Global Credit Portal
RatingsDirect®

August 13, 2010

Andorra (Principality of)

Primary Credit Analyst:
Trevor Cullinan, London (44) 20-7176-7110; trevor_cullinan@standardandpoors.com

Secondary Credit Analyst:
Marko Mrsnik, Madrid +34 913 896 953; marko_mrsnik@standardandpoors.com

Table Of Contents

Andorra (Principality of)

Major Rating Factors

Sovereign Credit Rating
A/Negative/A-1

Strengths:

- A wealthy economy.
- A stable political and institutional framework.

Weaknesses:

- A narrow economy vulnerable to external shocks.
- Significant focus on tourism-related activities.
- The potential risks posed by the size of Andorra's banking sector, which is large relative to the economy.

Rationale

The ratings on the Principality of Andorra are supported by its stable political institutions and relatively prosperous economy, with GDP per capita estimated at $45,000 in 2010.

Meanwhile, Standard & Poor's Ratings Services views Andorra's level of gross general government debt as a percentage of government revenues as high. In addition, we believe Andorra's economic model would face significant challenges if the government attempts to change its low tax regime to further increase revenues.

In our opinion, this economic model is already coming under considerable pressure due to the Principality's narrow economic base and, in particular, the weakness in the tourism-related commercial sector. We also see the Principality's sizable banking system as posing a significant contingent liability for the government.

We expect the general government's gross debt burden as a percentage of revenues to rise toward 300% by 2012, compared with around 120% for the 'A' median. The government is in the process of implementing a modest broadening of the tax base, by consolidating various indirect taxes into one VAT rate and introducing direct corporate tax on Andorran professionals, corporate entities, and nonresident income. In our view, however, further tax revenue-boosting measures would pose a significant challenge to Andorra's economic structure, which is focused to a significant extent on the attractiveness of its low-tax regime. We expect the general government deficit to average 3% of GDP in 2010-2012, similar to the level in 2007-2009. Central government debt consists of loan facilities with domestic banks, around 60% of which is short term.

The tourism-related commercial sector is the main contributor to economic growth. However, the number of visitors to Andorra has been broadly flat in the past decade (negative 0.1% year-on-year) and has fallen by 5% over the past five years. In our opinion, this sector continues to face significant competitiveness challenges. As a result, the Principality's economic growth prospects are likely to remain weak compared with the peer group. This situation is likely to be further exacerbated by our expectation that Andorra's main trade partner and the source of around 60% of tourist arrivals, Spain (AA/Negative/A-1+), will itself experience a prolonged period of weak economic growth.

In our opinion, the Andorran banking system remains robust, and is characterized by sound capitalization and prudent management practices. Nevertheless, the sector is large relative to the size of the economy (the bank's manage assets worth around 500% of GDP), and poses a significant contingent liability to the government in the event of distress in the financial sector. Only one of the five banks is foreign owned, by Banco de Sabadell S.A. (A/Negative/A-1).

Outlook

The negative outlook reflects our opinion of the government's rising debt burden as a percentage of government revenues and our projections for further general government deficits of around 3% of GDP in the medium term. The ratings could come under further downward pressure if fiscal indicators deteriorate beyond our current expectations, which would be an increasingly likely scenario if tourist arrivals continue to follow a declining trend.

Conversely, we could revise the outlook to stable if we consider that the weaknesses in Andorra's economic structure and growth prospects have been appropriately addressed, leading to sustainable growth in tourism arrivals and improved fiscal indicators.

Table 1

Principality of Andorra Selected Indicators

	2005	2006	2007	2008	2009	2010e	2011f	2012f	2012f	Median A
GDP per capita ($)	40,650.9	43,126.6	47,699.9	49,108.9	45,498.1	45,156.7	48,118.7	51,153.1	51,153.1	19,357.0
Real GDP (% change)	6.5	5.7	(0.1)	(4.3)	(2.9)	(1.2)	(0.2)	0.4	0.4	3.0
Real GDP per capita (% change)	4.3	2.1	(2.4)	(5.8)	(2.5)	(0.8)	(0.2)	(0.0)	(0.0)	1.8
General government balance (% of GDP)	(0.5)	(1.8)	(2.3)	(3.3)	(3.6)	(3.6)	(3.1)	(2.7)	(2.7)	(3.5)
General government debt (% of GDP)	14.7	16.4	20.0	26.4	31.3	35.4	38.5	40.7	40.7	37.6
Net general government debt (% of GDP)	(10.8)	(9.2)	(6.0)	1.2	3.1	6.7	9.7	12.2	12.2	24.8
General government interest exp. (% of revenues)	2.2	3.0	4.9	7.8	5.9	7.5	9.2	10.6	10.6	6.5
Domestic credit to private sector & NFPEs* (% of GDP)	187.3	203.0	223.6	247.9	250.4	249.3	250.4	250.8	250.8	87.3
Consumer price index (average; % change)	3.1	3.2	3.9	2.0	0.0	0.8	1.5	1.6	1.6	2.5

*Standard & Poor's estimates that, in a reasonable worst-case economic downturn, gross problematic assets could reach x-y% of domestic credit to the private sector and NFPEs; see "Banking Industry Country Risk Assessments", published monthly on RatingsDirect. ¶Gross external financing needs are defined as current account outflows plus short-term debt by remaining maturity. §Narrow net external debt is defined as the stock of foreign and local currency public and private sector borrowings from nonresidents (including nonresident deposits in resident banks) minus liquid nonequity external assets, which include official foreign exchange reserves, other liquid public sector foreign assets, and financial institutions' deposits with and lending to nonresidents. A negative number indicates net external lending. f--Forecast. e--Estimate. NFPEs--Nonfinancial public sector enterprises.

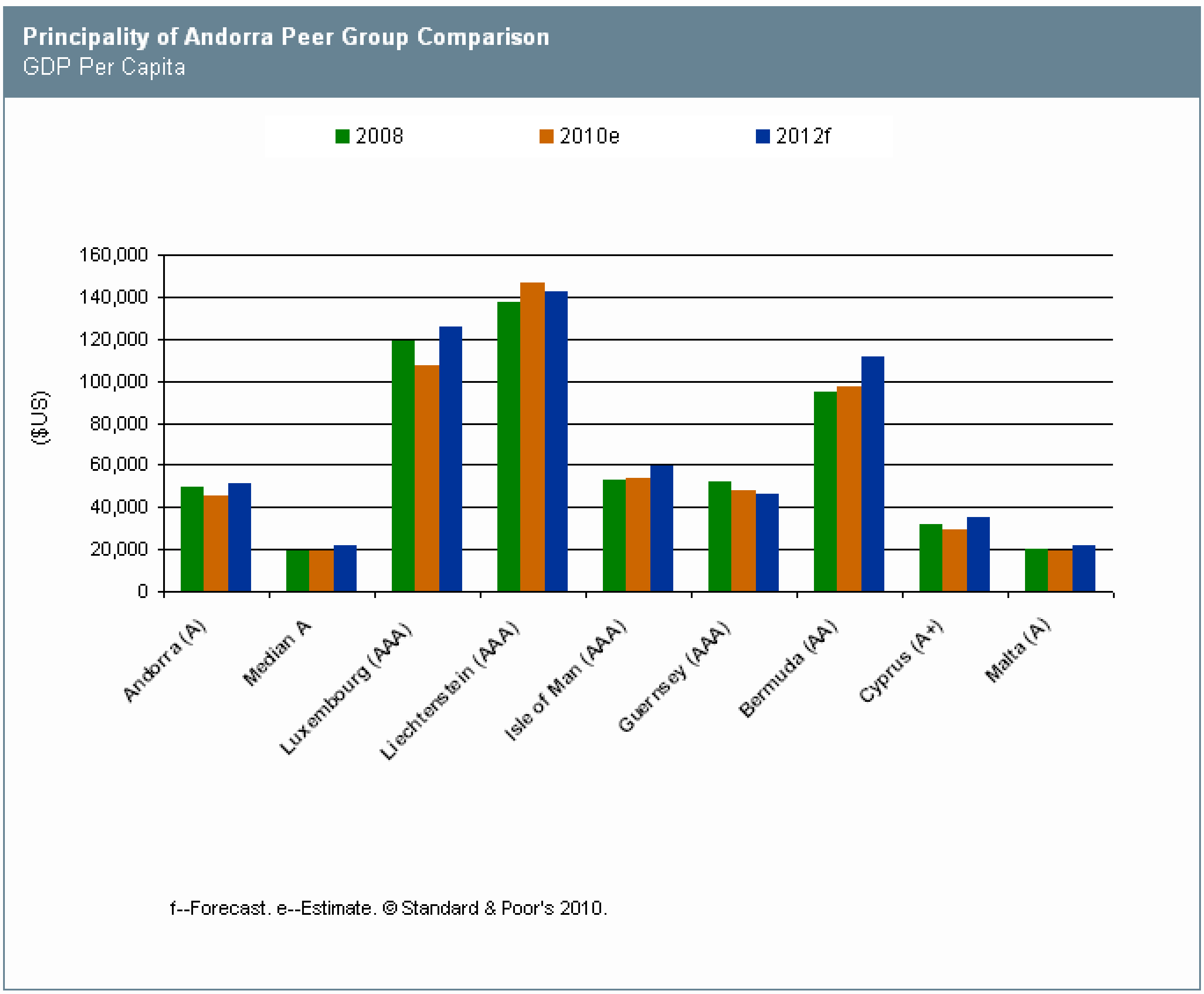
Comparative Analysis

- Andorra's small economy has a relatively high level of prosperity compared with the 'A' rating median.
- Andorra's economy is less diversified than that of most peers.
- Andorra's net debtor position compares unfavorably with most of the peer group.

Andorra's economy is comparable with that of other small jurisdictions, such as the Grand Duchy of Luxembourg and the Principality of Liechtenstein (both rated foreign currency AAA/Stable/A-1+; all ratings hereafter refer to foreign currency sovereign credit ratings). The higher long-term ratings on these sovereigns reflect greater prosperity and more diversified economies. Andorra can also be compared with the Isle of Man (AAA/Stable/A-1+) Guernsey (AAA/Stable/A-1+), Bermuda (AA/Negative/A-1+) and the Republic of Cyprus (A+/Watch Neg/A-1), which are also small, open economies with sizable financial sectors. The Republic of Malta is also a useful comparator (A/Stable/A-1).

Andorra has a high GDP per capita, projected at $45,000 in 2010, which is considerably higher than the 'A' rating median ($19,400) (see chart 1). However, this compares unfavorably with peers like Luxembourg and Lichtenstein, which are some of the wealthiest economies in the rated universe.

Chart 1



Foreign exchange-linked currency regimes limit economic flexibility

All members of the peer group are in currency union arrangements, which, in our view, provide support to trade and inflation stability. With no control over monetary affairs or the exchange rate, which in other circumstances could be employed to cushion external shocks, pressure is placed on the peer group to pursue conservative fiscal policies to provide a buffer against such shocks.

From Jan. 1, 2002, the euro replaced Spanish and French banknotes and coins in circulation in Andorra, which had been used as the de facto currency up until that point. As of May 2004, the Council of the European Union decided that Andorra would be entitled to use the euro as its official currency but not to issue any banknotes or coins. As a result, Andorra benefits from the macroeconomic stability within the eurozone without currently being a member of either the European Union (EU) or European Economic & Monetary Union (EMU). Among the peer group Cyprus, Luxembourg, and Malta are all EMU members. Bermuda operates a fixed exchange rate with the Bermudan dollar freely exchanged at a 1:1 ratio for U.S. dollars.

Liechtenstein's economic and monetary union with Switzerland is similar to Guernsey and the Isle of Man's economic relationship with the U.K. in that both arrangements help underpin macroeconomic stability. In political and constitutional terms, however, the relationships differ. Liechtenstein is entirely autonomous (Switzerland holds no governing authority over the Principality), whereas Guernsey and the Isle of Man are Crown dependencies of the U.K. Moreover, Liechtenstein's exporters face currency risk, as its exports to the U.S. and the eurozone exceed those to Switzerland. By contrast, currency risk in the Isle of Man and Guernsey is negligible, as the vast majority of their exports are destined for the U.K.

Wealthy, but narrowly focused economy with weak growth prospects

None of the sovereigns in the peer group have a population of more than one million (see chart 2) and all are constrained by their lack of natural resources. As a result, these economies have specialized in the tourism and financial sectors, and in some cases both. In Andorra, although it has a very large banking sector in comparison with the size of the economy (around 500% of GDP), the main source of economic growth in the Principality relates to tourism focused around the ski-season of December-March each year. In our opinion, the narrow focus of the economy, and the lack of growth in this sector during the past decade is a significant credit weakness. The real GDP growth trend in Andorra compares unfavorably with the 'A' rating median and the peer group, both in the recent past and during the forecast period (see chart 3).

Chart 2

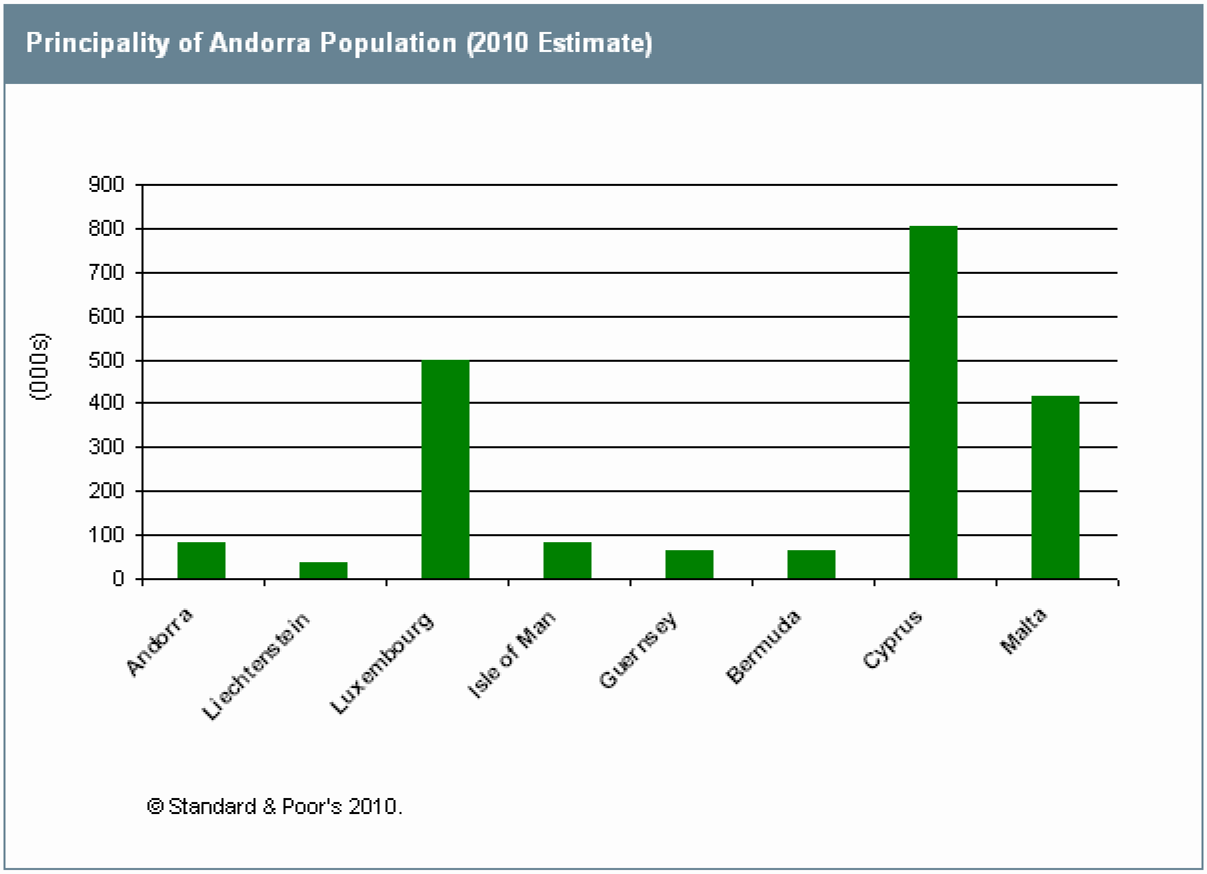
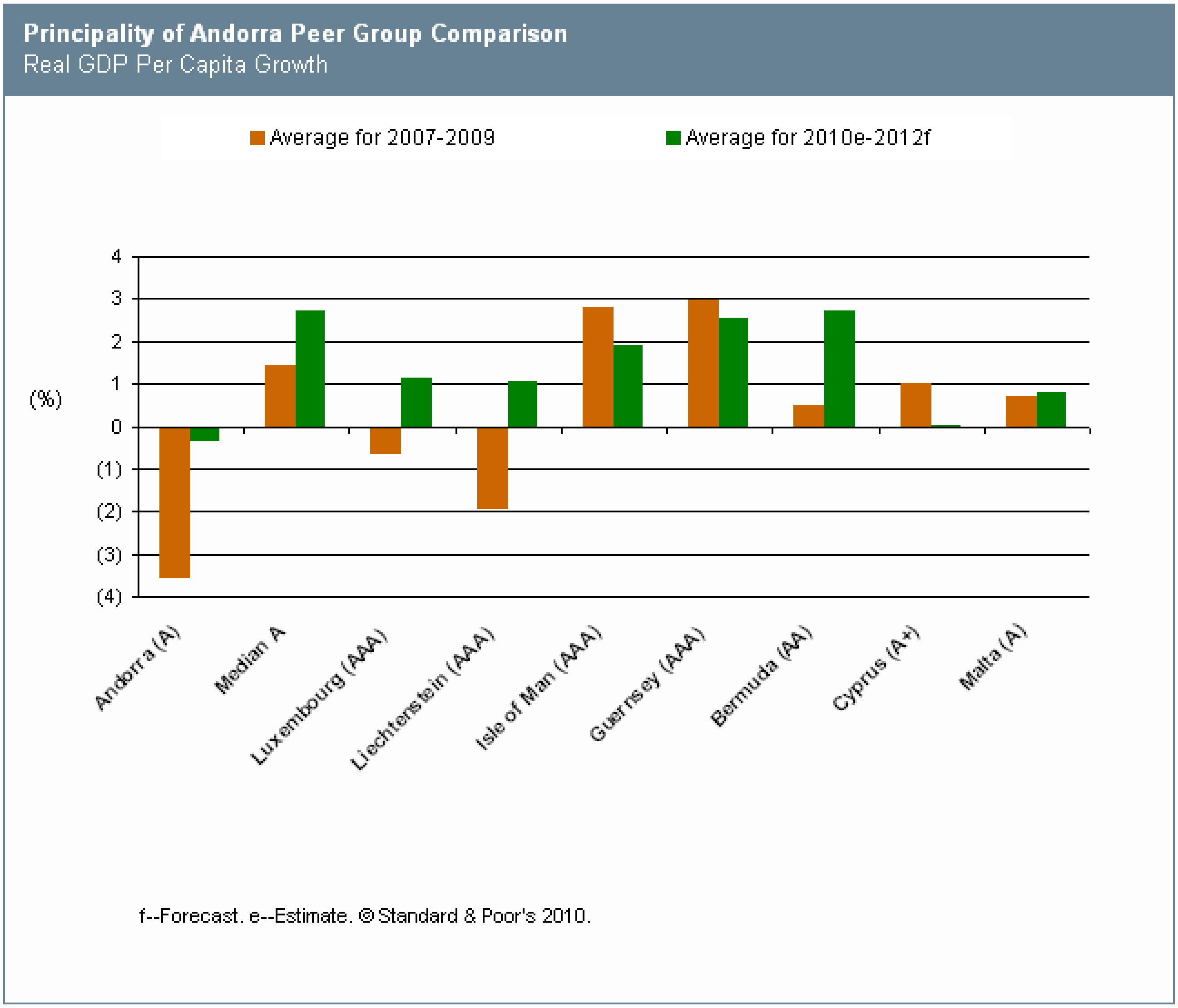

Principality of Andorra Population (2010 Estimate)
(000s)
900
800
700
600
500
400
300
200
100
0
Andorra
Liechtenstein
Luxembourg
Isle of Man
Guernsey
Bermuda
Cyprus
Malta
© Standard & Poor's 2010.

Chart 3



In our view, most of the peer group do not provide national accounts data to international standards. As a result, even more caution than usual should be exercised when interpreting their statistical output. Notwithstanding this caveat, we view most of the peer group as having relatively stronger economic structures and growth prospects than Andorra.

The Bermudan economy is facing less demand for its relatively expensive tourism offer as a result of the global economic downturn. The narrow geographical focus of tourist arrivals is a common weakness among these sovereigns. For Bermuda, around 70% of air arrivals come from the United States (AAA/Stable/A-1+). In terms of tourists to Andorra, around 57% enter through the Spanish border and 40% cross over from France. Meanwhile, in Cyprus, more than 50% of tourists come from the U.K. However, Cyprus does not suffer the same vagaries with regard to the weather as experienced in Andorra where a poor snowfall can have a significant impact on tourism. Nevertheless, the Cypriot tourism sector is experiencing strong competition from more cost competitive destinations and is suffering from the economic downturn in Western Europe.

More significant for the Bermudan economy, however, is its importance as an operating base for the international insurance and reinsurance industry. Some estimates suggest that Bermudan reinsurers account for around 36% of the global reinsurance market based on property/casualty net premiums earned. In our opinion, this sector provides significant wealth and economic diversification to the economy. In Andorra, the large banking system to a great extent provides services to the Spanish province of Catalonia, which we expect to experience weak growth prospects in the coming years, along with the rest of Spain, whereas the Bermudan insurance sector provides services to global clients. The Cypriot economy is also a useful comparator in this respect as it attempts, with some success to provide financial and business services to its Middle Eastern neighbors, acting as a bridge between that region and Western Europe.

Further Challenge To Economic Model From International Scrutiny

Most sovereigns in the peer group have competitive tax regimes to attract individuals and corporations to their jurisdictions (see table 2). Andorra's favorable tax system is broadly characterized by low indirect taxes and very limited, albeit increasing, direct taxation.

Table 2

Small European Sovereigns: 2010 Highest Band Tax Rates

(%)	Andorra	Liechtenstein	Luxembourg	Isle of Man	Guernsey	Bermuda	Cyprus	Malta
VAT	5.0	7.6	15.0	17.5*	0.0	0.0	15.0	18.0
Personal income tax (central government tax only)	0.0	17.0	39.0	18.0	20.0	16.0¶	30.0	35.0
Corporate income tax (central government tax only)	10.0	20.0	22.9	0.0-10.0	0.0-10.0	0.0¶	10.0	35.0

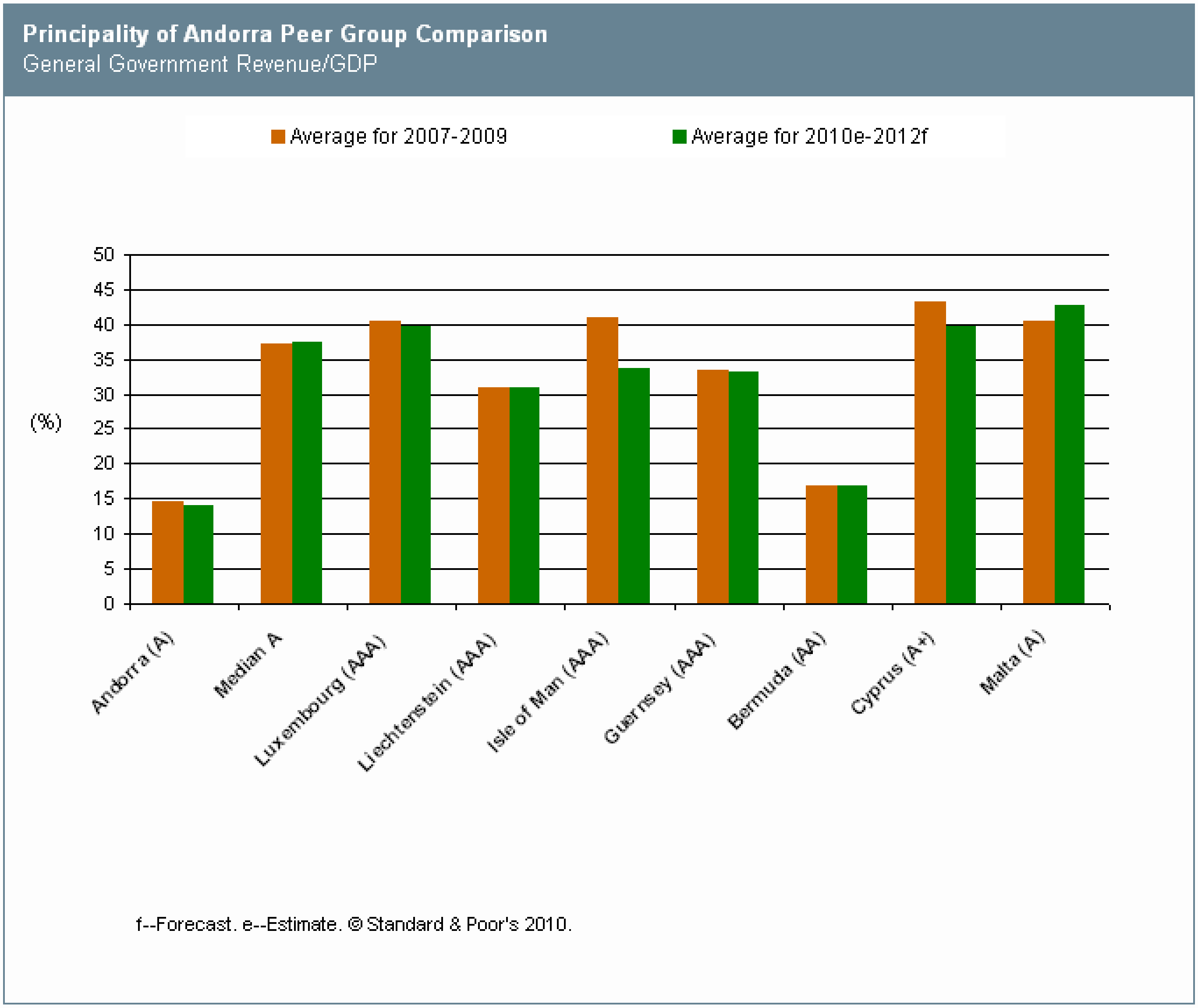
*To be increased to 20% in January 2011 in accordance with U.K. rate. ¶Payroll tax on wage income. Bermuda also has a revenue tax (4%) charged on local providers of corporate services to foreign companies.

However, some of these tax systems are being reformed in order to regularize their relations with the international community (see the fiscal section below). Meanwhile, Guernsey and Jersey (not rated) are implementing "zero-ten" corporate tax structures, similar to that in the Isle of Man, whereby most company profits are taxed at a 0% rate and only specific banking activities are taxed at 10%.

Low tax rates are a comparative advantage in small jurisdictions' quest to attract business and high-net-worth individuals. We also see this as providing some modest fiscal flexibility (see chart 4). However, in our view it is probable that this fiscal flexibility is constrained given that raising taxes may put pressure on the economic model as a whole. In the case of Andorra, 80% of the nine million tourists in 2009 stayed for one day only, and while many may have been skiing, it is also likely that a significant proportion were shopping, taking advantage of the low tax regime. If the tax regime were to materially change, in our view, Andorra's tourism offer could be put under significant pressure.

814559 | 300221757

Chart 4



Banking sector looms large in the economy

Bank secrecy and the lack of a savings tax, until 2005, attracted significant nonresident deposits to Andorra. Offshore financial activities are limited by legal restrictions on foreign capital in Andorran companies, and although a new law on foreign investment, approved in 2008, will potentially permit foreign capital of up to 100% in certain sectors of the economy, the legislation is not applicable to the Andorran banking sector, where foreign credit institutions are permitted to invest up to 51% of the capital. Like other European countries that are not EU members, for example, Isle of Man, Liechtenstein, Monaco (not rated), and San Marino (not rated), Andorra introduced a withholding tax on EU residents' deposits in July 2005. Bank secrecy, however, has been maintained, and the new tax only applies to certain assets and solely to individuals' accounts. As a result, so far the tax has had minimal impact on the level of EU residents' deposits. Meanwhile, the withholding tax has resulted in a significant increase in savings-linked life insurance policies, which are not subject to the tax, increasing the importance of the currently less well-regulated insurance sector.

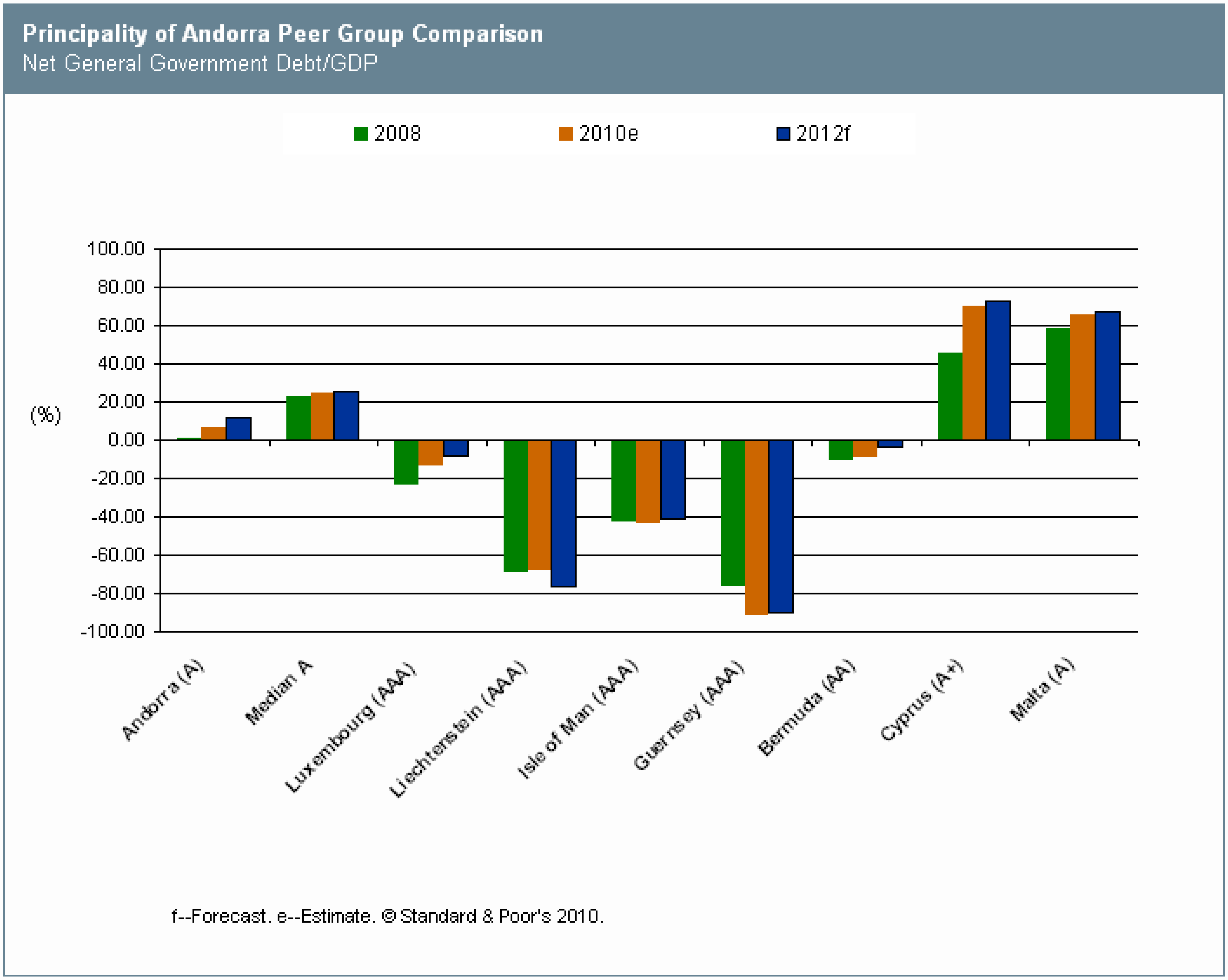
As the international community has recently moved toward a tougher approach regarding bank secrecy and now seems firmly committed to improve the transparency of banking practices, Andorra and peers with similar banking sector profiles, such as Liechtenstein, have to various degrees, found their comparative advantage under pressure. Nevertheless, the Organisation for Economic Co-operation and Development now classifies all in the peer group as being on their "white" list, having implemented the internationally agreed tax standard.

Public finances moving toward the 'A' rating median

Largely due to Andorra's weak economic growth prospects, we expect the government's fiscal position to remain in deficit, estimated at 4% of GDP in 2010, broadly in line with the 'A' rating median.

As a percentage of GDP Andorra's debt burden is broadly in line with the 'A' rating median, but as a proportion of revenues is expected to be around 2x the median in 2010, as a result of its low tax regime Additionally, we expect Andorra's small net general government debtor position to increase, while the majority of its peers have net creditor positions (see chart 5).

Chart 5



Political Environment: Government To Focus On External Relations

- The Social Democratic Party (SDs) won the 2009 parliamentary elections over the "Reformist Coalition" led by the outgoing Liberal Party (LP).
- Dialogue with the international community with regard to standards of financial practice is expected to continue.
- EU membership is now on the government's medium-term agenda.

Andorra is a parliamentary co-principality. The joint and indivisible position of Head of State is held by two princes: the Bishop of La Seu d'Urgell (a small city in north Catalonia) and the President of the Republic of France. The co-princes, who hold their title on a personal basis, do not represent their respective jurisdictions, but abide by the Andorran constitution. The co-princes are not actively involved in governing the Principality, and their role is limited to the political and representative tasks that the constitution assigns them. Their responsibilities include calling general elections, sanctioning and promulgating laws, and appointing the Head of Government, among other things. Their actions, however, have to be countersigned either by the Head of Government or the Head of Parliament. The co-principality arrangement dates back to the 13th century and has worked as a tenable formula in supporting Andorra's political and territorial independence, its good relations with neighboring Spain and France, and its integration within Europe.

Political ties with Spain and France were deepened with the signature of tripartite agreements in 2003 that regulate free circulation and mutual preferential treatment of French and Spanish nationals in Andorra, and vice versa. The co-prince of Andorra and French president, Nicolas Sarkozy, was one of the most vocal proponents for increased financial sector transparency, and his intervention was an influential factor in the accelerated normalization of Andorra's financial practices. In 2007, the government signed further Memorandums of Understanding with Portugal and Spain. Economic relations with the EU are currently governed by the Customs Union agreement signed in 1990. However, the new government is aiming for potential EU membership by 2015 and prospects of EMU membership thereafter. Significant issues that likely still need to be discussed are the capacity constraints with regard to the Andorran authority's ability to implement all existing EU law and the potential impact of allowing the free movement of EU citizens in such a small economy.

The political scene is dominated by two main parties, the Social Democratic Party (SDs) and the Liberal Party (LP). SDs won the latest 2009 legislative elections with 45% of votes, against the "reformist coalition" (32% of votes). Therefore, with 14 seats (over 28 seats in the parliament) against 11 for the liberals, Jaume Bartumeu Cassany, head of the SDs has become the new prime minister of Andorra. Given that the SDs won half of the seats, they will have to make alliances with smaller parties in order to gain majority votes in parliament. The two main political parties have few differences in terms of macroeconomic policy. Their policies differ mainly on local issues.

Economic Prospects: Key Sectors Face Competitiveness Challenges

- The country's economy is driven by the services sector, with tourism-related services being the largest contributor to gross value added. We anticipate challenging times ahead for this sector.
- Our weak economic growth outlook for the eurozone is expected to further impact on Andorra's economic performance.
- The Andorran banking system's financial indicators are healthy, but the sector could face challenges in the future.

Table 3

Principality of Andorra Economic & Financial Indicators

	2005	2006	2007	2008	2009	2010e	2011f	2012f
Nominal GDP (bil. €)	2.6	2.8	2.9	2.8	2.8	2.7	2.8	2.8
Nominal GDP (bil. $)	3.2	3.5	4.0	4.1	3.8	3.8	4.0	4.3
GDP per capita ($)	40,651	43,127	47,700	49,109	45,498	45,157	48,119	51,153
Real GDP (% change)	6.5	5.7	(0.1)	(4.3)	(2.9)	(1.2)	(0.2)	0.4
Real GDP per capita (% change)	4.3	2.1	(2.4)	(5.8)	(2.5)	(0.8)	(0.2)	(0.0)
Real GDP per employee growth (%)	N/A	5.1	0.5	(3.7)	(2.2)	(1.3)	(1.5)	(1.1)
Consumer price index (% change)	3.1	3.2	3.9	2.0	0.0	0.8	1.5	1.6
Domestic credit to private sector & NFPEs (% change)	26.1	17.9	14.3	8.5	(1.8)	(0.8)	1.8	2.2
Domestic credit to private sector & NFPEs (% of GDP)	187.3	203.0	223.6	247.9	250.4	249.3	250.4	250.8

f--Forecast. e--Estimate. NFPEs--Nonfinancial public sector enterprises. N/A--Not applicable.

Economic structure

Andorra is a small relatively prosperous economy, dominated by the services sector. The country's economic structure is challenged, as the two pillars on which it is based, namely tourism and the banking sector, are expected to experience weakness in the medium to long term.

Tourism and tourism-related commerce (representing nearly 50% of gross value added) is the main driving force behind Andorra's economic performance. Due to its economic structure, Andorra's economy is vulnerable to economic developments in France and Spain, which account for almost all tourists. The Andorran tourism sector is characterized by modern ski-infrastructure and includes the largest ski complex in the Pyrenees. The tourism offer also includes the appeal of Andorran clothes and electrical goods stores due to the low indirect tax regime. However, difficult access to the Principality remains a constraint on tourism growth, with no direct rail or air link to either France or Spain. With increased international competition in the sector, tourists to Andorra have been falling sharply during the past five years, with a marginal decline in arrivals over the past 10 years.

The government is attempting, in close collaboration with the private sector, to improve the quality and diversity of the tourism offer. Its main targets have been improving the quality of tourist facilities, widening the scope of activities on offer throughout the year and promoting Andorra as a conference and services center. That said, in our opinion, Andorra's limited tourism offer is unlikely to change substantially in the medium term and will continue to be affected by the likely weak growth prospects in the eurozone, particularly Spain.

Andorra's second-largest economic sector is its banking system, with the financial system contributing 17% of gross value added. The banks continue to be characterized by healthy financial indicators. Of the six banks in the system, only one is foreign owned, by Banco de Sabadell S.A. Andorra has implemented the internationally agreed standards on transparency and exchange of banking information and this has not put significant pressure on the banking system, but could result in some pressure on competitiveness and ultimately profitability in the medium to long term, particularly if the international standard is tightened further.

Economic growth

We anticipate another difficult year for Andorra's economy in 2010, given the continued weakness in the Spanish economy. Andorra's real GDP is expected to contract to close to 2%. Given the current challenges that the two pillars of its economy are facing, combined with the expected slow recovery in Spain, we don't anticipate major improvements in the Principality's economic growth prospects over the medium term.

Fiscal Flexibility: Government to Widen Tax Base

- We anticipate Andorra's general government fiscal position will remain in deficit in the medium term, despite the government's plans to introduce measures to broaden the tax base.
- The general government fell into a net debtor position in 2008, which we expect to increase to more than 10% of GDP in 2012.
- Contingent liabilities largely reflect Andorra's sizable banking sector.

Table 4

Principality of Andorra Fiscal Indicators	2005	2006	2007	2008	2009	2010e	2011f	2012f
(% of GDP)								
General government revenues	15.0	14.7	15.7	14.8	13.5	13.6	14.0	14.7
Of which central government	10.0	10.0	11.1	11.2	9.8	9.9	10.5	11.2
General government expenditures	15.5	16.4	18.1	18.1	17.1	17.2	17.2	17.4
Of which central government	11.6	12.6	13.5	14.7	14.1	14.2	14.2	14.4
General government balance	(0.5)	(1.8)	(2.3)	(3.3)	(3.6)	(3.6)	(3.1)	(2.7)
Of which central government	(1.6)	(2.6)	(2.4)	(3.5)	(4.2)	(4.2)	(3.7)	(3.1)
Of which local authorities	(0.3)	(0.6)	(1.1)	(0.6)	0.3	0.3	0.2	0.1
General government primary balance	(0.2)	(1.4)	(1.5)	(2.2)	(2.8)	(2.6)	(1.8)	(1.1)
Central government primary balance	(1.4)	(2.3)	(1.8)	(2.7)	(3.7)	(3.4)	6.8	(1.8)
General government debt	14.7	16.4	20.0	26.4	31.3	35.4	38.5	40.7
Of which central government debt	10.3	12.0	14.6	19.4	24.1	28.5	31.8	34.3
General government net debt	(10.8)	(9.2)	(6.0)	1.2	3.1	6.7	9.7	12.2
Of which central government net debt	9.4	11.2	14.0	18.8	23.5	27.8	31.2	33.7
(% of revenues)								
General government balance	(3.4)	(12.2)	(14.7)	(22.4)	(26.3)	(26.3)	(22.3)	(18.3)
General gov't interest payments	2.2	3.0	4.9	7.8	5.9	7.5	9.2	10.6
Central gov't interest payments	2.0	3.0	5.2	7.4	5.5	8.1	99.3	11.9
General government debt (% of revenues)	98.3	112.0	126.9	178.1	232.0	260.6	274.1	277.6

f--Forecast. e--Estimate.

Revenue, expenditure, and balance performance

The government's main source of revenue, representing more than 86% of the total in 2009, comes from indirect taxes, particularly a tax on imports and consumption that is ultimately paid by final consumers--mostly tourists. Budgetary revenues have been restricted due to very limited direct taxation and the associated low fiscal burden on Andorra's residents. A consensus has been growing, however, regarding the necessity to increase both direct and indirect taxes, in order to subdue pressures on the government's budget.

As a result, the government intends to implement legislation by end-2010 to simplify the existing tax regime by consolidating various indirect taxes into one VAT rate. As part of the process of normalizing relations with the international community and allowing for double taxation treaties to apply, the government will also introduce a direct corporate tax of 10% (in addition to the existing other direct tax on capital gains introduced in 2007). However, the government does not intend to introduce a personal income tax.

Andorra's expenditure structure largely reflects the need to maintain and upgrade the country's tourism infrastructure. Capital expenditures, including capital transfers to local governments, are by far the largest expense item--representing around 45% of total expenditures in the past five years and therefore constitute a significant pressure on the government budget. We expect these expenditures to remain high over the medium term, partly due to the ongoing need to improve road access to the Principality, but also due to previously contracted works which have yet to be paid for. We anticipate central government capital expenditures in 2010 to be at a similar level as in 2009, at about 7% of GDP.

Andorra's social security system had been in surplus up until 2010, as contributions outstripped benefits paid. From now on, however, the surplus will only be maintained due to transfers from the central government. Consequently, we expect the general government deficit will remain higher than the 'A' rating median in the medium term; and at about 4% of GDP by 2010.

Government debt and interest burden

Andorra's central government debt burden remains in line with the 'A' rating median, although increasing quite rapidly. Central government debt is estimated at 36% of GDP this year against 16% in 2007. Andorra's five year, €260 million Eurobond matured in December 2009 and this amount has been rolled-over with the domestic banks until 2013. A further €360 million in short-term debt was outstanding with the domestic banks at the end of 2009. The government's debt management strategy could involve the issuance of a bond for domestic consumption in 2010. The local banks would likely be the main investors in this security.

Total general government debt is expected to reach about 44% of GDP in 2010, or 260% of revenues, partly due to the low level of taxes in the economy. After years of having a creditor position, net of social security assets, the general government fell into a small debtor position as of 2008, which is expected to continue to worsen over the forecast horizon.

Interest expenses have increased significantly since 2001, when the government started to pay interest on government debt to Andorra's banks, in return for taxing their activities. The general government interest burden is expected to reach about 9% of total general government revenues in 2010, notably due to the relatively high cost of short-term financing plus the additional interest payments resulting from the lease on a waste management plant, which runs until 2026.

Contingent liabilities

The contingent liability posed by the banking system in a reasonable worst-case scenario is significant and estimated, at 50% of GDP, which is well above the 'A' rating median of 26% of GDP. There is currently no lender of last resort, however, the government intention is to implement a deposit insurance mechanism in 2010.

Ratings Detail (As Of August 13, 2010)*	
Andorra (Principality of)	
Sovereign Credit Rating	A/Negative/A-1
Sovereign Credit Ratings History	
14-Jun-2010	A/Negative/A-1
26-May-2009	A+/Stable/A-1+
12-Aug-2008	AA-/Negative/A-1+
16-Aug-2007	AA/Negative/A-1+
Default History	
None	
Population	84,000
Per Capita GDP	$45,000
Current Government	
Prime Minister: Jaume Bartumeu Cassany. The joint and indivisible position of Head of State is held by the two co-princes: the Bishop of Urgell and the President of the Republic of France.	

Ratings Detail (As Of August 13, 2010)***(cont.)**

Election Schedule

Parliamentary
Last...... April 2009
Next...... 2013

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Sovereign Ratings; SovereignLondon@standardandpoors.com

Additional Contact:
Sovereign Ratings; SovereignLondon@standardandpoors.com