

# Andorra

## Key Rating Drivers

**Double-Dip Economic Contraction:** Fitch Ratings expects that the disruption to the ski season in Andorra brought by the second wave of the coronavirus pandemic to deepen the recession in 2020 – with the economy plunging by 12.7% – and flatten the recovery this year with growth of 3.5%. The experience from the summer shows that Andorra's tourism sector has the potential to rebound quickly to its pre-pandemic levels once the pandemic subsides, but a slow rollout of the vaccine and uncertain evolution of the pandemic may delay the recovery.

**Contained Rise in Unemployment:** The rise in unemployment has been modest, despite the depth of the economic contraction. The unemployment rate rose to 3.3% as of 3Q20 compared with 1.4% a year before, contained in part by the extension of government short-term work allowances and the high share of foreign seasonal labour.

**Stronger-than-Expected Fiscal Performance:** With a fiscal deficit at 4% of GDP in 2020, Andorra's fiscal performance during the pandemic has been so far stronger than peers' and our expectations. Recovery in GDP growth and continued but shrinking fiscal support for the economy should result in the fiscal deficit narrowing to 2.4% of GDP in 2021 and 1.2% in 2022.

**Ample Fiscal Space:** Andorra's record of fiscal prudence underpins our confidence that as the pandemic shock subsides, its debt-to-GDP ratio will stabilise at around 48% of GDP (below the 'BBB' median of 52.9%) and return to a downwards trajectory over the medium term.

**High Domestic Financing Flexibility:** The sovereign's balance sheet is enhanced by a large stock of liquid assets in the social security sector, equivalent to 57% of GDP, and the central government's deposits at 6.2% of GDP. Andorra also has fairly high domestic financing flexibility, and demand from retail investors appears strong.

**Funding Diversification:** Progress on diversification has broadened Andorra's financing sources and will help to lengthen the average maturity of its debt. Following a loan contract with a foreign bank, the government made a private placement with two foreign banks, which is a step to Andorra's first Eurobond issuance planned for later this year.

**Andorra's IMF Membership:** Andorra's IMF membership will provide access to the Fund's financial resources, and should improve the transparency and quality of reported data. Technical assistance from the IMF could help to underpin a post-coronavirus pandemic economic recovery and address long-term sovereign credit challenges.

**Expected Weakening of Asset Quality:** The banks' size and lack of a lender-of-last-resort increases contingent liability risk. We expect an increase in impaired loans as asset quality remains sensitive to sectoral and single-name concentrations given the small size of the Andorran economy. The banks are adequately capitalized (CET1 ratio at 17.5%) and very liquid.

## Rating Sensitivities

**Economic Recovery:** Greater confidence in the outlook for a sustained recovery sufficient to place the public debt/GDP ratio on a faster downward path than our baseline forecasts would be credit-positive.

**Structural Improvements:** Improved resilience of the banking sector and associated vulnerabilities of the sovereign balance sheet, greater confidence in Andorra external position could lead to positive rating action.

**Prolonged Economic Shock, Failure to Stabilise Debt:** Severe economic weakness, for example, due to a longer and deeper-than-expected contraction in the tourism sector, or failure to stabilise the debt burden would exert negative pressure on the rating.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on [www.fitchratings.com](http://www.fitchratings.com).

## Ratings

### Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F2
Country Ceiling	A+

## Outlooks

Long-Term Foreign-Currency IDR Stable

## Rating Derivation

Component	Outcome
Sovereign Rating Model (SRM)	BBB+
Qualitative Overlay (QO)	0
Structural features	-1
Macroeconomic	+1
Public finances	0
External finances	0

Long-Term Foreign-Currency IDR BBB+

Source: Fitch Ratings

## Applicable Criteria

[Sovereign Rating Criteria \(October 2020\)](#)

[Country Ceilings \(July 2020\)](#)

## Related Research

[Fitch Affirms Andorra at 'BBB+'; Outlook Stable \(January 2021\)](#)

[Fitch Ratings 2021 Outlook: Western Europe Sovereigns \(December 2020\)](#)

[Global Economic Outlook \(December 2020\)](#)

[Andorra's IMF Membership Brings Funding Safety Net, Data Boost \(October 2020\)](#)

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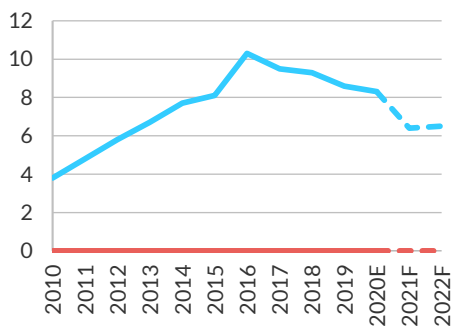
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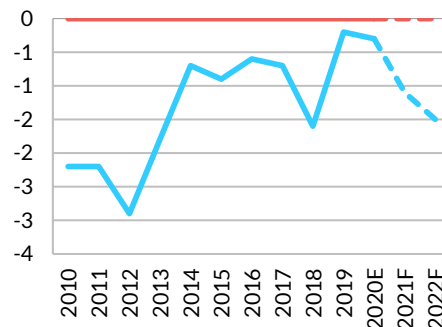
[gergely.kiss@fitchratings.com](mailto:gergely.kiss@fitchratings.com)

Peer Comparison

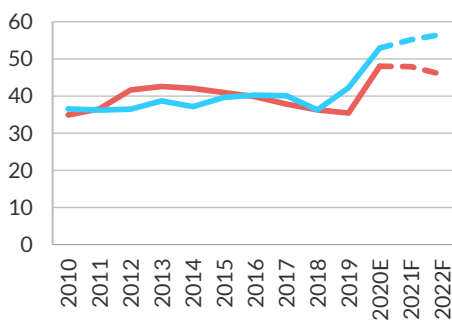
Net External Debt  
% of GDP



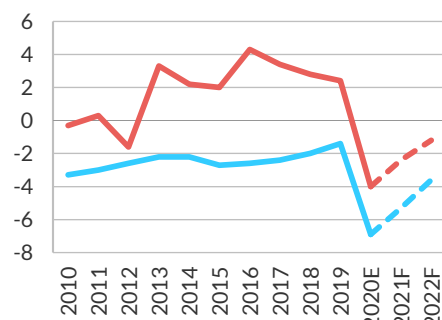
Current Account Balance  
% of GDP



General Government Debt  
% of GDP



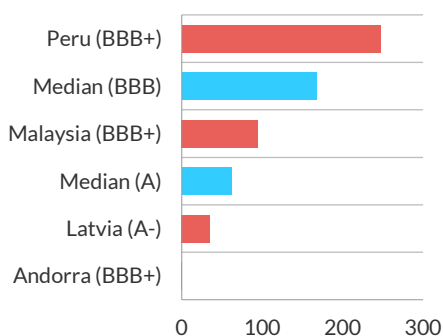
General Government Balance  
% of GDP



— Andorra

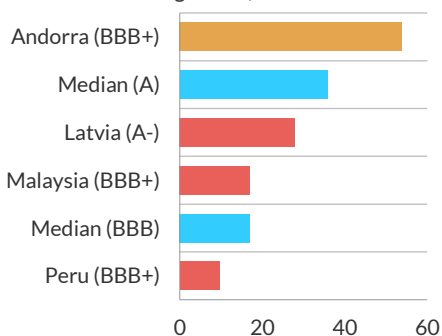
— Median (BBB)

International Liquidity Ratio, 2020  
%



GDP per capita Income, 2020

At market exchange rates, USA = 100



Note: Medians based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period  
Source: Fitch Ratings

Financial Data

Andorra	
(USDm)	2020
GDP	2,793.8
GDP per head (USD, 000)	33.7
Population (m)	0.1
International reserves	0.0
Net external debt (% GDP)	0.0
Central government total debt (% GDP)	44.3
CG foreign-currency debt	1,252.5
CG domestically issued debt (EURm)	1,089.6

Source: Fitch Ratings

## Rating Factors

### Strengths

- Andorra's credit profile is supported by high GDP-per-capita, at USD33,704 estimated for 2020, which is more than three times the 'BBB' median.
- Governance and human development indicators compare well to rating peers, more akin to 'A' and 'AA' medians than 'BBB'.
- Record of fiscal prudence, as reflected in the general government's average fiscal surplus of 1.9% of GDP between 2010 and 2019, which underpins Andorra's strong fiscal position.
- Relatively low gross general government debt (GGGD)-to-GDP at 35.4% of GDP before the pandemic, which is fully euro-denominated (Andorra's local currency).
- Large stock of liquid assets in the social security sector, equivalent to 57% of GDP, and the central government's cash deposits at 6.2% of GDP in 2020.
- Relatively high domestic financing flexibility, with bank holdings of government debt comprising 2%-3% of total banking-sector assets, which is reflected in a very low cost of debt (effective interest rate on debt at 0.9% in 2020).
- High flexibility in the labour market, supported by a large share of foreign seasonal workers.

### Weaknesses

- Very large banking sector (assets equivalent to 600% of GDP) that lacks a credible lender-of-last-resort, which makes the economy and the sovereign balance sheet vulnerable to a banking crisis.
- Small size of the economy and lack of economic diversification, with tourism, retail trade and financial services making 80% of the country's GVA.
- Elevated level of non-performing loans (8.0% as of 3Q20), reflective of high single-name and sectoral concentration of the banks' loan book.
- Gaps in macroeconomic and external data statistics, such as balance of payments and external debt statistics.
- Limited macroeconomic policy flexibility due to Andorra's euroized economy.
- Untested access to international financial markets and limited debt liquidity due to the economy's small size.
- Short average maturity of debt, at around 2.5 years, which implies high gross borrowing needs (around 30% of GDP in 2022).
- Long-term credit challenges, such as long-term sustainability of the pension system and low growth potential.

### Local-Currency Rating

Fitch has not assigned a Long-Term Local Currency IDR to Andorra. The monetary agreement with the EU allows Andorra to use the euro as its official currency. Andorra's government debt is entirely denominated in euros.

### Country Ceiling

The Country Ceiling for Andorra is 'A+', a three-notch uplift on the Long-Term IDR. This reflects the low likelihood of a formal or informal moratorium on private-sector external debt payments due to Andorra's use of the euro, good governance, trade relations with neighbouring Spain and France, and alignment of interests with the EU.

### Peer Group

Rating	Country
A-	Chile
	Latvia
	Poland
	Spain
BBB+	Andorra
	Malaysia
	Peru
	Thailand
BBB	Bulgaria
	Hungary
	Indonesia
	Kazakhstan
	Philippines
	Portugal
	Russia

### Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
31 Jul 20	BBB+	-
31 Jan 20	BBB+	-
2 Aug 19	BBB+	-
8 Feb 19	BBB+	-
17 Aug 18	BBB+	-
10 Aug 18	BBB+	-
16 Feb 18	BBB	-
18 Aug 17	BBB	-
24 Feb 17	BBB	-
2 Sep 16	BBB	-
11 Mar 16	BBB	-
11 Sep 15	BBB	-

## Strengths and Weaknesses: Comparative Analysis

2020	Andorra BBB+	BBB median <sup>a</sup>	A median <sup>a</sup>	Latvia A-	Malaysia BBB+	Peru BBB+
<b>Structural features</b>						
GDP per capita (USD, mkt exchange rates)	33,704	10,471	22,240	17,599	10,668	6,090
GNI per capita (PPP, USD, latest)	-	24,050	40,880	31,770	28,680	12,760
GDP (USDbn)	2.8			33.4	345.4	197.4
Human development index (percentile, latest)	81.3	67.3	82.0	80.8	67.0	57.9
Governance indicator (percentile, latest) <sup>b</sup>	91.4	58.4	76.0	75.1	63.8	48.4
Broad money (% GDP)	429.7	59.1	90.8	57.5	143.6	60.0
Default record (year cured) <sup>c</sup>	-	-	-	-	-	1997
Ease of doing business (percentile, latest)	-	70.7	83.0	90.5	94.2	60.4
Trade openness (avg. of CXR + CXP % GDP)	72.4	46.5	63.2	63.7	65.0	25.9
Gross domestic savings (% GDP)	-	22.7	27.2	21.8	26.1	19.0
Gross domestic investment (% GDP)	-	23.6	24.3	22.2	20.1	16.3
Private credit (% GDP)	286.4	56.9	72.3	34.9	132.3	47.9
Bank systemic risk indicators <sup>d</sup>	bbb / 2*			- / 1	bbb / 1	bbb / 1
Bank system capital ratio (% assets)	-	15.2	14.8	25.0	18.3	15.0
Foreign bank ownership (% assets)	-	30.0	46.0	-	22.3	-
Public bank ownership (% assets)	0.0	16.1	19.5	-	51.4	-
<b>Macroeconomic performance and policies</b>						
Real GDP (5yr average % change)	-1.0	3.6	4.1	1.3	2.6	0.1
Volatility of GDP (10yr rolling SD)	4.9	2.9	2.5	3.0	3.6	5.3
Consumer prices (5yr average)	0.9	3.7	2.5	1.7	1.3	2.4
Volatility of CPI (10yr rolling SD)	1.2	2.2	1.8	1.5	1.4	0.8
Unemployment rate (%)	3.6	7.6	6.4	8.2	4.4	11.8
Type of exchange-rate regime	No separate legal tender			Free floating	Floating	Floating
Dollarisation ratio (% of bank deposits)	100.0	20.8	10.3	-	8.5	27.9
REER volatility (10yr rolling SD)	-	5.0	5.1	1.0	4.5	3.5

Source: Fitch Ratings

Strengths and Weaknesses: Comparative Analysis (Continued)

2020	Andorra BBB+	BBB median <sup>a</sup>	A median <sup>a</sup>	Latvia A-	Malaysia BBB+	Peru BBB+
<b>Public finances<sup>e</sup></b>						
Budget balance (% GDP)	-4.0	-2.3	-2.2	-7.1	-6.0	-9.2
Primary balance (% GDP)	-3.5	-0.3	-0.4	-6.4	-3.4	-7.5
Gross debt (% revenue)	121.0	138.3	136.0	127.7	398.5	180.9
Gross debt (% GDP)	48.0	36.0	42.3	47.6	76.0	35.1
Net debt (% GDP)	41.6	30.2	37.5	39.0	69.2	25.5
Foreign currency debt (% total debt) <sup>f</sup>	100.0	34.6	10.8	8.9	2.3	38.9
Interest payments (% revenue)	1.3	6.9	4.7	1.9	13.3	9.2
Revenues and grants (% GDP)	39.6	30.5	35.9	37.3	19.1	18.2
Volatility of revenues/GDP ratio	9.9	6.1	5.4	1.8	10.7	8.9
Central govt. debt maturities (% GDP)	23.6	5.3	5.1	5.8	5.7	2.1
<b>External finances</b>						
Current account balance + net FDI (% GDP) <sup>g</sup>	0.0	0.5	2.4	3.6	4.4	2.2
Current account balance (% GDP) <sup>g</sup>	0.0	-1.8	0.9	1.7	4.2	-1.2
Net external debt (% GDP)	0.0	6.8	-9.6	19.0	-11.5	-26.6
Gross external debt (% CXR)	262.8	115.4	103.4	190.7	99.1	171.2
Gross sovereign external debt (% GXD)	6.8	31.2	16.6	53.4	32.1	55.3
Sovereign net foreign assets (% GDP)	-12.8	2.8	14.1	-1.2	9.0	12.1
Ext. interest service ratio (% CXR) <sup>h</sup>	4.4	4.3	2.3	0.9	2.2	6.0
Ext. debt service ratio (% CXR)	16.1	15.2	12.2	35.0	13.2	17.8
Foreign-exchange reserves (months of CXP)	0.0	5.0	4.4	3.3	5.8	16.0
Liquidity ratio (latest) <sup>i</sup>	0.0	151.2	114.3	35.0	94.8	246.9
Share of currency in global reserves (%)	0	0	0	21	0	0
Commodity export dependence (% CXR, latest)	0.6	20.1	10.6	25.2	25.4	69.5
Sovereign net foreign-currency debt (% GDP)	-	-6.6	-12.9	-13.1	-28.6	-24.2

<sup>a</sup> Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)

<sup>b</sup> Composite of six World Bank Worldwide Governance Indicators used in the Sovereign Rating Model: Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence

<sup>c</sup> No default history

<sup>d</sup> Bank systemic indicator, which equates to a weighted average Viability Rating; and macro-prudential indicator, with 1 'low' systemic risk through to 3 'high'

<sup>e</sup> General government unless stated

<sup>f</sup> Assumed to be 100% for dollarised economies

<sup>g</sup> Current account and FDI are assumed to be 0% of GDP (a conservative assumption, given that Andorra's tourism sector implies a structural current account surplus)

<sup>h</sup> External interest service is assumed to be the same as the 'BBB' median projections for the three-year average centred on 2020 (4.4% of current account receipts)

<sup>i</sup> Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year

Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)

Source: Fitch Ratings

## Key Credit Developments

### Double-Dip Economic Contraction Amid High Exposure to Tourism

Andorra's tourism-dependent economy was hit hard by the second wave of the pandemic across Europe that began in the autumn. The resurgence of coronavirus infections has led to mobility restrictions across EU national borders, effectively shutting tourist arrivals to Andorra during the lucrative ski season. Tourist arrivals recovered strongly after the initial outbreak of the pandemic subsided, reaching around 90% of 2019 levels in September, but the weak carry-over effect from 2020 and lost ski season means the average growth in 2021 will be quite weak. As a result, we expect the economy to contract by 12.7% in 2020 and recover with growth of only 3.5% in 2021. The recovery is set to continue in 2022, when we expect the economy to expand by 4.6%, but the level of real GDP will remain below its 2019 level by end-2022.

The rise in unemployment has been modest, despite the depth of the economic contraction. The unemployment rate rose to 3.3% as of 3Q20 compared with 1.4% a year before, contained in part by the extension of government short-term work allowances and the high share of foreign labour, especially seasonal workers in Andorra during the peaks of the tourist season.

The key risks to our projections are further unexpected pandemic developments and delayed rollout of vaccination programmes, not only in Andorra but also in neighbouring Spain and France, which may limit the recovery in tourist arrivals. As a non-EU country, Andorra remains susceptible to border restrictions with its EU neighbours. Risks also remain of second-round effects of the virus on corporate insolvencies and larger increases in unemployment.

As of mid-February, Andorra inoculated around 1,300 people, equal to 1.7% of the population, indicating slower progress than in EU countries, which vaccinated 3.1% of the entire population. The government plans to vaccinate the entire population (around 78,000 inhabitants) before the summer of this year. However, Andorra was unable to sign contracts with the pharmaceutical companies for direct vaccine delivery due to its small size. Instead, the government is sourcing it through its neighbours as well as the World Health Organization's (WHO) COVAX programme, which might cause delays in supply.

### Andorra's Public Finances Are More Resilient to the Pandemic Shock than Peers'

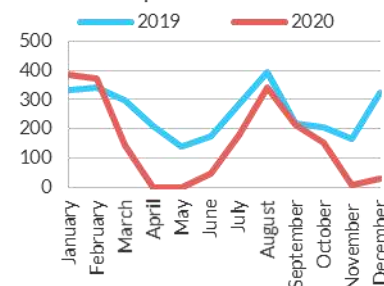
Andorra's fiscal performance in 2020 was stronger than peers' and our expectations. According to the government's estimates, the general government fiscal deficit was 4% of GDP in 2020, compared to the 'BBB' median of 6.9% and our previous forecast at 8% of GDP. Revenue benefited from pent-up demand for goods, boosting the tax receipts on foreign trade (taxes on foreign trade constitute around 23% of total non-financial revenue). Expenditure growth was limited, only 6% higher than in 2019, despite a sizeable fiscal stimulus package (around EUR90 million or 3.7% of GDP, excluding tax deferrals and loan guarantees), owing to reallocation from the capital to current spending. Recovery in GDP growth and continued but shrinking fiscal support for the economy in 2021 and 2022 should result in the fiscal deficit narrowing to 2.4% of GDP in 2021 and 1.2% of GDP in 2022.

Before the pandemic, Andorra maintained low and stable general government fiscal surpluses, which have averaged 1.9% of GDP since 2010. As a result, the GGGD burden at 35.4% of GDP in 2019 warranted ample fiscal space to effectively counter the effects of the pandemic on the Andorran economy. Andorra's GGGD-to-GDP rose to 48% in 2020, below the 'BBB' median of 52.9%, and we expect it to stabilise in 2021 before starting to fall gradually in 2022. Andorra's debt is fully euro-denominated.

In our projections, we assume crystallisation of around EUR27 million (1.1% of GDP) in contingent liabilities from the government's loan guarantee scheme (so-called soft loan programme), split equally between 2021 and 2022. The government has so far guaranteed EUR133 million (5.2% of GDP) of loans, out of the total EUR230 million available in the soft loan programme.

### Double-Dip in Tourism

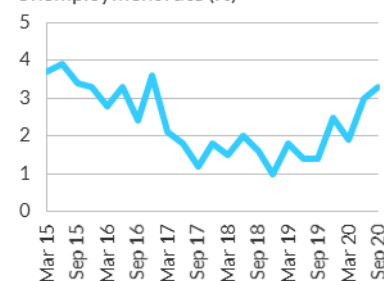
Thousands of persons



Source: Fitch Ratings, Statistics Andorra

### Modest Uptick in Unemployment

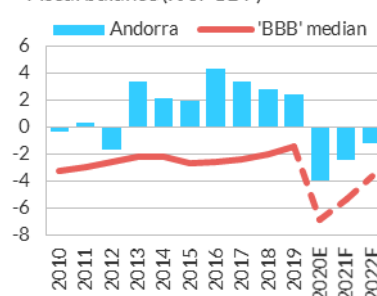
Unemployment rate (%)



Source: Fitch Ratings, Statistics Andorra

### Record of Fiscal Prudence

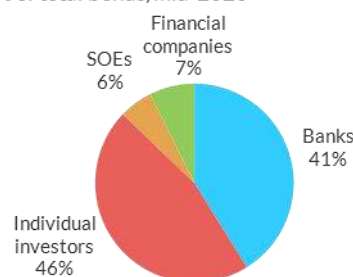
Fiscal balance (% of GDP)



Sources: Fitch Ratings, Statistics Andorra

### Deep Domestic Investor Base

% of total bonds, mid-2020



Source: Fitch Ratings, Ministry of Finance

### High Domestic Financing Flexibility and Funding Diversification Mitigate Refinancing Risks

Andorra's debt is relatively low, but its average maturity is very short, at around 2.5 years, implying very high financing needs (around 30% of GDP in 2022). However, Andorra has fairly high domestic financing flexibility; bank holdings of government debt are only 2%-3% of total banking-sector assets, and demand from domestic retail investors appears strong. The sovereign's balance sheet is enhanced by a large stock of liquid assets in the social security sector, equivalent to 57% of GDP as of November 2020, and the central government's deposits at 6.2% of GDP as of end-2020.

To further alleviate the challenges stemming from high financing needs and the narrow reliance on domestic financing sources, the government embarked on a funding-diversification strategy. Following a EUR100 million loan contract with a foreign bank (Crédit Agricole; A+/Negative), the government made a private placement of EUR200 million with two foreign banks (Crédit Agricole and Banco Santander, S.A.; A-/Negative). The demand for Andorra's bonds was strong, with nearly 100% oversubscription rate, which paves the way for Andorra's first Eurobond issuance planned for later this year. In addition, membership of the Council of Europe Development Bank (CEB; AA+/Stable) resulted in very favourable financing opportunities, and we expect further financing options to arise from the collaboration with European Investment Bank (EIB; AAA/Stable).

### Andorra's IMF Membership Brings Funding Safety Net, Data Boost

Andorra officially joined the IMF on 16 October 2020, gaining access to the Fund's financial resources and technical assistance, which could help underpin a post-coronavirus economic recovery and address Andorra's long-term credit challenges. Although we do not anticipate the Andorran government needing the IMF financing in the near term, the access to emergency financing mitigates the risks related to the lack of lender-of-last-resort for Andorra's large banking sector (around 600% of GDP).

We also expect IMF membership to help to address Andorra's key data gap by the development of the balance-of-payments and external-balance statistics. The dissemination of new statistics could significantly improve transparency and potentially increase Andorra's score in Fitch's Sovereign Rating Model (SRM), as we currently address the data gap by making conservative assumptions.

The increased external financing, while helping to diversify the financing sources and lengthen the debt maturity, has also led to a deterioration of sovereign net foreign asset (SNFA) position, projected at -20% of GDP in 2022, from a balanced position prior to the pandemic. We expect the increase in external financing to be partially offset by the payment of SDR82.5 million (equivalent to EUR97.8 million) in quota with the IMF, a condition the government committed to fulfilling by March 2021. That said, Andorra's external debt is fully euro-denominated.

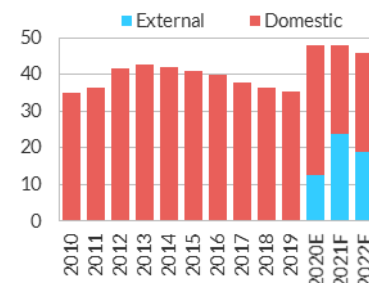
### Banks' Fundamentals Are Strong, but Risks to Asset Quality Are High Due to Tourism Dependence

The Andorran banking sector has adequate revenue and asset-quality headroom to withstand a deterioration in revenue and asset quality, although the economic fallout from the pandemic represents a medium-term risk to banks' ratings. The banking sector maintains satisfactory capital buffers above regulatory thresholds, with the phased-in common equity Tier 1 ratio at 17.5% as of 3Q20. There is a stable customer deposit base that comfortably funds the loan book (loan-to-deposit ratio at 55.3% as of 3Q20) and liquidity positions are conservatively managed (liquidity coverage ratio at 200% as of 3Q20).

Earnings held up well in 2020, with the sector posting an annualised net profit of EUR108 million, from EUR111 in 2019, supported by a rebound in asset prices and lower expenses. The non-performing loan ratio at 8.0% as of 3Q20 improved from 8.6% at the end-2019 but remains higher than peers. We expect an increase in impaired loans as the financial position of the Andorran borrowers is set to deteriorate in 2021 and asset quality remains sensitive to single-name and sector concentrations given the small size and structure of the Andorran economy. However, the sector's high loan impairment reserve coverages and the fairly high share of secured lending provide some cushion against a deterioration in asset quality.

### Funding Diversification into External Debt

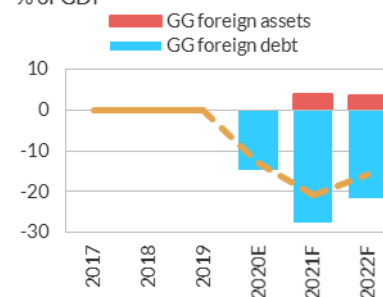
GG debt, % of GDP



Source: Fitch Ratings, Andorra Statistics

### Sovereign Net Foreign Assets

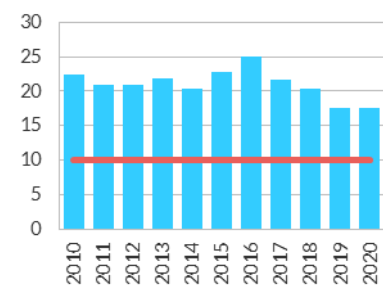
% of GDP



Source: Fitch Ratings, IMF

### Adequate Bank Capitalisation

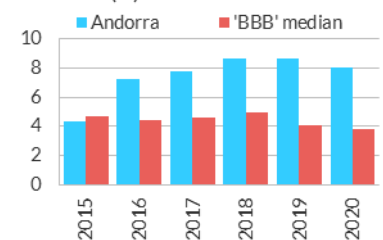
Banks' CAR Regulatory min.



Source: Fitch Ratings, Andorra Banking Association

### Low Asset Quality Compared to Peers

NPL ratio (%)



Source: Fitch Ratings, Andorra Banking Association

## Public Debt Dynamics

According to Fitch’s baseline projections, GGGD should stabilise at 48% of GDP in 2021 and start falling gradually from 2022. A failure to reduce the primary budget deficit, delayed economic recovery or an interest-rate shock of a magnitude of minimum 250 bp could individually cause the debt-to-GDP ratio to stabilise at a higher level.

Fitch uses stylised projections for a sovereign’s gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

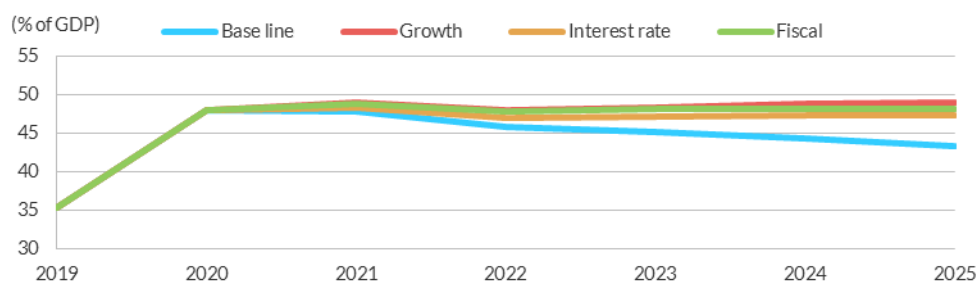
### Debt Dynamics: Fitch’s Baseline Assumptions

	2019	2020	2021	2022	2023	2024	2025
Gross general government debt (% of GDP)	35.4	48.0	47.9	45.8	45.1	44.3	43.3
Primary balance (% of GDP)	2.9	-3.5	-1.9	-0.6	0.0	0.5	1.0
Real GDP growth (%)	2.0	-12.7	3.5	4.6	2.0	1.5	1.0
Avg. nominal effective interest rate (%)	1.3	1.3	1.3	1.4	1.6	1.9	1.9
EUR/USD (annual avg.)	0.9	0.9	0.9	0.9	0.9	0.9	0.9
GDP deflator (%)	1.3	0.0	0.8	1.5	1.2	1.0	1.0

Source: Fitch Ratings

### Sensitivity Analysis

Gross general government debt



Source: Fitch Ratings debt dynamics model

### Debt Sensitivity Analysis: Fitch’s Scenario Assumptions

Growth	GDP growth 2.5% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Primary balance deficit 1% of GDP wider

Source: Fitch Ratings



## Forecast Summary

	2016	2017	2018	2019	2020E	2021F	2022F
<b>Macroeconomic indicators and policy</b>							
Real GDP growth (%)	3.7	0.3	1.6	2.0	-12.7	3.5	4.6
Unemployment (%)	3.0	1.7	1.5	1.8	3.6	3.8	2.9
Consumer prices (annual average % change)	-0.4	2.6	1.3	0.8	0.3	0.8	1.5
Short-term interest rate (bank policy annual avg) (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government balance (% of GDP)	4.3	3.4	2.8	2.4	-4.0	-2.4	-1.2
General government debt (% of GDP)	39.8	37.8	36.3	35.4	48.0	47.9	45.8
EUR per USD (annual average)	0.90	0.89	0.85	0.89	0.88	0.88	0.88
Real effective exchange rate (2000 = 100)	-	-	-	-	-	-	-
Real private-sector credit growth (%)	0.7	-7.4	-2.5	15.9	1.7	1.2	-1.0
<b>External finance</b>							
Current account balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance plus net FDI (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external debt (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external debt (% of CXR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official international reserves including gold (USDm)	-	-	-	-	-	95.8	95.8
Official international reserves (months of CXP cover)	0.0	0.0	0.0	0.0	0.0	0.6	0.5
External interest service (% of CXR)	5.5	4.7	4.3	4.0	4.4	4.4	2.6
Gross external financing requirement (% int. reserves) <sup>a</sup>	-	-	-	-	-	-	-1,120.8
<b>Real GDP growth (%)</b>							
US	1.7	2.3	3.0	2.2	-3.5	4.5	3.6
China	6.7	6.9	6.8	6.1	2.3	8.0	5.5
Eurozone	2.0	2.4	1.9	1.3	-7.6	4.7	4.4
World	2.6	3.4	3.2	2.6	-3.7	5.3	4.0
Oil (USD/barrel)	45.1	54.8	71.5	64.1	41.0	45.0	50.0

Source: Fitch Ratings

<sup>a</sup> Excludes amortisations

## Fiscal Accounts Summary

(% of GDP)	2017	2018	2019	2020E	2021F	2022F
<b>General government</b>						
Revenue	38.0	38.5	38.0	39.6	38.8	37.6
Expenditure	34.6	35.7	35.6	43.7	41.2	38.8
O/w interest payments	0.5	0.5	0.5	0.5	0.6	0.6
Primary balance	3.9	3.3	2.9	-3.5	-1.9	-0.6
Overall balance	3.4	2.8	2.4	-4.0	-2.4	-1.2
<b>General government debt<sup>a</sup></b>						
% of general government revenue	99.5	94.4	93.0	121.0	123.6	121.9
Central government deposits	0.8	1.0	0.8	6.3	6.1	5.7
Net general government debt	37.0	35.4	34.6	41.6	41.8	40.1
<b>Central government</b>						
Revenue	15.9	15.9	15.7	16.4	16.0	15.5
O/w grants	-	-	-	-	-	-
Expenditure and net lending	15.6	15.9	15.6	19.1	18.0	17.0
O/w current expenditure and transfers	13.9	14.3	13.6	17.3	16.1	15.1
- Interest	0.5	0.4	0.4	0.5	0.5	0.6
O/w capital expenditure	1.7	1.7	2.0	1.8	1.9	1.9
Current balance	2.1	1.6	1.7	-2.3	0.3	0.0
Primary balance	0.8	0.4	0.5	-2.2	-1.5	-0.9
Overall balance	0.3	-0.1	0.1	-2.7	-2.0	-1.5
Central government debt	34.3	33.2	32.7	44.3	44.2	42.3
% of central government revenues	215.4	209.1	208.2	270.8	276.6	272.9
<b>Central government debt (EURm)</b>						
By residency of holder						
Domestic	911.8	904.0	920.8	801.4	570.1	680.7
Foreign	0.0	0.0	0.0	288.2	565.3	473.0
By currency denomination						
Local currency	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency <sup>a</sup>	911.8	904.0	920.8	1,089.6	1,135.4	1,153.6
In USD equivalent (eop exchange rate)	1,093.5	1,035.1	1,034.4	1,252.5	1,305.1	1,326.0
Average maturity (years)	3.8	3.0	2.7	2.8	2.5	2.5
<b>Memo</b>						
Nominal GDP (EURm)	2,655.8	2,725.3	2,817.5	2,459.0	2,566.4	2,724.7

<sup>a</sup> Debt assumed to be 100% foreign-currency denominated for dollarised economies

Source: Fitch Ratings, Ministry of Finance

## External Debt and Assets

(USDm)	2015	2016	2017	2018	2019	2020
<b>Gross external debt</b>	<b>6,048.6</b>	<b>4,957.2</b>	<b>4,947.3</b>	<b>4,942.4</b>	<b>4,942.4</b>	<b>5,301.0</b>
% of GDP	216.9	171.3	165.3	153.6	156.7	189.7
% of CXR	267.8	195.5	163.6	147.7	153.6	262.8
<b>By maturity</b>						
Medium- and long-term	-	-	-	-	-	-
Short-term	-	-	-	-	-	-
% of total debt	0.0	0.0	0.0	0.0	0.0	0.0
<b>By debtor</b>						
<b>Sovereign</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>358.6</b>
Monetary authorities	-	-	-	-	-	-
General government	0.0	0.0	0.0	0.0	0.0	358.6
O/w central government	0.0	0.0	0.0	0.0	0.0	331.3
<b>Banks</b>	<b>6,048.6</b>	<b>4,957.2</b>	<b>4,947.3</b>	<b>4,942.4</b>	<b>4,942.4</b>	<b>4,942.4</b>
<b>Other sectors</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Gross external assets (non-equity)</b>						
International reserves, incl. gold	-	-	-	-	-	-
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	-	-	-	-	-	-
Other sector foreign assets	-	-	-	-	-	-
<b>Net external debt</b>						
% of GDP	0.0	0.0	0.0	0.0	0.0	0.0
Net sovereign external debt	0.0	0.0	0.0	0.0	0.0	358.6
Net bank external debt	-	-	-	-	-	-
Net other external debt	-	-	-	-	-	-
<b>Net international investment position</b>						
% of GDP	-	-	-	-	-	-
<b>Sovereign net foreign assets</b>						
% of GDP	0.0	0.0	0.0	0.0	0.0	-12.8
<b>Debt service (principal &amp; interest)</b>						
Debt service (% of CXR)	15.5	18.1	19.5	15.9	17.1	16.1
Interest (% of CXR)	4.5	5.5	4.7	4.3	4.0	4.4
Liquidity ratio (%)	0.0	0.0	0.0	0.1	0.1	0.1
Net sovereign FX debt (% of GDP)	-	-	-	-	-	-
<b>Memo</b>						
Nominal GDP	2,788.8	2,894.6	2,993.1	3,216.9	3,154.1	2,793.8
Inter-company loans	-	-	-	-	-	-

Source: Fitch Ratings, Central Bank, IMF, World Bank

## Balance of Payments

(USDm)	2017	2018	2019	2020E	2021F	2022F
<b>Current account balance</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
% of GDP	0.0	0.0	0.0	0.0	0.0	0.0
% of CXR	0.0	0.0	0.0	0.0	0.0	0.0
<b>Trade balance</b>	<b>-1,353.9</b>	<b>-1,483.0</b>	<b>-1,415.1</b>	<b>-1,326.1</b>	<b>-1,339.6</b>	<b>-1,365.4</b>
Exports, fob	119.7	132.5	127.4	163.0	179.3	199.1
Imports, fob	1,473.6	1,615.5	1,542.5	1,489.1	1,518.9	1,564.5
<b>Services, net</b>	<b>2,363.6</b>	<b>2,621.8</b>	<b>2,524.6</b>	<b>1,316.7</b>	<b>1,949.6</b>	<b>2,439.2</b>
Services, credit	2,904.1	3,214.4	3,090.5	1,854.3	2,503.3	3,004.0
Services, debit	540.6	592.6	565.9	537.6	553.7	564.8
<b>Income, net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Income, credit	-	-	-	-	-	-
Income, debit	-	-	-	-	-	-
O/w: Interest payments	-	-	-	-	-	-
<b>Current transfers, net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital and financial accounts</b>						
Non-debt-creating inflows (net)	-	-	-	-	-	-
O/w equity FDI	185.5	325.1	379.7	387.3	395.1	397.0
O/w portfolio equity	0.0	0.0	0.0	0.0	0.0	0.0
O/w other flows	-	-	-	-	-	-
Change in reserves	-	-	-	-	-	-
<b>Gross external financing requirement<sup>a</sup></b>	<b>-1,009.7</b>	<b>-1,138.7</b>	<b>-1,109.5</b>	<b>9.4</b>	<b>-610.0</b>	<b>-1,073.8</b>
<b>Stock of international reserves, incl. gold</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95.8</b>	<b>95.8</b>

Source: Fitch Ratings, IMF

<sup>a</sup> Excludes amortisations

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