



# **TECHNICAL ASSISTANCE REPORT**

## **PRINCIPALITY OF ANDORRA**

Report on External Sector Statistics Mission  
(March 21–April 1, 2022)

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## Glossary

AFA	Andorran Financial Authority
ASD	Andorran Statistics Department
BIS	Bank for International Settlements
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual, sixth edition</i>
CDIS	Coordinated Direct Investment Survey
ESS	External Sector Statistics
FDI	(Foreign) Direct Investment
IIP	International Investment Position
IMF	International Monetary Fund
LBS	Locational Banking Statistics
OFC	Other Financial Corporation
SDR	Special Drawing Right
STA	Statistics Department, IMF
TA	Technical Assistance

## SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. **The International Monetary Fund (IMF)ʼs Statistics Department (STA) conducted a technical assistance (TA) mission for the Andorran Statistics Department (ASD) on the compilation of external sector statistics (ESS) during March 21–April 1, 2022.** The mission focused on assisting the ASD in initiating the compilation of international investment position (IIP) and in producing balance of payments statistics regularly with an improved coverage and quality.
2. **The ASD is now ready to start compiling IIP.** The mission provided recommendations to improve the coverage and quality of annual IIP data for 2019 and 2020. The ASD should start compiling IIP data by implementing the recommendations. Andorran banks provided source data to compile the majority of the IIP components. The ASD supplemented the data with other sources (e.g., mirror data obtained from the IMFʼs Coordinated Direct Investment Survey).
3. **The ASD is also ready to produce balance of payments data regularly.** The mission provided recommendations to fill remaining data gaps and improve the quality of the data. The ASD should report new annual balance of payments data for 2020 and updated data for 2019 to the IMF for redissemination by implementing the recommendations. The ASD and the mission also initiated discussions to improve the frequency of the data compilation from annual to quarterly.
4. **Andorra is improving the direct reporting system.** Under the new direct reporting system, enterprises are required to report their balance sheet information with explanation notes, which will provide source data for several main IIP and balance of payments components for 2021 and forward.

**Table 1. Andorra: Priority Recommendations**

Target Date	Priority Recommendations	Responsible Institutions
<b>April 2022</b>	Start compiling IIP data. Report 2019 and 2020 data to the IMF for redissemination.	<b>ASD</b>
<b>April 2022</b>	Report new 2020 and updated 2019 balance of payments data to the IMF for redissemination.	<b>ASD</b>
<b>December 2022</b>	Review the results of the new direct reporting system to use the information to compile IIP and balance of payments data.	<b>ASD</b>

5. **Further details on the recommendations can be found in the action plan under *Detailed Technical Assessment and Recommendations*.** The mission expresses its gratitude to the staff of the ASD for their cooperation.

## DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

Priority	Action/Milestone	Target Completion Date
<b><i>Outcome: A new data set has been compiled and made available internally and/or disseminated to the public.</i></b>		
H	Report IIP data for 2019 and 2020 to the IMF for redissemination after implementing the recommendations provided by the mission. Some recommendations will take time to be implemented. Report revised data once those recommendations are implemented.	April 2022
H	Continue to coordinate with the AFA and Andorran banks to record financial derivative asset and liability positions for banks.	June 2022
M	Investigate whether other institutions sectors (e.g., OFCs) have financial derivative positions.	December 2022
H	Estimate euros circulating in Andorra using the average currency in circulation to deposits ratio obtained from neighboring countries.	Already implemented
M	Investigate whether OFCs have loan assets consulting with the AFA.	June 2022
M	Contact banks to guide them to report accounts receivable and payable on a gross basis.	June 2022
H	Record SDR holdings and allocations as explained by the mission. Double-check the data received from the Ministry of Finance and those on the IMF's website.	Already implemented
H	Report the new balance of payments data for 2020 and updated data for 2019 by implementing the recommendations provided by the mission to the IMF for redissemination. Some recommendations will take time to be implemented. Report revised data once those recommendations are implemented.	April 2022
M	Record merchanting on a gross basis with the information on the goods acquired and goods sold under merchanting.	Already implemented
H	Start recording financial derivative transactions in balance of payments following the guidance provided by the mission.	June 2022
H	Record SDR holdings and allocations following the mission's guidance in the balance of payments for 2020.	Already implemented

Priority	Action/Milestone	Target Completion Date
<b>Outcome: Source data are adequate for the compilation of these macroeconomic statistics.</b>		
H	Review the results of the new direct reporting, with a view to using the information to compile FDI asset positions. Compare the results with the mirror data obtained from the CDIS (e.g., the level of investment and the counterpart countries).	December 2022
H	Further improve the direct reporting system by covering equity liabilities.	December 2022
M	Explore source data for households' investments in real estate abroad by revising the household survey or acquiring information from the Tax Office.	December 2022
M	Obtain the source data from the Andorran public pension fund to record its positions and transactions. Validate the data by comparing with the information from banks that provide custody service to the pension fund.	Already implemented
M	Confirm with Andorran banks that the reported portfolio investment liabilities for the general government were non-residents' holdings of government securities. Contact the Ministry of Finance to find out if it can provide source data on this item.	June 2022
H	Obtain source data from the AFA to record OFCs' portfolio investment asset positions for both equity and debt securities.	June 2022
H	Review the information on deposit assets and loan liabilities for non-financial corporations obtained from the new direct reporting system, with a view to replacing the mirror data for recording these instruments.	December 2022
M	Obtain source data from the AFA to record deposit assets and loan liabilities for OFCs.	September 2022
M	Review the information on trade credit for non-financial corporations obtained from the new direct reporting system, with a view to record them in the IIP. Explain to the data reporters the difference between trade credit and trade finance provided by banks as needed.	December 2022
M	Contact banks to guide them to report accounts receivable and payable positions on a gross basis.	September 2022
M	Further investigate what were reported for other equity and reclassify them to correct items.	June 2022
H	Contact AFA to revise the source data for dividends received.	June 2022



Priority	Action/Milestone	Target Completion Date
M	Contact AFA to revise the source data, in order to record transactions for both accounts receivable and payable.	September 2022
Priority Scale: H – High, M – Medium		

## A. Introduction

6. **Andorra joined the IMF in October 2020.** The first Article IV consultation took place during March to April 2021 (its Board meeting was held in June 2021). The IMF's Statistics Department (STA) joined both the membership mission and the Article IV consultation providing technical assistance (TA) to start compiling balance of payments statistics for Andorra, given that the data were essential for calculating Andorra's quota in the IMF and the surveillance. The data were also needed to launch its first bond offering in the international market. The Andorran Statistics Department (ASD) successfully disseminated its first annual balance of payments statistics in May 2021 (the data for 2019). However, some data gaps remained in the balance of payments statistics. International investment position was not compiled yet.

## B. International Investment Position (IIP)

7. **The ASD is now ready to start compiling IIP.** Prior to the mission, the ASD prepared preliminary annual IIP data for 2019 and 2020 for the mission's review. The mission provided recommendations to improve the coverage and quality of the data. The mission advised that the ASD report the data to the IMF for redissemination by implementing the recommendations.

### (i) Direct Investment

8. **Andorra is developing source data for direct investment (FDI) and other IIP components.** Andorra improved the direct reporting system starting with the information for 2021. Under the new direct reporting system, enterprises are required to report their balance sheet information with explanation notes. The reported information will be shared by the Andorran government agencies, including the ASD, the Ministry of Economy, and the Tax Office, and provide source data for balance of payments and IIP components. The deadline for the data submission is September of the following year. The ASD plans to review the data collected through the new direct reporting system towards the end of 2022.

9. **Around 6,000 enterprises are expected to report the data under the new direct reporting system.**<sup>1</sup> The ASD informed the mission of their plan to review the data for 1,000 to 2,000 enterprises. Considering limited resources at the ASD, the mission advised that the ASD focus on largest enterprises (e.g., a few hundred enterprises) in the beginning of the review.

<sup>1</sup> Small enterprises (e.g., family businesses) are not required to report the data.

It is likely that the largest enterprises account for most of the total direct investment asset and liability positions for Andorra as is the case in other countries.

10. **Information on FDI and portfolio equity liabilities is not available in the new reporting system at this point.** To compile the data, the ASD plans to use the information obtained from the business register (e.g., the share of non-residents' equity holdings of the company) as well as the record from the Ministry of Economy (i.e., approvals of investments in Andorra by non-residents).<sup>2</sup> However, these data have some shortcomings (e.g., market values of the equities and information on disinvestments are not available). The mission recommended that the Andorran authority further improve the direct reporting system by covering equity liabilities.

11. **Separately, the ASD is acquiring the information on non-residents' investments in Andorran real estate from the Ministry of Economy.** The Ministry of Economy can gather the information when it approves the investments. However, the ASD does not have information on Andorran households' investments in real estate abroad. The ASD plans to revise the household survey to cover the investments. The ASD also plans to consult with the Tax Office to see if it can provide information to record Andorran households' investments in real estate abroad. The Tax Office may also provide information on other types of investments by households (e.g., portfolio investment abroad).

12. **Until the source data from the new direct reporting system become available, the ASD plans to use the mirror data obtained from the IMF's Coordinated Direct Investment Survey (CDIS) to record FDI asset and liability positions.** The mission explained that the CDIS mirror data show the minimum level of FDI asset and liability positions for Andorra because several countries reported positions with Andorra as confidential, which were not included in the total of the mirror data. Also, the mirror data may have some gaps, given that some countries do not participate in the CDIS. Further, the mission explained the difference between the directional principle used in the CDIS and the asset/liability presentations recommended by the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. Due to the reverse investment, debt instrument positions were negative for both assets and liabilities in the CDIS mirror data for Andorra.

**Recommendations:**

- Report IIP data for 2019 and 2020 to the IMF for redissemination after implementing the recommendations provided by the mission (top priority by April 2022). Some recommendations will take time to be implemented. Report revised data once those recommendations are implemented (high priority).

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<sup>2</sup> The business survey also provides data on FDI asset transactions.

- Review the results of the new direct reporting, with a view to using the information to compile FDI asset positions. Compare the results with the mirror data obtained from the CDIS (e.g., the level of investment and the counterpart countries) (Top priority by December 2022).
- Further improve the direct reporting system by covering equity liabilities (high priority by December 2022).
- Explore source data for households' investments in real estate abroad by revising the household survey or acquiring information from the Tax Office (medium priority by December 2022).

## (ii) Portfolio Investment

13. **The data on portfolio investment are sourced from Andorran banks for all institutional sectors.** Andorran banks provide custody services to their clients, including non-financial corporations, households, and the Andorran public pension fund (Retirement Reserve Fund). So, the banks can provide the data for their own investments as well as on behalf of their clients. The ASD collects data from banks using the integrated IIP statement, including the information on valuation and foreign exchange rate changes.

14. **The mission requested the ASD to investigate banks' large holdings of equity securities since banks usually do not have large exposures to equity securities.**

The ASD consulted with the Andorran Financial Authority (AFA), which collects data from banks and report to the ASD. The AFA confirmed that the investments were mostly in money market funds.

15. **The mission recommended that the ASD obtain the source data directly from the Andorran public pension fund, instead of using information reported from the AFA.**

This will ensure that the positions and transactions of the pension fund be recorded comprehensively, including those made through foreign banks. The source data obtained from the pension fund should be verified by comparing with the information from banks that provide custody service to the pension fund.

16. **It is likely that the AFA reported non-residents' holdings of Andorran government securities as portfolio investment liabilities for the general government.** The government securities issued domestically could be purchased by non-residents in the secondary market. The ASD is confirming it with the Andorran banks through the AFA in order to avoid misclassification. The mission also recommended that the ASD contact the Ministry of Finance to find out if it can provide source data on non-residents' holdings of Andorran government securities.

17. **The portfolio investment asset position for other financial corporations (OFCs) are not compiled for both equity and debt securities.** It is highly likely that Andorran investment funds and insurance corporations have portfolio investment positions abroad, particularly

because the AFA reports OFCs' portfolio investment transactions for balance of payments. The ASD is approaching the AFA for the source data to compile portfolio investment asset positions for OFCs in the IIP.

**Recommendations:**

- Obtain the source data from the Andorran public pension fund to record its positions and transactions. Validate the data by comparing with the information from banks that provide custody service to the pension fund (already implemented).
- Confirm with Andorran banks that the reported portfolio investment liabilities for the general government were non-residents' holdings of government securities. Contact the Ministry of Finance to find out if it can provide source data on this item (medium priority by June 2022).
- Obtain source data from the AFA to record OFCs' portfolio investment asset positions for both equity and debt securities (high priority by June 2022).

**Table 2. Andorra: Data Source for Portfolio Investment Position By Sector**

	General government	Deposit-taking corporations	Other financial corporations	Non-financial corporations	Households
<b>Equity</b>					
Assets	AFA (pension fund)	AFA	AFA	AFA (new direct reporting)	AFA (household survey or Tax Office)
Liabilities	---	AFA	AFA	AFA (new direct reporting)	---
<b>Debt securities</b>					
Assets	AFA (pension fund)	AFA	AFA	AFA (new direct reporting)	AFA (household survey or Tax Office)
Liabilities	AFA (Ministry of Finance)	AFA	AFA	AFA (new direct reporting)	---

\*Potential new source data are in parenthesis.

**(iii) Financial Derivatives**

18. **The ASD is coordinating with the AFA to start compiling financial derivative transactions and positions for Andorran banks.** During the membership mission and the first Article IV consultation for Andorra, the mission provided the ASD, the AFA, and Andorran banks with guidance on the recording of financial derivative transactions and positions. Compilation of

positions is straight forward since the banks' balance sheet data can be directly recorded as long as the positions with residents and non-residents are separately identified.

**Recommendations:**

- Continue to coordinate with the AFA and Andorran banks to record financial derivative asset and liability positions for banks (high priority by June 2022).
- Investigate whether other institutions sectors (e.g., OFCs) have financial derivative positions (medium priority by June 2022).

**(iv) Currency in Circulation**

19. **Andorra does not participate in the Eurosystem, but it is fully euroized.** Euros circulating in Andorra are part of external assets and should be included in the IIP (assets in currency and deposits). However, there is no established methodology to estimate the amount of the currency in circulation.

20. **The ASD and the mission agreed on the methodology to estimate euros circulating in Andorra by using the ratio on currency in circulation to deposits obtained from neighboring countries.** The ASD calculated the ratios on currency in circulation to deposits in neighboring euro area countries. The ratios ranged around 5 to 15 percent. The ASD and the mission agreed to apply the average ratio among the neighboring countries to the deposits in Andorra to estimate euros circulating in Andorra.

**Table 3. Andorra: Estimated Euros Circulating in Andorra**

	€ million		
	2018	2019	2020
<b>Estimated euros in circulation</b>	<b>601</b>	<b>645</b>	<b>603</b>

21. **The use of cash by tourists may increase the euros circulating in Andorra.** The ASD acquired the information on tourist expenditures and estimated annual cash payments by tourists (the total spending minus the use of credit cards). The result was around 400 million euros. It also supports the plausibility of the estimated level of cash circulating in Andorra.

**Recommendation:**

- Estimate euros circulating in Andorra using the average currency in circulation to deposits ratio obtained from neighboring countries (already implemented).

## (v) Deposits and Loans

22. **Deposits and loans are compiled based on the data from the AFA and the mirror data from the Locational Banking Statistics (LBS) compiled by the Bank for International Settlements (BIS).** Data on deposit assets for banks are obtained from banks through the AFA. Deposit assets for OFCs as well as non-financial corporations and households are compiled using the mirror data from the LBS. During the membership mission and the first Article IV consultation for Andorra, the mission provided the ASD with guidance on the use of the mirror data. The LBS provides position data as well as changes in positions during the quarter adjusted by exchange rates. The latter can be used as a proxy for transactions to be recorded in balance of payments. The LBS separately identifies data for banks, OFCs, non-financial corporations, as well as the general government and households.

23. **New source data on deposit assets for non-financial corporations may become available from the new direct reporting system.** The mission advised that the ASD review the data on deposit assets for non-financial corporations obtained from the new direct reporting system, with a view to replacing the mirror data for recording deposit assets for non-financial corporations. The data on deposit assets for OFCs should be obtained from the AFA. The ASD can continue to use the mirror data for households until other data source (e.g., information from the household survey or the Tax Office) becomes available.

24. **Data on loan assets are recorded only for banks.** The mission raised the possibility for OFCs to have loan assets. The ASD plans to investigate the position with the AFA. The loans by OFCs could be mixed in the data for banks.

25. **Data on loan liabilities are recorded using the mirror data from the LBS for OFCs, non-financial corporations, and households.** Similar to deposit assets, new source data on loan liabilities for non-financial corporations may become available from the new direct reporting system. The data on loan liabilities for OFCs should be obtained from the AFA. The government received a loan from a French bank to finance expenses to deal with the pandemic. The data are obtained from the Ministry of Finance.

### **Recommendations:**

- Review the information on deposit assets and loan liabilities for non-financial corporations obtained from the new direct reporting system, with a view to replacing the mirror data for recording these instruments (high priority by December 2022).
- Obtain source data for the AFA to record deposit assets and loan liabilities for OFCs (medium priority by September 2022).
- Investigate whether OFCs have loan assets consulting with the AFA (medium priority by June 2022).

**Table 4. Andorra: Data Source for Deposits and Loans by Sector**

	General government	Deposit-taking corporations	Other financial corporations	Non-financial corporations	Households
<b>Deposits</b>					
Assets	---	AFA	LBS mirror data (AFA)	LBS mirror data (new direct reporting)	LBS mirror data (household survey or Tax Office)
Liabilities	---	AFA	---	---	---
<b>Loans</b>					
Assets	---	AFA	(AFA)	---	---
Liabilities	Ministry of Finance	AFA	LBS mirror data (AFA)	LBS mirror data (new direct reporting)	LBS mirror data (household survey or Tax Office)

\*Potential new source data are in parenthesis.

#### **(vi) Trade Credit, Accounts Receivable/Payable, and Other Equity**

26. **The ASD has not yet compiled data on trade credit.** The new direct reporting may provide source data for this item. The mission explained to the ASD the difference between trade credit and trade finance provided by banks. The ASD also needs to explain it to data reporters to avoid misreporting.

27. **Banks do not report accounts receivable while they report accounts payable.** It is likely that banks netted accounts receivable and payable when they reported the data. The ASD plans to contact the banks for correct reporting.

28. **The mission provided guidance on reporting of other equity to Andorran banks.** The mission met the AFA and Andorran banks and explained the concept of other equity and their examples, given that banks reported relatively large figures for other equity assets and liabilities. One of the banks mentioned that it had reported investments in equity-linked securities under other equity. The mission advised that equity-linked securities be reported as debt securities.

#### **Recommendations:**

- Review the information on trade credit for non-financial corporations obtained from the new direct reporting system, with a view to record them in the IIP. Explain to the data reporters the difference between trade credit and trade finance provided by banks as needed (medium priority by December 2022).

- Contact banks to guide them to report accounts receivable and payable positions on a gross basis (medium priority by September 2022).
- Further investigate what were reported for other equity and reclassify them to correct items (medium priority by June 2022).

### **(vii) Reserve Assets**

29. **Andorra's reserve assets are currently limited to holdings of Special Drawing Rights (SDRs).** The ASD was recording reserve position in the IMF, instead of SDR holdings. SDR allocations were not recorded. The mission explained how the Fund accounts should be recorded when Andorra became a member of the IMF, referring to the IMF website that shows Andorra's financial position in the IMF. The mission also explained how to record transactions of SDRs and related interest payments and receipts.

#### **Recommendation:**

- Record SDR holdings and allocations as explained by the mission. Double-check the data received from the Ministry of Finance and those on the IMF's website (already implemented).

## **C. Balance of Payments**

30. **The ASD is ready to produce balance of payments data regularly.** Prior to the mission, the ASD prepared preliminary new data for 2020 and updated data for 2019 for the mission's review. The mission provided recommendations to improve the coverage and quality of the data. The mission advised that the ASD report the data to the IMF for redissemination by implementing the recommendations. The ASD and the mission also initiated discussions to improve the frequency of the data compilation from annual to quarterly.

### **(i) Merchanting**

31. **The ASD started recording merchanting transactions.** The ASD acquires the information on merchanting from the business survey. The mission recommended that merchanting be compiled on a gross basis recording the values for goods acquired and for those sold. Under merchanting, sold goods are recorded as credit and acquired goods are recorded as negative credit.

### **(ii) Dividends in the Primary Income**

32. **The mission recommended that dividends in the primary income be recorded in balance of payments for 2020 consistently with the 2019 data.** The source data for dividends received from the AFA for 2020 were very low compared to those in 2019. The ASD adjusted the data using the dividend yield in 2019 with a modification taking into account changes in dividend yields in world stock markets. The adjustment was acceptable as a temporal measure,



but the mission recommended that the ASD address this issue with the AFA and replace the adjusted data with real data.

### **(iii) Financial Derivatives**

33. **The mission provided detailed guidance on the recording of financial derivative transactions in balance of payments.** The compilation of transaction data for financial derivatives had been a challenge for the ASD and the AFA. The mission met the AFA and Andorran banks and provided guidance using the model report form from the *BPM6 Compilation Guide* (Form 20). The mission explained that most of the transactions are to settle asset or liability positions; therefore, all transactions are recorded as a decrease in assets and liabilities in balance of payments in principle. Only purchasing and selling options are recorded as an increase in assets and liabilities; however, the volume of these transactions is smaller compared to settlement transactions. The mission also provided guidance to record financial derivative transactions and positions based on the integrated IIP statement. The integrated IIP statement should help the ASD review the consistency between the balance of payments and IIP data. The mission also reviewed the integrated IIP statements for other major IIP components.

### **(iv) Accounts Receivable/Payable and Trade Credit**

34. **The mission recommended that both accounts receivable and payable be recorded in balance of payments.** As was the case in the IIP, only accounts payable (no accounts receivable) transactions were recorded in balance of payments. The mission recommended that the ASD raise this issue with AFA along with the same issue in the IIP so that banks will revise the source data to record these items. Also, as was the case in the IIP, the source data to record transactions for trade credit may become available from the new direct reporting system.

### **(v) Reserve Assets**

35. **The mission recommended that SDR holdings and allocations be correctly recorded in balance of payments.** As was the case in the IIP, the ASD was recording the reserve position in the IMF, instead of SDR holdings, in the balance of payments for 2020. SDR allocations were not recorded. In line with the mission's explanation about their recording in the IIP, transactions of SDR holdings and allocations should be correctly recorded in balance of payments for 2020.

### **(vi) Quarterly Balance of Payments**

36. **The ASD and the mission discussed steps and challenges to improve the frequency of the compilation of balance of payments data from annual to quarterly.** The source data provided by banks (e.g., other investment items) will be available quarterly. However, the results of the new direct reporting system will be available only annually. The household survey is also an annual exercise. Some data for travel are available monthly, but the travel services are compiled only annually. A follow-up mission could assist the ASD in developing source data to compile balance of payments statistics quarterly.

**Recommendations:**

- Report the new balance of payments data for 2020 and updated data for 2019 by implementing the recommendations provided by the mission to the IMF for redissemination (top priority by April 2022). Some recommendations will take time to be implemented. Report revised data once those recommendations are implemented (high priority).
- Record merchanting on a gross basis with the information on the goods acquired and goods sold under merchanting (already implemented).
- Contact AFA to revise the source data for dividends received (high priority by June 2022).
- Start recording financial derivative transactions in balance of payments following the guidance provided by the mission (high priority by June 2022).
- Contact AFA to revise the source data, in order to record transactions for both accounts receivable and payable (medium priority by September 2022).
- Record SDR holdings and allocations following the mission's guidance in the balance of payments for 2020 (already implemented).