

# Andorra

The Principality of Andorra is a European micro-State located in the Central Pyrenees between Spain and France with a population of around 80,000 and receives 8 million tourists each year. The Andorran economy is focussed on services, being an important touristic centre for shopping and for winter sports activities.

For Andorra, 2021 has been a year of recovery and optimism in which we have put the economic consequences of the pandemic behind us. Andorran institutions have maintained their strength and attractiveness in terms of securing customer funds and growing profits. The banking sector has been one of the drivers of the Andorran economy and has been a key player in guaranteeing liquidity during the Covid-19 crisis.

Over the course of 2021, banking institutions have maintained their strength in terms of attracting customer funds and growth. Andorran banks closed the year 2021 with an aggregate result of €97 million, a level similar to before the pandemic. The main financial indicators have shown the robustness of the Andorran banking industry. The ROE, which measures the financial profitability of banks, has increased to 6.04% despite the low interest rates, merger operations in the banking industry, continuing adaptation to international banking regulations and technological investments that continue to put pressure on banks' results. Also, the sector's liquidity and solvency ratios have been higher than the average for European banks. The liquidity coverage ratio (LCR) stands at 206%, also higher than the average for European banks which was 174% at the end of the 4th quarter of 2021, and the default rate dropped to 3.74% in 2021, down from 4.49% in 2020. The CET1 (phase-in) solvency ratio was 17% at 31 December 2021.

The banking sector is a crucial sector in Andorra's economy, not only because it accounts for 15% of the country's GDP but also because of its role in society as a driver of change. It is characterised by a cautious management approach, solvency levels above the European average due to the specific characteristics of the market and country, and a high degree of expertise and specialisation in both commercial and private banking. The banks offer a full range of banking services including loans and credit, asset management and financial consultancy, operations with liabilities, financial analysis and other services (credit cards, transfers, etc.). They also have specialized subsidiaries of financing, insurance and asset management firms.

The banking sector has also remained committed to serving the country's business community and has been at its side since the beginning of the health crisis, making the special guarantee programme available to local companies and businesses. The economic recovery has been reflected not only in the growth of profits, up 16.52%, but also in the volume of customer funds under management, up 19% to € 61.461 billion. Credit investment in Andorra has also grown by 10.42% to € 7.031 billion in 2021.

These figures confirm the industry's resilience and its ability to adapt to adverse circumstances. The pandemic crisis, the disparate situations in financial markets, which have seen rises of nearly 20% in US indices and falls in emerging markets, banks' investments in technological transformation and the continuous process of complying with regulatory standards have clearly demonstrated the strength of Andorra's financial institutions. As a result of the corporate operations carried out in 2022, the acquisition of BancSabadell d'Andorra by Mora Banc and the purchase of Vall Banc by Crèdit Andorrà, the Andorran banking sector has sent an unequivocal signal to the markets and its customers that the industry is ready to address the future challenges facing the financial banking sector worldwide. By the end of 2022, Andorra's banking industry will have three large banking groups: Andbank, Mora Banc and Crèdit Andorrà,

with over 90 years of banking experience with a presence in 11 countries. The aim of the recent M&As is to ensure that Andorra's institutions and financial system are more consolidated, more efficient and better prepared to meet customers' needs, regulatory requirements and the demands of financial markets, which are becoming increasingly global and subject to a higher level of competitiveness and excellence.

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