



## Interview



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Inflation in the Eurozone has been slowing down for several months in a row. But there are some doubts about the sustainability of this trend. Pere Augé, CEO and founder of Augé Holding Group, has shared his opinion on the matter.

**-A very simple and important question: why does inflation occur?**

-As a rule, when there is liquidity in the market and consumption and demand rise, consumer prices also rise. We have seen here in Andorra how, for example, the price of housing has risen sharply in the face of an excess of demand compared to the existing supply. In addition to past financial crises, such as the 2007 crisis, the post-pandemic effect has also contributed to the outbreak of uncontrolled inflation.

During the pandemic, the world came to a standstill. Making everything work again has cost a lot and made products more expensive in general. Andorra is not a producing country, but it imports everything, and it has been noticed in the lack of supply and the general price increase leading to inflation.



«The economy will grow less with an increase in Andorran real GDP by 1.4%, which could increase to 2.2% in 2024 and 2025»

In a scenario in which the economy had to be reactivated and in which interest rates remained very low or at zero for more than ten years, given the new circumstances of the market, inflation has found a good ally. It happened just when there was too much money circulating in the market.

**-Apparently, this is the reason for the new policy of the international financial authorities, which approve the increase in interest rates to curb inflation.**

-If interest rates rise, if it costs more to get a bank loan, there will be less demand and, therefore, less spending. Obviously, this also applies to companies. Credit, investment, and project revitalization may slow, which will eventually have a negative impact on economic growth. When credit becomes more expensive, there is less money in circulation,



## Pere Augé

CEO and founding partner of Augé Holding Group

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and consumption falls, which is the desired effect.

This is why the European Central Bank and the US Federal Reserve have initiated an upward revision of interest rates. In Europe, they have reached 4% and could rise even more this year.

In Andorra, prices are predicted to rise by 4.2% in 2023 (compared to 7.1% in 2022). For comparison, in France, they are expected to grow by 5%, in Spain - by 4.3%, and in the EU as a whole - by 5.3%. At the same time, if we talk about the EU, by 2024, it is predicted that prices will rise only up to 2.9% and by 2% in 2025. We hope the forecasts will come true,

allowing interest rates to fall again in 2024 so the economy can recover.

**-Which goods and services have been most affected in Andorra during the last year by the rise in prices?**

-The CPI has generally been declining since the beginning of the year. If in April it was at 5.4%. Then in May, it fell to 4.9% and, according to our estimates, will decrease even more during the year. Housing continues to rise in price. The rise in food prices is especially noticeable: in May, they went up by 13.3% against 16.3% in March (note the trend change). In May, furniture went up by 10.2%, alcoholic



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beverages and tobacco - by 8%, and prices for hotel services and services of restaurant-type establishments grew by 6%.

The issue of fuel prices is complex and not subject to a single cause. Many countries depended on Russian oil but found other suppliers. Russian oil has also found new markets. Two great worlds are coming together, Russia/Asia on one side and US/Europe on the other. The stabilization of demand, minus the military crisis, the fragility and vulnerability of the market, and the interference of two large blocs in price balancing determined the future of fuel prices.

**-What is your forecast for inflation in Andorra this year and next, and what will happen to interest rates?**

-Eurozone interest rates are likely to rise to 4.5% before starting to fall in 2024 and stabilizing around 2.5%.

The economy will grow less with an increase in Andorran real GDP by 1.4%, which could increase to 2.2% in 2024 and 2025.

As the Andorran economy moves along with France, Spain, and the Eurozone, we should note that France expects to grow by 0.7% in 2024 and 1.3% in 2024, Spain by 1.5% in 2023 and 2% in 2024. In general, in the EU in 2023, growth is expected at 0.8%, and in 2024 - by 1.4%

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