

Republic of Malta

Rating report

Rating rationale

Robust economic momentum and strong growth potential: Malta's very robust economic growth is primarily driven by net exports, among which high value-added services and tourism. Private consumption is being supported by a strong labour market, rising real incomes, declining inflation and energy related subsidies, while the favourable tax system continues to support private investment. However, the long-term growth potential could be hindered by skill mismatches, moderate investment in research and development, and constraints on energy supply.

Record of fiscal prudence and moderate government debt: Despite spending pressure related to energy subsidies, the projected reduction of fiscal deficits is underpinned by expected fiscal consolidation under the Excessive Deficit Procedure and Malta's strong track record of prudent fiscal management with sizeable primary surplus pre-Covid. Moreover, the gradual implementation of the EU's Minimum Tax Directive is not expected to materially weaken corporate tax income and attractiveness. Government debt is expected to remain below 60% of GDP, supported by a favourable interest-growth differential and debt structure.

Strong external position enhancing resilience to external shocks: Malta benefits from robust external performance anchored by its export-oriented sectors and sustained current account surpluses. Euro area membership and a large external creditor position further mitigate external 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 the 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%	aa-			0	
Financial stability risk		10%	aaa			0	
ESG risk	Environmental factors	5%	bbb+			[+1]	
	Social factors	7.5%	bb+			0	
	Governance factors	12.5%	a+			- 1/3	
Sovereign Quantitative Model		aa-				-1	
Additional considerations						0	

*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

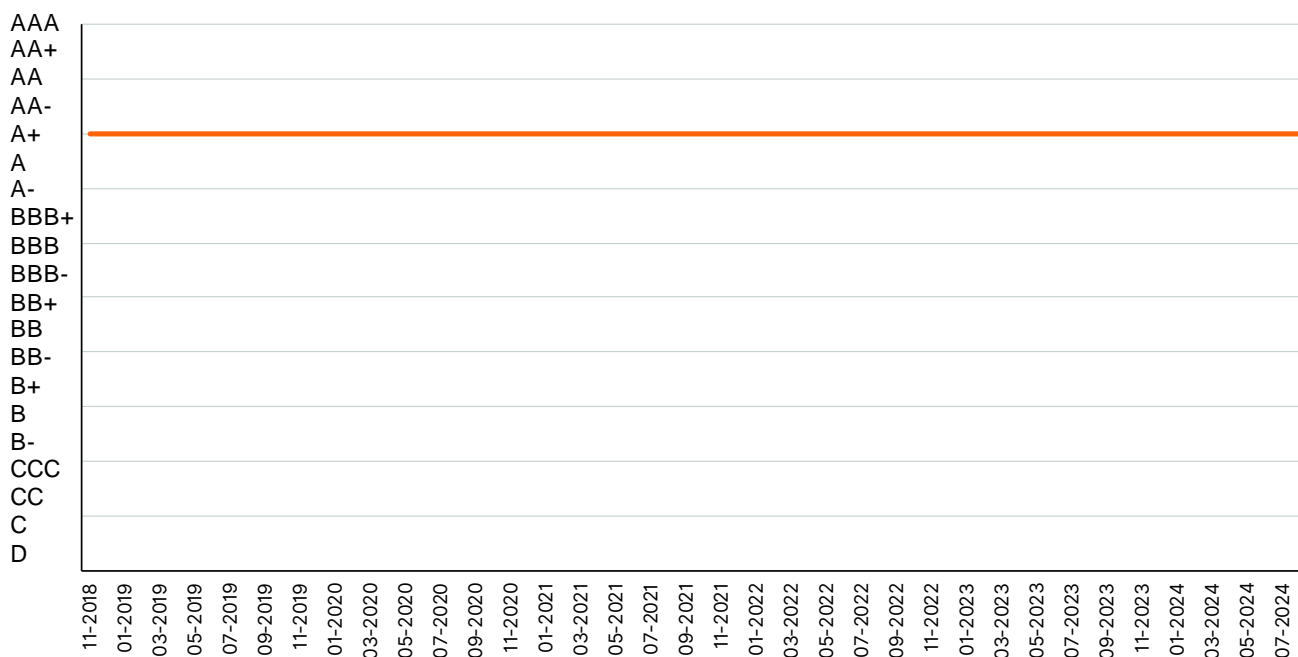
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Robust economic momentum, strong growth potential Record of prudent fiscal management, moderate debt Robust external position 	<ul style="list-style-type: none"> Externally dependent, resource-constrained economy High contingent fiscal risks Lingering institutional and administrative shortcomings

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"> Structural reforms support economy diversification and resilience Fiscal consolidation returns public debt to a firm downward trajectory 	<ul style="list-style-type: none"> Structural deterioration in growth prospects Significant weakening in fiscal outlook Institutional fragilities re-emerge and pose a threat to economic attractiveness

Figure 2: Rating history¹



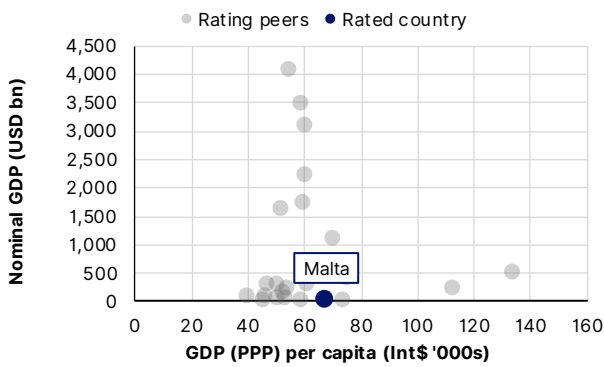
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

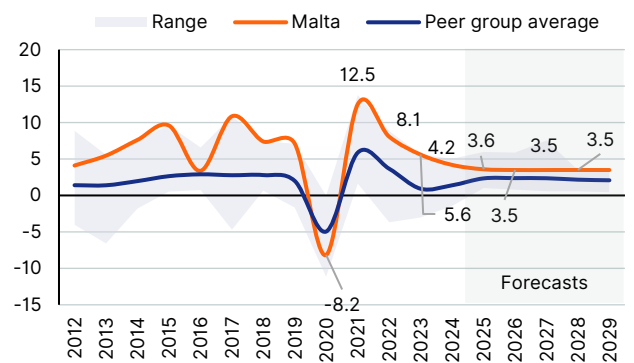
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Growth potential and outlook	Strong	+1/3	High growth potential, supported by structural reforms, high growth sectors, and strong labour markets
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



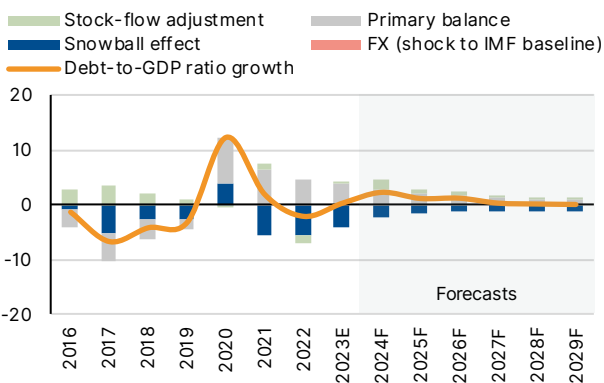
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

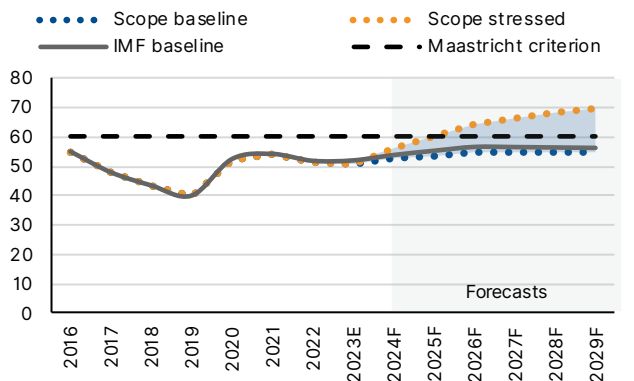
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Fiscal policy framework	Neutral	0	Good record of prudent fiscal management; higher post-crisis deficits reflect more accommodative fiscal stance
	Long-term debt trajectory	Neutral	0	Moderate increase of debt trajectory 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

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



Source: IMF WEO, Scope Ratings forecasts

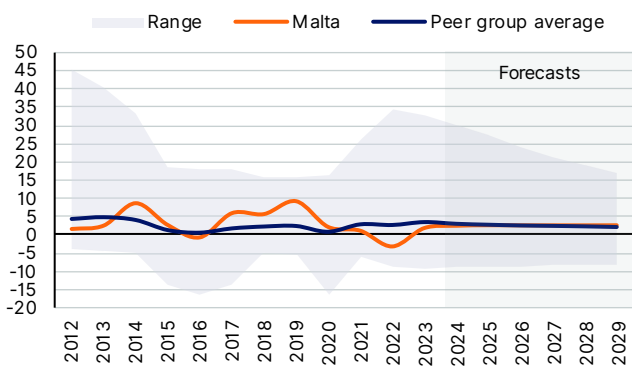
*Sovereign Quantitative Model.

External economic risk

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

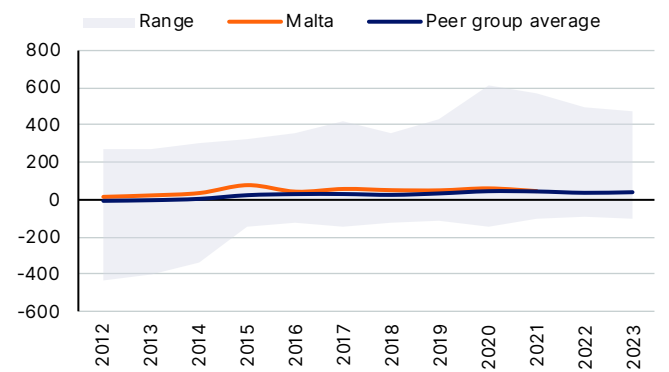
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Current account resilience	Neutral	0	Small, open economy exposed to volatility; current account surpluses underpinned by competitive export sectors
	External debt structure	Neutral	0	Large external liabilities offset by large external assets, reflecting 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



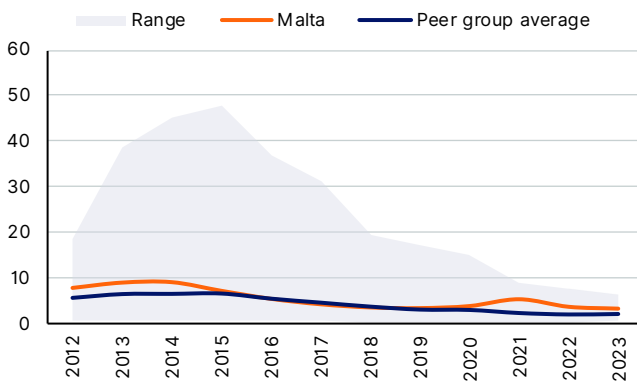
Source: IMF, Scope Ratings

Financial stability risk

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

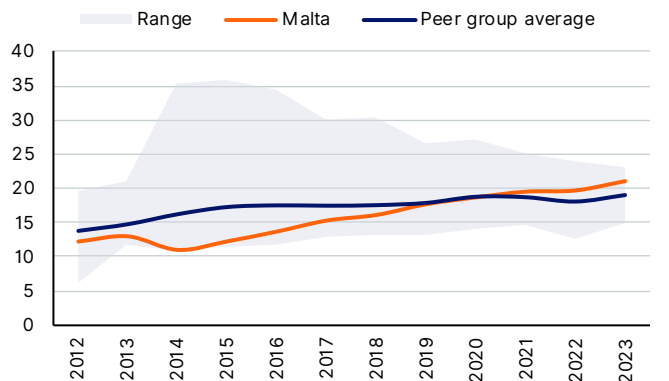
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Profitable and adequately capitalised banking sector
	Financial sector oversight and governance	Neutral	0	Historical shortcomings in supervision though reforms to enhance oversight 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 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



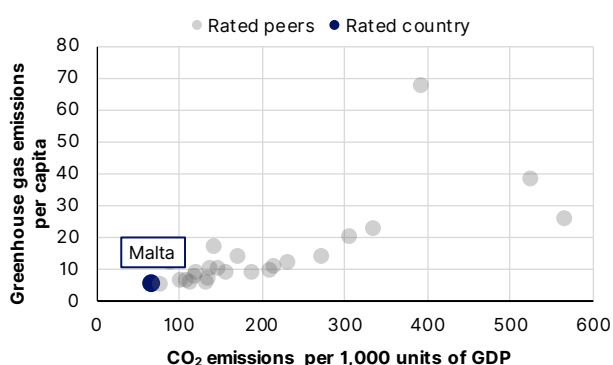
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

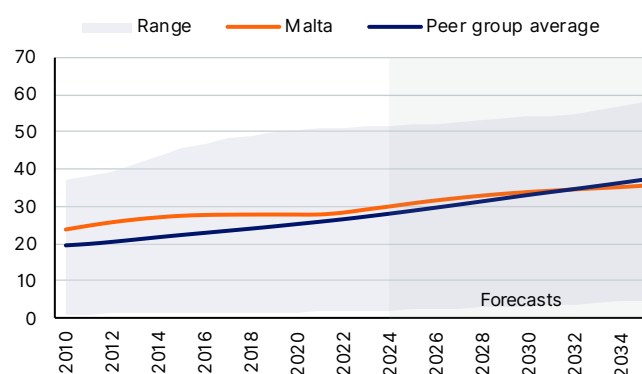
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Environmental factors	Weak	-1/3	Low carbon emissions per capita, but dominance of fossil fuels and high emissions; higher vulnerability to climate risks given water-scarcity, relatively limited potential for cost-effective renewable energy
	Social factors	Neutral	0	Adverse demographic 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: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

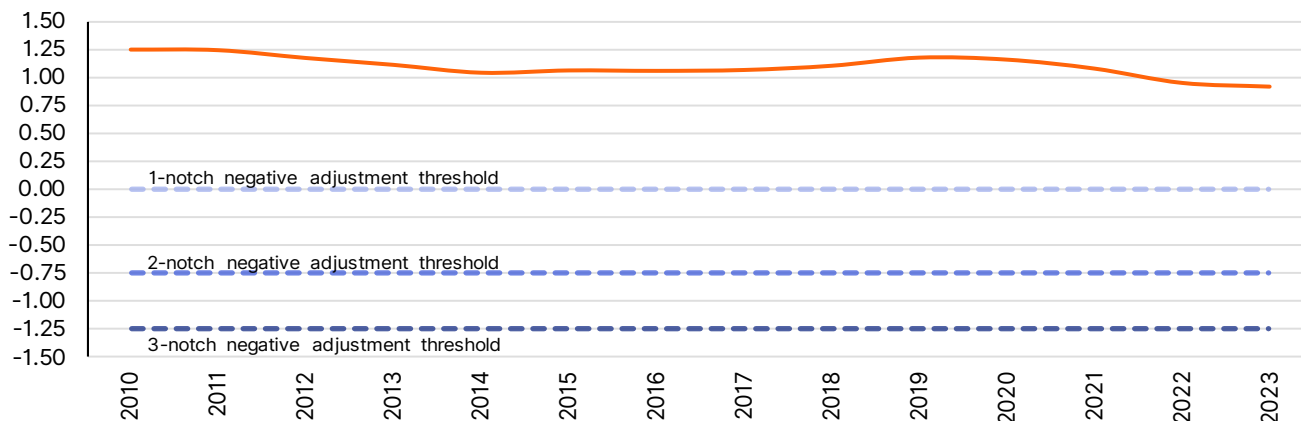
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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



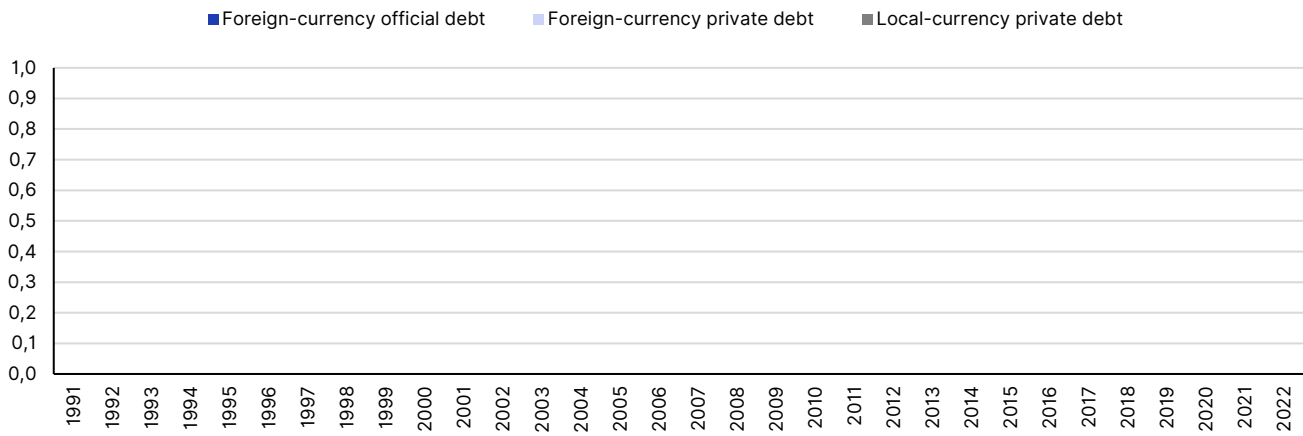
Source: WB, Scope Ratings

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
Croatia
Cyprus
Czech Republic
Estonia
Lithuania
Portugal
Slovenia
Spain

*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 31 July 2024	54.93

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	47.7	50.1	44.7	52.4	60.1	63.2
	Nominal GDP, USD bn	IMF	15.4	16.0	15.2	18.1	18.4	21.0
	Real growth, %	IMF	7.4	7.1	-8.2	12.5	8.1	5.6
	CPI inflation, %	IMF	1.7	1.5	0.8	0.7	6.1	5.7
	Unemployment rate, %	WB	3.7	3.6	4.4	3.4	2.9	3.1
Public Finance	Public debt, % of GDP	IMF	43.4	40.0	52.2	53.9	51.6	51.8
	Net interest payment, % of government revenue	IMF	3.9	3.6	3.6	3.1	2.8	3.1
	Primary balance, % of GDP	IMF	3.4	1.8	-8.3	-6.3	-4.7	-3.7
External Economic	Current-account balance, % of GDP	IMF	5.6	9.0	2.2	1.2	-3.0	1.9
	Total reserves, months of imports	IMF	0.4	0.3	0.3	0.4	0.4	-
	NIIP, % of GDP	IMF	53.5	52.7	63.1	48.4	45.5	-
Financial Stability	NPL ratio, % of total loans	IMF	3.4	3.2	3.7	5.2	3.5	3.1
	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	74.5	71.1	69.3
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	72.5	72.3	76.9	70.9	67.9	-
	Income share of bottom 50%, %	WID	19.7	19.4	19.6	19.4	19.4	-
	Labour-force participation rate, %	WB	74.9	75.9	77.1	78.1	79.9	-
	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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