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GRAY/21/1473

June 3, 2021

**Joint Statement by Mr. Mohieldin, Mr. Mouminah, Ms. Alaqla, and Mr. Al-Kohlany on
Andorra
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for an informative set of reports and Mr. Hilbers and Mr. Cools for their helpful Buff statement. We welcome Andorra's recent membership to the Fund and extend our congratulations to the Andorran government for completing their first Article IV consultation. The Andorra's tourism and services dependent economy is recovering following the initial shock, aided by the fiscal support measures and the ongoing vaccinations of the Andorran population and for the neighboring countries. We broadly share staff's analysis and policy recommendations, and would like to emphasize the following points.

1. **Fiscal policy should remain supportive in the near term, and we see merit in front-loading the planned public investment in support of the recovery.** We welcome staff discussion of the fiscal rule, which has served Andorra well and offers fiscal space for a slower consolidation than the authorities' plans. *We would appreciate staff's comments on the authorities' views expressed that fiscal multipliers in Andorra are likely to be smaller than staff projected given the structure of the economy.*

2. **We commend Andorra for its track record of fiscal discipline, supported by a relatively small government size and a well-operating public sector.** Here, we note staff assessment that the two largest state-owned enterprises - the electricity company and Andorra Telecom- are profitable, with self-financed investment strategies. However, reform of the pension system is needed to support the sustainability of the social safety net, as the latest actuarial study projects a depletion of the reserves fund by 2038. *Here, we invite staff to elaborate on measures needed to improve the long-term sustainability of the pension system.*

Going forward, we encourage the authorities to continue their effort to close the remaining data gaps and meet surveillance needs. We also encourage staff to provide support to the authorities in this area.

3. **Ensuring the continued soundness of the banking system should be a priority** given the large size of its consolidated assets and the banking sector's significant contribution to the economy and employment, with 20 percent of jobs are in finance and real estate. We note staff assessment that bank capital appears adequate to absorb the pandemic shock; however, the risks identified in staff report require immediate actions. Accordingly, we encourage the Andorran Financial Authority (AFA) to unwind excessive related-party exposures and to re-assess bank capitalization as loan and insolvency moratoria are lifted so that banks are in a position to support the recovery.

4. **Finally, we noticed that credit growth rates to the nonfinancial private sector were negative prior to the pandemic**, as set in Table 3, despite Andorra's economic growth rates that are higher than regional trend and its well-developed financial system. *We would appreciate staff further elaboration on the factors that contributed to the negative credit growth and staff policy recommendation to reverse the pre-crisis path, particularly as bank lending is expected to play an important role in supporting post-pandemic rebound?* Furthermore, we take positive note of the Andorran government's commitment to strengthen AML/CFT frameworks and encourage them to continue with this effort.

With these remarks, we wish the authorities further success.