

# Republic of Malta

## Rating report

### Rating rationale

**Strong growth potential:** Malta has experienced a very robust economic recovery in 2021 and 2022. Strong growth in key sectors, development of higher-value-added activities and inflows of skilled workers support its robust medium-term potential growth of around 3.5% despite headwinds and economic uncertainty.

**Strong record of fiscal prudence:** Malta achieved one of the strongest debt reductions among peers in the years preceding the Covid-19 crisis. Strong fiscal outcomes, the gradual withdrawal of support measures and a robust growth outlook underpin our view that debt will stabilise at slightly below the 60% of GDP threshold in the medium term.

**Strong external position:** Euro area membership and a large external creditor position mitigate risks linked to Malta's small, open economy.

**Rating challenges include:** i) an externally dependent and resource-constrained economy, which presents risks to the stability and sustainability of Malta's growth model; ii) fiscal risks in the form of age-related cost pressures and elevated government guarantees issued to state-owned enterprises; and iii) lingering, albeit improving, institutional challenges related to the financial oversight and supervision frameworks, as well as governance metrics.

**Figure 1: Malta's sovereign rating drivers**

| Risk pillars                        | Quantitative          |                   | Reserve currency* | Political risk** | Qualitative*** | Final rating |
|-------------------------------------|-----------------------|-------------------|-------------------|------------------|----------------|--------------|
|                                     | Weight                | Indicative rating | Notches           | Notches          | Notches        |              |
| Domestic economic risk              | 35%                   | a                 | EUR               | Malta            | 0              | A+           |
| Public finance risk                 | 20%                   | a                 |                   |                  | 0              |              |
| External economic risk              | 10%                   | bbb-              |                   |                  | 0              |              |
| Financial stability risk            | 10%                   | aaa               |                   |                  | 0              |              |
| ESG risk                            | Environmental factors | 5%                | [+1]              | [-0]             | 0              |              |
|                                     | Social factors        | 7.5%              |                   |                  | 0              |              |
|                                     | Governance factors    | 12.5%             | a+                |                  |                |              |
| <b>Sovereign Quantitative Model</b> |                       |                   | <b>a+</b>         |                  | <b>0</b>       |              |
| <b>Additional considerations</b>    |                       |                   |                   |                  | <b>0</b>       |              |

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Foreign currency

Long-term issuer rating/Outlook

A+/Stable

Senior unsecured debt

A+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

### Local currency

Long-term issuer rating/Outlook

A+/Stable

Senior unsecured debt

A+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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### Credit strengths and challenges

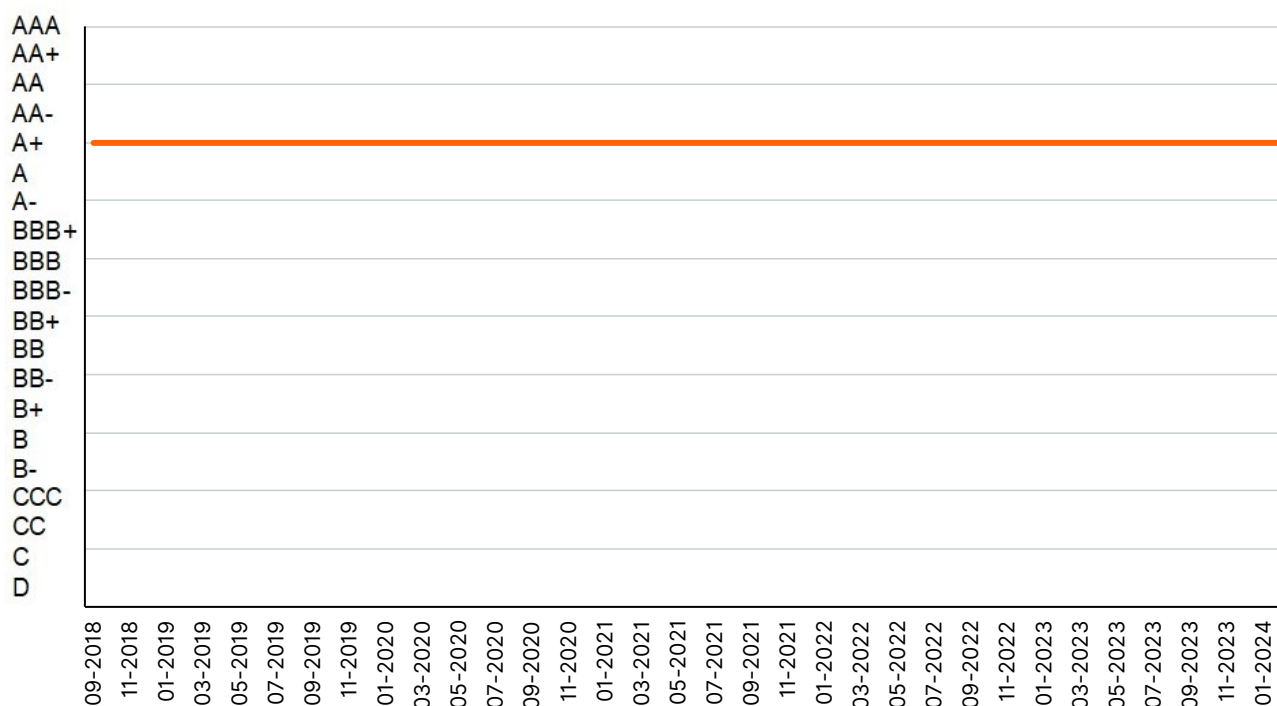
| Credit strengths  | Credit challenges  |
|---|--|
| <ul style="list-style-type: none"> <li>Strong growth potential</li> <li>Record of prudent fiscal management</li> <li>Solid external position</li> </ul> | <ul style="list-style-type: none"> <li>Externally dependent, resource constrained economy</li> <li>Fiscal risks and contingent liabilities</li> <li>Lingering institutional and administrative deficiencies</li> </ul> |

### Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

| Positive rating-change drivers   | Negative rating-change drivers  |
|--|---|
| <ul style="list-style-type: none"> <li>Structural reform support economy diversification and resilience</li> <li>Fiscal consolidation returns public debt to a firm downward trajectory</li> </ul> | <ul style="list-style-type: none"> <li>Structural deterioration in growth</li> <li>Weakening in fiscal outlook</li> <li>Institutional fragilities re-emerge and pose a threat to economic attractiveness</li> </ul> |

Figure 2: Rating history<sup>1</sup>



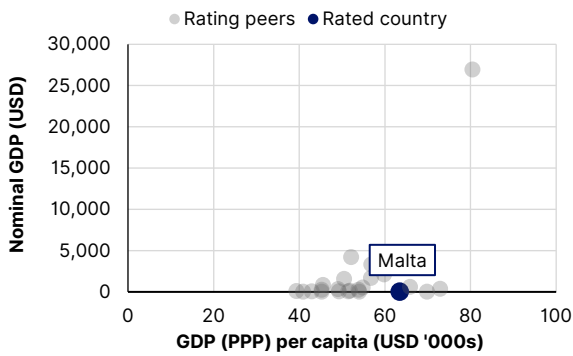
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Malta's Domestic Economic Risk

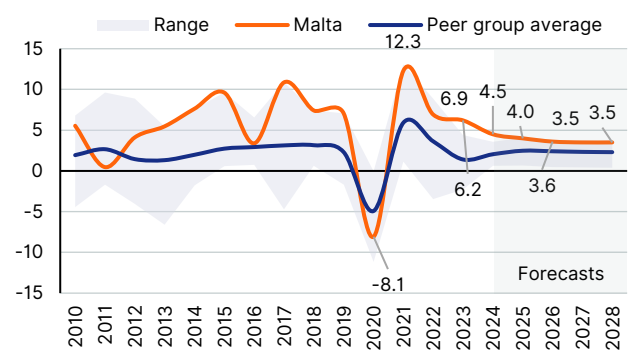
| SQM* indicative rating | Analytical component                       | Assessment | Notch adjustment | Rationale  |
|------------------------|--|------------|------------------|--|
| a                      | Growth potential and outlook               | Strong     | +1/3             | High growth potential, supported by structural reforms, high growth sectors, and strong labour markets |
|                        | Monetary policy framework                  | Neutral    | 0                | ECB is a highly credible and effective central bank  |
|                        | Macroeconomic stability and sustainability | Weak       | -1/3             | Small, open economy subject to volatility: reliance on foreign demand, investments and labour          |

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



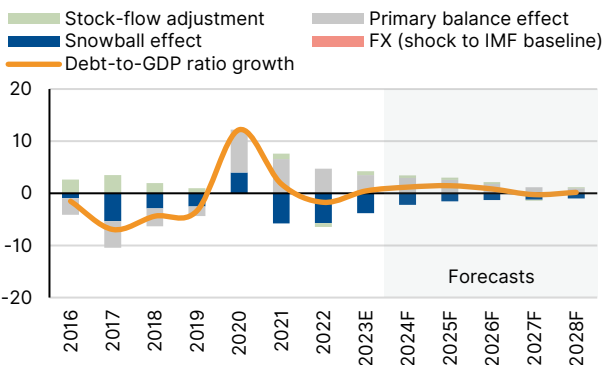
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Malta's Public Finance Risk

| SQM indicative rating | Analytical component           | Assessment | Notch adjustment | Rationale   |
|-----------------------|--------------------------------|------------|------------------|---|
| a                     | Fiscal policy framework        | Neutral    | 0                | Good record of consolidation, and over-achieving of fiscal targets; wide post-crisis deficits reflect less ambitious consolidation strategy |
|                       | Long-term debt trajectory      | Neutral    | 0                | Stabilisation of debt trajectory over the medium term; contingent liabilities pose long-term fiscal risks                                   |
|                       | Debt profile and market access | Neutral    | 0                | Favourable debt profile; low interest payment burden  |

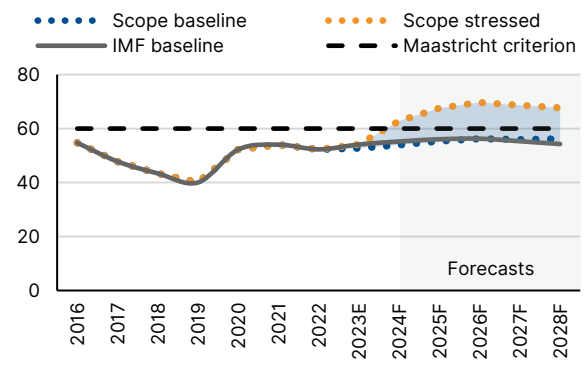
Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

\*Sovereign Quantitative Model.

Figure 6: Debt-to-GDP forecasts, % of GDP



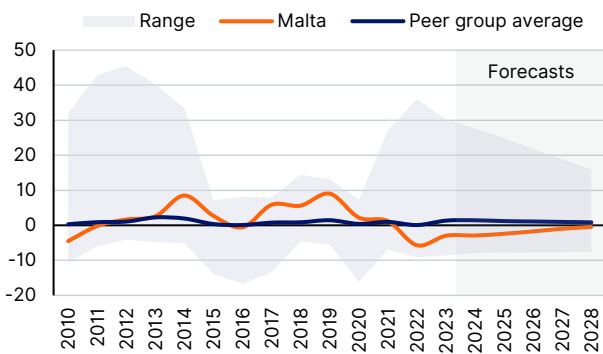
Source: IMF WEO, Scope Ratings forecasts

## External economic risk

### Overview of Scope's assessments of Malta's External Economic Risk

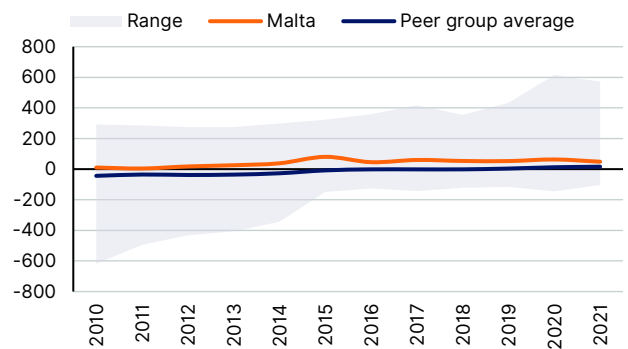
| SQM indicative rating | Analytical component                     | Assessment | Notch adjustment | Rationale   |
|-----------------------|--|------------|------------------|---|
| bbb-                  | Current account resilience               | Neutral    | 0                | Small open economy exposed to current account volatility; current account surpluses underpinned by competitive export sectors |
|                       | External debt structure                  | Neutral    | 0                | Large external liabilities are offset by large external assets and reflect financial hub status; debt structure has improved  |
|                       | Resilience to short-term external shocks | Neutral    | 0                | Euro-area membership mitigates exposure to international markets  |

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



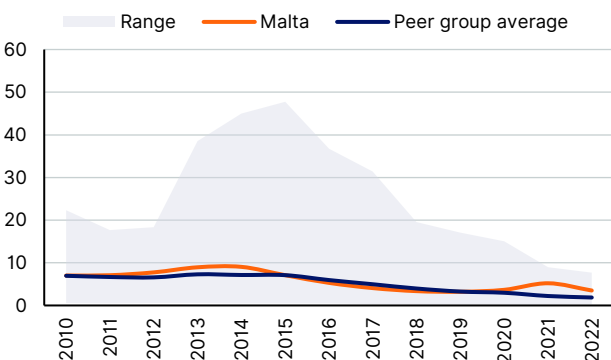
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Malta's Financial Stability Risk

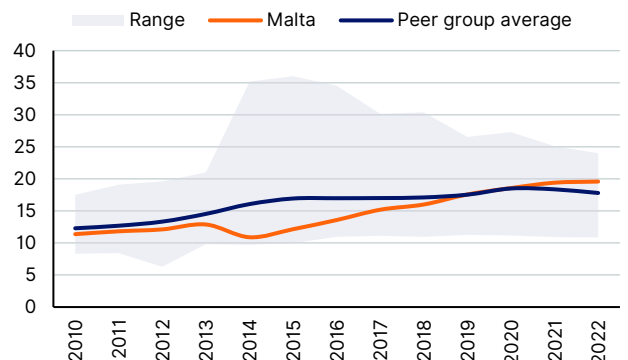
| SQM indicative rating | Analytical component                      | Assessment | Notch adjustment | Rationale  |
|-----------------------|---|------------|------------------|--|
| aaa                   | Banking sector performance                | Neutral    | 0                | Profitable and adequately capitalised banking sector   |
|                       | Financial sector oversight and governance | Neutral    | 0                | Historical shortcomings in supervision though reforms to enhance oversight have been adopted and are being effectively implemented   |
|                       | Financial imbalances                      | Neutral    | 0                | Elevated private debt levels and rising house prices, in line with peers; appropriate and sufficient macroprudential policy response |

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



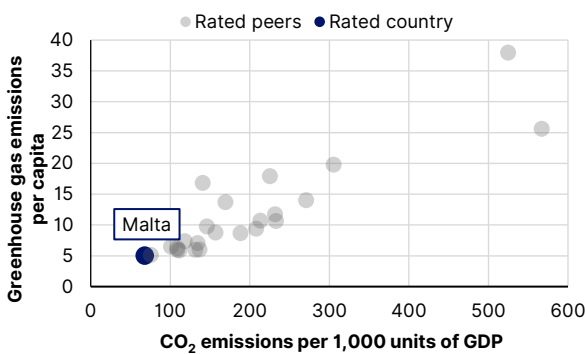
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Malta's ESG Risk

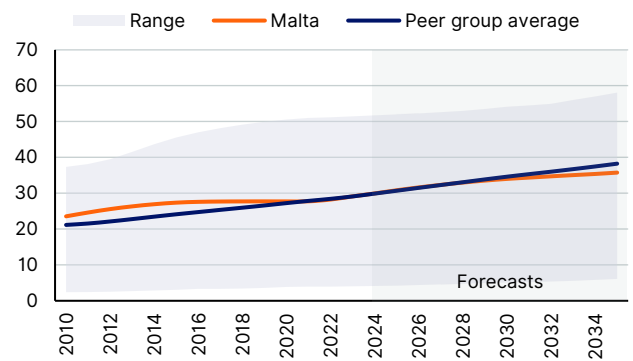
| SQM indicative rating | Analytical component  | Assessment | Notch adjustment | Rationale   |
|-----------------------|-----------------------|------------|------------------|---|
| bbb+                  | Environmental factors | Neutral    | 0                | Low carbon emissions per capita; mitigation costs are high and emissions are set to increase                                      |
|                       | Social factors        | Neutral    | 0                | Adverse demographics and skill mismatches; stronger employment dynamics as well as social inclusion reflecting broad-based growth |
|                       | Governance factors    | Weak       | -1/3             | Positive reform momentum but important institutional deficiencies remain  |

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

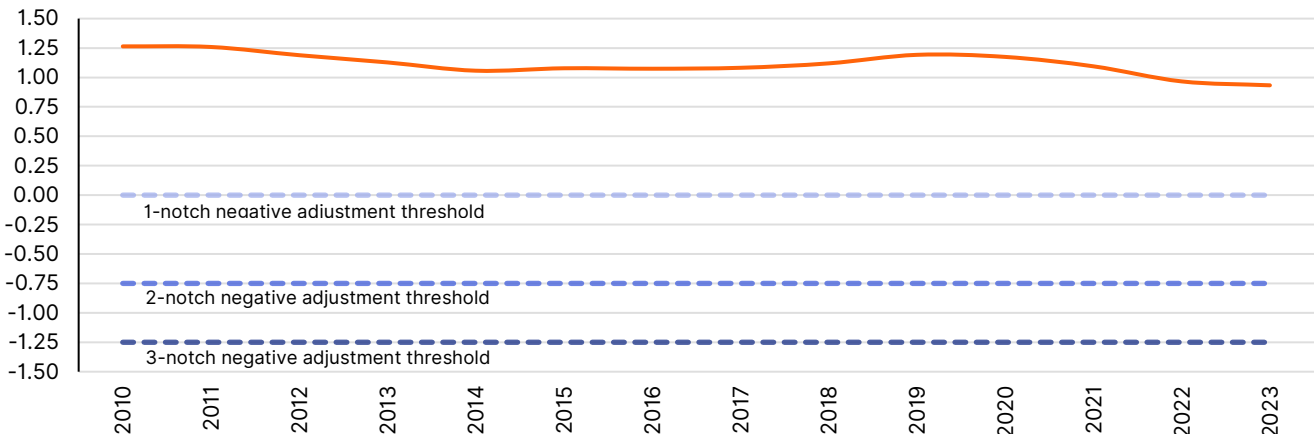
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

| Currency                     | U.S. dollar | Euro | Chinese yuan | Japanese yen | Pound sterling | Other |
|------------------------------|-------------|------|--------------|--------------|----------------|-------|
| IMF SDR basket weights, %    | 43.4        | 29.3 | 12.3         | 7.6          | 7.4            | 0.0   |
| Positive adjustment, notches | 3           | 1    | 1            | 1            | 1              | 0     |

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Malta, 3-year moving average



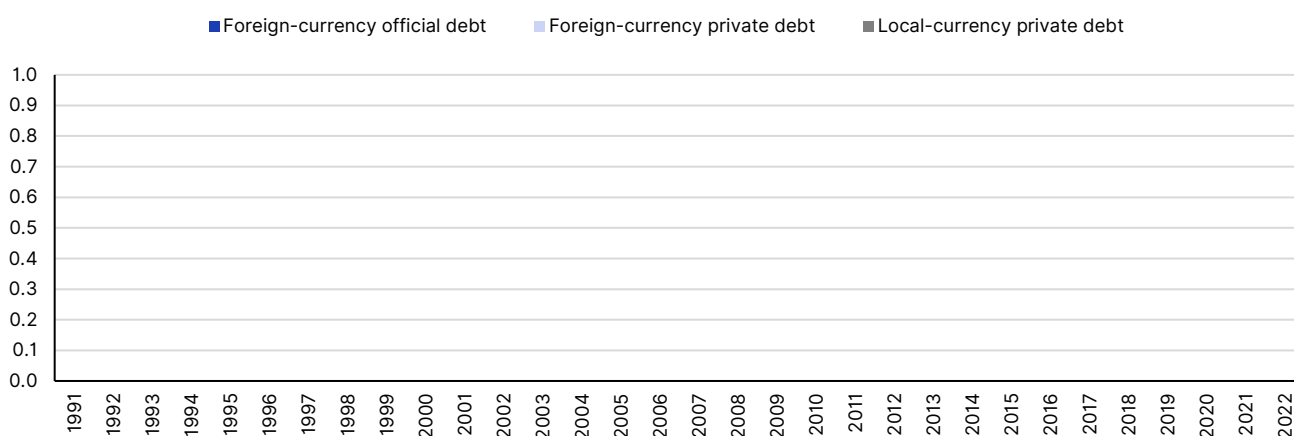
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

### Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

| Peer group*    |                |
|----------------|----------------|
| Belgium        | Lithuania      |
| Croatia        | Poland         |
| Cyprus         | Portugal       |
| Czech Republic | Slovenia       |
| Estonia        | Spain          |
| France         | United Kingdom |
| Japan          | United States  |
| Latvia         |                |

\*Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Economic development and default indicators

|   |                  |
|---|------------------|
| IMF Development Classification                | Advanced economy |
| 5y USD CDS spread (bp) as of 22 February 2024 | 63.8             |

## Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope’s quantitative model, in line with Scope’s Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

| Pillar              | Core variable   | Source | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------|---|--------|------|------|------|------|------|------|
| Domestic Economic   | GDP per capita (PPP), USD '000s                           | IMF    | 47.8 | 50.2 | 44.8 | 52.4 | 59.4 | 63.5 |
|                     | Nominal GDP, USD bn                                       | IMF    | 15.4 | 16.0 | 15.2 | 18.1 | 18.1 | 20.3 |
|                     | Real growth, %  | IMF    | 7.4  | 7.1  | -8.1 | 12.3 | 6.9  | 3.8  |
|                     | CPI inflation, %  | IMF    | 1.7  | 1.5  | 0.8  | 0.7  | 6.1  | 5.8  |
|                     | Unemployment rate, %                                      | WB     | 3.7  | 3.6  | 4.4  | 3.5  | 2.8  | -    |
| Public Finance      | Public debt, % of GDP                                     | IMF    | 43.4 | 40.0 | 52.2 | 54.0 | 52.3 | 54.1 |
|                     | Net interest payment, % of government revenue             | IMF    | 3.9  | 3.6  | 3.6  | 3.1  | 2.8  | 4.3  |
|                     | Primary balance, % of GDP                                 | IMF    | 3.5  | 1.8  | -8.2 | -6.6 | -4.7 | -3.7 |
| External Economic   | Current-account balance, % of GDP                         | IMF    | 5.6  | 9.0  | 2.2  | 1.2  | -5.7 | -3.0 |
|                     | Total reserves, months of imports                         | IMF    | 0.4  | 0.3  | 0.3  | 0.4  | 0.4  | -    |
|                     | NIIP, % of GDP  | IMF    | 53.5 | 52.8 | 63.1 | 48.5 | -    | -    |
| Financial Stability | NPL ratio, % of total loans                               | IMF    | 3.4  | 3.2  | 3.7  | 5.2  | 3.7  | -    |
|                     | Tier 1 ratio, % of risk-weighted assets                   | IMF    | 15.2 | 15.8 | 17.3 | 18.3 | 19.1 | 19.1 |
|                     | Credit to the private sector, % of GDP                    | WB     | 72.5 | 71.0 | 80.8 | 74.7 | 72.0 | 1.6  |
| ESG                 | CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e | EC     | 72.5 | 72.3 | 76.9 | 70.9 | 67.9 | -    |
|                     | Income share of bottom 50%, %                             | WID    | 18.9 | 18.7 | 18.9 | 18.7 | 18.7 | -    |
|                     | Labour-force participation rate, %                        | WB     | 74.9 | 75.9 | 77.1 | 77.8 | -    | -    |
|                     | Old-age dependency ratio, %                               | UN     | 27.7 | 27.7 | 27.7 | 27.7 | 28.2 | 29.1 |
|                     | Composite governance indicators*                          | WB     | 1.0  | 0.8  | 0.9  | 0.8  | 0.7  | -    |
|                     | Political stability, index                                | WB     | 1.3  | 1.0  | 1.0  | 0.9  | 0.9  | -    |

\*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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