

Small States Economic Development

Andorra

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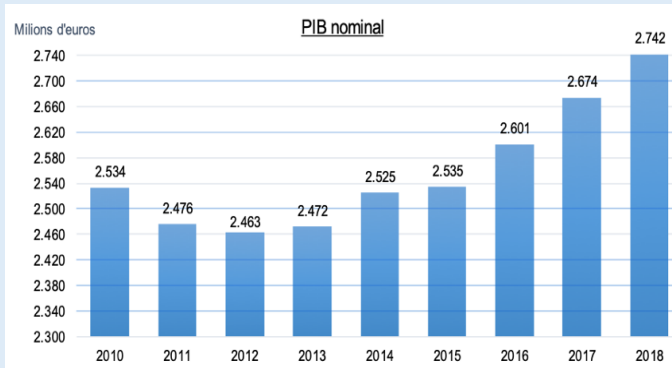
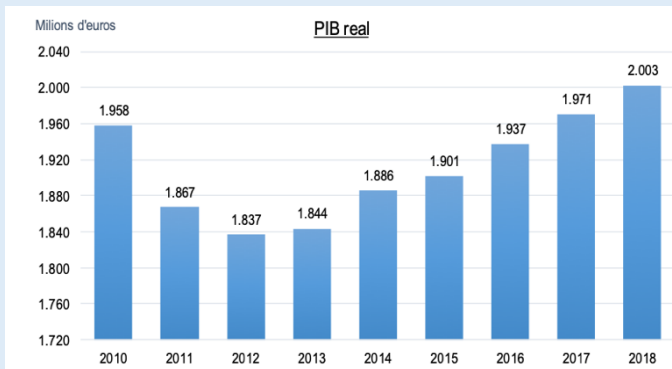
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Economic Development– Historical Background

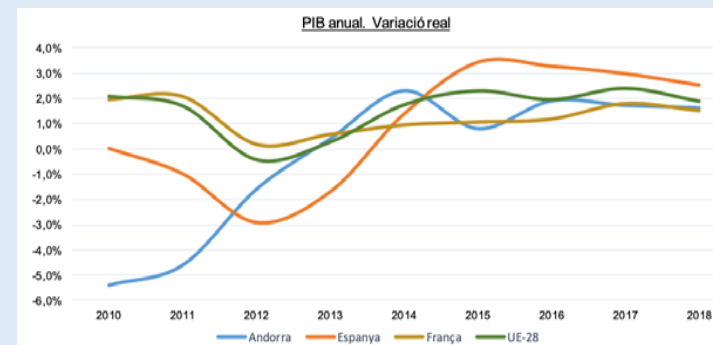
Before XX century	<ul style="list-style-type: none"> <input type="checkbox"/> Exploitation of agriculture and livestock and other natural resources
First third of the XX century	<ul style="list-style-type: none"> • Dramatic transformation of the economy (unsustainability of the old forms of production)
Last decades XX century	<ul style="list-style-type: none"> <input type="checkbox"/> Period of growth and consolidation of an economy based on trade, tourism and financial sector
March 14, 1993	<ul style="list-style-type: none"> • Adoption Constitution → sovereign and independent state + strengthens international relations
2000 - 2016	<ul style="list-style-type: none"> • Approach to Europe and homologation of international standards in different matters
XIX century	<ul style="list-style-type: none"> <input type="checkbox"/> Towards a new economic model • Actions: economic openness, direct taxation and homologation of international standards • Model based on attractive tax, legal certainty, institutional stability, high quality of life and a polyglot population well prepared • Development of clusters of innovation, health & wellness, education and sport
Since 2015	<ul style="list-style-type: none"> • The Principality is negotiation an Association Agreement with the EU
January 2020	<ul style="list-style-type: none"> • International Monetary Fund (IMF) membership application with a target of joining in 2021

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Economic Development– Historical Background



- **Moderate growth** in recent years, bringing GDP close to pre-crisis levels
- **Nominal GDP** amounted € 2.742 million / **real GDP** €2.002,8 million (2018)
- **Slower rate** than its **neighboring economies** (Spain and France)
- In 2018 real GDP has **grown** for the **sixth consecutive year** (1.6% in real terms)
 - Demand side - consumption and investment indicators modestly positive;
 - Supply side - economic growth led by services and construction + lack of dynamism in industrial and primary sectors
- The vast majority of **activity and demand indicators** have been **positive**

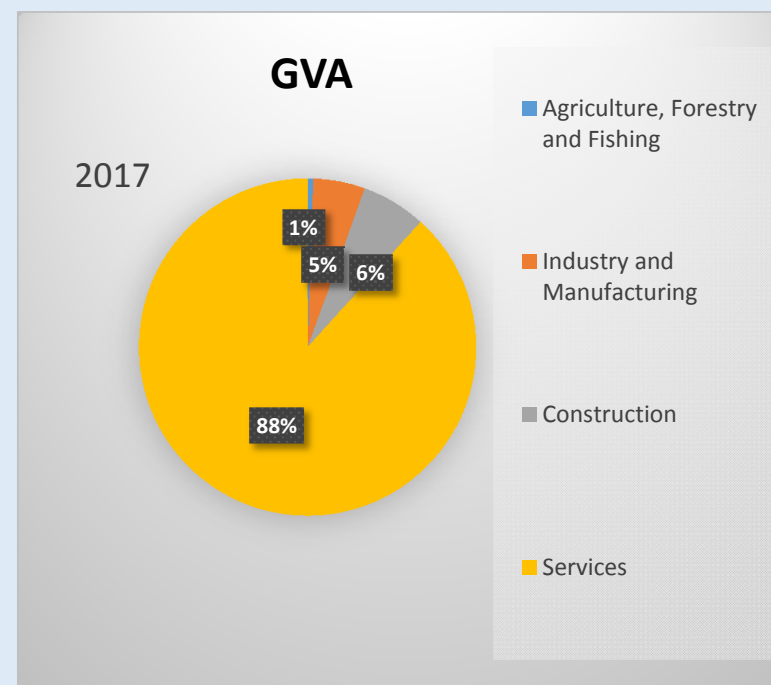


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Economic Development– Historical Background

- **Primary sector** is the sector with less impact (represents 0,5% of the GVA)
- The worst behavior has been in **industry and manufacturing** (reduction in real GVA of 0,7%)
- **Services** (88% of GVA) and **construction** (6% of GVA) have boosted Andorran economic growth

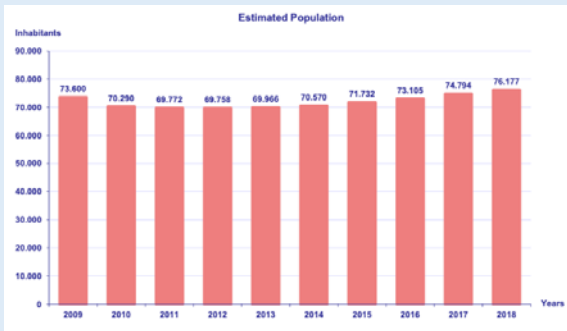
- The financial sector (mainly banking and insurance sectors) - most important service sector of the economy representing 19,6% of the GVA of Andorra (2017)
- The commercial sector - constitutes one of the pillars of the country's economy, representing a GVA of 16,3% (2017)
- The hotel and catering sector - fundamental since 2014 to explain the improvement of the economic situation of Andorra. It represents 8,4% of Andorran GVA (2017)
- The transports and communications sector - less relevant in terms of GVA (1,8% in 2017)



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Economic Development– Country overview

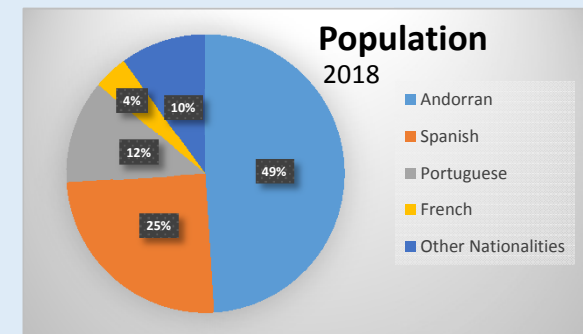
Labor Market



Registered population^[1] was 82.094 and its

Estimated population^[2] 77.457 in 2018

- **estimated population by nationalities:** 49% Andorran, 25% Spanish, 12% Portuguese, 4% French and 10% other nationalities (out of the 73.105 population in 2018)



- **Number of foreigners** - reflected in the increase of immigration permits, 49.659 in December 2018, 3,2% higher than in 2017
- **Labor market** - positive evolution during the last years
- **Number of employees** - growing for 5 consecutive years, with 38.848 employees (2018)
- **Unemployment rate** - 2% in 2018 (929 people), lower than neighboring countries, with a clear systemic downward trend. It has decreased from 2013 to 2018 in an average of 4,3%.
- **Minimum wage** in 2018 was 1.017 which has been increased in 2019 to 1.050€.
- **Estimated monthly compensation** - €1,781.42 net, average of 39.7 hours weekly work (2018)

➔ **Good
behaviour of
labour market**

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Economic Development– Country overview

Levels of inequality/poverty

• **12.8%** of the Andorran population was at **risk of poverty** in 2018, lower than in neighboring countries (Spain 21,5% and France 13,4%)

Government-managed social benefits allow the **reduction of the poverty risk rate by 30%** (higher percentage than that of Spain and EU average)

Proportion of **households with a heavy burden on excessive housing costs** is much higher in Andorra than in the EU → excessive weight in housing costs (14.5%) → **nuclear problem**

Public sector's budget for the financial year 2020 is 1,093 million euros → **56% of the total budget** (more than €600 million) **targets social policies**

Educational performance

	2012	2013	2014	2015	2016	2017	2018
Despesa pública en educació *	92,5	93,2	96,1	94,6	99,7	99,3	101,9
% sobre PIB	3,8%	3,8%	3,8%	3,7%	3,8%	3,7%	3,7%

*: milions d'euros **: sense actius ni passius financers

Capítols	Any 2017	Any 2018	Variació absoluta	Variació percentual
Total Despesa Andorra	69.012.697 €	70.478.557 €	1.465.861 €	2,1%
Total aportació Espanya i França	30.241.000 €	31.412.000 €	1.171.000 €	3,9%
Total Despesa Educació	99.253.697 €	101.890.557 €	2.636.861 €	2,7%

Public spending on education represents 3,7% GDP (€101,9 million)

- Expenditure **Ministry of Education** (schools) + **University of Andorra** in 2018 → €70,5 million (2,1% higher than in 2017).
- Main annual increase in spending in professional training (+7,9%), secondary education (+5,8%) and high school (+4,7). Negative variation in the tertiary education (-0,3%).
- **Contributions made by Spain and France** to their educational systems established in the Principality, €31.4 million in 2018 (3,9% higher than in 2017)

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Economic Development– Well-being

Well-being and security

Andorra ranks 5th in the world ranking as one of the **safest countries** in terms of political stability and level of security (World Bank, 2018).

The Principality is one of the countries in the world with **less crime per inhabitant** (United Nations Office on Drugs and Crime).

Health Status

One of the **best health systems** in the European Union + top positions of the countries with the **highest life expectancy**.

Ranked 4th in terms of **healthcare efficiency** the UN General Assembly on universal health coverage (2019).

Lancet **Health Care Access and Quality** Index (HAC) Andorra ranked 1st in the world (2017).

Environmental quality

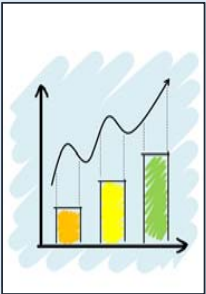
Peaceful, secure and healthy environment > protected environment, unique natural surroundings, optimal quality of air.

Around **95% of the country** is preserved in the **natural environment** and is left intact.

International observers have positioned Andorra for several years in top positions in rankings of attractive places in the world to set up a residency.

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Economic Development: Challenges ahead



- ❖ Development of a sustainable **economic development model**
 - Requires a stable legal framework, with a simple and unobtrusive administration
 - Need to decrease the economy's reliance on a few industries – financial sector, commerce and tourism
 - Need to enhance the quality of its tourism and to strengthen the retail trade sector (pillars of the economy)



- ❖ Urgent challenge - reactivate the **housing market** and increase the supply of housing
 - The lack of affordable housing and the consequent rise in prices is a real social emergency in our country

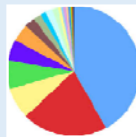


- ❖ Negotiation of the **Association Agreement** → create the legal framework needed to strengthen the traditional sectors of the Andorran economy and at the same time attract new opportunities and economic activities
 - Ex. preferential treatment of tobacco to 30 years that the EU and Andorra have agreed on in the process of customs integration)

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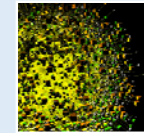
Economic Development: Current Strategies and Policies

Andorra's **five strategic economic priorities** during the following years



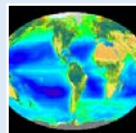
-Influence the diversification of the economy through economic diplomacy

-Development of an innovation ecosystem in the country



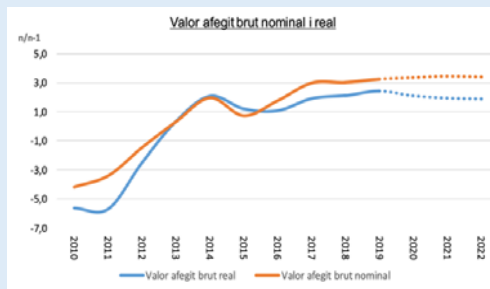
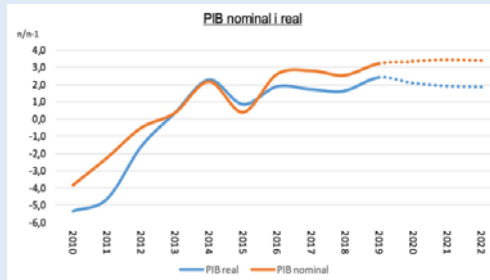
-Administrative simplification of the Economic Registry processes (ensure that investors remain in the country and attract new investors)

-Promotion of sustainable mobility (this element should become an asset for the country in terms of mobility, quality of life and tourism)



-Articulation of Andorra's candidacy as the first world reserve country of the biosphere.

Small States Economic Development: Forecast



Moderate economic forecast growth

Evolution of the labor market

2019	2,8%
2020	2,4%
2021	2,0%
2022	1,7%
2023	1,4%

Unity: interannual variation rate (%)

Favourable evolution of labour market, but a slight annual decrease of job creation during the following years

Evolution of the Government deficit

2019	-16.959.963
2020	-23.997.607
2021	-22.267.480
2022	-20.003.984
2023	-19.178.099

Unity: interannual variation rate (%)

Decrease of budgetary deficit

Positive and favorable economic and fiscal forecast

Improvement of public finances, political stability and wealth...



...but Andorra's small economy, risks associated with a large banking sector and weak economic data availability and frequency or an international crisis could change the positive forecasts.