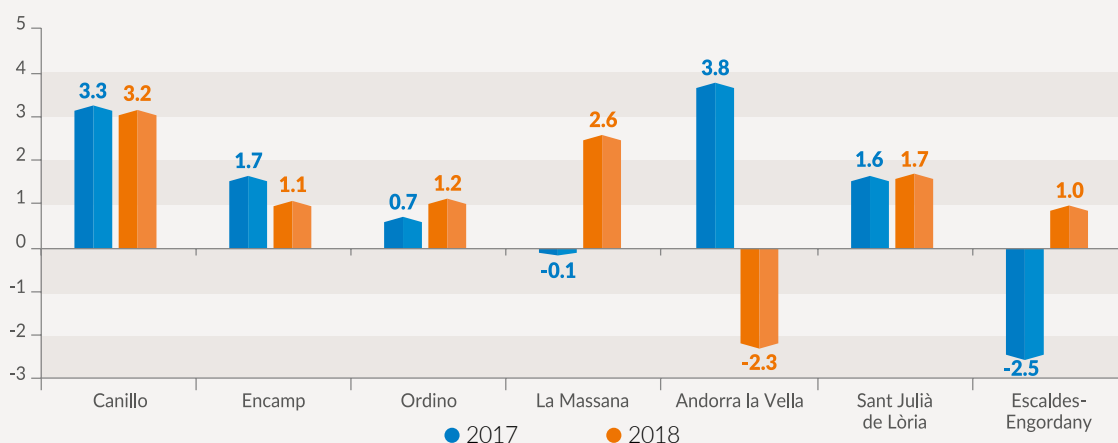
## 2. Comú governments

In 2018, the settled budgets of the Comú governments, including financial assets and liabilities, show that the total volume of Comú revenue reached the figure of 161.9 million euros, higher than the 153.4 million euros of settled expenditure. Consequently, the balance of the Comú governments as a whole was positive for the eleventh consecutive year, by 8.5 million euros. This figure is similar to the previous year, responding to growth in expenditure that marginally exceeded total revenue. If analysis is limited to non-financial expenditure, it can be seen that the total volume was 156.9 and 133.5 million euros, respectively, meaning a non-financial surplus of 23.4 million euros, 0.9% of GDP, three tenths less than in 2017. It should be added that achieving a surplus did not result in a reduction of the debt on this occasion, as explained in more detail below.

**The Comú governments obtained a budget surplus for the eleventh consecutive year.**

More detailed analysis shows that only Andorra la Vella recorded a public deficit (-2.3 million euros), after being the Comú with the highest surplus in the last two years. In contrast, the other Comú governments settled their budgets with surpluses, representing an improvement from 2017, when La Massana and Escaldes-Engordany ended the year with deficits, but obtained a surplus in 2018. Moreover, Ordino and Sant Julià de Lòria had larger surpluses than in 2017, whereas Canillo and Encamp had lower surpluses. Nevertheless, Canillo is now the Comú with the largest surplus (3.2 million euros), followed by La Massana (2.6 million euros).

SETTLED BUDGET BALANCE OF THE COMÚ GOVERNMENTS - Millions of euros



Source: Comú governments / Department of Statistics.

As for debt, 2018 ended with a cumulative consolidated Comú debt of 128.9 million euros, according to the data published by the corporations, which are still provisional while pending review by the Court of Accounts. This figure represents an increase compared with the 2017 data, already reviewed by the Court of Accounts (except Sant Julià de Lòria), of 5.5%, interrupting eight consecutive years of downward trend. However, if these still provisional data are taken as the base, it can be asserted that, for the fifth consecutive year, all the Comú governments are clearly below the debt level set by the Law (200% of average settled income in the last three financial years).

***In 2018, the total debt of the Comú governments increased after eight consecutive years of reductions.***

In the context of the whole Andorran public sector, the Comú governments represent 12.5% of the total public debt (central plus Comú government debt), seven tenths more than in 2017, when their percentage reached a historic low. Despite this increase, this percentage is still much lower than their share of government non-financial public expenditure (23.5%), representing 4.7% of Andorran GDP. Altogether, this means that in relative terms they are much less in debt than the central Government, a situation that has reversed since 2013, thanks to fiscal consolidation efforts and an improvement in their financing system.

By parishes the trend in debt varied. Specifically, three Comú governments continued the debt reduction of recent years (Encamp, Escaldes-Engordany and Sant Julià de Lòria), contrasting with the increase in the other four. The case of Canillo stands out, having almost tripled its debt to the highest level in the last five years, after being one of those that made most effort to reduce its debt in previous years. In any case, Andorra la Vella still has the largest share of debt (26.5% of the Comú governments' total), consistent with its higher economic importance, after increasing the debt by 5.5% in 2018. At the other extreme, La Massana had the lowest volume of public debt (10.6% of the total), despite being the Comú with the second largest increase in 2017 (31.4%), after Canillo.

## 2.1. Revenue

The Comú governments increased their settled revenue for the sixth consecutive year, by 10.4% in 2018, to reach a figure of 161.9 million euros, the highest level in the last nine years. Settled revenue slightly surpassed the budgeted figure (101%), putting its share of total Andorran public sector revenue (central plus Comú governments) at 19.5%, 6.2 points higher than in 2017. Nevertheless, it should be said that this percentage is distorted by the central Government's volume of financial liabilities, due to its borrowing requirements. In fact, if we only consider non-financial revenue, the Comú governments' share rises to 26.6%, a higher percentage than they represent in total non-financial expenditure (23.5%).

***In 2018, the increase in Comú revenue from current transfers is notable.***

By chapters, it can be seen that the increase in revenue can be explained by the positive trend in both current income (6.6%) and capital (8.2%). Added to this positive trend was an entry in income of 5 million euros for financial liabilities, which had not happened since 2015. Within current income, the chapter increase was especially notable in the case of current transfers (12.2%), boosted by the regularisation of transfers from the central Government to the Comú governments in 2017 and 2018, and direct taxes (9.2%), driven by the positive trend in the economy. Taxes and other revenue, the largest entry by volume, also saw very dynamic



behaviour, with a rise of 8%. In the case of indirect tax, the increase was more discreet (1.2%) and the only chapter of current income that saw contraction was investment income (-7.8%).

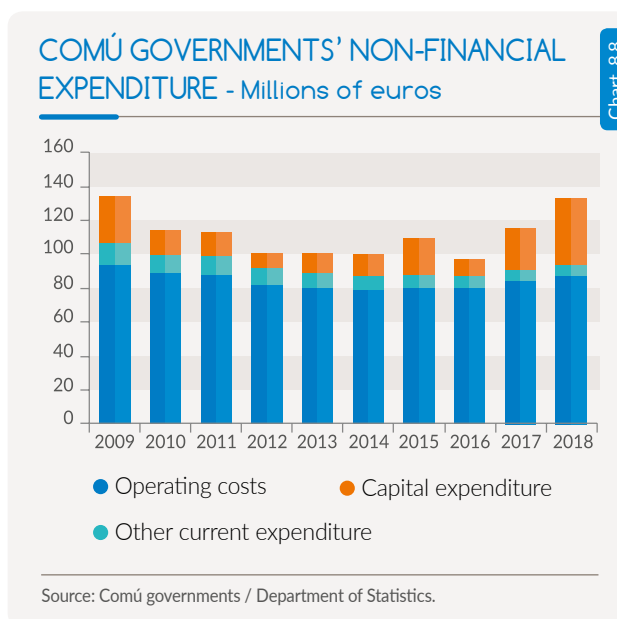
Other taxes and revenue is still the most important current income entry for the Comú governments, at 28.1% of total non-financial revenue, followed by direct taxes (18.5%) and current transfers (13.9%), both gaining ground. Moreover, capital revenue increased 8.2% due to the increase in capital transfers (8.4%), the second most important chapter in revenue, with 26.5%. In contrast, revenue from transfers of real investments fell (-7%), but its low percentage means that the contribution to the total is insignificant.

The analysis by parishes shows that only Canillo saw a drop in revenue (-3.8%), after being the Comú with the highest increase in 2017. At the other extreme, Andorra la Vella increased its revenue most in 2018 (23.6%), followed by La Massana (16.3%). The other Comú governments increased revenue more modestly, below the total. In this context, Andorra la Vella is still top of the Comú ranks for total volume of revenue, with 48.4 million (29.9% of the total), while Ordino is still the Comú with the lowest revenue, with 7.2% of the total, equal to 11.7 million euros.

## 2.2. Expenditure

The Comú governments' settled expenditure increased strongly in 2018, as in 2017, by 11.1%, to reach the figure of 153.4 million euros, the highest since 2009. Non-financial expenditure progressed at a still higher rate of 15.9%, although slightly slower than in 2017 (19.2%). In parallel, financial transactions fell 13.2%, largely because expenditure on financial assets fell, but also due to a slowdown in the rate of debt amortisation. Altogether, this put the rate of execution of total budgeted expenditure at a relatively low level of 94.9%.

**Personnel costs rose for the first time in eight years.**



Nevertheless, the Comú share of total Andorran public sector expenditure (central plus Comú governments) rose to 18.6%, a percentage that still remains below their share of revenue. It should be added that, if only non-financial expenditure is considered, the Comú share of total public expenditure rises to 23.5%, which is also lower than non-financial revenue.

By chapters, the growth in Comú expenditure can basically be explained, as in the previous year, by the steeply rising trend in capital expenditure (63.1%), growing strongly for the second consecutive year, so the investment effort rises to 39.4 million euros, the highest figure in the last decade. Growth in capital expenditure was concentrated in real investment, while that of capital transfers decreased.

As for current expenditure, this saw slow growth of 3.4%, slower than in 2017. This rise can be explained by the increase in consumption of goods and services (5.7%) and, to a lesser

## SETTLEMENT OF THE COMÚ BUDGETS (thousands of euros)

Table 8.2

	REVENUE			EXPENDITURE		
	2018	% var. 18/17	% total 2018	2018	% var. 18/17	% total 2018
Canillo	14,598	-3.8	9.0	11,413	-3.9	7.4
Encamp	28,116	3.2	17.4	27,016	5.6	17.6
Ordino	11,700	1.5	7.2	10,550	-2.4	6.9
La Massana	16,623	16.3	10.3	14,039	-2.6	9.1
Andorra la Vella	48,358	23.6	29.9	50,654	43.5	33.0
Sant Julià de Lòria	14,004	7.3	8.6	12,278	7.6	8.0
Escaldes-Engordany	28,511	8.8	17.6	27,499	-4.3	17.9
<b>Total</b>	<b>161,910</b>	<b>10.4</b>	<b>100.0</b>	<b>153,449</b>	<b>11.1</b>	<b>100.0</b>

Source: Comú governments / Department of Statistics.

extent, personnel costs (2.5%). Note that personnel costs rose for the first time in eight years and are still therefore the largest chapter, with 31.7% of total expenditure. In contrast, the most notable decrease was in financial expenditure (-10.8%), with an accumulation of seven years of containment which can, in turn, be explained by contained interest rates, which also benefitted the central Government. The other item of expenditure that saw a fall was current transfers (-0.7%).

Finally, the data on expenditure by parishes shows that four of the seven Comú governments reduced it (Escaldes-Engordany, Canillo, La Massana and Ordino), helping to explain the improvement in their fiscal balance in 2017, apart from Canillo. Among those that increased expenditure is notably Andorra la Vella (43.5%), due to its investment effort almost quadrupling in 2018, which explains their deficit. The increase in expenditure was much slower in the other two Comú governments (Sant Julià de Lòria and Encamp). So, Andorra la Vella is still at the top of the Comú ranks for volume of expenditure, with 33%, while Ordino has the lowest absolute level of expenditure (6.9% of the total).

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

Settlement of the CASS budgets in 2018, including financial assets and liabilities, resulted in a total volume of revenue of 309 million euros, higher than the 304 million euros of settled expenditure. As a result, the CASS budget balance was a surplus of 4.7 million euros, more than double the figure in the previous year. If only non-financial revenue and expenditure are counted, the CASS non-financial cash surplus was 4.3 million euros, 87% more than in 2017, thanks to higher growth in revenue than in expenditure.

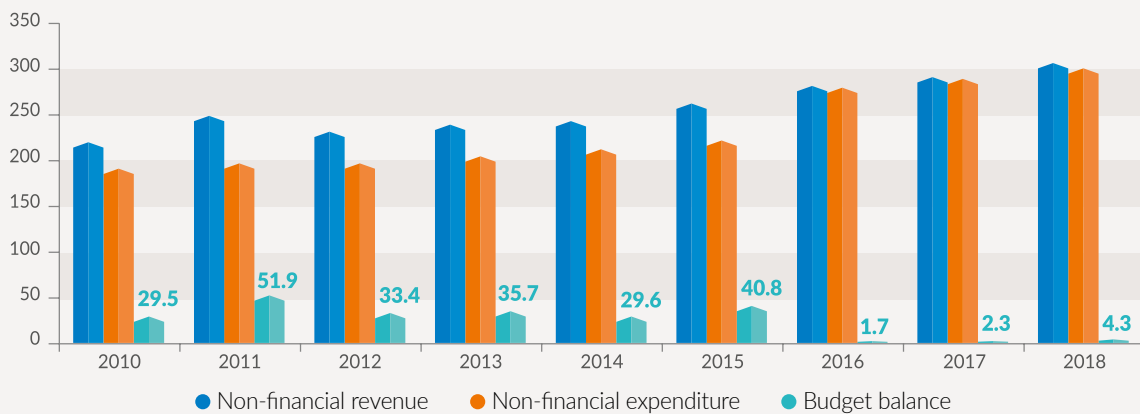
This surplus represents 0.2% of GDP, higher than the 0.1% in 2016 and 2017 but lower than the values of about 1%-2% that it represented in the period 2010-2015. In any case, any contribution surpluses are in the pension branch and are carried over to the pension reserve fund, as in previous years, to boost available reserves to meet future spending commitments.

**The CASS budget surplus increased for the second consecutive year.**

### 3.1. Revenue

In 2018, the settled non-financial revenue of the CASS saw growth of 4.8%, reaching the figure of 306 million euros. This growth is higher than in the previous year (3.7%), putting the budget execution rate at 103%.

CASS BUDGET SETTLEMENT - Millions of euros



Source: CASS / Department of Statistics.

By chapters, social contributions, the most important source of revenue of the CASS, amounted to 264 million euros, representing 86.4% of total non-financial revenue. This

figure includes employers' contributions, employees' contributions, self-employed contributions and settled contributions attributable to CASS financial benefits (retirement and widows' life pensions, permanent and temporary disability benefits). In 2018, social contributions saw an increase for the fifth consecutive year, of 5.6%. This can be explained, on the one hand, by the rise in the average number of employees (3.3%) and the wage bill (5.4%), and on the other hand, by the rise in the number of self-employed (3.8%) and a 1% higher global average wage. These factors were encouraged, in turn, by the improvement in the economic situation and the revaluation of wages with the CPI across most economic sectors.

**Revenue from social contributions grew in 2018, for the fifth consecutive year.**

The second most important chapter in CASS revenue is current transfers from the central Government, which reached 39 million euros, 12.7% of the total, after growing slightly in 2018 (1.7%). Non-financial revenue of the CASS is completed by a small contribution from other taxes and revenue, which fell 17.7% in 2018, and investment income, which increased 37.1%, coming to represent 1% and 0.01% of the total, respectively.

### 3.2. Expenditure

Non-financial expenditure settled by the CASS in 2018 saw an increase of 4.2%, higher than in the previous year (3.5%), reaching the amount of 301 million euros. However, expenditure grew less than revenue, with a budget execution rate of 102%.

The analysis by chapters shows that current transfers, where benefits are accounted for, totalled 248 million euros, 5.6% more than the previous year, a trend that raised its percentage of the total to 82.3%. This increase is in line with the trend in contributions, helping to maintain the surplus situation in 2018. However, it should be specified that included within this entry

are also the non-contributory benefits financed by the Government through current transfers, and contributory expenditure paid by the CASS for authorised financial benefits.

### **Growth in CASS expenditure was lower than in revenue.**

The other expenditure is divided between personnel costs, which increased 1%, less than in the central Government, representing 1.7% of the total, and consumption of basic goods and services, which fell 1.3% and represents 0.6% of the total. Expenditure on real investment is insignificant, as is financial expenditure, as the CASS has no debt.

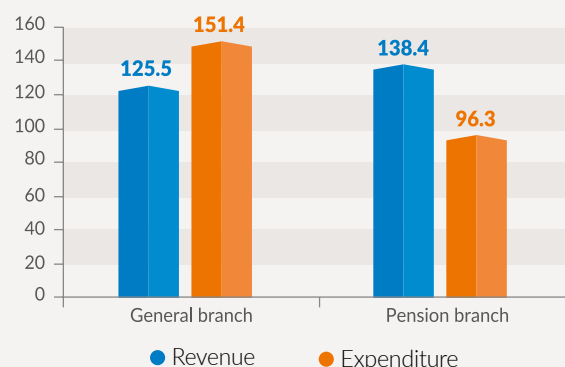
### 3.3. General branch of the CASS

The distribution of CASS revenue and expenditure by branches shows that, in the case of the general branch, revenue from contributions increased 5.9%, to 125.5 million euros. This rising trend was encouraged, on the one hand, by the continued good performance of the labour market, resulting in an increase in the number of employees and self-employed, and on the other hand, by the rise in average wages.

### **In 2018, the growth in contributions enabled a reduction in the general branch deficit.**

Growth in expenditure on general branch benefits was slow, at 3%, to 151.4 million euros, but its volume still easily exceeds revenue for this branch. Remember that the imbalance between income and expenditure in the general branch is a problem that started in 2007 and worsened during the years of economic crisis to reach a high in 2015. In 2018, the budget deficit of this branch was 28.8 million euros, 6.5% lower than in 2017. This imbalance is financed by contributions from the central Government budget, a situation that has been repeated since 2012, after the cumulative reserves of this branch were depleted in 2011, under the provisions of article 86.3 of Law 17/2008. 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. 2018** (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

The rate of growth in revenue from contributions in the pension branch accelerated from 3.5% in 2017 to 5.3% in 2018. This makes five consecutive years of growth which brings the total figure of contributions to 138.4 million euros. In parallel, expenditure on benefits in this branch grew much faster, at 10%, putting the total at 96.3 million euros, still below contributions.

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

purpose of covering the future pensions of persons who have contributed to the CASS. At the end of 2018, the fund's reserves were 1,243 million euros, 0.3% less than in the previous year, a variation that includes the payment by the CASS and the return obtained by management of the fund.

***Expenditure on pension branch benefits grew more than revenue from contributions.***

The rising trend in expenditure on benefits can partly be explained by a 3.3% increase in the numbers of pensioners in 2018, reaching a figure of 12,767 individuals in December. Moreover, the substitution rate of new pensioners to de-registrations was 1.32, meaning that the average amount of the new pensions is 32% higher.

In this context, the dependency ratio (active vs passive) remained stable in relation to the previous year, reaching 3.81 in December 2018, a trend that was favoured by the increase in the active population.

Now, the analyses made by CASS warn that, in future, the rate of expenditure will accelerate due to the progressive incorporation into the pensioner group of sizeable generations with quite high pensions related to the contributions made. Faced with this situation, pressure to take measures to guarantee the long-term financial equilibrium of the system will increase.

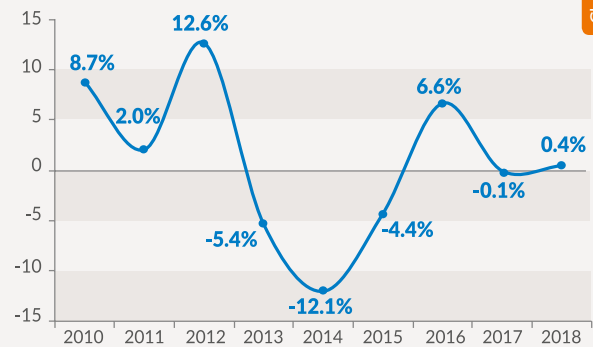


# The Andorran economy: developments in the main sectors

## 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 GVA for the agricultural sector followed a contractionary trend in the period 2013-2015, but there was a change in trend in 2016 when it regained a positive rate of 6.6% in real terms. In 2017, the rate of variation was practically zero and in 2018 saw a slight increase of 0.4%.

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



Source: Department of Statistics.

Chart 9.1

In line with stagnation in activity, the number of businesses and employees in the sector saw a slight relative decline in 2018. On the one hand, the number of workers fell from 167 in 2017 to 164 in 2018, representing a decline of 1.4%. On the other hand, at the end of

2018 there were 226 businesses in the primary sector, two less than one year earlier. From a time perspective, the primary sector business community has been contracting since 2013, when it reached a high of 245 businesses. The business structure is based on micro-businesses, as 96% of businesses in this sector have between 1 and 5 workers, and only 10 businesses have 6 or more workers. The long economic crisis and strong foreign competition drove crop and livestock farmers to make efforts to introduce improvements in the production process, to obtain seals of quality and gradually integrate into the European customs union. The entry of agricultural products into the customs union will open up new opportunities for the primary sector, which will be able to access new markets and benefit from European quality labels. In line with the effort to introduce improvements in the production process, the average monthly

wages of employees in the sector increased in 2018, for the third consecutive year, more than 3.5%. Specifically, the average wage was 1,562 euros in 2018, 3.5% more than in the previous year.

**The number of crop farms increased in 2018 but the surface area remained almost the same.**

In 2018, two new crop farms were created and added to the existing 312 farms. The parish with most activity is still Sant Julià de Lòria, with 64 farms, while Escaldes-Engordany closes the ranks with only 28 farms. There has been a gradual decline in the number of farms since 2012, when there were 366 farms. In contrast, the total cultivated area has remained almost constant in recent years, at about 20 km<sup>2</sup> utilised agricultural area (SAU), meaning that the average size of farms is now larger.

By type of crop, 60% of the total farmed area is used for pasture, 26% for hay, and 7% for tobacco. Over the last five years, the area for market gardening and fallow has increased and, to a lesser extent, hay and vines. In contrast, the surface area used for growing potatoes and forage has fallen significantly.

In 2018, vineyards occupied 95,032 m<sup>2</sup>, 10% more than in the previous year. Note that 2017 was the first year that the seal of quality for Andorran wines was introduced, and the Government granted subsidies to vineyards to use it, towards the extra effort needed to take part in the quality control, the first step towards obtaining the Protected Geographical Indication (PGI) awarded by the EU.

### FARMS AND UTILISED AGRICULTURAL AREA (SAU) BY PARISH. 2018

Table 9.1

	Farms	SAU (m <sup>2</sup> )	% total SAU
Canillo	47	4,249,483	21.2
Encamp	45	1,901,098	9.4
Ordino	39	2,938,795	14.7
La Massana	55	3,281,461	16.4
Andorra la Vella	36	394,468	2.0
Sant Julià de Lòria	64	6,425,801	32.1
Escaldes-Engordany	28	837,489	4.2
<b>Total</b>	<b>314</b>	<b>20,028,595</b>	<b>100</b>

SAU: utilised agricultural area.

Source: Department of Agriculture.

2018 was a favourable year for growing tobacco due to the weather, unlike 2017, which was a very negative year due to summer hailstorms. The percentage of hail damage to Andorra's crops in 2018 was 45% and, after the inspection for real damage, the percentage was 35% (totalling the different degrees of damage), much lower than the 58% in the previous year. The declarations of hail related to five days in July, four days in August and two in September, the same number of days as recorded in the previous year, although the impact was much greater then.

**2018 was a positive year for growing tobacco, enabling a recovery from the 2017 decline caused by hail.**

In 2018, the tobacco harvest recorded a 9.3% increase, so the sector practically recovered from the 10% fall in the previous year. The 2018 increase was especially focussed on the parish of Encamp, the parish that had been most affected by the hailstorms of the previous year. The 2018 increase meant that a normal harvest figure was recorded again (about 29 tonnes/year). The parish of Sant Julià de Lòria, the most important in terms of tobacco harvest, with 33%

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

Table 9.2

	2013	2018	% variation 2013-2018	% total 2018
Pasture	12,773,491	12,666,389	-0.8	60.1
Hay	5,163,754	5,427,116	5.1	25.8
Tobacco	1,490,809	1,482,169	-0.6	7.0
Fallow	528,074	634,822	20.2	3.0
Market gardening	117,218	163,100	39.1	0.8
Potatoes	200,703	146,679	-26.9	0.7
Vines	90,305	95,032	5.2	0.5
Miscellaneous <sup>(1)</sup>	43,721	26,487	-39.4	0.1
Forage <sup>(2)</sup>	29,634	21,622	-27.0	0.1
Others	415,051	405,300	-2.3	1.9
<b>Total</b>	<b>20,852,760</b>	<b>21,068,717</b>	<b>1.0</b>	<b>100</b>
<b>Utilised Agricultural Area (SAU) - in m<sup>2</sup></b>	<b>19,909,635</b>	<b>20,028,595</b>	<b>0.6</b>	<b>-</b>

(1) Fruit trees, raspberries, beet and aromatic and medicinal plants / (2) Forage for grazing.

Source: Department of Agriculture.

## TOBACCO HARVEST BY PARISHES (Kilos)

Table 9.3

	2017	2018	% var. 18/17	% total 2018
Canillo	14,561.5	15,941.1	9.5	6.6
Encamp	10,271.7	29,374.0	186.0	12.2
Ordino	31,499.7	31,670.2	0.5	13.2
La Massana	44,797.4	41,623.2	-7.1	17.4
Andorra la Vella	27,688.6	30,070.5	8.6	12.5
Sant Julià de Lòria	80,510.7	79,854.7	-0.8	33.3
Escaldes-Engordany	10,233.6	11,362.9	11.0	4.7
<b>Total</b>	<b>219,563.2</b>	<b>239,896.6</b>	<b>9.3</b>	<b>100</b>

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

of the total, saw a slight fall of 0.8% in 2018. In total, the volume produced, after adjusting the quotas allocated to the harvesters, was 239,897 kg, about 20,334 kg less than in 2017.

Remember that in December 2017, the European Union agreed to extend the preferential agreement of tobacco to 30 years, in the process of customs integration, although, from the seventh year, Andorra will have to start waiving its current customs duties and start adopting the European Acquis in order to reach the goal of zero customs duties. In return, Andorra must demonstrate that it is diversifying its economy to reduce economic dependency on tobacco. It must also combat fraud and smuggling. Equally, the Government has made

**The preferential treatment for tobacco in the customs integration process will be extended 30 years.**

the commitment to the EU not to raise the price differential between the EU and Andorra, especially with neighbouring states. In 2019, new regulations were passed for new minimum tobacco prices, envisaging sanctions if the current price differential with neighbouring countries increases and prohibiting special offers or gifts that would enable tobacco products to be sold below the minimum prices for sales to the public approved by the Government. Earlier, in July 2018, the Government approved Andorra's joining the World Trade Organisation (WTO) Framework Convention on Tobacco Control (CMTC), which includes, among other measures, the prohibition of tobacco advertising, promotion or sponsorship and the requirement to adopt measures against illegal trade. On the other hand, remember that Andorra approved a 10% increase in the tax on tobacco consumption, which came into force in March 2017 and meant an average increase in the price of a packet of fifteen cents (4.5% in relative terms). The EU will control compliance with the agreement via a monthly report to be sent by Andorra, with data on the amounts produced, imported, sold and exported. Moreover, it must send a detailed annual report and there will be an audit every five years.

As for apiaries, in 2018 there were 38, with a total of 427 hives. 20 of the apiaries only keep bees while 18 also carry out apicultural activities.

**The number of livestock increased, for the second consecutive year, due to sheep and goat breeding.**

In 2018, the number of livestock increased 4% - 5,786 heads were registered, 222 more than in the previous year - an increase that is added to that of 2017, when it rose 6.8% and broke the negative trend of the years

2015-2016. This upward trend was mainly the result of sheep breeding and farming, which grew 4.1%, to 3,327 heads in 2018, 58% of total Andorran livestock. Goats also increased almost 70%, although their numbers are relatively less important (only 7% of total livestock).



In contrast, the number of horses fell 5% and cattle 2.9%. Remember that, after sheep, the most important are cattle with 26%, and horses with 10%.

The livestock sector wishes to promote awareness among consumers of the quality meat produced in this country. So, having updated the brand that was created in 2013, when a process of marketing Andorran veal was started under seal of quality and Protected Geographical Indication (PGI), labels were made to identify butchers and restaurants offering the meat to customers and for farmers to advertise on their vehicles.

In 2018, the Law on organic production and quality standards for agricultural products and food was passed. The text creates organic certification and expands the quality control systems to food production, with the goal of promoting local production that strives for quality and encouraging product diversification. Until this year, Andorran legislation included quality control systems for agricultural products, such as meat and wine, but this could not be applied to others made with non-agricultural products, such as cured meats and jams. Under the new legislation, the quality system can be applied to food production, whether agricultural or not. To promote the quality systems and organic production, the Law sets up subsidies to offset the increase in production costs from adapting to the requirements. At present, Andorra already offers grants to quality-controlled products – with 360,000 euros in funds in 2018 – and this is expected to increase in future according to demand.

## LIVESTOCK (adult heads)

	2017	2018	% var. 18/17	% total 2018
Total cattle (bulls, cows)	1,547	1,502	-2.9	26.0
Total horses (workhorses, studs, mares)	585	556	-5.0	9.6
Total sheep (rams, ewes)	3,196	3,327	4.1	57.5
Total goats (bucks, does)	236	401	69.9	6.9
<b>Total livestock</b>	<b>5,564</b>	<b>5,786</b>	<b>4.0</b>	<b>100</b>

Table 9.4

Source: Department of Agriculture.

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## X. Industry

In 2018, the industry and manufacturing sector saw a slight fall of 0.7%, after two years of positive rates (1% in 2017 and 3% in 2016).

The whole of the industry and manufacturing sector represents a small share of the Andorran economy in comparison with neighbouring countries, as it only represents 5% of total GVA and 4.2% 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. The quarterly trend shows that the sector saw negative variations in GVA in all four quarters of 2018.

***In 2018, the industrial and manufacturing sector worsens.***

This stagnation in industrial activity was accompanied by a gently rising trend in business and labour market indicators. Specifically, in December 2018, there were 309 businesses in the sector, six more than one year earlier. Equally, the average Andorran industry is small, as

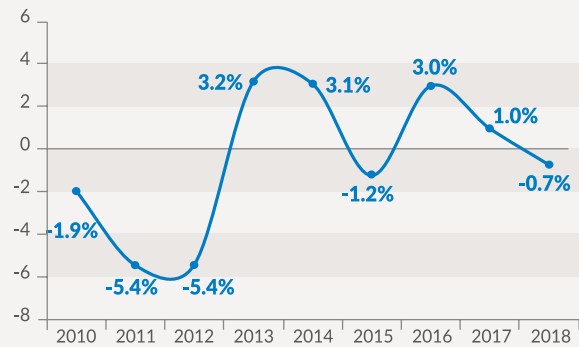
only 13 of the existing 309 businesses have more than 25 workers. Employment also grew slightly to reach 1,616 employees, 0.8% more than the previous year. This increase offset the 0.7% decline in 2017. Finally, the average wages in the sector grew significantly for the second consecutive year, after a period (2010-2016) in which they were practically stable on annual average. Specifically, the average wage in 2018 was about 2,281 euros, with a 2.8% increase against the previous year, the highest increase since 2008.

One of the main industries in Andorra is tobacco. This sector was marked in 2018 by stability in the number of establishments and an increase in the number of employees. In 2018, the industrial branch of tobacco employed 246 employees, 2.8% more than in the previous year, but still far from the employment figures it reached at the start of the nineties. Remember that employment fell 13% between 2013 and 2016 and remained stable in 2017. This sector currently represents almost 15.2% of total industrial employment, a similar share to the food and beverage industry (14.5%). The number of

### GVA IN THE INDUSTRY AND MANUFACTURING SECTOR

Variation rate in real terms

Chart 10.1



Source: Department of Statistics.

### NUMBER OF EMPLOYEES IN THE INDUSTRIAL SECTOR

Table 10.1

	2007	2017	2018	% var. 18/17	% total 2018
Extraction industries	6	1	1	0.0	0.1
<b>Manufacturing industries</b>	<b>1,788</b>	<b>1,434</b>	<b>1,442</b>	<b>0.6</b>	<b>89.2</b>
Food and beverages	230	235	234	-0.7	14.5
Tobacco industries	254	239	246	2.8	15.2
Textiles	58	35	33	-6.7	2.0
Clothing and leather articles	1	2	2	23.8	0.1
Wood and cork, basketwork and esparto	270	120	123	3.1	7.6
Printing, graphic arts and reproduction of recorded media	292	201	213	5.9	13.2
Chemical industries	83	109	115	5.9	7.1
Rubber and plastic articles	2	13	14	11.8	0.9
Other non-metal mineral articles	63	42	43	2.4	2.7
Articles of metal, except machinery and equipment	148	128	125	-2.3	7.8
Machinery and mechanical equipment	154	131	130	-0.1	8.1
Office machinery and computer equipment	-	1	1	-16.7	0.1
Machinery and electrical equipment	21	7	8	5.7	0.5
Medico-surgical, precision, optical and clockmaking equipment and instruments	139	131	110	-16.3	6.8
Motor vehicles, trailers and semi-trailers	-	2	3	45.8	0.2
Furniture; other manufacturing industries	60	25	26	3.4	1.6
Recycling	13	14	16	13.5	1.0
Production and distribution of electricity, gas and water	147	169	173	2.8	10.7
<b>Total</b>	<b>1,940</b>	<b>1,603</b>	<b>1,616</b>	<b>0.8</b>	<b>100.0</b>

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

**In 2018, the tobacco industry recovers 2.8% in employment, the first positive data since 2012.**

establishments in the tobacco subsector is still six, the same as in the last four years, and tobacco imports increased 2.9%, to 28.8 million euros.

Electricity production and distribution is the fourth largest subsector, in terms of employment, after the tobacco industry, the food and beverage industry, and printing and graphic arts, with a total share of employees of 10.7%, and a positive variation of 2.8% compared with 2017. In 2018, national electricity production (calculated in 110 kV bars) saw a year-on-year increase of 31%. The increase was significant, over 20%, both in solar energy and also thermal and hydroelectric power. However, only hydroelectric power is of relative importance as a source of energy (it represents 20% of total demand); thermal energy is 4.4% and solar only 0.2%. In 2018, there were no changes in the number of hydroelectric power plants, but 9 solar power plants were put into operation providing a little under 600 kW, plus another 8 plants due completion. This makes 48 solar power plants in operation since 2013.

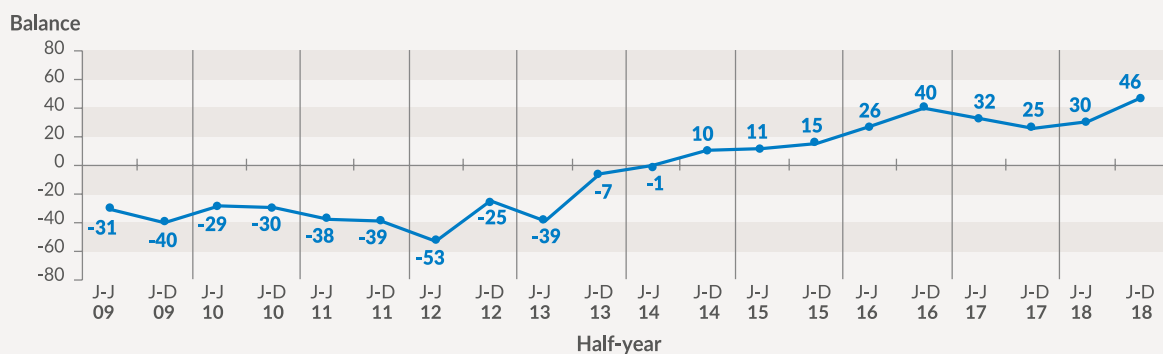
**Electricity production increased 31% and imported electricity fell.**

On the other hand, the total energy demand in Andorra increased 0.3% year on year (also in 110 kV). By sectors, energy consumption increased in households, industry, hotels and catering and government, but this increase was partially offset by a decrease in construction, public lighting, ski resorts and other services. All these data only relate to the Andorran Electricity Company (FEDA). The combination of a major rise in production and stable demand meant that imports of electricity in 2018, which represent 75% of total demand, fell 6.8%. In contrast, fuel imports rose 5.6%. The rise in imports was spread over the three main categories: unleaded petrol (+7.3%), diesel (+4.4%) and domestic heating oil (+6.9%).

A notable event in 2018 was the Government's approval of the sectoral plan for energy infrastructure, which reserves land for developing energy installations. Specifically, this plan identifies as necessary infrastructure for the public sector to develop: four hydroelectric plants, three solar, three combined heat and power, six thermal and one biomass plant. These infrastructures will enable energy production to be virtually tripled and supply up to 33% of demand by 2030. In this way, energy dependency on foreign imports could be reduced. Moreover, the increased production will be achieved by prioritising renewable energy, so that 67.3% of production will be from renewable sources and greenhouse gas emissions would be reduced by 33%.

**BUSINESS ACTIVITY - INDUSTRIAL SECTOR**

Chart 10.2



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

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

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

Table 10.2

		2016			2017			2018		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
<b>1. Business activity</b> (reviewed half-year)	Good	36	46	41	44	36	40	39	53	46
	Normal	54	48	51	44	53	49	52	40	46
	Bad	10	6	8	12	11	12	9	7	8
	<b>Balance</b>	<b>26</b>	<b>40</b>	<b>33</b>	<b>32</b>	<b>25</b>	<b>29</b>	<b>30</b>	<b>46</b>	<b>38</b>
<b>2. Orders</b> (reviewed half-year)	High	11	15	13	12	9	11	19	21	20
	Normal	60	56	58	63	64	64	57	63	60
	Low	29	29	29	25	27	26	24	17	21
	<b>Balance</b>	<b>-18</b>	<b>-14</b>	<b>-16</b>	<b>-13</b>	<b>-18</b>	<b>-16</b>	<b>-5</b>	<b>4</b>	<b>-1</b>
<b>3. Stocks of finished products</b> (reviewed half-year)	Excessive	9	6	8	6	10	8	3	8	6
	Adequate	47	44	46	54	57	56	58	43	51
	Insufficient	3	4	4	6	1	4	3	3	3
	No stocks	41	46	44	34	32	33	36	46	41
	<b>Balance</b>	<b>6</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>9</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>3</b>
<b>4. Average production capacity utilisation</b> (in %) (reviewed half-year)		67.7	66.9	67.3	68.6	70.7	69.6	73.2	72.3	72.7
<b>5. Production</b> (compared with same half-year of previous year)	Higher	33	45	39	29	40	35	33	36	35
	Similar	45	38	42	56	38	47	46	47	47
	Lower	22	17	20	15	22	19	21	17	19
	<b>Balance</b>	<b>11</b>	<b>28</b>	<b>20</b>	<b>14</b>	<b>18</b>	<b>16</b>	<b>12</b>	<b>19</b>	<b>16</b>
<b>6. Sales prices</b> (compared with previous half-year)	Higher	13	7	10	14	11	13	15	16	16
	Equal	74	81	78	74	82	78	79	77	78
	Lower	13	12	13	12	7	10	6	8	7
	<b>Balance</b>	<b>0</b>	<b>-5</b>	<b>-3</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>9</b>	<b>8</b>	<b>9</b>
<b>7. Number of employees</b> (compared with previous half-year)	More	6	12	9	9	11	10	11	9	10
	Same	86	75	81	83	85	84	79	82	81
	Less	9	13	11	8	4	6	10	9	10
	<b>Balance</b>	<b>-3</b>	<b>-1</b>	<b>-2</b>	<b>1</b>	<b>7</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>1</b>

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

### **In 2018, industrial activity improved, but indicators of activity are still weak.**

The results of the Chamber's situation survey indicate that the recovery made gradual progress in the industrial sector, although the rate of growth slowed in comparison with the previous year, in line with the GVA data. Industrial businesses indicated an average increase in turnover

of 2.2% in 2018, compared with 3.1% in the previous year. They also indicated that the slightly rising trend in employment continued.

The results of the situation survey for the second half of 2018 confirm that although business confidence in the sector is definitely still rising, the improvement has still not resulted in an effective increase in the rate of activity in most industries. In fact, the latest indicators of activity contained in this situation survey hardly improve. Specifically, the climate expressed by the businesspeople about the trend in business activity saw a major improvement throughout the year, with the most optimistic valuations of the last 18 years in the second half of 2018.

Nevertheless, taking into account the trend in industrial production, the improvement in activity is slight. The opinions of businesses that were consulted indicate that the growth rate in production in the second half of 2018 stabilised at very low levels, confirming the weak

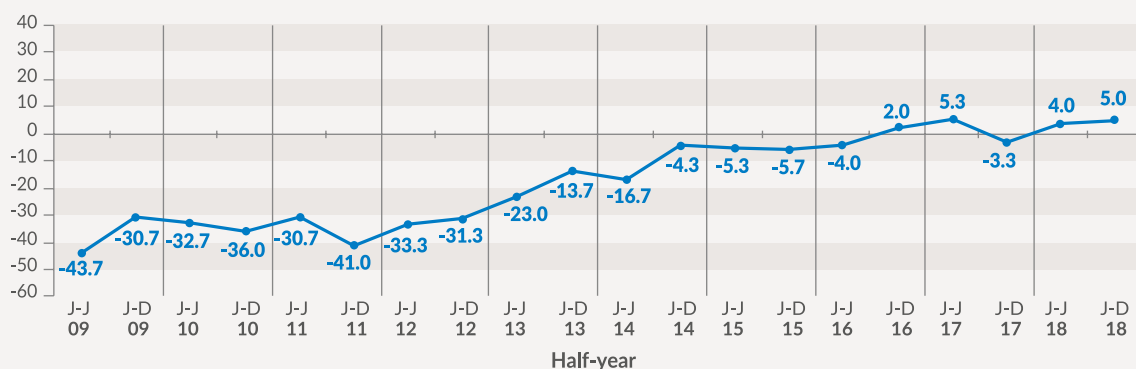
momentum of the industrial recovery in the last months of 2018. This low rate of activity can be partly linked to still undynamic domestic demand and also a slight fall in the export rate of businesses (total exports of goods fell 4.3% year on year in the last six months of 2018, contrasting with the 23.8% increase in 2017). In this context of low activity, recruitment fell in the sector, following a quite stable trend in most businesses. As for prices, businesses indicate that sales prices are being maintained to encourage demand.

In relation to the first half of 2019, businesses' forecasts are for a slight improvement in business activity and a very limited increase in orders and production volumes. The average productive capacity utilisation will remain at current levels (around 73%) and sales prices and employment will follow a slightly rising trend. The indicator of industrial climate, which measures businesspeople's confidence level, is still very low, despite showing some improvement compared with the previous two half years. This would suggest a very gentle recovery in the industrial sector over the next few months.

**The forecasts for industry indicate a slight improvement in the first half of 2019.**

### CONFIDENCE INDICATOR<sup>(1)</sup> - INDUSTRIAL SECTOR

Chart 10.3



(1) Average balances in the total order book, production trend and stocks of finished products turned around.

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

As for the obstacles that limit business activity, apart from weak demand (mentioned by 40% of businesses, the lowest percentage since 2004) and increased competition (quoted by 28%), the other most significant concerns focussed on the shortage of qualified workers and increased operating costs, both factors indicated by 24% of total surveyed businesses.

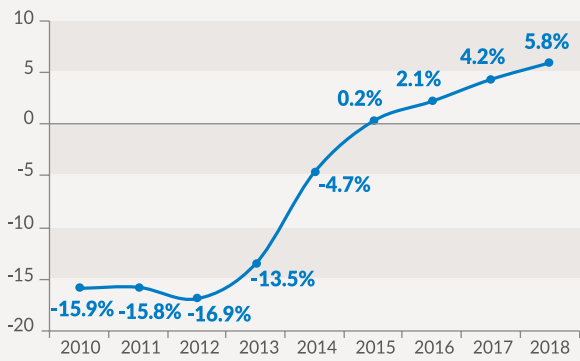
## XI. Construction and related industries

In 2018, the rising trend in the construction and related industries sector was consolidated, at a very notable rate of expansion and ever stronger profile. According to the official GDP figures published by the Government, construction GVA in 2018 saw a variation of 5.8%, higher than the 4.2% achieved in 2017, the fourth consecutive year of positive rates after a long, intense period of recession. Due to this trend, construction's share of total GVA began to recover and already represents 6.2% in 2018, although it is still far from the high of 12.6% it achieved in 2006.

**Construction saw strong growth in 2018.**

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

Chart 11.1



Source: Department of Statistics.

In 2018, the figures for the construction sector were quite positive and better than in previous years, especially due to the strong impetus from residential construction, combined with the positive contribution from civil works.

Employment in the sector increased 6.5% in 2018, to 3,063 employees, the greatest increase since 2005. Despite the increases in employment seen in the last four years, the number of employees in the construction sector is still 55% lower than the high reached in 2006 (6,788 employees). Average wages increased (5.6%), pressured by the lack of trained workforce in the sector and the strong recovery in activity. On the other hand, imports of building materials also saw strong

growth in 2018 (71%), demonstrating the expansive phase that the sector is undergoing. Finally, the number of business establishments in the sector increased to 809 in 2018, 14 more establishments than in the previous year.

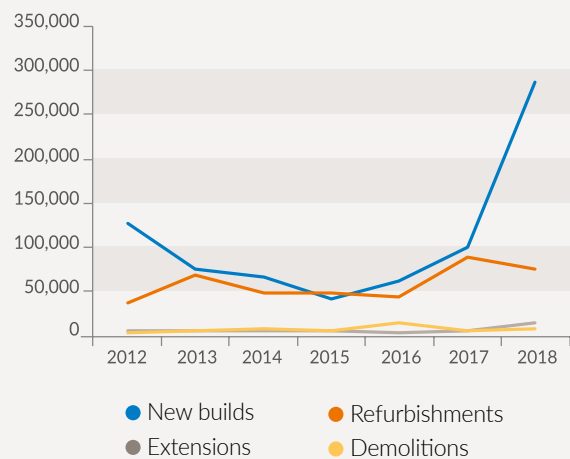
Note also that the number of authorised projects recovered strongly in the last three years. In 2018, 1,133 projects were authorised, practically double the 591 in the previous year and almost triple the figure in 2015 (429). These major increases occur because it starts from very low figures after the deep crisis experienced by the sector. Of the 384,081 m<sup>2</sup> authorised in 2018, 74% are for new works, the category that is growing most; 20% for refurbishments, and the other 6% for demolitions or extensions. On the other hand, the square metres authorised for refurbishments fell 14.3% to 75,275 m<sup>2</sup>.

**In 2018, authorised square metres for new works took off.**

The decline in the refurbishment segment correlates with the balance sheet of the Renova plan to improve energy efficiency in buildings, which granted nearly 1 million euros in 2018 (less than the initial fund of 1.5 million euros) between a total of 303 applications, 14 less than in the previous year. Since it was set up in 2011, the Renova plan has provided more than 6 million euros in subsidies to projects and actions that cost 52.5 million euros. The call for applications under Renova 2019 (with funds of 1.3 million) is adapted to Law 21/2018 on fostering the energy transition and climate change, passed in September 2018. Remember that this new Law aims to add momentum to building improvements and efficiency, as it includes measures such as energy certificates for buildings, which will be mandatory in sales transactions from 2020. The 2019 Renova plan wants to promote actions on the whole building, so the subsidy increases to 35% of expenditure, with a limit of 125,000 euros (category A) and to 25%

### AUTHORISED SQUARE METRES BY CATEGORY

Chart 11.2



Source: The Official Association of Architects of Andorra.

with a limit of 100,000 euros (category B). A new category was also created of subsidies to adapt façades and windows to make them more sustainable, with a 20-25% grant, up to 60,000-75,000 euros. Finally, grants will still be given to solar power installations, which emerged in 2018 to promote the installation of solar equipment and managed to double solar power with 17 new installations, although this source still only represents about 1.5% of national energy production.

**Property sales increase 5%, but only second-hand properties as new builds fall.**

The demand for housing is recovering thanks to the improved economic situation. According to the statistics on property transactions and the statistics on housing and land prices, there was a 5% increase in the number of property

transactions in 2018, compared with the previous year, to 2,003 sales. The parishes with the largest increases were La Massana and Andorra la Vella (16% in both). In contrast, Escaldes-Engordany (-21%) is the only parish where sales fell. By type of works, the total number of new builds transferred in 2018 fell 79% compared with 2017, with the most significant drop in apartments and parking spaces. In contrast, transfers of second-hand properties increased 20.7%, following the trend of the previous year.

For their part, the value of properties transferred in 2018 increased 23.8%. The properties that most increased in value were land, parking spaces and other constructions. By parish Canillo and Andorra la Vella saw the highest increases in the value of properties transferred over the year.

Finally, in relation to the price of housing and land, in global terms it fell 0.2% against the previous year. In four parishes there was an increase in the price per square metre (Ordino, Canillo, Sant Julià de Lòria and Encamp) with a decrease in the others (Andorra la Vella, La Massana and Escaldes-Engordany).

In relation to the subsector of public works, the Government invested less in 2018 than in 2017, as it did in the previous year, while the Comú governments strongly pushed investment for the second consecutive year. The aggregate real investment of the central and Comú governments gives a total of 77.2 million euros, 21% more than the previous year. This increase offsets the decrease of 19% in 2017.

**Investment by the Comú governments increases while central Government investment falls.**

**PROPERTY TRANSFERS AND AVERAGE PRICE PER M<sup>2</sup>, PER PARISH**

	PROPERTY TRANSACTIONS				M <sup>2</sup> PRICE FOR PROPERTY TRANS. (EUROS)			
	2017	2018	Absolute variation	Relative variation (%)	2017	2018	Absolute variation	Relative variation (%)
Canillo	375	399	24	6.4	1,244.99	1,315.37	70.38	5.7
Encamp	387	410	23	5.9	1,374.62	1,410.48	35.86	2.6
Ordino	134	143	9	6.7	1,419.68	1,607.95	188.27	13.3
La Massana	337	391	54	16.0	1,374.43	1,341.12	-33.31	-2.4
Andorra la Vella	272	315	43	15.8	2,250.33	2,058.10	-192.23	-8.5
Sant Julià de Lòria	116	119	3	2.6	1,352.28	1,410.40	58.12	4.3
Escaldes-Engordany	286	226	-60	-21.0	1,819.20	1,802.63	-16.57	-0.9
<b>Total</b>	<b>1,907</b>	<b>2,003</b>	<b>96</b>	<b>5.0</b>	<b>1,525.70</b>	<b>1,523.33</b>	<b>-2.37</b>	<b>-0.2</b>

Source: Department of Statistics.

Settled real investment by the central Government reached 38,058,562 euros, a figure that represents a reduction of 4.5% compared with the previous year. 90% of this investment relates to the Ministry of Land Planning, specifically 34,373,702 euros, with an interannual increase of 8.2% against 2017. The other 3.68 million euros of the Government relate to the other ministries. So, the decrease in global investment in 2018 is due to investments made by the other ministries. The following table details the settled public works by the Ministry of Land Planning in 2018 and 2017, by programme. Among the largest investment entries are notably the increase in judicial infrastructure for construction of the new Justice building (7.22 million euros in 2018, almost double that of the previous year). Investment in Natural hazards - road infrastructure also increased (2.52 million invested in 2018, double that of the previous year) as did treating rivers and streams (1.87 million and an increase of 167%). In contrast, investment fell, for example, in cultural infrastructure (-47%) and school infrastructure (-34%).

On the other hand, real investment by the Comú governments increased 65%, going from 23.8 million euros in 2017 to 39.2 million euros in 2018, the highest investment figure since 2008, when it reached 40 million euros. Note that since the low in investment in 2012 (6.8 million), consecutive increases have occurred - except in 2016 - which have enabled the volume of investment in 2018

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

Table 11.2

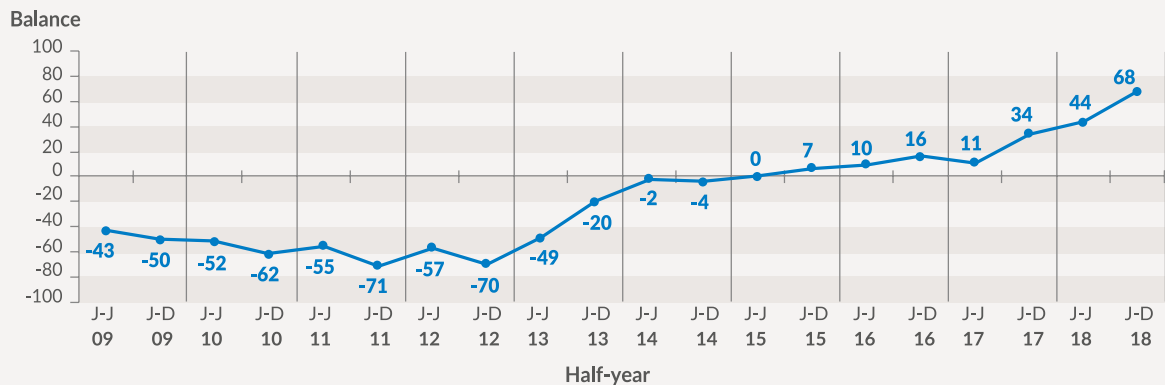
Description	2017	2018
Government infrastructure	1,962,176 €	2,551,899 €
Judicial infrastructure	3,665,867 €	7,219,708 €
Prison	125,374 €	0 €
Security and public order	0 €	82,929 €
General health admin.	31,252 €	108,303 €
School infrastructure	2,149,553 €	1,408,917 €
Education	3,316 €	870 €
Sports and PE	409,693 €	32,146 €
Environmental management and monitoring. Water treatment	174,639 €	140,235 €
Waste management	0 €	0 €
Heritage management and conservation	328,843 €	370,906 €
Cultural infrastructure	3,019,594 €	1,611,032 €
General admin.	1,016,288 €	1,081,849 €
CG road infrastructure	7,721,022 €	7,892,419 €
Other roads	0 €	58,520 €
Road maintenance	8,585,670 €	6,754,212 €
Natural hazards. Road infrastructures	1,249,548 €	2,521,154 €
Sectoral plan. New road infrastructures	54,314 €	36,052 €
Rivers and streams treatment	701,226 €	1,870,677 €
Cartography and topography	15,986 €	48,924 €
Agricultural activity	1,672 €	0 €
Strategic and transport projects	538,000 €	582,947 €
Tourism regulation and promotion	0 €	0 €
<b>Total</b>	<b>31,754,033 €</b>	<b>34,373,702 €</b>

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

Source: Ministry of Land Planning.

### BUSINESS ACTIVITY - CONSTRUCTION SECTOR

Chart 11.3



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

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

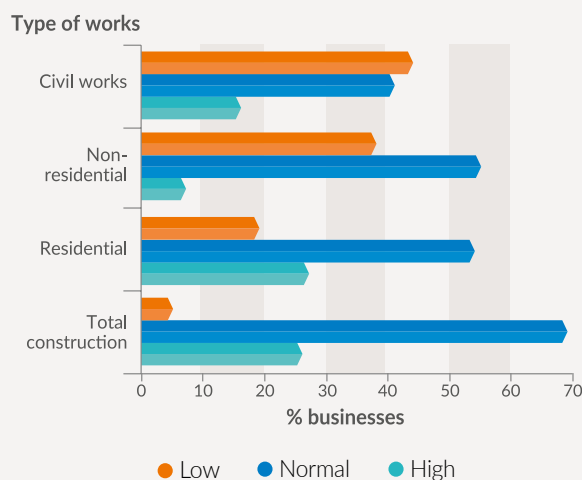


to approach pre-crisis figures. By parish, the greatest investment expenditure was by Andorra la Vella, with 19.2 million euros, followed by Escaldes-Engordany, with 8.1 million euros. With much lower figures are La Massana (3.5 million), Encamp (3.7 million) and finally, Ordino, Canillo and Sant Julià de Lòria (between 1 and 1.8 million euros). The most notable increases in investment in 2018 were by Andorra la Vella (+291%), La Massana (+97%), Sant Julià de Lòria (+40,9%) and Ordino (+31%), and the smallest by Encamp (+8,3%). On the other hand, settled investment by Escaldes and Canillo shrank (-11% and -26%, respectively).

The Chamber's situation surveys indicate that the upward trend in the construction sector was consolidated in 2018, with a very notable rate of expansion and a stronger profile than in 2017. Construction companies that took part in this survey indicated an average increase in turnover of 9.4%, a rate that surpasses the growth rate in 2017 by 2.4 points and is clearly higher than in the other sectors. The momentum can best be seen in the trend in the volume of completed works, with a stronger rate of increase in the second half of 2018. The volume of contracted works also saw a notable improvement, thanks especially to the increase in demand in the housing sector, the most dynamic construction branch, which is a pillar of the activity.

### CONTRACTED WORKS - CONSTRUCTION SECTOR (half-year July-December 2018)

Chart 11.4



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

**Business activity rebounds and achieves the most positive result of all sectors.**

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

Table 11.3

		2016			2017			2018		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
<b>1. Business activity</b> (reviewed half-year)	Good	31	28	30	24	34	29	49	68	59
	Normal	49	60	55	63	66	65	46	32	39
	Bad	21	12	17	13	0	7	5	0	3
	<b>Balance</b>	<b>10</b>	<b>16</b>	<b>13</b>	<b>11</b>	<b>34</b>	<b>23</b>	<b>44</b>	<b>68</b>	<b>56</b>
<b>2. Volume of executed works</b> (compared with same half-year of previous year)	Higher	38	45	42	27	54	41	54	64	59
	Equal	26	26	26	49	32	41	31	29	30
	Lower	36	29	33	24	15	20	15	7	11
	<b>Balance</b>	<b>2</b>	<b>16</b>	<b>9</b>	<b>3</b>	<b>39</b>	<b>21</b>	<b>39</b>	<b>57</b>	<b>48</b>
<b>3. Contract unit prices</b> (compared with previous half-year)	Higher	0	2	1	2	0	1	27	16	22
	Equal	83	79	81	87	95	91	71	82	77
	Lower	18	19	19	11	5	8	2	2	2
	<b>Balance</b>	<b>-18</b>	<b>-17</b>	<b>-18</b>	<b>-9</b>	<b>-5</b>	<b>-7</b>	<b>25</b>	<b>14</b>	<b>20</b>
<b>4. Number of employees</b> (compared with previous half-year)	More	15	10	13	18	15	17	15	23	19
	Same	69	71	70	69	73	71	71	65	68
	Lower	15	19	17	13	12	13	15	12	14
	<b>Balance</b>	<b>0</b>	<b>-9</b>	<b>-5</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>11</b>	<b>6</b>

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

In the opinion of the construction companies, the unit contract prices confirmed the rising trend in 2018, if at a gentle rate, due to the large housing stock for sale. Finally, this more favourable situation in construction is beginning to result in a stronger rate of job creation in the sector from the second half of the year.

Throughout the first half of 2019, a continued recovery in construction activity can be expected, considering the improvement in business prospects, together with the favourable

**Prospects for the first half year are still very positive, especially in the segment of residential works.**

trend in some advance indicators, such as imports of building materials and building permits, clearly in expansion, and also the more positive climate of the labour market, in a context of very low interest rates.

So, business activity is expected to improve a little with the more favourable behaviour of demand driving up the volume of completed works, mainly housing. On the other hand, despite the slightly rising trend in sales prices, contracted works will continue to increase, basically in the segment of residential building. In contrast, civil works are expected to suffer a certain slowdown.

As for the factors limiting improvement in business, the lack of qualified workers has become the major limiting factor, as it was indicated by 71% of businesses, ten percentage points higher than one year earlier. Increased competition (indicated by 43% of businesses) is a limiting factor that has lost importance since the previous half year. Equally, the percentage of businesses that consider that weak demand hampers business activity fell to 25% - the lowest level since 2004.

**The lack of qualified workforce, indicated by 71% of businesses, has become the most important limiting factor.**

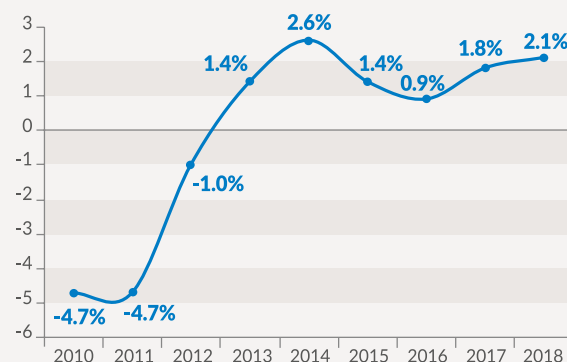
## XII. Services

The service sector is central to the Andorran economy, concentrating 88.3% of global GVA and 87.5% of total employees. The major importance of this sector means that its development largely determines the behaviour of Andorran GDP. In 2018, the service sector continued its positive trend for the sixth consecutive year and, moreover, growth accelerated. According to the Department of Statistics, growth in real GVA in the service sector in 2018 was 2.1%, higher than the 1.8% of the previous year. The increase in 2018 is the second best in the last ten years.

The service sector is still the driving force of the Andorran economy, in a context where the improvement in the tourist situation again favoured the recovery in activity in the branches

**In 2018, the service sector continued to expand with growth in GVA of 2.1%.**

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



Source: Department of Statistics.

Chart 12.1

## A record number of service sector businesses in 2018.

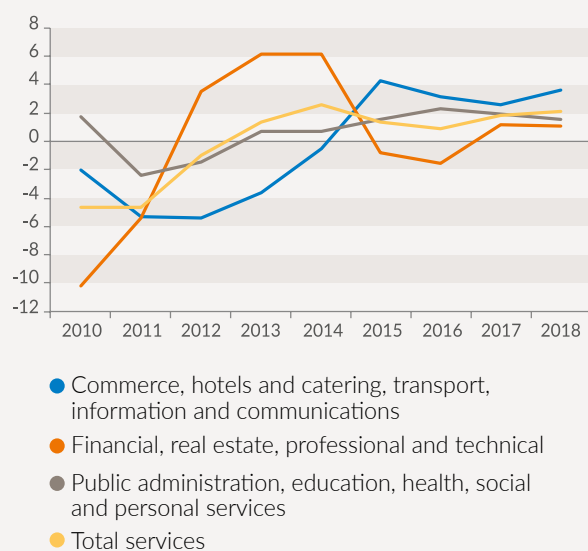
of related services, such as hotels, catering and transport. In contrast, the impact on the branch of commerce was smaller.

The outcome for 2018 was favourable to the three major subsectors, but with different intensities and trends. So, the sector of Commerce, hotels and catering, transport, information and communications saw the most notable increase, of 3.6% interannual, one point more than in 2017. In contrast, the subsector of Public administration, education, health, social and personal services saw real growth of 1.5%, slower than in the previous year (1.9%). Finally, the subsector Financial, real estate, professional and technical activities saw the weakest growth, of 1.1%, a very similar rate to the previous year (1.2%).

## GVA OF THE SERVICES SECTOR BY BRANCHES OF ACTIVITY

Interannual variation rate (%)

Chart 12.2



Source: Department of Statistics.

In December 2018, there were 7,607 businesses in the service sector, 5% more than the previous year. By subsectors, a strong increase in real estate and business services was seen (16.9%), reaching 35% of the total service sector. In contrast, the number of businesses in the subsector of commerce, which was the leading economic activity until 2016, fell 2.9% in 2018, to represent 24% of the sector. The third most important subsector in terms of businesses is hotels and catering, with 11% of the sector and 844 businesses, much the same as the previous year.

If we compare the current number of businesses in the service sector with the number there was before the crisis, in 2007, we can see that the number of businesses has grown

## NUMBER OF BUSINESSES IN THE SERVICES SECTOR\*

Table 12.4

	2007	2017	2018	% var. 18/17	% total 2018
Commerce and motor vehicle repairs (etc.)	1,592	1,914	1,858	-2.9	24.4
Hotels & catering	746	850	844	-0.7	11.1
Transport, storage & communications	230	287	290	1.0	3.8
Financial system	80	112	118	5.4	1.6
Real estate & rental activities; business services	862	2,307	2,697	16.9	35.5
Public administration, defence & mandatory social security	36	33	37	12.1	0.5
Education	48	100	109	9.0	1.4
Health & veterinary activities, social services	246	463	483	4.3	6.3
Other social activities and community services; personal services	396	632	633	0.2	8.3
Extraterritorial bodies	7	6	6	0.0	0.1
Special regimes	-	1	1	0.0	0.0
Domestic work for the community	550	537	531	-1.1	7.0
<b>Total</b>	<b>4,793</b>	<b>7,242</b>	<b>7,607</b>	<b>5.0</b>	<b>100</b>

\*Not including Households employing domestic staff and voluntary declarants (no activity).  
Note: Data for December of the relevant year.

Source: CASS (Andorran Social Security System).

significantly. Overall, it can be said that there were no significant changes until 2013, but there was a very positive trend from that year on, reaching a figure of over 7,600 businesses in 2018, 59% higher than in 2007. Apart from the improvement in the economic context, one factor that favoured this growth was the Foreign Investment Law that came into force in 2012.

Regarding the size of these businesses, 82% have less than 6 workers, a much greater percentage than the 75% in 2007. So growth in the business network is mostly in micro-businesses. Equally, in 2018, the number of businesses of all sizes rose, with the greatest increase in businesses with more than 100 workers (+11.1%), which went from 54 businesses in 2017 to 60 in 2018 and which can be explained by the businesses increasing their workforces and so increasing their size.

**The real estate and professional activities sector account for almost half of the increase in employment in the service sector in 2018.**

As for employment in the service sector, in 2018 the number of employees grew 2.9%, a very similar rate to the 3.3% in the previous year. The growth of the last five years means that the number of employees in 2007 (33,574) was exceeded for the first time. In

2018, the number of employees in the service sector reached 34,006, divided as follows between the four main subsectors: 26% work in the sector of commerce; 16% in real estate and professional activities; 15% in hotels and catering, and 13% in public administration. Overall, these four subsectors concentrate 70% of total employees in the service sector.

In 2018, the greatest increase in employment was in the subsector of real estate and business services, both in the variation rate (+9.1%) and absolute variation (457 more employees), concentrating almost half of the total increase in the service sector in 2018 (945 more employees).

**Wages increased in all branches of the service sector.**

Monthly wages for the whole of the service sector increased 2.4%. The average amount was 2,131 euros, the same as the average wage in the whole Andorran economy, which also saw

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

Table 12.2

	2017	2018	% var. 18/17	% total 2018
Commerce and motor vehicle repairs (etc.)	8,838	8,851	0.2	26.0
Hotels & catering	4,957	5,092	2.7	15.0
Transport, storage & communications	1,228	1,280	4.2	3.8
Financial system	1,867	1,873	0.3	5.5
Real estate & rental activities; business services	4,995	5,452	9.1	16.0
Public administration, defence & mandatory social security	4,377	4,444	1.5	13.1
Education	583	599	2.7	1.8
Health & veterinary activities, social services	2,003	2,076	3.6	6.1
Other social activities & community services; personal services	2,869	3,005	4.7	8.8
Households employing domestic staff	1,127	1,118	-0.8	3.3
Extraterritorial bodies	14	13	-8.3	0.0
Domestic work for the community	203	204	0.4	0.6
<b>Total</b>	<b>33,061</b>	<b>34,006</b>	<b>2.9</b>	<b>100</b>

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

## RECYCLING URBAN WASTE

Andorra already recycles half of the waste it generates, meeting the goal set for 2020, according to the 2018 report on waste management prepared by the Department of the Environment. Separate waste collection is now well established in this country so, for the main categories of recyclable waste that are collected separately, paper and cardboard, glass and packaging, the results of recycling in 2018 were 50.4%, higher than in the previous year and the goal for 2020. In 2018, a total of 57,692 tonnes of urban waste were managed, 20,552 of which were recycled, while 36,160 were used to produce energy, minimising the volume of waste via combustion. Recycling of light packaging increased 18.9%; glass 6.5% and paper and cardboard 3.7%. At the end of October 2017, organic waste from large producers such as supermarkets, hotels, restaurants and schools was included in the separated waste collection, improving the recycling indices by adding 1,060 tonnes of organic matter in 2018.

As for energy production, in 2018 a total of 40,574 tonnes of domestic waste was burnt at the treatment centre (CTR) via the combustion process to recover part of the energy as electricity. To this waste must be added the 9,215 tonnes of solid pre-treated urban waste from the Cerdanya (Spain), forming 19% of the total burnt by the CTR.

Equally, the entry into force of the Regulations to reduce the use of plastic bags in November 2017 meant a saving of almost 600,000 plastic bags at department stores and supermarkets in the last year, representing a decrease of 17.1%.

For 2019, public sector actions will focus on the management of paper in schools, the encouragement of the Government setting an example, the reuse and recycling of textiles, and improved management of vehicles, tyres and rubble.

an increase of 2.6% in 2018. All subsectors of services saw an increase in wages, especially notable in transport and communications (4.2%), education (3.3%) and the financial sector (3%). In the other subsectors, wages grew at rates below 3%.

### 1. Commerce

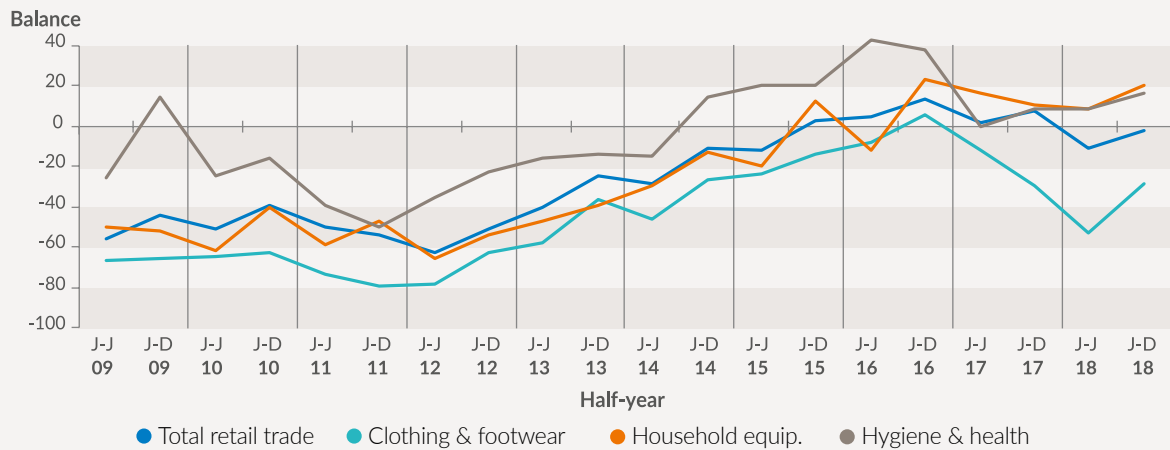
Commerce is one of the pillars of the Andorran economy, despite losing ground against other sectors in recent years, such as real estate and business services. The commercial sector represents 16.3% of GVA (2017) and 22.8% of employment (2018), less than in 2005, when it was 26.7%. This is due to the recent economic crisis and the process of transformation in the pattern of consumption affecting traditional commerce.

The retail sector is facing a process of transformation of its business model due to changes in the patterns of demand and consumer habits and, in particular, strong competition from growing online sales. These factors are having a direct, negative impact on commercial activity, also aggravated by deregulation of the sales season in Spain and by generous discounts to be found online throughout the year. These factors make the retail trade, unlike other sectors, show more resistance than expected to escaping stagnation and tackling growth in activity, even to a modest extent.

The proof of this structural change affecting the sector is the fact that the increased flow of tourists into Andorra is not producing better results in the commercial sector. In fact, 2018 was a good year for the tourism sector, with an increase in visitors of 2.2% but, on the other hand, retail commerce again saw the least favourable balance of all the major

## BUSINESS ACTIVITY - RETAIL TRADE

Chart 12.3



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

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

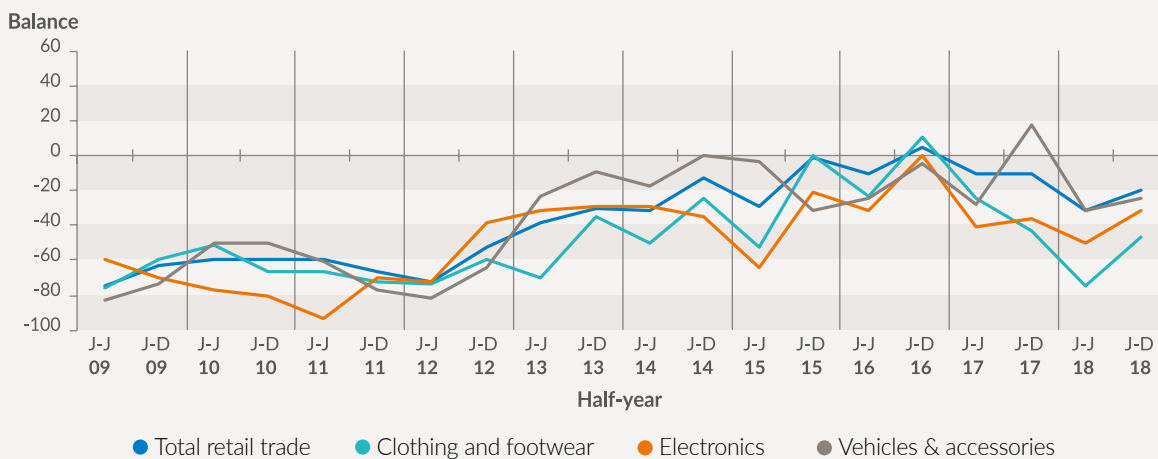
economic sectors. So, in 2018, despite the economic improvement, shopkeepers pointed to a notable deterioration in business in the situation surveys, after a three-year period of relative stability. In effect, there was a downturn in turnover of 3.4% on average – contrasting with the decline of -0.8% in 2017 – and also less dynamic behaviour in sectoral employment.

**In 2018, the number of employees and establishments in retail commerce shrank.**

The available sectoral indicators confirm that retail trade has stagnated. On the one hand, employment in the sector saw a slight downturn of 0.6%, to 5,363 employees, a negative trend that has continued in practically all years since 2004. The average wage stood at about 1,691 euros, 3.3% higher than the previous year but still one of the lowest wages within the service sector. On the other hand, electricity consumption in the commercial distribution sector saw weak growth of 0.3% (only FEDA data). Lastly, the number of retail establishments fell 1.8% to 1,346 (25 fewer establishments than in 2017). One of the indicators to analyse the trend in commerce is imports of goods, because most products sold in Andorran commerce are

## 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.

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

Table 12.3

1. Business activity (Reviewed half-year)		2016			2017			2018		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Good	27	32	30	25	28	27	22	24	23
	Normal	51	51	51	52	53	53	45	51	48
	Bad	22	18	20	23	20	22	33	26	30
	<b>Balance</b>	<b>5</b>	<b>14</b>	<b>10</b>	<b>2</b>	<b>8</b>	<b>5</b>	<b>-11</b>	<b>-2</b>	<b>-7</b>
Food	Good	26	29	28	26	29	28	9	18	14
	Normal	62	59	61	51	53	52	58	56	57
	Bad	12	12	12	23	18	21	33	26	30
	<b>Balance</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>3</b>	<b>11</b>	<b>7</b>	<b>-24</b>	<b>-8</b>	<b>-16</b>
Clothing & footwear	Good	23	26	25	12	9	11	6	19	13
	Normal	46	54	50	65	53	59	34	34	34
	Bad	31	20	26	24	38	31	59	47	53
	<b>Balance</b>	<b>-8</b>	<b>6</b>	<b>-1</b>	<b>-12</b>	<b>-29</b>	<b>-21</b>	<b>-53</b>	<b>-28</b>	<b>-41</b>
Household equipment	Good	19	41	30	31	33	32	28	29	29
	Normal	50	41	46	56	44	50	53	62	58
	Bad	31	18	25	14	22	18	19	9	14
	<b>Balance</b>	<b>-12</b>	<b>23</b>	<b>6</b>	<b>17</b>	<b>11</b>	<b>14</b>	<b>9</b>	<b>20</b>	<b>15</b>
Health & Hygiene	Good	43	48	46	26	26	26	32	30	31
	Normal	57	43	50	48	57	53	45	57	51
	Bad	0	10	5	26	17	22	23	13	18
	<b>Balance</b>	<b>43</b>	<b>38</b>	<b>41</b>	<b>0</b>	<b>9</b>	<b>5</b>	<b>9</b>	<b>17</b>	<b>13</b>
Electronics	Good	15	27	21	7	14	11	21	15	18
	Normal	54	60	57	57	71	64	29	62	46
	Bad	31	13	22	36	14	25	50	23	37
	<b>Balance</b>	<b>-16</b>	<b>14</b>	<b>-1</b>	<b>-29</b>	<b>0</b>	<b>-15</b>	<b>-29</b>	<b>-8</b>	<b>-19</b>
Vehicles & accessories	Good	20	19	20	28	39	34	27	21	24
	Normal	56	46	51	48	46	47	50	52	51
	Bad	24	35	30	24	14	19	23	28	26
	<b>Balance</b>	<b>-4</b>	<b>-16</b>	<b>-10</b>	<b>4</b>	<b>25</b>	<b>15</b>	<b>4</b>	<b>-7</b>	<b>-2</b>
Other trade	Good	33	32	33	28	29	29	26	26	26
	Normal	49	54	52	46	56	51	43	47	45
	Bad	18	14	16	26	15	21	31	27	29
	<b>Balance</b>	<b>15</b>	<b>18</b>	<b>17</b>	<b>2</b>	<b>14</b>	<b>8</b>	<b>-5</b>	<b>-1</b>	<b>-3</b>
Supermarkets & department stores	Good	25	30	28	25	40	33	30	25	28
	Normal	33	40	37	58	40	49	40	38	39
	Bad	42	30	36	17	20	19	30	38	34
	<b>Balance</b>	<b>-17</b>	<b>0</b>	<b>-9</b>	<b>8</b>	<b>20</b>	<b>14</b>	<b>0</b>	<b>-13</b>	<b>-7</b>

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

imported. In 2018, goods saw a fairly positive trend. In all, national imports grew 4.7% against 2017, boosted in particular by imports of motor vehicles (+11.4%), thanks to the major growth in registrations in 2018, building materials (+71%), fuels (+13.7%) and tobacco (+2.9%). If we discount the last three groups from total imports, the other articles intended for commerce as such grew only 2.3% in nominal values, compared with the global 4.7%.

The Chamber of Commerce's survey confirms these unfavourable results. Businessmen's evaluations of business activity in the second half of 2018 were the most pessimistic for that period in the last four years. In fact, the rate of activity in 2018 was weak and clearly lower than sectoral expectations. Note also that shops in Pas de la Casa were greatly affected by roadblocks in France carried out by the gilets jaunes at the end of 2018.

From a sectoral point of view, a significant, almost generalised downturn in business activity can be seen. Only the branches of household equipment and hygiene and health escaped,

## 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)		2016			2017			2018		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Higher	24	36	30	28	28	28	17	24	21
	Similar	41	33	37	34	34	34	35	32	34
	Lower	35	31	33	38	38	38	48	44	46
	<b>Balance</b>	<b>-11</b>	<b>5</b>	<b>-3</b>	<b>-10</b>	<b>-10</b>	<b>-10</b>	<b>-31</b>	<b>-20</b>	<b>-26</b>
Food	Higher	29	30	30	29	26	28	17	24	21
	Similar	35	30	33	39	35	37	27	34	31
	Lower	35	41	38	32	39	36	57	42	50
	<b>Balance</b>	<b>-6</b>	<b>-11</b>	<b>-9</b>	<b>-3</b>	<b>-13</b>	<b>-8</b>	<b>-40</b>	<b>-18</b>	<b>-29</b>
Clothing & footwear	Higher	21	38	30	19	16	18	0	20	10
	Similar	35	34	35	38	25	32	25	13	19
	Lower	44	28	36	44	59	52	75	67	71
	<b>Balance</b>	<b>-23</b>	<b>10</b>	<b>-7</b>	<b>-25</b>	<b>-43</b>	<b>-34</b>	<b>-75</b>	<b>-47</b>	<b>-61</b>
Household equipment	Higher	13	36	25	40	22	31	19	18	19
	Similar	58	39	49	34	31	33	42	52	47
	Lower	29	24	27	26	47	37	39	30	35
	<b>Balance</b>	<b>-16</b>	<b>12</b>	<b>-2</b>	<b>14</b>	<b>-25</b>	<b>-6</b>	<b>-20</b>	<b>-12</b>	<b>-16</b>
Health & Hygiene	Higher	48	35	42	25	35	30	45	24	35
	Similar	48	30	39	45	30	38	14	52	33
	Lower	5	35	20	30	35	33	41	24	33
	<b>Balance</b>	<b>43</b>	<b>0</b>	<b>22</b>	<b>-5</b>	<b>0</b>	<b>-3</b>	<b>4</b>	<b>0</b>	<b>2</b>
Electronics	Higher	23	36	30	17	14	16	7	15	11
	Similar	23	29	26	25	36	31	36	39	38
	Lower	54	36	45	58	50	54	57	46	52
	<b>Balance</b>	<b>-31</b>	<b>0</b>	<b>-16</b>	<b>-41</b>	<b>-36</b>	<b>-39</b>	<b>-50</b>	<b>-31</b>	<b>-41</b>
Vehicles & accessories	Higher	17	30	24	18	46	32	15	24	20
	Similar	42	35	39	36	25	31	39	28	34
	Lower	42	35	39	46	29	38	46	48	47
	<b>Balance</b>	<b>-25</b>	<b>-5</b>	<b>-15</b>	<b>-28</b>	<b>17</b>	<b>-6</b>	<b>-31</b>	<b>-24</b>	<b>-28</b>
Other trade	Higher	23	41	32	30	27	29	18	31	25
	Similar	44	32	38	31	46	39	45	22	34
	Lower	33	27	30	39	27	33	37	47	42
	<b>Balance</b>	<b>-10</b>	<b>14</b>	<b>2</b>	<b>-9</b>	<b>0</b>	<b>-5</b>	<b>-19</b>	<b>-16</b>	<b>-18</b>
Supermarkets & department stores	Higher	36	36	36	42	40	41	20	25	23
	Similar	18	27	23	25	30	28	30	38	34
	Lower	46	36	41	33	30	32	50	38	44
	<b>Balance</b>	<b>-10</b>	<b>0</b>	<b>-5</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>-30</b>	<b>-13</b>	<b>-22</b>

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

showing the only positive values in the whole of commerce. Worth a separate mention were the repeated bad results in the branch of clothing and footwear, which showed the most negative business climate in all commerce in 2018, for the second consecutive year.

In relation to prices, most shops continued to make efforts to be competitive on prices and apply discounts and promotions to encourage

sales, detracting from turnover. So, in 2018, the sales figures showed no signs of recovery either. Businessmen consider that sales saw a steeper downturn than in 2016 or 2017. Despite the recovery in the labour market, rising wages and the increased numbers of visitors, this did not result in greater consumer spending in Andorran shops. By subsectors, on interannual terms, the branch of clothing and footwear was the sector that suffered most from falling sales, although most branches saw a fall in turnover.

**Significant downturn in sales in 2018, especially in the branch of clothing and footwear.**



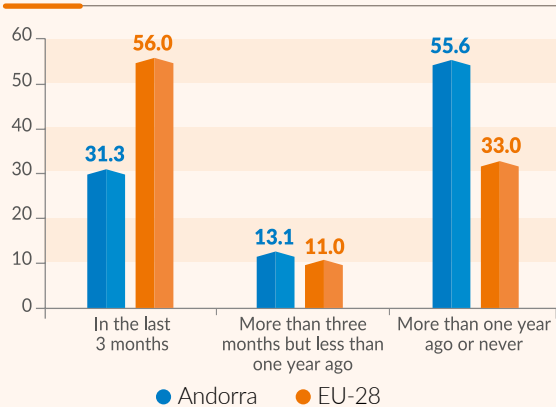
## Box 12.2

### ONLINE PURCHASES IN ANDORRA, COMPARED WITH THE EU

In 2018, the first statistics were published about the installation and use of information and communication technologies in Andorran households. The survey was carried out in the 2017-2018 autumn-winter period, via a computer-assisted telephone interview, and contains information about the installation of new ICT in homes and its use.

One of the survey's sections analysed online purchases. Specifically, the characteristics of the last online purchase by people who have used the Internet at some time. The first result was that 53% of those surveyed made a purchase at some time, while the other 47% never have. 21.7% made their last purchase in the last month; 9.4% more than one month but less than three months ago; 13% more than three months but less than one year ago, and 8.9% more than one year ago.

#### LAST ONLINE PURCHASE, BY THOSE WHO HAVE USED THE INTERNET IN THE LAST YEAR (in %)



To be able to compare these figures with those of the European Union, the responses were filtered by those who have used the internet in the last year (not those

who have used it at some time). In this case, the data are much lower in Andorra (31.3% of those surveyed made a purchase in the last 3 months, compared with 56% of those in the EU-28). Equally, 55.6% of residents in Andorra made the last online purchase more than one year ago or never, while the average in EU countries falls to 33%.

If we compare the goods and services purchased in the last year in Andorra and the EU, lower figures are obtained for Andorra, especially in purchases of physical goods (clothing and footwear, household goods, books, etc.). In contrast, in comparing travel or hotels, the percentages are quite similar. In fact, in relation to products purchased from vendors outside Andorra, in 73.2% of cases these are physical goods (80% in the EU); 35.9% relate to travel, hotel stays or holidays (34% in the EU); 12.6% are products downloaded from websites (25% in the EU) and 17.2% relate to other services (16% in the EU).

As for the value of purchases in the last three months, 20.1% of the population spent less than 50 euros; 19.2% between 50 and 99 euros; 37.8% between 100 and 499 euros; 9.3% between 500 and 999 euros, and 6.4% spent 1,000 euros or more. The other 7.2% do not know how much they spent.

Note that 82.7% of purchasers in the last year had no difficulty in carrying out the purchase, a much higher proportion than the average for the EU.

Finally, the most common reasons why people do not buy online are that they prefer to buy in person (49.9%), for privacy or security reasons (25.5%), lack of knowledge (11.9%) and concerns about delivery or returns (7.4%).

Source: Department of Statistics.

### The forecasts for commerce in the first half of 2019 are not optimistic.

Finally, employment in the sector was quite stable in most shops, according to businesses.

Businessmen's forecasts for the first half of 2019 are not optimistic and indicate that the sector is still far from heading towards satisfactory levels of activity. On the whole, shopkeepers anticipate stagnation in business activity and a stable trend in sales figures. Sales prices will head slightly upward and shops foresee a slight decrease in the number of workers in the sector. Weak demand

## STRATEGIC PLAN FOR SHOPPING TOURISM

In March 2016, the first diagnosis of the Strategic Plan for shopping tourism was presented, with the aim of repositioning Andorran commerce. After this first diagnosis, on 8 November 2016, a second phase of the strategic plan was presented to the commercial and business sector, focussing on the actions needed in the short, medium and long term to position Andorra as a benchmark shopping destination. The study established eleven priority actions:

1. To carry out the series of tourism and leisure-based projects currently under study: Green infrastructure plan, Thyssen Museum (inaugurated in March 2017), The Cloud (cancelled as unviable), Multifunctional area, Casino, Whitewater Park.
2. To improve border access, maximise means of air transport.
3. To carry out a global reform of the town and entrance to the town of Pas de la Casa.
4. To make a town plan for the Meritxell/Vivand sector.
5. To create more prestige events, mostly cultural.
6. To improve the quality of Pas de la Casa's offer to complete its One Day Shopping positioning by introducing outlets.
7. To attract new brands / propose shopping areas that meet their expectations.
8. To implement a loyalty programme for the sector.
9. To focus communication on the Andorran shopping experience.
10. To train staff and shopkeepers to improve the quality of service.
11. To hold more top sporting events.

In total, the Plan includes more than 100 actions, of which the Government prioritised about sixty, most already underway. Some of the initiatives in this phase are: the creation of a commercial sector label; implementation of a plan to digitalise commerce (with special emphasis on small establishments) and various continuous training courses including customer service, sales point management or product display. The Chamber of Commerce will be in charge of granting the quality label based on objective criteria and parameters that the establishments have to fulfil, such as offering training to shop employees.

In 2018, some of the measures provided in the Plan were already materialised, such as smartening up Avinguda Meritxell and Avinguda Carlemany and the area of Pas de la Casa; reducing the sales periods in summer and winter from three to two months, and increasing the budget for sponsoring sports events and the Cirque de Soleil. Another important measure taken in 2019 was for Andorra to join the Single Euro Payments Area (SEPA), after the necessary regulations were passed, promoting e-commerce in Andorra. At the beginning of 2019, a joint brand was also created for the central commercial area formed of shops in Avinguda Meritxell, Vivand and Fener Boulevard, under the slogan "The Shopping Mile", to relaunch the central commercial axis of Andorra la Vella and Escaldes-Engordany.

- cited by 54% of commercial establishments in the second half of 2018 - is still the main obstacle to growth in activity, followed by increased competition (35%), which has risen to above loss of attractiveness of the area (34%) and increased operating costs (30%).

The commercial sector has recently organised new events to promote the commercial sector, such as the Andorra Shopping Festival and Black Friday, with positive results. For example, the Andorra Shopping Festival, held on 1-11 November, was intended to bring in more visitors in the winter pre-season and enhance the commercial offer of the town, with street events, children's activities, cuisine and "street art shopping", among other activities. The number of visitors from November 1-15 swelled to 278,106 - about 30,000 more than in the same

period in 2017. This increase was for both Spanish visitors (about 13,000 more) and French (about 17,000 more), a rather positive balance.

As already commented, commerce is struggling harder than other economic sectors to recover from the crisis, despite the good results of tourism and growth in the Andorran economy and surrounding economies. One of the reasons for this difficulty is that structural changes are occurring within the pattern of global consumption that also affect Andorran commerce. On the one hand, a change has been detected in the behaviour of the consumer who, with the same budget, values the experience (sleeping in a hotel or going to a restaurant) much more than buying products. There is also a surge in e-commerce and, in parallel, the consumer expects constant promotions, which reduces the business margins of the sector. Derestriction of the sales period in Spain and the increase in online purchases on large platforms like Amazon are two examples. To this are added other factors more specific to Andorra that need improvement, such as the lack of prestige brands, the mix of cheap and luxury shops, the need to improve the image of some shops and insufficient staff training in the commercial sector, among others.

**Measures from the Strategic Plan for Shopping Tourism are underway.**

To meet these challenges, the Government has prepared a Strategic Plan for shopping tourism which is already underway.

## 2. The financial system

The financial system, consisting mainly of the banking and insurance sectors, represents 19.6% of Andorra's GVA, according to 2017 data. It is the most important sector of the economy in terms of GVA, while in terms of employment it only represents 5% of total employees. The main business areas of the financial sector are private banking and asset management, insurance and commercial banking, both for individuals and businesses.

According to official GDP data published by the Government, Financial, real estate, professional and technical activities saw an increase in GVA of 1.1% in 2018, in line with the trend of the previous year (1.2%).

2018 was an intense year for the Andorran financial sector, especially with the effort to adapt to the transposition of the European integrated standards into Andorran regulations. The Andorran financial system is tacking adapting to the international standards, especially the implementation of

**The main economic figures of the financial sector were consolidated in 2018.**

regulations on fiscal transparency, international cooperation measures in criminal matters and combatting money laundering and terrorist financing, and the legislation contained in the monetary agreement in terms of bank regulation.

The balance is positive because the sector has managed to transform the challenge into an opportunity to internationalise its banking model. Another of the challenges to the Andorran banking system is the digital transformation and the ability to deal with competition through wholly digital banking business, with the added difficulty of the context of low interest rates, which limit financial margins.

In this clearly complex context of transformation and standardisation, the financial sector has maintained and consolidated its main economic figures. The number of employees for the whole of the financial sector grew 0.3%, so it managed to maintain a high figure of 1,873.

Average wages for this sector, which are the highest of all the sectors in the Andorran economy, saw a rise of 3%. As for the network of businesses and establishments, on 31 December there were 178 establishments, the same as the previous year, while the number of bank branches remained almost constant at 40 (one less than in 2017).

The core of the Andorran financial system is the banking system, consisting of five groups: Andbank, MoraBanc, Crèdit Andorrà, BancSabadell d'Andorra and Vall Banc.<sup>2</sup>

The Andorran banking system ended 2018 by consolidating its position with a total of 44,925 million euros in assets under management, a figure that fell slightly from the previous year (-2.6%), but has almost doubled in the last decade. Of the total assets under management, half were outside the country, confirming consolidation of the process of internationalising the Andorran banking system, already present in 13 countries. The total volume of assets

### **The Andorran banking system recorded a higher solvency ratio than Europe.**

of the five banking groups was 13,970 million euros, similar to the figure one year earlier. Another important detail that demonstrates the soundness of the Andorran banking system is the financial return (ROE), at 7.31%, above

the average of the European Banks (6.2% according to data from the Central European Bank). The data show, moreover, that the Andorran banking system has maintained good levels of capitalisation, with high liquidity and solvency ratios. The CET1 solvency ratio (phase-in) – calculated for comparative purposes – was 16.3% on 31 December 2018, also higher than the average for European banks, which was 14.34% according to the ECB. These data show that Andorra is a strong, stable market with an International vocation.

In 2018, net profits were almost 100 million euros, a figure that represents a decline of 24% compared to the 131 million in the previous year. These results are influenced by the negative interest rates that force down the financial margin; falling prices on international markets in the last few months of 2018; growing costs from the adaptation to the new legal framework in the European banking sector, and the investment in technology (30 million euros were invested in the digital transformation). Moreover, 4.5% of the banks' profits were allocated to social actions in the Andorran community.

The firm commitment of the banking sector to the national economy can be seen in the fact that, in 2018, Andorran banks injected 970 million euros (27.9% more than in the previous year) into the real economy in the form of loans and policies to businesses and individuals, considering the economic recovery and growth in demand. Nevertheless, credit exposure decreased 1.2% to 5,911 million euros, due to amortisations of existing loans.

Andorra had a positive result in the 5th Evaluation Report of Moneyval, the Council of Europe body that assesses anti-money laundering and terrorist financing measures, published on 14 November 2017. The report made a very positive evaluation of the deep legislative changes made in Andorra in relation to preventing money laundering and terrorist financing, and also the criminalisation of tax evasion. The assessors remarked that these changes demonstrate a deep commitment towards preventing money laundering and terrorist financing, not only

<sup>2</sup> Remember that the process ended in 2016 that had started one year earlier as a result of the note from the US administrative authority, the Financial Crimes Enforcement Network (FinCEN), leading to the bank Banca Privada d'Andorra (BPA) being put into administration by the Andorran National Institute of Finance (INAF), and the later creation of a new entity by the national Agency for the Resolution of Banking Entities (AREB), called Vall Banc, to receive the lawful clients, assets and liabilities from the former BPA. In April 2016 – one year and one month after the note from FinCEN – the new entity was sold, for 29 million euros, to the US investment fund J.C. Flowers, and Vall Banc started operating on 11 May 2016.

## AGGREGATE DATA FOR THE ANDORRAN BANKS

Table 12.5

Thousand euros	2017 <sup>(1)</sup>	2018
Total assets	14,138,562	13,969,852
Gross loans & discounts	5,982,759	5,911,097
Assets under management	46,138,071	44,925,146
Results	131,256	99,559
ROE	9.85%	7.31%
ROA	0.88%	0.71%
Solvency ratio	21.74%	20.30%
Liquidity ratio	65.37%	61.83%

UNDER BASEL III CRITERIA <sup>(2)</sup>	2018	European bank average according to EBA
CET 1 (phase-in) solvency ratio	16.30%	14.34%
Liquidity ratio	228.11%	145.61%

(1) The 2017 data are solely for comparison.

(2) 2019 will be the first year when Andorran banking entities will present the solvency ratio under the Basel III European criteria, after Law 35/2018 on solvency, liquidity and prudential supervision of banking entities and investment firms entered into force on 24 January 2019.

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

by the Government and public authorities but also by the financial system in general. The report also praises Andorra for proactively seeking and providing legal assistance with other jurisdictions. At the plenum held in Strasbourg on 6 December 2018, Moneyval approved the first follow-up report of the 5th evaluation of Andorra. On the whole, the report reflects the major progress made by Andorra to correct the technical defects identified in the last evaluation, with 12 recommendations marked up.

### Moneyval's follow-up report assesses the great progress made by the Andorran banking system.

Remember that on 12 February 2016, the Principality of Andorra and the European Union (EU) signed an agreement for the automatic exchange of information in tax matters (AEOI), which came into force on 1 January 2017. In fulfilment of Law 19/2016, regulating the legal framework needed to achieve this commitment

on tax information, Andorra proceeded to make the first exchange of data in September 2018, with 2017 data. This first automatic exchange of tax information was conducted with 41 countries, including the member states of the EU. This exchange meant that banks, collective investment schemes and insurance firms transmitted the information about taxpayers who are resident abroad and have an account in Andorra to the tax authority which, in turn, transmitted it automatically to the tax authority of the country in question. The data to be exchanged include the account number, tax identification number, name, address and date of birth of taxpayers resident abroad with an account in Andorra, any income (interest, dividends, etc.), any income from the sale or transfer of assets and the balance of the accounts. The legislation applies to both natural and legal persons. Throughout 2017 and 2018, the Law was amended to extend the jurisdictions with which Andorra will exchange tax information, so that in 2019, this will be done with 73 jurisdictions, and in 2020 with 95 jurisdictions.

### Andorra becomes a cooperative jurisdiction in tax matters for the EU.

is a milestone because the EU removed Andorra from the list of non-cooperative jurisdictions and considers it a fully cooperative country in tax matters.

On 5 March 2019, the five banks in 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, with the same basic conditions, rights and obligations, irrespective of their location or whether those payments involve cross-border processes or not. The SEPA deals with the technical aspects of the transfers (instruments, standards, procedures and common infrastructures), creating a harmonised scenario that involves no technical differences between national and international payments,

On 4 December 2018, ECOFIN recognised Andorra's progress towards transparency and cooperation in tax matters and agreed to consider Andorra a cooperative country. This

## CONSOLIDATED BALANCE SHEETS (Thousands of euros)

Table 12.6

	ANDBANK		MORABANC GROUP		CRÉDIT ANDORRA GROUP		BANCSABADELL D'ANDORRA		VALLBANC		TOTAL	
	2018	2017*	2018	2017*	2018	2017*	2018	2017*	2018	2017*	2018	2017*
<b>ASSETS</b>												
Cash, cash at central banks and other sight deposits	1,433,393	1,447,004	17,648	19,104	343,553	251,265	63,939	22,079	162,799	167,552	2,021,332	1,907,004
Financial assets held for trading	201,326	339,490	63,512	194,835	12,560	8,409	62,325	31,686	-	-	339,723	574,420
Financial assets not held for trading that must be valued at fair value with changes in income	56,655	6,436	357,988	357,145	185,903	215,970	4,423	-	2,724	-	607,693	579,551
Financial assets at fair value with changes in the income statement	-	-	-	-	1,865	14,763	38,469	39,526	28,118	14,953	68,452	69,242
Financial assets at fair value with changes in the other comprehensive income	418,702	224,032	622,398	419,793	365,996	405,340	70,587	59,040	88,062	62,883	1,565,745	1,171,088
Financial assets at amortised cost	1,880,725	1,954,170	1,559,166	1,426,737	3,764,342	4,083,559	506,939	583,328	390,042	467,998	8,101,214	8,517,792
Derivatives - Hedge accounting	-	90	191	753	-	-	-	-	-	-	191	843
Changes in fair-value of hedging elements of a portfolio with interest risk hedging	3,809	3,863	559	12	21,711	25,611	91	-	-	-	26,170	29,486
Investments in jointly-controlled businesses and associates	2,978	2,000	1	31	37,046	31,491	-	-	17	47	40,042	33,569
Assets covered under insurance and reinsurance contracts	6,863	11,214	36,324	35,961	3,431	2,760	-	-	-	-	46,618	49,935
Tangible assets	30,989	34,282	103,240	83,120	122,832	127,155	25,438	25,148	59,624	59,009	342,123	328,714
Intangible assets	268,171	244,212	13,173	10,550	129,837	112,717	221	257	18,681	16,687	430,083	384,423
Other assets	31,764	32,358	7,667	6,936	28,219	25,694	510	201	896	273	69,056	65,462
Tax assets	74,316	68,304	4,541	7,565	52,908	51,898	11,800	6,659	12,046	28,605	155,611	163,031
Disposable non-current assets held for sale	33,295	46,965	1,562	15,153	112,028	103,285	8,824	5,799	92	92,800	155,801	264,002
<b>TOTAL ASSETS</b>	<b>4,442,986</b>	<b>4,416,420</b>	<b>2,787,970</b>	<b>2,577,695</b>	<b>5,182,231</b>	<b>5,459,917</b>	<b>793,564</b>	<b>773,723</b>	<b>763,101</b>	<b>910,807</b>	<b>13,969,852</b>	<b>14,138,562</b>
<b>LIABILITIES</b>												
Financial liabilities held for trading	66,227	58,088	31,282	16,167	10,405	4,772	1,098	1,150	-	-	109,012	80,177
Financial liabilities at fair value with changes in the income statement	-	-	358,891	405,870	71,411	123,374	38,475	39,526	-	-	468,777	568,770
Financial liabilities at amortised cost	3,727,811	3,674,259	1,972,271	1,739,956	4,282,232	4,493,974	660,067	638,905	693,292	741,517	11,335,673	11,288,611
Derivatives - Hedge accounting	7,322	3,089	6,699	3,148	35,194	42,192	85	-	-	-	49,300	48,429
Changes in fair-value of hedging elements of a portfolio with interest risk hedging	-	-	782	779	-	-	-	-	-	-	782	779
Liabilities covered under insurance and reinsurance contracts	6,863	11,214	86,459	86,094	265,650	254,287	-	-	-	-	358,972	351,595
Provisions	17,479	28,693	25,185	26,004	31,299	62,305	1,171	1,175	1,740	2,679	76,874	120,856
Tax liabilities	18,485	25,027	3,571	5,360	3,085	2,169	820	1,180	2,540	3,234	28,501	36,970
Other liabilities	82,155	80,430	16,243	17,067	57,587	55,746	9,100	11,202	15,651	12,668	180,736	177,113
Liabilities in groups of disposable items held for sale	-	-	-	-	-	-	-	15	352	86,660	352	86,675
<b>TOTAL LIABILITIES</b>	<b>3,926,342</b>	<b>3,880,800</b>	<b>2,501,383</b>	<b>2,300,445</b>	<b>4,756,863</b>	<b>5,038,819</b>	<b>710,817</b>	<b>693,153</b>	<b>713,575</b>	<b>846,758</b>	<b>12,608,980</b>	<b>12,759,975</b>
<b>NET EQUITY</b>												
Capital	78,842	78,842	42,407	42,407	63,462	63,462	30,069	30,069	30,000	30,000	244,780	244,780
Issue premium	73,441	73,441	-	-	-	-	-	-	-	-	73,441	73,441
Issued equity instruments other than capital	35,000	35,000	-	-	-	-	-	-	-	-	35,000	35,000
Accumulated earnings	411,782	375,208	155,079	145,608	-	-	-	-	-	-	566,861	537,135
Revaluation reserves	645	1,942	-	-	-	-	2,288	2,288	-	16,319	2,933	4,230
Other reserves	(100,982)	(65,158)	68,275	75,841	311,581	293,721	41,449	38,535	19,485	10,232	339,808	353,171
Own shares (-)	(1,927)	(1,605)	-	-	(819)	(782)	-	-	-	-	(2,746)	(2,387)
Result attributed to majority shareholder	27,078	39,153	24,057	23,517	36,001	50,194	10,249	10,039	2,174	8,353	99,559	131,256
Interim dividend (-)	-	-	-	(12,925)	-	-	-	-	-	-	-	(12,925)
Shareholders' equity	523,879	536,823	289,818	274,448	411,044	407,377	83,236	80,149	51,659	64,904	1,359,636	1,363,701
Other cumulative results	(8,334)	(1,810)	(3,227)	2,806	4,222	4,972	(489)	421	(2,133)	(855)	(9,961)	5,534
Minority interests	1,099	607	(4)	(4)	10,102	8,749	-	-	-	-	11,197	9,352
<b>TOTAL NET EQUITY</b>	<b>516,644</b>	<b>535,620</b>	<b>286,587</b>	<b>277,250</b>	<b>425,368</b>	<b>421,098</b>	<b>82,747</b>	<b>80,570</b>	<b>49,526</b>	<b>64,049</b>	<b>1,360,872</b>	<b>1,376,587</b>
<b>TOTAL LIABILITIES AND NET EQUITY</b>	<b>4,442,986</b>	<b>4,416,420</b>	<b>2,787,970</b>	<b>2,577,695</b>	<b>5,182,231</b>	<b>5,459,917</b>	<b>793,564</b>	<b>773,723</b>	<b>763,101</b>	<b>910,807</b>	<b>13,969,852</b>	<b>14,138,562</b>

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

\* 2017 data for comparison only.



which are carried out with equal simplicity, speed security and efficiency. Now that Andorra has joined, the SEPA has expanded to 36 countries: the 28 EU member states, Iceland, Norway, Liechtenstein, Switzerland, Monaco, San Marino, Vatican City and the Principality of Andorra.

***In 2019 Standard & Poor's outlook for Andorra improves from stable to positive, and Fitch confirms the BBB+ rating.***

As for Andorra's sovereign rating, Fitch Ratings agency confirmed Andorra's rating as BBB+ with a stable outlook in the note published on 2 August 2019. The assessors acknowledged the Government's continued policies to adapt

to international standards and highlighted the fact that Andorra was removed from the EU list of non-cooperative jurisdictions. The agency also rated positively the balanced management of the executive budget, based on a moderate, convergent tax framework and progressive reduction of the public debt, and highlighted the soundness of the fiscal framework and the positive economic developments. The assessors also remark that Andorra's willingness to join the International Monetary Fund; progress in negotiations for an associate agreement with the EU, and other factors such as the reduction of the risk of contingent liabilities in the banking sector could lead to an improved rating for Andorra in future ratings. For its part, in July 2019, the agency Standard & Poor's revised Andorra's outlook from stable to positive and confirmed its rating as BBB / A-2. The agency's last rating was in January when it already confirmed the BBB / A-2 rating, which it has held since July 2017, but the outlook then was stable. In their rating note, S&P acknowledged Andorra's policies to align with international standards and also rated positively the progressive reduction of public debt.

Finally, in 2018, Andorra's five banks faced the final part of their transformation, working hard towards transparency and convergence with international regulations and standards. All the Andorran Banks maintained their international ratings, demonstrating the agencies' confidence in the sector thanks to continued positive results in terms of profitability and solvency. The sector has managed to adapt to new international conditions while maintaining the aggregate dimension. In fact, in 2018, the total number of employees in all five banks was 2,618 – 1.5% less than in the previous year, largely due to retirements without replacement. Approximately 52% of these are people working in Andorra, i.e. 1,390 employees, a figure that has been quite stable in the last five years.

### 3. Tourism

According to the official GDP figures, the hotels and catering sector represents about 8.4% of Andorran GVA (according to 2017 data), but the indirect impact of tourism is higher, as it

***The number of visitors grows 2.2%, to 8.3 million.***

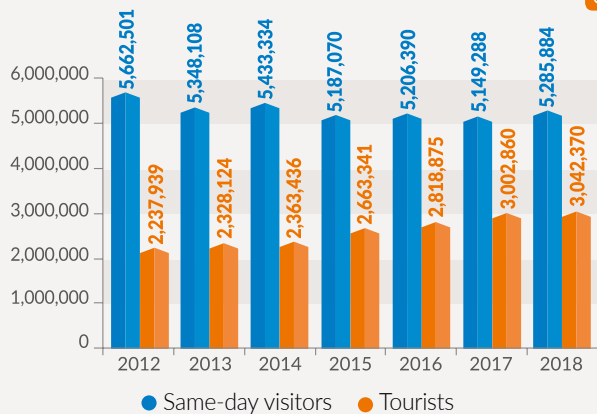
strongly influences other sectors, such as commerce and leisure and sporting activities, which greatly depend on visitors. This means that the favourable trend in tourism that has been seen since 2014 was fundamental to the improvement in Andorra's economic situation. The sustained growth in the sector was the result, on the one hand, of the overall improvement in surrounding countries – basically Spain and France - and, on the other hand, new tourist attractions that were promoted by both the public and private sectors to win over an ever more demanding clientele looking for new experiences. The annual balance was positive for the tourist sector in 2018, as indicators of demand show a generalised increase since 2017.

***In 2018, Andorra received the highest number of tourists since 2003.***

The good progress in tourism is reflected in the increase in the number of visitors in 2018, for the fifth consecutive year, putting

## TREND IN SAME-DAY VISITORS AND TOURISTS 2012-2018

Chart 12.5



Source: Department of Statistics.

**In 2018 the numbers of French tourists increased while Spanish tourists remained stable.**

the total figure of visitors at 8,328,254 (2.2% more than in 2017), higher than the 1.6% in the previous year. This value is close to that of 2010 (8.5 million) but still far from the 11 million visitors received by Andorra before the crisis.

This year, unlike the previous, the increase in visitors was generalised in both tourists, who spend at least one night, and same-day visitors, who only spend the day without staying the night. Specifically, the number of tourists increased 1.3% to reach 3,042,370 tourists, the highest figure since 2003, a trend that is accompanied by a 2.7% increase in same-day visitors to reach 5,285,884.

In 2018, by nationalities, the growth in French visitors (5.9%) and other nationalities (4.7%) was notable, while the number of Spanish visitors fell 1.1%, breaking the pattern of the last three years. However, Spain is still the main country of origin of visitors, with 50% of the total, followed by France, which represents 41.4%, and other nationalities which represent the other 8.6%. As for tourists, the trend turned strongly upward in the case of the French (6.1%), while the number of Spanish tourists remained practically stable. Nevertheless, Spanish tourists still represent 71% of the total. As for same-day visitors, the trend was very similar. The number of French same-day visitors grew (5.9%), while the number of Spanish same-day visitors fell (-2.4%). The majority of same-day visitors are from France (56%). The French market is characterised by a very high level of seasonality, with a predominance of same-day visitors who visit in the summer, especially August. In contrast, the behaviour of Spanish visitors is clearly different as there is a notably high influx in August, but at levels that are comparable to other times of the year, such as the skiing months and, secondly, Easter Week.

Altogether, this resulted in an increase in the total number of overnight stays for the fourth consecutive year, of 1.9% in 2018, to reach the figure of 8,906,187, the highest since data became available. The average overnight stay remained at 2.9 days, in line with the average for

## TOTAL VISITORS BY NATIONALITY

Table 12.7

		2017	2018	% var. 18/17	% total 2018
Total visitors	Spanish	4,209,681	4,162,138	-1.1	50.0
	French	3,260,291	3,452,034	5.9	41.4
	Others	682,176	714,082	4.7	8.6
Tourists	Spanish	2,164,167	2,165,663	0.1	71.2
	French	457,483	485,237	6.1	15.9
	Others	381,210	391,470	2.7	12.9
Same-day visitors	Spanish	2,045,514	1,996,475	-2.4	37.8
	French	2,802,808	2,966,797	5.9	56.1
	Others	300,966	322,612	7.2	6.1
<b>TOTAL VISITORS</b>		<b>8,152,148</b>	<b>8,328,254</b>	<b>2.2</b>	<b>100</b>

Source: Department of Statistics.



the last decade. The increase in overnight stays was led by aparthotels – a category that also includes tourist apartments since 2017 – with growth of 9.6%. On the other hand, the number of overnight stays in hotels and campsites fell (-2.2% and -28.1%, respectively). Consequently, aparthotels have increased their share and already represent 17% of total accommodation, while hotels lose ground although they are by far the most important type of accommodation (62% of the total). In third place are homes of friends or family, with 8.8% of the total.

The upward trend in tourism is corroborated by the progress in other indicators for the hotels and catering sector. Specifically, the number of employees in the sector grew 2.7%, to 5,092, the highest figure since 2008.

Moreover, wages in the sector saw an increase of 2.4% in a context of an improving economic trend, very similar to the previous two years. The number of establishments also grew 0.8% to reach a total of 1,037 establishments, the highest figure in the whole available series (8 establishments more than in 2017). In line with this growth, electricity consumption increased 1.7% in the case of hotels and catering, while it fell 2.8% in ski resorts (FEDA data only). Equally, the number of permits for immigrants in the hotel sector in the 2018-2019 winter season was a little more than 3,000. These figures confirm a positive trend, of 10%, compared with

**The number of employees in the sector grows for the fourth consecutive year and passes 5,000.**

**2.44 million ski passes were sold over the 2018-2019 season, 3% less than the previous season.**

the previous season, the same variation in the number of permits granted to the ski resorts, which was around one thousand individuals in the winter season.

The number of passes sold and days that the ski resorts are open are good indicators for calculating activity linked to skiing during the winter months. Sales of passes (or ski days) in the 2018-2019 season were 2,438,148, 3% less than the previous year. Despite the decline, this is one of the highest figures when compared to the historical series, especially if we consider that the season had a weak start due to a shortage of snow. Moreover, this fall in visitors was offset by an increase in turnover, because users increased their expenditure in restaurants, adventure activities and other services. On the other hand, the ski resorts were open 144 days on average, 12 days more than the previous season (132 days). Now, the ratio of passes sold to days open fell in comparison with 2017.

In parallel, the ski resorts continued to increase investment to improve and equip the installations. Investment this year was 25.1 million euros, much higher than the figure of 15.4 million euros in 2017. Among the novelties presented by the ski resorts in the 2018-2019 season were notably the inauguration of a new 14,000 m<sup>2</sup> skiable

## PASSES/DAY SOLD BY SEASON

Table 12.8

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

Note: estimated as 20 days use per pass for seasonal passes.

Source: Ski Andorra.

platform in the Soldeu sector, with underground parking for 450 vehicles. This platform meets the need to improve the finish point of the Avet slope to host the Alpine Ski World Cup Finals in March 2019. Also of note are the new water deposit at Vallnord-Pal Arinsal, allowing the creation of snow for the resort after just three consecutive days of cold weather, and the new Tristaina cable-car, joining the base of the Ordino Arcalís resort to the base of the Coma sector. The cable-car involved an investment of nearly 7 million euros and is the cornerstone of the Ordino Arcalís master plan. Also, many campaigns were promoted abroad and the organisation of large events and international promotion of activities to attract potential clients continued.

As for the spa, Caldea, the operating company (SEMTEE, SA) is continuing its business strategy aimed at increasing the frequency and average entry per user, with a policy of promoting new projects such as Caldea Likids (spa area for children aged 3 to 8) and Inúu. In 2018, the spa passed the threshold of 400,000 customers for the second consecutive year. Specifically, there were 403,005 visits, 0.2% more than in the previous year, figures that are comparable to those before the crisis. The consolidation of Inúu, only for adults, added 71,843 entries and was the main driving factor. For its part, the spa has had an enviable status for 25 years, with over 300,000 customers year after year. The incorporation of Likids was important, an area visited by 10,933 children (-5.3% compared with the previous year). In the last five years, income has improved cumulatively by almost 35%, from 11.3 million in 2014 to 15 million in 2018. Growth in turnover for the period 2014-2018 was combined with contained operating costs, so Caldea ended 2017 with net profits, after several years of losses due to the economic crisis and the investment effort involved in opening Inúu. In 2018, it managed to increase profits to 433.9 thousand euros, almost double the 245.4 thousand euros in 2017. For 2019, Caldea presents two new features: the panoramic pool at the spa and expanded club members' facilities.

**In 2018 Caldea improved on 2017's net profits.**

In 2018, the Ice Palace also had good results. Operating income grew at a modest rate of 1.3%, but expenditure increased by 10.6% and current subsidies remained constant at 369,000 euros. Altogether this meant a profit of 26,085 euros, lower than the 129,016 euros in 2017.

In contrast, Naturlàndia, the ecological theme park of Camp de la Rabassa, received 8.4% less visitors in 2018 compared with the previous year (143,408 visitors in 2018). 50% of visitors choose the day pass and the other 50% buy a single ticket for Tobotronic or the animal park. The opening season (winter 2018-2019) lasted 112 days, but due to the lack of snow, some activities such as skiing were out of operation or very limited. Specifically, 25 ski days had to be cancelled.

**The Cirque du Soleil attracted more visitors in July.**

*Diva*, the show by Cirque de Soleil, was performed between 30 June and 29 July 2018, ending with a very positive balance. Income from the show reached 1.2 million euros (26% more than the previous year), of which 1.1 million came directly from ticket

**NUMBER OF BEDS IN TOURIST ACCOMMODATION BY TYPE**

Table 12.9

	2017	2018	% var. 18/17	% total 2018
Hotels	27,874	27,663	-0.8	84.1
Hostals / residencies	380	334	-12.1	1.0
Pensions	240	219	-8.8	0.7
Aparthotels	2,603	2,663	2.3	8.1
Tourist apartments	2,002	2,024	1.1	6.1
<b>Total</b>	<b>33,099</b>	<b>32,903</b>	<b>-0.6</b>	<b>100</b>

Source: Department of Tourism / Department of Statistics.

## TOURIST ACCOMMODATION SUPPLY BY PARISHES

Table 12.10

	2017		2018		% var. 18/17		% total 2018	
	Establ.	Beds	Establ.	Beds	Establ.	Beds	Establ.	Beds
Canillo	45	6,865	47	6,996	4.4	1.9	19.7	21.3
Encamp	51	6,262	51	5,938	0.0	-5.2	21.3	18.0
Ordino	27	1,967	29	2,143	7.4	8.9	12.1	6.5
La Massana	37	5,454	38	5,419	2.7	-0.6	15.9	16.5
Andorra la Vella	34	6,039	33	5,961	-2.9	-1.3	13.8	18.1
Sant Julià de Lòria	8	735	8	766	0.0	4.2	3.3	2.3
Escaldes-Engordany	33	5,777	33	5,680	0.0	-1.7	13.8	17.3
<b>Total</b>	<b>235</b>	<b>33,099</b>	<b>239</b>	<b>32,903</b>	<b>1.7</b>	<b>-0.6</b>	<b>100</b>	<b>100</b>

Note: Data on 31 December of relevant year.

Source: Department of Tourism / Department of Statistics.

sales. Equally, the economic impact of the show is broader because it includes spending by spectators on their trip to Andorra. Altogether, it is estimated that the net economic impact was about 20 million euros and that the main purpose of 21.3% of tourists who visited Andorra in July was to see Cirque de Soleil's show.

The new project to build a casino to increase Andorra's attractiveness to tourists, awarded to JOCS SA, was halted to await the result of the appeal lodged by JOCS SA against the decision of the Andorran gambling regulator CRAJ to dismiss their application, due to faults noted in the proceedings. In parallel, judicial proceedings were instigated against the casino concession, based on claims by operators bidding for the tender.

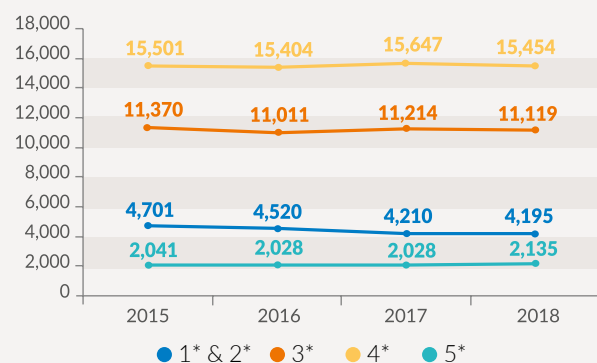
The increase in tourism demand was accompanied by an increase in the accommodation supply, from 235 to 239 establishments. In contrast, the number of beds remained quite stable at around 33,000. Of the accommodation supply, 173 are hotels, 22 aparthotels, 10 *hostals/residencies*, 6 *pensions* and 28 tourist apartments. On the other hand, 124 establishments in the category of other tourist accommodation should also be counted, including the 76 companies managing housing used for tourism (EGHUT), with 13,701 beds (a figure that would put this niche in the tourism supply well above the other types, except hotels); 28 mountain huts, 8 campsites, 1 camping area, 1 summer camp, 2 hostels and 8 rural accommodation.

In 2018, there was an increase of two hotel establishments, two aparthotel buildings and one tourist apartment, and one hostel less. In total, there were 239 tourist accommodations, four more than in the previous year. The number of hotel beds hardly varied, so the average number of hotel beds fell. Nevertheless, 84% of the total supply of beds by type of establishment are in hotels (27,663 in 2018). The number of beds in aparthotels

**The accommodation supply increased slightly in comparison with the previous year.**

### TREND IN THE NUMBER OF BEDS BY CATEGORY OF TOURIST ACCOMMODATION

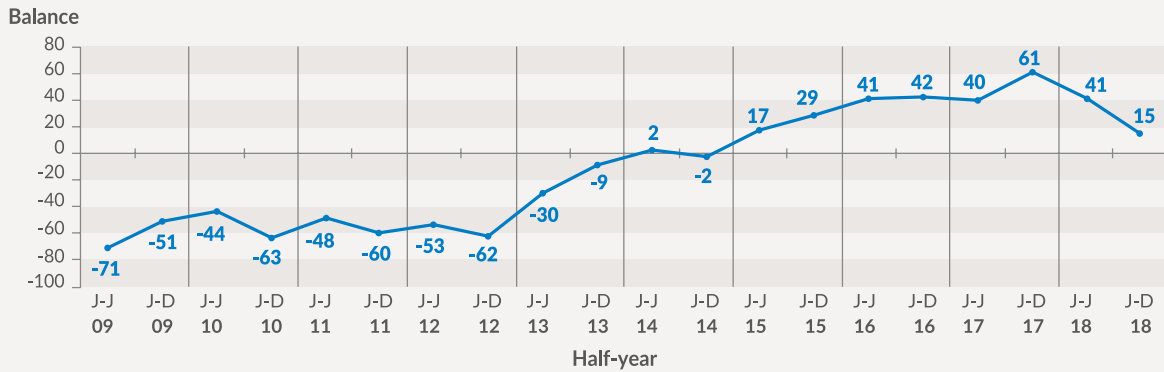
Chart 12.6



Source: Department of Tourism / Department of Statistics.

## BUSINESS ACTIVITY - HOTEL SECTOR

Chart 12.7



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

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

reached around 2,600, and beds in tourist apartments around 2,000. In the other types of accommodation, beds in housing used for tourism predominate, being 13,701 in 2018, 14.5% more than the previous year.

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 18%, Canillo 21% and La

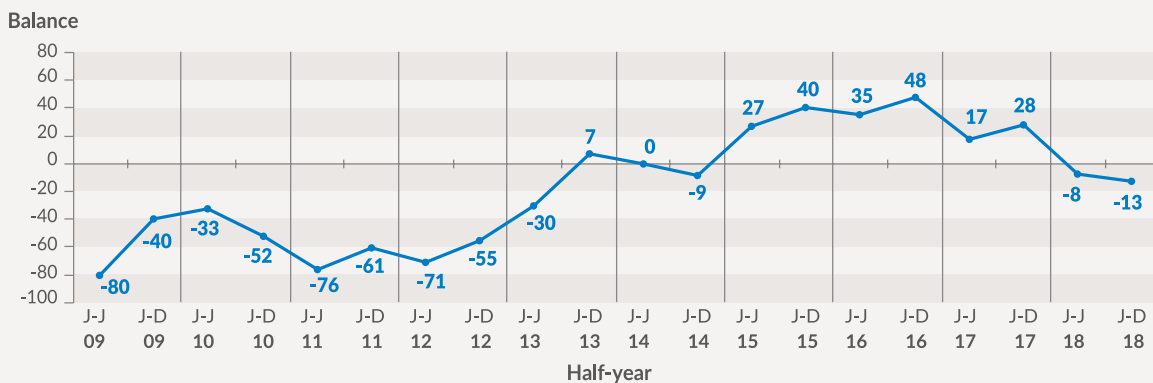
**The number of hotels rises but not hotel beds.**

Massana 16%), and also the central parishes (Andorra la Vella 18% and Escaldes-Engordany 17%). In Sant Julià de Lòria (2%) and Ordino (7%), despite having important infrastructures, the distance between the town centres and the infrastructures reduces the “foot of the slopes” effect. In 2018, the greatest increases in the number of beds in relative terms were in Ordino and Sant Julià de Lòria, while the greatest decrease was in Encamp. As for the number of establishments, the most notable variations are the increase of 45 to 47 in Canillo and 27 to 29 in Ordino.

As for categories of tourist accommodation, 53% of beds offered are in higher categories (4\* and 5\*). In 2018, the number of beds in lower categories (1\* and 2\*) fell, following the trend of recent years, to represent 13% of beds. The number of 3\* and 4\* beds also fell

## 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.

**An increase in the number of 5\* beds, targeting quality and the higher purchasing power segment.**

slightly, but are the most numerous. In 2018, only the number of 5\* beds rose, indicating clearly that the sector has targeted quality to attract customers with higher purchasing power. On the other hand, clients with more

basic accommodation requirements also find an acceptable, broad supply of other types of accommodation, such as furnished holiday apartments.

Based on hoteliers' responses to the Chamber of Commerce's situation surveys, in 2018 the high rate of activity in the hotel sector of the previous three years halted and there was a less favourable general trend than in the previous year. This can be seen in the 2.2% fall in turnover (compared with the 3.7% increase noted one year earlier) and also the slowdown in job creation. Consistent with this scenario of lower activity, businesses' spirit of investment appeared to cool somewhat. Note, however, that the survey only refers to businesses in the hotel sector and that, as has been said, the increase in overnight stays occurred in accommodation types other than hotels, basically apart-hotels (a concept that includes tourist apartments).

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

Table 12.11

		2016			2017			2018		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
<b>1. Business activity</b> (reviewed half-year)	Good	55	51	53	45	65	55	48	26	37
	Normal	31	40	36	50	31	41	45	64	55
	Bad	14	9	12	5	4	5	7	11	9
	<b>Balance</b>	<b>41</b>	<b>42</b>	<b>42</b>	<b>40</b>	<b>61</b>	<b>51</b>	<b>41</b>	<b>15</b>	<b>28</b>
<b>2. Average distribution of clients (%)</b> (reviewed half-year)	Catalonia	36	43	40	40	42	41	31	42	37
	Rest of Spain	27	25	26	24	23	24	24	25	25
	France	18	21	20	19	19	19	24	22	23
	Others	19	11	15	18	16	17	21	12	17
<b>3. Level of reservations</b> (reviewed half-year)	High	25	13	19	16	27	22	12	13	13
	Adequate for period	55	67	61	67	58	63	70	52	61
	Low	18	20	19	16	13	15	16	35	26
	Reservations not taken	2	0	1	0	2	1	2	0	1
	<b>Balance</b>	<b>7</b>	<b>-7</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>7</b>	<b>-4</b>	<b>-22</b>	<b>-13</b>
<b>4. Average level of occupancy</b> (compared with same half-year in previous year)	Higher	48	55	52	31	49	40	25	26	26
	Equal	40	39	40	55	30	43	43	35	39
	Lower	13	7	10	14	21	18	33	39	36
	<b>Balance</b>	<b>35</b>	<b>48</b>	<b>42</b>	<b>17</b>	<b>28</b>	<b>23</b>	<b>-8</b>	<b>-13</b>	<b>-11</b>
<b>5. Prices paid by clients</b> (compared with previous half-year)	Higher	36	36	36	40	38	39	43	23	33
	Equal	53	38	46	47	29	38	50	36	43
	Lower	11	27	19	14	33	24	7	40	24
	<b>Balance</b>	<b>25</b>	<b>9</b>	<b>17</b>	<b>26</b>	<b>5</b>	<b>16</b>	<b>36</b>	<b>-17</b>	<b>10</b>
<b>6. Number of employees</b> (compared with same half-year in previous year)	More	11	25	18	14	15	15	10	13	12
	Same	87	73	80	81	78	80	86	66	76
	Less	2	2	2	5	7	6	5	21	13
	<b>Balance</b>	<b>9</b>	<b>23</b>	<b>16</b>	<b>9</b>	<b>8</b>	<b>9</b>	<b>5</b>	<b>-8</b>	<b>-2</b>

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

From a geographical point of view, the more pessimistic climate in business activity was noted in the parishes of Ordino and Encamp, whereas, on the more positive side, the more favourable business trend in Canillo and Escaldes-Engordany stands out.

The average level of occupancy saw a decline in the second half of 2018 compared with the same half year in the previous year. This interannual decline in occupancy is, to a great

extent, the result of a less brilliant balance from summer tourism than expected at the start and, also, a weak start to the ski season due to a shortage of snow. From the geographical aspect, the average level of occupancy saw a highly significant interannual fall in Ordino and, to a lesser extent, also in La Massana and Encamp. In contrast, a slight increase in occupancy was seen in Sant Julià de Lòria and Canillo, and a fairly stable trend in hotel demand in the more central areas of the country, where most commerce lies (Andorra la Vella and Escaldes-Engordany). On the other hand, in most hotels, employment showed a stable trend and sales prices followed a downward trend, after a rise in prices in 2016 and 2017 – a reflection of the hotels' concern to reactivate demand and gain competitiveness compared with other destinations.

**The level of occupancy falls and sector prospects cool.**

**Catalonia is the most important source of travellers, 37% in 2018.**

As for the distribution of clients per country of origin, Catalonia is still the most important source, with 37% of tourists in 2018, compared with clients from the rest of Spain, with 25%.

Note that during the first half of the year the Catalan tourism's percentage fell, probably due to political instability, but it recovered in the second half. In a year-on-year comparison, a rising trend can be seen in French travellers, to represent 23%, and a stable trend in clients from more distant points, a group whose percentage has remained stable at 17% of total clients.

Businesses' forecasts for the first half of 2019 are the least optimistic for this period in the last four years and anticipate that hotel activity will continue to lose momentum over the next few months. Businesses expect a certain stagnation in business activity and a gentle slowdown in the rate of activity, reflected in a fall in the volume of reservations and a slightly falling trend in average level of occupancy. In this context of a slowdown, businesses foresee an adjustment in sales prices in most areas and a stable trend in sector employment. Moreover, the percentage of businesses that consider that weak demand is hampering improvements in business activity reached the highest value in the last two years, with 60% of hotels indicating it, a higher incidence than the shortage of qualified staff (53%), also a very notable factor.

#### 4. Transport and communications

Activity in the branch of transports and communications showed a positive trend in 2018. The sector of transport and storage represents 1.8% of total GVA, and the sector of information and communications 4.6% (2017 data). In terms of employment, in 2018, the transport sector (including overland and air transport and related activities, including travel agencies) represented 2.4% of total employees, and the sector of mail and communications, only 0.9%.

**Employment increases 6% in the transport sector and decreases 0.6% in telecommunications.**

In 2018, there were 1,280 employees in the whole sector of transport and communications, 4.2% more than the previous year and the highest figure in the historical series. However, this increase is wholly accounted for by the transport branch, which saw a 6% increase in

employees in 2018, to 947. In contrast, there was a 0.6% downturn in the branch of mail and telecommunications, to 333 employees.

The improvement in the economic context resulted in a significant increase in the average wage for the whole sector, of 4.2%, the highest since 2008, but this increase is due to the subsector of communications, where the average wage grew 12.4% to about 3,500 euros, among the highest wages per sector.

Another indicator of activity that is improving is the number of establishments, which went from 429 in 2017 to 433 in 2018. However, this increase is basically explained by the growth in establishments dedicated to activities related to transport and travel agencies (from 217 to 224). The growth in establishments was, in turn, favoured by the improvement in the tourism situation.

**The number of vehicle registrations continues to grow but slower than in the five previous years.**

The number of vehicle registrations rose to 4,608, the highest since 2007 and 1.2% higher than the 2017 figure. This modest growth contrasts with the steep increases seen between 2013 and 2017, with double-digit rates every year. This very positive trend in demand benefitted from the incentives to buy eco-friendly vehicles, sponsored by the Government (Engega programme).

By type of vehicle, car registrations in 2018, 71% of total units, grew 2.1%. The categories that relate to economic activity and investment plans of businesses are van registrations, which increased 25.8%; special vehicles, which grew 20%, and lorries, which fell 1.2%. The number of motorcycle and snowbike registrations also fell. Note that the new CO<sub>2</sub> emissions regulations for vehicles approved by the European Union in 2018, which have negatively impacted automobile purchases in most European countries, will come into force in Andorra one year later to give concessionaries time to adapt the stock of vehicles on sale.

As a result of this growth in registrations, the number of vehicles (with normal plates) increased 3.2% in 2018, a similar rate to the previous two years. The number of vehicles per 1,000 inhabitants (of estimated population) grew to 1,141 counting all vehicles, and 771 counting only cars. This means that on average there are more vehicles than residents.

**VEHICLE REGISTRATIONS (units)**

Table 12.12

	2015	2016	2017	2018	% var. 18/17	% total 2018
Cars	2,431	2,686	3,198	3,265	2.1	70.9
Motorcycles	574	718	819	751	-8.3	16.3
Vans	200	244	264	332	25.8	7.2
Lorries	33	59	86	85	-1.2	1.8
Special vehicles	29	37	45	54	20.0	1.2
Mopeds	19	17	11	14	27.3	0.3
Snowbikes	19	12	30	18	-40.0	0.4
Others*	89	79	99	89	-10.1	1.9
<b>Total</b>	<b>3,394</b>	<b>3,852</b>	<b>4,552</b>	<b>4,608</b>	<b>1.2</b>	<b>100</b>

\*Consisting of private trailers and agricultural tractors.

Source: Department of Transport.



The transport sector sees this high demand as an opportunity to introduce electric vehicles. In fact, there was a notable increase in registrations of electric and hybrid vehicles in recent years, largely due to the Engega programme subsidising the purchase of electric and plug-in hybrid vehicles. Specifically, in 2018, 110 x 100% electric vehicles and 112 hybrid vehicles were registered (plug-ins and non-plug-ins), much higher numbers than the 3 and 24 respective registrations in 2015, before the Engega programme was started. These two categories of vehicles already represent 4.8% of the total, a percentage that places Andorra among the five leading European countries for sales of electric vehicles. In parallel with the increase in numbers of electric vehicles, Andorra increased the number of charging points around the country to 31, of which almost all have capacity for two vehicles at the same time.

**Registrations of electric and hybrid vehicles have increased notably thanks to the Engega programme.**

In Summer 2018, the electric bicycle service Cicland was set up, with fourteen stations throughout Andorra and some fifty bikes available to users. The service was free for two months as a trial and by the end of 2018 there were nearly 100 registered users.

In relation to the branch of communications, the same dynamic as the last four years was confirmed, with an increase in the number of mobile contracts of 2.8%, making a total of 82,614 lines, together with stagnation in the number of land lines to about 47,217. On the

#### Box 12.4

### THE ENGEGA PROGRAMME

The new Engega programme promoting purchases of new electric and plug-in hybrid vehicles for 2019 to 2021 will have funds of 750,000 euros per year, as announced by the Government on 3 January 2019. The second cycle of this programme will involve a review of the economic parameters but maintain the intention to promote electric mobility and improve the energy efficiency and safety of Andorran vehicles, after the success of the first Engega programme from 2016 to 2018.

The amounts of subsidy for purchasing electric vehicles in 2019-2021 have been set slightly below the Engega 2018 programme. In the case of purely electric vans, the subsidy falls from 10,000 to 9,000 euros; for purely electric cars there will be a maximum subsidy of 6,000 euros (it was 8,000 euros) and in the case of motorcycles it falls from 2,000 to 1,000 euros. As for plug-in hybrid cars, these will remain at half that of purely electric cars, i.e. a maximum of 3,000 euros (previously it was 4,000 euros). As for breakage, the amount will still be 1,250 euros for vans, because they circulate constantly and their emissions are the most damaging to air quality, and 750 for cars.

On the other hand, the subsidised percentage of the total vehicle price has been reduced from 50% to 35%, in line with measures applied in neighbouring countries and also the falling differential between prices of electric and conventional vehicles, also with the aim of increasing the number of subsidised vehicles.

The purchase of electric vehicles will also have supplementary benefits, such as being able to drive on the bus lanes throughout the country. The advantage of being able to take the Envalira tunnel for free will no longer apply in the new Engega programme.

As has been said, the first Engega programme in 2016-2018 produced very good results. Investment rose to a total of 3.3 million euros and the number of registrations of electric vehicles and plug-in hybrids shot up to 164 units, with a continued trend that saw 154 registrations in 2017 and 158 in 2018.



## Box 12.5

### MAIN ACTIONS BY ANDORRA TELECOM IN 2018

Andorra Telecom ended 2018 with operating income of 87.9 million euros, 2.6% higher than the expected 85.7 million euros. This increase can be explained by the behaviour of the two key elements in the company's turnover: roaming and traditional business.

Income from "roaming in" – telephone use by customers of foreign operators within Andorra – represented a net figure of 31.7 million euros, 7.9 million euros lower than in 2017 but higher than expected in the budget. The trend in this entry was better than expected, considering the new EU regulations which stipulate the elimination of roaming costs for customers within the community area and the implications for Andorra of the new European policy. In parallel, there was an improvement in tourist connectivity, as about thirty international operators, including the main French ones, have put Andorra in the EU tariff area.

As for traditional business, income also behaved better than expected. The year ended with turnover of 53.6 million euros, 0.4% higher than the 53.4 million euros provided in the budget. 2018 was marked by the improvement in the mobile phone service that was launched at the end of November 2017, which represented a leap forward by including roaming in the

passes, and renewal of the fibre optic offer in December 2018. This introduced the concept of modular tariffs adapted to customers' requirements and focussed on fibre user loyalty with the development of the global offer 4Play (TV, Internet, land line and mobile).

Throughout 2018, 14.1 million euros were dedicated to investment, a chapter in which the entries for technical installations stand out, which include improvements to the TV platform, mobile phone network and 3G and 4G coverage, as well as renewal of the emergency network TETRA, which serves the security and rescue forces in Andorra.

The company made great efforts towards public responsibility. The speed of the fibre optic network of schools was doubled. The Andorran National Education Network (XENA) connects a total of 35 school buildings in the country and serves 11,000 students and 1,820 teachers in the three educational systems. The policy of public responsibility also includes in its core the promotion of the ICT sector through the business accelerator NIU, which celebrated its second year of Demo Day, on which six innovative projects were presented to about thirty investors.

Source: Andorra Telecom.

### ***In 2018, fibre optic and mobile phone lines continue to expand.***

phone lines for the same number of inhabitants surpasses 108, so there are more mobiles than inhabitants of Andorra.

This dynamic is confirmed when observing the trend in telephone traffic. In 2018, national land line traffic fell 17.4%, while mobile traffic increased 4.6%. International incoming traffic fell for the eleventh consecutive year while outgoing traffic grew 1.8%, after twelve consecutive years of falls. For its part, in 2018, both national and international telephone traffic by fibre optic Internet grew at very high rates (41% and 44%, respectively) as did national mobile Internet traffic (88%).

other hand, there are 35,663 fibre optic lines, representing an increase of 4% against 2017. The ratio of Internet broadband lines per 100 inhabitants is already 47 and the ratio of mobile

# Timeline of the most significant economic developments in 2018

## January

- 1 January, the Double Taxation Agreement (DTA) with Portugal becomes applicable.
- 1 January, the Double Taxation Agreement (DTA) with the United Arab Emirates becomes applicable.
- 1 January, the Double Taxation Agreement (DTA) with Malta becomes applicable.
- 16 January, the economic promotion agencies Actua and Business France sign a collaboration agreement to enable France and Andorra to cooperate in joint actions and maximise the internationalisation of companies in both countries.
- 19 January, the S&P rating is published: Standard & Poor's rating agency confirms Andorra's long and short-term rating as BBB/A-2 and maintains the stable outlook.
- 23 January, Actua and Barcelona Tech City sign a collaboration agreement to boost the exchange of initiatives to foster and promote digitalisation and technological sectors.
- The ISMF Ski Mountaineering World Cup is held.

## February

- 17 February, the Fitch rating is published: the international agency Fitch Ratings maintains Andorra's rating as BBB with positive outlook.
- 22 February, the Andorran Statistics Council is set up as an advisory and participatory body in the official statistics programmes and plans and other aspects related to this field.
- 28 February, the 2018 annual Statistics Programme is approved.

## March

- The National Budget for 2018 is approved (Law 1/2018, of 1 March).
- The judgement of the Constitutional Tribunal on 14 March partially accepts the appeal of unconstitutionality presented against qualified Law 18/2017, of 20 October, on transfers to the Comú governments.
- 21 March, a long-term public debt issuance (bonds) of 125 million euros is approved, under the public debt issuance programme of 20 September 2017.
- Law 2/2018, of 22 March, controlling sensitive goods is passed.
- Law 3/2018, of 22 March, on mediation is passed.

## April

- » Law 6/2018, of 19 April, amending Law 95/2010, of 29 December, on corporate tax is passed.

## May

- » 16 May, the Sectoral Plan on Andorran Energy Infrastructures is passed.
- » Law 8/2018, of 17 May, on payment services and electronic money is passed.
- » 18 May, the Double Taxation Agreement (DTA) with Cyprus is signed.
- » Law 12/2018, of 31 May, amending Law 10/2013 on the Andorran National Institute of Finance (INAF) is passed. This amendment transforms the INAF into the Andorran Financial Authority (AFA), acquiring the competences, powers and instruments necessary to act as effective supervisor in insurance and reinsurance matters.
- » Law 13/2018, of 31 May, on the Court of Arbitration of the Principality of Andorra is passed.

## June

- » Law 14/2018, of 21 June, on higher education is passed.
- » Law 15/2018, of 21 June, on the University of Andorra is passed.
- » The Chamber of Commerce, Industry and Services begins its first viability study on an international airport in Andorra.

## July

- » 1 July, entry into force of the Agreement between the Government of Andorra and the French Government to improve the national roads (N) 20, 320 and 22, between Tarascon-sur-Ariège in France and the Andorran border, signed in Paris on 22 March 2017.
- » 7 July, Andorra and France sign a declaration of intent to strengthen cooperation between both countries on matters of energy and climate change.
- » The Mountain Bike World Cup is held at Vallnord Pal-Arinsal.
- » 20 July, the S&P rating is published: Standard & Poor's confirms Andorra's rating as BBB/A-2 and maintains the stable outlook.
- » Law 16/2018, of 26 July, on supporting business activity and fostering entrepreneurship is passed.
- » Law 17/2018, of 26 July, regulating the Andorran educational system is passed.
- » Law 18/2018, of 26 July, on ecological production and quality standards for agricultural and food products is passed.
- » Law 19/2018, of 26 July, amending Law 19/2016, of 30 November, on the automatic exchange of tax information, is passed. This Law expands the number of jurisdictions with which Andorra will automatically exchange information from 2020.

## August

- 11 August, the Fitch rating is published: the international agency Fitch Ratings improves Andorra's rating to BBB+ with a long-term stable outlook.
- 24 August. Andorra, Catalonia and France sign the protocol to create the Three Nations Pyrenean Park, formed of the Natural Park of Valls del Comapedrosa, the Natural Park of Vall de Sorteny, the Natural Park of Alt Pirineu (Catalonia) and the Regional Natural Park of Pyrénées Ariégeoises (France).

## September

- Law 20/2018, of 13 September, regulating the Andorran Deposit Guarantee Fund and the Andorran Investment Guarantee Scheme is passed.
- Law 21/2018, of 13 September, on promotion of the energy transition and on climate change (Litecc) is passed.
- 14 September, the Spanish cycle race *La Vuelta* arrives in Andorra.
- 19 September, a short-term public debt issuance (bonds) of 100 million euros is approved, under the public debt issuance programme of 20 September 2017.
- 25 September, Actua signs a collaboration agreement in Toulouse with Méléé, the most important technological hub in the south of France.
- Within the framework of the EU agreement, Andorra proceeds to automatically exchange tax information with 41 countries, for the first time, including EU member states.

## October

- Qualified Law 22/2018, of 18 October, amending Law 18/2017, of 20 October, on transfers to the Comú governments, is passed. This Law includes amendments relating to the Constitutional Court judgement on 14 March 2018, which partially accepted the appeal of unconstitutionality lodged against Law 18/2017.
- Law 23/2018, of 18 October, amending the Law creating the Andorran Chamber of Commerce, Industry and Services, is passed.
- 19 October, Andorra signs the multilateral agreement of the OECD allowing for information to be exchanged country by country with all signatory competent authorities, so Andorra is not included in the list of non-reciprocal jurisdictions.
- The ski resorts of Pas de la Casa-Grau Roig and Soldeu-El Tarter sign the agreement to continue Grandvalira for another ten years. Ordino-Arcalís resort also joins Grandvalira, extending its skiable area and services.
- Law 26/2018, of 25 October, amending Law 17/2008, of 3 October, on the social security system, is passed.
- Law 27/2018, of 25 October, amending Law 8/2018, of 17 May, on payment services and electronic money, is passed.

## November

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- » 15 November, the OECD endorses the changes made to Andorra's tax systems and decides that they are no longer potentially detrimental.

## December

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- » Andorra reaffirms its commitment to climate change by participating in the COP24.
- » 4 December, Ecofin acknowledges the progress made by Andorra towards transparency and cooperation in tax matters and agrees to remove Andorra from the EU grey list of tax havens.
- » 6 December, the Moneyval plenum approves the first follow-up report on the 5th evaluation of Andorra.
- » Law 31/2018, of 6 December, on labour relations is passed.
- » Qualified Law 32/2018, of 6 December, on trade unions and business organisations is passed.
- » Qualified Law 33/2018, of 6 December, on industrial action is passed.
- » 12 December, certain EU International Financial Reporting Standards (IFRS-EU) are passed, and the Decree of 22 December 2016 is amended, approving the accounting framework applicable to entities operating within the Andorran financial system and collective investment schemes under Andorran law, to comply with the EU International Financial Reporting Standards (IFRS-EU) which were adopted by Andorra (IFRS-Andorra) at the same time.
- » 18 December, the first Andorran national data hub is presented, promoted by Actua.
- » 19 December, the annual Statistics Programme for 2019 is passed.
- » Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banking entities and investment firms is passed.
- » Law 36/2018, of 20 December, on financial conglomerates is passed.

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