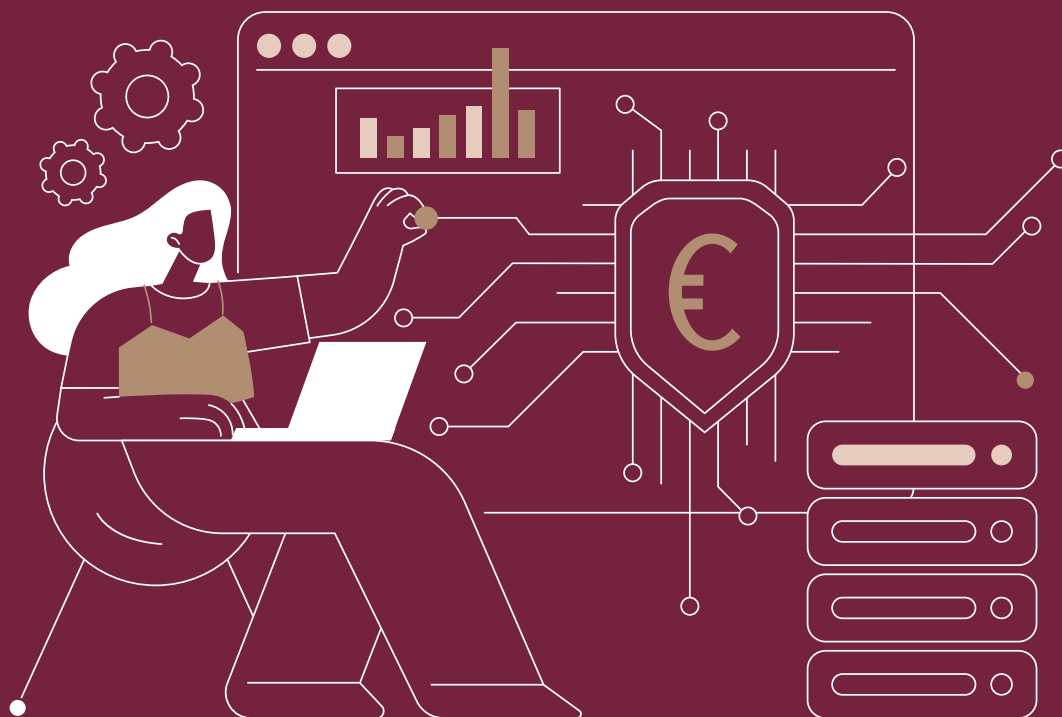


CONTRIBUTION OF THE FINANCIAL SECTOR TO THE ANDORRAN ECONOMY



Study commissioned
by Andorran Banking



**Andorran Banking
Observatory**

4th report • January 2024

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The importance of the financial sector in Andorra

The financial and banking sector plays an essential role in economies, exerting a significant influence both on companies and on families and individuals. The financial sector, made up of banks, investment banks and insurance companies, acts as a fundamental pillar that facilitates the flow of capital and financing to investors and/or consumers, thus promoting economic development. For companies, this sector provides crucial financial resources for investment, expansion and day-to-day operations.

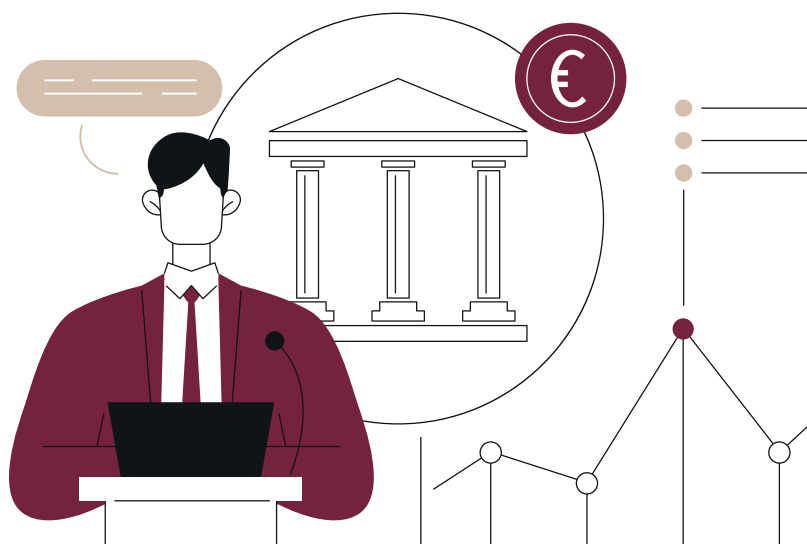
On the other hand, for families and individuals, financial institutions offer banking services, credit and insurance that directly influence their financial stability and well-being. The banking sector plays an important role in the management of balance sheets and financial planning, contributing to the construction of a resilient and sustainable economic system.

In addition, payment services play a vital role for individuals and businesses. These services provide an essential infrastructure for day-to-day transactions, improving the ease and security of financial operations. The development of tailored solutions is a key aspect, ensuring that the specific needs of individuals and companies are efficiently met. This adaptation includes the creation of customized financial products and the implementation of innovative payment methods services that streamline business operations and improve the user experience.

On the other hand, the contribution of financial institutions to the economy is also very significant. Countries such as Luxembourg and Liechtenstein have a financial system that represents between 20% and 25% of their GDP, which demonstrates the prosperity of the Andorran economic model with a powerful financial system.

What is the number of jobs created by the Andorran financial sector? What is the added value directly and indirectly linked to financial activities? What is the contribution to Andorra's budget generated by the financial sector?

This economic study provides a concise answer to these questions and sheds light on the role of banking institutions in society and the economic fabric.



1 | Financial sector data in Andorra

The financial sector in Andorra is a dynamic sector that has experienced great growth in recent years. Specifically, it is the **third private sector that contributes the most to the Gross Domestic Product (GDP)** of its economy. The two sectors with the largest contributions are retail trade and real estate activities, both of which depend on the financing they receive from the Andorran banking sector.

3 banking groups

ANDBANK /
Private Bankers

MORABANC

Creand®
Crédit Andorra



**3 financial
investment companies**



**4 insurance
companies**

concentrate the
94.1%
of the assets managed
in Andorra.

Provide a
17.2%
of direct taxes collected by the
Government in the last 5 years.

They provide workplaces at
75.3%
of employees in the financial
sector, of which
63.8%
has a university education.

The financing granted by
the financial sector is
approximately equivalent to
2x
the Andorra's GDP.

Outside the perimeter of the 3 banking groups



**9 financial
investment companies**



**23 insurance
companies**



Andorran banking sector

18
Billions EUR
Assets

64
Billions EUR
Assets under
management

7.57%
ROE
Efficiency

2,500
employees

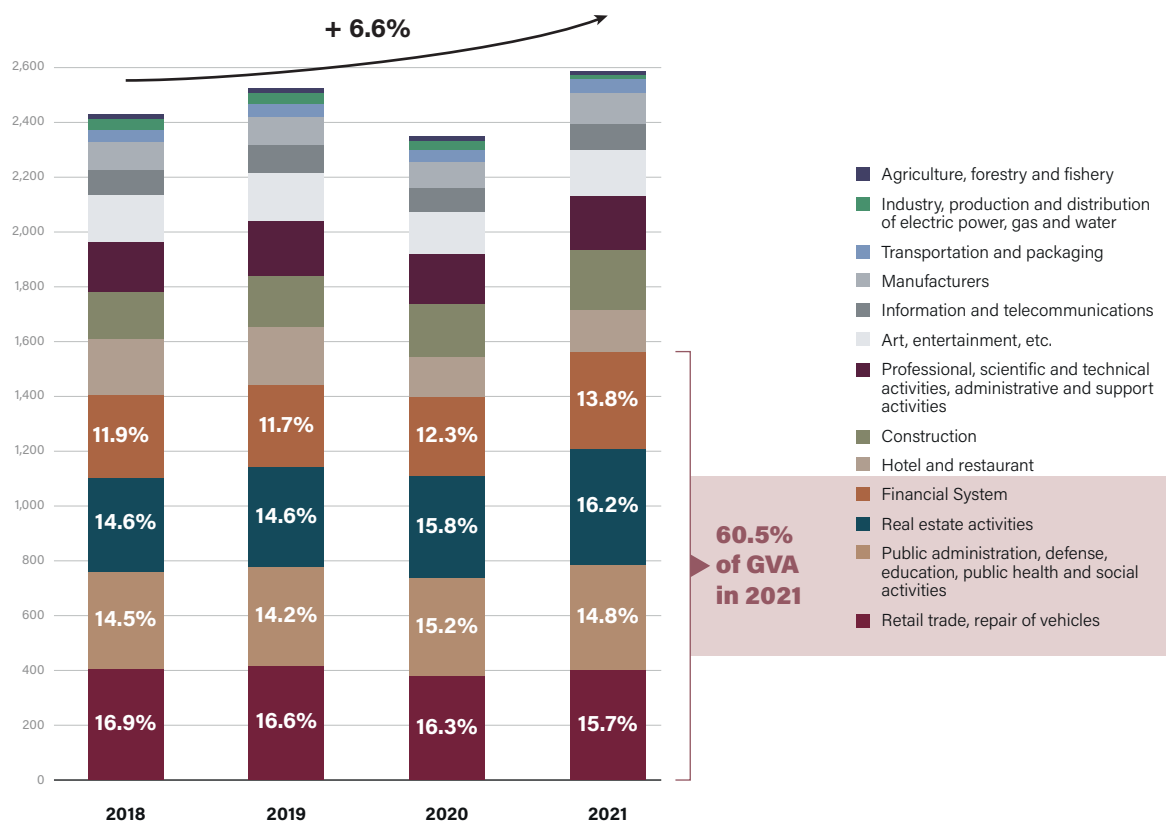
15.76%
CET1
Solvency ratio

201.3%
Liquidity
Coverage Ratio

Below are some economic variables that show the importance and solidity of the Andorran banking groups, with a great growth in the last years.

Estimated GDP - Nominal GVA by Sectors

(Million euros) / (%)



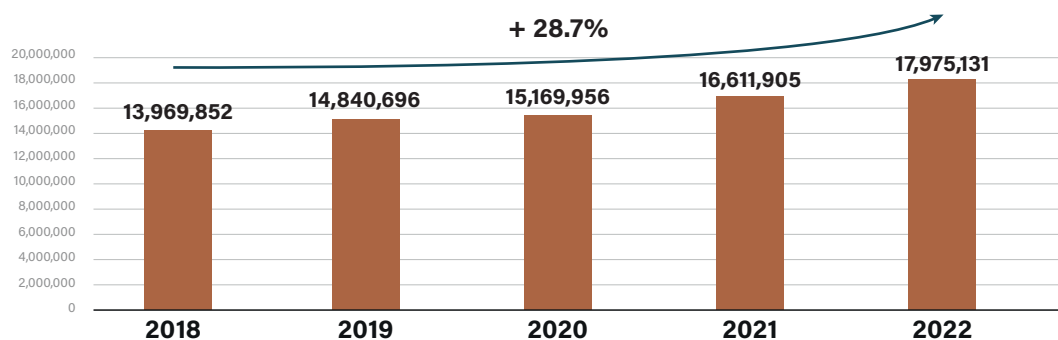
Source: Departament d'Estadística del Govern d'Andorra.

The financial sector together with the public sector, trade and real estate activities represent more than 60% of the Gross Added Value of the Andorran economy.

Total assets

(Thousand euros)

The total assets of the banking sector have maintained during the last 5 years a growing trend of 28% CAGR despite the two crises. This growth has been based on a growing evolution of customer deposits.

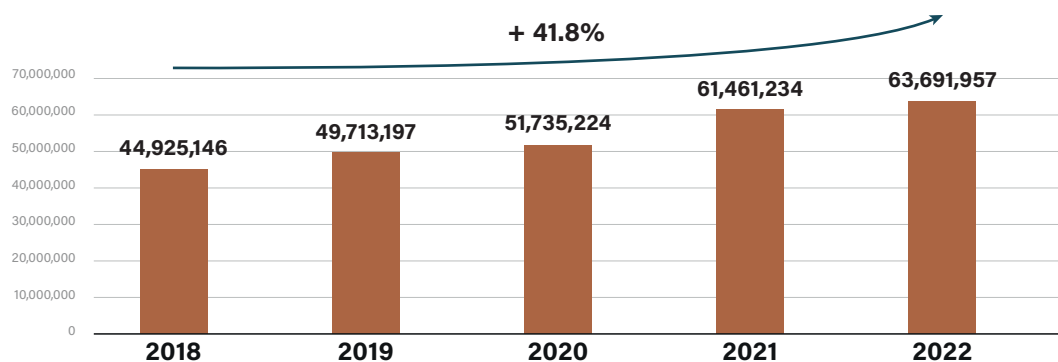


Source: Data provided by the banks.

Assets under management

(Thousand euros)

The assets under management of the Andorran banking sector have had an increasing evolution.

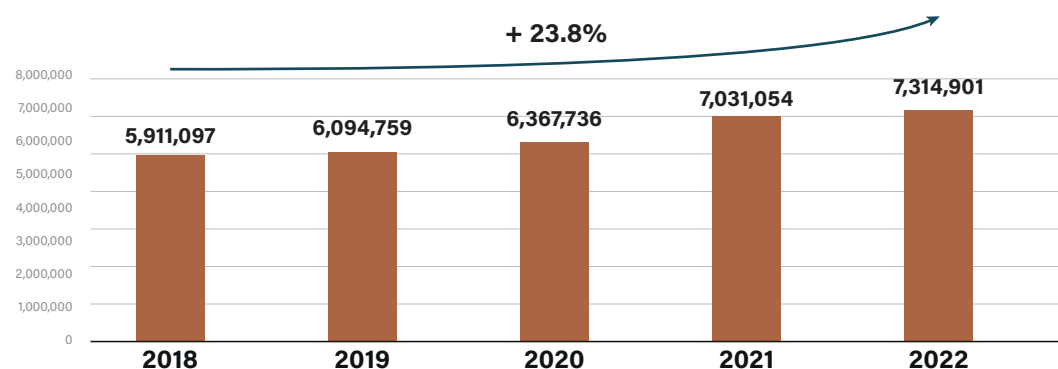


Source: Data provided by the banks.

Consolidated credit investment

(Thousand euros)

Consolidated credit investment shows an upward trend, which evidences the sector's growing capacity to facilitate public access to financial resources.



Source: Data provided by the banks.

2 | Dynamizing sector

The Andorran financial sector has a significant positive influence on the rest of the economy from different perspectives.

• Boosts strategic sectors

The development of certain sectors has been possible thanks to the financing and support of Andorran banks. The banking sector is committed to the progress and welfare of society.

It has actively encouraged and promoted the country's productive and strategic sectors such as the snow industry and the Caldea thermal center, among others. It also supports entrepreneurship, a key sector in the country's business sector.

• Stimulates other industries

It is estimated¹ that the Andorran financial sector generates 0.9 additional jobs for each person working in the sector.

It has also been estimated that the sector generates a 0.3 Gross Added Value multiplier indirectly in the rest of the country's sectors.

As input-output tables have not been published by the Government of Andorra, the estimate has been made on the basis of the extrapolation between input-output tables published by Luxembourg and Switzerland, as well as in various reports².

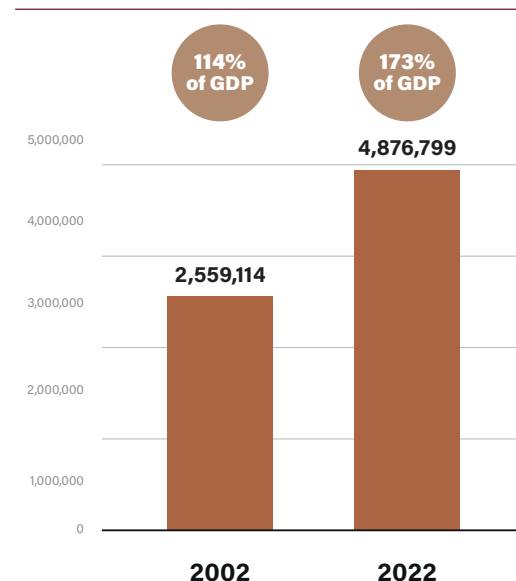
• Finance the economy

Since 2002, credit investment in Andorra has experienced exponential growth, with a CAGR of 91% between 2002 and 2022. This financing has accompanied Andorra's economic and social growth over the last 20 years.

Consolidated credit investment shows an upward trend, which is evidence of the growing capacity for the sector to facilitate public access to financial resources.

Credit investment in Andorra

(Thousand euros)



1. The estimate has been made by extrapolating on the basis of information published in the following reports: KPMG Private Banking Survey (KPMG); The state of the financial sector in Luxembourg (Luxembourg for Finance - Deloitte); and Economic impact of the Swiss Financial Sector (SBA - SIA - BAC).

2. For the extrapolations we have taken into account both the relative weight of the financial sector in GVA and number of employees, as well as the absolute size of the sector in the three countries.

3 | Job-creating sector

• Generates qualified employment

On average, the 3 banking groups have employed 75.3% of the employees in the Andorran financial system over the last 5 years.

In 2022, 63.8% of the workforce in the banking sector were university graduates.

The contribution of the financial sector to the Andorran economy is particularly significant in terms of salary and wage mass.

• Contributes to national wealth

Despite the process of concentration in the sector, the number of jobs has remained stable in terms of the number of employees.

The average gross salary amounts to €5,064, 208% higher than the average observed in the total economy in 2022. While the financial sector directly provides jobs to 4.5% of the employees in the Andorran economy, its contribution to the wage mass is 10% of the total wage mass over the last 5 years in Andorra. This shows the sector's capacity as a contributor to the country's wealth, welfare system and social security.

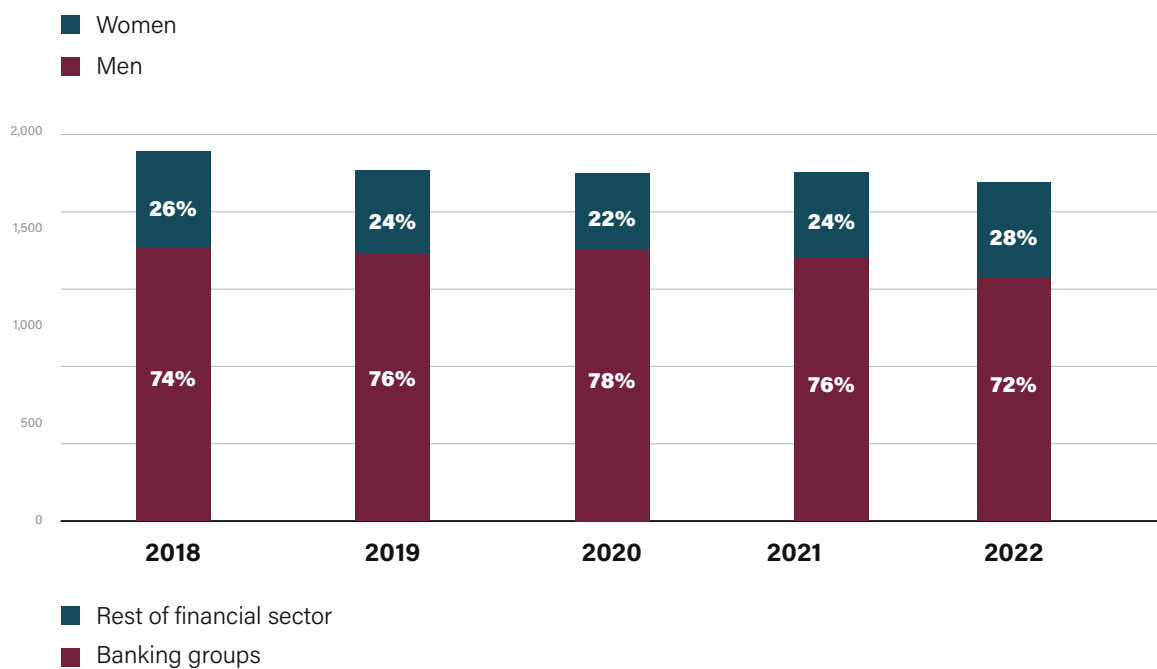
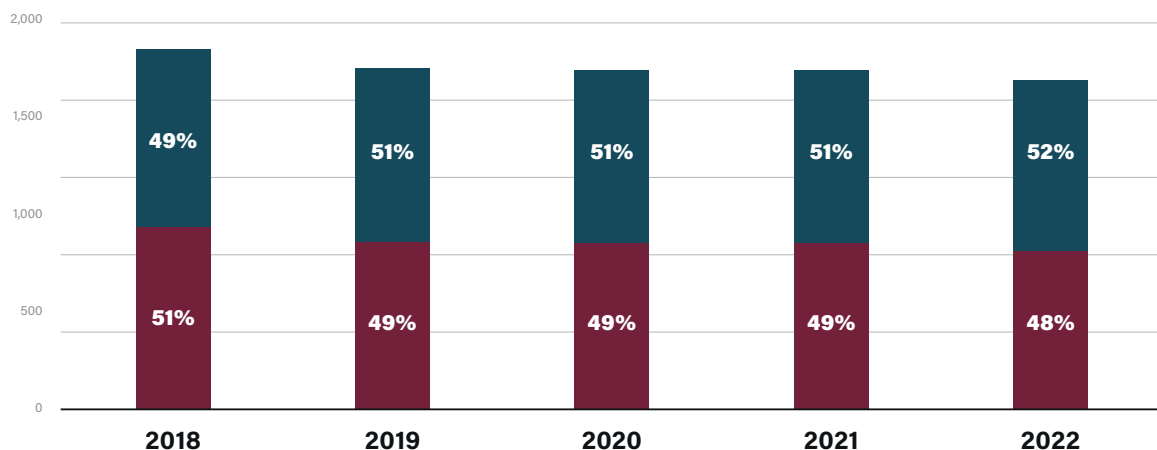
• It has a multiplying effect on the workplaces

In contrast to the 4.5% of jobs generated directly, it is estimated that the financial sector in Andorra generates a total of 3,260 jobs (direct and indirect), representing 7.8% of the total number of jobs in Andorra. This is based on the estimated multiplier effect of 0.9 on the rest of the sectors of the country's economy*.

* For every 10 jobs generated in the financial sector, it is estimated that 9 jobs are created in the rest of the economy, through indirect and induced effects.



Evolution of jobs in the financial sector



Source: Departament d'Estadística del Govern d'Andorra and data provided by the banks.



4

Driver of the country's digital transformation

Digitalization and technology have been fundamental factors in the evolution of the banking sector. From online banking services to mobile applications and other technological advances, these innovations not only improve accessibility to financial services, but also streamline internal processes, increasing the efficiency and speed of transactions. The integration of advanced technological solutions allows banks to adapt quickly to market changes and offer more competitive and focused on the customer services.

• Investment

The sector allocates around 6% of its profits to boosting digital transformation.



• Payment facilities

1,500 millions of euros in POS transactions

- A 10% corresponds to virtual POS, which confirms a path towards online and distance commerce from Andorra.



International transactions and cards

- International transactions have grown over the last few years to around 34 million transactions valued at more than 1,500 million euros.



• Customer service

Growth in mobile application users

- The number of mobile application users grew to 24% in 2022 and an increase of 65% in 2022 compared to the previous year.



65%

growth in 2022
of digital users.

5 Contribution to the State's finances

The three banking institutions generate significant tax revenues for the public sector. The taxes collected by the government and the *Comuns* represent around 2% of Andorra's GDP, a fact that demonstrates the sector's recurrent and continuous contribution to the public administration.

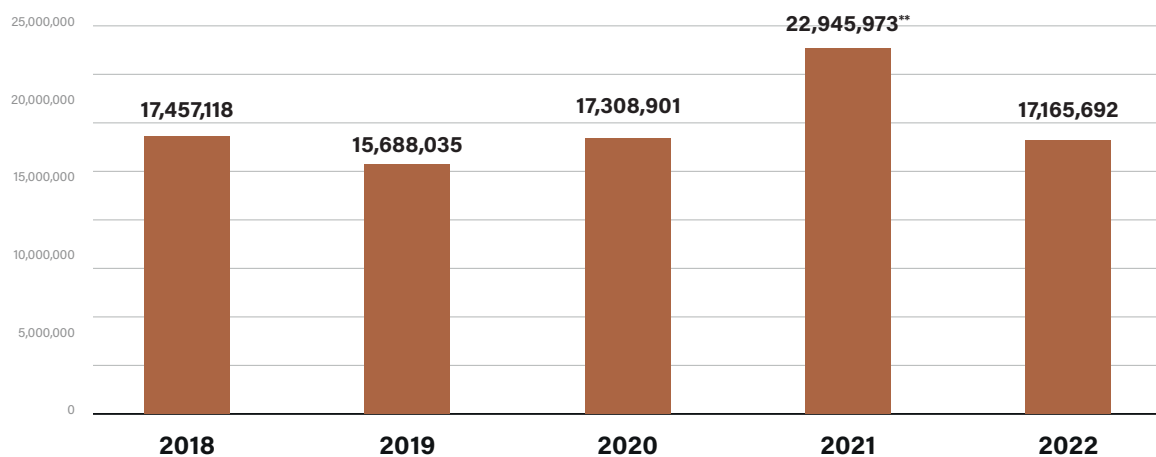
• Direct taxes paid by banking groups

Direct taxes paid by the constituent entities of the banking groups have amounted to 90,565,719 euros during the last 5 years.

Average contribution to direct taxes by banking groups to the total direct taxes collected by the Government has averaged 17.8% over the last 5 years.

Direct taxes paid by banking groups

(Euros)*

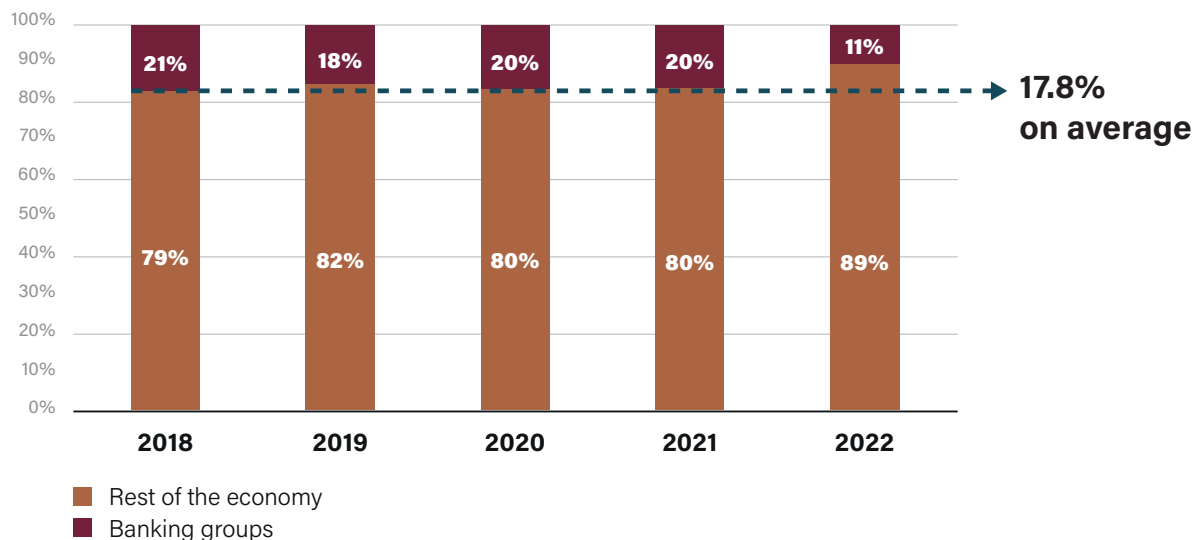


* The data includes direct taxes both for individuals and legal entities.

** Increase as a result of the bank consolidation process carried out in 2021.

Contribution of the banking groups to total direct taxes

(%)



Source: Data provided by the banks and Departament d'Estadística del Govern d'Andorra.

6 | Impact of the sector in wealth creation (GVA/GDP)

The contribution to GVA by the financial sector has shown a growing trend over the last 5 years analyzed.

• GVA contributed by the financial sector

Despite the fall in 2020 caused by COVID-19, the GVA of the financial sector **has maintained a growing trend in the period 2018-2021 with a CAGR of 23%**, consolidating itself as the **third private sector that contributes the most direct GVA** to the economy, with 13.8%.

The average GVA per employee in the financial sector is **3 times higher than that of the rest of the economy**. In the period 2018-2021 it has maintained a growing trend, going from 246% to 299% with respect to the average GVA per employee of the economy, **with a CAGR of 31%**.

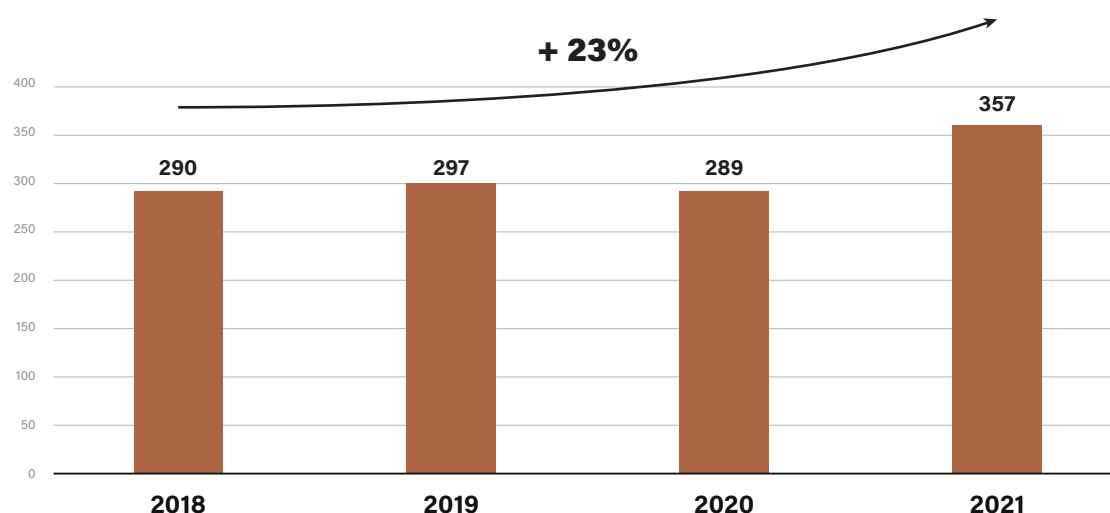
• The indirect effect of the financial sector on Andorra's GVA: the GVA multiplier effect

It is estimated that the financial sector in Andorra generates **an estimated total GVA (direct and indirect) of €464M, which would represent 19% of total GVA compared to 13.8% generated directly**. This is based on the estimated multiplier effect of 0.3* on the remaining sectors of the country's economy.

* For every €1 of GVA generated by the financial sector, it is estimated that €0.3 of GVA is generated in the other sectors of the Andorran economy, due to the purchases that the financial sector makes in the other sectors.

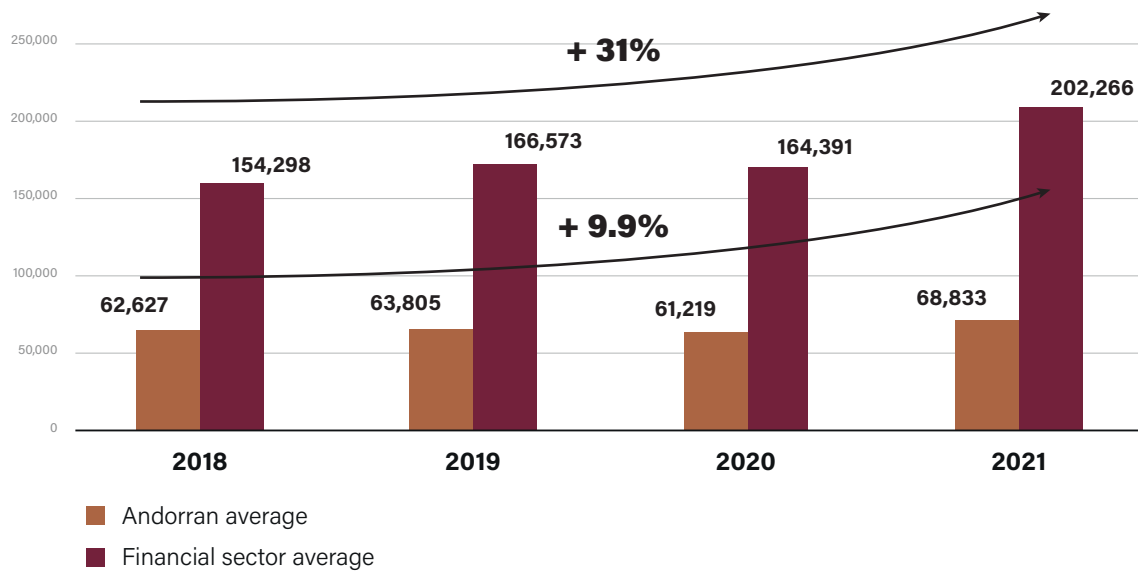
Evolution of the financial sector GVA

(Million euros)



Evolution of median GVA per employee

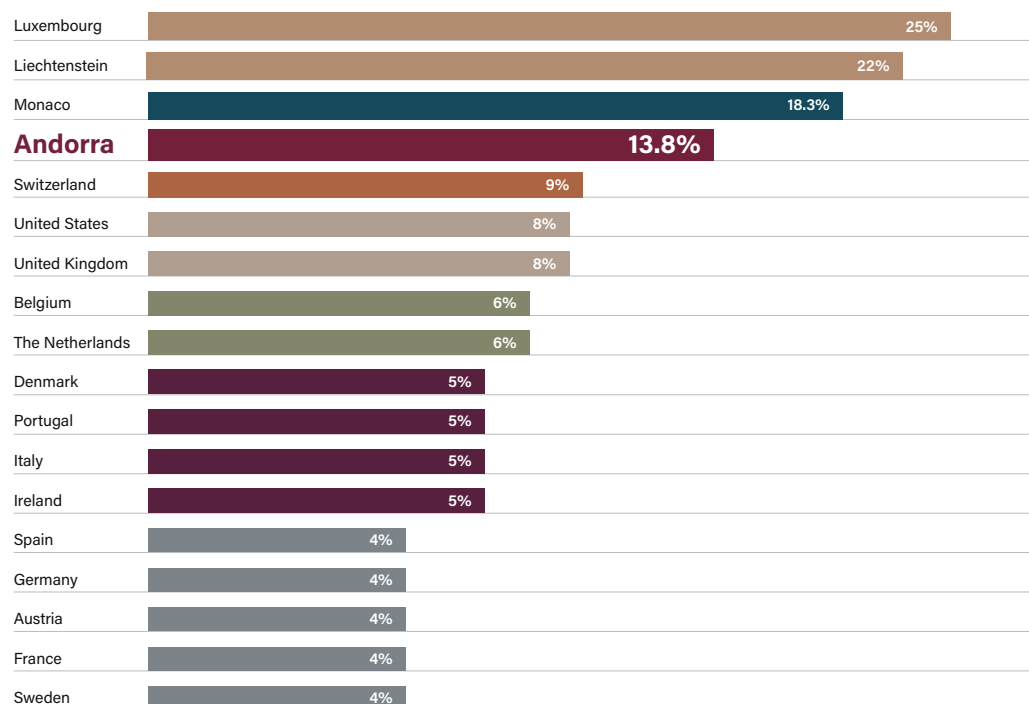
(Euros per employee)



Source: Departament d'Estadística del Govern d'Andorra.

The financial sector in Andorra has an important weight in the economy with a 13.8% contribution to GVA, as in other countries such as Luxembourg, Liechtenstein, Monaco and Switzerland.

The weight of **the direct GVA contributed by the Andorran financial sector** to the economy compared to other countries:



Source: OCDE, IMMSEE and other public sources

7 | Methodology and Assumptions

• Sources of information

For the preparation of this report, information has been taken from:

- Departament d'Estadística del Govern d'Andorra.
- Associació de Bancs Andorrans.
- Banking institutions themselves: Andbank, MoraBanc and Creand.
- Input-output tables for Switzerland and Luxembourg.
- Multiple public websites explicitly mentioned, such as the OECD.

• Perimeter of the information used

For the purpose of the "Summary" we have taken into account, unless otherwise stated, the totality of the financial sector in Andorra, having drawn the data mostly from the public accounts and from the Departament d'Estadística del Govern d'Andorra.

• Indirect and induced impact estimation through extrapolation

The Andorran financial sector generates jobs as well as Gross Added Value indirectly and induced in the rest of the country's sectors. As no input-output tables have been published by the Government of Andorra, the estimation of the multiplier effects has been made by extrapolating from data published by Luxembourg³ and Switzerland⁴ as well as in various reports⁵.

The extrapolations have taken into account both the relative weight of the financial sector and the absolute size of the financial sector in the three countries.

• Indirect impact

For the purposes of this report, indirect impact is understood to be the production and jobs generated in the sectors benefiting from the investments and spending carried out by the financial sector.

• Induced impact

For the purposes of this report, induced impact refers to the impact generated in other sectors of the economy by the consumption of goods and services by employees in the financial sector.

3. Tables input-output Luxembourg.

4. Tables input-output Switzerland.

5. KPMG Private Banking Survey (KPMG); The state of the financial sector in Luxembourg (Luxembourg for Finance - Deloitte); and Economic impact of the Swiss Financial Sector (SBA - SIA - BAC).

• Preliminary considerations in the estimation of direct and indirect GVA contributed by the financial sector

The financial sector is the fourth sector that contributes the most added value to the Andorran economy, with 13.8% of the total, which generates economic dependencies with the rest of the sectors due to the purchases that the financial sector makes to the rest of the sectors.

In the case of Switzerland, the financial sector, together with the insurance sector, is the second largest contributor to GVA, with 9%. In the Alpine country, there is a certain balance between the sectors, as there are several that have a weight close to that of the financial sector, such as pharmaceuticals, manufacturing, education and health. The indirect GVA multiplier of the financial sector in Switzerland is estimated at approximately 0.4, according to the 2017 input-output tables published in 2022 by SFSO. This figure coincides with that obtained from the reports cited above.

In Luxembourg, the financial sector is the first sector that contributes the most GVA and represents 25%. In the case of Luxembourg, the contribution of the financial sector to GVA is three times that of the second sector (real estate activities), as well as that of the third (commerce) and fourth (professional-scientific-technical services). The multiplier of the indirect GVA of the financial sector in Luxembourg is estimated at approximately 0.2, according to the 2019 input-output tables.

• Assumptions in the estimation of direct and indirect GVA contributed by the financial sector

The indirect impact in percentage terms of GVA of a sector is inversely proportional to the total weight of the sector in the economy and to the level of diversification of this economy. Sectors with lower direct contributions tend to generate proportionally higher indirect impacts than those with high direct contributions (see "transportation and storage services" sector in Luxembourg). Sectors with a high degree of concentration at the economy level tend to generate proportionally lower indirect impacts by concentrating a high share of the impacts in the sector itself (see "financial and assurance services" in Luxembourg).

We consider it reasonable to understand that the **multiplier effect of the financial sector on the GVA of Andorra is 0.3.**

	GVA direct	% GVA direct	Multiplier indirect	GVA total estimated	% GVA total estimated (direct and indirect)
GVA financial sector	357M€	13.8%	0.3	464,1M€	19%

• Preliminary considerations in the estimation of direct and indirect jobs generated by the financial sector

The financial sector, with a direct contribution to GVA of 13.8%, generates 4.5% of the total number of jobs in the Andorran economy, with 1,716 employees in 2022. The gross average wage will amount to €5,064, 208% higher than the average observed in the total economy in 2022. While the financial sector only provides jobs to 4.5% of the employees in the Andorran economy, it has contributed 10% of the total gross salary in the last 5 years in Andorra.

While in the case of the GVA multiplier effect, the induced effects have not been taken into account, in the case of the estimate of the multiplier effect of the financial sector on Andorran jobs, these induced effects have been taken into account, due to the high purchasing power of its employees.

In the case of Switzerland, the financial sector, with a direct contribution to GVA of 9%, generates 5.5% of the total number of jobs in the economy. The indirect employment multiplier of the financial sector in Switzerland is estimated at 0.83⁶.

In Luxembourg, the financial sector, with a direct contribution to GVA of 25%, generates 14% of total employment in the economy. The indirect employment multiplier of the financial sector in Luxembourg is estimated at 1.01⁷.

• Assumptions in the estimation of direct and indirect jobs generated by the financial sector

The indirect impact in percentile terms of jobs in a sector seems to be directly proportional to the direct weight of the sector in jobs. Sectors with higher direct contributions tend to generate proportionally higher indirect impacts than those with lower direct contributions.

Given that the percentage of direct jobs in Andorra is similar to that of Switzerland, but the weight of the sector in the economy is significantly higher, we consider it reasonable to understand that the **multiplier effect of the financial sector on employment in Andorra is 0.9**.

	Direct jobs	% Direct jobs	Indirect Multiplier	Total jobs	% Country jobs (direct and indirect)
Jobs generated by the financial sector (2022)	1,716	4.5%	0.9	3,260	7.8%

6. Economic impact of the Swiss Financial Sector (SBA – SIA – BAC).

7. The state of the financial sector in Luxembourg (Luxembourg for Finance - Deloitte).



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