

25
number

2019 economic report



CAMBRA
DE COMERÇ
INDÚSTRIA I SERVEIS
D'ANDORRA

With the support of



Andorran Banking
Associació de Bancs Andorrans

EDITED BY

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and Services of Andorra

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PRELIMINARY NOTE

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

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

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Introduction

Our annual Andorran economic report celebrates its twenty-fifth anniversary this year at a particularly poignant moment in recent economic history. This is due to the global pandemic that has marked 2020 and produced a radical change in relations between individuals and businesses, with serious economic consequences in the short term and great uncertainty for years to come.

The aim of this report, which fulfils one of our legal duties, is to spread knowledge about the Andorran economy and provide a useful reference for all stakeholders in this country. Its value depends, in turn, on the loyal collaboration of Andorran businesses, which periodically provide important information to us about the business climate and developments. This information allows us to read the pulse of the economy and anticipate any obstacles and requirements that need to be addressed so that our country can continue to progress.

It would not be possible to prepare this report without the information, especially statistics, provided by the Government, the Comú authorities, the CASS and other national institutions and associations, or the work of the internal and external experts who collect all the information and analyse it according to certain criteria. We must also highlight the role of the communication media, an essential vehicle for disseminating the content of this document. The Chamber of Commerce would like to express its gratitude to all of them.

This report analyses developments in 2019 and offers our opinion on economic prospects for 2020. The report is structured as three large blocks: the first block on the external environment, the second analysing general developments in the Andorran economy and the third detailing developments in the main sectors.

As for the external environment, in 2019 the world economy saw a synchronised slowdown in developed and developing economies, resulting in 2.9% growth, lower than the 3.6% in 2018. Among the factors that slowed global activity were notably global trade tensions, the adjustments in the automobile industry to adapt to the new European emissions standards, the uncertainty around Brexit, and the social conflicts in emerging countries.

Within this context of synchronised slowdown, the US economy continued to grow more than the European for the second consecutive year. The weakening Eurozone, which grew at the slowest rate since recovery began in 2014 (1.3%), led the ECB to take new measures to inject liquidity into the banking system, encouraging the concession of loans and providing support for economic activity, in a context that was free of inflationary pressures.

The neighbouring economies of Spain and France were also caught up in the slowdown. French GDP recorded a growth rate of 1.5%, lower than the 1.8% in 2018, but slightly higher than the overall rate for the Eurozone. In 2019, the benefits of the economic measures to increase household disposable income, in place since 2018, began to be seen, leading to an upturn in consumption and investment. On the other hand, the context of a global slowdown and trade tensions played against progress in the French economy by slowing exports. Furthermore, the strikes against pension reforms lowered growth in the last quarter of the year.

Equally, Spain continued the gentle deceleration that had started in the previous year, although it was still one of the most dynamic European core economies, with GDP growth of 2% in 2019. The slowdown came wholly from domestic demand, while the foreign sector contribution picked up after a negative two years, despite weakening global trade.

Andorra, on the other hand, has managed to distance itself from this general slowdown, with 1.8% GDP growth in real terms in 2019, twice that of the previous year, according to the first estimate published by the Government, still under review. The total nominal GDP in 2019 reached 2,817 million euros, the highest figure since 2007, although in real terms, the current GDP value is still 10% less than the maximum, also achieved in 2007.

So, growth in the Andorran economy in 2019 was lower but similar to that of Spain and higher than France and the EU as a whole. In parallel, the Andorran population continued to grow significantly, so per capita GDP in real terms increased very little, although this was after two years of decline. In nominal terms, per capita GDP for Andorra reached 36,335 euros, the best level since 2011.

This trend was helped by a still favourable European and international context in 2019. The good performance of the Andorran economy in 2019 was also reflected in the positive trend in many indicators of activity and demand, although some of these already showed signs of exhausting an upward cycle that, with the supply and demand shocks caused by the pandemic of Covid-19, finally ended at the beginning of 2020. Specifically, growth was notable in the number of employees and total employment, although this was lower than in 2018 and matched by an increase in unemployment and numbers of job seekers. The rate also slowed in imports, industrial vehicle registrations and Government operating costs and real investment. Moreover, declines were seen in some important indicators, such as the number of tourists, energy consumption, car registrations and imports of building materials, alerting to the threat of waning economic momentum.

The sectoral analysis shows that, as in 2018, the driving forces behind economic growth in 2019 were the services and construction sectors. Remember that services represent about 87% of GVA, so their results are crucial to explaining the trend in the Andorran economy.

In the case of the primary sector, real GVA shrank in 2019 for the second consecutive year, by 2%, although its low percentage of the economy (0.6%) means that the impact on total GDP is hardly noticeable. This decline was accompanied by a faster rate of fall in the numbers of employees and utilised agricultural area. Moreover, the numbers of livestock decreased and the number of establishments stagnated. As for the tobacco harvest, this year was unique as, due to the situation caused by Covid-19 and the physical impossibility of exporting the tobacco, the whole harvest from 2019 was destroyed and therefore no data have been recorded.

In contrast, construction was the most dynamic sector in 2019, with GVA growth of 8.6%, although lower than in 2018 (13.8%). So, the sector has accumulated four years of expansion and increased its share of total GVA to 7.3%, although it is still far from the maximum it represented just before the crisis (13% in 2006). Other indicators of activity in the sector confirm the dynamism in construction in 2019, such as increases in the square metres authorised for building, public investment and job creation in the sector. Along the same line, the results of our surveys corroborate the good performance in construction, with a fairly optimistic assessment of the business situation and increases in sales, clearly above other sectors, and investment.

As for industry and manufacturing, the trend in 2019 was more favourable than one year earlier, if we take into account the data for real GVA, which show an increase of 3.4%, higher than the 2% in 2018. The improvement in industrial and manufacturing activity resulted in an increase in the numbers of employees and establishments in the sector. However, businesses' replies to our surveys do not portray such a favourable climate, as they reflect downturns in the confidence indicator and opinions about business activity.

In relation to services, the trend in 2019 was positive overall, with growth in real GVA of 1.9%, six tenths higher than in the previous year, and of 1.4% in the number of employees. A breakdown by

sectors shows that growth in tertiary activities was fairly generalised. Specifically, the subsector of financial, real estate, professional and technical activities grew most (2%), after two years of decline. Remember that this branch of services is the most important in the economy, with 34% of total GVA.

The trend in the banking sector, in particular, was favourable, with increases in gross lending to customers and in deposits, interrupting the decline of recent years. This meant that profits increased for the first time in six years and return on equity (ROE) rose to 7.7% in 2019.

For their part, the activities of commerce, hotels and catering, transport, information and communications, which also make a significant contribution to Andorran GVA (31%), advanced at a rate of 1.9%, similar to 2018. This favourable trend was possible despite the numbers of tourists falling by 1.1%, and a loss of momentum in the main factors encouraging residents' consumption (jobs and wages).

In fact, in the particular case of the tourism sector, there are some connected indicators that reflect a loss of momentum in activity compared with 2018, such as falling numbers of total overnight stays, numbers of accommodations and beds, and the slower rate of job creation in hotels and catering. However, our surveys in 2019 still provide a favourable outlook on the hotel sector, benefiting from the positive behaviour in entries of tourists, with a global assessment of business activity similar to 2018 and increases in turnover and investment.

In parallel, commerce saw slight signs of improvement, with faster growth in the number of establishments and employees, although levels of activity were still very quiet. This slight recovery is also reflected in our surveys, which show an improvement in business activity, a small decline in sales and an upturn in investment.

The public sector's contribution to activity in 2019 was another positive year, if less so than the previous year, in a context of healthy budgeting that allowed a gentle increase in spending by both central and local governments. Its actions resulted in modest growth in operating costs and a notable increase in real investment, although these were both lower than in 2018. In parallel, the tax burden fell two tenths to 25%, after reaching a historic high in 2018 (25.2%). As a result, the central government saw a small budget surplus of 0.1% of GDP, combined with a 0.6% surplus in the Comú governments. Altogether, this resulted in a slowdown in GVA growth for the subsector of Public administrations, education, health, social and personal services, from 3.6% to 1.6% in 2019.

The economic prospects for 2020 have been determined by the evolution of the Covid 19 pandemic, affecting the whole world. Its major impact on public health impelled the Andorran Government, in line with neighbouring European countries, to adopt various measures from 11 March to deal with the pandemic and protect the health of its citizens, such as locking down the population, restricting movement, closing educational centres and other establishments and limiting capacities and meetings, among others, to stop the chains of infection. In many countries around the world, similar measures have been taken with significantly negative impacts on world GDP this year, so the IMF is expecting the worst global recession since the Great Depression of the 1930s.

Looking forward, the Andorran economy will continue to be influenced by the impact of the pandemic on the world economy and, above all, our European neighbours. Note that Spain and France are among the countries with the most negative prospects for this year (GDP declining by more than -12%, according to the IMF), considering the major importance of tourism for their respective economies, among other reasons. This is the same for Andorra, although forecasts

indicate that long-distance tourism will be much more affected than nearby tourism, which may play in favour of Andorra, as it is a nearby destination for the Spanish and French tourist markets and is oriented towards outdoor activities and not massified. All in all, this leads us to believe that the Andorran economy will see a serious fall in GDP in 2020, the scale of which is still difficult to determine.

The length of the crisis will depend mainly, on the one hand, on the capacity of all countries to control any outbreaks and to gradually remove measures that limit people's movement and, on the other hand, on how long it takes for ongoing research to discover an efficient vaccine against Covid-19. In this context, the role of states and coordination in adopting measures to support the economy will also be essential, to offset the effects of the crisis and avoid serious destruction of the business network and jobs.

In conclusion, the cycle of expansion that the Andorran economy has seen in the last six years stopped suddenly in 2020, due to the Covid-19 pandemic, and the economy was thrown into a synchronised crisis with the rest of the European economy, from which it will be difficult for Andorra to emerge without the external impetus. The world is expected to start to emerge from the crisis in 2021, with the support of strong monetary and fiscal stimulus measures being adopted by global and European governments, but with GDP increases that will only partly reverse this year's falls.

Faced with this difficult situation, the Chamber of Commerce will maintain its commitment to working alongside national businesses, citizens and institutions to find the best way to come through the crisis and emerge ever stronger.



Miquel Armengol Pons
President



The external environment of the Andorran economy

The international economy

1. The main features of economic development in 2019

In 2019, the global economy saw a 2.9% increase in GDP, according to the International Monetary Fund (IMF), less than the 3.6% in 2018. The uncertainty around trade policies and geopolitical tensions, together with social and political instability in some of the main emerging economies damaged global economic activity, especially in manufacturing and the goods trade. Among the temporary factors that slowed global activity were notably the adjustments in the automobile industry to adapt to the new emissions standards, the uncertainty caused by Brexit and the social conflicts in Latin American countries. Other factors should also be considered, such as meteorological disasters: hurricanes in the Caribbean, forest fires in Australia, floods in East Africa and the drought in southern Africa.

In 2019 the global economy slowed in synchrony and global trade only grew 0.9%.

Despite these headwinds, some positive signs emerged towards the end of the year, which unfortunately did not prosper due to the arrival of coronavirus. These positive aspects were the general shift towards an accommodating monetary policy, the inherently favourable news about trade negotiations between the USA and China, and the decreasing fear of a no-deal Brexit.

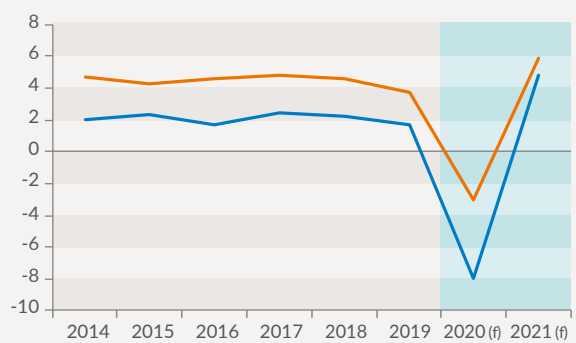
In the group of advanced economies, the slowdown in 2019 was generalised. However, job creation continued (sometimes in a context where unemployment rates were already at historic lows) and underlying inflation remained contained. Weakening demand lowered the prices of metals and energy, contributing to the generally low inflation rate.

The lower growth in global demand and existing risks negatively impacted developed economies, going from global growth of 2.2% in 2018 to 1.7% in 2019, and emerging and developing economies, which grew at a rate of 3.7% in 2019, compared with the 4.5% in the previous year. This synchronised slowdown occurred for the second consecutive year.

2019 saw a steep slowdown in Latin America, with Argentina and Mexico in recession.

In developing and emerging economies, among the factors limiting growth were global trade tensions, the worsening macroeconomic situation in Argentina, Mexico and Turkey, with

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



● Emerging and developing market economies ● Advanced economies

f: IMF forecasts (June 2020).

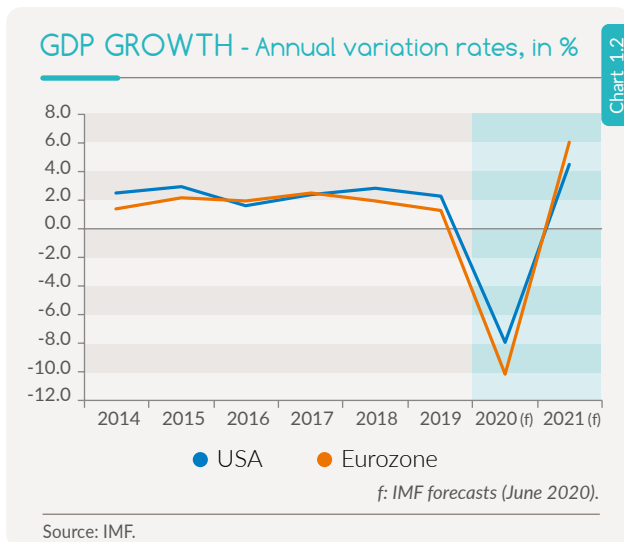
Source: IMF.

the consequent depreciation of their respective currencies against the dollar, and falling oil prices, which hit the oil-exporting countries of the Middle East and Russia.

Among the Asian emerging economies, China grew 6.1% in 2019, the lowest rate in almost three decades. This slowdown is partly due to the tertiarisation of its economy, involving slower growth, and also the trade tensions with the USA, which lowered consumer and business confidence, causing falls in automobile sales and the rate of export growth.

The world slowdown was especially notable in the economy of Latin America and the Caribbean, where growth practically stagnated in 2019 (0.1%). European developing countries also suffered the effects of the slowdown in the main European countries, growing 2.1% in comparison with 3.2% in 2018. For example, Russia's growth fell from 2.5% in 2018 to 1.3% in 2019, partly due to falling oil prices.

In 2019 the economy slowed in both the USA and the Eurozone.



As for the advanced countries, the economic trend in 2019 was marked by a synchronised slowdown in the USA and the Eurozone, although the US economy continued to grow more than the European for the second consecutive year. US GDP saw its growth rate slow six tenths to 2.3%, partly explained by the maturity of the cycle after 10 years of expansion and the disappearance of the tax stimulus introduced by the Trump administration at the end of 2017. The Eurozone economy also slowed six tenths to 1.3%, and outside the Eurozone, the United Kingdom maintained almost stable growth of 1.4%.

Despite the slowdown in the US economy, the labour market continued to produce very favourable results, with an unemployment rate of 3.7%, the lowest historical rate, which can be considered full employment. For its part,

average inflation fell in comparison with the previous year (from 2.1% to 1.4%), partly through wage moderation in a context of economic slowdown.

The slowdown of the US economy led the Federal Reserve to change the course of its monetary policy and reduce the official interest rate four times over the second half of 2019. Finally, increases in public spending and falling tax revenue raised the fiscal deficit from 6.7% in 2018 to 7.3% of GDP in 2019.

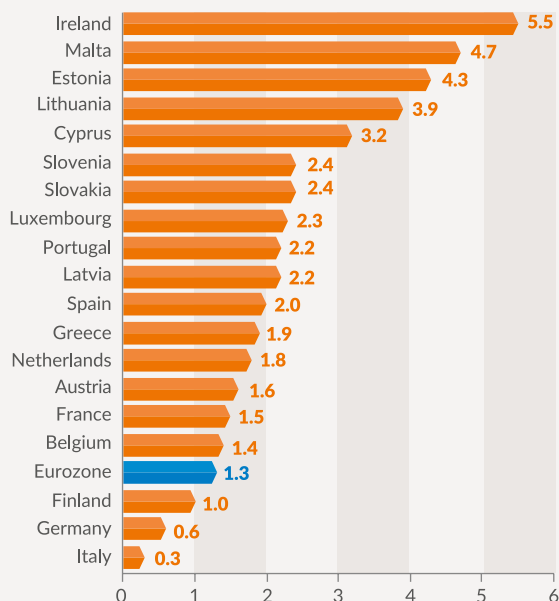
The Eurozone economy weakened more than expected in 2019. GDP grew 1.3% over the year, lower than the 1.9% in 2018 and the lowest rate since the recovery started in 2014. Weakening activity was especially noticeable in the last quarter, when GDP for the whole Eurozone grew only 0.1%. Some economies saw a decline, such as Italy and France, while others like Germany stagnated. External factors contributed to this slowdown, such as falling world trade associated with uncertainty and trade tensions, and also internal factors, including weakness in industry, especially automobiles.

The Eurozone economy weakens, especially in the last quarter of 2019.

GDP GROWTH IN EMU COUNTRIES. 2019

Annual variation rates, as %

Chart 1.3



Source: Eurostat.

Downward inflation due to the economic slowdown and falling oil prices.

was 1.2%, six tenths less than the 1.8% of the previous year. All the Eurozone economies saw positive annual inflation rates, but only five countries crossed the 2% threshold. In the core European countries, inflation remained low; France (1.3%), Germany (1.4%), Spain (0.8%) and Italy (0.6%).

As for fiscal policy, in the whole of the Eurozone the debt-to-GDP ratio practically stabilised. In 2019, it closed with a GDP deficit of 0.6%, only one tenth more than in the previous year, according to Eurostat. This stabilisation is the result of consistent GDP percentages of both revenue (46.5%) and expenditure (47.1%). Eleven of the nineteen member states of the Eurozone had a public account surplus in 2019. Of the countries with a deficit, the highest figures were France (-3.0% of GDP), Spain (-2.8%), Belgium (-1.9%) and Italy (-1.6%). The falling trend in the debt-to-GDP ratio continued and fell almost two percentage points, to 86%, thanks to increased GDP and the low cost of financing.

Interest rates fall in the USA and remain stable in the Eurozone.

slowing deterioration in the macroeconomic indicators. Remember that throughout 2018, the Fed raised them four times to stop the economy overheating, leaving the rates at 2.25% at the end of 2018.

Despite weakening activity in 2019, the Eurozone labour market continued to produce positive signs. Specifically, employment increased 1.2% for the year, only three tenths less than in 2018. This increase in employment led to the unemployment rate falling from 8.2% in 2018 to 7.6% in 2019. This is the lowest rate in the historical series, less than the minimum reached in 2007 (7.7%). For their part, unit labour costs rose 2.1% due to a nominal wage increase of 2.2% per worker and a 0.1% increase in productivity. Now, real labour costs, once the GDP deflator is discounted, only increased 0.3%. This means that loss of competitiveness was well contained in 2019. For the Eurozone economy, it is still a priority to improve productivity by increasing wages, and subsequently inflation, without losing competitiveness.

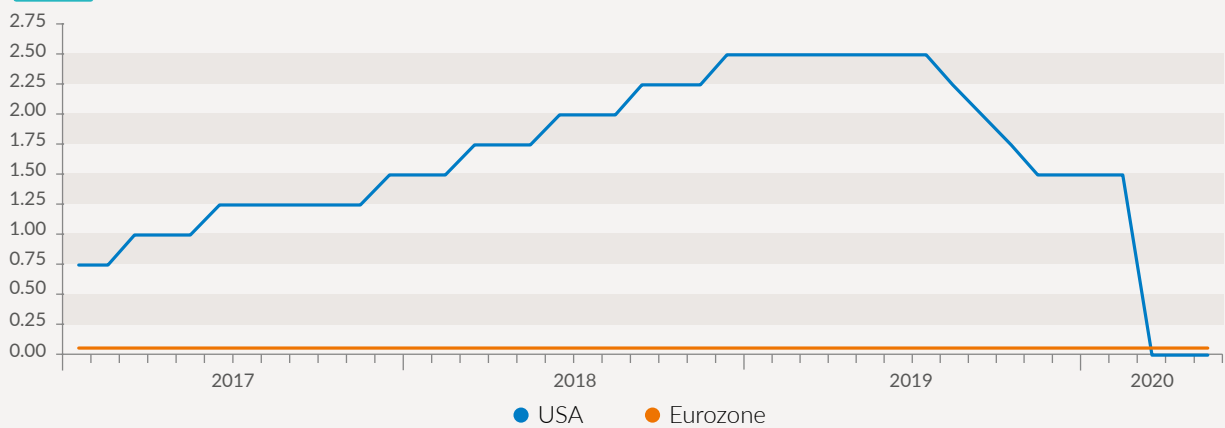
In 2019, inflation in the Eurozone was still contained, in a context of slowing activity. Specifically, inflation dropped over the period from May to October - in the same period in 2018 it saw the highest rise due to rising oil prices. On the other hand, price growth accelerated in November and December to end the year at 1.3%. On annual average, inflation

In 2019, the Eurozone public deficit reached 0.6% and debt fell to 86% of GDP.

As for monetary policy, the interest rates in the USA reached 1.5% at the end of 2019, after four phased cuts by the Federal Reserve (Fed) in the second half of the year, with the aim of

OFFICIAL INTEREST RATES IN THE USA AND EUROZONE - As %

Chart 1.4



Source: Federal Reserve and ECB.

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%. As for unconventional monetary policy, faced with falling economic prospects in the Eurozone, the ECB decided to approve new measures in March 2019 to inject liquidity into the banking system in order to encourage lending and boost the economic recovery.

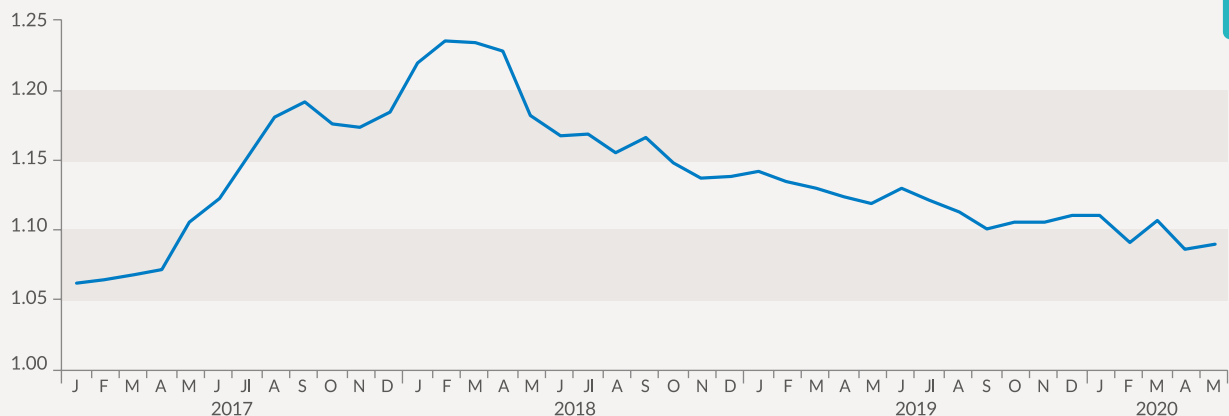
During the first few months of 2020, the central banks launched a broad range of measures to deter the economic impact of the crisis caused by coronavirus. Banks with a margin cut the rates to practically 0%, for example the Fed, which lowered them 150 bps in March, or the Bank of England, while the others, the ECB and the Bank of Japan, kept them at historic lows. Moreover, they all furthered measures to ensure abundant liquidity and favourable lending conditions.

Due to higher interest rates and more favourable economic prospects in the USA than in the Eurozone, the dollar began to appreciate against the euro from April 2018 and continued to do so for the whole of 2019. In December 2019, the euro traded at \$1.111, 2.4% lower than in December 2018 (1.139 \$/€). But by the end of 2019 and in the first few months of 2020, euro depreciation stopped, in a context of greater uncertainty in the USA due to the prospects of a worsening economy and Fed interest rate cuts to deal with the economic crisis caused by Covid-19.

The euro continues to depreciate against the dollar.

\$/€ EXCHANGE RATES

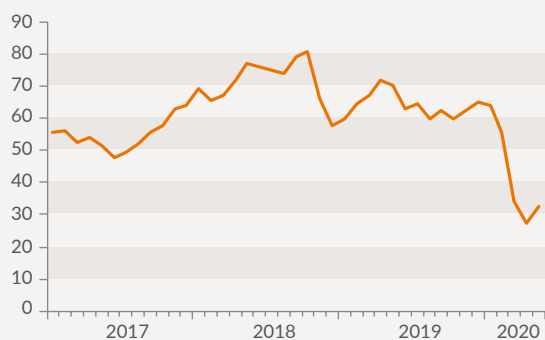
Chart 1.5



Source: ECB.

OIL PRICES - \$ per barrel of Brent

Chart 16



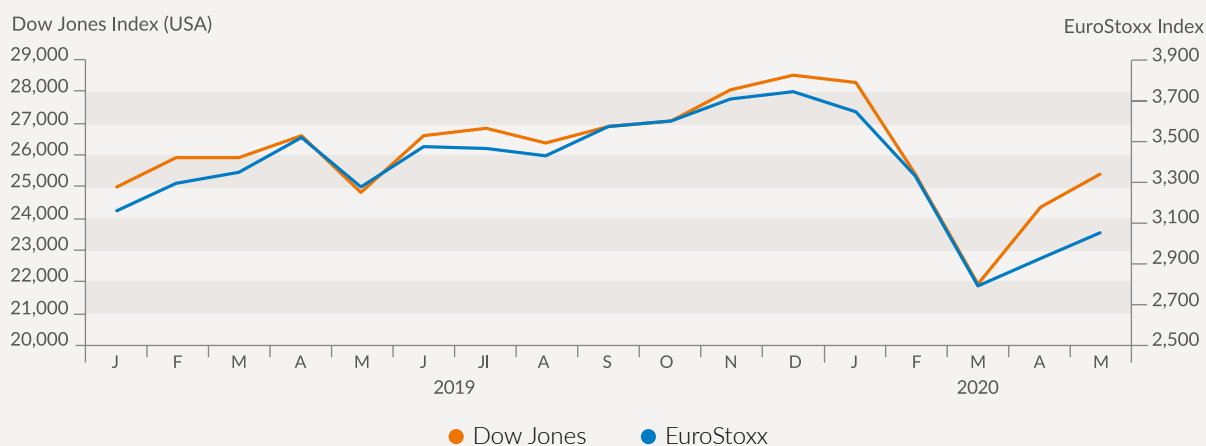
Source: The Energy Information Administration, of the US Government.

In 2019, oil prices pursued a variable trend around an average value of \$64/barrel, 10% lower than the annual average value in 2018. Signs of a slowdown in the global economy and production restrictions are two of the factors explaining oil price containment this year. Equally, this trend was interrupted from February 2020 by a sudden fall in oil prices due to the Covid-19 crisis. The price of a barrel of oil plummeted to \$20-\$25 in April, almost 70% less than the \$60 recorded at the start of the year. The main cause was the impact of lockdown measures on fuel demand, but added to cooling demand was a price war between the OPEC countries and allies such as Russia.

To stop the fall in prices, OPEC and another ten oil-producing countries agreed on 9 April to lower daily oil production by 10 million barrels for three months.

STOCK MARKET INDEX IN THE USA AND EUROZONE

Chart 17



Source: ECB and Federal Reserve.

Stability returned to the stock markets in 2019. Despite the publication of less favourable macroeconomic data than expected on both sides of the Atlantic, and escalating geopolitical tensions between the USA and Iran from the beginning of the year, the expectations of a potential trade agreement between the USA and China gradually boosted optimism in the markets. Included in the outlook were elections in the United Kingdom and the possibility of a no-deal Brexit. This explains the generalised rises in the main world stock markets between December 2018 and December 2019. For example, the Spanish IBEX-35 saw a 12% increase, offsetting the 15% decline in the previous year, a trend that was even more positive in the European market (EuroStoxx gained 25%), the USA (the Dow Jones rose 22%), and Japan, where the Nikkei was revalued 18%. During the first four months of 2020, the coronavirus crisis wreaked major losses in the world markets, with historic falls and levels unseen since the 2008 recession. However, by the beginning of June, many of the falls had been reversed, especially in the US stock market.

Generalised gains in the stock markets in 2019 and historic falls in the first few months of 2020.

	2018	2019	FORECASTS	
			2020	2021
Global GDP	3.6	2.9	-4.9	5.4
Advanced economies	2.2	1.7	-8.0	4.8
USA	2.9	2.3	-8.0	4.5
Eurozone	1.9	1.3	-10.2	6.0
Germany	1.5	0.6	-7.8	5.4
France	1.8	1.5	-12.5	7.3
Italy	0.8	0.3	-12.8	6.3
Spain	2.4	2.0	-12.8	6.3
Japan	0.3	0.7	-5.8	2.4
United Kingdom	1.3	1.4	-10.2	6.3
Canada	2.0	1.7	-8.4	4.9
Emerging and developing countries	4.5	3.7	-3.0	5.9
Sub-Saharan Africa	3.2	3.1	-3.2	3.4
Emerging European economies	3.2	2.1	-5.8	4.3
Russia	2.5	1.3	-6.6	4.1
Developing Asia	6.3	5.5	-0.8	7.4
China	6.7	6.1	1.0	8.2
India	6.1	4.2	-4.5	6.0
Middle East and North Africa	1.8	1.0	-4.7	3.3
Latin America & Caribbean	1.1	0.1	-9.4	3.7
World trade (goods and services)	3.8	0.9	-11.9	8.0

Source: IMF, June 2020.

2. Prospects

The Covid-19 health emergency, initially focussed in China, turned into a global pandemic that paralysed the global economy. The financial markets were the first to suffer the negative impact in February and early March. Then there was a sudden fall in activity indicators due to measures taken by governments to lock down the population and halt activity in order to contain the pandemic.

So initially, investors suffered a major rebound in risk aversion and volatility, leading to historic falls in the stock markets and raw materials, and a surge in risk premiums (especially corporate and for emerging economies, where there were also capital flights). Faced with this, the main central banks acted quickly and forcefully, guaranteeing abundant liquidity and favourable access to credit, and anchoring the low interest rates. The paralysis of activity can clearly be seen in the raw material markets and falling oil prices.

The world economy plunged into unknown territory. According to the International Monetary Fund (IMF) June outlook, this is the worst global recession since the Great Depression of the 1930s. It is hoped that this contraction can be quickly limited and that recovery, to begin at the end of this year and early next year, will be fast and strong. The Eurozone will be the world region most affected, with an expected downturn in 2020 of 10.2% on average, and within the Eurozone, Italy, Spain and France will suffer the greatest economic decline (more than -12%). This calls for effective economic and social policies with the highest consensus. In the USA, the recession will also have a significant impact, if less than in Europe, with an expected GDP downturn of 8%. Paradoxically, China, the origin of this pandemic, will escape the recession with

MEASURES TAKEN BY EUROPEAN INSTITUTIONS

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

The European Central Bank agreed on 18 March to buy up to 750,000 million of public debt of member states to stop the rise in risk premiums of the most vulnerable countries and increased this amount by another 600,000 million euros on 4 June in view of the extremely negative economic trend throughout the Eurozone. This action by the ECB guarantees financial stability in Europe and, above all, is a show of power and independence by the only federal European institution that does not depend on the states to take decisions.

For its part, the Eurogroup agreed to set up a liquidity package of 540,000 million on 9 April, with three sources of funds: 1) a new guarantee fund from the European Investment Bank (EIB) to finance SMEs (100,000 million); 2) a fund to help countries fight unemployment (200,000 million), and 3) an interim line of credit from the European Stability Mechanism (ESM, euro bailout fund), without conditions if the money is used to tackle the consequences of the health crisis (240,000 million).

Thirdly, the President of the European Commission, Ursula von der Leyen, proposed to the European Parliament on 27 May the creation of a recovery fund of 750,000 million euros. Between the demands of southern countries for non-refundable transfers and

the requirements of the frugal northern states (Austria, Denmark, Sweden and Netherlands) for a limited fund with loans on strict conditions, the community Executive made an ambitious unprecedented proposal for 500,000 million in direct transfers and 250,000 million in loans.

Finally, after long negotiations, the European Council approved the European Recovery Fund (Next Generation EU) of 750,000 million euros (€M) on 21 July, to be put into operation in 2021. The most important part of this package is the Recovery and Resilience Mechanism, with a budget of €672,500M. Of the total, €390,000M will be non-refundable transfers and €360,000M will be loans, i.e. compared with the initial package announced by the European Commission, the proportion of direct transfers has been reduced and the total proportion of loans increased. Italy and Spain are the countries to benefit most. Specifically, Italy will receive €209,000M and Spain €140,000M, of which €72,750M will be direct transfers and the rest loans. The planned allocation to France is €100,000M, of which €40,000M will be transfers and the rest loans.

Despite variations to the initial proposal, the largest European fund package in history was achieved. This package will be financed through European debt issues, to be paid long term, between 8 and 30 years. To this effect, the Commission wishes part of the repayment to come from the creation of new European taxes, such as on CO₂ trading, a tax on plastic or tax on certain digital services.

1% growth in 2020. In contrast, India will see a decline of 4.5%. The predicted fall in world trade in 2020 is 11.9%. IMF economists warn of the unreliability of these forecasts, as they depend on whether there is a second wave in the autumn.

Despite the IMF's negative outlook, there are motives for hope: the number of infections is falling in the most affected countries as a result of adopted measures; it is probable that a vaccination or cures for the disease will soon be found; most countries, including France and Spain, have taken important measures to protect families and businesses, and finally, the coordinated response of central banks and multilateral bodies to create liquidity in the world monetary system has been rapid and efficient, unlike in the Great Depression in the 1930s.

In the first quarter of 2020, the decline in activity reached figures never seen before in most developed countries, while falls in the second quarter are expected to be even more severe. However, a rebound in quarter-on-quarter growth is expected from the third quarter. Nevertheless, the fall will be significant for the whole year and in many developed countries GDP is not expected to regain the values prior to the Covid-19 crisis until the end of 2021 or 2022.

Quarter-on-quarter decline in US GDP of 1.3% in the first quarter of 2020.

In the USA, the quarter-on-quarter fall in GDP was 1.3% in the first quarter of 2020, putting an end to more than a decade of economic boom. The largest power in the world had

grown uninterruptedly from March 2009. Between April and June, declines in levels of activity will be much more pronounced in view of climbing unemployment. About 40 million people signed on for unemployment benefit between 21 April and the end of May. In the second quarter, affected by total lockdown measures and the closure of businesses and borders, the downturn in activity could exceed 30% and the unemployment rate could rise to 20%.

For the whole of 2020, both the IMF and the OECD predict a decline in the US economy of nearly 8%. In 2020, the incentive packages that have been put in place will push public debt over 15% of GDP. The unemployment rate could bounce from 3.7% in 2019 to over 11% in 2020. Finally, inflation will continue to be contained at about 1.2% on average in 2020.

The Eurozone economy will also be shaken in 2020 by the consequences of coronavirus. The figures published by Eurostat for the first quarter confirm an unprecedented general economic downturn in the first quarter, which

The Eurozone shrinks 3.6% in the first quarter of 2020, but a steeper decline is expected in the second quarter.

will be even more drastic in the second quarter. The global estimate for the Eurozone is a quarter-on-quarter downturn of 3.6%, ending seven years of continuous growth.

According to the European Commission's forecasts presented at the beginning of May, Eurozone GDP in 2020 could fall 7.7% and recover 6.3% in 2021, although, as the European Central Bank warns, this decline could reach 12% in the most adverse scenario unless sufficient measures are adopted to contain the pandemic and mitigate the economic consequences. This second scenario appears to be confirmed by the latest published forecasts. The IMF predicts a decline in GDP of 10.2% in 2020 and a subsequent recovery of 6% in 2021, while the OECD puts the downturn between 9.1% and 11.5%, and recovery in 2021 between 3.5% and 6.5% (depending on whether there is a second wave or not).

The European Commission warns that even though the virus has affected all Eurozone countries, the effects of this health crisis on the economy will be asymmetric. At the end of 2012, only five EU countries will have fully recovered and returned to 2019 levels: Germany, Austria, Slovakia, Croatia and Poland. At the other extreme will be Italy and Spain, the countries with most economic damage. This imbalance in the footprint of the recession is due to three factors: the speed at which lockdown is lifted; the importance of the tourism industry – which the Commission predicts will fall 50%, and the financial resources provided by governments to fight the economic consequences in each country. The latter resources are key, as they should allow states to protect their workers or bail out business in difficulties. This divergence represents a threat to the single market and the Eurozone, as the European Commission itself warned.

The labour market will also move at two speeds. According to the report from the European Commission, the Eurozone will leave behind its best employment figure in more than a decade, and the unemployment rate will increase 2.1 points to 9.6%, but will fall to 8.6% in 2021. The

Scenario A: with a single wave of coronavirus

Scenario B: with a second wave of coronavirus in 2020

	GDP % annual variation					INFLATION ⁽¹⁾ % annual variation					UNEMPLOYMENT RATE ⁽²⁾ % active population					CURRENT ACCOUNT BALANCE % of GDP					PUBLIC DEFICIT % of GDP				
	2019	2020f		2021f		2019	2020f		2021f		2019	2020f		2021f		2019	2020f		2021f		2019	2020f		2021f	
		A	B	A	B		A	B	A	B		A	B	A	B		A	B	A	B		A	B		
USA	2.3	-7.3	-8.4	4.1	1.9	1.4	1.2	1.2	1.5	1.1	3.7	11.3	12.9	8.5	11.5	-2.3	-2.1	-2.1	-2.2	-2.2	-7.3	-15.0	-16.9	-10.5	-11.9
Japan	0.7	-6.0	-7.3	2.1	-0.5	0.5	-0.3	-0.3	-0.1	-0.5	2.4	3.2	3.4	3.2	3.9	3.6	3.8	3.7	3.7	3.5	-2.6	-11.6	-12.9	-5.9	-7.4
United Kingdom	1.4	-11.5	-14.0	9.0	5.0	1.8	0.7	0.6	0.6	0.0	3.8	9.1	10.4	7.8	10.0	-3.8	-3.5	-3.6	-3.5	-3.7	-2.1	-12.4	-14.2	-7.8	-12.1
Eurozone	1.3	-9.1	-11.5	6.5	3.5	1.2	0.4	0.4	0.5	0.2	7.6	9.8	10.3	9.5	11.0	3.1	2.7	2.6	2.6	2.2	-0.7	-9.2	-10.9	-5.1	-8.3
Germany	0.6	-6.6	-8.8	5.8	1.7	1.4	0.8	0.8	0.7	0.4	3.2	4.5	4.6	4.3	5.3	7.3	6.1	5.6	6.1	4.7	1.4	-7.1	-9.1	-3.8	-7.5
France	1.5	-11.4	-14.1	7.7	5.2	1.3	0.5	0.4	0.5	0.2	8.4	11.0	11.3	9.8	11.2	-0.7	0.5	0.7	0.1	0.0	-3.0	-10.4	-12.0	-5.5	-8.2
Spain	2.0	-11.1	-14.4	7.5	5.0	0.8	0.0	-0.1	0.3	-0.2	14.1	19.2	20.1	18.7	21.9	2.0	2.3	2.3	2.0	2.0	-2.8	-10.3	-12.5	-6.2	-9.6
OECD	1.7	-7.5	-9.3	4.8	2.2	1.9	1.1	1.1	1.3	1.0	5.4	9.2	10.0	8.1	9.9	nd	nd	nd	nd	nd	-3.3	-11.1	-12.7	-7.1	-9.2

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

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

nd: data not available.

f: forecasts.

Font: OECD, June 2020.

countries to suffer the highest unemployment rates will again be Greece, Spain, Italy, Croatia and France. The Commission's report indicates that this increase is related to the high rates of temporary employment in those countries and the importance of the tourism sector, although both circumstances are closely related.

To sum up, the measures implemented to deal with the health crisis caused by Covid-19 have paralysed economic activity, unprecedented in recent history and affecting the whole world economy in 2020. The IMF has warned that economic forecasts for the next quarters are unreliable. This uncertainty can be explained by the high number and complexity of channels through which the health crisis impacts the economy. Firstly, it represents a simultaneous shock in

The global economic prospects for 2020 are extremely negative due to the effects of coronavirus.

supply (as it temporarily lowers the productive capacity of the economy) and demand (families and businesses are no longer able to spend part of their disposable income). Secondly, this phenomenon is synchronised in most of the world economies, causing a fall in international

trade and disruption in the global value chains. Finally, the increased uncertainty from worsening economic forecasts could lead economic stakeholders to tend towards saving, contributing to the permanent closure of businesses and an increase in the unemployment rate. The role of states will be crucial to avoid significant destruction of the business network and jobs.

The French economy

1. The main features of economic development in 2019

In 2019, the French economy continued to slow for the second consecutive year. According to the French National Institute of Statistics (INSEE), GDP growth was 1.5%, lower than the 1.8% in 2018 but slightly higher than for the Eurozone as a whole (1.3% in 2019). This slowdown in economic expansion can mostly be explained by temporary factors, such as strikes against pension reforms, which lowered growth in the last quarter of the year, after three quarters with rates close to potential growth.

Domestic demand rebounded in 2019 thanks to economic measures.

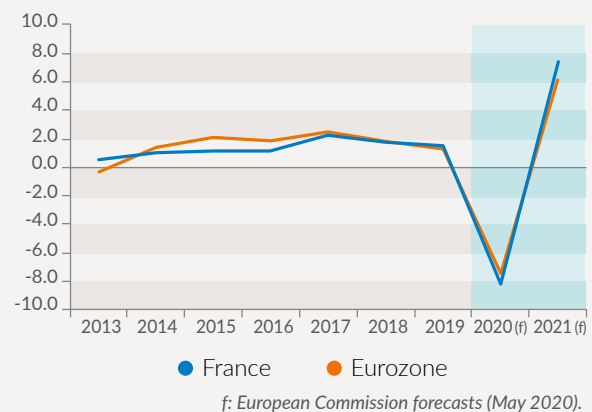
Following 2018, a year marked by the street protests of the “yellow vests”, 2019 saw the burgeoning results of the economic measures put in place over 2018 and in the first few months of 2019, with the main aim of increasing household disposable income. This led to increased consumption and investment. In contrast, the context of global slowdown and trade tensions played against the French economy by slowing exports, although France is slightly less exposed to the international environment than other large Eurozone economies, such as Germany or Italy.

GDP growth in 2019 was bolstered by dynamic domestic demand, with a positive contribution of 2.1 points, seven tenths more than in the previous year. In contrast, foreign demand made a negative contribution of 0.2 points, after a positive contribution of 0.4 points in the previous year. Finally, stock variation made a negative contribution of 0.4 points.

The most significant difference in the French economy in 2019 was the change in the trend in private consumption, which started to rise in the last quarter of 2018 and continued to do so throughout 2019. This revival in private consumption, although slow, is the result of increased household disposable income due to favourable employment figures and improvements in wages and rents, combined with low inflation. According to INSEE, household disposable income increased in real terms (discounting inflation) by 1.4% in 2019, added to the 0.7% achieved in 2018, after years of decline.

The minor gains in purchasing power that had marked the last decade largely explain the social unrest, with movements like the “yellow vests”. The response of the French Government to these demands was to increase household disposable income, especially by cutting taxes. Specifically, three rounds of measures were launched: those introduced in the budgets in 2018¹ and 2019; the economic and social emergency measures (MUES) passed on 21 December 2018², and the

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



Source: Eurostat.

¹ See box published in the 2017 Economic Report.

² See box published in the 2018 Economic Report.

additional measures taken after the Great National Debate, in which a million and a half citizens took part, which were announced by President Emmanuel Macron on 25 April 2019. The measures taken in December 2018 included encouraging businessowners to pay a bonus of up to €1,000, exempt of tax and mandatory social contributions, to employees earning less than three times the minimum wage. This benefit, called “exceptional purchasing power bonus” had to be paid by 31 March 2019. An increase in the minimum wage by €100 was also approved, to €1,600 gross, in place since 1 January 2019, and overtime up to a threshold of €5,000 was exempted from paying certain social contributions and income tax. Within this package of measures approved in 2019 is notably the revaluation of pensions under €2,000, lower income tax, stopping the reform to increase the working week, currently 35 hours, and dropping the cuts in numbers of public employees.

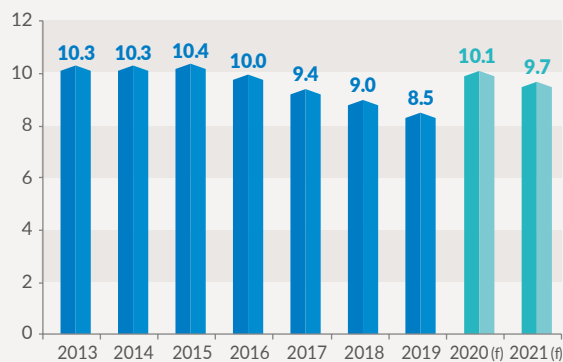
In 2019, GDP growth was driven by all components of domestic demand with no exception. So, growth in household consumption accelerated from 0.9% in 2018 to 1.5% in 2019, and public consumption from 0.9% to 1.7%. Household consumption reflects the positive impact of the budgetary measures passed by the National Assembly on 21 December 2018 and the measures approved in April 2019, as mentioned. Investment, on the other hand, is the GDP component that saw the greatest increase for the third consecutive year. Business investment was notable, with growth of 3.6%, benefitting from the improved economic environment and the reforms adopted by the French Government, especially within the labour market. Public investment grew 7.7%, more than twice the previous year and, finally, family investment in housing also recovered (1.8%) due to increased confidence and disposable income.

Exports slowed due to the decline in world trade.

In contrast, foreign demand went from a positive contribution of four tenths in 2018 to a negative contribution of two tenths in 2019, due to the major slowdown in exports of goods and services, going from 4.4% growth in 2018 to 1.9% in 2019, and because the slowdown in exports of goods and services was greater than in imports (3.1% in 2018 and 2.5% in 2019). The slowdown in exports was generalised in Europe and the world, the result of the impact on international trade of rising tariffs and the trade war between the USA and China. On the other hand, the slowdown in imports merely reflects slowing exports, as the trend in domestic demand was more positive in 2019. The bad performance of the trade balance and services caused the current account deficit to expand slightly, from -0.6% of GDP in 2018 to -0.7% in 2019, according to the OECD.

In contrast, foreign demand went from a positive contribution of four tenths in 2018 to a negative contribution of two tenths in 2019, due to the major slowdown in exports of goods

UNEMPLOYMENT RATE IN FRANCE As % of active population



f: European Commission forecasts (May 2020).

Source: Eurostat.

As for supply, all the major economic sectors except agriculture saw a positive trend in Gross Value Added (GVA) in 2019, although industry practically stagnated (0.1%). In contrast, construction grew 2.6%, compared with 0.9% in the previous year, and services saw overall increases, while the branches with variation rates above 2% were ICTs (3.6%), financial services (3.3%) and commerce, transport and hotels and catering (2.2%).

The favourable economic situation allowed the employment rate to increase from 1% in 2018 to 1.3% in 2019, while the harmonised unemployment rate fell half a point to 8.5% in 2019, to stand almost two points below the

In 2019, job creation accelerated due to the economic trend and approved reforms.

in business contributions to social security, the decentralisation of collective bargaining and the reduction of compensation for unfair dismissal.

Inflation saw a fairly stable trend throughout 2019, except in October when it fell below 1% for the first time in the last two years. Harmonised inflation was 1.3% on annual average in 2019, lower than the 2.1% recorded in 2018, and the year-on-year 1.6% in December. Underlying inflation, which more closely reflects core prices as it excludes volatile components (unprocessed food and energy) saw a rising trend in the second half of the year, but on annual average the increase was close to the 1.2% in the general index.

Low inflation is one of the factors explaining why wage increases were slow in 2019, only growing 0.2%, the lowest increase in recent years. Labour productivity, on the other hand, hardly increased either (0.1%) and consequently, unit labour costs (ULC) – the difference between wage growth and productivity – grew only 0.1% in nominal terms. However, in real terms (after discounting inflation), ULC fell 1.3%, a trend that shows that French businesses are gaining in competitiveness.

Public debt stabilises at 98.1% of GDP.

In 2019, the public administration deficit was 72,800 million euros, representing 3.0% of GDP, higher than the 2.3% in 2018. This trend in the deficit is the result of public revenue shrinking from 53.4% to 52.6% of GDP due to the approved fiscal reforms, while public spending remained practically stable (55.7% in 2018 and 55.6% in 2019). The reductions in both tax rates and social security contributions had a total impact of 0.7 points on GDP. Tax revenue also fell by 3,100 million euros due to the second phase of discounted housing tax for 80% of homes (65% discount in 2019 after a 30% discount in 2018).

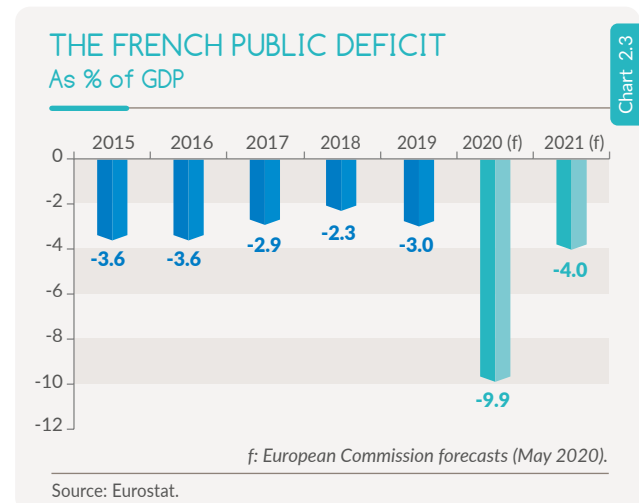
Public debt increased in 2019 in current euros but stabilised as a percentage of GDP at 98.1% due to growth in nominal GDP. This level of public debt is higher than the average of the nineteen EU member states (86% of GDP), making the French economy more vulnerable to potential changes in investor sentiment and future rises in interest rates.

2. Prospects

The economic crisis caused by coronavirus will be France's worst fall in GDP since the Second World War. The country is officially in recession: its wealth already fell one tenth in the last quarter of 2019, and the decline was 5.3% in the first quarter of 2020, the steepest in the historical series since 1949, according to INSEE. The negative trend in GDP in the first quarter of 2020 is

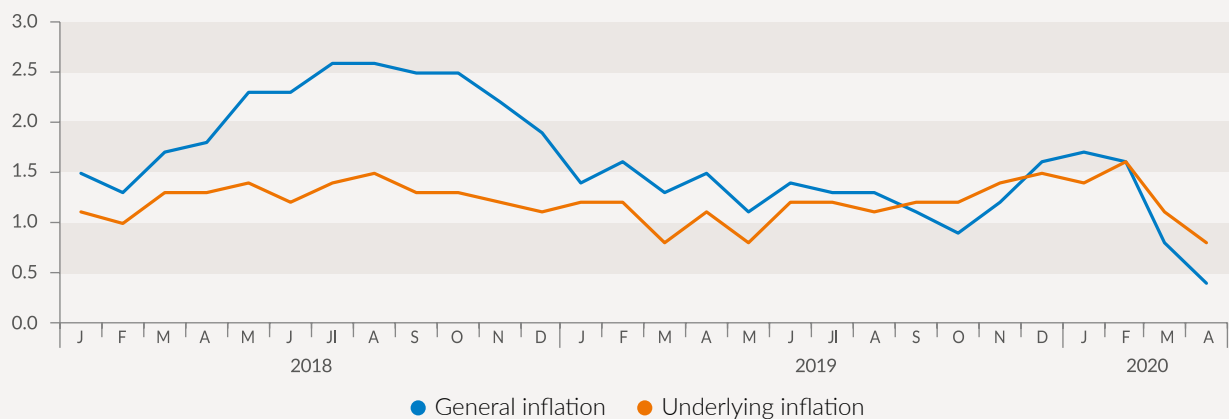
maximum rate reached in 2015. On average, for the whole of 2019, there were 2.5 million unemployed. The French labour market benefitted from the latest reforms implemented in 2017 and 2018, but especially from the decrease

The competitiveness of French businesses increases.



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

Chart 2.4



Source: Eurostat.

related to the closure of “non-essential” activities during lockdown, put in place from mid-March to stop the spread of coronavirus. This fall in GDP is the result of major losses seen especially in the sectors of construction, commerce, transport, and hotels and catering. The Bank of France estimated that every two weeks of lockdown meant a loss of 1.5% of GDP in a year. Lockdown started to be eased progressively on 11 May, when schools, shops and restaurants began to open.

During the first quarter, despite the fact that lockdown only affected the second half of March, private consumption fell 5.6% and gross fixed capital formation even more, -10.5%, due to interruptions in the value chain, increased uncertainty and limited liquidity. In all, this meant that the contribution of domestic demand to GDP growth, not excluding stocks, fell sharply (-6.0 points). Exports also fell strongly in this quarter (-6.5%), as did imports (-5.7%). In general, foreign trade made no contribution to growth while stock variation made a positive contribution of six tenths.

In the first quarter of 2020 the economy fell 5.3% and entered technical recession.

Economic activity gradually recovered in January and February as the strikes against pension reforms dropped off, but activity indicators plunged in March after lockdown measures were introduced to contain the spread of the virus. The negative impact is expected to be even harsher in the second quarter due to prolongation of the lockdown, while a recovery is expected to start in the third quarter as consumption gradually resumes, except in some sectors (restaurants and accommodation, recreation and transport) where the crisis will be more lasting.

In 2020, a historic fall in GDP is expected due to the impact of coronavirus.

Due to the economic impacts of the pandemic, the European Commission expects French GDP to shrink by 8.2% in 2020, before rebounding and growing 7.4% in 2021. The French Government has made a similar forecast, predicting that the economy will fall 8% in 2020. The OECD, in its outlooks in early June, raises this to -11.4% (or -14.1% in the case of a second wave) and the IMF, at the end of July, predicts a decline of -12.5%, one of the most significant in the Eurozone.

As for the labour market, unemployment is expected to rise due to the seriousness of the economic crisis, but the aid programme approved by the French Government should help to contain rising unemployment. According to the European Commission, employment could fall 9.1% in 2020 and

Box 2.1

MEASURES ADOPTED IN FRANCE TO DEAL WITH COVID-19¹

The measures included here were announced on 12, 24 and 26 March, 24 April, and 14 and 26 May 2020.

The immediate fiscal stimulus was calculated at 88,000 million euros, divided between the following main measures:

- 8,000 million euros for the national health system, to be used to buy necessary material and finance special compensation for health workers.
- 24,000 million euros to keep people in work for two months (*chômage partiel*).
- The State will also provide 7,000 million euros in grants through the Solidarity Fund for small businesses with income under 1 million euros that lost 50% or more of their income in March 2020 compared with March 2019.
- Cancellation of taxes and social security contributions for businesses and the self-employed in economic difficulties, for an estimated amount of 12,750 million.
- Emergency plan to support new businesses for a value of 2,000 million euros.
- Support plan for the automobile sector with 8,000 million euros, including measures to encourage the replacement of vehicles with less-polluting models and a fund of 1,000 million to modernise and digitise French factories in the automobile sector.

- Finally, a support plan for the tourism industry with 1,614 million euros. This includes: (1) 800 million euros to directly support businesses affected by the crisis, especially in sustainable and digital components; (2) 700 million euros of very long term debt to help businesses adapt to the new market conditions; (3) an additional 21 million euros in loans to define new strategies for the sector; (4) the creation of a platform to promote French tourism, and (5) an allowance of 93 million euros to support the cash requirements of SMEs through a regional emergency fund.

Added to this immediate fiscal stimulus are approved tax deferrals (196,000 million euros), mostly a moratorium on debt repayments for 6 months, but also the moratorium on payment of taxes and social contributions, and the deferral of public service fees (gas, electricity and water) and rent for small businesses with revenue under 1 million euros that have lost 70% or more of their income in March 2020 compared with March 2019.

Finally, added to these is the third block of measures, which are public guarantees given on loans to businesses, with a total ceiling of 336,000 million euros on 4 June.

¹ Extract from “The fiscal response to the economic fallout from the coronavirus”, Bruegel (updated 4 June) <https://www.bruegel.org/publications/datasets/covid-national-dataset/>

the unemployment rate could rise to 10.1%. However, in 2021, the unemployment rate should fall again to 9.7%, still much higher than the 8.5% reached in 2019.

The unemployment rate will increase slowly and inflation will fall.

The harmonised inflation rate fell from 1.7% in January to 0.4% in April. Underlying inflation – which excludes energy and food – remained above 1% in the first three months, but fell to 0.8% in April. For the whole of 2020, the Commission expects consumer prices to rise only 0.4% against the previous year, compared with the growth of 1.3% seen in 2019. This fall in inflation can be explained by lower oil prices and the negative impact on consumption of the coronavirus crisis.

The public deficit could go from 3% of GDP in 2019 to almost 10% in 2020, according to the European Commission, an unprecedented figure for France. The major decline in economic activity after lockdown will weigh heavily on tax revenue and social transfers due to the response from automatic stabilisers. The direct fiscal measures adopted to deal with the pandemic and combat

Major impact of the Covid-19 crisis on the public deficit.

the adverse macroeconomic impacts add up to 3.6% of GDP³ and include additional spending on health, transfers to cover furlough schemes (*chômage partiel*), the sectoral compensation fund for SMEs, the creation of an emergency fund and the adoption of plans to support the automobile sector and the tourism sector. This calculation assumes that liquidity and public guarantee measures to support businesses, which add up to over 300,000 million euros, will have no immediate budgetary impact.

There are other measures that will impact the public deficit in 2020. On the one hand, the transformation of the tax credits for competitiveness and employment (CICE) into a permanent reduction of social contributions from businesses in 2019 will have an impact of 0.9% on GDP in 2020 and, on the other hand, the measures to improve household purchasing power adopted after the Great National Debate, with an impact of 0.3% on GDP.

Ultimately, the French economy will suffer the harshest but probably the shortest recession in its history. Also note that any forecasts made at this time are shrouded in uncertainty due to the difficulty of knowing when a vaccination will be found or whether a second wave of Covid-19 will appear in the autumn.

FRANCE. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 2.1

	2017	2018	2019
Components of demand			
Private consumption	1.5	0.9	1.5
Public consumption	1.4	0.9	1.7
Gross fixed capital formation	4.7	3.2	4.2
Domestic demand without inventories (a)	2.2	1.4	2.1
Inventories (a)	0.2	0.0	-0.4
Exports of goods & services	4.4	4.4	1.9
Imports of goods & services	4.5	3.1	2.5
Components of supply			
Agriculture	8.2	4.3	-0.7
Industry	1.1	0.6	0.1
Construction	2.2	0.9	2.6
Commerce, transport, hotels & catering	2.1	1.4	2.2
Information & communications	6.1	4.4	3.6
Financial activities	0.5	7.4	3.3
Real estate activities	0.8	1.1	1.1
Scientific activities & prof. services	5.2	3.4	1.9
Public admin., health & social serv.	1.0	1.1	0.9
Cultural, recreational & other activities	1.5	0.3	1.5
GDP at market prices	2.3	1.8	1.5

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

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

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The Spanish economy

1. The main features of economic development in 2019

2019 brought a continuation of the gentle slowdown in the Spanish economy that started the year before. However, it is still one of the most dynamic core European economies. The slowdown was caused solely by domestic demand, whereas the contribution from the foreign sector turned positive after two negative years, despite weakening global trade. Growth in all components of domestic demand slowed except public consumption, which accelerated.

³ Bruegel estimate from information published up to 4 June.

Sixth consecutive year of expansion in the Spanish economy and second year of slowdown.

The Spanish economy saw a positive growth rate driven by job creation, favourable financial conditions and increasing correction of macroeconomic imbalances, such as the foreign deficit, public and private debt, and the

unemployment rate. However, year-on-year growth in GDP slowed over the year, in line with the context of progressive slowing of the global economy, falling from 2.2% in the first quarter of 2019 to 1.8% in the last quarter. Equally, the quarter-on-quarter GDP growth rates remained quite stable in the last three quarters of the year, at 0.4%.

Despite the said correction of certain imbalances, Spain's labour market still suffers from high job insecurity, low wages and one of the highest rates of temporary employment in the EU. The Spanish Government tried to reduce job insecurity by raising the interprofessional minimum wage (SMI) to 950 euros from 1 January 2020, in addition to the 22.3% raise approved in 2019. These increases in the SMI mean that the SMI/average wage ratio is close to the European average.

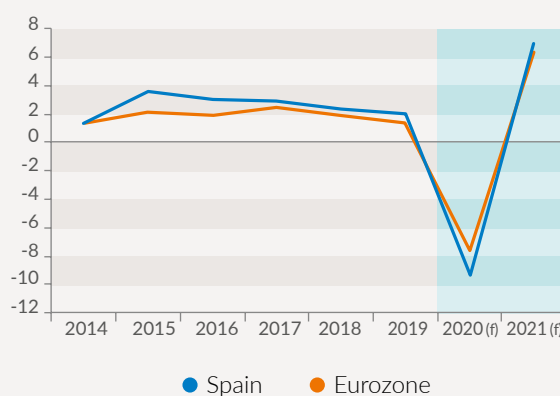
Spanish GDP grew 2.0% in 2019, according to the National Institute of Statistics, four tenths below the 2.4% recorded in 2018. One of the positive features of this growth is that it has rebalanced, with both domestic and foreign demand making a positive contribution to GDP growth, which had not happened in 2018. On the one hand, domestic demand was the main driver of growth, contributing 1.5 percentage points to GDP growth, but this figure is 1.1 points lower than in 2018. High consumer and business confidence was reflected in the positive trends in consumption and investment, despite slowing in comparison with the previous year. Equally, the new credit flow to households and small and medium businesses continued to grow for the third consecutive year, but within an overall context of debt reduction. On the other hand, net foreign demand presented a positive contribution to growth of 0.5 points, compared with -0.2 points in 2018, due both to acceleration in exports and the major slowdown in imports.

In 2019, Spain grew most of all the large European economies, much more than France (1.5%), the United Kingdom (1.4%), Germany (0.6%) and Italy (0.3%). Equally, growth in Spanish GDP easily exceeded the 1.3% seen in Eurozone countries as a whole.

As for demand, within the investment component we would highlight the resilience of investment in plant and equipment (2.6%) in a context marked by a deterioration in global expectations. Investment growth, if lower than the previous year, exceeded the Eurozone average. The crucial factors in this increase in investment are low interest rates, increased profits, restructuring of balance sheets and high business confidence. However, this strongly expansionary profile in investment in equipment did not result in a substantial increase in apparent work productivity, probably due to the low investment in human and intangible capital.

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

Chart 3.1



f: European Commission forecasts (May 2020).

Source: Eurostat.

In 2019, Spain is once again one of the most dynamic economies in Europe.

Growth in spending on household consumption slowed slightly from 1.8% in 2018 to 1.1% in 2019, but continued to hold out thanks to the good performance of the labour market and the increase in real wages recorded for the first time after many years. Finally, public consumption accelerated four tenths to a growth rate of 2.3%, favoured by municipal, regional and general elections and the social measures passed by the Spanish Government.

As for foreign demand, the major slowdown in imports needs to be balanced against the slight acceleration in exports. In 2019, real exports of goods and services saw an increase of 2.6%, compared with 2.2% in 2018, while imports slowed by more than two points to a rate of 1.2%, which explains the positive contribution of foreign demand to GDP growth in 2019. Exports also received a boost from exports of services, basically tourism, which increased 6%. In contrast, goods exports slowed due to the trade war between the USA and China.

According to OECD data, in 2019 the Spanish economy presented a positive current account balance of 2% of GDP, similar to the 1.9% recorded in the previous year. This surplus enabled a continued reduction in the volume of foreign debt for the eighth consecutive year, something that had not happened in previous periods of expansion.

The Spanish economy maintains a positive foreign balance for the eighth consecutive year.

From the perspective of supply, Gross Value Added (GVA) increased in 2019 in all the main branches of activity, except agriculture (-2.6%). From the sectoral point of view, one of the most unexpected results was the slowdown in construction, especially in the second half of the year. However, construction was still the sector with the highest growth rate in the year as a whole (3.5%). On the other hand, the pattern of divergence continued, as in the previous year and the Eurozone as a whole, between low growth in the industrial sector (0.6%) and 2.6% growth in the service sector.

For its part, in 2019 job creation slowed in all sectors, due to the economic slowdown, although it still saw a significant increase of 2.3%, thanks to which jobs reached 18.4 million. The fall in the unemployment rate slowed due to growth in the active population resulting from a large influx of immigrants, to reach 14.1% on annual average (1.2 points less than in the previous year). Wages grew about 2%, the highest rate since 2010, partly due to discretionary measures such as raising the minimum wage and increasing the pay of public employees, but also due to greater wage

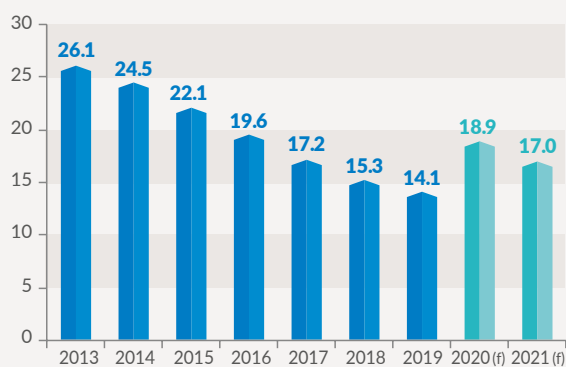
increases agreed through collective bargaining. For its part, productivity, the flaw in the process of economic recovery in Spain, saw a decline, so unit labour costs (ULC) suffered the highest growth since 2008.

The rate of temporary employment is still 26%, one of the most worrying aspects of the Spanish labour market.

Despite the fall in the unemployment rate, there are still many groups affected by unemployment, such as youths under the age of 25 (the youth unemployment rate is still 30.5%, the second highest among European countries after Greece), those with low qualifications (first

UNEMPLOYMENT RATE IN SPAIN As % of active population

Chart 3.2



f: European Commission forecasts (May 2020).

Source: Eurostat.

level secondary education or less), who represent 50% of the unemployed, and those who have been unemployed for more than two years, 31% of the total unemployed.

The high rate of temporary employment is still one of the most worrying aspects of the Spanish labour market. Nevertheless, in 2019 there was higher growth in permanent contracts (3%) than temporary contracts (1%), so the rate of temporary employment reached 26% in 2019, one point less than the previous year, but still one of the highest in the Eurozone.

The persistently high unemployment rate and remarkably high temporary employment rate are the main reasons for the increase in income inequality in Spain in recent years.

Workers' purchasing power increases as wages grow more than inflation.

The economic slowdown was accompanied by moderate inflation rates, with the CPI profile throughout 2019 greatly influenced by energy prices, which accelerated strongly in the first four months then slowed from May. This trend was broken in the last two months of the year, to close the year with a year-on-year inflation rate of 0.8%. On annual average, consumer prices also increased 0.8%, almost one point less than in 2018, while underlying inflation remained quite stable throughout the year at rates close to 1%, indicating that there were no inflationary pressures from the point of view of demand. The increase in the CPI was lower than in wages per employee (2%), representing a gain in purchasing power for employees after many years of continual losses.

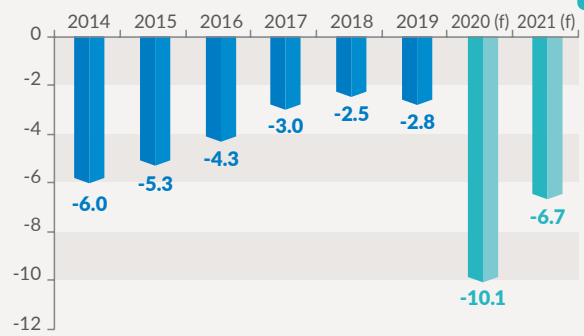
In the sphere of public finance, the Spanish economy ended 2019 with a deficit of 2.8% of GDP, three tenths more than in 2018. These deficit figures can be explained by the fact that revenue increased at a lower rate than expenditure (3.8% and 4.1%, respectively). The slowdown in revenue due to a lower rate of economic growth was not accompanied by an equivalent slowdown in expenditure, which was pushed up by the increase in public wages, new recruiting in the public sector and growth in pension spending.

Although the public accounts saw a negative balance in 2019, the public administration's debt-to-GDP ratio continued to fall, to 95.5% at the end of 2019, thanks to the increase in nominal GDP and the falling cost of financing the Spanish debt.

2. Prospects

Due to the Covid-19 pandemic, the Spanish economy is facing a crisis that is unprecedented in recent history, combining a loss of productive capacity (supply shock) and a fall in international markets and domestic demand (demand shock), together with heavy restrictions on people's movements. Moreover, unlike in previous recessive phases, the severity and length of the crisis depend on factors beyond the economy, such as the extent of contagion and discovery of a

SPAIN'S PUBLIC DEFICIT*
As % of GDP



f: European Commission forecasts (May 2020).
*Includes aid to the financial sector.

Source: Eurostat.

Spain increases the public deficit in 2019, after years of containment.

vaccination. Only the measures taken by the authorities can soften the impact and restore the situation as closely as possible to before the pandemic.

One of the main channels through which the health crisis affects the economy was consumption, which suffered sharp falls in March, April and May. Consumption is expected to return to positive rates in the third and fourth quarter. Investment was also seriously affected, mostly due to the paralysation of deferred decisions, in some cases permanently cancelled due to uncertainty, and it may still take time to pick up even after the disease is contained.

Exports will suffer a sharp fall due to the spread of the pandemic to Europe and the USA. In the case of exports of tourism services, the negative impact will be significant. In fact, a return to normal in the tourism sector will take much longer than in other activities.

The drop in GDP in 2020 due to the Covid-19 crisis will be intense.

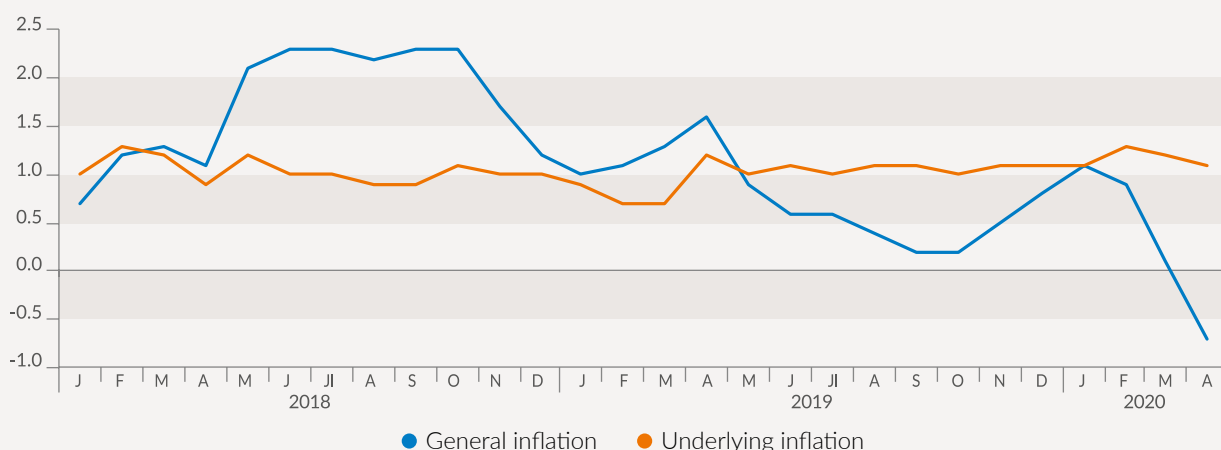
According to the forecasts of the Spanish Government in the Stability Programme sent to the European Commission at the beginning of May, 2020 will end with a 9.2% drop in GDP.

The trend in activity follows an asymmetric “V”, with a very steep fall in economic activity and a foreseeably gradual recovery from the second half of 2020. The Spanish executive reckons that GDP will rebound to 6.8% in 2021 but that it will not be possible to regain the volume of activity prior to the coronavirus crisis until 2022.

In Spain, the direct impacts of Covid-19 on the labour market were significant. Added to the number of unemployed were the furloughed workers (ERTO), still 2.6 million at the beginning of June. In addition, nearly half a million self-employed workers requested state aid for a fall in income. In total, more than a quarter of the employed were affected to a greater or lesser extent by the impact of the crisis. For the year as a whole, the European Commission predicts that the unemployment rate will rise to about 20%, and could fall to 17% in 2021 but, despite this reduction, will still be well above the 14% of 2019.

In the first quarter of the year, the decline in the Spanish economy estimated by the National Institute of Statistics is 5.2%, which reflects the force of the impact of the Covid-19 pandemic, as in the unemployment figures. This figure, which only considers the effects of the first few weeks of the health crisis, signals a very sharp decline in the second quarter.

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



Source: Eurostat.

MEASURES ADOPTED BY SPAIN TO DEAL WITH COVID-19¹

The response from economic policy to deal with the economic impacts of the pandemic consisted, firstly, of measures to limit the closure of businesses, through loan guarantees, public guarantees to facilitate the payment of bills and taxes, and loans on favourable conditions. The amount provided for these actions by the Royal Decree on urgent measures is 100,000 million, nearly 8% of GDP, which could double based on the credit multiplier granted by entities.

Secondly, the strategy involves measures that, unlike the guarantees, represent an expense or reduction in revenue for the public coffers. These measures add up to nearly 28,600 million, 2.3% of Spanish GDP, according to estimates carried out by Bruegel.² The measures can be grouped into three blocks: those aimed at the health system, those to maintain workers' incomes and those for social protection of groups facing difficulties.

Extraordinary health spending: The Spanish Government has targeted 3,800 million euros towards this. Moreover, it approved spending of 30 million euros to finance research into the virus.

Maintaining workers' incomes: These measures are aimed at minimising the long-term impact on activity and employment once the health emergency ends. Specifically, they encouraged furloughs (ERTO) and exonerated businesses from paying Social Security contributions (100% in the case of SMEs and 75% for other businesses) for workers under the ERTO

scheme. Moreover, they guaranteed the right to unemployment benefit for affected workers, even when they had not paid the minimum contribution period, not counted towards future benefits. In the case of the self-employed, they allowed them to collect the benefit for loss of activity, as long as turnover had fallen at least 75%. According to the Government itself, the cost of the ERTO measure will add up to 20,000 million euros in 2020, and the self-employed benefit for loss of activity will add up to another 3,700 million euros.

Social protection: The measures include 600 million euros for the regional and local governments to provide services to vulnerable persons. Moreover, two measures have been put in place with no direct impact on the public budget and the same aim of mitigating the impact of the crisis on vulnerable households: 1) the requirement for suppliers to guarantee essential services (water, gas and telecommunications) in the case of default, and 2) establishing a moratorium on mortgage payments for the most vulnerable families. Finally, the Minimum Living Income (IMV) was approved in May, a monthly benefit for households at risk of poverty. The IMV will cover the difference between household income (including wages) and the threshold set for this type of household, called "guaranteed income", and can be collected from June on a permanent basis, i.e. it will not be a temporary measure and will last beyond the pandemic. It is expected to reach 850,000 households and have an annual cost of 3,000 million euros.

¹ Based on the Boletín Económico of the Bank of Spain. First quarter of 2020. https://www.bde.es/bde/es/secciones/informes/boletines/Boletin_economic/

² Estimate by Bruegel based on information published up to 4 June. . <https://www.bruegel.org/publications/datasets/covid-national-dataset/>

During the lockdown months, domestic demand and especially private consumption played a key role towards understanding the decline in activity. Throughout 2020, the Spanish Government predicts that household spending could fall more than 8%, and savings will rise, driven by the climate of uncertainty and the restrictions on economic activity and movement. With de-escalation, however, it is hoped that private consumption will motivate a change in GDP from red to black. The prospects for investment are also extremely negative, calculating that it could drop back to 25% for the whole year. As for foreign trade, in 2020 a 27% decline in exports is expected, accompanied by a 31% decline in imports.

SPAIN. MAIN MACROECONOMIC AGGREGATES - Interannual variation rates

Table 3.1

	2017	2018	2019
Components of demand			
Private consumption	3.0	1.8	1.1
Public consumption	1.0	1.9	2.3
Gross fixed capital formation	5.9	5.3	1.8
Domestic demand (a)	3.0	2.6	1.5
Exports of goods and services	5.6	2.2	2.6
Imports of goods and services	6.6	3.3	1.2
Components of supply			
Agriculture, livestock and fishing	-3.0	5.9	-2.6
Industry	3.1	-0.4	0.6
Construction	4.9	5.7	3.5
Commerce, transport and hotels & catering	3.5	2.4	2.7
Information and communications	7.7	5.0	1.0
Financial and insurance activities	0.5	6.7	7.5
Real estate activities	1.7	2.3	2.1
Professional activities	5.4	4.9	3.7
Public admin., health and education	1.5	1.7	2.0
Artistic, recreational & other activities	2.7	0.0	0.8
GDP at market prices	2.9	2.4	2.0

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

Source: National Institute of Statistics (INE).

Inflation followed a falling trend due to falling consumption during lockdown and the sudden fall in oil prices during those months, reaching negative territory in May (-0.7%). The OECD forecast for the Spanish inflation rate for the overall year is -0.1%.

In 2020 the public deficit could reach 10% of GDP due to the Covid-19 crisis.

The crisis caused by Covid-19 will greatly impact the public accounts due to a significant increase in spending on social, health, labour and economic measures, adopted to mitigate the impact on households, workers and the most vulnerable groups, and also to protect the production network, especially SMEs and the self-employed. To this is added the steep fall in income caused by the drastic decline in consumption and business activity.

Specifically, the Spanish Government predicts in the Stability Programme it sent to the European Commission that the public deficit will surge to 10.3% in 2020 (in 2019 it was 2.8%), due to public revenue falling by more than 25,000 million euros and spending rising more than ten points in one year (to 51% of GDP). Moreover, public debt is expected to rise from 95.5% of GDP in 2018 to 115.7% in 2019.

The European Commission's forecasts for Spain agree with those presented by the Spanish government: a fall in GDP of 9.4% in 2020 with an upturn of 7% in 2021. However, the OECD published more pessimistic outlooks for the Spanish economy in June, with a fall in GDP of 11.1% in 2020 (possibly reaching 14.4% in the case of a second wave). The IMF goes further in the forecasts presented at the end of June and puts the expected fall in GDP for 2020 at 12.8%, the highest in the EU alongside Italy.

Spain may see one of the steepest falls in the Eurozone and the OECD, due to the severe impact of the health crisis and the strict lockdown imposed to contain it, and also due to the importance

Spain's economy will be the most impacted in the Eurozone by Covid-19.

of tourism and other leisure-related services. Moreover, the Spanish economy is more specialised in sectors that will suffer a greater decline in activity and take longer to return to normal. Finally, it should be noted that Spain presents a series of internal vulnerabilities that make it less resilient, such as a very high level of temporary employment, large numbers of small and medium-sized enterprises (with less capacity to bear a sudden drop in revenue) and high public debt, which limited the acceptance of more drastic fiscal policies to protect household income and the production network. This will not only cause a steeper fall in GDP in 2020 but also impede recovery over the next few years.

To sum up, forecasts indicate that the Spanish economy will suffer the most drastic fall in its history and probably of all OECD countries. However, there is much uncertainty around the forecasts. We cannot rule out a second wave, which could deepen and lengthen the recession, or the possibility that recovery comes faster and stronger than expected.



The Andorran economy: general developments

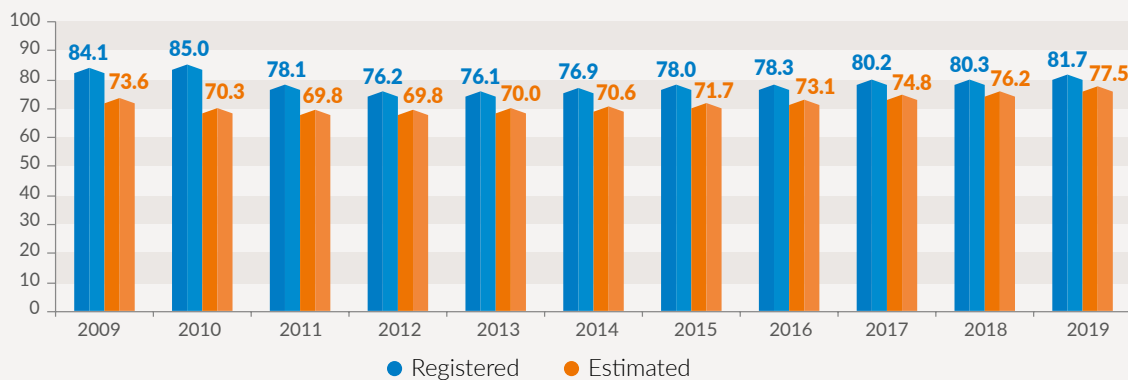
IV. Population, employment and education

1. Population and migratory flows

In 2019, the upward trend in the Andorran population that has been seen since 2013 continued, reaching an estimated population of 77,543, 1.8% more than in 2018 and the highest figure in the historical series available since 2009. In terms of population registered by the Comú authorities (a different concept from the above-mentioned estimated population), the data show the same rate of growth, to 81,748, the best figure in the last nine years. So there is still a major disparity between the two sources, of more than 4,200 people, which has even expanded a little in 2019. This halts the move towards disparity correction that was seen in recent years and hinders analysis of the real situation of the Andorran population.

The estimated population of Andorra increased 1.8%, to 77,543 in 2019.

REGISTERED AND ESTIMATED POPULATION - In thousands



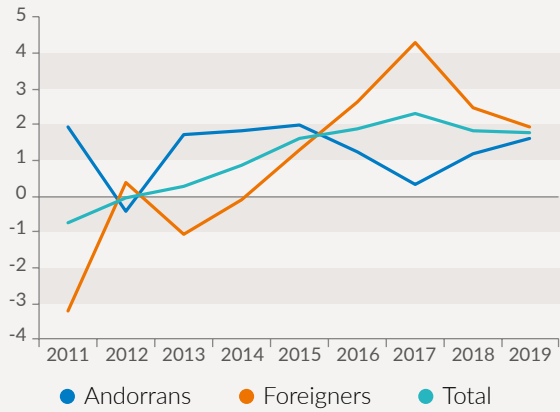
Source: Parish censuses of the Comú governments / Department of Statistics.

By nationality, the increase in the estimated population of Andorra was driven more by the growing foreign population (1.9%) than the increase in Andorrans (1.6%), although the growth in nationals in 2019 was the highest since 2015. This represents four consecutive years in which the foreign population has grown more than the Andorran, and the difference between the two figures already exceeds 2,000 individuals (39,794 vs 37,749). In contrast, only three years ago, the number of Andorrans was slightly higher than foreigners. This trend confirms the attractiveness of the Andorran market to foreign workers in a context of economic growth, as seen in recent years. So, the proportion of foreigners in the total estimated population is 51.3%, the highest in the last nine years. However, it should be remembered that in terms of registered population, the percentage of the foreign population reached a maximum of 72.5% in 1986, much higher than now.

The growth in foreigners was general to all nationalities. Specifically, the Spanish increased 0.5% and remain the most important group, with 24.8% of the total. Growth in the numbers of French

ESTIMATED POPULATION BY NATIONALITIES Interannual variation rate (%)

Chart 4.2



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

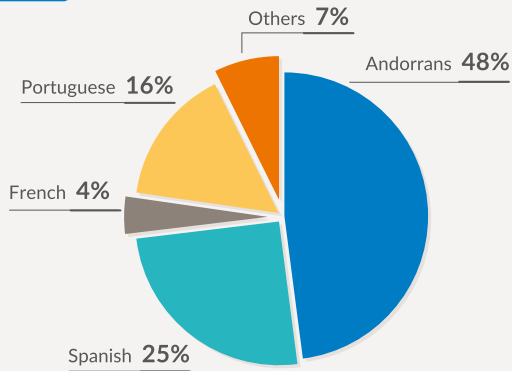
The foreign population has grown more than the Andorran population since 2016.

was higher (1.6%), following the pattern of the previous five years, so their share remained the same at 4.4%. The number of Portuguese also increased (0.4%) representing a turning point in relation to the persistent downward trend seen since 2011, although their percentage has continued to fall to 11.9% of the total population. The strongest growth in the foreign population was in the group of foreigners of other nationalities, at 7.7%, pushing up its percentage of the total population to 10.3%, the highest level in the available historical series and more than double the percentage of the French, in contrast with the similar proportion they both represented in 1999 (in terms of registered population). So, in 2019, the trend towards the diversification of labour sourcing continued.

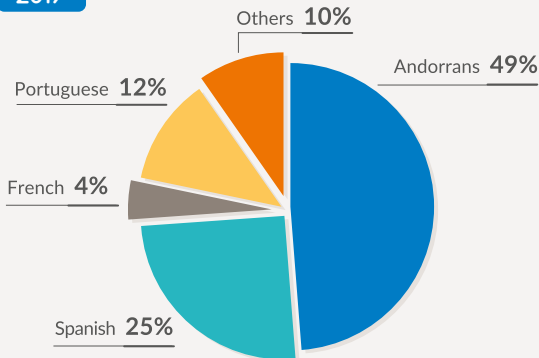
ESTIMATED POPULATION BY NATIONALITIES - As % of total

Chart 4.3

2010



2019



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

The group of foreigners that has grown most in recent years is "other nationalities", i.e. not Spanish, French or Portuguese.

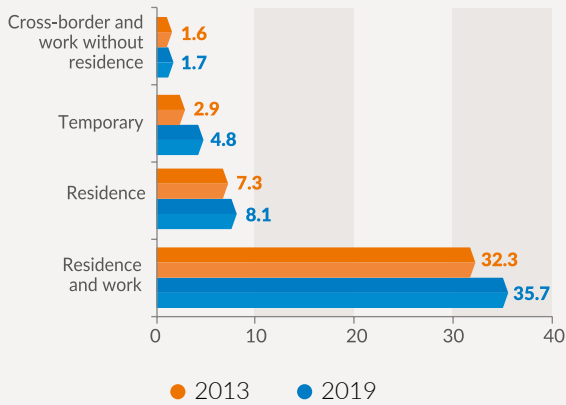
The increase in the numbers of foreigners in Andorra is also evident in the growth in valid immigration permits, a total of 50,352 (including temporary) on 31 December 2019, 2.3% more than the previous year. This represents six consecutive years of growth since the minimum recorded in 2013. Of the total immigration permits, the majority are for residence and work (70.9%), which increased 2.3% in 2019, driven by the positive trend in the Andorran labour market. This factor also favoured the increase in cross-border work permits (2%) and temporary permits (7.1%, to 4,822). In contrast, solely residence permits fell slightly (-0.1% to 8,144).

From the geographical point of view, the increase in estimated population in 2019 was also general, following the pattern of the previous five years. The increase seen in the high parishes stands out: Canillo (5.4%), Ordino (3%) and La Massana (2.5%), all three with growth higher than the total. The other parishes grew less and the population grew least in Escaldes-Engordany (1%).

Also note that, in the case of Andorra la Vella, by far the most populated parish, the increase in population was 1.3%. This meant that its percentage of the total Andorran estimated population

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

Chart 4.4



Source: Department of Immigration / Department of Statistics.

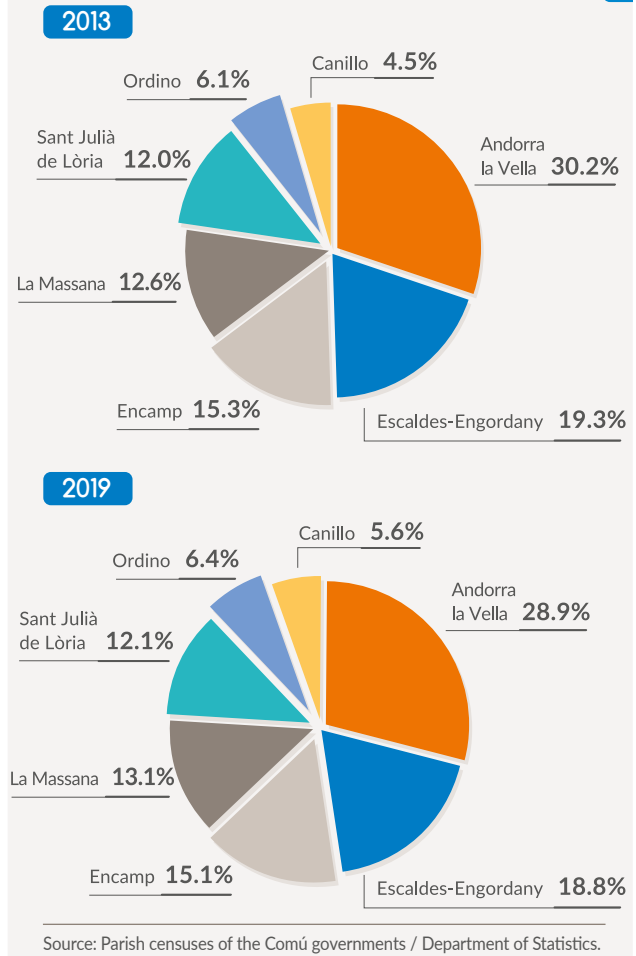
70.9% of valid immigration permits are for residence and work.

fell a little, to 28.9%, the lowest level in the available historical series. In contrast, Canillo is still the least populated parish (5.6%), despite the upturn in recent years.

In relation to population change, a natural increase of 235 persons was recorded in 2019, 13% more than the previous year. This breaks the trend of steep falls in recent years and can mostly be explained by a major decline in the number of deaths, much greater than the decline in births. Added to these figures is the positive balance of migration, of 1,131 persons, calculated from the estimated population. In total, the estimated population saw a net increase of 1,366, slightly lower than in 2018.

ESTIMATED POPULATION BY PARISH As % of total

Chart 4.5



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

Andorra la Vella falls to a historic low of 28.9% of the total estimated population of Andorra.

VARIATIONS IN THE ESTIMATED POPULATION

Table 4.1

	2018	2019
Births	543	535
Deaths	335	300
Natural increase	208	235
Birth rate (per thousand)	7.128	6.899
Death rate (per thousand)	4.398	3.869
Rate of natural increase (per thousand)	2.730	3.031
Increase from migration or census regularisation	1,175	1,131
Total population increase*	1,383	1,366
Marriages	293	325

* Natural increase plus migratory increase.

Source: Department of Statistics.

Men outnumber women in almost all working age brackets.

As for the population structure by age and gender, the pattern continues of men outnumbering women in all working age brackets, except the 35-39 age bracket (minimal), and the over-75 bracket. So, in 2019, the difference between the percentages of the male and female populations remained at 1.8 percentage points (1,401 more men), which can be explained by the size of the foreign workforce, which has traditionally been mostly male.

In turn, the estimated population distribution by age and nationality shows that the presence of foreigners clearly exceeds that of Andorrans in all age brackets from the age of 30. In contrast, the proportion of Andorrans is much higher in the bracket under the age of 30 (73.1%), contrasting with the low proportion of Andorrans in the group of those over 65 (38.6%).

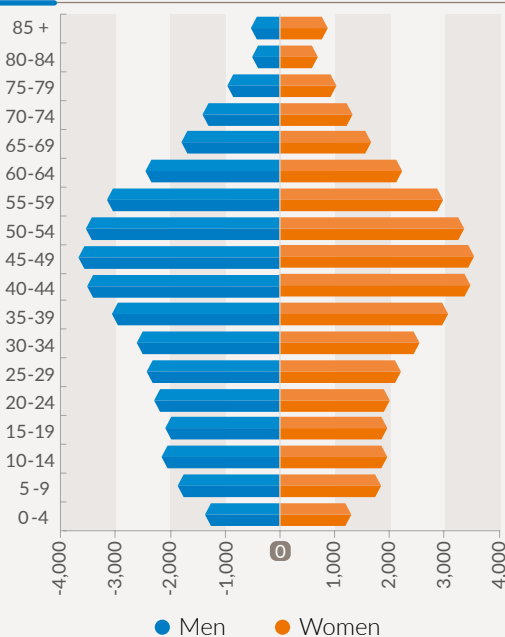
To complete the analysis of the population of Andorra, the distribution by ages in 2019 shows that the Andorran population continues to age progressively, following the pattern of many other developed economies. In particular, the estimated population of those under 15 continues the falling trend of recent years, so its percentage of the total has fallen to 13.5%, 2.8 points less than in 2010. On the other hand, growth in the group of 65 and over accelerated to 4.6%, raising its share of the total to 14%. This represents a new historic high, higher than the population under the age of 15 for the first time. In between, the working age population (15-64) increased 1.7% and its percentage of the total stayed at 72.5%. As a result, the average age of the Andorran population in 2019 rose to 41.3.

2. Employment and unemployment

In 2019, the Andorran labour market lost momentum significantly, reflected in the trends in the main indicators. According to the Workforce Survey data, the number of employed in Andorra increased 1.2%, a much slower rate than the 4.2% recorded in 2018. However, this is the sixth consecutive increase, resulting in 44,925 people in employment. Of these, 13.7% are self-employed and the others are waged employees spread between the private sector (68.8% of total employees) and the public and semi-public sector (17.5%). As for the level of education, 58.7% of the employed have at least secondary education, and in relation to the type of working hours, 93.9% work full time and work for an average of 41.3 hours per week, while those working part time work an average of 19.2 hours per week. The percentage of part-time women employees is four times higher than the percentage of part-time men.

STRUCTURE OF THE ESTIMATED POPULATION BY AGE AND GENDER. 2019

Chart 4.6



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

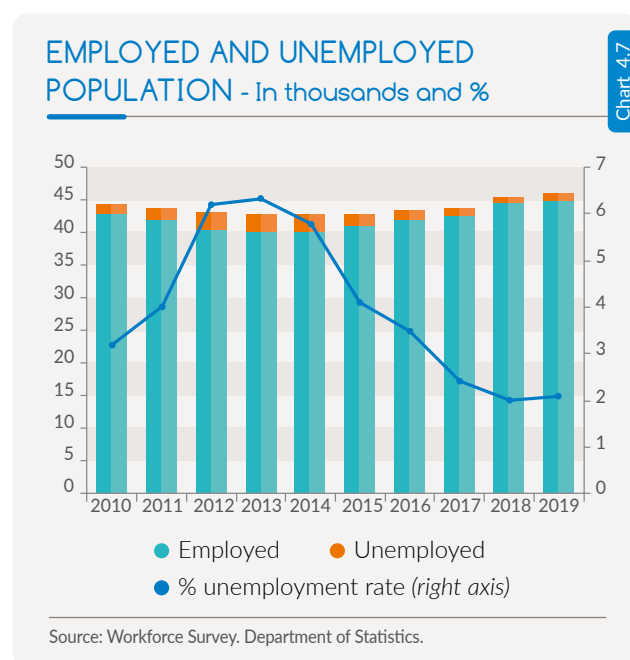
The population over the age of 65 exceeded the population under the age of 15 for the first time.

In 2019, the rate of job creation in Andorra slowed significantly and the unemployment rate increased one tenth.

Job creation was not sufficient to absorb the increase in active population, so the number of unemployed grew 7.1%, breaking the downward trend seen since 2014. This trend pushed up the total number of unemployed to 995 which, however, is still much lower than the maximum it reached in 2013 (2,755 unemployed). So, the unemployment rate has risen one tenth to 2.1%, after reaching a historic low in 2018, but is still much lower than the rate recorded in neighbouring countries.

By gender, in 2019 the unemployment rate reversed in comparison with the previous year: women saw the lowest rate (1.8% compared with 2.4% for men), as was usual throughout the last decade with the sole exception of 2018. By age, the most affected bracket is still youth, with an average unemployment rate in the population aged 15-24 of 10% in 2019. However, this unemployment rate fell in relation to the previous year, in a context of growth in the young population entering the labour market. The unemployment rate of the largest group (aged 55-64) also fell to 0.8%. In contrast, unemployment in the 25-54 age bracket increased three tenths to 1.8%, and this is the age group that explains the overall rate increase.

To complete the analysis of unemployment, it should be noted that the percentage of long-term unemployed, i.e. those who have been looking for work for more than a year, fell almost seven points to 10.3%. The other 89.7% are those who have been unemployed short term and 58.2% of the unemployed have been looking for work for less than three months. Altogether, this means

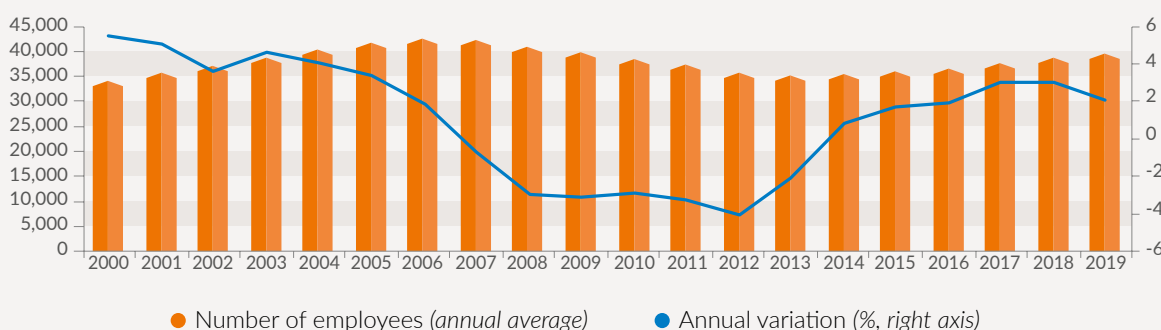


The national level of employment is still lower than the maximum achieved in the previous cycle of expansion.

that the labour context of Andorra still shows a very positive overall situation, which could be classified as full employment.

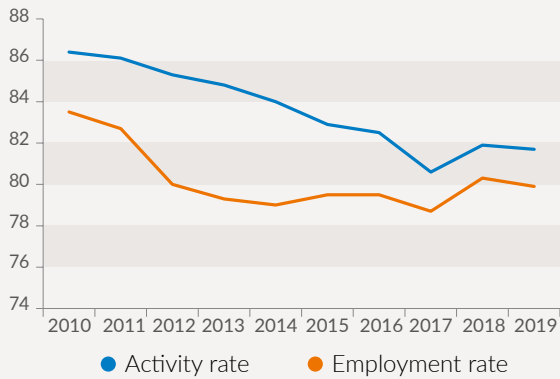
The data from the Andorran Social Security System (CASS) show a similar trend to those of the Workforce Survey, with an annual average increase in the numbers of employed of 2.1%, slower than the 3% increase recorded in 2018. Accordingly, this represents six consecutive years of growth, reaching 39,655 employees, the highest figure since 2009, if still lower than the high

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



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

Chart 4.9



Source: Workforce Survey, Department of Statistics.

In 2019 the rate of job creation slowed in services and accelerated in construction.

By sectors, employment in 2019 grew in all the large sectors, except in the primary and financial sectors. The most positive trend was in construction, with an 8.8% increase in employment, higher than the 6.5% recorded in the previous year. The number of employees in the construction sector is over 3,300, a figure that has not been seen since 2012, but is still half the number there was in the previous cycle of expansion (2005-2006).

The number of employees also rose in industry, specifically 3%, a much slower rate than in construction. However, the increase recorded in industry is an improvement on 2018 and puts the number of employees in the sector at the highest level in the last eight years (1,664). In contrast, the primary sector has seen three consecutive years of falling employment. In any case, the performance of this sector has a much lower impact on the economy as the activity represents a very small proportion of the Andorran labour market, with only 160 employees.

As for services – the sector in Andorra with the highest employment – the number of employees increased for the sixth consecutive year, if at a lower rate than the previous year (1.4% vs 2.9% in

of over 42,000 employees recorded in 2006. Equally, the average number of jobs in Andorra also increased for the sixth consecutive year, to 48,103, 2% more than the previous year.

Nevertheless, the employment rate calculated for the population aged 15-64 fell a little, to 79.9%, but is clearly still above the average for the European Union (68.4%). Along the same line, the activity rate fell two tenths to 81.7%, also above the EU average (73.4%). This downward trend in the employment and activity rates resumes the falling trend of recent years, partly influenced by factors such as the progressive aging of the population and the growing proportion of youth – and other age brackets – engaged in studies or continuous training, which had stopped in 2018.

NUMBER OF EMPLOYEES

	2019	% var. 19/18	% total 2019
Agriculture, livestock, hunting & forestry	160	-2.6	0.4
Industry	1,664	3.0	4.2
Manufacturing industries (including extraction)	1,492	3.5	3.8
Production & distribution of electricity, gas & water	172	-1.0	0.4
Construction	3,333	8.8	8.4
Services	34,498	1.4	87.0
Commerce & motor vehicle repairs (etc.)	8,944	1.1	22.6
Hotels & catering	5,111	0.4	12.9
Financial system	1,777	-5.1	4.5
Public administration, defence & mandatory social security	4,452	0.2	11.2
Others	14,215	3.4	35.8
Total	39,655	2.1	100.0

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

Table 4.2

2018). This is the sector that created most jobs in absolute terms in 2019 but, in relative terms, its percentage of total employment fell half a point to 87%. Industry and agriculture stayed at 4.2% and 0.4%, respectively, and the only large sector that increased its percentage was construction, reaching 8.4%, with two years of growth after hitting a low in 2017.

Within tertiary activities, commerce and motor vehicle repairs is still the most important service subsector, with 22.6% of total employees in Andorra, although it continues to lose ground compared with the previous year and recorded the lowest level in the available historical series. In contrast, real estate activities, rentals and business services continue to gain (14.4% of total employees), strengthening their second place in the ranks. Next are hotels and catering with 12.9% of employees, and Public administration, defence & mandatory social security (11.2%), two activities whose percentages fell slightly in 2019. The financial sector also lost importance, for the fourth consecutive year, to represent 4.5% of employees, the lowest level in the last eight years.

Within services, the importance of real estate activities, rentals and business services grows.

By gender, the increase in employment in 2019 was higher in the case of men (2.4%) than women (1.7%), following the same pattern as the last two years. 51.1% of employees are men and 48.9% are women. Compared with 2018, the gap between the genders widened.

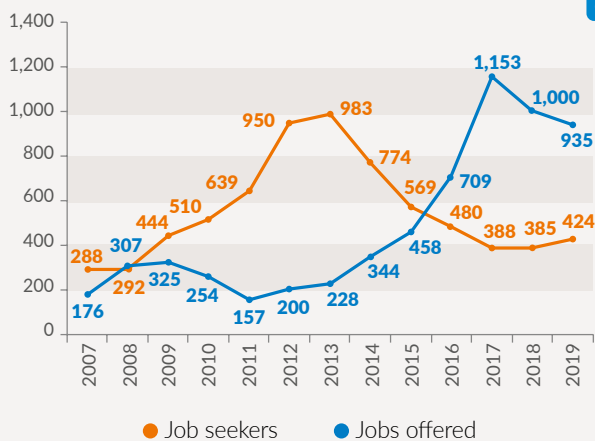
A turning point occurred in the job seeker trend.

Despite the increase in employment in 2019, the number of job seekers saw a turning point, with an increase of 10.2% to 424. This increase contrasts with the falls seen in the last five years and warns of a less favourable climate in the labour market than in previous years. In parallel, the number of job seekers continued to rise but at a much slower rate than in the previous two years (10.3%), still a positive sign for workers regarding the trend in the labour market and the possibilities of improving their professional situation.

In contrast to the above-mentioned data, the number of jobs offered at the Job Service fell for the second consecutive year, by 6.5% in 2019, to 935. This trend seems to indicate a slowdown in businesses' recruitment plans, in line with a more advanced phase of the cycle of expansion. Accordingly, the ratio of applicants per offer increased, but is still less than 1, a level that indicates a fairly tight labour market and the existence of discrepancies between the characteristics of the unemployed and businesses' requirements.

JOB SEEKERS AND JOBS OFFERED

Chart 4.10



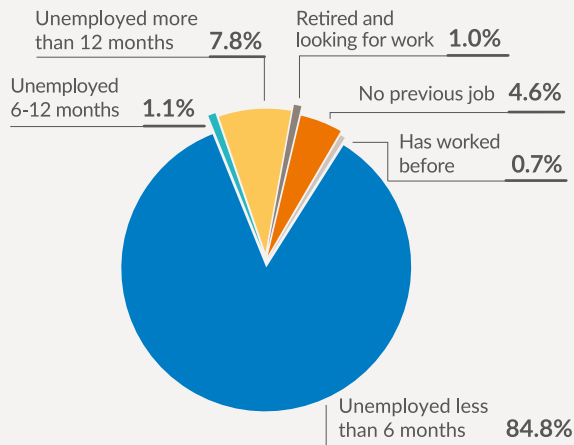
Source: Department of Labour / Department of Statistics.

The numbers on unemployment benefits rise.

The rise in unemployment seen in 2019 led to an increase in the numbers on unemployment benefits, from 14 to 20, breaking six years of steep decline. So, the coverage rate for job seekers increased one point to 4.6%, after reaching the lowest level in 2018 since benefits were introduced in 2009. In any case, the coverage rate is still very low compared with neighbouring European countries.

JOB SEEKERS BY EMPLOYMENT SITUATION. 2019 - % of total

Chart 4.11



Source: Department of Labour / Department of Statistics.

Most job seekers (84.8%) have been unemployed for less than six months.

increase was greater in Andorrans (13.9%) than foreigners (7.4%). Among the latter, the increase was mainly concentrated among the Spanish (10.9%), who remain the most numerous group of foreign job seekers (137).

According to the 2019 data, the percentage of foreigners among total job seekers has continued to shrink to 55.1%, the lowest level in the available historical series (since 2007). This percentage is very similar to that of the whole estimated population of working age (55.5%). In fact, according to the Workforce Survey, the unemployment rates for Andorrans and foreigners are practically equal, 2% and 2.1% respectively. Note, however, that this situation involves significant differences in the inactivity rates between both groups. Specifically, the inactivity rate of Andorrans (26.9%) is more than double that of foreigners (11.5%). This can be explained by the fact that part of the foreign population returns to their home country when their work in Andorra ends or they reach retirement.

3. Education

In the 2018-2019 academic year, the student population in Andorra, including the school, university and non-university population abroad, was 12,391, 3.2% less than the previous year when it reached a historic level. Almost the whole of this decline can be explained by the decrease in the university population (-24.8%) – including students in higher vocational education – after three years of rises. Now, it should be said that this downturn does not necessarily reflect the true situation, as there were technical problems that altered the data collection system. This means that conclusions

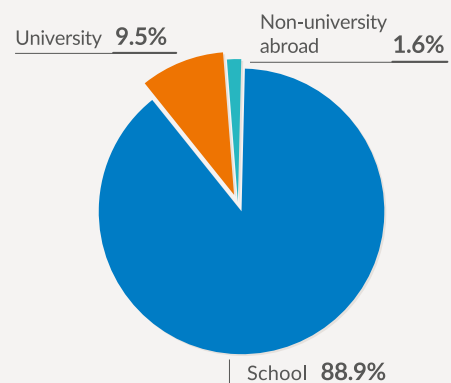
By age, the trend in 2019 was marked by rising unemployment in all age brackets except the 26-39 bracket. The youngest age group (up to 17) and the oldest (60 and above) saw the greatest increase in job seekers compared with 2018. In 2019, those in these age brackets represented 5.3% and 12.4% of the total, respectively. In any case, most job seekers are concentrated in the 40-59 age bracket (41.7% of the total), followed by those aged 18-25 (21.4% of the total).

Another notable characteristic of job seekers in Andorra is that the majority, 84.8%, have been unemployed for less than six months. For its part, the percentage of structural unemployment (unemployed for over a year) stands at low levels (7.8%), although, according to the Workforce Survey, the percentage of structural unemployment in 2019 was slightly higher, close to 10%.

Finally, the distribution of job seekers by nationalities shows a generally rising trend. The

STUDENT POPULATION BY EDUCATIONAL LEVELS. 2019 - As a percentage of the total

Chart 4.12



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

cannot be drawn by historical comparison. In the last year there was also a small fall in the school population (-0.3%). In contrast, the number of non-university students abroad increased 3.6%, breaking three consecutive years of major falls.

From a geographical point of view, 92.3% of the total student population studies in Andorra and the rest abroad (7.7%), and university students are the largest population group pursuing any kind of studies outside Andorra. Andorrans who study in other countries still do so mostly in Spain (5.9% of the total student population), although this destination has lost importance compared with times past. The percentage of France is limited to 1.4% and the others (41 students) are divided between other countries.

7.7% of the student population in Andorra studies abroad.

3.1. School population

In the 2018-2019 academic year, there were 11,012 students at school level, 30 less than the previous year, putting the schooling rate – calculated as the proportion of the school population in the global population at this level – at 51.2%.

By levels, kindergarten and primary and secondary education concentrate 85.9% of school students. The other 14.1% relates to students of baccalaureate and vocational training. The trend in the last year was again marked by the reduction in kindergarten students (-3.7%). This is the fifth consecutive reduction, a trend related to the decline in births in recent years. The number of students in primary education also fell slightly, while the trend in the higher levels of secondary education and baccalaureate rose. As for the group of students in vocational training, there was a fall of 2% in 2018-2019, breaking the upward trend over five consecutive years.

The numbers of students in kindergarten fall for the fifth consecutive year, due to the decline in births in recent years.

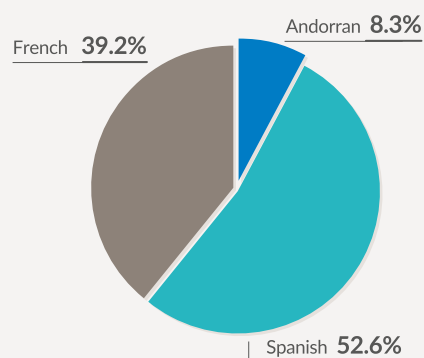
STUDENT POPULATION BY LEVELS

	2018-2019	% variation 18-19/17-18	% 2018-2019
Kindergarten	2,123	-3.7	19.3
Primary education	4,322	-0.1	39.2
Secondary education	3,016	1.0	27.4
Baccalaureate	1,073	3.2	9.7
Vocational training	478	-2.0	4.3
Total	11,012	-0.3	100.0

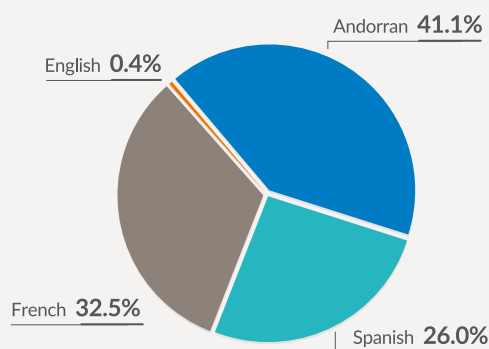
Source: Ministry of Education and Higher Education.

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

1991



2019



Source: Ministry of Education and Higher Education.

Chart 4.13

39

The trend continues for the Andorran educational system to gain students at the expense of the Spanish system.

By type of education, the Andorran educational system has continued to gain ground, increasing the number of students by 1.1% and raising its percentage of the total student population to 41.1%, a new historic high. In contrast, the number of students in the Spanish educational system fell 3.4%, a trend that continues the progressive loss of importance of this system since the early 1990s. So, the Spanish educational system's share of the total fell nearly one point to 26%, establishing a new historic low and contrasting with the 52.6% it represented in 1991. For their part, the number of students in the French educational system fell slightly (-0.6%), so its share of the total school population fell one tenth to 32.5%, continuing to widen the gap with the Spanish educational system. Finally, note that in the 2018-2019 academic year, a new English school started to operate (The British College), with 41 students representing 0.4% of the total school population.

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3.2. University population

In the 2018-2019 academic year, the university population of Andorra was 1,180 students, representing a reduction of 24.8%. However, this comparison is not uniform as certain technical problems prevented the updating of data in line with previous years. All in all, this limits the possibilities of analysing developments in the last year.

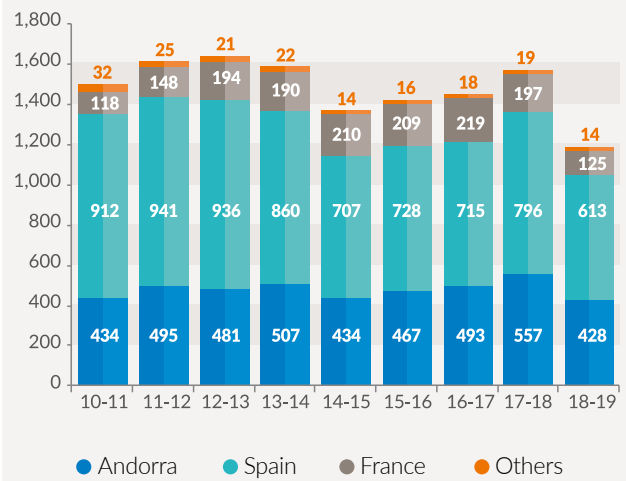
Spain concentrates 52% of Andorran university students and Andorra 36%.

By gender, women are the majority, representing 54.2% of the total university population, contrasting with their lower percentage of the population in comparison with men. By country of study, Spain is the top destination for Andorran university students, with 51.9%, far ahead of the second, Andorra (36.3% of the total). France receives 10.6% of Andorran university students and the 1.2% of Others (14 students) are divided between other countries (United Kingdom, Portugal, Argentina, Canada, Denmark, Netherlands, USA and Iceland).

Finally, the distribution by fields of study shows that the field with most Andorran university students is still social sciences, business studies and law, with 43.5% of total university students.

Next are health sciences and social services (15.7%); engineering, industry and construction (15.0%), and arts & humanities (9.3%). With a lower percentage are education, science and services, and agriculture comes last with just 6 students.

UNIVERSITY POPULATION BY COUNTRY OF STUDY



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

Source: Institute of Andorran Studies.

V. Activity and demand

1. Developments in economic activity in 2019

2019 was characterised by continued expansion in the Andorran economy, which had been growing for six years, with a slow rise in GDP, slightly higher than in 2018. This trend continued to benefit from the European and international context in 2019, in which neighbouring Spain was a notably positive influence. By sectors, services and construction again formed the pillars of Andorran economic growth in 2019. Meanwhile, industry showed limited improvement and the results of the primary sector deteriorated.

The good performance of the Andorran economy in 2019 was also reflected in the positive trend in many indicators of activity and demand, although in some cases, these already showed signs of depletion of a positive cycle that, with the supply and demand shock caused by the Covid-19 pandemic, ended definitively at the beginning of 2020. Growth in the number of employees and total employment was notable but was less than in 2018 and matched by an increase in unemployment and job seekers. The rate of import growth, industrial vehicle registrations, and Government operating costs and real

In 2019, the expansion of the Andorran economy continued but there were signs of depletion.

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

Table 5.1

Activity	2018	2019
Establishments ⁽¹⁾	3.8	4.3
Employment	4.2	1.2
Employees	3.0	2.1
Industry	0.8	3.0
Construction	6.5	8.8
Services	2.9	1.4
Unemployment	-12.9	7.1
Job seekers	-0.9	10.2
Number of visitors	2.2	-1.1
Electricity consumption ⁽²⁾	-3.0	-7.4
Imports	4.7	0.7
Demand		
Average wage	2.6	0.7
Car registrations	2.1	-4.5
Industrial vehicle registrations	19.1	4.8
Imports of capital goods ⁽³⁾	2.2	0.3
Imports of building materials ⁽⁴⁾	70.9	-16.0
Credit from banking entities ⁽⁵⁾	-1.2	3.1
Government operating expenses ⁽⁶⁾	5.1	1.2
Government real investment ⁽⁶⁾	21.3	15.5

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

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

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

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

(5) Gross lending to customers.

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

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

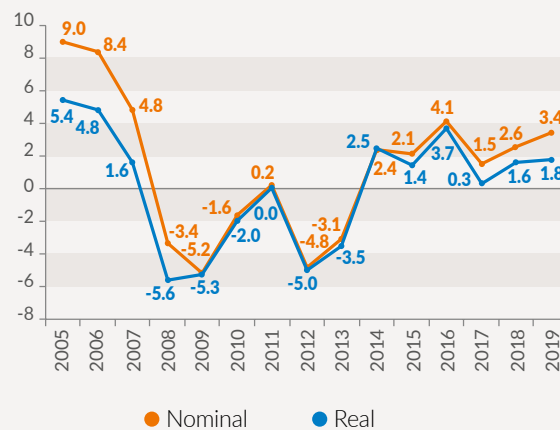
investment also slowed. Moreover, there were falls in some major indicators, such as the number of visitors, energy consumption, car registrations and imports of building materials, alerting to the risk of a loss of momentum in the economy. Only growth in bank lending and numbers of establishments escaped the deterioration, improving on developments in 2018.

The economic growth recorded in 2019 led to a positive trend in the Andorran labour market, if less dynamic than in 2018. So, total employment increased 1.2%, compared with 4.2% in 2018, according to the Workforce Survey data. The group of employees also saw slower growth, from 3% to 2.1%, accompanied by an upward veer in unemployment and job seekers. This weakening of the labour market, together with contained wage growth, presents less favourable conditions for Andorran residents' consumption compared with one year earlier, contrasting with growth in bank lending which bolstered demand.

As a whole, Andorra recorded GDP growth of 1.8% in real terms in 2019, two tenths more than the previous year, according to the advance figures published by the Government. Note that the financial sector continued to limit the aggregate economic results, so if we exclude this branch from the overall trend, the real rate of economic growth (non-financial GVA) was much higher (3.6%).

TREND IN GDP IN ANDORRA
Interannual variation rate (%)

Chart 5.1

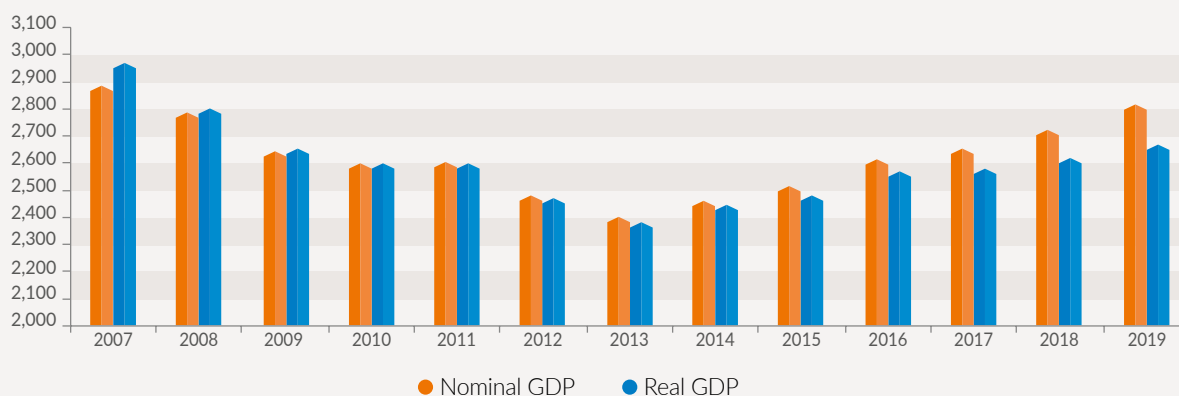


Source: Department of Statistics.

In 2019, Andorran GDP grew 1.8%, two tenths more than in 2018.

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

Chart 5.2



Source: Ministry of Finance / Department of Statistics.

The trend in GDP by quarters shows that the economy has improved, with a growth rate in the first quarter of 1.7%, accelerating in the second and third quarters to end the year with a year-on-year rate of 2%. In nominal terms, the rise in GDP over the year was 3.4%, also higher than in 2018 (2.6%). As a result, total nominal GDP in 2019 reached the figure of 2,817.52 million euros, the highest value since 2007, although in real terms the current GDP value (2,670.10 million euros, base year 2010) is still 10% lower than the maximum, also reached in 2007.

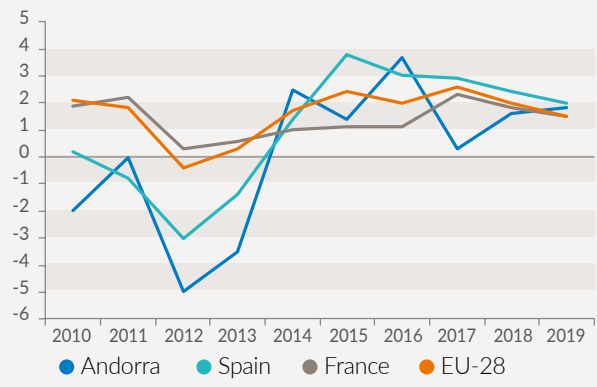
Real GDP is still 10% lower than the maximum reached in 2007.

Growth in Andorra in 2019 was higher than in France and similar to Spain.

By international comparison, growth in the Andorran economy in 2019 was lower but similar to Spain and higher than France and the EU as a whole. In parallel, the Andorran population continued to grow significantly (1.8%), so per capita GDP in real terms increased very little (0.1%), after two downward years, reaching 34,434 euros (base year 2010), still 7% lower than the level ten years ago. Now, in nominal terms, per capita GDP of Andorra stood at 36,335 euros, the best level since 2011, 1.6% higher than in the previous year.

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

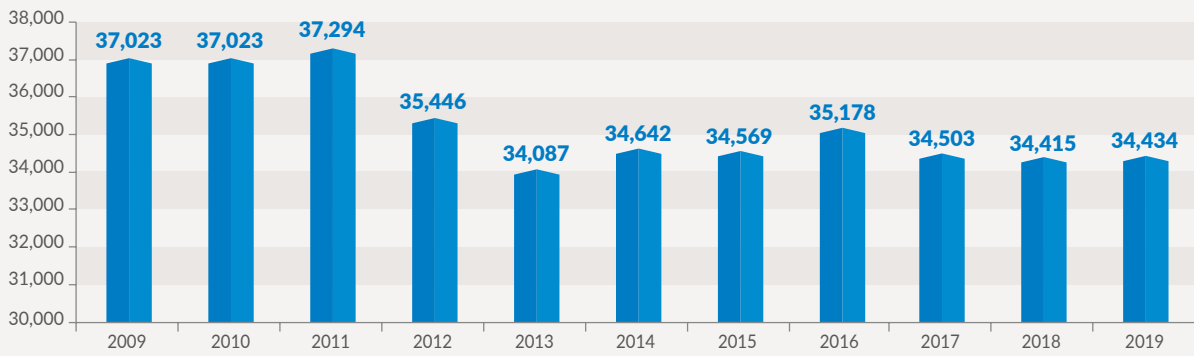
Chart 5.3



Source: Eurostat and Department of Statistics.

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

Chart 5.4



Source: Department of Statistics.

2. Developments in activity by sector

As in 2018, the drivers of Andorran economic growth in 2019 were the services and construction sectors. Remember that services represent about 87% of GVA, so their results are decisive in explaining the trend in the Andorran economy. In the case of construction, the fact that 2019 saw the highest rate of growth is notable, following the pattern of 2018, although its lower importance means that this sector's relative contribution to total growth was much more limited than that of services. In the case of industry, the GDP data reflect accelerating growth in the sector in 2019, but, on considering the results of our surveys, the trend appears less positive, although it did improve substantially in the second half of the year. To complete the sectoral picture, agriculture was the only sector to see a downturn in GVA in 2019, although the impact on aggregate GDP is minimal because its percentage of the economy is small.

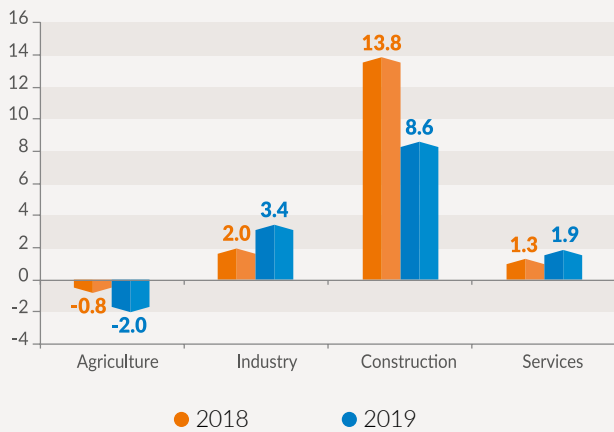
Services and construction were again the pillars of economic growth in Andorra in 2019.

Specifically, real GVA growth in the construction sector was 8.6%, a fairly high rate, if lower than the rate in 2018 (13.8%), revised upwards from the advance figures published in 2019. So, the sector has accumulated four years of expansion and increased its percentage of total GVA to 7.3%, still far from its maximum just before the crisis (13% in 2006).

TREND IN GVA BY SECTOR

Interannual variation rate in real terms (%)

Chart 5.5



Source: Department of Statistics.

Along the same line, the results of our surveys corroborate the good performance of activity in the construction sector, with a fairly optimistic evaluation of the business situation, bolstered by the dynamic segment of housing and public investment. Moreover, businesses declared that the volume of executed works continued to recover, if at a slower rate, and at the same time, the volume of contracted works also continued to show a positive dynamic, gradually reaching more acceptable levels after minimal figures in recent years. Likewise, a new increase in sales figures was recorded (4.9%) that easily outperforms the other sectors and investment (3.8%).

As for industry and manufacturing, the trend in 2019 was more favourable than in 2018, if we consider the real GVA data that show a 3.4% increase, higher than the 2% in 2018. Remember that industrial activity consists, on the one hand, of basic industry, particularly energy production and distribution, and on the other hand, manufacturing, which is the most important – 73% of GVA from industrial activities. All in all, industry represents 5.6% of total GVA, so its performance has a limited impact on the economy as a whole.

The industrial sector raised GVA and employment.

The improvement in industrial and manufacturing activity resulted in a 3% increase in the number of employees in the sector, and the number of establishments rose 3.5%. However, businesses' replies to our surveys do not portray such a favourable climate. Specifically, the indicator for confidence on annual average entered negative territory, which had not happened since 2016,

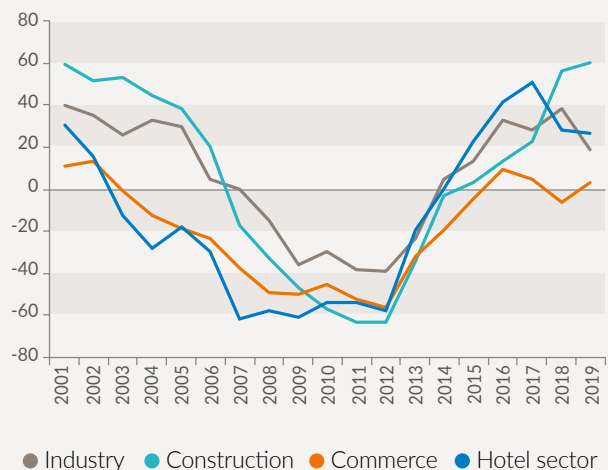
Other indicators of activity in the sector confirm that construction was dynamic in 2019. It is true that it has lost momentum since 2018, which is also logical as activity approaches more normal levels. Specifically, authorised square metres increased 44.4%, despite the number of authorised projects falling 27.9%. The increase in public investment was also a boost for the sector (15.5%). Altogether, this favoured significant job creation in construction over the year (8.8%), in a context of near stability in the number of establishments. In contrast, imports of building materials fell (-16%) and also the number of property transactions (-13%), contrasting with the significant increases in 2018. However, the prices of apartments continued to rise.

Construction was dynamic in 2019, driven by the segment of housing and public investment.

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.

and opinions about business progress were less positive than one year earlier. Moreover, the level of capacity utilisation fell and evaluations of production levels worsened in comparison with 2018. Within this context, industrial businesses signalled a reduction in turnover (-0.5%) and a slowdown in the investment rate (1.6%).

As for services, the overall trend in 2019 was positive, with real GVA growth of 1.9%, six tenths higher than in the previous year. Within this scenario, the sector continued to create employment, with a 1.4% increase in the number of employees, although growth was slower than in 2018 (2.9%) considering that the number of establishments increased 4.7%.

The breakdown by subsectors shows that growth in tertiary activities was generalised. Specifically, the subsector of financial, real estate, professional and technical activities grew most (2%), after two years of declining GVA. Remember that this branch of services is the most important in the economy, representing 34% of total GVA.

Andorran banking picked up in 2019.

As for the banking sector, the trend in 2019 was favourable, with increases in gross lending to clients (3.1%) and deposits (7.1%), interrupting the downward trend of the last few years and allowing profits to rise for the first time in six years, at a rate of 12.4%. Despite this remarkable recovery in banking activity, employment in the whole financial and insurance sector recorded a significant downturn (-5.1%), a sign of the efforts in the sector to improve efficiency by reducing costs. All in all, this enabled a four-tenths rise in return on equity (ROE) in the banking sector, to 7.7% in 2019.

For their part, commerce, hotels and catering, transport, information and communications, which also make a major contribution to Andorran GVA (31%), grew 1.9%, a similar rate to 2018 (1.8%). This favourable trend was possible even after numbers of visitors fell by 1.1% and the main stimuli for residents' consumption slowed (employment and wages).

In fact, in the particular case of the tourism sector, there are some connected indicators that reflect a loss of momentum in activity compared with 2018, such as the falling total number of overnight stays, contrasting with the increase in the previous year; the downturn in numbers of accommodations and beds, and the lower rate of job creation in hotels and catering. Now, our surveys still provide a favourable view of the hotel sector in 2019, bolstered by the positive behaviour of entries of tourists, with a similar global assessment of business activity to 2018.

BUSINESSES' OPINIONS ABOUT ECONOMIC DEVELOPMENTS IN 2019

Table 5.2

Results of the situation survey in industry

2019 COMPARED WITH 2018 (as % of businesses)

Turnover	Higher	24
	Same	48
	Lower	28
	Average variation (%)	-0.5
Volume of investment	Higher	15
	Same	77
	Lower	8
	Average variation (%)	1.6
Number of employees	More	21
	Same	69
	Less	10

Results of situation survey in construction

2019 COMPARED WITH 2018 (as % of businesses)

Turnover	Higher	49
	Same	36
	Lower	15
	Average variation (%)	4.9
Volume of investment	Higher	33
	Same	59
	Lower	8
	Average variation (%)	3.8
Number of employees	More	36
	Same	64
	Less	0

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

BUSINESSES' OPINIONS OF ECONOMIC DEVELOPMENTS IN 2019

Table 5.3

Results of the situation survey in retail commerce

2019 COMPARED WITH 2018 (as % of businesses)		Total retail commerce	Food	Clothing & footwear	Household equipment	Health & hygiene	Electronics	Vehicles & accessories	Other commerce	Superm. & dept. stores
Sales figures	Higher	33	35	26	36	44	50	21	32	25
	Same	35	32	32	49	32	31	34	35	13
	Lower	32	32	42	15	24	19	45	33	63
	Average variation (%)	-0.7	-0.5	-2.9	4.4	1.9	7.6	0.3	-5.6	-4.0
Volume of investment	Higher	32	22	28	24	54	35	31	33	43
	Same	62	72	69	71	46	59	62	58	43
	Lower	6	6	3	5	0	6	7	9	14
	Average variation (%)	5.7	3.4	2.2	1.2	15.2	21.3	5.3	3.6	4.0
Number of employees	More	19	17	16	28	27	22	14	13	17
	Same	73	72	74	67	65	72	86	74	67
	Less	9	11	10	5	8	6	0	13	17

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

The positive trend in entries of tourists boosted activity in the hotel sector.

Specifically, hotels pointed to a year-on-year increase in turnover of 1.6% on average – compared with the downturn of 2.2% in 2018, and chose to make a significant investment effort (8.3%). However, they also indicated falling occupancy at the level of reservations and prices.

In parallel, commerce saw slight signs of improvement compared with the previous year, with accelerated growth in the number of establishments and employees, although levels of activity were still low. This slight recovery is also reflected in our surveys which showed improved business activity in 2019, a smaller drop in sales (-0.7%) and accelerated investment (5.7%).

To end this sectoral analysis, note that in 2019, the primary sector saw contraction in real GVA for the second consecutive year, close to 2%, although its low percentage of the economy (0.6%) meant that the impact on total GDP was insignificant. This decline was accompanied by a steeper decrease in numbers of employees (-2.6%) and utilised agricultural area (-1.6%). Moreover, the numbers of livestock fell and the number of establishments stagnated. As for the tobacco harvest, this year was exceptional as, due to the situation caused by Covid-19 and the impossibility of physically exporting the tobacco,

BUSINESSES' OPINIONS OF ECONOMIC DEVELOPMENTS IN 2019

Table 5.4

Results of the situation survey in hotel sector

2019 COMPARED WITH 2018 (as % of businesses)

Turnover	Higher	42
	Same	42
	Lower	16
	Average variation (%)	1.6
Volume of investment	Higher	52
	Same	41
	Lower	7
	Average variation (%)	8.3
Number of employees	More	19
	Same	79
	Less	2
Source of clients per sales channel (as %)	Direct client / own web	18.6
	Internet / booking sites	51.7
	TO & travel agencies	25.8
	Others	3.8
Average stay of clients (nights)		2.7

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

Commerce saw slight signs of improvement compared with 2018.

the whole harvest was destroyed this year, so no data are available for 2019 – relating to kg before and after regularisation (actual kg produced / kg adjusted to agreed quotas). Moreover, a single sales price was agreed for the tobacco, irrespective of the quality of the leaves harvested last year.

3. Developments in demand by components

As for demand, the available indicators point to a slight slowdown in the positive trend in domestic demand in 2019. Among the factors that boosted residents' private consumption are notably the increases in population, employment and wages, although the last two were smaller than in 2018. A symptom of falling demand is that car registrations saw a decline for the first time in seven years, by 4.5%, in a context of fewer grants from the Engega programme that offers incentives to buy eco-friendly vehicles.

As for investment, a gentle slowdown can also be seen when we consider the decelerating growth in some indicators, such as lorry and van registrations (4.8%) or imports of capital goods (0.3%). However, our surveys for 2019 still reflect positive behaviour in investment in all the main sectors of the economy, in a context of favourable financial and economic conditions and increased lending, where industry is the only sector in which investment growth slowed.

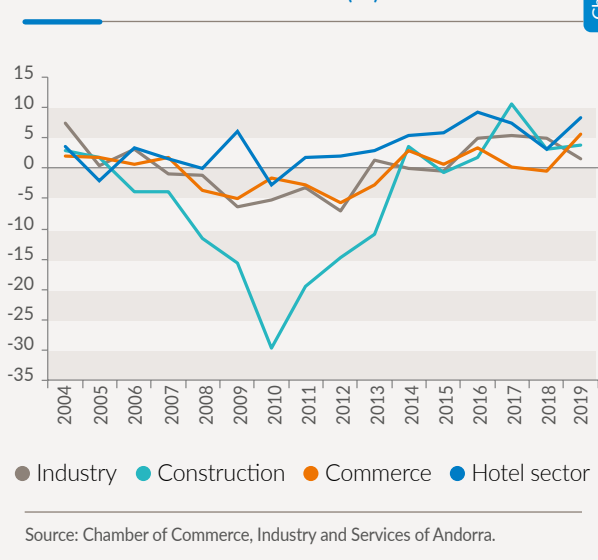
Domestic demand slowed slightly in 2019

As for the public sector, the contribution to activity in 2019 was positive for yet another year, although less so than in the previous year, in a context of healthy budgeting that allowed for a gentle increase in expenditure by both the central and Comú governments. The public sector's actions resulted in modest growth of operating costs (1.2%) and a notable increase in real investment (15.5%), although in both cases these were lower than in 2018. In parallel, the fiscal burden fell two tenths to 25%, after reaching a historic high in 2018 (25.2%). As a result, the central Government recorded a small budget surplus of 0.1% of GDP, compared with the deficit of 0.1% at the end of 2018, whereas the surplus of the Comú governments shrank three tenths to 0.6%. All in all, this meant a slowdown in GVA growth in the subsector Public administrations, education, health, social and personal services, from 3.6% in 2018 to 1.6% in 2019.

In 2019, imports slowed substantially to record meagre growth of 0.7%.

Finally, the analysis of indicators of the foreign sector show that in 2019, growth in imports slowed substantially to a meagre 0.7% year on year, compared with 4.7% in the previous year. If fuels are excluded, the picture hardly changes, as the increase in imports is still limited (1%). Among the factors that might explain this slowdown are falling numbers of visitors, lower growth in vehicle registrations and the weakness seen in some branches of commerce. Equally, growth in exports slowed to 1.4%, the lowest in the past five years, in keeping with falling demand from neighbouring countries and the curb on world trade caused

TRENDS IN INVESTMENT BY SECTORS
Interannual variation rate (%)



by the trade wars over the year. Considering that the volume of exports is much lower than imports, this higher growth in imports was not enough to reduce the trade deficit, which increased for the fourth consecutive year (0.6%). Therefore, in 2019, the traditionally negative contribution from the trade balance to national GDP increased, correlated to the still favourable economic situation in 2019.

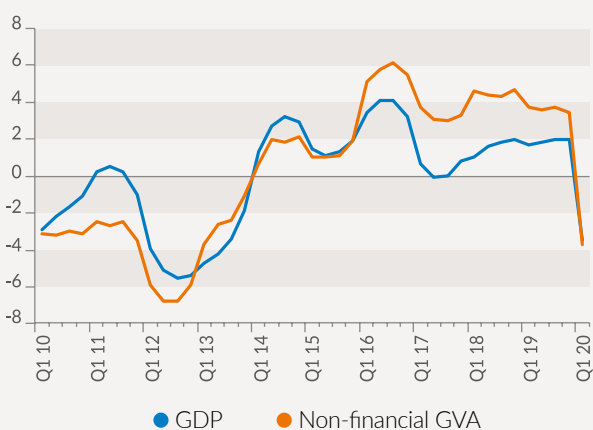
However, the most important contribution from the foreign sector to the Andorran economy is from income from tourism services – the most important national source of revenue – which continued to rise, if at a slower rate. In this respect, the moderately positive behaviour of the neighbouring economies, Spain and France, the source of most visitors to Andorra, is a crucial factor in explaining the trend in the Andorran foreign sector.

4. Prospects

The economic prospects for 2020 were wholly influenced by the spreading Covid-19 pandemic that has affected the whole world. Its major impact on public health led the Andorran Government, in line with neighbouring European countries, to adopt various measures from 11 March to deal with the pandemic and protect the health of our citizens, such as the lockdown, restrictions on movement, closure of schools and other establishments, and limits on capacities and gatherings, among others, to stop the spread of disease. Note that the movement of vehicles at Andorra's borders in April 2020 fell 91.8% compared with April 2019. Similar measures were taken in many countries around the world, with major negative effects on global GDP this year, leading the IMF to predict that this will be the worst global recession since the Great Depression of the 1930s.

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

Chart 5.8



Source: Department of Statistics.

The GDP data for the first quarter of 2020 already highlight the major negative impact of this scenario on the Andorran economy. Specifically, GDP saw a year-on-year downturn of nearly 3.5% in real terms (according to the first published estimate, still under review), a rate of decline that had not been seen since 2012-2013, at the depths of the previous economic crisis.

Andorran GDP saw a year-on-year downturn of 3.5% in the first quarter of 2020.

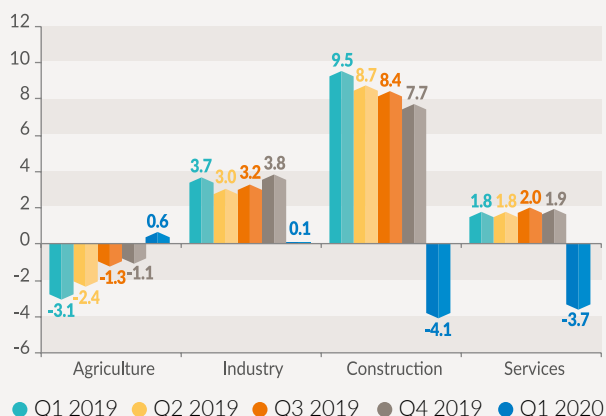
By sectors, the most affected are services (-3.7%) and construction (-4.1%), which are also the most important for the economy. In contrast, industry and agriculture have still managed to avoid the

decline. Within services, the subsector Commerce, hotels and catering, transport, information and communications shows the greatest fall in GVA (-4.9%) since these activities were most affected by lockdown and restrictions on international movement. The decline was also steep in the branch Financial, real estate, professional and technical services (-4.3%) and a little gentler in the subsector Public administrations, education, health, social and personal services, due to the continuing importance of the health sector during this pandemic and the intense activity by the public sector to deal with the major impact of this crisis.

QUARTERLY TREND IN ANDORRAN GVA BY SECTORS

Interannual variation rate (%)

Chart 5.9



Source: Department of Statistics.

The downturn in Andorran economic activity is also evident in the trend in the main indicators of activity available for the first few months of 2020. In particular, the number of visitors saw a cumulative year-on-year decline in the first five months of the year of 44.2%, electricity consumption fell 12.4% year on year over the same period, and imports - excluding works of art, collectables or antiques, which saw an unusual increase in June - fell 25.9% in the first half of the year. Of note are the falls of about 30% in imports of building materials (in value) and fuels (in litres). In this context, the labour market also deteriorated, but more conservatively, thanks to the measures decreed by the Government to suspend employment contracts or reduce working hours, which businesses were able to take up.

So, the number of employees fell 1.2% until April, mostly in the service sector, and the number of job seekers more than doubled in the first half.

In the future, the trend in the Andorran economy will continue to be influenced by the impact of the pandemic on the world economy and especially on neighbouring European countries. In this respect, it is notable that Spain and France are among the countries for which the

forecasts are most negative this year (the IMF has predicted GDP falls of more than -12%), considering the importance of tourism to their respective economies, among other aspects. Andorra shares this characteristic, although the forecasts indicate that long-distance tourism will be much more affected than nearby tourism, which could play in Andorra's favour as it is a nearby destination for the Spanish and French tourist markets, is largely aimed at outdoor activities and not massified. All in all, this all implies that the Andorran economy will see a major decline in GDP in 2020, the scale of which is, as yet, difficult to determine.

In 2020, Andorra will see a major decline in GDP, influenced by the impact of the Covid-19 pandemic on neighbouring economies.

Primarily, the duration of the crisis will depend, on the one hand, on the ability of all countries to keep outbreaks under control and gradually reverse the measures limiting people's movement and, on the other hand, on how long ongoing research will take to discover an effective vaccine against the Covid-19 virus. In this context, the role of states and coordination in adopting measures to support the economy at European level will be crucial to mitigating the effects of the crisis and avoiding major destruction of the business network and jobs.

However, Andorra alone has limited economic capacity to adopt measures to boost the economy, due to its small size and the fact that it does not have access to finance from international bodies such as the ECB or IMF. In this respect, remember that on 3 January 2020, the Government began the formal process of joining the International Monetary Fund, opening a period of negotiation that is expected to lead to Andorra's entry into the institution.

In conclusion, the cycle of expansion seen by the Andorran economy in the last six years ended suddenly in 2020 due to the Covid-19 pandemic, plunging the economy into an economic crisis in synchrony with the rest of the European economy, from which Andorra will struggle to emerge without the foreign impetus. There is hope of emerging from the crisis in 2021, boosted by the

MAIN GOVERNMENT MEASURES TO MITIGATE THE IMPACTS OF COVID-19

The severity of the Covid-19 pandemic made it necessary to adopt special measures, to mitigate the major impact on the Andorran economy insofar as possible, to preserve as many jobs as possible, and to protect the production network and the self-employed. The package approved by the Government includes measures on employment, social security, rentals, tax and bank loans, aimed at helping individuals and entities affected by the Covid-19 crisis. Among the measures adopted are notably:

For the employed:

- Wage compensation in the event of temporary suspension of work contracts or reduction of working hours and for childcare.
- Wage cover for leave related to Covid-19 and the option of recovery of private pensions plans (measures also applicable to the self-employed).
- Possibility of requesting a 20% reduction on housing rent (measure also applicable to the self-employed).

- Possibility of obtaining a mortgage holiday or personal loan holiday for own vehicle or deferral of loan payments (measures also applicable to the self-employed).

For the self-employed and businesses:

- Compensation in the case of suspension or reduction of activity, such as reductions or suspensions of contributions and the right to receive a monthly allowance (for the self-employed).
- Reductions in lease payments on commercial premises.
- Suspension, deferral and payment by instalments of taxes, rates, tax debts and penalties.
- Special soft loan schemes at 0% interest, guaranteed by the Government for companies and businesses (for a total of 230 million euros) to refinance loans and pay operating costs.
- Deferrals, payment by instalments and discounts on services (Andorra Telecom, FEDA and private suppliers).

monetary and fiscal stimulus measures being adopted by governments on a global and European scale, but with increases in GDP that will only partly reverse the falls of this year.

The official forecasts from the Andorran Department of Statistics for the period 2020-2021, published mid-July, point in this direction, with two possible scenarios: one more optimistic, only involving the wave of Covid-19 over the past few months, and a more pessimistic scenario that includes a second wave of Covid-19 at the end of 2020. In any case, a full recovery to pre-crisis levels will drag on beyond 2021 and depends on the world managing to control the pandemic and reversing the measures that limit capacities and movement.

SUMMARY OF FORECASTS FOR THE ANDORRAN ECONOMY 2020-2021

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	
2020	Scenario 1	-10.3	-11.1	-10.5	-11.3	-11.4	-3.9	-8.8	-35.9	-0.2
	Scenario 2	-14.1	-14.8	-14.3	-15.0	-	-	-10.2	-37.0	-0.2
2021	Scenario 1	8.0	7.7	8.0	7.6	7.7	0.4	5.9	23.8	0.1
	Scenario 2	5.0	4.9	4.9	4.8	-	-	3.1	27.2	-0.3

Source: Department of Statistics.

Meanwhile, the Andorran and European economies are under the effects of anaesthesia from the temporary measures supporting demand and activity that have been adopted to date, such as moratoriums, soft loans or furloughs, with effects that will only gradually disappear. Then it will be possible to see what remains of the business network after the major economic shock of the Covid-19 virus and, consequently, the capacity for recovering pre-pandemic levels of activity.

VI. Prices and costs

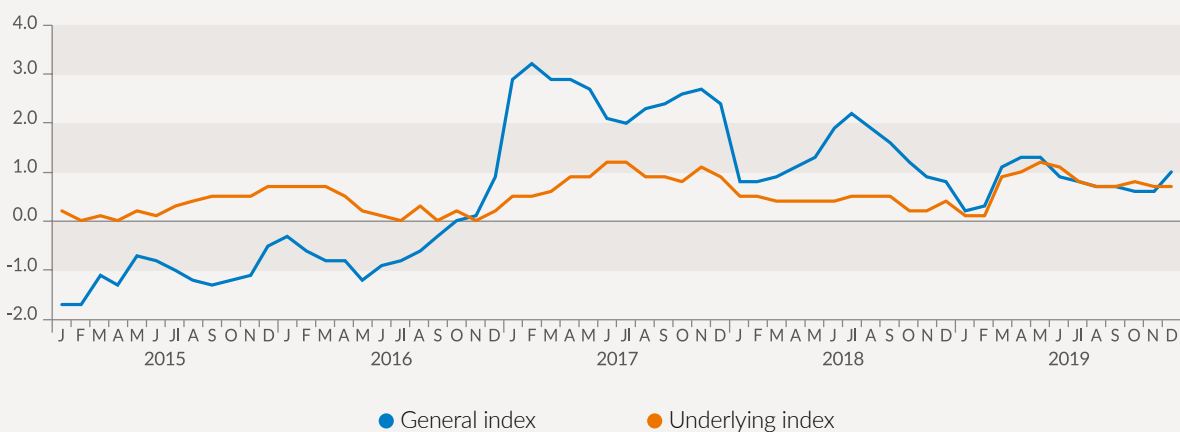
1. Consumer prices

In 2019, consumer prices in Andorra generally displayed the slow growth that was seen in 2018, so the inflation rate remained below the Eurozone average for almost the whole year.

Andorra ended 2019 with inflation at 1%, lower than that of the Eurozone as a whole.

The year began with small price rises (0.2-0.3%), which accelerated to reach a maximum of 1.3% in April-May. Then the inflation rate tended to fall until November, broken by an upturn in the last month of the year to 1% year-on-year, two tenths more than in December 2018. As a result, the price trend in Andorra was more contained than in France and the whole of the Eurozone (1.6% and 1.3% harmonised inflation at the end of the year, respectively), but slightly exceeded Spain (0.8%), the source of most consumer goods.

ANDORRAN CONSUMER PRICE INDEX - Interannual variation rate (%)



Source: Department of Statistics.

The highest price rises were in the components of alcoholic beverages and tobacco (2.6%), housing (2%) and education (2%). These are closely followed by the components of hotels and catering, miscellaneous goods and services, and clothing and footwear. At the other extreme were interannual price falls in the components of leisure, events and culture, transport and communications.

Of note in the special groups are the price increases in fresh produce (3.8%) and oil products (2.6%). Prices of services also rose by more than the average (1.5%). In parallel, underlying inflation – which

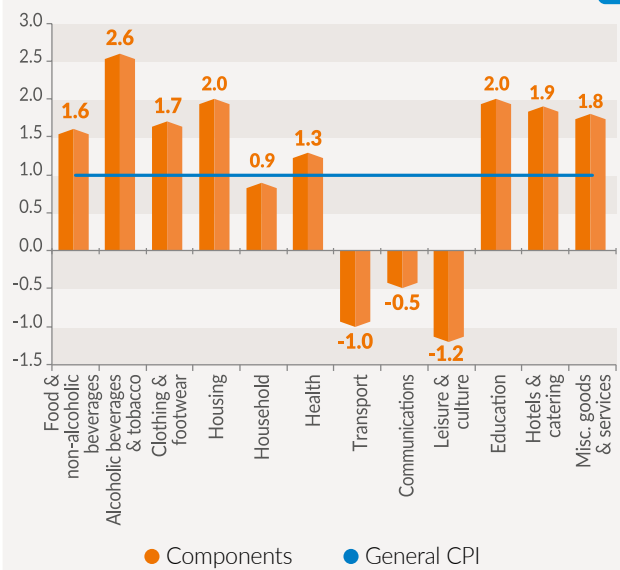
The most inflationary component in 2019 was alcoholic beverages and tobacco.

excludes energy and food, and measures the trend in core prices – accelerated three tenths to 0.7%, at which it ended 2019. However, it remains below general inflation for the fourth consecutive year, proof of the lack of background inflationary pressures in the economy.

Compared internationally, underlying inflation in Andorra in 2019 was also lower than in Spain (1.1%), France (1.5%) and the Eurozone as a whole (1.4%). So, it can be concluded that in 2019, the trend in prices in Andorra was still very controlled and more moderate than in neighbouring economies.

CONSUMER PRICE INDEX. DECEMBER 2019
Interannual variation rate (%)

Chart 6.2



Source: Department of Statistics.

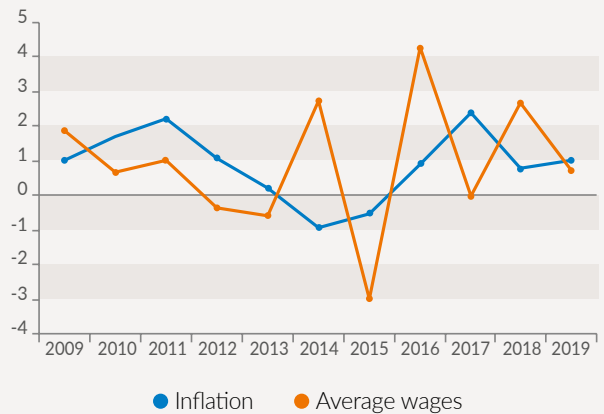
2. Wages

In 2019, the average wage in Andorra increased 0.7% to reach the figure of €2,147, the highest in the available historical series (in nominal terms), according to data from the CASS (Andorran Social Security System) and the Department of Statistics. This increase was lower than for inflation, contrasting with the previous year when wages grew 2.6%. However, if we analyse it from a longer historical perspective, it can be seen that the average cumulative wage in Andorra since the recovery in the economy and income began in 2014, was 7.4%, higher than cumulative inflation over the same period (3.9%), implying an improvement in purchasing power of 3.5 points.

The data from the Workforce Survey reflect a very similar wage dynamic in 2019 to the one shown by the CASS data, with a 0.8% increase in the average monthly pay of employees, to €1,795.58 net, for an average working week of 39.5 hours. According to this source, in 2019 about 45% of employees in the private sector earned more than €2,000, rising to 70% in the public and semi-public sector. In contrast, this is inverted in the case of the lowest wages (under €1,209), which are concentrated in the private sector (17% of the total) more than in the public sector (5.5%). The Survey also reflects that the average wages of the self-employed (€2,609.66) are much higher than those of employees, which increase with age to reach a maximum in the 45-54 age bracket, whereas they tend to decrease in older ages.

AVERAGE WAGES AND INFLATION
Interannual variation rate (%)

Chart 6.3



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

In 2019, the average wage increased 0.7%, below inflation.

As for the minimum interprofessional wage, this rose 3.2% in 2019, well above the average wage. As a result, the minimum hourly wage rose to €6.06 per hour (for workers aged 18 or above), the equivalent of €1,050.40 per month for a 40-hour working week. This trend meets the commitment to the minimum wage being half of the average wage – as stated, around €2,150 – following the recommendations of the European Committee on Social Rights. It should be added that the rise in the Andorran minimum wage occurs in a context where it also rose significantly in Spain, 22.3% to €900 in 2019, and to €950 from 1 January 2020. This raises the competition in sourcing workers from the neighbouring country to work in Andorra.

By sectors, the wage trend in 2019 was disparate, with significant increases in some sectors, such as other social activities and services to the community (3.2%), hotels and catering (2.7%) and manufacturing industries (2.7%), in contrast with the falls seen in the financial system (6.2%) and transport (-1.2%). In construction, wage growth slowed to 1.9%, after being the most dynamic sector in this aspect in 2018. As for the other sectors, note the increases in commerce (2.4%), Public administration (2%) and real estate and rental activities (2%), above general inflation.

Hotels and catering and commerce raised wages above inflation, in contrast with the reduction in the financial sector.

The analysis of wage levels shows that in 2019 the gap between sectors narrowed after increasing a little in 2018. So the highest wage is 3.4 times higher than the lowest wage (3.6 in 2018). Specifically, the highest remunerations are still found in the financial sector, where wages are 2.2 times higher than the average. This level contrasts with that of domestic work for the community which – with wages 36% below the average – is the worst paid sector. The second sector in the wage ranks is production and distribution of electricity, gas and water, with wages 61% higher than the average, followed by Public administration – 25% higher, and extraterritorial bodies – with wages 22% higher than the average. Among the sectors with wages below the average are

AVERAGE WAGES BY SECTORS (euros)

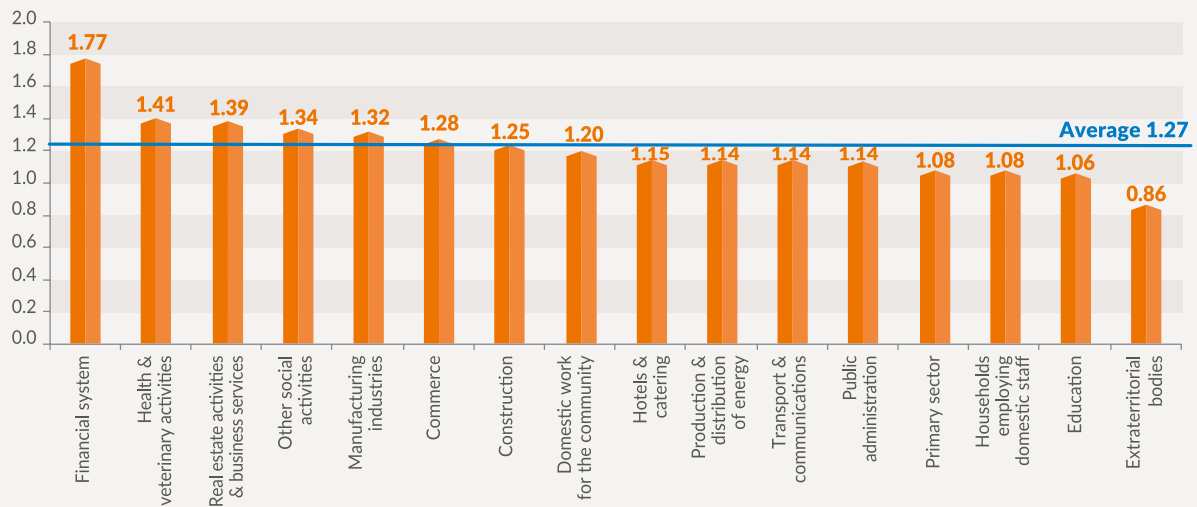
Table 6.1

	2019	% var. 19/18	Average index in Andorra = 100
Agriculture, livestock, hunting and forestry	1,598.59	2.4	74.4
Manufacturing industries (including extraction)	2,210.35	2.7	102.9
Production and distribution of electricity, gas and water	3,454.05	2.6	160.9
Construction	2,118.90	1.9	98.7
Commerce and motor vehicle repairs (etc.)	1,859.16	2.4	86.6
Hotels and catering	1,630.22	2.7	75.9
Transport, storage and communications	2,350.91	-1.2	109.5
Financial system	4,705.19	-6.2	219.1
Real estate & rental activities; business services	2,013.18	2.0	93.8
Public administration, defence & compulsory social security	2,676.31	2.0	124.6
Education	2,273.65	0.6	105.9
Health & veterinary activities, social services	2,323.82	1.0	108.2
Other social activities & community services, personal services	1,879.42	3.2	87.5
Households employing domestic staff	1,420.34	1.2	66.1
Extraterritorial bodies	2,624.29	4.7	122.2
Domestic work for the community	1,381.24	0.4	64.3
Average	2,147.23	0.7	100.0

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

WAGE QUOTIENT MEN/WOMEN BY SECTORS. 2019

Chart 6.4



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

notably construction, a sector that is below the average for the tenth consecutive year, whereas before the crisis it had traditionally been above, and commerce and hotels and catering, two sectors that employ a large part of the Andorran population (35.4% of total employees), with wages 13% and 24% below the average, respectively. Between 2004 and 2014, these two sectors accumulated a more than 7 points drop in level against the average, but in recent years the gap has partly closed.

In 2019, the gender pay gap narrowed, but is still 27%.

To complete the analysis of the trend in wages, note that the wage breakdown by gender shows that the average wage of women, according to data from the CASS, is still below the average wage for men (€1,886 vs €2,398), although the gap narrowed 1.4 points to 27.1%. This occurs in all sectors, with the sole exception of extraterritorial bodies, where women's wages exceed men's, but this branch has a low impact on employment in Andorra.

The greatest discrepancies are still found in the financial sector, where the average wage for men is 77% higher than for women, and in health and veterinary activities, where it is 41% higher. These data reflect that men occupy more high-level jobs in these sectors. In contrast, the smallest gaps occur in education and households employing domestic staff (with an average wage for men that is 6%-8% higher than for women).

The gender pay gap is also reflected in the Workforce Survey, according to which women earn on average €1,676.30 net per month, compared with €1,908.11 net for men, a figure that represents a 13.8% gap, although this is much lower than shown in the CASS data. One of the main reasons for these inequalities is that women work part-time more often and in less well paid sectors of activity than men.

VII. The foreign sector

1. Foreign trade flows

2019 was marked by slowing growth in imports and exports, to very modest variation rates. Specifically, imports of goods to Andorra grew 0.7%, a trend that brought the total value to 1,377.9 million euros, and exports grew 1.4%, to 113.8 million euros. As a result, the coverage rate (exports/imports) rose one tenth to reach 8.3%, the highest level since 2006.

Growth in imports and exports slowed in 2019.

The rate of growth in imports dropped from 4.7% in 2018 to 0.7% in 2019, the smallest increase since 2015. From a sectoral point of view, the level of concentration in imports remained fairly stable over the last year. The four largest groups (food, transport material, products of the chemical industries, and machinery and electrical equipment) accounted for 52.2% of the total, six tenths more than in 2018. However, if we consider the six largest groups (adding mineral products and textiles), their proportion of the total remains practically stable at about 68%, highlighting the high level of concentration that still characterises Andorra's foreign trade.

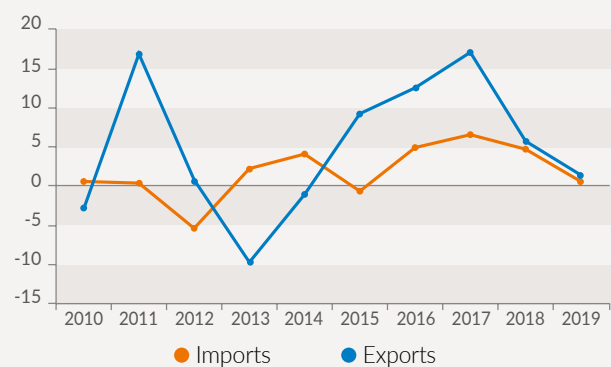
As in the case of imports, in 2019 the trend in Andorran exports rose slightly but the rate of growth slowed in comparison with the previous year. The variation in exports was only 1.4%, less than the 5.7% in 2018, the lowest figure since the recovery began in 2015. Nevertheless, in absolute terms, the volume of exports is 113.8 million euros, the highest figure since 2006.

Andorran exports are also characterised by a high level of concentration in certain products. Specifically, the three largest export groups (machinery and electrical equipment, transport material and optical, photographic and precision apparatus) concentrate practically 62% of total exports, almost three points less than the previous year but a high percentage and much higher than in imports.

Andorran exports highly concentrated in a few products.

Note that a proportion of the Andorran imports are subsequently re-exported. In fact, looking at the top ten import and export chapters, there are five matches: "motor vehicles", "perfumery", "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 or bidirectional trade (one country is both exporter and importer of one type of product), in which the added value generated in the national economy or opportunism in commercial trading become essential factors and assets.

FOREIGN TRADE
Interannual variation rate (%)



Source: Department of Tax and Frontiers.

In 2019, exports saw the highest value since 2006.

TRADE DEFICIT - Millions of euros

Chart 7.2



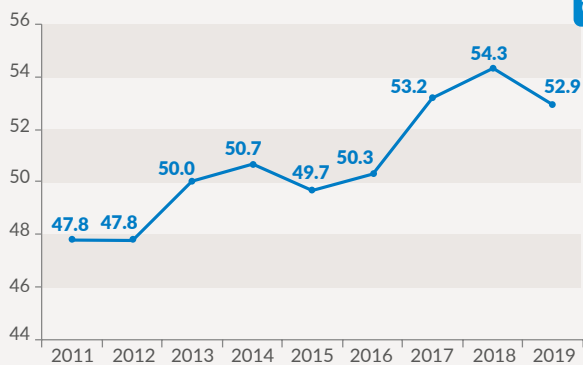
Source: Department of Tax and Frontiers and own preparation.

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

Both exchange rate trends and changes in international trade regulations are major factors influencing the re-exportation of products. The euro started to depreciate against the dollar from April 2018 and continued to do so throughout 2019, creating less favourable conditions for importing products from countries outside the monetary union for re-export to the Eurozone.

OPENNESS RATE (%)

Chart 7.3



Source: Department of Tax and Frontiers and own preparation.

In 2019, the trade deficit continued to expand and already represents 45% of GDP.

As for regulation, Andorra is in the process of negotiating an association agreement with the EU. The negotiations, which have been delayed by Brexit, among other aspects, have to allow for the free circulation of goods in chapters 1 - 23 of the harmonised system while continuing to exclude tobacco from the customs union for a transition period of 30 years, to allow for conversion of the sector. This could open up new opportunities for trade between Andorra and the EU, since the EU has increasingly been

putting legislative obstacles in place in recent years that limited the possibilities of re-exportation from Andorra.

As the volume of imports is traditionally much larger than exports and, moreover, growth in both in 2019 was quite low, the Andorran trade deficit increased slightly (0.6%) to reach 1,264 million euros, the highest figure since 2007, representing 45% of Andorran GDP. This result is due to the importance of the demand for imported products for consumption (both domestic and for tourism) and investment, which easily exceeds the value of exports.

Finally, the trend in trade flows resulted in a reduction of the openness rate of the economy (expressed as the combined value of exports and imports of goods as a percentage of GDP), which had not happened since 2015 and can be explained by the fact that foreign trade flows grew less in 2019 than nominal GDP (3.4%). In 2019, the openness rate stood at 52.9%, more than one point lower than the 54.3% of the previous year, although it is still the third highest figure in the last decade.

2. Geographical distribution of foreign trade

2.1. Imports

In 2019, imports from Europe, the main geographical source of Andorran foreign purchases, reached 91.9% of the total, close to the highest historical percentage recorded in 2016 (92.1%). This trend was the result of a 1.0% increase in imports from Europe in 2019, slightly higher than the global import growth (0.7%).

In 2019, only imports from the European continent grew.

The behaviour of imports from other continents was negative. Note especially the downturn in purchases from America (-11.8%), although its proportion of the total is only 1.0%. Imports from Asia and Africa shrank 2.1% in both cases, but the reduction in imports from Asia is much more significant, as it represents 6.2% of total Andorran imports. In contrast, imports from Africa only represent 0.2%.

Within the EU, purchases from Spain, Andorra's main supplier, increased 1.4%, a smaller increase than in the previous year (5.0%), but higher than for imports as a whole. For this reason, their percentage of the total increased half a point to 64.3%. In contrast, the trend in imports from France was negative (-6.9%) for the third consecutive year. Consequently, their percentage of the total fell to 12.1%, a historical low and far from the 30% they represented in the 1990s. Nevertheless, France is still the second largest supplier to Andorra, well above the third and fourth, Germany and Italy, each with a proportion of about 4%. In 2019, Germany overtook Italy again thanks to the strong increase in purchases from that country (18.4%). Note that in 2019, Spain was the country that contributed most to import growth (0.9 percentage points), whereas France made an equivalent negative contribution (-0.9 percentage points).

As for the other EU countries, Andorran imports from the United Kingdom saw a decline of 0.8%, so that country's proportion fell slightly to 1.5%. Next are the Netherlands with 1.1% of the total and strong growth in imports in 2019 (22.5%), and Portugal with a proportion of 0.9% and 1.1% growth.

The other EU countries have a minimal proportion of less than 1%, so their contribution to total growth is insignificant. Outside the European Union, the downturn in imports from Switzerland stands out (-18.5%), after recovering the previous year. As a result, Switzerland's percentage of the total fell to 1.0%, below the historical average.

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 certain years another particular country may join them, but this was not the case in 2019. The trend in purchases from the USA was quite negative due to the euro depreciating against the dollar, with a decline of 6.4%, added to

Imports from Germany and Italy shot up while imports from Switzerland, France, the USA and China fell steeply.

FOREIGN TRADE BY GEOGRAPHICAL AREAS

Table 7.1

	IMPORTS			EXPORTS		
	Meuros 2019	% var. 2019/18	% total 2019	Meuros 2019	% var. 2019/18	% total 2019
Spain	886.1	1.4	64.3	71.0	11.9	62.4
France	166.6	-6.9	12.1	12.6	-33.4	11.1
Germany	54.8	18.4	4.0	1.1	-43.6	1.0
Italy	53.1	8.4	3.9	1.7	33.1	1.5
United Kingdom	20.2	-0.8	1.5	1.8	551.8	1.6
Netherlands	14.6	22.5	1.1	2.9	32.7	2.6
Portugal	12.5	1.1	0.9	0.1	-34.8	0.1
EU-28	1,243.0	1.1	90.2	92.6	0.3	81.3
Switzerland	14.3	-18.5	1.0	0.2	-73.0	0.2
Europe	1,265.8	1.0	91.9	96.8	-1.1	85.1
USA	9.6	-6.4	0.7	2.0	42.6	1.8
America	14.3	-11.8	1.0	3.8	62.4	3.3
China	47.4	-4.7	3.4	0.7	32.9	0.6
Vietnam	7.5	0.0	0.5	0.0	168.2	0.0
Asia	85.4	-2.1	6.2	6.2	8.6	5.5
World total	1,377.9	0.7	100.0	113.8	1.4	100.0

Source: Department of Tax and Frontiers.

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the downturn of 35.1% in 2018, so their share of the market fell to 0.7%. Equally, imports from China fell 4.7% and their proportion shrank to 3.4%. Due to this trend, China went from being the third most important supplier to Andorra in 2018, only behind Spain and France, to being fifth in 2019, overtaken by Germany and Italy. Finally, the decline in purchases from Japan is also notable (-10%), putting its share of the total at 0.3%, far from the 6.2% it represented in the early 1990s. This change is closely related to the loss of attractiveness of the Andorran electronics trade sector over recent years. A large part of these purchases were substituted by those from Vietnam, which went from representing 0.1% of Andorran purchases before the crisis to 0.5% in 2019.

In summary, in 2019 Spain greatly increased its proportion as the main national supplier, while France continued to lose importance as a supplier, following the background trend observed in the last twenty-five years. There

was also a strong increase in purchases from Germany, Italy and the Netherlands, while those from outside Europe shrank due to euro depreciation and the trade wars between the USA and China.

Spain reaffirms its position as main supplier to Andorra with 64.3% of imports.

2.2. Exports

In 2019, exports slowed for the second consecutive year, due to the slowdown in the European economy and world trade. In fact, in 2019 exports to the European continent – the main destination of Andorran exports – fell 1.1%, explaining why Europe's proportion of total Andorran exports shrank from 87.2% in 2018 to 85.1% in 2019.

In 2019, sales to Spain, the largest consumer of products from Andorra, grew 11.9% and made a 6.7 point contribution to global export growth. As a result of this positive trend, in 2019 Spain's

percentage of total exports increased almost six points to 62.4%, the highest since 2008. In contrast, exports to France shrank 33.4% and their percentage fell practically six points to 11.1%. So, the balance between Andorra's two main partners still tips towards Spain, contrasting with the similar percentages they both had in the early 1990s.

As for the other EU-28 countries, the trend was uneven. On the one hand, there was notable growth in the markets of the United Kingdom, Italy and the Netherlands, to which exports grew 552%, 33.1% and 32.7%, respectively. Subsequently, their proportions rose to 1.6%, 1.5% and 2.6%, respectively, and the United Kingdom went from being twelfth in the ranks of destinations for Andorran foreign sales to seventh, after Spain, France, Norway, the Netherlands, Hong Kong and the USA. In contrast, sales to Germany fell sharply (-43.6%), limiting its proportion to 1.0% and bringing it down to ninth in the ranks. The other EU-28 countries have a proportion of less than 1% so their contribution is insignificant.

Within Europe but outside the European Union, the contribution from Norway is notable, with a proportion of 3% and occupying third place in Andorra's export ranks after Spain and France, but in 2019 the behaviour of sales to that country was fairly negative (-17.7%), for the second consecutive year. For their part, exports to Switzerland fell sharply by 73% and its proportion fell to 0.2% of the total, compared with the 4.6% they had reached in 2010.

The rest of the world's share of total Andorran sales increased 15% in 2019. This trend benefitted from euro depreciation, as it brought down the cost of exports outside the Eurozone. Accordingly, the growth in exports to the American continent is notable (62.4%), raising its share from 2.1% in 2018 to 3.3% in 2019. In this case, the trend can basically be explained by increased sales to the USA, on the one hand (rising 43% and raising its share to 1.8% of the total) and, on the other hand, El Salvador (multiplying exports by eight).

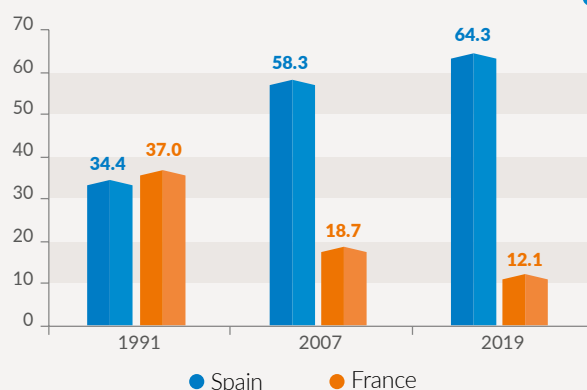
The contribution of the USA to total growth in sales was 0.5 points, and El Salvador 0.6 points.

In 2019, the contribution from the Asian continent was also positive, with an increase in total exports of 8.6%. This increase can almost wholly be explained by the positive contribution from sales to Singapore (which multiplied by 18 to represent 0.4% of the total), to Hong Kong (the most important Asian market, which saw 9.3% growth) and to China (the third most important

In 2019, exports to Spain grew 12% and are already almost two thirds of the total.

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

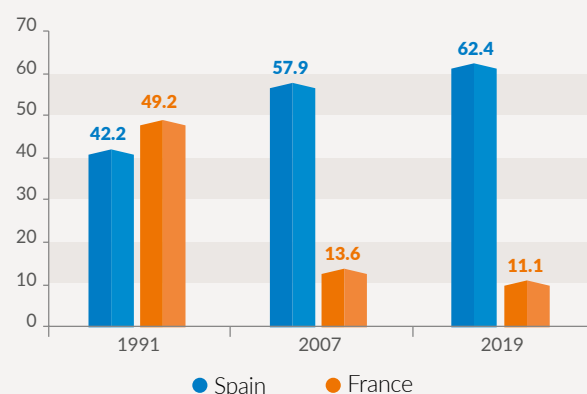
Chart 7.4



Source: Department of Tax and Frontiers.

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

Chart 7.5

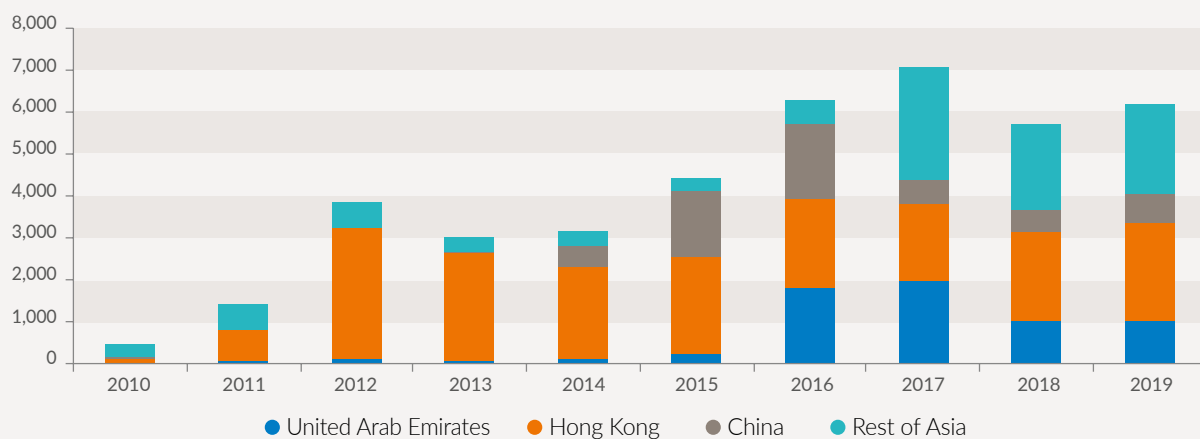


Source: Department of Tax and Frontiers.

Exports to the rest of the world increase, favoured by euro depreciation.

ANDORRAN EXPORTS TO ASIA - Thousands of euros

Chart 7.6



Source: Department of Tax and Frontiers.

Asian market, with 33% growth). Another traditional market, the United Arab Emirates, recorded an increase in Andorran exports of 3.1% and maintains a proportion of 0.9%, the second most important after Hong Kong. All in all, the Asian continent's share of the total rose from 5.1% in 2018 to 5.5% in 2019. Finally, we should mention the steep downturn in exports to Africa (-72%), making this market almost insignificant to the Andorran economy.

In summary, Andorran exports are ever more focussed on the Spanish economy. Developments outside that economy are quite erratic and influenced by one-off transactions and the trend in imports for re-export. In 2019, exports outside the European continent benefitted from euro depreciation and the upwards trend in sales to the USA was notable, for the fourth consecutive year, as were sales to the Asian continent.

3. Sectoral composition of foreign trade

3.1. Imports

The low growth in Andorran imports in 2019 is the result of uneven trends in sectoral groups. The highest positive contributions were from food, beverages and tobacco (0.6 percentage points), works of art and antiques (0.5 percentage points) and transport material (0.4 points). At the other extreme, the groups that detracted most from import growth are base metals and pearls, precious stones and metals (-0.5 and -0.3 percentage points, respectively).

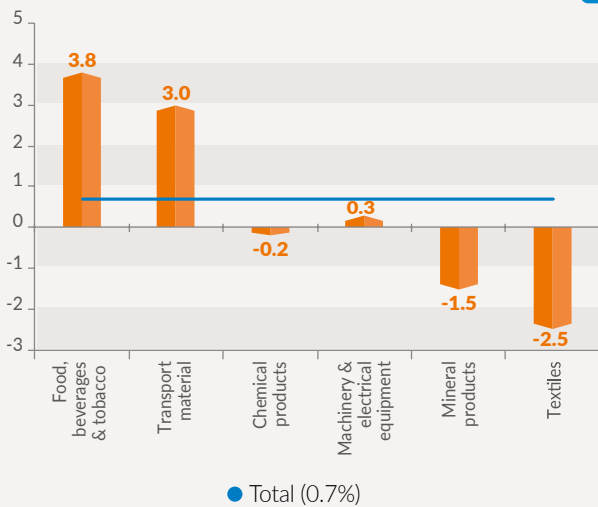
A more detailed analysis shows that in 2019, growth in imports of food, beverages and tobacco, the group with the highest percentage of the total, accelerated from 0.4% in 2018 to 3.8% in 2019. As a result, its share of the total increased half a point to 15.2%. The most important chapter in this group is beverages, alcoholic liquids and vinegars, with 5.9% of total Andorran imports and an increase of 2.4% compared with the previous year. The second most important chapter is tobacco, with 2.2% of the total, seeing an increase of 5.0%, much higher than for imports as a whole.

Imports of food, beverages and tobacco, the group with the highest percentage, grow 3.8%.

The second most important group in the imports ranks is transport material which, as already stated, made a positive contribution to global import growth, thanks to the 3.0% increase it saw

ANDORRA'S MAIN IMPORT SECTORS. 2019 - Interannual variation rate (%)

Chart 7.7



Source: Department of Tax and Frontiers.

Imports of vehicles increased despite falling numbers of registrations.

in 2019, continuing the strong upward trend that started in 2013. Consequently, its share of total foreign purchases rose three tenths to 13.3%, the highest level in the historical series. The explanation for this progress can be found in the growth of imports in the chapter of motor vehicles, tractors, motorcycles and bicycles (1.6%). However, its rate of growth slowed in comparison with the six previous years, when it grew at two-digit annual rates due to increasing vehicle registrations on the Andorran market and increasing re-exports of these vehicles. In 2019, on the other hand, the trend in vehicle registrations changed and fell 1.9%. Also note the significant growth in imports of aircraft and seacraft, which are

mostly exportable, although proportionately much less important.

In 2019, the trend in imports of chemical products, the third most important group in the ranks, was slightly negative, and consequently their proportion remained practically constant at 12%. The two most important chapters in the group are perfumery – with 7.4% of total imports – which fell 3.1%, and pharmaceutical products – with 2.3% – which increased 7.2% in 2019.

Growth in imports of machinery and electrical equipment was very similar to imports as a whole (0.3%), maintaining their share of the total at 11.7%, and the fourth most important group in the ranks of foreign purchases. This behaviour can be explained by the decline in purchases of

The strong rise in imports of minerals for construction indicates constant recovery in building activities.

mechanical apparatus (-2.2%) which was offset by a 2.3% increase in imports of machines and electrical apparatus, a trend that could be related to the rise in exports in this branch, since they are re-exportable products.

The group of mineral products is fifth in the ranks of Andorran imports, with 8.7% of the total. In 2019, it saw a decline of 1.5%. The reason for this downturn is falling imports of fuels, oils and mineral wax (-2.7%) – the most important chapter in the group with 8.1% of total imports which, in turn, can be explained by the fall in the average price of fuel associated with falling oil prices in 2019. In contrast, in the case of purchases of salt, sulphur, earth and stone, plastering materials, lime and cement, the second most important chapter in the group, there was a significant increase for the second consecutive year (19.6%), signalling the phase of recovery in the construction sector.

As for the group of textiles, imports saw a decline of 2.5%, and consequently its percentage of the total fell two tenths to 7.6%, becoming the sixth most important import group. This decline follows the one in 2018, after two years of increases.

Far behind textiles are imports of live animals and animal products, which saw an increase of 2.5% in 2019, more than for imports as a whole, so its percentage of the total increased to 5%. This trend can mainly be explained by the increase in imports of meats and edible offal, and fish (2.4% and 5.1%, respectively).

FOREIGN TRADE BY SECTORS

Table 7.2

	IMPORTS			EXPORTS		
	Meuros 2019	% var. 2019/18	% total 2019	Meuros 2019	% var. 2019/18	% total 2019
Live animals & animal products	68.8	2.5	5.0	0.1	156.1	0.1
Vegetable products	29.7	3.1	2.2	0.0	53.5	0.0
Fats & oils	5.1	-10.5	0.4	0.1	-19.5	0.1
Food products, beverages & tobacco	209.7	3.8	15.2	0.4	-4.4	0.4
Mineral products	119.6	-1.5	8.7	1.7	327.8	1.5
Products of the chemical industries	165.7	-0.2	12.0	3.6	6.6	3.2
Plastics, rubber & articles thereof	30.4	2.4	2.2	0.6	-4.0	0.5
Fur, leather & articles thereof	13.0	-11.1	0.9	1.2	23.4	1.0
Wood, cork & articles thereof	11.6	11.4	0.8	1.4	3.8	1.2
Paper & graphic arts	30.8	6.8	2.2	7.7	20.3	6.7
Textiles	104.4	-2.5	7.6	8.4	12.1	7.4
Footwear, headgear, umbrellas, etc.	34.7	-5.0	2.5	3.5	22.2	3.1
Stone, cement & ceramic articles	18.5	-5.8	1.3	0.3	47.7	0.3
Pearls, precious stones & metals	14.7	-19.2	1.1	6.6	-10.6	5.8
Base metals & articles thereof	43.3	-13.5	3.1	3.7	-24.7	3.3
Machinery & electrical equipment	160.9	0.3	11.7	38.8	6.3	34.1
Transport material	182.9	3.0	13.3	16.9	-16.3	14.9
Optical, photographic, precision app.	47.1	2.7	3.4	14.6	-7.7	12.9
Arms & ammunition	1.0	12.0	0.1	0.1	25.6	0.1
Miscellaneous manufactured articles	60.4	2.1	4.4	1.8	-16.4	1.6
Works of art, antiques	25.7	38.9	1.9	2.2	164.3	1.9
Total	1,377.9	0.7	100.0	113.8	1.4	100.0

Source: Department of Tax and Frontiers.

Finally, the trends varied in the groups of products with a share of less than 5% of foreign purchases. In particular, the increase in works of art and antiques is notable (38.9%), whereas in all other cases, the variations from the previous year were much slighter. With a negative trend, note the reduction in imports of pearls, precious stones and metals (-19.2%), base metals (-13.5%) and fur, leather and articles thereof (-11.1%), which probably indicates an unfavourable trend in trading of these types of products.

3.2. Exports

In 2019, Andorran exports increased 1.4% compared with the previous year. This trend can largely be explained by the positive contributions from the groups of machinery and electrical equipment (2.1 percentage points). To a lesser extent, there was also the contribution from the group of works of art and antiques (1.2 percentage points), the group of paper and graphic arts (1.1 percentage points), and mineral products (1.1 percentage points). In contrast, there was a notably negative contribution from the sector of transport material (-2.9 percentage points) and a negative contribution from base metals (-1.1 percentage points), also one of the sectors that contributed most negatively to import growth, probably due to falling re-exports.

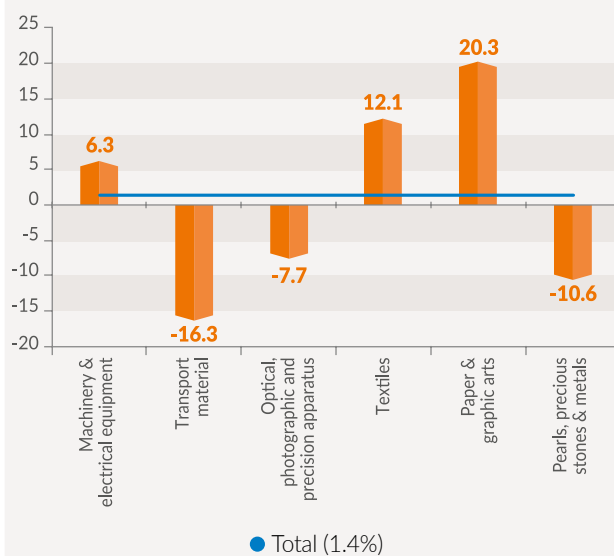
In 2019, exports of machinery and electrical equipment were one third of the total and grew 6.3%.

The largest export group is still, since 2003, machinery and electrical equipment, which saw an increase of 6.3%. This branch has seen five consecutive years of increases, bringing its percentage of the total to a significant 34.1%. By chapters, this growth can be explained by both the increase in machines and electrical apparatus (6.1%) – the most important chapter in the group with 26.4% of total foreign sales – and growth in exports of mechanical apparatus (7.0%).

Holding second place in the exports ranks is still transport material, which saw a strong downturn in 2019, of 16.3%, for the second consecutive year, after a five-year period of expansion. So, transport material's share of total foreign sales fell from 18% in 2018 to 15% in 2019. The chapter that determines this behaviour is motor vehicles, representing 14% of total exports, which saw a decline of 18.2%.

ANDORRA'S MAIN EXPORT SECTORS.
2019 - Interannual variation rate (%)

Chart 7.8



Source: Department of Tax and Frontiers.

The behaviour of foreign sales of optical, photographic and precision apparatus, the third largest export chapter, was also negative, with a decline of 7.7%. As a result, their share of the total fell to 12.9%. By chapters, the trend was negative in both the segment of optical and photographic products (-6.9%) – the most important chapter in the group, with 9.5% of total exports – and clocks and watches (-4.6%) – much less important, with only 3.1% of the total.

Exports from the sectors of textiles and graphic arts grew significantly in 2019.

In fourth place in the ranks by volume of exports in 2019 is the group of textiles, with 7.4% of the total and year-on-year growth of 12.1%, continuing the upward trend of the previous two years. Within this group were notable contributions from the chapter of articles of apparel and clothing accessories, not knitted or crocheted – the most important chapter in the group with 4.7% of total exports – which grew 11.7%, and the chapter of articles of apparel and clothing accessories, knitted or crocheted, which grew 45.2% but only represents 1.4% of the total.

The trend in the group of paper and graphic arts was quite favourable, with export growth of 20.3%. As a result, its share of the total rose to 6.7% and it reached fifth place by volume of exports. The most important subgroups are paper and cardboard (4.1% of the total) and products of the printing or graphic industries (2.1% of the total). In 2019, both saw a fairly positive trend.

The next most important sector is pearls, precious stones and metals, one of the groups that shrank most in 2019 (-10.6%), following the trend of the previous year, after quadrupling foreign sales figures between 2014 and 2017. As a result of this negative trend, its proportion fell to 5.8%. This decline in exports was accompanied by a similarly important fall in imports, probably due to falling re-exports of these products.

The other groups represent proportions of less than 5% of total exports. Base metals stand out, representing 3.3% of total sales abroad and seeing a decline of almost 25% in 2019. Next are the groups: products of the chemical industries with 3.2% of the total and an increase of 6.6%, and footwear, headwear, umbrellas, etc. with 3.1% of the total and an increase of 22.2%.

4. Foreign investment flows

In 2019, Andorra consolidated its position as an attractive destination for foreign investment. Although 458 investment transactions were formalised in 2019, which was 47 less than in 2018, the volume of investment associated with these transactions increased an extraordinary 82%, which can be explained by the fact that the average size of individual transactions duplicated in a year (going from close to €300,000 to €600,000). Specifically, the volume of global formalised investment in 2019 reached 276.8 million euros, compared with 152.1 million euros in 2018.

Foreign investment grew to represent 9.8% of Andorran GDP in 2019.

This major increase in foreign investment caused its ratio to Andorran GDP to bounce from 5.6% in 2018 to 9.8% in 2019, the highest since the Foreign Investment Law came into force in 2012.

The geographical distribution of investment formalised in 2019 shows a major concentration from two countries, Spain (27.3% of total investment) and France (27.8%). However, the origin of most foreign investment in 2019 was Andorra, with 33.7%. This figure relates to investments made by Andorran companies that are more than 50% owned by non-resident shareholders. Russia is the third most important

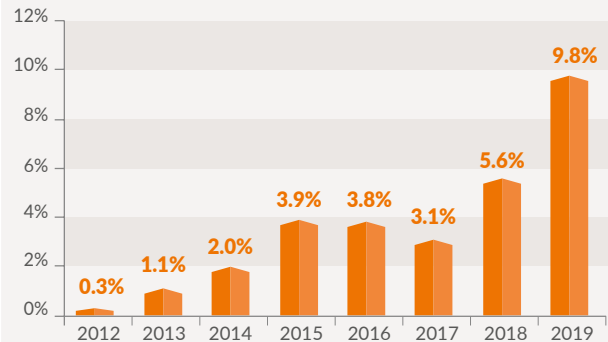
In 2019, 55% of foreign investment in Andorra was from Spain and France.

foreign country (with only 0.3%), followed by China (which increased investment in Andorra by 67% and entered the ranks of main investor countries for the first time, but with only 0.2% of total investment) and Portugal. The rest is divided between various geographical locations, of little importance.

Globally, since 2012, when the current Foreign Investment Law came into force, Spain has concentrated 40.9% of investments formalised in Andorra by amount, and France 19.5%. The rest is divided between many countries, including Luxembourg (5.5%), Belgium (3.0%) and Russia

TOTAL VOLUME OF FOREIGN INVESTMENT IN RELATION TO GDP

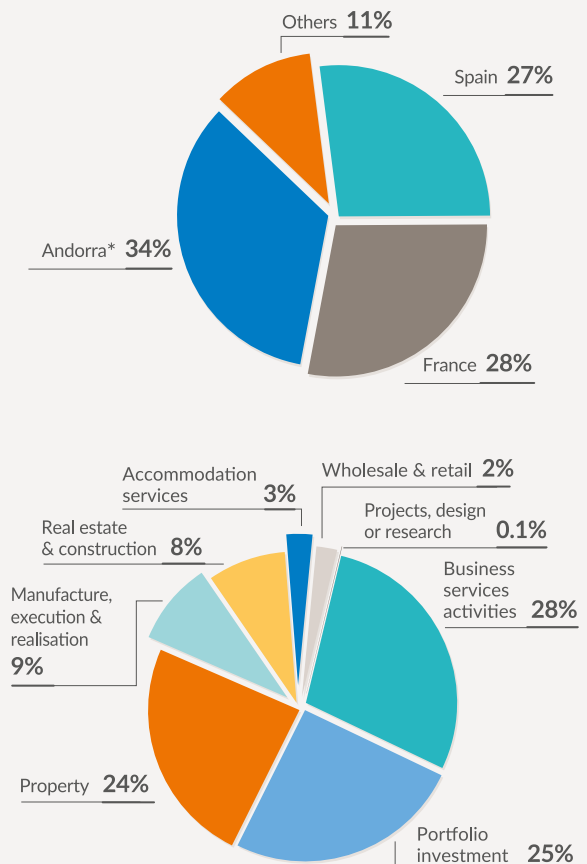
Chart 7.9



Source: Ministry of the Presidency, Economy and Business.

FOREIGN INVESTMENT BY COUNTRIES AND SECTORS. 2019 - As % of total

Chart 7.10



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

Source: Ministry of the Presidency, Economy and Business.

(2.8%). Investments where “Andorra” is identified as the country of origin represent 16.6% of the total over the period 2012-2019.

By sectors, formalised foreign investment in 2019 was notable in business services activities (28% of the total), portfolio investment (25%) and property (24%), followed by industrial manufacturing (9%) and real estate and construction (8%). Globally, the two sectors that received most investment in the cumulative period 2012-2019 are business services activities (24%) and property (29%), followed at some distance by real estate, construction (17%) and the commercial sector (13.2%), two sectors that lost attractiveness for investment in 2019. In contrast, portfolio investment, which has usually had a minor role, shot up in 2019. Industrial manufacturing also grew strongly in 2019. Other sectors that have received foreign investment over the years, if at much lower levels, are accommodation services, and projects, design or research.

In 2019 there was a strong increase in foreign portfolio investment.

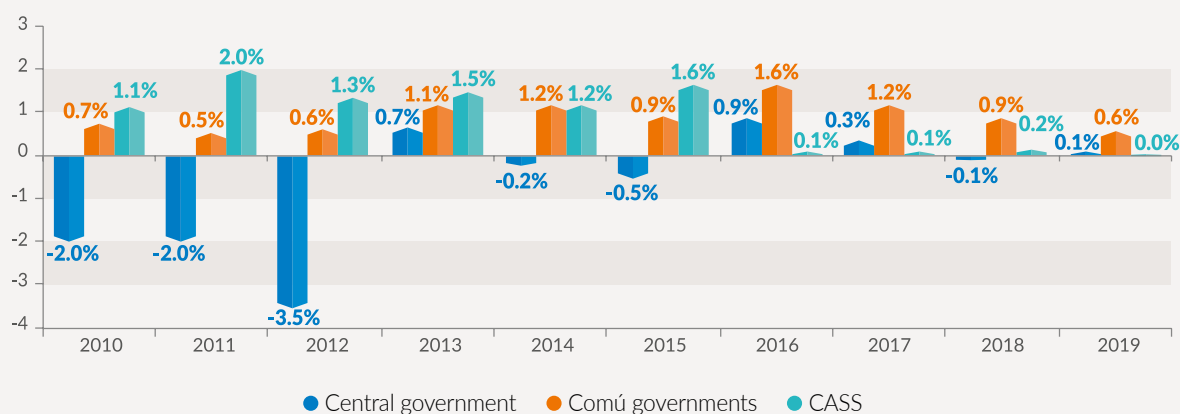
VIII. The public sector

The Andorran public sector maintained a healthy fiscal situation in 2019, with rising but controlled spending. The budget surpluses of both Comú governments and CASS decreased from 2018, to 0.6% and 0.003% of GDP, respectively, due to expenditure rising more than revenue. As for the CASS, this is the lowest level in the available historical series. For its part, the Government was the only administration to clamp down a little, closing 2019 with a small surplus (0.1% of GDP) compared with the small deficit seen in 2018 (-0.1%), due to a relatively better performance in revenue than expenditure. The official statistics have not as yet published the consolidated budget balance of all the administrations, so it is impossible to confirm the net economic effect of the actions of the Andorran public sector as a whole, but everything would indicate that the effect was expansionary, if less than in 2018.

The Andorran public sector maintained a healthy fiscal situation in 2019.

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



Note: The data from Canillo included in the calculation of the aggregate Comú figure in 2019 relates to the budget because its settlement data are not available.

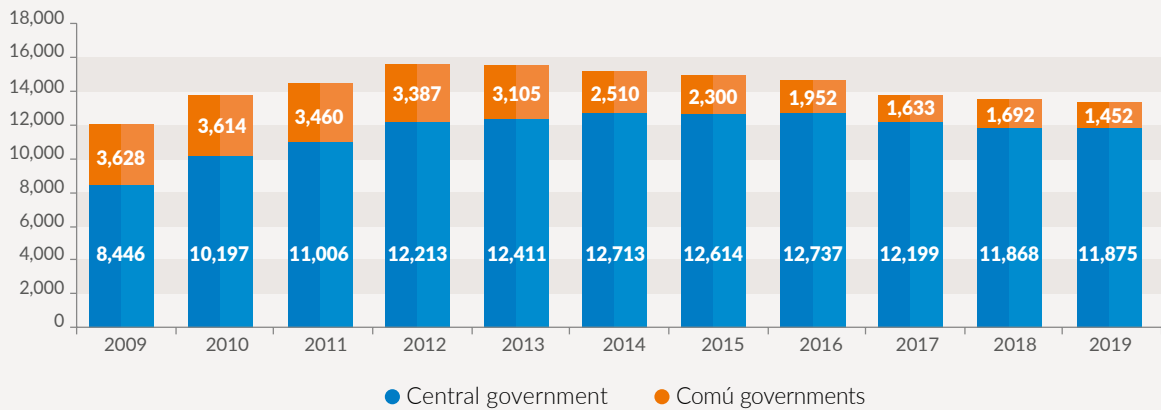
Source: Ministry of Finance, Comú governments, CASS, Department of Statistics of the Government and own preparation.

In 2019, despite the surpluses obtained by the central and Comú governments, they could not avoid a minor upturn in public debt levels, due to an increase in central Government debt, which offset the reduction achieved by the Comú governments. This trend ends six consecutive years of falling aggregate debt of the public administrations, after a historic high in 2012. So, the total debt of Andorra (central and Comú governments) reached 1,033.4 million euros, only 0.04% more than in 2018. This represents 36.7% of GDP, 1.2 points less than in 2018, a trend that was favoured by growth in nominal GDP, which brought the ratio down to the lowest since 2009. Moreover, it remains below the 50% limit set by the Law on Public Finance Sustainability and the debt target set for 2019 (40.7%). The per capita debt (based on estimated population) is 13,326 euros, 1.7% less than in 2018. This is the seventh annual consecutive reduction, which can be explained by the growing population.

Per capita debt shrank for the seventh consecutive year, to 13,326 euros.

PER CAPITA DEBT (€/person)

Chart 8.2



Notes: (1) Data published by the Comú governments for 2019 and data reviewed by the Court of Accounts for the other years, except in the case of Canillo. No debt data for 2019 is available for that Comú and likewise, the data for 2018 has not yet been reviewed by the Court of Accounts. (2) Calculated on the basis of the estimated population.

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

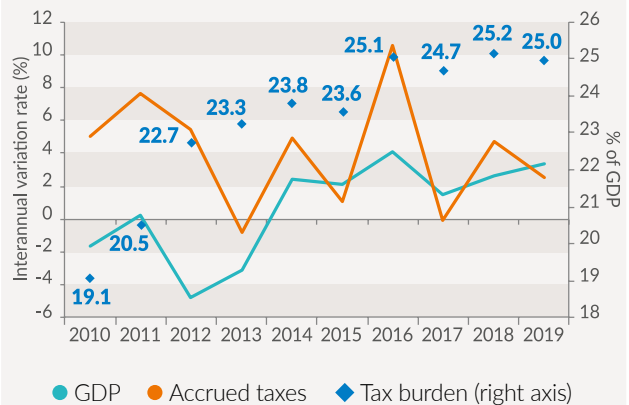
In parallel, it is estimated that the tax burden for 2019, according to the accrual principle and taking into account the new series of GDP data reviewed this year, fell two tenths to 25%, after reaching a historic high in 2018 (25.2%). This trend is the result of 2.6% growth in total tax revenue, lower than nominal GDP growth (3.4%).

Andorra's tax burden fell two tenths to 25%.

From a European perspective, the tax burden for Andorra is much lower than the 40.3% European average (according to 2018 data) or the levels of our closest European neighbours: France (48.4%) and Spain (35.4%), which 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 (23.0%).

GDP, ACCRUED TAXES AND TAX BURDEN

Chart 8.3



Source: Department of Statistics.

As for tax figures, note the 7.6% growth in direct revenue – current taxes on income and assets – which contrasts with the decline in indirect revenue (-0.6%), i.e. taxes on production and imports. Social contributions also increased (3.9%), driven by job creation and wage growth.

In 2019, indirect tax, despite a relative loss of importance, was still the largest component of the tax burden, with a contribution of 42.9% to the total. In second place, social contributions represented 39% of the tax burden, with a slight increase of half a point compared with 2018. Finally, in 2019, the proportion of direct tax, especially income taxes, increased by 0.8 percentage points to 18.1%, mostly thanks to the increased revenue from corporate tax and the IRPF (income tax).

The performance of the public sector in 2019 is analysed below, with details for each level of administration.

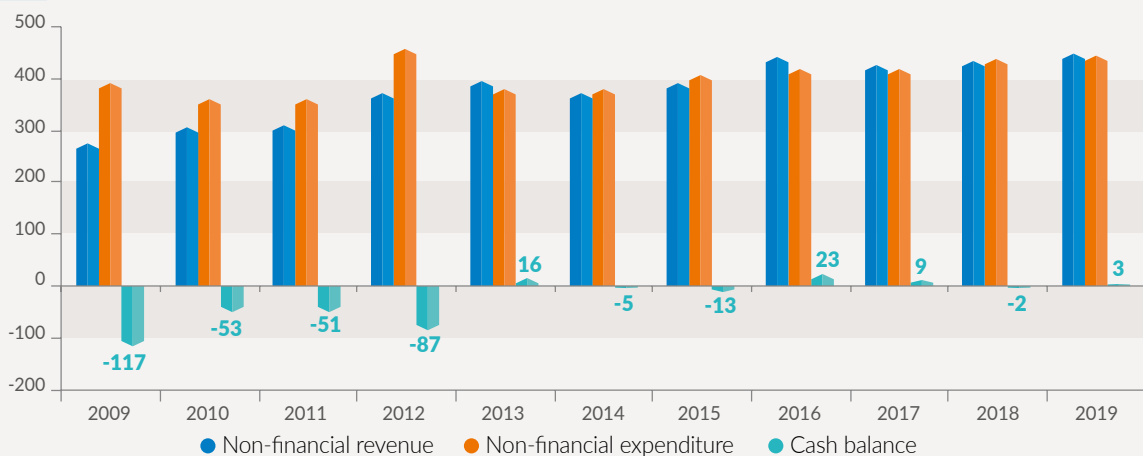
1. Central Government

According to the provisional settlement data, in 2019 the Government closed the accounts with a small non-financial cash surplus of 3.4 million euros, a figure that represents 0.1% of GDP. This positive balance contrasts with the deficit recorded in the previous year and can be explained by growth in revenue (2.3%) that was higher than in expenditure (1%). So, the Government returns to the situation of budget surplus that was last seen in 2016 and 2017, and breaks away from the historical trend of settling budgets with a deficit. In the period 1998 - 2019, eighteen financial years ended with a deficit and only four with a surplus.

In 2019, the Government closed the public accounts with a surplus of 0.1% of GDP, benefitting from a 2.3% increase in revenue.

Moreover, if we add the financial transactions carried out over the year to this non-financial surplus in 2019, an even more positive budget result is obtained, of 19.8 million euros, contrasting with the deficit recorded in 2018 (-4.7 million euros). As for the details of these financial transactions, the most notable movements relate to three debt transactions approved in May, September and November, to renew the bond issues maturing in 2019 (for a total of 350 million euros). On the other hand, the drawn balance of the loan policies more than doubled, from 21 million euros to 43 million euros.

GOVERNMENT BUDGET EXECUTION - Millions of euros



Source: Ministry of Finance.

All in all, the global debt of the central Government resumed the rising trend that marked the period 2002-2016, only interrupted in two years (2017-2018), to reach 921 million euros, 1.9% more than in 2018 and the second highest level in the historical series. Within the structure of

In 2019, the global debt of the central Government resumed a rising trend, although its ratio to GDP decreased.

this debt is notably the continued outstanding balance of public debt at 795 million euros (the other entries are loans and policies, which increased in 2019). In proportion to GDP, this debt volume represents 32.7%, half a point less than in 2018, a reduction that benefitted from

higher growth in nominal GDP than in debt. This downward trend in the debt ratio distances it from the 40% limit established in the Law on Public Finance Sustainability for the central government, meets the debt target set for 2019 (34.1%) and keeps it well below the level of the great majority of European governments. Moreover, in 2019, the term structure of the debt improved, with 62% of debt being long-term and 38% short-term, compared with the 59-41% division in 2018.

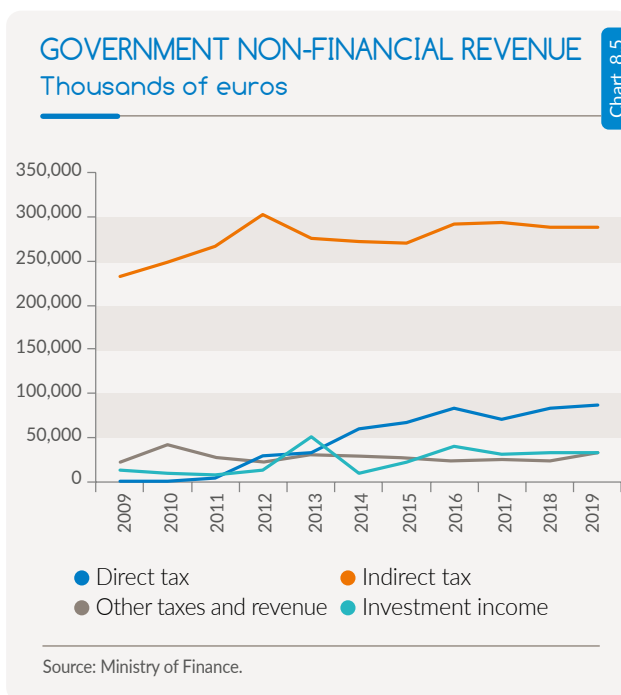
1.1. Revenue

In 2019, settled non-financial revenue continued the upward trend observed in 2018, with an increase of 2.3%, rising to 442.2 million euros. This progress can largely be explained by the strong increase in revenue from other taxes and revenue, and to a lesser extent from direct taxes. In contrast, revenue from indirect taxes fell, limiting the rising trend in overall revenue. Some revenue from current transfers and sales of investments was also obtained, although the absolute value of the contribution from these entries is very small.

Specifically, revenue from direct taxes increased 4.4% and total revenue saw a historic high of 88 million euros, almost triple what it was in 2012. So, this chapter's percentage increased to almost 20% of total non-financial revenue – when only ten years before its share was virtually zero – to represent 23.5% of total direct and indirect taxes. This percentage is still much lower than the 40% limit set by the Law on Public Finance Sustainability passed in 2014.

The strong dynamic in revenue from direct taxes is mainly the result of the good performance in corporate tax and the IRPF (income tax), with 5.4% growth in both cases. The achieved revenue of 39.4 and 36.9 million euros, respectively, consolidates these tax forms as major sources of finance for the central Government and is indicative of a positive trend in economic activity and household income in 2019. Revenue obtained from the tax on non-residents' income (IRNR) also saw an increase of 8.2%, to 7.5 million euros, contrasting with the capital gains tax on property transfers, which underwent a decline of 15.2%, to 4.3 million euros of revenue, indicating a loss of momentum in the Andorran property market.

Revenue from direct taxes already represents almost 20% of the total non-financial revenue of the Government.



EXECUTION OF THE GOVERNMENT BUDGET ⁽¹⁾ (Million euros)

Table 8.1

	Settlement 2019	% variation 2019/2018	% execution 2019 ⁽²⁾
Direct taxes	88.1	4.4	108
On capital gains on property	4.3	-15.2	118
On personal income (IRPF)	36.9	5.4	116
On companies / economic activities	39.4	5.4	106
On non-residents' income	7.5	8.2	83
Indirect taxes	287.0	-0.4	94
On property transfers	2.3	-10.9	75
On consumption of goods (IGI)	129.6	3.3	95
On consumption of services (ISI)	3.3	8.1	96
Special taxes	47.3	-0.4	100
On foreign trade	103.6	-4.7	92
On gambling	1.0	-5.5	76
Other taxes and revenue	33.1	30.0	130
Current transfers	0.1	6.2	-
Investment income	33.9	-0.7	101
Real investment sales	0.0	-66.8	-
Non-financial revenue	442.2	2.3	99
Current expenditure	383.8	-1.4	94
Personnel costs	117.8	2.6	98
Consumption of goods and services	44.5	-10.8	85
Financial expenditure	12.4	-5.0	93
Current transfers	209.0	-1.1	95
Capital expenditure	55.0	21.2	62
Real investments	45.2	18.7	65
Capital transfers	9.9	34.4	52
Non-financial expenditure	438.8	1.0	88

(1) Settlement of 2019 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 from obligations undertaken during the previous financial year relating to expenses postponed to the following financial year, and the modifications and increases in budgetary credit.

Source: Ministry of Finance.

As for indirect taxes, the revenue obtained in 2019 fell for the second consecutive year (-0.4%), to 287 million euros. However, this entry is still by far the most important source of finance for the Government, representing 65% of total non-financial revenue, but it is also true that it has lost importance in recent years when compared with direct taxes.

The fall in 2019 can be explained by the decline in revenue from taxes on foreign trade (-4.7%), to approximately 104 million euros. Within this section, the most important concept is consumption tax, a customs duty applied to agricultural products imported into Andorra (import chapters 1 – 24), with a notable proportion from imports of beverages and tobacco. Among the factors that could help to explain this decline is notably the closure of the border between France and Andorra due to the landslide that blocked the access road to Andorra, and the landslide at La Portalada, which disrupted entries of visitors at the river Runer border.

In 2019, revenue from indirect taxes fell, influenced by falling revenue from consumption tax.

The negative behaviour of the consumption tax was largely offset by the positive trend in the indirect general tax (IGI), a tax on consumption in force since 2013 and the top tax form by volume of revenue. In particular, revenue from this tax saw an increase of 3.3% in 2019, to a net settled amount of almost 130 million euros. These figures indicate a fairly positive trend in Andorran economic activity.

Moreover, special taxes, the third largest tax form by volume of revenue, generated 47 million euros, 0.4% less than in 2018. These taxes are applied to the importation and manufacture of certain products, such as alcohol, tobacco and fuels, so the decline in 2019 is linked to the trend in imports of these products, especially the downturn in purchases of fuels, contrasting with the increase in imports of alcoholic beverages and tobacco.

The other indirect taxes, with lower percentages of total revenue, showed diverse trends. On the one hand, revenue from the ISI (tax on business and professional services) increased (8%). On the other, revenue from property transfer tax (ITP) fell (10.9%), due to a decline in property transactions within the country, and revenue from gambling tax also dropped (-5.5%).

To conclude the analysis of revenue, note that the chapter of other taxes and revenue was more dynamic in 2019, with growth of 30%, to 33.1 million euros (7.5% of total settled revenue), largely motivated by withdrawals of 2018 cash balances from the CASS.

In contrast, investment income fell 0.7% to 33.9 million euros in 2019. This trend was largely the result of decreased marketing of euros to stamp collectors and other collectors (-49.5%), partly offset by an increase in dividends from the Andorran electricity company FEDA, of 57.6%, directly related to an increase in its profits. As for Andorra Telecom, the solid financial situation of the semi-public body allowed for the profit distribution to remain at 27 million euros, as in 2018, contributing significantly to the finances of the central Government.

Finally, the contributions from current transfers and sales of real investments were insignificant, and there was no income from capital transfers.

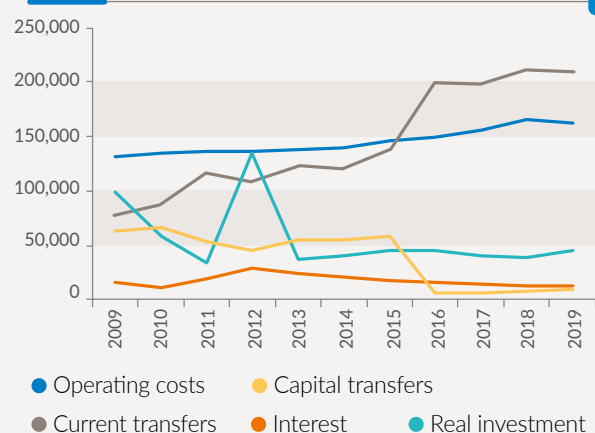
1.2. Expenditure

Settled non-financial expenditure in 2019 reached the figure of 439 million euros, 1% more than the previous year. This trend can be explained by the increase in capital expenditure, only partly offset by the reduction in current expenditure, the opposite of what occurred in 2018. As a result, the increase in non-financial expenditure was smaller than in revenue, representing a more restrictive tone in fiscal policy implemented by the central Government, compared with the previous year.

Total settled capital expenditure was 55 million euros, 21.2% more than the previous year and the highest figure in the last four years. This increase represents a change in the policy of contained investment that marked the budgets of recent years (12.5% of total non-financial

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.

expenditure), but still far from the levels of the previous phase of expansion. By chapters, the growth in capital expenditure can be explained by the strong impetus from real investment (18.7%), to 45 million euros, to which should be added almost 10 million in capital transfers (34.4% more than in 2018).

Government expenditure grew moderately in 2019.

Box 8.1

ADMINISTRATIVE COMPLEXITY

A major restriction on carrying out business activities is the existence of administrative formalities that do not add value and involve an unnecessary burden – in time and costs – for businesses. In 2019, the Chamber of Commerce took a survey on this issue for the following purposes: first, to analyse the complexity of administration in Andorra; secondly, to determine how far the complexity of administrative formalities affects business activity, and lastly, to find out what businesses think of the steps to simplify administrative procedures taken by the public administration. The main conclusions are explained below.

Nearly 46% of surveyed businesses consider that the burden and complexity of administration affect competitiveness, with a relatively higher sectoral incidence in hotels and catering, being one of the sectors most affected by foreign competition and, together with construction, the effects of regulations regarding immigration and health and safety at work.

In global terms, 64.8% of surveyed businesses qualify their relations with public administration as complex or very complex, while only 35.2% consider them not very complex.

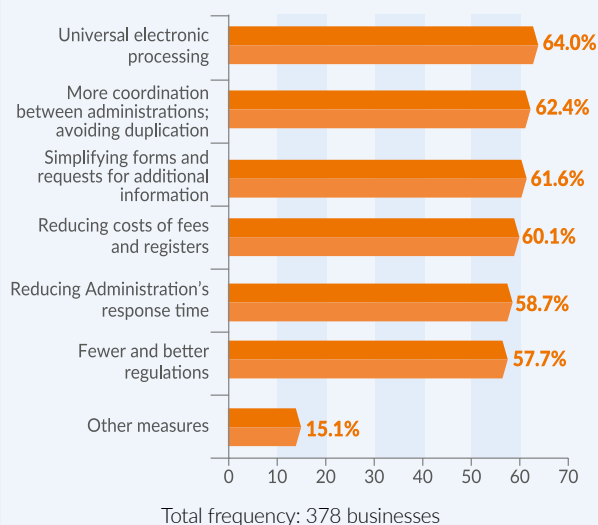
The greatest level of administrative complexity is in the handling of taxes and duties, which received the most negative average value (3.18 out of 5), followed by immigration permit formalities (3.14) and formalities relating to safety, risks and environment (3.06).

Between 2017 and 2019, almost 8 of every 10 businesses saw no reduction in the number of formalities by the public administrations, and only

21.1% noted it. Three quarters of the businesses that noted a reduction in formalities in the last three years indicate that their relations with CASS (the social security system) have improved. As for the other administrative bodies, 54.7% of businesses noted a decrease in formalities at the Government and 47.7% noted more streamlined relations with the Comú authorities.

Finally, in relation to the priority measures to reduce the bureaucratic burden, the actions most cited by businesses are the development of universal electronic processes, greater coordination between administrations to avoid duplication, and the simplification of forms and requests for additional information.

MEASURES THAT BUSINESSES CONSIDER PRIORITIES TO REDUCE THE BURDEN AND COSTS ASSOCIATED WITH ADMINISTRATIVE COMPLEXITY



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

There was a notable increase in capital expenditure that offset the fall in current expenditure.

Regarding current expenditure, the decline seen in 2019 was divided between all chapters except personnel. Specifically, consumption of current goods and services saw contraction of 10.8%, which reduced its share of total non-

financial expenditure to 10.2%, after a steep increase in 2018 linked to a special settlement, based on execution of the court judgement requiring the central Government to make specific payments to the Comú governments. Other entries that explain the decline in consumption of goods and services in 2019 are leases and the costs of repairs, upkeep and maintenance.

The decline in current transfers was 1.1%, to 209 million euros, and can be mostly attributed to lower settlements of Comú transfers. As a result, the proportion of current transfers in total non-financial expenditure fell one point to 47.6%, although it is still by far the largest chapter of budget expenditure.

Equally, the chapter of financial expenditure has continued to fall since 2013 (-5%), favoured by the ECB's monetary easing measures, which push down market interest rates. So, its percentage of total non-financial expenditure declined again, to 2.8%, the lowest level in the last thirteen years.

The proportion of financial expenditure in total expenditure fell to a low.

Finally, personnel costs are the only chapter in current expenditure that increased in 2019 (2.6%), to 118 million euros, although this growth was the slowest in the last five years. The increase can basically be explained by the impact of the CPI, the effect of applying the Law on the foreign and diplomatic service, and the creation of new jobs. Consequently, the percentage of this chapter in non-financial expenditure rose to a historic high of 26.9%, consolidating its position as the second largest expenditure chapter after current transfers.

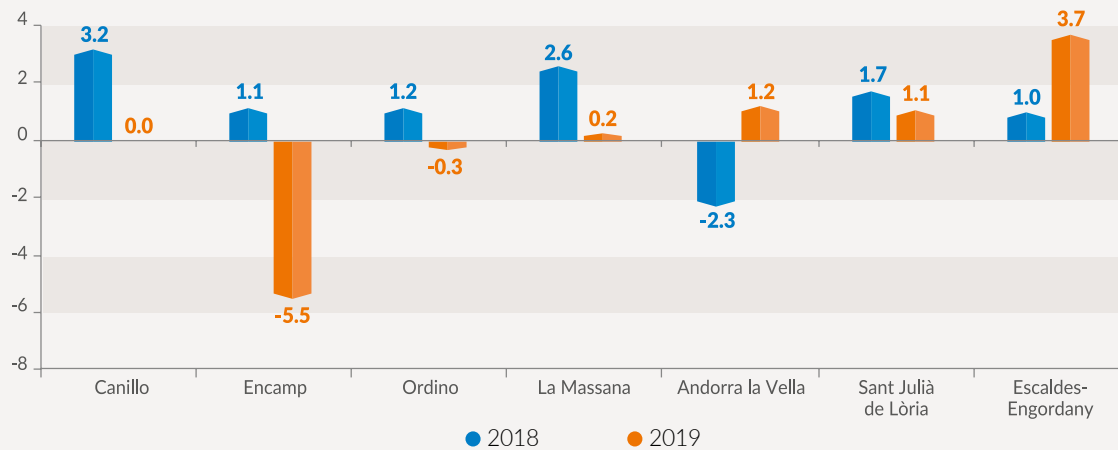
2. Comú governments

Before analysing the aggregate progress of the public finances of the Comú governments, note that on the completion date for this report, the 2019 settled accounts of the Comú of Canillo were not available. For this reason, the data from the budget of that Comú for 2019 was used in the analysis below. This means that the comparison does not totally match 2018, for which all settlements of Comú governments are available. In next year's report, the aggregate data used in this section will be reviewed. In any case, considering the limited size of the Comú of Canillo, the conclusions on aggregate developments in 2019 should not vary much once the final data on Canillo's budget settlement is available.

With this reservation, the settlement of the budgets of the Comú governments, including financial assets and liabilities, shows that in 2019 the volume of total revenue of the Comú governments reached the figure of 164.3 million euros, an amount that only slightly surpasses the 164 million euros of settled expenditure. As a result, the balance for the Comú governments as a whole remained positive for the twelfth consecutive year, although the figure (0.3 million euros) is by far the lowest in this whole period of surpluses. This is the result of much higher growth in expenditure than in total revenue. If the analysis is limited to non-financial revenue and expenditure, we find that the total volume was 160.7 and 144.2 million euros, respectively, resulting in a non-financial cash surplus of 16.5 million euros, part of which was allocated to reducing the debt. This surplus represents 0.6% of GDP, three tenths less than in 2018 and the lowest since 2011.

SETTLED BUDGET BALANCE OF THE COMÚ GOVERNMENTS - Millions of euros

Chart 8.7



Note: The data for Canillo in 2019 relate to the budget because its settled data are not available.

Source: Comú governments / Department of Statistics.

In more detail, it can be seen that only two Comú governments recorded a public deficit (Encamp and Ordino), which implies deterioration of the situation when compared with the positive balances of recent years. In contrast, the others settled their budgets with a surplus. Specifically, Andorra la Vella went from deficit to surplus, Escaldes-Engordany increased it, while La Massana and Sant Julià de Lòria reduced it compared with 2018. In the case of Canillo, as said, the settlement data are not available so the balance approved in its yearly budgets was used as a reference in the aggregate figures for all the Comú governments.

The surplus of the Comú governments as a percentage of GDP fell to the lowest level since 2011.

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In this way, Escaldes-Engordany becomes the Comú with the most important surplus (3.7 million euros), followed at a distance by Andorra la Vella and Sant Julià de Lòria (1.2 and 1.1 million euros, respectively), while Encamp had the most negative balance in 2019 (-5.5 million euros). This can be explained by the major investment effort made by Encamp, with the second highest volume of real investment in 2019 (10.4 million euros), only behind Andorra la Vella (13.1 million).

As for the trend in debt, the data for 2019 are also influenced by the fact that the information for Canillo is not available so, to make the aggregate analysis, the debt considered is the same as in 2018, a figure that, moreover, is the only one that has not been reviewed by the Court of Accounts. Taking this situation into account, 2019 would have closed with a cumulative consolidated Comú debt of 112.6 million euros, according to the provisional data published by the corporations, the lowest in the available historical series. This figure represents a reduction in comparison with the 2018 data, already reviewed by the Court, both of the total and of all the Comú governments except Canillo. So, for the sixth consecutive year, all Comú governments stayed below the debt limit set by the Law (200% of average settled revenue in the last three years), with percentages ranging from 116.4% in Ordino to 49.6% in Encamp, according to the still provisional data for 2019.

In the context of the whole Andorran public sector, the Comú governments reduced their share of total public debt (i.e. the combined debt of the central and Comú governments) to a historic low of 10.9%. This figure is much lower than the Comú percentage of non-financial public spending by the administrations (24.7%) and represents only 4% of Andorran GDP. Altogether, this means that, in relative terms, they are much less indebted than the Government, the reverse of the situation

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

In 2019, the fiscal consolidation efforts of recent years allowed for a reduction in the total debt of the Comú governments to a historic low.

By parishes, the trend in debt fell in all cases. The largest reduction was in Ordino (-27.7%) and the smallest in La Massana (-5%). As a result, the Comú with the highest volume of debt is still Andorra la Vella (27.1% of total Comú debt) in keeping with its higher economic value, after cutting back the debt by 10.6% in 2019. At the other extreme, the lowest volume of public debt is in La Massana (11.6% of the total).

2.1. Revenue

In 2019, the total settled revenue of the Comú governments recorded an increase for the seventh consecutive year, of 1.5%, although this was the smallest in the last five years. As a result, revenue reached a figure of 164.3 million euros, the highest level in the last decade. Equally, settled revenue was below the budgeted figure (93%), putting its percentage of total revenue of the Andorran public sector (combined central and Comú governments) at 16.8%, almost three points less than in 2018. Remember, however, that this percentage is distorted by the volume of financial liabilities of the central Government, due to debt requirements. In fact, if we only consider non-financial revenue, the Comú share rises to 26.7%, practically the same as in 2018 and a higher percentage than their share of total non-financial expenditure (24.7%).

In 2019, Comú current expenditure was very dynamic, contrasting with the fall in capital income.

By chapters, the increase in revenue can be explained by accelerating growth in current income (9.1%), combined with a significant reduction in capital income (15.7%). Moreover, in the 2019 settlement, there is a revenue

entry of 3.6 million euros for financial assets, which had not happened since 2014. Within current income, the increase by chapters was especially notable in the case of direct taxes (17.2%), driven by the positive economic trend, and current transfers (12.8%). Other taxes and revenue, the most important entry by size, also showed quite dynamic behaviour, with a rise of 8%. In contrast, revenue from indirect taxes and investment income saw falls of 7.4% and 2.8%, respectively.

So, other taxes and revenue are confirmed as the most important entry of current income for the Comú governments, with 29.7% of total non-financial revenue, followed by direct taxes (21.1%) and current transfers (15.3%), which also gained. In contrast, capital income saw a decline of 15.7% due to a major cut in capital transfers (-16.2%). Capital transfers are the second most important chapter of non-financial revenue for the Comú governments and their proportion fell to 21.6%. On the other hand, income from transfers of real investments increased 20%, but the low importance of this income means that their contribution to the total is insignificant.

Other taxes and revenue represent almost 30% of non-financial revenue and are the most important revenue entry for the Comú governments.

The analysis by parishes shows varying trends, with increases in revenue for Sant Julià de Lòria (7.1%) and Escaldes-Engordany (1.3%); falls in Ordino (-6.2%), Encamp (4.1%) and La Massana (-0.1%), and stability in the case of Andorra la Vella. Consequently, Andorra la Vella remains in first place in the Comú ranks for volume of total revenue, with 48.4 million (29.4% of the total), while Ordino is still the Comú with the lowest revenue, with 6.7% of the total or 11 million euros.

2.2. Expenditure

In 2019, the settled expenditure of the Comú governments grew at a rate of 6.9%, clearly higher than revenue, but slower than the two-digit increases seen in 2017-2018. So, total expenditure reached the figure of 164 million euros, the highest since 2009. Non-financial expenditure grew at a slightly higher rate of 8%, although it also slowed in relation to the two previous years. In parallel, financial transactions fell 0.9%, due to falling costs of financial liabilities, largely offset by the increase in financial assets. Altogether, this put the percentage of execution of total budgeted expenditure for 2019 at a relatively low level, 91.3%.

The total expenditure of the Comú governments reached the figure of 164 million euros, the highest since 2009.

Moreover, the percentage of expenditure of the Comú governments in the total Andorran public sector expenditure (combined central and Comú governments) fell to 17.1%, slightly higher than the share of revenue. However, if we only consider non-financial expenditure, the Comú percentage of total administration costs rises to 24.7%, but in this case is lower than that of non-financial revenue.

The analysis by chapters shows that the growth in Comú expenditure was quite general. Firstly, note the upward trend in capital expenditure (12.6%) – though not as intense as in the previous two years – reaching 44.3 million euros, the highest figure since 2007. The increase in capital expenditure can basically be explained by the trend in real investment

COMÚ GOVERNMENTS' NON-FINANCIAL EXPENDITURE - Millions of euros

Chart 8.8



Note: The data for Canillo in the aggregate data for 2019 relate to the budget because its settled data are not available.

Source: Comú governments / Department of Statistics.

Capital expenditure reached the highest figure since 2007.

SETTLEMENT OF THE COMÚ BUDGETS (thousands of euros)

Table 8.2

	REVENUE			EXPENDITURE		
	2019	% var. 19/18	% total 2019	2019	% var. 19/18	% total 2019
Canillo	17,520	20.0	10.7	17,520	53.5	10.7
Encamp	26,953	-4.1	16.4	32,469	20.2	19.8
Ordino	10,974	-6.2	6.7	11,314	7.2	6.9
La Massana	16,599	-0.1	10.1	16,354	16.5	10.0
Andorra la Vella	48,367	0.0	29.4	47,174	-6.9	28.8
Sant Julià de Lòria	14,993	7.1	9.1	13,923	13.4	8.5
Escaldes-Engordany	28,896	1.3	17.6	25,208	-8.3	15.4
Total	164,303	1.5	100.0	163,961	6.9	100.0

Note: The data for Canillo for 2019 relate to the budget because its settled data are not available.

Source: Comú governments / Department of Statistics.

(12.4%), which represents the majority of this expenditure. Moreover, added to this is an increase in capital transfers (58.1%), although these are a small entry in Comú budgeted expenditure.

As for current expenditure, growth accelerated from 3.4% to 6.1%, the fastest pace since 2008. The increase can be explained by rises in consumption of goods and services (7%), personnel costs (5.6%) and current transfers (5.2%). Personnel costs are still the most important chapter, as 35.6% of total non-financial expenditure. The only expenditure entry that saw a reduction was financial expenditure (-0.4%), with eight consecutive years of falls, which in turn can be explained by interest rate containment, which also benefitted the central Government.

To complete the analysis of Comú finances, note that the trend in expenditure rose in four of the seven parishes (Encamp, La Massana, Sant Julià de Lòria and Ordino). In the case of Canillo, the budget also indicated an increase but the lack of settled data prevents us from confirming it. In contrast, expenditure fell in Andorra la Vella (-6.9%) and Escaldes-Engordany (-8.3%), which can be explained by the fact that these were the only two that improved their situation in terms of budget balance. As a result, Andorra la Vella is still in first place in the Comú ranks by volume of expenditure, with 28.8%, while Ordino has the lowest absolute level of expenditure (6.9% of the total).

3. The Andorran Social Security System (CASS)

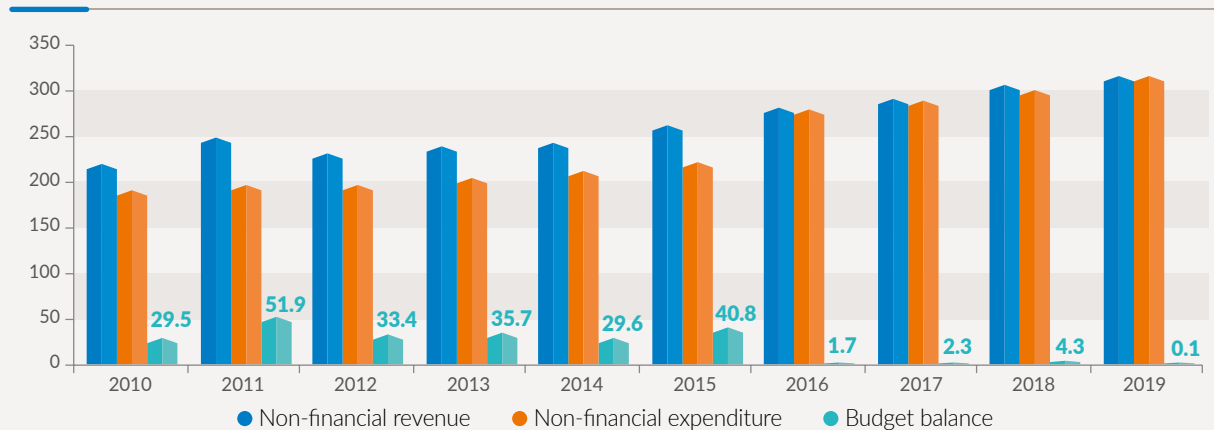
The CASS budget settlement in 2019, including financial assets and liabilities, shows a total volume of revenue of 319.4 million euros, slightly higher than the 318.7 million euros of settled expenditure. So, the CASS obtained a surplus of less than one million euros, the smallest in the last seven years. If only non-financial revenue and expenditure are counted, the CASS non-financial balance went from a surplus of 4.3 million euros in 2018 to virtual equilibrium (with a positive balance of only 93,000 euros), due to higher growth in expenditure than in revenue. This balance, equal to 0% of GDP, is the lowest in the available historical series.

The budget surplus of the CASS fell to minimal levels.

3.1. Revenue

Settled non-financial revenue of the CASS in 2019 saw growth of 3.5%, the lowest in the last five years, reaching the figure of 316 million euros.

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 274 million euros, representing 86.7% of total revenue. This figure includes employers' contributions, employees' contributions, self-employed contributions and settled contributions attributable to CASS financial benefits (retirement and widows' life pensions, permanent and temporary disability benefits). In 2019, social contributions saw an increase for the sixth consecutive year, of 3.9%, slower than in the previous year (5.6%). This can be explained by growth in the average number of employees (2.4%), the wage bill (2.8%), and the number of self-employed (2.1%). These factors were encouraged, in turn, by the continuing cycle

Social contributions grew for the sixth consecutive year, at a rate of 3.9%, slower than in 2018.

of expansion, if at slower rates, and the revaluation of wages above the CPI across most economic sectors.

The second most important chapter in CASS revenue is current transfers from the central Government, which reached 39.7 million euros, 12.6% of the total, after growing 2.7%. Non-financial revenue of the CASS is completed by a small contribution from other taxes and revenue, which fell 22.2% in 2019, and investment income, which increased 1.8%, coming to represent 0.7% and 0.01% of the total, respectively.

3.2. Expenditure

Growth in non-financial expenditure settled by the CASS accelerated in 2019 (4.9% vs 4.2% in 2018), to reach the amount of 316 million euros.

The analysis by chapters shows that current transfers, where benefits are accounted for, totalled 267 million euros, 7.8% more than the previous year, a trend that raised its percentage of the total to 84.5%. This increase is higher than the trend in contributions, explaining the reduction in the surplus in 2019. However, note that this entry also includes the non-contributory benefits financed by the Government through current transfers and contributory expenditure paid by the CASS for authorised financial benefits.

The increase in current transfers of the CASS was higher than contributions.

The second most important entry in CASS expenditure in 2019 was capital transfers (13% of the total), with three consecutive years of decline (-11.1% in 2019). The other expenditure, of lesser importance, is divided between personnel costs, which increased 5.5% - more than in the central Government - and represented 1.7% of the total, and consumption of basic goods and services, which rose 7.1% and only represents 0.6%. Expenditure on real investment is insignificant, as is financial expenditure, as the CASS has no debt.

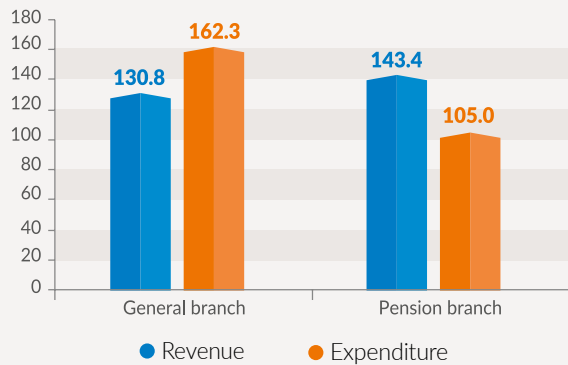
3.3. General branch of the CASS

The distribution of CASS revenue and expenditure by branches shows that, in the case of the general branch, revenue from contributions increased 4.3%, to 130.8 million euros. This rising trend was encouraged, as in 2018, by the positive performance of the labour market, resulting in an increase in the number of employees and self-employed, and also by the rise in average wages.

Growth in expenditure on general branch benefits was stronger than in revenue from contributions, at 7.1%, reaching 162.3 million euros, so the gap between income and expenditure in this branch increased. This imbalance between revenue and expenditure in the general branch is a problem

CASS REVENUE AND EXPENDITURE BY BRANCHES. 2019 (millions of euros)

Chart 8.10



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

Source: CASS (Andorran Social Security System).

The general branch deficit increased in 2019.

that started in 2007 and worsened during the years of economic crisis to reach a high in 2015. In 2019, the budget deficit of this branch was 33.9 million euros, 17.8% higher than in 2018. This imbalance is financed by contributions from the central Government budget, under the provisions of article 86.3 of Law 17/2008, a situation that has repeated itself since 2012, after the cumulative reserves of this branch were depleted in 2011. In future, the prospects of a progressively aging population and growth in chronic diseases would indicate that health costs will continue to rise, making

it difficult to restore financial equilibrium if the current conditions for contributions and coverage are maintained.

3.4. Pension branch of the CASS

The rate of growth in revenue from contributions in the pension branch decelerated from 5.3% in 2018 to 3.6% in 2019. This means six consecutive years of growth and brings the total figure of contributions to 143.4 million euros. In parallel, expenditure on benefits in this branch grew much faster, by 9%, putting the total at 105 million euros, still well below contributions.

Any surplus from contributions produced in the pensions branch of the CASS is paid into the pension reserve fund, created in 2015 for management and financial efficiency, with the sole purpose of covering the future pensions of persons who have contributed to the CASS. At the end of 2019, the fund's reserves were 1,392 million euros, 12% more than in the previous year, a variation that includes the payment from the CASS and the return obtained from management of the fund.

In 2019, the pension reserve fund increased 12% and approaches 1,400 million euros.

The rise in expenditure on benefits in 2019 can partly be explained by a 7.9% increase in the numbers of pensions, reaching a total of 12,033 individuals in December. In parallel, the number of pensioners with higher contributions and lengthier times in the system is increasing progressively, as the pension system matures.

On the other hand, the dependency ratio (active vs passive) decreased in 2019 in relation to the previous year, to 3.65 in December 2019. Moreover, 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. So, in a central scenario, it is estimated that a shortage of resources in the pension branch will be reached around 2024. Faced with this situation, the pressure to take measures to guarantee the long-term viability of the system continues to 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 0.6% of Andorran GVA and 0.4% of employees, so changes in this sector do not significantly influence developments in the economy as a whole. The trend in GVA for the agricultural sector was negative in the period 2013-2015, but then it changed direction and became positive in 2016 and 2017. In 2018, the variation rate returned to slightly negative values (-0.8%) and in 2019 this decline deepened (-2%).

In line with the decline in activity, the number of employees in the sector saw a relatively slight decline in 2019: from 164 in 2018 to 160 in 2019, representing a variation of -2.6%. On the other hand, the number of establishments dedicated to the primary sector stayed at 49, the same figure as the previous year. Historically speaking, the number of establishments in this sector is at historic highs.

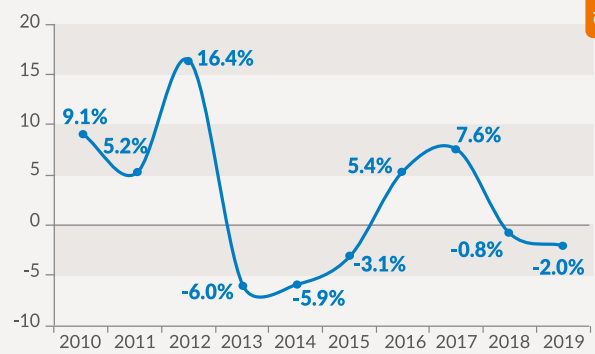
The entry of agricultural products into the customs union is opening up new opportunities in the primary sector, which will be able to access new markets and benefit from European quality labels. At the same time, this opportunity has spurred crop and livestock farmers to make investments to improve the production process, to obtain quality seals and increase productivity, especially in the wine and meat sectors. In line with the effort to introduce improvements in the production process, the average monthly wages of employees in the sector have been growing for four consecutive years. In 2019, the increase was 2.4%, putting the average wage in the primary sector at €1,599.

The average size of crop farms fell.

In 2019, two new crop farms were created (one in Encamp and the other in Andorra la Vella), so there is now a total of 316 farms. The parish with most activity is still Sant Julià de Lòria, with 64 farms, while Escaldes-Engordany bottoms the list with only 28 farms. Timewise, there has been a gradual increase in the number of farms in the last two years, while the total cultivated area has fallen in the last three years to about 19.7 km² (Utilised Agricultural Area), meaning that farm size has fallen slightly.

By type of crop, 61% of the total farmed area is used for pasture, 25% for hay, and 7% for tobacco. Over the last six years, the area for fallow and market gardening has increased. On the other hand,

PRIMARY SECTOR GVA
Variation rate in real terms



Source: Department of Statistics.

Chart 9.1

In 2019 the GVA for the agricultural sector fell 2%.

the surface area used for forage, potatoes and various crops (fruit trees, raspberries, beet and aromatic and medicinal plants) has fallen significantly.

In 2019, vineyards occupied 90,042m², 5.3% less than in the previous year, but a similar area to six years ago. Note that 2017 was the first year that the seal of quality for Andorran wines was introduced, and the Government grants subsidies to vineyards who subscribe for 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. On the other hand, the Government, together with the producers, started work to obtain the Andorra DO denomination to guarantee the origin and quality of wines produced in Andorra.

Due to the situation caused by Covid-19 and given the physical impossibility of exporting the tobacco, the 2019 harvest was destroyed in 2020, so there are no recorded data (relating to kg before and after regularisation). A single sale price was agreed for the tobacco, irrespective of the quality of leaves harvested last year. The manufacturers who buy the tobacco from producers cannot export it to France or Italy due to the Covid crisis and therefore, the whole production had to be burnt at the Waste Treatment Centre (CTRASA). Remember, however, that in 2018 the tobacco harvest was almost 240,000 kg, 20,000 kg more than in 2017, with the increase concentrated mainly in the parish of Encamp. The parish of Sant Julià de Lòria, the largest in terms of tobacco harvest, collected about 80,000 kg, 33% of the total.

FARMS AND UTILISED AGRICULTURAL AREA (UAA) BY PARISH. 2019

Table 9.1

	Farms	UAA (m ²)	% total UAA
Canillo	47	4,106,990	20.8
Encamp	46	1,900,228	9.6
Ordino	39	2,919,541	14.8
La Massana	55	3,191,746	16.2
Andorra la Vella	37	382,172	1.9
Sant Julià de Lòria	64	6,411,930	32.5
Escaldes-Engordany	28	802,309	4.1
Total	316	19,714,914	100

UAA: Utilised Agricultural Area.

Source: Department of Agriculture.

Due to Covid-19, the 2019 tobacco harvest was burnt, as it was impossible to export it.

AGRICULTURAL AREA BY TYPE OF CROP (in m²)

Table 9.2

	2013	2019	% variation 2013-2019	% total 2019
Pasture	12,773,491	12,689,716	-0.7	61.1
Hay	5,163,754	5,146,703	-0.3	24.8
Tobacco	1,490,809	1,469,255	-1.4	7.1
Fallow	528,074	629,869	19.3	3.0
Market gardening	117,218	126,762	8.1	0.6
Potatoes	200,703	148,191	-26.2	0.7
Vines	90,305	90,042	-0.3	0.4
Miscellaneous ⁽¹⁾	43,721	24,775	-43.3	0.1
Forage ⁽²⁾	29,634	19,471	-34.3	0.1
Others	415,051	422,204	1.7	2.0
Total	20,852,760	20,766,987	-0.4	100
Utilised Agricultural Area (UAA) - in m²	19,909,635	19,714,914	-1.0	-

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

Source: Department of Agriculture.

TOBACCO HARVEST BY PARISHES (Kilos) *

Table 9.3

	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
Total	219,563.2	239,896.6	9.3	100

*Due to the situation caused by Covid-19 and the impossibility of exporting the tobacco, the harvest was totally destroyed this year, so there are no data for 2019.

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

Within the customs integration process that Andorra signed with the EU in 2017, the Andorran Government undertook not to increase 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 were to increase and prohibiting special offers or gifts that would enable tobacco products to be sold below the minimum public prices approved by the Government. Also, on 12 December 2019, approval was given for Andorra to join the World Trade Organisation (WTO) Framework Convention on Tobacco Control (CMTTC), which includes, among other measures, the prohibition of advertising, promotion or sponsorship of tobacco and the requirement to adopt measures against illegal trade.

In 2019, minimum tobacco price regulations were approved within the framework of the EU customs integration process.

Remember that the EU agreed to extend the preferential agreement on the customs integration process for tobacco to 30 years, although from the seventh year, Andorra will have to start to waive its current customs duties and adopt the EU *acquis* to arrive at zero customs duties. In exchange for approval of the period of preferential treatment, Andorra must show that it is diversifying the economy to reduce its economic dependence on tobacco and also that it is fighting fraud and smuggling. The EU checks fulfilment of the agreement through a monthly report that Andorra must send with data on quantities produced, imported, marketed and exported. Moreover, Andorra must send a detailed annual report, and every five years there will be an audit.

As for apiaries, in 2019 there were 46, eight more than the previous year, with a total of 445 hives. 24 of the apiaries only keep bees while 22 also carry out apicultural activities.

In 2019, numbers of livestock fell 17.2% – 4,789 heads were recorded, almost one thousand less than in 2018 – a decline that breaks the positive trend of the previous two years. This

In 2019 the numbers of sheep fell sharply.

can basically be explained in that the category of sheep is the most important, representing half of the livestock, and shrank 26.8% in 2019 (892 fewer heads). Goat breeding also decreased substantially (-24.2%), but these are less important as they only represent 6% of total livestock. So did horse breeding (-3.6%), with 11% of the total. On the other hand, the numbers of cattle, the second largest category with 32% of the total, increased 0.8% in 2019.

The livestock sector wishes to promote awareness among consumers of the quality meat produced in this country. So, a process of marketing Andorran veal was started under the quality seal and Protected Geographical Indication (PGI), labels were made to identify butchers, restaurants and then the packaging offering this meat to customers. The quality seal has led to more livestock being bred in Andorra, avoiding the loss of a traditional activity and helping to preserve and clear the natural environment.

Remember that, since the Law on organic production and quality standards for agricultural products and food was passed in 2018, there is an organic certificate and the quality control systems for food production have expanded. Until 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.

LIVESTOCK (adult heads)

	2018	2019	% var. 19/18	% total 2019
Total cattle (bulls, cows)	1,502	1,514	0.8	31.6
Total horses (workhorses, studs, mares)	556	536	-3.6	11.2
Total sheep (rams, ewes)	3,327	2,435	-26.8	50.8
Total goats (bucks, does)	401	304	-24.2	6.3
Total livestock	5,786	4,789	-17.2	100

Source: Department of Agriculture.

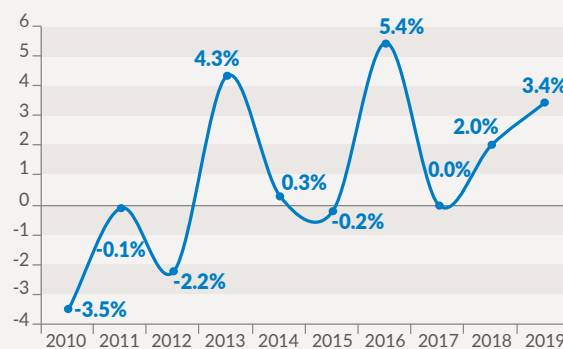
Table 9.4

X. Industry

El 2019, the industry and manufacturing sector saw a rise of 3.4%, added to the 2% increase of the previous year. The whole of the industry and manufacturing sector is a small part of the Andorran economy in comparison with neighbouring countries, only representing 5.6% 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.

This growth in industrial activity was accompanied by a rising trend in both business indicators and the labour market and electricity consumption. Specifically, the number of establishments in the sector grew 3.5%, to 413, fourteen more than one year earlier. Employment also grew to reach 1,664 employees, 3.0% more than the previous year. This is the most important

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



Source: Department of Statistics.

Chart 10.1

increase since 2005. Finally, the average wages in the sector grew significantly for the third consecutive year, after a period (2010-2016) in which they were practically stable on annual average. Specifically, the average wage in 2019 was about 2,338 euros, representing a 2.5% increase on 2018, and 7.3% more than three years earlier. Finally, electricity consumption in industry doubled in 2019 against the previous year, illustrating the expansionary phase experienced by the sector.

In 2019, the industrial and manufacturing sector saw a positive trend.

NUMBER OF EMPLOYEES IN THE INDUSTRIAL SECTOR

Table 10.1

	2018	2019	% var. 19/18	% total 2019
Manufacturing industries (including extraction)	1,443	1,492	3.5	89.7
Food and beverages	234	237	1.2	14.2
Tobacco industries	246	245	-0.1	14.7
Textiles	35	34	-3.1	2.0
Clothing and leather articles	-	-	-	-
Wood and cork, basketwork and esparto	123	131	6.6	7.9
Printing, graphic arts and reproduction of recorded media	213	221	3.6	13.3
Chemical industries	115	128	11.2	7.7
Rubber and plastic articles	15	14	-8.8	0.8
Other non-metal mineral articles	43	44	1.7	2.6
Articles of metal, except machinery and equipment	125	134	6.4	8.0
Machinery and mechanical equipment	130	138	5.6	8.3
Office machinery and computer equipment	1	0	-100	0.0
Machinery and electrical equipment	8	8	-1.1	0.5
Medico-surgical, precision, optical and clockmaking equipment and instruments	110	111	1.4	6.7
Motor vehicles, trailers and semi-trailers	3	3	0.0	0.2
Furniture, other manufacturing industries	26	26	2.9	1.6
Recycling	16	20	24.7	1.2
Production and distribution of electricity, gas and water	173	172	-1.0	10.3
Total	1,616	1,664	3.0	100.0

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

In 2019, the tobacco industry had the same number of employees and one more establishment.

One of the main industries in Andorra is tobacco. In 2019, this sector was marked by stability in the number of employees, an increase in the number of establishments (from six to seven) and a 5.0% increase in tobacco imports, to 30.3 million euros. The industrial branch of tobacco employed 245 employees in 2019, 14.7% of total employment in industry, but still far from the percentage it reached at the start of the 1990s, when it was almost one third of the total in industry. Remember that employment fell 13% between 2013 and 2016. This sector currently represents a similar percentage to the food and beverage industry (14.2%).

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 10.3%

of total employees, and a negative variation of 1.0% in 2019. In 2019, national electricity production (calculated in 110 kV bars) saw a year-on-year decline of 18.5%, contrasting with the increase of 31% in the previous year. This can be explained solely by the significant reduction in hydroelectric power production (-25%), since solar and thermal energy production saw growth (93% and 6%, respectively). However, only hydroelectric power has a relative importance as an energy source (it represents 15% of total demand); thermal energy is 5% and solar only 0.3%. The other 80% of the energy demand in Andorra is fed by imports from France (45% of the total) and Spain (35%). Regarding electricity production plants in Andorra, the novelty in 2019 is the hydroelectric power plant in Aixovall (under construction) and the increase in the number of working solar installations, to 55.

Electricity production fell 18.5% in 2019.

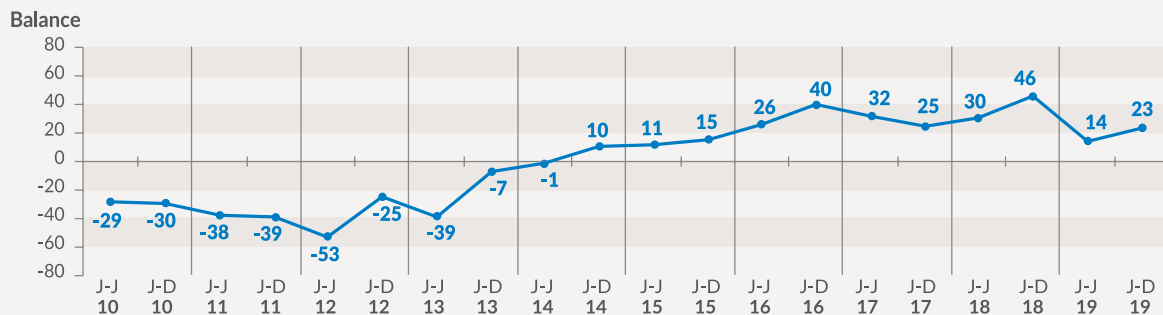
On the other hand, the total energy demand in Andorra remained practically stable compared with the previous year (also 110 kV). By sectors, energy demand increased in households, public administration, industry, hotels and catering and ski resorts, but this increase was partially offset by a decrease in other types of services and construction, distribution and financial services. All these data only relate to the Andorran Electricity Company (FEDA). The combination of a major fall in production and stable demand meant that imports of electricity in 2019, which, as said, represent 80% of total demand, grew 5.9%. In contrast, fuel imports fell 2.2%, due to the reduction in foreign purchases of diesel (-2.7%) and domestic heating oil (-6.2%). In contrast, imports of unleaded petrol rose (7.9%).

Industrial activity improved in the second half of 2019 but indicators of activity are still weak.

Unlike the quantitative indicators, the results of our situation survey indicate that levels of activity and confidence in the sector are not as positive as in the previous year, although they greatly improved in the second half. In

2019, industrial businesses indicated a fall in turnover of 0.5% on average, contrasting with the 2.2% increase in 2018. For its part, employment continued to record slow growth. The results of the situation survey show that the rate of activity in industry improved slightly in the final part of 2019, after a major slowdown in the first half of the year. In parallel, industrial production presented levels that were slightly better and tended to stabilise, after the decline seen in the first six months of the year. This more positive trend in activity is consistent with an increase in the export rate of businesses throughout the second half of 2019, in which total foreign sales of goods increased an annual 10.8%, in contrast with the 4.3% fall recorded in the previous year.

BUSINESS ACTIVITY - INDUSTRIAL SECTOR



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

		2017			2018			2019		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
1. Business activity (reviewed half-year)	Good	44	36	40	39	53	46	35	35	35
	Normal	44	53	49	52	40	46	44	53	49
	Bad	12	11	12	9	7	8	21	12	17
	Balance	32	25	29	30	46	38	14	23	19
2. Orders (reviewed half-year)	High	12	9	11	19	21	20	15	15	15
	Normal	63	64	64	57	63	60	56	61	59
	Low	25	27	26	24	17	21	29	24	27
	Balance	-13	-18	-16	-5	4	-1	-14	-9	-12
3. Stocks of finished products (reviewed half-year)	Excessive	6	10	8	3	8	6	9	4	7
	Adequate	54	57	56	58	43	51	49	47	48
	Insufficient	6	1	4	3	3	3	0	7	4
	No stocks	34	32	33	36	46	41	42	43	43
	Balance	0	9	5	0	5	3	9	-3	3
4. Average production capacity utilisation (in %) (reviewed half-year)		68.6	70.7	69.6	73.2	72.3	72.7	70.0	68.5	69.3
5. Production (compared with same half-year of previous year)	Higher	29	40	35	33	36	35	18	29	24
	Similar	56	38	47	46	47	47	44	43	44
	Lower	15	22	19	21	17	19	38	28	33
	Balance	14	18	16	12	19	16	-20	1	-10
6. Sales prices (compared with previous half-year)	Higher	14	11	13	15	16	16	15	3	9
	Equal	74	82	78	79	77	78	79	91	85
	Lower	12	7	10	6	8	7	6	7	7
	Balance	2	4	3	9	8	9	9	-4	3
7. Number of employees (compared with previous half-year)	More	9	11	10	11	9	10	15	17	16
	Same	83	85	84	79	82	81	76	77	77
	Less	8	4	6	10	9	10	8	5	7
	Balance	1	7	4	1	0	1	7	12	10

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

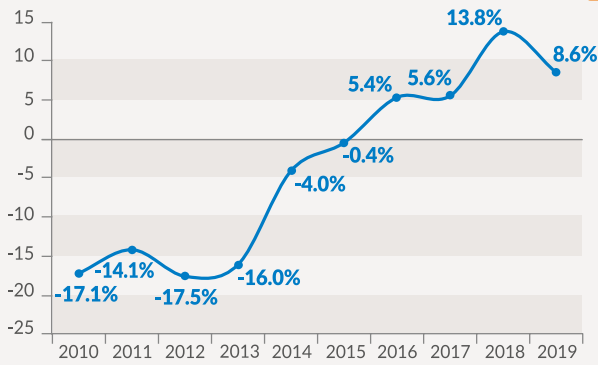
As for sales prices, these again moved within a general context of containment to encourage sales and protect competitiveness. Finally, in the labour sphere, upward growth in the numbers of personnel continued and was more marked in the second half of the year.

XI. Construction and related industries

In 2019, the strong, sustained recovery in the sector of construction and related industries that started in 2016 consolidated after a long, intense period of recession. According to the official GDP figures published by the Government, construction GVA in 2019 saw a positive variation of 8.6%, added to the increase of 13.8% achieved in 2018. Due to the positive trend since 2016, construction's share of total GVA increased to 7.3% in 2019, still far from the high of 13% it reached in 2006.

GVA IN THE CONSTRUCTION SECTOR Variation rate in real terms

Chart 11.1



Source: Department of Statistics.

Construction saw strong growth for the fourth consecutive year.

In 2019, the construction sector maintained a high rate of growth, much higher than in other sectors of activity. This positive trend, allowing it to recover part of the activity lost during the previous crisis, was also sustained in the housing segment, still in clear expansion thanks to increases in refurbishments and the demand for new buildings, and in public investment, which saw a strong increase in 2019.

Employment in the sector increased 8.8%, to 3,333 employees, the most significant increase

in the whole historical series that began in 1991, although still virtually half the number of employees reached in 2006. Due to recovering activity and the lack of trained workforce in the sector, average wages rose for the fourth consecutive year (1.9% in 2019) and passed €2,100 per month for the first time. On the other hand, in 2019 imports of building materials shrank 16%, which could be explained by the fact that the increase in the previous year was comparatively high (71%). Finally, the number of business establishments in the construction sector stayed around 810, the highest figure since 2011.

Note also that the number of authorised projects has recovered strongly in the last four years. In 2019, 817 projects were authorised, added to the 1,133 projects in 2018, figures that easily

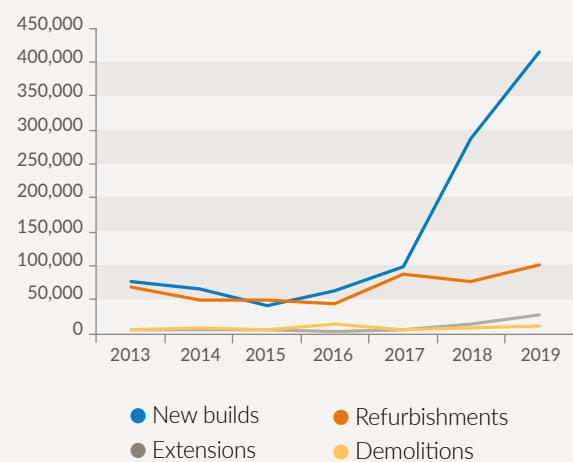
Surface area authorised for building grows 44% in 2019.

surpass the annual average of 500 projects in the five years between 2013-2017. These major increases are produced by the economic recovery and improvement in investor confidence, and also from the very low construction activity during the deep crisis in the sector. Added to this is the new Law on promoting the energy transition and climate change, which establishes that new buildings must have virtually zero energy consumption from 2020, which could have prompted the authorisations in 2019 to avoid application of these new regulations. Of the 554,762 m² authorised in 2019 (44% more than in the previous year), 75% related to new building; 18% to refurbishments and the other 7% to demolition or extension. All three categories saw two-digit growth in 2019.

The increase in the refurbishment segment can be seen in the balance of the Renova plan to improve buildings' energy efficiency, receiving 259 applications in 2019, less than the 303 of the previous year, although the cost of the actions was 9.7 million euros, 53% more than the last call for applications. The increased cost can be explained in that there were more applications for total reforms of buildings, which have a higher cost. Since the Renova plan was put in place in 2011, and

AUTHORISED SQUARE METRES BY CATEGORY

Chart 11.2



Source: The Official Association of Architects of Andorra.

the sub-programmes Renova+ and Renova Fotovoltaica from 2013, the Government has received 1,641 applications, and granted up to 11.5 million euros towards actions involving a total investment of 62.2 million euros in energy efficiency. The call for Renova 2019 grants was adapted to Law 21/2018 on promoting 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 balance of the Renova plan is positive.

In the 2019 version, the Renova plan promoted actions on the whole building, so the subsidy increased to 35% of expenditure, with a limit of 125,000 euros (category A) and up to 25% with a limit of 100,000 euros (category B). A new category of subsidies was also created to adapt façades and windows and make them more sustainable, with a 20-25% grant, up to 60,000-75,000 euros. Finally, grants will still be given to solar installations, a line that emerged in 2018 to promote the installation of equipment using solar power. The Renova 2020 plan includes an additional bonus of 10% if the refurbished housing is added to the rental market; a grant of 15% to improve accessibility, sustainability and industrial safety, and a grant of 5% for actions to enhance facades, patios and roofs. The funds allocated for 2020 are 1.2 million euros for direct grants and an entry of 12.47 million for loan guarantees.

Property sales fell 13% due to demand stabilising at high levels.

After six consecutive years of major increases in property demand (by 16% on annual average), this trend halted in 2019. According to the statistics on property transactions and on

housing and land prices, in 2019 there was a fall in the number of property transactions by 13% in comparison with the previous year. However, the number of transactions is still at quite high levels (1,621 sales/year), a detail that could indicate a certain stabilisation of demand and more sustainable growth in the sector.

In all parishes except Sant Julià de Lòria – where they are growing 27% – there were falls in property sales, with the most important falls in Escaldes-Engordany (-32%), Canillo (-23%) and Encamp (-19%). By type of building, in 2019 the volume of sales of new builds (apartments, parking spaces and other constructions) fell, as did second-hand properties. Only single-family houses and land showed increases against the previous year.

PROPERTY TRANSACTIONS AND AVERAGE M² PRICE OF APARTMENTS, PER PARISH

	PROPERTY TRANSACTIONS				M ² PRICE FOR APARTMENT TRANSACTIONS (EUROS)			
	2018	2019	Absolute variation	Relative variation (%)	2018	2019	Absolute variation	Relative variation (%)
Canillo	382	295	-87	-22.8	1,851.2	1,937.7	86.5	4.7
Encamp	356	288	-68	-19.1	1,792.2	1,971.8	179.6	10.0
Ordino	135	126	-9	-6.7	2,393.8	2,328.2	-65.6	-2.7
La Massana	371	339	-32	-8.6	1,878.7	2,310.6	431.9	23.0
Andorra la Vella	291	283	-8	-2.7	2,909.5	2,956.5	47.0	1.6
Sant Julià de Lòria	112	142	30	26.8	1,886.4	2,030.5	144.1	7.6
Escaldes-Engordany	217	148	-69	-31.8	3,002.3	3,118.5	116.2	3.9
Total	1,864	1,621	-243	-13.0	2,186.8	2,409.3	222.5	10.2

Source: Department of Statistics.

The value of properties transferred in 2019 fell 3% compared with the previous year. The properties that saw the steepest decline were buildings and commercial premises, while the value of warehouses increased 221% and single-family housing 40.3%.

Finally, in 2019 the price per m² for apartment transactions increased 10.2% against the previous year, while the average price per square metre of buildings, land and commercial premises fell. In relation to apartments, the parishes where the price/m² rose most were La Massana (23%), Encamp (10%) and Sant Julià de Lòria (7.6%), the only one where it fell being Ordino.

In relation to the subsector of public works, the Government invested much more in 2019 than in 2018, contrasting with the previous two years, while the Comú governments continued to strongly push investment for the third consecutive year. The aggregate real investment of the central and Comú governments (only chapter 6 in the budgets) shows a total of 89 million euros, 15.5% more than the previous year. This increase is added to the increase of 21% in 2018 and 19% in 2017.

There was a strong rise in investment by the central and Comú governments.

Settled investment (chapter 6) by the central Government reached 45,173,410 euros, a figure that represents a significant increase of 18.7% against the previous year (38,058,562 euros). If we add capital transfers to this (chapter 7 of the budget), the total investment effort of the Government rises to 55,033,648 euros, representing a 21% increase against the previous year. Most of this investment relates to the Ministry of Land Planning, specifically 44,381,212 euros, with an interannual increase of 29% against 2018. The other 10,652,436 million euros of the Government investment relate to the other ministries.

In the following table are details of the settled public works of the Ministry of Land Planning in 2019 and 2018. Among the largest investment entries are notably the increase in judicial infrastructure for construction of the new Justice building (10 million euros in 2019, 40% more than that of the previous year). There were also increases in investment in school infrastructures (2.7 million in 2019, 91% more than in 2018), cultural infrastructures (2.7 million in 2019, 70% more than the previous year) and road infrastructures, both new roads and investment in maintenance of those that already exist. In contrast, investment decreased in, for example, administrative

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

Table 11.2

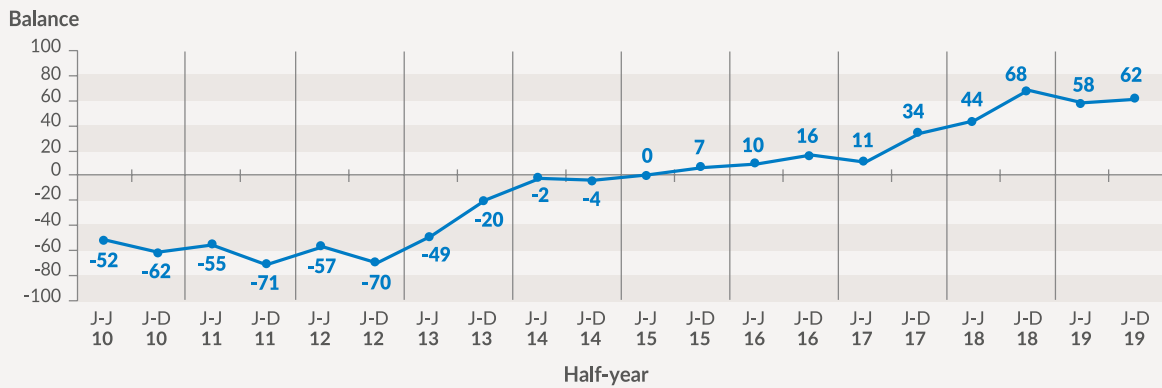
Description	2018	2019
Government infrastructure	2,551,899 €	1,341,474 €
Judicial infrastructure	7,219,708 €	10,092,551 €
Infrastructures - Fire Service building	0 €	103,804 €
Health and social infrastructures	0 €	753,217 €
Security and public order	82,929 €	0 €
General health administration	108,303 €	0 €
School infrastructures	1,408,917 €	2,695,786 €
Education	870 €	3,075 €
Sports and PE	32,146 €	238,723 €
Sanitation plan	140,235 €	293,147 €
Waste management	0 €	0 €
Natural heritage management and conservation	370,906 €	400,538 €
Cultural infrastructures	1,611,032 €	2,739,855 €
General administration	1,081,849 €	1,303,697 €
CG road infrastructure	7,892,419 €	11,540,406 €
Other roads	58,520 €	8,155 €
Road maintenance	6,754,212 €	7,416,658 €
Natural hazards. Road infrastructures	2,521,154 €	1,434,012 €
Sectoral plan. New road infrastructures	36,052 €	1,948,933 €
Management of rivers and streams	1,870,677 €	551,965 €
Cartography & topography	48,924 €	163,217 €
Agricultural activity	0 €	0 €
Strategic and transport projects	582,947 €	565,359 €
Road surfacing CG, CS & streets	0 €	786,639 €
Total	34,373,702 €	44,381,212 €

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

Source: Ministry of Land Planning.

BUSINESS ACTIVITY - CONSTRUCTION SECTOR

Chart 11.3



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

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

infrastructures (-47%), road infrastructures for natural hazards (-43%) and management of rivers and streams (-70%).

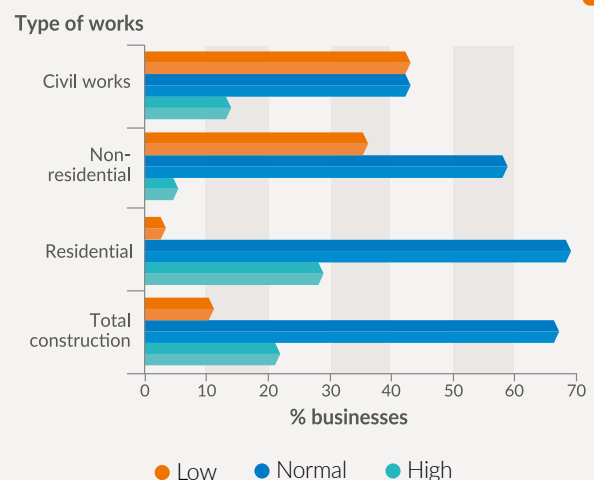
On the other hand, settled real investment by the Comú governments rose 12.4%, from 39.2 million euros in 2018 to 44.0 million euros in 2019⁴, the highest investment figure since 2007. Comú investment has been growing at high rates for three years. In fact, since the low in investment in 2012 (6.8 million), consecutive increases have occurred – except in 2016 – which have led the volume of investment in 2019 to approach pre-crisis figures. By parish, the highest investment expenditure was in Andorra la Vella, with 13.1 million euros, followed by Encamp with 10.4 million euros. With much lower figures are Canillo (7.6 million according to the 2019 budget) Escaldes-Engordany (5.0 million), La Massana (4.2 million), Ordino (2.4 million) and Sant Julià de Lòria (1.5 million). The most notable increase in investment in 2019 was Encamp (180%) and at a much lower rate, Sant Julià de Lòria (37.9%), Ordino (29.8%), and La Massana (19.1%). On the other hand, investment shrank in Andorra la Vella (-31.6%) and Escaldes-Engordany (-39%).

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

Our situation surveys confirm that the construction sector continued to achieve a notable rate of expansion in 2019, if lower than in 2018, consistent with the gradual achievement of more normal levels of activity. Construction companies that took part in this survey indicated an average increase in turnover of 4.9%, a rate that, although significant, is well below the average for the last two years (8.2%), in line with the trend in GDP. In parallel, the volume of executed works has continued to recover, although in the second half this was slower than in the previous two half-years.

CONTRACTED WORKS - CONSTRUCTION SECTOR (half-year July-December 2019)

Chart 11.4



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

⁴ On the completion date for publication of the 2019 Report, the settled accounts for 2019 of the Comú of Canillo were not available so the data relate to their 2019 budget.

The volume of contracted works also showed dynamic behaviour, heading gradually towards more acceptable levels after the minimums of recent years.

By types of works, housing construction is still the main driver of activity, while contracts on non-residential building continue to fall.

In the opinion of the construction companies, unit contract prices continued to rise and, in the labour market, employment continued to increase at a high rate in both halves of 2019.

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

Table 11.3

		2017			2018			2019		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
1. Business activity (reviewed half-year)	Good	24	34	29	49	68	59	63	62	63
	Normal	63	66	65	46	32	39	32	38	35
	Bad	13	0	7	5	0	3	5	0	3
	Balance	11	34	23	44	68	56	58	62	60
2. Volume of executed works (compared with same half-year of previous year)	Higher	27	54	41	54	64	59	46	42	44
	Equal	49	32	41	31	29	30	41	40	41
	Lower	24	15	20	15	7	11	14	18	16
	Balance	3	39	21	39	57	48	32	24	28
3. Contract unit prices (compared with previous half-year)	Higher	2	0	1	27	16	22	29	18	24
	Equal	87	95	91	71	82	77	68	80	74
	Lower	11	5	8	2	2	2	3	3	3
	Balance	-9	-5	-7	25	14	20	26	15	21
4. Number of employees (compared with previous half-year)	More	18	15	17	15	23	19	34	28	31
	Same	69	73	71	71	65	68	53	73	63
	Lower	13	12	13	15	12	14	13	0	7
	Balance	5	3	4	0	11	6	21	28	25

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

XII. Services

The service sector is the core of the Andorran economy, concentrating 86.5% of global GVA and 87.0% of total employees. The major importance of this sector means that any development largely determines the behaviour of Andorran GDP. The sector had six consecutive years of positive variation rates between 2014-2019, with an average annual growth rate of 1.8%. Moreover, according to the Department of Statistics, growth in the service sector accelerated in 2019, with real GVA rising to 1.9%, more than the 1.3% of the previous year.

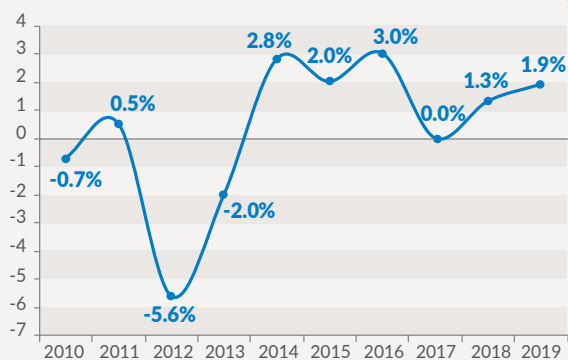
In 2019 the rate of growth in the services sector accelerated to 1.9%.

The service sector is still the driving force of the Andorran economy, within a context of gradual improvements in real estate activities and business services, and also a gentle recovery in the tourism sector, which was relayed to the branches of hotels, catering, transport and commerce.

SERVICE SECTOR GVA

Variation rate in real terms

Chart 12.1



Source: Department of Statistics.

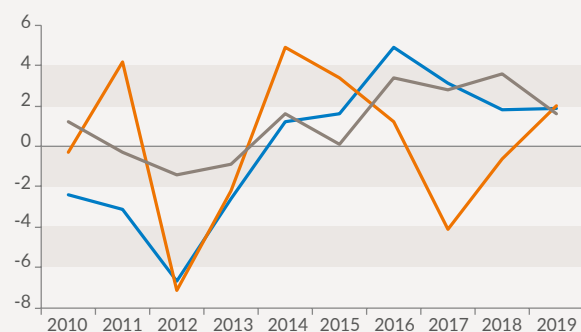
The outcome for 2019 was favourable for the three major subsectors, this year with very similar variation rates, all close to 2%. The subsector of Commerce, hotels and catering, transport, information and communications saw an increase of 1.9%, very similar to 2018. In contrast, the subsector of Public administration, education, health, social and personal services slowed, going from growing 3.6% in 2018 to 1.6% in 2019. Finally, the subsector Financial, real estate, professional and technical activities saw the greatest improvement, growing 2% in 2019, after falling 0.6% in the previous year.

In 2019, there were 8,291 business establishments in the service sector, 4.7% more than the previous year and the highest figure in the historical series. By subsectors, a strong increase in real estate activities and business services was seen (almost 10% more), concentrating 32% of the total service sector. The other most important activity is commerce, in which the number of

GVA OF THE SERVICE SECTOR BY BRANCHES OF ACTIVITY

Interannual variation rate (%)

Chart 12.2



- Commerce, hotels and catering, transport, information and communications
- Financial, real estate, professional and technical
- Public administration, education, health, social and personal services

Source: Department of Statistics.

The total number of establishments in the service sector grew to reach a new historic high.

NUMBER OF BUSINESS ESTABLISHMENTS IN THE SERVICE SECTOR

Table 12.1

	2007	2018	2019	% var. 19/18	% total 2019
Commerce and motor vehicle repairs (etc.)	2,795	2,911	2,969	2.0	35.8
Hotels & catering	952	1,037	1,051	1.4	12.7
Transport, storage & communications	413	433	427	-1.4	5.2
Financial system	179	178	181	1.7	2.2
Real estate & rental activities; business services	1,189	2,397	2,631	9.8	31.7
Public administration, defence & mandatory social security	-	-	-	-	-
Education	60	131	141	7.6	1.7
Health & veterinary activities, social services	106	214	224	4.7	2.7
Other social activities and community services; personal services	439	612	665	8.7	8.0
Others	0	3	2	-33.3	0.0
Total	6,133	7,916	8,291	4.7	100

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

Source: Ministry of the Presidency, Economy and Business.

establishments increased 2.0% in 2019, to represent 36%. The third most important subsector in terms of businesses is hotels and catering, with 13% of establishments, seeing a 1.4% increase against the previous year.

If we compare the current number of business establishments in the service sector with the number there was before the crisis, in 2007, we can see a significant increase in the business network, especially from 2013, so the figure in 2019 is 35% higher than in 2007. Apart from the improvement in the economic environment, one important factor that favoured this growth was the Foreign Investment Law that came into force in 2012.

In 2019, the number of employees in the service sector rose to 34,498, divided as follows between the four main subsectors: 26% work in commerce; 17% in real estate and business services; 15% in hotels and catering, and 13% in public administration. Globally, these four branches concentrate 70% of total employees in the service sector. In 2019, the total number of employees in the sector grew 1.4%, slightly less than the 2.9% recorded in the previous year. The most important increases in 2019 were seen in real estate and business services (5.1%), health activities and social services (3.9%) and the subsector of transport, storage and communications (3.8%). In contrast, employment fell 5.1% in the financial sector.

Employment grows in the health sector and transport and communications sector, but falls in the financial sector.

NUMBER OF EMPLOYEES IN THE SERVICE SECTOR (annual average)

	2018	2019	% var. 19/18	% total 2019
Commerce and motor vehicle repairs (etc.)	8,851	8,944	1.1	25.9
Hotels & catering	5,092	5,111	0.4	14.8
Transport, storage & communications	1,280	1,328	3.8	3.8
Financial system	1,873	1,777	-5.1	5.2
Real estate & rental activities; business services	5,452	5,727	5.1	16.6
Public administration, defence & mandatory social security	4,444	4,452	0.2	12.9
Education	599	596	-0.5	1.7
Health & veterinary activities, social services	2,076	2,157	3.9	6.3
Other social activities & community services; personal services	3,005	3,091	2.9	9.0
Households employing domestic staff	1,118	1,102	-1.4	3.2
Extraterritorial bodies	13	13	0.0	0.0
Domestic work for the community	204	202	-1.3	0.6
Total	34,006	34,498	1.4	100

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

Wages increased in all branches of the service sector, except finance and transport and communications.

of recreational and sports activities and personal services, where the average wages grew more than 3%, and except for the falls seen in the financial sector (-6.2%) and in the branch of transport and communications (-1.2%).

In 2019, monthly wages for the whole of the service sector increased 0.5%, to an average of €2,143, a slower increase than the 2.4% of the previous year. All subsectors of services saw increases below 3% except the subsector

RECYCLING URBAN WASTE

In 2019, more than 135,500 tonnes of waste was generated in Andorra. 30% was treated inside the country and 70% was exported for final management outside the country. This includes all waste generated in the country, such as household waste (municipal waste and similar waste from commerce, industry and institutions, including selective collection) and all waste exported directly by waste managers at recovery and/or disposal plants.

In the last review of the National Waste Plan (PNR) for the period 2017-2020, the recycling target set for 2020 is 50% (including preparation for reuse), in keeping with the criteria of Directive 2008/98/EC on waste. Selective collection is well-established today in this country which means that, for the main recyclable portions that are collected selectively (paper and cardboard, glass and packaging), the global recycling result obtained in 2019 was 48%. This value is slightly lower than in the previous year, due to a decrease in selective collection of paper and cardboard. However, the value is close to the target set for 2020.

Specifically, in 2019 a total of 55,883 tonnes of urban waste was managed, 3.1% less than the previous year, of which 19,245 tonnes were recycled, while 35,631 were recovered for energy, the process that minimises the volume of waste through combustion. The rest went for preparation for reuse or disposal.

As for recycling, light packaging increased 2.4% and glass 1.2%, whereas paper and cardboard fell 15.9%. This fall in paper and cardboard collection is related to an international problem in the paper and cardboard market, owing, on the one hand, to Asian countries

closing the doors to recycling material and, on the other hand, a steep fall in the price of that material. Moreover, note that at the end of October 2017, the organic part from major producers, such as large supermarkets, hotels, restaurants and schools, was incorporated into the selective collection circuit. This allowed for the amount of selective collection of organic matter to increase and the target of 1,000 tonnes per year to still be reached.

As for energy recovery, household waste and any similar to urban waste is burnt at the Treatment Centre (CTR), so part of the energy can be recovered as electricity through combustion. In 2019, 40,853 tonnes of waste generated in Andorra were recovered, very similar to the previous year. This recovery injected 16,260 MWh of electricity into the national FEDA network. To this waste should be added the 9,130 tonnes of pre-treated urban solid waste from Cerdanya (Spain), under the Government authorisation to import a maximum of 10,000 tonnes per year, representing 18.4% of the total waste burnt by the CTR. The energy production from incineration of this waste was 5,287 MWh.

Equally, entry into force of the Regulations to reduce plastic bag consumption in November 2017 enabled a saving of almost 600,000 plastic bags at department stores and large supermarkets, representing a 22% drop in consumption compared with 2018. On 3 July 2019, international Plastic Bag Free Day, the Government distributed 40,000 reusable net bags for fruit and vegetables among large supermarkets and department stores declared special producers.

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 16.9% of GVA (2018) and 22.6% of employment (2019), less than in 2005, when it was 26.7%. This structural change is due to the recent economic crisis and the transformation of patterns 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, more resistant than expected to escaping stagnation and addressing growth in activity, even marginally.

However, the commercial sector is slowly adapting to this structural change, as shown by the available sectoral indicators for 2019, which are slightly better than in the previous year, despite being very modest. Employment in the retail sector grew a tentative 0.2%, to 5,373 employees, but this is still better than the 0.6% decline seen in 2018. The average wage reached about €1,735, 2.6% more than the previous year, but still one of the lowest wages in the services sector. In contrast, electricity consumption in the sector of commercial distribution saw a downturn of 2.8% (solely FEDA data). Finally, the number of retail establishments increased 1.6%, to 1,368 (22 more than in 2018). One of the reference indicators for analysing the trend in commerce is

In 2019, the number of employees and commercial establishments increased.

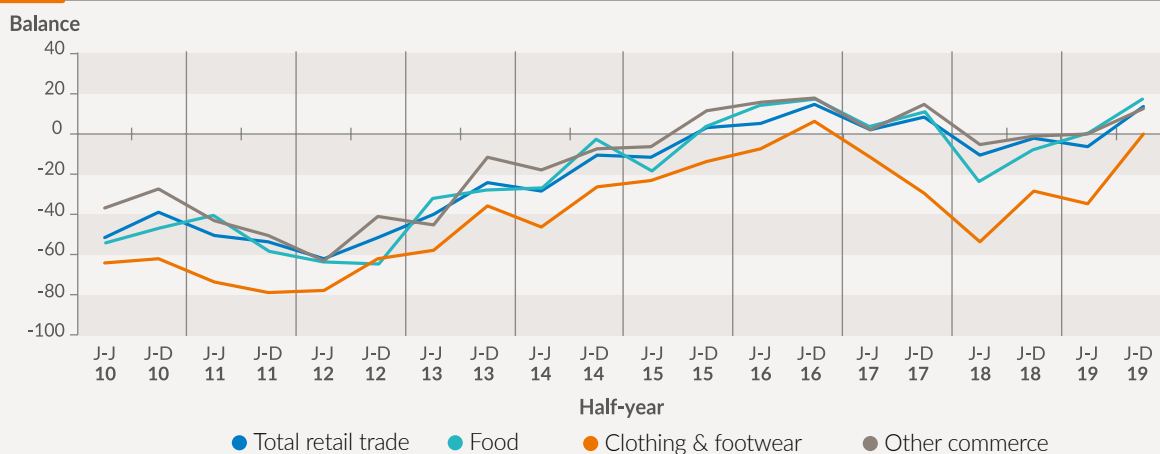
imports of goods, because most products sold in Andorran commerce are imported. All in all, national imports grew a moderate 0.7% in 2018, in line with the modest growth in the sector.

The results of our situation survey confirm that retail trade, despite showing slight signs of improvement in the final stretch of 2019, continued to present a very modest trade balance. Equally, it is important to note that the main indicators of activity and confidence in the sector confirm the tendency for the situation to stabilise, after a long period of significant falls in sales. So, retailer's assessments of business activity in the second half of the year were the most optimistic of the last three years. Moreover, in 2019, retailers signalled a year-on-year average decline in turnover per establishment of 0.7%, much smaller than the -3.4% recorded in 2018, accompanied by a more positive trend in employment in the sector.

Note that many commercial establishments in Pas de la Casa suffered from the negative impact of the closure and restrictions of roads to France over a period of 18 days, due to both snow and the landslide in April. For this reason, the detailed results of Pas de la Casa indicate an average fall in turnover per establishment of 17.4%, a much higher rate of decline than the country as a whole.

From a sectoral point of view, a slight recovery in activity can be seen in most branches. On the positive side are notably the branches of household equipment, hygiene and health, and food,

BUSINESS ACTIVITY - RETAIL TRADE



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

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

Chart 12.3

with comparatively better results than in other commerce. For their part, supermarkets and department stores and the branch of clothing and footwear were clearly alienated from this more favourable trend, although the branch of clothing and footwear appeared less pessimistic in the second half of the year.

In the second half of 2019, the decline in sales stopped, especially in the branch of clothing and footwear.

Turnover also saw a less negative dynamic for the whole of the commercial sector than in the previous year, basically through the improvement seen in the second half. Year on year, the only branch that saw a slight increase in turnover levels was household goods, largely favoured by the impetus from the construction sector. On the other hand, the worst results were seen in the branches of vehicles and accessories, and clothing and footwear, but in a specific way, and in supermarkets and departments stores, where approximately 3 of every 4 businesses indicated lower turnover than one year earlier.

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

1. Business activity (Reviewed half-year)		2017			2018			2019		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Good	25	28	27	22	24	23	23	32	28
	Normal	52	53	53	45	51	48	48	49	49
	Bad	23	20	22	33	26	30	29	19	24
	Balance	2	8	5	-11	-2	-7	-6	13	4
Food	Good	26	29	28	9	18	14	24	39	32
	Normal	51	53	52	58	56	57	52	39	46
	Bad	23	18	21	33	26	30	24	22	23
	Balance	3	11	7	-24	-8	-16	0	17	9
Clothing & footwear	Good	12	9	11	6	19	13	6	31	19
	Normal	65	53	59	34	34	34	53	38	46
	Bad	24	38	31	59	47	53	41	31	36
	Balance	-12	-29	-21	-53	-28	-41	-35	0	-18
Household equipment	Good	31	33	32	28	29	29	31	33	32
	Normal	56	44	50	53	62	58	53	64	59
	Bad	14	22	18	19	9	14	17	3	10
	Balance	17	11	14	9	20	15	14	30	22
Health & Hygiene	Good	26	26	26	32	30	31	31	39	35
	Normal	48	57	53	45	57	51	46	42	44
	Bad	26	17	22	23	13	18	23	19	21
	Balance	0	9	5	9	17	13	8	20	14
Electronics	Good	7	14	11	21	15	18	26	29	28
	Normal	57	71	64	29	62	46	32	59	46
	Bad	36	14	25	50	23	37	42	12	27
	Balance	-29	0	-15	-29	-8	-19	-16	17	1
Vehicles & accessories	Good	28	39	34	27	21	24	19	24	22
	Normal	48	46	47	50	52	51	52	52	52
	Bad	24	14	19	23	28	26	30	24	27
	Balance	4	25	15	4	-7	-2	-11	0	-6
Other trade	Good	28	29	29	26	26	26	28	30	29
	Normal	46	56	51	43	47	45	44	52	48
	Bad	26	15	21	31	27	29	28	18	23
	Balance	2	14	8	-5	-1	-3	0	12	6
Supermarkets & department stores	Good	25	40	33	30	25	28	0	25	13
	Normal	58	40	49	40	38	39	44	38	41
	Bad	17	20	19	30	38	34	56	38	47
	Balance	8	20	14	0	-13	-7	-56	-13	-35

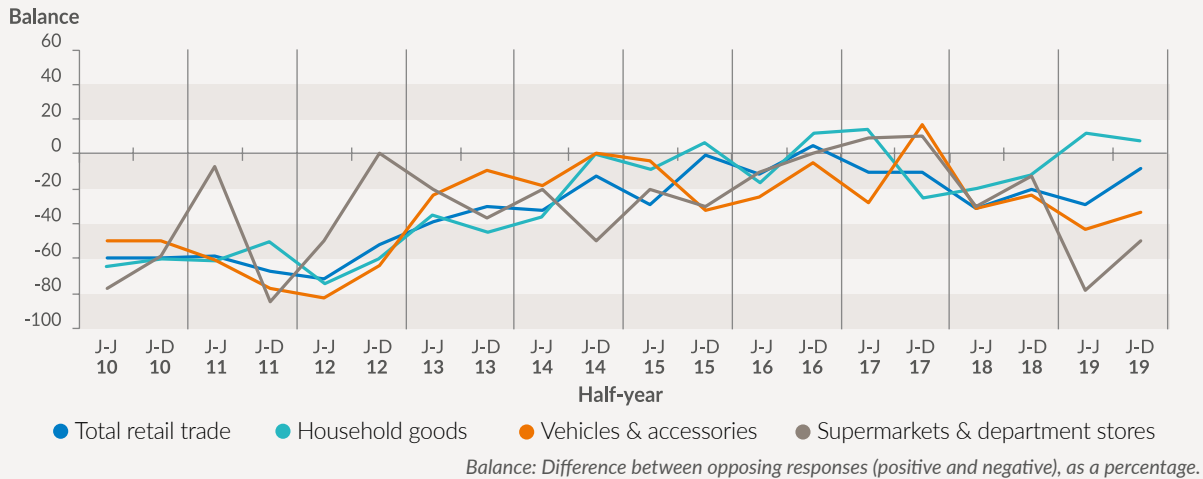
Source: Chamber of Commerce, Industry and Services of Andorra.

Table 12.3

95

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

Chart 12.4



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

Finally, the number of employees in the sector followed a gently rising trend, and sales prices were very stable in most stores, due to the pressure from competition to apply discounts and promotions to encourage sales, which undermined turnover.

The commercial sector has been organising events to promote the commercial sector for many years, such as the Andorra Shopping Festival and Black Friday, with positive results. For example, the Andorra Shopping Festival, held on 8-17 November 2019, is intended to bring in more visitors in the winter pre-season and enhance the commercial offer in town, with street events, children's activities, concerts, *expo art Minnie*, the festival of experiences and cuisine, among other activities. The number of visitors between 1-30 November reached 536,972, almost 32,500 more than in the same period of 2018. There was an increase in both Spanish visitors (about 23,000 more) and French (about 9,000 more), showing that this project is becoming established and has a greater impact on Andorra's economy.

Commerce is facing major structural changes in consumers' behaviour on a global scale, requiring an overhaul of strategy in the sector.

The quality seal for commerce is set up.

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 rapid growth 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.

To meet all these challenges, the Government prepared a Strategic Plan for shopping tourism, presented in 2016 and already underway, which could be reformulated in the future. In 2019, some of the proposed measures materialised, such as the creation of a joint brand for the central shopping area that includes the trade associations of Avinguda Meritxell, Avinguda Carlemany and its side streets, and Fener Boulevard, under the name The Shopping Mile, to relaunch the central shopping hub of Andorra la Vella and Escaldes-Engordany. Moreover, in 2019 the Principality of Andorra joined the Single Euro Payments Area (SEPA), after passing the necessary legislation, allowing for the promotion of e-commerce in Andorra.

Box 12.2

ONLINE PURCHASES IN ANDORRA. COMPARISON WITH THE EU

The statistics on the installation and use of information and communications technology (ICT) in homes in Andorra in 2019, made by the Department of Statistics for the second time, dedicates one of the blocks to analysing online purchases. Specifically, the survey analyses the characteristics of the last online purchase in the case of people who have used the internet at some time. The first result is that 59.7% (53.0% in 2017) made a purchase at some time, while 40.3% (47.0% in 2017) never have. Although the percentage of population that has bought online at some time has increased in comparison with 2017, Andorra is still below the European average.

To be able to compare these figures with those of the European Union, the responses were filtered according to 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: 42.6% of those surveyed made a purchase in the last 3 months, compared with 60% of people in the EU-28. Equally, 46.4% of residents in Andorra made their last online purchase more than one year ago or never, whereas that average in EU countries is 28%. Note that in the international comparison, Andorra

stands out especially in internet access and use by the population, as it is the second country to most use the mobile to connect to the internet. However, in contrast, the Andorran data present lower values than the European average for use of e-commerce and use of e-administration.

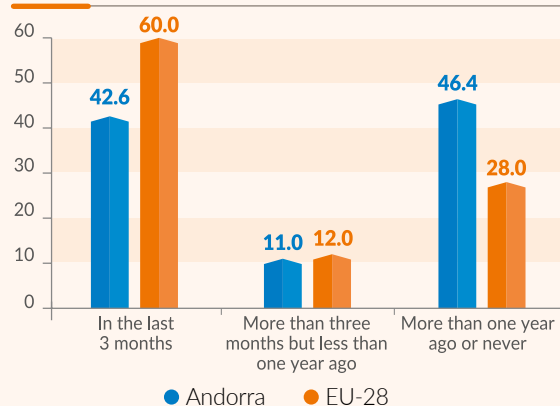
As for the nationality of the vendors where the purchases were made, 24.1% are national vendors, quite a low percentage, followed by Spanish vendors (20.3%), French (6.5%) and Portuguese (1.1%). The others are from other parts of the world or unknown origin.

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, when comparing travel or hotels, the percentages are quite similar.

As for the value of online purchases made by Andorrans in the last three months, it can be seen that 21.4% of the population spent less than €50; 28.4%, €50-€99; 30.9%, €100-€499; 8.5%, €500-€999, and 3.4%, €1,000 or more. The other 7.5% do not know how much they spent. This distribution of the purchase value is very similar to the European average. On the other hand, the statistics show that 64.8% of buyers in the last year had no problem buying online, the same proportion as the average for the EU, but a notable problem is the fact the foreign retailers do not operate in Andorra, an obstacle pinpointed by 15.4% of those surveyed.

Finally, the most common reasons why people do not buy online are that they prefer to buy in person (75.9%), for privacy or security reasons (16.1%), lack of knowledge (13.7%) and because someone else made the purchase for them (8.7%).

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



Source: Department of Statistics.

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)		2017			2018			2019		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
Total retail trade	Higher	28	28	28	17	24	21	19	28	24
	Similar	34	34	34	35	32	34	33	36	35
	Lower	38	38	38	48	44	46	48	36	42
	Balance	-10	-10	-10	-31	-20	-26	-29	-8	-19
Food	Higher	29	26	28	17	24	21	10	31	21
	Similar	39	35	37	27	34	31	41	39	40
	Lower	32	39	36	57	42	50	48	31	40
	Balance	-3	-13	-8	-40	-18	-29	-38	0	-19
Clothing & footwear	Higher	19	16	18	0	20	10	16	38	27
	Similar	38	25	32	25	13	19	16	22	19
	Lower	44	59	52	75	67	71	68	41	55
	Balance	-25	-43	-34	-75	-47	-61	-52	-3	-28
Household equipment	Higher	40	22	31	19	18	19	31	31	31
	Similar	34	31	33	42	52	47	50	46	48
	Lower	26	47	37	39	30	35	19	23	21
	Balance	14	-25	-6	-20	-12	-16	12	8	10
Health & Hygiene	Higher	25	35	30	45	24	35	13	28	21
	Similar	45	30	38	14	52	33	43	44	44
	Lower	30	35	33	41	24	33	43	28	36
	Balance	-5	0	-3	4	0	2	-30	0	-15
Electronics	Higher	17	14	16	7	15	11	21	33	27
	Similar	25	36	31	36	39	38	26	33	30
	Lower	58	50	54	57	46	52	53	33	43
	Balance	-41	-36	-39	-50	-31	-41	-32	0	-16
Vehicles & accessories	Higher	18	46	32	15	24	20	15	19	17
	Similar	36	25	31	39	28	34	27	30	29
	Lower	46	29	38	46	48	47	58	52	55
	Balance	-28	17	-6	-31	-24	-28	-43	-33	-38
Other trade	Higher	30	27	29	18	31	25	22	24	23
	Similar	31	46	39	45	22	34	31	40	36
	Lower	39	27	33	37	47	42	47	37	42
	Balance	-9	0	-5	-19	-16	-18	-25	-13	-19
Supermarkets & department stores	Higher	42	40	41	20	25	23	0	25	13
	Similar	25	30	28	30	38	34	22	0	11
	Lower	33	30	32	50	38	44	78	75	77
	Balance	9	10	10	-30	-13	-22	-78	-50	-64

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

Another measure that was initiated in 2019 is the creation of a quality label for the commerce sector. This project is being managed by the Cambra de Comerç, Indústria i Serveis and offers a business improvement plan through which commercial establishments can obtain a quality seal with the title of Excellent Commerce Certificate. The project has a budget from the Government of €60,000 and 60 stores are expected to benefit from it.

2. The financial system

The financial system, consisting mainly of the banking and insurance sectors, represents 11.9% of Andorran GVA, according to 2018 data. It is the most important sector of the economy in terms of GVA, while in terms of employment it represents 4.5% 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.

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

According to official GDP data published by the Government, Financial, real estate, professional and technical activities saw a 2.0% increase in GVA in 2019, after two years of negative growth.

The Andorran financial system is tackling the final part of adapting to international standards, especially in terms of banking regulations deriving from the Monetary Agreement, although adaptation to fiscal transparency and international mutual assistance in criminal matters and to combat money laundering and terrorism financing is constant. The balance is quite positive because Andorran banking has managed to transform the challenge into an opportunity to internationalise its banking model and approach digital transformation and its capacity to deal with competitors through wholly digital banking.

In this clearly complex context of transformation and standardisation, the financial sector has shown some size adjustment. The number of employees for the whole of the financial sector has fallen 5.1% to 1,777 workers. In 2019, average wages for this sector, which are the highest of all the sectors in the Andorran economy, were also adjusted, -6.2% in comparison with the previous year. This decline can be largely explained by early retirements of workers with higher-than-average remuneration. As for the network of businesses and establishments, on 31 December there were 181 establishments, three more than the previous year, while the number of bank branches fell from 40 to 39.

If we consider just the five Andorran banks, in 2019 the number of employees throughout the Andorran banking system was 2,563, and approximately 53% of them worked in Andorra, i.e. 1,359 employees.

The Andorran banks ended 2019 with improvements in the main indicators, such as profits, assets under management, lending, profitability and the solvency ratio. On 31 December, the whole Andorran banking system reached a total of 49,713 million euros in assets under management, a figure that represents an increase of 11% compared with 2018, and which has doubled in the

In 2019, the profits of Andorran banks grew and their solvency ratio and profitability improved.

last decade. Equally, Andorran banks saw major growth in aggregate profits, up 12.4% against the previous year, to 112 million euros. The banks have managed to transform the business, to restore growth in profits on a consolidated basis, despite the economic situation of low

interest rates, the continual adaptation to international banking standards which include requirements for further provisions, and the major technological investments made in recent years.

Another important detail that demonstrates the soundness of the Andorran banking system is the return on equity (ROE), at 7.70%, higher than the last year (7.31%) and much higher than the average of the European banks (5.8% according to data from the Central European Bank for the third quarter of 2019). 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 17.48% on 31 December 2019, also higher than the average for European banks, which was 14.8% according to the ECB. 2019 was the first year that the entities presented the solvency ratio under the European Basel III criteria, after the Law on solvency, liquidity and the prudential supervision of banking entities and investment firms came into force in January 2019. Moreover, in 2019 all the banks in the Andorran market maintained their international ratings, demonstrating stakeholder confidence in the sector, thanks to continued strong results.

AGGREGATE DATA FOR THE ANDORRAN BANKS

Table 12.5

Thousand euros	2018 ⁽¹⁾	2019
Total assets	13,969,852	14,840,696
Gross loans & discounts	5,911,097	6,094,759
Assets under management	44,925,146	49,713,197
Results	99,559	111,883
ROE	7.31%	7.70%
ROA	0.71%	0.76%
Solvency ratio CET 1 (phase-in) ⁽²⁾	16.64%	17.48%
Liquidity ratio ⁽²⁾	227.29%	223.05%

UNDER BASEL III CRITERIA⁽²⁾

European bank average according to EBA

Solvency ratio CET 1 (phase-in)	14.8%
Liquidity ratio	149.9%

(1) The 2018 data are solely for comparison.

(2) 2019 was the first year when Andorran banking entities presented 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.

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

The firm commitment of the banking sector to the national economy can be seen in the fact that, in 2019, Andorran banks provided gross lending of 6,095 million euros, 3.1% more than the previous year, considering the economic recovery and growing demand for loans.

In summary, all these results show that Andorra is a strong, sound banking market, with an international mission, dedicated to the digital transformation to satisfy clients with a veritable multichannel strategy. The banks have invested 121.3 million euros in the digital transformation in the last five years and, on the other hand, digital users have increased 45.7% since 2014 and users of mobile banking apps 357%.

Moneyval's follow-up report endorses the progress made in combatting money laundering.

The latest report from Moneyval (the Council of Europe body that assesses anti-money laundering and terrorist financing measures),

published on 24 January 2020, analysing the second follow-up report presented by the Principality of Andorra within the framework of the 5th evaluation carried out over the first two weeks of December 2019, endorses the work done by Andorra to combat money laundering and terrorism financing.

The report mentions the progress made, especially in relation to the new measures relating to indicators of transparency and beneficial ownership in legal structures, the regulation and supervision of financial institutions and designated non-financial entities.

In this way, 37 of the 40 FATF recommendations that Moneyval assesses are already considered "compliant" or "largely compliant".

The Moneyval Secretariat has instructed the Principality of Andorra to present the third follow-up report in July 2021, with the following recommendations:

- 1) Recommendation 8, referring to non-profit organisations (NPOs);
- 2) Recommendation 31, relating to the powers of criminal prosecution authorities and authorities in charge of investigations;
- 3) Recommendation 36, referring to international instruments for mutual legal assistance.

Remember that on 12 February 2016, the Principality of Andorra and the European Union (EU) signed an agreement for the automatic exchange of information in tax matters (AEOI), which came into force on 1 January 2017. In fulfilment of Law 19/2016, regulating the legal framework needed to achieve this commitment on tax information, Andorra proceeded to make the first exchange of data in September 2018, with 2017 data. This first automatic exchange of tax information was conducted with 41 countries, including the member states of the EU. Throughout 2017 and 2018, the AEOI Law was amended to expand the jurisdictions with which Andorra would exchange tax

CONSOLIDATED BALANCE SHEETS (Thousands of euros)

Table 12.6

	ANDBANK		MORABANC GROUP		CRÉDIT ANDORRÀ GROUP		BANCSABADELL D'ANDORRA		VALLBANC		TOTAL	
	2019	2018*	2019	2018*	2019	2018*	2019	2018*	2019	2018*	2019	2018*
ASSETS												
Cash, cash at central banks and other sight deposits	1,058,885	1,433,393	17,763	17,648	303,009	343,553	64,658	63,939	280,183	162,799	1,724,498	2,021,332
Financial assets held for trading	174,198	201,326	93,195	63,512	30,047	12,560	25,475	62,325	-	-	322,915	339,723
Financial assets not held for trading that must be valued at fair value with changes in income	10,073	56,655	379,393	357,988	188,299	185,903	49,173	4,423	43,602	28,118	670,540	633,087
Financial assets at fair value with changes in the income statement	-	-	-	-	-	1,865	44,496	38,469	14,524	2,724	59,020	43,058
Financial assets at fair value with changes in the other comprehensive income	514,318	418,702	651,443	622,398	330,785	365,996	81,718	70,587	267,451	88,062	1,845,715	1,565,745
Financial assets at amortised cost	2,185,554	1,880,725	1,746,815	1,559,166	3,832,281	3,764,342	594,314	506,939	323,033	390,042	8,681,997	8,101,214
Derivatives - Hedge accounting	822	-	2	191	-	-	113	-	-	-	937	191
Changes in fair-value of hedging elements of a portfolio with interest risk hedging	4,609	3,809	2,168	559	21,890	21,711	76	91	-	-	28,743	26,170
Investments in jointly-controlled businesses and associates	2,862	2,978	4,720	1	65,703	37,046	37	-	17	17	73,339	40,042
Assets covered under insurance and reinsurance contracts	4,520	6,863	37,304	36,324	1	3,431	-	-	-	-	41,825	46,618
Tangible assets	146,987	30,989	102,899	103,240	183,686	122,832	26,374	25,438	75,515	59,624	535,461	342,123
Intangible assets	293,510	268,171	13,505	13,173	122,624	129,837	406	221	23,916	18,681	453,961	430,083
Tax assets	27,499	31,764	4,466	7,667	24,929	28,219	279	510	621	896	57,794	69,056
Other assets	126,002	74,316	4,925	4,541	45,628	52,908	16,998	11,800	13,452	12,046	207,005	155,611
Disposable non-current assets held for sale	24,674	33,295	1,146	1,562	106,151	112,028	4,194	8,824	781	92	136,946	155,801
TOTAL ASSETS	4,574,513	4,442,986	3,059,744	2,787,970	5,255,033	5,182,231	908,311	793,564	1,043,095	763,101	14,840,696	13,969,852
LIABILITIES												
Financial liabilities held for trading	53,663	66,227	30,708	31,282	16,107	10,405	988	1,098	153	-	101,619	109,012
Financial liabilities at fair value with changes in the income statement	-	-	360,603	358,891	49,331	71,411	44,510	38,475	-	-	454,444	468,777
Financial liabilities at amortised cost	3,858,847	3,727,811	2,220,271	1,972,271	4,307,293	4,282,232	755,674	660,067	894,653	693,292	12,036,738	11,335,673
Derivatives - Hedge accounting	5,224	7,322	10,661	6,699	37,190	35,194	72	85	-	-	53,147	49,300
Changes in fair-value of hedging elements of a portfolio with interest risk hedging	-	-	794	782	-	-	-	-	-	-	794	782
Liabilities covered under insurance and reinsurance contracts	4,520	6,863	84,659	86,459	251,815	265,650	-	-	-	-	340,994	358,972
Provisions	22,740	17,479	24,208	25,185	28,563	31,299	1,634	1,171	2,612	1,740	79,757	76,874
Tax liabilities	14,632	18,485	3,864	3,571	5,355	3,085	991	820	1,706	2,540	26,548	28,501
Other liabilities	77,728	82,155	17,112	16,243	89,714	57,587	13,281	9,100	22,387	15,651	220,222	180,736
Liabilities in groups of disposable items held for sale	-	-	-	-	-	-	-	-	-	352	-	352
TOTAL LIABILITIES	4,037,354	3,926,342	2,752,880	2,501,383	4,785,368	4,756,863	817,150	710,817	921,511	713,575	13,314,263	12,608,980
NET EQUITY												
Capital	78,842	78,842	42,407	42,407	63,102	63,462	30,069	30,069	31,050	30,000	245,470	244,780
Issue premium	73,441	73,441	-	-	-	-	-	-	68,950	-	142,391	73,441
Issued equity instruments other than capital	35,000	35,000	-	-	-	-	-	-	-	-	35,000	35,000
Other cumulative results	(2,713)	(8,334)	(1,016)	(3,227)	2,678	4,222	668	(489)	(2,163)	(2,133)	(2,546)	(9,961)
Accumulated earnings	427,156	411,782	268,217	155,079	-	-	-	-	2,174	-	697,547	566,861
Revaluation reserves	-	645	-	-	-	-	2,288	2,288	-	-	2,288	2,933
Other reserves	(101,496)	(100,982)	(27,876)	68,275	347,002	311,581	48,594	41,449	19,485	19,485	285,709	339,808
Own shares (-)	(1,927)	(1,927)	-	-	-	-	(833)	(819)	-	-	(2,760)	(2,746)
Result attributed to majority shareholder	28,040	27,078	25,136	24,057	46,244	36,001	10,375	10,249	2,088	2,174	111,883	99,559
Interim dividend (-)	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' equity	536,343	515,545	306,868	286,591	459,026	415,266	91,161	82,747	121,584	49,526	1,514,982	1,349,675
Minority interests	816	1,099	(4)	(4)	10,639	10,102	-	-	-	-	11,451	11,197
TOTAL NET EQUITY	537,159	516,644	306,864	286,587	469,665	425,368	91,161	82,747	121,584	49,526	1,526,433	1,360,872
TOTAL LIABILITIES AND NET EQUITY	4,574,513	4,442,986	3,059,744	2,787,970	5,255,033	5,182,231	908,311	793,564	1,043,095	763,101	14,840,696	13,969,852

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

* 2018 data only for comparison.

information, so in 2019 it did this with 73 jurisdictions and in 2020 with 95. This exchange meant that banks, collective investment schemes and insurance firms transmitted the information about taxpayers abroad who have an account in Andorra to the tax authority which, in turn, transmitted it automatically to the tax authority of the country in question. The data to be exchanged include the account number, tax identification number, name, address and date of birth of taxpayers resident abroad with an account in Andorra, any income (interest, dividends, etc.), any income from the sale or transfer of assets and the balance of the accounts. The legislation applies to both natural and legal persons.

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

Another historic date was 5 March 2019, when the five Andorran banks became part of the SEPA, after Andorra joined on 1 March 2019.

Andorra joins the SEPA in 2019.

The SEPA (Single Euro Payments Area) is the area where citizens, businesses and other stakeholders can make and receive payments in euros, inside and outside their national borders, with the same basic conditions, rights and obligations, irrespective of their location. The SEPA develops instruments, standards, infrastructures and common procedures, through a harmonised scenario that implies that, technically, there are no differences between national and international payments, which are made with the same ease, speed, security and efficiency. When Andorra joined, the SEPA expanded to 36 countries: the 28 EU member states, Iceland, Norway, Liechtenstein, Switzerland, Monaco, San Marino, Vatican City and the Principality of Andorra.

As for Andorra's sovereign rating, Fitch Ratings agency affirmed Andorra's rating as BBB+ with a stable outlook, in the note published on 31 January 2020. The international assessors highlighted the advances being made in the negotiation of the Association Agreement with the EU and compliance with international commitments on transparency and tax cooperation, also reflected in the latest Moneyval evaluation. So, Fitch Ratings especially recognises the formal start to the process of joining the International Monetary Fund, which should enable the development of

statistical data about the balance of payments and therefore improve the Principality's ratings in future reviews.

Standard & Poor's affirm Andorra's BBB rating and lowers the outlook to stable due to Covid-19.

For its part, Standard & Poor's agency affirmed Andorra's BBB / A-2 rating in January 2020,

maintaining the positive outlook established in July 2019. Now, in the rating published at the end of April 2020, the agency confirmed the previous rating but lowered the outlook from positive to stable due to the Covid-19 crisis. In its rating note, S&P expects a strong impact on the Andorran economy due to its high dependence on neighbouring countries, especially the Spanish economy, which is expected to suffer greatly from the impact of the pandemic. The rating agency also highlighted that the Covid-19 crisis in Andorra and the aid offered by the Executive to mitigate its effects will have a major impact on public debt. Nevertheless, it remarks that the good budgetary and fiscal management carried out in the Principality of Andorra in recent years allows it to face these challenges with some ease, that the negative effect of the decline in GDP in Andorra should be limited to 2020, and that sustained growth would return in 2021 and 2022. Finally, the rating agency positively rated the fact that management of the pandemic crisis in Andorra enabled the infection curve to be overcome without collapsing the health system.

3. Tourism

According to the official GDP figures, the hotels and catering sector represents 8.5% of Andorran GVA (2018). However, the indirect impact of tourism on the whole economy is higher, as it strongly influences other sectors, such as commerce and leisure and sporting activities, which greatly depend on visitors. This means that the favourable trend in tourism that has been seen since 2013 was fundamental to explaining the improvement in Andorra's economic situation. The sustained growth in the sector over recent years 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 number of visitors fell 1.1% due to fewer same-day visitors.

The 2019 annual balance for the tourism sector is quite modest because the total number of visitors saw an annual reduction of 1.1% in 2019, after five years of increase. However, this slightly decline is only the result of falling numbers of same-day visitors (-2.7%), as the number of tourists increased 1.6%. All in all, the total number of visitors shrank to 8,234,993, far from the 8.5 million received by Andorra in 2010 and even further from the 11 million that visited before the 2008 economic crisis.

So, in contrast with 2018, there was a decline in numbers of same-day visitors, who only spend the day without staying the night, whereas entries of tourists, who spend at least one night, continued to rise and saw an increase of 1.6%, reaching the figure of 3,090,044 visitors in this category. This variation is similar to that of the previous year (1.3%) and shows a major slowdown compared with the years 2013-2017, a period when annual average growth was 6.1%.

In 2019, the number of French and Spanish tourists increased moderately.



By nationalities, there was a general decrease in visitors from both France (-2.3%) and Spain (-1.0%), which can be explained by the decline in same-day visitors from both countries. In contrast, there was an increase in the numbers of visitors of other nationalities, even though this group is only a small proportion (9% of total visitors). Spain is still the main country of origin of visitors, with 50% of the total, followed by France, representing 41%.

As for tourists, the trend was positive but moderate in the case of the French (1.0%) and the Spanish (1.5%). Spanish tourists are still easily the majority, representing 71% of the total, while the French are 16%, and other nationalities the other 13%. In contrast, in the case of same-day visitors, the French are the majority (56%). The French market is characterised by a remarkably high level of seasonality, with a predominance of same-day visitors who visit in the summer, especially August. In contrast, the behaviour of Spanish visitors is clearly different as there is a notably high influx in August, but at levels that are comparable to other times of the year, such as the skiing months and, secondly, Easter Week.

TOTAL VISITORS BY NATIONALITY

Table 12.7

		2018	2019	% var. 19/18	% total 2019
Total visitors	Spanish	4,162,138	4,119,342	-1.0	50.0
	French	3,452,034	3,372,712	-2.3	41.0
	Others	714,082	742,939	4.0	9.0
Tourists	Spanish	2,165,663	2,197,828	1.5	71.1
	French	485,237	490,050	1.0	15.9
	Others	391,470	402,166	2.7	13.0
Same-day visitors	Spanish	1,996,475	1,921,514	-3.8	37.3
	French	2,966,797	2,882,662	-2.8	56.0
	Others	322,612	340,773	5.6	6.6
TOTAL VISITORS		8,328,254	8,234,993	-1.1	100

Source: Department of Statistics.

Altogether, this resulted in a certain stability in the total number of overnight stays, of nearly 8.9 million, breaking the rising trend of the last four years. However, stabilisation occurred at the maximum figure achieved since statistics have been available. The average overnight stay was still 2.9 days, in line with the average for the last decade. The only increases in overnight stays were in hotel accommodation, which increased 3.3% in 2019, and in own or rental accommodation (11.2%). In contrast, the other accommodation categories suffered generalised declines, for example aparthotels – a category that has also included holiday apartments since 2017 – where they fell 4.1%, and campsites, which saw -9.2%. Despite this reduction, aparthotels are the second most important type of establishment for overnight stays (16% of the total), after hotels (concentrating 64%).

The slow, upward trend in tourism is corroborated by other indicators for the hotels and catering sector. Specifically, the number of employees in the sector grew only 0.4%, to 5,111, whereas it had grown an average of 3.2% in the previous four years. On the other hand, wages continued to rise strongly (2.7% in 2019), in a context of global economic growth. The number of hotel establishments also grew, 1.4%, to reach a total of 1,051, the highest figure in the whole available series (14 establishments more than in 2018). In line with this growth, electricity consumption increased 3.5% in the case of hotels and catering, and 28% in ski resorts (FEDA data only).

Growth in employees in hotels and catering slowed in 2019.

of 1,051, the highest figure in the whole available series (14 establishments more than in 2018). In line with this growth, electricity consumption increased 3.5% in the case of hotels and catering, and 28% in ski resorts (FEDA data only).

The number of passes sold and days that ski resorts are open are good indicators for calculating activity linked to skiing during the winter months. The 2019-2020 season had particularly good weather and snow conditions. It was expected to reach record figures but early closure on 14 March due to the coronavirus crisis, 30 days before the expected date, left the figure for sales of passes (or ski days) for the 2019-2020 season at 2,227,568, 8.6% less than the previous year. The forced interruption lost them the key period of Easter Week. Specifically, ski resorts were open a maximum of 119 days, while the season lasted 144 days in 2018. Now, the ratio of passes sold per open day increased against 2018, showing that the season was good, with a great influx at Christmas and in January and February. There was also an increase in turnover in restaurants and adventure and other activities.

The 2019-2020 ski season was good but had been proceeding at a record pace until interrupted by Covid-19.

The ski resorts continued their strong pace of investment to improve equipment and installations. Investment in 2019 was 16 million euros, lower than the 25.1 million euros in the previous year – when the 14,000 m² skiable platform was built in the sector of Soldeu, with an underground carpark of 450 spaces, and the new Tristaina cable-car was put into operation at Ordino Arcalís resort – although this is comparable to the figure of two years ago.

Among the novelties presented by the resorts in the 2019-2020 season was notably the integration of Ordino Arcalís resort into the Grandvalira brand, so all passes for Grandvalira resort were valid for Ordino Arcalís. As for Ordino Arcalís resort itself, there are three factors that helped to increase the average influx per day: the opening of a new slope at La Coma, El Clot; improved accesses to the resort, and the communication of snow conditions via social networks. For its part, Grandvalira – the largest ski resort in the Pyrenees and the south of Europe – made a major investment effort of 13 million euros, mainly assigned to creating new infrastructures, such as the new Peretol sector and the Avet carpark under the skiable platform at Soldeu. The platform and carpark met the need to adapt the arrival from Avet slope, to be ready to host the finals of the FIS Alpine Ski World Cup for the first time in March 2019. This event positioned Grandvalira on the highest international level and portrayed the best image of Andorra and the snow sector. Finally, Vallnord-Pal Arinsal continued to make investments to improve comfort, catering options and the standard of its installations. Proof of its efforts is that it hosted seven sporting events, including the Comapedrosa Andorra Ski Mountaineering World Cup, on 24-26 January, attended by more than 13,000 people.

As for the spa, Caldea, 2019 was the 25th year since the thermal baths opened in 1994. Over this time, Caldea has been constantly under development: Inuú, Club Caldea, Likids and shows are some of the novelties presented in recent years. This innovative spirit has enabled it to reach a quarter century by offering value to its markets, both successful and contemporary. Throughout 2019, various anniversary events have taken place, the most significant being an event in March for all the shareholders (more than 2,000). Moreover, in 2019 Caldea presented two new features: the panoramic pool in the spa (Caldea Innova) and expanded Club Caldea facilities (club members' area).

In 2019, Caldea passed the threshold of 400,000 customers for the third consecutive year. Specifically, there were 400,808 visits to the centre, comparable to before the crisis. The seasonal flows in Andorran tourism make it hard to significantly increase the number of yearly customers. However, the growth factor that has enabled it to increase turnover in ticket sales year on year

PASSES/DAY SOLD BY SEASON

Table 12.8

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

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

Source: Ski Andorra.

In 2019, Caldea celebrated its 25th anniversary with good results.

is the progressive improvement in the price of the average ticket (from €31.98 per person in 2017 to €33.48 in 2019). As a result, in the last six years, income from Caldea cumulatively increased almost 40%, from 11.3 million in 2014 to 15.8 million in 2019. The growth in turnover in recent years was combined with contained operating costs so Caldea ended 2019 with a net profit of €650,000, 165% more than two years ago (€245,000 in 2017). In 2020, despite starting with good results, the arrival of the pandemic suddenly interrupted normal business at Caldea. The company has set out a three-stage plan: the pre-crisis stage, from January to mid-March; hibernation until the end of May, and the final stage of resumed activity, from June until the end of the year.

In contrast, in 2019 the Ice Palace presented less positive results than in previous years. Operating income grew slowly by 0.8%, while expenditure increased at a rate of 7.3% and current subsidies stayed at €370,000. Investment rose to €97,620. All in all this resulted in a negative result in 2019 of €53,353, contrasting with the positive results of the last two years.

Naturlàndia, the ecological theme park of Camp de la Rabassa, received 12.5% more visitors in 2019 than the previous year (161,367 visitors). 50% of visitors choose the day pass and the other 50% buy a single ticket for Tobotronc, the animal park or another activity. The opening season of Camp de La Rabassa in winter 2019-2020 was 105 days, fewer days than the previous year because the season had to close 31 days earlier than expected due to the coronavirus crisis. During this season, 38,129 visitors were recorded, with an average increase in spending of 18% compared with the previous winter.

The show *Rebel* by Cirque de Soleil was held between 29 June and 28 July 2019 and closed with a positive balance. Income from the show was 1.2 million euros (2% more than the previous year), of which 1.1 million come directly from ticket sales and the rest from sponsors and merchandise.

59% of the tickets were paid, compared with 33% in 2013. If we add the fact that most of the spectators come from outside Andorra (basically Spanish, 78% of the total) and that 62% of spectators come again, it is clear that the project is consolidated. The increase in income in 2019, with *Rebel* (2%) was not as high as in the previous years (26% in 2018 and 16% in 2017) but this is logical, as the percentage of tickets sold in relation to total capacity is ever higher. Equally, the economic impact of the show goes beyond ticket sales, considering spectators' spending on their trip to Andorra (purchases, restaurants, excursions, Caldea, etc.). In global terms, it is estimated that the net economic impact was nearly 20.6 million euros and 20.4% of the tourists who visited Andorra in July came with the main goal of seeing the Cirque de Soleil show. Due to Covid-19, the show was not held in 2019 and has been postponed to 2021.

The show *Rebel* by Cirque de Soleil brings 20.6 million into the economy.

NUMBER OF BEDS IN TOURIST ACCOMMODATION BY TYPE

Table 12.9

	2018	2019	% var. 19/18	% total 2019
Hotels	27,663	27,046	-2.2	83.7
Hostals / residencies	334	331	-0.9	1.0
Pensions	219	248	13.2	0.8
Aparthotels	2,663	2,690	1.0	8.3
Tourist apartments	2,024	1,981	-2.1	6.1
Total	32,903	32,296	-1.8	100

Source: Department of Tourism / Department of Statistics.

Regarding the project to build a casino in Andorra to increase Andorra's attractiveness to tourists, the Andorran gambling regulator (CRAJ) decided to refuse JOCS SA the licence to install and operate a casino because it believes there are still significant differences between the initial project that the company presented, for which it was awarded the tender, and the final proposal.

TOURIST ACCOMMODATION SUPPLY BY PARISHES

Table 12.10

	2018		2019		% var. 19/18		% total 2019	
	Estab.	Beds	Estab.	Beds	Estab.	Beds	Estab.	Beds
Canillo	47	6,996	47	7,008	0.0	0.2	20.4	21.7
Encamp	51	5,938	49	5,652	-3.9	-4.8	21.3	17.5
Ordino	29	2,143	25	1,852	-13.8	-13.6	10.9	5.7
La Massana	38	5,419	36	5,165	-5.3	-4.7	15.7	16.0
Andorra la Vella	33	5,961	33	6,138	0.0	3.0	14.3	19.0
Sant Julià de Lòria	8	766	8	771	0.0	0.7	3.5	2.4
Escaldes-Engordany	33	5,680	32	5,710	-3.0	0.5	13.9	17.7
Total	239	32,903	230	32,296	-3.8	-1.8	100	100

Note: Data on 31 December of relevant year.

Source: Department of Tourism / Department of Statistics.

The accommodation supply increased slightly in comparison with the previous year.

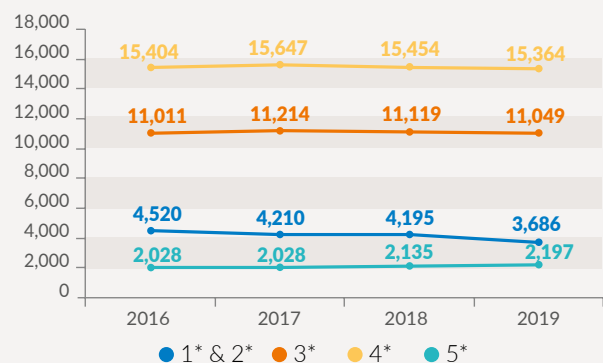
The increase in tourism demand was not accompanied by an increase in the accommodation supply. On the contrary, the number of tourist accommodations went from 239 to 230, and the number of beds fell 1.8% to 32,296 total beds. Of the tourist accommodation supply, 167 are hotels, 21 apart-hotels, 10 *hostals/residencies*, 6 pensions and 26 holiday apartments. On the other hand, there are also 48 establishments in the other tourist accommodation category (28 mountain huts, 8 campsites, 1 summer camp, 1 camping area, 2 hostels, 6 rural houses, 2 rural huts) and 81 companies managing housing used for tourism (EGHUT), with 12,757 beds (a figure that put this niche in the tourism supply well above the other types, except hotels).

In 2019, there was a reduction of six hotel establishments (five with two stars and one with four stars), one apart-hotels building and two holiday apartment buildings. In total, there are 230 tourist accommodations, nine less than one year before. The number of hotel beds also fell, while the average number of hotel beds remained practically the same. However, 84% of the total supply of beds by establishment type are concentrated in hotels (27,046 in 2019). The number of beds in apart-hotels came close to 2,700, and beds in holiday apartments close to 2,000. In the other types of accommodation, beds in housing used for tourism predominate, 12,757 in 2019 (-6.9% in relation to 2018). Remember that the Government passed new regulations in January 2019 to promote the number of apartments available on the rental market, consisting in first place of a register of empty apartments, and secondly, applying a tax on those dwellings, expected to come into force on 31 December 2021.

Considering the accommodation supply (beds) per parish, a high concentration can be seen in

In 2019, the number of hotel establishments fell by six, five of them with two stars.

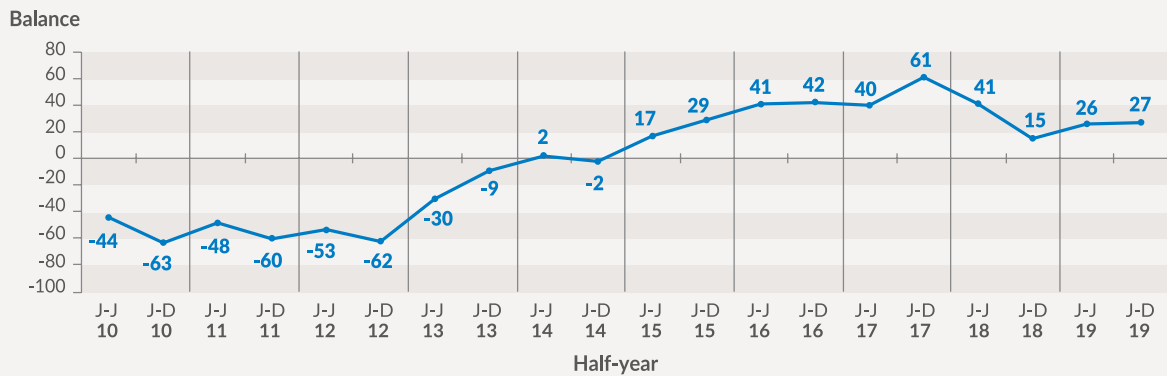
TREND IN THE NUMBER OF BEDS BY CATEGORY OF TOURIST ACCOMMODATION



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.

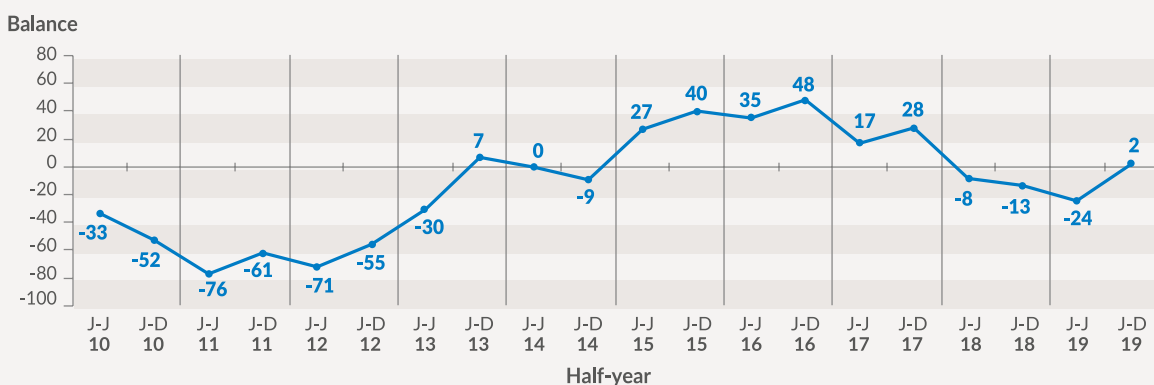
parishes considered to be at the “foot of the slopes” (Encamp 18%, Canillo 22% and La Massana 16%), and also in the central parishes (Andorra la Vella 19% and Escaldes-Engordany 18%). In Sant Julià de Lòria (2%) and Ordino (6%), despite having important infrastructures, the distance between the town centres and the infrastructures reduces the “foot of the slopes” effect. In 2019, the greatest increase in the number of beds in relative terms was in Andorra la Vella (by only 3%), while it fell significantly in Ordino (-14%), and to a lesser extent in Encamp and La Massana (close to -5% in both cases). In the other parishes, there were insignificant variations. As for the number of establishments, the most notable variations were the reduction by four establishments in Ordino, and two establishments in both Encamp and La Massana.

The number of 5* beds increases, targeting tourism with higher purchasing power.

As for categories of tourist accommodation, 54% of beds offered are in higher categories (4* and 5*). Specifically, in the last year, the number of beds in 5* categories increased 2.9% against the previous year. The number of beds in lower categories (1* and 2*) fell 12%, following the trend of recent years, to represent only 11% of total beds. The number of 3* and 4* beds also fell slightly, but are the most numerous. So, in 2019, as in the previous year, only the number of 5* beds rose, indicating clearly that the

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.

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 aparthotels and holiday apartments.

Based on hoteliers' responses to our situation surveys, in 2019 the sector saw a slight upturn in activity compared with the previous year, favoured by the positive behaviour of entries of tourists and the increase in overnight hotel stays. Specifically, hotels indicated a year-on-year increase in turnover of 1.6% on average – compared with the 2.2% downturn in 2018. Note, however, that the survey only refers to businesses in the hotel sector and that, as has been said, the increase in overnight stays in 2019 was concentrated in that sector. Therefore, the good results in the survey are not necessarily applicable to other categories of accommodation or tourist services.

From the geographical aspect, the favourable trend in business activity was generalised. It was seen in both the central nuclei of Andorra la Vella and Escaldes-Engordany, which are less seasonal

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

Table 12.11

		2017			2018			2019		
		Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average	Jan-Jun	Jul-Dec	Average
1. Business activity (reviewed half-year)	Good	45	65	55	48	26	37	40	36	38
	Normal	50	31	41	45	64	55	46	55	51
	Bad	5	4	5	7	11	9	14	9	12
	Balance	40	61	51	41	15	28	26	27	27
2. Average distribution of clients (%) (reviewed half-year)	Catalonia	40	42	41	31	42	37	36	40	38
	Rest of Spain	24	23	24	24	25	25	22	25	24
	France	19	19	19	24	22	23	22	19	21
	Others	18	16	17	21	12	17	20	16	18
3. Level of reservations (reviewed half-year)	High	16	27	22	12	13	13	6	11	9
	Adequate for period	67	58	63	70	52	61	50	66	58
	Low	16	13	15	16	35	26	38	21	30
	Reservations not taken	0	2	1	2	0	1	6	2	4
	Balance	0	14	7	-4	-22	-13	-32	-10	-21
4. Average level of occupancy (compared with same half-year in previous year)	Higher	31	49	40	25	26	26	16	31	24
	Equal	55	30	43	43	35	39	44	40	42
	Lower	14	21	18	33	39	36	40	29	35
	Balance	17	28	23	-8	-13	-11	-24	2	-11
5. Prices paid by clients (compared with previous half-year)	Higher	40	38	39	43	23	33	18	11	15
	Equal	47	29	38	50	36	43	61	64	63
	Lower	14	33	24	7	40	24	20	25	23
	Balance	26	5	16	36	-17	10	-2	-14	-8
6. Number of employees (compared with same half-year in previous year)	More	14	15	15	10	13	12	11	19	15
	Same	81	78	80	86	66	76	78	77	78
	Less	5	7	6	5	21	13	11	5	8
	Balance	9	8	9	5	-8	-2	0	14	7

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

and more focussed on commerce, and also most of the high parishes which focus mostly on snow tourism. In contrast, only the parish of Sant Julià de Lòria stood out from the others with lower levels of activity.

In the second half of 2019, the level of employment improved a little.

The declining average levels of employment of previous half years stopped, and a more stable trend occurred in the second half of 2019, compared with both the previous half year and in relation to the same months of 2018. This improvement was the result of a better-than-expected summer season, together with a favourable balance of tourism in the last quarter of the year. From the geographical aspect, the average level of employment only saw a year-on-year increase in the parishes of Escaldes-Engordany, Ordino and Andorra la Vella. In contrast, the employment trend continued to fall in the other areas (Canillo, Encamp and Sant Julià de Lòria), or was fairly stable (La Massana). On the other hand, in most hotels, employment followed a fairly stable trend in the first half of the year and an upward trend in the second half. Finally, sales prices followed a moderately downward trend, to gain competitiveness and encourage demand.

As for the distribution of clients per country of origin, Catalonia is still the most important source of clients for Andorran hotels, with 38% of total clients on annual average, followed by clients from the rest of Spain (24%). On the other hand, French travellers represented 21% of the total and clients of other nationalities came to represent the other 18%.

Catalonia is the main source of travellers, providing 38%.

4. Transport and communications

Activity in the branch of transports and communications showed a positive trend in 2019. The sector of transport and storage represents 2.0% of total GVA, and the sector of information and communications 4.0% (2018 data). In terms of employment, the transport sector (including overland and air transport and related activities, including travel agencies) represented 2.5% of total employees, and the sector of mail and communications, only 0.8%, using 2019 data.

In 2019, employment increased 6.2% in transport and fell 3.2% in mail and communications.

In 2019, there were 1,328 employees in the whole sector of transport and communications, 3.8% more than the previous year and the highest figure in the historical series. This growth can be explained exclusively by the transport branch, which saw a 6.2% increase in employees to a thousand, while there was another downturn in the branch of mail and telecommunications (-3.2%), to 322 employees.

The improvement in the economic context resulted in a significant increase in the average wage for the transport sector. In contrast, it fell 3.6% in the communications branch, still among the highest wages per sector (about €3,300 per month).

In contrast, the number of establishments in the sector fell in 2019, from 433 in 2018 to 427 in 2019. However, this reduction can basically be attributed to the number of establishments in land transport, due to the slowdown in foreign exchanges (imports and exports of goods).

In 2019, the number of vehicle registrations fell 1.9%, to 4,519 vehicles, the first fall after six consecutive years of increases. Note that the new CO₂ emissions regulations for vehicles, passed by the EU in 2018, had a negative impact on purchases of automobiles in most European

The second cycle of the Engega Plan 2019-2021 represented a reduction in total subsidies for purchasing electric vehicles, after the success of the first Engega Plan for 2016-2018, but the intention to promote electric mobility and improve the energy efficiency and safety of Andorran vehicles continues.

Specifically, for 2019, there were the following grants:

- **1. Grants to purchase electric vehicles:** €6.000 for a pure electric vehicle with extended autonomy; €3,000 for a plug-in hybrid vehicle; €1,000 for a pure electric motorcycle, and €9,000 for a pure electric van or truck. The maximum grant is 35% of the vehicle value.
- **2. Scrappage of a vehicle associated with the purchase of an electric vehicle or energy-efficient vehicle:** The amount of the grants is the same as in 2018: €750 for car scrappage and €1,250 for scrappage of a van or truck.

In total, 96 grants were authorised in the 2019 Engega programme (for the amount of €385,250), fewer than the 195 grants in the 2018 Engega programme (for a total of €882,750). Note that the initial budget available in 2019 was €750,000, so the level of execution was only 51%, much lower than the 88% in 2018, the 93% in 2017 and the 99% in 2016 (the programme start year).

So, the demand for grants is falling. To stop this trend, both the Government and sales points have proposed returning to the maximum grant levels and even increasing them.

Specifically, grants for 2020 are:

- **1. Grants to purchase electric vehicles:** €8.000 for a pure electric vehicle with extended autonomy; €4,000 for a plug-in hybrid vehicle; €1,250 for a pure electric motorcycle, and €13,000 for a pure electric van or truck. The maximum grant is still 35% of the vehicle value.
- **2. Scrappage of a vehicle associated with the purchase of an electric vehicle or energy-efficient vehicle:** €1000 for car scrappage and €1,500 for scrappage of a van or truck (at least 15 years old).

Moreover, in 2020, there was a new requirement on the maximum vehicle price for grants, according to the type of vehicle.

Finally, sales points also increased subsidies for purchasing electric motorcycles and vehicle scrappage, whether cars or vans and trucks. For the purchase of a four-wheeled vehicle, the incentive is €1,000 and for a motorcycle, €250. For scrappage of a vehicle associated with the purchase of an energy-efficient vehicle, the incentive in both cases is €1,000.

Note that the new 2019-2021 Engega Plan initially had a fund of €750,000 for 2019, €1,000,000 for 2020 and €1,000,000 for 2021. However, due to the Covid-19 crisis, the budget allowance for Engega 2020 subsidies was reduced to €500,000 (instead of €1,000,000).

countries, entering into force in Andorra in 2019. So, the effect was noted in registrations in 2019, especially cars.

By type of vehicles, car registrations, representing 69% of total units, fell 4.5% in 2019. The categories related to businesses' economic activities and investment plans are van registrations, which shrank 0.6%; special vehicles, which also fell 3.7%, and lorries, which increased an extraordinary 26% against the previous year. The number of motorcycle and snow bike registrations also increased.

The number of vehicle registrations fell after rising for six years.

VEHICLE REGISTRATIONS (units)

Table 12.12

	2016	2017	2018	2019	% var. 19/18	% total 2019
Cars	2,686	3,198	3,265	3,117	-4.5	69.0
Motorcycles	718	819	751	788	4.9	17.4
Vans	244	264	332	330	-0.6	7.3
Lorries ⁽¹⁾	59	86	85	107	25.9	2.4
Special vehicles	37	45	54	52	-3.7	1.2
Mopeds	17	11	14	11	-21.4	0.2
Snow bikes	12	30	18	39	116.7	0.9
Others ⁽²⁾	79	99	89	75	-15.7	1.7
Total	3,852	4,552	4,608	4,519	-1.9	100

(1) Also includes buses, semi-trailers and industrial trailers. (2) Consisting of private trailers and farm tractors.

Source: Department of Transport.

Despite the decline in registrations, the number of vehicles in 2019 (with ordinary plates) increased 3.1%, because the scrappage rate fell. The number of vehicles per 1,000 inhabitants (of estimated population) grew to 1,153, counting total vehicles, and 779 counting only cars. This means that on average there are more vehicles than residents.

In the last few years, the demand for electric and hybrid vehicles benefitted from the incentives to purchase eco-friendly vehicles promoted by the Government (Engega Plan), which encouraged registrations of this type of vehicle, but this trend slowed in 2019 in parallel with the reduction in authorised grants. The first Engega Plan in 2016-2018 gave exceptionally good results. Investment rose to a total of 3.3 million euros and, in the first year, registrations of electric and plug-in hybrid vehicles took off, to 164 units, with a continuing trend in 2017 (154 registrations) and 2018 (158 registrations). However, the subsidies decreased in the new Engega Plan 2019-2021 and this was noted in registrations. Specifically, in 2019, 53 100% electric vehicles were registered (contrasting with the 110 in the previous year) and 77 plug-in and non-plug-in hybrid vehicles (much fewer than the 112 in 2018). These two vehicle categories still represent a meagre 3% of the total.

In 2019, registrations of electric and hybrid vehicles fell, in parallel with the reduction in grants from the Engega Plan.

The shared electric bike scheme Cicland has been in operation since the summer of 2018, with stations throughout Andorra and about fifty bikes available to users. The number of users has been progressively increasing and there are already more than 350 registered users, most of whom are seasonal but also annual and one-off.

In 2019, fibre optic and mobile phone lines continued to increase.

As for the communications branch, the same dynamic of the last five years continued, with a 6.4% increase in the number of mobile contracts, bringing the total figure to 87,909 lines, together with some stabilisation in the number of land line contracts, at 47,629 lines. On the other hand, there are 36,358 fibre optic lines, a figure that represents an increase of 1.9% compared with 2018, although this is the lowest variation since it was introduced. The ratio of broadband lines per 100 inhabitants remains constant at 47 and the ratio of mobile lines for the same number of inhabitants rose to 113, so there are more mobile lines than inhabitants in Andorra.

Box 12.4

MAIN ACTIONS BY ANDORRA TELECOM IN 2019

Andorra Telecom ended 2019 with excellent economic results after introducing various product and service improvements, and implementing an ambitious programme of digital transformation.

User experience takes priority in investment policy. Whereas the fibre optic network had a makeover in 2017 and the mobile offer was expanded in 2018, 2019 was the year of fibre optic TV. The change of platform, new decoders and Bluetooth commands allow for better navigation and a broader supply of channels with catch-up for the last seven days, advances that were very well received by customers. The makeover campaign began in May and practically all users were reached within only nine months.

The response to the new high-speed internet service was also excellent. Updating the internet network meant that bandwidth could be increased and packets of up to 700 Mbps marketed, a new offer that received 2,300 clients in one year, 1,300 of whom are residential.

Another major project is the new Online Charging System platform, which offers more mobile phone flexibility to meet users' needs, set consumption caps or market new prepaid models.

Other investments were made in improving coverage and capacity in the 4G network in the most saturated locations or burying overhead cables. The installation of the Internet of Things (IoT) network in the main town centres is a chapter apart, using the LoRaWAN technology standard and allowing the connection of devices with up to ten years autonomy, technology that offers many opportunities to businesses and government.

Source: Andorra Telecom.

Andorra Telecom has also promoted an adjustment of digital terrestrial TV (DTTV) frequencies, in anticipation of the arrival of 5G mobile technology.

From the viewpoint of diversification, the major transaction was the sale of 37% of the company Avatel & Wikker Telecom, SL for 32 million euros. The share of this company, with a strong base in Malaga, Alicante and Cadiz, was acquired in November 2017 at a cost of 16 million euros. During the two years in which Andorra Telecom has been the operator's leading partner, it went from 22,000 to 100,000 clients and spread out into other Spanish provinces.

As for the annual accounts, in 2019 Andorra Telecom achieved better results than in the previous year. The increased turnover, added to reduced spending, enabled it to obtain an operating profit of 24.2 million euros, 1.9% more than the previous year and 25.2% more than predicted. The difference between the predicted and final income can be explained by the good business performance, the effort to cut current expenditure, and *roaming IN*, revenue from tourists using roaming in Andorra. The negotiating strategy with foreign operators, based on setting flat rates, softened the fall, which was only 3.7%. The excellent operating profit is complemented by the recovery in the financial markets and the sale of shares in the Spanish telecommunications operator Avatel. The net profit was 33.6 million euros, after discounting the 4.5 million transferred to the ActuaTech foundation to finance the digital transformation of the country.

As for the trend in telephone traffic, national land line traffic continued to fall (-27%), but unlike in recent years, mobile network traffic also started to fall (-0.8%). International incoming traffic continued to decrease, following the pattern of recent years, and in 2019 there was also a reduction in outgoing international traffic. For its part, internet telephone traffic by fibre optic grew at remarkably high rates (120% national and 28% international), as did national internet traffic by mobile (29%).

Timeline of the most significant economic developments in 2019

January

- 1 January, entry into force of qualified Law 32/2018 of 6 December, on trade unions and business organisations and qualified Law 33/2018 on industrial action.
- 11 January, entry into force of the Double Taxation Agreement (DTA) with Cyprus (applicability date 1 January 2020).
- 16 January, the Government issues the Decree relating to the technical note on the auditing procedure to be followed by external auditors within the framework of the automatic exchange of tax information.
- Law 1/2019 of 17 January, on the civil service, is passed.
- Law 3/2019 of 17 January, on urgent measures relating to housing rentals, is passed.
- 19 January, the S&P rating is published: Standard & Poor's rating agency affirms Andorra at BBB/A-2 and maintains the stable outlook.
- The Mountaineering Ski World Cup is held.
- Law 4/2019 of 31 January, on employment, is passed.
- Law 6/2019 of 31 January is passed, amending Law 17/2008 of 3 October, on social security. This Law regulates access to public health care and preferential access.

February

- 1 February, entry into force of Law 31/2018 of 6 December, on labour relations.
- 2 February, inauguration of the new shopping area of Andorra la Vella and Escaldes-Engordany, The Shopping Mile, linking Avinguda Meritxell to Avinguda Carlemany and the area adjoining Fener Boulevard.
- Law 9/2019 of 7 February is passed, amending Law 17/2008 of 3 October, on social security, amending the system of contributions for the self-employed, basing it on profits and turnover.
- 9 February, the Fitch rating is published: the international agency Fitch Ratings affirms Andorra's rating at BBB+ with a stable outlook.
- 11 February, the Government and the French National Institute for Circular Economy sign an agreement to promote the circular economy.
- 12 February, FEDA and Électricité de France (EDF) sign a framework convention to support the energy transition. This convention encompasses three agreements with EDF and its subsidiaries, to speed up the change towards the new energy model.
- Law 17/2019 of 15 February is passed, amending Law 8/2013 of 9 May, on the organisational requirements and operating conditions of entities operating within the financial system, investor protection, market abuse and financial collateral arrangements.
- The 2019 National Budget is passed (Law 18/2019, of 15 February).
- Law 10/2019 of 15 February is passed, amending the Administration Code of 29 March 1989.

March

- 1 March, the Principality of Andorra joins the Single Euro Payments Area (SEPA).
- 5 March, the Andorran banking entities join the Single Euro Payments Area (SEPA).
- 11-17 March, the FIS Alpine Ski World Cup Finals are held for the first time in Andorra.
- 27 March, international financial reporting standards adopted by the European Union (IFRS-EU) are approved and the Decree of 22 December 2016 is amended, to approve the accounting framework applicable to entities operating within the Andorra financial system and collective investment schemes under Andorran law, according to the IFRS-EU, also adopted by Andorra (IFRS-Andorra).

April

- 17 April, the National Strategic Plan to implement the UN Agenda 2030 for sustainable development is passed.
- 26 April, a 3-way collaboration agreement is signed between the Ministry of Environment, Agriculture and Sustainability, the Andorran Official Association of Engineers and the Andorran Official Association of Architects, to implement the Law promoting the energy transition and on climate change.
- 27 April, DIRSO, the department for road management in south-west France, reports the closure of the road access to France due to a landslide on the bank of the RN22, at Pont de la Mina.

May

- 2 May, a Decree is passed adopting special measures to mitigate the effects of total closure of the RN22 by the French authorities (establishing that the Envalira tunnel would be free until access to the RN22 road between Andorra and France is restored).
- 8 May, a Decree is issued for urgent measures aimed at the commerce and tourism sector of Pas de la Casa, to help mitigate the economic impacts of closure of the RN22 by the French authorities.
- 8 May, the Base Prospectus for the fourth public debt issue programme is approved, with a long-term public debt issue (bonds) of 100 million euros.
- 10 May, Actua and the Cambra de Comerç, Indústria i Serveis sign a joint collaborative agreement to promote competitiveness in the Andorran business sector.
- 15 May, access to France by the RN22 is opened to traffic in both directions after being closed for 18 days due to a landslide.
- 29-30 May, the Cambra de Comerç, Indústria i Serveis takes part in the first Economic Forum of the Small States, which takes place in Montenegro, organised by the Cambra of that country. At this meeting, the chambers of commerce sign a collaborative agreement to promote collaboration in investment, commerce and culture.

July

- » The Vallnord Pal-Arinsal Mountain Bike World Cup is held.
- » 19 July, the S&P rating is published: the rating agency Standard & Poor's improves Andorra's outlook from stable to positive and affirms the BBB/A-2 rating.

August

- » 2 August, the Fitch rating is published: the international ratings agency Fitch Ratings affirms Andorra's rating at BBB+ and the stable outlook.
- » 14 August, the 2019 Classification of Economic Activities of Andorra (CAEA-2019) is approved.

September

- » 1 September, Andorra welcomes the Vuelta 2019, with the 9th stage of the tour contested wholly in the Principality.
- » 18 September, a short-term public debt issue (bonds) of 100 million euros is approved, under the public debt issue programme of 8 May 2019.
- » 23 September, the amended annex of the monetary agreement between the Principality of Andorra and the European Union is published.
- » 23 September, Andorra takes part in the UN Climate Change Conference within the framework of the 74th General Assembly of the UN in New York (issuing a document with measures and actions to reduce greenhouse gas emissions between now and 2030 and expectations of neutralising those emissions by 2050).

November

- » 5 November, Grandvalira ENSISA officially inaugurates the ski platform and carpark at Avet de Soldeu.
- » Starting from the 2019-2020 season, Ordino Arcalis ski resort is fully integrated into the Grandvalira brand.
- » 12 November, the OECD Global Forum recognises the improvements in transparency and tax information exchange and raises Andorra's rating to "largely compliant" (Peer Review Report for Andorra, 2nd Round of Phase 2).
- » 27 November, a long-term public debt issue (bonds) of 150 million euros is approved, under the public debt issue programme of 8 May 2019.
- » Law 21/2019 of 28 November is passed, amending Law 14/2017 of 22 June, on preventing and combatting the laundering of money or securities and terrorism financing.

December

- » Andorra affirms its commitment to implementing ambitious measures to fight climate change during its participation in COP25.
- » 5 December, the Moneyval plenary approves the 2nd progress report of the 5th evaluation of Andorra.
- » 12 December, approval for the Principality of Andorra to join the WHO Framework Convention on tobacco control, adopted at Geneva on 23 May 2003 with entry into force on 27 February 2005.
- » Law 23/2019 of 12 December, on urgent measures relating to housing rentals and to improve purchasing power, is passed.
- » 11 December, the 2020 Statistics Plan is passed.
- » Andorra Telecom closes the sale on 37.3% of the shares in the Spanish telecommunications company Avatel & Wikiker Telecom for 32 million euros. Through this transaction, Andorra Telecom obtains a capital gain of 16 million euros, doubling the initial capital investment in two years.

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