

# **The Principality of Andorra in 2019-2023: A Comparative Macroeconomic Analysis**

Javier Díaz-Giménez

Juan Pablo Uphoff

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## Summary

This study is an update to our previous report entitled “The Principality of Andorra: A Comparative Macroeconomic Analysis.” It examines the trajectory of the Andorran economy from 2019 to 2023, comparing it with the economic performance of nine other European nations: four small states—San Marino, Monaco, Liechtenstein, and the Isle of Man; three medium-sized countries—Iceland, Malta, and Luxembourg; and two larger nations—Spain and France.

In absolute terms, Andorra has managed to navigate the challenges posed by the COVID-19 pandemic, the subsequent lockdowns and reopenings, and the geopolitical conflicts of the five-year period from 2019 to 2023 with relative success. During this period, the real Gross Domestic Product (GDP) of Andorra grew by 8.1 percentage points, while the resident population and employment increased by 9.8 and 9.0 percentage points. These increases in population and employment outpaced the growth of real GDP, real GDP per capita and real GDP per employee, measured in constant euros, which have not yet fully returned to their pre-pandemic levels recorded at the end of 2019. Specifically, the real GDP per capita index was 98.2, and the real GDP per employee index was at 98.8 by the end of 2023. The value of both indices was 100 at the end of 2019.

The performance of Andorran public administrations between 2019 and 2023 has been reasonable, with the country recording a public deficit only in the years 2020 and 2021, out of the five years under consideration. Furthermore, by the end of 2023, Andorra’s public debt had increased by just 0.6 percentage points relative to nominal GDP.

Finally, Andorra’s foreign sector continued to demonstrate remarkable strength, with the current account balance maintaining a substantial surplus throughout the five-year period analyzed. Moreover, according to data from the International Monetary Fund, Andorra’s net international investment position (NIIP) improved from 307.5 percent of GDP in 2019 to 339.9 percent in 2022, the latest year for which data is available.

We extend our gratitude to the association Empresa Familiar Andorrana for funding this study, and to Creand Crèdit Andorrà for its excellent work in preparing this report for publication. We also offer our sincere thanks to Joan Tomàs for his valuable suggestions and patience.

## Foreword

Five years have passed since the last macroeconomic study and, in spite of global and local changes, Andorra's productivity remains stagnant. This fact raises a fundamental question: why, despite the increase in income per capita and per employee, have we not seen a significant improvement in economic efficiency? The additional economic activities that have been created do not fully explain this growth, prompting an analysis of other factors, such as the increase in population and the composition of the country's productive fabric.

The Andorran economy is characterized by a strong dependence on the State, which heavily subsidizes key sectors such as health, education, infrastructure, and security. This means that population growth, far from being a simple positive indicator, entails an increase in public obligations that can strain the State's finances if this growth fails to translate into higher productivity.

This study provides a comprehensive macroeconomic analysis of Andorra over the period from 2019 to 2023, with a dual objective: First, it identifies the strengths and weaknesses of the Andorran economy, comparing it with a sample of benchmark countries. Second, it helps us understand why GDP growth has not led to an improvement in productivity.

To this end, we have selected a set of countries that share key characteristics with Andorra, such as San Marino, Liechtenstein, Monaco, and the Isle of Man, as well as medium-sized countries such as Malta, Iceland, and Luxembourg. We complete the analysis with a study of the economic influence of our immediate neighbors, Spain and France, which play a fundamental role in the Andorran economic ecosystem.

The period analyzed covers decisive years, including 2020, marked by the COVID-19 crisis, and the subsequent economic recovery, which was characterized by high inflation and uneven growth across sectors. This global context has had a major impact on Andorra, yet the resilience of its economic model has allowed for a faster recovery compared to other economies.

The analysis focuses on critical variables such as Gross Domestic Product (GDP), income per capita, income per employee, and productivity by economic sector. Despite GDP growth, the reality is that this increase has not translated into a commensurate improvement in quality of life for Andorran citizens. The growth in population and the scarce diversification of economic activities are factors that explain this imbalance.

In terms of fiscal sustainability, Andorra has maintained a responsible management, with public debt remaining below 40% of GDP. However, pressure on public resources is mounting, especially in sectors such as pensions and the supply of affordable housing, which represent strategic challenges for the future.

This study also examines the current account balance and the performance of the trade sector, two pillars of the Andorran economy. While these indicators remain strong, a strategic reassessment is necessary to determine how to generate more added value, reduce dependence on tourism, and foster innovation.

In this context, the scenario posed by the Association Agreement with the European Union would introduce a new reality for Andorra, while maintaining the same ongoing need to enhance competitiveness. Integration into a larger common market will require strategic vision, innovation, and greater openness to new opportunities. Andorra must proactively anticipate, strengthen, and consolidate its position to successfully address the challenges and leverage the advantages of this potential new phase.

In short, this paper seeks not only to describe Andorra's economic reality, but also to encourage critical reflection on the economic and social policies needed to ensure sustainable and inclusive growth in the coming years.

We would like to thank Creand Crèdit Andorrà for its continued support and willingness to once again facilitate the printed edition of this study, building on the collaboration initiated in 2023. We consider this project to be of great value, as it provides a useful resource for data-driven decision-making.

**Daniel Armengol Bosch**

*President of Empresa Familiar Andorrana*

## 1. Executive Summary

This study is an update to our previous report entitled “The Principality of Andorra: A Comparative Macroeconomic Analysis.” It examines the trajectory of the Andorran economy from 2019 to 2023, comparing it with the economic performance of nine other European nations: four small states—San Marino, Monaco, Liechtenstein, and the Isle of Man; three medium-sized countries—Iceland, Malta, and Luxembourg; and two larger nations—Spain and France.

In absolute terms, Andorra has managed to navigate the challenges posed by the COVID-19 pandemic, the subsequent lockdowns and reopenings, and the geopolitical conflicts of the five-year period from 2019 to 2023 with relative success. During this period, its GDP grew by 8.1 percentage points, while the resident population and employment increased by 9.8 and 9.0 percentage points. These increases in population and employment outpaced the growth of real GDP, real GDP per capita and real GDP per employee, measured in constant euros, which have not yet fully returned to their pre-pandemic levels recorded at the end of 2019. Specifically, the real GDP per capita index was 98.2, and the real GDP per employee index was at 98.8 by the end of 2023. The value of both indices was 100 at the end of 2019.<sup>1</sup>

The performance of Andorran public administrations has been reasonable, as evidenced by the fact that by the end of 2023, Andorra’s public debt had increased by just 0.6 percentage points of its nominal GDP. With regard to Andorra’s foreign sector, it has continued to demonstrate remarkable strength. The current account balance maintained a substantial surplus throughout the five-year period that we have analyzed, and according to data from the International Monetary Fund, Andorra’s net international investment position improved from 307.5 percent of GDP in 2019 to 339.9 percent in 2022, the most recent year for which data is available.

Compared to the other countries in the sample, Andorra’s economic performance has been less favorable. **In terms of real GDP per capita, Andorra ranked last among the ten countries analyzed. This result is largely due to Andorra experiencing the highest resident population growth in the sample.** In terms of real GDP per employee, Andorra placed seventh among the ten countries in the sample, but it ranked last among the five smallest countries. This result reflects the fact that employment growth has been the highest in Andorra, while average labor productivity is lower than in the other countries in the sample.

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1. Measured in current euros, the GDP per capita in Andorra in 2019 was €36,347, and in 2023 it was €41,134, according to data from the Andorran Department of Statistics. The differences between real GDP per capita and nominal GDP per capita are due to inflation.

Regarding the composition of Andorran GDP, the latest disaggregated data from 2022 indicate that the three sectors that contributed most to Andorran GDP were an expanded definition of trade (including wholesale and retail trade, logistics, and hospitality), real estate activities, and public services. That year, trade including logistics and hospitality accounted for 27.5 percent of Andorra's GDP, real estate activities including construction accounted for 24.1 percent, and public services accounted for 13.8 percent. Together, these three sectors accounted for 57.0 percent of Andorra's GDP. These figures confirm that Andorran business activities remain highly competitive, while real estate activities and public services—both non-tradable activities and therefore sheltered from international competition—continue to play an important role in Andorra's economic structure.

The more competitive a sector or group of sectors is, the greater the concentration of economic activity in those sectors. For example, San Marino and Liechtenstein have the most competitive manufacturing sectors among the countries in the sample, but they are also the countries with the highest concentration of economic activity, as manufacturing dominates their economies. Compared to the other countries in the sample, Andorra ranked fourth in terms of economic concentration, although it is more diversified than San Marino, Liechtenstein, and Monaco.

With regard to Andorra's public sector, its consolidated general government recorded deficits only in 2020 and 2021, two of the five years under consideration. Moreover, as previously mentioned, by the end of 2023, Andorran public debt expressed as a proportion of GDP had risen by just 0.6 percentage points compared to the end of 2019. Between 2019 and 2023, there was a modest reallocation of public resources towards the social protection and health sectors, whose shares increased by 1.29 and 0.32 percentage points of GDP respectively during that period. When comparing the performance of the Andorran public sector with that of the other countries in the sample, we conclude that it has been exemplary. Between 2019 and 2023, Andorra ranked third in terms of the lowest increase in public debt relative to GDP—or fourth if Monaco is included (its constitution prohibits public debt issuance).

The performance of the Andorran foreign sector between 2019 and 2023 has been exceptional. The trade balance remained positive every year of that period. The current account balance has also been consistently positive each year, nearly returning to its pre-COVID level by 2023. Finally, Andorra's net international investment position (NIIP) remains the strongest of all the countries in the sample. In 2022, it reached 340 percent of GDP, marking an increase of 33 percentage points compared to 2019.

From a macroeconomic perspective, competitiveness refers to the ease of doing business and the absence of legal obstacles that hinder or prevent it. By the end of 2023, the Andorran economy was highly competitive in attracting cross-border visitors and selling goods and services to foreigners within the country itself. However, it was uncompetitive in domestic manufacturing for export abroad. These competitive advantages and disadvantages can be partly attributed to Andorra's geography and to the scarcity of natural resources. For example, in 2023, Andorra imported 80 percent of its electricity, although 70 percent of that energy came from renewable sources. While Andorra's energy dependence represents a competitive disadvantage that needs to be addressed, the high degree of decarbonization of its economy is a competitive advantage that could be leveraged. In addition, **Andorra's tax rates are still among the lowest in Europe and, as long as this remains unchanged, it will continue to serve as another strong competitive advantage and a powerful incentive for companies and individuals to establish themselves in the country.** Looking ahead, Andorra could capitalize on the opportunities offered by virtual businesses to overcome its geographical constraints and diversify its economic activity.

The Association Agreement with the European Union puts Andorrans at a crossroads. The decision to enter into the agreement and open the economy will fundamentally reshape Andorra's future, just as the decision not to do so and to retain full sovereignty without restrictions will also have its consequences. In any case, this or any other agreement with the European Union seems desirable to foster good neighborly relations for a country like Andorra that specializes in trade and tourism. Accepting the rules of the game of the European Union will introduce competitive pressure for Andorran businesses and households, but the expansion of their market access will also generate many opportunities for them. If Andorra were to join the European Union, its market would extend beyond a domestic market of some 85,000 residents and about 9 million visitors to an integrated market of 464 million consumers as of January 2024.

In the last section of this study, we analyze how the 21 countries that joined the European Union between 1973 and 2013 have fared, and we reach the following conclusions: First, the European Union is a bloc of affluent countries that prioritize stability over growth. Member states are more concerned with preserving their welfare levels than with increasing them. Second, the data suggest that demographic policies have played a more significant role than economic and trade policies in shaping GDP per capita trends in these countries. In other words, **the growth rate of Andorra's GDP per capita in the coming years is likely to depend more on its demographic policies than on whether it signs the**

**Association Agreement with the European Union.** Finally, the experience of the 21 countries in this sample suggests that Andorra's Association Agreement with the European Union should not in itself be used as justification for Andorra to increase the size of its public sector. The substantial growth of Andorra's public sector occurred between 2006 and 2016, but in the eight years leading up to 2023, its size has remained stable relative to GDP.

## 2. Introduction

This study is an update to our previous report entitled “The Principality of Andorra: A Comparative Macroeconomic Analysis.” It examines the trajectory of the Andorran economy from 2019 to 2023, comparing it with the economic performance of nine other European nations: four small states—San Marino, Monaco, Liechtenstein, and the Isle of Man; three medium-sized countries—Iceland, Malta, and Luxembourg; and two larger nations—Spain and France.

By the end of 2019, the global economic outlook was relatively subdued. Most countries had recovered from the Great Recession, and the International Monetary Fund (IMF) in its *World Economic Outlook* of October 2019 forecasted global economic growth of 3.0 percent for that year and of 3.4 percent for 2020. Meanwhile, macroeconomists were discussing whether the expansionary phase of the business cycle in the United States was nearing its end.

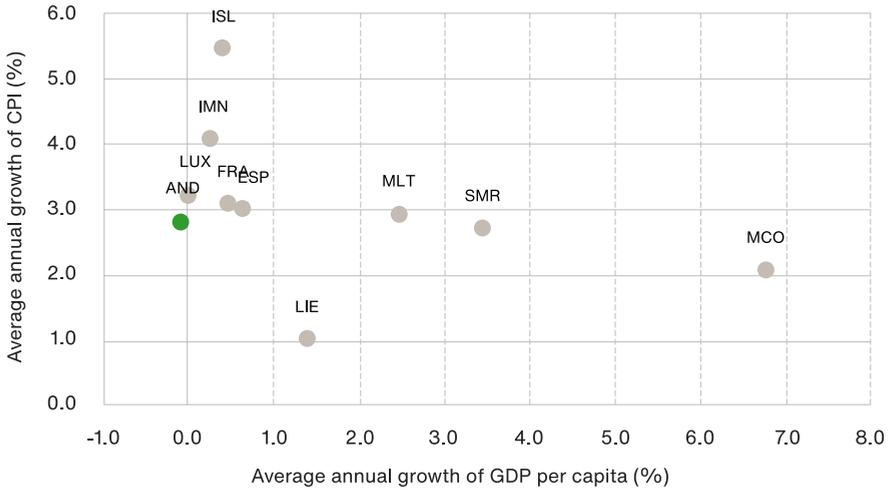
But in the spring of 2020, COVID-19 took the world by surprise, first triggering widespread lockdowns and travel bans, followed by gradual reopenings. The pandemic and its aftermath caused global Gross Domestic Product (GDP) to contract by 2.8 percent in 2020, the steepest decline since the end of World War II. In contrast, 2021 was the year of monetary and fiscal interventions in an attempt to rescue the global economy, fueling the rebound in GDP and the surge in inflation. That year, world GDP grew by an extraordinary 6.2 percent and, in December, the year-on-year Consumer Price Index (CPI) stood at 7.0 percent in the United States and 5.0 percent in the Eurozone.

The IMF’s October 2021 *World Economic Outlook* titled “Recovery During a Pandemic: Health Concerns, Supply Disruptions, and Price Pressures” projected global GDP growth of 4.9 percent in 2022. That Christmas, the Omicron variant of COVID-19 proved to be far less virulent than feared, and analysts anticipated another year of strong economic recovery. But it was not to be. By late February, amidst post-pandemic fatigue and hopes of a recovery, Russian tanks crossed the border, invading Ukraine. Once again, the forecasts were up-ended. That year, global GDP grew by 3.5 percent—1.4 below the IMF’s projection—and the inflation rate in December was 6.5 percent in the United States and 9.2 percent in the Eurozone, after peaking at 9.1 and 10.6 percent earlier that year.

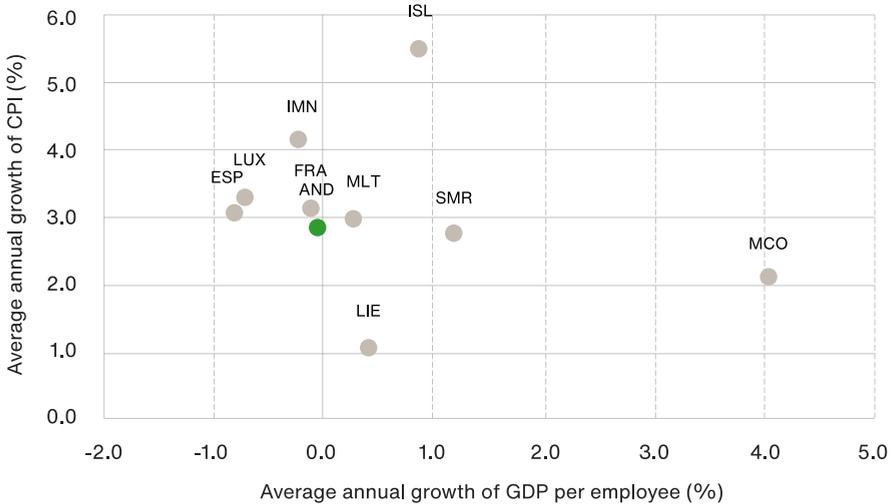
We finally come to 2023, the last year covered in this study. In October 2022, the IMF projected global GDP growth of 2.7 percent for 2023, yet this forecast proved inaccurate once more—this time on the upside. Global GDP grew by

3.3 percent that year—0.5 percentage points higher than projected—and the December year-on-year inflation rate was 3.4 percent in the United States and 2.9 percent in the Eurozone. Both global GDP growth rates and inflation were gradually returning to their historical averages.

**Figure 1: Evolution of real GDP per capita, real GDP per employee, and inflation (2020–2023)**



**Panel A: Real GDP per capita and CPI**



**Panel B: Real GDP per employee and CPI**

Source: IMF and local statistics departments.

## And the winner is... Monaco!

Figure 1 shows the average growth rates of the Consumer Price Index (CPI), GDP per capita, and GDP per employee between 2019 and 2023.

The x-axis of Panel A displays the 2019-23 average growth rate of GDP per capita, and the x-axis of Panel B plots the average growth rate of GDP per employee. We have chosen these two variables because, as we argue in Section 3, the small countries in the sample follow very different policies regarding the hiring of cross-border workers. These various policies often result in significant differences between GDP per capita and GDP per employee. The y-axes in both panels represents the average CPI growth rate.

As illustrated by the two panels of Figure 1, Monaco is the country in which both GDP per capita and GDP per employee experienced the highest growth, despite also suffering the sharpest contraction in 2020, as discussed in Section 4. San Marino is the second most industrialized country in the sample, as we detail in Section 5, and it ranked second both in GDP per capita and in GDP per employee.

Figure 1 also highlights that Andorra ranked last in average growth of GDP per capita, sixth in average growth of GDP per employee, and a close fourth behind San Marino in inflation rate.

To summarize these findings, Table 1 presents the main macroeconomic variables for Andorra in 2019 and 2023 and their rates of change. On the following pages, we provide a detailed analysis of these data and results.

**Table 1: Andorra in figures (2019 and 2023)**

Population, Employment, and GDP	2019	2023	Δ%
Population (people)	77,543	85,101	9.7
Employment (people)	48,119	52,467	9.0
Nominal GDP (millions of €)	2,818	3,501	24.2
Real GDP (millions of 2010 €)	2,674	2,891	8.1
Nominal GDP per capita (€)	36,347	41,134	13.2
Nominal GDP per employee (€)	58,572	66,720	13.9
Real GDP per capita (2010 €)	34,490	33,972	-1.5
Real GDP per employee (2010 €)	55,580	55,102	-0.9

	millions of €			%GDP		
	2019	2023	Δ%	2019	2023	Δ%
<b>Public Sector</b>						
<b>Income</b>	1,075	1,331	23.8	38.2	38.0	-0.3
<b>Expenses</b>	1,010	1,256	24.3	35.8	35.9	0.1
<b>Public Balance</b>	65	75	15.9	2.3	2.2	-6.7
<b>Public Debt</b>	997	1,241	24.5	35.4	35.5	0.2

	millions of €			%GDP		
	2019	2023	Δ%	2019	2023	Δ%
<b>Foreign Sector</b>						
<b>Current Account Balance</b>	508	597	17.6	18.0	17.0	-5.3
<b>Goods and Services Balance</b>	271	302	11.7	9.6	8.6	-10.1
<b>Exports of Goods and Services</b>	2,086	2,812	34.8	74.0	80.3	8.6
<b>Imports of Goods and Services</b>	1,815	2,510	38.3	64.4	71.7	11.3
<b>Net Primary Income</b>	274	344	25.3	9.7	9.8	1.2
<b>Net Secondary Income</b>	-37	-49	31.6	-1.3	-1.4	7.9
<b>Capital Account</b>	0	0	-	0	0	-
<b>Financial Account</b>	496	597	20.3	17.6	17.0	-3.1
<b>Errors and Omissions</b>	-12	0	-	-0.4	0	-
<b>Gross International Reserves</b>	0	338	-	0	9.7	-

Source: Andorran Department of Statistics and IMF. Due to rounding, there may be slight differences.

## 3. Background

### 3.1. Sample Countries

In this study, we compare the Andorran economy with those of seven other small European countries: San Marino, Monaco, Liechtenstein, the Isle of Man, Iceland, Malta, and Luxembourg, as well as two *large economies*: France and Spain.

#### 3.1.1. Country Groups

The second column of Table 2 presents the resident population of the ten sample countries in 2023. Based on this variable, we can classify these ten countries into three groups. Five countries have fewer than 100,000 residents, and we refer to these as the *small countries* of the sample. These small countries are San Marino (SMR), Monaco (MCO), Liechtenstein (LIE), Andorra (AND), and the Isle of Man (ISL). Three countries have a population of around 500,000 residents and are referred to as the *medium-sized countries* of the sample. These are Iceland (ISL), Malta (MLT), and Luxembourg (LUX). Finally, our sample contains two *large countries*, which are Spain (ESP), with 48 million residents as of 2023, and France (FRA), with 66 million residents according to data from that same year.

**Table 2: Population and Size (2023)**

	Residents	Size (km <sup>2</sup> )	Population density
<b>SMR</b>	33,642	61	550
<b>MCO</b>	38,367	2	19,184
<b>LIE</b>	39,975	160	249
<b>AND</b>	85,101	468	182
<b>IMN</b>	84,536	572	148
<b>ISL</b>	388,000	103,000	4
<b>MLT</b>	542,000	316	1,715
<b>LUX</b>	661,000	2,586	255
<b>ESP</b>	47,810,000	506,030	94
<b>FRA</b>	65,907,000	551,695	119

Source: IMF, World Bank, ADS, Monaco Statistics, and Liechtenstein Statistics.

Within the group of small countries, which is of particular interest because it includes Andorra, we identify two subgroups: San Marino, Monaco, and Liechtenstein, which in 2023 had fewer than 40,000 residents; and Andorra and the Isle of Man, which had around 85,000 residents that same year.

### **3.1.2. Country Size**

The third column of Table 2 presents the size of these countries, measured in square kilometers, and the fourth column shows the population density, measured in residents per square kilometer. Monaco is just 2 square kilometers and is by far the smallest state in the sample. Monaco's small size means that, with about 19,000 residents per square kilometer, it is also the most densely populated state in the sample by a significant margin.

San Marino, Liechtenstein, and Malta are smaller in size than Andorra, while all other countries in the sample are larger. However, in terms of population density, Andorra has the second lowest density among the five small countries in the sample, with 182 residents per square kilometer. Only the Isle of Man has a lower population density than Andorra, with 148 residents per square kilometer, making it the least densely populated country in the small-country group.

### **3.1.3. Geography**

Among the countries in the sample, the Isle of Man, Iceland, and Malta are islands, while Andorra is by far the most mountainous country. Andorra's rugged terrain limits the space available for urban and industrial development and poses challenges for trade relations, including the exchange of goods and services, cross-border movements of workers, and tourism.

With the exception of the island countries of the sample—the Isle of Man, Iceland, and Malta—the small countries enjoy a more advantageous location than Andorra in terms of their proximity to urban centers. Being closer to large cities facilitates trade, improves access to labor markets, and creates economies of scale and synergies in economic sectors that benefit from access to large markets.

**Table 3: Geography**

Countries	Nearest cities (distance, population)
<b>SMR</b>	Rimini (15 km, 150 k habitants), Cesena (50 km, 100 k)
<b>MCO</b>	Nice (20 km, 1 M), Marseille (220 km, 1.8 M)
<b>LIE</b>	St. Gallen (60 km, 170 k), Zurich (110 km, 1.6 M)
<b>AND</b>	Barcelona (200 km, 5.6 M), Toulouse (190 km, 780 k)
<b>IMN</b>	Belfast (4 hours by ferry, 650 k), Liverpool (4 hours by ferry, 1.6 M)
<b>LUX</b>	Trier (40 km, 160 k), Metz (60 km, 225 k)

Source: Authors' own work.

Table 3 shows the distance from the small countries in the sample to the nearest major cities, alongside the population of those cities. Specifically, we looked at the approximate distance by road to the two cities closest to each of our sample countries. The population reported in this table is the population of the wider metropolitan areas of the corresponding cities. Monaco is the small country with the most advantageous location, situated just 20 km from Nice, whose metropolitan area has a population of 1 million. In contrast, Andorra is the most geographically isolated small continental country in the sample, located 200 km from Barcelona and 180 km from Toulouse, whose metropolitan areas amount to 5.6 million and 0.78 million residents respectively.

Given Andorra's relatively disadvantaged position compared to the other small countries in the sample, investment in improving its transportation links with major neighboring cities could significantly contribute to accelerating its economic development. Improving rail connections with Barcelona and Lleida and expanding the capacity of the Andorra-La Seu airport are two examples of such investments.

### 3.2. The Analysis Period

In our previous research in this series, we studied the period from 1970 to 2019. In this report, we extend that analysis by focusing on the years 2019 to 2023. In cases where data for 2023 are unavailable, we use the most recent available data or extrapolations. In some instances, we also refer back to the year 2000 to provide a more comprehensive view of long-term trends. The database that we have constructed for this study is available to readers upon request.

### 3.3. The Data

As with all macroeconomic studies, the availability and quality of data are decisive for the quality of the analysis and the accuracy of its conclusions. Macroeconomic accounting involves relatively high fixed costs and relatively low variable costs. For this reason, many small countries devote few resources to collecting macroeconomic statistics. As a result, in some cases, the quality of available macroeconomic data is limited.

When a country joins the International Monetary Fund (IMF) and the World Bank, it is required to comply with the statistics standards of these institutions and receives technical assistance to meet these requirements.

**Table 4: Data Sources**

	<b>Joined the IMF</b>	<b>Department of Statistics</b>
<b>FRA</b>	December 27, 1945	<a href="https://www.insee.fr/en/accueil">https://www.insee.fr/en/accueil</a>
<b>LUX</b>	December 27, 1945	<a href="https://statistiques.public.lu/">https://statistiques.public.lu/</a>
<b>ISL</b>	December 27, 1945	<a href="https://statice.is">https://statice.is</a>
<b>ESP</b>	September 15, 1958	<a href="https://www.ine.es">https://www.ine.es</a>
<b>MLT</b>	September 11, 1968	<a href="https://nso.gov.mt">https://nso.gov.mt</a>
<b>SMR</b>	September 23, 1992	<a href="https://www.statistica.sm/pub1/StatisticaSM/en/">https://www.statistica.sm/pub1/StatisticaSM/en/</a>
<b>AND</b>	October 16, 2020	<a href="https://www.estadistica.ad/portal/apps/sites/#/estadistica-ca/">https://www.estadistica.ad/portal/apps/sites/#/estadistica-ca/</a>
<b>LIE</b>	October 21, 2024	<a href="https://www.statistikportal.li/de">https://www.statistikportal.li/de</a>
<b>IMN</b>	-	<a href="https://www.gov.im/about-the-government/departments/cabinet-office/statistics-isle-of-man/">https://www.gov.im/about-the-government/departments/cabinet-office/statistics-isle-of-man/</a>
<b>MCO</b>	-	<a href="https://www.monacostatistics.mc">https://www.monacostatistics.mc</a>

Source: Authors' own work.

In this study, our primary data sources are the IMF and the World Bank for countries that are members of these institutions, and local statistics departments for those that are not. In the case of Andorra, when both data sources were available, we have given priority to data from its Statistics Department. In the third column of Table 4, we present the internet addresses of the statistics departments of the sample countries.

The second column of Table 4 presents the date on which the countries of the sample joined the IMF. At year-end 2024, all the countries in the sample, except the Isle of Man and Monaco, were IMF members. The first countries to join the IMF were France, Luxembourg, and Iceland, which were among its founding members. Andorra joined on October 16, 2020, while Liechtenstein became the most recent sample country to become an IMF member, joining on October 21, 2024. As of December 2024, neither the Isle of Man nor Monaco had applied to join the IMF.

## 4. Residents, Employees, and Cross-Border Workers

### 4.1. Andorra

In 2023, Andorra had a population of 85,501 residents and 52,467 employees, of whom 1,800 were cross-border workers. In percentage terms, 61.7 percent of Andorra's residents were employed, and 3.5 percent of employees were cross-border workers. In the following section we compare these ratios for Andorra with those of the other countries in the sample and conclude that the proportion of cross-border workers in Andorra is much more similar to that of the island countries in the sample—Iceland, Malta, and the Isle of Man—than to that of the small and medium-sized mainland countries—Monaco, San Marino, Liechtenstein, and Luxembourg.

### 4.2. International comparisons

Panel A of Table 5 presents data on residents, employees, and cross-border workers in the sample countries. The countries are ordered by the share of cross-border workers in the labor force from highest to lowest (see the second to last column of Table 5).

**Table 5: Residents, Employment, and Cross-Border Workers**

	Residents	Workers	Cross-Border Workers	Cross-Border Workers/Workers (%)	Workers/Residents (%)
<b>MCO</b>	38,367	63,479	52,280	82.4	165.5
<b>LIE</b>	39,975	43,709	24,153	55.3	109.3
<b>LUX</b>	661,000	511,536	225,368	44.1	77.4
<b>SMR</b>	34,000	23,524	8,015	34.1	69.2
<b>AND</b>	85,101	52,467	1,800	3.5	61.7
<b>FRA</b>	65,907,000	28,589,000	345,000	1.2	43.4
<b>ESP</b>	47,810,000	21,390,000	87,500	0.4	44.7
<b>ISL</b>	388,000	2,197	-	-	56.6
<b>MLT</b>	542,000	305,218	-	-	56.3
<b>IMN</b>	84,536	36,555	-	-	43.2

Panel A: Residents, Employees, and Cross-Border Workers in 2023.

	2019	2020	2021	2022	2023	Δ (23-19)
<b>MCO</b>	80.80	80.36	81.08	81.77	82.36	1.56
<b>LIE</b>	55.93	55.82	56.22	56.81	-	-0.07
<b>LUX</b>	42.97	43.17	43.60	43.98	44.07	1.10
<b>SMR</b>	-	30.92	32.32	30.47	32.65	1.73
<b>AND</b>	3.42	3.63	3.58	3.40	3.41	-0.01
<b>FRA</b>	1.28	1.24	1.20	1.20	1.21	-0.07
<b>ESP</b>	0.38	0.38	0.38	0.49	0.43	0.05

Panel B: Cross-Border Workers as a Share of Total Employment (%).

Sources: IMF, World Bank, and local statistics departments.

#### 4.2.1. Residents and Employees

The last column of Panel A of Table 5 shows the employee-to-resident ratio for every country in the sample. Monaco and Liechtenstein have more employees than residents, while all the other countries in the sample have far fewer employees than residents.

The ratios vary widely from one country to another. In Monaco, the employee-to-resident ratio is an astonishing 166 percent, and in the Isle of Man, the country with the lowest ratio in the sample, it is barely a quarter of that number (43 percent). Among the five small countries in the sample, Andorra ranks second to last with an employee-to-resident ratio of 62 percent.

Interestingly, in 2023, Monaco had 21 percent more employees than Andorra, despite Andorra having 222 percent more residents than Monaco. The opposite trend is observed in the Isle of Man: it ranks as the fifth smallest country in the sample by number of residents, but it is the second smallest by number of employees. Moreover, in 2023, less than half of the Isle of Man's residents were employed. That year, the Isle of Man had approximately the same number of residents as Andorra, but around 16,000 fewer workers.

#### 4.2.2. Employees and Cross-Border Workers

The small European countries are diminutive in terms of both the number of residents and in their size, yet they adopt very different strategies regarding the share of cross-border workers in their labor forces.

The fifth column of Panel A of Table 5 presents the share of cross-border workers to employees. In 2023 those figures ranged from 82 percent in Monaco, where most residents are wealthy and do not work, to just 0.4 percent in Spain. Liechtenstein (55 percent), Luxembourg (44 percent), and San Marino (34 percent) also have high cross-border worker participation, although none approached the level of Monaco. In contrast, in Andorra, only 3.4 percent of the labor force consisted of cross-border workers. In France and Spain, the share of cross-border workers in the labor force was around one percent, while in Iceland, Malta, and the Isle of Man, that share was effectively zero, given their island geography.

To analyze the evolution of cross-border worker shares between 2019 and 2023, Panel B of Table 5 presents the relevant data. Across all countries in the sample, the shares of cross-border workers have remained relatively stable between 2019 and 2023. In Andorra, these figures have shown little to no change, while in the other countries of the sample, fluctuations have never exceeded two percentage points (see the last column of Table 5).

We conclude that the countries in the sample have each followed very different strategies for granting residence and employment permits, and these strategies have remained unchanged during the period under consideration.

The different strategies for granting residency and permits for cross-border workers pursued by small European countries can serve as a model for Andorra. Given Andorra's mountainous terrain, high cost of housing, and the financial burden of expanding the Andorran labor force with resident workers, **Andorra could make it easier for a larger share of its workforce to reside in cross-border areas, as part of a coordinated policy with neighboring countries.** Cross-border workers could then commute to their jobs in Andorra via an improved mass transit system. This approach would enable Andorra's GDP to grow without adding pressure to the Andorran welfare state and making it more expensive.

## 5. Real GDP, Employment, GDP Per Capita, and Real GDP Per Employee

In every country, some residents participate in the labor force, while others do not—for example, minors and retirees do not work in any country. However, every worker employed by a local firm contributes to the production of Gross Domestic Product (GDP), regardless of their place of residence, whether local or cross-border.

As discussed in the previous section, the countries in our sample adopt very different strategies regarding the share of cross-border workers in the labor force. These differences create distortions in GDP per capita, making this indicator an imprecise measure of aggregate labor productivity. To account for these distortions, caused by the differing proportions of resident and cross-border workers across the sample countries, this section analyzes the dynamics of both real GDP per capita and real GDP per employee.

The data source for International Monetary Fund (IMF) member countries (i.e., every country in our sample except Monaco, Liechtenstein, and the Isle of Man) is the *World Economic Outlook* database published by the IMF in April 2024. Data for Monaco and the Isle of Man come from their statistics departments, and from *Trading Economics* in the case of Liechtenstein (see [www.tradingeconomics.com](http://www.tradingeconomics.com)).

Real GDP data for Monaco for 2023 and the Isle of Man for 2022 and 2023 were unavailable at the time this study went to press. To ensure completeness in our analysis, we have assumed that in 2023, Monaco's real GDP grew at the same rate as in 2019, in line with observed trends in the other countries in our sample. For the Isle of Man, we have used the real GDP growth rate estimated by its government for that year (1.5 percent).

### 5.1. Andorra

Figure 2 presents the evolution of GDP, population, employment, GDP per capita, and GDP per employee in Andorra, according to data from the Andorran Department of Statistics (ADS). Panels A, B, and C show the trends in GDP, GDP per capita and GDP per employee between 2010 and 2023. These time series start in 2010 because that was the base year used in 2024 by Andorra's national accounts. Therefore, as Panel A illustrates, the value of nominal GDP and real GDP in 2010 were identical, both amounting to 2,602 million euros. In 2019, Andorran nominal GDP amounted to 2,818 million (in current euros) increasing to 3,501 million in 2023. However, in 2019, Andorran real GDP amounted to 2,674 million (measured

in constant 2010 euros), rising to 2,891 million euros in 2023. Therefore, between 2019 and 2023, Andorran nominal GDP, measured in current euros, grew by 24.2 percent, and real GDP, measured in constant 2010 euros, grew by 8.1 percent. The change in the GDP Deflator— the macroeconomic measure of the inflation rate— was approximately the difference of these two rates, i.e., around 16.1 percent.

Panel B of Figure 2 illustrates the evolution of GDP per capita between 2010 and 2023. In 2019, Andorra's nominal GDP per capita was 36,347 (in current euros) and, in 2023, it was 41,134 (in current euros). On the other hand, in 2019, Andorra's real GDP per capita measured in constant 2010 euros was 34,490, and 33,972 in 2023. Therefore, between 2019 and 2023, Andorra's nominal GDP per capita increased by 13.2 percent and its real GDP per capita decreased by 1.50 percent.

The divergent trends between the aggregate variables and the per capita indicators are due to the evolution of the population. **Between 2019 and 2023, the estimated population in Andorra grew by 9.7 percent from 77,543 residents to 85,101.** This means that population growth outpaced real GDP by 1.6 percentage points, so real GDP per capita also decreased by approximately this amount.

Panel C of Figure 2 shows the evolution of GDP per employee between 2010 and 2023. In 2019, nominal GDP per Andorran employee was 58,572 (in current euros) and 66,720 (in current euros) in 2023. On the other hand, in 2019, real GDP per Andorran employee measured in constant 2010 euros was 55,580 and 55,102 in 2023. Therefore, **between 2019 and 2023**, nominal GDP per employee grew by 13.9 percent and **real GDP per employee decreased by 0.86 percent.**

Analyzing the evolution of real GDP per employee in Andorra since 2010, we find that, between 2010 and 2016, real GDP per employee remained relatively stable. In 2010, it stood at 56,734 (in constant 2010 euros), reaching its historical peak at 59,049 (in constant 2010 euros) in 2016.<sup>2</sup> Between 2016 and 2019 it declined to a low of 55,580 (in constant 2010 euros). This was followed by the COVID-19 contraction and the post-pandemic recovery, with GDP per employee reaching 55,102 (in constant 2010 euros) in 2023.

As previously mentioned, **GDP per capita serves as an estimate of the average welfare of Andorrans, while GDP per employee is a measure of average aggregate productivity.** Between 2019 and 2023, both declined somewhat: GDP per capita decreased by 1.50 percent; and GDP per employee fell by 0.86 percent.

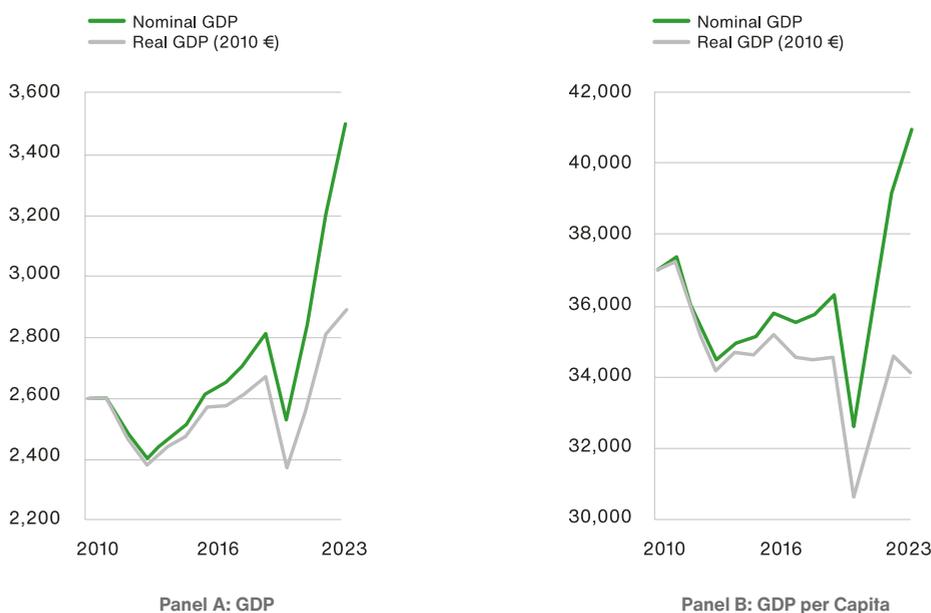
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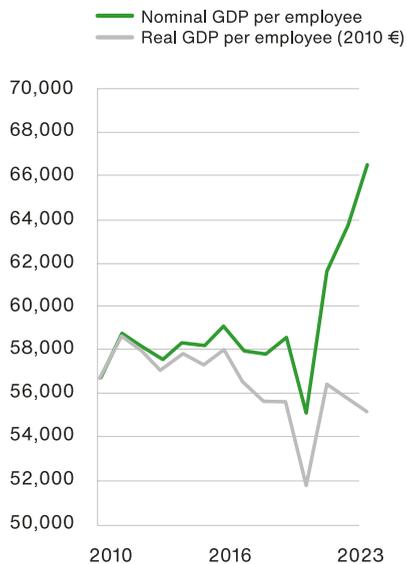
2. In 2010, nominal GDP and real GDP are the same because 2010 is the base year of Andorra's national accounts.

Panel D of Figure 2 illustrates the evolution of population, employment, real GDP, and nominal GDP growth rates between 2019 and 2023. Andorra's population grew over this period, with a cumulative growth rate of 9.7 percent. In contrast, employment declined in 2020 and 2021, and its cumulative growth rate was 9.0 percent. Although these percentages are similar, in absolute terms, the number of residents increased by 7,558 individuals and the number of employees by 4,348 individuals, indicating that 3,210 of the new residents are not employed. Both real GDP and nominal GDP decreased in 2020, but grew in the other four years of the period.

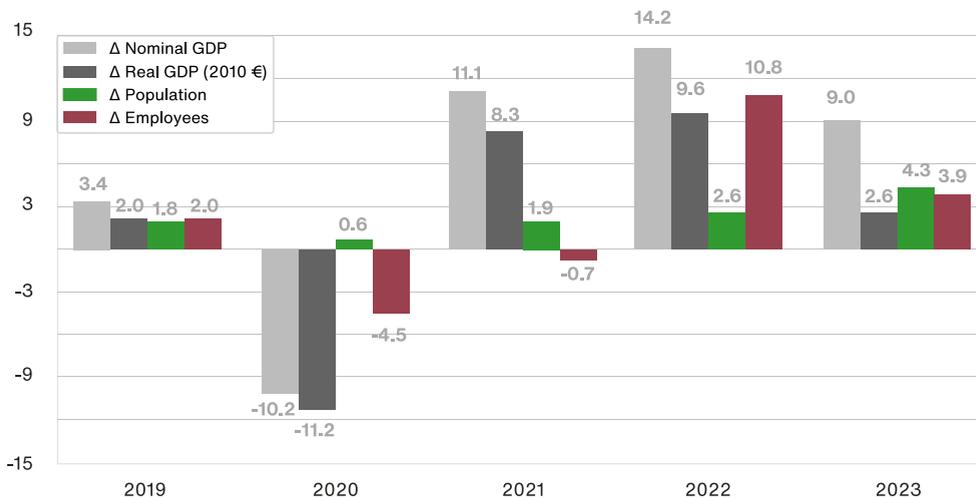
Finally, Panel E of Figure 2 shows the growth rates of GDP per capita and GDP per employee measured in current euros and in constant 2010 euros. In 2019, the growth rates of these four indicators recorded positive growth, while in 2020, they all decreased due to COVID-19 lockdowns and restrictions. In 2021, only real GDP per employee declined. In 2022, all four variables experienced growth, but in 2023, real GDP per capita and per employee declined once again. If the 2023 data are confirmed, this trend could serve as a warning sign of one of Andorra's potential macroeconomic challenges: the decline in aggregate labor productivity and the average welfare of Andorrans. To address this issue, Andorra may need to consider corrective measures, such as training its workers, especially in new technologies, to increase their added value.

Figure 2: The evolution of GDP, Population, and Employment in Andorra

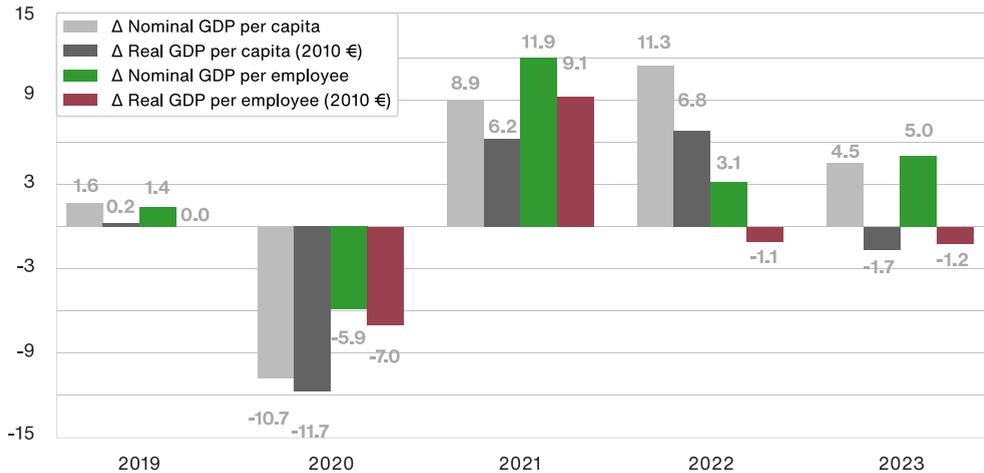




Panel C: GDP per Employee



Panel D: GDP, Population, and Employment Growth



Panel E: GDP per Capita and GDP per Employee Growth

Source: Andorran Department of Statistics.

## 5.2. International Comparisons

### 5.2.1. Real GDP

Panel A of Figure 3 illustrates the varying impact of the COVID-19 crisis on real GDP in the various countries of the sample. Luxembourg was the country with the mildest contraction due to the swift response of its authorities, the high weight of the financial and technology sector in its economy, and its decision to repatriate its residents that were abroad to keep its borders open. In contrast, Monaco, Spain, and Andorra were the hardest hit by mobility restrictions and border closures.

The recoveries following the 2020 contraction have also been very different. Monaco experienced the fastest recovery by far, followed by Malta, San Marino, and Liechtenstein. The strong rebound in the latter two can be attributed to the high share of their industrial sectors in GDP. On the other hand, the slowest economies to recover have been France, Spain, and the Isle of Man.

Andorra has also recovered relatively quickly, its economy improving from eighth place in the sample in 2021 to sixth place in 2023. Liechtenstein's real GDP performance has also been surprising—after growing by 17.2 percent in 2021, its economy has seen little growth since.

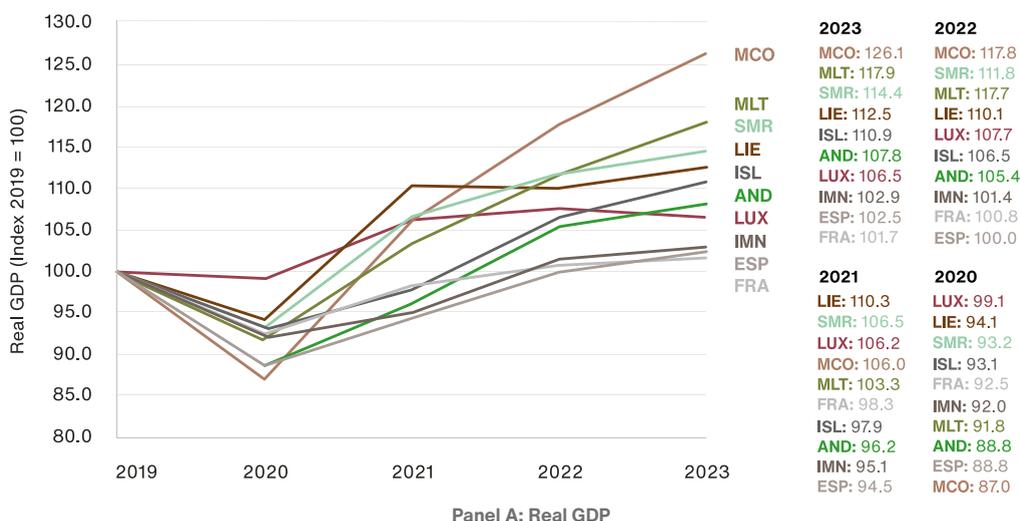
### 5.2.2. Population

Panel B of Figure 3 plots the evolution of the resident population during the period from 2019 to 2023 in the sample countries.

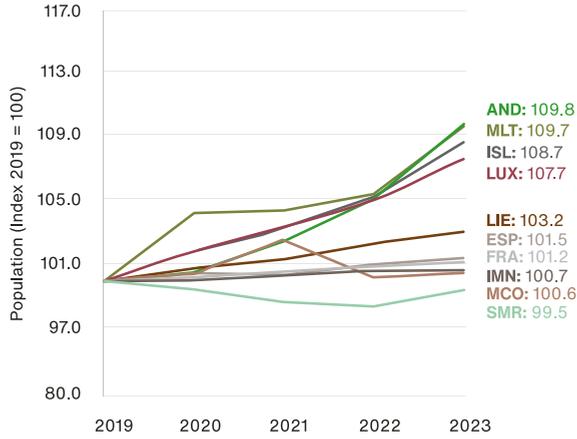
This figure reveals four distinct groups of countries that have followed very different demographic strategies. Andorra, Malta, Iceland, and Luxembourg have experienced an increase in their resident populations by between 8 and 10 percent in the four years under review from the end of 2019 to the end of 2023. A second group of countries, namely Liechtenstein, Spain, and France, also saw population growth, although at more moderate rates (between one and three percent). Finally, San Marino, Monaco, and the Isle of Man maintained relatively stable populations. Between 2019 and 2023, the Isle of Man’s population increased by 0.7 percent, while San Marino’s population declined by 0.5 percent.

It is particularly notable that the country in the sample recording the highest population growth was Andorra. Moreover, between 2019 and 2023, Andorra’s resident population grew considerably more than in the other small countries of our sample—6.6 percentage points more than in Liechtenstein, and 10.2 percentage points more than in San Marino. These differences point to the need to reflect on an immigration model that is better aligned with the country’s socio-economic objectives.

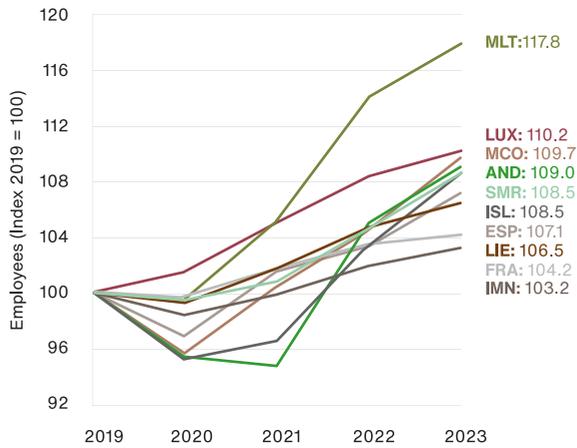
Figure 3: The evolution of Real GDP, Population, and Employment (2019-2023)



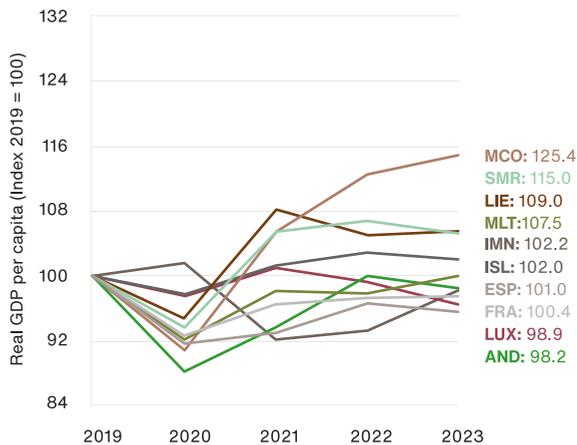
5. REAL GDP, EMPLOYMENT, GDP PER CAPITA, AND REAL GDP PER EMPLOYEE



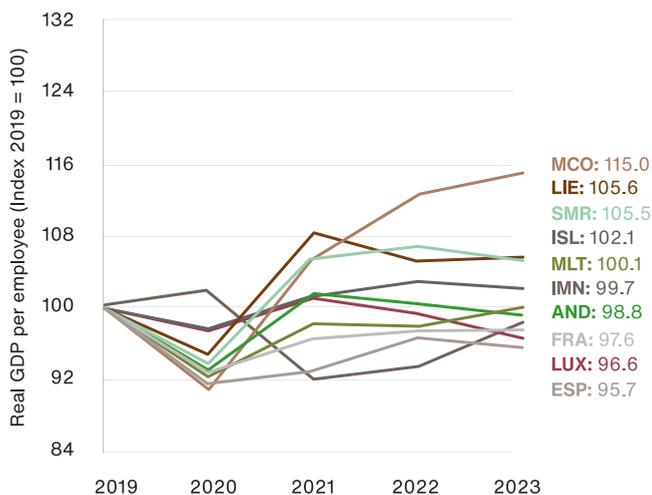
Panel B: Population



Panel C: Employment



Panel D: Real GDP per Capita



Panel E: Real GDP per Employee

Source: IMF, World Bank, and local statistics departments.

### 5.2.3. Employment

Panel C of Figure 3 illustrates the evolution of employment during the period from 2019 to 2023. Employment trends have varied significantly across the various countries of the sample and, as discussed in the previous section, have also diverged from the evolution of the resident population. Several factors contribute to these differences, including each country's approach to temporary layoffs, the extent to which in-person work is required by the compositions of their GDPs, and the share of self-employed workers and cross-border workers.

Between 2019 and 2023, employment grew by more than three percentage points in every country in our sample. Malta experienced the most substantial job creation during those four years from the end of 2019 to the end of 2023, with almost 17 percentage points of cumulative growth in employment. Luxembourg, Monaco, and Andorra followed as the next highest job creators. In contrast, the Isle of Man, France, and Liechtenstein recorded the lowest employment growth.

**The variability of employment between the countries in the sample has been substantially higher than the variability of the population. This result is due to the intensive use of cross-border workers in Monaco, Liechtenstein, Luxembourg, and San Marino.** Specifically, the range in job creation growth rates has been

approximately 5 percentage points higher than the range of population growth rates, and about 10 percentage points lower than the range of real GDP growth rates.

Every country in the sample, except Luxembourg, experienced significant job losses in 2020. However, two years later, by 2022, all of them had recovered, surpassing their 2019 employment levels. Andorra recorded the second-largest employment decline in 2020 and was the only country that continued losing jobs in 2021. In contrast, in 2022 and 2023, with the return of winter tourism, Andorra experienced a remarkable recovery of its labor market. In those two years, Andorra's employment rate grew by 10.2 and 4.0 percentage points.

#### 5.2.4. Real GDP per Capita

Panel D of Figure 3 shows the evolution of real GDP per capita during the period from 2019 to 2023. A country's real GDP represents the value of goods and services produced within its territory, adjusted for inflation. When divided by population, it yields real GDP per capita, an estimate of the average standard of living of a country's residents.

**Monaco was by far the country in the sample that experienced the highest GDP per capita growth during the period under consideration.** It was 25 percent higher in 2023 than in 2019. This result is due to Monaco's real GDP growing the most combined with its stable population. In contrast, Luxembourg and Andorra were the sample countries that recorded the weakest GDP per capita growth, for different reasons—moderate GDP increases alongside significant population growth. As a result, Andorra and Luxembourg were the only two countries in the sample where GDP per capita in 2023 remained below 2019 levels.

Once again, San Marino and Liechtenstein rank at the top of the GDP per capita table. Their industrial strength and disciplined demographic policies explain this result and highlight the advantages for Andorra of having a more diversified GDP composition and a more restrictive immigration policy.

#### 5.2.5. Real GDP per Employee

Finally, Panel E of Figure 3 records the evolution of real GDP per employee during the period from 2019 to 2023. While GDP per capita serves as an estimate

of the standard of living of residents in an economy, GDP per employee measures the aggregate productivity of its labor force. As previously discussed, the differences between these two indicators arise because not every resident is employed, and not every employee is a resident.

By 2023, only Monaco, Liechtenstein, San Marino, Iceland, and (just barely) Malta had surpassed their 2019 GDP per employee levels. In all other countries in the sample, including Andorra, GDP per employee had not yet fully recovered by 2023. The COVID-19 crisis had a particularly severe impact on services related to mobility and in-person work. Moreover, the sanctions imposed on Russia following its invasion of Ukraine, along with the energy transition, negatively affected energy-intensive industries. The data suggest that in many of our sample countries, the post-COVID recovery has been driven by job creation in low-productivity sectors, particularly in services.

**In Monaco, the return of tourism, and especially of luxury tourism, explains the remarkable growth of real GDP per employee, which increased 15 percentage points. This occurred despite Monaco having recorded the steepest decline in this indicator in 2020 among all countries in the sample.**

Liechtenstein and San Marino also recorded a remarkable recovery in 2021, fueled by the strength of their industrial sectors. However, they have subsequently stagnated at a level about 5 percentage points higher than the level recorded in 2019. This stagnation is partly due to the sluggish performance of German industry and the fact that these two countries benefit less from international tourism.

In 2023, Andorra's GDP per employee index stood at 98.8, ranking it seventh in our sample for that indicator. The Andorran index was 1.2 percentage points higher than the French index, 2.2 percentage points higher than the Luxembourg index, and 3.1 percentage points higher than the Spanish index. These results indicate that the recovery in Andorra has been particularly impacted by the challenges previously discussed. Nevertheless, GDP per employee in Andorra has grown 0.6 percentage points more than its GDP per capita. This discrepancy is due to faster population growth compared to employment growth, as mentioned earlier. Specifically, 3,210 new Andorran residents—accounting for 43 percent of the total increase in population—are not part of the labor force.

It is important to consider the consequences of a policy based on the continuous population growth in Andorra, both in terms of the number of immigrants

entering the labor market and new non-employed residents. This immigration policy presents challenges for the quality of life of residents in a country with substantial restraints on internal mobility and public resources (health, education, and infrastructure), which were originally designed for a population of about 70,000 residents. Moreover, this immigration has severely limited the growth of GDP per capita.

## 6. Sectoral Composition of GDP

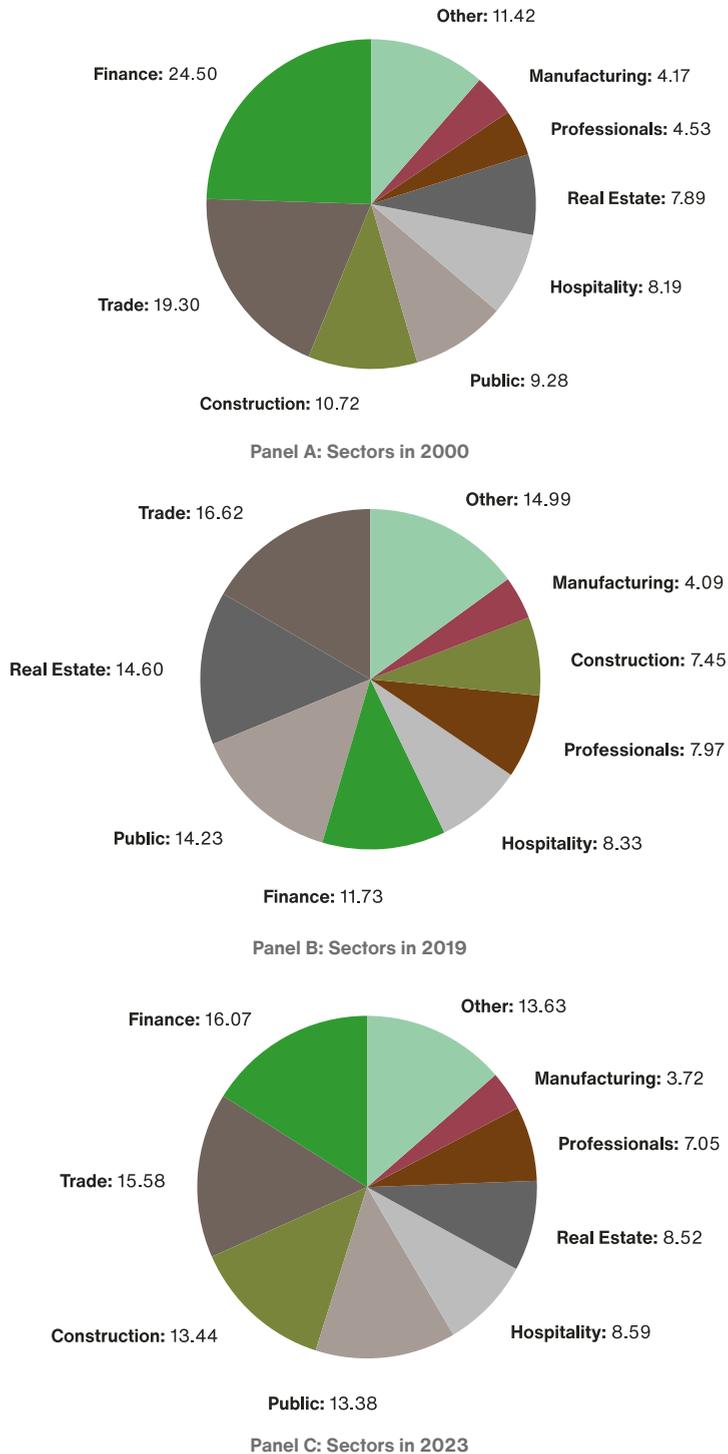
### 6.1. Andorra

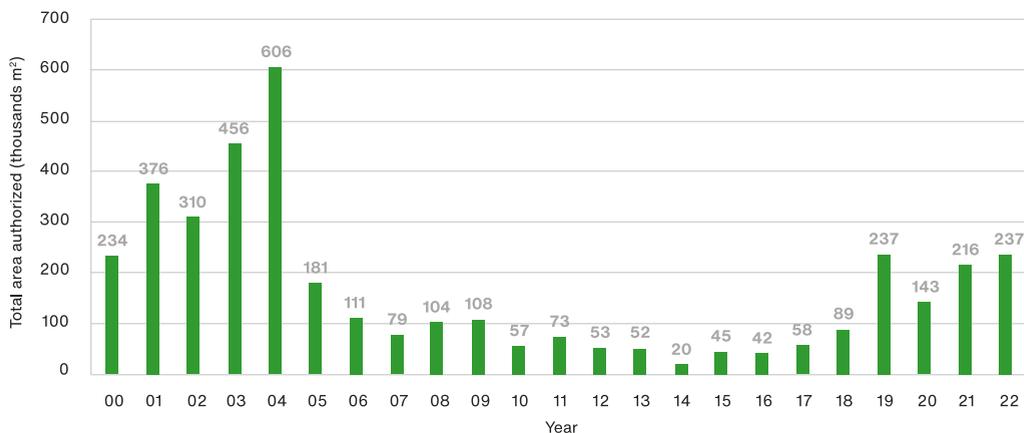
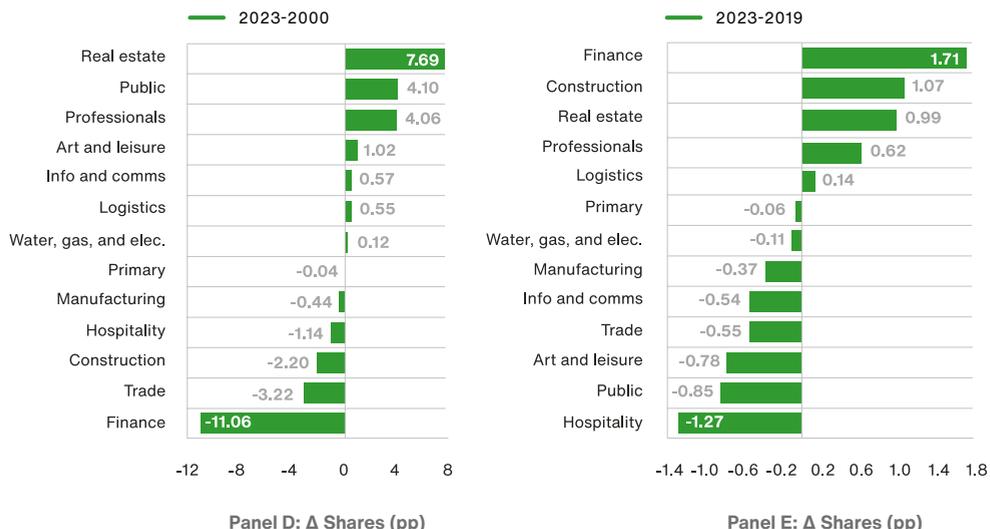
The Andorran Department of Statistics provides reasonably detailed information on the evolution of economic activity, classifying Andorran companies into 13 sectors. The primary sector includes companies engaged in agriculture, forestry, and fishing. Industrial companies are organized into three sub-sectors: construction; manufacturing; and water, gas, and electricity. Service enterprises are organized in nine subsectors: real estate activities; professional, scientific, technical, and administrative activities; public administration, defense, education, public health, and social work activities; arts, entertainment and recreation, including the activities of households and extraterritorial entities; wholesale and retail trade, including vehicle repair; finance and insurance; hotels and restaurants; information and communications; and logistics, transportation, and warehousing activities.

#### 6.1.1. The main sectors in 2000, 2019, and 2023

Panels A, B and C of Figure 4 illustrate the sectoral composition of Andorran GDP, showing the sectors that contributed the most to GDP in the years 2000, 2019 and 2023. In 2000, the Andorran economy was dominated by financial and insurance companies, which accounted for 24.5 percent of Andorra's GDP. The next largest sectors were trade, which contributed 19.3 percent, and construction, accounting for 10.7 percent. Together, these three sectors contributed 54.5 percent of Andorra's GDP. The next 25.4 percent was accounted for by public services (9.3 percent), hotels and restaurants (8.2 percent), and real estate activities (7.9 percent). The remaining 20.1 percent was distributed among the remaining sectors.

By 2019 the composition of Andorran GDP had changed substantially. This was due in part to the lifting of banking secrecy in January 2017. That year, trade became the largest sector contributing to Andorran GDP, with 16.6 percent, despite a decline of almost 3.0 percentage points since 2000. The second largest contributor to GDP in 2019 was real estate activities, accounting for 14.6 percent. Public services became the third-largest sector, contributing 14.2 percent. These three sectors together made up 45.5 percent of Andorran GDP. Between 2000 and 2019, the concentration of activity in Andorra had declined. The financial and insurance sector shrank to less than half its previous share, and there was a substantial increase in real estate activities and public services.

**Figure 4: The economic sectors in Andorra in 2000, 2019, and 2023**



Panel F: The construction sector in Andorra (2000-2022) | Thousands of square meters

Finance includes insurance, and hospitality includes hotels and restaurants.

Other activities includes arts, entertainment, and leisure; information and communications; logistics; water, gas, and electricity; and agriculture.

Source: Andorran Department of Statistics.

Between 2019 and 2023, the composition of Andorra's GDP continued to change, although to a lesser extent than between 2000 and 2019. Finance regained its dominant position, increasing its share by 1.7 percentage points, followed closely by trade. The construction sector share grew by 6 percentage points, ranking it third in 2023. The most notable change among the major sectors was the decline in the share of hospitality, while both finance and construction increased their shares.

### 6.1.2. Changes in sector shares

To quantify the changes, Panels D and E of Figure 4 plot the variation in sector shares between 2000 and 2023 and between 2019 and 2023, expressed in percentage points. These data confirm the increases in the shares of real estate activities, public services, and professional activities between 2000 and 2023, and those of finance, construction, and real estate activities between 2019 and 2023. During the first period, finance saw the most significant decline, largely due to the lifting of banking secrecy. In the second period, hospitality recorded the sharpest decline.

If we combine the shares of real estate activities and construction, in 2000 their joint share was 18.6 percent, ranking third after finance and trade. However, in 2019 and 2023, with joint shares of 22.0 and 21.9 percent, real estate and construction activities ranked first by some margin.

### 6.1.3. The construction sector

Finally, to provide perspective on the evolution of the construction sector in Andorra, Panel F of Figure 4 shows the number of new building permits, measured in thousands of square meters. This chart shows three clearly defined stages. First, a construction boom that starts in 1997, when 125,550 square meters of new construction were authorized. This boom peaked in 2004, when 605,751 square meters were authorized. The sector then collapsed, experiencing a decade-long decline until 2014, when just 19,982 square meters of new construction were authorized. Between 2015 and 2019, the construction sector experienced another boom, with a tenfold increase in the number of permits approved, amounting to 236,943 square meters. Finally, the COVID-19 contraction in 2020 was followed by a recovery in 2021 and 2022, when 236,977 square meters were authorized. This number was marginally higher than the number of square meters authorized in 2019.

The average for the period from 2000 to 2022 was 169,009 square meters. In 2022, authorizations surpassed this average by 40.2 percent, adding approximately 2,000 new homes to the market. **For many, the construction sector dynamic raises concerns about its long-term sustainability.** The buildable area in Andorra is finite and the sector's continued growth requires the harmonization of the urban planning model, the demographic model, and the sector's expansion model. To achieve this, Andorra may need to reconsider its demographic model and review its foreign investment regimes.

## 6.2. International Comparisons

### 6.2.1. GDP sectors in the sample countries

Figure 5 illustrates the sectoral composition of GDP in the sample countries, highlighting the shares of agriculture, industry, construction, and services, expressed as percentages of total GDP.

Figure 5: GDP sectors in the sample countries (% of GDP)

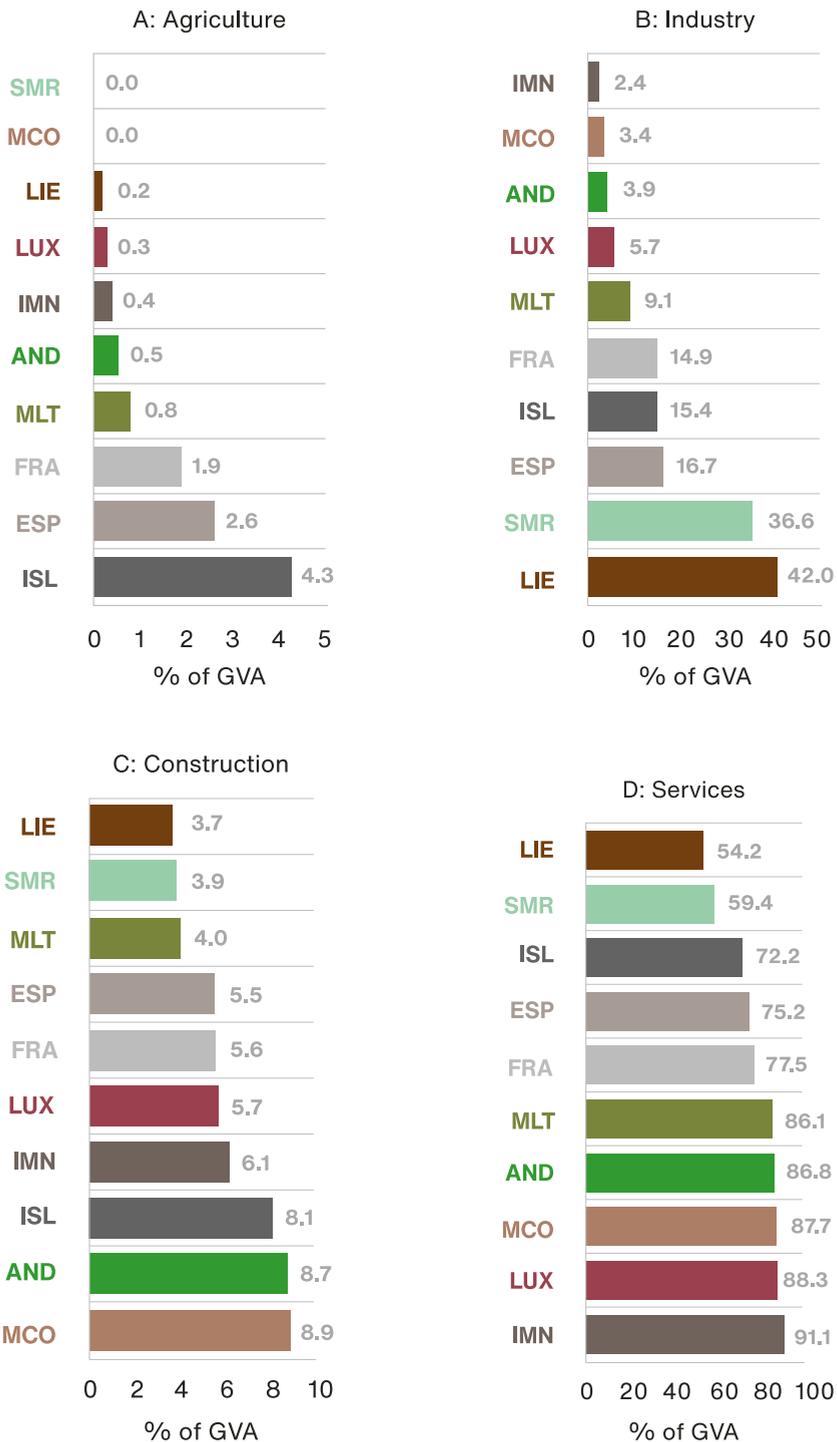
2000, % GVA										
	SMR	MCO	LIE	AND	IMN	ISL	MLT	LUX	ESP	FRA
<b>Agriculture and fishing</b>	0.1	0.0	3.3	0.6	-	8.1	1.8	0.7	4.1	2.2
<b>Industry and manufacturing</b>	41.1	7.7	42.3	5.4	-	17.2	15.3	12.5	20.7	18.8
<b>Construction</b>	7.3	7.2	2.4	10.7	-	9.1	7.0	6.1	10.1	4.8
<b>Services</b>	51.5	85.1	52	83.3	-	65.6	75.9	80.7	65.1	74.2

2019, % GVA										
	SMR	MCO	LIE	AND	IMN	ISL	MLT	LUX	ESP	FRA
<b>Agriculture and fishing</b>	0.0	0.0	0.1	0.6	0.3	4.9	0.5	0.2	2.7	1.6
<b>Industry and manufacturing</b>	33.2	3.1	41.5	5.6	2.4	13.8	9.1	6.9	15.8	13.4
<b>Construction</b>	4.3	10.0	4.3	7.4	4.2	7.9	4.8	5.9	6.3	5.7
<b>Services</b>	62.5	87.0	54.1	86.4	93.1	73.4	85.6	87.0	75.2	79.3

2023, % GVA										
	SMR	MCO	LIE	AND	IMN	ISL	MLT	LUX	ESP	FRA
<b>Agriculture and fishing</b>	0.0	0.0	0.2	0.5	0.4	4.3	0.8	0.3	2.6	1.9
<b>Industry and manufacturing</b>	36.6	3.4	42	3.9	2.4	15.4	9.1	5.7	16.7	14.9
<b>Construction</b>	3.9	8.9	3.7	8.7	6.1	8.1	4.0	5.7	5.5	5.6
<b>Services</b>	59.4	87.7	54.2	86.8	91.1	72.2	86.1	88.3	75.2	77.5



Panel B: GDP sectors in 2023

Source: Local statistics departments.

A common characteristic among the small countries in the sample is a very small agricultural sector, contributing less than 1 percent to GDP in 2023. For that year, only Iceland's primary sector accounted for more than 4 percent due to the importance of its fishing industry, which is included in this branch of activity.

In Andorra, the relative weight of the primary sector has remained stable since 2000, at around 0.5 percent of GDP. In contrast, in other sample countries, agricultural production has declined considerably over the same period. For example, in Liechtenstein, the primary sector contributed 3.3 percent of GDP in 2000, but by 2023, its share had fallen to just 0.2 percent.

Similarly, between 2000 and 2023, the share of industry in GDP has also decreased across all countries in the sample. For example, in Luxembourg, industry fell from 12.5 to 5.7 percent; in Malta, it declined from 15.3 to 9.1 percent; and in San Marino, it dropped from 41.1 to 36.6 percent. However, San Marino has experienced the strongest industrial growth since the pandemic (increasing 3.4 percentage points between 2019 and 2023). In contrast, Andorra recorded the sharpest decline in industry share during that period (decreasing 1.7 percentage points).

Based on the share of industry in their GDPs in 2023, we can classify the countries of our sample into three groups. Liechtenstein and San Marino stand out by far as the most industrialized economies of the sample, with industrial production contributing around 40 percent of their GDPs. These two countries are followed by Spain, Iceland, France, and Malta, which make up the group of moderately industrialized countries, with industry accounting for between 10 and 15 percent of GDP. Finally, Luxembourg, Andorra, Monaco, and the Isle of Man form the least industrialized group in the sample. For these countries, industry represents less than 6 percent of GDP. If Andorra aims to diversify its productive structure, it should promote industrial activity by attracting high-value-added segments of industrial value chains, such as research, design, and development centers.

Regarding the share of construction in GDP in 2023, the sample countries can be categorized into two groups. In Monaco, Andorra, and Iceland, construction contributed more than 8 percent to GDP during that year. For the remaining countries in our sample, the share of construction ranged from 3.7 percent in Liechtenstein to 6.1 percent in the Isle of Man.

Finally, the data in Figure 5 confirm that the economies of all sample countries are dominated by services. However, in 2023, the share of services in GDP va-

ried considerably, ranging from 54.2 percent in Liechtenstein to 91.1 percent in the Isle of Man.

In this regard, the countries in the sample can be classified into three further groups. In the first group, made up of the Isle of Man, Luxembourg, Monaco, Andorra, and Malta, services contribute more than 85 percent to GDP. In the second group of countries, France, Spain, and Iceland, services contribute between 72 and 78 percent to GDP. In the third group of countries, San Marino and Liechtenstein, the relative sizes of their service sectors are smaller (54 and 60 percent of GDP) because they have the most industrialized economies in the sample.

## 6.2.2. The sectors in the sample countries

Table 6 presents the three sectors that have contributed the most to the GDP of each sample country in 2022. Logically, these sectors were also the three most competitive sectors in their respective countries. In the table, trade includes hospitality, financial activities include insurance, and real estate activities include construction.

**Table 6: Shares of the Top 3 sectors in 2022**

				1st	2nd	3rd	1st+2nd+3rd
<b>AND</b>	Trade*	Real estate*	Public	27.5	24.1	13.8	65.4
<b>SMR</b>	Manufacturing	Trade*	Public	36.3	15.9	12.4	64.6
<b>LIE</b>	Manufacturing	Professionals	Finance*	36.8	16.2	11.5	64.5
<b>MCO</b>	Trade*	Professionals	Finance*	25.2	20.9	17.6	63.7
<b>ESP</b>	Trade*	Public	Real estate*	24.5	17.5	16.1	58.1
<b>FRA</b>	Public	Real estate*	Manufacturing	21.2	20.2	14.9	56.3
<b>IMN</b>	Finance*	E-gaming	Professionals	26.6	15.7	9.2	51.5
<b>MLT</b>	Trade*	Professionals	Public	18.5	16.8	15.6	50.9
<b>LUX</b>	Finance*	Real estate*	Professionals	23.5	13.4	8.6	45.5
<b>ISL</b>	Real estate*	Trade*	Manufacturing	18.1	13.1	10.4	41.6

**NOTE:** Trade \* includes hospitality and catering. Real estate\* includes real estate and construction. Finance\* includes insurance activities.

**Source:** Local statistics departments.

The data in Table 6 differ from those in Figures 4 and 5 for three reasons. First, because the definitions of the various sectors are different. For example, in Table 6, the manufacturing sector in Liechtenstein includes only processing and manufacturing activities, whereas, in Figure 5, industry encompasses the entire industrial and manufacturing sector. Additionally, in Table 6, the definition of trade is expanded to include hospitality and logistics, and real estate activities are expanded to include construction. Finally, the data for Andorra in Figure 4 are for 2023 and those in Table 6 reflect 2022.

With these expanded sector definitions, **Andorra ranks as the most economically concentrated** country in the sample, followed closely by San Marino, Liechtenstein, and Monaco. In these four countries, the three dominant sectors account for close to two-thirds of GDP (65.4, 64.6, 64.5, and 63.7 percent respectively). In contrast, Iceland is the most diversified economy in the sample, with its top three sectors contributing between 18 and 10 percent of its GDP individually, and a combined 41.6 percent of GDP. In this ranking, **Andorra's top three sectors are trade expanded to include hospitality, real estate activities including construction, and public services.** In 2022 these three sectors contributed approximately 28%, 24%, and 14% to Andorra's GDP, respectively.

The expanded definition of trade is the largest contributor to the GDPs of four of the ten countries in the sample (Andorra, Monaco, Spain, and Malta). As previously noted, San Marino and Liechtenstein are the two most industrialized economies in the sample, and their GDPs are dominated by the manufacturing sector. In Luxembourg and the Isle of Man, financial activities dominate. In France, the dominant sector is public activities, and, in Iceland, the dominant sector is real estate activities and construction. The prevalence of the expanded definition of trade can be attributed to a lack of natural resources, tax advantages, and the dominant role of tourism, which is a particularly relevant sector in countries like Andorra, Malta, and Spain.

Luxembourg, the Isle of Man and, to a lesser extent, Liechtenstein have large financial and insurance sectors. In contrast to Andorra, where in 2000, the financial sector contributed 25 percent of gross value added, with this share falling to 13.3 percent in 2022, in these three countries, the share of the financial sector has remained stable. The decline in the share of the financial sector in Andorra was partly fueled by the end of banking secrecy on January 1, 2017. Despite this contraction, the financial sector in Andorra has rebounded since the pandemic, increasing its GDP share by 1.5 percentage points to 13.3 percent, ranking as the fourth-largest sector in 2022.

Finally, professional, scientific, and technical activities are a prominent sector in Monaco, Liechtenstein, the Isle of Man, Malta, and Luxembourg. This sector includes self-employed professionals and has been one of the fastest-growing industries in most of these countries since 2000.

The data suggest that Andorra has two potential pathways to diversify its economy, considering its competitive advantages and limitations: it could commit to developing the high-tech industrial sectors, following the models of Liechtenstein and San Marino; or it could commit to developing virtual businesses, emulating the Isle of Man. The era of large-scale manufacturing companies that pay European wages has long passed.

## 7. The Public Sector

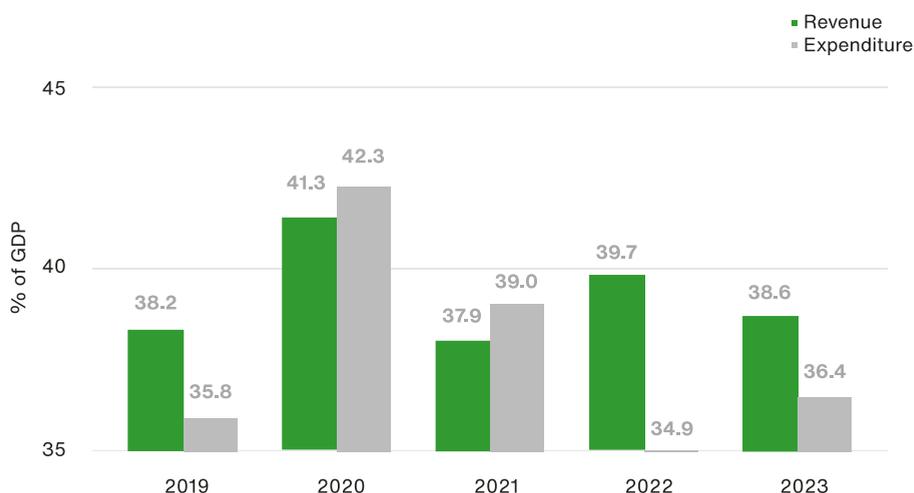
### 7.1. Andorra

Figure 6 illustrates total revenues, total expenditures, public balance, public debt and the main components of Andorran public sector spending.

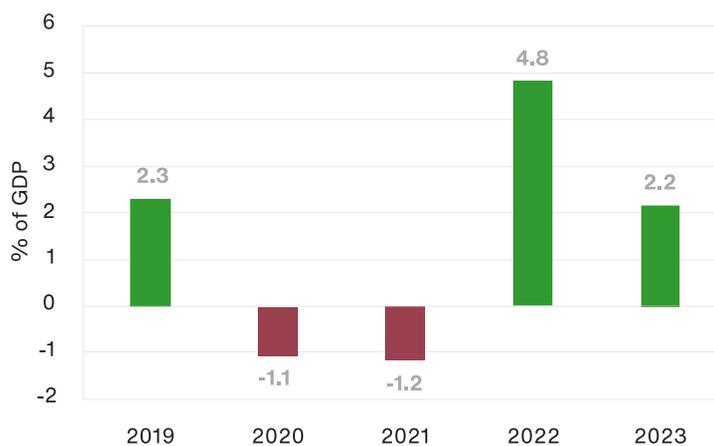
In 2020, due to the COVID-19 pandemic, lockdown measures, and travel restrictions, Andorran public spending increased by 6.0 percent year-on-year, public revenues decreased by 2.8 percent and nominal GDP declined by 10.2 percent. Relative to nominal GDP, public spending grew by 6.5 percentage points and public revenues increased by 3.1 percentage points. Consequently, the public budget balance fell by 3.4 percentage points relative to nominal GDP and public debt rose by 11 percentage points.

As shown in Panel A of Figure 6, in 2021, public spending declined by 3.3 percentage points relative to GDP, declining again in 2022 by 4.8 points. This was followed by a rebound of 1.5 points in 2023. Comparing 2019 to 2023, Andorran public spending increased by just 0.6 percentage points.

**Figure 6: The public sector in Andorra (% of GDP)**



**Panel A: Public revenues and expenditures (% of GDP)**



Panel B: Public budget balance (% of GDP)



Panel C: Public debt (% of GDP)

	Current transfers	Personnel	Goods and services	Investment and capital trans.	Financial expenses	Total (not including variation in financial assets/liabilities)
<b>2019</b>	17.2	8.1	5.0	5.1	0.5	<b>35.8</b>
<b>2020</b>	22.0	9.2	5.5	5.2	0.6	<b>42.3</b>
<b>2021</b>	20.0	8.4	5.4	4.5	0.7	<b>39.0</b>
<b>2022</b>	17.2	7.7	5.0	4.3	0.7	<b>34.9</b>
<b>2023</b>	17.9	8.0	5.1	4.8	0.6	<b>36.4</b>
<b>2019-2023</b>	<b>0.67</b>	<b>-0.08</b>	<b>0.16</b>	<b>-0.24</b>	<b>0.08</b>	<b>0.59</b>

Panel D: Public expenditure items (% of GDP)

	Social protection	Health	R&D education	Leisure activities, culture, and others	Security and public order	Environment	Other	Total
<b>2019</b>	7.3	5.3	2.9	1.6	1.5	1.1	16.2	<b>35.8</b>
<b>2020</b>	9.0	6.6	3.2	1.7	1.7	1.1	19.1	<b>42.3</b>
<b>2021</b>	8.5	6.4	2.9	1.6	1.5	1.0	17.1	<b>39.0</b>
<b>2022</b>	7.8	5.6	2.4	1.8	1.4	1.0	14.9	<b>34.9</b>
<b>2023</b>	8.6	5.6	2.5	1.6	1.4	1.0	15.7	<b>36.4</b>
<b>2019-2023</b>	<b>1.29</b>	<b>0.32</b>	<b>-0.38</b>	<b>-0.00</b>	<b>-0.07</b>	<b>-0.06</b>	<b>-0.51</b>	<b>0.59</b>

Panel E: Functional breakdown of public spending (% of GDP)

Source: IMF and Andorran Department of Statistics.

As illustrated in Panel B of Figure 6, Andorra's consolidated general government recorded budget deficits only in 2020 and 2021, and these deficits were relatively moderate (1.1 and 1.2 percent of nominal GDP). In contrast, in 2019, 2022, and 2023, it recorded surpluses of 2.3, 4.8, and 2.2 percent of the corresponding nominal GDP.

Due to these budgetary trends and the evolution of nominal GDP, Andorran public debt increased from 35.4 percent of nominal GDP in 2019 to 48.6 in 2022. It then declined to 36.0 percent of nominal GDP in 2023, closing that year only 0.6 percentage points higher than its 2019 level (see Panel C of Figure 6).

Panels D and E of Figure 6 show the evolution of the main components of Andorran public expenditure between 2019 and 2023, expressed as percentages of GDP. Panel D breaks down public spending into current transfers, personnel expenses, expenditure on goods and services, investment expenditure and capital transfers, and financial expenditure. These categories are ranked by their share of GDP in 2023. As illustrated in Figure 6, between 2019 and 2023, all of these items except public investment and, to a minimal extent, personnel expenses, increased. However, the changes in expenditure ratios relative to GDP have been minor, with none exceeding one percentage point of GDP. Current transfers saw the largest increase (0.67 percentage points), and financial expenses grew the least (0.08 percentage points). The decrease in public investment and capital transfers was also small (-0.24 percentage points of GDP).

Panel E of Figure 6 presents the functional breakdown of public spending. The data show that between 2019 and 2023, there was a modest reallocation of public resources toward social protection and health, which increased by 1.29 and 0.32 percentage points of GDP, respectively, during that period. In contrast, education expenditure decreased by 0.38 percentage points and spending on Other expenditure categories remained virtually unchanged. The "Other public expenditures" category was calculated residually and showed a decline of only 0.51 percentage points.

With the expansion phase of Andorra's public sector between 2005 and 2012 now in the past, **Andorran public sector spending remained largely stable between 2019 and 2023**. If this trend continues in the future, there is no immediate reason for concern regarding the sustainability of Andorra's public sector. However, the key challenge for the next phase would be the potential need for public spending to grow faster than GDP to address the increased pressure on public services resulting from population growth.

## 7.2. International Comparisons

Panel A of Figure 7 shows the public budget balances of the sample countries between 2019 and 2023. Comparing Andorra's public balance with that of the other countries in our sample, we conclude that **the performance of the Andorran public sector during the COVID-19 crisis was exemplary**, at least in aggregate terms, and provided the increase in population does not increase pressure on public services beyond its contribution to GDP.

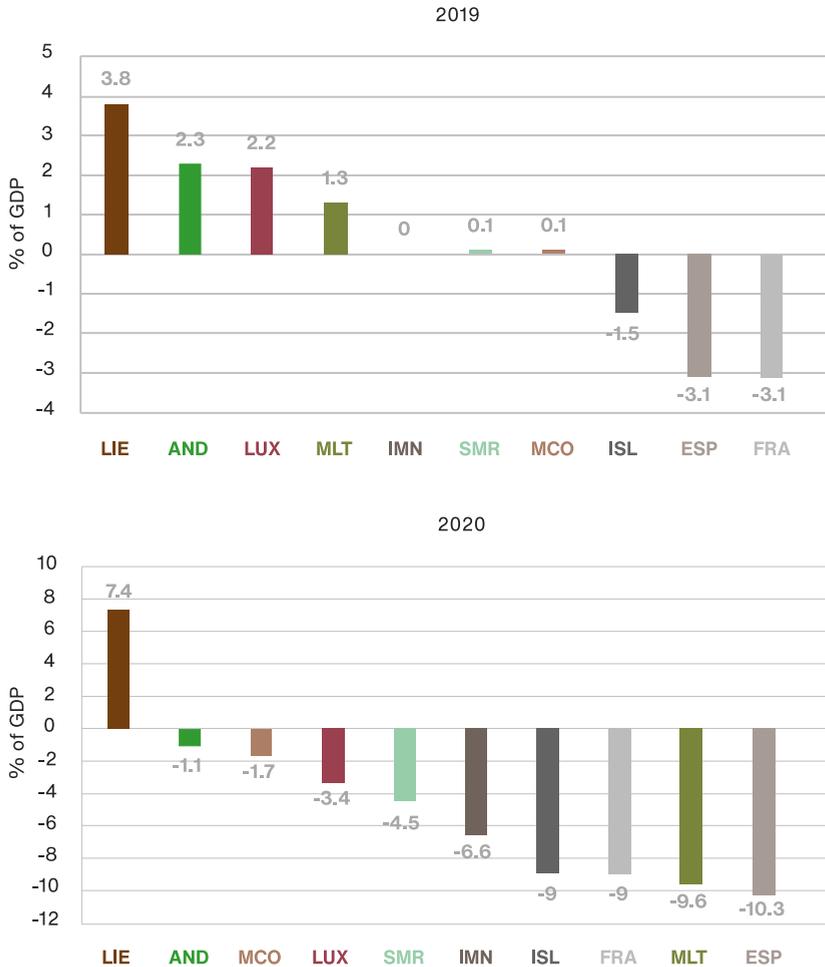
In 2019, Andorra recorded a public surplus of 2.3 percent of nominal GDP, ranking second only to Liechtenstein, which had a surplus of 3.8 percent. In that same year, seven countries in the sample recorded surpluses, while only three (Iceland, Spain, and France) recorded deficits. Unfortunately, data on the Isle of Man's public accounts were unavailable, so its public budget balance was estimated based on changes in its public debt.

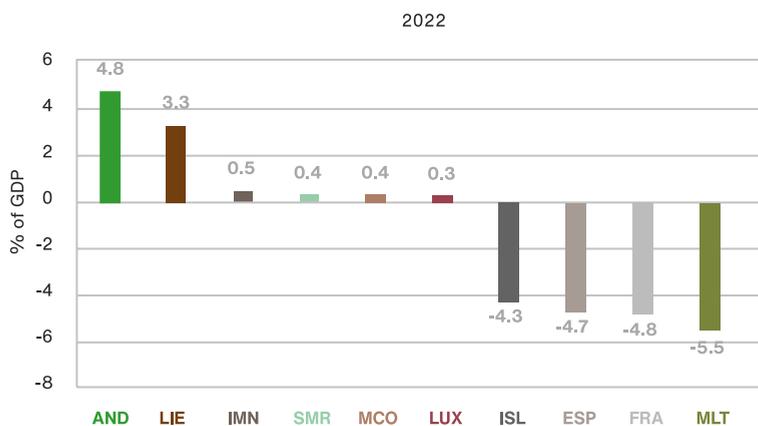
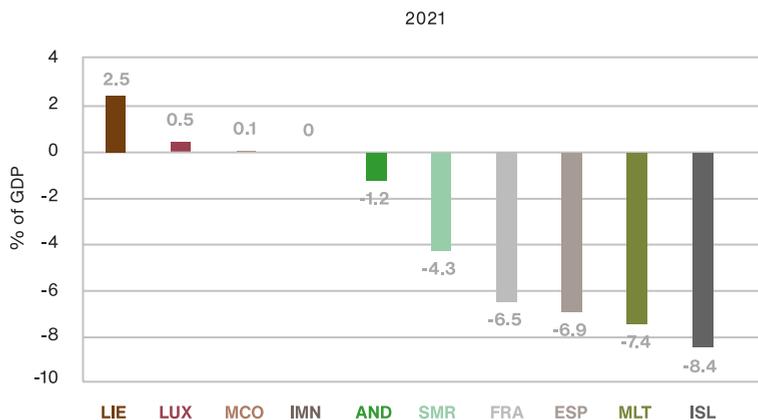
In 2020, the year of the lockdowns, Liechtenstein surprisingly increased its government surplus to 7.4 percent of GDP. This surplus was primarily fueled by an increase in tax revenue by more than CHF 300 million year-on-year, largely due to higher income tax collections. **Andorra retained its second position, maintaining a budget deficit of 1.1 percent**. The countries with the highest deficits were Spain, Malta, France, and Iceland, with deficits that ranged from 10.3 percent for Spain (the sample country with the largest increase in public debt), to 9.0 percent for Iceland and France.

2021 was a transition year, with Liechtenstein continuing to record the largest budget surplus in the sample. Luxembourg, Monaco, and the Isle of Man also recorded a surplus, and Andorra and five other countries recorded deficits that ranged from 8.4 percent in Iceland to 1.2 percent in Andorra.

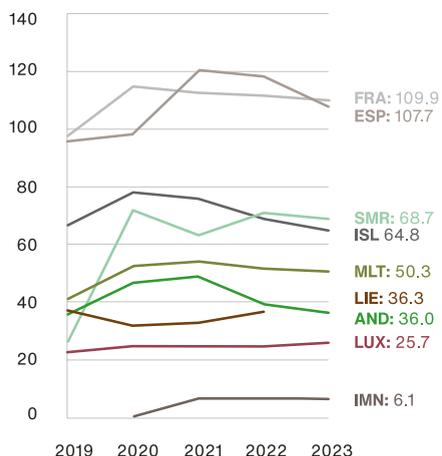
In 2022, Andorra recorded the largest surplus of the sample, with 4.8 percent of GDP. Liechtenstein, San Marino, the Isle of Man, Monaco, and Luxembourg also recorded budget surpluses, while Iceland, Spain, France, and Malta continued to record budget deficits that ranged from 5.5 percent for Malta to 4.3 percent for Iceland.

**Figure 7: The public sector: International comparisons (2019-2023)**

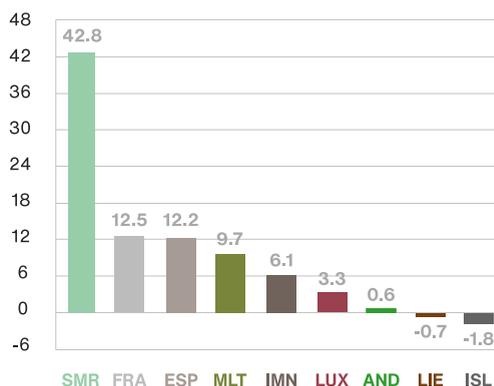




Panel A: Public budget balance (2019-2022)



Panel B: Public debt (% of GDP)



Panel C: Δ Public debt (2023-2019, pp)

Panels B and C do not include data for Monaco because its constitution prohibits the issuance of public debt.

Source: Local statistics departments.

Panel B of Figure 7 illustrates the dynamics of public debt in the countries of our sample between 2019 and 2023. The countries in our sample can be classified into four categories according to their public debt levels. France and Spain, with public debt levels close to 110 percent of GDP, have the highest debt-to-GDP ratios. However, these countries also maintain the most developed welfare states and the highest tax rates to finance them. The public debt levels of San Marino, Iceland, and Malta range between 50 and 70 percent of GDP, followed by Liechtenstein and Andorra with debt-to-GDP ratios close to 36 percent. This is followed by Luxembourg, with a public debt-to-GDP ratio of 26 percent. Lastly, the country with the smallest debt is the Isle of Man, with a debt-to-GDP ratio barely exceeding 6 percent.

Public debt data for Monaco is not included in Figure 7 because Monaco is one of the few countries in the world with no sovereign debt. Instead, it finances its public deficits through its Constitutional Reserve Fund. **Monaco's financial independence and its fiscal policy based on maintaining strict budgetary discipline enhance the Principality's attractiveness to wealthy individuals from all over the world.**

Panel C of Figure 7 illustrates the changes in public debt-to-GDP ratios between 2023 and 2019 expressed in percentage points. Public aid programs aimed at mitigating the effects of COVID-19 and the lockdowns expanded San Marino's public debt-to-GDP ratio by almost 43 percentage points between 2019 and 2023. Over the same period, France and Spain increased their debt ratios by around 12 percentage points. In contrast, Andorra only recorded a minimal increase of 0.6 percentage points in its debt-to-GDP ratio. Meanwhile, Liechtenstein and Iceland slightly reduced their debt levels during this period.

### 7.3. Governance Indicators (WGI)

**Good governance is essential for development.** It helps countries to increase economic growth, invest in human capital, and strengthen social cohesion. The Worldwide Governance Indicators (WGI) quantify the broad patterns in perceptions of the quality of governance over time.

The WGI are based on existing data sources produced by more than 30 think tanks, international organizations, non-governmental organizations, and private companies around the world. The data sources produce original primary data using their own well-defined methodologies, report respondents' perceptions on the relevant dimensions of governance, cover multiple countries, and

are regularly updated. The data reflect the views of tens of thousands of respondents and experts worldwide.

The WGI aggregate these data into the following six governance dimensions:

- Voice and accountability
- Political stability and absence of violence and terrorism.
- Government effectiveness
- Regulatory quality
- Rule of Law
- Corruption control

The WGI include data for more than 200 economies for the period 1996-2023.<sup>3</sup>

### **7.3.1. Governance in Andorra**

In 2019, Andorra's governance indicator stood at 1.85. By 2023, it had declined by 20 percent to 1.48. Panel A of Figure 8 shows the evolution of the six components of the indicator for Andorra. The data reveal that the deterioration of Andorra's WGIs in recent years is primarily driven by the declining effectiveness of its government. Specifically, in 2019, Andorra was ranked as the first country in the sample with the most effective government, tied with Monaco. By 2023, it had dropped to fifth place in the sample, according to an index that collects perceptions and opinions on the quality of public services, the quality of the civil service and its degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to the policies that it announces.

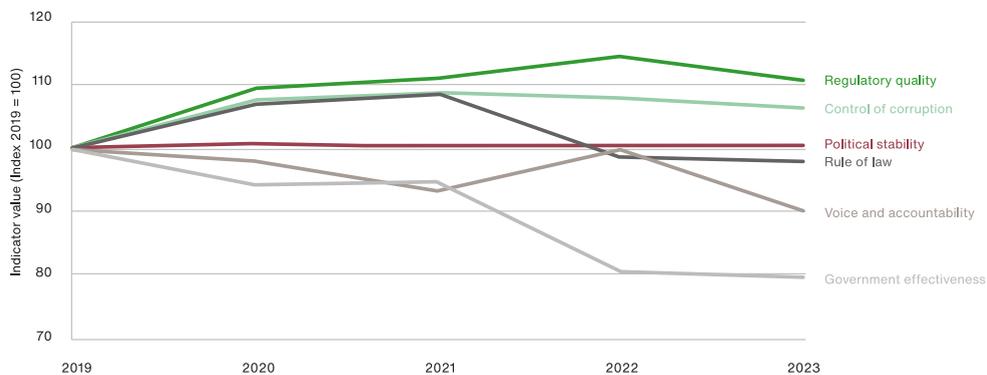
### **7.3.2. Governance in the sample countries**

Panels B and C of Figure 8 show the WGIs during the 2019-2023 period for every country in the sample, excluding the Isle of Man, as the World Bank does not publish governance data for that territory. Panel C presents the dynamics of the indicator using an index whose value in 2019 is 100.

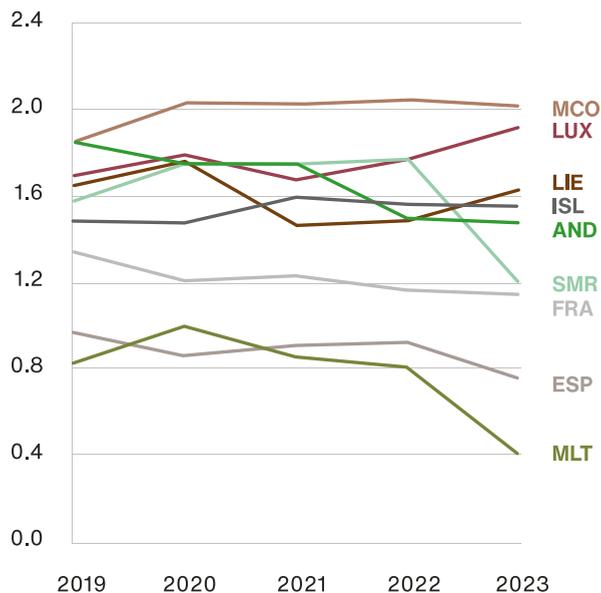
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3. See <https://www.worldbank.org/en/publication/worldwide-governance-indicators>

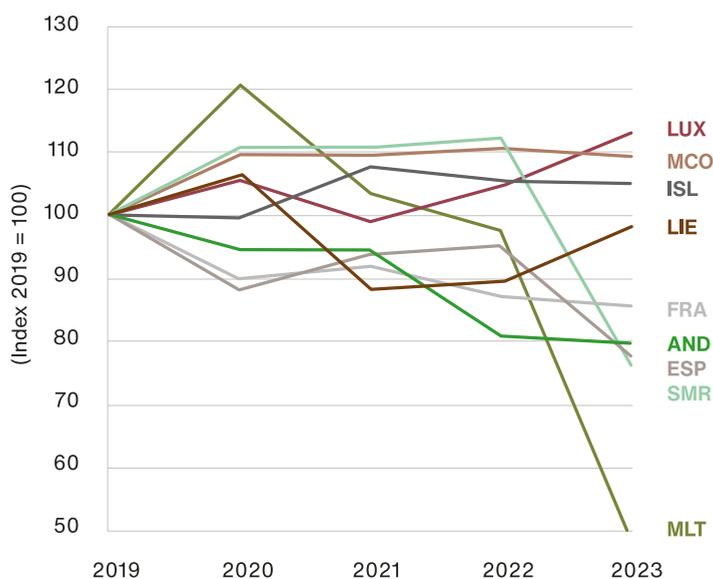
**Figure 8: Governance in Andorra and in the sample countries (2019-2023)**



Panel A: Governance in Andorra



Panel B: The WGI in the sample countries



Panel C: The dynamics of the WGI

According to the WGI, governance improved in Luxembourg, Monaco, and Iceland, while it worsened in every other country in our sample between 2019 and 2023. Malta was by far the country where governance deteriorated the most, followed by San Marino, Spain, and Andorra.

Among the small and medium-sized countries in our sample, only San Marino and Malta experienced a greater decline in their WGI scores than Andorra since 2019. In Malta, all WGI components deteriorated during that period. The most significant declines were observed in citizen perception of government effectiveness, as well as the indicator assessing the regulatory quality and rule of law. In San Marino, despite a substantial improvement in regulatory quality since 2019, by 2023, the government effectiveness and rule of law indicators had suffered substantial declines. In contrast, Luxembourg recorded sustained improvement in government effectiveness, regulatory quality, and voice and accountability, strengthening its position with respect to its standing in 2019. Liechtenstein's WGI improvements were primarily driven by positive developments in regulatory quality, rule of law, and accountability.

## 8. The Foreign Sector

### 8.1. Andorra

Table 7 presents the main items of Andorra's Balance of Payments, measured in millions of current euros and as a percentage of GDP between 2019 and 2023. Figure 9 shows Andorra's balance of goods, balance of services, trade balance, current account balance, and net international investment position for the same period.

**Table 7: Andorra's balance of payments**

	mm, €				
	2019	2020	2021	2022	2023
<b>Current account</b>	<b>507.6</b>	<b>393</b>	<b>395.2</b>	<b>553.8</b>	<b>596.8</b>
Balance of goods and services	270.5	100.3	229.3	281.3	302.2
Exports of goods	116.1	178.3	149.5	188.6	200.2
Imports of goods	1,316.5	1,070.2	1,271.5	1,694.5	1,838.2
Exports of services	1,969.6	1,464.2	1,892	2,409.4	2,612.1
Imports of services	498.8	442.1	540.6	622.3	671.9
Primary income	274.4	330.6	213	318	343.7
Secondary income	-37.3	-37.9	-47.1	-45.4	-49.1
<b>Capital account</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>-0.5</b>	<b>0.0</b>
<b>Financial account</b>	<b>496.0</b>	<b>441.9</b>	<b>385.3</b>	<b>575.1</b>	<b>596.8</b>
Direct investment	-286.1	-122.3	-291.9	-513.1	-
Portfolio investment	70.5	-204.6	515.3	1,340.8	-
Financial derivatives	0.0	0	-14.2	-39.3	-
Other investments	711.6	726.9	80	-413.4	-
Reserve assets	0.0	41.9	96.2	200	-
<b>Errors and omissions</b>	<b>-11.8</b>	<b>48.7</b>	<b>-10.2</b>	<b>21.7</b>	<b>-</b>

	2019	2020	2021	2022	2023
<b>Current account</b>	<b>18.0</b>	<b>15.5</b>	<b>14.1</b>	<b>17.3</b>	<b>17.3</b>
Balance of goods and services	9.6	4.0	8.2	8.8	8.8
Exports of goods	4.1	5.9	5.3	5.9	5.8
Imports of goods	46.7	42.3	45.2	52.8	53.4
Exports of services	69.9	57.8	67.3	75.1	75.8
Imports of services	17.7	17.5	19.2	19.4	19.5
Primary income	9.7	13.1	7.6	9.9	10.0
Secondary income	-1.3	-1.5	-1.7	-1.4	-1.4
<b>Capital account</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financial account</b>	<b>17.5</b>	<b>17.5</b>	<b>13.7</b>	<b>17.9</b>	<b>17.3</b>
Direct investment	-10.2	-4.8	-10.4	-16.0	-
Portfolio investment	2.5	-8.1	18.3	41.8	-
Financial derivatives	0.0	0.0	-0.5	-1.2	-
Other investments	25.2	28.7	2.8	12.9	-
Reserve assets	0.0	1.7	3.4	6.2	-
<b>Errors and omissions</b>	<b>-0.4</b>	<b>1.9</b>	<b>-0.4</b>	<b>0.7</b>	<b>0.0</b>

Source: International Monetary Fund

During the 2019-2023 period, Andorra's foreign sector continued to demonstrate remarkable strength. The trade balance has remained positive every year during that period. With the exception of 2020, when the trade surplus fell to 4 percent of GDP, it remained around 9 percent of GDP for every other year throughout the period. The tourism sector has played a central role in generating Andorra's trade surplus. The number of visitors in 2023 exceeded those recorded before the pandemic by approximately 1.2 million (9.4 million visitors in 2023 and 8.2 million in 2019) and the average expenditure per tourist increased to around €175 per day in 2023.<sup>4</sup>

The current account balance also remained positive every year in the 2019-23 period, and by 2023, it had almost returned to its pre-COVID level. Specifically, in 2019, the Andorran current account surplus was an outstanding 18.0 percent of GDP. By 2023, the surplus had almost returned to that value, at 17.3 percent.

4. Almost two-thirds of these are day visitors from Spain and France who do not stay in Andorra overnight.

In the period under review, the openness of Andorra to the global economy intensified. In 2019, Andorran exports accounted for 74.0 percent of GDP, and, by 2023, the share of exports had increased to 81.6 percent. During this period, imports also increased from 64.4 percent of GDP in 2019 to 72.9 percent in 2023. However, the trade balance consistently recorded a surplus, as previously discussed.

Regarding the income balance, the contribution of primary income was positive every year of the period, remaining close to 10 percent of GDP. On the other hand, the contribution of secondary income was consistently negative at around -1.5 percent of GDP. We conjecture that the returns on investments of Andorran residents abroad are the main explanation for the performance of primary income and that remittances sent by immigrants account for the negative balance of secondary income.<sup>5</sup> Finally, according to the International Monetary Fund, Andorra's international reserves grew by about 220 million euros between 2021 and 2022, and stagnated between 2022 and 2023.

**Table 8: Andorra's trade in goods**

Exports of goods	mm, €				
	2019	2020	2021	2022	2023
Automobiles, tractors, motorbikes, bicycles	16.0	19.6	32.8	35.8	48.6
Electrical machinery, equipment, and materials	30.0	26.8	28.1	46.4	48.1
Art objects	1.9	31.6	1.4	201.3	47.2
Optical instruments and equipment	10.8	12.5	14.3	16.0	18.9
Pearls, precious stones, and precious metals	6.6	5.4	9.2	7.6	9.8
Watches	3.5	2.0	2.7	3.4	8.9
Paper, cardboard, and cellulose-based products	4.6	6.5	7.7	7.9	8.4
Boilers, machinery, and mechanical appliances	8.8	8.5	6.6	10.0	7.7
Apparel and accessories	5.3	5.3	5.4	5.0	5.6
Footwear	2.6	2.7	3.2	3.0	3.6
Perfume and cosmetics products	3.5	3.3	4.7	4.1	3.2
Other	20.0	19.2	24.6	27.1	26.5
<b>Total</b>	<b>113.8</b>	<b>143.5</b>	<b>140.9</b>	<b>367.5</b>	<b>236.4</b>

5. Primary income is labor income, investment by non-residents, taxes on production and imports, and subsidies. Secondary income includes remittances from immigrants, direct taxes, social contributions and benefits, transfers from insurance operations, and international aid, among others.

Exports of goods	% GDP				
	2019	2020	2021	2022	2023
Automobiles, tractors, motorbikes, bicycles	0.6	0.8	1.2	1.1	1.4
Electrical machinery, equipment, and materials	1.1	1.1	1.0	1.4	1.4
Art objects	0.1	1.2	0.1	6.3	1.4
Optical instruments and equipment	0.4	0.5	0.5	0.5	0.5
Pearls, precious stones, and precious metals	0.2	0.2	0.3	0.2	0.3
Watches	0.1	0.1	0.1	0.1	0.3
Paper, cardboard, and cellulose-based products	0.2	0.3	0.3	0.2	0.2
Boilers, machinery, and mechanical appliances	0.3	0.3	0.2	0.3	0.2
Apparel and accessories	0.2	0.2	0.2	0.2	0.2
Footwear	0.1	0.1	0.1	0.1	0.1
Perfume and cosmetics products	0.1	0.1	0.2	0.1	0.1
Other	0.7	0.8	0.9	0.8	0.8
Total	4.0	5.7	5.0	11.4	6.9

Exports of goods	% Total				
	2019	2020	2021	2022	2023
Automobiles, tractors, motorbikes, bicycles	14.0	13.7	23.3	9.8	20.6
Electrical machinery, equipment, and materials	26.4	18.7	19.9	12.6	20.3
Art objects	1.6	22.0	1.0	54.8	20.0
Optical instruments and equipment	9.5	8.7	10.1	4.4	8.0
Pearls, precious stones, and precious metals	5.8	3.8	6.6	2.1	4.1
Watches	3.1	1.4	1.9	0.9	3.7
Paper, cardboard, and cellulose-based products	4.1	4.6	5.5	2.1	3.6
Boilers, machinery, and mechanical appliances	7.8	5.9	4.7	2.7	3.3
Apparel and accessories	4.7	3.7	3.9	1.4	2.4
Footwear	2.3	1.9	2.3	0.8	1.5
Perfume and cosmetics products	3.1	2.3	3.4	1.1	1.4
Other	17.6	13.4	17.4	7.4	11.2
Total	100.0	100.0	100.0	100.0	100.0

Imports of goods	mm, €				
	2019	2020	2021	2022	2023
Automobiles, tractors, motorbikes, bicycles	177.8	151.4	215.8	225.9	286.4
Mineral fuels, oils, and waxes	111.7	72.0	106.3	212.2	160.4
Electrical machinery, equipment, and materials	90.6	72.5	83.2	120.0	130.5
Perfume and cosmetics products	102.5	64.3	78.1	103.5	115.8
Beverages, spirits, and vinegar	81.6	62.2	70.9	96.6	101.9
Apparel and accessories	92.7	65.8	75.6	100.3	101.1
Boilers, machinery, and mechanical appliances	70.3	64.5	67.4	99.0	94.1
Furniture, medical and surgical furniture, other	32.3	25.1	31.6	47.7	47.9
Pharmaceutical products	32.0	32.5	37.2	39.4	42.8
Meat and other	30.8	26.9	29.2	37.3	41.5
Other	555.8	672.3	527.8	691.2	723.3
Total	1,377.9	1,309.5	1,323.1	1,773.1	1,845.7

Imports of goods	% GDP				
	2019	2020	2021	2022	2023
Automobiles, tractors, motorbikes, bicycles	6.3	6.0	7.7	7.0	8.3
Mineral fuels, oils, and waxes	4.0	2.8	3.8	6.6	4.7
Electrical machinery, equipment, and materials	3.2	2.9	3.0	3.7	3.8
Perfume and cosmetics products	3.6	2.5	2.8	3.2	3.4
Beverages, spirits, and vinegar	2.9	2.5	2.5	3.0	3.0
Apparel and accessories	3.3	2.6	2.7	3.1	2.9
Boilers, machinery, and mechanical appliances	2.5	2.5	2.4	3.1	2.7
Furniture, medical and surgical furniture, other	1.1	1.0	1.1	1.5	1.4
Pharmaceutical products	1.1	1.3	1.3	1.2	1.2
Meat and other	1.1	1.1	1.0	1.2	1.2
Other	19.7	26.6	18.8	21.5	21.0
Total	48.9	51.7	47.1	55.2	53.5

Imports of goods	% Total				
	2019	2020	2021	2022	2023
Automobiles, tractors, motorbikes, bicycles	12.9	11.6	16.3	12.7	15.5
Mineral fuels, oils, and waxes	8.1	5.5	8.0	12.0	8.7
Electrical machinery, equipment, and materials	6.6	5.5	6.3	6.8	7.1
Perfume and cosmetics products	7.4	4.9	5.9	5.8	6.3
Beverages, spirits, and vinegar	5.9	4.7	5.4	5.4	5.5
Apparel and accessories	6.7	5.0	5.7	5.7	5.5
Boilers, machinery, and mechanical appliances	5.1	4.9	5.1	5.6	5.1
Furniture, medical and surgical furniture, other	2.3	1.9	2.4	2.7	2.6
Pharmaceutical products	2.3	2.5	2.8	2.2	2.3
Meat and other	2.2	2.1	2.2	2.1	2.2
Other	40.3	51.3	39.9	39.0	39.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Andorran Department of Statistics.

**Andorra's net international investment position (NIIP) reflects a favorable creditor position with respect to the rest of the world.** In 2022, Andorra's NIIP stood at 340 percent of GDP, 33 percentage points higher than in 2019, when it was 307 percent. The solvency of the Andorran NIIP was mainly due to net portfolio investments, i.e., financial assets, stocks, bonds, and other foreign financial instruments owned by Andorrans minus any Andorran financial instruments owned by foreign investors.

### 8.1.1. Andorra's trade in goods

Andorra's geographic and demographic constraints—such as its limited land area, the scarcity of its natural resources, its service-oriented economic structure and labor market, and its high export costs—make the Andorran economy highly reliant on imports of goods. As a result, Andorra runs a high trade deficit in goods.

Specifically, **in 2023, Andorra's goods exports accounted for only 5.8 percent of GDP**, although this figure was 1.7 percentage points higher than in 2019. In 2023, Andorran exports of goods were highly concentrated, with 90 percent of total exports originating from just 11 branches of activity. The goods that Andorran companies exported the most in 2023 were vehicles (48.6 million euros), electrical

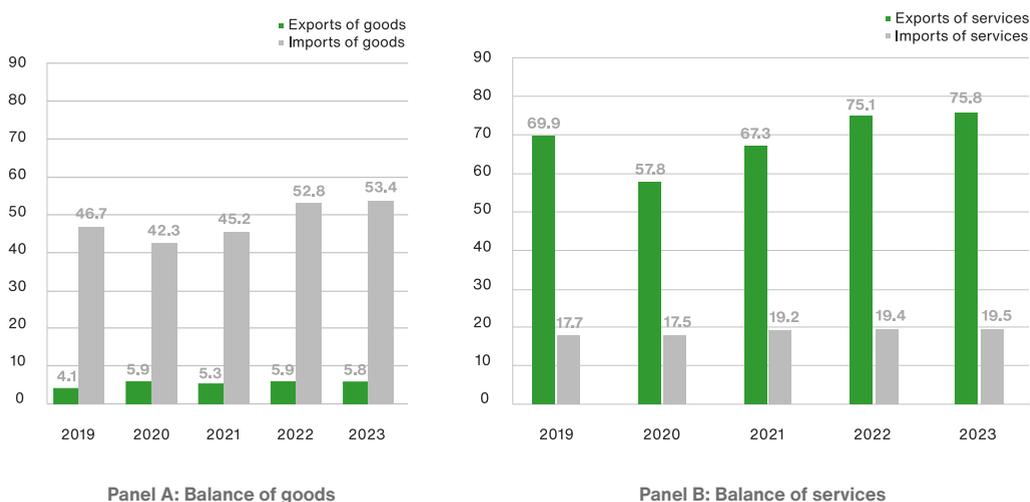
machines and equipment (48.1 million), art objects (47.2 million) and optical instruments and equipment (18.9 million)

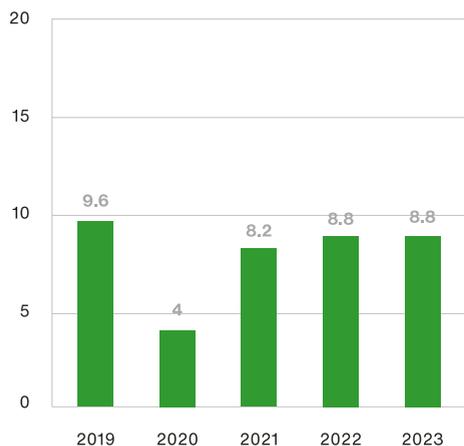
Between 2019 and 2023, excluding art objects, the top consistently exported goods were vehicles, electrical machines, equipment, and materials and optical instruments and equipment . The export of art objects presents two key challenges. Firstly, these exports are very volatile. In 2022, Andorra exported 201 million euros worth of art objects, while in 2019, this figure was just 1.9 million euros. Secondly, many of these art objects are not produced in Andorra and should be considered heritage items and accounted for in the financial balance instead.

In 2023, Andorra's imports of goods accounted for 53.4 percent of GDP, 47.6 percentage points more than its exports of goods. Similar to exports, in 2023, the vehicle sector was the leading import sector with more than 15.5 percent of total imports. This was followed by fuels (8.7 percent of the total) and electrical machinery, equipment, and materials (7.1 percent of the total). The high volume of both exports and imports of vehicles and electrical machinery and equipment suggest that Andorran companies purchase parts for assembly and finished goods for resale to non-residents.

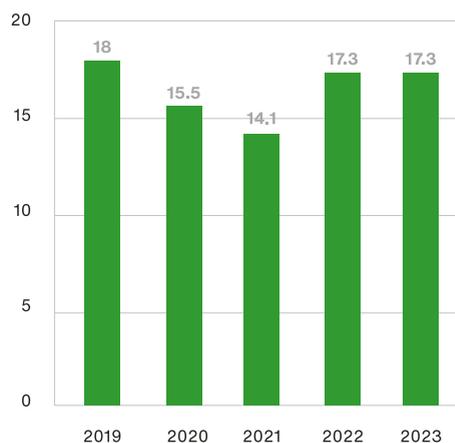
However, the surplus in the balance of services more than offsets the deficit in the balance of goods, resulting in a substantial overall trade surplus (Panels B and C of Figure 9).

Figure 9: Andorran foreign sector accounting (% GDP)

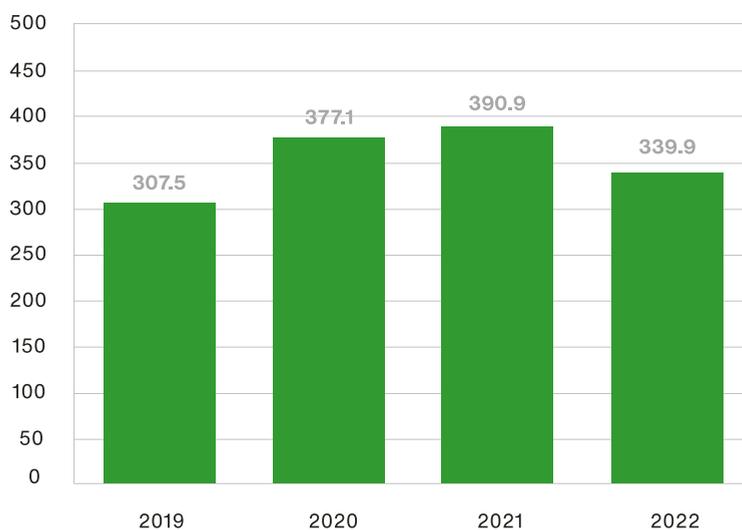




Panel C: Trade balance



Panel D: Current account balance



Panel E: Net international investment position

Source: International Monetary Fund.

## 8.2. International Comparisons

**Table 9: International trade and NIIPs of the sample countries (% GDP)**

Trade of goods (% of GDP)									
	SMR	MCO	LIE	AND	ISL	MLT	LUX	ESP	FRA
<b>2019</b>	9.8	-	-	-42.5	-0.9	-11.7	2.3	-2.4	-1.9
<b>2020</b>	12.0	-	-	-36.4	-0.6	-9.2	1.8	-2.1	-2.6
<b>2021</b>	12.9	-	-	-39.9	-1.2	-12.6	1.3	-0.8	-2.7
<b>2022</b>	14.2	-	-	-46.9	-1.6	-18.3	0.1	-1.6	-4.1

Trade of services (% of GDP)									
	SMR	MCO	LIE	AND	ISL	MLT	LUX	ESP	FRA
<b>2019</b>	1.5	-	-	52.2	1.9	26.8	30.3	5.2	1.0
<b>2020</b>	1.4	-	-	40.3	0.3	26.0	30.9	5.0	0.8
<b>2021</b>	4.6	-	-	48.1	0.6	26.8	33.5	2.3	1.5
<b>2022</b>	3.8	-	-	55.7	1.4	29.2	28.3	3.2	2.3

Trade balance (% of GDP)									
	SMR	MCO	LIE	AND	ISL	MLT	LUX	ESP	FRA
<b>2019</b>	11.3	-20.7	32.0	9.6	1.0	15.1	32.6	2.8	-0.9
<b>2020</b>	13.4	-8.7	22.1	3.9	-0.3	16.8	32.7	2.9	-1.8
<b>2021</b>	17.5	-9.5	27.0	8.2	-0.6	14.2	34.8	1.5	-1.2
<b>2022</b>	18.0	-9.3	27.3	8.8	-0.2	10.9	28.4	1.6	-1.8

Financial account (% of GDP)									
	SMR	MCO	LIE	AND	ISL	MLT	LUX	ESP	FRA
<b>2019</b>	7.0	-	-	17.6	1.5	1.2	1.6	2.7	0.0
<b>2020</b>	7.8	-	-	17.5	1.3	-2.0	2.7	2.1	-2.3
<b>2021</b>	11.4	-	-	13.7	0.2	4.2	8.6	0.8	0.1
<b>2022</b>	8.3	-	-	17.9	-0.6	-0.4	5.1	1.9	-1.5

Panel A: Foreign sector accounts (% of GDP)



**Source:** International Monetary Fund and the Departments of Statistics of Monaco and Liechtenstein.

Table 9 illustrates data on international trade and on the net international investment positions (NIIPs) of the sample countries between 2019 and 2022, the latest year for which data is available.

In the group of small countries in the sample, Monaco was the only one to report a deficit in its trade balance in 2022. However, its trade deficit has improved significantly, decreasing from 20.7 percent of GDP in 2019 to 9.3 percent in 2022. San Marino successfully improved its balance of trade by boosting its exports of goods. The country's service exports also increased, although on a smaller scale.

In contrast, the trade balance of Liechtenstein, Malta, and Luxembourg deteriorated during this period. In Liechtenstein, where industrial production accounts for more than 40 percent of the country's GDP, the share of exports fell by 5.1 percentage points, from 53.2 percent of GDP in 2019 to 48.1 percent in 2022. Meanwhile, Liechtenstein's imports remained stable over that period.

In Malta, net exports of services increased slightly, but not enough to offset the deterioration of its trade in goods deficit, which stood at -18.3 percent of GDP in 2022. Finally, in the case of Luxembourg, its sectoral structure helped to minimize the economic impact of the pandemic and even boosted the services sector activity in 2021. However, in 2022, it recorded a decrease in its trade balance of more than 5 percentage points, despite ending that year with a trade surplus of 28.3 percent of GDP.

Between 2019 and 2022, the financial accounts of San Marino and Andorra—the only two small countries in the sample for which complete balance of payments data is available (as both are members of the International Monetary Fund)—either remained stable or improved slightly. Andorra stands out by far as the country in the sample where this balance of payments item represents the largest share of GDP (17.3 percent in 2023). This is significantly higher than the 8.1 percent reported in San Marino or the 5.1 percent reported in Luxembourg.

As illustrated in Panel B of Table 9, among the small countries in the sample, Luxembourg and Liechtenstein were the countries with the largest trade surpluses, with 28.4 and 27.3 percent of GDP respectively. Monaco was the country with the largest trade deficit, at 9.3 percent of GDP. San Marino, one of the two most industrialized economies in the sample (along with Liechtenstein), recorded a trade surplus of 18.0 percent of GDP. Andorra's trade surplus stood at 8.8 percent, making it the smallest surplus among the group of small countries in the sample.

Panel C of Table 9 shows that, among the countries in the sample for which data were available, all had positive net international investment positions, except for France and Spain. In that group of countries, Andorra had the most solvent NIIP, which amounted to 340 percent of GDP in 2023. San Marino ranked second, with an NIIP of 281 percent of GDP, nearly 90 percentage points lower than Andorra's.

## 9. Competitiveness

From a macroeconomic perspective, competitiveness refers to the ease of doing business and the absence of legal obstacles that hinder companies' ability to compete effectively. From a microeconomic point of view, competitiveness refers to the ability of companies to maintain or increase their profits and market shares in a dynamic and changing environment.

By the end of 2024, **the Andorran economy was highly competitive in attracting cross-border visitors and selling goods and services to them within the country. However, it was not competitive in domestic manufacturing for export abroad.** This section examines the key factors that explain these results.

### 9.1. Geography

Andorra's high-altitude mountains and valleys have positioned it as a global hotspot for winter snow tourism and summer mountain tourism. As a result of these competitive advantages, Andorra received almost 9.4 million visitors in 2023, including both tourists and day visitors. This extraordinary volume of visitors is more than 110 times the Andorran resident population, **probably making it the country with the highest number of visitors per capita in the world.** However, Andorra's competitive advantage presents certain drawbacks.

Figure 10 illustrates the passengers and operations at Andorra-La Seu Airport. In 2019, 3,941 passengers landed at that airport, and it carried out 3,957 operations. The ratio between passengers and operations was just 1.004. By 2023, the number of passengers had grown by 137 percent to 9,380, and the number of operations had increased by 18 percent to 4,653. That year, the passenger-to-operations ratio had doubled to 2.02. This shift in trend can be explained by the introduction of scheduled flights to Madrid starting in December 2021 and to Palma de Mallorca in 2024.<sup>6</sup>

When comparing Andorra-La Seu Airport's figures with the 9.4 million visitors arriving in Andorra in 2023, the disparity is striking. We conclude that **the airport remains a marginal component in the Andorran transport network, although it is making substantial progress.** The expansion of this infrastructure with more routes and increased flight frequencies should support the development of higher value-added activities and attract visitors with greater purchasing power.

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6. Although not included in Figure 10, in 2024, Andorra-La Seu Airport received 16,186 passengers and carried out 5,396 operations.

**Figure 10: Traffic at Andorra-La Seu Airport**

	Total passengers	Total operations	Passengers (% var.)	Operations (% var.)
<b>2018</b>	5,082	4,669		
<b>2019</b>	3,941	3,957	-22.5	-15.2
<b>2020</b>	3,140	5,325	-20.3	34.6
<b>2021</b>	5,145	6,846	63.9	28.6
<b>2022</b>	11,238	5,686	118.4	-16.9
<b>2023</b>	9,380	4,653	-16.5	-18.2

Source: Airports of Catalonia.



To overcome these limitations, Andorra should invest in broader infrastructure projects, including the airport, but also in rail links and in improving the road network. This would reduce transport costs and facilitate the movement of people and of goods. Another critical concern is climate change, which presents a threat to winter tourism, as the snow line is expected to rise in altitude in the coming decades. Andorra should try to mitigate these effects, on the one hand by investing in research and development of artificial snow production technologies, and on the other, by exploring alternatives beyond traditional winter sports.

## 9.2. Natural Resources

Andorra is not endowed with an abundance of natural resources, making energy availability and generation costs increasingly critical in the era of digitalization and automation. According to Forces Elèctriques d'Andorra (FEDA), in 2023, Andorran households and businesses consumed 556 GWh of electricity and 80 percent of that electricity was imported. However, in the same year, 69.4 percent of the electricity consumed in Andorra came from renewable sources, broken down as follows: 35.7 percent from wind; 25.5 percent from hydro; 7.5 percent from solar; and the remaining 0.7 percent from other renewable sources. In addition to the existing renewable energy production, the future Maià Wind Farm will increase domestic renewable energy production and improve Andorra's energy independence.

Andorra's electricity mix—characterized by high import dependence and a strong renewable share—poses both a competitive challenge and a competitive advantage. The advantage is that Andorra could become one of the most sustainable countries in the world and could promote itself as such. The challenge is that, if Andorra decides to develop digital industries in the future, investing in reducing its energy dependence and increasing its electricity generation capacity should be a priority.

## 9.3. Taxation

Table 10 illustrates the main tax rates of the five small countries in the sample, France, and Spain. In 2023, Monaco was still by far the country with the lowest direct taxes. Revenues from indirect taxes and the casino were still sufficient to finance its public sector spending, which contributed to maintaining Monaco's status as a preferred residence of choice for many high-net-worth individuals and high-income earners.

While not as extreme as Monaco, tax rates in Andorra are also very low. For example, Andorra's income and wealth tax rates also attract high-income and high-wealth individuals, and the country is especially attractive for people with high incomes from digital businesses that can be easily offshored.

However, despite Andorra's low corporate tax rates, they have not been a sufficient incentive to attract manufacturing industries to the country. This suggests that Andorra's geographical constraints are too severe to be compensated by a reduction in corporate tax rates.

**If Andorra seeks to diversify the composition of its Gross Domestic Product by increasing the contribution of industry, it will need to redesign its industrial policy by offering additional incentives bringing industrial activities to the territory.**

The low indirect taxes and excise duties on alcohol, tobacco, and fuel make Andorra particularly competitive in the trade of these products for cross-border customers who come to Andorra to shop and refuel. Maintaining this competitive advantage should be another priority for Andorran policymakers.

**Table 10: Tax rates in 2023**

	Personal Income Tax	Corporate Tax	Value Added Tax
<b>MCO</b>	0% <sup>1</sup>	0% <sup>2</sup>	0-5-20%
<b>AND</b>	0-10%	2-10%	0-1-2.5-4-5-9.5%
<b>LIE</b>	2.5-22.4%	12.5%	2.5-3.7-7.7%
<b>IMN</b>	10-22%	0-10-15-20%	10-20%
<b>SMR</b>	9-35%	22%	2-6-17% <sup>3</sup>
<b>ESP</b>	19-47%	25%	0-4-5-10-21%
<b>FRA</b>	0-45%	25%	2.1-5.5-10-20%

(1) Except for French nationals, even after acquiring residency in Monaco.

(2) Except for companies that generate more than 25% of their total revenues outside Monaco.

(3) The VAT rate in San Marino is 0%. The rates shown in this cell are those for import tariffs.

**Source:** Authors' own work.

## 9.4. Digitalization

The Isle of Man faces competitive constraints similar to those in Andorra due to its location and insularity. To overcome these limitations, the Isle of Man has strategically developed the online gaming sector, which was previously negligible and, by 2023, accounted for approximately 16 percent of GDP.

In the virtual economy, production is entirely digital, so as long as a country has enough electricity to power the equipment and databases, geographical limitations become irrelevant. Given these characteristics, virtual businesses offer a major opportunity that Andorra could harness. In Spain, the Andalusia Technology Park in Campanillas (Malaga) or the Paterna Technology Park (Valencia) could serve as examples to emulate.

## 10. The Association Agreement with the European Union

The Association Agreement with the European Union puts Andorrans at a crossroads. **The decision to enter into the agreement and open the economy will fundamentally reshape Andorra’s future, just as the decision not to do so will also have its consequences.** Accepting the rules of the game of the European Union will introduce competitive pressure for Andorran businesses and households. However, it will also generate many opportunities that will dramatically expand their accessible market from a protected domestic market of 85,000 residents and 9 million visitors, to an integrated market of 464 million consumers as of January 2024.<sup>7</sup>

### 10.1. The European Internal Market

The European Internal Market is a group of 30 European countries that are members of the European Economic Area (EEA)—the 27 member countries of the European Union, Norway, Iceland, and Liechtenstein. People, goods, services and capital can move freely across this market’s member states. If Andorra joins this group of countries, the key benefits it will gain include access to a market that had some 464 million potential customers in 2024, as previously mentioned. This access will facilitate trade, enable the mobility of Andorran citizens and companies, and give them access to European programs. In exchange, Andorran companies will face increased competition from European companies and Andorran households will have to compete with European households.

The areas excluded from the agreement are taxation, foreign policy, border control, and sectors such as health, education, and culture. In addition, Andorra will not contribute to the European Union budget, nor will it have political rights within the Union.

### 10.2. Characteristics of the Agreement

The Association Agreement with the European Union allows Andorra to participate in the European Internal Market, which is characterized by four fundamental freedoms: free movement of persons; free movement of goods; free movement of services; and free movement of capital. At the same time, it ena-

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7. The European Single Market consists of the European Union (EU) and the European Economic Area (EEA), which includes Norway, Iceland, and Liechtenstein. The EEA and Switzerland together form the European Free Trade Association, which in 2024 encompassed 464 million consumers.

bles Andorra to retain its own specific characteristics in matters such as taxation and border control.

The main objective of the agreement is to diversify the Andorran economy beyond its traditional sectors and to stimulate new sectors such as high value-added industry and research.

For the agreement to be effective, Andorra will adopt European legislation on the free movement of goods, services, people, and capital, competition, social rights, consumer protection, environmental policies, and transport regulations, among other areas.

### **10.3. How have the countries that have joined the European Economic Area fared?**

Figure 11 examines some of the economic consequences of European Union Membership for a group of countries that meet two conditions: (a) they were not part of the original group of countries that signed the Treaty of Rome; and (b) they joined the European Union before 2013, ensuring at least ten years has passed since their integration as of 2024. The first two columns of Panel A of Figure 11 list these countries and the years of their accession to the European Union.

In today's rapidly changing world, determining the variables that explain the growth of an economy's GDP per capita is complex. A rigorous assessment would require a detailed econometric analysis that falls well beyond the scope and objectives of this study.

This section examines three questions: *(i)* what is the relationship between the average rate of growth of GDP per capita and the average rate of growth of population in the countries that joined the European Union before 2014?; *(ii)* has integration into the European Union contributed to faster GDP per capita growth?; and *(iii)* has integration contributed to faster growth in the public expenditure-to-GDP ratio?

It is essential to recognize that the individual circumstances of each country in the years leading up to their accession were very different. Spain, Portugal, and Greece were transitioning from long-standing military dictatorships, whereas the Baltic states and the Central European countries were emerging from the Soviet Union or from behind the Iron Curtain.

Moreover, the reunification of Germany, the dotcom crisis in 2001, and the Great Recession of 2008 followed by the Eurozone Crisis in 2012 affected the new EU members in markedly different ways. All these circumstances complicate our analysis and further qualify the precision of any answers to the questions above.

Further complicating the analysis is the fact that the European Union has evolved substantially since its creation. The initial group of countries that formed a customs union, eliminating internal tariffs and adopting a common external tariff, has expanded and transformed into a monetary union. This monetary union has been reinforced by a still-incomplete banking union. In addition, the European Union has established a mechanism for limiting deficits and public debt, introduced the first elements of a fiscal union, the *Next Generation Funds*, which are pure transfers, and the capacity to issue joint debt.

### **10.3.1. The evolution of real GDP per capita and population after accession**

Panel A of Figure 11 illustrates the changes in real GDP per capita and population in the sample countries. Among these 21 countries, Cyprus is the only one where real GDP per capita has decreased. This is partly because Cyprus is, by far, the country in the sample where the population has increased the most—by 15.5 percentage points. The second-largest population increase was recorded in Ireland, with 13.8 percentage points, followed by Malta, with 6.3 percentage points.

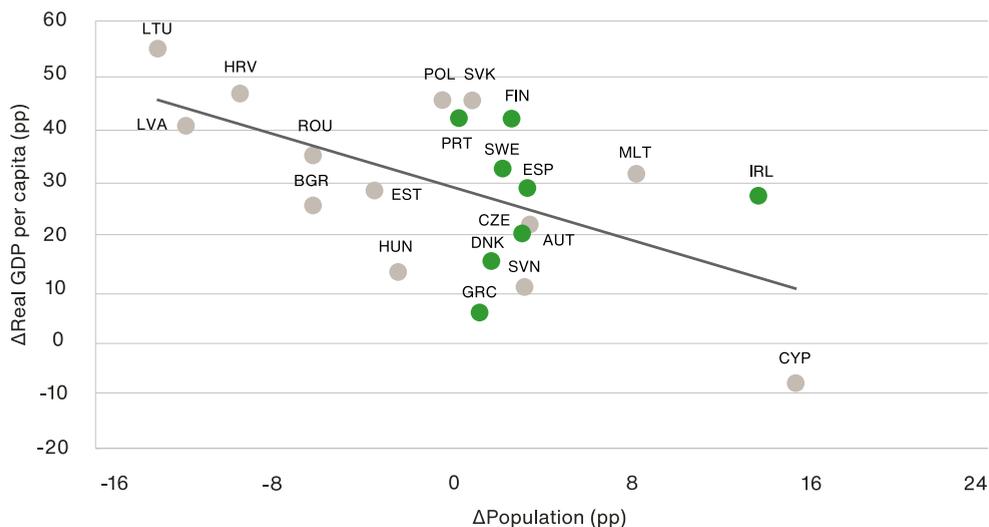
The negative slope of the regression line suggests that, in recent years, European economies have faced a trade-off between population growth and GDP per capita growth. The data indicate that the countries where GDP per capita has grown the most are also the economies in which the population has declined. This pattern is evident in 8 of the 21 countries in this sample. One example is Lithuania, which experienced the largest increase in GDP per capita—rising by 55 percentage points in 10 years—while also recording the steepest population decline, with a contraction of 13 percentage points over the same period. This demographic contraction, which is similar to those recorded in the other Baltic countries, is largely attributable to the free movement of people following their accession to the European Union.

These findings suggest that demographic policies have played a more decisive role than economic and trade policies in shaping GDP per capita growth. In other

words, the rate of growth of Andorra's GDP per capita in the coming years is likely to depend more on the demographic policies it adopts in the future than on whether it signs the Association Agreement with the European Union.

**Figure 11: The consequences of integration into the European Union**

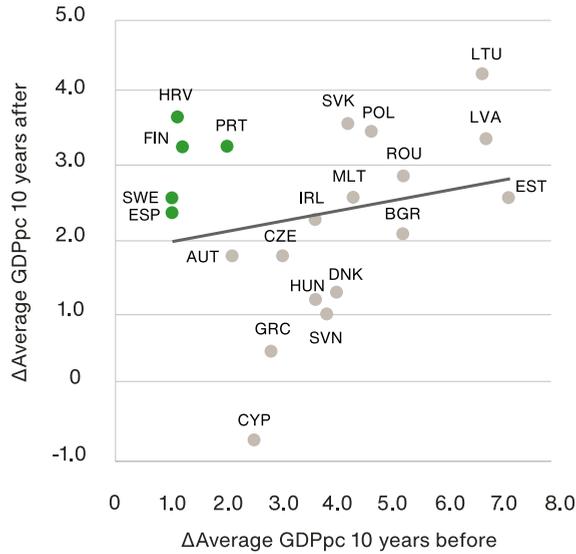
	<b>Accession</b>	<b>RGDPPC</b>	<b>Population</b>
<b>Lithuania (LTU)</b>	2004	55.3	-13.2
<b>Croatia (HRV)</b>	2013	46.9	-9.5
<b>Slovakia (SVK)</b>	2004	45.6	0.9
<b>Poland (POL)</b>	2004	45.6	-0.4
<b>Finland (FIN)</b>	1995	42.2	2.7
<b>Portugal (PRT)</b>	1986	42.1	0.3
<b>Latvia (LVA)</b>	2004	40.9	-11.9
<b>Romania (ROU)</b>	2007	35.1	-6.2
<b>Sweden (SWE)</b>	1995	32.7	2.3
<b>Malta (MLT)</b>	2004	31.9	8.3
<b>Spain (ESP)</b>	1986	29.1	3.4
<b>Estonia (EST)</b>	2004	28.7	-3.5
<b>Ireland (IRL)</b>	1973	27.6	13.8
<b>Bulgaria (BGR)</b>	2007	25.6	-6.2
<b>Austria (AUT)</b>	1995	22.2	3.5
<b>Czech Rep (CZE)</b>	2004	20.5	3.2
<b>Denmark (DNK)</b>	1973	15.3	1.8
<b>Hungary (HUN)</b>	2004	13.3	-2.4
<b>Slovenia (SVN)</b>	2004	10.2	3.3
<b>Greece (GRC)</b>	1981	5.7	1.2
<b>Cyprus (CYP)</b>	2004	-7.7	15.5



Panel A: The evolution of RGDPCC and Population 10 years after accession

	Pre (10 years before accession): % average annual change	Post (10 years after accession): % average annual change	DIFF
<b>SWE</b>	1.0	2.6	1.6
<b>ESP</b>	1.0	2.4	1.4
<b>HRV</b>	1.1	3.7	2.6
<b>FIN</b>	1.2	3.3	2.1
<b>PRT</b>	2.0	3.3	1.3
<b>AUT</b>	2.1	1.8	-0.3
<b>CYP</b>	2.5	-0.7	-3.2
<b>GRC</b>	2.8	0.5	-2.3
<b>CZE</b>	3.0	1.8	-1.2
<b>IRL</b>	3.6	2.3	-1.3
<b>HUN</b>	3.6	1.2	-2.4
<b>SVN</b>	3.8	1.0	-2.8
<b>DNK</b>	4.0	1.3	-2.7
<b>SVK</b>	4.2	3.6	-0.8
<b>MLT</b>	4.3	2.6	-1.7
<b>POL</b>	4.6	3.5	-1.1

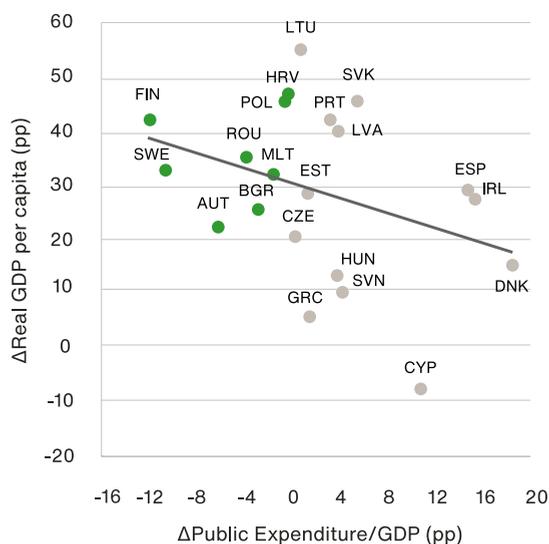
<b>ROU</b>	5.2	2.9	-2.3
<b>BGR</b>	5.2	2.1	-3.1
<b>LTU</b>	6.6	4.3	-2.3
<b>LVA</b>	6.7	3.4	-3.3
<b>EST</b>	7.1	2.6	-4.5



Panel B: Average RGDPCC growth 10 years before and 10 years after accession

	Rate of change in real GDP per capita (% var. 10 years)	Rate of change in public expenditure/GDP (% var. 10 years)
<b>LTU</b>	55.3	0.6
<b>HRV</b>	46.9	-0.4
<b>SVK</b>	45.6	5.4
<b>POL</b>	45.6	-0.6
<b>FIN</b>	42.2	-12.0
<b>PRT</b>	42.1	3.2
<b>LVA</b>	40.0	3.9
<b>ROU</b>	35.1	-3.9
<b>SWE</b>	32.7	-10.7
<b>MLT</b>	31.9	-1.6

ESP	29.1	14.8
EST	28.7	1.3
IRL	27.6	15.3
BGR	25.6	-2.9
AUT	22.2	-6.3
CZE	20.5	0.3
DNK	15.3	18.4
HUN	13.3	3.7
SVN	10.2	4.2
GRC	5.7	1.4
CYP	-7.7	10.8



Panel C: Average growth of RGDP per capita and public expenditure/GDP 10 years after accession

Source: International Monetary Fund.

### 10.3.2. Changes in real GDP per capita before and after accession

Panel B of Figure 11 shows the change in real GDP per capita in the sample countries over the 10 years before and 10 years after their accession to the European Union. Among the 21 countries in the sample, only five—Croatia, Finland, Portu-

gal, Sweden, and Spain—experienced higher GDP per capita growth in the decade following their accession than in the decade prior. Interestingly, two of these five countries, Spain and Portugal, share Andorra’s geographical position on the Iberian Peninsula. However, it is also true that both Spain and Portugal joined the European Union after prolonged military dictatorships and that the decade prior to their accession was marked by the transition from dictatorship to democracy. Low or even negative GDP growth rates characterized this period. Similarly, Sweden also experienced a major economic crisis in the early 1990s, just prior to its accession to the European Union.

One interpretation of these patterns is that the European Union functions as a bloc of affluent countries that prioritize stability over growth. These countries are more concerned with preserving their welfare levels than with increasing them.

### 10.3.3. Changes in public spending after accession

Panel C of Figure 11 illustrates the changes in real GDP per capita and Public Expenditure expressed as a proportion of GDP in the 21 countries of this sample. In this case, the slope of the regression line is negative, but the coefficient of determination is only 0.12.

As discussed above, with the exception of Cyprus, where GDP decreased in spite of an increase in public spending after its accession to the European Union, every other country in this sample experienced GDP per capita growth after joining the EU. Among the 21 countries in this sample, 8 reduced their public spending as a share of GDP, while 13 increased it. Since the data suggest widespread and relatively homogeneous real GDP per capita growth, we believe that economic expansion was primarily driven either by variables other than public spending, or by country-specific structural factors.

Denmark, Spain, and Ireland recorded the largest expansions of public spending as a share of GDP since joining the European Union. This expansion of public spending results from strong preferences in favor of the welfare state. In contrast, Finland and Sweden were the countries where the size of their public sectors decreased the most after accession. Both nations joined the European Union in 1995, following a severe economic crisis, partly due to their public spending reaching levels close to 70 percent of GDP. Their first decade in the European Union coincided with a process of intense privatization and austerity measures that substantially reduced the size of their welfare states.

In any case, the experience of the 21 countries in this sample suggests that the Association Agreement with the European Union should not in itself be used as justification for Andorra to increase the size of its public sector. The substantial growth of Andorra's public sector occurred between 2006 and 2016, but in the years since, its size has remained stable relative to GDP.

## 11. Conclusions

The Andorran economy demonstrated relative resilience in navigating the challenges that have shaken the global economy between 2019 and 2023. These challenges include the COVID-19 pandemic, lockdowns and subsequent reopenings, the supply chain crisis, the invasion of Ukraine, sanctions on Russia, inflation and rising interest rates, trade tensions, and the conflict in the Middle East.

Although both real GDP per capita and real GDP per employee have yet to fully return to their 2019 levels, the shortfall is very marginal—1.8 and 1.2 points of their indices. Moreover, this period has also been marked by significant population growth in Andorra, with an increase of almost 10 percent.

For a country with no monetary policy tools and reliant solely on fiscal policy to stabilize its economy, the performance of the Andorran public sector during these years has been remarkable. This assessment is justified by the fact that the ratio of public debt to nominal GDP at the end of 2023 was only 0.6 percentage points higher than its level at the end of 2019.

However, some shortcomings in the public sector have emerged, particularly in confidence indicators and the perception of the government's efficiency. This deterioration may be due to the increased pressure on public services resulting from the growth of the Andorran population.

The Andorran trade and current account surpluses have persisted during these five years, enabling Andorran households and firms to continue accumulating foreign assets. As a result, Andorra's net international investment position—the second highest in the world—has improved even further.<sup>8</sup>

Looking to the future, Andorra stands at four crossroads: the growth model, the demographic challenge, the Association Agreement with the European Union, and digitalization.

### 11.1. The growth model

First, Andorra must decide whether it will continue to leverage its traditional competitive advantages or whether to pursue alternatives and diversify its economy. Historically, the Andorran economy has been based on trade, finance, and tou-

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8. According to the International Monetary Fund, in 2022, Andorra's net international investment position as a percentage of nominal GDP (339.9 percent) was second in the world only after Hong Kong (586.8 percent) and well ahead of Singapore (276.1 percent), Norway (264.5 percent), Taiwan (205.1 percent), and Switzerland (98.0 percent).

risk. Traditional trade offers advantages including flexibility, adaptability to new economic and technological circumstances, job creation, and the overall enhancement of the quality of life in Andorra.

Between 2019 and 2023, trade maintained its share of Andorran GDP, and the financial and insurance sector recovered almost five percentage points of its contribution to the economy. However, the construction sector increased its share by almost 6 percentage points, elevating it from being the seventh-largest sector in 2019 to the third-largest sector in 2023. The number of construction permits granted in 2022 (latest available data) was similar to the levels recorded in 2000. That said, the long-term sustainability of growth in this sector is in question.

If real estate activities are combined with construction, their aggregate share in Andorran GDP already far exceeded that of both finance and trade in 2019 and this dominance has persisted through 2023. The fact that the second-largest sector in the Andorran economy is highly cyclical represents a significant structural risk. In developed economies, the construction sector typically accounts for between 5 percent and 10 percent of GDP, reflecting their advanced stage of economic development, where major infrastructure needs have already been met. In these countries, infrastructure spending is mostly directed toward renovation, maintenance, and the development of technologically advanced construction projects. **The share of the construction sector in GDP should be moderate and balanced to avoid structural dependencies that could limit economic diversification and slow the growth of higher value-added sectors**, such as technology, advanced manufacturing, and specialized services.

Airport infrastructures play a significant role in the economies of small and medium-sized countries, given their focus on high value-added services and international connectivity. In the case of the Andorra-La Seu Airport, although its current contribution to GDP is still marginal, recent data indicate remarkable growth. This development has the potential to consolidate an economic model geared towards higher value-added activities, since airports filter visitors and facilitate the arrival of individuals seeking specialized and quality services.

## 11.2. The demographic challenge

The stagnation of GDP per capita and GDP per employee, the scarcity of land, and the high cost of housing pose the second challenge for Andorra. A growth model reliant on immigrant labor exerts pressure on housing prices, strains public services, and risks diminishing the quality of life of Andorran citizens. **Is Andorra's**

**demographic model consistent with the aspirations of its citizens? Or should the country consider alternatives, such as adopting a more strategic immigration policy** focused on profiles that contribute to its economic and social development?

If Andorra were to decide to implement stricter immigration controls, how would it address the pressures on the pension system set to emerge as an unavoidable and immediate consequence of the retirement of the baby boomer generation in the coming years?<sup>9</sup>

### 11.3. The technological challenge

The third challenge facing Andorra is technological: Is Andorra lagging behind in the adoption of new digital technologies? The virtualization of life and business is unstoppable. The mountains make the Andorran economy more like those of the small European island economies in the sample of this study, such as the Isle of Man, Iceland, or Malta, rather than those of the small continental countries like San Marino, Monaco, or Liechtenstein. However, unlike an island, Andorra cannot be accessed by water and, as documented in this study, its airport is small and it is located outside its borders, in Spain.

The expansion of high-performance fiber optic networks throughout the country offers a unique opportunity for Andorran residents and businesses. This technological advance facilitates the creation of digital platforms aimed at the global market in sectors such as online education, e-commerce, and other digital services. Leveraging this infrastructure is a competitive advantage that could position Andorra as a leader in digital innovation. In addition, this technology will help Andorra address two of its main challenges. Firstly, it will enable Andorrans to create added value without increasing their population and putting pressure on infrastructure and public services. This is because digitalization allows companies to grow and to create wealth without large increases in the use of both human and physical resources. Secondly, it will enhance Andorra's economic sustainability. The consolidation of a critical mass of digital wealth creation will be a gradual process, but its impact could be substantial in the medium and long term.

In short, the strategic use of digital connectivity boosts economic development and creates a sustainable growth model aligned with the challenges faced by the Andorran economy.

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9. The discussion on the sustainability of the Andorran pension system requires a dedicated monographic study and we have intentionally excluded it from our analysis.

#### **11.4. The Association Agreement with the European Union**

The European Internal Market is not a homogeneous entity, but rather a fragmented economic space shaped by the unique characteristics of each member state. It is difficult to isolate the impact of new accessions to the European Union based exclusively on their macroeconomic variables. Nevertheless, the Association Agreement provides Andorra with a new framework for engagement with the European Union, offering potential to improve its international recognition, while preserving, at least temporarily, certain characteristics that are specific to the country.

It should be noted that, at the time this report went to press, the enforcement of this agreement still depends on the definition of its nature (i.e., whether it will be a mixed agreement) and on the outcome of a potential referendum in the Principality of Andorra.