Creditreform Rating

Rating Object	Rating Information	
Republic of Malta Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	**Assigned Ratings/Outlook:** A+ /stable	**Type:** Monitoring Unsolicited with participation
	Initial Rating Publication Date: 25-11-2016 **Rating Renewal:** 18-10-2024	**Rating Methodologies:** "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "A+" for the Republic of Malta. Creditreform Rating has also affirmed Malta's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "A+". The outlook is stable.

Rating Outlook and Sensitivity

Our rating outlook on Malta's long-term credit ratings is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to remain fundamentally unchanged over the next twelve months.

A positive rating action could be triggered by stronger-than-expected economic growth over the medium term and/or a significant improvement in fiscal metrics, translating into a downward path for the debt-to-GDP ratio. Greater fiscal resilience induced by a broadening tax base could add to upward pressure on the outlook or the rating, as could sustained enhancements in the institutional framework.

Downward pressure on the outlook or the rating could arise from a significantly worsening economic growth outlook, possibly amid further escalation of the wars in Ukraine or the Middle East and related adverse effects on the external environment. We could also consider a negative rating action if public finances and the debt ratio deteriorate for a protracted period, possibly against the backdrop of economic weakness and associated revenue losses and/or fiscal support measures to alleviate negative effects. Major setbacks concerning governance or the wider institutional framework could likewise contribute to a negative outlook or a rating downgrade.

Rating Summary

Indicative result of the scoring model (preliminary sovereign rating, PSR) and final score after adjustments:

Risk factors	Weight (%)	Core indicators	Score	Preliminary Score	PSR	Adjust-ments	Final Score	Final Rating
Macroeconomic Performance	60 20 20	GDP per capita GDP trend growth GDP volatility	LR LR HR	S	AA	0	S	A+
Institutional Structure	20 80 *40* *20* *20* *20*	Monetary policy effectiveness Good governance *Government effectiveness* *Voice & accountability* *Control of corruption* *Rule of law*	S+ *M* *S* *S-* *S-*	S-		0	S-	
Fiscal Sustainability	40 20* 40*	Change in government debt/GDP Government debt/GDP Interest payments/Revenue	M S S	S-		+2	E	
Foreign Exposure	30* 20* 25 25	(Current account balance + net FDI)/GDP International reserves/Imports Sovereign external debt/Government debt Sovereign external debt/Total external debt	LR I S+ LR	S		0	S	
Currency Status								2

LR	S+	S	S-	M	E	I+	I	I-	HR
low risk		stable		moderate	elevated		impaired		high risk

**) Risk weights for sovereigns with currency status=2*
Adjustments with a positive sign indicate a negative impact, i.e., downward pressure on the rating and vice versa

Key Rating Drivers

1. Strong GDP growth trend buttressing relatively high GDP per capita; service-focused economy recently boosted by strong tourism and the gaming industry; we expect real GDP growth to remain well above euro area growth this year and next, with risks related to the external environment and geopolitical situation remaining prominent
2. We nevertheless assess the medium-term outlook as positive, backed by the ongoing strength of the tourism sector and an increasing diversification of the service sector, sound labor market conditions and progressing execution of Malta's Recovery and Resilience Plan (RRP); skill shortages could constrain medium-term growth prospects to some extent; policies addressing energy import dependency continue to evolve
3. Robust institutional framework underpinned by EU/EMU membership; whilst some challenges persist, there has been further progress in terms of reforming the justice system, as well as regarding the strengthening of the AML/CFT framework and anti-corruption measures; pending decision of the Court of Justice of the European Union regarding Malta's citizenship by investment scheme remains to be monitored
4. The overall moderate debt-to-GDP ratio looks set to rise this year and next on the back of pronounced spending-driven deficits, which are to be reduced over the coming years; fiscal risks pertain to the sustainability of corporate income tax proceeds, whilst debt affordability remains a mitigating factor; position of the large banking sector is sound, with risks related to mortgage lending currently addressed by macroprudential measures
5. Vulnerabilities linked to Malta's status as a small, very open economy, and an international business and financial hub; the current account balance has moved back into surplus territory following the energy price shock; the large positive net international investment position remains broadly a risk-mitigating element

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

Adjustment variables	Range	Rationale	Adjustments
Credit Development	up to 2	-	-
Economic resilience and flexibility	up to 4	*Economy highly focused on the service sector, with moderate degree of diversification, although increasing*	+1
		Consistently strong labor market performance	-1
Qualitative overlay		-	-
Net Adjustment			**0**

Malta's strong macroeconomic profile features a high and further growing GDP per capita level, favorable labor market performance, and vigorous post-pandemic performance in the tourism sector. Services account for the bulk of gross value added, with the base having broadened over recent years. While EU financing additionally caters for a constructive medium-term growth outlook, pockets of vulnerability pertain to a further escalation of geopolitical events, Malta's strong dependence on energy imports, and uncertainty over the ultimate impact of the international tax reform on its attractiveness as a financial and business hub.

Following a moderation to 4.1% in 2022, Malta's real GDP growth accelerated to 7.5% last year, the fastest expansion among the euro area (EA) countries (EA 2023: 0.4%). Economic output thus exceeded its pre-pandemic level by 22.6%. The strong outcome for 2023 came on the back of sizeable contributions from private consumption and net exports, while gross fixed capital formation posed a drag to real economic activity, partly due to the reversing effect of a one-off investment in transport equipment in 2022. We note that the recent benchmark revision of the national accounts data lifted nominal GDP by 1.7 p.p. on average since the year 1995 and, among other factors, incorporates updated population and housing data as well as updated data on gambling activities.

Closely tied to the robust GDP growth trend, Maltese GDP per capita saw a 5.2% increase to roughly USD 63,230 in 2023 (PPP terms, current prices, IMF data), representing by far the highest income per capita in our A-rated universe ('A' median: USD 47,906 in 2023). Whilst Malta's economic activities remain strongly dominated by the service sector, we reiterate the impression that the services have become more diversified, with, e.g., business services as well as financial services and the gaming industry adding more strongly recently, thus strengthening the resilience of the economy.

Drawing on quarterly real GDP data, Malta's economic output rose by 2.2% quarter-on-quarter in Q1-24, followed by a slowdown to 0.4% in Q2-24. With the exception of confidence in the retail industry, survey indicators seem to have bottomed out or even indicate a trend-wise improvement, such as the European Commission's (EC) Economic Sentiment Indicator, supporting expectations of ongoing growth in the second half of 2024.

[1] This rating update takes into account information available until 11 October 2024.

Receding price pressure, in combination with rising compensation levels and a healthy labor market, should support household spending this year and next. After averaging 5.6% in 2023, HICP inflation fell to 2.1% this September. Core inflation (excluding energy, food, alcohol and tobacco) dipped even below this level, posting at 1.8% in Sep-24. Wage growth looks set to be pronounced in light of the tight labor market and considering that wage developments may follow inflation dynamics with some lag.

We continue to assess Malta's labor market performance as very strong. At 3.0% in Jul-24, the unemployment rate remains close to historically low levels. In addition, annual employment growth was the highest among the euro area members in 2023, recording 6.7%, following a similar increase in 2022 (EA 2023: 1.4%, Eurostat data, domestic concept), and employment recorded a further robust expansion in the first quarter of 2024. We also observe favorable trends with a view to more structural indicators such as labor participation. This is flanked by good performance on the EC's Social Scoreboard. Nevertheless, persistent skills shortages could weigh on competitiveness and underlying growth going forward. According to survey data by the EC, labor shortages with regard to the service sector were cited more than twice as frequently as a factor limiting production in Malta than in the euro area in Q3-24 (MT: 62.2%, EA: 26.4%).

While still relatively tight - although easing - monetary policy likely continues to pose a constraining factor to investment activity this year, we expect gross fixed capital formation to contribute positively to real GDP growth in 2025, as interest rate cuts should continue. Investment prospects are further bolstered by public investment under the RRP for 2021-2026, as well as EU Cohesion Policy Funds for 2021-2027, together amounting to roughly EUR 1.1bn or 5.3% of the 2023 GDP. To date, Malta is set to receive EUR 328mn in grants under the Recovery and Resilience Facility, while the submission of a third payment request is planned for the remainder of 2024 according to the Medium-Term Fiscal Structural Plan 2025-2028 (FSP).

Tourism figures bode well for Malta's export performance, with the number of inbound tourists and total nights spent increasing by 23.4% and 15.7%, respectively, in the first half of 2024 compared to the same period in the previous year (National Statistics Office Malta, NSO). Net exports should add again to real economic expansion this year and next, whilst the size of the contribution will likely become smaller, as domestic demand is set to drive growth dynamics. As a small, open economy, Malta is exposed to the state of global trade. Although we generally assume external demand to strengthen next year, downside risks to this position remain high in the face of the ongoing war in Ukraine and recent further escalation in the Middle East. Taking these considerations into account, we forecast real GDP to grow by 5.0% this year and 4.3% in 2025.

The outlook for underlying growth remains favorable in the euro area context. Drawing on AMECO data, Malta's potential growth is projected to come to 4.9% in 2024 and 2025, respectively, likewise well above the level of the other sovereigns in our A-rated universe for the same period. However, maintaining these levels of potential growth in the medium-to-longer term could prove more challenging in light of skills shortages and the significance of foreign workers to its economic model.

From a cost competitiveness perspective, Malta's position appears to have improved, with its global export market share of goods and services climbing to above pre-pandemic levels in 2023 on the back of a rise in the worldwide services exports share and real unit labor costs registering a renewed decline from 2022 to 2023. Mainly induced by a fall in real compensation per employee, the latter compares favorably to main European trading partners and aligns with an advantageous trend over the longer term (2014 vs. 2023).

In terms of characteristics having an impact on the Malta's competitiveness from a non-cost point of view, including the business environment, Malta appears well-positioned compared to the EU average when it comes to digitalization, with the EC's Digital Decade Country Report 2024 hinting at more advanced digital public services for businesses and a higher take-up of AI, cloud, and data analytics. Moreover, SMEs with at least basic digital intensity, as well as the share of the population having at least basic digital skills, are likewise more widespread or higher than the EU average.

That said, there remain some challenges when it comes to R&D investment, which could weigh somewhat on innovation performance and potential growth, balancing the favorable digital ecosystem to some extent. Accounting for 0.6% of GDP in 2022, Malta's R&D expenditure (all sectors, GERD, Eurostat data) continued to compare as relatively low against the EA as a whole (2022: 2.3%). As a moderate innovator on the European Innovation Scoreboard 2024, Malta exhibits weaker innovation performance than the EU average. Malta occupies rank 29 in the 2024 edition of the Global Innovation Index, which includes 133 countries, corresponding to a middle-range position among the EU countries. However, efforts to boost research and innovation (R&I) are underway, including, e.g., through the Smart Specialization Strategy 2021-2027 and the National R&I strategic plan 2023-2027.

Institutional Structure

Adjustment variables	Range	Rationale	Adjustments
Payment record	up to 3	-	-
Program country / Institutions	up to 2	*Advantages related to membership in EU/EMU including trade regime and funding*	-1
Sustainability of monetary policy	up to 1	-	-
Political risk	up to 3	-	-
Quality of statistics	up to 1	-	-
Qualitative Overlay		*Challenges pertaining to the efficiency of the judiciary and the AML/CFT framework, as well as aspects of governance over recent years*	+1
Net Adjustment			**0**

Facilitating trade and providing access to EU funding, Malta's EU/EMU membership buttresses its robust institutional set-up. In terms of its governance performance, Malta exhibits some room for improvement. Judging by the four Worldwide Governance Indicators (WGIs, World Bank) we consider highly relevant to the assessment of a sovereign's institutional quality, we recall that Malta's perceived institutional quality lags behind the euro area median, whilst being by and large in line with the median ranks of our A-rated sovereigns in the reference year 2022. A somewhat larger gap to the median rank of our A-rated peers can be observed with regard to the WGI 'Control of Corruption' (Malta: rank 82 out of 213 vs. 'A'-median rank of 54). We note that an update of the WGIs, referring to the base year 2023, will be published this fall.

Picking up on measures combating corruption, according to the latest GRECO report on preventing corruption and promoting integrity in top executive functions and law enforcement agencies (fifth evaluation round) published in Mar-24, several recommendations are yet to be (partly) addressed, with ten out of 23 recommendations partly implemented and nine recommendations not implemented. This corresponds, however, to a slight improvement against the previous assessment, according to which two out of the 23 recommendations had been implemented satisfactorily or dealt with in a satisfactory manner. As part of the National Anti-Fraud and Corruption Strategy, the government intends to create a central documentary repository system by the end of 2024 with the intention of strengthening institutional collaboration.

Concerns repeatedly raised by the EC with regard to Malta's investor citizenship scheme, including in the most recent Rule of Law Report (Jul-24), had led to the EC referring Malta to the Court of Justice of the EU (CJEU). Whilst a decision remains pending, the non-binding opinion of the Advocate General of the CJEU delivered this October appears to be leaning towards Malta's line of argument, suggesting that the citizenship by investment might continue in its current form.

Progress has been made concerning AML/CFT efforts, with Malta's 2023 National Risk Assessment (NRA) identifying reduced residual risk in most sectors compared to the 2018 NRA. We also note that work is undertaken towards addressing potentially aggressive tax planning as well as addressing EU transparency demands in the crypto asset space. Despite some enhancements to its AML/CFT framework, there remains ample room for improvement with regard to the efficiency of the justice system, as also echoed by the EC's 2024 Rule of Law Report. Notwithstanding some shortening of judicial proceedings, the estimated time needed to resolve administrative cases remained the longest in the EU in 2022, as suggested by the 2024 EU Justice Scoreboard.

Turning to greening the economy, Malta displayed the second-lowest greenhouse gas emissions per capita in the EU in 2022 (Eurostat data). At the same time, Malta's Eco-innovation performance was one of the EU's weakest, and its overall share of energy from renewable sources was among the EU's lowest, standing at 13.4% in 2022. The planned construction of a hydrogen-ready gas pipeline between Malta and Italy ('Melita Transgas Hydrogen ready Pipeline') could enable improvements in this respect and additionally strengthen energy supply. We are also aware that the authorities remain committed to implementing further green initiatives, including, e.g., the resource-efficient processing and reusage of waste (ECOHIVE project), which was stated in the pre-budget consultation document 2025.

Fiscal Sustainability

Adjustment variables	Range	Rationale	Adjustments
Fiscal policy framework	up to 3	*Relatively high share of tax revenue subject to cyclical developments; some challenges related to tax compliance as suggested by relatively high estimated VAT gap*	+1
Foreign currency debt	up to 2	-	-
Contingent liabilities/government assets	up to 3	-	-
Demographics	up to 1	-	-
Qualitative Overlay		*Uncertainty regarding extent and pace of envisaged reduction of recently higher fiscal deficits*	+1
Net Adjustment			**+2**

Risks to fiscal sustainability remain limited in light of the moderate public debt ratio and the affordability of debt. The healthy state of the banking sector adds to this assessment, while macroprudential levers have been activated to address risks associated with mortgage lending. Nevertheless, the relatively high concentration of government revenue in the corporate sector constitutes a source of vulnerability not least to reforms in global corporate taxation. Age-related costs could pose fiscal challenges over the longer term.

Standing at 4.6% of GDP in 2023, Malta's fiscal deficit recorded another decline (Ministry of Finance, MoF), but compares unfavorably to that of the euro area as a whole (2023: 3.6% of GDP, Eurostat data). Whilst total general government revenue increased markedly, mainly driven by current taxes on income and wealth and taxes on production and imports, still sizeable energy support measures and compensation of employees drove total expenditure, which ultimately increased somewhat less strong than revenue. With pandemic support phasing out, subsidies posted a decline.

As suggested by budget execution data for the current year, the fiscal deficit could see another narrowing in 2024. Boosted by current taxes on income and wealth and taxes on production and imports, total revenue rose by 16.9% in the first eight months compared to the same period of the previous year (NSO data, cash basis). Total expenditure grew by 11.9%, with social benefits and social transfers in kind, current transfers, and compensation of employees constituting important items for the spending increase.

While public wages may see a more moderate increase this year and measures to mitigate the impact of high energy prices are envisaged be reduced to 0.9% of GDP in 2025, from 1.1% of GDP in 2024 (MoF), the 2025 budget proposal may include tax cuts, and an increase in pensions and children allowance. We note that the European Commission considers Malta's deficit to be excessive, which would require deficit-reducing countermeasures over a specified timeframe. Drawing on the FSP, the government plans to reduce the fiscal deficit to 2.6% of GDP by 2028.

Overall, we expect the general government deficit to narrow to about 4.0% of GDP in 2024 and 3.7% of GDP in 2025. We note that the extent and pace of the deficit reduction remain subject to elevated uncertainty at this stage, also given somewhat unclear timing with regard to the winding down of energy support.

The national accounts revision has pushed the general government debt-to-GDP ratio down to 47.3% in 2023, thus standing well below the respective euro area ratio (EA: 88.6% of GDP). Looking ahead, we expect the public debt ratio to rise to 48.7% this year and to 49.1% in 2025. Government-guaranteed debt amounted to a moderate 5.5% of GDP in 2023 (FSP).

From a structural perspective, the significance of corporate income tax could pose some fiscal risks over the medium term, given the challenging geopolitical backdrop and related risks to international trade dynamics. At 18.3% in 2022, the CIT share in total tax revenue remained among the higher ratios in the EU, implying elevated exposure to cyclical events. We also note that, at 25.7% in 2021, the estimated VAT gap was the second-highest in the EU (EU VAT gap report 2023). That said, Malta has opted for the postponement of the implementation of parts of the Pillar II regulations up to the end of 2029, which, among other things, involve the introduction of a global minimum tax rate.

As regards monetary policy developments, the ECB decided to reduce the deposit rate by 25 bp at its September meeting. We expect the ECB to cut the policy rates in October and December this year and the deposit rate to stand at 2.50% by the middle of 2025. Yields on 10-year Maltese government bonds stood at 3.2% as of 11-Oct-24, down from 4.0% roughly one year earlier (13-Oct-23, weekly data). Moreover, the average weighted maturity of 7.3 years as of Jul-24 slows the pace at which higher yields pass through interest payments. As a result, debt remains affordable, with the interest-to-revenue ratio posting at 3.4% in Q1-24, which compares as relatively low to historical values, despite the recent increase.

Focusing on the concentrated banking sector, we consider related risks to be broadly unchanged compared to our last rating report. We observe that return on assets increased, and the sizeable capital buffer was further strengthened, as reflected by the CET1 ratio of 21.1% in Q2-24 (Q2-23: 20.4%, EBA data). Furthermore, the NPL ratio decreased from 2.3% in Jun-23 to 2.1% in Jun-24 (EU: 1.9%, EBA data). Vulnerabilities in the banking sector partly stem from the exposure to the residential real estate market. In a bid to address risks regarding the exposure of financial institutions to mortgage loans, the Central Bank of Malta (CBoM), together with the Malta Financial Services Authority, decided to set the sectoral systemic risk buffer at 1.5% from the end of Mar-24. In Sep-24, the CBoM confirmed to maintain the countercyclical capital buffer at 0%.

Standing at 9.0% in Jul-24, growth of outstanding mortgage loan volumes remains robust, adding to the perception of high housing market dynamics also reflected in relatively stable house price growth throughout the monetary policy tightening cycle. Drawing on Eurostat data, house prices increased by 7.0% y-o-y in Q2-24, likely partly related to public incentives for the purchase of property through various schemes, such as the first-time and second-time buyers' schemes.

With regard to the longer term, rising expenditure in the context of an ageing population could increase pressure on public finances, judging by projections concerning age-related costs included in the EU Ageing Report 2024. Rising pension costs, could, if not addressed, turn out to be a main driver thereof.

Foreign Exposure

Adjustment variables	Range	Rationale	Adjustments
Sudden reversals in balance of payments	up to 2	*Exposure to volatility in trade and financial flows; frequent pronounced data revisions*	+1
		Large net external creditor position	-1
FX regime	up to 2	-	-
Refinancing conditions	up to 2	-	-
Sustainability of external debt service	up to 2	-	-
Qualitative Overlay		-	-
Net Adjustment			**0**

Its status as a small, open economy as well as a business and financial hub render Malta generally prone to abrupt changes in the global economic environment and potential reversal in capital flows. However, external risks remain mitigated by recurrent current account surpluses on average over recent years, and the very high positive NIIP, although we note that these metrics appear to be subject to frequent sizeable revisions.

In this context, we note that the recent benchmark revision, also including balance of payment and international investment position data, led to a significantly higher current account surplus for 2023 than previously indicated. Concluding last year with a surplus of 6.4% of GDP, Malta's current account balance improved by 7.2 p.p. against the preceding year, mainly due to lower energy prices, which is reflected in a narrowing goods deficit. At the same time, the services surplus remained large, partly on the back of well-performing tourism and other service exports, more than offsetting the deficits in the goods and primary balances. Drawing on the cumulative sum over four quarters, Malta's current account surplus climbed to 7.0% in Q2-24. We expect the current account balance to remain in surplus in the near term.

Malta's NIIP amounted to 102.6% of GDP in Q2-24 (CBoM data). While this corresponds to a slight deterioration compared to Q2-23, it represents the largest positive NIIP within the EU. The position is subject to some distortions linked to the presence of special purpose entities. Moreover, the recent history (from 2017) was affected by a revision of international investment position statistics carried out recently, which integrated new data sources.

Analysts

Primary Analyst	Analyst
Lucas Leon Spintig	Dominic Prott
Associate Senior Analyst Public Finance	Associate Rating Analyst Public Finance
L.Spintig@creditreform-rating.de	D.Prott@creditreform-rating.de
+49 2131 109 3048	+49 2131 109 3810

Person Approving Credit Ratings
Philipp J. Beckmann
P.Beckmann@creditreform-rating.de

Ratings*

Long-term sovereign rating	A+ /stable
Foreign currency senior unsecured long-term debt	A+ /stable
Local currency senior unsecured long-term debt	A+ /stable

*) Unsolicited

ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box

Environ-mental Quality	Ecological Risks	Ressource Management	Education	Health	Demo-graphics
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial System**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liber-ties/ Political Participation**	Market Access	**Business Environment**	Data Transparency

Environment	**Social**	**Governance**	**Highly significant**	**Significant**	**Less significant**	**Hardly significant**

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the assessment of an economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, and IMD Business School and the World Intellectual Property Organization (UN) add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

While Covid-19 may exert adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2018	2019	2020	2021	2022	2023	2024e	2025e
Macroeconomic Performance								
Real GDP growth	7.2	4.1	-3.5	13.5	4.1	7.5	5.0	4.3
GDP per capita (PPP, USD)	47,703	50,080	44,700	52,443	60,101	63,230	67,682	71,277
Credit to the private sector/GDP	75.1	75.0	70.0	67.6	64.6	69.9	n/a	n/a
Unemployment rate	4.0	4.1	4.9	3.8	3.5	3.5	n/a	n/a
Real unit labor costs (index 2015=100)	106.1	106.0	114.7	107.0	102.8	100.0	98.7	99.0
World Competitiveness Ranking (rank)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Life expectancy at birth (years)	82.3	82.7	82.1	82.3	82.4	83.6	n/a	n/a
Institutional Structure								
WGI Rule of Law (score)	1.0	0.9	0.9	0.8	0.8	n/a	n/a	n/a
WGI Control of Corruption (score)	0.5	0.2	0.3	0.3	0.2	n/a	n/a	n/a
WGI Voice and Accountability (score)	1.1	1.1	1.1	1.1	1.1	n/a	n/a	n/a
WGI Government Effectiveness (score)	0.9	0.8	1.0	0.9	0.8	n/a	n/a	n/a
HICP inflation rate, y-o-y change	1.7	1.5	0.8	0.7	6.1	5.6	2.5	2.1
GHG emissions (tons of CO2 equivalent p.c.)	5.2	5.2	4.4	4.5	5.0	n/a	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability								
Fiscal balance/GDP	2.0	0.8	-9.4	-7.6	-5.5	-4.6	-4.0	-3.7
General government gross debt/GDP*	41.4	39.2	48.6	49.6	49.3	47.3	48.7	49.1
Interest/revenue	3.9	3.5	3.6	3.1	2.8	3.3	n/a	n/a
Debt/revenue	114.4	110.6	146.4	153.4	152.5	150.7	n/a	n/a
Total residual maturity of debt securities (years)	8.6	8.3	7.7	8.7	8.1	7.7	n/a	n/a
Foreign exposure								
Current account balance/GDP	13.3	17.9	16.0	9.4	-0.8	6.4	n/a	n/a
International reserves/imports	15.1	12.7	16.3	16.6	14.1	14.6	n/a	n/a
NIIP/GDP	75.5	101.2	114.6	104.8	99.9	92.9	n/a	n/a
External debt/GDP	928.1	1052.8	1117.8	963.5	900.9	855.8	n/a	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, IMD Business School, NSO, CBoM, MoF, own estimates

* data until 2023 calculated using revised GDP data as per Oct-24

Appendix

Rating History

Event	Publication Date	Rating/Outlook
Initial Rating	25.11.2016	A+ /stable
Monitoring	24.11.2017	A+ /stable
Monitoring	23.11.2018	A+ /stable
Monitoring	22.11.2019	A+ /positive
Monitoring	22.05.2020	A+ /stable
Monitoring	20.11.2020	A+ /stable
Monitoring	12.11.2021	A+ /stable
Monitoring	11.11.2022	A+ /stable
Monitoring	20.10.2023	A+ /stable
Monitoring	18.10.2024	A+ /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Ministry for Finance participated in the credit rating process as it commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of the Ministry for Finance during their review. However, the rating outcome as well as the related outlook remained unchanged.

Unsolicited Credit Rating

With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models, and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, World Intellectual Property Organization (WIPO), IMD Business School, Central Bank of Malta (CBoM), National Statistics Office (NSO), Ministry for Finance (MoF), Malta Fiscal Advisory Council.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision."

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website.

No ancillary services in the regulatory sense were carried out for this rating object. Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses ancillary services provided for the rated entity or any related third party, if any, in its rating reports. For the complete list of provided rating and credit service ancillaries please refer to https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-busi-ness-activities.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

Disclaimer

Creditreform Rating AG

Europadamm 2-6
D - 41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Michael Bruns

HRB 10522, Amtsgericht Neuss